Chaucer

Raising expectations

Annual Report 2009

We are a diversified insurance group.

We underwrite business at Lloyd's, the world's leading insurance and reinsurance market.

We are an independent business, built on underwriting expertise.

We deploy specialist underwriters in over 28 major insurance and reinsurance classes, balancing global marine, energy, non-marine and aviation with UK motor and nuclear.

Our underwriters work hard to position themselves uppermost in the thoughts of brokers and clients seeking to place or renew business. Our objective is to be a leading underwriter within each major class of business that we write.

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

"Our objective is to be a leading underwriter within each major class of business that we write"

Our business divisions

UK

Motor

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

Commercial Liability

Our new Division is developing the non-motor activities of the UK business. SME Liability, our first UK retail non-motor product, is widely distributed through our broker network. Further additions to the product range are planned for 2010.

MARINE

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

ENERGY

Our Energy Division has a leadership position in the international energy market, providing upstream, midstream and downstream energy and renewables and energy liability.

AVIATION

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

PROPERTY

Our team writes a global portfolio of property business on a treaty, facultative and binding authority basis and an engineering portfolio on a treaty and facultative basis.

We are a market leader in all business units and take great pride in offering both our brokers and clients a first class underwriting service.

SPECIALIST LINES

Our Specialist Lines Division underwrites a full range of casualty exposures including financial institutions crime and professional liability, general professional indemnity, medical malpractice, public, products and employers liability.

NUCLEAR

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

TURNKEY SOLUTIONS

We are market leaders in turnkey solutions, providing a practical approach for investors seeking a Lloyd's presence but not wishing to have a standalone managing agent.

Our business classes:

- > Fleet
- > Private Car
- > Specialist Motor
- > Commercial Liability
- > Marine XL
- > Marine Hull
- > Marine Liability
- > War
- > Cargo
- > Specie
- > Energy Construction
- > Energy Liability
- > Exploration and Production
- > Satellite
- > Political Risk
- > Terrorism
- > Aviation Hull and Liability
- > Aviation Refuellers and Products
- > Property Delegated Authorities
- > Facultative Property
- > Miscellaneous Short Tail Property
- > Property Treaty
- > Engineering
- > Medical
- > Financial Institutions
- > Directors & Officers
- > Errors & Omissions
- > Casualty Treaty
- > Occurrence
- > Nuclear

£75.3m
Profit before tax and foreign exchange on non-monetary items (2008 loss £59.5m)

£42.0m
Profit before tax (2008 loss £26.2m)

£795.6m
Gross written premiums (2008 £689.9m)

£53.3m
Investment return (2008 loss £71m)

9.7%
Post-tax annualised return on equity (2008 loss 7%)

2.7p
Final dividend making a total dividend of 4.0p (2008 5.5p)

5.8p
Undiluted earnings per share (2008 loss per share 6.0p)

Our underwriting performed positively in 2009, with good results from our Property, Aviation, Energy and Specialist Lines Divisions. Our investment return was also particularly good following the dramatic change in the portfolio from 2008.

The outlook for the business remains encouraging despite the softening of rates across some classes of business.

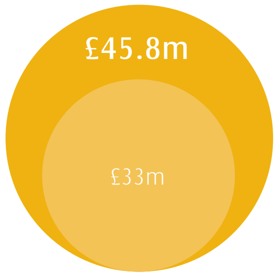
Our broad-based underwriting portfolio will enable us to take full advantage, especially with good opportunities for UK Motor and Aviation.

With a new management team and business strategy in place, I am confident of our ability to lead Chaucer to further success in 2010.

Robert Stuchbery
Chief Executive Officer

Underwriting performance

- **Underwriting profit of £45.8m** before the impact of foreign exchange on non-monetary items (2008 £33m)
- **An average premium rate increase of 5.7%** achieved across underwriting portfolio (2008 decrease 3.6%)
- **Combined ratio of 93%** (2008 94%)
- **Contribution of £5.9m** from syndicate participation and management activities (2008 £4.4m)



Underwriting profit before the impact of foreign exchange on non-monetary items

2009
2008

Business outlook

- **Underwriting will benefit** from active management of diversified portfolio in 2010
- **Forecast rate increases** across our underwriting portfolio for 2010
- **Targeting** UK motor, aviation and selected specialist lines classes
- **Syndicate 1084 capacity increased to £707m** (2009 £634m) to take advantage of opportunities
- **Group underwriting interests increased 7.5%** to £623.3m in 2010 (2009 £580m)

> "With a new management team in place, I am confident of our ability to lead Chaucer to further success in 2010"

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The broad diversity of our portfolio will enable us to take advantage of current market conditions.

Chaucer has confronted a set of extraordinary circumstances over the past 16 months. Despite this, I am pleased to report that stability has returned to Chaucer, with an encouraging financial performance and the establishment of a new Executive Management Team to lead the development of the business.

Business results

Our pre-tax profit before the impact of foreign exchange on non-monetary items was £75.3m (2008 loss £59.5m). The reported profit before tax was £42m (2008 loss £26.2m). The return on post-tax equity was 9.7% (2008 loss 7%). Both underwriting and investments made positive contributions to profits.

"This is a hugely experienced and proven leadership team"

In February 2009, the Group raised funds of £74.9m, net of expenses, to enable it to take advantage of good rating conditions in 2009, following the financial and insurance losses of 2008.

Dividends

As previously announced, we intend to pay a total dividend of 4.0p per share for 2009, with the final dividend of 2.7p being payable on 28 May 2010 to shareholders on the register on 7 May 2010. In the absence of unforeseen circumstances, we also intend to pay a minimum total dividend of 4.0p per share for 2010.

Board changes

On 16 December 2009, we announced a new Executive Management Team that saw Robert Stuchbery assume the role of Chief Executive Officer, Bruce Bartell the role of Chief Underwriting Officer and confirmed the appointment of Ken Curtis as Chief Finance Officer. I am convinced that Bob is the right person to lead the business, having been responsible for much of Chaucer's success over the past 20 years. In appointing these roles, the search considered both external and internal candidates to ensure that we found the best individuals.

We have appointed John Fowle as Active Underwriter for Syndicate 1084 and, with effect from 1 April 2010, we have appointed Mauricio Carrillo as Finance Director of Chaucer Syndicates Limited, our Lloyd's managing agent.

All of these appointments reflect the strength of Chaucer's executive team and of its succession planning. This is a hugely experienced and proven leadership team that I believe has the capabilities required to continue Chaucer's development as a diversified Lloyd's insurance group.

We are seeking two additional non-executive directors for Chaucer Holdings PLC and three additional non-executive directors for Chaucer Syndicates Limited.

Domicile

The Board will review a strategic options paper in the third quarter of 2010 before announcing any further actions.

Amongst other matters, the paper will consider the future impact of the recently introduced claims equalisation reserves in the UK, other actions that our government proposes to reduce the effective tax rate for insurance activities and changes to Controlled Foreign Company rules worldwide. At present, the Group has significant unutilised tax losses, which means that re-domicile of the Group is primarily a strategic consideration from 2011 onwards.

Business outlook

We are optimistic for 2010, believing that the strength in depth of our underwriting team and the broad diversity of our portfolio will enable us to take advantage of the current market conditions.

Martin Gilbert
Chairman
7 April 2010

Martin Gilbert
Chairman

We are committed to underwriting excellence and profitable cross cycle growth.

In my first statement as Chief Executive Officer of Chaucer Holdings PLC, I wish to thank shareholders for their support during the past 16 months and for their ultimate vote of confidence in this business. It was a testing time but, as I have always believed and advocated, it has concluded with the right result; continued independence for this business.

The challenge now is to restore our position as a leading Lloyd's organisation through hard work, diligence and commitment and to return the confidence shown by our shareholders. In my new role as CEO, I will provide the focus, direction and leadership that the business needs to achieve this.

"We are committed to the Lloyd's platform, having worked so hard to build a strong underwriting franchise"

I believe that, together with Bruce Bartell, Chief Underwriting Officer and Ken Curtis, Chief Finance Officer, we have the Executive Management Team in place to respond to this challenge. With over 75 years of Lloyd's market experience as a team, we have the expertise, management skills and the dedication required to secure the success of this business.

Financial results

We are extremely pleased to be able to report a significantly improved business performance in 2009, against a challenging economic backdrop, with a pre-tax profit before the impact of foreign exchange on non-monetary items of £75.3m (2008 loss £59.5m). The reported profit before tax was £42m (2008 loss £26.2m).

Underwriting contributed a profit before investment income of £45.8m (2008 £33m), excluding the impact of foreign exchange on non-monetary items. It benefited from a quiet hurricane season, although aftershocks from the credit crunch and global recession understandably held back the headline result. Difficulties remain within the financial and professional liability markets and it was a challenging year for political risk and trade credit underwriting. The Group's combined ratio improved to 93% (2008 94%).

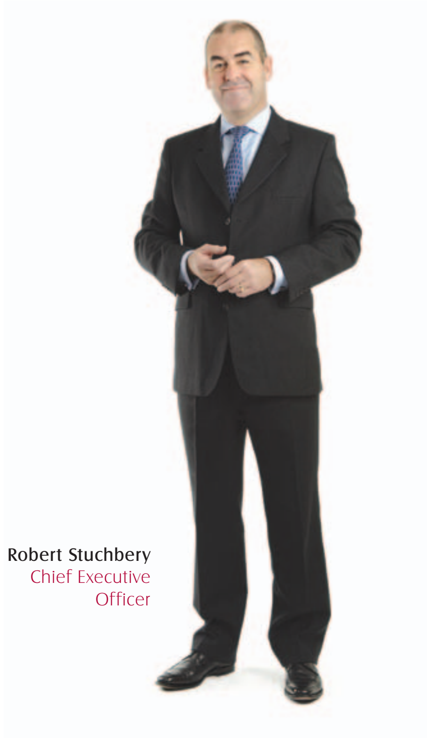
The Group's investment portfolio performed strongly, recording a return of £53.3m or 4.3% on average funds of £1.3bn (2008 loss £71m or loss of 6.8% on average funds of £1bn), with the value of equity and hedge fund holdings recovering as liquidity and confidence returned to the market.

Our strategy

We are an independent business built on underwriting expertise, with an established, diversified and balanced portfolio.

We are committed to underwriting excellence and profitable cross-cycle growth. Over the last seven years, we have achieved an average annual return on equity of 19%, which includes the impact of the 2008 loss of £19m. We also have a strong track record of successful underwriting growth. Since our creation in 1998, we have increased our underwriting interests by over £500m to £623.3m in 2010. Having worked hard to build a strong Lloyd's underwriting franchise, we are committed to the Lloyd's platform. We currently manage four Lloyd's syndicates.

Our strategy is to build a leading diversified Lloyd's insurance group, one that delivers a market-leading return on capital to shareholders across the >



Robert Stuchbery
Chief Executive Officer

£42.0m
Profit before tax (2008 loss £26.2m)

£795.6m
Gross written premiums (2008 £689.9m)

£53.3m
Investment return (2008 loss £71m)

insurance cycle. We currently deploy specialist underwriters in over 28 major insurance and reinsurance classes, balancing global marine, energy, non-marine and aviation with UK motor and nuclear.

Underpinning our strategy is a focus on underwriting returns and strong capital management. We believe that this approach is the best way to deliver long-term stability and growth for the business and enduring value for shareholders.

Achieving underwriting excellence

To achieve our strategy, we aim to be a leading underwriter within each major class of business that we write.

At the forefront of the core skills required to achieve underwriting excellence, is the ability to select, motivate, manage and reward our underwriting teams. Our underwriting teams must also have the proven ability to outperform the insurance cycle. This requires both the maintenance of underwriting discipline throughout the cycle as well as the ability to respond rapidly to opportunities arising from major market events or individual accounts.

We measure the success of our underwriting teams through both quantitative and qualitative measures (including ultimate loss ratios, return on capital across the cycle, levels of client service provided and market knowledge and reputation).

Since 2006, we have significantly increased our underwriting capabilities, strengthening current teams and adding new teams in complementary underwriting areas. The total number of underwriters we employ has increased by over a third to 65. Throughout this process, we have sought to ensure that each new appointment supports our strategy of underwriting excellence and the target of being a leading underwriter within each chosen major class of business.

In line with our strategy, we recently announced the establishment of a new International Liability Division within Chaucer Syndicate 1084 and we are delighted with the appointment of Mark Lawrence as Head of International Liability to lead the new Division. Mark is an acknowledged market leader for international liability business, with over 30 years of underwriting experience, and will join Chaucer ahead of the Division's formal launch in the final quarter of 2010.

Building an international network

Recognising that we need a stronger presence overseas, we are building an international network using our established presences in Copenhagen, Singapore and Houston. This will enable us to improve access to the highest quality business worldwide, diversifying our underwriting and improving portfolio management.

> "We are building an international network using our established presences in Copenhagen, Singapore and Houston"

We are developing two models: underwriter-focused offices as in Copenhagen and Singapore, where our products and services are available through regional underwriting teams, and producer-focused offices, which will provide our underwriting teams in London with regional market knowledge, insight and assistance.

Strengthening capital management

Underpinning a focus on underwriting excellence, we require long-term capital security to protect the business against the impact of severe losses, such as the combination of hurricane Ike, financial market turbulence and the depreciation of sterling against the US dollar in 2008. This in turn reduces the requirement to seek additional capital funds after such events and enables us to plan the future development and to maintain the long-term value of the business with confidence.

In addition to cutting back marine and energy Gulf of Mexico exposures in advance of the 2009 hurricane season, which reduced our regulatory capital requirements, we injected new capital and entered into a capital backed quota share agreement in 2009 to strengthen our capital position.

In line with these steps, we intend to maintain a conservative investment strategy, with a focus on capital maintenance.

Solvency Smart - building a better business

Underpinning our strategy, the underwriting teams must have an efficient operational platform on which to excel. Our Solvency Smart Programme will help us to improve this.

We believe that Solvency II provides us with the opportunity to build a better business through improved strategic decision-making and operational and risk management, in addition to a business that complies with the EU directive.

Central to achieving this are the development of a business-wide internal model to lead and challenge strategic decision-making, notably for capital planning and allocation and the strengthening of risk management. Taken together with the other changes that Solvency II will introduce, these transformations will significantly improve our business understanding and ability to manage it successfully.

The Solvency Smart Programme is demanding but critical to our building of a better business for the future. There are still two years of hard work ahead but, having observed the dedication with which the business has tackled the work to date to put the foundations in place, we are confident of overall programme success.

Business outlook for 2010

The outlook for the business in 2010 remains encouraging despite the softening of rates across some classes of business. The business is well placed to benefit from the continued active management of our diversified underwriting portfolio.

> "The business is well placed to benefit from the continued active management of our diversified underwriting portfolio"

After a quieter period for catastrophe losses, there will inevitably be some softening of rates, especially for North American property and catastrophe-exposed marine classes, although generally rates remain favourable.

The powerful Chilean earthquake of 27 February 2010 will cause significant international insurance and reinsurance losses. Our Property Division has sought to avoid Chilean treaty reinsurance programmes because of dissatisfaction over terms and conditions but will incur losses from other classes. The net effect of these losses will be contained within our annual catastrophe loss budget.

Energy premiums have responded to high offshore losses away from the Gulf of Mexico and a reinvigorated oil price, while aviation rates should also strengthen in 2010 following a year of heavy losses. Away from financial institutions, over-competitive pricing and a continued flow of new entrants continue to hinder the re-rating of the specialist lines market.

In UK motor, we forecast private car rate increases of approximately 14%, in response to unacceptable returns in 2009, and improvements in the fleet market following several years of fierce competition.

Our broad-based underwriting portfolio will enable us to take full advantage of these market conditions. Overall, we forecast a marginal increase in premium rates for our portfolio in 2010 and we are targeting those classes, including UK motor and aviation, which offer the best opportunities within this.

Our total underwriting interests for 2010 are £623.3m, an increase of £43.3m or 7.5% on the 2009 total of £580m.

The current underwriting year has started positively with premium income in line with budget.

It is worth noting that we also entered 2010 with net unearned premiums of £315.9m, an increase of £19.6m on the previous year, the majority of which we will earn this year. We wrote this business at healthy rates and, while we do not anticipate a further year of below average catastrophe losses, this reserve should yield a good return in 2010.

The Chaucer Team

I wish to close by thanking all employees for their continued support and dedication under difficult circumstances over the past 16 months. I firmly believe that we will meet the challenge of 2010 with confidence, drawing on the skill and commitment that has been the hallmark of all of our achievements to date. We are an excellent business, which, with its strong underwriting focus, diverse business mix and healthy prospects, remains well placed for future success.

Robert Stuchbery
Chief Executive Officer
7 April 2010

Our underwriting performed well, with strong results from our Property, Energy and Aviation Divisions.

It was a mixed year for insurance, as the gains from a quiet hurricane season and generally good underwriting conditions were countered by the impact of global turmoil and recession-related claims. Against this background, our underwriting performed well, recording a profit of £45.8m before the impact of foreign exchange on non-monetary items, with strong results from our Property, Energy and Aviation Divisions.

Gross written premiums, excluding reinsurance to close (RITC) premiums and consolidation adjustments, increased by 15.3% to £795.6m (2008 £689.9m), as we focused growth in those areas where rating levels were strongest. The blended rate increase for Syndicate 1084 reached 6%. Net earned premiums increased by 24.9% to £672.6m in 2009 (2008 £538.4m).

"Generally good underwriting conditions were countered by the impact of global turmoil and recession-related claims"

The Group's combined ratio improved to 93% (2008 94%). During 2009, the Group released net reserves of £31.8m relating to prior periods (2008 £74.1m), which reduced the combined ratio by 5% (2008 13%). The expense ratio decreased to 31% (2008 32%), benefiting from a foreign exchange gain of £1.8m (2008 £8.4m).

Events and outlook

After heavy insured losses in 2008, there was a significant reduction in the magnitude and frequency of both man-made and natural catastrophe insured losses in 2009. The global bill for natural catastrophe insured losses was upwards of US$20bn, headed by Windstorm Klaus, which caused damage of some US$3.5bn in France and Spain in January 2009. This compares to an insured loss of approximately US$20bn from Hurricane Katrina alone in 2005. The bill for man-made insured losses was approximately US$4bn.

The property, energy and marine markets benefited from the calmest hurricane season in 12 years. However, despite a respite for Gulf of Mexico accounts, the offshore market as a whole no more than broke even after the November fire at the West Atlas Rig in the Timor Sea, which may result in claims in excess of US$700m.

Other major global property losses were also light. The early forecasts for 2010 predict a return to more typical levels of Atlantic hurricane activity, with an above average number of hurricanes expected to reach the US coastline.

The aviation market also suffered heavy losses of up to US$2bn in 2009, the worst since 2001. The tragic loss of an Air France A330 over the Atlantic in June accounted for half of the total annual loss for the industry. There were also other major losses including the New York State Continental Airlines/Colgan loss in February and the Turkish Airlines crash in the Netherlands in the same month. The Group's Aviation Division focuses away from both major airlines and US-related liability exposures, avoiding significant exposure to these losses.

It was a challenging year for political risk and trade credit underwriting as heavy losses were experienced following the near collapse of Ukraine's banking sector and similar issues surfacing in Kazakhstan.

Bruce Bartell
Chief Underwriting Officer

£795.6m
Gross written premiums (2008 £689.9m)

£672.6m
Net earned premiums (2008 £538.4m)

93%
Combined ratio (2008 94%)

Following the generally positive market results of 2009, there is pressure on terms and conditions in a number of classes, albeit from rates that are predominantly healthy and at an all-time high in some cases.

UK motor rates will harden significantly in order to turn this sector to profitability. It has proved to be a difficult year for motor insurers as the impact of claims farming and recession-related claims have pushed losses beyond original estimates. In 2009, we began taking the appropriate action to address this, including major rate increases yielding in excess of 20% for some of our private car products.

Given the healthy underwriting results achieved across our non-motor divisions in 2009, increasing premium volumes for 2010 is reasonable, with approximately £45m of the overall increase of £73m in Syndicate 1084's capacity stemming from non-motor business. Despite a forecast flattening of rates in 2010, these areas continue to offer excellent profit potential.

Table 1 provides a summary of divisional level underwriting performance.

Table 1 Divisional underwriting performance	UK £m	Marine £m	Energy £m	Aviation £m	Property £m	Specialist Lines £m	Nuclear £m	In-house total £m	Syndicate participations[1] £m	Run off[2] £m	Total £m
2009											
Gross written premiums[3]	158.6	152.7	150.6	42.2	183.8	72.8	15.7	776.4	18.7	0.5	795.6
Net earned premiums[3]	139.8	125.7	119.8	30.9	151.6	54.4	13.5	635.7	36.3	0.6	672.6
Underwriting profit/(loss)[4]	(12.2)	(0.9)	11.0	8.5	35.8	0.7	10.0	52.9	(10.3)	3.2	45.8
	%	%	%	%	%	%	%	%	%	%	%
Claims ratio[3,5]	83	70	51	39	46	68	15	61	94	n/a	62
Expense ratio[3,5]	26	31	40	34	31	31	11	31	35	n/a	31
Combined ratio[3,5]	**109**	**101**	**91**	**73**	**77**	**99**	**26**	**92**	**129**	**n/a**	**93**
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]	(3.0)	9.3	(10.5)	2.7	8.9	7.5	9.1	24.0	(0.1)	9.1	33.0
	%	%	%	%	%	%	%	%	%	%	%
Claims ratio[3,5]	74	62	75	54	60	48	20	64	60	n/a	62
Expense ratio[3,5]	28	29	38	35	33	34	4	31	41	n/a	32
Combined ratio[3,5]	102	91	113	89	93	82	24	95	101	n/a	94

1 Syndicate participations comprises the results of Chaucer participations on Syndicates 4000 and 4242
2 Run off comprises the results of Syndicates 1204, 1224, 1229 and 1245 (excluding the initial impact of the RITC) which have reinsured to close into Syndicate 1084. The ratios are meaningless for this analysis and have been excluded accordingly
3 Excluding premiums written to reinsure to close non-Chaucer syndicates into Syndicate 1084, the impact of the increased ownership of in-house syndicates, following the RITC of third-party participations in the year in which the closure occurred and the impact of foreign exchange on non-monetary items. See Note 4 to the Consolidated Financial Statements for reconciliation of gross written premiums and net earned premiums to the Income Statement
4 Underwriting profit/(loss) is the sum of net earned premiums, net incurred claims and net expenses incurred in insurance activities
5 The claims ratio represents net claims incurred as a percentage of net earned premiums. The expense ratio represents expenses incurred in insurance activities as a percentage of net earned premiums. The combined ratio represents the sum of the claims and expense ratios

UK

> Another testing year for the UK motor market
> Credit hire claims and the activities of claims farmers were a market wide problem
> UK motor rates hardening to return market to profitability
> Premium income increased by 20% to £158.6m
> Underwriting loss of £12.2m against tough trading conditions
> Continued investment in the aggregation distribution channel

It was another testing year for the UK motor market, as increased recession-related claims, combined with the farming of bodily injury claims caused Chaucer Insurance, our UK Division, to record an underwriting loss of £12.2m in 2009 (2008 loss £3m).

The combined ratio rose to 109% (2008 102%) on a premium income of £158.6m (2008 £132.2m) as we strengthened reserves, in particular for significantly increased credit hire and multi-claimant claims. Our pricing for 2010 reflects the impact of these increased claims and we forecast private car rate increases of approximately 14%.

While we have taken significant steps to reduce the amounts payable on credit hire claims and the detection of fraudulent claims, the number of claims including these elements grew more than forecast during 2009. The continued rise of claims farmers is a major problem for UK motor insurers, exacerbating the cost of third party bodily injury motor claims.

Private car, specialist motor and fleet

Our motor portfolio is 100% 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 the majority of 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, which we support 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. We use sophisticated capital allocation, premium pricing and performance monitoring techniques to manage our business.

"The outlook for our market is positive and we forecast an increase of 14.1% in UK Motor premium rates"

Aggregators continue to take a greater share of the distribution of private motor products in the UK, advertising heavily to build share. Our products are available via intermediaries on the major aggregator sites. We have also established our Chaucer*Direct* consumer website, which receives business enquiries from two aggregator sites and has two specifically designed private car products. Premiums from our direct channel grew as planned to £3m in 2009. In 2010, we will increase both the number of aggregator sites employed and the number of products distributed.

The private car market saw sustained price increases in 2009, following similar rises in 2008 and 2007. This has enabled us to secure double-digit rate increases across a large element of our private car product portfolio. While private car volumes remained healthy, rate increases in 2009 reduced demand for our commercial vehicle and motor trade products. These markets remain weak. Within commercial vehicles, we have a successful agricultural motor account whose income reached £4.9m in 2009. We only launched this account in 2007.

The outlook for our market is positive and we forecast an increase of 14.1% in UK motor premium rates in 2010, with standard private car prices again expecting to benefit most. We believe that fleet prices will begin to recover in 2010, following five years of decline.

Commercial liability

In addition to motor insurance, the UK Division includes commercial products, which generated income in 2009 of £3.2m from UK employers and public liability insurance. We will launch a combined commercial product on our new technology platform in 2010.

Key figures		2009 £m	2008 £m
Gross written premiums		158.6	132.2
Gross written premiums by major class	Fleet	24.5	24.5
	Private car	93.4	80.0
	Specialist motor	36.7	27.7
	Commercial liability	4.0	-
Net earned premiums		139.8	118.1
Underwriting loss before investment return		(12.2)	(3.0)

	%	%
Claims ratio	83	74
Expense ratio	26	28
Combined ratio	109	102
Number of risks/programmes written by YOA	513,178	407,104
Percentage of lead business	100.0	100.0
Rate increase	6.4	6.1
Percentage of gross written premiums renewed for 2009 (2008) YOA	33.5	39.4

See 'Divisional performance' (page 9) for definitions of the terms used in this table

Marine

> Good market conditions, with healthy premium rates and an absence of major losses

> Premium income increased by 26% to £152.7m

> Strong performance from hull, liability and war, marine excess of loss and cargo and specie accounts

> A challenging year for political risk and trade credit markets held back reported performance

The performance of the Marine Division was generally strong, with the exception of the trade credit book, where the global economic downturn triggered significant claims for payment defaults in emerging economies, causing the Division to record an overall underwriting loss of £0.9m (2008 profit £9.3m). The combined ratio rose to 101% (2008 91%). Premium income increased to £152.7m (2008 £121.2m).

Hull, liability and war

The pricing of the hull market continued to improve throughout the year, albeit at a modest rate. We expect this trend to continue in 2010. It is pleasing to note that we were able to acquire specifically targeted new business, resulting in healthy growth in the account.

Northern European insurers, traditionally an alternative to the London market, are readdressing recent losses through rate rises and reduced line sizes. We have significantly strengthened our distribution network to take advantage of favourable Scandinavian market conditions, appointing an experienced marine underwriter in our Copenhagen office. We have also added a specialist underwriter to our team in Singapore to take advantage of opportunities in the South East Asian market.

The threat of piracy, particularly in the waters surrounding Somalia and Nigeria, continues. The risks to crews and vessels are our highest concern. We work with ship owners to mitigate this and support the escalation of an international naval maritime presence. We cover the risk of piracy almost exclusively in our war account to ensure that an adequate premium is charged.

Marine excess of loss

Our marine excess of loss account performed strongly, despite a late and difficult renewal season. We had only a limited exposure to the largest marine loss of the year, the fire at the West Atlas Rig in the Timor Sea. This enabled us to achieve our 2009 targets, although income was reduced by our near withdrawal from Gulf of Mexico damage energy policies.

"Rates have remained stable since 2009 and we expect this to continue in 2010"

Rates have remained stable since 2009 and we expect this to continue in 2010. The balance of our account will remain, although we expect global cargo exposures to fall as a consequence of the global downturn.

The outlook for 2010 is positive, with both the London and New York markets maintaining price discipline and opportunities arising in the international market. Together with our offices in Copenhagen and Singapore, we will take advantage of these conditions.

Political risk

The global economic crisis impacted our trade credit account with emerging markets producing significant losses as payment defaults increased. Despite these losses, the recovery potential is promising and our expectation of long-term claims recoveries is high.

There are signs of trade volumes becoming re-established, although our clients remain cautious and risk averse. We believe that the underwriting environment has greatly improved and 2010 offers an opportunity to set excellent terms. Demand for asset risk policies has increased as bank funding frequently requires this protection for asset purchases.

The outlook for 2010 is positive. We expect exporters to continue to rely heavily on private market insurers to protect their sales contracts into emerging markets and we also believe that trade finance banks and commodity traders will continue to use our market to mitigate their cross-border trade risks.

Political violence and terrorism rates softened as losses fell in 2009. The standard terrorism only product offered primarily in the US and Europe came under some pricing pressure and that is likely to be repeated this year. Underwriting conditions remain more favourable elsewhere in the world and accordingly we seek a broad geographic spread of risk. Strengthening our teams in London, Copenhagen and Singapore will help facilitate this.

Cargo and specie

The cargo market has stabilised, except for US risks, which are increasingly competitive. We reduced our US business in 2008 and continued with this policy in 2009, replacing the income with business from the Middle East and China.

With many major development projects now on hold due to economic conditions, our project cargo account has slowed down, although there are signs that the book is beginning to recover.

Overall, we have striven to remove less profitable business from the account in 2008 and 2009, which has improved the cargo account loss ratio.

The specie account continues to be profitable. Reductions are rare and accounts with large losses are generating correspondingly large rate rises.

Throughout 2009, we increased the excess securities investment protection (SIPC) book as market capacity stretched and large rate rises followed.

We trimmed our jewellers block and the cash in transit books, as more small thefts generally occur during a recession.

Chaucer Singapore

This provides us with dedicated capacity and local representation for Chaucer Syndicate 1084 in the Asian market. Since launching with an upstream energy focus in 2007, we have increased our offering with dedicated underwriters recruited for marine, power and utilities and specialist lines. We will continue to develop this strategy in 2010.

Key figures		2009 £m	2008 £m
Gross written premiums		152.7	121.2
Gross written premiums by major class	XL	26.8	21.1
	Hull	23.9	15.2
	Liability	10.8	9.8
	War	5.2	3.0
	Cargo	17.6	16.9
	Specie	22.9	15.5
	Satellite	4.6	2.4
	Political risk and trade credit	40.9	37.3
Net earned premiums		125.7	94.9
Underwriting (loss)/profit before investment return		(0.9)	9.3

	%	%
Claims ratio	70	62
Expense ratio	31	29
Combined ratio	**101**	91
Number of risks/programmes written by YOA	3,847	3,988
Percentage of lead business	23.8	22.7
Rate increase/(decrease)	5.7	(0.5)
Percentage of gross written premiums renewed for 2009 (2008) YOA	70.1	70.2

See 'Divisional performance' (page 9) for definitions of the terms used in this table

Energy

> Good performance, benefitting from improved market conditions and fewer major losses

> Premium income increased by 29% to £150.6m and the underwriting profit rose to £11m

> Combined ratio reduced to 91%

> New office opened in Houston, Texas to widen the energy distribution network

The Energy Division delivered good results in 2009, supported by the continued development of our overseas operations. Premium income increased to £150.6m (2008 £116.3m) and the combined ratio decreased to 91% (2008 113%).

We continued to de-risk our Gulf of Mexico account and at the end of 2009, had no asset exposure to hurricanes beyond 30 June 2010. Current market conditions remain stable after a benign year and, going forward, we intend to manage our exposures on a selective basis, assuming hurricane exposure on a calendar year basis, following an annual review of direct and reinsurance market conditions.

While reinsurance rates have remained firm following the fire at the West Atlas Rig in November in the Timor Sea, we are pleased that our reinsurers have recognised the strength of our account through their support for 2010.

Our London team continues to operate at the forefront of the Lloyd's market, with key senior underwriting appointments adding both diversification and niche underwriting products to the portfolio and furthering our lead position.

"Our London team continues to operate at the forefront of the Lloyd's market"

Despite increased rating pressure we remain committed to maintaining a high-quality underwriting account. Further diversification of the account is important to this and so we have continued to develop our overseas operations in Singapore and Houston, as well as strengthening our position in the Norwegian market.

Key figures		2009 £m	2008 £m
Gross written premiums		150.6	116.3
Gross written premiums by major class	Energy construction	46.9	36.5
	Energy liability	5.4	4.2
	Exploration and production	93.5	71.9
	Other	4.8	3.7
Net earned premiums		119.8	79.1
Underwriting profit/(loss) before investment return		11.0	(10.5)
		%	%
Claims ratio		51	75
Expense ratio		40	38
Combined ratio		**91**	113
Number of risks/programmes written by YOA		1,122	1,284
Percentage of lead business		10.8	20.0
Rate increase/(decrease)		7.8	(8.5)
Percentage of gross written premiums renewed for 2009 (2008) YOA		68.5	67.9

See 'Divisional performance' (page 9) for definitions of the terms used in this table

Aviation

- Excellent performance in 2009, recording an underwriting profit of £8.5m
- Premium income increased significantly to £42.2m
- Division avoided the majority of heavy losses recorded by the airline market
- Combined ratio fell to 73%
- Capacity increased for 2010 to take advantage of improving market conditions

Our Aviation Division recorded an excellent result in 2009, with an underwriting profit of £8.5m (2008 £2.7m) on a premium income of £42.2m (2008 £26.9m). Our combined ratio remained low at 73% (2008 89%).

Hull and liability

The airline market suffered heavy losses of up to US$2bn in 2009, the worst since 2001. The tragic loss of Air France flight AF447 over the Atlantic on 1 June accounted for approximately half of the total. However, we avoided AF447 and the majority of other losses since our Aviation Division does not focus on either major airlines or US-related liability exposures.

The market saw some moderate rate increases at the start of 2009, which became more substantial following the Air France loss. Early indications for 2010 suggest that rates will continue to increase, although the strength of this rally remains uncertain.

In 2008, we broadened the spread of our airline involvements in anticipation of rate increases and continued this in 2009, adding more capacity as market conditions improved. The popularity of Lloyd's as an insurance market during this turbulent time has assisted with these efforts.

"The market saw some moderate rate increases at the start of 2009"

We are cautious toward the major airlines and airline groups, since their buying power makes rates unattractive for us, although we expect to utilise part of our planned 20% capacity increase in 2010 for this area should airline rates become acceptable.

Refuellers and products

Away from airlines, rates are generally flat, with increases on loss making accounts balancing modest reductions on clean accounts. Over-capacity continues to pressurise airport and product-related business.

Key figures		2009 £m	2008 £m
Gross written premiums		42.2	26.9
Gross written premiums by major class	Refuellers and products	7.5	5.5
	Hull and liability	34.7	21.4
Net earned premiums		30.9	23.3
Underwriting profit before investment return		8.5	2.7
		%	%
Claims ratio		39	54
Expense ratio		34	35
Combined ratio		**73**	89
Number of risks/programmes written by YOA		1,835	1,845
Percentage of lead business		9.7	12.7
Rate increase(decrease)		6.5	(1.4)
Percentage of gross written premiums renewed for 2009 (2008) YOA		80.1	84.0

See 'Divisional performance' (page 9) for definitions of the terms used in this table

Property

- > An outstanding performance in 2009
- > Underwriting profit increased to £35.8m, as premium income reached £183.8m
- > The Division avoided the bulk of major losses world wide in 2009 and benefitted from a quiet hurricane season
- > The combined ratio fell to 77%

The Property Division produced an outstanding result in 2009, as rating improvements within our portfolio and an absence of major US catastrophes combined with our avoidance of major losses worldwide. Gross premium income rose to £183.8m (2008 £157.5m) and our combined ratio reduced to 77% (2008 93%). The underwriting profit increased significantly to £35.8m (2008 £8.9m).

Although total market losses reduced, 2009 saw a high frequency of catastrophe losses around the world including Swiss hail losses, localised European floods, Australian Bush fires, European storm event Klaus, the Italian earthquake, regional hail and tornado losses in the US and Asian typhoons.

Our renewal portfolio achieved a healthy rate increase of 6.6% in 2009. While there was a positive start, a combination of over capacity and the weak global economic climate caused rate improvements to slow and then flatten in some areas in the second half of the year.

North American delegated authorities, facultative and treaty

The results of our property direct and facultative accounts were excellent. Income and rates increased as we successfully implemented our shift to a US Fortune 2500 based account. However, rating improvements achieved came under pressure in the second half of 2009 as low loss activity and improved financial conditions encouraged the re-emergence of rate competition. In 2010, we shall continue to target opportunities that diversify our portfolio.

North American treaty catastrophe pricing responded positively to the effects of hurricane Ike and constrained balance sheets, both for primary carriers and reinsurance companies. As these constraints eased, upward price movements slowed. Loss activity was minor in 2009, with only regional hail and tornado events across the US and Canada.

> "Our renewal portfolio achieved a healthy rate increase of 6.6% in 2009"

North American delegated authority rates remained static in 2009 as initial price strengthening, in anticipation of a hardening market, subsided. There was strong competition from standard market carriers for surplus lines risks, but our core business, developed through long-established relationships, remained firm. The economic slowdown led to increased attritional losses and restricted growth, but a dormant North Atlantic storm season had a positive impact on results.

International delegated authorities, facultative and treaty

International catastrophe rates showed signs of improvement during the first quarter of 2009, driven by a combination of capital supply constraints and exchange rate fluctuations.

This hardening peaked with the renewal of the Japanese portfolio, a key catastrophe territory, in the second quarter. Thereafter, strengthening capital markets and an absence of major losses caused rates to plateau and then to fall in less catastrophe-exposed regions. Nevertheless, reductions were conservative and terms and conditions remained stable. Risk excess rates remained acceptable, with price movements reflecting exposure and claims records, and terms and conditions were generally unchanged.

It was a disappointing year for the international delegated authority account. Worldwide capacity for international property business remained high, but market conditions did not improve as anticipated despite generally low rating levels, poor attrition loss ratios and weak general economic problems. Following another benign wind season, the Caribbean account is now under pressure. Only the Australasian accounts saw consistent rate increases, although the UK, France and Ireland are now beginning to experience improvements.

Engineering

Engineering direct and facultative premiums declined in London due to the recessionary climate, but our market profile remained strong, buoyed by initiatives from our Singapore office. The economic downturn and additional market capacity reduced engineering treaty premiums as rates remained flat throughout 2009, and we do not anticipate improvements until the second half of 2010 at the earliest. Our wordings, deductibles and risk management controls remained strong in 2009, preventing recessionary pressures from materially affecting loss ratio estimates, which remain within original ultimate projections. The excess of loss portfolio did not suffer significant losses and rates remained stable.

Chaucer Underwriting A/S

Despite an unusual frequency of natural event catastrophes in 2009, the business we wrote from our Copenhagen office performed satisfactorily.

Natural perils events were frequent throughout Europe in 2009, including windstorm Klaus in France, a severe hailstorm in Switzerland, windstorm Wolfgang in Austria and Czech Republic, summer hail-storms in Slovenia, Marmara flash flooding in Istanbul and the L'Aquila earthquake in Italy. Losses from such events eroded over three quarters of our catastrophe income.

Despite this unusual frequency, renewal rates have remained flat and in some cases even reduced, except for rates in Austria, Slovenia and Turkey. Over-capacity caused by the absence of major losses outside Europe and a continuing strengthening of insurer balance sheets, are the primary reason for this. In response, we have not increased our catastrophe aggregates in the main EU wind areas.

The worldwide life, accident and health catastrophe account continues to develop successfully. We have built a diversified book of international risks, actively quoting and leading an increasing number of risks within our portfolio. The market remains profitable but competitive following a nine-year absence of major losses.

Key figures		2009 £m	2008 £m
Gross written premiums		183.8	157.5
Gross written premiums by major class	Delegated authorities	35.5	32.1
	Facultative property	37.7	32.7
	Property treaty	75.7	64.2
	Miscellaneous short tail	20.9	18.1
	Engineering	14.0	10.4
Net earned premiums		151.6	122.0
Underwriting profit (before investment return)		35.8	8.9

	%	%
Claims ratio	46	60
Expense ratio	31	33
Combined ratio	77	93
Number of risks/programmes written by YOA	4,013	3,356
Percentage of lead business	24.7	21.4
Rate increase/(decrease)	6.6	(7.0)
Percentage of gross written premiums renewed for 2009 (2008) YOA	73.6	75.2

See 'Divisional performance' (page 9) for definitions of the terms used in this table

Specialist Lines

- > 2009 was challenging for the specialist lines market
- > The global economic turbulence continued to cause losses
- > Away from financial institutions, rates remained weak
- > Premium income increased to £72.8m and the underwriting profit was £0.7m

This was a challenging year for the Specialist Lines Division, with the result affected by the global economic downturn. We recorded an underwriting profit of £0.7m (2008 £7.5m) and an increased combined ratio of 99% (2008 82%).

While not immune to market events, our disciplined underwriting approach did protect us from many of the major market losses that arose from the global economic crisis. This places us in a strong position to benefit from the favourable market conditions now beginning to emerge.

"Our disciplined underwriting approach protected us from many of the major market losses"

Outside of the financial institutions market, conditions are less encouraging as new entrants continue to add capacity to the market. Pricing is weakening, often to damagingly low levels, as competitors discount the inevitability of claims inflation in a number of classes. Having established high quality renewal accounts through strong long-term relationships in all our chosen sectors, we continue to pursue our commitment to rate integrity at the expense of growth.

Financial institutions

2009 saw the expected turnaround in rates for financial institutions as the impact of the banking crisis began to curb market appetite for this class. Not being involved with the major international banks ensured that we avoided many of the large market losses that arose and consequently we have been able to take advantage of the improving conditions from a position of strength. We expect that this trend will continue in 2010.

Medical

Our institutional healthcare account, which provides excess hospital liability coverage, continues to deliver prior year reserve releases and we remain confident in our pricing for 2009 and 2010. Concerns over the security of certain major underwriters within this class provided us with the opportunity to write further business at the start of 2009. These concerns are now fading and aggressive new capacity has entered the market, limiting our opportunities for 2010.

Errors and Omissions/Direct casualty

Our general casualty team are respected market leaders. In 2009, the team continued to build on these foundations. Our ambitions for 2010 are conservative, as the expected upturn in market conditions has yet to materialise but we are well positioned to take advantage of opportunities that do arise. In the meantime, we continue to enjoy strong market support and a stable distribution network, both of which continue to generate high quality income.

Treaty

Our international casualty treaty account made a strong start in 2009, developing an immediate leadership profile and securing a diverse account of target business. Conditions are testing as we entered 2010, with rating pressures driven by the continued weakness of direct business rates. We aim to consolidate our position in 2010.

Underwriting discipline and rate integrity remain key tenets of the Specialist Lines Division's philosophy. We will continue to target those classes and sectors where we can demonstrate market leading expertise and where we believe adequate and sustainable underwriting margins are available.

Key figures		2009 £m	2008 £m
Gross written premiums		72.8	46.3
Gross written premiums by major class	Medical	18.5	15.1
	Financial institutions	22.6	14.4
	D&O/E&O	10.4	8.9
	Treaty	20.9	7.5
	Other	0.4	0.4
Net earned premiums		54.4	41.4
Underwriting profit (before investment return)		0.7	7.5

	%	%
Claims ratio	68	48
Expense ratio	31	34
Combined ratio	99	82
Number of risks/programmes written by YOA	2,581	1,244
Percentage of lead business	14.6	21.0
Rate increase/(decrease)	1.3	(3.5)
Percentage of gross written premiums renewed for 2009 (2008) YOA	84.8	85.9

See 'Divisional performance' (page 9) for definitions of the terms used in this table

Nuclear

> A highly profitable division, recording a profit of £10m

> Premium income grew by 7% to £15.7m

> Loss record remained favourable, supporting broadly stable rates across the portfolio

> Combined ratio remained low at 26%

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

The Syndicate also issues a limited liability policy with proven strict terms and restrictions. The Syndicate purchases excess of loss reinsurance to limit maximum exposure to a major incident to 200% of capacity.

The Syndicate, which had an underwriting capacity of £31.5m (2008 £27.5m), saw little change in net income during the period. The loss record remained favourable, supporting broadly stable rates across the portfolio. The combined ratio was 26% (2008 24%).

"Recognised as a leading insurer of nuclear risk"

Key figures	2009 £m	2008 £m
Gross written premiums	15.7	14.7
Net earned premiums	13.5	12.0
Underwriting profit (before investment return)	10.0	9.1
	%	%
Claims ratio	15	20
Expense ratio	11	4
Combined ratio	**26**	24
Number of risks/programmes written by YOA	21	19
Percentage of lead business	93.4	91.7
Percentage of gross written premiums renewed for 2009 (2008) YOA	100.0	100.0

See 'Divisional performance' (page 9) for definitions of the terms used in this table

Turnkey Solutions

- Capacity under management of £324.4m for third party capital providers
- Total income generated increased by 34% to £5.9m
- Successful novation of Antares Syndicate 1274 to new managing agency

The Group's Turnkey Solutions Division provides a practical solution for investors that want a Lloyd's syndicate but do not wish to incur the additional costs of a standalone managing agent. This allows the new syndicate to focus on building the underwriting business.

"Our total syndicate capacity under management during 2009 was £1,009.3m"

Our Division works closely with the new syndicate team and investors to prepare the application to conduct business at Lloyd's and then to support the launch of the Syndicate.

We also provide the Syndicate with managing agent and other services. Once the Syndicate is live, our managing agency closely monitors its underwriting performance for investors.

Our total syndicate capacity under management during 2009 was £1,009.3m (2008 £839.5m) including £429.3m (2008 £319.7m) for third party capital providers. This generated a total income of £5.9m from syndicate management in the year (2008 £4.4m), included within Other Operating Income of £11.2m (2008 £9.2m).

Syndicate 4242

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

Our share of the Syndicate's underwriting profit of £1.9m (2008 loss £0.9m) reflects significantly reduced weather-related losses in the US during 2009. We have an underwriting interest of £13.1m for the 2010 year of account (2009 £11.3m).

Table 2 provides a summary of the Group's share of the underwriting performance of Syndicate 4242.

Table 2 Syndicate 4242

	2009 £m	2008 £m
Gross written premiums	10.5	8.6
Net earned premiums	4.8	5.1
Underwriting profit/(loss) (before investment return)	1.9	(0.9)
	%	%
Claims ratio	(5)	67
Expense ratio	64	51
Combined ratio	**59**	118

See 'Divisional performance' (page 9) for definitions of the terms used in this table

Syndicate 1274

We participate on Syndicate 1274 through a £17m investment in Antares Holdings Limited, a Bermudian-based holding company established by industry investors to provide capital for the Syndicate. The Syndicate, which has an underwriting capacity of £200m for 2010 (2009 £165.2m), completed a satisfactory 2009.

In January 2010, we announced the successful novation of Antares Syndicate 1274 from our management to the new Antares Managing Agent. This follows some 15 months of work by our Turnkey Solutions Division with the Antares management team to develop and to obtain regulatory approval for the new managing agent. Antares is now a stronger and more valuable investment proposition as an integrated Lloyd's vehicle.

The success of Antares shows the strengths of our Turnkey Solutions Division, which helps investors to build successful syndicates and management agencies at Lloyd's, and we intend to develop further such ventures in the future.

Syndicate 4000

We provided the capital to support the 2008 and prior years of account for Syndicate 4000. **Table 3** provides a summary of the Syndicate's underwriting performance.

While the 2006 and prior years continue to settle satisfactorily, the Syndicate has significant exposure to potential claims arising from difficulties within the financial and professional liability markets, with claims such as Stanford and Madoff now reaching the market from the credit crunch and subsequent economic turmoil.

These are complex events, where after each initial notification from policyholders and brokers, insurers instruct legal advisers to evaluate the validity and quantum of claims. The advice that the market is receiving from this evaluation process is causing it to adopt a more pessimistic view of emerging claims.

While the ultimate loss resulting from these events cannot yet be accurately determined, based on all available information, we have booked an underwriting loss before investment return of £12.2m for premiums earned in 2009 (2008 profit of £0.8m). The Syndicate's net IBNR provisions amounted to £76.6m at 31 December 2009 (2008 £81.6m), which includes significant loadings retained as a buffer against possible future best estimate reserve deterioration.

Table 3 Syndicate 4000

	2009 £m	2008 £m
Gross written premiums	8.2	65.9
Net earned premiums	31.5	42.9
Underwriting (loss)/profit (before investment return)	(12.2)	0.8
	%	**%**
Claims ratio	108	59
Expense ratio	30	39
Combined ratio	**138**	**98**

See 'Divisional performance' (page 9) for definitions of the terms used in this table

Underwriting outlook

> Positive outlook for 2010

> Some softening of catastrophe-exposed classes after a quiet period for losses

> Financial institutions and political risk rates rising after recent financial turmoil

> Aviation and energy rates responding to major loss events

> UK motor rates are hardening to return the market to profitability

> Capacity of Syndicate 1084 increased by £73m to £707m

> Current underwriting year has started positively

The outlook for 2010 is positive. After a quiet period for both man-made and natural catastrophe losses, there will inevitably be some softening of rates, especially for North American property and catastrophe-exposed marine classes. In addition, while prices remain healthy, competition for the best business is increasing as underwriters seek to utilise surplus capacity and add diversity. We also expect property rates in non-critical catastrophe-exposed territories to come under pressure, following exceptionally good years.

Energy premiums have responded to high offshore losses away from the Gulf of Mexico and a reinvigorated oil price. Aviation rates should also strengthen in 2010 following a year of heavy airline losses and we have increased the capacity of our Aviation Division by 20% in response.

Within our marine portfolio, political risk renewal rates have hardened in response to losses from the global economic downturn in 2009, with increases of between 10% and 25% for political risk and even steeper increases of 20% to 40% for trade credit.

Away from financial institutions, the specialist lines market remains soft, with competitive pricing and a flow of new entrants adding to capacity.

As the index shows, we forecast a marginal increase in premium rates for our underwriting portfolio in 2010.

In UK motor, we forecast rate increases of 14.1% in excess of claims inflation in 2010. Increases for personal lines motor business will lead this, although the fleet market should also improve in 2010, following several years of fierce competition. We have increased the underwriting capacity of our UK Division by 10% to accommodate the rate increases levied for 2010.

There are also opportunities arising in specific specialist lines accounts, most notably for financial institutions, where rates have strengthened following the recent financial turmoil.

Overall, we have increased the capacity of Syndicate 1084 by £73m to £707m for 2010 (2009 £634m). In addition to Group capital, the Syndicate receives support from Flagstone Re, through an £82.1m capital provision quota-share (2009 £50.6m), and Labuan Re, through a £32m limited tenancy agreement (2009 £32m). The capacity of Nuclear Syndicate 1176 is £31.7m for 2010 (2009 £31.5m), of which our share is £17.4m (2009 £17.4m). Our participation on managed Syndicate 4242 has increased to £13.1m (2009 £11.3m).

Our total underwriting interests are £623.3m, an increase of £43.3m or 7.5% on the 2009 total of £580m.

Bruce Bartell
Chief Underwriting Officer
7 April 2010

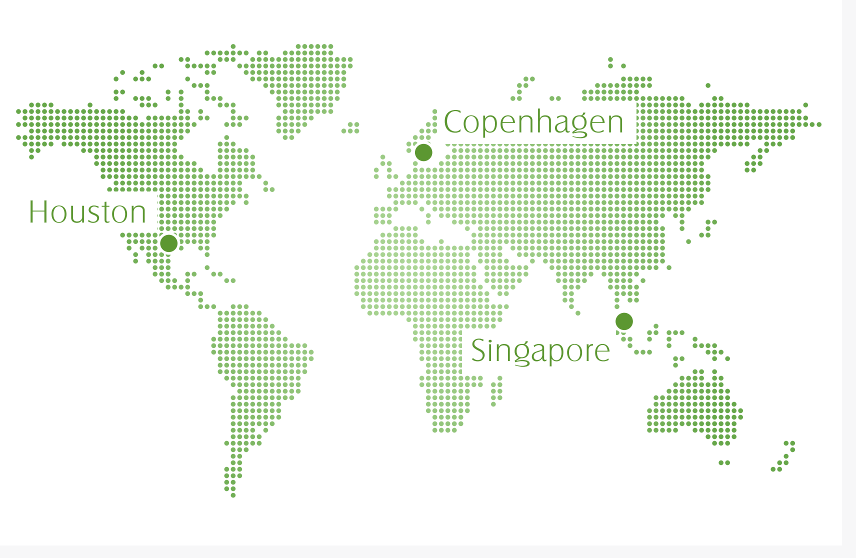
Premium Rating Index	2002	2003	2004	2005	2006	2007	2008	2009	2010E	2010% Change
Marine	149	167	171	175	187	184	184	194	195	+0.5
Energy	282	327	310	347	486	445	409	441	446	+1.1
Aviation	175	171	168	164	160	148	146	155	162	+4.5
International Property	169	166	154	148	155	148	140	146	145	-0.7
North American Property	157	165	163	171	232	234	216	235	232	-1.3
Specialist Lines	151	174	187	184	179	171	166	168	170	+1.2
Combined (excluding UK)	170	182	182	185	204	197	187	198	199	+0.5
UK	122	130	132	130	130	132	140	149	170	+14.1
Combined	152	156	157	158	181	175	169	179	183	+2.2

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 2010E index values are estimates. As nuclear insurance has historically been a non-cyclical business, there is no maintenance of an index

We are building an international network using our established presences in Copenhagen, Singapore and Houston.

Our aim is to improve access to the highest quality business worldwide, diversifying our underwriting and improving portfolio management.

We are developing two models: underwriter-focused offices as in Copenhagen and Singapore, where our products and services are available through regional underwriting teams, and producer-focused offices, which will provide our underwriting teams in London with regional market knowledge, insight and assistance.



Houston

Helen Tarr
Energy Class Underwriter
Chaucer Houston

We launched this Texan-based operation in August 2009 to extend our global energy network to North America.

Set up in partnership with US-based insurance broker Global Special Risks (GSR), Chaucer Houston provides our Energy Division with a new underwriting platform for land-based oil and gas operators.

The partnership enhances our energy services, combining the underwriting expertise of Syndicate 1084 with the product distribution network and high quality front-end services provided by GSR. The partnership positions us at the forefront of the US retail sector and consolidates our role as a long-term participant in this market.

The current portfolio comprises upstream, midstream, downstream, renewables and casualty classes of business, on which we plan to build a profitable business platform for future growth.

In the first year of operation, Chaucer Houston developed a 70+ strong client base. We will build on this success in 2010 through the expansion of Syndicate 1084's product offerings.

Copenhagen

Christian Daniele
Managing Director
Chaucer Underwriting A/S

For over a decade, we have been developing a successful European operation, Chaucer Underwriting A/S, in Copenhagen, Denmark.

Launched in 1999 to write mainly property excess of loss reinsurance in Northern Europe, Chaucer Underwriting A/S has grown successfully, writes business for accident and health, terrorism, political risk, energy and most recently, marine hull and cargo.

Building on the product strength of London, Chaucer Underwriting A/S aims to accept Chaucer products in Copenhagen, as well as European business not typically presented to the Lloyd's market.

In November, recruitment concluded for the latest range of products added, with the appointment of an underwiter to write marine and hull business. The new underwriter has strong sector experience and a high profile in the region.

Singapore

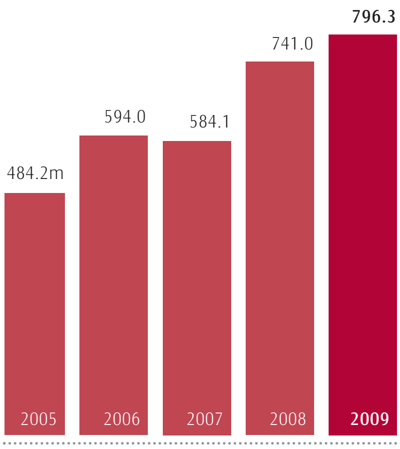
Chris Wildee
Chief Executive Officer
Chaucer Singapore PTE Limited

We launched Chaucer Singapore in 2007 to underwrite offshore energy and other marine lines of business on behalf of Syndicate 1084.

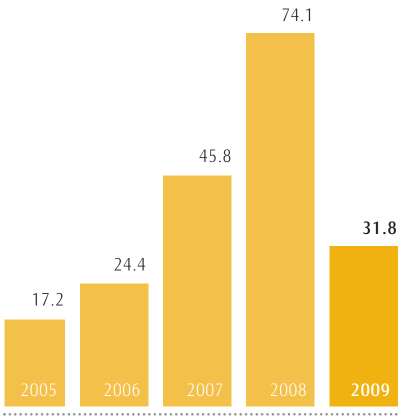
Now in its fourth year of operations, Chaucer Singapore has developed as a market leader for upstream energy in Singapore, and one of the largest service companies on the Lloyds Asia Platform.

In 2009, to consolidate its position on current lines and to introduce new classes to the Asian market, Chaucer Singapore increased the strength of the underwriting team. This included recruitment of a Power and Engineering Team.

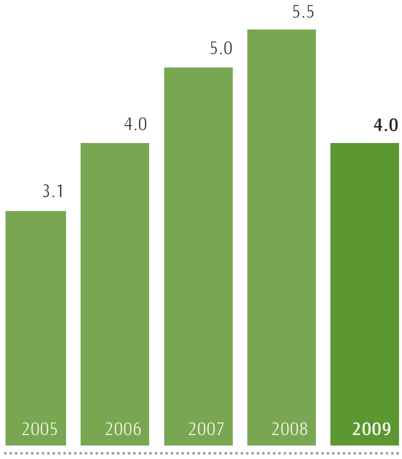
Chaucer Singapore now provides dedicated resource for cargo, hull, marine liability and terrorism coverage, while the financial institutions portfolio includes accident and health XOL and other casualty treaties.



Gross written premiums (£m)



Reserve release (£m)



Annual dividend (pence)

Performance indicators	2005 £m	2006 £m	2007 £m	2008 £m	**2009 £m**
Gross written premiums	484.2	594.0	584.1	741.0	**796.3**
Reserve release	17.2	24.4	45.8	74.1	**31.8**
Profit/(loss) before tax	11.9	86.0	89.4	(26.2)	**42.0**
Shareholder equity	156.0	216.5	282.2	225.5	**316.7**

	%	%	%	%	%
Investment return	5.0	5.7	4.7	(6.8)	**4.3**
Post-tax return on equity	7.4	37.7	31.7	(7.0)	**9.7**
Gross gearing[1]	36.0	44.5	23.8	42.6	**27.2**
Combined ratio[2]	105	85	82	94	**93**

Per share amounts	p	p	p	p	p
Net tangible assets	42.4	60.7	75.8	62.5	**55.5**
Basic (loss)/earnings	3.9	20.1	22.3	(6.0)	**5.8**
Annual dividend	3.1	4.0	5.0	5.5	**4.0**

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

Leading indicators	2005 £m	2006 £m	2007 £m	2008 £m	**2009 £m**
Total investments and cash	668.1	829.0	957.8	1,219.5	**1,353.5**
Net unearned premiums	171.2	187.9	217.4	296.3	**315.9**

Premium Rating Index	2002	2003	2004	2005	2006	2007	2008	2009	**2010E**
Combined total	152	156	157	158	181	175	169	179	**183**

Business mix		Forecast 2010 %	2009 %
Motor	Personal Lines	18.9	18.1
	Fleet	4.1	4.4
Marine		15.4	16.3
Energy		16.2	15.6
Aviation		6.1	4.6
Property	North American	10.4	11.0
	International	9.6	12.8
	Europe	4.5	9.7
Specialist Lines		9.9	2.2
Nuclear		2.8	3.2
Syndicate participations		2.1	2.1
		100.0	100.0

Forecast business split based on Chaucer's economic interest of £623.3m (2009 £580m) of underwriting capacity
Syndicate participations include the impact of Chaucer's participation in syndicate 4242

Business type	2009 £m	2009 %	2008 £m	2008 %
Delegated authorities	164.2	20.6	143.5	20.8
Direct	323.4	40.6	318.4	46.2
Facultative	150.3	18.9	112.7	16.3
Treaty	157.2	19.8	115.0	16.7
Run off	0.5	0.1	0.3	-
	795.6	100.0	689.9	100.0

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

Currency split	2009 £m	2009 %	2008 £m	2008 %
Sterling	339.6	42.7	313.9	45.5
US dollar	442.9	55.7	357.4	51.8
Canadian dollar	13.1	1.6	18.6	2.7
	795.6	100.0	689.9	100.0

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

Length of tail	%	Definition
Short	72.1	Over 75% of gross ultimate claims developed at 24 months
Medium	7.1	Between 50% and 75% of gross ultimate claims developed at 24 months
Long	20.8	Below 50% of gross ultimate claims developed at 24 months
	100.0	

Based on the Group's underwriting interests for the 2009 year of account

Our 2010 strategy for Human Capital is to focus on the development of career progression and talent management.

We continually seek to attract and employ the highest calibre of employee.

Our first class employment policies aim to encourage, develop and retain staff. Our below market average staff turnover rate of 8.9% demonstrates this success.

2009 was a challenging year for our employees as we faced threats to our continued independence. However, despite this, we remained focused as a business on retaining and developing our employees.

We are pleased to report that we retained all senior employees during 2009 and further strengthened our underwriting team, with the creation of a new International Liability Division, the addition of new class underwriters in the Energy and Property Divisions and further strengthening of our teams in Copenhagen and Singapore.

The average continuous service is five years and two months across the Group.

Our training expenditure was 3% of total staff costs in 2009.

Graduate Scheme

Our Graduate Scheme is one of the most competitive in the Lloyd's Market. Across a 24-month rotational programme, our Scheme provides graduates with experience of all areas of the business and encourages them to develop both technical and personal skills.

Professional study for the ACII qualification is encouraged as a key aspect to the programme.

On completion of the programme, each individual is placed within the business.

Management Development Strategy

A key element of our people strategy is the development of our current and future leaders through the implementation of a comprehensive Leadership and Management Development Strategy.

In 2009, we researched business needs and available leadership skills courses to design a series of development programmes to provide our employees with the capabilities required to deliver Chaucer's business strategy.

The programmes build to enable us to offer a tailored development experience for each employee, one that helps Chaucer to identify, develop and retain the leadership team and skills that the business requires.

We launched these programmes in 2010.

"We retained all senior employees during 2009 and further strengthened our underwriting team with the creation of a new International Liability Division"

2009 HIGHLIGHTS

- An Equal Pay Audit was conducted ahead of the legislative deadline and received a positive outcome.
- Open Door, our online self-service HR system was enhanced to support holiday and absence tracking and employee development requirements.
- We conducted our annual market-benchmarking audit to ensure our benefit practices are in line with market standards.
- Holiday entitlement for all London staff was increased to 25 days per annum in line with our peers.

2010 PLANS

- Fourth employee survey planned for the second quarter of 2010.
- New Leadership and Management Development Programme.
- Recruitment is underway for our Autumn graduate intake.
- Further automation of our HR processes, including online payslips.

Chaucer wins Young Underwriter of the Year

In December, Tom Graham, Class Underwriter for International Casualty Treaty, won the title of 'Young Underwriter of the Year' at the Insurance Day Awards.

This was a great achievement for both Tom and Chaucer. In addition to the significant contribution Tom has made to Chaucer, as current Chairman of the Under 35's Reinsurance Group for the Lloyd's and London Market, he has helped raise the Group's profile, providing both a voice for younger professionals in the market as well as educational and networking opportunities throughout the year.

Matt Evans
Head of Pricing

I joined Chaucer in 2006 as an Actuarial Analyst.

My role has evolved since then, beginning with motor reserving, moving to motor pricing and then London Market pricing. I now manage a consolidated London Market and Personal Lines Pricing Team, reporting to the Group Actuary.

Good relationships with the underwriters, our internal clients, are key to our role as pricing actuaries. We are fortunate that we work closely with the underwriters and receive valuable support from the Underwriting Management Team. By means of this regular contact and support, we continually improve the service offered, in terms of pricing models, management information and other pricing advice.

Chaucer has given me the opportunity to develop professionally through exposure to many classes of business and working with a wide range of professionals. Engagement from senior management and underwriters has been particularly useful in helping me to understand the requirements of the business and how actuarial skills can best serve its needs. Over the coming years, I am confident that we can continue to enhance pricing at Chaucer and bring further associated benefits in terms of profitability, business planning and risk control.

Charles Bush
Claims Adjuster, Marine Claims

I have always had a keen interest in the marine market and upon leaving Durham University I sought opportunities in the insurance underwriting industry.

I joined Chaucer's Graduate Scheme in 2005 and as part of the programme spent time working with the Marine and Energy Claims Team. Knowing this was where my interest was, at the end of the programme in 2007 I applied for a permanent role and became Junior Marine and Energy Adjuster.

Throughout my career at Chaucer, I have been fortunate enough to visit our office in Singapore and later this year will visit our new Houston office. My visit to Singapore enabled me to build my network of international contacts, where I was able to share my expertise and meet with brokers, surveyors and lawyers during a five-week secondment.

The opportunity for international travel and the experiences it brings has strengthened my development and made me more confident in my role as an Adjuster.

Our role as a responsible employer is to operate first class employment practices and promote equal opportunities.

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

We demonstrate our commitment to CSR, through Kim Barber, our UK Insurance Practice Head, who represents our CSR programme at Board level. Committees, in London and Whitstable, oversee the delivery of our CSR initiatives on a local level.

Our corporate responsibility

Our role as a responsible employer is to operate first class employment practices and promote equal opportunities to ensure we attract and retain our high-quality people.

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 leading teams in the Lloyd's and general insurance industry.

In addition to providing an environment in which our people can thrive, we also understand the importance of providing a safe and healthy environment in which to work. We take this issue very seriously and provide our staff with training to help mitigate risks and to ensure that our staff clearly understand our health and safety policy.

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 lead the way when we work together as Chaucer and when we conduct business with clients, investors and suppliers.

"We believe that in order to succeed, our people must have common goals and objectives"

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

Our social responsibility

We believe in responsible community participation and good citizenship. We encourage employees to participate in community programmes and provide each individual with two days a year that they can dedicate to a volunteering activity. In 2009, this was the equivalent of the Company offering 1,292 days for CSR-related activities.

Our London projects

- In August, the London office selected Cancer Research as its Charity of the Year. To date enough money has been raised to cover five months' running expenses for a clinical trial investigating hormone therapy to improve the treatment of prostate cancer.
- Support for Cayley School in Limehouse, London continued in 2009. Nine employees participated in the Reading Partners Scheme, managed by Tower Hamlets Business Partnership, dedicating over 167 hours to help 40 children develop their literacy and communication skills.
- A team of eight employees competed in the Great London River Race, rowing 22 miles in only two hours and 55 minutes. The team raised £5,000 for the sailing charity Ahoy, based in Deptford, South East London.
- Working in partnership with The Brokerage, a charity that helps create a pathway to the City for young residents of London's inner-city boroughs, we hosted a programme for 30 teenagers to provide an introduction to working in the Lloyd's industry.
- Other organisations supported throughout the year included the British Heart Foundation, Bromley by Bow Centre, Cystic Fibrosis and the Coins Foundation, which aims to help the needs of the most excluded communities in the world.
- We also supported employees in their personal charitable achievements, including a double marathon in South Africa, moustache growing for the Prostate Cancer Charity and the Pedal to Paris cycle ride.

Our Whitstable projects

> At our Whitstable office, the home of our UK Division, staff dedicated 320 hours to local voluntary projects and made donations to 46 charitable organisations.

> Whitstable continued to support The Strode Park Foundation as its charity of the year. They raised enough money to purchase a physiotherapy table and a hoist for the charity that provides care and leisure services for people with disabilities.

> 13 staff helped create an outdoor children's play area for Abbot House Nursery in Kent.

> We donated ten crates of toys and games to the Misfits Motorcycle Club, who support children's hospital wards.

> We held a student careers day with the Financial Services Skills Council and Kent County Council for 30 children to introduce the insurance industry.

Our environmental responsibility

While the insurance business has a small impact on our carbon footprint, we are very conscious of our environmental responsibilities and the positive impact that we can have on our working and personal environment.

"We are very conscious of our environmental responsibilities"

> We commissioned an audit to calculate our carbon footprint in London and Whitstable, focusing on our energy and paper consumption, corporate travel and employee travel to and at work. The audit set us a benchmark against which to improve in the future. We will launch campaigns aimed at making us more aware of how we can save energy and reduce our carbon footprint.

> We have recycling projects in place across the Group including those for paper, cardboard, plastic cups, printer and toner cartridges and mobile phones.

> Over the past seven years, Whitstable has recycled 149 tons of paper. This has saved the equivalent of enough electricity to power 149 three-bedroom homes for one year.

> We purchase environmentally friendly stationery materials, where appropriate.

> Our Whitstable office, for the past five years, has run a scheme to conserve water and now saves over 8,000 litres of water a month.

> We adopted an area of the Thames Estuary beach in Whitstable. 21 staff participated in five projects between April and September to clean the beach.

We continue to work with other Lloyd's market agencies to mitigate the effects of climate change through our active membership of ClimateWise and support for its principles, which provide a framework for insurance companies worldwide to set out how they will build climate change into their business operations.

This is our second year as a member of the ClimateWise scheme. Our progress against the six key principles and details of our other CSR-related activities are included in the CSR section of our website at www.chaucerplc.com.

The financial performance of the Group improved significantly in 2009, with a profit before tax of £42m.

The financial performance of the Group improved significantly in 2009, with a profit before tax of £42m (2008 loss £26.2m).

The result illustrates the strengths of the Group's diversified underwriting strategy. Losses were sustained in certain classes but overall underwriting contributed a profit before investment income of £45.8m (2008 £33m), excluding the impact of foreign exchange on non-monetary items.

The Group's investment portfolio performed strongly, recording a return of £53.3m (2008 loss £71m). The value of equity and hedge fund holdings recovered as liquidity and confidence returned to the market.

The Group raised funds in February to enable it to take advantage of good rating conditions in 2009, following the financial and insurance losses of 2008. In 2009, gross written premiums, excluding RITC premiums and consolidation adjustments, increased by 15.3% to £795.6m (2008 £689.9m), the result of premium income increases across all divisions. Net earned premiums, excluding RITC premiums, the impact of foreign exchange on non-monetary items and consolidation adjustments, increased by 24.9% to £672.6m in 2009 (2008 £538.4m).

The Group combined ratio improved to 93% (2008 94%). During 2009, the Group released net reserves of £31.8m relating to prior periods (2008 £74.1m) reducing the combined ratio by 5% (2008 13%).

The expense ratio decreased to 31% (2008 32%). The ratio included a foreign exchange gain of £1.8m (2008 £8.4m) and professional fees of £2.8m relating to corporate finance costs in the first half of the year.

> "The Group's investment portfolio performed strongly, recording a return of £53.3m"

The treatment of non-monetary assets and liabilities under IFRS has materially distorted the Group's performance in 2009 and 2008. Following the significant strengthening of the US dollar against sterling in the second half of 2008, the reported result was improved by £33.3m.

The magnitude of this figure resulted from a sudden significant swing in the US dollar, which coincided with the 2008 year-end. This mismatch of translation of assets and liabilities unwound in 2009, decreasing the reported profit by £33.3m.

Although the Group does not expect a repeat on this scale, it is still the case that each one cent movement in the year-end exchange rate will impact the reported profit before tax by more than £1m.

Table 4 summarises the results for the year.

Ken Curtis
Chief Finance Officer

Taxation

The Group's tax charge is £13.9m (2008 credit £7.3m). The tax charge is 33.1% (2008 27.9%). This is in excess of the standard rate because of the disallowed corporate finance costs and the tax treatment of the cost of shares awarded under the deferred bonus scheme, whereby the ultimate tax deduction is determined by the value of the shares at vesting. The estimated value of the deduction during the period to vesting is determined by the market price of the shares. A fall in the market price of the shares is reflected by a charge against the deferred tax asset, resulting in a current tax charge in the income statement. Under IFRS, the fact that the share price has fallen is not reflected by a reduction in the before tax charge in the income statement but will be shown as an adjustment in equity at the time of vesting.

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

Dividends

At the time of the capital raising, the Group announced a commitment to a dividend policy of a minimum of 4.0 pence per ordinary share for both 2009 and 2010, in the absence of unforeseen circumstances. In accordance with this policy, the Group paid an interim dividend of 1.3p per share (2008 interim dividend 1.8p) on 1 October 2009. The Group intends to pay a final dividend of 2.7p (2008 second interim dividend 3.7p), making a total annual distribution of 4.0p (2008 5.5p). The dividend is payable on 28 May 2010 to shareholders on the register on 7 May 2010.

Table 4 Key financial data	2009 £m	2008 £m
Gross written premiums[1]	796.3	741.0
Net earned premiums[1]	606.3	547.2
Total revenue from operations	670.8	485.4
Total operating charges	(624.7)	(515.4)
Profit/(loss) from operations	46.1	(30.0)
Profit/(loss) before tax and foreign exchange on non-monetary items	75.3	(59.5)
Foreign exchange (loss)/gain on non-monetary items	(33.3)	33.3
Profit/(loss) before tax	42.0	(26.2)
Profit/(loss) after tax attributable to equity holders	28.1	(19.0)
Per share amounts	p	p
Basic earnings/(loss) per share	5.8	(6.0)
Interim dividend	1.3	1.8
Final dividend/second interim dividend	2.7	3.7
Key business ratios	%	%
Combined ratio[2]	93	94
Post tax return on equity	9.7	(7.0)

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

2 Combined ratios exclude the initial impacts of both the RITC of Run off Syndicates 1204, 1224, 1229 and 1245 and of the increased ownership of in-house syndicates following the RITC 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

£74.9m

Capital raised to support business development and strengthen balance sheet

£82.1m

Capital provision quota-share support obtained for Syndicate 1084

£81.4m

Capital buffer and working capital

Capital management

The Group's capital management activities seek to ensure the continued availability of adequate capital across the insurance cycle and to achieve a balance between reasonable funding costs and an appropriate balance sheet structure. In addition to the permanent capital provided by shareholders' funds, the Group employs letters of credit, quota-share arrangements and debt as additional solvency capital to support underwriting.

Group capital comprises regulatory capital deposited as Funds at Lloyd's (FAL) and a capital buffer to protect the underwriting capacity of the business against the impact of severe (but not extreme) loss events. This reduces the Group's requirement to seek additional capital funds after such events. This provides underwriting flexibility and helps maintain the long-term value of the business.

At 31 December 2009, the Group's economic capital was £417.9m, comprising £336.5m of FAL and £81.4m of capital buffer and working capital.

The capital raising in February strengthened the capital position. In addition, the Group entered into a capital backed quota share agreement in 2009 to increase the buffer. The quota share support has increased for 2010 in order to support growth and maintain an appropriate balance between risk, reward and capital. At the year-end, the total of net tangible assets and subordinated debt represented 144% of the Group's ICA requirements for 2010. In addition, available funds, including letters of credit, represented 124% of the Group's FAL requirement. The Group continues to keep this balance under review.

Capital raising

In February 2009, the Group raised £74.9m, net of expenses, through a firm placing and placing and open offer, to support the development of the business and to strengthen the balance sheet. The Group deposited the proceeds as additional FAL to increase the underwriting capacity of Syndicate 1084 to £634m for 2009, an increase of £189m or 42.5% on the 2008 capacity of £445m.

Table 5 Composition of Funds at Lloyd's

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

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

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

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

Reinsurance agreement

In November 2009, the Group concluded the second stage of a two year reinsurance agreement with Flagstone Re to provide £82.1m (2009 £50.6m) of underwriting capacity to Syndicate 1084 for the 2010 year of account.

Regulatory capital

The Group's total underwriting interests are £623.3m for 2010 (2009 £580m), with regulatory capital requirements of £336.5m or 47.7% (2009 48.1%), against a Lloyd's minimum of 40%. The Group deposits the capital as FAL. **Table 5** shows the FAL composition for 2010.

Gearing

In addition to equity, the Group has debt capital of £40.3m (2008 £45.1m) and a £51m (2008 £56m) letter of credit facility deposited as FAL to support the underwriting capital.

The Group's debt capital comprises a €12m (£10.2m) 30-year loan note issued in 2004 and US$50m (£30.1m) of 30 year subordinated debt raised in September 2006 (sterling equivalents are on an amortised cost basis). These arrangements provide the Group with balance sheet gearing to enhance returns for shareholders. The total financial gearing, including loan notes, uncollateralised letters of credit and subordinated debt, was £86.3m (2008 £96.1m) or 27.2% of shareholders' funds (2008 42.6%).

At 31 December 2009, the Group held cash resources outside of syndicates and FAL of £52.4m, including £5m of collateral (2008 £37.5m, including £5m of collateral), producing net debt of £38.9m (2008 £63.6m) and gearing of 12.3% (2008 28.2%).

Table 6 provides a gearing summary.

Investment portfolio performance

The Group achieved an investment return of £53.3m (4.3% return on average funds) in 2009.

Financial investments (excluding the investment in Antares), cash and deposits totalled £1.3bn at 31 December 2009 (2008 £1.2bn). These supported FAL of £306.7m (2008 £263.7m), syndicate technical reserves of £948.4m (2008 £899m) and capital buffer and working capital funds of £81.4m (2008 £39.8m).

£53.3m
Investment return achieved
(4.3% return on average funds)

£1,336.5m
Record funds under management
at the year end

£306.7m
Funds at Lloyd's

Table 6 Gearing summary

	2009 £m	2008 £m
Debt		
On balance sheet	40.3	45.1
Off balance sheet (letters of credit)	51.0	56.0
Cash held outside Lloyd's	(5.0)	(5.0)
Free cash resources	(47.4)	(32.5)
Total net debt	**38.9**	63.6
Shareholder equity	316.7	225.5
	%	%
Gross gearing	27.2	42.6
Net gearing	12.3	28.2

Table 7 provides an analysis of investments, cash and deposits held at 31 December 2009 and of the net investment return for the period.

Hedge funds

The Group redeemed hedge funds with a total value of £118.9m during 2009. These redemptions continued to settle at favourable prices and in accordance with forecasts. At 31 December 2009, hedge fund participations comprised 3% of the Group's investment portfolio. This will fall to less than 1% of the portfolio during the second quarter of 2010 as redemptions continue.

Table 8 provides a summary of hedge fund investments by strategy, return and valuation at 31 December 2009.

Bonds

The portfolio performed well during 2009, recording a return of 4.2% (2008 loss 2%).

The average duration of the bond portfolio at 31 December 2009 was 1.8 years (31 December 2008 1.0 year) and the weighted average yield to maturity was 2.6% (31 December 2008 4.3%).

In October 2009, the Group allocated £330m of redeemed hedge fund participations and existing cash balances to three newly appointed fixed income managers, increasing the allocation to investment grade credit. The average credit rating of the fixed income portfolio is AA. The allocation to sub-investment grade securities is less than 1% of the fixed income portfolio and consists primarily of mortgage-backed securities that were downgraded during 2009.

As table 9 shows, at the end of 2009, the majority of Group holdings were in investment grade bonds.

Securitised securities breakdown further as shown in table 10.

Cash and deposits

Cash returns remain poor because of continued record low interest rates.

Investment portfolio outlook

As previously disclosed, the Group intends to continue with a conservative investment strategy, with a focus on capital maintenance, and forecasts only modest investment returns in 2010. The Group expects that the performance of the current investment portfolio will remain robust through most economic scenarios, including a double dip recession and growth with inflation environments.

	31 December 2009			31 December 2008		
Table 7 Investment portfolio	Value £m	Return £m	Return %	Value £m	Return £m	Return %
Equities	4.6	0.3	5.3	6.0	(31.9)	(38.7)
Hedge funds	37.5	14.7	20.9	154.7	(30.4)	(27.0)
Absolute return bond funds	-	9.4	2.9	332.6	(17.3)	(4.5)
Bonds	749.6	24.0	4.2	248.1	(3.5)	(2.0)
Cash and deposits	544.8	5.4	0.9	461.1	12.4	4.3
	1,336.5	53.8	4.3	1,202.5[1]	(70.7)	(6.8)
Investment expenses		(0.5)			(0.3)	
Net investment return		53.3			(71.0)	

Asset allocation	2009 %	2008 %
Equities	-	-
Hedge funds	3	13
Absolute return bond funds	-	28
Bonds	56	21
Cash and deposits	41	38
	100	100

1 These financial assets were held at 31 December 2008, prior to the capacity increase in the 2009 year of account following the capital raising

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. The Group monitors exposures arising from retained profits and losses in major foreign currencies quarterly and manages with currency purchases and sales as appropriate.

The Group holds two foreign currency denominated debt instruments. First, a US$50m subordinated debt issue, which the Group matches with US$50m deposited as FAL and second, a €12m loan note issue. In addition to Group US dollar funds deposited as FAL, the quota share reinsurance is supported by US dollar deposits. This provides a hedge against FAL requirements changing because of changes in the US dollar exchange rate.

Technical reserves

The Group entered 2010 with net unearned premiums of £315.9m, an increase of £19.6m on the previous year, the majority of which the Group will earn this year.

Both gross and net loss reserves decreased as a proportion of shareholders' funds in 2009. This was due to reduced loss activity during the year, which resulted in a lower level of unsettled claim amounts at the balance sheet date and increased shareholders' funds.

The share of loss reserves due from reinsurers decreased during 2009 to £292.8m (2008 £299.8m). This amount represents 25.1% of gross loss reserves at 31 December 2009 (2008 25.6%).

Table 8 Hedge fund performance	Return £m	Return %	Valuation £m
Fund of funds	5.0	13.9	25.9
Equity long short	1.8	15.8	-
Fixed income	7.9	33.9	11.6
	14.7	20.9	37.5

Table 9 Composition of bond holdings	AAA[1] £m	AA £m	A £m	BBB £m	Other £m	Credit rating Total £m
Governments	86.8	-	-	-	-	86.8
Securitised securities (see following table)	69.2	4.6	0.8	1.7	6.0	82.3
Supranational	10.6	-	-	-	-	10.6
Corporate	248.3	102.3	121.6	63.8	2.3	538.3
Agency	24.0	7.6	-	-	-	31.6
	438.9	114.5	122.4	65.5	8.3	749.6

1 AAA rated corporates include government guaranteed securities

Table 10 Composition of securitised securities	AAA £m	AA £m	A £m	BBB £m	Other £m	Credit rating Total £m
Asset backed securities	20.6	2.1	0.8	1.4	0.4	25.3
Commercial mortgage backed securities	23.8	-	-	-	-	23.8
Residential mortgage backed securities	24.8	2.5	-	0.3	5.6	33.2
	69.2	4.6	0.8	1.7	6.0	82.3

Table 11 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 2009 (2008 1.9%).

The Group released £31.8m of loss reserves created in 2008 and prior years (2008 £74.1m). **Table 12** provides a breakdown of reserve releases by division.

The Group has strengthened UK motor reserves in response to significantly increased credit hire and multi-claimant costs.

Syndicate 4000 has significant exposure to potential claims arising from the credit crunch and subsequent financial turmoil. While the ultimate loss from these events cannot yet be accurately determined, the Group has strengthened reserves for its run off participations on the Syndicate, in accordance with its conservative approach and based on all available information and extensive third party professional advice.

The 2008 reserve releases reflected a one-off benefit of £11.8m from the removal of loadings that limited the credit taken for better than expected claims development in booked reserves. The Group 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. In addition, the release of Syndicate 4000 reserves in 2008 reflected good run off performance from 2006 and prior years.

Ken Curtis
Chief Finance Officer
7 April 2010

Table 11 Reinsurance rating bands (Standard & Poor's or equivalent)[1]	2009 %	2008 %
Lloyd's Syndicates (A+)	17.1	15.9
AAA	3.5	4.7
AA	26.9	45.8
A	50.8	31.1
BBB	0.3	0.3
Collateralised	0.1	1.6
Other[2]	1.3	0.6
	100.0	100.0

1 Ratings as at 31 December 2009 and 2008 respectively
2 Other is net of offset (where appropriate) or post year-end commutations

Table 12 Reserve releases	2009 £m	2008 £m
UK	(2.2)	4.8
Marine	6.0	7.7
Energy	7.3	(6.7)
Aviation	4.7	1.7
Property	7.2	15.1
Specialist Lines	7.5	18.3
Nuclear	3.0	3.4
Syndicate 4000	(3.3)	24.5
Syndicate 4242	0.3	-
Run off	3.7	8.6
Quota-share provider's portion	(2.4)	(3.3)
	31.8	74.1

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 three per cent or more of the Company's ordinary share capital in the Directors' Report.

An estimated 80% 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 2009 our Chief Executive Officer, Chief Underwriting Officer and Chief Finance Officer held meetings with existing or potential institutional investors and UK private client brokers.

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

2010 Annual General Meeting (AGM)

We shall hold our 2010 AGM at our London headquarters at noon on 19 May 2010 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 is central to maintaining good communication with our shareholders, which we seek to improve each year.

Our website includes downloadable copies of our annual and half-year reports, interim management statements 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 the investor centre on our website at www.chaucerplc.com for up to date information
- Email us at investor.relations@chaucerplc.com
- Call our Company Secretarial Team on 020 7397 9700
- For enquiries regarding share registration, contact our Registrar, Equiniti, on 0871 384 2030. (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 2010
Interim Management Statement for the quarter ended 31 March 2010

26 August 2010
Announcement of Half-year Results for the six months ended 30 June 2010

19 November 2010
Interim Management Statement for the nine months ended 30 September 2010

DIVIDENDS

28 May 2010
Payment of final dividend for the year ended 31 December 2009
(Ex-dividend 5 May and record date 7 May 2010)

1 October 2010
Payment of interim dividend for the year ending 31 December 2010
(Ex-dividend 8 September and record date 10 September 2010)

ANNUAL GENERAL MEETING

19 May 2010
Annual General Meeting to be held at 12 noon at
Plantation Place
30 Fenchurch Street
London EC3M 3AD

Executive Directors

Robert Stuchbery

Chief Executive Officer

Robert Stuchbery (age 53) 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 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.

Robert is also a member of the Lloyd's Market Association Board and is currently the Chairman of its Underwriting Committee.

Prior to his appointment as Chief Executive Officer in January 2010, Robert was the Chief Underwriting Officer, having previously been 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 US.

Bruce Bartell

Chief Underwriting Officer

Bruce Bartell (age 53) has been a director of Chaucer Holdings PLC since June 2009 and joined the Chaucer Group in 1988.

His main responsibilities include managing all underwriting functions within the Chaucer Group.

Prior to his appointment as Chief Underwriting Officer, Bruce was Active Underwriter of Lloyd's Syndicate 1084 which merged with Syndicate 1096 in 2003. Before joining Chaucer, Bruce worked for fifteen years in the London Company Market.

Ken Curtis

Chief Finance Officer

Ken Curtis (age 49) has been a director of Chaucer Holdings PLC since December 2009 and joined the Chaucer Group in 2003.

His main responsibility is the overall financial strength of the Chaucer Group.

Prior to his appointment as Chief Finance Officer, Ken had been acting Chief Finance Officer since June 2009 and was the Finance Director of Chaucer Syndicates Limited.

Before joining Chaucer, Ken was a Senior Manager in the London Market Insurance Group of Deloitte LLP.

Non-executive Directors

Martin Gilbert
Chairman

Martin Gilbert (age 54) 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 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.

Richard Scholes
Director

Richard Scholes (age 64) 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.

Robert Deutsch
Director

Robert Deutsch (age 50) re-joined the Chaucer Holdings PLC Board on 26 August 2009 having previously been a director between January 2002 and December 2008. Robert is a Fellow of the Casualty Actuarial Society, an associate of the Society of Actuaries and a member of the American Academy of Actuaries.

Robert is Chairman of the Chaucer Syndicates Limited Board and the Remuneration Committee and is a member of both the Audit and Nomination Committees.

Robert is a partner of GCP Capital Partners and has extensive experience worldwide having held senior executive or directorship roles with Ironshore Inc., CNA Financial Corporation, Platinum Underwriters Holdings, Ltd., Executive Risk Inc., Darwin Professional Underwriters, Inc. and Wilton Re Holdings Limited, among others.

The Directors present their report and the audited accounts for the year ended 31 December 2009.

Principal activities

The Company is a listed holding company. 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 Chairman's Statement, Chief Executive Officer's Statement, Chief Underwriting Officer's Report 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 Chairman's Statement, Chief Executive Officer's Statement, Chief Underwriting Officer's Report and Financial Report sections.

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

Dividends

The Directors recommend the payment of a final dividend of 2.7p per share. On 1 October 2009, the Company paid shareholders an interim dividend of 1.3p per share, so the total cash dividend for the year will be 4p per share. If approved at the AGM, the final dividend will be paid on 28 May 2010 to those shareholders on the register at 7 May 2010.

Share capital

At a general meeting held on 13 February 2009, the authorised share capital was increased from £114m to £175m by the creation of an additional 244 million ordinary shares of 25p each. At the AGM held on 21 May 2009, changes to the Articles of Association, which came into effect from 1 October 2009, were approved, the effect of which was to remove the limit in the amount of share capital the Company can issue.

At the general meeting held on 13 February 2009, authority was given for the raising of £80m gross (£75m 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 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 the 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.

At the AGM held on 21 May 2009, the Directors were authorised to allot up to 182.7 million shares (33% of the issued share capital) of which up to 27.4 million shares (5% of the issued share capital) can be allotted without the application of pre-emption rights. In the year ended 31 December 2009, the Directors did not allot any shares under these authorities. The Directors will put requests for similar authorities to the AGM on 19 May 2010.

At the AGM held on 21 May 2009, the Directors were authorised to make market purchases of ordinary shares up to a maximum number of 54.8 million shares (10% of the issued share capital). In the year ended 31 December 2009, the Directors did not acquire any shares under this authority. The Directors will put a request for a similar authority to the AGM on 19 May 2010.

Notes 20 and 30 to the consolidated financial statements provide details of the Company's share capital and of share options outstanding at 31 December 2009 under the Company's share option schemes. These include share 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 Trustee can vote, if it chooses, on behalf of the participants.

Under the All Employee Share Ownership Plan, the participants cannot vote directly at general meetings of the Company but the Trustee will contact them for their opinions and then vote on their behalf.

Directors and their interests

The current Directors are listed on pages 40 and 41. Mark Graham and Christopher Forbes served as Directors during the year until they stepped down from the Board on 23 June and 30 June 2009, respectively. Ewen Gilmour also served as a Director throughout the year until he retired from the Board on 31 December 2009.

Bruce Bartell, Robert Deutsch and Ken Curtis were appointed to the Board on 23 June, 26 August and 16 December 2009 respectively.

At the AGM, Messrs Bartell, Deutsch and Curtis will retire and offer themselves for re-election in accordance with the Company's Articles of Association.

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

Details of Directors' interests in shares and share options are disclosed in the Directors' 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 offer himself for election.

If at the start of an AGM, three years have passed since a director was last elected, he must retire and offer himself for re-election. Directors may be removed by an ordinary resolution of the Company in a general meeting.

Amendments to Articles

The Company's Articles of Association may only be amended by a special resolution of the Company in a general meeting. Now that all of the provisions of the Companies Act 2006 are in force, it will be proposed at the AGM that new Articles of Association be adopted. Further details are contained in the AGM Notice.

Donations

During the year ended 31 December 2009 the Group made charitable donations of £47,450 (2008 £29,857) and made no political donations (2008 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 Group has adopted an Environmental Policy. For more information, please refer to page 30.

Substantial interests

According to notifications received, at 30 March 2010 the shareholders shown in table 13 held three per cent or more of the ordinary share capital of the Company.

Financial instruments

Notes 2 and 3 to the consolidated financial statements provide details of the Group's financial risk management objectives and policies.

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 2009 represented approximately 24 days (2008 33 days) of average daily purchases throughout the year. Chaucer Holdings PLC is a holding company and has no trade creditors.

Table 13 Substantial interests	Percentage of capital
BlackRock Inc	10.61
Pamplona Capital Management LLP	9.99[1]
Bank of America Corporation	9.00
Merrill Lynch International	6.28
AXA S.A.	4.91
Aberforth Partners LLP	4.85
Lloyds Banking Group plc	4.02
Legal & General Group plc	3.96
Henderson Global Investors Limited	3.13

1 Pamplona Capital Management LLP also has an interest in an unexercised equity swap over 6.28% of the capital

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 its employees. A Group-wide intranet supports this policy.

All stock exchange announcements are available on the Group's intranet and key announcements, such as the annual and half-year results, are sent to all staff by email.

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 three of the last four years and a further survey is scheduled to take place in 2010.

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 Group.

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 auditor is 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 auditor is aware of that information.

Annual General Meeting

The Notice of the AGM, to be held at Plantation Place, 30 Fenchurch Street, London EC3M 3AD at noon on 19 May 2010, is contained in a separate circular mailed to shareholders with this report. Shareholders wishing to attend the meeting and/or exercise their voting rights either in person or by proxy should refer to the Notice or the website for information.

Auditor

Resolutions are to be proposed at the AGM on 19 May 2010 for the re-appointment of Ernst & Young LLP as auditor to the Company and to authorise the Directors to fix their remuneration.

Approved by the Board of Directors on 7 April 2010 and signed on its behalf by

David Turner
Company Secretary

Corporate Governance

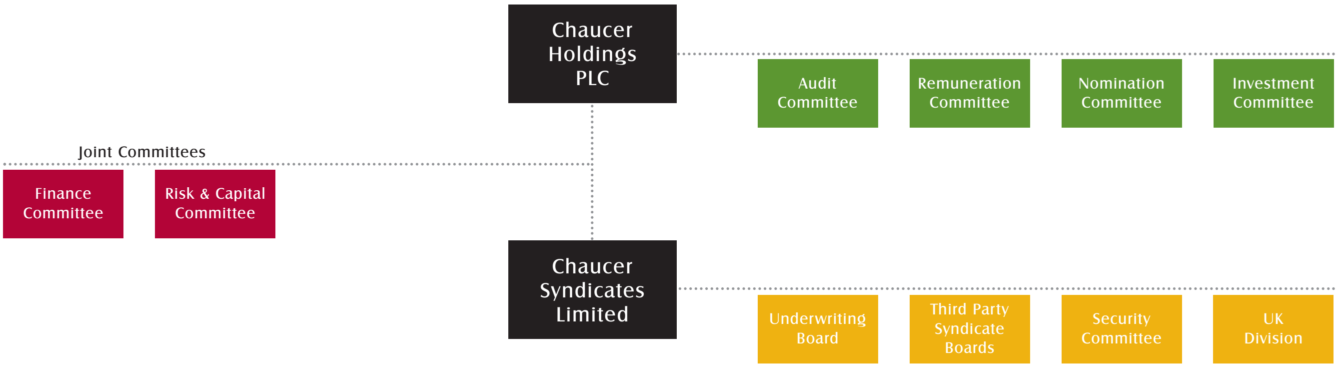
Set out below are statements on how the Company (Chaucer Holdings PLC or CHP) has applied the Main and Supporting Principles of the Combined Code (which is available at www.frc.org.uk). The Company complied with the provisions of the Code throughout the year, except as indicated below.

The Company is a listed holding company with one main trading subsidiary, Chaucer Syndicates Limited (CSL), a regulated Lloyd's managing agent 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.

COMMITTEE STRUCTURE

To assist it in the discharge of its corporate governance responsibilities, the Company's Board has established three Committees; Audit, Remuneration and Nomination. The Terms of Reference of those Committees are available on the Company's website and their operation is set out below. In addition to these Committees, the Company's Board and the CSL Board have established the committee structure set out below.

Pages 47 and 52 outline the structure and responsibilities of those committees.



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 2009 the number of directors and their breadth of business experience and skills and concluded that they were appropriate for the Group's operations, except that additional independent NEDs should be recruited. 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, timely and relevant information on financial, business and corporate issues. Papers for meetings are circulated a week in advance. The Chief Executive Officer's responsibilities focus on co-ordinating the Company's business and implementing Group strategy. All Directors are able to take independent professional advice relevant to their duties if necessary.

The Board met 18 times in 2009. It is scheduled to meet seven times during 2010. The higher number of meetings during 2009 was consequent to the extended offer period between 27 January and 29 June 2009 and the Firm Placing and Placing and Open Offer at the start of 2009.

The Board 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 during 2009, the number of meetings held and individual member attendance during the year.

Board member	Number of Board meetings attended (total 18)	
B P Bartell (appointed 23 June 2009)	5	(maximum possible 5)
K D Curtis (appointed 16 December 2009)	0	(maximum possible 0)
R V Deutsch (appointed 26 August 2009)	4	(maximum possible 4)
C D Forbes (resigned 30 June 2009)	14	(maximum possible 14)
M J Gilbert (Chairman)	18	(maximum possible 18)
E H Gilmour (retired 31 December 2009)	18	(maximum possible 18)
M C Graham (resigned 24 June 2009)	14	(maximum possible 14)
R T Scholes	18	(maximum possible 18)
R A Stuchbery	18	(maximum possible 18)

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.

The Board of Directors considers that Messrs Deutsch and Scholes are independent of management, as was Mr Forbes until his resignation. Mr Scholes is the Senior Independent Director.

During the year, the Company was not compliant with the Code in that at least half the Board, excluding the Chairman, did not comprise of independent NEDs. The Nomination Committee decided to resolve this issue once the uncertainty created by the takeover approaches at the start of the year and by the subsequent changes in the composition of the Board had been resolved. Subsequently, the Company fell out of the FTSE 350 in December 2009, so will in the future be compliant. However, the intention to appoint new independent NEDs remains.

The Board considers that the requirement of the Code to evaluate the Board, all Committees and all Directors every year to be too onerous for a company of Chaucer's size. During the year, Executive Directors were subject to individual performance evaluations and a self-assessment questionnaire was completed covering the performance of the Board, the Audit Committee and the Remuneration Committee. A similar questionnaire was completed in 2010 for the Nomination Committee, this being delayed to allow for a review of the process used for the appointment of directors. Formal performance evaluations were not concluded in 2009 for the NEDs.

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 appointments of Messrs Bartell, Curtis and Deutsch as Directors and their re-appointment at the 2010 AGM, the independence of the NEDs, the time requirements of the NEDs (concluding that they continue to devote sufficient time to their duties) and the size, structure and composition of the Board.

The Committee was particularly engaged in the composition of the Board during the year. In February 2009, the Committee engaged specialist consultants to identify potential candidates for various Board positions. That process was delayed by the extended offer period, which ceased only on 29 June 2009. At that point, the Committee determined a number of Board changes which were announced. The search for two additional independent NEDs was half-completed with the appointment of Robert Deutsch in August; Robert had stepped down from that role on 31 December 2008 due to a conflict of interest which had subsequently ceased. The Committee's search for a new Chief Executive Officer and Chief Finance Officer was completed in December 2009 with the appointments of Robert Stuchbery and Ken Curtis, with Bruce Bartell stepping up to Chief Underwriting Officer. Whilst that search had taken somewhat longer than expected, the Committee determined it was important to consider both external and internal candidates to ensure the best individuals were appointed. The Committee was pleased to confirm those internal appointments, which reflected the strength of Chaucer's executive team and of its succession planning. The appointment of John Fowle as Active Underwriter, at the same time, and Mauricio Carrillo as CSL Finance Director in April 2010 are similarly reflective.

The Committee continues to seek further independent NEDs.

The 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 2009 are as follows:

Committee member	Number of Committee meetings attended (total 5)	
M J Gilbert (Chairman)	5	(maximum possible 5)
R V Deutsch (appointed 26 August 2009)	4	(maximum possible 4)
C D Forbes (resigned 30 June 2009)	1	(maximum possible 1)
R T Scholes	5	(maximum possible 5)

In addition to the formal meetings held, members of the 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

From 11 February 2009, the operation of the Investment Committee was suspended and all material investment matters were discussed at the CHP Board and CSL Board where appropriate. In March 2010, the Investment Committee was re-established but material investment matters continue to be reserved for consideration by the CHP Board. The CSL Board continues to be informed of, and discusses investment matters as appropriate.

The CSL Treasurer and investment advisers attend meetings as appropriate.

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 informed assessment about their investment. This included:

- Annual Report and Accounts, prepared in accordance with International Financial Reporting Standards, which includes a Chief Underwriting Officer's Report, a Financial Report and statements on directors' responsibilities and going concern;
- Half-year Report and Accounts;
- Interim Management Statements;
- Announcements regarding developments which may affect the share price of the Company as and when necessary; and
- Syndicate Annual Report and Accounts filed with Lloyd's, which are also public documents.

The CHP 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 they are responsible for the Group's system of internal control and for reviewing its effectiveness. The Risk Management Framework (RMF, which is described in detail below) and other internal controls are designed to manage, rather than eliminate, the risk of failure to achieve the Group's strategic objectives and 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 CSL Board and the Audit Committee on behalf of CHP. An annual Internal Audit is conducted on the work of the Risk Management Function to provide further comfort.

During 2009, there has been much focus on Solvency II planning and implementation. Within Chaucer's Solvency Smart Programme, the Company seeks to enhance certain elements of the RMF, such as areas of risk and capital modelling and the measurement and effective management of the aggregated risk appetite of the Group.

Following the significant investment losses incurred largely during September and October 2008, the Risk Officer was commissioned to review the operations of the Investment Committee, the Risk & Capital Committee and the related components of the RMF. The Risk Officer's recommendations were 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 implemented.

In addition, the investment portfolio has been substantially de-risked and 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.

Investment advisers to the CHP Board consist 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.

RISK GOVERNANCE

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

Chaucer Holdings PLC

The CHP Board is ultimately responsible for setting risk strategy and risk appetite, 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 CSL Board is responsible for supporting the CHP 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 agent and all managed syndicates, including third-party management syndicates.

Risk & Capital Committee

To fulfil the above risk governance roles effectively, the CHP and CSL Boards 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 RCC and its work regarding capital management is described on page 52.

The Risk Assurance Group

The Risk Assurance Group (RAG), headed by the Risk Officer, who is also a CSL Director, supports the Boards and the RCC by working in partnership with the business to build effective risk management processes.

The RAG comprises Risk Management, Internal Audit and Compliance teams which, together, provide guidance, support and monitoring of risk management effectiveness across the business. Underwriting Risk Review is the most recent addition to the RAG and took place in mid 2009, providing additional technical underwriting assurance capabilities to the Group. The Internal Audit function liaises closely with the RAG but has an independent reporting line to the Audit Committee.

The main objectives of the RAG 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 RMF and optimal capital utilisation;
- Provide independent control environment assurance and advice;
- Facilitate positive regulatory relationships; and
- 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 works in partnership with the business to facilitate the identification and assessment of key risks and ensure that appropriate mitigations and controls are in place and operate effectively.

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

Underwriting Risk Review

Underwriting Risk Review was established to provide the Board with the necessary assurance that the Underwriting Risk assumed by the syndicates under management is consistent with the business plan of each syndicate and that the associated processes and controls are effective and properly utilised.

The Department sits above the peer review process between Internal Audit and the business, seeking consistency of approach to the process and management of Underwriting Risk across all syndicates managed by CSL and attainment of levels commensurate with market best practice and the business plan of each syndicate.

Compliance

The Compliance function monitors regulatory compliance with Lloyd's, the 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.

Internal Audit

Reporting to the Audit Committee, the objective of the 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. The 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 RAG to coordinate risk-focused audit activity.

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 following table 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	80
	Claims		82
	Reinsurance		84
	Reserving	Finance Committee	86
Credit	Reinsurers	Security Committee	93
	Intermediaries		93
	Investments	Investment Committee	89
Financial Market	Interest rate fluctuations	Investment Committee	90
	Currency fluctuations		91
	Investment fluctuations		89
Liquidity	Insurance calls on cash	Investment Committee	92
	Non-insurance calls on cash		92
Operational	People	Risk & Capital Committee	28
	Systems and processes		48
Group	Capital adequacy	Risk & Capital Committee	34
	Financial strength		36

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 residual hedge funds are not as liquid as other investment classes due to the existence of certain 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 CSL Board. The Risk Officer also provides reports as required to the Audit Committee, such as 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 focused 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 level commercial decisions are taken.

Solvency II

From 2012, all syndicates managed by CSL will be subject to the rules and regulations of Solvency II, a European Union Directive that introduces legislation to improve the protection of policyholders through greater emphasis on enterprise-wide risk management and strengthened levels of insurance capital adequacy.

In 2008, the Company recognised that implementation of the Directive would provide an excellent opportunity for the Company to enhance its risk management activities through better-informed business decisions, improve efficiencies within its operations and further strengthen its risk-based capital modelling capabilities and capital management processes. Throughout 2009, the Company's Senior Management Team undertook a significant planning exercise to identify and design the enhancements its operations and RMF would require for this. This initiative, the Solvency Smart Programme, aims primarily to benefit the Company and its managed syndicates, while also ensuring regulatory compliance and approval of its internal model.

Since the final quarter of 2009, the Company has been working on the implementation of its Solvency Smart Programme. To demonstrate the importance attached to this initiative, the Company Chief Executive Officer is the Programme Sponsor. The Solvency Smart Programme Board comprises CHP and CSL Directors and selected senior management. The programme is divided into five core work-streams, with a CHP or CSL Director leading each stream.

The CSL Board has approved a substantial budget for Solvency Smart to ensure that the Company delivers on the enhancements required, while business continuity remains, as implementation of changes occurs during the next two years. The Company recognises that a programme of this scale, importance and complexity requires structured and skilful management. An experienced Senior Change and Programme Manager was recruited in November 2009 for the duration of the programme. The majority of programme resources are also now in place and work on implementation progresses well.

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 Finance Officer attended numerous meetings and maintained contact with analysts, brokers and institutional shareholders during the year. Subsequent to the announcement in March 2009 of the Company's 2008 results, the Company's stockbroker, Numis, canvassed the views of shareholders and reported to the Directors. All the Directors attended the AGM 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.

Following the departure of Chris Forbes, Richard Scholes was appointed Senior Independent Director on 26 August 2009.

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 Chairman's Statement, Chief Executive Officer's Statement and Chief Underwriting Officer's Report on pages 4 to 23. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Report on pages 32 to 38. In addition the Corporate Governance Report and Notes 2 and 3 to the consolidated 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 consolidated 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 consolidated financial statements.

CSL BOARD AND JOINT COMMITTEES

The FSA, which is responsible for 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 Finance 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 and 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 Finance 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 Lloyd's and the FSA. It also has responsibility for the oversight of risk management throughout the Group and for ensuring that the RMF and capital assessments are consistent with the requirements of Lloyd's and the FSA.

Third Party Management Committee/Syndicate Management Boards

The Third Party Management Committee (TPMC) was chaired by the CSL Director for Third Party Syndicates (TPS). During 2009, it met approximately monthly and reported to the CSL Board and, where appropriate, to capital providers.

It had responsibility for monitoring all aspects of the underwriting performance of each TPS. This included 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.

Effective 1 January 2010, the TPMC and each Third Party Syndicate Operations Committee (SOC) were replaced by a Syndicate Management Board (SMB) for each TPS. Broadly speaking, the responsibilities of each SMB combine those of the old SOC and TPMC. Each SMB is chaired by the CSL Director for TPS and members include representatives from CSL and the relevant TPS.

Security Committee

The Security Committee is chaired by the Chief Finance Officer and other members include representatives from the underwriting, reinsurance, actuarial and finance departments. 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, cover-holders and other intermediary counterparties for the Group and managed syndicates.

UK Division Board

A UK Division Board, which is a continuation of the Motor Division Board, was established on 24 February 2009 to provide a forum for the development of the Group's business in the UK managed from Whitstable. Whilst that business continues to be dominated by motor underwriting, it also includes the Group's motor broking activities and development of other business lines.

Approved by the Board of Directors on 7 April 2010 and signed on its behalf by

David Turner
Company Secretary

D Turner.

INTRODUCTION

The members of the Audit Committee are Richard Scholes (Chairman) and Robert Deutsch who are independent NEDs of the Company. The Chief Executive Officer, the Chief Finance Officer, the Group Actuary, the Internal Audit Manager, the Independent Reviewer (Malcolm Cox, who is also a NED of CSL) and representatives from the external auditor attend most Committee meetings. Other individuals, in particular the Risk Officer, attend as required.

Chris Forbes, an independent NED, served as a member until his resignation on 30 June 2009.

Robert Deutsch was appointed a member on 26 August 2009. Richard Scholes has been identified as the member with recent 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 Company Secretary) comply with the Code and its operations follow the Smith Guidelines.

MEETINGS

The Audit Committee, whose terms of reference require it to meet a minimum of four times a year, met five times in 2009, with attendance as follows:

Committee member	Number of meetings attended (total 5)	
R T Scholes (Chairman)	5	(maximum possible 5)
C D Forbes (resigned 30 June 2009)	2	(maximum possible 2)
R V Deutsch (appointed 26 August 2009)	1	(maximum possible 1)

ACTIVITIES IN 2009

During 2009, the Committee undertook a number of activities to discharge its responsibilities, which included:

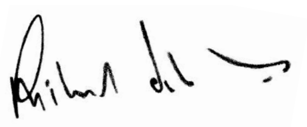
- Review of the Group's Half-year Report and Annual Report and accompanying regulatory announcements. The review included consideration of the external auditor reports thereon, which highlighted the key audit issues and recommended management action. The Committee also reviewed management's response 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, which was deemed satisfactory, and consequently recommended its reappointment at the AGM. That performance evaluation involved the completion by the Committee members and relevant executives of a questionnaire which covered various aspects of the external auditor's performance and interaction with the Company;
- Approval of the Internal Audit plan for 2010;
- Review of Internal Audit reports - the Committee also considered the performance of the internal audit function;
- Review of the Risk Management Framework and implementation of certain adjustments in particular around investment management;
- 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 Chairman maintained regular contact with the external auditor, Internal Audit Manager and Group Actuary and the Committee held meetings with each of them in the absence of executive management.

The objectivity and independence of the external auditor is safeguarded by the application of a policy restricting their engagement in respect of non-audit services. That policy prohibits their engagement for any service in respect of which they might be checking their own work and the potential for the quantum of non-audit services fees to prejudice their independence. Any engagement for non-audit services requires the approval of the Audit Committee. In practice the external auditor is not engaged for any other services save for example the review of shareholder circulars and confirmation that figures for the NAV share scheme performance condition have been properly extracted from the Group's accounting records.

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. During 2009, there were no whistle blowing incidents reported. 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 7 April 2010 and was signed on its behalf by

Richard Scholes
Chairman, Audit Committee



INTRODUCTION

The Directors present their remuneration report for the year ended 31 December 2009.

The Report contains separate sections for unaudited and audited information; the external auditor has reported on the audited information within their report to Members on page 68.

The Company will propose a resolution to approve this Report at the AGM.

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 Robert Deutsch (Chairman) and Richard Scholes, who are independent NEDs. Christopher Forbes served as Chairman to the Remuneration Committee until his resignation on 30 June 2009. The Committee met on eight occasions during the year and attendance by members was as follows:

Committee member	Number of Committee meetings attended (total 8)	
R V Deutsch (appointed 26 August 2009)	2	(maximum possible 2)
C D Forbes (resigned 30 June 2009)	5	(maximum possible 5)
R T Scholes	8	(maximum possible 8)

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 the 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 NEDs 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 ten companies within the sector.

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

For 2009, cash benefits (for example, a car allowance) were added to basic salary, as they were 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

Robert Stuchbery and Bruce Bartell 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 four times basic salary. The pension arrangements provide for a pension on retirement of 2/3 capped salary after 30 years' eligible service, except that their entitlement was uncapped until 6 April 2006. All members of the defined benefit section contribute 4% of basic salary up to the salary cap for the time being.

Ken Curtis is a member of the defined contribution section of the Chaucer Pension Scheme. Scheme members contribute 3% and in respect of Mr Curtis, the employer contributes (presently) 14% of total salary; employer contributions are banded by age between 8% and 16%.

Executive Directors' pension entitlements are disclosed on page 64. No other payments to directors are pensionable.

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 are designed to act closely together to:

- Incentivise senior executives over both the short and long term;
- Act as a significant retention mechanism, through the deferral for three 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.

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 70 senior executives and one amongst all other employees. Since 2006, the Annual Bonus Scheme has operated in conjunction with the DSBP (see below).

Annual bonuses are calculated in accordance with the following paragraphs.

No value accrues to the bonus pool until operating profit exceeds a 9% return (pre tax) 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; that is because such very high results are consequent to the correlation of an absence of significant insurance losses and very favourable investment conditions, neither of which are materially management driven. 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 £2.3m 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 a deferral of a proportion of the Annual Bonus for a period of three 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 the Group 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 out-performance against index comprising basket of comparators 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 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 2009 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 adviser 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 (RPI) over three years	Number of Matching Shares awarded for each deferred share subject to this NAV test
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 auditor.

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 takes 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 share options remain.

Chaucer Holdings PLC Unapproved Share Option Scheme

Share 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.

Share options granted under this Scheme after May 2003 are subject to revised performance targets. For example, the first £20,000 of share options are only exercisable if the TSR (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 TSR misses this target, share options are only exercisable if the TSR from the 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 share options granted to an individual and by a further 1% for any additional share options.

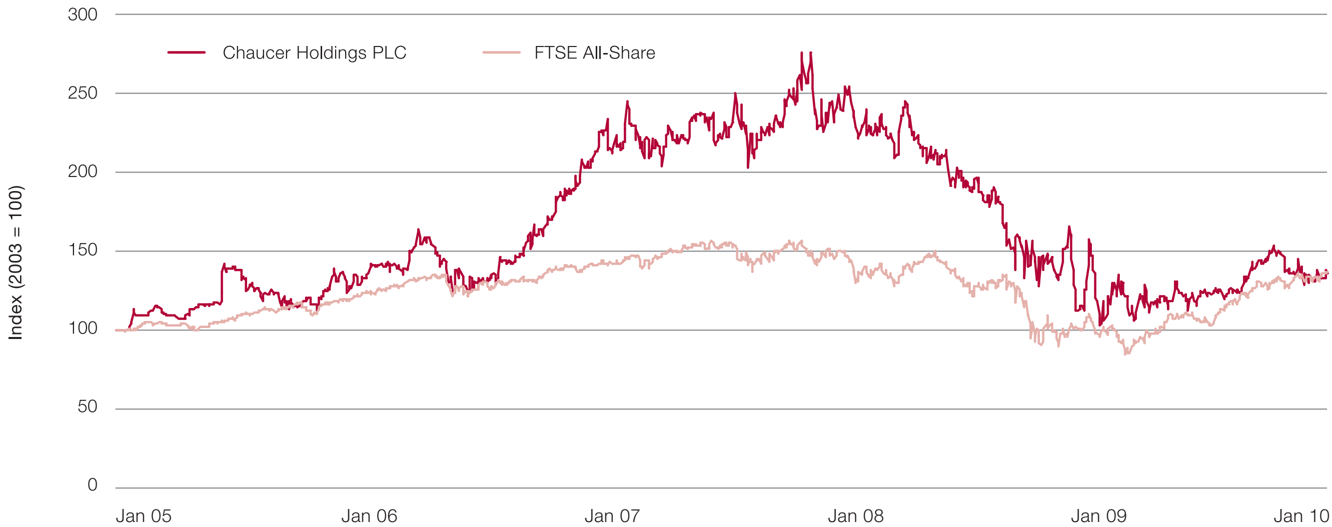
Introduction of these revised targets reflected the volatility of the insurance market, so that the benefits available under the Scheme should not be too easily achieved in buoyant market conditions and not impossible to attain during quieter periods of the market cycle.

Chaucer Holdings PLC Approved Share Option Scheme

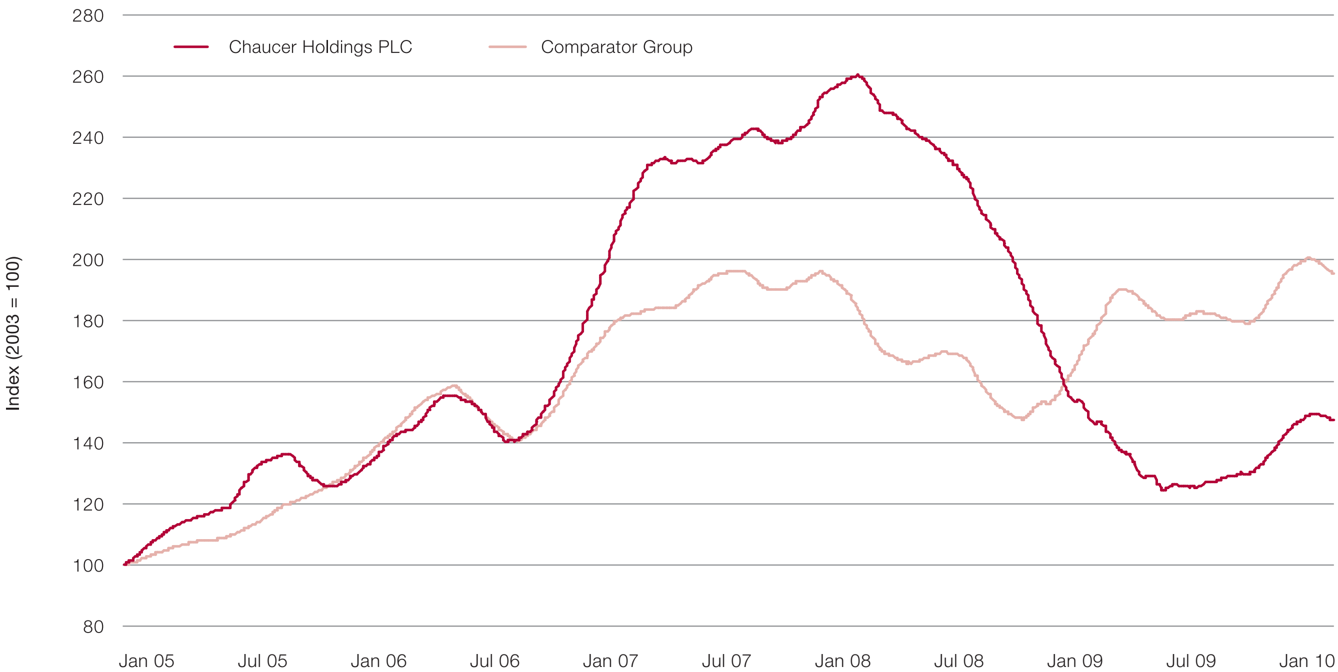
This share option scheme, approved by shareholders in 2001, operates in conjunction with the Unapproved Share Option Scheme described above. It allows the Company the ability to grant share options over shares up to a value of £30,000 to any individual employee in a more tax efficient manner than under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

PERFORMANCE GRAPHS

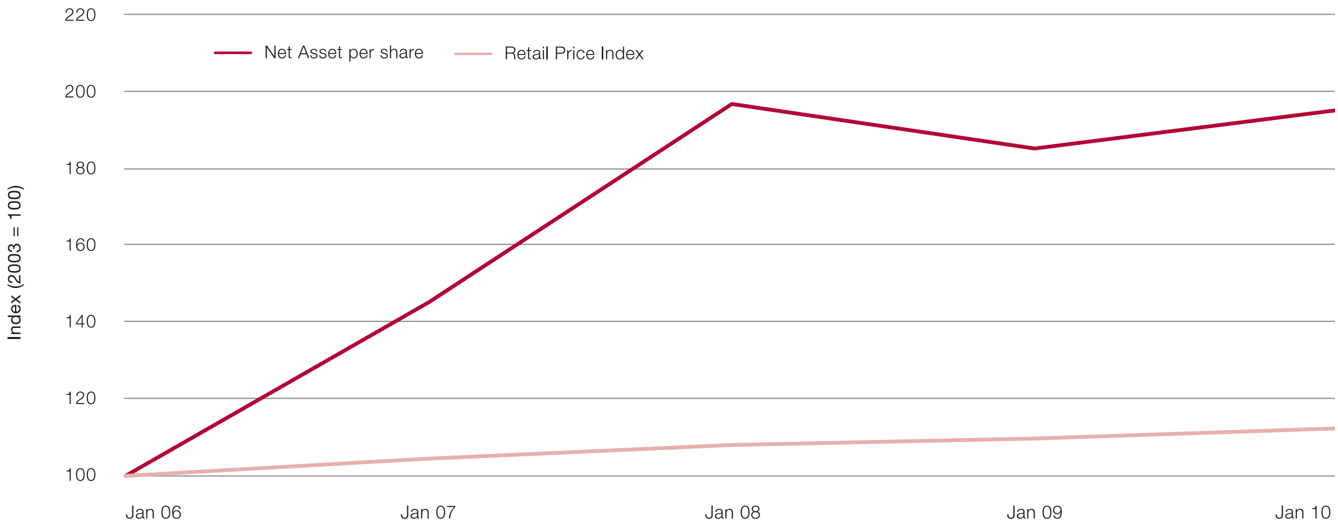
The following graph shows the Company's performance, measured by TSR, compared with the TSR of the FTSE All Share Index (the performance measure for share options granted under the executive share option schemes).



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



The following graph shows the Company's performance, measured by the change in NAV per share compared with the RPI for the determination of 50% of the matching shares under the DSBP.



REVIEW OF REMUNERATION STRUCTURE AND PROPOSALS TO SHAREHOLDERS

During the later part of 2009 and into February 2010, the Committee undertook a review of the remuneration structure. Remuneration consultants were engaged to support the Committee in this review and it is believed that the proposals reflect current good practice, will enhance the motivational effect of the short and long-term incentive elements within our remuneration arrangements and will maintain our position against competitors for senior talent, helping us to recruit and retain the high calibre management team that we need to continue to deliver shareholder value.

The objectives of the review were to address certain perceived weaknesses in the current arrangements whilst maintaining their strengths. In particular:

- To provide greater flexibility for the Remuneration Committee regarding awards under the long term incentive plan, by separating that reward element from the annual bonus award;
- For any performance condition to provide a clear line of sight and to maximize the motivation of executives in respect of the long term incentive plan; and
- To maintain strong alignment with shareholder interests, strong retention mechanisms and an appropriate division of profit between shareholders and management.

Major shareholders were consulted during February and the first change (not requiring shareholder approval) was implemented in March with the attachment of a revised NAV performance condition (see following table) to the matching share award under the DSBP.

The Notice includes two proposals to be put to shareholders as items of special business at the AGM on 19 May 2010:

- A new standalone performance share plan for executives; and
- Renewal of the existing Approved Company Share Option Scheme.

Details to support those resolutions are set out in the Notice.

Other key proposals, which do not specifically require shareholder approval but are set out below to provide shareholders with a full picture, are:

- Introduction of a cap on the annual bonus of 200% of base salary;
- For Executive Directors, 50% of the annual bonus to be compulsorily deferred into shares;
- Cessation of awards of 'matching shares' under the DSBP, this element to be replaced by the standalone performance share plan referred to above;
- A single performance condition based on NAV to be applied to the awards under the standalone share plan (and the March 2010 final Matching Share awards under the DSBP);
- Administrative changes to the structure of existing DSBP awards; and
- The introduction of shareholding guidelines (see below).

Whilst it is impossible to predict the exact cost of either the annual or long-term incentive measures, the modelling undertaken to support these proposed changes led the Committee to believe that the overall cost to shareholders across the insurance cycle would be similar to the existing arrangements.

The key changes are set out in the table which follows.

Feature	Current position	Proposed position
Annual bonus	Uncapped	Capped at 200% of base salary
Bonus deferral (compulsory)	DSBP: 25% below 150% of salary 100% above 150% of salary	50% of total for Executive Directors, reducing to 15% for junior executives
Long-term incentive provision	DSBP: Matching share award based on number of deferred shares (excluding those above 150% of salary)	Award of performance shares (under a new standalone share plan) the quantum and timing of which is not linked to the annual bonus
Long-term incentive award levels	Entirely dependent on annual bonus level and any voluntary deferral of bonus, up to a maximum of 150% of salary. Matching shares dependent on attainment of performance conditions	Scheme maximum: face value of 150% of base salary It is currently anticipated that the first award to Executive Directors will be at the maximum level and around 37.5% for junior executives
Performance conditions	TSR against index of competitors; and NAV against RPI	Sole condition: NAV against RPI
Threshold vesting rate	12.5% at TSR index +15% 12.5% at RPI + 15%	16.7% at RPI + 13.5%
100% vesting at	TSR index + 45%, and RPI + 45%	RPI + 58.5%
Performance period	3 years	3 years
Dividend Shares	Accrue on all deferred shares but not any matching shares	Accrue on deferred shares but not awards under the new share plan

The switch from bifurcated TSR and NAV performance conditions to a single NAV performance condition is due to two reasons:

- Comparative TSR has become problematic because, due to the number of consolidations within the sector over the past few years, it is no longer possible to select a robustly-sized comparator group of companies similar to Chaucer; and
- A NAV target provides the greatest line-of-sight for the executive team and therefore provides the greatest incentive effect to drive Company performance. NAV continues to be the key factor in determination of share value by the market.

The Committee considers that this measure best indicates the success of management's stewardship of the Company and continues to be appropriately stretching.

SHAREHOLDING GUIDELINES

Executive Directors will be required to hold shares with a value equivalent to 150% of base salary. The value of shares will be based on the average share price for the period 1 July to the announcement of the half-year results and will include unfettered and available shares held under the Company's AESOP but not share options or awards held under any other Company share scheme.

NEDs will be required to hold shares with a value equivalent to 100% of base fee in respect of services provided to the Group.

Each current Director will have until May 2013 to meet this guideline and each new Director will have three years from the date of appointment.

While below the target shareholding, a Director will be allowed to sell up to 50% (net of tax) of shares vested from any Company share scheme but would not otherwise be allowed to sell shares.

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, including the proposed new LTIP.

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

The Company 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 2009, the Trust held 23,254,222 shares to satisfy awards under any share scheme. Those shares have been entirely purchased in the market.

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
B P Bartell	27 January 2010	12 months
K D Curtis	27 January 2010	12 months
R A Stuchbery	28 January 2010	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.

NON-EXECUTIVE DIRECTORS

The Chairman and all NEDs are appointed under letters of appointment that are subject to a mutual notice period of six months. Their current terms of appointment are as follows:

	Date first appointed to the Board	Expiry date of letter of appointment
R V Deutsch	26 August 2009	30 September 2011
M J Gilbert	27 October 1993	AGM 2011
R T Scholes	11 March 2003	AGM 2012

It should be noted that Robert Deutsch had served previously as an NED between January 2002 and December 2008.

The Executive Directors of the Board determine the remuneration of the NEDs, within the limits set by the Articles of Association, from independent surveys of fees paid to NEDs of similar companies.

The Chairman and NEDs receive fees for their work as members of the Board and Board Committees. Additionally, since 1 January 2010 Robert Deutsch has acted as Non-executive Chairman of CSL and since 1 January 2009 Richard Scholes has acted as a NED of CSL.

It has been agreed that the NEDs can elect to have part of their fee as shares bought in the open market. The first shares under this arrangement were bought in February 2010.

The NEDs 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	Termination payments £000	2009 Total £000	2009 Total excluding value of deferred shares awarded £000	2008 Total £000	2008 Total excluding value of deferred shares awarded £000
Executive										
B P Bartell	118	1	4	72	72	-	267	195	-	-
K D Curtis	6	-	-	4	4	-	14	10	-	-
E H Gilmour	273	2	3	-	-	136	414	414	282	282
M C Graham	119	1	1	-	-	290	411	411	246	246
R A Stuchbery	301	2	6	166	166	-	641	475	311	310
Non-executive										
R V Deutsch	34	-	-	-	-	-	34	34	54	54
C D Forbes	43	1	-	-	-	43	87	87	87	87
M J Gilbert	64	-	-	27	-	-	91	91	64	64
R T Scholes	76	-	-	20	-	-	96	96	61	61
Aggregate emoluments	1,034	7	14	289	242	469	2,055	1,813	1,104	1,104

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

Ewen Gilmour retired from the Company in December 2009. Details of shares awarded to him in previous years as part of his remuneration package and which vested immediately after his departure or which remain outstanding are detailed below. The termination payment shown in the above table represents the Company's contractual notice obligations to Mr Gilmour.

Chris Forbes left the Company in June 2009 and the termination payment shown in the above table represents the Company's contractual notice obligations to Mr Forbes.

One-off 'bonus' payments were made to Martin Gilbert and Richard Scholes in respect of the significant additional time demands experienced by the NEDs during the extended offer period from January to June 2009.

In addition to the fees shown in the above table, payments totalling £27,000 were made to Robert Deutsch for the six months to 30 June 2009 in respect of consultancy services provided during that period when he was not a Director.

The Company paid emoluments in respect of Martin Gilbert to Aberdeen Asset Management PLC until 1 October 2009, when payments commenced to be made directly.

The Remuneration Committee agreed revised base annual salaries for 2010 for the Executive Directors to reflect their new responsibilities:

- R A Stuchbery (Chief Executive Officer) £350,000
- B P Bartell (Chief Underwriting Officer) £275,000
- K D Curtis (Chief Finance Officer) £180,000 (which will be reviewed during the year)

The Share Incentive Plan column shows the aggregate cash value of both matching and free shares for awards arising for 2009; no consideration is payable at the date of award.

	Shares (direct holdings)	DSBP[1] Deferred Shares	SIP[2] Available and Conditional	SIP[3] Locked-In	Total shares
Directors' interests at 31 December 2009					
B P Bartell	650,869	2,076,368	79,961	33,638	2,840,836
K D Curtis	138,455	485,174	50,690	30,800	705,119
R V Deutsch	350,000	-	-	-	350,000
M J Gilbert	190,625	-	-	-	190,625
E H Gilmour[4]	2,517,485	-	81,459	25,801	2,624,745
R T Scholes	75,000	-	-	-	75,000
R A Stuchbery	1,494,551	2,523,869	81,456	25,801	4,125,677
Directors' interests at 31 December 2008 or at date of appointment					
B P Bartell	367,000	2,083,856	73,809	32,049	2,556,714
K D Curtis	138,455	485,174	50,690	30,800	705,119
R V Deutsch	228,750	-	-	-	228,750
M J Gilbert	125,000	-	-	-	125,000
E H Gilmour	584,839	2,139,385	66,349	28,217	2,818,790
R T Scholes	30,000	-	-	-	30,000
R A Stuchbery	1,107,291	2,491,416	66,349	28,217	3,693,273

1 DSBP Deferred Shares; these are awards of Deferred Shares under the DSBP. For 2009, Bruce Bartell was awarded 51,147 Deferred Shares and Ken Curtis was awarded 54,634 Deferred Shares on 30 June 2009. No award was made to Robert Stuchbery in 2009

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

4 1,556,637 DSBP deferred shares were released to Ewen Gilmour on his retirement on 31 December 2009

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 page 56.

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 2009 or at date of appointment	Allocated in year	Adjustment for Placing & Open Offer in February 2009	Vested in year	Lapsed in year	Number of shares at 31 December 2009	Release date
B P Bartell	31/05/06	117,270	-	-	58,635	58,635	-	-
	22/03/07	338,740	-	-	-	-	338,740	22/03/10
	13/03/08	364,412	-	-	-	-	364,412	13/03/11
	30/06/09	-	102,294	-	-	-	102,294	30/06/12
K D Curtis	22/03/07	200,316	-	-	-	-	200,316	22/03/10
	13/03/08	213,132	-	-	-	-	213,132	13/03/11
	30/06/09	109,268	-	-	-	-	109,268	30/06/12
E H Gilmour	31/05/06	178,012	-	9,620	93,816	93,816	-	-
	22/03/07	378,540	-	20,456	-	-	398,996	22/03/10
	13/03/08	401,232	-	21,684	-	-	422,916	22/03/10
R A Stuchbery	31/05/06	193,906	-	10,480	102,193	102,193	-	-
	22/03/07	417,168	-	22,544	-	-	439,712	22/03/10
	13/03/08	440,880	-	23,828	-	-	464,708	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 share 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 56.

The closing price for the last trading day of the year was 46.0p on 31 December 2009 and the range during the year was 37.0p to 61.23p.

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

	Share options outstanding 1 January 2009 or at date of appointment	Share options granted	Share options lapsed	Share options exercised	Adjustment for Placing & Open Offer in February 2009[1]	Market price on date of exercise Pence	Share options outstanding 31 December 2009	Weighted average exercise price Pence	Exercise period MM/YY
ESOS									
B P Bartell	324,996	-	-	-	-	-	324,996	43.6	05/04-10/14
K D Curtis	189,728	-	-	-	-	-	189,728	41.5	11/06-10/14
E H Gilmour	575,000	-	-	-	31,075	-	606,075	43.6	05/04-10/12
R A Stuchbery	225,000	-	-	-	12,160	-	237,160	61.2	05/04-05/11
SAYE									
B P Bartell	20,649	23,571	20,649	-	-	-	23,571	38.5	12/12-05/13
K D Curtis	40,389	-	-	-	-	-	40,389	38.5	12/14-05/15
E H Gilmour	19,591	-	-	-	1,058	-	20,649	46.5	12/11-05/12
R A Stuchbery	34,183	40,389	36,030	-	1,847	-	40,389	38.5	12/14-05/15

1 Consequent to the dilutive effect of the Placing and Open Offer on 25 February 2009, all then existing SAYE and ESOS share options and DSBP share awards were adjusted by increasing the number of shares by 5.4044% and decreasing (for share options) the option price by 5.1277%

CHANGES SINCE 31 DECEMBER 2009

There have been no changes to the interests of directors in the shares or share options of the Company since 31 December 2009, except for the following:

1. SIP Shares

SIP Partnership (P) and Matching (M) Shares	12 January 2010 P	12 January 2010 M	10 February 2010 P	10 February 2010 M	9 March 2010 P	9 March 2010 M
B P Bartell	264	528	274	548	271	542
K D Curtis	263	526	275	550	270	540
R A Stuchbery	264	528	274	548	270	540

2. Forfeitable Share grants on 22 March 2010 and associated maximum Matched Share awards

	Gross Forfeitable Shares before PAYE and NI	Forfeitable Shares net	Maximum Matched Share award
B P Bartell	295,652	174,435	591,304
K D Curtis	192,392	113,512	384,784
R A Stuchbery	360,870	212,913	721,740

3. Deferred Shares and Matching Share awards vesting 22 March 2010

	Deferred Shares vesting	Matching Shares vesting	Matching Shares lapsing	Dividend Shares awarded and vesting	Shares received net of PAYE and NI
B P Bartell	1,146,510	94,848	243,892	279,439	897,270
K D Curtis	244,015	56,089	144,227	59,474	212,151
R A Stuchbery	1,443,451	123,120	316,592	351,813	1,131,846

4. Deferred Shares and Dividend Share awards surrendered and Forfeitable Shares granted 22 March 2010

	Deferred Shares surrendered	Dividend Shares accrued and surrendered	Gross Forteitable Shares	Forfeitable Shares granted
B P Bartell	929,858	168,747	1,098,605	648,176
K D Curtis	241,159	36,994	278,153	164,110
R A Stuchbery	1,080,418	205,798	1,286,216	758,867

5. NED share purchases in lieu of fees in February, March and April 2010

	1 February 2010	1 March 2010	1 April 2010
M J Gilbert	3,608	3,667	3,457
R T Scholes	2,632	2,675	2,522

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 (1) £	Increase in accrued pension net of inflation (2) £	Total accrued pension at 31 December 2009 (3) £	Value of net increase accrual over period (4) £	Total change in value during period (5) £	Value of accrued pension at 31 December 2009 (6) £	Value of accrued pension at 31 December 2008 (7) £
B P Bartell	1,373	1,373	99,507	18,516	183,662	1,798,590	1,612,456
E H Gilmour	4,180	4,180	32,273	67,534	92,187	633,790	536,719
M C Graham	5,224	5,224	31,358	58,859	66,780	413,516	344,736
R A Stuchbery	9,231	9,231	138,310	137,999	191,350	2,542,412	2,346,178

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 (4) represents the incremental value to the director of his service during the year, calculated on the assumption that service terminated at the year-end (with the exception of Mark Graham – see Note 8 below). It is based on the accrued pension increase (2) after deducting the director's contribution.
4. The change in the transfer value (5) 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.
6. The gross increase in accrued pension (1) is equal to the net increase in accrued pension (2) because inflation over the year was negative. For the purposes of these disclosures inflation is treated as having been zero over this period.
7. Bruce Bartell was appointed as a Director on 23 June 2009. Figures shown at 31 December 2008 are at 23 June 2009 for Bruce Bartell. References to the period for Bruce Bartell refer to the period from his appointment as a Director.
8. Mark Graham left the Scheme on 24 June 2009 at which point his pension accrual ceased.
9. Ewen Gilmour was also granted an additional six months pensionable service on leaving the Company.

Ken Curtis was a member of the defined contribution scheme provided by the Company during the year. The money purchase contributions, from his date of appointment to the Board were as follows:

	Employee Contributions	Employer Contributions	Total
K D Curtis	£737	£1,719	**£2,456**

The Company is presently consulting members of the defined benefit section regarding the following proposed changes:

- The accrual rate for future benefit be generally reduced to 75ths from 60ths for members, except that for a very limited number of senior employees (including Bob Stuchbery and Bruce Bartell) to 60ths from 45ths
- Limiting pensionable salary increases to 5% in any one year;
- Increasing the Normal Retirement Age to 65, for future benefits only; and
- Increasing the employee contribution rate from 4% to 6%.

Dependent on that consultation, it is proposed to introduce those changes with effect from 1 May 2010.

This Report was approved by the Board of Directors on 7 April 2010 and signed on its behalf by

Robert Deutsch
Chairman, Remuneration Committee

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors are required to prepare Group financial statements in accordance with International Financial Accounting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- 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 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- State that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- Make judgements and estimates that are reasonable and prudent.

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

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are also responsible for ensuring the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

Statement of Directors' Responsibilities in Relation to Disclosure and Transparency Rules

Each of the Directors as of 31 December 2009 confirm to the best of their knowledge that:

1. The financial statements, prepared in accordance with 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 Company and the undertakings included in the consolidation taken as a whole; and
2. The management report, which is incorporated in the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company 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 7 April 2010 and signed on its behalf by

David Turner
Company Secretary

D Turner.

Consolidated Financial Statements

Independent Auditor's Report to the Members of Chaucer Holdings PLC

We have audited the Group financial statements of Chaucer Holdings PLC for the year ended 31 December 2009 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Balance Sheet, Consolidated Statement of Cash Flows and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 65, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Report set out on pages 46 to 52 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 51, in relation to going concern; and
- the part of the Corporate Governance Report on pages 46 to 52 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

OTHER MATTER

We have reported separately on the parent company financial statements of Chaucer Holdings PLC for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

Kevin Senior
Senior statutory auditor

for and on behalf of Ernst & Young LLP, Statutory Auditor
London, 7 April 2010

Consolidated Income Statement for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Gross written premiums	4	796.3	741.0
Change in provision for gross unearned premiums	24	(27.0)	(57.8)
Gross earned premiums		**769.3**	**683.2**
Outward reinsurance premiums		(170.8)	(137.8)
Change in provision for unearned premiums – reinsurers' share	24	7.8	1.8
Net earned premiums	4	**606.3**	**547.2**
Net investment return	5	53.3	(71.0)
Other operating income	6	11.2	9.2
Total revenue from operations		**670.8**	**485.4**
Gross claims paid	24	(416.8)	(324.4)
Movement in gross technical provisions		(74.3)	(158.3)
Gross claims incurred		**(491.1)**	**(482.7)**
Reinsurers' share of gross claims paid	24	86.3	71.9
Movement in reinsurers' share of technical provisions		15.1	46.4
Reinsurers' share of claims incurred		**101.4**	**118.3**
Net claims incurred		**(389.7)**	**(364.4)**
Expenses incurred in insurance activities	7	(198.3)	(132.6)
Other operating expenses	8	(36.7)	(18.4)
Total operating charges		**(624.7)**	**(515.4)**
Profit/(loss) from operations		**46.1**	**(30.0)**
Finance costs	11	(4.1)	(4.0)
Other income from sale of subsidiary		-	14.7
Goodwill written off	14	-	(6.9)
Profit/(loss) before tax		**42.0**	**(26.2)**
Income tax (expense)/credit	12	(13.9)	7.3
Profit/(loss) for the year		**28.1**	**(18.9)**
Attributable to:			
Equity holders of the parent		28.1	(19.0)
Minority interest		-	0.1
		28.1	**(18.9)**
Earnings/(losses) per share	13		
Basic		5.8p	(6.0)p
Diluted		5.8p	(6.0)p

All of the operations of the Group are continuing.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Profit/(loss) for the year		28.1	(18.9)
Other comprehensive income/(expense)			
Defined benefit pension scheme: actuarial losses for the year	23	(5.0)	(8.6)
Deferred tax credit in respect of actuarial losses	16	1.4	2.4
Other comprehensive expense for the year, net of tax		(3.6)	(6.2)
Total comprehensive income/(expense) for the year, net of tax		24.5	(25.1)
Attributable to:			
Equity holders of the parent		24.5	(25.2)
Minority interest		-	0.1
		24.5	(25.1)

Consolidated Statement of Changes in Equity for the year ended 31 December 2009

	Notes	Called up share capital £m	Own shares £m	Share premium account £m	Equity element of convertible loan £m	Bonus reserve £m	Warrant reserve £m	Retained earnings £m	Minority interest £m	Total equity £m
At 1 January 2009		87.0	(31.5)	66.0	-	20.8	-	83.2	-	225.5
Total comprehensive income		-	-	-	-	-	-	24.5	-	24.5
Shares issued	20	50.0	-	24.9	-	-	-	-	-	74.9
Dividends paid	29	-	-	-	-	-	-	(18.6)	-	(18.6)
Investments in own shares		-	(0.3)	-	-	0.3	-	-	-	-
Share option costs		-	-	-	-	-	-	0.6	-	0.6
Vested shares		-	2.5	-	-	(2.9)	-	0.4	-	-
Cost of shares and share options exercise		-	1.0	-	-	(0.3)	-	(0.3)	-	0.4
Bonus costs deferred share bonus plan		-	-	-	-	9.4	-	-	-	9.4
At 31 December 2009	21	137.0	(28.3)	90.9	-	27.3	-	89.8	-	316.7
At 1 January 2008		86.3	(11.8)	65.7	0.1	16.0	1.9	124.0	0.4	282.6
Total comprehensive income		-	-	-	-	-	-	(25.2)	0.1	(25.1)
Shares issued	20	0.7	-	0.3	-	-	-	-	-	1.0
Dividends paid	29	-	-	-	-	-	-	(17.2)	-	(17.2)
Investments in own shares		-	(20.6)	-	-	0.5	-	-	-	(20.1)
Share option costs		-	-	-	-	0.1	-	-	-	0.1
Share incentive plan costs		-	-	-	-	0.4	-	-	-	0.4
Cost of shares and share options exercise		-	0.9	-	-	(0.8)	-	(0.4)	-	(0.3)
Bonus costs deferred share bonus plan		-	-	-	-	4.6	-	-	-	4.6
Minority interest in dividends declared by subsidiary		-	-	-	-	-	-	-	(0.2)	(0.2)
Sale of subsidiary		-	-	-	-	-	-	-	(0.3)	(0.3)
Warrant expiration		-	-	-	-	-	(1.9)	1.9	-	-
Conversion of loan stock		-	-	-	(0.1)	-	-	0.1	-	-
At 31 December 2008	21	87.0	(31.5)	66.0	-	20.8	-	83.2	-	225.5

Consolidated Balance Sheet at 31 December 2009

	Notes	2009 £m	2008 £m
Assets			
Intangible assets	14	32.1	32.1
Tangible fixed assets	15	7.9	8.7
Reinsurers' share of technical provisions	24	340.5	339.7
Deferred income tax	16	17.0	21.3
Current tax	25	0.4	-
Deferred acquisition costs	17	82.3	76.5
Prepayments and accrued income		15.4	3.5
Trade and other receivables	18	207.0	259.1
Financial assets	3	851.8	798.7
Cash and cash equivalents	19	501.7	420.8
Total assets		2,056.1	1,960.4
Equity			
Share capital	20,21	137.0	87.0
Own shares	21	(28.3)	(31.5)
Share premium account	21	90.9	66.0
Bonus reserve	21	27.3	20.8
Retained earnings	21	89.8	83.2
Total equity		316.7	225.5
Liabilities			
Subordinated debt	22	40.3	45.1
Employee benefits provision	23	14.2	9.4
Technical provisions	24	1,532.3	1,508.9
Current tax	25	-	4.8
Accruals and deferred income		12.0	12.7
Trade and other payables	26	140.6	154.0
Total liabilities		1,739.4	1,734.9
Total equity and liabilities		2,056.1	1,960.4
Net asset value per ordinary share	27	61.7p	72.9p
Net tangible asset value per ordinary share	27	55.5p	62.5p

The financial statements were approved by the Board of Directors on 7 April 2010 and signed on its behalf by

Robert Stuchbery
Chief Executive Officer

Ken Curtis
Chief Finance Officer

Consolidated Statement of Cash Flows for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Operating activities			
Cash generated from operations	28	54.5	328.2
Interest paid		(4.1)	(4.1)
Return on financial assets		23.0	(53.5)
Tax paid	25	(13.4)	(19.9)
Net cash flows from operating activities		**60.0**	**250.7**
Investing activities			
Net cash acquired upon acquisition of subsidiary		-	16.6
Purchases less sales of financial assets		(22.8)	9.6
Purchase of tangible fixed assets	15	(1.1)	(1.0)
Purchase of own shares	21	-	(20.1)
Sale of subsidiary	14	-	15.3
Cash received on share option exercise		0.4	-
Net cash flows from investing activities		**(23.5)**	**20.4**
Financing activities			
Shares issued, net of expenses	20	74.9	-
Dividends paid	29	(18.6)	(17.3)
Net cash flows from financing activities		56.3	(17.3)
Net increase in cash and cash equivalents		**92.8**	**253.8**
Cash and cash equivalents at 1 January		420.8	179.0
Effect of changes in rates of exchange		(11.9)	(12.0)
Cash and cash equivalents at 31 December	19	**501.7**	**420.8**

1. ACCOUNTING POLICIES

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

Basis of preparation

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

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

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

IAS 1 (Revised) Presentation of Financial Statements
The revised standard separates owner and non-owner changes in equity. The Group has introduced a Consolidated Statement of Changes in Equity, which includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, this standard introduces a Consolidated Statement of Comprehensive Income, which presents all items of recognised income and expense, either in one single statement or in two linked statements. The Group has elected to present two statements.

IFRS 7 (Amended) Financial Instruments: Disclosures
The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures.

IFRS 8 Operating Segments
This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group has determined that the operating segments are the same as the business segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in Note 4.

IAS 23 (Revised) Borrowing Costs
The standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the standard, this has been adopted as a prospective change. Therefore borrowing costs will be capitalised on qualifying assets with a commencement date on or after 1 January 2009. No such borrowing costs have been incurred to date and no changes have been made for borrowing costs incurred prior to this date.

The Group has also adopted the following standards, amendments to standards and interpretations, which are effective for periods starting on or after the dates below, with no significant impact on the financial statements of the Group:

- Amendment to IFRS 2 Share-based Payment (1 January 2009)
- Amendment to IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (1 January 2009)
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (1 January 2009)
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (1 July 2009)
- Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives (30 June 2009)
- IFRIC 13 Customer Loyalty Programmes (1 July 2008)
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement (1 January 2011)
- IFRIC 15 Agreements for the Construction of Real Estate (1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (1 October 2008)
- IFRIC 17 Distributions of Non-cash Assets to Owners (1 July 2009)
- IFRIC 18 Transfers of Assets from Customers (1 July 2009)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (1 July 2010)

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

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

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

Business combinations

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

Foreign currency translation

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

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

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

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

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

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

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

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

Underwriting transactions

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

(i) Premiums written comprise the premiums on contracts incepting in the financial year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified, less allowance for cancellations.

(ii) Reinsurance premiums and any related reinsurance recoveries are accounted for in the same accounting period as the premiums and claims for the related direct or inwards reinsurance business.

(iii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date.

(iv) Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related policies are earned.

(v) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from prior years. Where applicable, deductions are made for salvage and other recoveries.

(vi) Outstanding claims represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not reported, less any amounts paid in respect of those claims. Outstanding claims are reduced by anticipated salvage and other recoveries. The ultimate cost of outstanding claims is estimated by using a range of actuarial projection methods. The primary sensitivity in these methods is the assumption that experience is indicative of the outcome of current business and, where past experience is insufficient, that market benchmarks are representative of the relevant syndicate's own underwriting. Significant delays can be experienced in the notification and settlement of certain claims and, accordingly, the ultimate cost of such claims cannot be known with certainty at the balance sheet date. In particular, estimates of technical provisions inevitably contain inherent uncertainties because significant periods of time may elapse between the occurrence of an insured loss, the reporting of that claim to the Syndicate and the Syndicate's payment of the claim and the receipt of reinsurance recoveries. While the Directors consider that the estimate of outstanding claims is fairly calculated, on the basis of the information currently available to them, the ultimate liability remains inherently uncertain and may change as a result of subsequent information and events which may result in the eventual cost of settling these liabilities being higher or lower than the amount calculated.

(vii) Reserves are set based upon an expectation that there will not be a subsequent release or deficit. In arriving at this estimate, allowance is made for the inherent uncertainty involved in the setting of reserves.

(viii) Liability adequacy test: at each reporting date an assessment is made to determine whether recognised insurance liabilities are adequate. If that assessment shows that the carrying amount of insurance liabilities (less related acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is recognised in the income statement via the provision of an unexpired risk reserve. The provision for unexpired risks is included within technical provisions in the balance sheet.

Participation in Nuclear Pools

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

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

Investment return

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

Other operating income

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

Net expenses incurred in insurance activities

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

Other operating expenses

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

Borrowing costs

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

Taxation

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

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

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

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

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

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

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

Leases

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

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

Dividends

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

Syndicate participations

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

Cash and cash equivalents

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

Financial assets

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

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

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

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

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

Derivative financial instruments

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

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

Tangible fixed assets

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

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

Intangible assets

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

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

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

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

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

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

Impairment of assets

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

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

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

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

Long term assets and liabilities

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

Convertible loan stock

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

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

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

The interest expense on the liability component recognised in the income statement is calculated by applying the prevailing market interest rate for similar non-convertible debt at the time the instrument was issued to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

Provisions and contingencies

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

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

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

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

Employee benefits: pensions

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

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

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

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

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

Employee benefits: shares

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

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

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

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

Employee benefits: share options

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

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

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

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

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

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

Subordinated debt

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

Critical accounting estimates and judgements in applying accounting policies

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

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

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

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

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

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

Underwriting risk

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

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

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

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

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

Managing risk aggregation

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

Monitoring performance against plan

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

Underwriting controls

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

Peer and independent reviews

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

Underwriting risk review

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

Internal audit

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

Emerging risks

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

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

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

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

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

Concentrations of risk

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

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

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

1 Based on a 2010 premium capacity of £707.0m (2009 £634.0m) for Syndicate 1084 and £31.7m (2009 £31.5m) for Syndicate 1176
2 Based on an economic 2010 Group share of 83.9% (2009 87.0%) for Syndicate 1084 and 54.8% (2009 55.1%) for Syndicate 1176

Maximum Lines

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

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

Terms and conditions of contracts

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

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

Claims

Claims events are inherently uncertain and volatile.

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

Reinsurance

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

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

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

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

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

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

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

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

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

Credit

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

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

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

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

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

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

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

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

	First loss exposure	
Syndicate 1084	2010 %	2009 %
Reinsurance rating bands (Standard & Poor's or equivalent)[1]		
Lloyd's Syndicates (A+)	35.6	37.1
AAA	1.0	1.5
AA	16.8	30.7
A	46.6	30.7
	100.0	100.0

1 Ratings as at 5 February 2010 and 5 February 2009 respectively

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

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

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

1 Ratings as at 31 December 2009 and 2008 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 0.1% of collateralised security (2008 1.6%)

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

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

Reserving

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

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

TIER 1: ACTUARIAL BEST ESTIMATE RESERVES

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

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

TIER 2: SYNDICATE RESERVES

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

(a) Underwriting year syndicate reserves

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

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

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

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

(b) Annually accounted syndicate reserves

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

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

TIER 3: GROUP RESERVES

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

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

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

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

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

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

Scenario 1

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

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

Scenario 2

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

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

Scenario 3

Risk: Underestimation of Madoff losses.

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

Scenario 4

Risk: Under provision for reinsurance bad debt.

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

Scenario 5

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

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

Scenario 6

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

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

RESULTS

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

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

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

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

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

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

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

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

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

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

3. FINANCIAL ASSETS AND INVESTMENT RISK

Financial assets at fair value through profit and loss

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

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

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

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

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

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

Investment strategy and risk management

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

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

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

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

2009

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

2008

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

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

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

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

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

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

Investment managers

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

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

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

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

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

RISK POLICIES

Market risk

Interest rate risk

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

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

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

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

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

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

					Maturity bands (Years)[1]	
	<1	1-2	2-3	3-4	4+	Total
	£m	£m	£m	£m	£m	£m
31 December 2009						
Government	45.3	17.7	23.8	-	-	**86.8**
AAA	92.0	147.2	70.9	14.8	27.2	**352.1**
AA	47.1	30.5	19.6	5.8	11.5	**114.5**
A	28.8	11.3	14.9	10.2	57.2	**122.4**
BBB	0.7	1.8	3.5	-	59.5	**65.5**
Other	-	-	-	0.5	7.8	**8.3**
	213.9	208.5	132.7	31.3	163.2	749.6
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
Other	-	1.0	-	-	-	1.0
	141.2	62.8	36.7	6.6	0.8	248.1

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 an exposure to currency risk and mitigates this risk by adopting a policy of matching assets and liabilities, by currency, for all exposures representing more than 5% of the assets of the business.

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

	2009	2008
	%	%
UK Sterling	51	48
US Dollar	45	48
Other	4	4
	100	100

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

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

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

Equity risk

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

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

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

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

Hedge funds

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

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

In 2009, hedge fund returns comprised:

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

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

Liquidity risk

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

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

		Maturity bands (Years)					
	Balance sheet £m	<1 £m	1-2 £m	2-5 £m	5-10 £m	>10 £m	Total £m
31 December 2009							
Subordinated debt	40.3	1.6	1.6	4.7	7.8	66.9	82.6
Technical provisions	1,532.3	540.5	350.7	405.1	142.5	93.5	1,532.3
Trade and other payables	140.6	129.8	2.3	3.2	5.3	-	140.6
	1,713.2	671.9	354.6	413.0	155.6	160.4	1,755.5
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	1,773.8

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

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

CREDIT RISK

Investments

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

Insurance and reinsurance debtors

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

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

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

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

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

Determination of fair value and fair value hierarchy

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

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

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

Included in the Level 2 category are:

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

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

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

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

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

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

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

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

4. SEGMENTAL INFORMATION

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

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

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

Details about the divisions referred to below are as follows:

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

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

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

- Specialist Lines – The Division comprises financial institutions and professional indemnity, institutional healthcare, miscellaneous short tail and general casualty and claims made. The financial institutions and professional indemnity account focuses on small to medium sized institutions worldwide, with business domiciled in the United Kingdom and Europe providing 40% of forecast premium income. The Division also has a leading position in the underwriting of liability exposures for healthcare institutions.
- Nuclear – The Division, which underwrites through Nuclear Syndicate 1176, is a leading insurer of nuclear risk. The Syndicate provides coverage across the nuclear fuel cycle, from raw uranium and nuclear fuel to the shipment and storage of waste, although most of the Syndicate's insurance exposures relate to power generation at nuclear power stations. In addition to providing coverage for physical damage loss to civil nuclear power stations, the Syndicate provides a limited liability policy with proven strict terms and restrictions.
- Syndicate Participations – This represents the Group's underwriting interests in Syndicates 4000 and 4242.

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

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

Year ended 31 December 2008	UK £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	132.2	121.2	116.3	26.9	157.5	46.3	14.7	74.5	0.3	689.9	1.4	-	691.3
RITC	0.9	1.1	0.4	0.2	0.7	1.4	(0.1)	-	45.1	49.7	-	-	49.7
Unadjusted gross written premiums	133.1	122.3	116.7	27.1	158.2	47.7	14.6	74.5	45.4	739.6	1.4	-	741.0
Adjusted net earned premiums	118.1	94.9	79.1	23.3	122.0	41.4	12.0	48.0	(0.4)	538.4	1.4	(31.8)	508.0
RITC	0.9	1.1	0.4	0.2	0.7	1.4	(0.1)	-	45.1	49.7	-	-	49.7
Foreign exchange on non-monetary items	-	(2.2)	(2.4)	(0.7)	(2.5)	(1.6)	-	(1.8)	-	(11.2)	-	0.7	(10.5)
Unadjusted net earned premiums[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	(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[5]	(88.8)	(59.6)	(59.6)	(12.7)	(73.9)	(21.3)	(2.3)	(28.6)	(37.7)	(384.5)	-	20.1	(364.4)
Adjusted net expenses incurred in insurance activities													
Acquisition costs	(24.6)	(26.0)	(27.6)	(6.3)	(33.8)	(10.4)	(0.4)	(13.6)	-	(142.7)	1.1	7.8	(133.8)
Other expenses	(8.6)	(1.1)	(2.8)	(1.8)	(6.1)	(3.6)	(0.1)	(5.9)	2.1	(27.9)	1.3	(16.0)	(42.6)
Foreign exchange on non-monetary items	(0.1)	9.1	14.1	2.4	11.2	4.5	-	5.1	-	46.3	-	(2.5)	43.8
Unadjusted net expenses incurred in insurance activities	(33.3)	(18.0)	(16.3)	(5.7)	(28.7)	(9.5)	(0.5)	(14.4)	2.1	(124.3)	2.4	(10.7)	(132.6)
Recharges from Managing Agent[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 Agent	0.9	0.7	0.5	0.3	1.0	0.4	0.8	1.2	-	5.8	(5.8)	-	-
Other operating expenses	-	-	-	-	-	-	-	-	-	-	4.8	(23.2)	(18.4)
Total operating charges	(124.5)	(78.9)	(77.4)	(18.6)	(104.5)	(31.3)	(4.2)	(43.2)	(35.6)	(518.2)	16.6	(13.8)	(515.4)
Profit/(loss) from operations	(17.5)	2.9	(13.5)	-	1.1	(5.3)	9.2	6.5	(1.4)	(18.0)	-	(12.0)	(30.0)
Finance costs	-	-	-	-	-	-	-	-	-	-	-	(4.0)	(4.0)
Other income from sale of subsidiary	-	-	-	-	-	-	-	-	-	-	-	14.7	14.7
Goodwill write-off	-	-	-	-	-	-	-	-	-	-	-	(6.9)	(6.9)
Profit/(loss) before tax	(17.5)	2.9	(13.5)	-	1.1	(5.3)	9.2	6.5	(1.4)	(18.0)	-	(8.2)	(26.2)

1 'Syndicate Participations' comprises the results of Chaucer's participations on Syndicates 4000 and 4242
2 'Run off' comprises the results of Syndicates 1204, 1224, 1229 and 1245 that have closed into Syndicate 1084
3 'Other' represents other corporate income and expense items, and the capital provision reinsurance contracts in two of Chaucer's corporate members
4 The elimination of net expenses incurred in insurance activities includes fees and profit commissions charged by the Managing Agent to overseas operations and a portion of the defined benefit pension scheme deficit from the Managing Agent to Syndicate 1084. The portion recharged represents the contributions. The recharges from Managing Agent include the profit commissions, Managing Agent fees and rent invoiced by the Managing Agent to Syndicates 1084 and 1176 during 2009 and 2008. Consolidation eliminates the Group's share of the related income and expenses. In addition, the actual expenses incurred by the Managing Agent (shown as actual expenses transferred from Managing Agent above) in managing the Syndicates are reclassified as net expenses incurred in insurance activities from other operating expenses in each division. The eliminations column removes these transactions. The Group calculates expense ratios on the net expenses incurred in insurance activities figure including the consolidation adjustments and reclassifications explained above. This is in line with previous years' practices
5 The unadjusted items in the divisional analysis represent the items calculated in accordance with IFRS

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

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

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

1 'Syndicate participations' comprises the results of the Group's participations on Syndicates 4000 and 4242
2 The 'FAL requirement' is reconciled to the consolidated balance sheet in Note 32
3 'Corporate adjustments' include the removal of the unaligned share from the 100% syndicate level claims and the effect of quota share agreements held at the corporate level
4 The 'Outstanding claims' total is reconciled to the consolidated balance sheet in Note 24

Geographical information

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

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

5. NET INVESTMENT RETURN

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

6. OTHER OPERATING INCOME

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

7. EXPENSES INCURRED IN INSURANCE ACTIVITIES

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

8. OTHER OPERATING EXPENSES

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

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

9. DIRECTORS' REMUNERATION

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

10. STAFF COSTS

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

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

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

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

11. FINANCE COSTS

	2009 £m	2008 £m
Interest expense	1.9	2.7
Other	2.2	1.3
	4.1	4.0

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

12. INCOME TAX EXPENSE/(CREDIT)

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

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

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

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

13. EARNINGS/LOSSES PER SHARE

	Earnings £m	Number of shares Million	Earnings per share Pence
Year ended 31 December 2009			
Basic, based on net profit for year	28.1	480.4	5.8
Diluted, based on net profit for the year	28.1	484.7	5.8

	Loss £m	Number of shares Million	Loss per share Pence
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

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

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

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

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

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

14. INTANGIBLE ASSETS

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

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

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

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

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

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

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

15. TANGIBLE FIXED ASSETS

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

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

16. DEFERRED INCOME TAX

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

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

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

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

17. DEFERRED ACQUISITION COSTS

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

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

18. TRADE AND OTHER RECEIVABLES

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

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

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

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

19. CASH AND CASH EQUIVALENTS

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

The balances above represent cash.

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

20. SHARE CAPITAL

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

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

	Date	Share price Pence	Number	Ordinary share capital £m	Share premium £m
At 1 January 2009			348,092,039	87.0	66.0
Shares issued in respect of:					
Firm Placing and Placing and Open offer	25/02/09	40.0	199,999,606	50.0	24.9
At 31 December 2009			**548,091,645**	**137.0**	**90.9**
At 1 January 2008			345,227,244	86.3	65.7
Shares issued in respect of:					
Conversion of Convertible Unsecured Subordinated Loan Stock	30/06/08	37.5	1,437,386	0.4	0.2
	14/11/08	37.5	1,320,295	0.3	0.1
	26/12/08	37.5	102,768	-	-
Conversion of share warrants	02/06/08	92.0	4,346	-	-
At 31 December 2008			348,092,039	87.0	66.0

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

21. MOVEMENTS IN EQUITY

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

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

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

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

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

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

22. SUBORDINATED DEBT

	2009 £m	2008 £m
Debt in Euros	10.2	11.3
Debt in US Dollars	30.1	33.8
	40.3	45.1

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

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

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

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

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

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

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

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

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

23. EMPLOYEE BENEFITS PROVISION

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

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

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

The principal actuarial assumptions used are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24. TECHNICAL PROVISIONS

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

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

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

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

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

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

2009 events

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

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

Madoff

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

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

Political Risk Trade Credit account ("PRTC")

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

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

West Atlas Rig loss

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

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

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

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

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

REINSURANCE

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

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

25. CURRENT TAX

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

26. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

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

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

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

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

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

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

	2009 £m	2008 £m
Other creditors	5.5	2.6
Bonus reserve	8.7	4.6
Total cost recognised	**14.2**	7.2

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

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

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

27. NET ASSET VALUE PER ORDINARY SHARE

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

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

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

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

29. DIVIDENDS

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

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

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

30. SHARE OPTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31. SHARE-BASED PAYMENT

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

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

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

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

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

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

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

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

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

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

32. CAPITAL

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

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

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

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

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

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

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

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

33. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

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

34. COMMITMENTS

Operating leases

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

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

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

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

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

35. RELATED PARTY TRANSACTIONS

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

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

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

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

	Syndicate 1084 £m	Syndicate 1176 £m	Syndicate 1274 £m	Syndicate 4000* £m	Syndicate 4242 £m	Syndicate 1301 £m
31 December 2009						
Managing agent's fees	6.3	1.3	1.6	-	1.3	1.8
Profit commission	-	2.8	-	-	0.4	0.2
Expense recharge	36.0	-	0.4	0.7	0.2	5.0
Balance owed to Chaucer Syndicates Limited	1.0	-	0.1	0.4	-	0.1
31 December 2008						
Managing agent's fees	11.1	1.0	1.6	2.3	1.0	1.5
Profit commission	-	3.0	-	0.1	0.9	-
Expense recharge	35.4	-	0.4	3.0	0.1	3.8
Balance owed to Chaucer Syndicates Limited	2.0	-	-	-	-	0.2

Pembroke was part of the Group until its sale in July 2008 and the table above includes only the Managing Agent fee paid by Syndicate 4000 up to that date. This amount also includes £0.6m paid to Chaucer Syndicates Limited in 2008 only for certain services Pembroke subcontracted to it.

Syndicate Statistics

CAPACITY UNDER MANAGEMENT

		2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
In-house syndicates						
1084	Composite	707.0	634.0	445.0	485.0	450.0
1176	Nuclear	31.7	31.5	27.5	27.5	22.4
		738.7	665.5	472.5	512.5	472.4
Third party syndicates						
1274[1]	Composite	-	165.2	135.4	-	-
1301	Non-marine	110.0	95.0	75.0	72.0	65.0
3210	Non-marine	-	-	-	-	300.0
4000[1]	Specialist Lines	-	-	73.0	73.0	82.0
4242	US Property Catastrophe	99.0	83.6	83.6	83.6	-
		209.0	343.8	367.0	228.6	447.0
Total capacity under management		947.7	1,009.3	839.5	741.1	919.4
Chaucer economic interests (see table below)		(623.3)	(580.0)	(519.8)	(546.6)	(509.4)
Capacity managed for third parties		324.4	429.3	319.7	194.5	410.0

ECONOMIC INTERESTS IN UNDERWRITING CAPACITY

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
In-house syndicates					
1084	675.0	602.0	445.0	485.0	450.0
1176	17.4	17.4	15.5	14.9	12.1
	692.4	619.4	460.5	499.9	462.1
Participations by quota share reinsurer	(82.2)	(50.7)	(25.0)	(37.6)	(34.7)
	610.2	568.7	435.5	462.3	427.4
Third party syndicates					
4000[1]	-	-	73.0	73.0	82.0
4242	13.1	11.3	11.3	11.3	-
Total economic interests	623.3	580.0	519.8	546.6	509.4

1 Antares Managing Agency Limited assumed management responsibilities for Syndicate 1274 in January 2010; Pembroke manages Syndicate 4000 for the 2009 and subsequent years of account

In addition, the Group has an underwriting participation through a £17.0m investment in Antares Holdings Limited, which provides capital to Antares Syndicate 1274.

Solus Financial Statements

Solus Financial Statements as at 31 December 2009
Prepared in accordance with UK GAAP

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 UK Generally Accepted Accounting Practice (UK 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 accounting 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 a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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 7 April 2010 and signed on its behalf by

David Turner
Company Secretary

D Turner.

We have audited the parent company financial statements of Chaucer Holdings PLC for the year ended 31 December 2009 which comprise the Balance Sheet and the related Notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 122, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

OTHER MATTER

We have reported separately on the Group financial statements of Chaucer Holdings PLC for the year ended 31 December 2009.

Kevin Senior
Senior statutory auditor

for and on behalf of Ernst & Young LLP, Statutory Auditor
London, 7 April 2010

Chaucer Holdings PLC Balance Sheet at 31 December 2009

	Notes	2009 £m	2008 £m
Fixed assets			
Tangible assets	3	3.8	4.1
Shares in group undertakings	4	39.4	39.4
Financial assets	5	235.8	189.8
		279.0	233.3
Current assets			
Debtors: amounts falling due within one year	6	86.7	48.7
Debtors: amounts falling due after more than one year	6	1.5	2.3
Cash at bank and in hand	7	96.4	103.2
		184.6	154.2
Creditors: amounts falling due within one year	8	(155.1)	(160.5)
Net current assets/(liabilities)		29.5	(6.3)
Total assets less current liabilities		308.5	227.0
Creditors: amounts falling due after more than one year			
Other creditors	8	(2.9)	(2.9)
Subordinated debt	9	(40.3)	(45.1)
Net assets		265.3	179.0
Capital and reserves			
Called up share capital	13,14	137.0	87.0
Own shares	14	(28.3)	(31.5)
Share premium account	13,14	90.9	66.0
Bonus reserve	14	27.3	20.8
Profit and loss account	14	38.4	36.7
Total equity shareholders' funds	14	265.3	179.0

The financial statements were approved by the Board of Directors on 7 April 2010 and signed on its behalf by

Robert Stuchbery
Chief Executive Officer

Ken Curtis
Chief Finance Officer

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 UK law and accounting standards. The balance sheet has been prepared in accordance with Schedule 1 of The Regulations 2008 (SI2008/410). No profit or loss account is presented for the Company as permitted by Section 408 of the Companies Act 2006. The profit dealt with in the accounts of the parent company was £19.6m (2008 £0.2m). 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 shares in group undertakings) 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 security 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 Directors consider the fair value through profit and loss option to be appropriate as financial assets are managed and their performance evaluated on a fair value basis, in accordance with a documented investment strategy and information is provided internally on that basis to key management personnel. In addition, investment risk is assessed on a total return basis, 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 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 return

Investment return 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 payment. Interest income is recognised as it accrues and is calculated by using the effective interest rate method.

Expenses

Expenses are accounted for on an accruals basis and charged to the profit and loss account as incurred.

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 profit 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 generally 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 are 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 year end in foreign currencies into sterling are as follows:

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

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.

Shares in group undertakings

Shares in group 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 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

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

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

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

In accordance with the rules of the schemes, certain shares attract matching shares, if certain performance conditions are met. The number of matching shares and the fair values are determined through stochastic models that estimate the probabilities of the performance conditions being met. The cost of matching shares is amortised over the same period of time as the original shares. The assumptions behind the determination of matching shares and their fair values are reassessed, when applicable, at the end of each accounting period and the impact of any change is recorded in the 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 share options granted before 7 November 2002 to be fair-valued, or those granted after 7 November 2002 that had vested as at 1 January 2005 to be expensed. Therefore, the costs recognised in the 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 share 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 share capital (nominal value) and share premium, if shares are issued, or to investments in own shares, if shares are purchased, when the share options are exercised. If shares are purchased in the market to settle the share options then any difference between the exercise price, the fair value of the share options and the cost of the shares issued, is taken to retained earnings.

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

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

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

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 rate method.

2. DIVIDENDS

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

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

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

3. TANGIBLE ASSETS

	Land and buildings £m
Cost	
At 1 January and 31 December 2009	5.9
Accumulated depreciation	
At 1 January 2009	(1.8)
Charge	(0.3)
At 31 December 2009	(2.1)
Net book amount at 31 December 2009	3.8
Net book amount at 31 December 2008	4.1

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

4. SHARES IN GROUP UNDERTAKINGS

	2009 £m	2008 £m
At 1 January	39.4	39.7
Disposals	-	(0.3)
At 31 December	39.4	39.4

The following were the main subsidiary undertakings at 31 December 2009 (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[1,2]	Ordinary	100

All subsidiary companies are registered in England and Wales except for Chaucer GmbH, Chaucer Underwriting A/S and Chaucer Singapore PTE Limited, 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] Certain transactions took place in 2008 relating to the Group's purchase and subsequent sale of Pembroke JV Limited. Full details of these transactions were disclosed in the 2008 Annual Report.

5. FINANCIAL ASSETS

	2009 Cost £m	2009 Fair value £m	2008 Cost £m	2008 Fair value £m
Funds at Lloyd's and other corporate funds				
Equities	3.2	2.1	3.2	2.5
Absolute return bond funds	-	-	172.3	168.7
Bonds	225.5	216.7	1.6	1.6
Other[1]	17.0	17.0	17.0	17.0
	238.1	235.8	194.1	189.8

1 In 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), 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 Agent 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. Chaucer Syndicates Limited, a subsidiary undertaking, managed the Syndicate until 31 December 2009

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

The Company deposits Funds at Lloyd's (FAL) 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 FAL held as fixed assets were as follows:

	2009 £m	2008 £m
At 1 January	172.8	118.8
Additional funds	44.1	59.6
Realised losses	(0.6)	-
Unrealised gains/(losses)	2.5	(5.6)
At 31 December	**218.8**	172.8

6. DEBTORS

	2009 £m	2008 £m
Amounts falling due within one year		
Amounts owed by group undertakings	82.3	47.7
Prepayments and accrued income	4.4	1.0
	86.7	48.7
Amounts falling due after one year		
Amounts owed by group undertakings	1.5	2.3

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 generates interest at a rate of 1.0% above the Three Month Interbank Sterling rate and a one-year notice period is 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. In 2009, the subordinated loan was repaid as agreed by both parties.

7. CASH AT BANK AND IN HAND

	2009 £m	2008 £m
Funds at Lloyd's	87.9	90.9
Other funds	8.5	12.3
	96.4	103.2

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.

8. CREDITORS

	2009 £m	2008 £m
Amounts falling due within one year		
Amounts due to group undertakings	154.2	158.9
Amount due to PXRE Holdings Limited	-	0.5
Accruals and deferred income	0.1	0.1
Other creditors	0.8	1.0
	155.1	160.5
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 (£0.6m) and 2012 (£2.3m).

9. SUBORDINATED DEBT

	2009 £m	2008 £m
Debt in Euros	10.2	11.3
Debt in US Dollars	30.1	33.8
	40.3	45.1

On 16 November 2004, the Company issued a €12m 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 any future interest payment date at its principal amount plus any accrued interest.

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

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

	2009 £m
Balance at 1 January 2009	11.3
Interest charges in the year	0.6
Interest paid during the year	(0.7)
Foreign exchange adjustments	(1.0)
Balance at 31 December 2009	**10.2**

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

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

	2009 £m
Balance at 1 January 2009	33.8
Interest charges in the year	1.3
Interest paid during the year	(1.4)
Foreign exchange adjustments	(3.6)
Balance at 31 December 2009	**30.1**

10. 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 Group currently underwrites at Lloyd's for the 2010 year of account at an average economic capital assessment of 47.7% (2009 year of account 48.1%) whereby FAL must be deposited to this proportion of the Group'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 Group.

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

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

11. SHARE OPTIONS

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

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

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

The 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 share options granted in the year are as follows:

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

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three 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 £0.7m (2008 £0.1m) relating to share options granted.

All existing share options, issued after 7 November 2002 and not vested at 1 January 2005, have been valued as required by FRS 20 Share-based Payment.

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

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

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

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

12. SHARE-BASED PAYMENT

The Directors' Remuneration Report describes the features 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 £8.7m (2008 £4.6m). In accordance with the requirements of FRS 20 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 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 TSR 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 2009. 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 2009 £m	Cost recognised in 2008 £m
Shares granted in 2009			
Attracting matching shares	1.2	0.5	-
Not attracting matching shares	0.7	0.2	-
Matching shares: market condition	0.3	0.1	-
Matching shares: non-market condition	1.0	0.2	-
	3.2	1.0	-
Shares granted in 2008			
Adjustment to 2008 declared bonus[1]	0.6	0.3	-
Shares granted in 2007			
Attracting matching shares	3.1	0.5	0.5
Not attracting matching shares	7.1	1.6	1.6
Matching shares: market condition	0.8	0.2	0.2
Matching shares: non-market condition	2.1	0.5	0.5
Adjustment to 2007 declared bonus[1]	(2.2)	(0.1)	(0.7)
	10.9	2.7	2.1
Shares granted in 2006			
Attracting matching shares	1.9	0.4	0.4
Not attracting matching shares	11.2	2.5	2.7
Matching shares: market condition	0.6	0.2	0.1
Matching shares: non-market condition	2.6	0.6	0.6
2005 matching shares: market condition	0.4	-	0.1
2005 matching shares: non-market condition	0.5	-	0.1
Adjustment to 2005/06 declared bonus[1]	(0.1)	1.0	(1.5)
	17.1	4.7	2.5
	31.8	8.7	4.6

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

13. SHARE CAPITAL

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

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

	Date	Share price Pence	Number	Ordinary share capital £m	Share premium £m
At 1 January 2009			348,092,039	87.0	66.0
Shares issued in respect of:					
Firm Placing and Placing and Open offer	25/02/09	40.0	199,999,606	50.0	24.9
At 31 December 2009			**548,091,645**	**137.0**	**90.9**

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

14. MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Called up share capital £m	Own shares £m	Share premium account £m	Bonus reserve £m	Retained earnings £m	Total equity £m
At 1 January 2009	87.0	(31.5)	66.0	20.8	36.7	179.0
Profit for the year	-	-	-	-	19.6	19.6
Shares issued	50.0	-	24.9	-	-	74.9
Dividends paid or declared	-	-	-	-	(18.6)	(18.6)
Investments in own shares	-	(0.3)	-	0.3	-	-
Share option costs	-	-	-	-	0.6	0.6
Vested shares		2.5	-	(2.9)	0.4	-
Cost of shares and share options exercise	-	1.0	-	(0.3)	(0.3)	0.4
Bonus costs deferred share bonus plan	-	-	-	9.4	-	9.4
At 31 December 2009	137.0	(28.3)	90.9	27.3	38.4	265.3

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

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

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

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

The cost of shares and share options exercise represents the 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.

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 £38.7m (2008 £36.7m).

15. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption allowed by FRS 8 Related Party Disclosures not to disclose related party transactions with its subsidiaries.

Glossary of terms

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 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
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	This defines the amount of risk, typically expressed in terms of a 'willingness to lose', that a business is prepared to take in order to achieve its strategic objectors, including target return.
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
Solvency II	A review of the capital adequacy regime for the European insurance industry, sponsored by the EU
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.

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Registered office
Plantation Place
30 Fenchurch Street
London
EC3M 3AD

T: +44 (0) 020 7397 9700
F: +44 (0) 020 7397 9710
www.chaucerplc.com

Registered number: 2847982
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Chaucer Insurance
Prospect House
Chaucer Business Park
Thanet Way
Whitstable
Kent
CT5 3FD

T: +44 (0) 800 121 110
F: +44 (0) 1227 284 701
www.chaucer-insurance.co.uk

REIS
8 The Triangle
ng2 Business Park
Nottingham
NG2 1AE

T: +44 (0) 115 985 0165
F: +44 (0) 115 988 2757
www.reis.co.uk

Chaucer Underwriting A/S
Landgreven 3, 4th Floor
DK 1301
Copenhagen K
Denmark

T: +45 3314 6022
F: +45 3333 0550

Chaucer Singapore PTE Limited
1 George Street
#16-06
Singapore 049145

T: +65 6499 0820
F: +65 6499 0829

Chaucer Houston
3200 SW Freeway
Suite 1130
Houston
Texas 77027

T: +1 713 260 1032
F: +1 713 952 3978