Title	Consideration of the potential adoption of International Financial Reporting Standards (IFRS) by Lloyd's syndicates: Market Consultation
Purpose	To consult with the market with regard to options for the scope and timing of the potential adoption of IFRS by Lloyd's syndicates
Type	Event
From	John Parry, Head of Market Finance Contact details: 020 7327 5129, john.parry@lloyds.com
Date	31 July 2007
Deadline	Friday 28 September 2007
Related links	

Consideration of the potential adoption of IFRS by Lloyd's syndicates

Lloyd's syndicates adopted UK GAAP accounting with effect from 1 January 2005. Following this, it is now appropriate to consider whether and, if so when, syndicates (and the Lloyd's aggregate market accounts) should adopt IFRS for financial reporting.

In late 2006, following a decision made by Lloyd's Executive Team, a working group was set up jointly by Lloyd's and the Lloyd's Market Association (LMA) to consider the key issues, the options for and the proposed timetable associated with the adoption of IFRS by Lloyd's syndicates.

Market consultation

Resulting from the work of this group, the attached consultation paper seeks the views of market participants as regards the options and issues concerning a possible adoption of IFRS accounting by Lloyd's syndicates or whether it would be more appropriate for reporting based on UK GAAP to continue for the foreseeable future.

In particular the paper considers options regarding the scope and timing of implementation as summarised below:

Scope of implementation

Section 3 of the paper (pages 9 to 12) sets out the options for scope of implementation:

- Syndicate annual accounts and Lloyd's Aggregate Accounts and Pro Forma Financial Statements (PFFS) prepared using IFRS. There are sub-options with regard to syndicate underwriting year accounts:
    - Must be prepared under UK GAAP
    - Must be prepared under IFRS
    - May be prepared under either UK GAAP or IFRS at managing agent's choice

- Syndicate annual accounts and Lloyd's Aggregate Accounts continue to be prepared under UK GAAP. Additional data collected in syndicate annual returns to enable PFFS to be prepared under IFRS.

- UK GAAP retained for time being for syndicate and aggregate accounts, pending convergence of UK GAAP with IFRS.

Timetable options

Section 4 of the paper (page 13) proposes the following timetable options:

- 2010 (comparatives for 2009). This is the earliest practical date for implementation. This would be before IFRS Phase 2 (re insurance contracts) and Solvency II are implemented (2012) and thus there would be a two-step conversion process.

- Once IFRS Phase 2 and Solvency II are implemented (around 2012).

- No formal conversion but await convergence of UK GAAP with IFRS

Attached to the consultation paper is the following supplementary material:

Appendix	Content
A	Review of IFRS technical issues
B	Detailed comparison of differences between UK GAAP and IFRS
C	Illustrative IFRS syndicate annual accounts
D	IFRS Phase II 'Insurance Contracts' discussion paper
E	List of the members of the working group

Responses to Lloyd's

You are invited to comment on the contents of this paper, either generally or in response to the specific questions set out in Section 5 (page 14). Responses to the paper, and any queries regarding this bulletin, should be provided by e-mail to Glenn Carrick at Lloyd's Market Finance (glenn.carrick@lloyds.com) and a copy to Gary Budinger at the LMA (gary.budinger@lmalloyds.com). Please provide responses by no later than Friday 28

September 2007. When submitting your comments, please advise whether you wish your response to remain confidential.

Following the results of this consultation, it is intended that a decision as to whether conversion to IFRS in respect of Lloyd's syndicate financial reporting will occur, and its timing, will be made and communicated to the market by the end of 2007.

This bulletin is being sent to all managing agents, members' agents and recognised accountants and will be made available to other professional advisers.

John Parry
Head of Market Finance

Adoption of IFRS by Lloyd's syndicates
Market consultation – Summer 2007

Adoption of IFRS by Lloyd's syndicates
Market consultation - Summer 2007

Contents

Adoption of IFRS by Lloyd's syndicates
Market consultation – Summer 2007

1. Introduction

1.1 Background

1.1.1 On 31 December 2004, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ('the Regulations') came into force. As a result of the Regulations managing agents are required to prepare syndicate annual accounts and, subject to certain exceptions, syndicate underwriting year accounts in accordance with UK GAAP, in respect of financial years commencing on or after 1 January 2005. Following this, it is now appropriate to consider whether and, if so, when syndicates and the Lloyd's aggregate market accounts should adopt International Financial Reporting Standards (IFRS).

1.1.2 In late 2006, following a decision made by Lloyd's Executive Team, a working group was set up jointly by Lloyd's and the Lloyd's Market Association (LMA) to consider the key issues, adoption options and proposed timetable associated with the adoption of IFRS by Lloyd's syndicates.

1.2 Purpose

1.2.1 Lloyd's, via this consultation paper, is now seeking the views of market participants as regards the options and issues concerning a possible move to IFRS accounting by Lloyd's syndicates or whether it would be more appropriate for reporting based on UK GAAP to continue for the foreseeable future.

1.3 Objectives

1.3.1 The primary objectives of syndicates and Lloyd's adopting IFRS are:

- to be consistent with the financial statements of their European and certain other competitors thereby achieving greater comparability of performance and market transparency; and
- in the case of corporate members who already report under IFRS or plan to report under IFRS, achieve convergence of accounting policies with those of their parent companies with IFRS reporting requirements.

1.3.2 Section 2 of this paper analyses the benefits and main issues associated with Lloyd's syndicates adopting IFRS in greater detail.

1.4 Implementation options

1.4.1 The annual reports produced by managing agents comprise the following:

- Syndicate annual accounts - audited annual report of a syndicate showing the annual result for all underwriting years combined.
- Underwriting year accounts – audited report on each underwriting year which has reached the three year stage or beyond, prepared under the three-year accounting basis, and only required if the syndicate is not exempted from preparing these accounts under the Regulations.

1.4.2 The accounts produced by Lloyd's are:

- Society accounts – the consolidated audited financial results of the Corporation of Lloyd's and its subsidiaries and associates, and the Lloyd's Central Fund.
- Aggregate Accounts - audited annual report, aggregating all syndicate annual accounts, required to be prepared by the Regulations.
- Pro forma financial statements (PFFS) - audited annual report, aggregating the Aggregate Accounts, Society accounts and incorporating members' funds at Lloyd's (FAL), in order to present an overall financial report for the activities of the Society of Lloyd's comparable with the accounts of other insurers.

1.4.3 The following alternatives are available for the implementation of IFRS by Lloyd's:

- the PFFS, Lloyd's Aggregate Accounts and syndicate annual accounts prepared under IFRS, with the underwriting year accounts either:
  - prepared under UK GAAP; or
  - prepared under IFRS; or
  - prepared under UK GAAP or IFRS depending on the managing agent's preference; or

- only the PFFS to be prepared under IFRS; or

- the retention of UK GAAP (ie await the convergence of UK GAAP with IFRS).

1.4.4 Each of the above options is considered in further detail in section 3 of this paper.

1.5 Timetable

1.5.1 Lloyd's is conscious of the fact that a move to IFRS would represent a potentially significant commitment, particularly for smaller managing agents, from a resource and timing perspective.

1.5.2 Lloyd's believes a minimum of two years' lead time is necessary in order to achieve an effective conversion from UK GAAP to IFRS, for the following reasons:

- the first set of IFRS financial statements must include at least one year of comparative information under IFRS;
- to allow sufficient time (one year before the start of the comparative period) for conversion or upgrading of existing managing agent accounting and reporting systems; and staff training and/or increasing of staff resources; and
- reflecting the experience of the adoption of UK GAAP from 1 January 2005.

1.5.3 Hence, the earliest realistic date for conversion to IFRS would be in respect of the financial year beginning 1 January 2010 (with comparatives for the financial year beginning 1 January 2009). However, other considerations, in particular the timescale for finalisation of IFRS Phase II, with respect to insurance contracts, the timescale for implementation of Solvency II (now anticipated in 2012) and the ongoing convergence of existing UK GAAP with IFRS means that a later implementation of IFRS reporting, or retention of UK GAAP until convergence is complete, should be considered. The issue of timing is considered in detail at Section 4 of this paper.

1.6 Appendices

1.6.1 The following additional material is provided with this paper for the market's review and comment:

Appendix	Content
A	Review of IFRS technical issues
B	Detailed comparison of differences between UK GAAP and IFRS
C	Illustrative IFRS syndicate annual accounts
D	IFRS Phase II 'Insurance Contracts' discussion paper

1.6.2 A list of the members of the working group is attached at Appendix E.

1.7 Invitation to comment and timetable

1.7.1 Following the results of this consultation, it is intended that a decision as to whether conversion to IFRS in respect of Lloyd's syndicates will occur, and its timing, will be made and communicated to the market by the end of 2007.

1.7.2 In advance of this, market practitioners are invited to comment on the contents of this paper, either generally or in response to the specific questions set out in Section 5. Responses should be provided by e-mail to Glenn Carrick at Lloyd's Market Finance (glenn.carrick@lloyds.com) with a copy to Gary Budinger at the LMA (gary.budinger@lmalloyds.com). Please provide responses by no later than Friday 28 September 2007. When submitting your comments, please advise whether you wish your response to remain confidential.

2. Benefits and main issues with respect to adopting IFRS

2.1 Benefits

The table below sets out the benefits of a full move to IFRS reporting for Lloyd's syndicates and the Lloyd's PFFS and Aggregate Accounts:

No	Benefit
1.	Syndicate and Lloyd's global financial reporting would be aligned with that of Lloyd's main European and certain other competitors; this would therefore improve comparability of performance. The European Union (EU) requires that European companies listed in a European securities market must use IFRS to prepare their consolidated financial statements, from 2005.
2.	A move to IFRS reporting will ultimately be closer with the 'fair value' approach of valuing assets and liabilities embodied within Solvency II. This is particularly relevant to the proposals for the valuation of insurance contacts anticipated as part of IFRS Phase II.
3.	The number of reporting bases could be reduced in the case of corporate members which currently prepare IFRS accounts at entity level or which are considering preparing IFRS accounts at entity level.
4.	Conversion to IFRS may facilitate access for potential new participants, perhaps with existing non-Lloyd's operations reporting under IFRS as differences in accounting requirements are eliminated. In addition, it may assist potential investors, already familiar with IFRS, to gain a better understanding of syndicate financial statements.
5.	Syndicate financial reporting would be aligned with that of the Society's accounts, which are already prepared under IFRS. This would ensure a common basis of accounting for Lloyd's, and enable the preparation of Lloyd's PFFS in accordance with IFRS.

2.2 Main issues

The table below highlights what the working group considered to be the potential main issues associated with a move to IFRS reporting for Lloyd's syndicates.

<table>
<tr><th>No</th><th>Issue</th></tr>
<tr><td>1.</td><td>Managing agents may require significant additional resources and therefore costs to produce the necessary information for the increased and more extensive financial statement disclosures under IFRS reporting. This includes the impact on interim accounts and quarterly returns as well as the year end accounts.</td></tr>
<tr><td>2.</td><td>The IFRS standard on insurance contracts has not been finalised, and there is a risk that the issuing of the standard could be delayed. There is a risk that this standard would not be finalised upon an initial conversion to IFRS, thus requiring effectively a 'double conversion'. This issue is considered further in Section 4.</td></tr>
<tr><td>3.</td><td>Certain syndicates might have an increased reporting burden, as they would possibly still be required to provide UK GAAP information to their Corporate members. The only viable solution to circumvent this situation would be if the Corporate members also moved to IFRS reporting. However, this might have implications for corporate members in a group structure, as it could force fellow subsidiaries throughout the group to adopt IFRS reporting and this could have potential tax implications for the corporate member and the group.</td></tr>
<tr><td>4.</td><td>There are a number of technical issues that relate to possible adjustments and disclosures, due to a move to IFRS that syndicates would need to consider and resolve, eg:

• IAS 21- The effects of changes in foreign exchange rates: Might bring about a mismatch in that the unearned premium (non-monetary item) will be translated at the applicable spot or average rate, and the eventual related claims (monetary item) will be translated at the closing rate. Please note that the anticipated Phase II amendments will possibly nullify this issue.

• IFRS 1-First-time adoption of IFRS: an entity's first set of IFRS financial statements must include at least one year of comparative information under IFRS, as well as reconciliations explaining and quantifying the effect of the conversion from UK GAAP to IFRS.

• IFRS 4-Insurance contracts: Insurance liabilities cannot be derecognised until they have been extinguished or expire, even if they have been fully reinsured to another party. Therefore there is a risk that liabilities which have been transferred by RITC to another syndicate would still need to be recognised in the accounts of the ceding syndicate, including in those syndicates fully closed by RITC which currently do not have to prepare</td></tr>
</table>

No	Issue
	accounts. It is considered however that in practice it should be possible to demonstrate that in substance the liability would be extinguished with regard to the members on the closed syndicate so eliminating this issue. Please note that the anticipated Phase II amendments will possibly nullify this issue. The above and other technical issues are considered in detail at Appendix A to this paper.
5.	There is a risk, despite the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) intention to harmonise insurance reporting standards in the longer term, that US GAAP and IFRS insurance reporting standards may diverge significantly. This would further increase the reporting burden for syndicates with US GAAP reporting requirements. However, this situation would also exist given a convergence of UK GAAP with IFRS.
6.	Stakeholders and users of syndicate annual reports, particularly spread capital, may consider them to be less comparable if prepared under IFRS than if prepared under UK GAAP.

3. Implementation options

3.1 Background

3.1.1 This section considers the scope of implementation of IFRS for Lloyd's syndicates and the impact on Lloyd's PFFS and Aggregate Accounts. The following options are considered:

- Option A: Syndicates would prepare their annual accounts and annual returns in accordance with IFRS. The Society would prepare the PFFS and Aggregate Accounts in accordance with IFRS. Syndicates with spread capital would have a choice of preparing their underwriting year accounts under either:
  - prepared under UK GAAP; or
  - prepared under IFRS; or
  - prepared under UK GAAP or IFRS depending on the managing agent's preference.

  Irrespective of the basis for underwriting year accounts, the preparation of a reconciliation comparing the annual accounts with the underwriting year accounts, will remain a best practice per Lloyd's guidance.

- Option B: Syndicates would continue to prepare their annual accounts and underwriting year accounts under UK GAAP, and the Society would publish a set of Aggregate Accounts under UK GAAP. Syndicates would however be required to provide the Society with sufficient information, in the annual return, to convert their annual accounts data provided under UK GAAP to IFRS, to enable the preparation of the PFFS under IFRS.

- Option C: the retention of UK GAAP (ie wait for the convergence of UK GAAP with IFRS).

3.1.2 The benefits (Section 3.2) and disadvantages (Section 3.3) of each implementation option are analysed in detail below.

3.2 Benefits of the various implementation options

<table>
<tr><th rowspan="2">No.</th><th colspan="2">Option A: PFFS and Syndicate Annual Accounts under IFRS and underwriting year accounts prepared using:</th><th rowspan="2">Option B: PFFS prepared under IFRS. Aggregate Accounts, Syndicate Annual and Underwriting Accounts prepared under UK GAAP</th><th rowspan="2">Option C: Retention of UK GAAP</th></tr>
<tr><th>UK GAAP</th><th>IFRS</th></tr>
<tr><td>1.</td><td colspan="2">The number of reporting bases could be reduced in the case of corporate members with an existing requirement to prepare IFRS accounts for their ultimate holding company.</td><td></td><td></td></tr>
<tr><td>2.</td><td colspan="2">Syndicates' financial reporting would be aligned with that of the Society's accounts, which are already prepared using IFRS.</td><td></td><td></td></tr>
<tr><td>3.</td><td></td><td></td><td>Preparation of additional IFRS information in the annual return (for use in the PFFS) would act as an initial step to possible future full adoption.</td><td></td></tr>
<tr><td>4.</td><td></td><td></td><td colspan="2">Syndicates could increase their accounting resources proportionally on a rolling basis as and when UK GAAP converges with IFRS, instead of having to do this in one go.</td></tr>
<tr><td>5.</td><td></td><td></td><td colspan="2">Members (subject to the level of disclosure in the accounts) should be able to reconcile the UK GAAP results shown in both the annual and underwriting year accounts.</td></tr>
<tr><td>6.</td><td></td><td></td><td colspan="2">Corporate members wishing to report under UK GAAP could continue to do so.</td></tr>
<tr><td>7.</td><td></td><td></td><td colspan="2">Retention of UK GAAP as the main form of accounting would avoid any issues with the result being 'true and fair' in respect of underwriting year accounts.</td></tr>
<tr><td>8.</td><td></td><td></td><td colspan="2">This approach would not require a change to the 2004 Lloyd's Regulations (see paragraph 1.1.1)</td></tr>
</table>

3.3 Disadvantages of the various implementation options

<table>
<tr><th rowspan="2">No.</th><th colspan="2">Option A: PFFS and Syndicate Annual Accounts under IFRS and underwriting year accounts prepared using:</th><th rowspan="2">Option B: PFFS prepared under IFRS. Aggregate Accounts, Syndicate Annual and Underwriting Accounts prepared under UK GAAP</th><th rowspan="2">Option C: Retention of UK GAAP</th></tr>
<tr><th>UK GAAP</th><th>IFRS</th></tr>
<tr><td>1.</td><td colspan="2">Syndicates may require significant additional resources and therefore costs to implement the adoption of IFRS and meet the ongoing reporting requirements.</td><td></td><td></td></tr>
<tr><td>2.</td><td colspan="2">Corporate members would need to obtain separate UK GAAP data in order to be able to continue to account using UK GAAP, or consider a possible move to IFRS at entity level. However, a move to IFRS at entity level could have implications for the corporate members group, as it might require all fellow subsidiaries to adopt IFRS and could potentially result in tax implications for both the corporate member and the rest of the group.</td><td></td><td></td></tr>
<tr><td>3.</td><td colspan="2">This approach would require a change to the 2004 Lloyd's Regulations (see paragraph 1.1.1)</td><td></td><td></td></tr>
<tr><td>4.</td><td colspan="2">A move to IFRS would impact those syndicates with current US reporting requirements for their ultimate holding companies, due to the greater difference between IFRS and US GAAP, as compared to US and UK GAAP.</td><td></td><td></td></tr>
<tr><td>5.</td><td>Managing agents would need to prepare two sets of numbers in order to reconvert back to UK GAAP for underwriting year account purposes.</td><td></td><td></td><td></td></tr>
</table>

3.3 Disadvantages of the various implementation options

<table>
<tr><th rowspan="2">No.</th><th colspan="2">Option A: PFFS and Syndicate Annual Accounts under IFRS and underwriting year accounts prepared using:</th><th rowspan="2">Option B: PFFS prepared under IFRS. Aggregate Accounts, Syndicate Annual and Underwriting Accounts prepared under UK GAAP</th><th rowspan="2">Option C: Retention of UK GAAP</th></tr>
<tr><th>UK GAAP</th><th>IFRS</th></tr>
<tr><td>6.</td><td>The reconciliation between annual and underwriting year accounts would be more complex.</td><td></td><td></td><td></td></tr>
<tr><td>7.</td><td></td><td>Underwriting year accounts in accordance with IFRS might be of limited value:
• There would be significant additional disclosure requirements
• No real added benefits for spread members
Possible issues with 'true and fair' reporting</td><td></td><td></td></tr>
<tr><td>8.</td><td></td><td></td><td>Managing agents would have more than one reporting basis, due to the need to provide Lloyd's with the necessary IFRS information. (However a number of agents are in this position already due to IFRS and US GAAP reporting requirements for parent companies).</td><td></td></tr>
<tr><td>9.</td><td></td><td></td><td colspan="2">Syndicates' financial reporting would not be aligned with that of the Society's accounts, which are already prepared using IFRS.</td></tr>
</table>

4. Timetable options for adoption of IFRS

4.1 As noted in paragraph 1.5.2 above, in order to allow sufficient lead time for conversion, the earliest date for conversion to IFRS would be 2010 (with comparatives in 2009). However, dependent on the progress of IFRS Phase II and Solvency II (now expected in 2012), it may be appropriate to implement later. Alternatively, as UK GAAP continues to converge towards IFRS, it may be better to wait until this process is complete. These options are considered below:

Option 1: **Adoption in 2010 (Comparatives for 2009)**	**Option 2:** **Adoption once Phase II completed (possibly 2011/2012)**	**Option 3:** **Retention of UK GAAP (Corresponding to Option C in section 3)**
• If decision made to adopt IFRS, it would be advantageous to move to IFRS as soon as possible. • The IASB target for issuing the new IFRS standard on insurance contracts is late 2009, with an expected transitioning period of at least two years. This would allow for a two step process of adopting existing IFRS standards in 'step 1' and the revised insurance standards in 'step 2'. The two step approach may make the overall conversion process easier.	• Later implementation allows time to incorporate the standard on insurance contracts (Phase II). • In any case Phase II may be delayed, and a later conversion would allow for this circumstance. • The implementation of Solvency II has been delayed until 2012. A similar date for Lloyd's conversion to IFRS would allow this to take place in tandem with the implementation of Solvency II. • IFRS Phase II and Solvency II adopt a similar approach to valuing insurance contracts • A later implementation in a single step (including Phase II) would represent a considerable exercise but there would be more time to prepare for this.	• Adoption of IFRS when UK GAAP fully converged with IFRS. • Market has recently been through major change in move to UK GAAP, therefore will allow for period of stability • No work required in changing accounting systems over to IFRS • Avoids work in re-training market to be able to prepare IFRS accounts • However would require continual restatements of comparatives as UK GAAP accounting policies evolve towards IFRS

5. Invitation to comment

Comments are invited on all aspects of this document, including the material presented in the Appendices. It would be appreciated, however, if you could consider the following specific questions:

No	Question
1.	Do you think the market should move to IFRS? If so which option for the scope of adoption of IFRS do you think is most appropriate and why (Section 3)?
2.	If decision made to adopt IFRS, which timing option for the adoption of IFRS do you think is most appropriate and why (Section 4)?
3.	Are there any other advantages and/or issues concerning the adoption of IFRS for syndicates and Lloyd's market accounts which you think need to be considered (Section 2)?
4.	Do you have any observations regarding the potential impact of the Phase II Insurance Contracts proposals (Appendix D)?
5.	One of the main user groups of the Lloyd's pro forma financial statements (PFFS) are ratings agencies and other external analysts. Do participants use the PFFS for any purpose other than from a general interest perspective? What is the purpose?
6.	Has your syndicate adopted FRS 26 (IAS 39) - Financial Instruments: Recognition and Measurement?
7.	To what extent might your syndicate be impacted by the IFRS embedded derivative requirements (see IFRS4 paragraphs 7 to 9 and IAS39 paragraphs 10 to 13)? Please describe the embedded derivative involved.
8.	To what extent might your syndicate be impacted by the IFRS unbundling requirements (see IFRS4 paragraphs 10 to 12)? Please describe the nature of the contract and deposit component to be unbundled.

Responses should be provided by e-mail either to Glenn Carrick at Lloyd's Market Finance (glenn.carrick@lloyds.com) with a copy to Gary Budinger at the LMA (gary.budinger@lmalloyds.com). Please provide responses by no later than Friday 28 September 2007. When submitting your comments, please advise whether you wish your response to remain confidential.

NO	ISSUE	SUGGESTED SOLUTION / COMMENT
1.	**<u>Comparison of IFRS with UK GAAP</u>** Although UK GAAP is converging with IFRS, there are still some differences. A comparison of UK GAAP with IFRS for those standards that are relevant to syndicate accounting will need to be prepared.	Please see Appendix B - IFRS versus UK GAAP.
2.	**<u>IAS 10: Events after the Balance Sheet Date</u>** A syndicate shall adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date. Therefore, syndicates need to consider whether the Reinsurance to Close (RITC) transaction which is normally finalised in mid to late February after the end of the financial year would be considered an adjusting post balance sheet event.	Reinsurance to Close (RITC) transactions are approved after the balance sheet date but relate to the underlying financial position at the balance sheet date, therefore it is not an adjusting event. Disclosure of RITC will only be required where insurance liabilities reinsured outside the syndicate, and not when reinsured between syndicate years of account. The following points on the treatment process should also be noted: • The RITC event does not explicitly affect the year-end accounts. However, the related underlying insurance contracts would have been accounted for using the syndicate's existing insurance accounting policies as part of technical liabilities at the year-end. • The technical liabilities would only be adjusted if on finalisation of the RITC it can be demonstrated that the related underlying insurance contract liabilities were understated at year-end using the existing insurance accounting policies. • In the accounts of another syndicate accepting the RITC, the RITC transaction would be accounted for in the period that RITC agreement concluded, and not the preceding year-end.

<table>
<tr><th>NO</th><th>ISSUE</th><th>SUGGESTED SOLUTION / COMMENT</th></tr>
<tr><td>3.</td><td><u>IAS 27: Consolidated and Separate Financial Statements</u>

The current basis of aggregating the results of syndicates may not be consistent with the requirements of IAS 27. There are a number of issues to be considered:

a. Which Lloyd's entity (if any) is preparing consolidated financial statements?

b. Which entities should be included in the consolidation?</td><td><u>Lloyd's members</u>
Lloyd's syndicates are not entities within the meaning of IFRS, and therefore a consolidation will not be required per the requirements of IAS 27. Members (i.e. corporate' / individuals) will continue to include their share of the syndicate results in their accounts where applicable or required.

<u>Aggregate accounts</u>
In accordance with the "Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004", Lloyd's will continue to produce Aggregate Accounts. The notes will disclose the fact that these accounts are an aggregation, and comply with IFRS where appropriate and possible. The divergences from IFRS will be disclosed.

<u>Pro forma financial statements</u>
The Society will continue to produce the pro forma financial statements, and would state that the accounting policies of these comply with IFRS where appropriate and possible. The divergence from IFRS will be disclosed.</td></tr>
</table>

NO	ISSUE	SUGGESTED SOLUTION / COMMENT
4.	**<u>IFRS 1: First-time adoption of IFRS</u>** Syndicates' first set of IFRS financial statements must include at least one year of comparative information under IFRS, as well as reconciliations explaining and quantifying the effect of the conversion from UK GAAP to IFRS. Syndicates should also consider whether the available exemptions and exception rules are still applicable and if their application would be beneficial in preparing their first set of IFRS financial statements.	The earliest possible date for conversion to IFRS would be for the year ending 2010. This is assuming that a decision to adopt IFRS is approved by the end of 2007, and that the new standard on insurance contracts is issued as planned during the latter part of 2009. This would allow for at least a year's notice before the comparative period (i.e. year ending 2009), and the possible testing of syndicates IFRS reporting systems in parallel with existing UK GAAP reporting systems during that comparative period. The risk will be that comparative period information will need restating for any changes brought about by the standards issued during 2009. Please see section 4, Timetable options for adoption of IFRS, in IFRS Market Consultation Document for a more detailed analysis of possible adoption dates. The majority of the allowed exemptions and exceptions application periods have expired, therefore this will have a minimal impact on a syndicate's first set of IFRS financial statements.

NO	ISSUE	SUGGESTED SOLUTION / COMMENT
5.	**<u>IFRS 4: Insurance contracts</u>** <u>Definition of an insurance contract:</u> An insurance contract is defined as follows: "A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policy holder if a specified uncertain future event (the insured event) adversely affects the policy holder." The following policies transfer no significant insurance risk and will be designated as financial instruments (IAS 39), regardless of their form: • catastrophe bonds • weather derivatives • credit-related guarantee • self-insurance • investment contracts • some reinsurance contracts • some finite reinsurance contracts • swing rated-contracts <u>Unbundling:</u> Syndicates will need to un-bundle certain deposit components within insurance contracts where the existing accounting policies do not recognise all rights and obligations arising from the deposit component, and where the deposit component can be measured per IAS 39. An example would be a financial reinsurance contract where the cedent withholds part of the premiums as a deposit.	<u>Definition of an insurance contract:</u> In practice classification should not be an issue for IFRS reporting. However, it is still recommended that syndicates undertake an early analysis of their existing insurance contracts and assess which reporting standard would be applicable, and if any might have deposit component that would need to be unbundled. <u>Unbundling:</u> In general syndicates very few if any syndicates will be impacted by this IFRS reporting requirement. Once again it is recommend that syndicates still perform an analysis of their existing insurance contracts and assess if any would be affected by this requirement.

NO	ISSUE	SUGGESTED SOLUTION / COMMENT
5.	**IFRS 4: Insurance contracts (continued)**	
	Accounting practices: Syndicates will need to review their existing accounting practices in respect of their impairment tests for reinsurance assets. A reinsurance asset is impaired if, and only if: a. there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedent may not receive all amounts due to it under the terms of the contract; and b. that event has a reliably measurable impact on the amounts that the cedent will receive from the reinsurer. Therefore under IFRS the possible subjectivity in the impairment process has been removed, as compared to UK GAAP.	Accounting practices: The general consensus amongst the working group is that in practice reinsurance assets are only impaired based on objective evidence. However syndicates should ensure that the measurement of the impairment complies with the standard and is not construed as a general provision. The method of impairment must be disclosed.
	Insurance contract disclosures: Syndicates would need to disclose information that identifies and explains the amounts in their financial statements arising from insurance contracts, as well as disclose information that helps users to understand the amount, timing and uncertainty of future cash flows from insurance contracts. There will be a potential difficulty in aggregating these disclosures meaningfully, as managing agents will tend to treat them in various formats.	Insurance contract disclosures: Currently a syndicate’s results disclosed in their annual returns must be consistent with that published in their annual financial statements. This allows the Society to make use of certain annual return forms to aid with the production of the aggregate accounts, and produce more meaningful disclosures than if it purely aggregated the actual financial statement disclosures. The Society will continue with this practice, and possibly provide new forms in the annual return to assist with new IFRS disclosures (i.e. IFRS 4 and IFRS 7) where feasible. It would continue to make use of generic disclosures (e.g. accounting policies), noting that for certain disclosures it was not practical or meaningful to try and aggregate the syndicate financial statement disclosures (e.g. related parties).

NO	ISSUE	SUGGESTED SOLUTION / COMMENT
5.	**IFRS 4: Insurance contracts (continued)** RITC: Insurance liabilities cannot be derecognised until they have been extinguished or expire, even if they have been fully reinsured to another party. Therefore there is a risk that liabilities which have been transferred by RITC to another syndicate would still need to be recognised in the accounts of the ceding syndicate, including in those syndicates fully closed by RITC which currently do not have to prepare accounts. Furthermore, the information needed to meet these disclosures is not available centrally from Lloyd's.	RITC: Syndicates should continue with their previous practice of derecognising insurance liabilities in respect of RITC, as Lloyd's will be able to demonstrate that in practical terms the liabilities from the viewpoint of the ceding members are extinguished. Claims in respect of those closed years, will be met from the premium trust funds of the reinsuring syndicate. Failing that the funds at Lloyd's of the members on the reinsuring syndicate, will be available to meet any outstanding claims. Finally, the central assets of the Society are ultimately available to meet any unpaid claims at the discretion of the Council of Lloyd's. Disclosure of RITC will only be required where insurance liabilities are reinsured outside the syndicate, and not when reinsured between syndicate years of account.
	Embedded derivatives An insurer need not separate, and measure at fair value, a policyholder's option to surrender an insurance contract for a fixed amount or for an amount based on a fixed amount and an interest rate, even if the exercise price differs from the carrying amount of the host insurance liability. Put options or cash surrender option embedded in an insurance contract, do need to be separated if: 1. the surrender value varies in response to a change in a financial variable (e.g. equity or commodity price index); or 2. the surrender value varies in response to a change in a non-financial variable that is not specific to a party to the contract; or 3. if the holders ability to exercise option is triggered by a change in financial or non-financial variables.	Embedded derivatives Do not perceive that many syndicates will be impacted by these requirements.

NO	ISSUE	SUGGESTED SOLUTION / COMMENT
6.	**<u>IAS 21: The effects of changes in foreign exchange rates</u>** Syndicates which adopt FRS 23: *The Effects of Changes in Foreign Exchange Rates* under UK GAAP will no longer be allowed to translate non-monetary balance sheet items at the closing rate (i.e. 'branch' accounting approach). Only Syndicates fair valuing derivatives would be required to adopt FRS 26: *Financial Instruments: Recognition and Measurement* and consequently FRS 23. The majority of Syndicates will continue to use SSAP 20, and will therefore be allowed to continue with their existing approach. It should be noted that SSAP 20 also prescribes the translation of non-monetary assets and liabilities at spot rate if the branch accounting approach is not employed. Under IFRS non-monetary assets and liabilities should be recognised at the spot rate or at an appropriate average rate. Where the currency is volatile, the average period permitted is likely to be relatively short (e.g. the continued use of an average annual rate for US$ may be inappropriate given the recent movements in the currency). This will bring about a mismatch in that the unearned premium (non-monetary item) will be translated at the applicable spot or average rate, and the eventual related claims (monetary item) will be translated at the closing rate.	Based on the IASB discussion paper on Phase II, Preliminary Views on Insurance Contracts, the issue relating to the mismatch should be resolved. The IASB favour a current exit value model for measurement of insurance liabilities, which would result in Insurers no longer accounting for unearned premiums. Please see section 4.2 'Measurement - core issues' in Appendix D, Phase II discussion paper, for a more detailed analysis.

NO	ISSUE	SUGGESTED SOLUTION / COMMENT
7.	**IAS 39: Financial Instruments: recognition and measurement** All financial assets are initially stated at cost, including transaction costs incurred. For subsequent measurement purposes they are classified as one of the following: Financial assets at fair value through profit or loss Financial assets held to generate short term profits, or part of a portfolio used for that purpose. Subsequent to initial recognition are stated at fair value with changes therein flowing through the income statement. If a fair value approach is used then the appropriate value for quoted securities is the bid price as opposed to the mid price which most syndicates currently use to value investments. Held-to-maturity asset Financial assets with fixed maturity and fixed or determinable payments. Subsequent to initial recognition are stated at amortised cost using the effective interest method. Originated loans or receivables Financial assets that arise from the provision of money, goods or services by enterprise, and that are not to be sold in the short term for profit making. Subsequent to initial recognition are stated at amortised cost using the effective interest method. (e.g. syndicate loans to Central Fund)	Note that only syndicates that hold derivatives at fair value will be applying the aligned FRS 26 Financial Instruments: recognition and measurement. Financial assets It is assumed that the majority of syndicate financial assets will be classified as those at fair value through profit or loss, which will comprise the following two sub-categories: Financial assets held for trading It is assumed syndicates will not hold assets which are acquired principally for the purpose of selling in the short term, or which are held as part of a portfolio in which there is evidence of short-term profit taking or if it is designated so by management. However, a few may have derivatives which can be classified as held for trading, unless they are designated hedges. Designated at fair value through profit or loss The majority of syndicate financial assets will be managed and their performance evaluated on a fair value basis, hence the fair value designation will be appropriate.

NO	ISSUE	SUGGESTED SOLUTION / COMMENT
7.	**IAS 39: Financial Instruments: recognition and measurement (continued)** Available-for-sale assets Any financial asset that does not fall into any of the previous three categories. Amounts previously recognised directly in equity are reflected in the income statement when the asset is sold, realised or impaired. A change in the fair value due to exchange rate changes on a monetary item is always reflected in the income statement in the period in which it occurs. Financial liabilities All financial liabilities, other than those held for trading, subsequent to initial recognition are measured at amortised cost using the effective interest rate method. This may apply to profit commissions recognised on open year profits. Financial liabilities held for trading, subsequent to initial recognition are stated at fair value with changes therein flowing through the income statement. Financial liabilities held for trading are those that are: a. acquired for selling in the near term; or b. part of a portfolio for which there is evidence of short term profit taking; or c. a derivative	Financial liabilities It is assumed that the majority of financial liabilities will be classified as those not held for trading. Therefore there will not be a change from the approach of UK GAAP, whereby subsequent to initial recognition they are measured at amortised cost using the effective interest rate method.

NO	ISSUE	SUGGESTED SOLUTION / COMMENT
7.	**<u>IAS 39: Financial Instruments: recognition and measurement (continued)</u>** <u>Embedded derivatives</u> Embedded derivatives shall be separated if, and only if: 1. the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract; and 2. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and 3. the hybrid instrument including the derivative, is not measured at fair value with change recognised in profit or loss. A derivative embedded in a financial asset or financial liability at fair value through profit or loss is not separated. If a contract contains one or more embedded derivatives, an entity may designate the entire hybrid contract as a financial asset or financial liability at fair value through profit or loss, unless: 1. the embedded derivatives do not significantly modify the cash flows that otherwise would be required by the contract; or 2. it is clear with little or no analysis, that when a similar hybrid instrument is first considered that separation of the embedded derivatives is prohibited. If an embedded derivative required to be separated from its host contract, is not measurable at acquisition or subsequent financial reporting date, it shall designate the entire hybrid contract at fair value through profit or loss.	 <u>Embedded derivatives</u> Working group feel that not many syndicates (if any) will be impacted by these requirements.

NO	ISSUE	SUGGESTED SOLUTION / COMMENT
8.	**IFRS 7: Financial instruments disclosure** Syndicate Accounts Syndicates may require considerable additional resources to develop and draft the significant amount of additional disclosures required for financial instruments, for example: • Quantitative and qualitative disclosures about their exposure to credit risk, market risk and liquidity risk. • Disclose a sensitivity analysis for each component of market risk to which an entity is exposed. • Quantitative minimum disclosures for interest rate risk and credit risk have also been expanded. Aggregate Accounts A further problem is how would Lloyd's 'aggregate' the risk management policies of every syndicate in the market (much of which is provided on a qualitative basis).	Syndicate Accounts The working group do not foresee this being a complex issue for syndicates to overcome. The real issue, will be to ensure that Syndicates are: • Aware what disclosures are required; and • Information is available; and • Resources are available to produced information on a timely basis. Aggregate Accounts It Is recommended that the Society continues to make use of certain annual return forms to aid with the production of the aggregate accounts, instead of purely attempting to aggregate the actual financial statement note disclosures. The use of a generic qualitative disclosure, regarding Lloyd's risk "Franchise Mechanism" as the process used to manage risks management process, should meet the IFRSs risk disclosure requirements. Furthermore should aggregation of financial statement disclosures prove impractical or meaningless, a disclosure in this respect should be acceptable provided it can be justified.

<table>
<tr><th>NO</th><th>ISSUE</th><th>SUGGESTED SOLUTION / COMMENT</th></tr>
<tr><td>9.</td><td><u>IAS 1: Presentation of financial statements</u>

Syndicates will be required to bring their financial statements and disclosures in line with the framework set out in IAS 1. This will entail presenting as a primary statement either a "Statement of Recognised Income and Expenses" or a "Statement of Total Change in Equity" for the first time in their annual set of financial statements.

Equity for syndicate accounts comprises:
Members' balances brought forward
Profit or loss for the period
Items of income & expenses recognised directly to members' balances
The effects of changes in accounting policies and corrections of errors as per IAS 8
Transfers to/from members' personal reserve funds
The standard prescribes minimum disclosure requirements for both the income statement and balance sheet, whereas under UK GAAP the Companies Act prescribed the financial statement formats to be used. Therefore syndicates will have greater freedom under IFRS as to the manner in which they present their financial statements, which will add to the difficulty in preparing the aggregate accounts.</td><td>

Please refer to Appendix C, which is a set of illustrative IFRS syndicate annual accounts.</td></tr>
<tr><td>10.</td><td><u>IAS 7: Cash flow statements</u>

The format of the IFRS cash flow statement is significantly different from that under UK GAAP. The statement is based on cash and cash equivalents as compared to UK GAAP which is based on cash only, as there are no cash equivalents.</td><td>

See comment above for IAS 1: Presentation of financial statements.</td></tr>
</table>

IAS / IFRS STANDARDS	UK GAAP STANDARDS
IAS 1: Presentation of Financial Statements	**FRS 1: Cash Flow Statements, FRS 3: Reporting Financial Performance, FRS 5: Substance of Transactions, Companies Act 85 (CA85)**
1. Balance Sheet a. No prescribed format. b. General requirement to distinguish between current and non-current assets & liabilities, or broadly in order of liquidity. c. Minimum disclosures required on face of balance sheet: i. Intangible assets ii. Financial assets iii. Trade and other receivables iv. Cash and cash equivalents v. Trade and other payables vi. Provisions vii. Financial liabilities viii. Members equity	1. Balance Sheet a. CA85 prescribes available formats b. Assets generally presented in ascending order of liquidity (i.e. least liquid first), and liabilities in descending order of liquidity (ie most liquid first)
2. Income Statement a. No prescribed format b. Both realised and unrealised gains & losses may be included in statement. c. Syndicates will be prohibited from presenting any items of income and expense as extraordinary items, either on the face of the income statement or in the notes. d. Minimum disclosures required on face of income statement: i. Revenue ii. Finance Costs iii. Single amount comprising the sum of the profit and loss of discontinued operation plus the gain or loss on the measurement to fair value less costs to sell or on the disposal of the discontinued operation assets iv. Profit or loss	2. Income Statement a. CA85 prescribes available formats b. CA85 requires only realised profits to be recognised in the profit & loss account c. Syndicates are allowed to report extraordinary items either on the face of the profit & loss account or in the notes. However, the definition of extraordinary items is very restrictive and in effect prohibits the separate disclosure of such items.

IAS / IFRS STANDARDS	UK GAAP STANDARDS
<u>IAS 1: Presentation of Financial Statements (cont.)</u> 3. Statement of Recognised Income and Expenses (SORIE) a. THE SORIE cannot be combined with the Income Statement b. The SORIE may be incorporated into the Statement of Changes in Equity 4. Statement of Changes in Equity a. Must be presented either as a primary statement (if SORIE incorporated) or as a note (if SORIE presented). b. Equity for Syndicates will comprise the following: i. Members' balances brought forward ii. Profit or loss for the period iii. Items of income & expenses recognised directly to members' balances iv. The effects of changes in accounting policies and corrections of errors as per IAS 8 v. Transfers to/from members' personal reserve funds 5. Cash Flow Statements See IAS 7: Cash Flow Statements below. 6. Notes to financial statements, including accounting policy See specific requirements of each standard below.	**<u>FRS 1: Cash Flow Statements, FRS 3: Reporting Financial Performance, FRS 5: Substance of Transactions, Companies Act 85 (CA85) (cont.)</u>** 3. Statement of Total Recognised Gains and Losses (STRGL) a. The STRGL must be presented as a primary statement b. The STRGL may not be combined with reconciliation of movements in shareholders' funds. 4. Reconciliation of movements in shareholders' funds a. May be presented either as a primary statement or in the notes. b. The components will be similar to that of IAS Statement of Changes in Equity. 5. Cash Flow Statements See FRS 1: Cash Flow Statements 6. Notes to financial statements, including accounting policy See specific requirements of each standard below.
<u>IAS 2: Inventories</u> Not applicable for Lloyd's Syndicates	**<u>SSAP 9: Stocks and long-term contracts</u>** Not applicable for Lloyd's Syndicates
<u>IAS 3: Consolidated Financial Statements</u> (Superseded by IAS 27 & IAS 28)	

<table>
<tr><th>IAS / IFRS STANDARDS</th><th>UK GAAP STANDARDS</th></tr>
<tr><td><u>IAS 4: Depreciation Accounting</u>

(Replaced by IAS 16, 22 & 38)</td><td></td></tr>
<tr><td><u>IAS 5: Information to Be Disclosed in Financial Statements</u>

(Superseded by IAS 1)</td><td></td></tr>
<tr><td><u>IAS 6: Accounting Responses to Changing Prices</u>

(Superseded by IAS 15)</td><td></td></tr>
<tr><td><u>IAS 7: Cash Flow Statements</u>

1. Based on cash and cash equivalents. Cash equivalents are defined as short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value

2. Cash flows for syndicates classified as follows:
a. Operating activities
b. Investing activities
c. Financing activities

3. The separate components of a single transaction each should be classified as operating, investing or financing. (e.g. loan repayment comprises interest which fall within operating activities, and principal repayment which falls within financing activities).</td><td><u>FRS 1: Cash Flow Statements</u>

1. Based on cash. There are no cash equivalents. Cash flows relating to cash equivalents are to be included in the “Portfolio investments” section.

2. Cash flows for syndicates are classified as follows:
a. Operating activities
b. Returns on investments and servicing of finance
c. Taxation
d. Capital expenditure and financial investment
e. Portfolio investments
f. Financing

3. No requirement to separate components of a single transaction.</td></tr>
</table>

IAS / IFRS STANDARDS	UK GAAP STANDARDS
IAS 8: Accounting Policies, Changes in Estimates and Errors 1. Applying changes in Accounting Policy a. Any change to accounting policies, will need to be accounted for retrospectively, if the applicable standards do not provide specific transitional provisions to the contrary b. When retrospective application is required, it shall be applied except if it is deemed impracticable to determine the period specific effects or the cumulative effects of the change. 2. Prior period adjustments a. Any prior period material errors would need to be corrected retrospectively, either by restating prior period amounts or by restating prior period opening balances. b. When retrospective application is required, it shall be applied except if it is deemed impracticable to determine the period specific effects or the cumulative effects of the change. c. The concept of "Fundamental error" has been removed so that all material prior period errors are treated the same.	**FRS 3: Reporting Financial Performance** **FRS 18: Accounting Policies** 1. Applying changes in Accounting Policy a. Unless other accounting standards, UITF Abstracts or companies' legislation require otherwise, a material adjustment applicable to prior periods arising from a change to accounting policy, is accounted for as a prior period adjustment. 2. Prior period adjustments a. All prior period adjustments are dealt with in the profit and loss account of the period in which they are identified, unless they are considered a "Fundamental error". b. "Fundamental errors" are errors of such significance that they destroy the true and fair view and hence the validity of prior period financial statements.
IAS 9: Accounting for Research and Development Activities (Superseded by IAS 38)	
IAS 10: Events after the Balance Sheet Date FRS 21 is the same as IAS 10, except in respect of one scope provision.	**FRS 21: Events after the Balance Sheet Date** FRS 21 applicable to all entities, except those applying Financial Reporting Standards for Smaller Entities (FRSSE). The standard is effective for all accounting periods beginning on or after 1 January 2005.
IAS 11: Construction Contracts Not applicable for Lloyd's Syndicates.	**SSAP 9: Stocks and long-term contracts** Not applicable for Lloyd's Syndicates, as taxed at the member level.

IAS / IFRS STANDARDS	UK GAAP STANDARDS
IAS 12: Income Taxes Not applicable for Lloyd's Syndicates, as taxed at the member level.	**FRS 16: Current Tax, FRS 19: Deferred Tax** Not applicable for Lloyd's Syndicates, as taxed at the member level.
IAS 13: Presentation of Current Assets and Current Liabilities (Superseded by IAS 1)	
IAS 14: Segment Reporting (Superseded by IFRS 8)	**SSAP 25: Segmental Reporting, Companies Act 85 (CA85)**
IAS 15: Information Reflecting the Effects of Changing Prices (Withdrawn)	
IAS 16: Property, Plant and Equipment Not applicable for Lloyd's Syndicates	**FRS 15: Tangible Fixed Assets** Not applicable for Lloyd's Syndicates
IAS 17: Leases Not applicable for Lloyd's Syndicates	**SSAP 21: Accounting for leases and hire purchase contracts** Not applicable for Lloyd's Syndicates
IAS 18: Revenue The standard does not deal with revenue arising from insurance contracts within the scope of IFRS 4: Insurance Contracts. Where specific guidance on insurance related revenue is limited, accounting firms suggest the treatment of such revenue be based on the principles of this standard.	**FRS 5: Application Note G – Revenue Recognition** Application note does not apply to arrangements arising from insurance contracts. Where specific guidance on insurance related revenue is limited, accounting firms suggest that Syndicates base their treatment of such revenue on the principles of this standard.

IAS / IFRS STANDARDS	UK GAAP STANDARDS
IAS 19: Employee Benefits Not applicable for Lloyd's Syndicates	**FRS 17: Retirement Benefits** Not applicable for Lloyd's Syndicates
IAS 20: for Government Grants and Disclosure of Government Assistance Not applicable for Lloyd's Syndicates	**SSAP 4: Accounting for Government Grants** Not applicable for Lloyd's Syndicates
IAS 21: The Effects of Changes in Foreign Exchange Rates FRS 23 similar to IAS 21, except in respect of certain scope & transitional provisions. **IAS 21 versus SSAP20:** Under IFRS non-monetary assets and liabilities should be translated at the spot rate or at an appropriate average rate. Where the currency is volatile, the average period permitted is likely to be relatively short (e.g. the continued use of an average annual rate for US$ may be inappropriate given the recent movements in the currency). This will bring about a mismatch in that the unearned premium (non-monetary item) will be translated at the applicable spot or average rate, and the eventual related claims (monetary item) will be translated at the closing rate.	**FRS 23: The Effects of Changes in Foreign Exchange Rates** Entity may only apply this standard if it has adopted and applied FRS 26, otherwise they shall continue to apply SSAP 20. Affected syndicates shall apply the standard in the same accounting period that they apply FRS 26 **SSAP20 versus IAS 21:** Particular syndicates applying SSAP 20 might continue with the existing approach of translating non-monetary balance sheet items at the closing rate (i.e. 'branch' accounting approach).
IAS 22: Business Combinations (Superseded by IFRS 3)	
IAS 23: Borrowing Costs Not applicable for Lloyd's Syndicates	**FRS 15: Tangible Fixed Assets (capitalisation of finance costs)** Not applicable for Lloyd's Syndicates

IAS / IFRS STANDARDS	UK GAAP STANDARDS
IAS 24: Related Party Disclosures **Definition:** A party is related to a Syndicate if: 1. directly, or indirectly through one or more intermediaries, the party: a. controls the Syndicate, or is under common control with the Syndicate b. has an interest in the Syndicate that gives it significant influence over the Syndicate; or c. has joint control over the Syndicate; 2. the party is a member of the key management personnel of the Syndicate or the Syndicates capital providers. 3. the party is a close member of the family of any individual referred to above; 4. the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (2.) or (3.) above; or 5. the party is a post-employment benefit plan for the benefit of employees of the Syndicate or of any entity that is a related party of the syndicate.	**FRS 8: Related Party Disclosures** **Definition:** Two or more parties are related when at any time during the financial period: 1. one party has direct or indirect control over the other party; or 2. the parties are subject to common control from the same source; or 3. one party has influence over the financial and operating policies of the other party to the extent that that other party might be inhibited from pursuing at all times its own separate interests; or 4. the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests The following are related parties of a Syndicate: 1. Its capital providers, and the ultimate parent and fellow subsidiaries of its ultimate capital provider; 2. its directors and directors of its capital providers, and the ultimate parent of its ultimate capital provider; and 3. pension funds for the benefit of its employees or of any entity that is a related party of the Syndicate; The following are presumed to be related parties; unless demonstrated that neither party has influenced the financial and operating policies of the other in such a way as to inhibit the pursuit of separate interests: 1. the key management of the Syndicate and the key management of its capital providers; 2. each person acting in concert in such a way as to be able to exercise control or influence over the Syndicate; and 3. an entity managing the Syndicate under a management contract. Members of close family of any individual above; or any partnership, company or trust that such close family members have controlling interest in.

IAS / IFRS STANDARDS	UK GAAP STANDARDS
IAS 25: Accounting for Investments (Superseded by IAS 39 & 40)	
IAS 26: Accounting and Reporting by Retirement Benefit Plans Not applicable for Lloyd's Syndicates	**FRS 17: Retirement Benefits** Not applicable for Lloyd's Syndicates
IAS 27: Consolidated and Separate Financial Statements Not applicable for Lloyd's Syndicates	**FRS 2: Accounting for Subsidiary Undertakings** Not applicable for Lloyd's Syndicates
IAS 28: Investments in Associates Not applicable for Lloyd's Syndicates	**FRS 9: Associates and Joint Ventures** Not applicable for Lloyd's Syndicates
IAS 29: Financial Reporting in Hyperinflationary Economies FRS 24 similar to IAS 29. Elimination of distortions The standard advocates the use of the current price level approach to eliminate distortions caused by hyperinflation. This approach involves adjusting the functional currency financial statements to reflect current price levels before the translation process is undertaken. This is in line with FRS 24, but deviates from UITF 9, which allows for the use of the stable currency approach or the current price level approach. UITF 9 also allows the use of another approach if neither of the aforementioned approaches is appropriate.	**FRS 24: Financial Reporting in Hyperinflationary Economies** FRS 24 applicable to unlisted entities applying FRS 26, otherwise they must continue to apply UITF 9. Affected syndicates shall apply the standard in the same accounting period that they apply FRS 26.

IAS / IFRS STANDARDS	UK GAAP STANDARDS
IAS 30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Superseded by IFRS 7)	
IAS 31: Interests in Joint Ventures Not applicable for Lloyd's Syndicates	**FRS 9: Associates and Joint Ventures** Not applicable for Lloyd's Syndicates
IAS 32: Financial Instruments: Presentation FRS 25 similar to IAS 32.	**FRS 25: Financial Instrument: Disclosures & Presentation** Syndicates shall apply the standard no later than the accounting period that it is applying FRS 26.
IAS 33: Earnings per Share Not applicable for Lloyd's Syndicates	**FRS 22: Earnings per Share** Not applicable for Lloyd's Syndicates
IAS 34: Interim Financial Reporting Not applicable for Lloyd's Syndicates	**ASB Statement – Interim Reporting** Not applicable for Lloyd's Syndicates
IAS 35: Discontinuing Operations (Superseded by IFRS 5)	
IAS 36: Impairment of Assets Not applicable for Lloyd's Syndicates	**FRS 11: Impairment of Fixed Assets and Goodwill** Not applicable for Lloyd's Syndicates
IAS 37: Provision, Contingent Liabilities and Contingent Assets FRS 12 was developed jointly with IAS 37, all the IAS requirements are included in the FRS and there are no differences of substance between the common requirements.	**FRS 12: Provision, Contingent Liabilities and Contingent Assets** Syndicates shall apply the standard for accounting periods beginning on or after 23 March 1999.

<table>
<tr><th>IAS / IFRS STANDARDS</th><th>UK GAAP STANDARDS</th></tr>
<tr><td><u>IAS 38: Intangible Assets</u>

Not applicable for Lloyd's Syndicates</td><td><u>FRS 10: Goodwill and Intangible Assets, SSAP 13: Accounting for Research and Development</u>

Not applicable for Lloyd's Syndicates</td></tr>
<tr><td><u>IAS 39: Financial Instruments: Recognition and Measurement</u>

FRS 26 similar to IAS 39, and only applicable to syndicates which hold derivatives at fair value.

All financial assets are initially stated at cost, including transaction costs incurred. For subsequent measurement purposes they are classified as one of the following:

<u>Financial assets at fair value through profit or loss</u>
Financial assets held to generate short term profits, or part of a portfolio used for that purpose. Subsequent to initial recognition are stated at fair value with changes therein flowing through the income statement. If a fair value approach is used then the appropriate value for quoted securities is the bid price as opposed to the mid price which most syndicates currently use to value investments.

<u>Financial assets held-to-maturity asset</u>
Financial assets with fixed maturity and fixed or determinable payments. Subsequent to initial recognition are stated at amortised cost using the effective interest method.

<u>Originated loans or receivables</u>
Financial assets that arise from the provision of money, goods or services by enterprise, and that are not to be sold in the short term for profit making. Subsequent to initial recognition are stated at amortised cost using the effective interest method. (e.g. syndicate loans to Central Fund)

<u>Available-for-sale assets</u>
Any financial asset that does not fall into any of the previous three categories. Amounts previously recognised directly in equity are reflected in the income statement when the asset is sold, realised or impaired. A change in the fair value due to exchange rate changes on a monetary item is always reflected in the income statement in the period in which it occurs.</td><td><u>FRS 26: Financial Instruments: Recognition and Measurement</u>

FRS 26 will apply to an unlisted insurer that holds derivative instruments measured at fair value. Affected syndicates shall apply the standard for accounting periods beginning on or after 1st January 2006.

<u>ABI SORP and the Companies Act 85 (CA85).</u>
Syndicates not subject to FRS 26 will be subject to the requirements of ABI SORP and the Companies Act 85 (CA85). The requirements for these syndicates will be as follows:

<u>Financial Assets - Current value</u>
Other financial investments and deposits with ceding undertakings will be stated at current value, except for redeemable fixed income securities which will be stated at amortised cost.

<u>Financial Assets - Fair Value</u>
Financial instruments (including derivatives) may be included at fair value, except:
1. If they constitute liabilities, unless they are
    a. held as a part of a trading portfolio; or
    b. derivatives
2. If they are assets held to cover linked liabilities, and they are:
    a. financial instruments (other than derivatives) held to maturity; or
    b. loans and receivables originated by the company and not held for trading purposes.
3. If the fair value cannot be determined reliably.</td></tr>
</table>

<table>
<tr><th>IAS / IFRS STANDARDS</th><th>UK GAAP STANDARDS</th></tr>
<tr><td>
<u>IAS 39: Financial Instruments: Recognition and Measurement (continued)</u>

<u>Financial liabilities</u>
All financial liabilities, other than those held for trading, subsequent to initial recognition are measured at amortised cost using the effective interest rate method. This may apply to profit commissions recognised on open year profits

Financial liabilities held for trading, subsequent to initial recognition are stated at fair value with changes therein flowing through the income statement. Financial liabilities held for trading are those that are:
a. acquired for selling in the near term; or
b. part of a portfolio for which there is evidence of short term profit taking; or
c. a derivative

<u>Derivatives and Embedded Derivatives</u>
Derivatives are recognised as financial assets or financial liabilities at fair value through profit and loss

An insurer need not separate, and measure at fair value, a policyholder's option to surrender an insurance contract for a fixed amount or for an amount based on a fixed amount and an interest rate, even if the exercise price differs from the carrying amount of the host insurance liability.

Put options or cash surrender option embedded in an insurance contract, do need to be separated if:
1. the surrender value varies in response to a change in a financial variable (e.g. equity or commodity price index); or
2. the surrender value varies in response to a change in a non-financial variable that is not specific to a party to the contract; or
3. if the holders ability to exercise option is triggered by a change in financial or non-financial variables.
</td><td>
<u>FRS 26: Financial Instruments: Measurement (continued)</u>

<u>Financial liabilities</u>
FRS 4 para75, requires "finance costs to be recognised at a constant rate on the carrying amount of debt". Therefore financial liabilities will be carried at amortised cost, using the effective interest rate method.
</td></tr>
</table>

IAS / IFRS STANDARDS	UK GAAP STANDARDS
IAS 39: Financial Instruments: Recognition and Measurement (continued) **Derivatives and Embedded Derivatives (continued)** Embedded derivatives shall be separated if, and only if: 1. the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract; and 2. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and 3. the hybrid instrument including the derivative, is not measured at fair value with change recognised in profit or loss. A derivative embedded in a financial asset or financial liability at fair value through profit or loss is not separated. If a contract contains one or more embedded derivatives, an entity may designate the entire hybrid contract as a financial asset or financial liability at fair value through profit or loss, unless: 1. the embedded derivatives do not significantly modify the cash flows that otherwise would be required by the contract; or 2. it is clear with little or no analysis, that when a similar hybrid instrument is first considered that separation of the embedded derivatives is prohibited. If an embedded derivative required to be separated from its host contract, is not measurable at acquisition or subsequent financial reporting date, it shall designate the entire hybrid contract at fair value through profit or loss	**FRS 26: Financial Instruments: Measurement (continued)**
IAS 40: Investment Property Not applicable for Lloyd's Syndicates	**SSAP 19: for Investment Properties** Not applicable for Lloyd's Syndicates
IAS 41: Agriculture Not applicable for Lloyd's Syndicates	**No Equivalent Standard** Not applicable for Lloyd's Syndicates

<table>
<tr><th>IAS / IFRS STANDARDS</th><th>UK GAAP STANDARDS</th></tr>
<tr><td>

<u>IFRS 1: First-time adoption of IFRS</u>

Opening IFRS balance sheet:
Syndicates will be required to prepare an opening IFRS balance sheet at the date of transition to IFRS, ensuring that they adhere to the following:

1. recognise all assets and liabilities whose recognition is required by IFRSs;
2. not recognise items as assets or liabilities if IFRSs do not permit such recognition;
3. reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are different type of asset, liability or component of equity under IFRSs.
4. apply IFRSs in measuring all recognised assets and liabilities

Exemptions from other IFRSs:
Syndicates should consider the use of one or more of the following exemptions when preparing their first set of IFRS financial statements:

1. Need not comply with IAS 21 requirements for cumulative translation differences that existed at the date of transition to IFRSs.
2. Previously recognised financial instruments, may be designated as available-for-sale; or a financial instrument to be designated as a financial asset or financial liability through profit or loss.
3. Per transitional provisions in IFRS 4, need not disclose information about claims development that occurred earlier than 5 years before the first adoption of IFRSs. Furthermore need not prepare information about claims development that occurred before the earliest period for which full comparative IFRS information is prepared, if impracticable when adopting IFRS for first time. Disclosure of the fact will be required though.

</td><td>

<u>No Equivalent Standard</u>

</td></tr>
</table>

IAS / IFRS STANDARDS	UK GAAP STANDARDS
<u>IFRS 1: First-time adoption of IFRS (continued)</u> **Exceptions to retrospective application of other IFRSs:** Syndicates should consider the following exceptions before IFRSs retrospectively applied in preparing their opening IFRS balance sheet as well as the presenting of their first set of IFRS financial statements: 1. May only apply de-recognition requirements in IAS 39 retrospectively at date of transition provided the information required by the standard was obtained at the time of initially accounting for those transactions. 2. Not retrospectively designate transactions as hedges which were entered into before transitioning. 3. Errors discovered in estimates made under previous GAAP after the date of transition to IFRSs, shall not be corrected retrospectively, but rather treated as a non-adjusting event after balance sheet date under IAS10. 4. An entity may classify non-current assets (or disposal groups) that meet requirements to be classified as held for sale and operations that meet the criteria to be classified as discontinued retrospectively provided the information needed to apply IFRS 5 was obtained at the time the criteria was originally met. **Comparative Information:** A syndicate's first set of IFRS financial statements shall include at least one year of comparative information under IFRS. Furthermore, the exemption that comparative information need not comply with IAS 32, IAS 39, IFRS 4, IFRS 6 and IFRS 7 is no longer relevant as it only applied to entities adopting IFRSs before 1st January 2006. Finally, should syndicates wish to present historical summaries of selected data for periods before first period for which they present full comparative information under IFRS, they would need to: 1. "label the previous GAAP information prominently as not being prepared under IFRSs; and 2. disclose the nature of the main adjustments that would make it comply with IFRSs. An entity need not quantify those adjustments."	**<u>No Equivalent Standard (continued)</u>**

<table>
<tr><th>IAS / IFRS STANDARDS</th><th>UK GAAP STANDARDS</th></tr>
<tr><td><u>IFRS 1: First-time adoption of IFRS (continued)</u>

Explanation of transition to IFRSs:
Syndicates will be required to explain and quantify the affect of conversion from UK GAAP to IFRS in the form of the following reconciliations in their first set of IFRS financial statements:
1. reconciliations for equity reported under previous GAAP to equity under IFRS for both the following dates:
a. date of transition to IFRSs
b. latest period under previous GAAP
2. reconciliation of profit & loss reported for latest period reported under previous GAAP
3. disclosures per IAS 36 required if entity recognised or reversed any impairment losses in preparing its opening IFRS balance sheet.</td><td><u>No equivalent standard (continued)</u></td></tr>
<tr><td><u>IFRS 2: Share-based Payment</u>

Not applicable for Lloyd's Syndicates</td><td><u>FRS 20: Share-based Payment</u>

Not applicable for Lloyd's Syndicates</td></tr>
<tr><td><u>IFRS 3: Business Combinations</u>

Not applicable for Lloyd's Syndicates</td><td><u>FRS 6: Acquisitions and Mergers, FRS 7: Fair Values in Acquisition, FRS 10: Goodwill and Intangible Assets</u>

Not applicable for Lloyd's Syndicates</td></tr>
<tr><td><u>IFRS 4: Insurance Contracts</u>

Definition of an insurance contract:
An insurance contract is defined as follows: "A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policy holder if a specified uncertain future event (the insured event) adversely affects the policy holder."</td><td><u>ABI SORP, Companies Act 85 (CA85)</u>

Definition of an insurance contract:
ABI SORP applicable to general insurance contracts meeting the definition of an insurance contract in Appendix C FRS 26, namely: "A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policy holder if a specified uncertain future event (the insured event) adversely affects the policy holder."

Therefore entities under UK GAAP will be applying the same definition of an insurance contract as under IFRS, even though they do not specifically apply FRS 26.</td></tr>
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IAS / IFRS STANDARDS	UK GAAP STANDARDS
<u>IFRS 4: Insurance Contracts (continued)</u> **RITC:** Insurance liabilities cannot be derecognised until they have been extinguished or expire, even if they have been fully reinsured to another party. Therefore there is a risk that liabilities which have been transferred by RITC to another syndicate would still need to be recognised in the accounts of the ceding syndicate, including in those syndicates fully closed by RITC which currently do not have to prepare accounts. It is considered however that in practice it should be possible to demonstrate that in substance the liability would be extinguished with regard to the members on the closed syndicate so eliminating this issue.	**<u>ABI SORP, Companies Act 85 (CA85) (continued)</u>** **Reinsurance Contract:** "A reinsurance contract can create new assets (eg a right to reinsurance recoveries) and liabilities (eg an obligation to pay premiums for the reinsurance) in the financial statements of the cedent. It cannot lead to assets and liabilities arising from the underlying reinsured business ceasing to be recognised**" [ABI SORP 256]**
Accounting practices: Syndicates will need to review their existing accounting practices in respect of their impairment tests for reinsurance assets. A reinsurance asset is impaired if, and only if: a. there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and b. that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer. Any such impairment loss will be recognised in the profit or loss. The test for impairment was more subjective under UK GAAP. **Unbundling:** Syndicates will need to un-bundle certain deposit components within insurance contracts where the existing accounting policies do not recognise all rights and obligations under the deposit component, and measure that component per IAS 39.	**Accounting practices:** "Where a reinsurance contract covers more than one accounting period, the reinsured should re-measure future entitlements and liabilities under the contract at each balance sheet date. This re-measurement should have regard to experience under the contract up to balance sheet date and the amount, and for financial reinsurance the timing, of expected future cash flows." **[ABI SORP 258]** "A provision should be made for any shortfall in value (e.g. any anticipated inability on the part of the reinsurer to meet its obligations to the cedent, when they are expected to fall due)." **[ABI SORP 259]**

IAS / IFRS STANDARDS	UK GAAP STANDARDS
<u>IFRS 4: Insurance Contracts (continued)</u> **Insurance contract disclosures:** Syndicates would need to disclose information that identifies and explains the amounts in their financial statements arising from insurance contracts, as well as disclose information that helps users to understand the amount, timing and uncertainty of future.	**<u>ABI SORP, Companies Act 85 (CA85) (continued)</u>** **Insurance contract disclosures:** "The method of calculating the unearned premiums provision should be disclosed." [ABI SORP 92] "Disclosure should be made in the notes to the financial statements to provide an understanding of the main principles underlying the establishment of the claims provisions and, where relevant, any changes from previous accounting periods in the procedures adopted for establishing claims provisions, and the reasons for them. In particular there should be disclosure of the policies adopted and bases used with regard to: • reported claims; • claims incurred but not reported; • claims handling expenses; and • salvage and other recoveries." [ABI SORP 102] "Where run-off deviations arise, the amounts should, if material, be shown in the notes to the financial statements, broken down by category. For this purpose, materiality is in relation to the insurance business as a whole and not to individual categories of insurance business." [ABI SORP 103]
<u>IFRS 5: Non-current Assets Held for Sale and Discontinued Operations</u> **Non-current Assets Held for Sale:** 1. Classification a. An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. b. A disposal group is a group of assets as well as the liabilities directly associated with them that will be disposed of, by sale or otherwise, together as a group in a single transaction.	**<u>FRS 3: Reporting Financial Performance</u>** **Non-current Assets Held for Sale:** 1. Classification a. No equivalent UK rule.

IAS / IFRS STANDARDS	UK GAAP STANDARDS
IFRS 5: Non-current Assets Held for Sale and Discontinued Operations (continued)	**FRS 3: Reporting Financial Performance (continued)**
2. Measurement a. Non-current assets (or disposal group) classified held for sale will be measured at the lower of its carrying amount and fair value less costs to sell. b. The above assets will not be depreciated.	2. Measurement a. No equivalent UK rule. b. Under UK GAAP depreciation continues until the asset is disposed of.
3. Presentation a. Non-current assets (or disposal group) classified held for sale will be presented separately from other assets in the balance sheet. b. The liabilities of a disposal group classified held for sale will be presented separately from other liabilities in the balance sheet. c. These assets and liabilities will not be offset and presented as a single number.	3. Presentation a. No equivalent UK rule.
Discontinued Operations: 1. Classification a. Component of an entity that has been either been disposed of or is classified as held for sale and: i. represents a separate major line of business or geographical area of operations ii. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or iii. is a subsidiary acquired exclusively with a view to resale.	**Discontinued Operations:** 1. Classification a. Operations of the reporting entity that are sold or terminated and satisfy following conditions: i. recognition criteria below ii. if a termination, the former activities have ceased permanently iii. the discontinued operations need to have a material effect on the nature an focus of the reporting entity's operations. iv. the assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.
2. Recognition a. IFRS classifies an operation as discontinued at the date: i. the operation meets the criteria to be classified as held for sale; or ii. when the entity has disposed of the operation b. Prohibits retroactive classification of an operation as discontinued when the criteria for that classification are not met until after the balance sheet date	2. Recognition a. The FRS requires operations to be classified as discontinued when: i. the sale or termination is completed in the period; or ii. before the earlier of: a. 3 months after the commencement of the subsequent period; and b. the date on which financial statements are approved.

IAS / IFRS STANDARDS	UK GAAP STANDARDS
IFRS 5: Non-current Assets Held for Sale and Discontinued Operations (continued) 3. Presentation a. An entity shall disclose a single amount on the face of the income statement, being the total of: i. the discontinued operations post-tax profit or loss; and ii. the post-tax gain or loss recognised in the measurement of the fair value less costs to sell or on the disposal of the discontinued operations assets. b. The single amount will be analysed either in the notes or on the face of the income statement into: i. revenue, expenses and pre-tax profit or loss of discontinued operations ii. related income tax expense for (i) above iii. gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and iv. related income tax expenses for (iii) above c. Disclosure of net cash flows attributable to operating, investing and financing activities of discontinued operations	**FRS 3: Reporting Financial Performance (continued)** 3. Presentation a. The FRS requires disclosure of the split in the pre-tax figures on the face of the income statement b. FRS1 only encourages the disclosure of cash flows from discontinued operations.
IFRS 6: Exploration for and Evaluation of Mineral Resources Not applicable for Lloyd's Syndicates	**No Equivalent Standard** Not applicable for Lloyd's Syndicates
IFRS 7: Financial Instruments: Disclosures FRS 29 has the effect of implementing IFRS 7. 1. Insurance entities will be required to provide quantitative and qualitative disclosures about their exposure to credit risk, market risk and liquidity risk arising from its use of financial instruments. 2. The quantitative minimum disclosures for interest rate risk and credit risk have also been expanded. 3. Finally, a sensitivity analysis for each component of market risk to which an entity is exposed will need to be disclosed.	**FRS 29: Financial Instruments: Disclosures** The standard will only be applicable to syndicates applying FRS 26 Financial Instruments: Measurement. This would therefore be limited to syndicates that hold derivatives and measure them at fair value. Affected syndicates will apply this standard for accounting periods beginning on or after 1 January 2007.

<table>
<tr><th>IAS / IFRS STANDARDS</th><th>UK GAAP STANDARDS</th></tr>
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<u>IFRS 8: Operating Segments</u>

1. Scope
a. IFRS 8 applies to the separate or individual financial statements of an entity whose debt or equity instruments are traded in a public market; or
b. that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

2. Operating Segments
a. An operating segment is a component of an entity:
i. that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
ii. whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
iii. for which discrete financial information is available.

3. Reportable segments
a. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria:
iv. its reported revenue is 10 per cent or more of the combined revenue, internal and external, of all operating segments; or
v. the absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
vi. its assets are 10 per cent or more of the combined assets of all operating segments.
vii. reported revenue must constitutes at least 75 per cent of the entity's revenue.

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<u>SSAP 25: Segmental Reporting, Companies Act 85 (CA85):</u>

1. Scope
a. Companies Act 85 requires segmental disclosures from all companies.
b. SSAP 25 requires segmental disclosures from all:
i. Public companies (or has a public subsidiary)
ii. Banking or insurance company
iii. Any company larger than a specified size
c. Other entities are encouraged to produce segmental disclosures.

2. Reportable Segments
a. Following disclosures are required for each class of business or geographic segment:
iv. Revenue
v. Profit before interest and tax
vi. Net assets (generally excluding interest-bearing assets and liabilities)
b. Revenue also required to be analysed by geographical destination.

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IAS / IFRS STANDARDS	UK GAAP STANDARDS
IFRS 8: Operating Segments (continued) 3. Reportable segments (continued) b. Disclosure Requirements i. general information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues; ii. information about the reported segment profit or loss, including certain specified revenues and expenses included in segment profit or loss, segment assets and segment liabilities and the basis of measurement; and iii. reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material items to corresponding items in the entity's financial statements. iv. some entity-wide disclosures that are required even when an entity has only one reportable segment, including information about each product and service or groups of products and services. v. Analyses of revenues and certain non-current assets by geographical area – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments. vi. information about transactions with major customers.	**SSAP 25: Segmental Reporting, Companies Act 85 (CA85) (continued)**

APPENDIX C

DRAFT
ILLUSTRATIVE IFRS SYNDICATE FINANCIAL STATEMENTS
FIRST TIME ADOPTION IN 2010
SYNDICATE XYZ

Additional/new IFRS reporting requirements highlighted.

INDEX TO ILLUSTRATIVE IFRS SYNDICATE FINANCIAL STATEMENTS
SYNDICATE XYZ

Income Statement
Year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Income			
Gross written premiums			
Premiums ceded to reinsurers			
Premiums written net of reinsurance			
Change in provision for unearned premiums			
Gross Amount			
Reinsurers' share			
Net change in provision for unearned premiums			
Net premiums earned			
Fee and commission income	*5*		
Net investment income	*6*		
Expenses			
Claims and benefits paid			
Gross Amount			
Reinsurers' share			
Claims and benefits paid, net of recoveries from reinsurers			
Gross Amount			
Reinsurers' share			
Change in insurance liabilities, net of reinsurance			
Change in investment contract provisions			
Fee and commission expense	*7*		
Other expenses	*8*		
Finance costs	*9*		
Profit or loss for the period			

Balance Sheet
At 31 December 2010

	Note	2010 £'000	2009 £'000
Assets			
Deferred acquisition costs and other assets	12		
Financial investments	13		
- Equity securities			
- Debt securities - fixed rate			
- Debt securities - floating rate			
- Collective investment schemes			
- Derivative financial instruments			
Reinsurance assets	14		
Prepayments and accrued income	15		
Insurance receivables	16		
Reinsurance receivables	17		
Cash and cash equivalents	18		
Other assets			
Total assets			
Capital reserves			
Members' balances	22		
Liabilities			
Insurance contracts	19		
Insurance payables	20		
Reinsurance payables	21		
Bank loans and overdrafts	18		
Other liabilities			
Total liabilities			

Statement of Recognised Income and Expenses

Year ended 31 December 2010

	Note	**2010 £m**	**2009 £m**
Fair value gains transferred to profit			
Impairment losses on revalued assets			
Foreign exchange rate movements			
Net income recognised directly in equity			
Profit for the year			
Total recognised income and expense for the year			

Cash Flow Statement

Year ended 31 December 2010

	Note	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operations			
Net cash from operating activities			
Cash flows from investing activities			
Net portfolio investment			
Net cash used in investing activities			
Cash flows from financing activities			
Increase (repayment) of inter-syndicate loans			
Interest paid on inter-syndicate loans			
Net profits paid to members			
Cash calls received			
Net cash from financing activities			
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at 1 January			
Effect of exchange rate changes on cash and cash equivalents			
Cash and cash equivalents at 31 December	18		

Notes to the financial statements

1 – Accounting Policies

Syndicate XYZ is a Lloyd's syndicate domiciled in England and Wales.

(a) Statement of compliance

The financial statements have been prepared and approved in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) in response to IAS regulation (EC1606/2002). These are the syndicate's first set of financial statements under IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

The syndicate has applied all IFRSs and interpretations adopted by the EU as at 31 December 2010. An explanation of how the transition to adopted IFRSs has affected the reported financial position, financial performance and cash flows of the syndicate is set out in note 3.

(b) Basis of preparation

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as at fair value through profit or loss, or as available-for-sale.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision only affects that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

The accounting policies set out below have applied consistently to all years presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2009 for the purpose of transition to IFRS.

(i) Standards, interpretations and amendments to published standards that are not yet effective

IFRS 4 Phase II standard was issued in late 2009, and is only mandatory from 1st January 2011. The syndicate has not early adopted the standard.

Notes to the financial statements

1 – Accounting Policies *(continued)*

(c) Classification of insurance and investment contracts

Insurance contracts (including inward reinsurance contracts) are defined as those where the syndicate accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is considered significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expire.

Contracts under which the transfer of insurance risk to the company from the policyholder is not significant are classified as investment contracts.

(d) Insurance contracts

(i) Recognition and measurement

Premiums

Gross premiums written represent premiums on business incepting in the financial year together with adjustments to premiums written in previous accounting periods and estimates for pipeline premiums. Gross premiums written are stated before deduction of brokerage, taxes, duties levied on premiums and other deductions.

Unearned Premiums

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial period, computed separately for each insurance contract using the daily pro rated method, adjusted if necessary to reflect any variations in the incidence of risk during the period covered by the contract.

Unexpired risks provision

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

Notes to the financial statements

(d) Insurance contracts *(continued)*

(ii) Recognition and measurement (continued)

Claims

These included the costs of claims and claims handling expenses paid during the period, together with the movement in provision for outstanding claims, claims incurred but not reported (IBNR) and future claims handling provisions. The provision for claims comprises amounts for claims advised and IBNR.

The IBNR amount is based on estimates calculated using widely accepted statistical techniques which are reviewed annually by external consulting actuaries. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent underwriting, regard is given to the variations in the business portfolio accepted and the underlying terms of conditions.

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

(ii) Embedded derivatives in insurance contracts

Derivatives embedded in insurance contracts that do not transfer significant insurance risk and are not closely related to their host insurance contracts are separated from their host insurance contracts and measured at fair value with all gains and losses recognised in the income statement.

(iii) Reinsurance assets

The syndicate cedes reinsurance (retrocession) in the normal course of business for the purpose of limiting its net loss potential through the diversification of risks. Assets, liabilities, income and expenses arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the related insurance contract, because the reinsurance arrangement does not relieve the syndicate form its original obligation to its policyholders.

Retrocession that give rise to a significant transfer of insurance risks are accounted for as reinsurance assets, otherwise they are accounted for as financial instruments.

Premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets. Any differences between the premium due to the reinsurer and the reinsurance asset recognised is included in the income statement in the period in which the reinsurance premium is due.

The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of provisions held in respect of the related insurance contracts.

Notes to the financial statements

1 – Accounting Policies *(continued)*

(d) Insurance contracts *(continued)*

(iii) Reinsurance assets (continued0

Reinsurance assets included recoveries due from reinsurance companies in respect of claims paid. These are classified as loans and receivables and are included with insurance and other receivables in the balance sheet.

Reinsurance assets are assessed for impairment at each balance sheet date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the syndicate may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the syndicate will receive from the reinsurer.

(iv) Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date. Deferred acquisition costs are amortised over the period in which related premiums are earned.

(v) Liability adequacy test

At each balance sheet date liability adequacy tests are performed to ensure the adequacy of insurance contract provisions net of DAC. Current best estimates of all future contractual cash flows and related expenses such as claims handling expenses and investment income from assets backing the insurance contract provisions are used in performing these tests. If a shortfall is identified the related DAC are written down and if necessary and additional provision is established. The deficiency is recognised in profit or loss for the year.

(iii) Reinsurance assets (continued0

(vi) Insurance receivables and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reassurance assets.

(vi) Coinsurance

Coinsurance is where the syndicate underwrites only part of the risk with other syndicates, companies or the client taking the remainder. Its share of premiums and claims are taken into account regardless whether it is the lead underwriter or not.

Notes to the financial statements

1 – Accounting Policies *(continued)*

(e) Investment contracts

(i) Recognition and measurement

Investment contracts are recognised as financial liabilities in the balance sheet when the syndicate becomes party to their contractual provisions. Contributions received from policyholders are not recognised in the income statement but are accounted for as deposits.

Investment contracts are designated on initial recognition as at fair value through profit and loss. Changes in fair value of investment contracts are included in the income statement in the period in which they arise.

Valuation techniques are used to establish the fair value of the contracts at initial recognition and at the balance sheet date. Costs associated with the issue of an investment contract are expensed when incurred.

(f) Revenue

(i) Earned premiums from insurance contracts

Please refer to note 1(d)

(ii) Fee and commission income

Profit commission in respect of reinsurance contracts is recognised on an accrual basis. Reinsurance commissions is recognised on a basis that is consistent with the recognition of the costs incurred on the acquisition of the underlying insurance contracts.

Other commissions received or receivable which do not require the syndicate to render further services are recognised as revenue by the syndicate on the effective commencement or renewal date of the policies. However, if the syndicate is required to render further services during the life of the policy, the commission is deferred and recognised as revenue over the period during which services are provided.

(iii) Investment income

Investment income mainly comprises interest and dividend income, net gains on financial assets classified as fair value through profit and loss, and realised gains on financial assets classified as available-for-sale.

Notes to the financial statements

1 – Accounting Policies *(continued)*

(g) Expenses

(i) Finance costs

Finance costs comprise finance charges on finance leases.

(h) Income Tax

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

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

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

(i) Foreign Currency

(i) Functional and presentation currency

The functional currency of the syndicate is the currency of the primary economic environment in which it operates. The financial statements are presented in Pounds which is the group's presentation currency.

(ii) Foreign currency transactions

Foreign currency transactions are transactions undertaken by a syndicate other than in its functional currency. Foreign currency transactions are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction.

(ii) Foreign currency transactions (continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rate ruling at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the foreign exchange rate ruling at the date when the fair value was determined. Monetary items are translated at the closing rate.

Foreign exchange differences arising on the translation of equities classified as available-for-sale are recognised in the fair value reserve in equity.

Notes to the financial statements

1 – Accounting Policies *(continued)*

(j) Financial assets

Financial assets are divided into four categories, depending on the purpose for which the assets were acquired. The categories are as follows:

Financial assets at fair value through income

This category has two sub-categories: financial assets held for trading and those designated at fair valuethrough profit or loss at inception.

A financial asset is classified into this category at inception if acquired principally for the purpose of selling in theshort term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking,or if so designated by management to minimise any measurement or recognition inconsistency with theassociated liabilities. All derivatives are classified as held for trading.

Financial assets designated as at fair value through profit and loss at inception are those that are:

Included in internal funds matching insurance and investment contract liabilities that are linked to thechanges in fair value of these assets. The designation of these assets to be at fair value through profit andloss eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred toas 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognisingthe gains and losses on them on different bases.

Managed and whose performance is evaluated on a fair value basis. Information about these financialassets is provided internally on a fair value basis to the Syndicate's key management personnel. The Syndicate's investment strategy is to invest in listed and unlisted equity securities and fixed interest rate debtsecurities, derivatives designated upon initial recognition at fair value through profit or loss.

Held-to-maturity financial assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Syndicate has the positive intention and ability to hold to maturity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Syndicate intends to sell in the near term, those that the syndicate upon initial recognition designates as at fair value through profit or loss, or available for sale, or those where the syndicate may not recover substantially all of its initial investment, other than because of credit deterioration.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or are not classified in any of the other categories.

Notes to the financial statements

1 – Accounting Policies *(continued)*

(j) Financial assets *(continued)*

All financial assets are initially measured at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to their acquisition.

After initial recognition, the Syndicate measures financial assets designated as at fair value through profit or loss, or as available-for-sale, at fair value without any deduction for transaction costs it may incur on their disposal.

The fair value of quote financial assets is their bid prices at the balance sheet date. If the market for a financial asset is not active, the syndicate establishes the fair values by using a valuation technique. Valuation techniques include the use of recent arm's length market transactions, reference to current fair value of a similar financial instrument, discounted cash flow analysis and option pricing models. If the value of equity instruments cannot be reliably measured, they are measured at cost. Held-to-maturity investments and loans and receivables are measured at amortised cost using the effective interest method, less impairment costs.

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in the income statement in the period in which they arise. Net changes in the fair value of financial assets classified as at fair value through profit and loss includes interest income.

Unrealised gains and losses arising from changes in the fair value of the available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities, which are recognised in the income statement. When available-for-sale financial assets are sold or impaired, the cumulative gains or losses previously recognised in equity are recognised in the income statement. Where available-for-sale financial assets are interest-bearing, interest calculated using the effective interest method is recognised in the income statement.

Notes to the financial statements

1 – Accounting Policies *(continued)*

(k) Impairments

The carrying amount of the syndicate's assets, other than financial assets classified as fair value through profit and loss are assessed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated and the carrying value is reduced to the estimated recoverable amount by means of a charge to the income statement.

Deferred acquisition costs are assessed at each balance sheet date as an integral part of the liability adequacy tests.

Cumulative unrealised losses on available-for-sale assets previously recognised directly in equity will be recognised in profit or loss when there is objective evidence that the asset is impaired, even though the asset has not be derecognised. A decline in fair value below cost of more than 20% or a decline that persists for more than nine months is considered to be evidence of impairment.

(i) Calculation of recoverable amounts

The recoverable amount of financial assets classified as held-to-maturity, or loans and receivables is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. computed effective interest rate at initial recognition). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. Value in use is assessed by discounting estimated future cash flows to their present value using a pre-tax discount rate. The pre-tax discount rate used would reflect current market assessments and the risks specific to the asset. For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the assets belong.

(ii) Reversal of impairment losses

An impairment loss in respect of a financial asset classified as held-to-maturity or loans and receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(ii) Reversal of impairment losses

In respect of other assets, an impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the financial statements

1 – Accounting Policies *(continued)*

(l) Segment Reporting

A segment is a distinguishable component of the syndicate that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits. Bank overdrafts that are repayable on demand and form an integral part of the syndicate's cash management are included as a component of cash and cash equivalents for the purpose of the statement

(n) Provisions

A provision is recognised in the balance sheet when the syndicate has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Other financial liabilities

Other financial liabilities include amounts payable in the future to agents and intermediaries in respect of investment contracts. These payments will be made on an annual basis on the anniversary of the inception of a contract if the contracts have not been surrendered at that date.

These financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of the expected future payments at the pre-tax discount rate that reflects current market assessment of the time value of money for a liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are state at amortised cost using the effective interest method.

Notes to the financial statements

2 – Insurance and financial risk management

The syndicate has identified the risks arising from its activities and has established risk management policies and procedures to manage these risks in accordance with its risk appetite. The syndicate classifies its risks into the following areas: Insurance, credit, market, liquidity and operational risk. The management and definition of these risks are explained below:

(a) Insurance risk

The syndicate assumes the risk of loss from individuals or organisations that are directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to the inherent uncertainties of occurrence, timing and amount of insurance liabilities. The key concepts of insurance risk: underwriting, reinsurance, claims management, reserving and ultimate reserves are considered below.

(i) Underwriting risk

Underwriting risk comprise four elements that apply to all insurance underwritten by the syndicate:

- Event risk: the risk that claims from individual losses or catastrophes are higher than anticipated in plans and pricing;
- Pricing risk: the risk that the level of anticipated losses is understated in the pricing process;
- Cycle risk: the risk that business is written in a soft market without full knowledge of the (in)adequacy of the rates, terms and conditions; and
- Expense risk: the risk that the allowance for expenses and inflation in pricing is inadequate.

The syndicate's underwriting strategy is to maintain a diverse and balanced portfolio of risks in order to limit the variability of outcomes. It achieves this by writing a diverse mix of business in worldwide markets that are all subject to similar risks over time.

The underwriting strategy is reflected in the syndicate's annual business plan that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the syndicate is prepared to underwrite. This strategy is cascaded to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. These plans are approved and monitored by an underwriting committee on a monthly basis.

The syndicate also recognises that insurance events are by their nature random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Notes to the financial statements

2 – Insurance and financial risk management *(continued)*

(i) Underwriting risk (continued)

To address this the syndicate sets out the realistic disaster scenario (RDS) exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes and terrorism losses. The current aggregate position is monitored at the time of underwriting a risk, and reports are produced highlighting the key aggregation to which the syndicate is exposed.

The greatest likelihood of significant losses for the syndicate would arise from catastrophe events such as flooding, windstorms or earthquakes. Where possible the syndicate measures geographical accumulations and uses their knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the probable maximum loss (PML). Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of a 1 in 250 year event. The syndicate regularly models and monitors known accumulations of risks including natural catastrophes, marine, liability and political events.

The syndicate's largest Lloyd's specified natural catastrophe 1 in 250 year stress events are:

	2010		2009	
Lloyd's prescribed 1 in 250 year natural catastrophe event	Modelled PML (before reinsurance) £m	Modelled PML (after reinsurance) £m	Modelled PML (before reinsurance) £m	Modelled PML (after reinsurance) £m
San Francisco Quake	xx	xx	xx	xx
Gulf of Mexico Windstorm	xx	xx	xx	xx
Florida Pionellas Windstorm	xx	xx	xx	xx

The syndicate's business is structured into the following business segments:

Reinsurance
The syndicate specialises in writing catastrophe, aggregate excess of loss and pro rata business.

Casualty
The business is protection given to individuals or companies to indemnify them against legal liability arising from their activities, actions or for incidents occuring on their property.

Property
The property segment indemnifies (subject to any excesses or limits) the policyholder against loss or damage to their own material property and business interruption arising from such damage. This business is generally 'short tail' in nature, that is there is not a significant delay between the occurence of the claim and the claim being reported to the syndicate.

Notes to the financial statements

2 – Insurance and financial risk management *(continued)*

(i) Underwriting risk (continued)

Marine

The business is written worldwide on a broad spectrum of classes. Specilaised cover offered includes hull, energy, cargo and war risks. The majority of these are exposed to catastrophes which are monitored and managed by our reinsurance programme.

Motor

The syndicate write motor insurance in the UK. This consists of property ('short tail') and liability ('longer tail').

Energy

The business is written worldwide on a broad spectrum of classes. The majority of this risk is exposed to catastrophes which are monitored and managed by our reinsurance programme.

Aviation

These business areas have a mix of hull and cargo risks that are 'short tail' in nature, and liability risks which are 'longer tail' .

Life

The syndicate underwrites term life assurance for both individual lives and group schemes. The policies can be extended to cover critical illness and disability.

(ii) Reinsurance risk

Reinsurance risk arises when reinsurance contracts put in place to reduce overall gross insurance risk do not perform as anticipated, resulting in coverage disputes or prove inadequate in terms of vertical or horizontal limits purchased.

The syndicate reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The syndicate buys a combination of proportionate and non-proportionate reinsurance treaties to reduce net exposure for any single event up to £xx. In addition underwriters are allowed to buy facultative reinsurance in certain specified circumstances. All purchase of facultative reinsurance are subject to pre-approval and the total facultative reinsurance expenditure is monitored monthly.

The syndicate has a reinsurance security committee (RSC) which monitors the financial condition of reinsurers and sets minimum security criteria for acceptable reinsurance. It monitors all purchased reinsurance against this criteria. The RSC also monitors erosion of the reinsurance programme and its ongoing adequacy.

Notes to the financial statements

2 – Insurance and financial risk management *(continued)*

(iii) Claims management risk

Claims management risk arises in the event of inaccurate or incomplete case reserves and claims settlement, poor service quality or excessive claims handling costs. Such risks may damage the syndicate's brand and undermine its ability to win and retain business. These risks can occur during any stage of the claims life cycle.

The syndicate strives to adjust and process claims in a fair, efficient and timely manner, in accordance with the respective policies' terms and conditions, the regulatory environment and the syndicate's broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for claims handling expenses.

(iv) Reserving risk and ultimate reserves risk

Reserving and ultimate reserves risk occurs within the syndicate where established insurance liabilities are insufficient through poor forecasting, or where there is inadequate allowance for expenses and reinsurance bad debts in provisions. The syndicate's reserving policy is to use recognised actuarial techniques to project gross premiums written and insurance liabilities. The objective is to produce reliable and appropriate estimates that are consistent over time and across classes of business. Estimates of gross premiums written and claims are prepared by the actuarial department, and are used through a formal quarterly peer review process to independently check the integrity of the estimates produced by the underwriting teams for each class of business. These meetings are attended by senior management, senior underwriters, actuarial, claims, and finance representatives.

(b) Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the syndicate are:

- Reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the group;
- Brokers and intermediaries – whereby counterparties fail to pass on premium or claims collected or paid on behalf of the syndicate; and
- Investments – whereby issuer default results in the group losing all or part of the value of a financial instrument.

The syndicate's core business is to accept significant insurance risk and the appetite for other risks is low. This protects the syndicate's capital from erosion so that it can meet its insurance liabilities.

To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's (S&P) ratings are used. These ratings have been categorised below as used for Lloyd's reporting:

	A.M. Best	Moody's	S&P
Tier 1	A++ to A-	Aaa to A3	AAA to A
Tier 2	B++ to B-	Baa1 to Ba3	BBB+ to BB
Tier 3	C++ to C-	B1 to Caa	B+ to CCC
Tier 4	D,E,F,S	Ca to C	R,(U,S) 3

Notes to the financial statements

2 – Insurance and financial risk management *(continued)*

(b) Credit risk *(continued)*

The following tables summarise the group's significant concentrations of credit risk:

At 31 December 2010	Tier 1 *£m*	Tier 2 *£m*	Tier 3 *£m*	Tier 4 *£m*	Total *£m*
Financial investments					
Insurance receivables					
Reinsurance assets					
Cash and cash equivalents					
Total					

At 31 December 2009	Tier 1 *£m*	Tier 2 *£m*	Tier 3 *£m*	Tier 4 *£m*	Total *£m*
Financial investments					
Insurance receivables					
Reinsurance assets					
Cash and cash equivalents					
Total					

(c) Market risk

Market risk arises where the value of assets and liabilities change as a result of movements in foreign exchange rates, interest rates and market prices.

(i) Foreign exchange risk

The syndicate is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The syndicate underwrites principally in the following currencies, US $, UK £, CAD $ and Euro €. Transactions in all other currencies are converted to UK £ on initial recognition.The syndicate monitors the foreign exchange exposure of each of these currencies, and where necessary manages it with forward exchange contracts.

The following table summarises the carrying value of total assets and total liabilities categorised by currency:

At 31 December 2010	*EUR* *£m*	*US $* *£m*	*CAD $* *£m*	*Subtotal* *£m*	*UK £* *£m*	*Total* *£m*
Total assets						
Total liabilities						

At 31 December 2009	*EUR* *£'000*	*US $* *£'000*	*CAD $* *£'000*	*Subtotal* *£'000*	*UK £* *£'000*	*Total* *£'000*
Total assets						
Total liabilities						

Notes to the financial statements

2 – Insurance and financial risk management *(continued)*

(ii) Interest rate risk

Some of the syndicate's financial instruments including financial investments, cash and cash equivalents and borrowings, are exposed to movements in market interest rates.The syndicate manages interest rate risk by investing in short duration financial investments and cash and cash equivalents. The investment committee monitors the duration of these assets on a regular basis.

The table below summarises the effective interest rates at balance sheet date for interest bearing assets and liabilities, together with the contractual maturity dates of those assets and liabilities:

At 31 December 2010	*Effective interest rate %*	*< 1year £'000*	*1 - 5 years*	*5 - 10 years*	*> 10 years*	*Total*
Debt securities						
Cash and cash equivalents						

At 31 December 2009	*Effective interest rate %*	*< 1year £'000*	*1 - 5 years*	*5 - 10 years*	*> 10 years*	*Total*
Debt securities						
Cash and cash equivalents						

(iii) Market prices

The equity securities and hedge funds that are recognised on the balance sheet at their fair value are susceptible to losses due to adverse changes in prices. Investments are made in equity and hedge funds depending on the syndicate’s appetite for risk. These investments are well diversified with high quality, liquid securities. The investment committee has established guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company.Listed investments are recognised on the balance sheet at quoted bid price. If the market for the investment is not considered to be active, then the fair value is established using valuation techniques. This includes using recent arm’s length market transactions, reference to current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants.

Notes to the financial statements

2 – Insurance and financial risk management *(continued)*

(d) Liquidity risk

The syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The syndicate's approach is to manage its liquidity position so that it can reasonably survive a significant loss event. This means that the group maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return.

(d) Operational risk

Operational risk arises from the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events.The syndicate actively manages these risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. The syndicate also regularly monitors the performance of its controls and adherence to these guidelines through the risk management reporting process.Key components of the group control environment include:

– ICA modelling of operational risk exposure and scenario testing;
– Management review of activities;
– Documentation of policies and procedures;
– Contingency planning; and
– Other systems controls.

Notes to the financial statements

3 – First time adoption of International Financial Reporting Standards

(a) The syndicate has adopted International Financial Reporting Standards (IFRS) for these financial statements for the year ended 31 December 2010. In order to show comparative balances, the year ended 31 December 2009 is also shown under IFRS. The date of transition to IFRS is 1 January 2009.

In general, an entity is required to determine its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS. However, International Financial Reporting Standard 1, First time adoption of International Financial Reporting Standards (IFRS 1) allows a number of exemptions to this general principle upon adoption of IFRS. The syndicate has taken advantage of the following transitional arrangements.

Fair value or revaluation as deemed cost

The syndicate has elected to measure intangible assets at date of transition at its fair value and use that fair value as its deemed cost at that date.

Estimates

Where estimates had previously been made under UK GAAP, consistent estimates (after adjustments to reflect any difference in accounting policies) have been made for the same date on transition to IFRS (ie judgements affecting the Syndicate's opening balance sheet have not been revisited for the benefit of hindsight).

Claims development

The Syndicate has elected to disclose only five years of data in its loss development tables, as permitted by IFRS 4 in the year of adoption of IFRS. This will be increased in each succeeding additional year, until the full ten years of information is included.

Notes to the financial statements

3 – First time adoption of International Financial Reporting Standards *(continued)*

(b) The following tables show the effect of adopting IFRS on the statements that have previously been reported under UK GAAP for the year ending 31 December 2009.

(ii) Reconciliation of profit

		31 December 2009		
	Note	UK GAAP as published £'000	Adjustments £'000	IFRS £'000
Income				
Gross written premiums				
Premiums ceded to reinsurers				
Premiums written net of reinsurance				
Change in provision for unearned premiums				
Gross Amount				
Reinsurers' share				
Net change in provision for unearned premiums				
Net premiums earned				
Fee and commission income				
Net investment income				
Expenses				
Claims and benefits paid				
Gross Amount				
Reinsurers' share				
Claims and benefits paid, net of recoveries from reinsurers				
Gross Amount				
Reinsurers' share				
Change in insurance liabilities, net of reinsurance				
Change in investment contract provisions				
Fee and commission expense				
Other expenses				
Finance costs				
Profit or loss for the period				

Notes to the financial statements

3 – First time adoption of International Financial Reporting Standards *(continued)*

(ii) Reconciliation of equity

		1 January 2009			31 December 2009		
		UK GAAP as published	Adjustments	IFRS	UK GAAP as published	Adjustments	IFRS
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Intangible assets							
- Deferred acquisition costs and other assets							
Financial investments							
- Equity securities							
- Debt securities - fixed rate							
- Debt securities - floating rate							
- Collective investment schemes							
- Derivative financial instruments							
Reinsurance assets							
Prepayments and accrued income							
Insurance receivables							
Reinsurance receivables							
Cash and cash equivalents							
Other assets							
Total assets							
Capital reserves							
Members' balances							
Liabilities							
Gross insurance liabilities							
Insurance payables							
Reinsurance payables							
Bank loans and overdrafts							
Other liabilities							
Total liabilities							

Notes to the financial statements

3 – First time adoption of International Financial Reporting Standards *(continued)*

(iii) Notes to principal changes are explained below

The UK GAAP balance sheet has been presented in a format consistent with IFRS.

The basis for the material adjustments between UK GAAP and IFRS is as follows:

(1) Investment valuation

Investments under UK GAAP are stated at current value at balance sheet date. All gains and losses on investments representing the difference between carrying value at balance sheet date and their purchase price are taken to the income statement. As a result of applying IAS 39 - Financial Instruments: Recognition and Measurement, the syndicate categorised all investments as financial assets through the income and valued it at fair value. Fair value is determined by reference to the current bid or current offer price.

(2) Insurance changes

Product classification
IFRS 4 - *Insurance Contracts* , requires all products issued to be classified for accounting purposes as either insurance or investment contracts, depending on whether significant insurance risk exists.

Deferred Acquisition Costs (DAC):
In addition to the change in liability valuation, the accounting for deferred acquisition costs has been revised in accordance with IAS 18. This restricts the types of acquisition costs that can be deferred, leading to a reduction in deferred acquisition costs as compared to UK GAAP.

(3) Cash and cash equivalents

IAS 7 - Cash Flow Statements defines these as short term (i.e. 3 months or less from date of purchase), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore all investments that meet this definition have been reclassified to cash and cash equivalents on transition.

Under UK GAAP Cash disclosed per the cash flow statement for the year ended 31 December 2009 amounted to £xxx. The move to IFRS had

(4) Foreign exchange

Under UK GAAP the syndicate was allowed to translate non-monetary balance sheet items at the closing rate. *IAS 21: The effects of changes in foreign exchange rates* requires non-monetary assets and liabilities to be recognised at the spot rate or at an appropriate average rate.

Notes to the financial statements

4 – Segmental information

(a) Primary reporting format – business segments

The syndicate is organised into the following classes of businesses which it underwrites, namely reinsurance, casualty, property, marine, motor, energy, aviation and life.
A description of each class underwritten is include in the risk management disclosures in note 2.

Segment Results by business segment		***Reinsurance***	***Casualty***	***Property***	***Marine***	***Motor***	***Energy***	***Aviation***	***Life***	***Total operations***
Year ended 31 December 2010	*Note*	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Income										
Gross written premiums										
Premiums ceded to reinsurers										
Premiums written net of reinsurance										
Change in provision for unearned premiums										
Gross Amount										
Reinsurers' share										
Net change in provision for unearned premiums										
Net premiums earned										
Fee and commission income										
Net investment income										
Expenses										
Claims and benefits paid										
Gross Amount										
Reinsurers' share										
Claims and benefits paid, net of recoveries from reinsurers										
Change in insurance liabilities, net of reinsurance										
Change in investment contract provisions										
Fee and commission expense										
Other expenses										
Finance costs										
Profit or loss for the period										

Notes to the financial statements

4 – Segmental information *(continued)*

(a) Primary reporting format – business segments *(continued)*

Other Information **At 31 December 2010**	*Note*	***Reinsurance*** **£'000**	***Casualty*** **£'000**	***Property*** **£'000**	***Marine*** **£'000**	***Motor*** **£'000**	***Energy*** **£'000**	***Aviation*** **£'000**	***Life*** **£'000**	***Total operations*** **£'000**
Segment assets										
Unallocated assets										
Total assets										
Segment liabilities										
Unallocated liabilities										
Total liabilities										
Capital Expenditure										
Depreciation										
Non-cash expenses other than depreciation										
Operating cashflows										
Investing cashflows										
Financing cashflows										

Notes to the financial statements

4 – Segmental information *(continued)*

(a) Primary reporting format – business segments *(continued)*

Segment Results by business segment Year ended 31 December 2009	*Note*	***Reinsurance*** **£'000**	***Casualty*** **£'000**	***Property*** **£'000**	***Marine*** **£'000**	***Motor*** **£'000**	***Energy*** **£'000**	***Aviation*** **£'000**	***Life*** **£'000**	***Total operations*** **£'000**
Income										
Gross written premiums										
Premiums ceded to reinsurers										
Premiums written net of reinsurance										
Change in provision for unearned premiums										
Gross Amount										
Reinsurers' share										
Net change in provision for unearned premiums										
Net premiums earned										
Fee and commission income										
Net investment income										
Expenses										
Claims and benefits paid										
Gross Amount										
Reinsurers' share										
Claims and benefits paid, net of recoveries from reinsurers										
Change in insurance liabilities, net of reinsurance										
Change in investment contract provisions										
Fee and commission expense										
Other expenses										
Finance costs										
Profit or loss for the period										

Notes to the financial statements

4 – Segmental information *(continued)*

(a) Primary reporting format – business segments *(continued)*

Other Information **At 31 December 2010**	*Note*	***Reinsurance*** **£'000**	***Casualty*** **£'000**	***Property*** **£'000**	***Marine*** **£'000**	***Motor*** **£'000**	***Energy*** **£'000**	***Aviation*** **£'000**	***Life*** **£'000**	***Total operations*** **£'000**
Segment assets										
Unallocated assets										
Total assets										
Segment liabilities										
Unallocated liabilities										
Total liabilities										
Capital Expenditure										
Depreciation										
Non-cash expenses other than depreciation										
Operating cashflows										
Investing cashflows										
Financing cashflows										

Notes to the financial statements

4 – Segmental information *(continued)*

(b) Secondary reporting format – geographical segments

Segment Revenue by geographical segment		***UK***	***US***	***Europe***	***Asia***	***Other***	***Total***
Year ended 31 December 2010	*Note*	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Income							
Gross written premiums							
Premiums ceded to reinsurers							
Premiums written net of reinsurance							
Fee and commission income							
Segment revenue							

Other Information		***UK***	***US***	***Europe***	***Asia***	***Other***	***Total***
At 31 December 2010	*Note*	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Segment assets							
Unallocated assets							
Total assets							

Capital Expenditure

Segment Revenue by geographical segment		***UK***	***US***	***Europe***	***Asia***	***Other***	***Total***
Year ended 31 December 2009	*Note*	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Income							
Gross written premiums							
Premiums ceded to reinsurers							
Premiums written net of reinsurance							
Fee and commission income							
Segment revenue							

Other Information		***UK***	***US***	***Europe***	***Asia***	***Other***	***Total***
At 31 December 2009	*Note*	***£'000***	***£'000***	***£'000***	***£'000***	***£'000***	***£'000***
Segment assets							
Unallocated assets							
Total assets							

Capital Expenditure

Notes to the financial statements

5 – Fee and commission income

	2010 £'000	2009 £'000
Profit commission		
Other income		
Total fee and commission income		

6 – Investment income

	2010 £'000	2009 £'000
Investment income at fair value through income statement		
- Dividend income		
- Interest income		
Realised gains/(losses) on financial investments at fair value through income statement		
- Equity securities		
- Debt securities		
Net fair value gains/(losses) on financial investments at fair value through income statement		
- Equity securities		
- Debt securities		
Total investment income		

7 – Fee and commission expense

	2010 £'000	2009 £'000
Acquisition costs		
Movement in deferred acquisition costs		
Other acquisition costs		
Auditors remuneration		
Audit services		
Other services		
Profit commission		
Total investment income		

Notes to the financial statements

8 – Other expenses

	Note	2010 £'000	2009 £'000
Administrative expenses			
Employment costs	*10*		
Other expenses			
Total other expenses			

9 – Finance Costs

	2010 £'000	2009 £'000
Interest expense		
Arrangement fees		
Total finance costs		

10 – Employment Costs

All staff are employed by XYZ Limited, the managing agency of Syndicate XYZ. The following cost were recharged to Syndicate XYZ in respect of salary costs.

	2010 £'000	2009 £'000
Salaries and bonuses		
Social security costs		
Other pension costs		
Total employment costs		

The average number of persons employed by Syndicate XYZ Management Company Ltd but working for Syndicate XYZ during the year was as follows:

	2010 £'000	2009 £'000
Administration and finance		
Claims		
Underwriting		

Notes to the financial statements

11 – Emoluments of the directors XYZ Group plc

The directors of XYZGroup plc received the following aggregate remuneration charged to the syndicate and included within other expenses:

	2010 £'000	2009 £'000
Emoluments		
Pension contributions (excluding provision for pension deficit)		
Total employment costs		

The active underwriter received the following remuneration charged as a Syndicate expense:

	2010 £'000	2009 £'000
Emoluments		
Pension contributions (excluding provision for pension deficit)		
Total employment costs		

Notes to the financial statements

12 – Deferred Acquisition Costs

At 31 December 2010	General insurance £'000	Life assurance £'000	Reinsurance £'000	Total £'000
Balance at 1st January				
Acquisition costs incurred in year				
Amortisation charged to income				
Impairment losses				
Balance at 31st December				

At 31 December 2009	General insurance £'000	Life assurance £'000	Reinsurance £'000	Total £'000
Balance at 1st January				
Acquisition costs incurred in year				
Amortisation charged to income				
Impairment losses				
Balance at 31st December				

Deferred acquisition costs are amortised over the estimated term of the contracts to which they relate. The stimated remaining contractual term of in-force contracts at the balance sheet date is as follows:

	2010		2009	
	Maximum	Average	Maximum	Average
General insurance				
Life assurance				
Reinsurance				

Notes to the financial statements

13 – Financial investments

At 31 December 2010	Fair value through profit or loss £'000	Held-to-maturity £'000	Loans and receivables £'000	Available-for-sale £'000	Total £'000
Equities					
Quoted					
Unquoted					
Debt securities - fixed rate					
Government bonds					
Other quoted					
Debt securities - floating rate					
Government bonds					
Other quoted					
Collective investment schemes					
Derivative financial instruments					

At 31 December 2009	Fair value through profit or loss £'000	Held-to-maturity £'000	Loans and receivables £'000	Available-for-sale £'000	Total £'000
Equities					
Quoted					
Unquoted					
Debt securities - fixed rate					
Government bonds					
Other quoted					
Debt securities - floating rate					
Government bonds					
Other quoted					
Collective investment schemes					
Derivative financial instruments					

All derivative instruments are classified as held for trading. All other financial assets classified as at fair value through profit or loss were designated as such on initial recognition.

Notes to the financial statements

12 – Financial investments (continued)

At 31 December 2010	Fair value through profit or loss £'000	Held-to-maturity £'000	Loans and receivables £'000	Available-for-sale £'000	Total £'000
Balance at 1 January					
Additions					
Sales and redemption proceeds					
Fair value net movements					
Impairment losses					
Effect of movements in foreign exchange					
Balance at 31 December					

At 31 December 2009	Fair value through profit or loss £'000	Held-to-maturity £'000	Loans and receivables £'000	Available-for-sale £'000	Total £'000
Balance at 1 January					
Additions					
Sales and redemption proceeds					
Fair value net movements					
Impairment losses					
Effect of movements in foreign exchange					
Balance at 31 December					

The fair value of held-to-maturity assets is based on their bid prices at balance sheet date.

The fair value of loans and receivables are determined by calculating the discounted value of the estimated future cashflows.

	2010 £'000	2009 £'000
Current		
Non-current		
Balance at 31 December		

Notes to the financial statements

14 – Reinsurance assets

	2010 £'000	2009 £'000
Reinsurers' share of claims		
Impairment provision		
Reinsurers' share of unearned premium reserve		

15 – Prepayments and accrued income

	2010 £'000	2009 £'000
Due within one year		
- Prepayments		
- Accrued interest		
- Accrued profit commission		
Due after one year		
- Prepayments		
- Accrued interest		
- Accrued profit commission		

16 – Insurance receivables

	2010 £'000	2009 £'000
Due within one year		
- Policyholders		
- Intermediaries		
Due after one year		
- Policyholders		
- Intermediaries		

The carrying amounts disclosed above reasonably approximate fair values.

Notes to the financial statements

17 – Reinsurance receivables

	2010 £'000	2009 £'000
Due within one year		
- Policyholders		
- Intermediaries		
Due after one year		
- Policyholders		
- Intermediaries		

The carrying amounts disclosed above reasonably approximate fair values.

18 – Cash and cash equivalents

	2010 £'000	2009 £'000
Cash at bank and on deposit		
Cash equivalents		
Bank loans and overdrafts		

The carrying amounts disclosed above reasonably approximate fair values.
All deposits are subject to an average variable interest rate of x.x% (2009: x.x%) and have an average maturity of x days (2009: x days).
Included in cash and cash equivalents are amounts totalling £xxx(2009: £xxx) held as Funds at Lloyd's.

Notes to the financial statements

19 – Insurance contracts and reinsurance assets

	2010			2009		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£'000	£'000	£'000	£'000	£'000	£'000
General insurance						
Claims notified						
Claims incurred but not reported						
Gross claims liabilities						
Unearned premiums						
Total general insurance liability						
Life insurance						
Individual business						
Group, multi-life and credit business						
Total life insurance liability						
Reinsurance						
Claims notified						
Claims incurred but not reported						
Gross claims liabilities						
Unearned premiums						
Total general insurance liability						
Total insurance liabilities						

	2010			2009		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Current						
Non-current						
Balance at 31 December						

Notes to the financial statements

19 – Insurance contracts and reinsurance assets *(continued)*

(a) Analysis of movements in insurance contract provisions

(i) General insurance

Claims Provisions	**2010**			**2009**		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Claims notified						
Claims incurred but not reported						
Balance at 1 January						
Claims paid						
Increase in claims						
- Arising from current year claims						
- Arising from prior year claims						
Net exchange differences						
Balance at 31 December						
Claims notified						
Claims incurred but not reported						
Balance at 31 December						

Unearned premiums	**2010**			**2009**		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January						
Premiums written during year						
Premiums earned during the year						
Other movements						
Net exchange differences						
Balance at 31 December						

Notes to the financial statements

19 – Insurance contracts and reinsurance assets *(continued)*

(a) Analysis of movements in insurance contract provisions *(continued)*

(ii) Life insurance

	2010			2009		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January						
New premiums received in year						
Claims due for payment in current year						
Other movements						
Net exchange differences						
Balance at 31 December						

(iii) Reinsurance

Claims Provisions	2010			2009		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Claims notified						
Claims incurred but not reported						
Balance at 1 January						
Claims paid						
Increase in claims						
- Arising from current year claims						
- Arising from prior year claims						
Net exchange differences						
Balance at 31 December						
Claims notified						
Claims incurred but not reported						
Balance at 31 December						

Notes to the financial statements

19 – Insurance contracts and reinsurance assets *(continued)*

(a) Analysis of movements in insurance contract provisions *(continued)*

(iii) Reinsurance (continued)

Unearned premiums	**2010**			**2009**		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January						
Premiums written during year						
Premiums earned during the year						
Other movements						
Net exchange differences						
Balance at 31 December						

(b) Assumptions, changes in assumptions and sensitivity

(i) Process used to decide on assumptions required

The assumptions used in the estimation of insurance assets and liabilities are intended to result in provisions which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably foreseen. However, given the uncertainty in establishing a provision for outstanding claims, it is likely that the final outcomes will prove to be different from the original liability established.

The syndicate uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The most prevalent of these is the chain-ladder, Bornhuetter-Ferguson methods and the expected loss ratio method.

Chain-ladder techniques are applied to premiums, paid claims or incurred claims(i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on historical patterns. The selected development factors are then applied to cumulative claims data for each underwriting year that is not yet fully developed to produce an estimated ultimate claims cost for each underwriting year.

Chain-ladder techniques are most appropriate for classes of business that have a relatively stable development pattern. Chain ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business or for years of account that are still at immature stages of development where there is a relatively higher level of assumptions volatility.

Notes to the financial statements

19 – Insurance contracts and reinsurance assets *(continued)*

(b) Assumptions, changes in assumptions and sensitivity *(continued)*

(i) Process used to decide on assumptions required (continued)

The Bornhuetter-Ferguson method uses a combination of a benchmark/market based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims obeserved to date. The two estimates are combined using a formula that gives more weight to the experience based estimate as time passes. This techniques has been used in situations where developed claims experience was not available for the projection (i.e. recent underwriting years or new classes of business).

The expected loss ratio method uses a benchmark/market based estimate applied to the expected premium and is used for classes with little or no relevant historical data.

The choice of selected results for each year for each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual underwriting years or groups of underwting years within the same class of business.

(ii) Sensitivity analysis

The tables below show the development of claims over a period of time on a gross and net reinsurance basis. The tables show cumulative incurred claims, including both notified and IBNR claims, for each successive underwriting year at each balance sheet together with cumulative claims as at current balance sheet.

The claims have been adjusted to make them comparable on a year by year basis. In addition claims in currencies other than sterling have been retranslated at 31 December 2010 exchange rates.

Ultimate gross claims	**2006 and prior years £'000**	**2007 £'000**	**2008 £'000**	**2009 £'000**	**2010 £'000**	**Total £'000**
At end of underwriting year						
One year later						
Two years later						
Three years later						
Four years later						
Estimate of cumulative claims						
Cumulative claims paid						
Less third party participations on syndicate						
Gross liability as per the balance sheet						

Notes to the financial statements

19 – Insurance contracts and reinsurance assets *(continued)*

(b) Assumptions, changes in assumptions and sensitivity *(continued)*

(ii) Sensitivity analysis (continued)

Ultimate net claims	**2006 and prior years £'000**	**2007 £'000**	**2008 £'000**	**2009 £'000**	**2010 £'000**	**Total £'000**
At end of underwriting year						
One year later						
Two years later						
Three years later						
Four years later						
Estimate of cumulative claims						
Cumulative claims paid						
Less third party participations on syndicate						
Net liability as per the balance sheet						

The syndicate has taken advantage of the exemption in IFRS 4 Insurance Contracts which permits an entity not to disclose information about claims development that occurred earlier than 5 years before the end of the first financial year in which it applies this standard.

Notes to the financial statements

20 – Insurance payables

	2010 £'000	2009 £'000
Due within one year		
Due after one year		

The carrying amounts disclosed above reasonably approximate fair values.

21 – Reinsurance payables

	2010 £'000	2009 £'000
Due within one year		
Due after one year		

The carrying amounts disclosed above reasonably approximate fair values.

22 – Reconciliation of members balances

	2010 £'000	2009 £'000
Balance at 1 January		
Prior year adjustments (note 1)		
Restated balance at 1 Janaury		
Total recognised income and expense for the year		
Transfers from members' personal reserve fund		
Transfers to members' personal reserve fund		
Balance at 31 December		

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

Notes to the financial statements

23 – Related parties transactions

XYZ Limited, the managing agency of Syndicate XYZ, is a wholly owned subsidiary of XYZ Group plc. The directors of XYZ Group plc have participated in Syndicate XYZ either directly through NamesCos or indirectly through XYZ Underwriting Ltd. Details of the participations are disclosed in the managing agent's report on page xx. The directors shareholdings in XYZ Group plc, which provides the capacity for Syndicate XYZ, is shown below.

	Shareholding of XYZ Group plc as at 31 December 2010	Shareholding of XYZ Group plc as at 31 December 2009
Mr X		
Mr Y		
Mr Z		

XYZ Limited, the managing agent, incurs a large proportion of the expenses incurred in operating Syndicate XYZ and recharges them to the Syndicate on a basis that reflects the Syndicate's usage of resources. The recharges are included within amounts disclosed as net operating expenses, acquisition costs and claims incurred. Included within the recharges are amounts relating to the remuneration of Directors of XYZ Group plc. The total amount recharged by the managing agent to the Syndicate during 2010 was £xm excluding agent fees and profit commission. As at 31 December 2010 an amount of £xm was due to the managing agent in relation to expenses.

24 – Funds at Lloyd's

Every member is required to hold capital at Lloyd's to support their underwriting, which is held in trust and known as Funds at Lloyd's (FAL). These funds are required primarily in case syndicate assets prove insufficient to meet members' underwriting liabilities.

The level of FAL which Lloyd's requires a member to maintain is determined in accordance with Lloyd's Individual Capital Assessment (ICA) capital setting framework. This assesses the nature and the amount of risk to be underwritten by the member as well as an assessment of the reserving risk in respect of that business. FAL is not dedicated to any specific syndicate year of account participation for any member.

25 – Post balance sheet event

The reinsured to close premium for the syndicate's 2008 year of account was finalised on 27th February 2011. The 2008 year of account was reinsured by a third party, the reinsurance to close premium amounted to £xxx (31 December 2009 £xxx).

LLOYD'S / LMA IFRS WORKING GROUP
Appendix D – Summary of Phase II 'Insurance Contracts' Discussion Paper

1 Purpose

1.1 This paper provides a brief outline of the International Accounting Standards Board's (IASB) Discussion Paper, 'Preliminary Views on Insurance Contracts', issued on 3 May 2007. It includes a brief commentary on the potential impact on Lloyd's of these proposals.

2 Background

2.1 The discussion paper sets out the IASB's preliminary views on the main components of an accounting model for insurance contracts in Phase II of the insurance contracts project. The IASB decided to develop an IFRS on insurance contracts because:

- there was no IFRS on insurance contracts, and insurance contracts were excluded from the scope of existing IFRSs that would otherwise have been relevant (e.g. IFRSs on provisions, financial instruments, intangible assets); and

- accounting practices for insurance contracts were diverse, and also often differed from practices in other sectors.

2.2 The IASB completed Phase I of this project in March 2004 by issuing IFRS 4 'Insurance Contracts'. IFRS 4 was an interim measure until certain insurance specific issues could be resolved.

3 Contents of the discussion paper

3.1 The discussion paper does not cover accounting by policyholders for insurance contracts. It deals with insurance liabilities and insurance assets for all types of insurance contracts, ie life and non-life, direct insurance and reinsurance. The paper sets out the IASB's preliminary views on the following key areas:

- recognition and derecognition;
- measurement issues;
- policyholder behaviour, customer relationships and acquisition costs;
- policyholder participation (not generally relevant for syndicates); and
- changes in insurance liabilities.

4 Proposed key principles

4.1 Recognition and derecognition

4.1.1 An insurer should recognise rights and obligations created by an insurance contract when it becomes a party to that contract. An insurer should derecognise an insurance liability (or part of an insurance liability) when it is extinguished, i.e. when the obligation specified in the contract is either discharged, cancelled or expires.

Impact on Lloyd's

Currently, where a Lloyd's syndicate has reinsured a year of account into another syndicate, the responsibility for accounting for the run-off of that business passes to the managing agent of the accepting syndicate. No further reporting requirements apply in respect of the ceding syndicate.

An interpretation of the derecognition proposals could be to require the ceding syndicate to account for the run-off of its former liabilities, until such time as they are fully extinguished, which may take many years.

However it is considered that in substance the liabilities from the viewpoint of the ceding syndicate is extinguished. Any claims in respect of the reinsured syndicate would be met from the premium trust funds of the reinsuring syndicate, or failing that the funds at Lloyd's of the members on the reinsuring syndicate would be available to meet any outstanding claims. Finally, the Central assets of the Society would, at the discretion of the Council of Lloyd's, ultimately be available to meet any unpaid claims.

Therefore no significant impact for Lloyd's syndicates is envisaged by these proposals.

4.2 Measurement

Core issues

4.2.1 An insurer should measure its insurance liabilities using the following three building blocks:
- estimates of the contractual cash flows (these should be explicit, unbiased, market-consistent, probability-weighted and current);
- the effect of time value of money (using current market discount rates that adjust the estimated cash flows); and
- a risk margin (an explicit and unbiased estimate of the margin that market participants require for bearing risk) and, if any, a service margin (a margin for providing services).

4.2.2 In the IASB's view, a measurement using the three building blocks will provide several benefits to users of an insurer's financial statements:

- relevant information about the amount, timing and uncertainty of future cash flows arising from existing insurance contracts;
- explicit and more robust estimates of cash flows for the time value of money;
- a consistent approach to changes in estimates; and
- an appropriate and consistent approach for all types of insurance and reinsurance contracts.

The IASB is also of the view that this will provide a coherent framework to deal with more complex contracts (such as multi-year, multi-line of stop loss contracts) and to resolve emerging issues without resorting to unprincipled distinctions and arbitrary new rules. This will also limit the need for arbitrary rules on such matters as embedded derivatives, financial reinsurance and amendments to existing contracts.

4.2.3 'Current exit value' is a measurement that uses the above building blocks, and is defined as the amount that the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity. Use of the measurement does not imply the intention that an insurer can, will or should transfer the liabilities to a third party.

4.2.4 A concern regarding the current exit value model, is that it would permit the recognition of a profit on the inception of a contract. However, if the risk margin in the valuation model is calibrated to the observed price for the transaction with the policyholder, then the insurer would never recognise a profit at inception.

<u>Impact on Lloyd's</u>

The third building block of the "current exit value" model employs risk margins, which accounts for an explicit and unbiased estimate of an insurer's compensation for accepting risk. The provision of an explicit margin within the technical provisions is quite different from the prudent reserving approach currently required. The IASB has set out two implementation options (A & B – see paragraph 78 on page 47 of the discussion paper for a detailed description of each option) for measuring insurance liabilities at current exit value. Currently the IASB favours implementation B, which raises a further issue in that the recognising of profit on inception of an insurance contract would be allowed.

Finally, irrespective of which implementation option is adopted syndicates would no longer account for unearned premium.

Other issues

4.2.5 Assets held by insurers:
The IASB does not intend to change existing IFRSs for assets held by insurers (except possibly for some assets relating to unit-linked contracts).

4.2.6 Unit of account:
Risk margins should be determined for a portfolio of insurance contracts that are subject to broadly similar risks and are managed together as a single portfolio. Risk margins should not reflect the benefits of diversification or negative correlation between portfolios.

4.2.7 Reinsurance assets:
A cedant should measure reinsurance assets at current exit value (i.e. should incorporate a reduction for the expected present value of losses from defaults or disputes and a risk margin that these may exceed the expected value).

4.2.8 Unbundling:
Some insurance contracts contain both an insurance component and a deposit component. If the components are so interdependent that the components can be measured only on an arbitrary basis, the Phase II standard should apply to the whole contract. If the components are not interdependent the Phase II standard should apply to the insurance component and IAS 39 should apply to the deposit component. If the components are interdependent but cannot be measured separately on a basis that is not arbitrary, the insurance component would be measured as the difference between the measurement of the whole contract applying the Phase II standard and the measurement of the deposit component applying IAS 39.

Impact on Lloyd's

The accounting for general insurance contracts would possibly be affected in the case of reinsurance or direct insurance contracts affected by experience mechanisms, or financial reinsurance contracts where the cedent withholds part of the premiums as a deposit.

The proposals for life business are unlikely to affect the straightforward term life contracts written at Lloyd's.

4.2.9 Credit characteristics of insurance liabilities:
If an insurer measures its insurance liabilities at current exit value, that measurement should reflect the liability's credit characteristics, and an insurer should disclose the effect that the credit characteristics of an insurance liability has on its initial measurement and subsequent changes in their effect.

4.2.10 Investment contracts:
The discussion paper includes no proposals for investment contracts. Therefore insurers who issue such contracts will continue to account for them based on the existing requirements of IAS 39 and IAS 18.

4.3 Policyholder behaviour, customer relationships and acquisition costs

4.3.1 An insurer has an asset relating to its ability to derive net economic benefits from future premiums that the policyholder must pay to retain guaranteed insurability, which is a right that permits continued coverage without reconfirmation of the policyholder's risk profile, at a price that is contractually constrained.

4.3.2 The insurer should recognise that asset, and measure it at current exit value, but should recognise acquisition costs as an expense when it incurs them.

Impact on Lloyd's

We believe it will be more relevant to Lloyd's life syndicates in respect of products issued with term durations stretching over multiple years. A good example would be a term life insurance product, where the insurer has a contractual right to receive future premiums from the policyholder in order for them to retain their guaranteed insurability. Guaranteed insurability only exists where there is a right that permits continued coverage without the policyholder being required to reconfirm his risk profile, and where the price is contractually constrained. It should be noted that the fact that a policyholder will more than likely renew their expiring product, does not meet the definition of guaranteed insurability, and therefore recognition of an asset for expected renewal premiums would be prohibited. From a general insurance perspective, insurance products involving construction products may be an example where future premiums should be recognised as an asset.

4.4 Changes in insurance liabilities

4.4.1 Profit or loss should include all changes in the carrying amount of insurance liabilities.

4.4.2 In developing an exposure draft, the IASB will consider whether an insurer should present premiums as revenue or deposit receipts, and whether the face of an insurer's income statement should present separately specified components of the changes in the carrying amount of insurance liabilities.

5 Timetable

5.1 The public consultation will last for a period of six months, with all comments received by the IASB by 16 November 2007 being considered. It is anticipated that the exposure draft will be published towards the end of 2008, and that the new standard will be in place in 2010.

LLOYD'S / LMA IFRS WORKING GROUP
APPENDIX E - MEMBERS OF IFRS WORKING GROUP

Paul Appleton	Lloyd's	Chairman
Paul Dixon	Cathedral	
Alex Macinnes	Catlin	
Mauricio Carrillo	Chaucer	
David Roberts	CLB Littlejohn Frazer	
Neil Coulson	CLB Littlejohn Frazer	
Colin Rawlings	Deloittes	
David Heaton	Deloittes	
Stuart Dawes	Ernst & Young	
Stuart Bridges	Hiscox	
Danny Clark	KPMG	
Tony Hulse	KPMG	
John Dunn	Liberty	
Glenn Carrick	Lloyd's	
John Parry	Lloyd's	
Gary Budinger	LMA	Secretary
Pat Hakong	LMA	
Andrew Goldsworthy	Mazars	
Paul Bennett	Mazars	
Jonathan Price	PWC	
Philip Calnan	PWC	
Richard Rees	QBE	