

995253

GROUPAMA INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

FOR YEAR ENDED 31 DECEMBER 2009



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Directors and Officers

Executive Directors

F-X Boisseau	Chief Executive Officer
L Matras	Managing Director
P W Picknett	Corporate Director
R L Sampson	Finance Director

Non-Executive Directors

J-F Lemoux	Chairman
J-P Decool	
C R Dollé	
J-M Fabre	
M B G Habig	
G J H M Joalland*	
J D Morgan*	
B A Pottier	
J-J Rozier	

*Member of the Audit, Risk and Compliance Committee

Secretary

D C Ragan

Registered Office

6th Floor, One America Square, 17 Crosswall, London, EC3N 2LB

Registered Number

995253

Auditors

Mazars LLP, Tower Bridge House, St Katharine's Way, London E1W 1DD

Directors' Report

The Directors of Groupama Insurance Company Limited present their Report and the audited Financial Statements of the Group for the year ended 31 December 2009

Principal activity and review of business

The principal activity of the Group is that of an authorised insurer transacting general insurance business in the UK

The Group recorded a profit after tax of £53,108,000 (2008 £18,464,000) which the Directors consider to be a satisfying result in light of current market and economic conditions

The insurance operations of the Group are assessed with reference to the net technical result. The principal key performance indicators that the Directors and senior managers use are the combined loss ratio, which measures 106.2% (2008 102.7%) and the investment yield which was 4.6% (2008 5.0%).

The Group is an insurance business with the primary activity of the evaluation and acceptance of risk. As such the Group is exposed to a number of risks including market risk, credit risk, operational risk, insurance risk and capital risk. The Board is responsible for the Group's systems of internal controls and for the review of control effectiveness. The internal controls within the Group are designed to manage rather than eliminate risk, and aim to provide assurance that risks are managed to an agreed appetite. The Group operates in a corporate governance structure which includes a Risk Committee and an Audit Committee. These meet regularly to provide an oversight of the risk and control environment and reports from these committees are provided to the Board. Further information regarding risk management is given in Note 3.

The Group has commenced preparation for the implementation of Solvency II. The project will incorporate a review of the current governance structure in line with Solvency II best practice. The Directors believe that the Group will adhere to the FSA's expectations regarding resources and timeliness of deliverables.

Dividends

A dividend of £10,000,000 was paid on 21 May 2009 (2008 £10,000,000).

Future business developments

The Company has prepared a plan for 2010 which anticipates broadly unchanged premium income. The Company does however remain alert to business opportunities which fit with the UK group's strategic plans.

Groupama UK Services Limited

As noted previously, the services provided by Groupama UK Services ('GUKS') were transferred to the Company on 1 January 2009. Accordingly most of the assets and liabilities of GUKS were transferred to the Company at net book value. Contracts of employment with GUKS were transferred to the Company on the same date. Following the transfer, the Company provides services to GUK Broking Services Limited.

Donations

During the year the Group made charitable donations of £47,000 (2008 nil) and no political donations (2008 nil).

Creditor Payment Policy

The Group's policy is to pay each supplier in accordance with the settlement terms agreed with that supplier at the time of contracting for their goods and services. The Group does not follow a standard or code that deals specifically with payment of suppliers. Trade creditor days at 31 December 2009 were 8.3 days based on the ratio of trade creditors at the end of the year to the amounts invoiced in the year by trade creditors.

Directors' Report (continued)

Employees

The Board recognises that the continuing success of the Group depends on its employees and implements policies designed to attract, train, develop and retain talented individuals

Consultation with employees is conducted at levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that, subject to due compliance with all applicable legal and regulatory requirements, all employees are aware of the financial and economic performance of the Group. Communication with employees is made through a variety of media including email, use of intranet sites and briefing events

The Group is an equal opportunity employer and bases decisions on individual ability regardless of race, religion, gender, age or disability. The Group's equal opportunities policy is designed to ensure that all applicants are given the same consideration when they apply for jobs and that all employees enjoy appropriate training and career development

Disclosure of information to auditors

So far as the Directors believe, there is no relevant information of which the Company's auditors are unaware. The Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors have been informed of that information

Directors' interests

None of the Directors holding office at the year end had a beneficial interest in the shares of the Company or any other group company

Directors

The present Directors of the Company are shown on page 2. A. P. M. Cornut-Chauvinc resigned as a Director on 1 July 2009. All other Directors have served throughout the year

Indemnification of Directors

The Directors have benefited from the provision of a third party indemnity during the year

Auditors

Mazars LLP have expressed their willingness to continue in office and a proposal to reappoint Mazars LLP as auditors will be made at the Annual General Meeting

By order of the Board



D. C. Ragan
Company Secretary
5 February 2010

6th Floor,
One America Square,
17 Crosswall,
London EC3N 2LB,
United Kingdom

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business

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

Independent Auditors' Report

For the year ended 31 December 2009

Independent auditors' report to the members of Groupama Insurance Company Limited

We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of Groupama Insurance Company Limited for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the Company's members as a body in accordance with Chapter 3 of Article 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the Financial Statements

A description of the scope of an audit of Financial Statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on the Financial Statements

In our opinion the Financial Statements

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company Financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Mazars LLP

Mazars LLP
For and on behalf of Mazars LLP,
Chartered Accountants (Statutory Auditors)
Raymond Tidbury (Senior statutory auditor)
5 February 2010

Tower Bridge House, St Katharine's Way,
London E1W 1DD, United Kingdom

Consolidated Income Statement

For the year ended 31 December 2009

		31 December 2009 £000	31 December 2008 £000
	Notes		
Income			
Gross premiums written	27 (b)	450,287	433,250
Change in gross unearned premiums	27 (b)	(20,793)	(12,131)
Gross premiums earned	27 (b)	429,494	421,119
Written premiums ceded to reinsurers		(22,058)	(27,098)
Change in reinsurers' share of unearned premium	27 (b)	(866)	(854)
Net premiums earned		406,570	393,167
Investment income	5	28,809	29,407
Other income	6	2,184	232
Total income		437,563	422,806
Expenses			
Claims incurred, net of reinsurance	7,27 (c)	(295,918)	(277,290)
Change in other technical reserves, net of reinsurance	27 (d)	771	272
Acquisition costs	8	(108,918)	(99,176)
Administrative expenses	9	(28,849)	(27,565)
Other charges	12	(1,507)	(583)
Operating profit		3,142	18,464
Finance costs	13	(83)	-
Profit before tax		3,059	18,464
Taxation	14	50,049	-
Profit for the year		53,108	18,464

The Notes on pages 12 to 44 form an integral part of these Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

		31 December 2009 £000	31 December 2008 £000
	Notes		
Profit for the year		53,108	18,464
Other Comprehensive income net of tax			
Actuarial (losses) gains on defined benefit pension scheme	28	(22,419)	3,085
Tax relating to actuarial losses (gains)		7,653	-
Change in fair value of financial assets available for sale	18	24,811	(5,004)
Tax relating to fair value (losses) gains		(6,947)	-
Other comprehensive income for the year net of tax		3,098	(1,919)
Total comprehensive income for the year		56,206	16,545

The Notes on pages 12 to 44 form an integral part of these Financial Statements

Consolidated and Company Statements of Financial Position

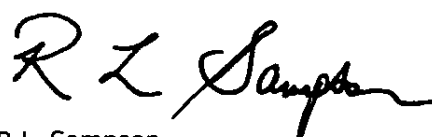
As at 31 December 2009

		Group		Company	
		31 December 2009 £000	31 December 2008 £000	31 December 2009 £000	31 December 2008 £000
	Notes				
ASSETS					
Intangible assets	15	803	937	803	937
Investments in group undertakings	16	-	-	2,000	2,000
Property, plant and equipment	17	4,420	-	4,420	-
Financial assets	18	567,080	558,356	567,080	558,356
Deferred tax asset	19	71,159	20,408	71,159	20,408
Deferred acquisition costs	20	53,809	47,227	53,809	47,227
Reinsurance assets	21	51,296	65,888	51,296	65,888
Insurance and other receivables	22	109,237	101,568	109,237	101,568
Cash and cash equivalents	23	105,238	66,804	102,649	64,237
Total assets		963,042	861,188	962,453	860,621
EQUITY					
Called up share capital	24	118,064	118,064	118,064	118,064
Retained earnings		70,437	24,231	69,848	23,664
Total equity		188,501	142,295	187,912	141,728
LIABILITIES					
Provisions for other risks and charges	26	3,779	340	3,779	340
Insurance contract provisions	27	672,622	644,461	672,622	644,461
Employee benefits	28	49,893	31,663	49,893	31,663
Trade and other payables	29	36,468	42,224	36,468	42,224
Financial liabilities	30	715	-	715	-
Accruals and deferred income		11,064	205	11,064	205
Total liabilities		774,541	718,893	774,541	718,893
Total equity and liabilities		963,042	861,188	962,453	860,621

The Financial Statements on pages 7 to 44 were approved by the Board of Directors on 5 February 2010 and signed on its behalf by



F-X Boisseau
Chief Executive Officer



R L Sampson
Finance Director

The Notes on pages 12 to 44 form an integral part of these Financial Statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2008	118,064	17,686	135,750
Total comprehensive income for the year	-	16,545	16,545
Equity dividends	-	(10,000)	(10,000)
Balance at 31 December 2008	118,064	24,231	142,295
Total comprehensive income for the year	-	56,206	56,206
Equity dividends	-	(10,000)	(10,000)
Balance at 31 December 2009	118,064	70,437	188,501

Company Statement of Changes in Equity

For the year ended 31 December 2009

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2008	118,064	17,235	135,299
Total comprehensive income for the year	-	16,429	16,429
Equity dividends	-	(10,000)	(10,000)
Balance at 31 December 2008	118,064	23,664	141,728
Total comprehensive income for the year	-	56,184	56,184
Equity dividends	-	(10,000)	(10,000)
Balance at 31 December 2009	118,064	69,848	187,912

The Notes on pages 12 to 44 form an integral part of these Financial Statements

Consolidated and Company Statements of Cash Flows

For the year ended 31 December 2009

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Profit before tax	3,059	18,464	3,039	18,346
Investment income per the Income Statement	(28,809)	(29,407)	(28,789)	(29,289)
Change in deferred acquisition costs	(6,582)	(6,357)	(6,582)	(6,357)
Finance costs per the Income Statement	83	-	83	-
Employee benefits charged to the Income Statement	1,213	350	1,213	350
Amortisation, depreciation and impairment charges	1,637	134	1,637	134
Investment income received net of expenses	30,564	30,482	30,544	30,364
Change in insurance contract provisions, net of reinsurance	42,753	16,266	42,753	16,266
Change in insurance and other receivables	(7,919)	18,313	(7,919)	18,313
Change in trade and other payables	3,003	(15,737)	3,003	(15,737)
Purchase of property, plant and equipment	(2,117)	-	(2,117)	-
Income tax received	878	-	878	-
Change in accruals and provisions	(190)	(104)	(190)	(104)
Cash received in respect of transfer of net liabilities from fellow subsidiary undertaking	1,202	-	1,202	-
Contributions to defined benefit pension scheme	(5,402)	(4,806)	(5,402)	(4,806)
Net cash flow from operating activities	33,373	27,598	33,353	27,480
Net sale (purchase) of financial assets	15,149	(23,778)	15,149	(23,778)
Net cash flow from investing activities	15,149	(23,778)	15,149	(23,778)
Dividends paid	(10,000)	(10,000)	(10,000)	(10,000)
Payments paid under finance leases	(88)	-	(88)	-
Net cash flow from financing activities	(10,088)	(10,000)	(10,088)	(10,000)
Cash and cash equivalents at 1 January	66,804	72,984	64,235	70,533
Net cash flow from operating activities	33,373	27,598	33,353	27,480
Net cash flow from investing activities	15,149	(23,778)	15,149	(23,778)
Net cash flow from financing activities	(10,088)	(10,000)	(10,088)	(10,000)
Cash and cash equivalents at 31 December	105,238	66,804	102,649	64,235

The Notes on pages 12 to 44 form an integral part of these Financial Statements

Notes to the Financial Statements

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These Financial Statements have been prepared in accordance with the International Financial Reporting Standards and IFRIC interpretations applicable for annual accounting periods commencing on or after 1 January 2009, as endorsed by the European Union ('EU')

The Financial Statements reflect the adoption of the revised IAS 1 ('Presentation of Financial Statements') which became effective for accounting periods beginning on or after 1 January 2009. The main effect of adopting IAS 1 (R) has been to present information previously in the Notes to the accounts in a new financial statement, the Statement of Changes to Equity. The Standard introduces a Statement of Comprehensive Income, which for the Group is identical to the Statement of Recognised Income and Expenditure reported in previous years. Similarly the Balance Sheet has been renamed the Statement of Financial Position and the Cash Flow Statement renamed as the Statement of Cash Flows.

Given that there is no impact on the financial statements reported previously, the Group has not presented a Statement of Financial Position as at 31 December 2007.

In accordance with IFRS 4 (Insurance Contracts), the Group continues to apply existing accounting policies to its insurance contracts thereby complying with the Statement of Recommended Practice ('SORP') on Accounting for Insurance Businesses issued by the Association of British Insurers in December 2005 (as amended in December 2006).

(b) Basis of presentation

The Groupama Insurance Group (the Group) comprises Groupama Insurance Company Limited and its subsidiary undertakings. The Financial Statements are presented in Pounds Sterling and are rounded to the nearest thousand. They are prepared on the historical cost basis except that equities and fixed income securities are stated at their fair value. The Company is a wholly owned subsidiary of Groupama S.A. which itself produces consolidated accounts which are publicly available.

The Company is taking advantage of the exemption in S408 of the Companies Act 2006 not to present its individual Statement of Consolidated Income and related notes that form part of a full set of financial statements. The profit of the Company for the year is £53,088,000 (2008: £18,348,000).

The preparation of the Financial Statements in accordance with IFRS requires Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on past experience and other factors that are believed to be reasonable in the circumstances. Actual results may differ from these estimates. Judgements made by Management in the application of IFRS that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustment in future financial years are discussed in Note 2.

(c) Basis of consolidation

The consolidated Financial Statements incorporate the assets, liabilities and results of the Company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiary undertakings acquired or sold during the period are included in the consolidated results from the date of acquisition or up to the date of disposal. On acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Notes to the Financial Statements

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intra-group balances, transactions and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated Financial Statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Subsidiaries are all entities over which the Group (indirectly or directly) has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from the consolidation on the date on which control ceases.

Associated undertakings are companies other than subsidiary undertakings in which the Group holds 20% or more of the equity share capital for the long term and over which the group exercises significant influence but not control. Associated undertakings are accounted for using the equity method of accounting. The Income Statement reflects the Group's share of the post-acquisition results of operations of the associated undertaking. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

(d) Classification of contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. The Group has undertaken a detailed review of all its underwriting contracts and classified all these as insurance contracts.

(e) Recognition and measurement of contracts

The results for all classes of business are determined on an annual basis whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

(I) Premiums written

Premiums written relate to business inception during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Group, less any allowance for cancellations.

Premiums written are accounted for gross of commission except for premium on policies sold through certain intermediaries, whereby those intermediaries are responsible for setting the amount charged to the policyholder. In accordance with the terms of the underwriting agreements with those intermediaries, the Group has recognised only the premium receivable from the intermediaries, which excludes any commission charged by the intermediaries to the policyholders.

(II) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the date of the statement of financial position, calculated on a time apportionment basis.

(III) Acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

Notes to the Financial Statements

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(IV) Liability adequacy test

At the date of each statement of financial position, liability adequacy tests are performed by each underwriting area of the Group to ensure that insurance liabilities are sufficient with regard to current estimates of future cash flows generated by insurance contracts, net of related deferred acquisition costs. Future cash flows resulting from contracts take into account their attached cover and options. In performing these tests current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the Income Statement by establishing an unexpired risk reserve.

(V) Claims incurred

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

(VI) Claims outstanding

Provision is made at the year end for the estimated cost of claims incurred but not settled at the date of the statement of financial position, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims. A separate asset is booked for the expected value of salvage and other recoveries. The Group does not discount its liabilities for unpaid claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original provision established.

(VII) Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to policyholders.

The benefits to which the Group and Company is entitled under outward reinsurance contracts are recognised as reinsurance assets. These assets consist of short term balances due from reinsurers (classified within "insurance and other receivables") as well as longer term receivables (classified as "reinsurance assets"). Amounts recoverable from reinsurers are estimated in a manner consistent with claims outstanding provisions or settled claims.

Amounts receivable under reinsurance contracts are assessed for impairment at each date of the statement of financial position. Such assets are deemed impaired if there is objective evidence as a result of an event that occurred after initial recognition, that the Group and Company will not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Group and Company will receive from the reinsurer.

(f) Income

Income comprises insurance premiums earned, net of reinsurance, commission income and investment income. The accounting policy in relation to insurance premiums is disclosed above in (e) and in relation to investment income in (j) below.

(g) Intangible assets

Costs that are directly attributable to selling rights to customer contract relationships are recognised as an intangible asset where they can be separately identified and measured reliably and it is probable they will be recovered by directly related future profits. These costs are amortised over their useful economic life of 10 years and are carried at cost less accumulated amortisation and impairment losses.

Notes to the Financial Statements

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investments in Group undertakings

The Company recognises all investments in group undertakings at cost less provisions for impairment in value

(i) Property, plant and equipment

Property, plant and equipment costs are stated at cost less accumulated depreciation. Depreciation is calculated so as to write off the cost of such assets on a straight line basis over their useful economic life which are determined as follows

Fixture & fittings	4 to 5 years
Office equipment	4 to 5 years
Computer equipment	2 to 4 years
Motor vehicles	4 to 5 years

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount. Gains and losses on disposal are included in the Income Statement

(j) Financial assets

The Group's and the Company's financial assets comprise shares, fixed interest securities, deposits (to the extent they have a maturity date of more than 3 months from the date of placement) and loans. Financial assets are recognised when the Group becomes a party to the contractual provisions of these assets. Financial assets are derecognised when the contractual rights expire or when the assets and substantially all the risks and rewards of ownership are transferred from the Group.

Shares and fixed interest securities are classified as "available for sale" and recorded at fair value which in all cases is mark to market. Movements in the fair value of these assets are recorded in the Statement of Comprehensive Income unless a financial asset is considered impaired, in which case the amount of the impairment is recognised in the Income Statement.

Deposits and loans are recorded at historical cost.

Financial assets are measured without any deduction for transaction costs that the Group may incur on disposal. The fair value of quoted investments is the quoted bid price at the date of the statement of financial position.

Investment income comprises all interest and dividend income, movements in amortised cost on fixed interest securities and realised gains and losses, net of investment expenses, impairment charges and interest payable. Interest income is recognised as it accrues, taking in to account the effective yield on the investment. 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. The amount that is recognised in the Income Statement is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the Income Statement.

At the date of each statement of financial position the Group looks for the existence of objective presumptions of depreciation in its investments. The criteria for impairment of shares are based on the significance of the fall in fair value taking into account the volatility of the financial markets during the accounting period. Impairment tests are undertaken at 30 June and at the date of the statement of financial position. Any impairment of shares recognised at either date cannot be subsequently reversed through the Income Statement unless the shares are sold. The criteria for impairment of fixed interest securities are based on the likelihood of the bond issuers defaulting on the repayment of principal. Any impairment of fixed interest securities can be reversed through the Income Statement in a subsequent accounting period.

Notes to the Financial Statements

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Cash and cash equivalents

The Group and Company have classified bank deposits and cash balances as cash and cash equivalents. These assets are readily convertible into known amounts of cash and are subject to inconsequential changes in value. A deposit is deemed a cash equivalent if it has less than three months to maturity at the time of placement. For the purposes of the cash flow statement, cash and cash equivalents are shown net of any bank overdrafts.

(l) Impairment of assets

Impairment of reinsurance assets is outlined in (e)(VII) above, of financial assets in (j) above and of intangible assets in (g) above. The carrying amount of the Group's and the Company's other assets are reviewed at the date of the statement of financial position to determine whether there is any indication of impairment. An impairment loss is recognised to the extent by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value and value in use. In all cases, impairment losses are recognised in the Income Statement.

In respect of these other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying value that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Leases

Rentals payable under operating leases are charged on a straight-line basis over the lease term. All such leases are for properties occupied by the Group.

Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in financial liabilities. The interest element of the finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

(n) Foreign currency translation

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at date of the statement of financial position. Transactions in foreign currencies are translated into sterling at the rates of exchange prevailing at the date of the transaction. Gains and losses arising on translation are accounted for in the Income Statement.

(o) Income tax

Income taxes include all taxes, both current and deferred. Income tax is recognised in the Income Statement except where it relates to an item which is recognised in the Statement of Comprehensive Income. When income taxes are payable or receivable and the payment is not subject to the execution of future transactions, the tax is classified as due, even if the payment is spread over several years. It appears as an asset or liability on the Statement of Financial Position as applicable.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the date of the statement of financial position, and any adjustment to tax payable in respect of previous years.

Notes to the Financial Statements

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

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

Deferred tax assets and liabilities are not discounted.

(p) Employee benefits

The Group and the Company operates both defined contribution and defined benefit pension schemes.

A defined contribution scheme is a pension plan under which the Group pays fixed contributions to an independent entity. In this case, the Group is not bound by any legal or implied obligation forcing it to contribute additional amounts to the scheme in the event the assets are not sufficient to pay all employees the benefits owed for the services rendered during the current and previous years. Pension schemes that are not defined contribution schemes are defined benefit schemes. This is the case, for example, for a scheme that defines the amount of the pension benefit that will be collected by an employee at retirement, which is generally a function of one or more factors, such as age, years of service and salary.

The liabilities recorded on the Statement of Financial Position for the defined benefit pension scheme correspond to the discounted value of obligations linked to the defined benefit scheme at the date of the statement of financial position after deducting scheme assets.

Actuarial gains and losses resulting from experience-based adjustments and modifications in actuarial assumptions are booked directly in the Statement of Comprehensive Income.

The past service costs are immediately recognised in the Income Statement unless the changes in the pension scheme are subject to employees working over a defined period (the vesting period for rights). In this case, the costs of past services are amortised using the straight line method over this vesting period.

For defined contribution schemes, the Group and the Company pays contributions to pension schemes and is not liable for any other payment commitment. The contributions are booked as expenses related to employee benefits when they are due. Any contributions paid in advance are recorded as assets to the extent that the advance payment results in a reduction of future payments or a cash reimbursement.

(q) Provisions

Provisions are liabilities with uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation to transfer economic benefits, such as cash flows, as a result of past events and a reliable estimate can be made at the date of the statement of financial position.

(r) Financial liabilities

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the date of the statement of financial position. Finance costs are recognised as an expense in the period in which they are incurred. Financial liabilities are recorded at cost being the fair value of the proceeds net of transaction costs.

Notes to the Financial Statements

For the year ended 31 December 2009

2. ACCOUNTING ESTIMATES AND JUDGEMENTS

The most critical estimates and judgements made by the Company are those regarding reported and unreported claims, defined benefit pension obligations and deferred tax

Claims Outstanding

The Company establishes reserves in respect of the anticipated losses incurred in respect of the business it has written. The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company where more information about the claims event is generally available. Claims IBNR may often not be apparent to the insured until many years after the events giving rise to the claims have happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assume that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including

- changes in the Company's processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods,
- changes in the legal environment,
- the effects of inflation,
- changes in the mix of business, and
- the impact of large losses

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distorting effect of the development and incidence of these large claims.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

For further details on claims reserving, see Note 27.

Defined benefit pension obligations

The Group and Company's liability for defined benefit pension obligations is based on various estimates including discount rates, expected returns on plan assets, future salary increases, future pension increases and mortality rates. Differences in future actual experience may result in the liability recorded in the Statement of Financial Position proving to be either too high or too low.

For further details on defined benefit pension obligations, see Note 28.

Notes to the Financial Statements

For the year ended 31 December 2009

2. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Deferred tax

The Company has substantial unutilised tax losses which can be carried forward to offset income tax liabilities arising on any future taxable profits. The Company has to judge the extent to which future taxable profits will arise such that any deferred tax asset is based on profits that are more likely to arise than not. The Company takes account of its budgets and forecasts in establishing the likelihood of recoverability of the unutilised tax losses.

The tax losses arose predominantly from business carried on by the Company in the years preceding 2004. This business included London Market and large commercial risks. The Company undertook a strategic change during 2003 such that these lines of business were discontinued. There is now an established period of several years during which the Company has achieved significant profits.

Previously the Company recognised a deferred tax asset to the extent of taxable profits arising during a future period for which forecasts had been explicitly made. During 2009, the Company reconsidered the length of the period of probable utilisation of tax losses in view of the sustained period of profitability. In making this assessment, the Company has looked at forecasts for the next 6 years with a perpetuity applied to the terminal year. The Company has tested the sensitivity of this assessment to different growth rates (positive and negative) combined with probability factors given that the probability of future profits diminishes the further in the future they are from the date of the statement of financial position. On this basis the Company considers it probable that these tax losses will be fully utilised. Accordingly the deferred tax asset has been recognised in full in respect of the unutilised tax losses except in respect of tax losses which are subject to query with HMRC.

Another significant timing difference relates to the defined benefit pension scheme deficit. A deferred tax asset is recognised to the extent of contributions the Company anticipates making during the period of likely future profitability.

For further details on deferred tax, see Note 14 and 19.

3. RISK MANAGEMENT

The Group's primary activity, the acceptance of risk of loss from individuals or businesses, exposes it to a number of risks which may adversely affect the Group's ability to meet its business objectives. The most directly relevant risk is insurance risk. However the Group is also exposed to financial risk through its financial assets, insurance receivables and reinsurance assets that enable it to fund obligations arising from its insurance contracts as they fall due. The most important components of financial risk are market risk, liquidity risk and credit risk.

In response to the risks the Group faces, the Group has implemented a risk framework which is designed to identify, assess and manage risk within an agreed risk appetite rather than to eliminate it. Accordingly the Group has implemented a range of internal controls within its operations to mitigate risk. Operational risk is the risk that such controls fail or are inadequate or are absent. The risk framework includes an event notification procedure which enables focus on preventing a similar incident occurring in addition to managing the impact of the event, thereby ensuring a proactive control environment. The process is overseen by a Risk Committee and enforced by an Audit Committee.

(a) Insurance risk

The Group assumes insurance risk by issuing contracts of insurance under which the Group agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

Notes to the Financial Statements

For the year ended 31 December 2009

3. RISK MANAGEMENT (continued)

For a portfolio of insurance contracts where the theory of probability is applied to pricing and reserving, the principal risks the Group faces are

- (1) under-pricing of a risk,
- (2) acceptance of risk that is not intended, by virtue of either size or nature or both, and
- (3) under-reserving of a loss not only because of factors arising from (1) and (2) but also because of inadequate reserving or risk recording techniques

To assist with the process of pricing and managing the insurance risk that the Group accepts, the Group routinely performs a wide range of activities including the following

- regularly updating the Group's risk models,
- documenting, monitoring and reporting on the Group's strategy to manage risk,
- developing systems that facilitate the identification of emerging issues promptly,
- developing processes that factor market intelligence in to the pricing process, and
- utilising the Group's management information systems to make pricing adjustments in accordance with emerging claims experience

All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite, based on individual levels of experience and competence. Regular meetings are held between the senior underwriting managers, the Managing Director and the actuaries to monitor pricing issues. Underwriting limits are in place to enforce appropriate risks selection criteria and to ensure that risks are as diversified as possible and that terms and conditions, including premium rates, appropriately reflect the risk.

One tool for managing insurance risk is reinsurance. Reinsurance is purchased to limit the loss the Group may incur from a single insured event. The limit varies according to the line of business. Reinsurance is also purchased to limit losses that might arise on catastrophic events, where the Group is exposed to many individual losses arising from the same insured event, such as a flood or windstorm.

The Group's internal audit function, which is wholly independent of the underwriting function, performs reviews throughout the Group to verify that underwriting teams are in compliance with the Board's policies and required procedures.

The Group faces a risk that it may under-reserve the losses it incurs. That is, the actual claim payments may exceed the projected amount of the insurance liabilities. This might occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using actuarial techniques. The frequency and severity of claims can be affected by several factors such as inflation, legal rulings, weather events and measurement of damages. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling procedures.

The Group is exposed to high severity, low frequency events, such as natural disasters. They represent a significant risk because the occurrence of an event, whilst unlikely in any given accounting period, would have a significantly adverse effect on the Group's cash flow. These risks are managed in two ways. First underwriters are not permitted to underwrite such risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance, as described above.

The Group may also be exposed to an insurance risk by virtue of a concentration of contracts issued, for example, to a particular demographic type of policyholder, within a particular geographical location or to particular types of commercial activity and businesses. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. This improves the accuracy of reserving techniques. The Group has developed its underwriting strategy to diversify the type of insurance risk accepted where possible. Nonetheless the Group may choose to focus on types of insurance it feels it can manage well and accordingly a concentration of risk can exist within individual segments of the portfolio.

Notes to the Financial Statements

For the year ended 31 December 2009

3. RISK MANAGEMENT (continued)

The Group's reserves are calculated by an experienced in-house team of actuaries who take in to account these factors. The amounts reserved are subject to frequent peer reviews.

The main types of risk insured by the Group are as follows:

- Motor - consisting of property and liability covers,
- Property - covering claims for damage to buildings or contents plus losses from business interruption for commercial policyholders,
- Liability - offering compensation to employees and members of the public suffering injury and for property damage, and
- Private medical insurance - covering claims from individuals or employers for certain types of medical costs.

Motor claims are analysed separately for non-injury and third party injury claims. Because of their shorter time to settlement, non-injury claims can be estimated with greater reliability and the Group estimates these claims separately for private car, fleet, motorcycles and commercial vehicles. By their nature injury claims are more volatile and harder to estimate. This is because it can take a long time for the medical effect of the injuries to become known and the larger size of each claim makes the final result more susceptible to an individual loss.

The Group projects separately for small and large injury claims and most of the IBNR liability in respect of motor insurance relates to third party injury claims. Allowance has been made within case reserves for the potential of large injury claims to be settled via periodic payments.

Property claims are analysed separately for subsidence and non-subsidence claims. The development of large losses / catastrophes is analysed separately. Non-subsidence claims can be estimated with greater reliability and the Group estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allow the Group to achieve a higher degree of certainty about the estimated cost of claims and relatively little IBNR is held at year-end. However the longer time needed to assess the emergence of a subsidence claim makes the estimation process more uncertain for these claims. Virtually all the IBNR liability for household insurance contracts relates to subsidence claims. Costs of rebuilding properties, of replacement or indemnity for contents and of time taken to restart operations for business interruption are the key factors that influence claims under these policies.

Liability and contingency claims, which include both employers' liability and general liability, are longer tail than the other classes of business and a larger element of the claims provisions relates to IBNR. Claims estimates are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience. The initial estimate of the loss ratio, based upon the experience of previous years, adjusted for factors such as premium rate charges and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is made for this at the balance sheet date.

Private medical insurance business is short tail so that most of the IBNR relates to current year business. IBNR is calculated using projections of payment patterns based on monthly date of payment by treatment date.

(b) Market risk

Market risk can be described as the risk of change in the fair value of a financial instrument due to changes in interest rates and market prices, whether specific to the individual instrument or its issuer, or to factors affecting all instruments traded in the market.

Notes to the Financial Statements

For the year ended 31 December 2009

3. RISK MANAGEMENT (continued)

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of change in interest rates. Fixed income securities represent a significant proportion of the Group's and Company's assets and the Executive Committee regularly monitors investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Group is able to underwrite or its ability to settle claims as they fall due. The market value of fixed interest securities is inversely correlated to movements in interest rates. That is, the market value of fixed interest securities rises if interest rates fall.

Insurance contract liabilities are not directly sensitive to the level of market interest rates as they are undiscounted and contractually non-interest bearing.

The Group has not utilised any borrowing facilities during the year.

Market price risk is the risk that the fair value of Group and Company's financial instruments fluctuate as a result of changes in market prices, principally in equity securities. If market prices increase generally, it is likely that the Group's financial assets will increase as well. The Group and Company's exposure to equity price risks limited to a relatively small proportion of the investment portfolio and the risk is managed by diversifying over a number of companies and industries.

(c) Liquidity risk

Liquidity risk is the risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Group is exposed to liquidity risks arising from daily calls on its cash reserves, notably from claims arising on its insurance contracts. The Group manages this risk by setting limits on the minimum level of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover claims at unusually high levels.

The vast majority of the Group's and Company's investments are in highly liquid assets which could be converted in to cash in a reasonably prompt fashion and at minimal expense. The deposits with credit institutions largely comprise instant access or short dated certificates for which an active market exists and which the Group can access easily. The Group and Company's exposure to equities is concentrated on shares that are frequently traded on the UK stock exchange. The Group and Company's exposure to fixed income securities is concentrated on high quality and frequently traded securities listed on the UK and other international stock exchanges. In order to maximise its investment return, the Group purchases fixed income securities with varying maturity dates. Notwithstanding the regular interest receipts and the Group and Company's ability to liquidate these securities for cash in a prompt and reasonable manner, the maturity profile of these securities is as follows:

	Group and Company	
	31 December 2009	31 December 2008
	£000	£000
Maturity profile of fixed income securities		
Less than one year	152,196	136,315
Between one and two years	109,551	189,961
Between three and five years	283,787	216,739
Total fixed income securities	545,534	543,015

Insurance and other receivables comprise premium balances due from policyholders and intermediaries, amounts recoverable from reinsurers in respect of paid claims, other recoverable amounts in respect of salvage and subrogation, loans made by the Group and Company and amounts receivable in respect of investment income. There are no significant amounts which are due to the Group and Company more than one year after the date of the statement of financial position.

Notes to the Financial Statements

For the year ended 31 December 2009

3. RISK MANAGEMENT (continued)

Reinsurance assets comprise reinsurers' share of gross insurance contract provisions. This includes reinsurers' share of claims outstanding, a significant element of which will not be recoverable within one year of the date of the statement of financial position. The estimated periods in which these amounts will fall due are as follows:

	Group and Company	
	31 December 2009	31 December 2008
Estimated future recovery of reinsurers' share of claims outstanding	£000	£000
Within one year	13,947	18,239
Between one and two years	15,616	20,368
Between three and five years	5,463	6,740
Over five years	15,560	18,966
Total reinsurers' share of claims outstanding	50,586	64,313
Reinsurers' share of unearned premiums	710	1,575
Total reinsurance assets	51,296	65,888

There are no significant amounts of insurance payables or reinsurance payables that will fall due for payment by the Group and Company other than within one year. Insurance contract provisions include provisions for claims outstanding, a significant element of which will become payable after more than a year. The estimated periods in which these amounts will fall due are as follows:

	Group and Company	
	31 December 2009	31 December 2008
Estimated future payment of claims outstanding	£000	£000
Within one year	168,808	180,343
Between one and two years	164,891	157,578
Between three and five years	62,661	54,147
Over five years	53,794	49,947
Total claims outstanding	450,154	442,015
Unearned premiums and other provisions	222,468	202,446
Total insurance contract provisions	672,622	644,461

Notes to the Financial Statements

For the year ended 31 December 2009

3. RISK MANAGEMENT (continued)

(d) Credit risk

Credit risk is the risk that a counterparty will not be able to pay amounts in full when due in accordance with the terms of the contract, causing the Group and Company to incur a financial loss. The Group is exposed to credit risk in the following significant areas:

- amounts due from reinsurers,
- amounts due from policyholders and intermediaries, and
- amounts due from issuers of fixed interest securities

Groupama S A, the ultimate parent company, operates a Reinsurance Security Committee which assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information. Acceptable reinsurance counterparties are communicated by Groupama S A to all global operations. Acting within these guidelines, the Group applies its own assessments of reinsurers prior to the finalisation of any contract. The Standard & Poor's ratings of reinsurers are regularly monitored by the Company's Board.

Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there is significant exposure, a financial analysis of the policyholder or, if appropriate the intermediary, is carried out.

The Company's investment guidelines specify the maximum percentage of the portfolio that can be invested in any single counterparty and the minimum credit rating that can be utilised. These guidelines and the extent to which the Company and its investment managers apply them is overseen by the Company's Performance Committee. Ordinarily, the maximum exposure to a single counterparty the Company could have had in 2009 was £42m.

An analysis of the Group's and Company's exposure to counterparty credit risk based upon Standard & Poor's or equivalent rating is as follows:

	AAA	AA	A	BBB	Equities	Not rated	Total
Group and Company							
As at 31 December 2009							
Financial assets	29.5%	25.6%	42.2%	-	2.7%	-	100%
Reinsurance assets	22.7%	27.5%	33.8%	-	-	16.0%	100%
As at 31 December 2008							
Financial assets	16.0%	50.5%	28.5%	1.8%	3.2%	-	100%
Reinsurance assets	20.7%	33.5%	21.3%	-	-	24.5%	100%

None of the financial assets are pledged as collateral for financial liabilities.

Notes to the Financial Statements

For the year ended 31 December 2009

3. RISK MANAGEMENT (continued)

The following table shows the amount of insurance receivables that were past due but not impaired at the end of the year

	Group and Company	
	31 December 2009 £000	31 December 2008 £000
0-3 months past due	6,164	5,265
4-6 months past due	70	27
7-12 months past due	-	15
More than 12 months past due	5	32
Total insurance receivables past due	6,239	5,339
Insurance receivables not past due	88,941	81,211
Total insurance receivables	95,180	86,550

(e) Capital risk

The total amount of capital of the Group, comprising of equity only, is £188,501,000 (2008 £142,295,000). The Executive Directors are responsible for reviewing the amount of and structure of capital on a regular basis to maximise the return to shareholders.

The Company is regulated by the Financial Services Authority ('FSA') which requires the submission of an annual Enhanced Capital requirements return ('ECR') which is a test of capital adequacy. The ECR, which takes into account the premiums written and insurance contract provisions on a class of business basis, seeks to ensure that the Company has at least the minimum amount of capital to meet future expected claims obligations.

In addition the Company prepares an individual capital assessment ('ICA'). The ICA is a combination of a structured risk based capital model and scenario testing developed by the Company which allows the Directors to identify the appropriate level of capital required. The ICA differs from the ECR in that it is specific to the actual reserving history, reinsurance programme and business profile of the Company rather than being based on similar company market averages.

All externally imposed capital requirements have been complied with during the year. The Group is fully aware of current proposals for Solvency II and is participating in and monitoring the implementation process which is taking place prior to agreement of exact requirements. More specifically, a Company wide project has been established to manage the adoption of Solvency II.

4. SEGMENTAL INFORMATION

During 2009 and 2008 the Group's insurance activities were managed as a single strategic business unit offering varying products and serving different categories of insurance. The Group's activities are principally derived from insurance contracts issued to policyholders resident in United Kingdom. Accordingly no segmental information is presented.

Notes to the Financial Statements

For the year ended 31 December 2009

5. INVESTMENT INCOME

	31 December 2009 £000	31 December 2008 £000
Investment income		
Interest income from fixed interest securities	29,362	29,822
Dividend income	427	658
Other interest income	747	2,362
Net realised gains (losses) from sale of shares	450	(134)
Net realised losses from sale of fixed interest securities	(5)	(38)
Amortisation (charges) credits on fixed interest securities	(1,472)	83
Impairment of shares	(89)	(2,803)
Investment expenses and charges	(611)	(543)
Total investment income accounted for through the Income Statement	28,809	29,407
Net movement in fair value of financial assets accounted for through the Statement of Comprehensive Income	24,811	(5,004)
Total investment return	53,620	24,403

6. OTHER INCOME

	31 December 2009 £000	31 December 2008 £000
Exchange movements	7	172
Other income	2,177	60
Total other income	2,184	232

Notes to the Financial Statements

For the year ended 31 December 2009

7. CLAIMS INCURRED, NET OF REINSURANCE

	31 December 2009 £000	31 December 2008 £000
Current accident year		
Claims paid	135,948	135,054
Provisions for claims outstanding carried forward	174,546	158,531
Over provision in respect of prior years' provision for claims outstanding	(27,639)	(29,684)
Claims handling costs	12,816	13,548
Change in provision for claims handling costs	247	(159)
Total claims incurred net of reinsurance	295,918	277,290

8. ACQUISITION COSTS

	31 December 2009 £000	31 December 2008 £000
Commission expenses payable	102,564	93,279
Other acquisition expenses payable	12,936	12,254
Change in deferred acquisition costs	(6,582)	(6,357)
Total acquisition costs	108,918	99,176

Notes to the Financial Statements

For the year ended 31 December 2009

9. ADMINISTRATIVE EXPENSES

During 2008, staff costs, premises costs and other expenses were incurred by Groupama UK Services Limited ('GUKS') and recharged to the Company as part of a management fee. On 1 January 2009 the operations of GUKS were transferred to the Company.

	31 December 2009 £000	31 December 2008 £000
Staff costs (see Note 10)	35,231	33,546
Premises costs	6,243	5,623
Other expenses	13,127	14,198
Total expenses (2008 Management Fee)	54,601	53,367
Expenses allocated to claims handling expenses (see Note 7)	(12,816)	(13,548)
Expenses fee allocated to acquisition expenses (see Note 8)	(12,936)	(12,254)
Total administrative expenses	28,849	27,565

The following items are included within total expenses:

Depreciation of property, plant and equipment:

owned assets 1,255

leased assets under finance leases 248

Operating lease rentals payable (property) 2,524

Fees payable to the Group's auditors for the audit of the annual accounts amounted to £215,000 (2008 £214,000).

10. STAFF COSTS

	31 December 2009 £000	31 December 2008 £000
Wages and salaries	30,198	28,600
Social security costs	2,774	2,758
Pension costs	2,259	2,188
Total staff costs (Note 9)	35,231	33,546

	31 December 2009 number	31 December 2008 number
The average number of persons employed by the Group during the year:		
Management and administration	220	222
Underwriting	213	217
Claims	318	334
Total employed	751	773

Comparative figures are shown for information since the contracts of employment with the Group's employees were with Groupama UK Services Limited on 31 December 2008.

Notes to the Financial Statements

For the year ended 31 December 2009

11. KEY MANAGEMENT COMPENSATION

For the purposes of IAS24 ('Related Party Disclosures'), key managers are defined as the Board of Directors and members of the Executive Management committee. An allocation of remuneration costs to key managers is made between the Company and GUK Broking Services Limited to the extent of services provided to the respective companies.

	31 December 2009 £000	31 December 2008 £000
Salaries and other short term employee benefits	886	896
Post-employment benefits	255	147
Total key management compensation	1,141	1,043

The Directors are able to obtain discounted personal insurance at the same rates as all other staff.

In 2009, the highest paid Director received remuneration of £262,000 (2008: £299,000). The Group made contributions of £58,000 to a defined contributions pension scheme (2008: £68,000). The number of Directors accruing pension benefits under defined contributions schemes is 4 (2008: 4).

12. OTHER CHARGES

	31 December 2009 £000	31 December 2008 £000
Employee benefits (Note 28)	1,213	350
Amortisation of intangible assets	134	134
Other items	160	99
Total other charges	1,507	583

13. FINANCE COSTS

	31 December 2009 £000	31 December 2008 £000
Interest on finance leases	83	-
Total finance costs	83	-

Notes to the Financial Statements

For the year ended 31 December 2009

14. TAXATION

At the date of the statement of financial position, the Group and Company believes that it is more likely than not to make taxable profits in the future and has accordingly recognised as a deferred tax asset all of the unutilised tax losses at the date of the statement of financial position which will reverse in future accounting periods. The Group and Company have also had regard for the likelihood of generating future profits to offset contributions paid to its defined benefit scheme. A deferred tax asset is recognised only to the extent such profits are considered more likely than not to arise, in a manner consistent with the unutilised tax losses above. As explained in Note 2, this is a change from 31 December 2008 when there was a partial recognition of the deferred tax asset in respect of the unutilised tax losses and the defined benefit scheme. The Company also takes into account the probability of the likely outcome of matters under query or dispute with HMRC. The extent to which unutilised tax losses and temporary differences are recognised as a deferred tax asset are reduced where the Company believes such matters may not be agreed fully in the Company's favour.

	31 December 2009 £000	31 December 2008 £000
Current tax charge (see below)	-	-
Group relief for losses surrendered to fellow group companies	-	878
Net deferred tax credit (charge) relating to the origination and reversal of temporary differences	50,049	(878)
Total tax credit accounted for in the Income Statement	50,049	-

Reconciliation of current tax charge with accounting profit multiplied by the applicable tax rate

Profit before tax	3,059	18,464
Income tax using standard rate of corporation tax of 28.0% (2008: 28.5%)	857	5,262
Permanent differences	5,258	(12,833)
Group relief surrender	-	2,507
Short term temporary differences	(968)	(468)
(Utilisation of) unutilised tax losses	(5,147)	5,532
Current tax charge	-	-

Unutilised tax losses

Unutilised tax losses at 1 January	240,663	248,269
Adjustment in respect of prior years	14,767	(27,022)
Tax losses not (utilised) utilised in current year	(18,379)	19,416
Unutilised tax losses at 31 December	237,051	240,663
Full deferred tax asset in respect of unutilised tax losses and temporary differences	66,374	67,386
Full deferred tax asset in respect of defined benefit pension scheme	13,970	8,866
Full deferred tax asset in respect of temporary differences	3,190	-
Full deferred tax asset in respect of unapproved pension scheme	386	-
Deferred tax asset recognised before offset of deferred tax liabilities (Note 19)	(75,266)	(24,088)
Unrecognised deferred tax asset	8,654	52,164

Notes to the Financial Statements

For the year ended 31 December 2009

15. INTANGIBLE ASSETS

An intangible asset, representing customer contract relationships, arose from an acquisition of a business prior to 2008

Group and Company	Cost £000	Amortisation £000	Net Carrying Value £000
At 1 January 2008	1,339	(268)	1,071
Amortisation charge for the year	-	(134)	(134)
At 31 December 2008	1,339	(402)	937
Amortisation charge for the year	-	(134)	(134)
At 31 December 2009	1,339	(536)	803

16. INVESTMENTS IN GROUP UNDERTAKINGS

Company	2009 £000	2008 £000
At 1 January and 31 December	2,000	2,000

Investments in Group undertakings, all of which are consolidated, are as follows

Clinicare Limited	Insurance Company (deauthorised)
The National Motor and Accident Insurance Union Limited	Insurance Company
Groupama Limited	Service Company

All subsidiary undertakings are 100% owned by Groupama Insurance Company Limited. All subsidiary undertakings are registered in England. The issued share capital of each company is exclusively in the form of ordinary shares.

Notes to the Financial Statements

For the year ended 31 December 2009

17. PROPERTY, PLANT AND EQUIPMENT

Group and Company	Computer Equipment £000	Motor Vehicles £000	Office Equipment £000	Fixtures & Fittings £000	Total £000
Cost at 1 January 2009	-	-	-	-	-
Transfer of assets	782	720	1,062	1,242	3,806
Additions	44	318	700	1,153	2,215
Disposals	(15)	(157)	-	-	(172)
At 31 December 2009	811	881	1,762	2,395	5,849
Depreciation at 1 January 2009	-	-	-	-	-
Charge for the year	(417)	(248)	(564)	(274)	(1,503)
Disposals	11	63	-	-	74
At 31 December 2009	(406)	(185)	(564)	(274)	(1,429)
Net carrying value at 31 December 2009	405	696	1,198	2,121	4,420

The net carrying value of assets held under finance leases included above is £696,000 in respect of motor vehicles

Property, plant and equipment was acquired by the Company on 1 January 2009 following the transfer of operations from Groupama UK Services Limited to the Company on the same day

Notes to the Financial Statements

For the year ended 31 December 2009

18. FINANCIAL ASSETS

	Fair Value 31 December 2009 £000	Cost 31 December 2009 £000	Fair Value 31 December 2008 £000	Cost 31 December 2008 £000
Group and Company				
Shares and other variable yield securities	15,262	14,879	11,604	14,357
Fixed income securities	545,534	530,824	543,015	551,278
Other loans	6,107	6,107	3,737	3,737
Other financial assets	177	177	-	-
Total financial assets	567,080	551,987	558,356	569,372
Included in the above were investments				
Listed on the UK Stock Exchange	136,705	134,680	189,838	190,270
Listed on other investment exchanges	424,091	411,023	364,781	375,365
			Group and Company	
			2009	2008
			£000	£000
Financial assets at 1 January			558,356	542,474
Net (reductions) increases to investment portfolio			(14,615)	20,803
Amortisation of fixed interest securities			(1,472)	83
Net fair value gains (losses)			24,811	(5,004)
Financial assets at 31 December			567,080	558,356

19. DEFERRED TAX ASSET

	Group and Company	
	31 December 2009 £000	31 December 2008 £000
Deferred tax asset in respect of		
reversal of unutilised tax losses against future accounting profits	60,910	18,863
unapproved pension scheme	386	-
contributions payable to deferred pension scheme	13,970	5,225
total deferred tax asset	75,266	24,088
claims equalisation reserve allowed for tax purposes	(4,107)	(3,680)
Total net deferred tax asset	71,159	20,408

Notes to the Financial Statements

For the year ended 31 December 2009

20. DEFERRED ACQUISITION COSTS

	Group and Company	
	2009	2008
	£000	£000
At 1 January	47,227	40,870
Change in costs deferred (Note 8)	6,582	6,357
At 31 December	53,809	47,227

There are no material amounts of costs deferred which will be unwound after one year

21. REINSURANCE ASSETS

	Group and Company	
	31 December	31 December
	2009	2008
	£000	£000
Reinsurers' share of		
unearned premium reserve	710	1,575
claims outstanding	51,394	65,647
Provision for non-recovery and impairment	(808)	(1,334)
Total reinsurance assets	51,296	65,888

The amounts expected to be recovered within one year and after one year are shown in Note 3

22. INSURANCE AND OTHER RECEIVABLES

	Group		Company	
	31 December	31 December	31 December	31 December
	2009	2008	2009	2008
	£000	£000	£000	£000
Receivable arising from insurance contracts				
policyholders	18,699	20,263	18,699	20,263
agents, brokers and intermediaries	61,508	51,046	61,508	51,046
reinsurers	4,006	5,683	4,006	5,683
provision for non recovery and impairment	(1,541)	(2,426)	(1,541)	(2,426)
subrogation and salvage recoveries	9,293	8,966	9,293	8,966
claims floats and related balances	3,215	3,018	3,215	3,018
Amount due from group undertakings and fellow subsidiary undertakings	29	423	29	423
Current tax	-	878	-	878
Other debtors	294	-	294	-
Accrued interest	13,734	13,717	13,734	13,717
Total insurance and other receivables	109,237	101,568	109,237	101,568

There are no material receivables which are expected to be received after one year

Notes to the Financial Statements

For the year ended 31 December 2009

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	31 December	31 December	31 December	31 December
	2009	2008	2009	2008
	£000	£000	£000	£000
Bank and cash balances	8,719	3,894	8,130	3,894
Short term deposits	96,519	62,910	94,519	60,343
Total cash and cash equivalents	105,238	66,804	102,649	64,237

24. CALLED UP SHARE CAPITAL

	31 December	31 December
	2009	2008
	£000	£000
<i>Authorised</i>		
191,737,954 ordinary shares of £1 each	191,738	191,738
<i>Allotted and fully paid</i>		
118,064,309 ordinary shares of £1 each	118,064	118,064

25. EQUITY DIVIDENDS

	31 December	31 December
	2009	2008
	£000	£000
Interim dividend paid - 8 5p per ordinary share	10,000	10,000

Notes to the Financial Statements

For the year ended 31 December 2009

26. PROVISIONS FOR OTHER RISKS AND CHARGES

	Restructuring	Premises Lease	Dilapi- dations	Total
Group and Company	£000	£000	£000	£000
At 1 January 2009	-	340	-	340
Transferred on 1 January 2009	-	-	1,990	1,990
Amount charged to the Income Statement	1,200	437	122	1,759
Movement in provision	-	-	(310)	(310)
At 31 December 2009	1,200	777	1,802	3,779
			Group and Company 2009 £000	2008 £000
Current - to be utilised within one year			1,200	-
Non-Current - to be utilised after more than one year			2,579	340
Total provision for other risks and charges			3,779	340

The provisions have not been discounted as the time value of money is not material. The period of utilisation of the provisions is likely to be a maximum of 8 years.

The Company operates from premises under lease agreements. A provision has been made for lease commitments on premises no longer used by the Company in excess of anticipated income for sub-leasing agreements.

The Company makes provisions for the cost of repairs arising from the dilapidation of premises occupied by the Company. The provision previously accrued by Groupama UK Services Limited was transferred to the Company on 1 January 2009. The lease contracts were transferred to the Company on the same date.

A provision has been made in 2009 for costs expected to arise from the proposed restructuring of the Group's claims operations.

27. INSURANCE CONTRACT PROVISIONS

(a) Insurance contract provisions at the date of the statement of financial position

	Group and Company		Group and Company	
	Gross	Net	Gross	Net
	31 December 2009 £000	31 December 2009 £000	31 December 2008 £000	31 December 2008 £000
Unearned premiums	222,468	221,759	201,675	200,100
Claims reported and claims handling expenses	361,115	316,033	328,699	274,218
Claims incurred but not reported	89,039	83,534	113,316	103,484
Other technical provisions - unexpired risk reserve	-	-	771	771
Total insurance contract provisions	672,622	621,326	644,461	578,573

The amounts expected to be earned and settled within and after one year are shown in Note 3.

Reinsurers' share of the above amounts is shown in Note 21.

Notes to the Financial Statements

For the year ended 31 December 2009

27. INSURANCE CONTRACT PROVISIONS (continued)

(b) Analysis of movements in unearned premium and earned premium

	Gross 2009 £000	Reinsurance 2009 £000	Net 2009 £000	Gross 2008 £000	Reinsurance 2008 £000	Net 2008 £000
Balance at 1 January	201,675	(1,575)	200,100	189,544	(2,429)	187,115
Balance at 31 December	222,468	(709)	221,759	201,675	(1,575)	200,100
Change in unearned premiums provisions	(20,793)	(866)	(21,659)	(12,131)	(854)	(12,985)
Written premiums	450,287	(22,058)	428,229	433,250	(27,098)	406,152
Earned premium	429,494	(22,924)	406,570	421,119	(27,952)	393,167

(c) Analysis of movements in claims provisions and claims incurred

	Gross 2009 £000	Reinsurance 2009 £000	Net 2009 £000	Gross 2008 £000	Reinsurance 2008 £000	Net 2008 £000
Balance at 1 January	442,015	(64,313)	377,702	454,072	(79,923)	374,149
Balance at 31 December	450,154	(50,586)	399,568	442,015	(64,313)	377,702
Change in claims provisions	8,139	13,727	21,866	(12,057)	15,610	3,553
Paid claims	266,792	(5,556)	261,236	273,457	(13,268)	260,189
Claims handling costs	12,816	-	12,816	13,548	-	13,548
Claims incurred	287,747	8,171	295,918	274,948	2,342	277,290

(d) Analysis of movements in other technical provisions unexpired risk reserve

	Gross 2009 £000	Reinsurance 2009 £000	Net 2009 £000	Gross 2008 £000	Reinsurance 2008 £000	Net 2008 £000
Balance at 1 January	771	-	771	1,043	-	1,043
Balance at 31 December	-	-	-	771	-	771
Change in unexpired risk reserve	771	-	771	272	-	272

(e) Salvage and subrogation

Estimates of recoverables in respect of salvage and subrogation are shown in insurance and other receivables (see Note 22)

Notes to the Financial Statements

For the year ended 31 December 2009

27. INSURANCE CONTRACT PROVISIONS (continued)

(f) Assumption and sensitivities

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods most commonly used are the chain-ladder and the Bornhutter-Ferguson methods.

The chain-ladder method involves the analysis of historical claims development factors and the selection of estimated development factors based upon this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet finally developed to produce an estimated ultimate claims cost for each accident year. Chain-ladder techniques are therefore most appropriate for mature classes of business that have a relatively stable development pattern. For lines of business which do not have developed claims histories, the Group's actuaries make reference to the Bornhutter-Ferguson method.

The Bornhutter-Ferguson method uses a combination of a benchmark or market-based estimates and an estimate of claims experience. The former is based on a measure of exposures such as premium, the latter is based on the paid or incurred claims to date. The two estimates are combined to give a formula that gives more weight to the experience-based estimate as time passes.

In exceptional cases the required provision is calculated with reference to the actual exposures on individual policies.

The choice of selected results for each accident year of each class of business depends on assessment of the technique that has been most appropriate to observed historical developments. To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the recording of notified claims,
- economic, legal and social trends,
- changes in the mix of business, and
- large or isolated claims.

The best estimates derived by the Group's actuaries using the above assumptions are reviewed by the Executive. The Executive apply additional IBNR in order to ensure that the claims reserves accounted for achieve certain confidence levels, that is, a degree of probability (higher than is typically used for best estimates) that the Group will be adequately reserved should the run off of claims be adverse. Whilst the target confidence level may not be achieved at any one date of the Statement of financial position, the Executive accommodate the necessary adjustments over a future period of two or three years.

The impact of a 1% change in the gross claims loss ratio across the entire book would equate to a £4,295,000 (2008: £4,211,000) change in the reported result before tax. It is not possible to ascertain the impact net of reinsurance as it is unpredictable how this additional gross loss would be covered by the reinsurance programme.

Notes to the Financial Statements

For the year ended 31 December 2009

27. INSURANCE CONTRACT PROVISIONS (continued)

(g) Claims development tables

The tables below show the development of claims over a period of time on a gross and net of reinsurance basis. The tables show the cumulative incurred claims for each successive accident year at each date of the statement of financial position, together with cumulative claims at the current date of the statement of financial position.

	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	Total £000
Estimate of gross ultimate claims costs							
at end of accident year	290,289	226,516	265,189	307,731	315,452	315,275	
one year later	259,489	224,368	277,104	310,489	309,482		
two years later	254,460	198,969	263,375	306,755			
three years later	244,134	189,355	247,236				
four years later	236,314	175,108					
five years later	234,666						
Current estimate of cumulative claims	234,666	175,108	247,236	306,755	309,482	315,275	1,588,522
Cumulative payments to date	(223,483)	(157,643)	(215,373)	(250,620)	(223,205)	(136,243)	(1,206,567)
Current gross claims provisions	11,183	17,465	31,863	56,135	86,277	179,032	381,955
Current claims provisions in respect of earlier accident years							55,684
Provision for claims handling costs							12,515
Total gross claims outstanding provisions							450,154
Estimate of net ultimate claims costs							
at end of accident year	289,018	212,588	256,367	280,087	293,585	310,494	
one year later	256,462	202,783	259,727	301,635	289,407		
two years later	249,930	185,841	248,965	278,726			
three years later	243,503	180,555	243,295				
four years later	236,762	176,560					
five years later	234,023						
Current estimate of cumulative claims	234,023	176,560	243,295	278,726	289,407	310,494	1,532,505
Cumulative payments to date	(225,693)	(161,598)	(216,053)	(232,893)	(218,530)	(135,947)	(1,190,714)
Current net claims provisions	8,330	14,962	27,242	45,833	70,877	174,547	341,791
Current claims provisions in respect of earlier accident years							45,262
Provision for claims handling costs							12,515
Total net claims outstanding provisions							399,568

Notes to the Financial Statements

For the year ended 31 December 2009

28. EMPLOYEE BENEFITS

The Group operates a defined contributions benefit scheme for its employees under which the Group pays fixed contributions to an independent entity who administers the scheme on behalf of the employees who have joined the scheme. Contributions made by the Group are charged to the Income Statement in the period they arose.

The Group operated a defined benefit scheme, the Groupama UK Pension Scheme ('GUPS'), on behalf of staff who were members before 1 July 2004. This is now closed to new members and future accrual. Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations, using the projected unit method. The most recent formal valuation was at 31 December 2007. The formal valuation has been updated at subsequent dates of the statement of financial position.

The main assumptions used by the actuary were

	31 December 2009	31 December 2008	31 December 2007
Discount rate	5.70%	6.40%	5.80%
Expected return on plan assets at the end of the year	6.78%	7.19%	6.80%
Price inflation	3.40%	3.00%	3.20%
Pension increases	3.30%	2.75%	2.95%

The amount included in the Statement of Financial Position arising from the Group's obligations in respect of the scheme is as follows

	31 December 2009 £000	31 December 2008 £000
Present value of funded defined benefit obligation	213,435	178,254
Fair value of scheme assets	(163,542)	(146,591)
Net pension obligations	49,893	31,663

The amounts recognised in the Income Statement are as follows

	31 December 2009 £000	31 December 2008 £000
Interest on obligations	(11,167)	(12,039)
Expected return on plan assets	9,954	11,689
Expense recognised in the Income Statement (Note 12)	(1,213)	(350)

Notes to the Financial Statements

For the year ended 31 December 2009

28. EMPLOYEE BENEFITS (continued)

The amounts recognised in the Statement of Comprehensive Income are as follows

	31 December 2009 £000	31 December 2008 £000
Actuarial (losses) gains on scheme liabilities	(31,557)	38,382
Actuarial gains (losses) on scheme assets	9,138	(35,297)
(Expense) income recognised in the Statement of Comprehensive Income	(22,419)	3,085

The cumulative amount recognised in the Statement of Comprehensive Income is a loss of £27,324,000 (2008 a loss of £4,905,000)

The allocation of the scheme's assets is as follows

	31 December 2009		31 December 2008	
	%	£000	%	£000
Equities	52%	85,289	49%	72,423
Gilts and bonds	47%	76,425	50%	73,219
Other	1%	1,828	1%	949
	100%	163,542	100%	146,591

The actual return on the scheme's assets during the year was a gain of £19,092,000 (2008 a loss £23,608,000)

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class. The expected return on equities is based on inflation, the dividend yield, economic growth and investment expenses. The return on gilts and bonds is the current market yield on long term gilts and bonds. The expected return on other assets is based on interest rates on cash deposits.

A reconciliation of the present value of the defined benefit obligation is as follows

	31 December 2009 £000	31 December 2008 £000
Present value at 1 January	178,254	211,254
Interest cost	11,167	12,039
Actuarial losses (gains) on scheme liabilities	31,557	(38,382)
Benefits paid	(7,543)	(6,657)
Present value at 31 December	213,435	178,254

Notes to the Financial Statements

For the year ended 31 December 2009

28. EMPLOYEE BENEFITS (continued)

A reconciliation of the fair value of the scheme assets is as follows

	31 December 2009 £000	31 December 2008 £000
Present value at 1 January	146,591	172,050
Expected return on scheme assets	9,954	11,689
Actuarial gain (loss) on scheme assets	9,138	(35,297)
Contributions by the Company	5,402	4,806
Benefits paid	(7,543)	(6,657)
Present value at 31 December	163,542	146,591

The Company's estimate of contributions to be paid to the scheme in 2010 is £6,400,000

Reconciliation of Statement of Financial Position movements

	31 December 2009 £000	31 December 2008 £000
Net liability at 1 January	31,663	39,204
Total expense (Note 12)	1,213	350
Amounts recognised in the Statement of Comprehensive Income	22,419	(3,085)
Contributions by the Company	(5,402)	(4,806)
Net liability at 31 December	49,893	31,663

A summary of the scheme's experience is as follows

	31 December 2009 £000	31 December 2008 £000	31 December 2007 £000	31 December 2006 £000	31 December 2005 £000
Defined benefit obligation	(213,435)	(178,254)	(211,254)	(201,603)	(196,903)
Scheme assets	163,542	146,591	172,050	157,073	147,655
Deficit	(49,893)	(31,663)	(39,204)	(44,530)	(49,248)

	31 December 2009 £000	31 December 2008 £000	31 December 2007 £000	31 December 2006 £000	31 December 2005 £000
Experience (loss) gain on scheme liabilities	(431)	6,283	(5,866)	(2,447)	(13,924)
- percentage of the present value of scheme liabilities	0%	4%	3%	1%	7%
Difference between the expected and actual return on scheme assets	9,138	(35,297)	(1,454)	2,260	13,441
- percentage of the present value of scheme assets	6%	-24%	-1%	1%	9%

Notes to the Financial Statements

For the year ended 31 December 2009

29. TRADE AND OTHER PAYABLES

	Group and Company	
	31 December 2009 £000	31 December 2008 £000
Reinsurance payables	6,829	6,567
Insurance payables	17,923	16,896
Amounts owed to fellow subsidiary undertakings	-	10,481
Other creditors	11,716	8,280
Total trade and other payables	36,468	42,224

All amounts are expected to fall due within one year

30. FINANCIAL LIABILITIES

	Group and Company	
	31 December 2009 £000	31 December 2008 £000
Net obligations under finance leases		
Falling due within one year - current	286	-
Falling due after more than one year - non current	429	-
Total financial liabilities	715	-

Finance leases are entered into by the Group only for the purchase of motor vehicles (Note 17)

Notes to the Financial Statements

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31. COMMITMENTS

	Group and Company	
	2009	2008
	£000	£000
The future aggregate minimum lease payments due under non-cancellable operating leases are as follows		
not later than one year	2,116	-
later than one year but not later than five years	10,146	-
later than five years	4,108	-
receivable under sub-leases	(1,131)	-
Total operating lease commitments	15,239	-
Finance lease liabilities - minimum		
not later than one year	355	-
later than one year but not later than five years	525	-
Total gross finance lease liabilities	880	-
Future finance charges on finance leases	(165)	-
Total present value of finance lease liabilities	715	-

32. RELATED PARTY TRANSACTIONS

Transactions with related parties

In the ordinary course of business, the Group carries out transactions with related parties as defined in IAS24. A summary of the transactions is as follows

	Income and (Expense) for year ended 31 December 2009 £000	Asset or (Liability) as at 31 December 2009 £000	Income and (Expense) for year ended 31 December 2008 £000	Asset or (Liability) as at 31 December 2008 £000
Group and Company				
Fellow subsidiary undertaking in respect of management fees	-	-	(54,535)	(10,481)
Parent undertaking				
Reinsurance ceded	(14,737)	18,128	(6,946)	19,112
Balances with fellow subsidiary undertakings				
Groupama (UK) Limited	-	-	-	423
GUK Broking Services Limited	-	29	-	-

33. ULTIMATE PARENT UNDERTAKING

The Company's immediate parent is Groupama S A a company incorporated in France. The Directors of the Company regard Groupama S A as the ultimate parent undertaking. Copies of the financial statements of Groupama S A can be obtained from the registered office of Groupama Insurance Company Limited as shown in the Directors' Report.