03712018

# Report and Financial Statements

# CBS Insurance Holdings Limited

# 31 December 2009

## Contents

# Corporate Information

**Directors**

DJ Ewart*
CAA Harbord-Hamond

*Non-executive

**Secretary**

AS Fox

**Registered Office**

Unit C25
Jack's Place
6 Corbet Place
London E1 6NN

**Bankers**

Lloyds TSB Bank Plc
25 Gresham Street
London EC2V 7HN

**Auditors**

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

## Chairman's Statement

I am pleased to present the Report and Accounts of the CBS Insurance Holdings Limited group ("the Group") for the year ended 31 December 2009 The Group's financial position has again been simplified and as a result we are able to present shareholders with a clear view of the Group's financial position The important change this year has been the purchase of Arch (2004) Limited (formerly CBS Underwriting Limited) in November 2009 This company is now consolidated in the Group accounts

As at 31 December 2009, consolidated net assets of the Group amounted to £11 2 million equivalent to 24 4p per share, (2008 £10 million 21 9p on same basis)

In November last year we finally decided to invest the bulk of the Group's blocked Funds at Lloyd's in the commercial bond market, thereby achieving a significantly improved running yield compared with the return available on cash deposits The funds were all invested in short dated instruments in investment grade securities

*Shareholders should, however, bear in mind that there remain various areas of residual uncertainty in the Group's financial position including the potential for deterioration on the run-off years, settling the Group's tax position, and the costs of winding up the Group's affairs Shareholders may not, therefore, necessarily receive this amount in cash in respect of their shareholdings on a return of capital The principal sensitivities are explored in greater detail in the Operational and Financial Review*

## Underwriting

The Group's underwriting exposure to the year comprised its ongoing exposure to the run-off years of account 2000 and 2001 There have only been minor movements

All the Group's open years have now closed with the exception of one Syndicate 340 (Travelers Syndicate Management) for the 2000 and 2001 years of account There have been only minor movements on these accounts during the year.

The position regarding the closure of Syndicate 340 has potentially moved a little closer to resolution As you are aware the closure of Syndicate 340 depends upon litigation taking place in New York The judge in charge of the case has persuaded the parties to seek a settlement out of court albeit under the supervision of the court We understand that the majority of the parties (but not all) have agreed to this but the actual approval process will take a few further months There is a reasonable expectation this might succeed and if this is the case then the syndicate might close earlier than expected leading to a final distribution of the remaining assets of the company We are unable to comment further on this matter at the present time, but we will provide an update of the position at the forthcoming Annual General Meeting

## Return of Capital

I am now pleased to be able to propose a further return of capital amounting to 12p per Ordinary share Full details of these proposed arrangements are set out in the accompanying letter, incorporating the necessary shareholder resolutions

We are able to bring forward this proposed repayment of capital as a result of a material release of funds £2 5 million which have hitherto been blocked at Lloyd's, together with other free resources, this enables the release to shareholders of £5 5 million

**Chairman's Statement** (continued)

## The Future

The Group remains in a winding up mode, albeit that there remain some risk exposures that will affect the final amount of cash available to shareholders as the remaining open syndicate's years of account are closed

The Operational Review sets out the position regarding the Group's remaining liquid resources The major portion, some £5 2 million, after making allowances for the return of capital referred to above and for the estimated losses on the open years, is blocked in the Funds at Lloyd's pending a resolution of the position regarding Syndicate 340, referred to above

Charles Harbord-Hamond and I will continue to focus on a cost-effective run-off of the Group's affairs, pending a resolution of the position regarding Syndicate 340

**DJ Ewart**
**Chairman**

**Operational and Financial Review**

The Group's consolidated profit after tax for the year ended 31 December 2009 was £1,131,000 (2008 £3 9 million) and its consolidated net assets were £11 2 million (2008 £10 1 million)

**Calendar year 2009 underwriting results**

The calendar year 2009 underwriting result was a profit of £28,172 (2008 profit of £1 4 million) The 2009 result reflected the results of Syndicate 340 whose estimated losses remained substantially unchanged The Group's effective run-off capacity remains £8 4 million

The forecast underwriting loss for Syndicate 340's 2000 year has been fully called In contrast no call has been made for the 2001 underwriting loss but the Group is holding US dollars to cover the anticipated US dollar cash call in an attempt to minimize the foreign exchange risk

**Interest on Funds at Lloyd's**

Interest on Funds at Lloyd's made only a modest contribution to 2009 profits as a result of the very low rates of return available on cash balances in the market In November 2009 a major proportion, some £6 1 million of the Group's free resources, were invested in the commercial bond market in short term securities The Group will have free cash balances of approximately £500,000 after making allowances for the proposed Return of Capital in 2010

**Tax position of the Group**

The Group has made significant progress on resolving its tax status both with HMRC and the previous shareholders in Arch Holdings Limited which owned Arch (2004) Limited

**Net assets per share**

The consolidated net assets per share at 31 December 2009 were 24 4p (2008 21 9p)

**Prospects for the distribution of remaining net assets of Group**

The remaining net assets of the Group are primarily represented by Funds at Lloyd's less a provision for uncalled losses in Syndicate 340's 2000 and 2001 underwriting year and a smaller amount of free cash held by the Group to meet the administrative costs of operating the Group

It is not possible to wind up the Group until Syndicate 340 closes its two run-off syndicate years of account because Lloyd's is unlikely to permit the release of a significant proportion of the Funds at Lloyd's until these run-off years are closed Note 11 to the financial statements gives further background to this

During the remainder of 2010, the Directors will also continue with the process of finalising the residual activities of the Group including striking off further redundant companies to reduce administrative costs of running the Group and also to assist in the winding up of the Group once Syndicate 340 run-off years are closed The Group has established a provision to meet the cost of winding up the Group which is subject to material uncertainty as to the timing of when Syndicate 340 will be able to close its run-off years and also the quantum of investment return the Group is likely to receive whilst awaiting that closure and given the level of uncertainty this is also referred to in our auditor's opinion

**Operational and Financial Review** (continued)

**Break-up basis**

As the directors intend to wind up the Group once the remaining syndicate run-offs have closed and other residual activities are finalised these financial statements have been prepared on a break-up basis The Directors believe that the Group has sufficient cash resources to meet the modest ongoing administrative expenses and to manage the run-off on a solvent basis

**CAA Harbord-Hamond**
**Director**

**Report of the Directors**

The directors present their report and financial statements of the Company and its subsidiary companies for the year ended 31 December 2009

**The Company**

A notice calling a General Meeting for 14 July 2010 of the company will accompany these audited accounts to be dispatched to shareholders The company is proposing to -

1 Restructure the issued share capital of 45,938,555 ordinary shares of 10p each to 45,938,555 ordinary shares of 0 01p

2 Reduce the share premium account by £923,364 to £1,480,491

The effect of the above proposal will enable the company to return 12p per ordinary share to members later in July

**Review of the Business and Future Developments**

The principal activity of CBS Insurance Holdings Limited is that of a holding company for a group of companies in the Lloyd's insurance market which are currently winding up their activities

During 2009, the Group made significant progress in winding up its activities On 25 May 2010 Christie Brockbank Shipton Limited, CBS Underwriting Holdings Limited and Aequanimiter Limited were dissolved, and CBS Underwriting 2006 Limited on 8 June 2010

The main trading companies in the Group were CBS Private Capital Limited, formerly a Lloyd's members' agency and Arch (2004) Limited, a Lloyd's corporate member, which was acquired in November 2009

**Results and Dividends**

The results for the year and the state of the group and company's affairs as at 31 December 2009 are shown in the financial statements The Directors do not recommend the payment of a dividend

**Management of Financial Risk**

The company is exposed to financial risk through its financial assets The Directors delegate this responsibility in respect of syndicate assets and liabilities to the syndicate managing agents The best possible interest rates on its funds are obtained from clearing banks and assets held in US and Canadian dollars are sold, when required, at the most advantageous rates available at the time of sale

**Directors**

The following have served as directors during the year to the date of this report The directors' interests in the company are noted below

| | **CBSIH 10p Ordinary Shares** | | **Options in CBSIH 10p Ordinary Shares** | |
|---|---|---|---|---|
| | **at 31.12.09** | **at 31.12.08** | **at 31.12.09** | **at 31.12.08** |
| DJ Ewart | 355,000 | 355,000 | 100,000 | 100,000 |
| CAA Harbord-Hamond | 1,155,851 | 1,155,851 | 400,000 | 400,000 |

**Report of the Directors** (continued)

**Directors** (continued)

The ordinary shares of Mr Harbord-Hamond were transferred to Mrs EL Royds in May 2008

The options held by DJ Ewart is in an unapproved share option scheme. CAA Harbord-Hamond is in the approved share option scheme These options are exercisable between 21 December 2002 and 24 January 2011 at an adjusted exercise price between 50p per share and 56p per share

No directors held any sharesave scheme options in CBSIH or CBSIH 2003 convertible loan stock at 31 December 2009 and 31 December 2008

The directors also held 2,547,264 loan notes which were redeemed in July 2009 issued pursuant to return of 50 pence a share

**Substantial Shareholdings**

At the date of this report, the company had been notified of no shareholdings of 3% or more of the issued ordinary share capital of the company, other than that of Mrs EL Royds who held 5% of the issued ordinary share capital of the company

The shareholdings and stockholdings shown above are those registered in the relevant shareholder's or stockholder's name Under the Companies Act 2006, CAA Harbord-Hamond and Mrs EL Royds are deemed to have an interest in the shareholding or stake holding of the other, as they are husband and wife

**Supplier Payment Policy**

The Group does not follow any code or statement on payment practice, but it is the Group's policy to pay all of its suppliers within 30 days of receipt of invoice At 31 December 2009, the Group had an average of 30 creditor days outstanding to suppliers

**Statement of disclosure of information to auditors**

The directors have taken all the necessary steps to make us aware, as directors, of any relevant audit information and to establish that the auditors are aware of that information

As far as the directors are aware, there is, no relevant audit information of which the company's auditors are unaware

**Report of the Directors** (contınued)

**Auditors**

Pursuant to the Companıes Act 2006 the audıtors, KPMG Audıt Plc, have sıgnıfied theır wıllıngness to contınue ın office and are deemed to be reappoınted

BY ORDER OF THE BOARD

AS Fox
Secretary
Unıt 25, Jack's Place
6 Corbet Place
London E1 6NN

Regıstered Number 3712018

21 June 2010

**Statement of Directors' Responsibilities in respect of the Report of the Directors and the financial statements**

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under the law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statement, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business As explained in note 1, the directors do not believe that it is appropriate to prepare these statements on a going concern basis

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

**Independent auditors' report to the members of CBS Insurance Holdings Limited**

We have audited the financial statements of CBS Insurance Holdings Limited for the year ended 31 December 2009 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 11, 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

**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 website at www frc org uk/apb/scope/UKNP

**Opinion of 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 ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

*Emphasis of matters – uncertainties over the amount recoverable from Arch (2004) Limited and the quantum of run off provision*

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures in the financial statements concerning the following uncertainties as explained in notes 11 and note 20

a the Group's subsidiaries participated in two syndicate years of account, which are in run off The two syndicate years of account are in run off due to uncertainties over the cost of claims on the 2000 and 2001 years of account attributable to the terrorist attacks in the United States of America on 11 September 2001 As these uncertainties are resolved, material adjustments may prove necessary to the value of gross outstanding claims of £14,680,000 and associated reinsurance recoveries of £9,804,000

b the costs of winding up the Group's business for which a provision has been made (net of expected future investment income) may vary in the light of subsequent information and events which may result in material adjustments to the amounts provided in these financial statements As at 31 December 2009, a provision of £200,000 has been recognised within provisions in respect of anticipated winding up costs

**Independent auditors' report to the members of CBS Insurance Holdings Limited** (continued)

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Director's 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

Salim Tharani (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountant
8 Salisbury Square
London EC4Y 8BB

21 June 2010

## Consolidated Profit and Loss Account for the year ended 31 December 2009

| | Note | 2009 £000 | Restated 2008 £000 |
|---|---|---|---|
| **Technical Account – General Business** | | | |
| Premiums written | | | |
| Gross premiums written | | (2) | (3) |
| Outward reinsurance premiums | | 4 | - |
| Net premiums written | | 2 | (3) |
| Earned premiums net of reinsurance | | 2 | (3) |
| Investment income | 4 | 8 | 12 |
| Claims incurred, net of reinsurance | | | |
| Claims paid | | | |
| Gross amount | | (40) | (4) |
| Reinsurers' share | | 16 | - |
| | | (24) | (4) |
| Change in the provision for claims | | | |
| Gross amount | | 63 | 28 |
| Reinsurers' share | | (23) | (6) |
| | | 40 | 22 |
| Net claims incurred | | 16 | 18 |
| Net operating expenses* | 5 | 27 | (177) |
| Balance on the technical account for general business | | 53 | (150) |

*The comparative for net operating expenses has been restated (see note 5)

## Consolidated Profit and Loss Account for the year ended 31 December 2009

| | Note | 2009 £000 | Restated 2008 £000 |
|---|---|---|---|
| **Non Technical Account** | | | |
| Balance on the general business technical account | | 53 | (150) |
| Other charges including value adjustments | | 51 | (761) |
| OPERATING PROFIT | | 104 | (911) |
| Other income | | 503 | 5,544 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAX | 6 | 607 | 4,633 |
| Tax on profit on ordinary activities | 9 | 524 | (760) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAX | | 1,131 | 3,873 |
| Minority interest | | - | (1) |
| RETAINED PROFIT ON ORDINARY ACTIVITIES ATTRIBUTABLE TO THE MEMBERS OF CBS INSURANCE HOLDINGS LIMITED | 18 | 1,131 | 3,872 |

All activities are now discontinued as the Group is winding up its affairs

All recognised gains and losses are included in the profit and loss account above, hence no Statement of Total Recognised Gains and Losses has been provided

The comparative for other charges including value adjustments has been restated (see note 5)

## Consolidated Balance Sheet as at 31 December 2009

| | Notes | 2009 Syndicate £000 | 2009 Other £000 | 2009 Total £000 | 2008 Syndicate £000 | 2008 Other £000 | 2008 Total £000 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Investment in associate | 11 | - | - | - | - | 7,887 | 7,887 |
| **Other financial investments** | 12 | 2,618 | 7,182 | 9,800 | 327 | - | 327 |
| **Reinsurers' share of technical provisions** | | | | | | | |
| Claims outstanding | | 9,804 | - | 9,804 | 127 | - | 127 |
| | | 9,804 | - | 9,804 | 127 | - | 127 |
| **Debtors due within one year** | | | | | | | |
| Debtors arising out of reinsurance operations | | 1,130 | - | 1,130 | 21 | - | 21 |
| Other debtors | 13 | 685 | 782 | 1,467 | 118 | 583 | 701 |
| | | 1,815 | 782 | 2,597 | 139 | 583 | 722 |
| **Other assets** | | | | | | | |
| Tangible assets | 14 | - | 2 | 2 | - | 3 | 3 |
| Cash at bank and in hand | | 1,402 | 2,592 | 3,994 | 48 | 6,088 | 6,136 |
| Cash in Funds at Lloyd's | | - | 1,973 | 1,973 | - | 158 | 158 |
| | | 1,402 | 4,567 | 5,969 | 48 | 6,249 | 6,297 |
| **Prepayments and accrued income** | | 21 | 479 | 500 | - | 1,378 | 1,378 |
| | | 21 | 479 | 500 | - | 1,378 | 1,378 |
| **Total Assets** | | 15,660 | 13,010 | 28,670 | 641 | 16,097 | 16,738 |

## Consolidated Balance Sheet as at 31 December 2009 (continued)

| | Notes | 2009 Syndicate £000 | 2009 Other £000 | 2009 Total £000 | 2008 Syndicate £000 | 2008 Other £000 | 2008 Total £000 |
|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | |
| **Capital and reserves** | | | | | | | |
| Called up share capital | 15 | - | 4,594 | 4,594 | - | 4,594 | 4,594 |
| Convertible Loan Stock | 16 | - | 50 | 50 | - | 50 | 50 |
| Share premium account | 17 | - | 2,404 | 2,404 | - | 2,404 | 2,404 |
| Profit and loss account | 17 | - | 4,146 | 4,146 | - | 3,015 | 3,015 |
| Total equity shareholders' funds | 18 | - | 11,194 | 11,194 | - | 10,063 | 10,063 |
| **Technical provisions** | | | | | | | |
| Claims outstanding – gross amount | 19 | 14,637 | 43 | 14,680 | 252 | 13 | 265 |
| | | 14,637 | 43 | 14,680 | 252 | 13 | 265 |
| **Provisions for other risks and charges** | 20 | - | 200 | 200 | - | 400 | 400 |
| **Creditors due within one year** | | | | | | | |
| Creditors arising out of direct insurance operations | | 11 | - | 11 | - | - | - |
| Creditors arising out of reinsurance operations | | 1,007 | - | 1,007 | 14 | - | 14 |
| Other creditors including taxation and social security | 21 | - | 1,387 | 1,387 | 375 | 5,397 | 5,772 |
| | | 1,018 | 1,387 | 2,405 | 389 | 5,397 | 5,786 |
| **Accruals and deferred income** | 24 | 5 | 186 | 191 | - | 224 | 224 |
| **Total Liabilities** | | 15,660 | 13,010 | 28,670 | 641 | 16,097 | 16,738 |

Approved by the board and signed on its behalf by

CAA Harbord-Hamond
Director

21 June 2010

## Company Balance Sheet as at 31 December 2009

| | Note | 2009 £000 | 2008 £000 |
|---|---|---|---|
| **Current Assets** | | | |
| Investments in subsidiaries | 25 | 12,280 | 11,304 |
| Investment in associate | 11 | - | 7,887 |
| Other investments | 12 | 992 | - |
| Tangible assets | | 2 | - |
| Debtors due within one year | 13 | 8,058 | 858 |
| Cash at bank | | 1,963 | 4,905 |
| | | 23,295 | 24,954 |
| **Creditors – Amounts falling due within one year** | 21 | (12,878) | (15,420) |
| **Provisions for other risks and charges** | 20 | (200) | (400) |
| **Net Current Assets** | | 10,217 | 9,134 |
| **Net Assets** | | 10,217 | 9,134 |
| **Capital and Reserves** | | | |
| Called up share capital | 15 | 4,594 | 4,594 |
| Convertible Loan Stock | 16 | 50 | 50 |
| Share premium account | 17 | 2,404 | 2,404 |
| Profit and loss account | 17 | 3,169 | 2,086 |
| **Equity Shareholders' Funds** | 18 | 10,217 | 9,134 |

Approved by the board on and signed on its behalf by

CAA Harbord-Hamond
Director

21 June 2010

## Consolidated Cash Flow Statement for the year ended 31 December 2009

| | Note | 2009<br>£000 | 2008<br>£000 |
|---|---|---|---|
| **Cash flow from Operating Activities** | 26 | 2,294 | 9,511 |
| **Returns on Investment and servicing of finance** | | | |
| Repayment of loan from associate | | - | 8,584 |
| Interest received | | 51 | - |
| Interest paid | | (170) | - |
| **Taxation** | | | |
| Corporation tax paid | | (1,983) | (2,914) |
| **Capital expenditure and financial investments** | | | |
| Purchase of investments | | (7,182) | - |
| **Acquisitions and Disposals** | | | |
| Receipts from sale of investments | | - | 32 |
| Purchase of minority interest in group company | | - | (393) |
| Cash arising on acquisition of subsidiary | | 8,006 | - |
| **Financing** | | | |
| Issue of share capital | | - | 11 |
| Repayment of share capital | | (237) | (19,798) |
| Repayment of loan notes | | (2,460) | - |
| Purchase of share options | | - | (57) |
| **Decrease in Cash Holdings** | 26 | (1,681) | (5,024) |

The cash flow statement excludes cash flow within syndicate premium trust funds

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

### 1. Basis of Preparation

**(a) Basis of accounting for underwriting results**

The Financial Statements are prepared using the annual basis of accounting Under the annual basis of accounting, a result is determined at the end of each accounting period reflecting the profit or loss from providing insurance cover during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods Underwriting losses, where a loss ratio over 100% is anticipated, however, are recognised immediately

**(b) Basis of preparation**

As management intend to wind up the Group once the run off syndicate's liabilities are finalised these accounts have been prepared on a break up basis

### 2. Accounting Policies

**(a) Accounting convention**

The financial statements have been prepared in accordance with applicable Accounting Standards and the Companies Act 2006 on the break-up basis and under the historical cost convention

The Group Financial Statements consolidate the financial statements of the company and its subsidiary undertakings for the year ended 31 December 2009

The Group adopted the requirements of FRS 20 Share Based Payments on 1 January 2006 The Group took advantage of the transitional provisions within FRS 20 not to apply the standard to options granted prior to 7 November 2002

**(b) Premiums**

Premiums written comprise the total premiums receivable for the whole period of cover provided by the contracts incepting during the financial year, together with any adjustments arising in the year to such premiums receivable in respect of business written in prior years Premiums are shown gross of commission payable to intermediaries and exclude insurance premium tax

Gross premiums written may include "reinsurance to close" receivable (see (h) below)

Premiums written by a syndicate may also include the reinsurance of other syndicates on which the company participates No adjustments have been made to gross premiums written or outward reinsurance premiums (or to gross and reinsurers' claims) to remove this inter syndicate reinsurance

Outward reinsurance premiums may include "reinsurance to close" payable (see (h) below)

**2. Accounting Policies** (continued)

**(c) Unearned premiums provisions**

The provision for unearned premium comprises the proportion of gross premiums written and reinsurance premiums paid, which are estimated to be earned in the following or subsequent financial year, having regard, where appropriate, to the incidence of risk The specific basis adopted by each individual syndicate is determined by the relevant managing agency

**(d) Acquisition costs**

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts Deferred acquisition costs represent the proportion of acquisition costs incurred that corresponds to the proportion of gross written premiums which are unearned at the balance sheet date

**(e) Claims incurred**

Claims incurred include the costs of claims handling expenses Recoverable amounts arising out of subrogations or salvage are deducted from the cost of claims Claims incurred comprise amounts paid or provided in respect of claims occurring during the year to 31 December, together with the amount by which settlement or reassessment of claims from previous years differs from the provision at the beginning of the year

**(f) Provision for claims**

Provision is made for claims incurred but not paid in respect of events up to 31 December The provision has been increased as appropriate by the Group to the extent that deficits are foreseen on underwriting years before the underwriting year of account is closed

The provision is based on the Returns and reports from the Managing Agents, which are reviewed Management and additional provisions are established as considered necessary based on management knowledge of the syndicate

While the directors consider that the provisions for losses on run-off years are fairly stated on the basis of the information available to them, the ultimate liability may vary as a result of subsequent information and events and may result in significant adjustments to the losses foreseen Adjustments to the amounts of provisions are reflected in the accounts for the period in which the adjustments are made The method used to assess provisions, and the provisions made, are regularly reviewed

**(g) Unexpired risk reserve**

Provision is made for unexpired risks where the expected value of the claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision, net of deferred acquisition costs The assessment of whether a provision is necessary is made using information supplied by the relevant managing agents

Notes to the Financial Statements for the year ended 31 December 2009 (continued)

2. Accounting Policies (continued)

(h) **Reinsurance to close**

A reinsurance to close is a particular type of reinsurance contract entered into by Lloyd's syndicates Under it, underwriting members (the reinsured members) who are members of a syndicate for a year of account (the closed year), agree with underwriting members who comprise that or another syndicate for a later year of account (the reinsuring members) that the reinsuring members will indemnify, discharge or procure the discharge, of the reinsured members against all known and unknown liabilities of the reinsured members arising out of insurance business undertaken through that syndicate and allocated to the closed year in consideration of

(a) a premium, and
(b) either
  (i) the assignment, or agreement to assign, to the reinsuring members of all the rights of the reinsured members arising out of, or in connection with, that insurance business (including without limitation the right to receive all future premiums, reinsurance and other monies receivable in connection with that insurance business), or
  (ii) an agreement by the reinsured members that the reinsuring members shall collect on behalf of the reinsured members the proceeds of all such rights and retain them for their own benefits so far as they are not applied in discharge of the liabilities of the reinsured members

Where the reinsurance to close is between members on successive years of account of the same syndicate, the managing agent has a duty to ensure both sets of members are treated equitably and to set reinsurance to close with the intention that neither a profit nor a loss accrues to either group of members

To the extent that the Group participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the Group has offset its share of the reinsurance to close received against its share of the reinsurance to close paid

If the Group has increased its participations from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received This reflects the fact that the Group has assumed a greater proportion of the business of the syndicate If the Group has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving an element of the reinsurance to close paid This reflects the reduction in the Group's exposure to risks previously written by the syndicate

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written If the reinsuring members under the reinsurance to close become insolvent and the other elements of the Lloyd's chain of security also fail, the reinsured members remain theoretically liable for the settlement of any outstanding claims

However, payment of a reinsurance to close is conventionally accepted as terminating a reinsured member's participation on a syndicate year of account and it is treated for account purposes as settling all the company's outstanding gross liabilities in respect of the business so reinsured

**2. Accounting Policies** (continued)

**(i) Investments**

Listed and other traded investments are stated at bid values Other investments are stated at directors' valuations Unrealised gains and losses are recognised in the profit and loss account

The investment in the associate is recorded at net asset value

**(j) Investment income**

Investment income comprises interest receivable and dividends received plus realised gains on the disposal of investments Realised gains and losses arise from the difference between proceeds and valuation at the previous year end, or cost if there has been no previous revaluation

Where investments represent the Group's share of syndicate investments, they are treated as sold and repurchased at each year end in recognition of the annual venture nature of participation on a syndicate The cost of these investments is therefore their market value at each 31 December The realised gains reported by syndicates are net of any realised losses

All investment income, net of realised losses, arising on syndicate participation is allocated to the technical account Other investment income is attributable to the non-technical account

**(k) Investment expenses and charges**

Investment expenses and charges comprise investment management expenses and losses on the realisation of investments Realised losses arise from the difference between proceeds and valuation at the previous year end, or cost if there has been no previous revaluations The realised losses reported by syndicates are net of any realised gains

**(l) Net operating expenses**

Operating expenses are recognised when incurred They include the Group's share of syndicate operating expenses, the remuneration payable to Managing Agents (and the Group's Members' Agent) and the direct costs of membership of Lloyd's Where they relate to the Group's underwriting, they are charged to the accounts in relation to the earning patterns of profits and premiums Reinsurance costs and letter of credit charges in relation to the Group's Funds at Lloyd's are charged to the technical account

**(m) Other income**

Other income comprises all income not attributable to underwriting or investment management The principal receipts are taken to credit as follows

| | |
|---|---|
| Agency Fees | in the first twelve months of each underwriting account |
| Winding Up Fees | on an accruals basis |
| Profit Commissions | on an accruals basis |
| Bank Interest | on an accruals basis |
| Overrider Commission | when receivable |

**(n) Other charges**

Expenses not attributable to underwriting or investment management are recognised on an accruals basis

**2. Accounting Policies** (continued)

**(o) Foreign currencies**

Transactions in foreign currencies other than sterling, United States dollars and Canadian dollars are translated at the rates of exchange ruling at the date the transaction is processed Unless otherwise stated, transactions in United States dollars and Canadian dollars and assets and liabilities in currencies other than sterling are translated at the rates of exchange ruling at the end of the financial year Exchange differences arising on translation are dealt with in the profit and loss account

**(p) Depreciation**

Depreciation of fixed assets is calculated to write off the cost of the assets over their estimated useful lives at the following rates

| | |
|---|---|
| Office furniture | 12 5% of original cost per annum |
| Office equipment | 25% of original cost per annum |

**(q) Lease costs**

Instalments on operating lease contracts are charged to the profit and loss account when they become payable

**(r) Pension contributions**

Pension contributions are charged to the profit and loss account in the period to which they relate

**(s) Taxation**

The Group is taxed on its share of the underwriting results declared by syndicates and these are deemed to accrue evenly over the calendar year in which they are declared

HMRC determines the taxable results of syndicates on the basis of computations submitted by the Managing Agent

Other profits are assessable to corporation tax in the same period as they are recognised for accounting purposes, after adjustment in accordance with tax legislation

**(t) Deferred taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

**(u) Nil paid convertible loan stock**

Nil paid 0% Convertible loan stock and 2003 Convertible loan stock ("CLS"), described in greater detail in note 16, were issued as consideration for the company's use of converting Names' Funds at Lloyd's The CLS have been classified as equity and included in shareholders' funds as there is no transfer of economic benefits from the company to the loan stock holders

## Notes to the Financial Statements for the year ended 31 December 2009 (continued)

### 3. Segmental Information

The business shown in the segmental information has all been underwritten in the Lloyd's insurance market It has been treated as one geographical segment for the purpose of Statement of Standard Accounting Practice No 25 "Segmental Reporting"

*31 December 2009 analysis by class of business*

| | Total gross premiums written £000 | Gross claims incurred £000 | Gross operating expenses £000 | Reinsurance balance £000 |
|---|---|---|---|---|
| Accident & health | - | - | - | - |
| Motor – third party liability | - | - | - | - |
| Motor – other classes | - | - | - | - |
| Marine, aviation and transport | - | 4 | - | - |
| Fire & other damage to property | - | - | - | - |
| Third party liability | - | 1 | (2) | - |
| Other | - | - | 34 | - |
| Reinsurance | (2) | 18 | (5) | (3) |
| **Total** | (2) | 23 | 27 | (3) |

*31 December 2008 analysis by class of business*

| | Total gross premiums written £000 | Gross claims incurred £000 | Gross operating expenses £000 | Reinsurance balance £000 |
|---|---|---|---|---|
| Accident & health | - | - | - | - |
| Motor – third party liability | - | - | - | - |
| Motor – other classes | - | - | - | - |
| Marine, aviation and transport | (1) | 6 | (5) | - |
| Fire & other damage to property | - | - | (9) | - |
| Third party liability | (1) | 2 | (9) | (1) |
| Other | - | 2 | (9) | - |
| Reinsurance | (1) | 14 | (145) | (5) |
| **Total** | (3) | 24 | (177) | (6) |

Total gross premiums include brokerage

### 4. Investment Income

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Income from investments | 51 | 11 |
| Unrealised losses on investments | (7) | 1 |
| | 44 | 12 |

An amount of £8,000 of income from investments is included in the technical account (2008 £12,000)

## Notes to the Financial Statements for the year ended 31 December 2009 (continued)

### 5. Net Operating Expenses

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Administration refunds/(expenses) including foreign exchange | 27 | (80) |
| Corporate member expenses | - | (97) |
| | 27 | (177) |

The comparatives have been restated to include reinsurance expenses and foreign taxes (see note 6)

### 6. Profit On Ordinary Activities Before Taxation

Profit on ordinary activities before taxation is stated after charging/(crediting)

| | | 2009 £000 | 2008 £000 |
|---|---|---|---|
| Staff costs (note 7) | | 104 | 233 |
| Letters of credit fees* | | - | 55 |
| Reinsurance costs* | | - | 37 |
| Auditors' remuneration | - audit fee | 40 | 85 |
| | - other services relating to taxation | 65 | 39 |
| Depreciation | | 1 | - |
| US Federal Income Tax/Japanese Income Tax* | | (44) | 5 |
| Canadian Income Tax* | | - | 110 |
| Increase in debt recoverable from associate | | - | (2,410) |

*These items have been (credited)/charged to the technical account

Of the Group audit fee, £21,800 relates to the audit of the company (2008 £52,736)

### 7. Staff Costs

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Salaries | 83 | 195 |
| Social Security costs | 10 | 24 |
| Pension contributions | 11 | 13 |
| | 104 | 232 |

The Group operates a defined contribution pension scheme

The average number of staff employed by the Group was 4 (2008 4)

## Notes to the Financial Statements for the year ended 31 December 2009 (continued)

### 8. Directors' Remuneration

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Directors' emoluments | 78 | 109 |
| Pension contributions | 11 | 5 |
| | 89 | 114 |

Emoluments of the highest paid director are as follows

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Management services | 37 | 59 |
| Pension contributions | 11 | 5 |
| | 48 | 64 |

### 9. Taxation On Profit On Ordinary Activities

| | 2009 £000 | 2008 £000 |
|---|---|---|
| i) Analysis of tax charge in year | | |
| Current tax | | |
| UK Corporation tax at 28% (*2008 28 5%*) | (115) | (3,508) |
| Prior year tax | 624 | - |
| Total current tax | 509 | (3,508) |
| Deferred tax credit (see note 23) | 15 | 2,748 |
| | 524 | (760) |
| ii) Factors affecting tax charge for the year | | |
| Profit on ordinary activities before tax | 607 | 4,633 |
| Tax charge at 28% (*2008 28 5%*) | (170) | (1,320) |
| Effects of | | |
| Underwriting profits not yet taxable | (2) | (2,254) |
| Write back of loan to associate | - | 585 |
| Indemnity costs | - | 103 |
| Deferred consideration | - | (508) |
| Disallowed expenses/refunds | 57 | (114) |
| Current tax charge | (115) | (3,508) |

### 10. Profit Attributable to Members of the Parent Company

Advantage has been taken of exemptions contained within Companies Act 2006 not to publish a profit and loss account of the parent company The parent company's profit for the financial year is set out in Note 17

## Notes to the Financial Statements for the year ended 31 December 2009 (continued)

### 11. Investment in Arch Holdings Limited and Arch (2004) Limited

Arch Holdings Limited and Arch (2004) Limited were acquired on 13 November 2009 for £1 each The fair value of the assets and liabilities at acquisition can be seen below

| | Arch Holdings Limited £000 | Arch (2004) Limited £000 |
|---|---|---|
| **Assets** | | |
| Debtors and accrued interest | - | 473 |
| Cash in FAL | - | 8,006 |
| | | 8,479 |
| **Liabilities** | | |
| Loan from CBS Insurance Holdings Limited | - | (22,409) |
| Other creditors and accruals | - | (742) |
| Deficit on shareholders funds | - | (14,672) |

Arch Holdings Limited was formerly the holding company for Arch (2004) Limited Arch (2004) Limited, a Lloyd's corporate member, is in run-off Originally Arch (2004) Limited was a wholly owned subsidiary of CBS Insurance Holdings Limited, which was sold to Arch Holdings Limited in November 2004. Under the sale CBS Insurance Holdings Limited gave guarantees to the third party acquirers of Arch Holdings Limited in respect of Arch (2004) Limited namely that CBS Insurance Holdings Limited provided an indemnity for non underwriting losses incurred by Arch (2004) Limited and guaranteed its Lloyd's losses up to the limit of Arch (2004) Limited's then Funds at Lloyd's In November 2009 Arch Holdings Limited was 100% acquired by CBS Insurance Holdings Limited, and in December, Arch (2004) Limited was reacquired, with both entities becoming 100% owned subsidiaries

Prior to acquisition on 13 November 2009 the Group owned 0 2% of the issued share capital of Arch Holdings Limited of £100 of which Arch (2004) Limited was a 100% subsidiary The shares held by CBS Insurance Holdings Limited entitled it to a 25 1% voting interest CBS Insurance Holdings Limited also had the right to appoint one of the four directors

A loan agreement is in place with Arch (2004) Limited The total amount outstanding at 31 December 2009 is £22,408,726 of which £8,330,000 is deemed to be recoverable The company has provided against the difference Under an amendment to the terms of the loan interest has been charged to Arch (2004) Limited at a rate of 5% per annum since 1 January 2009

The summarised profit and loss account for the 11 months ended 31 December 2009 and the balance sheet of Arch (2004) Limited for 2008 is set out on page 29 For 2009 the figures are included in the Group's profit and loss account and balance sheet The auditor's report on the financial statements contains an emphasis of matter paragraph referring to the uncertainty of quantum of gross outstanding claims and reinsurance recoveries in respect of Syndicate 340 These uncertainties are set out in full in the financial statements of Syndicate 340 The relevant points are summarised below

Syndicate 340 was a specialist aviation syndicate and the 2000 and 2001 run-off years of account have material exposure to losses arising from the terrorist activities in the USA on 11 September 2001 The scale and complexity of these losses have resulted in there being significant uncertainty as to their final outcome, the uncertainty relates to the extent of liability and the quantum of possible loss settlements This situation had remained unchanged for many years but in December 2009 it became apparent that substantive settlement negotiations were under way in New York

On 23 February 2010 a settlement was concluded formally with all bar three of the property plaintiffs The liability insurers of the main aviation defendants have also agreed on how any future resolution of those three outstanding property claims would be allocated amongst them

**11. Investment in Arch Holdings Limited and Arch (2004) Limited** (continued)

The terms of the settlement as negotiated would remove many, but not all, of the uncertainties which have led to the Syndicate remaining open and lead to a material improvement in the eventual result for both open years However, the settlement

- would not extinguish all outstanding liabilities – it would provide relative finality to the greatest extent possible, and
- is not definitive until it is approved conclusively by the New York court

The settlement represents potentially a material change in the outlook for the open years but as no conclusive approval has been given by the New York court as at 21 June 2010 these accounts are drawn up in accordance with assumptions made at previous year ends

Whilst the Directors consider that the loss provisions established are the best estimate that can be made on the basis of information currently available, the estimates are subject to significant uncertainty and it may be several years before all of these uncertainties are resolved Changing circumstances or the receipt of further information may cause the estimate to be revised The cost or benefit of any such adjustment will be reflected in the financial statements for the period in which this adjustment is made

**Summarised profit and loss account prior to acquisition of subsidiary**

| | **11 months ending 31 December 2009 £000** | **12 months ending 31 December 2008 £000** |
|---|---|---|
| Underwriting (loss)/profit | (308) | 1,624 |
| Other income | 95 | 610 |
| Repayment of CBS Insurance Holdings guarantee | - | (360) |
| (Loss)/Profit on ordinary activities before tax | (213) | 1,874 |
| Tax on (loss)/profit for year | 136 | 177 |
| Retained (loss)/profit for period | (77) | 2,051 |

**Summarised balance sheet prior to acquisition of subsidiary**

| | **31 December 2008 £000** |
|---|---|
| Syndicate gross assets | 23,687 |
| Funds at Lloyd's | 8,969 |
| Corporation tax recoverable | 336 |
| Accrued interest | 194 |
| Provision for syndicate losses | (1,551) |
| Deferred tax | (61) |
| Loan from CBS Insurance Holdings Limited | (22,503) |
| Syndicate gross liabilities | (23,687) |
| Deficit on shareholders funds | (14,616) |

## Notes to the Financial Statements for the year ended 31 December 2009 (continued)

### 12. Financial Investments

| | 2009 Market Value £000 | 2009 Cost £000 | 2008 Market Value £000 | 2008 Cost £000 |
|---|---|---|---|---|
| Shares and other variable yield securities | 119 | 119 | 9 | 9 |
| Debt securities & other fixed income securities | 9,579 | 9,678 | 296 | 296 |
| Deposits with credit institutions | 9 | 9 | - | - |
| Other | 93 | 93 | 22 | 22 |
| | 9,800 | 9,899 | 327 | 327 |

The Group is unable to ascertain the proportion of listed investments because the underlying syndicates did not supply the information

At 31 December 2009 the company held government securities with a market value of £991,996 at a cost of £996,430

### 13. Other Debtors

| | Group 2009 £000 | Group 2008 £000 | Company 2009 £000 | Company 2008 £000 |
|---|---|---|---|---|
| Due within one year | | | | |
| Debtors within syndicate participations | 685 | 118 | - | - |
| Amounts owed by group undertakings | - | - | 8,024 | 847 |
| Other debtors | 36 | 544 | 29 | 11 |
| Corporation tax | 755 | 27 | - | - |
| Deferred tax (see note 23) | (9) | - | - | |
| Indirect taxation recoverable | - | 12 | - | - |
| Prepayments | - | - | 5 | - |
| | 1,467 | 701 | 8,058 | 858 |

### 14. Tangible Fixed Assets

| | Office Equipment £000 | Total £000 |
|---|---|---|
| Cost | | |
| At 1 January 2009 | 71 | 71 |
| At 31 December 2009 | 71 | 71 |
| | | |
| Depreciation | | |
| At 1 January 2009 | 68 | 68 |
| Charge for year | 1 | 1 |
| At 31 December 2009 | 69 | 69 |
| | | |
| Net book value | | |
| At 31 December 2009 | 2 | 2 |
| | | |
| At 31 December 2008 | 3 | 3 |

## 15. Share Capital

| | No | £000 |
|---|---|---|
| Called up, issued and fully paid | | |
| At 1 January 2009 and 31 December 2009 | 45,938,555 | 4,594 |

The number of shares due to be issued in respect of the remaining convertible stock will be between 40,000 and 42,000 depending on the conversion date (see note 16)

The company has at balance sheet date two remaining share option schemes for group employees and options have been granted to subscribe for ordinary shares in the company in accordance with the rules of each scheme The options in each scheme at 31 December 2009 are as follows

| | Number of Shares |
|---|---|
| CBSIH approved share option scheme | 3,165,000 |
| CBSIH unapproved share option scheme | 220,000 |
| | 3,385,000 |

The options in the CBSIH approved and unapproved schemes are exercisable between 50 pence per share and 56 pence per share between 21 December 2002 and 24 January 2011 as adjusted for the return of 50 pence per share to shareholders in 2008 Given the current net asset value of the company these schemes will be wound up in 2010

## 16 Nil Paid Convertible Loan Stock

| | 0% Convertible Stock £000 | 2003 Convertible Stock £000 | Total £000 |
|---|---|---|---|
| At 1 January 2009 and 31 December 2009 | 48 | 2 | 50 |

The 0% Convertible Stock was originally convertible into 10p ordinary shares on 30 November 2002, or if earlier the 2003 coming-into-line date, at a rate of 85 shares for each £100 nominal of stock

The 2003 Convertible Stock was convertible into 10p ordinary shares on 30 November 2003, or if earlier the 2003 coming-into-line date, at a rate of 77 shares for each £100 nominal of stock

The 0% Convertible Stock and the 2003 Convertible Stock have no coupon and do not transfer any economic benefit from the company to the loan stock holders Both classes of loan stock have been treated as equity by the company, as permissible under FRS25

**Notes to the Financial Statements for the year ended 31 December 2009** (continued)

**17. Reserves**

**Group**

| | Share Premium £000 | Profit & Loss Account £000 |
|---|---|---|
| At 1 January 2009 | 2,404 | 3,015 |
| Profit for the year | - | 1,131 |
| At 31 December 2009 | 2,404 | 4,146 |

**Company**

| | Share Premium £000 | Profit & Loss Account £000 |
|---|---|---|
| At 1 January 2009 | 2,404 | 2,086 |
| Profit for the year | - | 1,083 |
| At 31 December 2009 | 2,404 | 3,169 |

The credit balance shown in the company's profit and loss account arose mainly as a result of a reduction in the level of provisions set up in earlier years against the company's investments in its subsidiaries These recoveries have been credited to its profit and loss account In earlier years, in order to eliminate the shortfall in retained earnings, the deficit in the profit and loss account was eliminated by reduction of the share premium account thereby permitting the distribution of capital to shareholders

**18 Reconciliation of Movements in Shareholders' Funds**

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 £000 | 2008 £000 | 2009 £000 | 2008 £000 |
| Opening shareholders' funds | 10,063 | 29,149 | 9,134 | 18,521 |
| Issue of shares | - | 11 | - | 11 |
| Return of capital | - | (22,969) | - | (22,969) |
| Profit for the year | 1,131 | 3,872 | 1,083 | 13,571 |
| Closing shareholders' funds | 11,194 | 10,063 | 10,217 | 9,134 |

**19. Provisions for Outstanding Claims**

The provision for gross outstanding claims and the associated reinsurers' share include specific provisions established by the Group, over and above the provisions established by the respective managing agents.

**Lloyd's Year of Account**

| | 2000 £000 | 2001 £000 | Total £000 |
|---|---|---|---|
| At 1 January 2009 | - | 13 | 13 |
| Additional provision in subsidiaries | 13 | 25 | 38 |
| Release of provisions | - | (8) | (8) |
| At 31 December 2009 | 13 | 30 | 43 |

## 20. Provision for Other Risks and Charges

**Group and Company**

| | Winding up Costs £000 | Total £000 |
|---|---|---|
| At 1 January 2009 | 400 | 400 |
| Used in year | (200) | (200) |
| At 31 December 2009 | 200 | 200 |

The company has established a provision of £200,000 for winding up the Group, after use of £200,000 in relation to legal, audit and other expenses in relation to winding up the Group The amount provided is net of anticipated future investment income receivable on cash and FAL balances held by the Group The amount provided is subject to uncertainty including both as to the timing of closure of syndicate 340 run off years and future interest rates

## 21. Other Creditors

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 £000 | 2008 £000 | 2009 £000 | 2008 £000 |
| Amounts falling due within one year | | | | |
| 2009 Loan notes (see note 22) | - | 2,460 | - | 2,460 |
| Outstanding capital redemption | 475 | 711 | - | 711 |
| Amounts due to group undertakings | - | - | 11,930 | 11,913 |
| Corporation tax | 121 | 2,062 | - | 265 |
| Deferred tax (see note 23) | - | 24 | - | - |
| Other creditors | 78 | 100 | 859 | 1 |
| Other taxation & social security | - | 40 | - | - |
| Creditors within syndicate participations | 713 | 375 | - | - |
| | 1,387 | 5,772 | 12,789 | 15,350 |
| Accruals & deferred income | | | 89 | 70 |
| | | | 12,878 | 15,420 |

## 22. 2009 Loan Notes

| | No | £000 |
|---|---|---|
| At 1 January 2009 | 4,919,398 | 2,460 |
| Repaid in year | (4,919,398) | (2,460) |
| At 31 December 2009 | - | - |

On 17 December 2008 pursuant to a return of 50 pence per share of capital to shareholders, the company issued variable interest rate subordinated loan notes of 50 pence nominal value to those shareholders wanting a loan note alternative The loan notes were redeemed on 31 July 2009

## 23. Deferred Tax Liabılıty

| | £000 |
|---|---|
| At 1 January 2009 | 24 |
| Movement ın the year (Note 9) | (15) |
| At 31 December 2009 | 9 |

The deferred tax provısıon has been utılısed to meet underwrıtıng profits on syndıcates ın run-off whıch are now subject to corporatıon tax

## 24. Accruals and deferred income

| | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| Other | 191 | 224 |
| | 191 | 224 |

## 25. Investments ın Subsidiary Undertakings

| | £000 |
|---|---|
| **Cost** | |
| At 1 January 2009 | 16,554 |
| Addıtıons | 583 |
| At 31 December 2008 | 17,137 |
| **Provision for impairment** | |
| At 1 January 2009 | 5,250 |
| Release | (393) |
| At 31 December 2009 | 4,857 |
| **Net Book Value** | |
| At 31 December 2009 | 12,280 |
| At 31 December 2008 | 11,304 |

All the companıes lısted below were regıstered ın England and Wales at 31 December 2009 In the opınıon of the dırectors the value of the subsıdıary undertakıngs ıs not less than the amounts at whıch they are ıncluded ın the financıal statements

**25 Investments in Subsidiary Undertakings** (continued)

**Subsidiary Undertakings**

| Name | Business | Percentage Owned | Shares |
|---|---|---|---|
| Aequanimiter Limited | Dormant | 100% | Ordinary |
| Amaranth Holdings Limited | Holding Company | 100% | Ordinary |
| Arch (2004) Limited | Lloyd's Corporate Member | 100% | Ordinary |
| Arch Holdings Limited | Dormant | 100% | Ordinary |
| CBS Private Capital Limited | Lloyd's Members' Agent | 100% | Ordinary |
| CBS Underwriting 2001 Limited | Lloyd's Corporate Member | 100% | Ordinary |
| Christie Brockbank Shipton Limited | Dormant | 100% | Ordinary |
| CBS Underwriting Holdings Limited | Dormant | 100% | Ordinary |
| CBS Underwriting 2002 Limited | Lloyd's Corporate Member | 100% | Ordinary |
| CBS Underwriting 2006 Limited | Investment Company | 100% | Ordinary |

During the year the shares in Christie Brockbank Shipton Limited were transferred at book value from Aequanimiter Limited to CBS Insurance Holdings Limited

On 25 May 2010 Christie Brockbank Shipton Limited, Aequanimiter Limited and CBS Underwriting Holdings Limited were dissolved On 8 June 2010 CBS Underwriting 2006 Limited was dissolved

On 2 December 2009 Arch Holdings Limited was acquired for £1 It's subsidiary company, Arch (2004) Limited was transferred for £1 to CBS Insurance Holdings Limited on 3 December 2009

**26. Cash Flow Statement**

**(a) Reconciliation of operating profit to operating cash flows**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Profit on ordinary activities before tax | 607 | 4,633 |
| Depreciation | 1 | 2 |
| Interest receivable | 4 | 145 |
| Profit on sale of fixed assets | - | (16) |
| Investment write back | - | 43 |
| Change in provision on associate loan | - | (2,051) |
| Purchase of share options | - | 57 |
| Utilisation of provision for other risks and charges | (170) | (3,214) |
| Decrease in debtors | 1,117 | 10,089 |
| Increase/(Decrease) in creditors | 735 | (177) |
| Net cash inflow from operating activities | 2,294 | 9,511 |

**(b) Reconciliation of net cash flow to movement in net cash and financing**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Decrease in cash in year | (1,681) | (5,024) |
| Net cash at 1 January | 6,246 | 11,270 |
| Net cash at 31 December | 4,565 | 6,246 |

## 26. Cash Flow Statement (continued)

### (c) Movement in cash and financing

| | At 1.1.09 | Cash flows | At 31.12.09 |
|---|---|---|---|
| | £000 | £000 | £000 |
| Cash at bank and in hand | 6,088 | (3,496) | 2,592 |
| Cash in Funds at Lloyd's | 158 | 1,815 | 1,973 |
| | 6,246 | (1,681) | 4,565 |

## 27. Contingent Liabilities

The Group has made available Funds at Lloyd's for CBS Underwriting 2002 Limited, Arch (2004) Limited and CBS Underwriting 2001 Limited as follows

| | 2009 | 2008 |
|---|---|---|
| | £000 | £000 |
| Cash | 157 | 158 |
| Cash held by Arch (2004) Limited (note 11) | 1,816 | 8,969 |
| Investments held by Arch (2004) Limited | 6,190 | - |
| | 8,163 | 9,127 |