

HARDY

Syndicate 38 *Twenty*

Report & Accounts **2009**

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Directors & administration

MANAGING AGENT

Hardy (Underwriting Agencies) Limited

NON-EXECUTIVE DIRECTORS

DP Mann (Chairman)

IE Ivory

RD Abbott

BS Thomas

BG Devereese

DIRECTORS

PJ Gage

MJ Simpson

TP Griffin

MTA Sugden

T Hutchings

AJ Walker

JD MacDiarmid

AD Williams

BJ Merry

COMPANY SECRETARY

T Hutchings

MANAGING AGENT'S REGISTERED OFFICE

1st Floor, Fitzwilliam House, 10 St Mary Axe, London, EC3A 8NA

MANAGING AGENT'S REGISTERED NUMBER

1264271

ACTIVE UNDERWRITER

PJ Gage

BANKERS

Citibank N.A.

Lloyds TSB Bank plc

INVESTMENT MANAGERS

Amundi (UK) Ltd (formerly Credit Agricole Asset Management)

REGISTERED AUDITOR

KPMG Audit Plc

REPORTING ACTUARIES

PricewaterhouseCoopers LLP

Report of the directors of the managing agent

The directors of Hardy (Underwriting Agencies) Limited ("HUA") present their report for the year ended 31 December 2009.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

The directors who served during the period were as follows:

steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

AUDITOR

The managing agent intends to reappoint KPMG Audit Plc as the syndicate auditor.

NON-EXECUTIVE DIRECTORS	EXECUTIVE DIRECTORS	
DP Mann (Chairman) RD Abbott BG Devereese IE Ivory BS Thomas	PJ Gage TP Griffin T Hutchings JD MacDiarmid BJ Merry	MJ Simpson MTA Sugden AJ Walker AD Williams

DIRECTORS' INTERESTS

None of the directors were members of the syndicate for the year of account under review.

DISCLOSURE OF INFORMATION TO THE AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the syndicate's auditors are unaware; and each director has taken all the

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the business is underwriting general insurance and reinsurance business in the United Kingdom on behalf of the members of its two managed syndicates, 382 and 38Twenty.

The result for the calendar year together with key performance ratios is shown below:

	2009	2008
Profit for the year (£m)	8.3	6.6
Gross premiums written (£m)	0.4	56.4
Net premiums written (£m)	1.1	37.2
Net premiums earned (£m)	19.3	33.1
Claims ratio (%)	3.5	60.8
Expenses ratio (%)	54.7	22.4
Combined ratio (%)	58.2	83.2

HUA is a wholly owned subsidiary of Hardy Underwriting Group plc ("HUG") which provides 100% of the syndicate's capacity through its other principal subsidiary, Hardy Underwriting Limited ("HUL"), a corporate member at Lloyd's.

Hardy Underwriting Bermuda Limited is the ultimate parent company of HUA.

The syndicate ceased underwriting at 31 December 2008 and was merged into syndicate 382 for the 2009 underwriting year.

OVERALL PROFILE

Syndicate 38*Twenty* was established in 2007 to develop a property account providing a broadly diversified portfolio of predominantly short tail risk and offering lead capabilities.

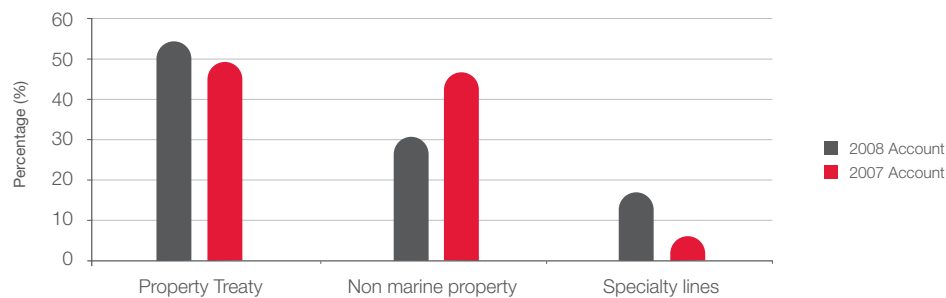
As regards the combined ratios, the claims element is the ratio of claims incurred net of reinsurance to earned premiums net of reinsurance and the expense element is the ratio of net operating expenses to earned premiums net of reinsurance, including gains and losses arising from changes in foreign exchange rates.

The syndicate wrote a mixture of non-marine property, property treaty and specialty lines business.

The 2009 result has incurred a foreign exchange loss of £1.4m (2008: gain of £4.6m).

An analysis of the gross premiums written for the 2007 and 2008 underwriting years of account at 31 December 2009 is shown below.

GROSS PREMIUMS WRITTEN FOR THE 2008 & 2007 YEARS OF ACCOUNT



Report of the directors of the managing agent - continued

RESULT

The result for the 2009 calendar year is a profit of £8.3 million, which includes profit contributions from both underwriting years 2007 and 2008.

The syndicate has closed the 2007 year of account with a profit on stamp capacity of 4.85%, net of all expenses. This has been achieved against a backdrop of very large risk losses in the direct property sector during 2008 accident year and also high reinsurance costs incurred in the syndicate's first year.

A strong profit is being forecast for the 2008 underwriting year, despite the market suffering significant losses from Hurricane Ike, the third most costly catastrophe in history. Syndicate 38Twenty merged with syndicate 382 in 2009 and 2008 will be its final year of account.

The contribution to the 2009 result from each of the main classes is shown below.

	£m
Property treaty	1.9
Non-marine property	5.0
Specialty lines	1.4
<hr/>	
Profit for the financial year	8.3

PROPERTY TREATY

The treaty account has provided a strong contribution to the result since 2007, with profits from both underwriting years. It benefits from a geographically well diversified base and

strong relationships with chosen clients. Unlike many London Market accounts the majority of business emanates from territories outside the US, leaving the account less exposed to Atlantic windstorms than many of our competitors.

The account is a mixture of non-proportional catastrophe and pro rata reinsurance business, together with a small element of per risk business. The pro rata account comprises business mainly from catastrophe exposed areas such as the Caribbean and Japan, so enabling pricing sufficiency to be achieved in an historically marginal sector.

NON MARINE PROPERTY

This account comprises direct and facultative industrial and commercial property business, both international and US based. In addition a modest UK homeowners portfolio was written in 2007 and 2008. The majority of business is written on an excess layer basis and Hardy is a recognised leader in this sector.

2007 was a difficult year with the US account affected by the "Severstal" blast furnace explosion, together with high reinsurance costs incurred in the syndicate's first year.

Despite this, however, the account has developed profitably and, at this stage, the forecast result for 2008 is very promising.

SPECIALTY LINES

This account mainly comprises personal accident related business written through binding authorities and also terrorism risks written in conjunction with syndicate 382.

Results for both 2007 and 2008 have been good, despite lower than expected premium volumes.

INVESTMENT PERFORMANCE

Investment returns have contributed £245,800 (2008: £1,000,500) to the result during 2009. The syndicate held balances in cash and cash deposits at 31 December 2009.

The returns generated within currencies were:

	Average balance £'000	Return %	Return £'000
Sterling	4,019	2.4	95
Euros	303	-	-
US dollars	20,390	0.7	136
Canadian dollars	2,829	0.5	14
	27,541	0.9	245
Investment expenses and charges			-
			245

FOREIGN CURRENCY EXPOSURE

The syndicate underwrites across all four Lloyd's reporting currencies, with a significant concentration in US dollar denominated business. During each underwriting year, currency balances may be sold to cover syndicate expenses, which are denominated in sterling.

Currency hedging activity and forward selling of dollars is undertaken in respect of that element of the syndicate's overall result which is attributable to dollar profits.

SYNDICATE OPERATING EXPENSES

HUA charges a fixed fee of 0.75% of allocated capacity, with all expenses borne by HUA being apportioned between the managing agent and the syndicate to reflect the benefit obtained by each party.

The terms of the agent's remuneration are as follows.

- a) Annual fee: 0.75% of premium capacity limit.
- b) Profit commission: 17.5%.

By order of the Board



T Hutchings
Secretary
London
18 March 2010

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate annual report and accounts in accordance with applicable law and regulations.

InsuranceAccounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare the syndicate annual accounts at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). The annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and

- prepare the annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the member of syndicate 38Twenty

We have audited the syndicate 38Twenty annual accounts for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows, and the related notes 1 to 16. The syndicate annual accounts have been prepared under the accounting policies set out therein.

This report is made solely to the member of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's member those matters we are required to state in an auditors' 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 syndicate's member as a body for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF MANAGING AGENT AND AUDITORS

The managing agent's responsibilities for preparing the syndicate annual accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of managing agent's responsibilities on page 6.

Our responsibility is to audit the syndicate annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the syndicate annual accounts give a true and fair view and are properly

prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We also report to you whether in our opinion the report of the directors of the managing agent is consistent with the syndicate annual accounts.

In addition we report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of that syndicate, if the syndicate annual accounts are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding remuneration of the directors of the managing agent and other transactions is not disclosed.

We read the other information attached to the syndicate annual accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the syndicate annual accounts. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

Independent auditor's report to the member of syndicate 38Twenty - continued

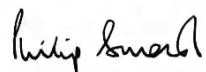
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or other irregularity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

OPINION

In our opinion:

- the syndicate annual accounts give a true and fair view in accordance with UK Generally Accepted Accounting Practice, of the state of syndicate 38Twenty's affairs as at 31 December 2009 and of its profit for the year then ended;

- the syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008; and
- the information given in the report of the directors of the managing agent is consistent with the syndicate annual accounts.



Philip Smart (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London

18 March 2010

Profit and loss account: technical account for the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Gross premiums written	3	378	56,426
Outward reinsurance premiums		720	(19,220)
Net premiums written		1,098	37,206
Change in the provision for unearned premiums			
Gross amount		22,189	(4,809)
Reinsurers' share		(4,028)	722
Change in the net provision for unearned premiums		18,161	(4,087)
Earned premiums, net of reinsurance		19,259	33,119
Allocated investment return transferred from the non-technical account		245	1,000
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(13,989)	(13,555)
Reinsurers' share		4,963	5,616
Net claims paid		(9,026)	(7,939)
Change in the provision for claims			
Gross amount		11,933	(18,509)
Reinsurers' share		(3,585)	6,313
Change in the net provision for claims	4	8,348	(12,196)
Claims incurred, net of reinsurance		(678)	(20,135)
Net operating expenses	3,5	(10,528)	(7,412)
Balance on the technical account		8,298	6,572

Profit and loss account: non-technical account for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Balance on the technical account		8,298	6,572
Investment income	8	245	1,000
Allocated investment return transferred to technical account		(245)	(1,000)
Profit for the financial year		8,298	6,572

All operations relate to discontinued activities.

No statement of total recognised gains and losses has been presented as there are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.


Balance sheet: assets at 31 December 2009

	Notes	2009 £'000	2008 £'000
Investments			
Financial investments	9	-	-
Reinsurers' share of technical provisions			
Provision for unearned premiums		377	4,405
Claims outstanding		3,909	7,356
		4,286	11,761
Debtors			
	10		
Debtors arising out of direct insurance operations		580	15,602
Debtors arising out of reinsurance operations		1,927	10,863
Other debtors		3	6
		2,510	26,471
Other assets			
Cash at bank and in hand		19,553	30,390
Overseas deposits	11	4,394	3,657
		23,947	34,047
Prepayments and accrued income			
Accrued interest		6	288
Deferred acquisition costs		267	3,187
		273	3,475
Total assets		31,016	75,754

Balance sheet: liabilities at 31 December 2009

	Note	2009 £'000	2008 £'000
Capital and reserves			
Member's balances	12	11,152	6,208
Technical provisions			
Provision for unearned premiums		1,130	23,319
Claims outstanding		14,450	27,382
		15,580	50,701
Creditors			
	10		
Creditors arising out of direct insurance operations		502	389
Creditors arising out of reinsurance operations		397	13,396
Other creditors		3,385	5,060
		4,284	18,845
Total liabilities		31,016	75,754

The financial statements on pages 9 to 20 were approved by the Board of Hardy (Underwriting Agencies) Limited on 18 March 2010 and signed on its behalf by



PJ Gage
Director
18 March 2010

Statement of cash flows for the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Profit for the financial year		8,298	6,572
Unrealised investment and foreign exchange losses/ (gains)		2,214	(6,230)
(Decrease) / increase in technical provisions		(27,646)	19,188
Decrease / (increase) in debtors		27,163	(12,808)
(Decrease) / increase in creditors		(14,561)	5,633
Net cash (outflow) / inflow from operating activities		(4,532)	12,355
Transfer to members in respect of underwriting participations		(3,354)	-
	13	(7,886)	12,355
Cash flows were invested as follows	13		
(Decrease) / increase in cash holdings		(8,637)	9,163
Increase in overseas deposits		751	3,192
Net investment of cash flows		(7,886)	12,355

Notes to the financial statements

for the year ended 31 December 2009

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1. BASIS OF PREPARATION

These annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom, and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2006.

2. ACCOUNTING POLICIES

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to these financial statements.

PREMIUMS WRITTEN

Premiums written comprise premiums on contracts inception during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified.

UNEARNED PREMIUMS

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired period of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

REINSURANCE PREMIUM CEDED

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

CLAIMS PROVISIONS AND RELATED RECOVERIES

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years. The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate

cost of all claims notified but not settled at the balance sheet date, together with the provision for related claims handling costs.

The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods. These methods generally involve the use of projections using past experience of the development of claims over time, to form a view of the likely ultimate claims experience for more recent underwriting, having regard to variations in the business accepted and in underlying terms and conditions. For the most recent years, where a higher degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

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

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. The ultimate liability will, however, vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Any adjustments to the amounts of claims provisions established in previous years are reflected in the financial statements in the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

UNEXPIRED RISKS PROVISION

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts entered into before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

ACQUISITION COSTS

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

FOREIGN CURRENCIES

Transactions in US dollars, Canadian dollars and Euros are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date on which the transaction is processed.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate applicable to the historical transaction date. Unearned premium reserves and deferred acquisition costs are treated as non-monetary items.

Exchange differences are included in the technical account. The following currency exchange rates have been used for principal foreign currency transactions:

	2009 Year-end rate	2009 Average rate	2008 Year-end rate	2008 Average rate
Euro	1.13	1.12	1.03	1.26
US dollar	1.61	1.57	1.44	1.85
Canadian dollar	1.69	1.78	1.77	1.96

INVESTMENTS

Investments are stated at current value at the balance sheet date. For this purpose, listed investments are stated at market value and deposits with credit institutions and overseas deposits are stated at cost.

INVESTMENT RETURN

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between actual sale proceeds and either the valuation at the previous balance sheet date, or purchase price if acquired during the year. Unrealised gains and losses on investments represent either the difference between the valuation at the balance sheet dates, or purchase price if acquired during the year.

Investment return is initially recorded in the non-technical account. Investment return is wholly allocated to the technical account as all investments relate to the technical account.

OPERATING EXPENSES

Where expenses are incurred by or on behalf of the managing agent for the administration of managed syndicates, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the agency company and managed syndicates are apportioned between the agency company and the syndicates depending on the amount of work performed, resources used and the volume of business transacted.

TAXATION

Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 28%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

PROFIT COMMISSION

Profit commission within these financial statements is charged by the managing agent at a rate of 17.5% of profit subject to the operation of a deficit clause.

Notes to the financial statements - continued

3. SEGMENTAL ANALYSIS

An analysis of the underwriting result before investment return is set out below.

Year ended 31 December 2009	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance						
Accident and health	(253)	153	(73)	(86)	2	(4)
Marine, aviation and transport	-	-	-	-	-	-
Fire and other damage to property	(438)	7,521	1,256	(3,199)	(1,011)	4,567
Third party liability	(14)	504	37	(191)	(188)	162
Total Direct	(705)	8,178	1,220	(3,476)	(1,197)	4,725
Reinsurance	1,083	14,389	(3,276)	(7,052)	(733)	3,328
Total	378	22,567	(2,056)	(10,528)	(1,930)	8,053

Year ended 31 December 2008	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance						
Accident and health	511	974	(603)	(292)	(10)	69
Marine, aviation and transport	-	-	-	-	-	-
Fire and other damage to property	11,442	10,785	(11,045)	(1,420)	418	(1,262)
Third party liability	18	13	(5)	(3)	-	5
Total Direct	11,971	11,772	(11,653)	(1,715)	408	(1,188)
Reinsurance	44,455	39,845	(20,411)	(5,697)	(6,977)	6,760
Total	56,426	51,617	(32,064)	(7,412)	(6,569)	5,572

All underwriting contracts were concluded in the UK.

4. CLAIMS OUTSTANDING

The reassessment of claims provisions brought forward in respect of the 2008 and prior years, compared with payments and provisions for those years as at 31 December 2009 amounted to a release of £3,478,000 (2008: deficit of £1,006,000)

The release has been generated from the following lines of business:

	2008 and prior years £'000	2007 and prior years £'000
Property treaty	1,318	547
Non-marine property	1,201	(1,192)
Specialty lines	959	(361)
	3,478	(1,006)

5. NET OPERATING EXPENSES

	2009 £'000	2008 £'000
Commissions	3,639	5,874
Other acquisition costs	436	1,822
Change in deferred acquisition costs	2,920	(45)
Administrative expenses	2,122	4,323
Loss / (profit) on exchange	1,411	(4,562)
	10,528	7,412

Administrative expenses include

	2009 £'000	2008 £'000
Administrative expenses include auditor's remuneration in respect of audit services of:	53	48

6. STAFF MEMBERS AND COSTS

All staff are employed by HUA. The following expenses were incurred in respect of services provided to the syndicate.

	2009 £'000	2008 £'000
Wages and salaries	229	1,717
Social security costs	38	224
Other pension costs	52	423
	319	2,364

The average number of employees employed by the managing agent during the year was as follows.

	2009 Number	2008 Number
Underwriting activities	2	12
Management and administration	2	11
	4	23

Notes to the financial statements - continued

for the year ended 31 December 2009

7. EMOLUMENTS OF THE DIRECTORS OF HARDY (UNDERWRITING AGENCIES) LIMITED

The directors of HUA received the following aggregate remuneration charged to the syndicate and included within net operating expenses.

	2009 £'000	2008 £'000
Fees	3	3
Emoluments	119	537
	122	540

	2009 £'000	2008 £'000
The active underwriter received emoluments of:	39	239

8. INVESTMENT INCOME

	2009 £'000	2008 £'000
Income from cash and bank deposits	245	1,000
	245	1,000

9. FINANCIAL INVESTMENTS

The syndicate held no investments in the year.

10. DEBTORS AND CREDITORS

All amounts are due within one year, unless disclosed separately on the face of the balance sheet.

11. OVERSEAS DEPOSITS

Overseas deposits are lodged as a condition of conducting underwriting business in certain territories.

12. RECONCILIATION OF MEMBER BALANCES

	2009 £'000	2008 £'000
Member balances at 1 January	6,208	(364)
Profit for the financial year	8,298	6,572
Payment of profits to member	(3,354)	-
Member balances at 31 December	11,152	6,208

The ultimate result, and the assets and liabilities attributable to the member are assessed by reference to the policies incepting in that year of account.

13. MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING

	2009 £'000	2008 £'000		
Net cash inflow for the year				
Cash flow	(8,637)	9,163		
Increase in overseas deposits	751	3,192		
Movement arising from cash flows	(7,886)	12,355		
Changes in market values and exchange rates	(2,214)	6,230		
Total movement in portfolio investments	(10,100)	18,585		
Portfolio at 1 January	34,047	15,462		
Portfolio at 31 December	23,947	34,047		
Movement in cash, portfolio investments and financing				
	At 1 January 2009 £'000	Cash Flow £'000	Changes to market value and currency £'000	At 31 December 2009 £'000
Cash at bank and in hand	30,391	(8,637)	(2,201)	19,553
Overseas deposits	3,656	751	(13)	4,394
Total cash, portfolio investments and financing	34,047	(7,886)	(2,214)	23,947

Notes to the financial statements - continued for the year ended 31 December 2009

14. RELATED PARTIES

The immediate parent company of Hardy (Underwriting Agencies) Limited is Hardy Underwriting Group plc. The ultimate parent company is Hardy Underwriting Bermuda Limited. Group accounts for Hardy Underwriting Bermuda Limited are available from 1st Floor, Fitzwilliam House, 10 St Mary Axe, London EC3A 8NA and 4th Floor, Park Place, 55 Par-la-Ville Road, Hamilton, HM11 Bermuda.

Profit commission of £2,528,282 is payable by the syndicate to Hardy (Underwriting Agencies) Limited as at 31 December 2009 (2008: £1,316,941).

Profit commission payable comprises amounts payable on the 2007 closed year of £559,194 as well as an accrual for 2008 open year of £1,969,088.

Managing agent fees of £562,500 (2008: £487,500) were paid by the syndicate to Hardy (Underwriting Agencies) Limited.

During the year Hardy (Underwriting Agencies) Limited recharged £648,424 (2008: £3,210,412) in expenses relating to the operation of the syndicate. These amounts are included within Administrative expenses in note 5.

Hardy Underwriting Limited, a fellow subsidiary of Hardy (Underwriting Agencies) Limited, provided the entire capacity for syndicate 38Twenty.

15. FUNDS AT LLOYD'S

Every member at Lloyd's is required to hold capital at Lloyd's. This capital is held in trust and is known as Funds at Lloyd's ("FAL"). The funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is ultimately determined by Lloyd's taking account, inter alia, of a number of factors including the nature and amount of underwriting risk assumed by the member and the assessment of the reserving risk in respect of business that has already been underwritten. FAL is not under the management of the managing agent, so no amounts have been shown in these financial statements to reflect it. The managing agent is able to make a call on members' FAL to meet liquidity requirements and to settle losses should this be required.

16. POST BALANCE SHEET EVENTS

The following amounts are proposed to be transferred to the member's personal reserve fund during 2010:

Open year profit distribution of US\$6,854,986 on the 2008 account;

Closed year profit distribution of US\$3,997,784 on the 2007 account, being the balance of profit to be distributed following the early release in the previous calendar year;

Profit commissions of £2,495,627 will be paid to Hardy (Underwriting Agencies) Limited, being commission payable on the 2007 closed year of £559,194 and £1,936,433 on the 2008 open year.

HARDY

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