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Syndicate 2525

Annual Report 2009

Annual accounting contents

Closing year of account contents

Financial Statements
for the year ended 31 December 2009

Managing agent: Directors and administration

Managing agent

Max at Lloyd's Ltd

Directors

W M Becker
J M Boylan
L J Gibbins
P A Minton
G E A Morrison
A Mullan
M A Petzold
J W Roberts
N H H Smith*
C A T W Von Bechtolsheim*
A T West*

*Non-executive directors

Company secretary

P M Armfield

Managing agent's registered office

4th Floor
XL House
70 Gracechurch Street
London EC3V 0XL

Managing agent's registered number

03304600

Syndicate:

Active underwriter

D L Pratt

Bankers

Barclays Plc
Citibank N.A., New York

Investment managers

Amundi (UK) Limited

Registered auditors

KPMG Audit Plc

Report of the directors of the managing agent for the year ended 31 December 2009

The directors of the managing agent present its report for the year ended 31 December 2009.

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

Corporate governance

Max at Lloyd's Ltd (Max) is managed by a Board of Directors consisting of a management team of eight Executives, including an Executive Chairman and three Non-Executives. The Board meets regularly throughout the year and a number of matters are specifically reserved for its consideration and approval. In addition the Board delegates a number of items to various sub-committees that have clearly defined terms of reference.

Active underwriter

The Active Underwriter during 2009 was David Pratt.

Principal activity and review of the business

Syndicate 2525 writes employers' and public liability insurance primarily in the United Kingdom.

A full review is included in the Underwriter's Report.

Key performance indicators

The principal financial key performance indicators (KPI) relevant to the syndicate are:

Gross Written Premium – This has decreased to £37.6 million from £43.1 million in 2008.
Net Underwriting Income – This has increased in 2009 to £23.5 million (2008: £14.4 million).
Investment Return – This has seen a decrease to 3.3% (2008: 5.2%).
Year of Account Return on Capacity – 2007 account 40.9% (2006 account: 36.7%)

Given the nature of the syndicate's business, the main regulatory financial KPI considered relevant is:

Capacity Utilisation – This has been 58.5% for 2009 (2008: 66.5%).

Results overview

The result for calendar year 2009 is a profit before other recognised gains and losses of £16.2 million (2008: profit of £13.7 million). Profits or losses will continue to be distributed or collected by reference to the results of individual underwriting years. The contribution of the three open underwriting years to the calendar year profit is stated below. A full review of the result and future developments is given in the Underwriter's Report.

Year	Profit/(Loss) £m
2007	17.1
2008	3.2
2009	(4.1)
Calendar year 2009	16.2

Investment policy and performance

Max operates a Finance & Investment Committee, which is responsible for recommending to the Agency Board the longer term strategy and investment policy of the syndicate, and the appointment of investment managers of the syndicate's funds. The Committee is also responsible for monitoring the performance of investment managers and ensuring that all relevant Lloyd's and other regulatory requirements are met.

Amundi UK Ltd (formerly called Credit Agricole Asset Management (UK)) were appointed as Investment Managers to the syndicate with effect from 1 January 2001 and have continued in office since.

Investment policy

The Investment Objective is to invest the Premiums Trust Funds in a manner calculated to maximise return within agreed restraints and in line with policies approved by the Agency. In consideration of this policy, portfolios are predominantly invested in short-term, high quality fixed income securities. The Investment Managers have been instructed to invest for the highest total return consistent with maintaining adequate liquidity and security. The Investment Managers have discretion to invest in private sector securities for a limited proportion of the portfolio and within diversity limits for individual credits. Limiting the target duration of the overall portfolio controls the exposure of the investments to adverse price conditions. An investment committee and formal procedures for monitoring investments exist in line with guidance from Lloyd's.

Report of the directors of the managing agent for the year ended 31 December 2009

Review of calendar year 2009

Early 2009 saw continued risk aversion in investment markets resulting in wider credit spreads and weakness in equity and other higher 'risk' asset classes in addition to unprecedented levels of monetary and fiscal easing and direct central bank liquidity relief. The MPC in the UK and the ECB in Europe cut rates further to 0.50% and 1.0% respectively, with the US Fed keeping rates on hold at 0-0.25% for the whole of the year, and Quantitative Easing programmes pumped liquidity into a dysfunctional banking system. The positive outcome of regulators' stress testing of Banks in the UK and the US in May helped trigger a decrease in risk aversion leading to tighter credit spreads, some return of liquidity to bond markets and, what was to become, a 20% rally in equity markets from year-end levels. Short-dated Government bond yields remained at historic lows as the economic outlook remained weak, with Central Banks confirming that low interest rates would prevail for some time. However, with fiscal deficits increasing, and some rising headline inflation numbers, yield curves steepened during the year; any holdings of US Treasuries of maturities longer than four years would have made a negative total return during the year. Portfolio returns were positive for much of the year as a return of risk aversion and continued economic uncertainty pushed bond prices higher and credit spreads tighter. Some of these returns were given up in December, when a string of stronger than expected economic data in the US gave the markets cause to increase the probability of rate increases occuring sooner than expected, hence pushing bond prices lower.

Investment returns were at the top end of estimates made at the beginning of 2009 and comfortably above the agreed performance indicators. This was largely driven by credit spread tightening and the above average exposure to spread products in all portfolios.

Net cash-flows in invested portfolios were positive over the year, having a positive impact on total investment earnings, but overall earnings remained lower than 2008 due to lower portfolio yields.

Outlook for 2010

The outlook for investment returns in 2010 is poor. Low absolute bond yields limit the ability to generate investment income and capital losses are very possible given the potential for rising bond yields. This is particularly true of US Dollar portfolios with 2 year US Treasuries yielding less than 1% although Investment Grade yields averaging approximately 0.50% above Government bonds give some cushion in the form of higher running yields. Yield spreads for non-Government bonds are likely to remain close to current levels, with the higher demand for corporate bonds offset by increased issuance. The outlook is for credit conditions to remain difficult for SMEs in 2010, but Corporate bond credit quality, which largely reflects higher capitalised companies, is likely to remain stable though economic headwinds may negate the recent positive effects of the inventory rebuild. Portfolio exposure to such instruments is likely to remain high, and may increase where opportunities arise. Exposure to smaller corporates will be limited, due to uncertain credit conditions and the potential for further downgrades or defaults. Moody's predict global speculative default rates will have peaked in December 2009 at around 14%, but defaults may increase further if consumer demand remains subdued and companies face higher refinancing costs or an inability to refinance maturing debt.

The potential for capital losses through yield increases means that portfolios will be maintained with a short duration bias in the medium term, although steep yield curves mean that durations may be slightly longer at the beginning of 2010. This policy is unlikely to change in the short-term as the investment objectives are currently biased towards protecting the portfolio against unnecessary losses.

Stock lending

No stock was made available for lending, in the non-centrally managed funds, on behalf of members of the syndicate during 2009. No stock was being lent on behalf of members of the syndicate at 31st December 2009.

Reinsurance programme

As required by the Syndicate Accounting Byelaw, reinsurance resumes setting out a summary of the reinsurance programme protecting all years of account have been approved by the Directors of Max and are available for inspection at the registered office of Max.

Report of the directors of the managing agent for the year ended 31 December 2009

Principal risks and uncertainties

The Managing Agent sets risk appetite annually as part of the syndicate's business planning and Individual Capital Assessment process. The agency has a Risk Group and Audit & Risk Committee which meet quarterly. The principal risks and uncertainties facing the syndicate are as follows:

(a) Insurance risk

Insurance risk includes the risks that policies will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Agency manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Agency then monitors performance against the business plan monthly throughout the year.

Key to the performance of the syndicate is the adequacy of its reserves. As a longer tail liability class business, development of claims over the 7 to 10 year tail will have a material impact on its profitability. This will be impacted on by both claims development volatility and changing trends in claims inflation rates. Reserve adequacy is monitored through quarterly review by an independent actuary.

Equally important to the syndicate is the ability to successfully manage its own risk exposure through the outwards cession of risk to reinsurers. Careful modelling and assessment of underlying risks borne inform the purchase of the syndicate's reinsurance programme; it is key that this programme mitigates the syndicate's gross exposure in the manner expected.

(b) Credit risk

The key aspects of credit risk are the risk of default by one or more of the syndicate's reinsurers, insurance brokers or investment counterparties. The Agency has a Syndicate Broker Vetting and Reinsurance Security Committee that meets quarterly and reviews & assesses all reinsurers and brokers before business is placed with them. Insurance brokers are credit assessed for solvency to minimise the risk of default and bad debt. The Finance & Investment Committee board reviews and assesses the investment portfolio on a regular basis.

(c) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as interest rates, equity prices and foreign exchange rates. A key aspect of market risk is that the syndicate incurs losses through adverse movements in interest and exchange rates. The treasury manager and investment managers manage this risk and are monitored by the Finance & Investment Committee.

(d) Liquidity risk

This is the risk that the syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk the agency reviews cash flow projections monthly to ensure sufficient liquid assets are held.

(e) Operational risk

This is the risk that errors caused by people, processes or systems lead to losses to the syndicate. The agency seeks to manage this risk through the use of detailed procedure manuals, a structured programme of testing of processes and systems by internal audit and a detailed disaster recovery plan, which is regularly tested.

As a business dependent on human capital, the syndicate is exposed to the risk of loss of key staff, especially in the underwriting teams. Loss of key individuals could have a material impact on the syndicate's future profitability. To mitigate this, syndicate management endeavours to structure appropriate incentivisation packages to align underwriters' interests and retain staff loyalty.

(f) Regulatory risk

The agency is required to comply with the requirements of the Financial Services Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The agency has a compliance officer who monitors regulatory developments and assesses the impact on agency policy.

Report of the directors of the managing agent for the year ended 31 December 2009

Directors

The Directors of the managing agent who served during the year ended 31 December 2009 were as follows:

Name	**Appointed/Resigned**
I J Bremner	Resigned (31 October 2009)
W M Becker	
J M Boylan	
L J Gibbins	
P A Minton	
G E A Morrison	
A Mullan	
M A Petzold	
J W Roberts	
A T West*	
C A T W Von Bechtolsheim*	
N H H Smith*	Appointed (22 April 2009)

* Non-Executive Directors.

Subcontracted functions

The managing agent has sub contracted the following functions:

– Maintenance of accounting records and certain data processing functions: Capita Commercial Insurance Services Limited, until 30 June 2009.
– Investment management: Amundi (UK) Limited.

Errors and omissions insurance

Lloyd's underwriting agents errors and omission insurance cover is not a mandatory requirement by Lloyd's. With only uncommerical terms currently available, no errors and omissions insurance has been purchased by Max. The matter continues to be under review.

Names' annual general meeting

In accordance with the conditions of the Syndicate Meetings (Amendment No 1) Byelaw, the managing agent proposes not to hold a Names' Annual General Meeting. Any member of the syndicate who wishes to object to this proposal should do so by 19 April 2010.

Disclosure of information to auditors

The directors of the managing agent who held office at the date of approval of this managing agent's 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 steps that he / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Auditors

KPMG Audit Plc will be deemed to be reappointed as the Syndicate's auditor by the members of the syndicate.

Approved by the Board of Directors and signed on behalf of the Board

L J Gibbins
Director
17 March 2010

Registered Office
70 Gracechurch Street
London EC3V 0XL

Underwriter's report for the year ended 31 December 2009

2007 year of account

Allocated Capacity	£41.9m
Capacity Utilisation	88.4%
Profit in 2009	£17.1m

I am pleased to report a calendar year profit of £17.1m which is much higher than previously forecast. I suspect that our capital providers are perhaps a little mystified by our seeming inability to forecast our result with more precision but I will explain in more detail why this occurs in my closing year narrative later in this document. Stamp capacity was reduced for the 2007 year of account from £49.8m to £41.9m and as a result we have achieved a higher utilisation than in 2006 whilst price reductions on our renewal book (-5.75%) were the lowest achieved since the hard market's zenith in 2003.

The high-level business ratios for the account were similar to 2006 and in accordance with our philosophy since our arrival at 2525.

Our broker support remained largely unchanged and has tended to come from the medium to smaller independent sector rather than larger national brokers and brokerage levels have remained constant. Terms and conditions remained sensible and excesses on the primary account continued at a realistic level. These factors have changed very little since the 2003 year of account.

The common theme for 2525 is, and has always been, to concentrate on the quality of the account and to assist and encourage our client base to improve their attention to health and safety. Our embedded ***Risk Management*** system has been designed to achieve just this and, in turn, I believe it has engendered a high level of client loyalty on our core account.

Aligned to this we have taken great care to create a very efficient and proficient claims function with unique products designed to reduce unnecessary costs in the settlement of claims.

Much of the profit in this calendar year has come from releases from 2007 and prior years as a result of continuing improved development in our Net Loss Ratios and the consequent reductions in the actuarially determined Ultimate Net Loss Ratios.

2008 year of account

Allocated Capacity	£41.9m
Forecast Utilisation	75% – 80%
Profit in 2008	£3.2m

At the 24-month stage of development the 2008 year of account is looking remarkably similar to that of 2007 at 24 months. The calendar year profit for 2007 this time last year of £2.9m and whole account net loss ratio 64.21% compares well with 2008 now with a profit of £3.2m and whole account net loss ratio of 65.74%.

Stamp capacity was unchanged with a lower utilisation than that achieved in 2007, whilst income year on year was down by 7%.

The Syndicate's philosophy remained the same in all respects to previous years and business ratios and broker support were all constant and to target. As reported last year we extended the classes of business written to include International Excess of Loss Liability (worldwide excluding North America). The income attributable to the above was approximately £500,000 in the year.

Rating reductions on the renewal account were down again on 2007 (-4%) and were well within our business plan.

We continued to refine and develop the Syndicate's products and to service the risk management needs of our clients where necessary.

As in previous years, terms and conditions continued to remain tight; aligned to realistic excesses on the primary account.

Based on prior experience, we would expect to see some redundancy in the ULR's as the 2008 account year develops which will inure to the benefit of the final (closing) result next year.

2009 year of account

Stamp capacity	£42m
Forecast Utilisation	70-75%
Loss in 2009	£4.1m

Stamp capacity remained constant and rating reductions were virtually flat (-0.24%) and well within our business plan budget. We expect income to realise at £30m which will be a reduction of 12% on 2008 with an expected utilisation of 71%.

As reported last year due to difficulties in projecting from immature data, the long tail nature of the account, provisions made for unearned premiums and lack of investment income, it is prudent to project a loss for 2009 at this early stage. However it is smaller than the loss posted for 2008 at the same

Underwriter's report for the year ended 31 December 2009

2009 year of account *(continued)*

stage of its development last year and which has since seen significant improvement. Encouragingly the 2009 Net Loss Ratio, although at an early stage, is 10 points better 2008 was at the same point in time.

Our business ratios remain within the parameters set with the international excess of loss account attracting approximately £3,000,000 of income. This has significantly increased our whole account excess of loss income from 13% to 21%.

Terms, conditions and primary excesses once again held up well during the year.

2010 year of account and the future

Stamp Capacity	£42m

Now that the ramifications of the financial upheaval over the last eighteen months are more clearly understood, it is apparent that the insurance industry was only indirectly affected, mainly through the loss of capital which has since been largely replenished.

The implications for our industry are not particularly helpful in that capital is readily available for new start-ups and incumbent markets coupled with results that are still relatively buoyant! If 2525 can report a return on capacity of over 40% (for Lloyd's closing year 2007) and some of our peers a figure much higher than this, can we really expect there to be a hard market?! Perhaps our clients should be asking us why we are not charging less for insurance services rendered and that would be difficult to refute!

The quote of the new Lloyd's Franchise Director Tom Bolt in Insurance Times recently is quite compelling 'There's a lot of pressure from fully reloaded capital in the market, there are more players going after the business in the same space, and our world economy is still smaller … therefore less insurance is needed. You have all these guys going after a smaller pie – that's a pretty good recipe for a soft market."

So what will 2525's strategy be in this market place?

Firstly I believe one should fully serve the market place within which one operates and that for us is the London Market and more especially Lloyd's.

By its very structure, Lloyd's has always encouraged and nurtured specialist niche vehicles and, though the dynamics have changed somewhat with the introduction of trade capacity, I sense that this is still the case. However too many entities within Lloyd's are now looking outwards from London and Lloyd's and by so doing are alienating those that have provided the very support that enabled these businesses to flourish.

We have a stated mantra to support the London market broker and to only offer our services centrally to all our business partners. Many of those that support us are being squeezed by the expanding regional capabilities of most of our peers which as a consequence reduces the flow of business to London. We remain the only Lloyd's operation in our sector to maintain this stance and I am confident that this can only lead to the strengthening of the Syndicate's brand with our partners in Lloyd's and the London market.

More than in any other business type, price in the insurance industry is perceived by its customers as the only thing that matters and therefore the cheapest price is always the best deal! Look at any advert in any journal or on television and 'cheaper 'is all that is sold. At 2525 we have spent a good deal of time devising products that are different to our competitors, because we do not believe that the cheapest products return the best value for money to the Policyholder. We market ourselves on this principle. The Syndicate branded products Re-Wage and Direct Settlement are genuinely unique and our embedded Risk Management system serves to help and encourage our client base to improve their safety cultures with all the attendant mutual benefits.

As a primary 100% insurer, the claims function within the organisation is fundamental to our success. Prior to joining the Syndicate we devised a blue print for how this function was to operate and from day one of our tenure we have put this in place. I have nothing but praise for our claims team and cannot fault it in its desire to have a robust reserving philosophy wedded to a system that seeks to achieve the most cost effective solution in the settlement of claims. Indeed, in addition, all the Syndicate's products have been designed to assist our claims team in achieving this!

Underwriter's report for the year ended 31 December 2009

So what will 2525's strategy be in this market place? *(continued)*

So how will 2525 prosper in this market where the rates have flattened but where there is still excess capacity and little sign of improving conditions in the near future? My answer would be that if you want to support a niche UK insurer, with little or no delegated underwriting authority, with specialist products, good market support, a fully functioning and pro-active claims set-up, and which is risk adverse to North America, then I believe supporting 2525 would not be an ill considered investment, even at this stage of the cycle.

D L Pratt
Active Underwriter

17 March 2010

Registered Office
70 Gracechurch Street
London EC3V 0XL

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.

The Insurance Accounts 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 and then apply them 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 that 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 the 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 auditors' report to the members of syndicate 2525

We have audited the syndicate 2525 annual accounts for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 25. The syndicate annual accounts have been prepared under the accounting policies set out therein.

This report is made solely to the members 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 members 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 members 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 11.

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 managing agent's report 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.

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 2525'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 managing agent's report is consistent with the syndicate annual accounts.

Mark J Taylor (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London

17 March 2010

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

	Notes	2009 £000	2009 £000	2008 £000	2008 £000
Earned premiums, net of reinsurance					
Gross premiums written	3	37,614		43,074	
Outward reinsurance premiums		(7,110)		(7,002)	
Net premiums written		30,504		36,072	
Change in the provision for unearned premiums					
Gross amount		5,922		1,005	
Reinsurers' share		(394)		(243)	
Change in net provision for unearned premiums		5,528		762	
Earned premiums, net of reinsurance			36,032		36,834
Allocated investment return transferred from the non-technical account			4,419		7,737
Claims incurred, net of reinsurance					
Claims paid – Gross amount		(16,035)		(19,224)	
– Reinsurers' share		1,205		2,381	
Net claims paid		(14,830)		(16,843)	
Change in the provision for claims					
Gross amount		4,479		(12,970)	
Reinsurers' share		(2,185)		7,397	
Claims incurred, net of reinsurance		2,294		(5,573)	
Claims incurred, net of reinsurance	4		(12,536)		(22,416)
Net operating expenses	5		(11,753)		(8,430)
Balance on the technical account			16,162		13,725

All operations are continuing.

The notes on pages 19 to 28 form part of the financial statements.

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

	Notes	2009 £000	2008 £000
Balance on the technical account – general business		16,162	13,725
Investment income	10	4,480	7,967
Unrealised gains on investments		1,119	1,384
Investment expenses and charges	11	(255)	(193)
Unrealised (losses) on investments		(925)	(1,421)
Allocated investment return transferred to general business technical account		(4,419)	(7,737)
Profit for the financial year	15	16,162	13,725

All operations are continuing.

The notes on pages 19 to 28 form part of the financial statements.

Statement of total recognised gains and losses
for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Profit for the financial year		16,162	13,725
Foreign exchange movement on members' funds	15	(218)	1,748
Total recognised gains and losses since last annual report		15,944	15,473

All operations are continuing.

The notes on pages 19 to 28 form part of the financial statements.

Balance sheet – assets at 31 December 2009

	Notes	2009 £000	2009 £000	2008 £000	2008 £000
Assets					
Investments					
Other financial investments	12		112,447		87,212
Reinsurers' share of technical provisions					
Provision for unearned premiums	16	1,973		2,366	
Claims outstanding	16	34,787		37,106	
			36,760		39,472
Debtors					
Due within 1 year:					
Debtors arising out of direct insurance operations	13	15,748		11,443	
Debtors arising out of reinsurance operations	14	1,611		2,741	
Other debtors		682		278	
			18,041		14,462
Due after 1 year:					
Debtors arising out of direct insurance operations		186		210	
			186		210
Other assets					
Cash at bank and in hand	20	15,923		53,980	
Overseas deposits	20	6,453		6,830	
			22,376		60,810
Prepayments and accrued income					
Deferred acquisition costs		3,634		3,560	
Other prepayments and accrued income		136		67	
			3,770		3,627
Total assets			193,580		205,793

The notes on pages 19 to 28 form part of the financial statements.

Balance sheet – liabilities at 31 December 2009

		2009		2008	
	Notes	**£000**	**£000**	**£000**	**£000**
Liabilities					
Capital and reserves					
Members' balances	15		9,733		12,100
Technical provisions					
Provision for unearned premiums	16	10,227		16,272	
Claims outstanding	16	163,157		168,474	
Unexpired risk provision	16	766		1,453	
			174,150		186,199
Creditors					
Due within one year:					
Creditors arising out of direct insurance operations	17	953		912	
Creditors arising out of reinsurance operations	18	5,371		2,882	
Other creditors including taxation and social security		3,160		3,443	
			9,484		7,237
Due after one year:					
Other creditors			–		31
Accruals and deferred income			213		226
Total liabilities			193,580		205,793

The notes on pages 19 to 28 form part of the financial statements.

The financial statements on pages 13 to 28 were approved by the Board of Max at Lloyd's Ltd on 17 March 2010 and were signed on its behalf by

L J Gibbins
Director

17 March 2010

Statement of cash flows at 31 December 2009

	Notes	2009 £000	2008 £000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit on ordinary activities		16,162	13,725
Realised and unrealised investments losses		1,239	(9,889)
Decrease in net technical provisions		(9,336)	(1,041)
(Increase)/Decrease in debtors		(3,698)	9,820
Increase in creditors		2,203	217
Foreign exchange movements on balance due to members		(218)	1,748
Net cash inflow from operating activities		6,352	14,580
Payment of member agents' fees		(291)	(298)
Transfer to members in respect of underwriting participations:		(18,021)	(18,628)
	19	(11,960)	(4,346)
Cash flows were invested as follows:			
(Decrease)/Increase in cash holdings	19	(37,627)	30,859
Net portfolio investment	21	25,667	(35,205)
Net investment of cash flows	19	(11,960)	(4,346)

Notes to the financial statements at 31 December 2009

1. Basis of preparation

The financial statements are prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, applicable Accounting Standards in the United Kingdom, and comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2006 ("the ABI SORP").

2. Accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the syndicate's annual accounts.

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(a) Premiums written

Gross premiums written comprise premiums on contracts incepted during the financial year. 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, as well as adjustments made in the year to premiums written in prior accounting periods.

(b) Unearned premiums

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

(c) 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.

(d) Claims incurred

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date, but not reported until after the year end.

(e) Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred, but not yet reported (IBNR).

The amount included in respect of IBNR is based on statistical techniques of estimation applied by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high 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 reinsurers' share of provisions for claims is based on calculated 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. The syndicate used a number of statistical techniques to assist in making these estimates.

Accordingly 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. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Notes to the financial statements at 31 December 2009

2. Accounting policies *(continued)*

(f) Unexpired risks provision
A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the end of the financial period in respect of contracts concluded 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 separately by reference to classes of business which are managed together, after taking into account relevant investment return.

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

(h) Foreign currencies
Income and expenditure in US Dollars, Canadian Dollars and Euros are translated into Sterling 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 the transaction is processed.

Syndicate assets and liabilities, are translated into sterling at the rates of exchange at the balance sheet dates. Differences arising on translation of opening foreign currency amounts are included in the statement of total recognised gains and losses. Other foreign exchange differences are included in the technical account.

(i) Investments
Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid-market value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date.

(j) 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 sale proceeds and purchase price.

Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business.

(k) 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 20%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members of 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 other overseas tax payable by members on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

(l) Pension costs
Max at Lloyd's Ltd operates a defined contribution scheme. Pension contributions to Syndicate staff are charged to the syndicate and included within net operating expenses.

(m) Profit commission
Profit commission is charged by the managing agent at a rate of 15% (17.5% from the 2009 year of account) of profit subject to the operation of a deficit clause. Such commission does not become payable until after the appropriate year of account closes normally at 36 months. Profit commission, on naturally open years' is accrued on the basis of earned profit to date.

(n) Syndicate operating expenses
Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of managed syndicates, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the Managing Agent and managed syndicates are apportioned between the Managing Agent and the syndicates depending on the amount of work performed, resources used and volume of business transacted.

Notes to the financial statements at 31 December 2009

3. Segmental analysis

2009	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Third party liability	37,614	43,536	(11,556)	(11,753)	(8,484)	11,743
Total	37,614	43,536	(11,556)	(11,753)	(8,484)	11,743

2008	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Third party liability	43,074	44,079	(32,194)	(8,430)	2,533	5,988
Total	43,074	44,079	(32,194)	(8,430)	2,533	5,988

Commissions on direct insurance gross premiums earning during 2009 were £5.7 million (2008 £6.5 million).

All premiums were written in the UK. Analysis by destination is not materially different from the analysis above.

4. Claims

There were favourable movements during the year of £18.6 million, (2008: £6.1 million), in net incurred claims, on reserves held at 31 December 2008.

5. Net operating expenses

	2009 £000	2008 £000
Brokerage and commissions	5,668	6,499
Other acquisition costs	2,167	1,850
Change in deferred acquisition costs	(89)	27
Administration expenses	3,596	4,200
Loss/(Profit) on exchange	411	(4,146)
	11,753	8,430

Administration expenses include:

	2009 £000	2008 £000
Auditors' remuneration		
Fees payable to the Syndicate's auditor for the audit of these financial statements	82	97
Fees payable to the Syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	3	5
Total auditors' remuneration	85	102

Notes to the financial statements at 31 December 2009

6. Staff numbers and costs

All staff are employed by the service company. The following amounts were recharged to the syndicate in respect of salary costs:

	2009 £000	2008 £000
Wages and salaries	1,353	1,295
Social security costs	184	149
Other pension costs	134	159
	1,671	1,603

The average number of employees employed by the service company but working for the syndicate during the year was as follows:

	2009 Number	2008 Number
Administration and finance	7	4
Underwriting	9	8
Claims	8	8
	24	20

7. Emoluments of the directors of Max at Lloyd's Ltd

The directors of Max at Lloyd's Ltd received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2009 £000	2008 £000
Emoluments	66	75
Contributions to pension schemes	6	6
	72	81

Notes to the financial statements at 31 December 2009

8. Active underwriter's emoluments

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

	2009 £000	2008 £000
Emoluments	180	197
Contributions to pension schemes	18	20
	198	217

9. Highest paid director's emoluments

The highest paid director received the following aggregate remuneration charged as a syndicate expense:

	2009 £000	2008 £000
Emoluments	21	25
Contributions to pension schemes	2	3
	23	28

10. Investment income

	2009 £000	2008 £000
Income from investments	4,320	6,952
Gains on the realisation of investments	160	1,015
	4,480	7,967

11. Investments expenses and charges

	2009 £000	2008 £000
Investment management expenses, including interest	101	116
Losses on realisation of investments	154	77
	255	193

Notes to the financial statements at 31 December 2009

12. Other financial investments

	Market value 2009 £000	Market value 2008 £000	Cost 2009 £000	Cost (restated) 2008 £000
Debt securities and other fixed income securities	112,447	87,212	111,662	87,265
	112,447	87,212	111,662	87,265

All debt securities and other fixed interest securities are listed on a recognised stock exchange.

The following table analyses the credit rating by investment grade of financial investments and cash at bank and in hand.

Security Ratings	AAA £000	AA £000	A £000	Total £000
Debt securities and other fixed income securities	73,728	32,270	6,449	112,447
Cash at bank and in hand	14,454	–	1,469	15,923
Total	88,182	32,270	7,918	128,370

13. Debtors arising out of direct insurance operations

	2009 £000	2008 £000
Due within one year		
– intermediaries	15,748	11,443
	15,748	11,443

14. Debtors arising out of reinsurance operations

	2009 £000	2008 £000
Due within one year		
– intermediaries	1,611	2,741
	1,611	2,741

15. Reconciliation of members' balances

	2009 £000	2008 £000
Members' balances brought forward at 1 January	12,100	15,553
Profit for the financial year	16,162	13,725
Exchange movement	(218)	1,748
Member's agents fee	(291)	(298)
Distribution to members	(18,020)	(18,628)
Balance carried forward at 31 December	9,733	12,100

Members participate on syndicates by reference to years of account. Their ultimate result, assets and liabilities are assessed with reference to policies incepting in those years of account in respect of the years on which they participate.

Notes to the financial statements at 31 December 2009

16. Technical provisions

	2009			2008		
	Gross provisions £000	Reinsurance assets £000	Net £000	Gross provisions £000	Reinsurance assets £000	Net £000
Claims outstanding						
Balance at 1 January	168,474	(37,106)	131,368	151,796	(29,234)	122,562
Change in claims oustanding	(3,792)	2,185	(1,607)	11,517	(7,397)	(4,120)
Effect of movements in exchange rates	(1,525)	134	(1,391)	5,161	(475)	4,686
Balance at 31 December	163,157	(34,787)	128,370	168,474	(37,106)	131,368
Claims notified	108,386	(27,293)	81,093	113,896	(26,775)	87,121
Claims incurred but not reported	54,771	(7,494)	47,277	54,578	(10,331)	44,247
Balance at 31 December	163,157	(34,787)	128,370	168,474	(37,106)	131,368
Unexpired risk provision						
Balance at 1 January	1,453	–	1,453	–	–	–
Change in claims oustanding	(687)	–	(687)	1,453	–	1,453
Effect of movements in exchange rates	–	–	–	–	–	–
Balance at 31 December	766	–	766	1,453	–	1,453
Unearned premiums						
Balance at 1 January	16,272	(2,366)	13,906	16,954	(2,609)	14,345
Change in unearned premiums	(5,922)	394	(5,528)	(1,005)	243	(762)
Effect of movements in exchange rates	(123)	(1)	(124)	323	–	323
Balance at 31 December	10,227	(1,973)	8,254	16,272	(2,366)	13,906

17. Creditors arising out of direct insurance operations

	2009 £000	2008 £000
Due within one year		
– Intermediaries	953	912
	953	912

Notes to the financial statements at 31 December 2009

18. Creditors arising out of reinsurance operations

	2009 £000	2008 £000
Due within one year		
– intermediaries	5,371	2,882
	5,371	2,882

19. Movement in opening and closing portfolio investments net of financing

	2009 £000	2008 £000
Net cash (outflow)/inflow from the year	(37,627)	30,859
Cash flow – portfolio investments	25,667	(35,205)
Movement arising from cash flows	(11,960)	(4,346)
Changes in market value and exchange rates	(1,238)	9,889
Total movement in portfolio investments net of financing	(13,198)	5,543
Balance brought forward at 1 January	148,201	142,478
Balance carried forward at 31 December	134,823	148,021

20. Movement in cash and portfolio investments

	At 1 January 2009 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2009 £000
Cash at bank and in hand	53,979	(37,627)	(429)	15,923
Debt securities and other fixed interest securities	87,212	26,044	(809)	112,447
Overseas deposits	6,830	(377)	–	6,453
Total portfolio investments	148,021	(11,960)	(1,238)	134,823

21. Net cash (outflow)/inflow on portfolio investments

	2009 £000	2008 £000
Sale/(Purchase) of overseas deposits	377	(2,613)
(Purchase)/Sale of debt securities and other fixed interest securities	(26,044)	37,818
Net cash (outflow)/inflow on portfolio investments	(25,667)	35,205

Notes to the financial statements at 31 December 2009

22. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These 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 determined by Lloyd's based on FSA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

23. Disclosure of interests

Max at Lloyd's Ltd (MALL)

MALL is a wholly owned subsidiary of Max UK Holding Ltd which is a wholly owned subsidiary of Max Capital Group Ltd the ultimate parent company.

Total fees payable to MALL in respect of services provided to the syndicate amounted to £289,000 (2008: £252,000).

Profit commission of £3.03 million is also due to MALL in respect of the profit on the 2007 closed year (2006 closed year: £3.23 million). Profit commission of £nil (2008: £31,000) has been accrued for the 2008 year of account. Profit commission is only payable on closure of the account: the 2008 year of account will normally close at 31 December 2010 and the 2009 year of account at 31 December 2011.

Expenses totalling £3.54 million (2008: £3.05 million) were recharged to the syndicate by MALL & MUUSL. Expenses incurred jointly by the managing agent and the syndicate are apportioned between them on the basis of work performed and resources used. Expenses are charged to the year of account for which they are incurred.

Max UK Underwriting Services Ltd (MUUSL)

MUUSL is a non-profit making service company that has been granted a binding authority to underwrite on behalf of Syndicate 2525 and 2526. MUUSL places employers' liability, public liability and professional indemnity business with the syndicates.

MUUSL receives an overrider commission on the premium underwritten on behalf of Syndicate 2525, in 2009 this amounted to £111,000 (2008: £86,000). MUUSL has rebated this overrider commission to Syndicate 2525 and this is included as a credit against syndicate expenses. MALL executives have not received any benefit for acting as directors of MUUSL. No overriding commission is charged on premiums underwritten on behalf of Syndicate 2526.

Notes to the financial statements at 31 December 2009

24. Related parties

In addition to MALL, Max has interests in other Lloyd's related corporate capital vehicles:

Max Corporate Capital 2 Ltd.
Max Corporate Capital 3 Ltd.
Max Corporate Capital 4 Ltd.
Max Corporate Capital 5 Ltd.
Max Corporate Capital 6 Ltd.

The participations of Max Corporate Capital 2 Ltd. & Max Corporate Capital 3 Ltd. are shown below:

	2007	2008	2009
	£	£	£
Max Corporate Capital 2 Ltd.	250,081	250,081	250,081
Max Corporate Capital 3 Ltd.	600,000	600,000	600,000

MALL is the managing agency responsible for the management of all of the following syndicates:

994, 1400, 2525 & 2526

25. Post balance sheet event

The 2007 underwriting year result of £16.87 million will be distributed to members during 2010.

Financial Statements
for the 36 months ended 31 December 2009

2007 Closing Year
Reports and Accounts

Report of the directors of the managing agent for the 2007 closing year of account

The directors of the managing agent present its report at 31 December 2009 for the 2007 closed year of account.

This report is prepared in accordance with the Lloyd's Syndicate Accounting Bylaw (No 8 of 2005). It accompanies the underwriting year accounts prepared on an underwriting year basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We are very pleased to announce that the 2007 Year of Account on the traditional Lloyd's three-year accounting basis has closed with a profit before members' agents fees of £17.1 million, which is above our most recent forecast.

Review of the 2007 year of account

Allocated Capacity	£41.9m
Capacity Utilisation	88.4%
Result (as a percentage of capacity) before Members' Agents fees	40.9%
Profit in 2009	£17.1m

Active Underwriter's comments on the 2007 year of account

Our 2007 result represents another significant return for our capacity providers, and when viewed in the context of initial expected forecast results comes as a pleasant surprise. This serves to evidence that greater work needs to be done with external actuaries and Lloyd's, to narrow the gap between the ultimate loss ratio forecasts generated for Business Plan and ICA modelling purposes and the actual Syndicate incurred loss ratio performance each year. It appears that each year we have presented an excessively pessimistic plan to capital providers, which when we come to close the year and with subsequent run off is bettered by a signifcant margin.

The table below records the Incurred Net Loss Ratios / Ultimate Loss Ratios at close and to date:

2003 Incurred Net Loss Ratio at close	30.4%
2003 Incurred Net Loss Ratio at close 2009	**24.4%**
2003 Ultimate Net Loss Ratio at close	54.1%
2003 Ultimate Net Loss Ratio at close 2009	**28.8%**
2004 Incurred Net Loss Ratio at close	46.6%
2004 Incurred Net Loss Ratio at close 2009	**37.3%**
2004 Ultimate Net Loss Ratio at close	65.8%
2004 Ultimate Net Loss Ratio at close 2009	**42.9%**
2005 Incurred Net Loss Ratio at close	63.6%
2005 Incurred Net Loss Ratio at close 2009	**53.0%**
2005 Ultimate Net Loss Ratio at close	79.6%
2005 Ultimate Net Loss Ratio at close 2009	**62.2%**
2006 Incurred Net Loss Ratio at close	61.4%
2006 Incurred Net Loss Ratio at close 2009	**61.7%**
2006 Ultimate Net Loss Ratio at close	74.5%
2006 Ultimate Net Loss Ratio at close 2009	**74.9%**
2007 Incurred Net Loss Ratio at close	66.6%
2007 Ultimate Net Loss Ratio at close	**83.7%**

It is hoped that the above may provide some insight into why it is has been difficult for us to be more precise in forecasting the Syndicate's profit.

By way of explanation our reserving philosophy has always been to be as robust as we can at the earliest possible stage and indeed the first reserve on every claim is posted by Syndicate staff and not by third party agents. Reserves are also monitored against the final settlement figures to ensure early sufficiency.

In turn, this has lead to quicker incurred claim development (a steeper curve) than previously experienced on the Syndicate's earlier years prior to our involvement.

In addition to the above, the new underwriting team and the change of emphasis of the business written created another measure of uncertainty as to how 2525 claims would ultimately develop post 2003.

We believe that a pattern has now emerged which indicates that our cautiously pessimistic reserving approach largely negates the need for that part of the IBNR set in respect of poor reserving, and that the IBNR provisions retained beyond 36 months have repeatedly proved too pessimistic. Whilst this may indicate the need to soften our reserving approach, it seems illogical to do this to make space for the IBNR provision. Instead we continue to liaise with both our internal and external actuaries with a view to the application of a more accurrate model but whilst the IBNR releases continue to contribute so much to the overall profitability of the business and whilst the soft cycle continues, we are reluctant to interfere too heavily.

Report of the directors of the managing agent for the 2007 closing year of account

Active Underwriter's comments on the 2007 year of account *(continued)*

Below we present our renewal rate monitor, which shows how rates have moved year to year illustrates how the soft market has affected our rating over time:

2004	-10.0%
2005	-9.5%
2006	-8.8%
2007	-5.8%
2008	-4.0%
2009	-0.2%
2010	-0.2% (to date)

Combined aggregated reductions from 2003 to 2008 were approximately 40% (38.1%).

Our Incurred Net Loss Ratio for 2003 is currently 24.4% and if we factor in the impact of the changes in rating shown above this becomes 62.5% which compared to the 2008 Incurred Net Loss Ratio at its 24-month position is remarkably similar at 62.5%. Of course this is a gross over simplication but serves as a broad illustration of where our business is heading and how the effect on rating has impacted our profitability.

If we maintain the level of reductions so far experienced in 2010 for the rest of the year then the three year aggregated reductions for the Syndicate will be less than 5% and the four year aggregated figure will be marginally over 10%.

The message the table above gives us is that the rating environment has now levelled but also that we cannot expect premium rate increase in the near future.

Included below is a table of our gross income after broker's commission for all years since 2005 together with year on year reductions in percentage terms:

	Premium (£m)	Reduction
2005	42.53	
2006	39.22	-7.79%
2007	36.59	-6.86%
2008	33.50 (Est)	-8.45%
2009	30.00 (Est)	-10.45%

(2008 and 2009 are estimated as they are not yet fully developed)

The message is clear here too, which is that to maintain discipline and to maximise bottom line profit we are going to lose income and some market share. Another major factor is the effect the financial downturn will have on exposure levels and therefore premium charged. However comparing exposure levels year on year for 2008 and 2009 these have held up well and against our expectations, but the threat still remains.

We have set ourselves a minimum premium target of £30m for 2010 and we will work hard to achive this but not to the detriment of sound pricing or the quality of risk.

We hope that the above figures will provide some insight into the internal workings of the Syndicate and allow for realistic assessment of the Syndicate's performance by our capital base.

It is worth noting that we underwrite a class of business that we have always done and from which we will not deviate. We would like to write more of our class but shall only do so when the time is right or the best people are available to join the 2525 team.

We would like to thank everybody on the 2525 team for there efforts in once again producing such a good return for our investors.

Our thanks too to all who support us in the London market particularly our brokers and also our reinsurers for there continued participation with 2525.

On the claims side, our thanks to all our mandated loss adjusters and our in-house legal team for all their excellent work and attention to detail.

Finally, to all our capital providers for the support they have shown to 2525 and for having faith in our message.

Approved by the Board of Directors and signed on behalf of the Board

L J Gibbins
Director

17 March 2010

Registered Office
70 Gracechurch Street
London EC3V 0XL

Statement of managing agent's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005).

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

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members of the same syndicate for different years of account, be equitable between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

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 Lloyd's Regulations and Syndicate Accounting Byelaw. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the 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 business website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of syndicate 2525 – 2007 closed year of account

We have audited the syndicate 2525 underwriting year accounts for the three years ended 31 December 2009, which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 15. These have been prepared under the accounting policies set out therein.

This report is made solely to the members of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). Our audit work has been undertaken so that we might state to the syndicate's members 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 members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and auditors

The managing agent's responsibilities for preparing the syndicate underwriting year 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 32.

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

We report to you our opinion as to whether the syndicate underwriting year accounts give a true and fair view of the result of the closed year of account. We also report to you if, in our opinion the managing agent's report is not consistent with the syndicate underwriting year accounts, if the managing agent has not kept proper accounting records in respect of the syndicate, if the underwriting year accounts are not in agreement with the accounting records or if we have not received all the information and explanations we require for our audit.

We read the managing agent's report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 underwriting year accounts. It also includes an assessment of the significant estimates and judgements made by the directors of the managing agent in the preparation of the syndicate underwriting year accounts, and of whether the accounting policies are appropriate to the syndicate's circumstances, consistently applied and adequately disclosed.

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 underwriting year 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 underwriting year accounts.

Opinion

In our opinion the syndicate underwriting year accounts give a true and fair view in accordance with UK Generally Accepted Accounting Practice of the result for the 2007 closed year of account.

Mark J Taylor (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London

17 March 2010

Profit and loss account for the 36 months ended 31 December 2009

Technical account – general business

	Notes	2009 £000	£000
Earned premiums, net of reinsurance			
Gross premiums written	3	43,978	
Outward reinsurance premiums		(7,118)	
			36,860
Reinsurance to close premiums received, net of reinsurance			90,962
Allocated investment return transferred from the non-technical account			5,058
Claims incurred, net of reinsurance			
Claims paid – Gross amount		(16,767)	
– Reinsurers' share		1,205	
Net claims paid		(15,562)	
Reinsurance to close premium payable, net of reinsurance	5	(86,508)	
			(102,070)
Net operating expenses	6		(13,668)
Balance on the technical account for general business	4		17,142

The underwriting year has closed: all items therefore relate to discontinued operations.

The notes on pages 37 to 42 form part of the financial statements.

Profit and loss account for the 36 months ended 31 December 2009

Non-technical account

	Notes	2009 £000
Balance on the general business technical account		17,142
Investment income	7	4,891
Unrealised gains on investments		1,209
Unrealised (losses) on investments		(1,037)
Realised gains on investments		267
Realised losses on investments		(149)
Investment expenses and charges		(123)
Allocated investment return transferred to the general business technical account		(5,058)
Profit for the closed year of account		17,142

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.

The underwriting year has closed: all items therefore relate to discontinued operations.

The notes on pages 37 to 42 form part of the financial statements.

Balance sheet at 31 December 2009

	Notes	2009 £000	 £000
ASSETS			
Investments	8		88,633
Debtors			
Debtors arising out of direct insurance operations	9	1,275	
Debtors arising out of reinsurance operations	10	1,611	
Other debtors		636	
Prepayments and accrued income		130	
			3,652
Reinsurance recoveries anticipated on gross reinsurance premiums payable to close the account	5		28,122
Cash at bank and in hand			17,072
TOTAL ASSETS			137,479
LIABILITIES			
Amounts due to members	11		16,860
Reinsurance to close premiums payable to close the account – gross amount	5		114,630
Creditors			
Creditors arising out of direct business	12	689	
Creditors arising out of reinsurance operations	13	2,274	
Other creditors including taxation and social security		3,025	
			5,989
TOTAL LIABILITIES			137,479

The notes on pages 37 to 42 form part of these financial statements.

The syndicate underwriting year accounts were approved by the Board of Max at Lloyd's Ltd on 17 March 2010 and were signed on its behalf by

L J Gibbins
Director
17 March 2010

Notes to the financial statements for the 36 months ended 31 December 2009

1. Basis of preparation

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Lloyd's Regulations") and in accordance with the Syndicate Accounting Byelaw and applicable Accounting Standards in the United Kingdom.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2007 year of account which has been closed by reinsurance to close at 31 December 2009. Consequently the balance sheet represents the assets and liabilities of the 2007 year of account at the date of closure and the profit and loss account reflects the transactions for that year of account during the 36 months period until closure.

As each syndicate year of account is a separate annual venture, there are no comparative figures.

2. Accounting policies

Underwriting transactions

(a) The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of that three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

(b) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due, but not yet notified to the syndicate year of account.

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

Outwards reinsurance premiums ceded are attributed to the same year as the original risk being produced.

(c) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

(d) The reinsurance to close premium determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums, net of deferred acquisition costs and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

(e) The outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss

Notes to the financial statements for the 36 months ended 31 December 2009

2. Accounting policies *continued*

adjusters and previous experience of the cost of settling claims with similar characteristics. The amount included in respect of IBNR is based on statistical techniques of estimation applied by the syndicate's external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high 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 provision for claims includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated 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.

The syndicate used a number of statistical techniques to assist in making the above 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 methods used, and the estimates made, are reviewed regularly.

(f) A provision for unexpired risks is created where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

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

Investment and investment return

(h) Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the end of the previous calendar year, together with the reversal of unrealised gains and losses recognised in earlier calendar years in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

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

Notes to the financial statements for the 36 months ended 31 December 2009

2. Accounting policies *continued*

deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date, or the last trading day before that date.

Syndicate operating expenses & profit commission

(i) Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned as follows:

Salaries and Related Costs – According to time of each individual spent on syndicate matters.
Accommodation Costs – According to number of personnel.
Other Costs – As appropriate in each case.

Profit commission

Profit commission is charged by the managing agent at a rate of 15% of profit subject to the operation of a deficit clause. Such commission does not become payable until after the appropriate year of account closes normally at 36 months. Profit commission, on naturally open years' is accrued on the basis of earned profit to date.

Pensions

The managing agent operates a defined contribution pension scheme and its recharges to the syndicate in respect of salaries and related costs include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

Amounts recharged by the managing agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Taxation

(j) 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 income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members of their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

(k) Transactions in US dollars, Canadian dollars and Euros are translated at the date of the transaction or at an approximation average rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange at the date the transaction is processed.

Assets and liabilities are re-translated into sterling at the rate of exchange at the balance sheet date.

Although transactions are translated as described above, the final result for the year of account is calculated with US Dollars, Canadian Dollars and Euros translated at the balance sheet rates of exchange.

Differences arising on the re-translation of foreign currency amounts are included in the technical account under net operating profit.

Where Euros are sold or bought relating to the profit or loss of a closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where US dollars and Canadian dollars relating to the profit or loss of a closed underwriting account are brought or sold by members on that year, any exchange profit or loss accrues to those members.

Notes to the financial statements for the 36 months ended 31 December 2009

3. Particulars of business written

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

2009	Gross premiums written and earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:					
Third party liability	43,978	(131,397)	(13,668)	113,171	12,084
Total	43,978	(131,397)	(13,668)	113,171	12,084

All business is written in the United Kingdom. Analysis by destination is not materially different from the analysis above.

Gross operating expenses are the same as net operating expenses.

4. Analysis of result by year of account

	2006 & prior years of account £000	2007 Pure year £000	2007 Total £000
Technical account balance before allocated investment return and net operating expenses	16,841	8,911	25,752
Brokerage and commission on gross premium	–	(6,927)	(6,927)
	16,841	1,984	18,825
Other acquisition costs	–	(2,111)	(2,111)
Net other expenses	584	(5,214)	(4,630)
Investment income	167	4,891	5,058
Balance on technical account	17,592	(450)	17,142

5. Reinsurance to close premium payable net of reinsurance

	Reported £000	IBNR £000	Total £000
Gross outstandings	(89,111)	(25,519)	(114,630)
Reinsurance recoveries anticipated	25,975	2,147	28,122
Net	(63,136)	(23,372)	(86,508)

Notes to the financial statements for the 36 months ended 31 December 2009

6. Net operating expenses

	2009 £000
Acquisition costs	(9,038)
Standard personal expenses	(3,904)
Administration expenses	(435)
Loss on exchange	(291)
	(13,668)

The closed year profit is stated after charging:

	2009 £000
Auditors' remuneration:	
Fees payable to the Syndicate's auditor for the audit of these financial statements	(121)
Fees payable to the Syndicate's auditor and its associates in respect of:	
Other services pursuant to legislation	(5)
	(126)

The auditors did not receive any other remuneration other than that stated above.

7. Investment income

	2009 £000
Income from investments	4,891
	4,891

8. Investments

	2009 £000
Debt securities and other fixed income securities	88,633
	88,633

All debt securities and other fixed income securities are listed on a recognised stock exchange. All investments are rated AAA to A by external rating agencies.

9. Debtors arising out of direct insurance operations

	2009 £000
Due within one year – intermediaries	1,127
Due after one year – intermediaries	148
	1,275

Notes to the financial statements for the 36 months ended 31 December 2009

10. Debtors arising out of reinsurance operations

	2009 £000
Due within one year	1,611
	1,611

11. Amounts due to members

	2009 £000
Profit for the closed year of account	17,142
Members' agents' fees paid on behalf of members	(282)
Members' balances carried forward at 31 December 2009	16,860

12. Creditors arising out of direct insurance operations

	2009 £000
Due within one year	689
	689

13. Creditors arising out of reinsurance operations

	2009 £000
Due within one year	2,274
	2,274

14. Related parties

In addition to MALL, Max has interests in other Lloyd's related corporate capital vehicles:

Max Corporate Capital 2 Ltd.
Max Corporate Capital 3 Ltd.
Max Corporate Capital 4 Ltd.
Max Corporate Capital 5 Ltd.
Max Corporate Capital 6 Ltd.

The participations of Max Corporate Capital 2 Ltd & Max Corporate Capital 3 Ltd are shown below:

	2007 £	2008 £	2009 £
Max Corporate Capital 2 Ltd	250,081	250,081	250,081
Max Corporate Capital 3 Ltd	600,000	600,000	600,000

MALL is the managing agency responsible for the management of all of the following syndicates:

994, 1400, 2525 & 2526

15. Post balance sheet event

The 2007 underwriting year result of £16.87 million will be distributed to members during 2010.

Summary of closed year results at 31 December 2009

	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000
Syndicate allocated capacity	£37,087	£44,786	£41,992	£73,988	£44,282	£49,848	£41,868
Number of underwriting members	307	294	280	514	421	478	478
Aggregate net premiums	£31,667	£32,315	£29,690	£40,400	£32,361	£32,994	£27,822
Results for an illustrative share of £10,000	£	£	£	£	£	£	£
Gross premiums	11,394	9,593	11,442	8,778	11,208	10,078	10,504
Net premiums	8,539	7,215	7,070	5,460	7,308	6,619	6,645
Reinsurance to close from and earlier account	4,877	10,364	15,802	9,408	17,680	16,091	21,726
Net claims	(2,552)	(2,770)	(3,352)	(2,134)	(2,996)	(2,517)	(3,717)
Reinsurance to close	(12,489)	(14,971)	(16,576)	(10,582)	(18,113)	(18,247)	(20,662)
Profit/(loss) on exchange	(75)	(88)	33	(4)	(135)	1,130	(69)
Syndicate operating expenses	(634)	(231)	(274)	(118)	(234)	(151)	(104)
Balance on technical account	(2,334)	(481)	2,703	2,030	3,510	2,925	3,819
Investment income less investment expenses and charges and investment gains less losses	715	688	984	642	1,681	1,608	1,208
Profit/(loss) on ordinary activities	(1,619)	207	3,687	2,672	5,191	4,533	5,027
Illustrative personal expenses							
Managing agent's fee	60	60	60	60	60	60	60
Profit commission	–	–	525	373	751	652	723
Other personal expenses (excluding members' agents fees)	100	125	125	125	125	125	150
	160	185	710	558	936	837	933
Profit/(loss) on ordinary activities after illustrative managing agent's fee and profit commission and illustrative personal expenses	(1,779)	22	2,977	2,114	4,255	3,696	4,094
Total of syndicate operating expenses, managing agent's fee and profit commission	£694	£291	£859	£551	£1,045	£863	£887
Capacity utilised	113.9%	95.9%	96.1%	74.0%	94.1%	86.4%	88.4%
Net capacity utilised	85.4%	69.9%	77.6%	54.6%	76.2%	69.6%	71.4%
Underwriting (loss)/profit ratio	(20.5%)	(5.0%)	23.6%	23.1%	31.3%	29.0%	28.9%

Notes

1. The summary of closed year results has been prepared from the audited accounts of the syndicate.
2. Personal expenses have been stated at the amount which would be incurred pro rata by individual Names writing the illustrative premium income in the syndicate irrespective of any minimum charge applicable. Corporate members may be charged at different rates. Foreign tax, which may be treated as a credit for personal tax purposes, has been excluded.
3. As regards the 2008 and 2009 years of account, an illustrative share of £10,000 represents 0.0238% and 0.0238% of the respective allocated capacity.

Produced by Stephen Duke Ltd +44 (0)20 7422 0040 (12322)

MAX AT LLOYD'S LTD.
4TH FLOOR, 70 GRACECHURCH STREET
LONDON, EC3V 0XL, ENGLAND
T +44 20 3102 3100