



New horizons *Annual Report 2010*



Our focus is new horizons...

...a top three dedicated Lloyd's business with an expanding international network, a Global Energy Practice and a successful UK motor direct brand...

...with our new Foundation Flex Flagship strategy as a guide, we are on a journey to establish ourselves as the specialist Lloyd's insurer of choice.

We are a specialist insurance group listed on the London Stock Exchange. We underwrite business at Lloyd's, the world's leading insurance and reinsurance market.

We deploy specialist underwriters in all major insurance and reinsurance classes, balancing global marine, energy, non-marine and aviation with a UK motor business and nuclear insurance.

Headquartered in London, we have international operations in Buenos Aires, Copenhagen, Houston and Singapore to provide access to high quality business worldwide.

OUR BUSINESS DIVISIONS

ENERGY

Our Energy Division has a leadership position in the international energy market, providing upstream, midstream and downstream energy and renewables, energy casualty and engineering treaty.

PROPERTY

We write a global portfolio of property business on a treaty and facultative basis and an engineering portfolio on a treaty basis. We are market leaders, offering our brokers and clients a first class underwriting service.

AVIATION

We are a leading provider of specialist aviation insurance to the Lloyd's market. Our underwriters are recognised for their industry knowledge and experience.

UK

Motor

We provide motor insurance to the UK private car and fleet markets. We operate through intermediaries, aggregator sites, our *ChaucerDirect* website and via our specialist broker.

Commercial

We are developing the non-motor activities of the UK business. Our SME liability and combined commercial products are widely distributed through our broker network.

MARINE

We write all major classes of marine business, including political risk and satellite.

SPECIALIST LINES

We write a range of casualty exposures including financial institutions crime and professional indemnity, medical malpractice, workers' compensation, directors and officers liability, on a direct, facultative and treaty basis.

INTERNATIONAL LIABILITY

We have launched this new Division to specialise in international professional liability, general liability and related classes.

NUCLEAR

Chaucer Nuclear Syndicate 1176 is recognised as a leading insurer of nuclear risk and is consistently one of the most profitable syndicates at Lloyd's.

02	Our Performance
04	Chairman's Statement
05	Chief Executive Officer's Statement
07	Our Strategy
10	Chief Underwriting Officer's Report
24	Our International Network
26	Business Statistics
28	Chief Financial Officer's Report
34	Our People
36	Corporate Social Responsibility
38	Board of Directors
40	Investor Relations
41	Directors' Report

Corporate Governance

44	Corporate Governance Report
52	Audit Committee Report
53	Directors' Remuneration Report
63	Statement of Directors' Responsibilities
64	Statement of Directors' Responsibilities in Relation to Disclosure and Transparency Rules

Consolidated Financial Statements

66	Independent Auditor's Report to the Members of Chaucer Holdings PLC
67	Consolidated Income Statement
68	Consolidated Statement of Comprehensive Income
69	Consolidated Statement of Changes in Equity
70	Consolidated Balance Sheet
71	Consolidated Statement of Cash Flows
72	Notes to the Consolidated Financial Statements
118	Syndicate Statistics

Solus Financial Statements

120	Statement of Directors' Responsibilities in Relation to Chaucer Holdings PLC's Financial Statements
121	Independent Auditor's Report to the Members of Chaucer Holdings PLC
122	Chaucer Holdings PLC Balance Sheet
123	Notes to the Solus Financial Statements
132	Glossary of Terms

OUR BUSINESS CLASSES

fleet / private car / specialist motor / commercial / cargo / marine hull / marine liability / war / marine XL / political risk and trade credit / political violence / satellite / specie / energy construction / energy liability / energy exploration and

production / energy onshore and offshore / aviation hull / aviation liability / aviation refuellers and products / international property treaty / international property direct and facultative / US property treaty / engineering treaty /

engineering direct and facultative / miscellaneous short tail / crop treaty / international binding authorities / financial institutions crime / financial institutions professional liability / US professional lines / institutional healthcare / medical malpractice

/ occurrence and claims made / US casualty treaty / international casualty treaty / accident and health / international professional indemnity / international general indemnity / related liability classes / nuclear

INTERNATIONAL OPERATIONS

Nottingham: REIS is our specialist motorsport insurance broker.

London: From our London Headquarters, we write Lloyd's insurance worldwide.

Houston: Our Texan office focuses on energy liability business for onshore North, Central and South American energy risks.

Buenos Aires: Our new office in Argentina provides access to facultative property and related risks in Latin America.



Copenhagen: Our Danish office provides us with good access to European property, marine hull and accident and health risks.

Whitstable: Chaucer Insurance provides motor insurance to the UK private car and fleet markets and SME commercial insurance, both direct and through our broker network.

Singapore: Chaucer Singapore provides offshore energy, marine, financial risk, property and engineering coverage for regional clients through international and local brokers.

£34.8m

Profit before tax and foreign exchange on non-monetary items
(2009 £75.3m)

£32.9m

Profit before tax
(2009 £42.0m)

£848.7m

Gross written premiums
(2009 £795.6m)

2.7%

Return on average funds
(2009 4.3%)

7.0%

Post-tax return on equity
(2009 9.7%)

4.3p

Undiluted earnings per share
(2009 5.8p)

60.0p

Net asset value per share
(2009 61.7p)

4.0p

Total dividend
(2009 4.0p)

It was another challenging period for the insurance industry, dominated by high profile natural and man made catastrophe losses.

This impacted the result of our Property Division, although Energy, Marine and Nuclear produced good results. We are also pleased with the progress made by our UK Division towards its target of a sub 100% combined ratio for 2011.

The implementation of our new Foundation Flex Flagship strategy is gaining momentum and bringing positive change to the business.

The first quarter of 2011 has been exceptional for the magnitude and frequency of natural catastrophe losses and we expect the positive impact from these events on international marine and property markets to extend significantly beyond the affected areas. Our latest plans for 2011 reflect this, with the

diversity of our portfolio providing us with the underwriting capabilities to take advantage of these opportunities.

This strength will also support the development of our Global Energy Practice and UK Division, which together generate over two fifths of Group premium income, and where underwriting conditions are also positive.

This approach within our Foundation Flex Flagship strategy emphasises our continued commitment to underwriting for profit rather than for premium and I am confident that this discipline will sustain our progress as a business in 2011.

Robert Stuchbery
Chief Executive Officer



UNDERWRITING PERFORMANCE

- > A difficult underwriting period with a number of major natural and man made catastrophes
- > Combined ratio of 99% (2009 93%)
- > Reserve releases of £20.8m (2009 £31.8m)
- > UK Division achieved rate rises of 17.3%
- > Contribution of £5.6m from Turnkey Solutions and management activities (2009 £5.9m)
- > Expansion of international network with a new office in Argentina



BUSINESS OUTLOOK

- > New Foundation Flex Flagship strategy launched to deliver superior long-term value to shareholders
- > Syndicate 1084 capacity increased to £825m for 2011 (2010 £745m), with planned growth across UK motor and energy portfolios
- > Launch of new International Liability Division with a capacity of £43m for 2011
- > Group underwriting interests increased 7.7% to £707.2m in 2011 (2010 £656.9m)

The diversity at the heart of our underwriting portfolio is one of our key strengths as a business.



Business results and dividends

Despite a challenging period for the insurance industry, with a high level of catastrophe losses and continued low interest rates, the Group produced a pre-tax profit before the impact of foreign exchange on non-monetary items of £34.8m (2009 £75.3m) and a reported profit before tax of £32.9m (2009 £42.0m). The post-tax return on equity was 7.0% (2009 9.7%).

We intend to pay a total dividend of 4.0p per share for 2010, with the final dividend of 2.7p being payable on 27 May 2011 to shareholders on the register on 6 May 2011. We expect to maintain this level of dividend for 2011.

As previously announced, we have received a number of take-over approaches, that are subject to due diligence and pre-conditions and it will take time to ascertain whether an offer for the business may be forthcoming.

We continue to hold discussions with interested parties with a view to maximising value for shareholders.

A further update will be provided in due course, when appropriate.

This has been an important year in the strategic development of Chaucer.

Board of Directors

Following the appointment of our new Executive Management Team in 2009, we strengthened our Board further with the arrival of Chris Stooke and Mark Wood as Non-executive Directors in 2010. Both have invaluable insurance expertise and experience to offer the Board. Chris joined from Catlin Group, where he was Chief Financial Officer for six years, having previously been a specialist financial services partner with PricewaterhouseCoopers, while Mark has held leadership roles at the Prudential and AXA, and most recently at Paternoster. I am delighted to welcome them both to the Board.

Strategic development

This has been an important year in the strategic development of Chaucer, with the Board reviewing the long-term direction of the Group to ensure that we continue to respond positively to the changing dynamics of the insurance market and to differentiate ourselves successfully as a specialist Lloyd's business.

As announced in November 2010, we have now launched our Foundation Flex Flagship strategy, which focuses the underwriting strengths of the Group on delivering strong and consistent returns, while building a specialist portfolio that includes our UK Division's motor direct brand with significant aggregator presence and a market-leading Global Energy Practice.

I am confident that this strategy is the most effective way of achieving the Group's vision of being the Lloyd's specialist insurer of choice and of delivering superior return on capital and enduring value for shareholders.

Business outlook

The first quarter of 2011 has been exceptional for the magnitude and frequency of natural catastrophe losses, including the Australia floods, New Zealand earthquake and Japan earthquake and resultant tsunami. On behalf of the Chaucer Board, I would like this opportunity to express our profound sympathy to all those affected by these tragic events.

These are major market losses and, as with our peers in London, on the Continent and in Bermuda, we have material exposures to these events. With the global insurance industry confronting estimated insured losses in excess of US\$25bn, we expect the positive impact on international marine and property markets to extend significantly beyond the affected areas.

Our latest plans for 2011 reflect this, with the diversity at the heart of our portfolio providing us with the underwriting capabilities to take advantage of these opportunities. This business strength will also underpin the development of our Global Energy Practice and UK Division, which together generate over two fifths of Group premium income, and where underwriting conditions are positive.

This approach within our Foundation Flex Flagship strategy emphasises our continued commitment to underwriting for profit rather than for premium and I am confident that this discipline will sustain our progress as a business in 2011.

Martin Gilbert
Chairman

31 March 2011

Despite another challenging period for the insurance industry, I am pleased to report a satisfactory financial result.



Financial results

Despite another challenging period for the insurance industry, dominated by high profile natural and man made catastrophe losses, I am pleased to report a satisfactory financial result from Chaucer, with a pre-tax profit before the impact of foreign exchange on non-monetary items of £34.8m (2009 £75.3m). The reported profit before tax was £32.9m (2009 £42.0m).

Despite an absence of US hurricane related losses, exposure to four major market events - Deepwater Horizon, the Chile and New Zealand earthquakes and the Australia floods - impacted our underwriting result. The Group's combined ratio increased to 99% (2009 93%).

Our investment return was £33.6m (2009 £53.3m), a return of 2.7% on average funds held of £1.3bn (2009 4.3% on £1.3bn), as continued low interest rates affected the performance of our conservative investment strategy, which focuses primarily on capital maintenance to support underwriting.

Foundation Flex Flagship

In November 2010, we announced the results of a review to identify the strategy required to deliver our vision of being the Lloyd's specialist insurer of choice and our goals of delivering a superior return on capital and building enduring value for shareholders.

This strategy aims to focus the strengths of the Group in three differentiated elements of our business, each with set objectives and which together deliver the vision:

Foundation

The core of our business is our specialist London classes, including our new International Liability Division, and the UK Division, which together provide the profit potential, capital benefits of diversification and volatility management required to protect our underwriting capabilities in the long-term. This also includes the non-risk income provided by Turnkey Solutions. This core provides the foundation of our underwriting portfolio.

Flex

By flexing our underwriting of property catastrophe treaty business, we will optimise our return within risk appetite.

Flagship

A newly established Global Energy Practice, incorporating our energy, nuclear and engineering expertise, will provide a flagship product line for our underwriting portfolio.

Our key objective is to grow our portfolio successfully over time.

While retaining our focus on profitability and cycle management, our key objective is to grow our portfolio successfully over time and we aim to deliver a post-tax cross-cycle return on equity in excess of 12%.

Our supporting strategic objectives are as follows:

- > Become a top three dedicated Lloyd's business
- > A planned reduction of 2% in our long-term combined ratio

- > Establish a Global Energy Practice to provide a fully integrated underwriting capability for all broker and client requirements, providing market leading expertise and service
- > Build a UK motor direct brand with significant aggregator presence
- > Optimise risk appetite through increased commitment to property catastrophe treaty; withdrawal completed from US direct and facultative property business to achieve this
- > Use this new structure to optimise the deployment of the Group's capital to achieve stable underwriting returns while maximising the opportunities that the portfolio provides

These objectives are now driving decision-making within Chaucer.

2011 events

As previously reported, we have experienced losses of £8m from the Australia floods in January and £19m from the earthquake in Christchurch, New Zealand in February. In addition, in March 2011, an earthquake measuring 9 on the Richter scale and resulting catastrophic tsunami occurred in Japan. Syndicate 1084 has significant property and marine exposures to this event, although our ultimate cost remains uncertain at this time. As reported in the Chief Underwriting Officer's Report, despite there being three nuclear power stations in the affected area, we do not expect any significant insured loss to arise in respect of this event for Nuclear Syndicate 1176.

I would like to take this opportunity on behalf of all at Chaucer to express our profound sympathy to all those affected by these tragic events.

Business outlook

At the start of 2011, whilst recognising adverse conditions in a number of classes, we were optimistic for the year, believing that the broad diversity of our portfolio, combined with the strengths of our underwriting team, would enable us to take advantage of the opportunities that the market provided. In particular, at our Energy and UK Divisions, where we are achieving rate rises and, in accordance with our new Foundation Flex Flagship strategy, are building on the strengths that these provide to the Group in 2011.

We have increased the capacity of our flagship Energy Division by £33m to £184m where, in the aftermath of Deepwater Horizon, energy rates in certain sectors are rising as the oil industry reassesses the physical risks and liability exposures confronted.

For UK motor business we forecast rate increases of 14% for 2011, which is 6% in excess of claims inflation; personal lines business will lead this. In response, we have increased the underwriting capacity of our UK Division by £26m to £195m, including planned initiatives to develop our UK motor direct business.

Following the catastrophic losses of the first quarter, we are now also confident of an improved rating outlook. While, following a second successive hurricane season with no major insured losses, there is some downward rate pressure on rates for many catastrophe-exposed risks in North America, the cost to the market of recent events in other regions should counter this. The specialist lines and aviation markets are also weak, with competitive pricing and a flow of new entrants adding to capacity. For each of these markets, we will continue to adopt a cautious approach, albeit we have the underwriting strength in place to take advantage of specific areas of opportunity, as these arise.

Overall, we expect an increase in premium rates for our underwriting portfolio in 2011, with improved rates in the marine and international property accounts, joining those previously forecast for our energy and UK motor, to offset broadly flat rates for our North American property, specialist lines and aviation accounts. We have increased the capacity of Syndicate 1084 by £80m to £825m for 2011 (2010 £745m), including the launch of our new International Liability Division, which has a planned capacity of £43m. Together with Syndicate 1176, and after deducting third party participations, our total economic interest in underwriting capacity for 2011 is £707.2m, an increase of £50.3m or 7.7% on the 2010 total of £656.9m.

The 2011 underwriting year has started positively.

Solvency II

Our response to Solvency II continues to make good progress, with projects well underway to address the key requirements, including capital modelling and the internal model, data quality, enterprise risk management, reporting and governance. The commitment of people and financial resources remains demanding but critical to the success of our implementation plans. There is a year of hard work ahead but, having observed the dedication with which the business has tackled the work so far, I remain confident that our business will meet Solvency II requirements.

The Chaucer Team

The quality of our team is critical to our success and I am pleased to report that in 2010 we continued to attract high calibre individuals to help drive forward our business.

I am very pleased to welcome Tim Carroll as a Non-Executive Director of our managing agent and main operating company, Chaucer Syndicates Limited (CSL). Tim is a renowned international business leader, with significant London Market and Lloyd's senior level experience at Swiss Re and GE. We will benefit from his advice, counsel and challenge.

I am also pleased to welcome David Mead as Chief Operating Officer of CSL. This is a newly created role in which David has assumed direct responsibility for our key operational functions. He will lead further development and implementation of our operations and service strategy, with a focus on building efficient first class processes and a platform for profitable growth. David is an outstanding insurance sector COO, with over 30 years of experience in operations management and performance improvement. He joins from Willis where he was Managing Director of Group Operations.

We have also recruited a number of specialist underwriters to increase the depth of our offering to clients, most notably with the formation of our new International Liability Division.

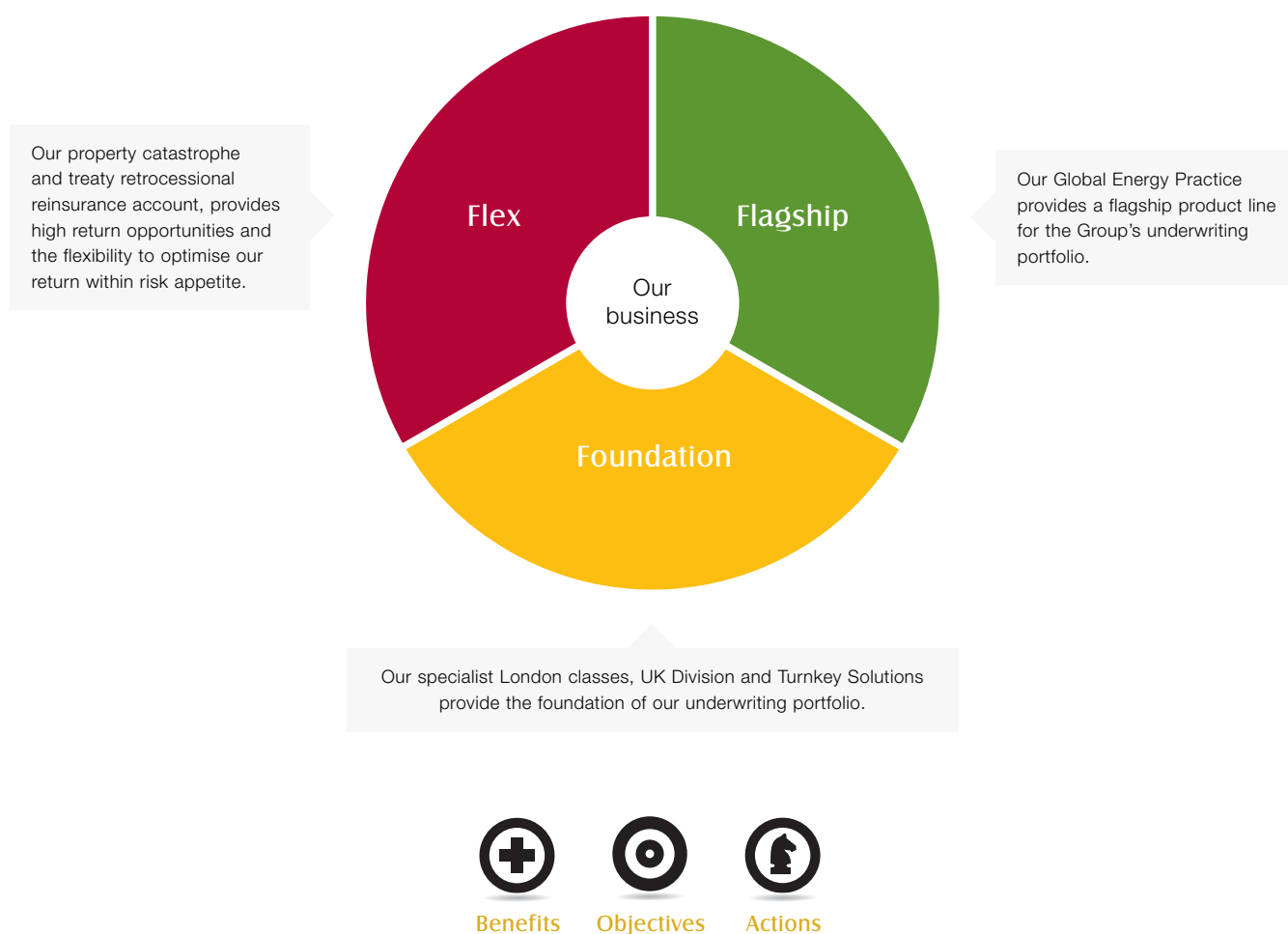
I wish to thank all employees for their efforts in 2010. We continue to make significant progress as a business and, with our new Foundation Flex Flagship strategy as a guide, I believe that our continued dedication and hard work will produce further positive development of the business in 2011.

Robert Stuchbery
Chief Executive Officer
31 March 2011

Our vision is to be the Lloyd's specialist insurer of choice and our goals are to deliver a superior return on capital and to build enduring value for shareholders.

Foundation Flex Flagship

Our strategy for 2011 to 2014



.....
The benefits, objectives and the actions that will make our strategy happen are presented overleaf



Foundation



Within our portfolio, our aim is to optimise the underwriting return within the parameters of our given risk appetite; this will involve complementing our exposure to catastrophe business, with the more consistent returns from our non-correlated and less volatile classes, notably UK motor. This in turn reduces the requirement to seek additional capital funds after such events, enabling us to plan the long-term development and to maintain the long-term value of the business with confidence.



LONDON By 2014

- > Deploy top 3 underwriting teams in each class, who are among the most respected in their field
- > Operate clearly defined and communicated underwriting philosophies and parameters for each account
- > Employ disciplined allocation of capacity to each account
- > Manage strong account specific reinsurance relationships
- > Underwriter empowerment and account specific profit incentives in place
- > Deploy strong broker and coverholder relationships and an international network to secure chosen global business

UK DIVISION By 2014

UK Division

- > Maintain our position as a leading specialist UK insurer with premium income of over £250m (growth of +70%)
- > To achieve a broker/direct split of 55% / 45% for our private car business

Direct

- > A UK motor direct brand with significant aggregator presence
- > A direct policyholder base of over 120,000
- > Maximised non-risk income, achieving £65-£75 per policy from direct personal lines business

Broker

- > A low and flexible operational cost base for broker-led business

Commercial

- > Generate total non-motor premium income in excess of £41m



LONDON By 2014

- > Build a leading specialist Lloyd's operation with a gross premium income of £700m to £900m
- > Develop top 3 performing underwriting teams for each major class of business
- > Reduce annual reinsurance costs as a percentage of gross written premiums
- > Significantly increase gross premium income generated from our international network

UK DIVISION By 2014

Direct

- > Grow the direct element of the private car account from 8% to approximately 45%
- > Maximise risk free income from add on sales to the target direct policyholder base of 120,000

Broker

- > Use technology to minimise the operational costs of the broker led business
- > Allow business to decrease if loss ratios are above target as the market softens

Commercial

- > Expand the Commercial product range, beginning with Chaucer Commercial Combined in 2011
- > Enhance Chaucer's market presence in the UK and build on the distribution channels, both broker and direct, to significantly increase Commercial income



Flex



Our property catastrophe treaty account enables us to flex our market participation in response to market conditions, with a view to maximising income when margins are high and risk appetite permits. This business benefits from being very tradable, underpinned by strong technical pricing and straightforward reinsurance requirements. We believe that the development of this account worldwide and our withdrawal from US direct and facultative business will enhance our return on capital in both the short and long-term.



By 2014

- > Underwriting focus on catastrophe excess of loss treaties worldwide
- > Employ a small specialist, technical underwriting and modelling team that achieves this
- > Strong underwriting management analytics in place to support this approach
- > Operate simplified and price sensitive reinsurance purchase strategy to maximise the return within risk appetite



- > Further enhance our worldwide catastrophe reach
- > Improve utilisation of catastrophe aggregate to improve profitability
- > Major change complete with our exit from North American direct, facultative and delegated authority property business (with catastrophe exposure) and the transfer of 'freed' aggregate / modelled loss risk appetite to property catastrophe treaty account worldwide



Flagship



We are developing a newly formed Global Energy Practice, incorporating our current energy and engineering expertise together with Nuclear Syndicate 1176, to provide a fully integrated underwriting capability for broker and client requirements. This responds to the continued buoyancy and growth of the energy industry, the increasing technical sophistication of client requirements, the complementary structure of many energy brokers and the current capabilities of our market leading Energy Division.

Our aim for the Global Energy Practice, as for all our business, is to underpin underwriting and claims management with first class technical pricing, exposure modelling, policy coverage expertise and account management services.



By 2014

- > Establish a Global Energy Practice that integrates our Energy, Nuclear Syndicate 1176 and Engineering expertise
- > Focus on technical market leadership: pricing, exposure modelling, engineering advice and policy coverage



- > Increase the strength of the Energy Team from 19 to 39 by end of 2012, with the recruitment of leading class underwriters with strong technical market reputations, and wordings, engineering, pricing and research experts
- > Develop our underwriting and claims service capabilities for brokers and clients
- > Establish a Chaucer Scandinavian energy capability and increase our Houston underwriting resource to support production initiatives in 2012

Losses from four significant events eliminated the gains from a quiet US hurricane season.



It was a challenging period for the insurance industry, as losses from four significant events – Deepwater Horizon, the Chile and New Zealand earthquakes and the Australia floods – eliminated the gains from a quiet US hurricane season. Despite this, our underwriting performed satisfactorily, recording an underwriting profit of £6.7m (2009 £45.8m) before the impact of foreign exchange on non-monetary items, including good results from our Energy, Marine and Nuclear Divisions.

Gross written premiums, excluding reinsurance to close (RITC) premiums and consolidation adjustments, increased by 6.7% to £848.7m (2009 £795.6m) as we focused growth in the energy and UK motor markets where rating levels were strongest. The blended rate increase for Syndicate 1084 was 3.4%. Net earned premiums decreased by 2.9% to £652.8m in 2010 (2009 £672.6m).

Outwards reinsurance premiums, excluding RITC premiums and consolidation adjustments, represented 18.2% of gross written premiums (2009 14.2%) as we purchased additional proportional reinsurance to support the development of our Energy Division. This excludes £82.1m (2009 £52.9m) due under a third party whole account reinsurance agreement to provide additional underwriting capacity to Syndicate 1084. Including this, outwards reinsurance premiums increased to 27.9% of gross written premiums (2009 21.4%).

The Group's combined ratio increased to 99% (2009 93%).

2010 events

The magnitude and frequency of both man made and natural catastrophe insured losses increased in 2010, with market insured losses reaching some US\$36bn according to Swiss Re research. European Windstorm Xynthia, the earthquakes in Chile and New Zealand and the Australia floods were the most costly insured natural catastrophe loss events, while Deepwater Horizon was the largest man made insured loss during the period. **Table 1** identifies our largest losses for 2010, which includes four of these events.

The magnitude and frequency of man made and natural catastrophe insured losses increased in 2010.

Australia flood losses emanate from our property direct, facultative and treaty reinsurance accounts. We currently estimate our loss from the December 2010 Rockhampton event at US\$6.8m.

The Chilean earthquake loss arises primarily from our direct and facultative property accounts, while the majority of our New Zealand earthquake loss arises from our property treaty reinsurance account.

Deepwater Horizon exposures arise from our direct energy portfolio (US\$17.3m) and our marine excess of loss account (US\$4.5m). We had only limited exposure to European Windstorm Xynthia, which produced insured losses of some US\$3bn in February 2010.

The period also saw significant storm-related losses in the United States, wind and hailstones in Australia, flash floods in France and the earthquake in Haiti. In the Gulf of Mexico, despite an active season and above average frequency and severity of developing hurricanes, there were no major associated losses, unusual weather conditions prevented hurricanes from making landfall in the United States.

The aviation market again suffered heavy losses in 2010, with a high incidence of events in developing countries outside of the major airline sector, including Afriqiyah Airways in Libya, Aerocaribbean in Cuba and Airblue in Pakistan.

Rates in the UK motor market hardened significantly in 2010 as the market continued to strive for a return to profitability. It was another difficult year for those motor insurers who had been slow to recognise the growing effect of claims-farming and recession-related claims. We began taking action in spring 2009 to address the impact of such losses, including major rate increases for our private car products and steps to reduce the cost of fraudulent claims and credit hire claims. While the combined ratio for 2010 was in excess of 100%, these moves have protected us from notable further losses and we are now experiencing improved underwriting performance and expect to produce a combined ratio of less than 100% for the 2010 underwriting year.

2011 events

The first quarter was exceptional for the magnitude and frequency of natural catastrophe losses. We have an expected loss of approximately £19m for the February 2011 Christchurch, New Zealand earthquake, based on an assumed industry loss of NZ\$12bn, and £8m for the January 2011 Australia floods in Toowoomba, Ipswich and Brisbane. Both of these loss estimates are net of reinsurance and reinstatement premiums.

In March 2011, there was an earthquake measuring 9 on the Richter scale and resulting tsunami in the north-east of Japan. The estimated market insured losses for this major event is between US\$15bn and US\$35bn. While Syndicate 1084 has significant marine and

non-marine exposures, our ultimate loss remains uncertain at present given the complexity of this event.

Syndicate 1176 is one of a panel of insurers that provides coverage to the three nuclear sites in the proximity of the affected area. The Syndicate has no coverage in place for property damage or business interruption at the Fukushima Dai-ichi and Fukushima Daini sites, owned by Tokyo Electric Power Company. The Syndicate provides coverage for property damage at Onagawa, owned by Tohoku Electric Power Company, but specifically excludes the perils of earthquake and tsunami.

In addition, under the Japanese Nuclear Act of 1961 (and amended in 2009) the owners of nuclear power stations are not

liable for any damage arising from a "grave natural disaster of an exceptional character".

Consequently, our Nuclear Division does not expect any significant insured loss to arise from this event.

We continue to monitor closely the wave of protests throughout the Middle East and North Africa that began in Tunisia in January 2011. As leading political risk, trade credit and political violence underwriters we will have exposure to risks in these countries, although we have received no significant claims notifications to date.

Table 2 provides a summary of divisional underwriting performance.

Table 1 2010 events	Event date	Estimated market insured loss US\$bn	Chaucer's estimated net loss US\$m	Affected Divisions
Chile earthquake	February 2010	8.5	24.7	Property
Deepwater Horizon	April 2010	1.5	21.8	Energy and Marine
New Zealand earthquake	September 2010	3 to 5	20.6	Property
Australia floods	December 2010	4 to 7	6.8	Property

Table 2 Divisional underwriting performance	Energy £m	Property £m	Marine £m	Specialist Lines £m	Aviation £m	UK £m	Nuclear £m	In-house total £m	Syndicate participations ¹ £m	Run off ² £m	Total £m
2010											
Gross written premiums ³	169.6	200.2	154.6	86.3	46.3	175.6	15.0	847.6	8.4	(7.3)	848.7
Net earned premiums ³	108.1	150.4	122.4	68.4	33.7	156.8	12.9	652.7	7.4	(7.3)	652.8
Underwriting profit/(loss) ³	10.5	(10.8)	8.9	1.9	2.4	(9.6)	12.6	15.9	(13.4)	4.2	6.7
	%	%	%	%	%	%	%	%	%	%	%
Claims ratio ³	46	76	62	69	59	82	(14) ⁴	66	241	n/a	67
Expense ratio ³	44	31	31	28	34	24	16	32	40	n/a	32
Combined ratio³	90	107	93	97	93	106	2	98	281	n/a	99
2009											
Gross written premiums ³	150.6	183.8	152.7	72.8	42.2	158.6	15.7	776.4	18.7	0.5	795.6
Net earned premiums ³	119.8	151.6	125.7	54.4	30.9	139.8	13.5	635.7	36.3	0.6	672.6
Underwriting profit/(loss) ³	11.0	35.8	(0.9)	0.7	8.5	(12.2)	10.0	52.9	(10.3)	3.2	45.8
	%	%	%	%	%	%	%	%	%	%	%
Claims ratio ³	51	46	70	68	39	83	15	61	94	n/a	62
Expense ratio ³	40	31	31	31	34	26	11	31	35	n/a	31
Combined ratio³	91	77	101	99	73	109	26	92	129	n/a	93

¹ Syndicate participations comprise the results of Chaucer participations on Syndicates 4000 and 4242.

² Run off comprises the results of Syndicates 1204, 1224, 1229 and 1245 which have reinsured to close into Syndicate 1084. The ratios are not meaningful for this analysis and have been excluded accordingly.

³ See note 4 to the Consolidated Financial Statements for a definition of these items.

⁴ See Nuclear Division 'Divisional analysis' for explanation of this item.

Energy Division

The Energy Division produced a positive underwriting profit of £10.5m (2009 £11.0m), despite the US\$17.3m of losses sustained from Deepwater Horizon. Gross premium income rose to £169.6m (2009 £150.6m) as the Division benefited from improved rates following this event. The combined ratio was 90% (2009 91%).

Global Energy Practice

The result emphasises the strengths of our Energy Division and the importance of this division as the core of our new Global Energy Practice under the Group's new Foundation Flex Flagship strategy. The Practice will align our leading specialist energy, nuclear and engineering underwriting expertise to provide a fully integrated underwriting capability for broker and client energy sector requirements. We aim to underpin underwriting and claims management with first class technical pricing, policy coverage expertise, exposure modelling and account management services.

We are currently recruiting to strengthen our London and Singapore operations and we have formalised our relationships with business producers in the US, Scandinavia, Canada and South America to strengthen our overseas representation.

Exploration and production

The loss of Deepwater Horizon, the Transocean drilling unit, and the subsequent uncontrolled oil leak from the BP well Macondo, dominated the offshore exploration market during the period. This is the most significant risk loss (i.e. non-natural catastrophe) to strike energy underwriters since the Piper Alpha rig explosion in 1988.

Prior to the loss, and following a benign Gulf of Mexico hurricane season in 2009, pricing was under increasing pressure, with some higher quality renewal business attracting rate reductions. After the loss however, the rating environment has transformed, enabling us to benefit from subsequent rate increases in excess of reductions seen during the first quarter. The positive rating environment continued

through 2010, with the resolve of direct underwriters holding firm in the face of difficult renewal negotiations.

Construction

Income increased significantly as growing confidence in world economic recovery saw the market receive more mid to large construction orders. Rates, and more importantly conditions, have remained stable across the sector despite the delay of some major projects to 2011.

Energy liability

This account is showing significant rating increases following the extensive pollution caused by the Deepwater Horizon loss. This, combined with a strong demand for increased limits as clients realise the true levels of casualty risk run against their balance sheets, has caused an increase in business volumes.

Onshore and renewables

Refining risk rates remain under pressure as capacity remains high. In response, the account has focussed on the selective underwriting of superior engineered risks. Rates and conditions for renewable energy source risks remain acceptable although new capacity continues to join the market.

Property Division

International property underwriters experienced a difficult 2010, with earthquakes in Haiti, Chile and New Zealand, storm losses in Australia and Europe and flooding in Australia. As a result, despite the benefit of a quiet hurricane season, the Division reported an underwriting loss of £10.8m (2009 profit of £35.8m), on a gross premium income of £200.2m (2009 £183.8m). The combined ratio increased to 107% (2009 77%).

The Property Division announced two key developments during 2010. First, under the Group's new Foundation Flex Flagship strategy, we withdrew from North American facultative and delegated authority property business with wind and earthquake exposure. This followed in-depth research into the most efficient use of capital and risk appetite by the Division. Second, we took further steps to

strengthen our access to high quality business worldwide with the opening of Chaucer Latin America in Buenos Aires to produce Latin American facultative property business and the launch of a Facultative Property Team in our Chaucer Singapore office.

Delegated authorities

Following our withdrawal from North American delegated underwriting, we continue to manage the run off for these accounts, which will not expire until 2012. A number of delegated underwriters have revised income estimates down as difficult market conditions continue to prevail. Through active management of the run off we are maintaining the gross margin derived from the account.

The current global economic situation, combined with declining rates in a number of territories, affected the result for our international delegated authorities account. The continued weakness of sterling has also had an adverse impact. However, there are some positives for 2011, with rate improvements anticipated for New Zealand, South Africa and Australian business.

Facultative property

With rates continuing to fall, our withdrawal from catastrophe-exposed direct North American business has proved beneficial. Our switch in 2009/10 to Fortune 2,500 risks and a focus on higher attachment points has been successful, and we recorded an excellent result in this class.

Prior to 2011 Japanese loss events, international rates continued to decline in most territories and in response our underwriters have targeted business with high attachment and low frequency points. The Chile earthquake produced the largest loss in ten years for this account, while the Australia floods also significantly affected the result. We expect the Japan earthquake to prove a turning point for international rates.

Our new teams in Argentina and Singapore will enable us to access business that does not typically reach London, as well as benefiting the balance of the Division's account.

Key figures Energy		2010 £m	2009 £m
Gross written premiums (20% of Group gross written premium in 2010)		169.6	150.6
Gross written premiums by major class	Exploration and production	102.3	90.6
	Construction	37.1	42.3
	Energy liability	15.9	10.6
	Onshore and renewables	14.3	7.1
Net earned premiums		108.1	119.8
Underwriting profit before investment return		10.5	11.0
		%	%
Claims ratio		46	51
Expense ratio		44	40
Combined ratio		90	91
Risks led (by value)		30	26
Retention rate (by value)		73	69

See table 2 for definitions of the terms used in this table.

Key figures Property		2010 £m	2009 £m
Gross written premiums (24% of Group gross written premium in 2010)		200.2	183.8
Gross written premiums by major class	Delegated authorities	39.2	31.9
	Facultative property	42.2	38.3
	Property treaty	88.4	89.2
	Miscellaneous short tail	8.9	10.4
	Engineering	21.5	14.0
Net earned premiums		150.4	151.6
Underwriting (loss)/profit before investment return		(10.8)	35.8
		%	%
Claims ratio		76	46
Expense ratio		31	31
Combined ratio		107	77
Risks led (by value)		32	31
Retention rate (by value)		73	74

See table 2 for definitions of the terms used in this table.

Treaty

Our North American Treaty Team saw pressure on rates in 2010, although pricing for peak exposures was flat. Despite the quiet hurricane season, rates will inevitably have to react to recent major losses in 2011.

As our North American facultative and binder business runs off and our related catastrophe exposures reduce, the Treaty Team will assume the freed aggregate capacity. However, our total risk appetite for North American catastrophe exposed business remains unchanged for 2011. Although the benign hurricane season has helped our North American underwriters to produce another first class result.

International rates have again declined and the New Zealand earthquake, Australia floods and the Japanese earthquake affected the account. Our exposure to the Chilean earthquake was low, as treaty rates there were generally unacceptable.

Engineering

The direct and facultative market has become more active again in both London and Singapore following the launch of a number of major projects held back from 2009. However, despite significant loss events in Canada, Qatar and the United States, rates remain under pressure from the additional capacity of new entrants. Our proportional engineering treaty account saw rating pressure in 2010, although the excess of loss account achieved rate increases. Overall, the result was positive.

Following the 2010 strategic review and launch of our Foundation Flex Flagship strategy, the Engineering Facultative Team will join our new Global Energy Practice for 2011.

Marine Division

The Marine Division produced a good result in 2010, marked by strong performances from our political risk and specie accounts. The Division recorded an overall underwriting profit of £8.9m (2009 loss £0.9m) from a gross premium income of £154.6m (2009 £152.7m). The combined ratio reduced to 93% (2009 101%).

Hull, liability and war

Hull market pricing was stable in 2010 despite continued rating pressure in the mega yacht market following good results. Generally, pressure on good accounts came in the form of increased profit sharing. Disciplined cycle management remains imperative.

After some recovery in the summer, the shipping market came under further pressure from continued over supply of tonnage. Certain owners, notably those with stronger balance sheets, have begun to replenish or to grow their fleets, anticipating improved levels for global trade.

The threat of piracy remains high, particularly from Somalia. It now extends throughout the Indian Ocean region, with breach areas extended in December 2010 to encompass the increased threat. This will generate additional war premiums, particularly for the Middle East Asian trade route.

Marine excess of loss

Deepwater Horizon dominated 2010, with our marine excess of loss account retaining a net exposure of US\$4.5m. This was the largest loss to affect the market since the Piper Alpha rig explosion in 1988 and, together with other major losses worldwide, has caused market conditions to improve.

Cargo and specie

The cargo market remains soft, with intense competition from over capacity in many major regions, notably North America, Singapore, London and Lloyd's. We continue to decline the majority of new risks shown, due to low rates and loose wordings, and to decline renewals with uneconomic rate reductions. Unfortunately, we expect the market to continue in this vein. Our focus will remain on the retention of our profitable core account. We also aim to grow our successful Middle East account, and to continue to develop our promising Chinese account.

Our specie account continues to trade successfully, with increased income and a low loss ratio.

Political risk, trade credit and political violence

Underwriting conditions are extremely positive at present, with clients increasing operations in emerging markets because of high commodity prices, and western banks easing credit conditions and lending to support these. This is particularly evident for mining projects, which slowed dramatically in 2008 and 2009. Companies are also more risk averse now and more willing to consider insurance products to protect their portfolios. As a result, we are experiencing new streams of business, with increased enquiries for both fixed and mobile asset protections.

It was inevitable that the market would require recovery actions following the global economic crisis, including the extension of tenors to enable parties to pay down their obligations over time. Third parties have entered the market, prepared to purchase insured debt. This can be complex and time consuming, and requires suitable trading conditions in

secondary debt markets to generate a price at which we will trade. To date we have been pleased with our progress.

Rates for renewal and repeat business rose by approximately 6% across our portfolio in 2010 and the prospects for 2011 are very encouraging.

The worldwide demand for political violence and terrorism insurance remains strong, with rates responding to higher levels of threat or capacity contractions for individual countries or regions. In the

aftermath of the Bangkok riots, the Lloyd's market has continued to offer coverage albeit at substantially higher prices, while in the US and Europe, which has seen significant rate decreases, prices should begin to stabilise in 2011.

We continue to monitor closely the unfolding events in the Middle East and North Africa. Our political violence account has exposure to the results of social unrest in these territories, although there is only limited evidence of protestors

targeting industrial and commercial assets and we have received no significant loss notifications to date.

There are also potential exposures through our political risk account, which protects against the confiscation or nationalisation of privately owned assets, and our trade credit/contract frustration account, which supports international trade worldwide. While the situation is ongoing, we have not received significant notifications of loss to date.

Key figures Marine		2010 £m	2009 £m
Gross written premiums (18% of Group gross written premium in 2010)		154.6	152.7
Gross written premiums by major class	Hull	25.4	23.9
	Liability	12.2	11.4
	War	6.7	5.0
	Excess of loss	23.9	24.9
	Cargo	13.6	17.6
	Specie	18.4	22.9
	Satellite	5.3	4.6
	Political risk and trade credit	23.0	22.6
Political violence		26.1	19.8
Net earned premiums		122.4	125.7
Underwriting profit/(loss) before investment return		8.9	(0.9)
		%	%
Claims ratio		62	70
Expense ratio		31	31
Combined ratio		93	101
Risks led (by value)		23	22
Retention rate (by value)		75	70

See table 2 for definitions of the terms used in this table.

Specialist Lines Division

The Specialist Lines Division performed satisfactorily in 2010, despite the continued pressure of over-capacity on rates. The Division recorded an underwriting profit of £1.9m (2009 £0.7m) as the combined ratio reduced to 97% (2009 99%).

Although rate improvements remain scarce, the market has begun to stabilise in places. We have maintained the disciplined underwriting approach that has protected us from many of the recent major market losses arising from the global economic crisis and are now in a strong position to benefit from more favourable conditions as these emerge.

We maintain a core account of high quality risks, which we underpin with strong broker and client relationships. As market leaders for our business classes, we have influence and control over our portfolio. This has helped us to establish a firm foundation from which to build as conditions improve. We continue to put profitability before growth, with our commitment to rate integrity taking due recognition of claims inflation and the changing risk environment.

Financial institutions

New entrants have slowed the pace of improvement following the strong rate recovery in 2009 caused by the banking crisis. Despite this, our selected accounts continue to see improvement. Our avoidance of large global institutions has proven to be a sound strategy as we have missed many of the very large losses that have arisen in this area and we are in a strong position to take advantage of opportunities that arise.

Medical malpractice

Our institutional healthcare account, which provides excess hospital liability coverage, continues to deliver market leading results through close attention to rate modelling and excellent client and broker relationships. The competitive market environment is a challenge and has restricted growth for both institutional risks and for our general account. We do not foresee a hardening in the short-term but hope to continue to produce strong results from our core account.

Errors and omissions / Direct casualty

While there remains significant over capacity in the market, which limits growth opportunities, we continued to develop positively through our strong relationships with London brokers and US intermediaries. A positive result has rewarded our close attention to rating and risk quality, and provides a strong platform from which to build when conditions begin to improve.

International casualty treaty

After a successful launch in 2009, our Treaty Team focused on consolidation of the account in 2010. Original rates remain weak, and there are limited opportunities for growth. As recognised market leaders, the Team is an effective market benchmark for risk analysis and rate quality and hence well placed to respond to the improving market conditions that will inevitably arise.

General casualty treaty

We continue to maintain rate discipline in the prevailing soft market. While this limits our volume we remain pleased by the account's performance.

Aviation Division

Our Aviation Division recorded an underwriting profit of £2.4m in 2010 (2009 £8.5m) on gross premium income of £46.3m (2009 £42.2m), despite continued challenging market conditions.

Airline hull and liability

As anticipated, rates fell in the second half of 2010, despite a high incidence of losses in developing countries among second and third tier operators. As the majority of our accounts focus on these operators, we have incurred our share of these losses.

General aviation

The general aviation account remains stable, with modest reductions balancing increases on poor performing accounts. The significant loss from the collapsed aircraft hangars at Dulles International Airport in Washington D.C. in February has not dampened the enthusiasm of the market for corporate jet-related business.

Refuellers and products

Products rates are stable, although airport rates remain under pressure with clients achieving reductions of up to 10%. This business continues to perform well.

Key figures Specialist Lines		2010 £m	2009 £m
Gross written premiums (10% of Group gross written premium in 2010)		86.3	72.8
Gross written premiums by major class	Financial institutions	20.1	22.6
	Medical malpractice	17.4	18.3
	Errors and omissions / Direct casualty	19.5	9.7
	International treaty	21.1	20.2
	Accident and health	7.0	1.1
	Other	1.2	0.9
Net earned premiums		68.4	54.4
Underwriting profit before investment return		1.9	0.7
		%	%
Claims ratio		69	68
Expense ratio		28	31
Combined ratio		97	99
Risks led (by value)		30	25
Retention rate (by value)		83	85

See table 2 for definitions of the terms used in this table.

Key figures Aviation		2010 £m	2009 £m
Gross written premiums (5% of Group gross written premium in 2010)		46.3	42.2
Gross written premiums by major class	Hull and liability	17.1	12.4
	General aviation	21.4	22.3
	Refuellers and products	7.8	7.5
Net earned premiums		33.7	30.9
Underwriting profit before investment return		2.4	8.5
		%	%
Claims ratio		59	39
Expense ratio		34	34
Combined ratio		93	73
Risks led (by value)		10	10
Retention rate (by value)		82	80

See table 2 for definitions of the terms used in this table.

UK Division

UK motor market conditions for new business improved significantly in 2010, particularly in the private car sector. Chaucer Insurance, our UK Division, continues to benefit from strengthening premium rates and actions underway to reduce rising claims costs. The underwriting year combined ratio for 2010 written business was 98%, while the reported combined ratio fell to 106% (2009 109%) on a gross premium income of £175.6m (2009 £158.6m).

We increased UK motor premium rates by 17.3%, with standard private car prices rising by more than 35%. Rates within the non-comprehensive private car sector increased dramatically following the withdrawal of a number of underwriters; we increased our rates by approximately 50%, with no reduction in business volumes. While these rate increases are significantly higher than claims inflation, the market in general needs to continue at this pace in order to return to profit.

At the UK Division, work continues through specialist units within our Claims Department to reduce the costs of credit hire and to detect fraudulent claims. Claim farming, in particular, is a major problem for UK motor insurers, exacerbating the cost of third party bodily

injury motor claims. These issues have now reached the political agenda and we welcome the proposed legislative changes, including the cessation or reduction of claim referral fees. In the absence of these changes, the market must continue to increase rates to contain the rising costs.

The outlook for our market is positive and we forecast an increase of 14% in UK motor premium rates in 2011, with standard private car prices continuing to benefit most. We anticipate that fleet prices will start to recover in 2011, following five years of soft market conditions.

Our motor portfolio is 100% UK-based and has three main components: private car, specialist motor and fleet.

Private car

Our private car account grew significantly in 2010 and now accounts for over half of the portfolio. Aggregators continue to take a greater distribution share of private motor products in the UK, advertising heavily to protect and grow market share. Our products are now available via intermediaries on all of the major aggregator sites.

We have also developed our ChaucerDirect consumer web site, which offers two specifically designed private car products and receives business enquiries from three of the major

aggregator sites. Income from our ChaucerDirect channel grew from £3.2m in 2009 to £6.5m in 2010.

In addition, as announced as part of the Group's Foundation Flex Flagship strategy, we plan further significant developments of our direct business to increase its share of our private car account.

Specialist motor

Our specialist motor account comprises commercial vehicle, specialist vehicles, family fleets, motorcycle and motor trade.

We introduced a new commercial vehicle product in 2009, for which sales volumes and loss ratios have since performed in line with budget. The commercial vehicle market began to show promising improvement in the second half of 2010, with rate increases significantly exceeding claims inflation.

For other products, such as motorcycle and specialist vehicles, we continue to distribute policies through a small number of niche intermediaries. These sectors are less cyclical and have not experienced the large rate increases of the private car sector.

The taxi market was soft and we withdrew our standard taxi product at the end of the first quarter of 2010 in response. We will not consider re-entering this market unless it improves significantly.

Fleet

Our fleet account contains a mix of vehicles, including private car, commercial vehicles, haulage and coaches, which we write primarily through the Lloyd's broker market. The portfolio focuses on mainly medium and small fleets, where price competition is less intense.

In contrast to the private car market, the fleet market has remained weak. We have continued to reduce the size of our account, to less than a fifth of our UK

Division portfolio in 2010, from over half in 2005. We have seen a number of new entrants over the past two years, each of which has been prepared to join a market sector willing to write new business at rates below those accepted for renewals. However, the fleet market is not exempt from either claims farming or fraudulent claims and it will inevitably have to apply significant rate increases to return to profitability. We plan to take advantage of this improvement when this happens.

SME Commercial

In 2010, we generated income of £5.1m from UK employers and public liability insurance (2009 £4.0m), having launched a combined commercial product on our new technology platform in January.

Key figures UK		2010 £m	2009 £m
Gross written premiums (21% of Group gross written premium in 2010)		175.6	158.6
Gross written premiums by major class	Private car	102.4	93.4
	Specialist motor	44.2	36.7
	Fleet	23.9	24.5
	SME Commercial	5.1	4.0
Net earned premiums		156.8	139.8
Underwriting loss before investment return		(9.6)	(12.2)
		%	%
Claims ratio		82	83
Expense ratio		24	26
Combined ratio		106	109
Retention rate (by value)		35	34

See table 2 for definitions of the terms used in this table.

Nuclear Division

Nuclear Syndicate 1176 provides coverage across the nuclear fuel cycle, from raw uranium and nuclear fuel to the shipment and storage of waste, although most of the Syndicate's insurance exposures relate to power generation. The Syndicate also issues a limited liability policy with proven strict terms and restrictions.

The Syndicate, which had an underwriting capacity of £31.7m (2009 £31.5m), saw little change in net income during the period. The loss record remained favourable, supporting broadly stable rates across the portfolio. The loss ratio of (14)% (2009 15%) benefited from an exceptional reserve release of £2.3m following the settlement of claims at less than reserve value for the Thorpe reprocessing plant.

The Syndicate purchases excess of loss reinsurance to limit maximum exposure to a major incident. For 2011, the maximum exposure per incident will increase from 237% to 316% of capacity as the Syndicate will retain an additional £30m of net exposure to extreme (1 in 10,000 year) nuclear loss events.

Turnkey solutions and syndicate participations

The Turnkey Solutions Division provides a practical solution for investors that want a Lloyd's syndicate without incurring the significant additional costs of a standalone managing agency. In addition to this approach being the preferred route to entry to Lloyd's, it allows the new syndicate to focus on building its underwriting business.

We work closely with the new syndicate team and investors to prepare the application to conduct business at Lloyd's and support the launch of the syndicate. We also provide the syndicate with managing agent and other business services. When the syndicate is live, our managing agent is responsible for the syndicate's activities and closely monitors performance on behalf of investors.

Our syndicate capacity under management during 2010 included £328.8m (2009 £429.3m) for third party capital providers. This generated a total income of £5.6m from syndicate management (2009 £5.9m).

Syndicate 4242

In addition to management services, in 2010 we provided capital to support an underwriting interest of £13.1m (2009 £11.3m) on US property catastrophe ICAT Syndicate 4242. Our share of underwriting profits was £2.3m in 2010 (2009 £1.9m), following a second consecutive benign year for US catastrophes. The Key figures table provides a summary of our share of the underwriting performance of Syndicate 4242.

In accordance with our new Foundation Flex Flagship strategy, which focuses on the development of our in-house syndicates 1084 and 1176, we have ceased our participation on Syndicate 4242 for the 2011 year of account.

Syndicate 4000

We provide the capital to support the 2008 and prior years of account for Syndicate 4000, which has significant exposure to potential claims arising from difficulties within the financial and professional liability markets.

While the 2006 and prior years continue to settle satisfactorily, the Syndicate has exposure to potential claims arising from difficulties within the financial and professional liability markets, including exposure to Stanford and Madoff from the credit crisis and subsequent economic turmoil claims. These are complex and slowly evolving events, which makes accurate determination of the ultimate resulting loss difficult to forecast. Based on all available information, we have booked a 2010 underwriting loss before investment return of £15.7m (2009 loss £12.2m) for the run-off of the Syndicate's remaining exposures. The Syndicate's net IBNR provisions amounted to £63.7m at year-end (2009 £76.6m), which includes loadings retained as a buffer against possible future best estimate reserve deterioration.

Key figures Nuclear	2010 £m	2009 £m
Gross written premiums (2% of Group gross written premium in 2010)	15.0	15.7
Net earned premiums	12.9	13.5
Underwriting profit before investment return	12.6	10.0
	%	%
Claims ratio	(14)	15
Expense ratio	16	11
Combined ratio	2	26
Risks led (by value)	92	93
Retention rate (by value)	100	100

See table 2 for definitions of the terms used in this table.

Key figures Syndicate 4242	2010 £m	2009 £m
Gross written premiums	8.9	10.5
Net earned premiums	6.3	4.8
Underwriting profit before investment return	2.3	1.9
	%	%
Claims ratio	11	(5)
Expense ratio	52	64
Combined ratio	63	59

See table 2 for definitions of the terms used in this table.

2011 outlook

In the aftermath of a first quarter dominated by major catastrophe events in Australia, New Zealand and Japan, we now expect underwriting margins to improve in the majority of our international marine and property classes in 2011. These, combined with positive market conditions for energy and UK motor, will generate a beneficial increase in premium rates for our underwriting portfolio in 2011.

Energy rates are rising after Deepwater Horizon, as the oil industry reassesses the physical risks and liability exposures confronted. In response, we have increased the capacity of our Energy Division by £33m to £184m. We have also recruited strong technical resource to enable us to respond positively to the increased demand placed upon market leading underwriters in this sector.

We have increased the underwriting capacity of our UK Division by £26m to £195m to accommodate rate rises levied for 2011. We forecast rate increases of 14% against a blended forecast for claims inflation of 8% in 2011. Rates for personal

lines motor business will lead this. Within our UK motor direct brand, we also intend to expand our direct and aggregator distribution capabilities to enhance our return through an increased volume of non-risk income.

Away from international property and marine markets, after a second successive hurricane season with no major insured losses, there is localised downward rate pressure on catastrophe-exposed risks in North America, although the pressure from events in other regions should counter this. The specialist lines market is also weak, with competitive pricing and a flow of new entrants adding to capacity while, after a promising first half of 2010 for airline hull and liability rates, continued overcapacity and an absence of major market losses have caused rating pressures to re-emerge.

As [table 3](#) shows, we have increased the capacity of Syndicate 1084 by £80m to £825m for 2011 (2010 £745m).

We have launched our new International Liability Division for 2011, with a planned capacity of £43m.

In addition to Group capital, for the 2011 year of account, Syndicate 1084 receives support from Flagstone Re, through a £99.0m capital provision reinsurance (2010 £86.6m), and Labuan Re, through a £36.2m limited tenancy agreement (2010 £32.0m). The capacity of Nuclear Syndicate 1176 remains at £31.7m for 2011, of which our share is again £17.4m. We have ceased our participation on managed Syndicate 4242 (2010 £13.1m).

Our total economic interest in underwriting capacity is £707.2m, an increase of £50.3m or 7.7% on the 2010 total of £656.9m.

Bruce Bartell

Chief Underwriting Officer

31 March 2011

	2010 £m	Year of account 2011 £m	Capacity change %
Table 3 Capacity			
Energy	151	184	21.9
Property	170	152	(10.6)
Marine	130	129	(0.8)
Specialist Lines	82	79	(3.7)
International Liability	-	43	n/a
Aviation	43	43	-
UK	169	195	15.4
Syndicate 1084	745	825	10.7
Nuclear Syndicate 1176	32	32	-
Total	777	857	10.3

We are building an international network to provide distribution for our product range that enables us to access high quality business worldwide.



Christian Daniele
Managing Director
Chaucer Underwriting A/S

Europe again experienced a high frequency of natural event catastrophes in 2010; Windstorm Xynthia caused substantial damage in France and Germany, snow related losses affected cedants in Scandinavia, Poland and Czech Republic and flooding hit Poland and the Czech Republic in the spring. We expect losses from these events to erode approximately two thirds of our 2010 property treaty income. Despite these events, as well as losses from the Chilean and New Zealand earthquakes, catastrophe rates are continuing to soften in the 2011 renewals. This is primarily due to overcapacity and the lack of hurricane losses in the United States. We are reducing our aggregates in the prime catastrophe areas in response.

Our worldwide life, accident and health catastrophe account continues to develop successfully. We are building a diversified book of international risks, actively quoting and leading an increasing number of risks. The market remains profitable but competitive following an absence of major losses for almost a decade.

Our newly established Marine Hull Underwriting Team is actively marketing our capacity to niche Scandinavian markets, in close coordination with our London underwriters. Following substantial turmoil in local markets, including the trade cessation of Bluewater and Nemi in Norway and the Codan purchase of the Tryg marine portfolio, we expect to see more opportunities in 2011.

Chaucer Underwriting A/S

Landgreven 3, 4th Floor
DK 1301
Copenhagen K
Denmark

T: +45 3314 6022
F: +45 3333 0550



Chris Wildee
Chief Executive Officer
Chaucer Singapore PTE Limited

The year saw considerable growth in Singapore, where our office has built a balanced business through five main underwriting areas, of which energy represents the largest account by premium volume. In addition, we have a Power and Engineering Team, who we expect to become a significant market presence in 2011, and a Marine and Political Violence Team, which focuses on high margin niche business in what is a testing class and market. In the final quarter of 2010, we recruited a new Property Team. We will also support the new International Liability Division in 2011, while building our financial Institutions account and marketing specialised treaty lines.

**Chaucer Singapore
PTE Limited**

1 George Street
#16-06
Singapore 049145

T: +65 6499 0820
F: +65 6499 0829





Uwe Fischer
General Manager
Chaucer Latin America SA

Our Buenos Aires office opened for business in September to write facultative property risks business incepting on and after 1 October 2010. The Latin America market has responded positively to our launch. We wrote £2.4m gross premium income in the final quarter of 2010, with income split between pro rata (90%) and excess of loss (10%) business.

More than 45% of our 2010 written premium comes from Chilean business where, following the earthquake, rates increased significantly, although are now starting to fall. However, outside of Chile, markets such as Peru and Colombia remain very competitive. In Peru, the market remains soft and we have written less business than planned. Elsewhere in Latin America, notably Central America, terms and conditions remain stable.

In 2011, we expect to maintain our business volumes in Chile, albeit with moderate rate reductions, Argentina and Peru. We will also focus on writing further business in Mexico and begin marketing to Brazil.

Chaucer
Latin America SA
Av. Córdoba 1131
8° Piso
1055 Buenos Aires
T: +54 11 5353 3400
F: +54 11 5353 3406



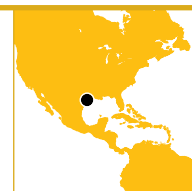
Helen Tarr
Energy Class Underwriter
Chaucer Houston

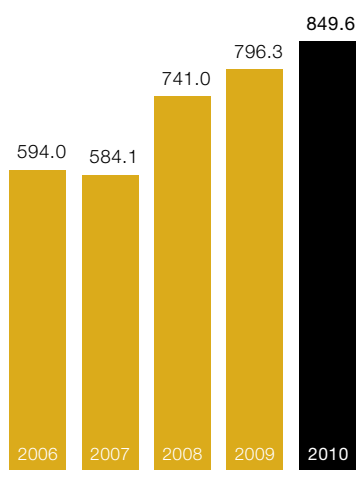
We launched this Texan-based operation in August 2009 to extend our global energy network to North America. Created in partnership with US-based insurance broker Global Special Risks (GSR), Chaucer Houston provides our Energy Division with a new underwriting platform for land-based oil and gas operators.

The partnership enhances our energy services, combining the underwriting expertise of Syndicate 1084 with the product distribution network and high quality front-end services provided by GSR. The partnership positions us at the forefront of the US retail sector and consolidates our role as a long-term participant in this market.

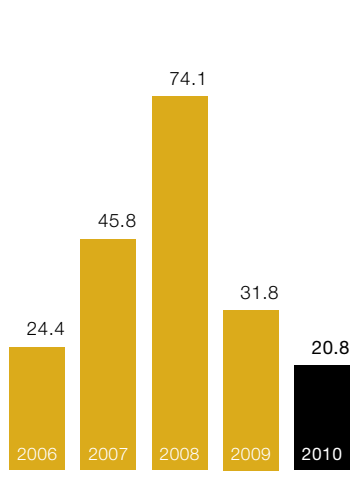
The current portfolio comprises upstream, midstream, downstream, renewables and casualty classes of business, on which we plan to build a profitable business platform for future growth. In the first year of operation, Chaucer Houston developed a 70+ strong client base. In 2010, this increased to 130+ clients and we will build on this success in 2011.

Chaucer Houston
3200 SW Freeway
Suite 1130
Houston
Texas 77027
T: +1 713 260 1032
F: +1 713 952 3978

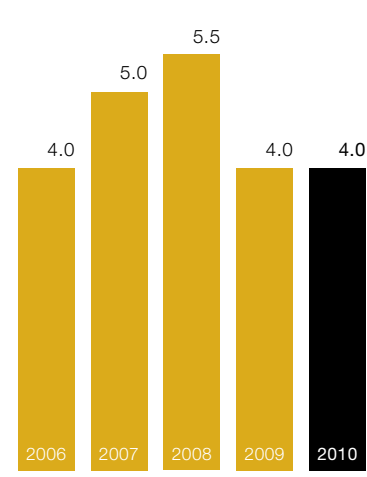




Gross written premiums (£m)



Reserve release (£m)



Annual dividend (pence)

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Performance indicators					
Gross written premiums	594.0	584.1	741.0	796.3	849.6
Reserve release	24.4	45.8	74.1	31.8	20.8
Profit/(loss) before tax	86.0	89.4	(26.2)	42.0	32.9
Shareholder equity	216.5	282.2	225.5	316.7	317.9
	%	%	%	%	%
Investment return	5.7	4.7	(6.8)	4.3	2.7
Post-tax return on equity	37.7	31.7	(7.0)	9.7	7.0
Gross gearing ¹	44.5	23.8	42.6	27.2	38.0
Combined ratio ²	85	82	94	93	99
	p	p	p	p	p
Net tangible assets	60.7	75.8	62.5	55.5	53.9
Basic (loss)/earnings	20.1	22.3	(6.0)	5.8	4.3
Annual dividend	4.0	5.0	5.5	4.0	4.0

¹ Gross gearing represents the sum of on and off balance sheet debt as a percentage of shareholders' funds.

² Excluding consolidation adjustments, impact of the Group's capital provision quota share arrangements, the increased ownership of in-house syndicates following the RITC of third-party participations, in the year in which the closure occurs, and the impact of foreign exchange on non-monetary items.

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Leading indicators					
Total investments and cash	829.0	957.8	1,219.5	1,353.5	1,472.0
Net unearned premiums	187.9	217.4	296.3	315.9	347.9

Premium Rating Index	2003	2004	2005	2006	2007	2008	2009	2010	2011E
Combined total	156	157	158	181	175	169	179	185	189

			2010	Forecast 2011
Business mix			%	%
Energy			19.3	21.8
Property	North American		5.5	5.3
	Europe		10.4	6.6
	International		5.8	6.0
Marine			16.7	15.2
Specialist Lines			10.6	9.4
International Liability			-	5.1
Aviation			5.5	5.1
UK Division			21.6	23.0
Nuclear			2.6	2.5
Syndicate 4242 participation			2.0	-
			100.0	100.0

Forecast business split based on Chaucer's economic interest of £707.2m (2010 £656.9m) of underwriting capacity.

		2010		2009
Business type	£m	%	£m	%
Delegated authorities	152.3	17.9	164.2	20.6
Direct	356.8	42.0	323.4	40.6
Facultative	187.8	22.1	150.3	18.9
Treaty	159.1	18.8	157.2	19.8
Run off	(7.3)	(0.9)	0.5	0.1
	848.7	100.0	795.6	100.0

Table based on adjusted gross written premiums. Please see note 4 to the Consolidated Financial Statements for the reconciliation of gross written premiums to the Income Statement.

		2010		2009
Location of risk	£m	%	£m	%
United Kingdom	188.2	22.2	170.0	21.4
Europe	51.0	6.0	46.0	5.8
Americas	196.2	23.1	191.2	24.0
Worldwide and other	413.3	48.7	388.4	48.8
	848.7	100.0	795.6	100.0

		2010		2009
Currency split	£m	%	£m	%
Sterling	382.4	45.1	339.6	42.7
US dollar	450.0	53.0	442.9	55.7
Canadian dollar	16.3	1.9	13.1	1.6
	848.7	100.0	795.6	100.0

Table based on adjusted gross written premiums. Please see note 4 to the Consolidated Financial Statements for the reconciliation of gross written premiums to the Consolidated Income Statement.

Length of tail	%	Definition
Short	70.1	Over 75% of gross ultimate claims developed at 24 months
Medium	8.0	Between 50% and 75% of gross ultimate claims developed at 24 months
Long	21.9	Below 50% of gross ultimate claims developed at 24 months
	100.0	

Based on the Group's underwriting interests for the 2010 year of account.

The financial performance of the Group was satisfactory in 2010, with a profit before tax of £32.9m.



Against a background of high natural and man made catastrophe losses, the financial performance of the Group was satisfactory in 2010, with a profit before tax of £32.9m (2009 £42.0m). The result reflects the strengths of our diversified underwriting, which produced an overall profit of £6.7m before investment income (2009 £45.8m), excluding the impact of foreign exchange on non-monetary items.

Our investment return was £33.6m (2009 £53.3m). We maintain a conservative investment strategy and interest rates continued at a record low.

In 2010, gross written premiums increased by 6.7% to £849.6m (2009 £796.3m). Net earned premiums decreased by 2.9% to £588.9m in 2010 (2009 £606.3m).

The combined ratio increased by 6% to 99% (2009 93%). Prior year reserve releases reduced the combined ratio by 4% (2009 5%) as continued robust reserving allowed us to release net reserves of £20.8m (2009 £31.8m). The bulk of the releases were from the Energy and Property Divisions, offset by

increases in the ultimate claims estimates for the UK Division and Syndicate 4000.

The expense ratio increased to 32% (2009 31%). The ratio included a foreign exchange gain of £9.3m (2009 £1.8m). Excluding this foreign exchange gain the ratio increased to 33% (2009 31%).

Table 4 summarises the results for the year.

Taxation

The Group's tax charge is £10.4m (2009 £13.9m), with an effective tax rate of 31.6% (2009 33.1%), against standard UK corporation tax rate of 28% (2009 28%). The effective rate reflects adjustments for disallowable expenses and includes the impact on the deferred tax asset of changes in tax legislation substantively enacted at the balance sheet date, reducing the corporation tax rate to 27% with effect from 1 April 2011.

Dividends

On 1 October 2010, we paid an interim dividend of 1.3p per share (2009 interim dividend 1.3p) and we intend to pay a final dividend of 2.7p per share (2009 final dividend 2.7p), making a total annual distribution of 4.0p for 2010 (2009 4.0p). The dividend is payable on 27 May 2011 to shareholders on the register on 6 May 2011. We expect to maintain this level of dividend for 2011.

Capital management

Our capital management activities seek to ensure the continued availability of adequate capital across the insurance cycle and to achieve a balance between reasonable funding costs and an appropriate balance sheet structure. In addition to the permanent capital provided by shareholders' funds, we employ letters of credit, quota-share arrangements and debt as additional solvency capital to support underwriting.

At 31 December 2010, our economic capital was £435.1m, comprising £374.9m of regulatory capital deposited as Funds at Lloyd's (FAL) to support underwriting and £60.2m of capital buffer, including working capital. Our capital buffer including working capital is 14% of our economic capital, which provides flexibility and protects the underwriting capacity of the business against the impact of severe (but not extreme) loss events. This reduces our requirement to seek additional capital funds after such events.

The result reflects the strengths of our diversified underwriting.

	2010 £m	2009 £m
Table 4 Key financial information		
Gross written premiums	849.6	796.3
Net earned premiums	588.9	606.3
Total revenue from operations	634.2	670.8
Total operating charges	(597.0)	(624.7)
Profit from operations	37.2	46.1
Profit before tax and foreign exchange on non-monetary items	34.8	75.3
Foreign exchange loss on non-monetary items ¹	(1.9)	(33.3)
Profit before tax	32.9	42.0
Per share amounts	p	p
Basic earnings	4.3	5.8
Net asset value	60.0	61.7
Interim dividend	1.3	1.3
Final dividend	2.7	2.7
Key business ratios	%	%
Post tax return on equity	7.0	9.7
Combined ratio ¹	99	93

¹ See note 4 to the Consolidated Financial Statements for a definition of this item.

As **table 5** shows, the regulatory capital supports our underwriting interests of £707.2m for 2011 (2010 £656.9m).

We have funded the 2011 Economic Capital Requirements (ECR) from £324.2m of bonds, deposits and cash held and a £90.0m letter of credit facility. The denomination of our FAL is split between sterling 82.5% and US dollars 17.5%.

We reached agreement for the £90m letter of credit facility with a consortium of banks led by Lloyds TSB Bank PLC in November 2010. The facility is available for the 2011 and 2012 years of account. Under the terms of the agreement, we will

collateralise £40m of the facility in November 2011.

We also concluded a reinsurance agreement with Flagstone Re in November 2010 to provide £99.0m (2010 £86.6m) of underwriting capacity to Syndicate 1084 for the 2011 year of account.

The letter of credit facility and reinsurance agreement have increased for 2011 in order to support growth, while maintaining an appropriate balance between risk, reward and capital for the Group. Taken together, these arrangements enable us to maintain an adequate capital buffer without the need

to raise fresh equity, while retaining the option to replace these sources with internal funds as the Group builds retained earnings.

In addition to equity, we have debt capital of £40.8m (2009 £40.3m) and a £90.0m (2009 £51.0m) letter of credit facility deposited as FAL to support the underwriting capital.

The Group's debt capital comprises a €12.0m (£9.9m) 30 year loan note issued in 2004 and a US\$50.0m (£30.9m) of 30 year subordinated debt raised in September 2006 (sterling equivalents are on an amortised cost basis). These arrangements provide us with balance

	Year of account	
	2011	2010
	£m	£m
Owned capacity		
Syndicate 1084	788.8	713.0
Syndicate 1176	17.4	17.4
Syndicate 4242	-	13.1
	806.2	743.5
Capital provision reinsurer participations	(99.0)	(86.6)
Group underwriting interests	707.2	656.9
	%	%
Economic Capital Assessment (percentage of owned capacity)	46.5	43.2
	£m	£m
Economic Capital Requirement (Funds at Lloyd's)	374.9	321.1
Capital buffer, including working capital	60.2	70.8
Economic capital	435.1	391.9

sheet gearing to enhance returns for shareholders. The total financial gearing, including loan notes, uncollateralised letters of credit and subordinated debt, was £120.8m (2009 £86.3m) or 38.0% of shareholders' funds (2009 27.2%).

At 31 December 2010, we held cash resources outside of syndicates and FAL of £30.4m, including £10.0m of collateral (2009 £52.4m, including £5.0m of collateral), producing net debt of £100.4m (2009 £38.9m) and gearing of 31.6% (2009 12.3%).

Table 6 provides a gearing summary.

Investment portfolio performance

We achieved an investment return of £33.6m (2.7% return on average funds) for the 12 months ended 31 December 2010 (2009 £53.3m; 4.3%).

We are pleased with the positive contribution that investment returns have made to Group performance, particularly given the low interest rate environment we are currently in and the conservative investment strategy that we have implemented. We are also satisfied with the consistent and solid performance of each of our investment managers during the financial period.

Financial investments (excluding the investment in Antares) and cash and deposits totalled £1.5bn at 31 December 2010 (2009 £1.3bn). These supported FAL of £324.2m, syndicate technical reserves of £1,070.6m and capital buffer including working capital of £60.2m (31 December 2009 £306.7m, £948.4m and £81.4m respectively). Table 7 provides an analysis of investments and cash and deposits held at 31 December 2010 and of the net investment return for the period.

	2010 £m	2009 £m
Table 6 Gearing summary		
Debt		
On balance sheet	40.8	40.3
Off balance sheet (letters of credit)	90.0	51.0
Cash held outside Lloyd's	(10.0)	(5.0)
Free cash resources	(20.4)	(47.4)
Total net debt	100.4	38.9
Shareholder equity	317.9	316.7
	%	%
Gross gearing	38.0	27.2
Net gearing	31.6	12.3

	31 December 2010				31 December 2009			
	Asset allocation		Return		Asset allocation		Return	
	£m	%	£m	%	£m	%	£m	%
Table 7 Investment portfolio								
Cash and deposits	706.4	48.5	9.1	1.8	544.8	40.8	5.4	0.9
Bonds	740.2	50.9	25.3	3.3	749.6	56.1	24.0	4.2
Hedge funds	2.7	0.2	(1.8)	(14.0)	37.5	2.8	14.7	20.9
Equities	5.7	0.4	1.7	39.7	4.6	0.3	0.3	5.3
Absolute return bond funds ¹	-	-	-	-	-	-	9.4	2.9
	1,455.0	100.0	34.3	2.7	1,336.5	100.0	53.8	4.3
Investment expenses			(0.7)				(0.5)	
Net investment return			33.6				53.3	

¹ The Group disposed of the absolute return fund holdings in the first quarter of 2009.

Cash and deposits

The majority of cash and deposits (approximately 60%) remain invested in money market funds, which provide immediate access but generate only a small return because of continued low interest rates. However, where possible, we have enhanced cash returns through the placement of fixed term deposits, which offer a liquidity premium, with selected financial institutions.

Following further deterioration in bond yields during the second half of 2010, and in response to concerns over future interest rate rises, we have increased the investment limit for fixed term deposits to 25% of the total investment portfolio held.

Bonds

The bond portfolio performed satisfactorily during the period, generating a return of 3.3% (2009 4.2%). The average duration of the bond portfolio at 31 December 2010 was 1.4 years (31 December 2009 1.8 years) and the weighted average yield to maturity was 1.9% (31 December 2009 2.6%). The average credit rating of the fixed income portfolio was AA and the allocation to sub-investment grade securities, which consists primarily of previously downgraded mortgage-backed securities,

was less than 1% of the portfolio. We have less than a 0.3% exposure to peripheral sovereign debt.

As **table 8** shows, investment grade bonds comprised the majority of our fixed income holdings.

Hedge funds

We redeemed hedge funds with a total value of £34.5m during the period. At 31 December 2010, hedge fund participations comprised less than 0.5% of our investment portfolio.

Investment portfolio outlook

We allocate risk appetite between underwriting and investments after assessing the relative potential returns and associated risks of each. The focus will remain on achieving stable underwriting returns in 2011, pursuing the opportunities that our balanced portfolio presents, and for this reason we will continue to adopt a conservative investment strategy in 2011, focussing on capital maintenance to support underwriting.

With little exposure to risk assets (financial assets, excluding bonds and cash and deposits), where returns are volatile, we expect investment returns to be subdued in 2011 because of

continued low interest rates. However, opportunities to invest cash at more attractive yields should arise if the pace of global economic recovery accelerates, inflation increases or concerns over sovereign debt rise. A 1% increase in UK and US interest rates will generate additional investment income of £14.6m from the current portfolio, or earnings per share of 2.8p, with all other factors remaining the same.

Foreign currency management

With approximately a fifth of premium income currently generated from UK motor insurance, we have less gross foreign currency exposures than many Lloyd's entities, although we still write substantial amounts of business in foreign currency, the majority of which is in US dollars. We match US and Canadian dollar insurance liabilities with assets held in the same currencies. We monitor exposures arising from retained profits and losses in major foreign currencies quarterly and manage these with currency purchases and sales as appropriate.

We hold two foreign currency denominated debt instruments. A US\$50m subordinated debt issue, which we match with US\$50m deposited as FAL, and a €12m loan note issue.

	AAA ¹ £m	AA £m	A £m	BBB £m	Other £m	Credit rating Total £m
Table 8 Composition of bond holdings						
31 December 2010						
Governments	110.2	-	-	-	-	110.2
Securitised securities	66.4	5.1	2.1	0.6	5.2	79.4
Supranational	15.1	-	-	-	-	15.1
Corporate	237.1	64.5	152.2	53.7	0.2	507.7
Agency	18.0	9.8	-	-	-	27.8
	446.8	79.4	154.3	54.3	5.4	740.2
31 December 2009						
Governments	86.8	-	-	-	-	86.8
Securitised securities	69.2	4.6	0.8	1.7	6.0	82.3
Supranational	10.6	-	-	-	-	10.6
Corporate	248.3	102.3	121.6	63.8	2.3	538.3
Agency	24.0	7.6	-	-	-	31.6
	438.9	114.5	122.4	65.5	8.3	749.6

¹ AAA rated corporates include government guaranteed securities.

In addition to Group US dollar funds deposited as FAL, US dollar deposits support the quota share reinsurance. This provides a partial hedge against changes to FAL requirements arising because of fluctuations in the US dollar exchange rate.

Technical reserves

We entered 2011 with net unearned premiums of £347.9m, an increase of 10.1% on 2010, the majority of which we will earn this year.

Both gross and net loss reserves increased as a proportion of shareholders' funds in 2010. This was due to greater catastrophe-related loss activity during the year, which resulted in a higher level of unsettled claim amounts at the balance sheet date. The share of loss reserves due from reinsurers increased during 2010 to £363.5m

(2009 £292.8m). This amount represents 27.8% of gross loss reserves at 31 December 2010 (2009 25.1%).

Table 9 provides analysis of year-end reinsurance debtor security.

We undertake continual review of our exposure to reinsurance companies, including commutation opportunities. We carried provisions for bad and doubtful reinsurance debts totalling 1.6% of the reinsurers' share of technical reserves due at 31 December 2010 (2009 1.9%).

During the year the Group released £20.8m of reserves in respect of prior periods (2009 £31.8m). **Table 10** provides a breakdown of reserve releases by division.

We released significant reserves from the Energy and Property Divisions, as claims have settled within budget, and have

strengthened UK motor reserves in response to further credit hire and multi claimant costs.

Syndicate 4000 has significant exposure to potential claims arising from the credit crisis and subsequent financial turmoil. While the ultimate loss from these events cannot yet be accurately determined, we have increased the ultimate claims estimate for our run-off participations on the Syndicate, in accordance with our conservative approach and based on all available information and extensive third party professional advice.

Ken Curtis

Chief Finance Officer

31 March 2011

Table 9 Reinsurance rating bands (Standard & Poor's or equivalent) ¹	2010 %	2009 %
Lloyd's Syndicates (A+)	20.4	17.1
AAA	0.3	3.5
AA	30.9	26.9
A	46.3	50.8
BBB	1.3	0.3
Collateralised	0.1	0.1
Other ²	0.7	1.3
	100	100

¹ Ratings as at 31 December 2010 and 2009 respectively.

² Other is net of offset (where appropriate).

Table 10 Reserve releases	2010 £m	2009 £m
Energy	11.3	7.3
Property	14.3	7.2
Marine	5.6	6.0
Specialist Lines	(0.2)	7.5
Aviation	2.1	4.7
UK	(5.3)	(2.2)
Nuclear	6.1	3.0
Syndicate 4242	0.1	0.3
Syndicate 4000	(15.5)	(3.3)
Run off	4.2	3.7
Capital provision reinsurer's share	(1.9)	(2.4)
	20.8	31.8

We continually seek to attract and employ the highest calibre of person and our first class employment policies aim to encourage, develop and retain staff.

2010 highlights

- > 98% of employees took part in our annual employee survey
- > Recruitment of high quality team for our new International Liability Division
- > Intranet-based Induction and Performance Review support launched
- > Management Development Programmes launched
- > Implementation of Solvency Smart communication and training programmes

2011 plans

- > Support for development of our new Global Energy Practice
- > Enhancement of our recruitment strategy to support our new Foundation Flex Flagship strategy
- > Launch of Graduate Scheme for claims management
- > Review of existing reward strategy to ensure competitiveness
- > Focus on leadership development and team effectiveness

Our below market average staff turnover rate of 11.2% demonstrates the success of our employment policies.

Our average continuous service across the Group is five years and one month.

Supporting our new strategy

Work is underway to support the implementation of our new Foundation Flex Flagship strategy. Specific projects include resourcing and retaining underwriting and support staff for our new Global Energy Practice and developing our underwriting capabilities to ensure we have the expertise in place to meet our objective of deploying leading underwriting teams in each class.

Solvency II

We continue to support the development of our Solvency Smart programme, with training initiatives throughout the business, including those for Non-Executive Directors, to embed the response to Solvency II.

Leadership and management development

A key element of our people focus is the development of our business capabilities through the implementation of a comprehensive Leadership and Management Development Strategy for the Group.

In 2010, we launched our Management Essentials Programme designed, for employees new to a management role. This complements our Management Development Programme (MDP), which we launched in 2009 for more experienced managers seeking to enhance their skills.

"As a bespoke programme, the MDP was based on my individual development needs and provided the practical techniques I needed to develop my teamwork, communication and leadership skills. Personally, the greatest value of the programme will be realised as I fulfil my role in delivering our new corporate strategy."

Tunu Sokiri
Senior Business Process Analyst

Our commitment to professional development

We encourage all our employees to undertake professional qualifications, and support them throughout their studies. We offer financial rewards to help staff achieve professional status, as well as providing financial assistance and paid study leave.

During 2010, a total of 105 employees undertook study for professional qualifications, including accountancy, actuarial and insurance. Our training costs represent 2% of total employee costs.

We are extremely proud of the achievements of all our employees, with a special mention for the outstanding performance of **Jodie Major** (pictured below), Underwriting Assistant for our Specialist Lines Division, who was awarded two prizes in the 2010 Chartered Institute of Insurance (CII) examinations: Best performance by a candidate in both the CII diploma and the advanced diploma.





Rachel Weatherup
Deputy Class Underwriter
for Energy

I joined Chaucer when I was 18 and from the outset was encouraged to develop my career within the insurance industry. Having found a specific interest in the contract element of insurance, I continued to work for Chaucer during my holidays, whilst studying for my law degree at Cambridge. When I completed my studies, I was offered a position as Energy Liability Assistant Underwriter.

I have been extremely fortunate within my role to have worked with our international partners in Scandinavia and in North and South America. As well as helping me to understand how to manage relationships, this experience has enabled me to develop new business opportunities, such as solar and bio fuels plants, which we recognise as important to the future of sustainable energy.

In my new role as Deputy Class Underwriter, I look forward to exciting times ahead for the Energy Team and the opportunities that the development of our new Global Energy Practice will bring.



Graham Broughton
Head of Finance

When asked why I chose insurance, my answer is that insurance offers an intellectual challenge and requires a high degree of problem solving. My role at Chaucer provides both of these, including a focus on process improvement.

Chaucer recognises hard work and rewards accordingly. After joining in February 2010 as Head of Reporting, I have been given the opportunity, support and encouragement to further my career here and have since been promoted to Head of Finance.

My new role has wider responsibilities, including our Solvency II programme, called Solvency Smart.

At present, I am helping our finance departments to become more analytical and less process driven in their business focus, both from a regulatory perspective and also to add value to Chaucer.

My varied role and the emphasis Chaucer places on personal development, coupled with a fun social side, provides a great place to work.

Our commitment to our people is to ensure that we act as a responsible employer, operating first class employment practices and promoting equal opportunities.

Our Corporate Social Responsibility (CSR) programme aims to acknowledge the effect that our business has on employees, society and the environment and to respond with activities that have a positive impact on each of these areas.

We have a framework in place to manage our commitment to CSR. Kim Barber, Head of our UK Division, coordinates activities across the Group, while David Mead leads our CSR response at the Chaucer Syndicates Limited Board level. Committees in London and Whitstable, oversee the delivery of our CSR initiatives at an office level.

Our CSR programme has three priorities: our corporate, social and environmental responsibilities.

Our corporate responsibility

Our people are our most important asset. Our commitment to them is to ensure that we act as a responsible employer, operating first class employment practices and promoting equal opportunities.

Through investment in people and by providing developmental support, we have built a business culture of trust, loyalty and mutual respect. This allows us to attract highly qualified and knowledgeable individuals to create and retain what we believe to be one of the leading teams in Lloyd's.

In addition to providing an environment in which our people can thrive, we also understand the importance of health and safety at work. We take this requirement very seriously and provide training to all employees to help mitigate the risks involved and to ensure our people clearly understand the benefits of a safe and healthy working environment.

Our corporate vision - to be the Lloyd's specialist underwriter of choice - defines our aspirations as a business. Central to this identity is our commitment to The Chaucer Values of enthusiasm, expertise, integrity, teamwork, aspiration and inclusiveness.

We have built a business culture of trust, loyalty and mutual respect.

Our values lead how we work together as a team and conduct business with clients, investors and suppliers. Our values also underpin our development of employee professional and personal skills, and the volunteering schemes that we support.

Our social responsibility

We understand that we have a role to play within both the insurance industry and our wider community.

In addition to our commitment to being a responsible insurer within the Lloyd's community, we also believe that we should help our local community and encourage good citizenship.

As part of our commitment to Corporate Social Responsibility, all employees have the opportunity to dedicate two working days to a voluntary or charitable activity each year.

Our London activities

- > In the build up to the 2012 Olympics, we are supporting the training and progress of two British Olympic Hopefuls; Skeet Shooter, Charlotte Kerwood and Paralympic Rugby Player, Andy Barrow.
- > We raised over £9,000 for our 'Charity of the Year' for 2010, Cancer Research, for whom we undertook numerous successful activities including a summer Breakfast Club and The Race for Life in Battersea, where we entered a team of 12 ladies.
- > In May, four employees completed the challenge to row across the English Channel in a Thames Cutter Rowing Boat, narrowly missing a world record time, and raised £10,000 for the AHOY (Adventure Help & Opportunities for Youth) sailing centre, based in South East London.
- > A team from Chaucer took part in the Intelligent Sport UK Challenge, an adventure sport challenge for businesses that aims to develop skills areas including team working, leadership, innovation and risk management.
- > We continued our support for Cayley School in Limehouse, participating in the Reading Partners Scheme managed by Tower Hamlets Business Partnership, which helps children to develop their literacy and communication skills.

- > Other organisations supported throughout 2010 included The Cystic Fibrosis Trust, The Royal British Legion and The Voices Foundation, which supports community opera.
- > We also supported employees in their personal charitable achievements, including four London marathon runners, a Three Peaks Challenge team and a moustache growing for the prostate cancer charity.

Our UK Division Whitstable activities

- > We supported The Pilgrims Hospice in Thanet as our 2010 Charity of the Year, a local charity that provides free palliative care to the residents of East Kent. We have chosen Headway East Kent our 2011 Charity of the Year, which is dedicated to the care and reintegration of those with brain injury into the community.
- > Volunteers pushed wheelchair bound people from Herne Bay to Whitstable for a sponsored "Stride and Ride" event, in aid of The Strobe Park Foundation, a charity that provides care and leisure services for people with disabilities.
- > Five volunteers helped marshal an event for over 7,000 children with leukaemia in Battersea Park.
- > For the third year running, we donated toys and Easter eggs to the Misfits Motorcycle Club for delivery to the local hospital's children's ward.
- > 10 staff cooked Christmas lunch for the residents of Bradbury Grange, a residential and dementia care home in Whitstable, Kent.

- > 30 Christmas hampers were delivered to elderly residents in Herne Bay for Help The Aged.
- > Donations were also made to local charities including The Haematology Patient Support Fund, Maidstone Orchestral Society and The Stella Rogers Appeal to help a local child to receive cancer treatment in the US.

Our environmental responsibility

We are very conscious of our environmental responsibilities and the impact that we have on our working and personal environment. Wherever possible, we aim to measure and seek to reduce the environmental impact of the internal operations and physical assets under our control.

We willingly comply with all environmental regulations, legislation and approved codes of practice relating to our business activities and processes.

We commissioned our second annual audit to calculate our carbon footprint in London and Whitstable. This focuses on our energy and paper consumption, corporate travel and employee travel to and at work. The audit continues to track our progress in reducing our footprint and to identify areas where we can improve in the future.

Plantation Place, our London office, has won numerous environmental awards and continues to seek out pioneering environmental initiatives, including the feasibility of using energy generating wind turbines and the sourcing of underground heating. We also have projects throughout the Group to recycle paper,

cardboard, batteries, plastic cups, printer and toner cartridges, mobile phones and food.

Our Whitstable office has a number of environmental projects including water conservation and recycling schemes. The office recycled over 5 tons of plastic cups and 176 tons of paper in 2010. The paper recycling alone has saved the equivalent of enough electricity to power 176 three-bedroom homes for 12 months.

We purchase environmentally friendly stationery materials.

We continue to clean the Thames Estuary beach in Whitstable that we adopted in 2009, holding five beach clean events during 2010.

Climatewise

This is our third year as a member of the Climatewise scheme. Through our active membership of Climatewise, which provides a framework for insurance companies worldwide to enable them to build climate change into their business operations, we work with other Lloyd's market agencies to mitigate the effects of climate change.

Lloyd's regularly reports the combined progress of all scheme members against the six key principles. The latest copy of the Lloyd's Climatewise report and details of our other CSR-related activities are included in the CSR section of our website at chaucerplc.com.



Robert Stuchbery

Chief Executive Officer

Robert Stuchbery (age 54) has been a director of Chaucer Holdings PLC since July 1998. Robert is a Fellow of the Chartered Insurance Institute and joined the Chaucer Group in 1988.

His main responsibilities include the general oversight and management of both Chaucer Syndicates Limited and the Chaucer Group. He is responsible for developing, promoting and implementing the strategy agreed by the respective Boards as well as his normal duties, both as a director of a managing agency and of a listed company.

Robert is also a member of the Lloyd's Market Association Board and is currently Deputy Chairman.

Prior to his appointment as Chief Executive Officer in January 2010, Robert was the Chief Underwriting Officer, having previously been Active Underwriter of Lloyd's Syndicate 1096. Before joining Chaucer, Robert was with the UK subsidiary of a large US insurance company, working in London and the US.



Bruce Bartell

Chief Underwriting Officer

Bruce Bartell (age 54) has been a director of Chaucer Holdings PLC since June 2009 and joined the Chaucer Group in 1988.

His main responsibilities include managing all underwriting functions within the Chaucer Group.

Prior to his appointment as Chief Underwriting Officer, Bruce was Active Underwriter of Lloyd's Syndicate 1084 which merged with Syndicate 1096 in 2003. Before joining Chaucer, Bruce worked in the London Company Market.



Ken Curtis

Chief Finance Officer

Ken Curtis (age 50) has been a director of Chaucer Holdings PLC since December 2009. Ken is a Chartered Accountant and joined the Chaucer Group in 2003.

His main responsibility is the overall financial strength of the Chaucer Group.

Ken is also a member of the Lloyd's Market Association Finance Committee.

Prior to his appointment as Chief Finance Officer, Ken was the Finance Director of Chaucer Syndicates Limited. Before joining Chaucer, Ken was a Senior Manager in the London Market Insurance Group of Deloitte LLP.



Martin Gilbert

Chairman

Martin Gilbert (age 55) has been a director of Chaucer Holdings PLC since October 1993 and Chairman since 1998. Martin is a Chartered Accountant and is Chairman of the Nomination Committee.

Martin is the Chief Executive of Aberdeen Asset Management plc and is Chairman of FirstGroup plc. He is also a director of a number of listed investment trusts managed by Aberdeen Asset Management and of Aberdeen Football Club plc and Primary Health Properties PLC.

▲ Executive Director

■ Non-Executive Director



Robert Deutsch

Director

Robert Deutsch (age 51) re-joined the Chaucer Holdings PLC Board in August 2009 having previously been a Director between January 2002 and December 2008. Robert is a Fellow of the Casualty Actuarial Society, an Associate of the Society of Actuaries and a member of the American Academy of Actuaries. Robert is Chairman of the Chaucer Syndicates Limited Board and the Remuneration Committee and is a member of both the Audit and Nomination Committees.

Robert is also a partner of GCP Capital Partners and has extensive insurance experience worldwide having held senior executive or directorship roles with Ironshore Inc., CNA Financial Corporation, Platinum Underwriters Holdings Ltd., Executive Risk Inc., Darwin Professional Underwriters Inc. and Wilton Re Holdings Limited, among others.



Richard Scholes

Director

Richard Scholes (age 65) has been a director of Chaucer Holdings PLC since March 2003. Richard is a Chartered Accountant and is the Senior Independent Director, Deputy Chairman of the Chaucer Syndicates Limited Board, Chairman of the Audit Committee and a member of both the Remuneration and Nomination Committees.

Richard is also a non-executive director of Keller Group plc and chairman of its Audit Committee. Previously, Richard was a director at Kleinwort Benson and its successors and has served as a non-executive director of British Vita PLC, RCO Holdings plc, Bodycote International plc, Crest Nicholson PLC and Marshalls plc.



Christopher Stooke

Director

Christopher Stooke (age 53) joined the Chaucer Holdings PLC Board in September 2010. Christopher is a Chartered Accountant and is a member of the Chaucer Syndicates Limited Board, Audit, Nomination and Remuneration Committees and is Chairman of the Risk and Capital Committee.

Christopher is also Chairman of Miles Smith Limited, the independent specialist insurance broker, and has extensive financial services and Lloyd's market experience having been Chief Financial Officer of the Catlin Group and a partner of PricewaterhouseCoopers where he specialised in financial services.



Mark Wood

Director

Mark Wood (age 57) joined the Chaucer Holdings PLC Board in September 2010 and is a member of the Chaucer Syndicates Limited Board, Audit, Nomination and Remuneration Committees.

Mark is also Chairman of Digitalismedia, a digital media consultancy, Chairman of the employee benefit business of Jardine Lloyd Thompson and Chairman of the National Society for the Prevention of Cruelty to Children. He is a leading figure within UK financial services with in-depth insurance experience gained from his previous roles, which include Deputy Chairman and chief executive officer of Paternoster UK Limited, a company he founded, chief executive officer of Prudential's UK and European insurance businesses and UK chief executive officer of AXA.

At Chaucer, we are committed to a direct and open communication process with all of our shareholders.

We aim to provide current and future investors and analysts with timely, accurate and broad-ranging operational and financial information about our business to support their investment decisions.

We listen and aim to respond to the views of our shareholders.

Our shareholder base

We provide a list of shareholders holding three per cent or more of the Company's ordinary share capital in the Directors' Report.

An estimated 75% of Chaucer employees are shareholders through their direct holdings and/or participation in our All Employee Share Ownership Plan (SIP).

Shareholder and broker analyst interaction

During 2010 our Chief Executive Officer, Chief Underwriting Officer and Chief Finance Officer held meetings with existing or potential institutional investors and UK private client brokers.

We held presentations for broker analysts on the days of the release of our annual and half-year results, copies of which are available on our website.

2011 Annual General Meeting (AGM)

Our 2011 AGM will be held at our London offices on 19 May 2011, starting at 12 noon, when we will provide an update on our progress during the current year. All our shareholders are welcome to attend and will have the opportunity to ask our Directors questions either during, or informally after, the meeting.

Annual Report and other company information

Our Annual Report is central to maintaining good communication with our shareholders, which we seek to improve each year.

Our website includes downloadable copies of our annual and half-year reports, interim management statements and presentations to broker analysts, as well as other useful information including a press release archive, an event calendar and information on dividends and share prices.

Our email alert service, available through our website, automatically notifies interested parties of each new press release issued.

The Financial Times, The Times, The Daily Telegraph and Evening Standard list the daily share price of Chaucer Holdings PLC.

Shareholder contact

Visit the Investor section on our website www.chaucerplc.com for up to date information.

Email investor.relations@chaucerplc.com with questions relating to the Company.

Contact our Registrar, Equiniti, with any shareholder enquiries by phoning **0871 384 2079** (calls to this number are charged at 8p per minute from a BT landline, other telephone provider costs may vary).

Shareholders can view and manage their shareholding on-line at shareview.co.uk

Financial Calendar

RESULTS

19 May 2011

Interim management statement for the three months ended 31 March 2011

25 August 2011

Announcement of half-year results for the six months ending 30 June 2011

17 November 2011

Interim management statement for the nine months ended 30 September 2011

DIVIDENDS

27 May 2011

Payment of final dividend for the year ended 31 December 2010

(Ex-dividend 4 May 2011 and record date 6 May 2011)

30 September 2011

Payment of interim dividend for the year ending 31 December 2011

(Ex-dividend 7 September 2011 and record date 9 September 2010)

ANNUAL GENERAL MEETING

19 May 2011

Annual General Meeting to be held at 12 noon at Plantation Place
30 Fenchurch Street
London EC3M 3AD

The Directors present their report and the audited financial statements for the year ended 31 December 2010.

Principal activities

The Company is a listed holding company. The Group is a specialist insurance and reinsurance underwriter. It provides the management skills, expertise and capital required to underwrite insurance business at Lloyd's, the world's leading insurance market.

Review of the business and future developments

The Chairman's Statement, Chief Executive Officer's Statement, Chief Underwriting Officer's Report and Chief Finance Officer's Report review the business of the Group during the financial year and outline future developments.

The results for the year are set out in the Consolidated Income Statement and commented upon in the Chairman's Statement, Chief Executive Officer's Statement, Chief Underwriting Officer's Report and Chief Finance Officer's Report sections.

The Corporate Governance Report and notes 2 and 3 to the Consolidated Financial Statements describe the principal risks and uncertainties facing the Group.

Dividends

The Directors recommend the payment of a final dividend of 2.7 pence per share. On 1 October 2010, the Company paid shareholders an interim dividend of 1.3 pence per share, so the total cash dividend for the year will be 4 pence per share. If approved at the AGM, the final dividend will be paid on 27 May 2011 to those shareholders on the register at the close of business on 6 May 2011.

Share capital

Notes 20 and 30 to the Consolidated Financial Statements provide details of the Company's share capital and of share options outstanding at 31 December 2010 under the Company's share option

schemes. These include share options granted to Directors as detailed in the audited section of the Directors' Remuneration Report.

At the AGM held on 19 May 2010, the Directors were authorised to allot up to 182.7 million shares (33% of the issued share capital) of which up to 27.4 million shares (5% of the issued share capital) can be allotted without the application of pre-emption rights. In the year ended 31 December 2010, the Directors did not allot any shares under these authorities. The Directors will put requests for similar authorities to the AGM on 19 May 2011.

At the AGM held on 19 May 2010, the Directors were authorised to make market purchases of ordinary shares up to a maximum number of 54.8 million shares (10% of the issued share capital). In the year ended 31 December 2010, the Directors did not acquire any shares under this authority. The Directors will put a request for a similar authority to the AGM on 19 May 2011.

Rights attached to shares issued under share schemes

Under the Deferred Share Bonus Plan, the participants do not have the right to vote directly at general meetings of the Company. The Trustee can vote, if it chooses, on behalf of the participants.

Under the All Employee Share Ownership Plan, the participants cannot vote directly at general meetings of the Company but the Trustee will contact them for their opinions and then vote on their behalf.

Under the trust deed establishing the Company's Employee Benefit Trust, the trustees of the trust waive any dividend due in respect of any shares held by the trust unless directed otherwise by the Company.

Directors and their interests

The current Directors are listed on pages 38 and 39.

Mark Wood and Christopher Stooke were appointed to the Board on 1 September and 28 September 2010 respectively.

The Company provided a qualifying third party indemnity to each Director, as permitted under the Companies Act 2006.

Details of Directors' interests in shares and share options are disclosed in the Directors' Remuneration Report.

Appointment, re-election and replacement of directors

The Company's Articles of Association govern the rules relating to the appointment, re-election and replacement of directors.

Directors have the power to appoint new directors up to the next AGM, when such a director must retire and offer himself for election.

If at the start of an AGM three years have passed since a director was last elected, he must retire and offer himself for re-election.

At the AGM, Messrs Gilbert, Stooke, Stuchbery and Wood will retire and offer themselves for re-election in accordance with the Company's Articles of Association.

Directors may be removed by an ordinary resolution of the Company in a general meeting.

Amendments to Articles

The Company's Articles of Association may only be amended by a special resolution of the Company in a general meeting. It will be proposed at the AGM that an amendment to the Articles of Association be approved; further details are contained in the AGM Notice.

Donations

During the year ended 31 December 2010 the Group made charitable donations of £49,790 (2009 £47,450) and made no political donations (2009 nil).

Corporate social responsibility

The Group adopts a responsible attitude to social, environmental and ethical (SEE) issues in its business conduct and regularly reviews its SEE policies and disclosures.

The Group supports the local communities in which it has its principal business establishments and is an active supporter of the Lloyd's Community Programme.

The Group has adopted an Environmental Policy; further information on this is on page 37.

Substantial interests

According to notifications received, the shareholders shown in **table 11** held three per cent or more of the ordinary share capital of the Company at 30 March 2011.

Financial instruments

Notes 2 and 3 to the Consolidated Financial Statements provide details of the Group's financial risk management objectives and policies.

Supplier payment policy

The Group agrees terms and conditions with suppliers before transactions take place. The Group's policy is to pay agreed invoices in accordance with the terms of payment. The amounts due to the Group's trade creditors at 31 December 2010 represented approximately 18 days (2009 24 days) of average daily purchases throughout the year. Chaucer Holdings PLC is a holding company and has no trade creditors.

Employee involvement

The Group has a policy of providing employees with information about the Group, its activities and performance, and of taking into account the views and recommendations of its employees. A Group-wide intranet supports this policy. All stock exchange announcements are available on the Group's intranet and key announcements, such as the annual and half-year results, are sent to all staff by e-mail.

New employees attend induction courses on all aspects of the Group's business. The Directors hold meetings with staff on a regular basis, including monthly briefings to which employees can submit questions anonymously. The Group has undertaken a staff survey in three of the last four years and a further survey is scheduled to take place in 2011.

Two share schemes are available to all employees: a Savings Related Share Option Scheme (SAYE scheme), which has been in place since 1998, and an All Employee Share Ownership Plan or Share Incentive Plan (SIP), which was introduced in 2001. The Company has awarded employees two matching shares for each Partnership share purchased under the SIP to encourage participation and ownership of shares. The Company has also awarded free shares under the SIP to support staff retention and as a tax efficient mechanism to deliver annual bonus awards.

Employment of disabled persons

The Group gives every possible consideration to applications for employment from disabled persons with regard to their particular aptitudes and abilities.

The Group would continue the employment wherever possible of any person that

became disabled during their employment with the Group.

Opportunities for training, career development and promotion do not operate to the detriment of disabled employees. The Group is an equal opportunities employer.

Disclosure of relevant audit information

The Directors each confirm that:

- So far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Annual General Meeting

The AGM is to be held at Plantation Place, 30 Fenchurch Street, London EC3M 3AD on 19 May 2011, starting at noon. The Notice of the meeting is contained in a separate circular mailed to shareholders with this report. Shareholders wishing to attend the meeting and/or exercise their voting rights, either in person or by proxy, should refer to the Notice or the website (chaucerplc.com) for information.

Auditor

A resolution is to be proposed at the AGM on 19 May 2011 for the re-appointment of Ernst & Young LLP as auditor to the Company and to authorise the Directors to fix their remuneration.

Approved by the Board of Directors on 31 March 2011 and signed on its behalf by

David Turner

Company Secretary

Table 11 Substantial interests

	Percentage of capital
Pamplona Capital Management LLP	9.99
BlackRock Inc.	9.78
Bank of America Corporation	6.54
AXA S.A.	4.91
Aberforth Partners LLP	4.85
Legal & General Group Plc	3.96
Henderson Global Investors Limited	3.13

Corporate Governance Report

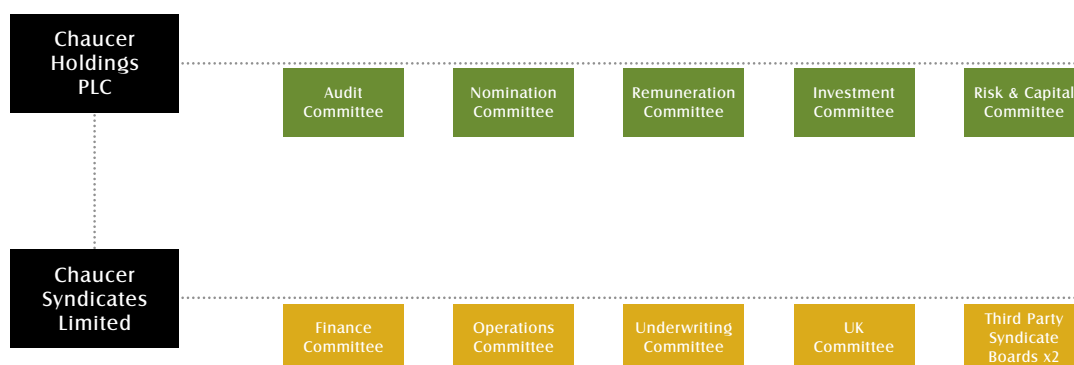
Set out below are statements on how the Company (Chaucer Holdings PLC or CHP) has applied the Main and Supporting Principles of the Combined Code (available at www.frc.org.uk). The Company complied with the provisions of the Code throughout the year, except as indicated below. In May 2010, the Financial Reporting Council issued a new edition of the Code (the UK Corporate Governance Code) which applies to CHP from 1 January 2011.

The Company is a listed holding company with one main trading subsidiary, Chaucer Syndicates Limited (CSL), a regulated Lloyd's Managing Agent first incorporated in 1922. As outlined below, the Company's Board determines major strategic and Group management decisions, while the CSL Board determines matters regarding Lloyd's and FSA regulation and day-to-day operations.

COMMITTEE STRUCTURE

To assist it in the discharge of its responsibilities, the Company's Board has established five Committees which are shown in the chart below. The remit of those Committees covers the whole group, rather than being restricted to the holding company only. The Terms of Reference of the Audit, Remuneration and Nomination Committees are available on the Company's website.

To assist it in the discharge of its responsibilities the CSL Board has established six Committees which are shown in the chart below.



In addition to these committees, each board has established an Executive Directors' Committee which meets on an ad hoc basis to consider any matter delegated.

The above structure reflects the position as from January 2011. During 2010, the Company and CSL undertook a review of the committee structure and of the membership and terms of reference of each of the committees (Governance Review); the proposals resulting from the Governance Review were subsequently evaluated by an external consultant as part of an analysis by them of the Group's corporate governance arrangements. The membership and responsibilities of these committees and changes made as a result of the Governance Review are outlined later in this report.

THE BOARD, DIRECTORS AND INDEPENDENCE

The Board of Directors comprises the Chairman, three executive and four non-executive directors (NEDs). In November 2010, having considered the number of directors and their breadth of business experience and skills, the Nomination Committee concluded that the Board had the appropriate balance of skills, experience, independence and knowledge of the Group appropriate for the Group's operations. The balance and experience of the Directors ensure that no individual or small group of individuals are in a position to dominate the Board's decisions.

The Chairman is mainly responsible for the running of the Board; he ensures that all Directors receive sufficient, timely and relevant information on financial, business and corporate issues. Papers for meetings are circulated a week in advance. The Chief Executive Officer's responsibilities focus on co-ordinating the Company's business and implementing Group strategy. All Directors are able to take independent professional advice relevant to their duties if necessary.

The Board has a schedule of matters reserved for its consideration and is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It approves the Group risk policy for development and implementation by the Risk & Capital Committee, which monitors the exposure to key business risks and the systems in place to achieve this in accordance with the Turnbull Guidance. The Board reviews the strategic direction of individual trading subsidiaries, their annual budgets, current trading, progress towards achievement of those budgets and capital expenditure programmes. The Board also considers environmental and employee issues.

The Board met eight times in 2010 and was scheduled to meet seven times during 2011; this number is expected to be significantly higher consequent to the Offer Period.

The table below shows members of the Board for 2010, the number of meetings held and each Board member's record of attendance for their period of appointment.

Board member	Meetings attended	Meetings held
B P Bartell	8	8
K D Curtis	8	8
R V Deutsch	7	8
M J Gilbert	8	8
R T Scholes	8	8
C M Stooke	3	3
R A Stuchbery	8	8
G M Wood	3	3

In addition to these meetings, an Executive Directors' Committee of the Board held a number of meetings to deal with matters delegated to it, in particular, regarding the operation of the Company's share option schemes.

The Board of Directors considers that Messrs Deutsch, Scholes, Stooke and Wood are independent of management. Richard Scholes is the Senior Independent Director.

Under the Code, during 2010 at least half of the Board, excluding the Chairman, should have comprised of independent NEDs but until 1 September 2010 this was not the case. Although the Company is now compliant this provision will cease to apply in 2011 due to the Company falling out of the FTSE 350 in December 2009.

In accordance with the Code, all Directors submit themselves for re-election at least once every three years.

During the year, Executive Directors were subject to individual performance evaluations. Due to the appointment of new NEDs in September 2010, formal performance evaluations of the NEDs were not carried out in 2010. As part of the analysis by the external consultant of the Group's corporate governance arrangements, Directors were questioned on the effectiveness of the Board Committees; although this did not constitute a full evaluation, their comments were taken into account as part of the Governance Review. It is the intention to conduct a full evaluation of the Board, its members and of its Committees probably in Q3 2011 after the revised corporate governance arrangements and the new NEDs have been in place for six months.

AUDIT COMMITTEE

The Audit Committee Report sets out details of its membership, activities and responsibilities.

NOMINATION COMMITTEE

During the year, the Committee considered and made recommendations to the Board in a number of areas. These included the appointments of Messrs Stooke and Wood as Directors; this process involved external consultants supplying a long list of candidates with the right skills and experience, the analysis by the Committee of those candidates from which a short list was drawn up, interviews by Committee members with input from the Chief Executive Officer and recommendation to the Board of the preferred candidates.

The Committee also authorised Robert Stuchbery to engage external consultants to assist in the search for a CSL NED, which, following a similar process to that described above led to the confirmation of Tim Carroll's appointment to the CSL Board by the CHP Board.

The Committee also considered whether the re-election of the Directors retiring at the AGM should be supported by the Board, the independence of the NEDs, the time requirements of the NEDs (concluding that they continue to devote sufficient time to their duties) and the size, structure and composition of the Board.

The Committee has access to independent professional advice and is entitled to seek any information it requires from any employee.

The table below shows members of the Committee for 2010, the number of meetings held and each Committee member's record of attendance for their period of appointment.

Committee member	Meetings attended	Meetings held
R V Deutsch	2	3
M J Gilbert	3	3
R T Scholes	3	3
C M Stooke (appointed 28 September 2010)	1	1
G M Wood (appointed 1 September 2010)	1	1

In addition to the formal meetings held, members of the Committee discussed the matters delegated to it by the Board on other occasions during the year.

REMUNERATION COMMITTEE

Details of the Remuneration Committee are set out in the Directors' Remuneration Report.

INVESTMENT COMMITTEE

The Investment Committee is chaired by the Chairman and other members include the Chief Executive Officer, the Chief Underwriting Officer and the Chief Financial Officer. Following the Governance Review, Mark Wood, a NED, was appointed a member from January 2011.

The operation of the Investment Committee was suspended in February 2009 but was reinstated in March 2010 with responsibility to implement and administer Group investment strategy, to monitor investment manager performance and to consider and recommend tactical adjustments. Material investment decisions are reserved for consideration by the CHP Board and the CSL Board is informed of, and discusses, investment matters as appropriate.

The Group Investment Manager and investment advisers attend meetings as appropriate.

RISK & CAPITAL COMMITTEE

During 2010, the Risk & Capital Committee (RCC) was a joint committee of the CHP and CSL Boards chaired by the Chief Executive Officer but following the Governance Review, with effect from January 2011, it became a CHP Committee chaired by Chris Stooke, a NED. Notwithstanding the change, the RCC still interacts with the CSL Board on risk and capital matters and the Chief Executive Officer remains a member. Other members include the Chief Underwriting Officer, the Chief Finance Officer, the CSL Risk Officer, the Group Actuary and Tim Carroll, a CSL NED (appointed to the Committee in July 2010).

The RCC meets monthly and has responsibility for the development and implementation of the Group risk policy and for ensuring that the policy is consistent with the expectations of capital providers and the limitations imposed by Lloyd's and the FSA. It also has responsibility for the oversight of risk management throughout the Group and for ensuring that the Risk Management Framework (RMF), which is described in detail below, and capital assessments are consistent with the requirements of Lloyd's and the FSA.

ACCOUNTABILITY AND AUDIT

Financial reporting

The Company presented its financial position and prospects during the year in a number of ways to ensure shareholders and potential shareholders could make a balanced and informed assessment about their investment. This included:

- Annual Report and financial statements, prepared in accordance with International Financial Reporting Standards, which includes a Chief Underwriting Officer's Report, a Chief Finance Officer's Report and statements on Directors' responsibilities and going concern;
- Half-year results announcement;
- Interim management statements;
- Announcements as required regarding business developments, which may affect the share price of the Company; and
- Syndicate Annual Report and accounts filed with Lloyd's, which are also public documents.

The CHP or CSL Board approved these items before publication, following their review and recommendation by the appropriate Board Committees, including the Audit Committee and Finance Committee.

Internal controls and risk management

Chaucer is committed to high standards of corporate governance and has complied throughout the year with the principles set out in the Turnbull Guidance for Internal Control.

The CHP Board acknowledges it is responsible for the Group's system of internal control and for reviewing its effectiveness. The RMF and other internal controls are designed to manage, rather than eliminate, the risk of failure to achieve the Group's strategic objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The CHP Board has conducted an annual review of the effectiveness of the Group's systems of internal controls (including the RMF) in addition to other reviews and procedures that are ongoing throughout the year. The annual review was conducted by the Risk Officer and reported to the CSL Board and the Audit Committee on behalf of CHP. An annual internal audit is conducted on the work of the Risk Management function to provide further comfort.

During 2010, there continued to be much focus on Solvency II planning and implementation. Within Chaucer's Solvency Smart Programme, the Company seeks to enhance certain elements of the RMF, such as areas of risk and capital modelling and the measurement and effective management of the aggregated risk appetite of the Group.

The investment portfolio is low risk with significant holdings of cash, cash equivalents, government bonds and government guaranteed bonds. Asset allocation benchmarks are reviewed regularly. Investment advisers to the CHP Board consist of Mercer Investment Consulting and Paul Berriman. Mr Berriman is currently an Executive Director of Oxford Investment Partners, a fund management company set up to manage the investment portfolios of a number of Oxford colleges. Prior to this he was the Chief Executive of Deutsche Asset Management in the UK, with responsibility for over £50bn of assets managed on behalf of pension funds, insurance companies and high net worth individuals, and was formerly Global Head of Fixed Income at the same organisation.

RISK GOVERNANCE

Risk governance is operated through the structure of Boards, Committees and departments set out below.

Chaucer Holdings PLC

The CHP Board is ultimately responsible for setting risk strategy and risk appetite, for overseeing the management of risk and for ensuring the adequacy and efficacy of capital to support the risks across the business.

Chaucer Syndicates Limited

The CSL Board is responsible for supporting the CHP Board in the management of risk to defined risk appetite or risk tolerance levels and is primarily focused on the management of risks faced by our Lloyd's managing agent and all managed syndicates.

Risk & Capital Committee

To fulfil the above risk governance roles effectively, the CHP and CSL Boards have delegated the oversight of the management of risks to the RCC, which is responsible for the implementation of risk policy across the business.

The RCC oversees the development of on-going risk identification, risk assessment and mitigation strategies and the overall operation of the RMF.

The membership of the RCC and its other responsibilities are set out above.

The Risk Assurance Group

The Risk Assurance Group (RAG), headed by the Risk Officer, who is also a CSL Director, supports the Boards and the RCC by working in partnership with the business to build effective risk management processes.

The RAG comprises Risk Management, Internal Audit and Underwriting Risk Review (URR) teams which, together, provide guidance, support and monitoring of risk management effectiveness across the business.

Under this set up, the Internal Audit and URR teams liaise closely with Risk Management but have independent reporting lines to the Audit Committee.

The main objectives of the RAG are as follows:

- Instil a culture of risk awareness and controlled risk taking throughout the business;
- Ensure internal and external risks to the Group are identified, consistently evaluated and clearly communicated;
- Act as a link between the RMF and optimal capital utilisation;
- Provide independent control environment assurance and advice;
- Facilitate positive regulatory relationships; and
- Ensure regulatory risk management requirements are met.

Risk Management

The Risk Management Team focuses primarily on the threat to the achievement of stated business objectives through the operation of the RMF. Risk Management works in partnership with the business to facilitate the identification and assessment of key risks and ensure that appropriate mitigations and controls are in place and operate effectively.

Risk Management reports to the RCC monthly on risk exposure areas, performance of mitigations and controls and the overall development of the RMF.

Internal Audit

The objective of the Internal Audit Team is to provide independent and objective assurance of business processes, procedures and governance through the evaluation of adequacy and effectiveness of controls. The Team applies a targeted risk-based audit approach, focusing on those internal controls that most mitigate the risks faced by the business. The Audit Committee reviews and approves the annual internal audit plan. The Internal Audit Team works closely with the rest of RAG to coordinate risk-focused audit activity.

Underwriting Risk Review

URR provides the business with assurance that the underwriting risk assumed by the Syndicates under management is consistent with the business plan of each syndicate and that the associated processes and controls are effective and properly utilised. It seeks consistency of approach to the process and management of underwriting risk across all syndicates managed by CSL and attainment of levels commensurate with market best practice.

Legal & Compliance

During the year the Compliance Team reporting line switched from RAG to the Company Secretary to improve the alignment with the activities of the CHP and CSL Boards and was restructured and expanded to include legal matters to reflect CEIOPS guidance and business needs. The Compliance function monitors regulatory compliance with Lloyd's, the FSA and international requirements and manages our exposure to regulatory risks. Compliance works in partnership with the business through a Compliance Committee, whose members include appointed representatives from key areas of the business.

Corporate Governance Report

The Risk Management Framework

A risk management framework has been developed to ensure that risks are identified, assessed, managed and monitored.

Risk ownership

Responsibility for the day-to-day management of risks and the design and operation of risk mitigations and internal controls is assigned to an individual risk owner (usually a director) but with the support of operational Boards and Committees across the business. The following table summarises the key risks arising from business activities, identifies the relevant risk-owning committee(s) and references where the Annual Report provides further discussion on the management of these risks.

FSA classification	Risks	Risk owning Board or Committee	Risk discussion (Page)
Insurance	Underwriting	Underwriting Board	78
	Claims		83
	Reinsurance	Finance Committee	81
	Reserving		83
Credit	Reinsurers	Finance Committee	81
	Intermediaries	Investment Committee	90
	Investments		90
Financial Market	Interest rate fluctuations	Investment Committee	88
	Currency fluctuations		89
	Investment fluctuations		88
Liquidity	Insurance calls on cash	Finance Committee	89
	Non-insurance calls on cash		89
Operational	People	Operations Committee	34
	Systems and processes		46
Group	Capital adequacy	Risk & Capital Committee	28
	Financial strength		30

Risk identification and risk assessment

Each risk owner is responsible for the identification of risk, with support from the Risk Management Team and the framework of risk owning committees.

Business risks are analysed in accordance with the principal risk categories defined by the FSA and each risk owner is responsible for the evaluation of risk in terms of impact and probability. Risk Management assists and challenges the risk owners in the assessment of risk.

The following table summarises the main risk categories facing the business.

Risk category	Risk objective	Comments
Insurance	Optimise risk returns within appetite	Insurance risk is the dominant risk faced by the business as our core business activity is the evaluation and acceptance of underwriting risk for return
Credit	Minimise risk exposure while achieving optimal trade-off with insurance risk	We only use internally approved brokers and reinsurers that meet our quality assessment criteria
Financial Market	Optimise risk returns within appetite	Our portfolio comprises assets that are well diversified and liquid. We determine asset allocations according to set risk constraints
Liquidity	Minimise risk exposure	We maintain a strong cash flow position and highly liquid investments
Operational (including legal and regulatory risk)	Minimise risk exposure	We are committed to high standards of internal control that are regularly monitored and tested
Group	Minimise risk exposure	The risks associated with being part of a group are generally low, although the activities of managed syndicates and our overseas offices create exposure

Risk monitoring and reporting

Risks are monitored through a combination of risk or control indicators, self-certification procedures and regular meetings between business representatives and Risk Management. Risk Management maintains a risk register and a log of issues, control failures or near misses, which encompasses existing, emerging and future risks and includes a materiality assessment of each item's potential exposure to the business.

Risk Management reports to the RCC and both Risk Management and the risk-owning committees report to the CSL Board. The Risk Officer also provides reports as required to the Audit Committee, such as an annual review of the effectiveness of the RMF.

Risk information produced for the syndicate Individual Capital Assessment process also provides a key source of risk reporting for the Boards.

Managing the risk

Each risk owner is responsible for the effective operation of key controls and management of the risk, with support from the Risk Management Team.

Risk Management works with the risk owner to develop commercially focussed action plans to achieve the required level of risk or control according to risk appetite. Risk Management also monitors actions taken, to ensure that the management of risk remains within the risk appetite or tolerance levels set and reports progress to the RCC.

The Scheme of Delegation, which sets out the decision-making authority levels for individuals, Committees and Boards across the business, determines where and at what level commercial decisions are taken.

Solvency II

All syndicates managed by CSL are required to meet minimum standards introduced by Lloyd's which is subject to the rules and regulations of Solvency II, a European Union Directive that introduces legislation in early 2013 to improve the protection of policyholders through greater emphasis on enterprise wide risk management and strengthened levels of insurance capital adequacy.

In 2008, the Company recognised that implementation of the Directive would provide an excellent opportunity to enhance its risk management capabilities and make better-informed business decisions. The Directive also provides the opportunity to improve efficiency within operational activities and further strengthen risk-based capital modelling capabilities and capital management processes. Throughout 2009 and early 2010, the Company's Senior Management Team undertook a significant planning exercise to identify and design the enhancements required to operations and RMF under this initiative. The Solvency Smart Programme, aims primarily to benefit the Company and its managed syndicates, while also ensuring regulatory compliance and approval of its internal model.

Throughout 2010, the Company has allocated significant resource and effort to support the development and implementation of its Solvency Smart Programme. Clear progress has been made throughout the year and the programme implementation remains on track. As well as devoting significant internal resource to this programme of work, the Company has also utilised expert external providers in core areas, such as the internal model design and build, the design of our data quality framework and the transformation of our financial and actuarial processes.

Due to the importance of this programme, the Chief Executive Officer remains the overall Programme Sponsor with additional oversight now being provided by the recently appointed Chief Operating Officer. The Solvency Smart Programme Board comprises CHP and CSL Directors and selected senior management. The programme is now divided into four core work-streams, with a CHP or CSL Director leading each work stream.

The CSL Board has approved a substantial budget for Solvency Smart to ensure that the Company delivers on the enhancements required as well as maintaining business as usual activities. The Company recognises that a programme of this scale, importance and complexity requires structured and skilful management. An experienced Senior Change and Programme Manager was recruited in November 2009 to provide support in this area for the duration of the programme.

Corporate Governance Report

RELATIONS WITH SHAREHOLDERS

The Company encourages two-way communications with its institutional and private investors and responds quickly to all queries received. The Chief Executive Officer, the Chief Underwriting Officer and the Chief Finance Officer attended numerous meetings and maintained contact with analysts, brokers and institutional shareholders during the year. Subsequent to the announcement of the Company's 2009 results, the Company's stockbroker, Numis, canvassed the views of shareholders and reported to the Directors. All the Directors attended the 2010 AGM and the Chairmen of the Board Committees were available for questions; this is also expected to be the case at the 2011 AGM. While the Chairman, Senior Independent Director and other NEDs do not have regular meetings with shareholders, they have expressed their willingness to do so if the shareholders so desire.

GOING CONCERN BASIS

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement, Chief Executive Officer's Statement and Chief Underwriting Officer's Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Finance Officer's Report. In addition, the Corporate Governance Report and Notes 2 and 3 to the consolidated financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with contracts with a number of customers and suppliers across different geographic areas and industries. Consequently, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have formed a judgment at the time of approving the consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

CSL BOARD AND COMMITTEES

The CSL Board met seven times in 2010 and is scheduled to meet seven times during 2011. The CSL board is focused on operational and Lloyd's regulatory matters. For example, during 2010, the CSL board approved all syndicate business plans and individual capital assessments (and other regulatory returns), ensured compliance with actions arising from the FSA's ARROW visit, oversaw Solvency II preparations and monitored the performance of all departments and offices,

The table below shows members of the CSL Board for 2010, the number of meetings held and each Board member's record of attendance for their period of appointment.

Board member	Meetings attended	Meetings held
K Barber	7	7
B P Bartell	7	7
D C Bendle	7	7
G C Butterworth	6	7
M C Carrillo	4	5
T J Carroll	3	3
M J Cox	5	6
K D Curtis	7	7
R V Deutsch	6	7
J Fowle	7	7
S J Helson	7	7
D S Mead	-	-
J D Perkins	7	7
R T Scholes	7	7
C M Stooke	2	2
R A Stuchbery	7	7
G M Wood	2	2

In addition to these meetings, an Executive Director's Committee of the Board held a number of meetings to deal with matters delegated to it.

The FSA, which is responsible for regulation of the UK insurance industry (including Lloyd's Managing Agents) and Lloyd's, which is responsible for risk management within the market, regulate CSL. CSL is therefore obliged to comply with the extensive regulations and detailed codes of practice imposed by the FSA and Lloyd's. Consequently, it has developed a comprehensive system of monitoring, compliance, regulation, risk assessment and overseeing the management of the major risks faced by the business. The governance structure is regularly reviewed and adjusted to ensure a continued fit to business needs.

The following paragraphs outline the roles and responsibilities of individual Committees within the CSL governance structure.

Finance Committee

During 2010, the Finance Committee was a joint committee of the CHP and CSL Boards but following the Governance Review, with effect from January 2011, it became a CSL Committee and took responsibility for matters formerly delegated to a Security Committee.

The Committee is chaired by the Chief Finance Officer and other members include the Chief Executive Officer, the CSL Finance Director and the Group Actuary.

It meets approximately monthly and has responsibility for monitoring the financial health of the Group. It also provides advice and commentary on all relevant material financial matters, including reserves and dividends. In particular, it has responsibility for the timely and accurate delivery of all financial reporting, developing and implementing policy in respect of cash flow management, expenses, tax, foreign exchange and capital management and assisting the Risk & Capital Committee in the identification and control of credit, liquidity, reserving and capital risks. It also has responsibility for managing the exposure to credit risk from reinsurers, brokers, coverholders and other intermediary counterparties for the Group and managed syndicates.

Operations Committee

The Operations Committee was established in February 2011 following the Governance Review and the appointment of a Chief Operating Officer.

The Committee is chaired by the Chief Operating Officer and other members include the Company Secretary, CSL Operations Director, Risk Manager and CSL Third Party Syndicates Director.

It meets approximately monthly and has responsibility for the assessment, monitoring and management of the operational activities of CSL and the overseas offices.

Underwriting Committee

The Underwriting Board is chaired by the Chief Underwriting Officer and other members include the Active Underwriter of Syndicate 1084 and the heads of each underwriting division.

It meets approximately monthly and has responsibility for setting and ensuring delivery of the underwriting strategy for Syndicates 1084 and 1176 and for monitoring all aspects of their underwriting performance. This includes reviewing and recommending the Syndicates' annual business plans to the CSL Board and monitoring actual performance against those plans.

UK Committee

During 2010, the UK Committee was chaired by the Chief Executive Officer but following the Governance Review, with effect from January 2011, is chaired by the Chief Operating Officer. The Practice Head – UK Insurance remains a member and other members include the Active Underwriter of Syndicate 1084.

It meets approximately monthly and provides a forum for the development of the Group's business in the UK managed from the offices in Whitstable. While the business continues to be dominated by motor underwriting, it also includes the Group's motor broking activities and development of UK SME commercial lines business.

Third Party Syndicate Management Boards

A Third Party Syndicate Management Board (SMB) exists for each third party syndicate managed by CSL (TPS). Each SMB is chaired by the CSL Third Party Syndicates Director and members include representatives from CSL and the relevant TPS.

Each SMB has responsibility for monitoring all aspects of its underwriting performance; this includes reviewing and recommending the Syndicates' annual business plans to CSL, setting business class capital allocations, monitoring operational management of the Syndicate and run-off syndicates and ensuring that risks associated with the TPS are being identified, assessed and appropriately managed.

Approved by the Board of Directors on 31 March 2011 and signed on its behalf by

David Turner

Company Secretary

Audit Committee Report

INTRODUCTION

The members of the Audit Committee are Richard Scholes (Chairman), Robert Deutsch, Christopher Stooke and Mark Wood who are all independent NEDs of the Company. Christopher Stooke was appointed as a member on 28 September 2010 and Mark Wood was appointed as a member on 1 September 2010. Christopher Stooke has been identified as the member with recent relevant financial experience.

The Chief Executive Officer, the Chief Finance Officer and CSL Finance Director attend most Committee meetings. The Chief Underwriting Officer, Group Actuary, Internal Audit Manager, URR Manager and representatives from the external auditor attend as required. Malcolm Cox, an independent NED of CSL until 1 October 2010, also attended as an Independent Reviewer until his resignation. Tim Carroll, another independent NED of CSL, began attending meetings from 16 November 2010; subject to approval of an amendment to the Company's Articles of Association at the AGM, it is the intention to make him a full member of the Committee in 2011.

TERMS OF REFERENCE

The Committee's terms of reference include the requirement to review, and challenge where necessary, the Company's financial statements, to monitor compliance with accounting standards, to oversee the Company's relationship with the external auditor and to review their terms of engagement and fees and to review reports received from the internal auditor. The Committee must also satisfy itself that proper systems of control and risk management are in place. The Committee's terms of reference comply with the Code and its operations follow the Smith Guidelines.

MEETINGS

The Audit Committee, whose terms of reference require it to meet a minimum of four times a year, met seven times in 2010. The table below shows members of the Committee for 2010, the number of meetings held and each Committee member's record of attendance for their period of appointment.

Committee member	Meetings attended	Meetings held
R V Deutsch	7	7
R T Scholes	7	7
C M Stooke	1	1
G M Wood	1	1

ACTIVITIES IN 2010

During 2010, the Committee undertook a number of activities to discharge its responsibilities, which included:

- Review of the Group's Annual Report and half-year results and the accompanying regulatory announcements. The review included consideration of the external auditor reports thereon, which highlighted the key audit issues and recommended management action. The Committee also reviewed management's response to those recommendations. Consequent to that review, those accounts were recommended to the Board for approval;
- Approval of the external auditor's terms of engagement and audit plans and the acceptance of the continuing independence and objectivity of the external auditor. The Committee also considered the performance of the external auditor, which was deemed satisfactory, and consequently recommended its reappointment at the AGM. That performance evaluation involved the completion by the Committee members and relevant executives of a questionnaire which covered various aspects of the external auditor's performance and interaction with the Company;
- Approval of the Internal Audit plan for 2011;
- Review of Internal Audit reports - the Committee also considered the performance of the internal audit function;
- Review of the Risk Management Framework and implementation of certain adjustments in particular around investment management;
- Review of regular reports from the Group Actuary and URR Manager; and
- Policies regarding anti-fraud and inducements ('whistle blowing') and the provision by the external auditor of non-audit services.

During the year, the Chairman maintained regular contact with the external auditor, Internal Audit Manager and Group Actuary and the Committee held meetings with each of them in the absence of executive management.

The objectivity and independence of the external auditor is safeguarded by the application of a policy restricting their engagement in respect of non-audit services. That policy prohibits their engagement for any service in respect of which they might be checking their own work and the potential for the quantum of non-audit services fees to prejudice their independence. Any engagement for non-audit services requires the approval of the Audit Committee. In practice the external auditor is not engaged for any other services save for example the review of shareholder circulars and confirmation that figures for the NAV share scheme performance condition have been properly extracted from the Group's accounting records.

Issues and actions arising from both external and internal audits are logged and followed to resolution by either this Committee or another appropriate committee. During 2010, there were no whistle blowing incidents reported.

This report was approved by the Board of Directors on 31 March 2011 and was signed on its behalf by

Richard Scholes

Chairman, Audit Committee

INTRODUCTION

The Directors present their remuneration report for the year ended 31 December 2010.

The Report contains separate sections for unaudited and audited information; the external auditor has reported on the audited information within their report to Members.

The Company will propose a resolution to approve this Report at the AGM.

UNAUDITED INFORMATION**Remuneration Committee**

The members of the Remuneration Committee are Robert Deutsch (Chairman), Richard Scholes, Christopher Stooke and Mark Wood who are all independent NEDs. Christopher Stooke was appointed as a member on 28 September 2010 and Mark Wood was appointed as a member on 1 September 2010.

The Committee met on five occasions during the year. The table below shows the members of the Committee for 2010, the number of meetings held and each Committee member's record of attendance for their period of appointment.

Committee member	Meetings attended	Meetings held
R V Deutsch	5	5
R T Scholes	5	5
C M Stooke	2	2
G M Wood	2	2

None of the members of the Committee have any personal financial interest in the Company (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Executive Director plays a part in any discussion about his own remuneration.

In determining the Directors' remuneration for the year, the Committee consulted the Chief Executive Officer about its proposals.

Remuneration policy

The Group designs executive remuneration packages to attract, motivate and retain directors and employees of the high calibre needed to maintain the Group's position and to reward them for enhancing value to shareholders so that their interests are aligned with those of shareholders.

The Company operates in a market where earnings can be cyclical and volatile depending on the mixture of premium rates, claims made and investment returns. Consequently, remuneration policy is designed so that a substantial proportion of the remuneration of the Executive Directors is performance related and therefore very variable.

The remuneration package for executive directors and senior management is divided between fixed and variable elements:

Fixed elements

- Basic annual salary and benefits
- Pension arrangements

Basic annual salary and benefits

The Committee determines an Executive Director's basic salary prior to the beginning of each year or when an individual's role or responsibility changes. In deciding appropriate levels, the Committee considers the Group as a whole and relies on research that gives up-to-date information on a comparator group of companies within the sector.

Executive Directors are entitled to accept appointments outside the Company with the Chairman's permission and providing that they account for all fees, from all such appointments, to the Company.

Executive Directors are also eligible to participate in both the SAYE and the SIP Schemes, which are open to all employees.

Pension arrangements

Robert Stuchbery and Bruce Bartell are members of the defined benefits section of the Chaucer Pension Scheme. Their dependants are eligible for pensions of 50 per cent of the member's prospective entitlement and, in the event of death in service, the payment of a lump sum of four times basic salary. The pension arrangements until 1 June 2010 provided for a pension on retirement of 2/3 capped salary after 30 years' eligible service, except that their entitlement was uncapped until 6 April 2006. On 1 June 2010, changes were made whereby their benefit accrued from that date was reduced to the rate of 1/60ths from 1/45ths, normal retirement date was increased from age 60 to age 65, their benefit accrued after that date would be subject to an actuarial reduction if taken before age 65 and their member contributions were increased to 6% from 4% of the salary cap for the time being.

Ken Curtis is a member of the defined contribution section of the Chaucer Pension Scheme. Scheme members contribute 3% and employer contributions are banded by age between 8% and 16% of basic salary; the rate in respect of Ken Curtis is currently 14%.

Executive Directors' pension entitlements are set out in the audited section of this Report below. No other payments to directors are pensionable. There are no unfunded pension promises or similar arrangements for directors.

Directors' Remuneration Report

Variable elements

As reported in the 2009 Annual Report, during 2009 and into February 2010, the Committee undertook a review of the remuneration structure to address certain perceived weaknesses in the then existing arrangements while maintaining their strengths (Remuneration Review). The Committee was supported in the Remuneration Review by remuneration consultants and major shareholders were consulted on the resulting proposals. Shareholders approved a new Performance Share Plan at the 2010 AGM, which is an important part of the new structure, and renewal of the Approved Share Option Scheme. How the new structure has been implemented is outlined later in this Report.

The variable elements are:

- Annual Bonus Scheme
- Deferred Share Bonus Plan (DSBP)
- Performance Share Plan (PSP) and other Long Term Incentive Plans

These elements are designed to act closely together to:

- Incentivise senior executives over both the short and long term;
- Act as a significant retention mechanism through awards which vest only after three years;
- Provide material alignment between the interests of senior executives and shareholders through awards where the vesting is dependent on performance conditions being satisfied; and
- Reduce the amplitude of individual earnings variability. The Annual Bonus Scheme provides for 15% of the bonus pool created in any year to be deferred, thereby reducing annual bonuses in very good years and providing a pool of cash to augment annual bonuses in poor years.

These schemes and plans are described in detail below.

Annual Bonus Scheme

This Scheme operates by creating a 'bonus pool', based on Company operating profit relative to return on net asset value (NAV), which is then divided into two sections, one to be distributed amongst some 70 senior executives and one amongst all other employees. The Scheme operates in conjunction with the DSBP (see below).

Annual bonuses are calculated in accordance with the following paragraphs.

No value accrues to the bonus pool until operating profit exceeds a 9% return (pre tax) on NAV; thereafter, the Scheme allocates profit into the pool in accordance with agreed return bands. 15% of the bonus pool is deferred to facilitate bonus payments in years of poorer performance. The proportion of profit allocation and the amount of the pool allocated to senior executives increases with increased returns, except for the highest return band where the proportion of profit allocation falls; that is because such very high results are consequent to the correlation of an absence of significant insurance losses and very favourable investment conditions, neither of which are materially management driven. The pattern of profit allocation operates to create an expectation of lower bonus payments to individuals in years of poor or average performance and higher ones in years of exceptional performance. The intention is to drive performance and therefore shareholder value.

The mathematical operation of the Scheme determines half of the amount of an individual's bonus based on profit and personal performance determines the other half. Bonuses for all the Executive Directors are determined by the Remuneration Committee and for other senior executives by the Executive Directors. Before 2010, there was no bonus ceiling compared to base salary but following the Remuneration Review there is a cap of 200%.

Payment of the cash element of executive bonuses is split between April and the following January to provide a retention mechanism. The operation of the DSBP further enhances the retention.

Prohibited Period

The existence of a Prohibited Period (for share dealing) arising from the offer period has complicated the normal operation of the DSBP and PSP. In particular:

- No award of Deferred Shares under the DSBP have yet been made;
- No award of Dividend Shares under the DSBP have been made;
- Deferred and forfeitable shares due to vest on 13 March 2011 have only been vested to participants not on the insider list (which includes all CHP Executive Directors); and
- No awards under the PSP have yet been made.

It is expected that such actions will be taken in accordance with Remuneration Committee instructions on exit from the Prohibited Period.

Deferred Share Bonus Plan (DSBP)

The DSBP, approved by shareholders in 2006, operated as follows for outstanding awards made in or before 2010. Any bonus in excess of 150% of salary was compulsorily deferred into Deferred Shares; these Deferred Shares were not eligible for Matching Shares. Of the bonus up to 150% of salary, the recipient had to compulsorily defer 25%, and could elect to defer up to another 25%, into Deferred Shares; all of these Deferred Shares were eligible for Matching Shares, awarded up to a maximum ratio to eligible Deferred Shares of 2 for 1 dependent on performance conditions (see below) being satisfied during the three year retention period.

For awards made in or after 2011, depending on an individual's role, 12.5%, 25% or 50% (being the rate applicable to Executive Directors) of the bonus is compulsorily deferred into Deferred Shares; these Deferred Shares are not eligible for Matching Shares.

Deferred Shares vest after three years unless the recipient leaves the Group during this period, in which case, subject to good leaver provisions and Remuneration Committee discretion, the recipient forfeits the Deferred Shares. All Deferred Shares (but not Matching Shares) are eligible for Dividend Shares which are awarded at the end of the 3-year retention period.

In March 2010, participants were offered the opportunity to convert their outstanding Deferred Shares and awards of Deferred Shares made in March 2010 into Forfeitable Shares. In addition, Dividend Shares were awarded on the Deferred Shares for the period the Deferred Shares had been held up to the date of conversion and were also converted into Forfeitable Shares. The number of Forfeitable Shares awarded was net of income tax and employee National Insurance contributions due on the grant of the Forfeitable Shares. The Forfeitable Shares will vest on the same date and on the same conditions as the original Deferred Shares. Dividend Shares for the period from the date of conversion will be awarded at the end of the three year retention period based on the original number of Deferred Shares (Gross Forfeitable Shares). Matching Shares will be awarded on the number of Gross Forfeitable Shares; the conditions for the award of Matching Shares remain unchanged.

In the event of a takeover of the Company, all Deferred Bonus Shares, Forfeitable and Dividend Awards will vest in full. All Matching Shares will vest to an extent (if any) and at such time as the Remuneration Committee determines, provided that the Remuneration Committee takes into account the extent that the performance conditions imposed have been satisfied at that date and the foreshortened performance period and the number of Matching Shares which shall vest shall be reduced on a time-apportioned basis.

Performance Share Plan (PSP)

The PSP, approved by shareholders at the 2010 AGM, replaced the Matching Share element of the DSBP. Whereas the number of Matching Shares awarded under the DSBP was dependent on the annual bonus level and any voluntary deferral of bonus, the number of shares in a PSP award is based on salary alone.

No awards have yet been made under the PSP. When awards are made they will have values, depending on an individual's role, of 37.5%, 75% or 150% (being the rate applicable to Executive Directors) of base salary. PSP awards vest after three years:

- Unless the recipient leaves the Group during this period, in which case, subject to good leaver provisions and Remuneration Committee discretion, the recipient forfeits the award; and
- To the extent that the performance conditions have been satisfied (see below) during the 3-year retention period.

In the event of a takeover of the Company, awards will generally vest. The number of shares capable of vesting in such circumstances may be reduced to reflect the reduced service period and may also depend upon performance to the date of such event. However, the Remuneration Committee will have discretion to allow awards to vest in full in such circumstances if it deems this to be fair and reasonable.

Approved Share Option Schemes

These schemes, approved by shareholders in 2001 and 2010, permit the Company to grant share options over shares up to a value of £30,000 to any individual employee in a tax efficient manner.

The scheme approved in 2001 was operated in conjunction with the Unapproved Share Option Scheme (see below) but has not been used since 2004 when the last options were granted under the scheme. Some options, which had been subject to performance conditions being satisfied, remain unexercised.

The scheme approved in 2010 (ASOS) is to be used to provide flexibility but no awards have yet been made. If options are granted, they would be exercisable at any time between three and ten years of the date of grant:

- Unless the recipient leaves the Group during the three year retention period, in which case, subject to good leaver provisions and Remuneration Committee discretion, the recipient forfeits the option; and
- To the extent that performance conditions have been satisfied (see below) during the retention period.

In the event of a takeover of the Company, options will generally be exercisable for a period of six months from the date control of the Company was obtained provided that the performance conditions have been satisfied or waived at the discretion of the remuneration Committee.

Unapproved Share Option Scheme

This scheme, approved by shareholders in 1998, has not been used since 2004 when the last options were granted under the scheme. Some options, which had been subject to performance conditions being satisfied, remain unexercised.

Directors' Remuneration Report

Performance conditions

The vesting of Matching Shares under the DSBP, the vesting of awards under the PSP and the exercise of options granted under the ASOS are subject to performance conditions. None of these arrangements allow retesting of the set conditions. The relevant performance conditions are explained below.

DSBP (2009 and before)

For outstanding awards under the DSBP made in or before 2009, the number of Matching Shares for the award divides equally between two performance conditions measured over three years.

Total Shareholder Return (TSR) performance

Degree of Chaucer's TSR out-performance against index comprising basket of comparators weighted for market capitalisation at the start of the period

Percentage of the maximum number of Matching Shares awarded

Below 15% above the index	Nil
Equal to 15% above the index	12.5%
From 15% to 45% above the index	Straight line between 12.5% and 50%
Equal to or above 45% above the index	50%

The Scheme measures TSR from the date of award to the third anniversary of the date of award. The Company chose this performance measure since it provides a comparison of Chaucer's performance relative to an index of a peer group of listed specialist insurers; at 31 December 2010, this group comprised the following companies – Amlin plc, Beazley Group plc, Brit Insurance Holdings plc, Catlin Group Limited, Hardy Underwriting Bermuda Limited (DI), Hiscox Limited and Novae Group plc.

In the event of an award being made as a result of this measure, the underlying calculation is reviewed by an external adviser.

Net Asset Value (NAV) performance

The increase in Chaucer's NAV per share compared with the Retail Price Index (RPI) over three years

Percentage of the maximum number of Matching Shares awarded

Less than RPI +15%	Nil
Equal to RPI +15%	12.5%
From RPI +15% to RPI +45%	Straight line between 12.5% and 50%
In excess of RPI +45%	50%

The Scheme measures NAV per share from the end of the accounting period prior to the grant of the award to the end of the accounting period before the award is due to vest. The Company chose this performance measure as it indicates the success of management in growing the net assets of the Company.

In the event of an award being made as a result of this measure, the underlying calculation is reviewed by the external auditor.

DSBP (2010 and after), PSP and ASOS

For awards under the DSBP made in 2010, the number of Matching Shares for the award is subject to a single condition. The same condition will be used to determine the extent to which PSP awards will vest and the number of ASOS options which may be exercised.

Net Asset Value (NAV) performance

The increase in Chaucer's NAV per share compared with the Retail Price Index (RPI) over three years

Percentage of the maximum number of Matching Shares awarded / PSP awards vesting / ASOS options exercisable

Less than RPI +13.5%	Nil
Equal to RPI +13.5%	16.7%
From RPI +13.5% to RPI +58.5%	Straight line between 16.7% and 100%
In excess of RPI +58.5%	100%

The Scheme measures NAV per share from the end of the accounting period prior to the award of the grant to the end of the accounting period before the award is due to vest.

The switch to a single performance condition was made as comparative TSR had become problematic because, due to the number of consolidations within the sector, it was no longer possible to select a robustly sized comparator group of companies similar to Chaucer.

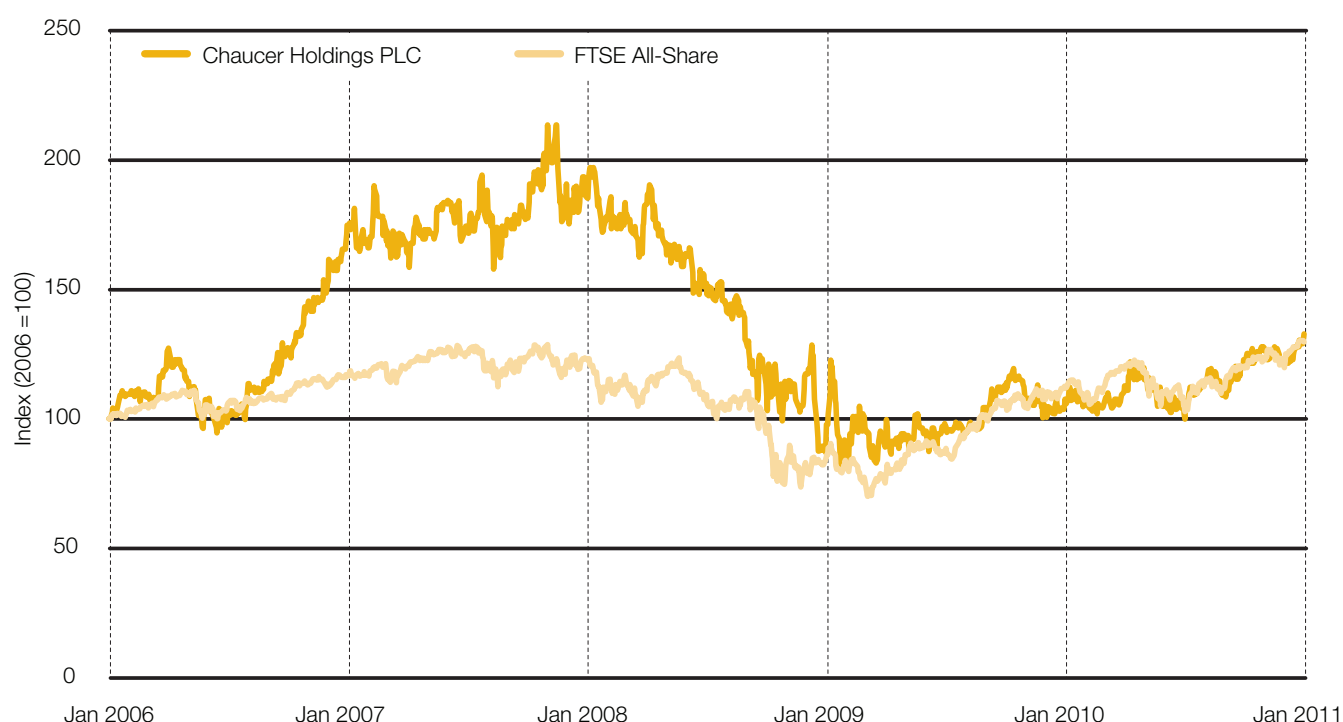
The Remuneration Committee chose the NAV performance measure as it:

- Indicates the success of management in growing the net assets of the Company;
- Provides the greatest line of sight for the senior executives and therefore provides the greatest incentive effect to drive Company performance; and
- NAV is the key factor in determination of share value by the market.

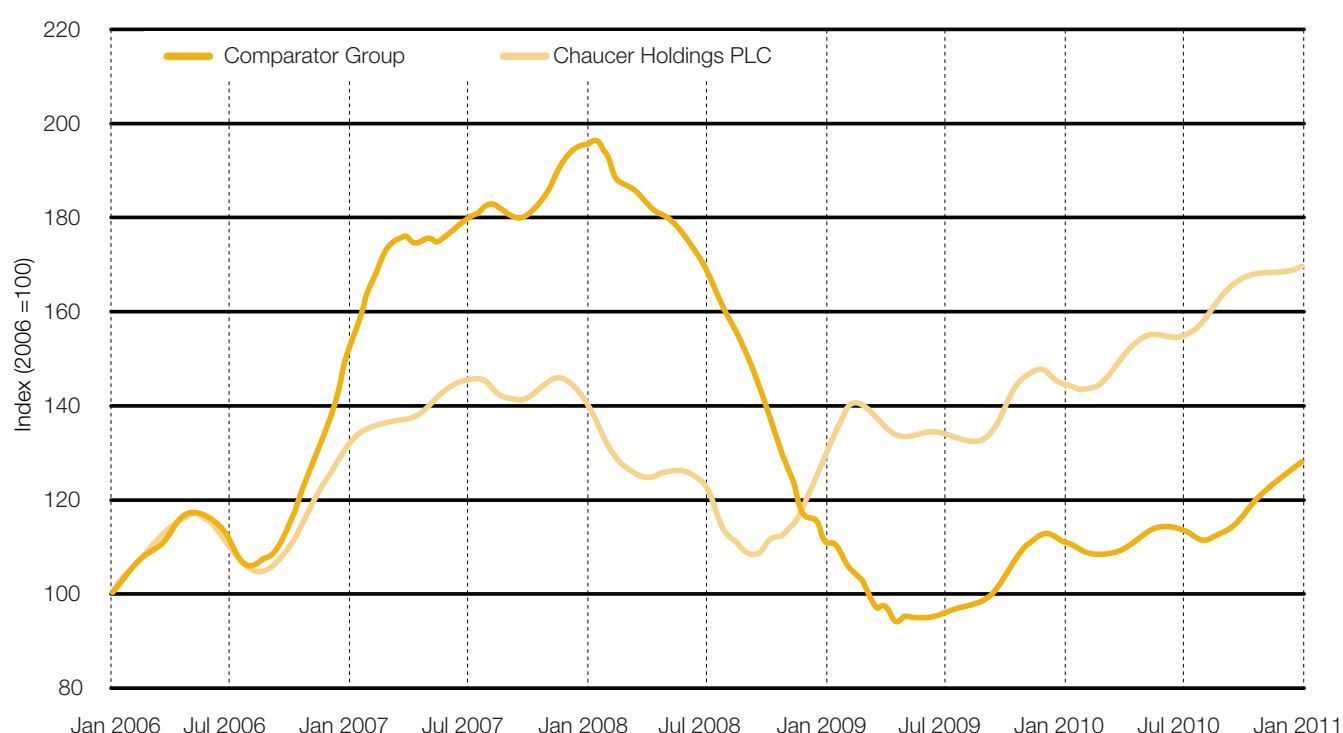
In the event of an award being made, an award vesting or an option being exercisable, the underlying calculation is reviewed by the external auditor.

PERFORMANCE GRAPHS

The following graph shows the Company's performance, measured by TSR, compared with the TSR of the FTSE All Share Index.

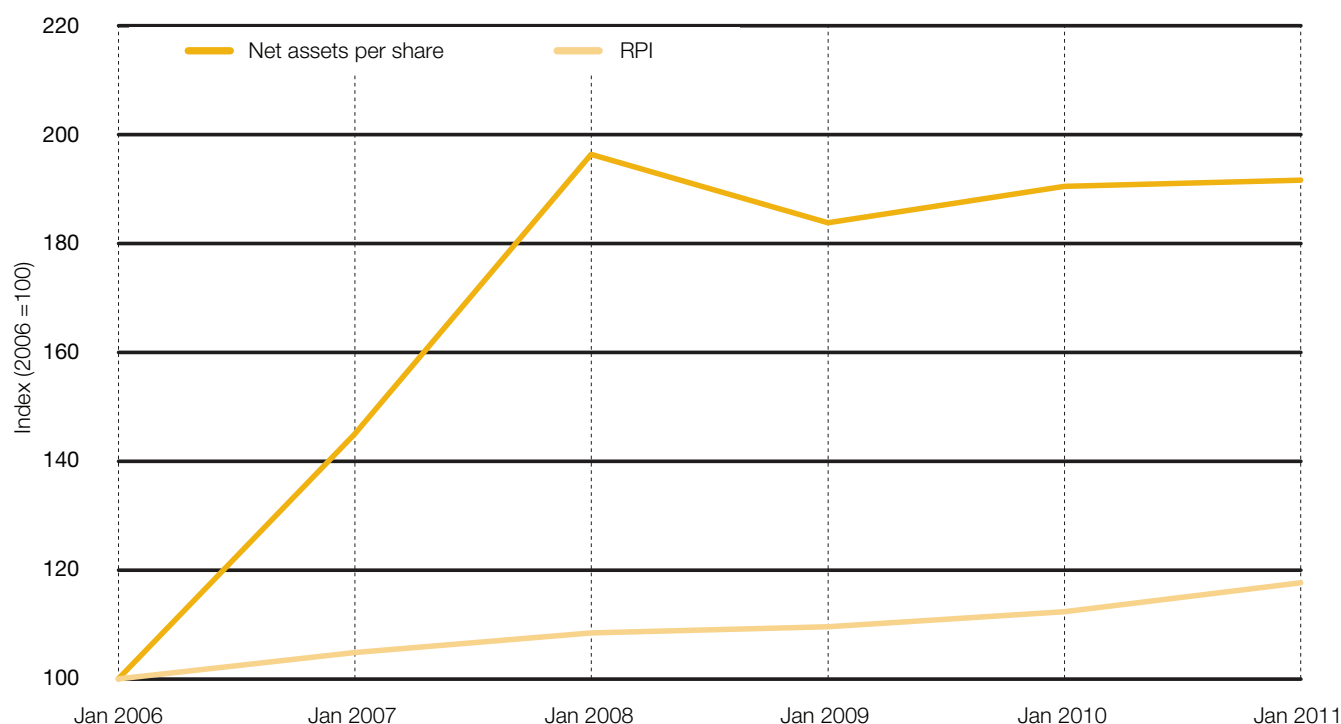


The following graph shows the Company's performance, measured by TSR, compared with the TSR of a peer group of listed specialist insurers (see performance conditions above).



Directors' Remuneration Report

The following graph shows the Company's performance, measured by the change in NAV per share compared with the RPI.



SHAREHOLDING GUIDELINES

Executive Directors are required to hold shares with a value equivalent to at least 150% of base salary. The value of shares is based on the average share price for the period 1 July to the announcement of the half-year results and includes unfettered and available shares held under the Company's AESOP but not share options or awards held under any other Company share scheme.

NEDs are required to hold shares with a value equivalent to 100% of base fee in respect of services provided to the Group.

The table below shows the threshold under the guidelines for each Director based on the share price as set out above for 2010 and salaries/fees due in 2011 and their interests in shares under the guidelines as at 31 December 2010.

Director	Threshold	Interest held
B P Bartell	890,450	1,630,196
K D Curtis	647,600	403,383
R V Deutsch	177,010	350,000
M J Gilbert	185,860	232,846
R T Scholes	168,160	165,000
C M Stooke	177,010	-
R A Stuchbery	1,133,300	2,709,949
G M Wood	168,160	-

Each Director has until May 2013 or, if later, three years from the date of his appointment to meet this guideline.

While below the target shareholding, a Director is allowed to sell up to 50% (net of tax) of shares vested from any Company share scheme but is not otherwise allowed to sell shares.

SHARE USAGE

Overall usage of new issue shares for all share schemes remains well within limits set by the Association of British Insurers (ABI) to prevent excessive dilution. The rules of each share scheme replicate those limits.

Typically, SAYE maturities have historically been satisfied through a mixture of new issue shares and market purchase shares, either directly or from the Employee Benefit Trust.

Partnership, Matching, Free and Dividend Shares under the SIP have largely been met through market purchase shares either directly or through the Employee Benefit Trust. Occasionally, for example in 2006, new issue shares have been used to satisfy part of the Free Share awards where it was not possible to satisfy the whole award through market purchases.

Historically, the Company has met the exercise of options under the Approved and Unapproved Share Option Schemes through market purchase shares, although in recent years, many have been cash settled based on the closing market price on the day of exercise to avoid dealing and spread costs to both Company and participant.

The Company has established an Employee Benefit Trust to hedge the cost of DSBP awards against share price increases and to facilitate vesting administration. At 31 December 2010, the Trust held 11,674,690 shares to satisfy awards and options under the Company's share schemes; all of these shares have been purchased in the market.

DIRECTORS' CONTRACTS

All Executive Directors have contracts that expire at normal retirement age and provide for 12 months' notice.

The details of the Executive Directors' contracts are summarised in the table below:

	Date of contract	Notice period
B P Bartell	27 January 2010	12 months
K D Curtis	27 January 2010	12 months
R A Stuchbery	28 January 2010	12 months

In the event of early termination, the Executive Directors' contracts provide for compensation up to a maximum of base salary for the notice period.

NON-EXECUTIVE DIRECTORS

The Chairman and all NEDs are appointed under letters of appointment that are subject to a mutual notice period of six months. Their current terms of appointment are as follows:

	Date appointed to the Board	Expiry date of letter of appointment
R V Deutsch	26 August 2009	30 September 2011
M J Gilbert	27 October 1993	AGM 2011
R T Scholes	11 March 2003	AGM 2012
C M Stooke	28 September 2010	28 September 2016
G M Wood	1 September 2010	1 September 2016

It should be noted that Robert Deutsch had served previously as an NED between January 2002 and December 2008.

The Executive Directors of the Board determine the remuneration of the NEDs, within the limits set by the Articles of Association, from independent surveys of fees paid to NEDs of similar companies. The total fee paid to each individual is based on his chairmanship and membership of the Board, of Board Committees and of the CSL Board.

NEDs can elect to have part of their fee as shares bought in the open market. The first shares under this arrangement were bought in February 2010.

NEDs do not participate in any of the Company's share option schemes and are not eligible to join the Company's pension scheme.

AUDITED INFORMATION

	Fees/ basic salary £000	Benefits in kind £000	SIP £000	Annual cash bonus £000	Value of Deferred Shares to be awarded £000	2010 Total £000	2010 Total excluding value of Deferred Shares to be awarded £000	2009 Total £000	2009 Total excluding value of Deferred Shares awarded £000
Directors' emoluments									
Executive									
B P Bartell	275	1	6	59	58	399	341	267	195
K D Curtis	190	1	6	44	43	284	241	14	10
R A Stuchbery	350	2	6	74	73	505	432	641	475
Non-executive									
R V Deutsch	80	-	-	-	-	80	80	34	34
M J Gilbert	75	-	-	-	-	75	75	91	91
R T Scholes	76	-	-	-	-	76	76	96	96
C M Stooke	19	-	-	-	-	19	19	-	-
G M Wood	24	-	-	-	-	24	24	-	-
Aggregate emoluments	1,089	4	18	177	174	1,462	1,288	1,143	901

Directors' Remuneration Report

The SIP column shows the aggregate cash value of both matching and free shares for awards arising for 2010; no consideration is payable at the date of award.

	Shares (direct holdings)	DSBP ¹ Deferred Shares	DSBP ² Forfeitable Shares	SIP ³ Available and Conditional	SIP ⁴ Locked-In	Total shares
Directors' interests at 31 December 2010						
B P Bartell	1,548,139	-	822,611	82,057	50,371	2,503,178
K D Curtis	350,606	-	277,621	52,777	44,169	725,173
R V Deutsch	350,000	-	-	-	-	350,000
M J Gilbert	232,846	-	-	-	-	232,846
R T Scholes	165,000	-	-	-	-	165,000
C M Stooke	-	-	-	-	-	-
R A Stuchbery	2,626,397	-	971,780	83,552	42,534	3,724,263
G M Wood	-	-	-	-	-	-
Directors' interests at 31 December 2009						
B P Bartell	650,869	2,076,368	-	79,961	33,638	2,840,836
K D Curtis	138,455	485,174	-	50,690	30,800	705,119
R V Deutsch	350,000	-	-	-	-	350,000
M J Gilbert	190,625	-	-	-	-	190,625
R T Scholes	75,000	-	-	-	-	75,000
R A Stuchbery	1,494,551	2,523,869	-	81,456	25,801	4,125,677

¹ DSBP Deferred Shares – these are awards of Deferred Shares under the DSBP. During 2010, Bruce Bartell, Ken Curtis and Robert Stuchbery were awarded 295,652, 192,392 and 360,870 Deferred Shares respectively.

² DSBP Forfeitable Shares – during 2010, Bruce Bartell, Ken Curtis and Robert Stuchbery surrendered their outstanding Deferred Shares and accrued Dividend Shares for an award of Forfeitable Shares on which tax was paid. The table below these notes sets out a reconciliation between DSBP Deferred Shares held at 31 December 2009 and DSBP Forfeitable Shares held at 31 December 2010.

³ SIP Available and Conditional Shares – these are shares held in the SIP that the Director may sell and may be subject to PAYE and NIC.

⁴ SIP Locked-in – these are shares held in the SIP that would be forfeited if the Director left the Company except under the "good leaver" provisions.

	DSBP Deferred Shares	DSBP Deferred Shares vested	DSBP Deferred Shares awarded	DSBP Dividend Shares awarded	DSBP Deferred Shares surrendered	DSBP Forfeitable Shares awarded	DSBP surrendered to pay Tax and NI contributions on conversion	DSBP Forfeitable Shares 31 December 2010
Reconciliation see note 2 above	31 December 2009	22 March 2010	11 March 2010	22 March 2010	22 March 2010	22 March 2010	22 March 2010	31 December 2010
B P Bartell	2,076,368	1,146,510	295,652	168,747	1,394,257	1,394,257	571,646	822,611
K D Curtis	485,174	244,015	192,392	36,994	470,545	470,545	192,924	277,621
R A Stuchbery	2,523,869	1,443,451	360,870	205,798	1,647,086	1,647,086	675,306	971,780

MATCHING SHARES UNDER DEFERRED SHARE BONUS PLAN

The matching share element of the DSBP is a long-term incentive scheme and is therefore disclosed separately. The release of matching shares is subject to the achievement of performance conditions outlined above.

Maximum contingent interest in matching shares under the DSBP is set out in the table below:

	Date of award	Number of shares at 1 January 2010	Allocated in year	Vested in year	Lapsed in year	Number of shares at 31 December 2010	Release date
B P Bartell	22/03/07	338,740	-	94,848	243,892	-	22/03/10
	13/03/08	364,412	-	-	-	364,412	13/03/11
	30/06/09	102,294	-	-	-	102,294	30/06/12
	11/03/10	-	591,304	-	-	591,304	11/03/13
K D Curtis	22/03/07	200,316	-	56,089	144,227	-	22/03/10
	13/03/08	213,132	-	-	-	213,132	13/03/11
	30/06/09	109,268	-	-	-	109,268	30/06/12
	11/03/10	-	384,784	-	-	384,784	11/03/13
R A Stuchbery	22/03/07	439,712	-	123,120	316,592	-	22/03/10
	13/03/08	464,708	-	-	-	464,708	13/03/11
	11/03/10	-	721,740	-	-	721,740	11/03/13

All holdings shown in the above tables are in ordinary shares in the Company.

DIRECTORS' SHARE OPTIONS

Aggregate emoluments disclosed above do not include any amounts for the value of share options to acquire ordinary shares in the Company granted to or held by the Executive Directors.

The Executive Directors held the following unexercised share options over ordinary shares under one or more of the share schemes as at the date below.

	Share options outstanding 1 January 2010	Share options granted	Share options lapsed	Share options exercised	Market price on date of exercise Pence	Share options outstanding 31 December 2010	Weighted average exercise price Pence	Exercise period MM/YY
ESOS¹								
B P Bartell	324,996	-	26,351	-	-	298,645	45.7	05/04-10/14
K D Curtis	189,728	-	-	-	-	189,728	41.5	11/06-10/14
R A Stuchbery	237,160	-	-	-	-	237,160	61.2	05/04-05/11
SAYE								
B P Bartell	23,571	-	-	-	-	23,571	38.5	12/12-05/13
K D Curtis	40,389	-	-	-	-	40,389	38.5	12/14-05/15
R A Stuchbery	40,389	-	-	-	-	40,389	38.5	12/14-05/15

¹ ESOS – The Unapproved Share Option Scheme and Approved Share Option Scheme (2001).

The closing price for the last trading day of the year was 52.25p on 31 December 2010 and the range during the year was 41.0p to 53.0p.

CHANGES SINCE 31 DECEMBER 2010

As at 30 March 2011, there have been no changes to the interests of directors in the shares or share options of the Company since 31 December 2010, except for the following:

	12 January 2011		9 February 2011		9 March 2011	
	P	M	P	M	P	M
SIP Partnership (P) and Matching (M) Shares						
B P Bartell	240	480	205	410	216	432
K D Curtis	240	480	205	410	215	430
R A Stuchbery	240	480	205	410	216	432
NED share purchases in lieu of fees under the trading plan						
	4 January 2011		3 February 2011		1 March 2011	
M J Gilbert	3,483		3,604		3,076	

Directors' Remuneration Report

CHAUCER PENSION SCHEME

Pension arrangements

The following Directors were members of the defined benefit scheme provided by the Company during the year.

Pension entitlements and corresponding transfer values increased as follows during the year:

	Gross increase in accrued pension (a) £	Increase in accrued pension net of inflation (b) £	Total accrued pension at 31 December 2010 (c) £	Value of net increase accrual over period (d) £	Total change in value during period (e) £	Value of accrued pension at 31 December 2010 (f) £	Value of accrued pension at 31 December 2009 (g) £
B P Bartell	2,346	(2,275)	101,853	(31,454)	141,297	1,946,273	1,798,590
R A Stuchbery	2,346	(4,078)	140,656	(51,321)	228,002	2,776,800	2,542,412

This table should be read in conjunction with the following notes:

- 1 Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year, ignoring future salary growth or benefit revaluation.
- 2 Transfer values have been calculated in line with the relevant UK regulations.
- 3 The figures in (b) are negative due to the inflation experienced over 2010 exceeding the inflationary increases applied to salary in the calculation of the Directors' accrued benefits which are based on a different inflation measurement period.
- 4 The value of net increase (d) represents the incremental value to the Director of his service during the year, net of inflation, calculated on the assumption that service terminated at the year-end. These figures reflect a normal retirement age of 65, in accordance with the benefit changes introduced during 2010 (see below).
- 5 The change in the transfer value (e) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as financial market movements. It is calculated after deducting the Director's contribution.
- 6 Voluntary contributions paid by directors and resulting benefits are not shown.

Ken Curtis was a member of the defined contribution scheme provided by the Company during the year. The contributions, excluding voluntary contributions, in respect of Ken Curtis were as follows:

	Employee contributions	Employer contributions	Total
K D Curtis	5,745	26,811	32,556

The Company, following consultation with members of the defined benefit section and with the approval of the pension scheme trustees, amended the defined benefit pension arrangements with effect from 1 June 2010 in the following manner:

- Reducing the accrual rate for future benefit to 75ths from 60ths except for a very limited number of senior employees (including Robert Stuchbery and Bruce Bartell) where it was reduced to 60ths from 45ths;
- Limiting pensionable salary increases to the lower of the actual monetary increase in base pay over the previous 12 months and 5% of pensionable pay 12 months earlier;
- Increasing Normal Retirement Age to 65, for future benefits only; and
- Increasing the employee contribution rate from 4% to 5% on 1 May 2011 and 6% on 1 May 2014 except for the senior employees where it was increased to 6% from 1 June 2010.

This Report was approved by the Board of Directors on 31 March 2011 and signed on its behalf by

Robert Deutsch

Chairman, Remuneration Committee

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Under Company law, the Directors:

- Are required to prepare Group financial statements for each financial year in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation; and
- Must not approve these financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- State that the Group has complied with IFRS subject to any material departures disclosed and explained in the financial statements; and
- Make judgements and estimates that are reasonable and prudent.

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

..... Statement of Directors' Responsibilities in Relation to Disclosure and Transparency Rules

Each of the Directors as of 31 December 2010 confirm to the best of their knowledge that:

- 1 The financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- 2 The Directors' Report and the statements and reports referred to therein include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board of Directors on 31 March 2011 and signed on its behalf by

David Turner

Company Secretary

Independent Auditor's Report to the Members of Chaucer Holdings PLC

We have audited the Group financial statements of Chaucer Holdings PLC for the year ended 31 December 2010, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Balance Sheet, Consolidated Statement of Cash Flows and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 63, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

OPINIONS ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Report set out on pages 44 to 51 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Certain disclosures of directors' remuneration specified by law are not made;
- We have not received all the information and explanations we require for our audit; or
- A Corporate Governance Report has not been prepared by the company.

Under the Listing Rules we are required to review:

- The Directors' Statement, set out on page 50, in relation to going concern;
- The part of the Corporate Governance Report on pages 44 to 51 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- Certain elements of the report to shareholders by the Board on Directors' remuneration.

OTHER MATTER

We have reported separately on the parent company financial statements of Chaucer Holdings PLC for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Kevin Senior

Senior statutory auditor

for and on behalf of Ernst & Young LLP, Statutory Auditor

London, 31 March 2011

Consolidated Income Statement for the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Gross written premiums	4	849.6	796.3
Change in provision for gross unearned premiums	24	(70.2)	(27.0)
Gross earned premiums		779.4	769.3
Outward reinsurance premiums		(228.8)	(170.8)
Change in provision for unearned premiums - reinsurers' share	24	38.3	7.8
Net earned premiums	4	588.9	606.3
Net investment return	5	33.6	53.3
Other operating income	6	11.7	11.2
Total revenue from operations		634.2	670.8
Gross claims paid	24	(450.8)	(416.8)
Movement in gross technical provisions		(119.2)	(74.3)
Gross claims incurred		(570.0)	(491.1)
Reinsurers' share of gross claims paid	24	109.4	86.3
Movement in reinsurers' share of technical provisions		59.1	15.1
Reinsurers' share of claims incurred		168.5	101.4
Net claims incurred		(401.5)	(389.7)
Expenses incurred in insurance activities	7	(173.3)	(198.3)
Other operating expenses	8	(22.2)	(36.7)
Total operating charges		(597.0)	(624.7)
Profit from operations		37.2	46.1
Finance costs	11	(4.3)	(4.1)
Profit before tax		32.9	42.0
Income tax expense	12	(10.4)	(13.9)
Profit for the year		22.5	28.1
Earnings per share			
Basic	13	4.3p	5.8p
Diluted	13	4.0p	5.8p

All of the operations of the Group are continuing.

..... Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Profit for the year		22.5	28.1
Other comprehensive (expense)/income			
Defined benefit pension scheme: actuarial losses for the year	23	(3.4)	(5.0)
Deferred tax credit in respect of actuarial losses	16	0.9	1.4
Other comprehensive expense, net of tax		(2.5)	(3.6)
Total comprehensive income attributable to owners of the parent		20.0	24.5

Consolidated Statement of Changes in Equity for the year ended 31 December 2010

	Notes	Called up share capital £m	Own shares £m	Share premium account £m	Bonus reserve £m	Retained earnings £m	Total equity £m
At 1 January 2010		137.0	(28.3)	90.9	27.3	89.8	316.7
Total comprehensive income		-	-	-	-	20.0	20.0
Dividends paid	29	-	-	-	-	(21.5)	(21.5)
Investments in own shares		-	(0.6)	-	-	-	(0.6)
Share option costs		-	-	-	0.2	0.1	0.3
Vested shares		-	12.7	-	(18.2)	2.6	(2.9)
Cost of shares and share options exercise		-	0.7	-	(0.1)	(0.1)	0.5
Bonus costs deferred share bonus plan		-	-	-	5.4	-	5.4
At 31 December 2010	21	137.0	(15.5)	90.9	14.6	90.9	317.9
At 1 January 2009		87.0	(31.5)	66.0	20.8	83.2	225.5
Total comprehensive income		-	-	-	-	24.5	24.5
Shares issued	20	50.0	-	24.9	-	-	74.9
Dividends paid	29	-	-	-	-	(18.6)	(18.6)
Investments in own shares		-	(0.3)	-	0.3	-	-
Share option costs		-	-	-	-	0.6	0.6
Vested shares		-	2.5	-	(2.9)	0.4	-
Cost of shares and share options exercise		-	1.0	-	(0.3)	(0.3)	0.4
Bonus costs deferred share bonus plan		-	-	-	9.4	-	9.4
At 31 December 2009	21	137.0	(28.3)	90.9	27.3	89.8	316.7

Consolidated Balance Sheet at 31 December 2010

	Notes	2010 £m	2009 £m
Assets			
Intangible assets	14	32.1	32.1
Tangible fixed assets	15	6.4	7.9
Reinsurers' share of technical provisions	24	449.4	340.5
Deferred income tax	16	13.4	17.0
Current tax	25	4.1	0.4
Deferred acquisition costs	17	101.2	82.3
Prepayments and accrued income		23.0	15.4
Trade and other receivables	18	238.3	207.0
Financial assets	3	837.3	851.8
Cash and cash equivalents	19	634.7	501.7
Total assets		2,339.9	2,056.1
Equity			
Share capital	20, 21	137.0	137.0
Own shares	21	(15.5)	(28.3)
Share premium account	21	90.9	90.9
Bonus reserve	21	14.6	27.3
Retained earnings	21	90.9	89.8
Total equity		317.9	316.7
Liabilities			
Subordinated debt	22	40.8	40.3
Employee benefits provision	23	13.2	14.2
Technical provisions	24	1,740.3	1,532.3
Accruals and deferred income		13.7	12.0
Trade and other payables	26	214.0	140.6
Total liabilities		2,022.0	1,739.4
Total equity and liabilities		2,339.9	2,056.1
Net asset value per ordinary share	27	60.0p	61.7p
Net tangible asset value per ordinary share	27	53.9p	55.5p

The financial statements were approved by the Board of Directors on 31 March 2011 and signed on its behalf by

Robert Stuchbery

Chief Executive Officer

Ken Curtis

Chief Finance Officer

Consolidated Statement of Cash Flows for the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Operating activities			
Cash generated from operations	28	122.4	54.5
Tax paid	25	(9.6)	(13.4)
Net cash flows from operating activities		112.8	41.1
Investing activities			
Interest received		49.3	22.4
Equity dividends received		0.6	0.6
Purchases less sales of financial assets		(1.0)	(22.8)
Purchase of tangible fixed assets	15	(0.6)	(1.1)
Net cash flows from/(used in) investing activities		48.3	(0.9)
Financing activities			
Cash received on share option exercise		0.5	0.4
Costs associated with vesting of shares		(2.9)	-
Purchase of own shares	21	(0.6)	-
Shares issued, net of expenses	20	-	74.9
Interest paid		(4.3)	(4.1)
Dividends paid	29	(21.5)	(18.6)
Net Cash flows (used in)/from financing activities		(28.8)	52.6
Net increase in cash and cash equivalents		132.3	92.8
Cash and cash equivalents at 1 January		501.7	420.8
Effect of changes in rates of exchange		0.7	(11.9)
Cash and cash equivalents at 31 December	19	634.7	501.7

1. ACCOUNTING POLICIES

Chaucer Holdings PLC, the ultimate holding company of the Group, is a public limited company registered in England and Wales, whose subsidiaries are private limited companies.

Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). IFRS comprises standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The Consolidated Financial Statements have been prepared on the historical cost basis, except for the revaluation of financial assets held at fair value through profit and loss, long term assets and liabilities at amortised cost using the effective interest rate method and pension liabilities which are determined by actuarial analysis.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new standards or interpretations as of 1 January 2010, which have not had any effect on the financial position or performance of the Group:

- IFRS 3 (Revised) Business Combinations
- IAS 24 (Revised) Related Party Disclosures
- Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions
- IAS 32 Financial Instruments: Presentation - Classification of Rights Issues

In addition to the above there are a number of new standards, interpretations and changes to existing standards issued by the IASB, which the EU has not yet endorsed and the Group has not adopted.

The Consolidated Financial Statements include the accounts of the parent and each subsidiary where the parent owns, directly or indirectly, over 50% of the voting rights, or over which it has control of their operating and financial policies.

Consolidation includes elimination of all inter-company transactions and balances.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred at the acquisition date, the date on which control is obtained. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the assets acquired the difference is recognised directly in the income statement.

Foreign currency translation

The Consolidated Financial Statements are presented in sterling, which is the functional currency of most companies within the Group, being the currency of the primary economic environment of those companies.

Monetary transactions are translated at rates of exchange prevailing at the date of the transaction or average rates where appropriate. Differences resulting from the retranslation on the opening net assets and the results for the year have been taken to reserves. Monetary assets and liabilities are translated at the closing rate of exchange and any exchange differences arising from the change in rates of exchange are recognised in the income statement.

Non-monetary transactions, assets and liabilities, including deferred acquisition costs and unearned premiums, are translated at rates of exchange prevailing at the date of the transaction or average rates where appropriate.

The average of the rates of exchange used during the financial year were as follows:

	2010	2009
US Dollars	1.55	1.57
Canadian Dollars	1.59	1.78
Euros	1.17	1.12

The closing rates of exchange at the year end were as follows:

	2010	2009
US Dollars	1.57	1.61
Canadian Dollars	1.56	1.69
Euros	1.17	1.13

Underwriting transactions

The results for all classes of business in respect of participations on syndicates managed by the Group are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premium, net of reinsurance as follows:

- (i) Premiums written comprise the premiums on contracts incepting in the financial year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified, less allowance for cancellations.
- (ii) Reinsurance premiums and any related reinsurance recoveries are accounted for in the same accounting period as the premiums and claims for the related direct or inwards reinsurance business.
- (iii) Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date.
- (iv) Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related policies are earned.
- (v) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from prior years. Where applicable, deductions are made for salvage and other recoveries.
- (vi) Outstanding claims represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not reported, less any amounts paid in respect of those claims. Outstanding claims are reduced by anticipated salvage and other recoveries. The ultimate cost of outstanding claims is estimated by using a range of actuarial projection methods. The primary sensitivity in these methods is the assumption that experience is indicative of the outcome of current business and, where past experience is insufficient, that market benchmarks are representative of the relevant syndicate's own underwriting. Significant delays can be experienced in the notification and settlement of certain claims and, accordingly, the ultimate cost of such claims cannot be known with certainty at the balance sheet date. In particular, estimates of technical provisions inevitably contain inherent uncertainties because significant periods of time may elapse between the occurrence of an insured loss, the reporting of that claim to the syndicate and the syndicate's payment of the claim and the receipt of reinsurance recoveries. While the Directors consider that the estimate of outstanding claims is fairly calculated, on the basis of the information currently available to them, the ultimate liability remains inherently uncertain and may change as a result of subsequent information and events which may result in the eventual cost of settling these liabilities being higher or lower than the amount calculated.
- (vii) Reserves are set based upon an expectation that there will not be a subsequent release or deficit. In arriving at this estimate, allowance is made for the inherent uncertainty involved in the setting of reserves.
- (viii) Liability adequacy test: at each reporting date an assessment is made to determine whether recognised insurance liabilities are adequate. If that assessment shows that the carrying amount of insurance liabilities (less related acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is recognised in the income statement via the provision of an unexpired risk reserve. The provision for unexpired risks is included within technical provisions in the balance sheet.

Participation in Nuclear Pools

The Group, through its underwriting interest in Syndicate 1176, participates on business underwritten by Nuclear Risk Insurers Limited (NRI). In addition to insuring UK based nuclear risks, NRI participates on reinsurance programmes of similar overseas nuclear pools. As part of these arrangements, NRI reinsures a portion of its business with the overseas pools and accepts inwards reinsurance on a reciprocal basis. NRI accounts to its members on a basis net of the inter-pool reciprocal reinsurance arrangements.

NRI maintains its underwriting accounts on a three-year basis and, on closure of an account after three years, it transfers the liabilities to the next open year of account by means of a portfolio transfer. Syndicate 1176 pays and receives a proportion of this portfolio transfer between its closing and next open year of account. The difference to the Syndicate between the amount paid to close one year of account and that received by the following year of account is due to the different proportions of the NRI pool written by the Syndicate for each year of account and is treated as an additional or return premium. The Consolidated Financial Statements include the Group's share of these transactions, on an annually accounted basis.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment management fees. Dividend income is recognised when the shareholder's right to receive payment is established. Interest income is recognised as it accrues and is calculated by using the effective interest rate method.

Other operating income

Other operating income comprises retained underwriting agency fees, management fees and underwriting profit commissions. Underwriting agency fees are brought into account in the year to which they relate. Profit commissions expected to arise on the closure of a Lloyd's year of account in respect of the managed syndicates are recognised as earned on an annual basis to match the related underwriting profits.

Net expenses incurred in insurance activities

Expenses incurred in insurance activities are recognised on an accruals basis. These comprise the Group's share of syndicate operating expenses, acquisition costs and the costs of membership of Lloyd's and other expenses attributable to the Group's underwriting, stated net of contributions from quota share reinsurers.

Other operating expenses

Operating expenses are recognised on an accruals basis. These comprise Group operating expenses such as remuneration, office and administrative costs.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, form part of the cost of that asset and are therefore capitalised.

Taxation

The tax expense represents the sum of the tax currently payable and the movement in deferred tax.

The tax currently payable is based on taxable income for the year. Taxable profit differs from net profit as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in other years or items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates applicable at the balance sheet date.

Deferred income tax is generally provided in full on temporary differences arising between the tax bases of assets and liabilities and the carrying value in the consolidated financial statements. However, if deferred income tax arises from the initial recognition of goodwill for which amortisation is not deductible for tax purposes, or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not provided for. Deferred income tax is determined using tax rates enacted, or substantively enacted, at the balance sheet date and expected to apply when the related tax is affected.

The deferred tax resulting from the recognition of actuarial losses for the year on the defined benefit pension scheme is recorded in the Statement of Comprehensive Income.

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

Deferred income tax is provided on the temporary differences arising on investments in subsidiaries, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset only where there is a legal right of offset and the deferred taxes relate to the same fiscal authority.

Leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements, which transfer to the Group substantially all the benefits and risks of ownership of an asset, are treated as if the asset has been purchased outright. The assets are included in tangible assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements.

The capital element is applied to reduce the outstanding obligations and the interest element charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term and their useful life.

Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are paid. Dividends declared after the balance sheet date but before the financial statements are authorised are not recognised but are disclosed in the notes to the financial statements.

Syndicate participations

Syndicate participations represent an aggregation of the proportion of assets and liabilities of each syndicate in which the Group participates. Those assets are held subject to the individual syndicate trust funds and the Group cannot obtain or use them until such time as each syndicate underwriting year is closed and profits are distributed, or an advance profit release is made.

Cash and cash equivalents

Cash and cash equivalents represent cash balances and money market deposits lodged with banks and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Investments with an original maturity date of less than three months are treated as cash equivalents.

Financial assets

All investments are, on initial recognition, classified as fair value through profit and loss and are measured at fair value. The fair value of quoted financial investments is based on current bid prices. Unquoted equity investments are initially carried at cost as the best estimate of fair value and are adjusted thereafter whenever events or changes in circumstances indicate that the carrying amount may not approximate to fair value. The fair value of an unquoted equity is calculated using the most appropriate valuation technique, such as reference to current fair values of another instrument that is substantially the same, discounted cash flow analysis or option pricing models.

The fair value of unquoted hedge fund investments is determined from net asset values provided by independent third-party fund administrators. Whilst many hedge funds operate in specialist markets, the securities in which they invest are predominantly listed or exchange traded; such securities can therefore be priced consistently with normal market practices for the valuation of listed securities.

If funds hold unquoted assets they are typically valued with reference to listed securities of a similar nature or by using pricing models that are reviewed and approved by an independent pricing specialist. The value of underlying assets valued in such a way is relatively small and the potential impact on Group results that could arise from pricing errors is considered to be immaterial in the context of the total investment portfolio.

The Directors consider the fair value through profit and loss option to be appropriate as financial assets are managed and their performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information is provided internally on that basis to key management personnel. In addition, investment risk is assessed on a total return basis that is consistent with the adoption of fair value through profit and loss.

All purchases and sales of financial assets are accounted for on the trade date. Investments are initially recognised at fair value and derecognised when sold. Realised and unrealised gains and losses arising from the change in fair value are included in the income statement in the period in which they arise.

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to manage these exposures. The Group does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the income statement. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment. Depreciation is calculated to write off the cost of tangible fixed assets over the estimated useful lives as follows:

Buildings	25 years	straight line
Lease improvements	20%	per annum
Furniture, office fixtures and fittings	8-20%	per annum
Computer equipment	33%	per annum

Intangible assets

Intangible assets comprise goodwill and auction costs arising on the purchase of syndicate capacity.

Goodwill represents the excess of the cost of acquired businesses over the fair value of the net assets acquired. The Group deems the goodwill that arose on the purchase of the Managing Agent to have an indefinite useful life, since, in the current business strategy, the Group will benefit from the activities of the Managing Agent for as long as it carries on doing business.

Auction costs are the costs incurred in purchasing additional capacity on the Syndicates currently managed by Chaucer Syndicates Limited. The capacity purchased is deemed to have an indefinite useful economic life represented by participation rights to membership on each syndicate, since it is deemed that the benefits from that capacity have no foreseeable limit.

Both goodwill and auction costs are recognised in the Consolidated Balance Sheet at cost less any impairment.

Both goodwill and auction costs are tested annually for impairment. Where there is any reduction in the carrying amount for either, this would be recognised in the Consolidated Income Statement during the period in which the reduction is determined.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts, subject to being tested for impairment at that date.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent of other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite life is tested for impairment annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the Consolidated Income Statement immediately.

Except for goodwill, where impairment losses cannot be reversed, where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount will not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of the impairment loss is recognised in the Consolidated Income Statement immediately.

Long-term assets and liabilities

Where assets and liabilities are payable or recoverable in more than one year, they are initially recognised at their fair value, which is the discounted nominal value of the asset or liability. The unwinding of the related discount is subsequently recognised in the income statement.

Provisions and contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where a reimbursement is expected, this is recognised only when it is virtually certain that the reimbursement will take place, and of the amount to be reimbursed.

Contingent liabilities are liabilities that represent a possible obligation arising from a past event whose existence is dependent on one or more uncertain future events not within the control of the Group, or a present obligation where it is not probable that an outflow will be required for settlement of the obligation.

Contingent liabilities are not disclosed where the likelihood of the uncertain future event is remote, unless the disclosure of the contingent liability adds clarity to the financial statements.

Contingent assets, which relate to possible assets and depend on the outcome of uncertain future events, are not recognised. Such an asset is disclosed only where the inflow of economic benefit is probable.

Employee benefits: pensions

The Group operates a single pension scheme with both a defined benefits and, from December 2001, a defined contribution section.

Payments to the defined contribution section are charged as expenses as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Contributions in respect of the defined benefits section are paid in accordance with the recommendations of independent actuaries. The costs of providing benefits under this section are determined using the projected unit credit method, with full actuarial valuations being carried out at least every three years (or sooner if significant changes in the assumptions surrounding the valuation of the scheme's assets and liabilities require it) and updates being carried out every six months. These costs are recognised in the income statement based on the valuation prepared by independent actuaries.

Actuarial gains and losses are recognised in full in the period in which they occur, outside profit or loss, in the Consolidated Statement of Comprehensive Income. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations and is reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Employee benefits: shares

The Group grants shares to its employees under a number of share schemes. The shares granted are measured at fair value at the date of the grant and are expensed on a straight-line basis over the vesting period, based on the terms of the share schemes. The expense is recorded against a bonus reserve in equity.

When the shares necessary to satisfy the benefit are purchased, they are recorded as own shares within equity, at their acquisition cost. These shares are held in a separately administered trust fund and deducted from equity.

If the vesting shares and options are exercised by the employee and the shares leave the trust, own shares and the bonus reserve are reduced by the number of vesting shares valued at acquisition cost. If there is any difference between the acquisition cost and the fair value used at the date of setting the bonus reserve, it will be adjusted to retained earnings.

In accordance with the rules of the schemes, certain shares attract matching shares, if certain performance conditions are met. The number of matching shares and the fair values are determined through stochastic models that estimate the probabilities of the performance conditions being met. The cost of matching shares is amortised over the same period of time as the original shares. The assumptions behind the determination of matching shares and their fair values are reassessed, when applicable, at the end of each accounting period and the impact of any change is recorded in the Consolidated Income Statement.

Employee benefits: share options

The Group grants share options to employees under a number of option schemes. The share options granted are measured at fair value at the date of the grant and are expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

IFRS 2 Share-based Payment does not require share options granted before 7 November 2002 to be fair-valued, or those granted after 7 November 2002 that had vested as at 1 January 2005 to be expensed. Therefore, the costs recognised in the income statement reflect only the share grants made after 7 November 2002 that had not vested before 1 January 2005.

At each balance sheet date, the Group revises the estimate of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity over the remaining vesting period. The proceeds received, net of any directly attributable transaction costs, are credited either to share capital (nominal value) and share premium, if shares are issued, or to investment in own shares, if shares are purchased, when the share options are exercised. If shares are purchased in the market to settle the share options then any difference between the exercise price, the fair value of the share options and the cost of the shares issued, is taken to retained earnings.

No expense is recognised for share options that do not ultimately vest, except for share options where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of a share option are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee, as measured at the date of modification.

Where a share option is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new share option is substituted for the cancelled share option, and designated as a replacement share option on the date that it is granted, the cancelled and new share options are treated as if they were a modification of the original share option, as described in the above paragraph.

Subordinated debt

The long-term loans are recognised initially at fair value, net of transaction costs incurred. The loans are subsequently stated at amortised cost; any difference between the initial carrying amount and the redemption value is recognised in the income statement over the expected period of the borrowings using the effective interest rate method.

Critical accounting estimates and judgements in applying accounting policies

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The most critical accounting estimate made by the Group is the estimate of the ultimate claims liability under insurance contracts underwritten. The estimation of the liability considers historical data, with most relevance given to recent data, of claims experience in each particular account.

Other areas where the Directors have applied significant judgement are as follows:

- The decision to value the financial assets at fair value through profit and loss, based on the considerations described in the relevant accounting policy above, has impacted the final determination of the profit for the year, as the methods and assumptions required by this classification differ substantially from other options available to the Directors.
- In valuing the tax charge for the year, and in particular the deferred tax asset associated to losses available to the Group, the Directors have taken into consideration the proposed future changes to tax regulations and the availability of potential future profits.
- The bonus payable to staff and directors is based on a formulaic approach applicable to either the profit before tax or profit after tax for the year, depending on the bonus scheme. As a consequence, the uncertainties and assumptions affecting the valuation of insurance liabilities and investments, described above, have a material impact on the calculation of the bonus. In addition, the Directors have applied judgement in areas that have a significant impact on the recognition and deferral of the bonus charge, such as the estimate of when the long-term elements of the bonus will be paid and an estimate of whether the conditions affecting the allocation of matching shares will be met.

The Consolidated Income Statement adjusts and recognises any subsequent adjustments for inadequacies or surpluses.

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK**Underwriting risk**

Each Division within the Group undertakes an extensive underwriting planning process in order to determine annual targets for premium income and return on capital. The maximum level of risk acceptable to the Group in achieving the plan is determined by the Risk & Capital Committee and approved by the CHP Board. The Group strategy, underwriting risk appetite and forecast pricing levels, loss ratios and reinsurance costs are the primary drivers of the plan.

Underwriting risk appetite sets the acceptable probabilities for different levels of net underwriting loss, expressed as a percentage of the Group's net tangible assets (NTA) for both a single event and accumulated events over 12 months.

Probability return period	Probability %	Single event % of NTA	Aggregated events % of NTA
25	4	18.6	36.4
50	2	26.0	43.4
100	1	30.4	50.9
200	0.5	38.0	60.3
500	0.2	51.0	73.1

The detailed stochastic modelling of underwriting risk, both gross and net of reinsurance, using dynamic financial analysis techniques, assists with the setting and management of risk appetite.

Catastrophe risk is the main component of underwriting risk and the Group uses Exceedance Probability (EP) curves as the primary tool for managing this risk. For a defined underwriting portfolio, an EP curve plots expected probability against loss size. This represents a sliding scale of risk appetite against associated exceedance probabilities.

Managing risk aggregation

The Group monitors the aggregation of underwriting exposure using specialist modelling software tools. Syndicate 1084 monitors its loss exposure to a suite of natural catastrophe events (including the prescribed Lloyd's Realistic Disaster Scenarios) on a monthly basis. Modelled loss caps are set at an underwriting business unit level for each event; this provides the underwriters with a practical tool for managing their exposures.

Concentrations of risk

The Group has exposure to losses arising through the aggregation of risks in geographical sectors. This mainly affects the property, marine and energy portfolios. Events giving rise to such aggregations are typically natural disasters such as earthquakes or weather-related disasters such as hurricanes, windstorms and typhoons. Other examples include major terrorism events.

As part of the risk management process, the Group models Realistic Disaster Scenarios (RDS) every quarter to enable it to monitor potential accumulations of underwriting exposure against a pre-determined suite of catastrophic events and to confirm that there is no breach of underwriting risk appetite. The following table shows the largest net RDS exposures, with an indicative estimate of the likely gross and final net loss incurred from each scenario at 1 January 2010 and 2011. The Group updates the RDS scenarios annually, based on Lloyd's requirements and an internal assessment of its main exposures.

	Total insured loss £bn		Syndicate gross loss £m % ¹		Syndicate final net loss £m % ¹	Group final net loss £m ²
1 January 2011						
Syndicate 1084 scenario						
California earthquake (Los Angeles)	49.7	196.3	23.8	82.3	10.0	68.8
Gulf of Mexico windstorm	71.0	154.7	18.8	70.0	8.5	58.5
California earthquake (San Francisco)	49.7	200.3	24.3	81.4	9.9	68.1
Two events: North East windstorm	49.7	159.3	19.3	57.9	7.0	48.4
Florida windstorm: Pinellas County	79.6	152.5	18.5	65.5	7.9	54.8
European windstorm	19.7	99.0	12.0	36.8	4.5	30.8
Japanese earthquake	39.4	118.1	14.3	38.1	4.6	31.9
Florida windstorm: Miami-Dade	79.6	139.1	16.9	50.1	6.1	41.9
New Madrid earthquake	29.9	85.9	10.4	56.8	6.9	47.5
Terrorism: Exchange Place	9.1	52.7	6.4	34.6	4.2	28.9
Terrorism: Rockefeller Center	8.5	40.1	4.9	22.1	2.7	18.5
Professional Lines: Financial market crisis	n/a	45.6	5.5	36.0	4.4	30.1
Political Risk: South East Asia crisis	n/a	54.2	6.6	30.9	3.7	25.8
Loss of major energy complex	n/a	112.8	13.7	31.3	3.8	26.2
Syndicate 1176 scenario						
Core melt event at a single Sweden nuclear power station	2.0	196.5	620.5	100.1	316.1	54.9
Core melt event at a single US nuclear power station	1.5	69.9	220.7	62.1	196.1	34.0
Turbine failure in Japan	1.0	18.8	59.4	18.8	59.4	10.3
1 January 2010						
Syndicate 1084 scenario						
California earthquake (Los Angeles)	47.3	153.1	21.7	61.2	8.7	51.3
Gulf of Mexico windstorm	67.3	128.7	18.2	63.1	8.9	52.9
California earthquake (San Francisco)	47.3	168.9	23.9	64.5	9.1	54.1
Two events: North East windstorm	47.3	124.2	17.6	68.4	9.7	57.4
New Madrid earthquake (extreme stress scenario)	64.8	123.2	17.4	61.9	8.8	51.9
Florida windstorm: Pinellas County	75.8	121.1	17.1	53.9	7.6	45.2
European windstorm	18.8	105.4	14.9	46.4	6.6	38.9
Japanese earthquake	30.9	102.0	14.4	55.1	7.8	46.2
Florida windstorm: Miami-Dade	75.8	114.6	16.2	51.5	7.3	43.2
New Madrid earthquake	28.5	65.4	9.2	51.0	7.2	42.8
Terrorism: Exchange Place	9.1	50.2	7.1	40.1	5.7	33.6
Terrorism: Rockefeller Center	8.5	39.6	5.6	28.3	4.0	23.7
Professional Lines: Financial market crisis	n/a	29.0	4.1	19.2	2.7	16.1
Political Risk: South East Asia crisis	n/a	57.4	8.1	34.9	4.9	29.3
Loss of major energy complex	n/a	104.7	14.8	33.1	4.7	27.8
Syndicate 1176 scenario						
Core melt event at a single Canadian nuclear power station	2.0	194.8	614.5	64.1	202.2	35.1
Core melt event at a single US nuclear power station	2.0	76.1	240.1	60.0	189.3	32.9
Terrorist event (non-TRIPRA): Non-core melt	0.2	32.7	103.2	32.7	103.2	17.9

¹ Based on a 2011 premium capacity of £825.0m (2010 £745.0m) for Syndicate 1084 and £31.7m (2010 £31.7m) for Syndicate 1176.

² Based on a Group economic interest of 83.6% (2010 84.1%) of Syndicate 1084 and 54.8% (2010 54.8%) of Syndicate 1176.

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

Maximum Lines

Underwriters manage individual risks through adherence to set maximum line sizes. The following table details the maximum gross line sizes that were in place for 2010 and 2009 by class of business.

Division	Class of business	Currency	Maximum line (Gross)	
			2010 Millions	2009 Millions
Marine	Specie	USD	72.5	72.5
	Liability	USD	60.0	60.0
	Cargo	USD	35.0	50.0
	War	USD	30.0	30.0
	Hull	USD	30.0	30.0
	Political risk	USD	20.0	20.0
	Satellite	USD	7.5	7.0
	Excess of loss	USD	7.5	2.5
Energy	Exploration and production	USD	150.0	125.0
	Construction	USD	150.0	85.0
	Liability	USD	40.0	50.0
	Midstream	USD	75.0	45.0
	Downstream	USD	22.5	17.5
	Power and utilities	USD	30.0	30.0
Aviation	Liability	USD	60.0	60.0
	Refuellers and products	USD	50.0	50.0
	Hull	USD	5.0	5.5
Property	Engineering	USD	50.0	50.0
	Facultative: USA/Canada	USD	34.0	30.0
	Facultative: International	USD	34.0	30.0
	Delegated authority: USA/Canada	USD	22.5	17.5
	Delegated authority: International	GBP	22.5	6.0
	Treaty: Catastrophe	USD	20.0	15.0
	Treaty: Risk excess of loss	USD	10.0	7.0
	Treaty: Other reinsurance	USD	7.0	7.0
Specialist Lines	Medical	USD	25.0	25.0
	Accident & Health	USD	20.0	20.0
	UK and international general liability	GBP	7.5	10.0
	Financial institutions	GBP	10.0	7.5
	General casualty treaty	USD	3.0	7.5
	General casualty direct	USD	2.0	2.0
	Directors & Officers/Errors & Omissions	USD	2.0	2.0
	Other claims made	USD	2.0	2.0
Nuclear	Property	GBP	200.0	200.0
	Liability	GBP	60.0	60.0

Terms and conditions of contracts

Other than UK motor insurance, all of the policies underwritten have maximum indemnity limits per insured event. In addition, the number of reinstatements per policy is limited and deductibles and policy exclusions further limit risk.

UK motor insurance is unlimited by statute but the Group buys reinsurance to limit any potential maximum loss arising from any one assured.

Underwriting controls

The Group operates a number of underwriting controls, details of which are set out below.

Peer and independent reviews

Peer review is performed on a risk-based sample of business by another Group underwriter to ensure adherence to sound underwriting practices. Independent review is performed under the auspices of the Audit and Assurance function which reports directly to the Audit Committee and is independent of the Syndicates. The process involves detailed review of individual underwriting risks and supporting documentation on a monthly basis.

Underwriting risk review

Themed underwriting reviews are conducted by the Underwriting Risk Review Department to ensure that underwriting procedures and discipline are followed.

Internal audit

Group Internal Audit provides assurance over the performance of the underwriting controls.

Emerging risks

An emerging risk is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving or capital setting. The Group has an Emerging Risk Group to identify and assess the potential impact of such risks.

Monitoring performance against plan

The Group manages performance against plan through monthly divisional reporting, utilising centrally prepared underwriting management information packs. The Divisions report to the Group's Underwriting Board which in turn reports to the CSL Board. This control process ensures several layers of review for underwriting risks, with particular focus on pricing, loss ratio forecasts, reserving adequacy, risk aggregation, catastrophe modelling and reinsurance protection.

Reinsurance

Reinsurance purchase limits the Group's exposure to individual risks and aggregations of risks. The Group purchases a number of different types of reinsurance, including:

- Facultative (to limit the exposure on a specified contract)
- Specific excess and proportional treaty (to limit exposure to individual contracts or risks within specified classes of business)
- Catastrophe excess of loss (to limit exposure to any one event that might impact more than one individual contract)

The reinsurance programme is reviewed by the Group's Underwriting Board, peer reviewed and then approved by the CSL Board. The Actuarial Department provides supporting analysis using stochastic modelling techniques. The Underwriting Board also monitors erosion of cover.

At 31 December 2010 the expected ultimate costs of the 2010 and 2009 reinsurance programmes, including outstanding cost and expected reinstatement premiums, on a 100% basis, was:

	£m	US\$m	Can\$m	2010 Converted £m	£m	US\$m	Can\$m	2009 Converted £m ¹
Facultative	0.1	3.8	-	2.5	1.3	4.9	-	4.4
Proportional	11.1	63.8	0.6	52.2	7.2	33.9	0.2	28.9
Excess of loss	25.1	108.4	0.4	94.4	23.1	86.6	1.1	79.0
Syndicate 1084	36.3	176.0	1.0	149.1	31.6	125.4	1.3	112.3
Excess of loss	4.9	-	-	4.9	4.1	-	-	4.1
Syndicate 1176	4.9	-	-	4.9	4.1	-	-	4.1
Total	41.2	176.0	1.0	154.0	35.7	125.4	1.3	116.4

¹ Converted at 31 December 2010 closing rates of exchange.

The previous RDS section illustrates the effects of the reinsurance programme against a series of potential major loss events.

For the non-marine book (property and specialist lines), reinsurance of a proportional and non-proportional nature was purchased in order to provide sufficient line capacity to control business and to protect against severity and frequency of losses. The retention following a catastrophe event for 2010 was US\$50m and has reduced to US\$45m for 2011. The direct and facultative per risk retention for 2010 after application of the core risk-excess programme was US\$7.5m on a first loss basis, reducing to US\$5m for the second loss.

The marine and energy accounts purchase extensive protections to provide cover to minimise the effect of any major loss or series of losses. For most marine classes the 2010 net retention was at least US\$5m and for energy classes was US\$12.5m.

The UK motor account has protection from a reinsurance programme placed on a 'losses occurring' basis, which is unlimited, both in terms of the amount and the number of losses sustained. For both 2010 and 2011, the programme attached at £1m, with the first layer, which provides £1m of cover, being placed with a 50% order.

The above analysis excludes our reinsurance agreement with Flagstone Re, as the purpose of this agreement is not to limit the Group's exposure to individual risks and aggregations of risks, but to provide £99.0m (2010 £86.6m) of underwriting capacity to Syndicate 1084 (note 32).

CREDIT

The Security Committee, a sub-committee of the Group's Finance Committee, reviews all reinsurer counterparties with which Group managed Syndicates wish to conduct business and sets credit thresholds for the total potential recoveries due from each reinsurer. The review includes an analysis of the financial strength of the reinsurer, its payment performance record and standing in the market. Thereafter, management of reinsurer credit risk follows active and regular review, with the assistance of outside expertise, of the credit rating and financial exposure to all approved reinsurers.

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

The method of setting credit thresholds was largely unchanged in 2010:

- Restriction thresholds are set at the total level for a reinsurer and exposures are also monitored at a Group level
- There is a differentiation between short, medium and long tail covers reflecting the longer time for payment of longer-tail business and hence greater reinsurer default risk
- Explicit allowance is made for reinstatements when determining exposures
- For each syndicate, risk and capital implications are the key drivers in setting reinsurer exposure thresholds
- Monitoring identifies all in-force contracts

Under the forthcoming Solvency II regulatory regime, the Group will be using an internal stochastic model to measure total risk, including reinsurer credit risk. The new model will be introduced during 2011. As part of the migration toward the new model, the Group has revised its methodology for the setting of credit thresholds for the 2011 year of account, with the major change being that there is no longer a differentiation between short, medium and long tail classes, with the level of the exposure thresholds reducing accordingly.

Maximum exposure thresholds are set per reinsurer as a measure of the Group's risk appetite. The table below presents the aggregate maximum exposures applied to the highest (Highest) and lowest acceptably rated reinsurers (Lowest).

	1 January 2011		1 January 2010	
	All	Short-tail	Medium-tail	Long-tail
Syndicate 1084	US\$m	US\$m	US\$m	US\$m
Highest	275	550	275	183
Lowest	30	55	27	-

Syndicates 1176 and 4242 have separate thresholds, recognising the differences between their respective accounts and, in particular, the requirement for Syndicate 1176 to have a higher level of reinsurance protection in place relative to syndicate size. The Group buys reinsurance from reinsurers rated A (strong) or better by Standard & Poor's (or equivalent). The table below provides a security analysis of the 2011 general reinsurance programme (on a 100% basis).

	2011	First loss exposure
Syndicate 1084	%	2010
		%
Reinsurance rating bands (Standard & Poor's or equivalent) ¹		
Lloyd's syndicates (A+)	39.9	35.6
AAA	0.7	1.0
AA	13.3	16.8
A	40.6	46.6
Collateralised	5.5	-
	100.0	100.0

¹ Ratings as at 10 February 2011 and 5 February 2010 respectively.

In order to quantify the cost of potential reinsurance failure, the Group carries bad and doubtful debt provisions based on an individual assessment of each reinsurer. Provisions for bad and doubtful reinsurance debts totalled 1.6% of reinsurance recoveries due at the end of 2010 (2009 1.9%). There was no material loss exposure arising from reinsurance failure in 2010 or 2009.

The above loss exposures exclude the reinsurance agreement with Flagstone Re (rating band A) to provide £99.0m (2010 £86.6m) of underwriting capacity to Syndicate 1084. This capacity is supported by a £50.1m (2010 £55.9m) letter of credit (note 32).

The following table provides analysis of the Group's reinsurance debtor security (including reinsurers' share of technical provisions), net of bad debt provisions.

	2010 Debt %	2009 Debt %
Reinsurance rating bands (Standard & Poor's or equivalent)¹		
Lloyd's syndicates (A+)	20.4	17.1
AAA	0.3	3.5
AA	30.9	26.9
A	46.3	50.8
BBB	1.3	0.3
Other ²	0.8	1.4
	100.0	100.0

¹ Ratings as at 31 December 2010 and 2009 respectively.

² Other is reinsurers not rated by major rating agencies and is net of offset where appropriate or of post-balance sheet date commutation. The figure includes 0.1% of collateralised security (2009 0.1%).

Broker credit risk limits for Syndicate 1084 are also determined depending on the grading of the relevant broker. The 2010 credit thresholds ranged from £1m to £40m (2009 from £1m to £40m). The Group's Security Committee monitors exposure against these tolerance thresholds on a monthly basis.

Claims

While claims events are inherently uncertain and volatile, the Group's claims department has significant experience of a wide range of business classes. The Group manages claims related risks by way of reinsurance and by a similar monitoring process to underwriting. The Group has a number of management controls in place to mitigate claims risk, some of these controls are outlined below.

Claims settlement and reserving authority limits

The Group employs strict claims handling authority limits. All transactions in excess of an individual claims handler's authority are referred in a tiered approach to a colleague with the requisite knowledge and experience.

Monthly reporting

A number of reports are produced based on several different aspects of the claims handling function such as, significant movements, catastrophes, and static claims. These are reported throughout the business and with key external stakeholders, including the Lloyd's Franchise Performance Directorate.

Management of external experts

The Group actively appoints third party loss adjusters, surveyors and legal advisers for claims investigation and assessment services. The development of long standing relationships with key experts and agreed Terms of Engagement ensures the Group receives a high level of service, with direct contact actively encouraged. However, this process is not exclusive. If no suitable expert exists on the Group's panel for any one particular claim, an 'Expert Exception' process is in place in order to commission such a claims expert.

Reserving

The Group's reserving policy seeks to ensure appropriate allowance for reserving risk, consistency in reserving from year to year and the equitable treatment of capital providers on the closure of a year of account.

Reserves are set on a three tier hierarchical basis.

TIER 1: ACTUARIAL BEST ESTIMATE RESERVES

Actuarial best estimate reserves are prepared on an underwriting year basis and are intended to be true best estimates, i.e. estimates of expected value claims reserves. These are the basis for internal reporting and the derivation of expected loss ratios for business planning.

The actuarial best estimate reserves are the responsibility of the Group Actuary. The in-house Actuarial Team calculates the reserves in conjunction with extensive discussions with underwriting, claims and reinsurance staff.

TIER 2: SYNDICATE RESERVES

Syndicate reserves are the level of reserves booked at a syndicate level. Determination of syndicate reserves is a two-stage process: first, they are determined on an underwriting year basis and then they are converted to an annually accounted basis.

(a) Underwriting year syndicate reserves

Underwriting year syndicate reserves are prepared on an underwriting year basis and equal the Tier 1 reserves plus any reserve risk loadings. The intention of such risk loadings is to match areas within each syndicate where the perception is that there is a particularly high risk that the best estimate reserve may be inadequate. Such areas include, but are not limited to, the following:

- New classes of business
- Classes where early development is materially better or worse than expected
- Classes or events with abnormally skew claim distributions
- Claim events or reserving categories with a poorly understood distribution

To ensure consistency in the application of risk loadings, the starting point in their assessment is, where possible, formulaic. The formulaic risk loadings are adjusted wherever considered either excessive or understated. There may also be additional risk loadings in respect of risks not covered by the formulaic basis.

The underwriting year syndicate reserves provide the basis for all syndicate results and forecasts.

(b) Annually accounted syndicate reserves

Annually accounted syndicate reserves are the underwriting year syndicate reserves converted to an annually accounted basis, plus additional loadings. These loadings are entirely formulaic.

The Group's Finance Committee, subject to approval by the CSL Board, determines all risk loadings within syndicate reserves.

TIER 3: GROUP RESERVES

Where appropriate, there are further additional risk loadings in respect of the Group's share of the annually accounted syndicate reserves. These only relate to material information that has emerged in the period between finalisation of the Syndicates' reserves and the finalisation of the Group's reserves.

The Finance Committee, subject to approval by the CHP Board, determines the risk loadings within the Group's reserves.

The assessment of actuarial best estimate reserves is a rolling quarterly process. The underwriting portfolio comprises a number of heterogeneous business types, each of which the analysis projects to ultimate. Where certain contracts or claim events obscure development trends, the analysis splits these out for separate review. The application of standard actuarial techniques to the historical data supports the estimation of ultimate loss ratios. The analysis also draws on external data or market data or non-standard methodologies where appropriate. Whenever actual development of premiums or claims within a reserving category during a quarter is materially different from expected development based on the existing methodology, then that methodology is reassessed and, where appropriate, amended. The analysis takes credit for reinsurance recoveries and provides for the possibility of reinsurer failure.

Reserving risk is controlled by the robust application of actuarial methodologies, stepped sign-off procedures, quarterly tracking of projected ultimate loss ratios and reassessment of methodologies where appropriate, regular dialogue between actuaries and practitioners and access to a history of loss data. Finally, explicit risk loadings are applied in respect of the areas of greatest risk within the reserve assessment.

Although the risk loadings provide important protection against adverse developments in reserves, the degree of subjectivity in the reserving process, the exposure to unpredictable external influences (e.g. the legal environment) and the quantum of reserves relative to net tangible assets, mean that reserving remains a significant source of risk to the Group. The following reserve scenarios tests illustrate the scale of this exposure.

The scenarios selected below are illustrative of the main inherent risks in setting technical provisions for insurance liabilities. In each case, the Group believes the event tested to have a low likelihood but no specific probability assigned to it. The stress tests apply at syndicate level, while the results shown reflect the Group's share. Where appropriate, the results include credit for reinsurance recoveries and utilisation of reserve risk loadings.

Scenario 1

Risk: Underestimation of loss ratios on new classes of business.

Test: Increase the ultimate loss ratios on new classes of business by 5%, 10% and 15% in the 2008 & prior, 2009 and 2010 years of account respectively.

Scenario 2

Risk: Underestimation of loss ratios in classes of business affected by non-specific financial turmoil claims (excluding sub-prime, Madoff etc).

Test: A nine month delay in the reporting of claims is effected to the assumed development of Syndicate 4000 financial institutions claims.

Scenario 3

Risk: Underestimation of Madoff investment fraud losses in Syndicates 1084 and 4000.

Test: Double the probabilities of a total indemnity loss for each and every assured with potential exposure (or claims notified) to Madoff.

Scenario 4

Risk: Under provision for reinsurance bad debt.

Test: Failure of the Group's largest non-Lloyd's reinsurer, with a credit rating lower than AA. The Group has assumed a recovery rate of 40%.

Scenario 5

Risk: Underestimation of motor third-party bodily injury claims.

Test: Assume a claims development profile for bodily injury claims with a more extreme view on development, approximately equivalent to a 1 in 10 scenario.

Scenario 6

Risk: Deterioration to Deepwater Horizon loss estimate.

Test: Assume a 20% gross ultimate claim deterioration split evenly across the Energy and Marine Excess of Loss classes, allowing for reinsurance recoveries, including aggregation with existing losses, but also including increased reinstatement premium costs.

Scenario 7

Risk: Deterioration to Chile earthquake losses.

Test: Assume a 20% gross ultimate claim deterioration across the Syndicate 1084 property classes, with no excess of loss reinsurance recovery.

Scenario 8

Risk: Deterioration to New Zealand earthquake losses.

Test: Assume that the New Zealand Earthquake Commission's losses exceed NZ\$4bn, exceeding the third (and upper) layer of its reinsurance programme. All other IBNR provisions (except industry loss warranty contracts, which are at limits) are increased by 50%. Assume no excess of loss reinsurance recovery.

Scenario 9

Risk: Deterioration to Australia flooding losses in the 2010 calendar year.

Test: Increase the Syndicate's current IBNR loss estimates for the 2010 calendar year Australia flooding events by 50% with no excess of loss reinsurance offset.

RESULTS

Scenario	Risk	Net loss (at Syndicate level)	
			£m
1	Underestimation of loss ratios on new classes of business		60.9
2	Underestimation of loss ratios in classes of business affected by non-specific financial turmoil claims		13.1
3	Underestimation of Madoff losses		25.1
4	Under provision for reinsurance bad debt		16.7
5	Underestimation of motor third-party bodily injury claims		8.0
6	Deterioration to Deepwater Horizon		1.2
7	Deterioration to Chile earthquake losses		4.5
8	Deterioration to New Zealand earthquake losses		3.8
9	Deterioration to Australia flooding losses (2010 calendar year)		6.7

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

The development of projections of insurance liabilities over time provides a measure of the Group's ability to estimate the ultimate value of claims. The following tables illustrate how the Group's share of total gross and net ultimate claims for each underwriting year have developed at successive year ends.

Estimated gross ultimate claims ^{1,2} (All figures in £m)	2001 & prior	2002	2003	2004	2005	2006	2007	2008	2009	2010	Corporate and other adjustments ⁴	Total
At end of year	1,811.7	232.7	262.7	314.5	508.3	308.5	451.8	684.8	466.6	618.9		
One year later	1,807.4	195.8	267.8	366.5	523.1	344.0	439.8	724.6	503.3			
Two years later	1,842.0	188.2	238.0	345.7	544.3	307.3	448.4	716.2				
Three years later	1,844.4	186.2	227.0	348.2	518.9	295.1	441.1					
Four years later	1,848.8	179.2	230.9	332.0	500.7	298.2						
Five years later	1,831.8	176.4	232.0	323.6	494.4							
Six years later	1,854.4	174.6	229.7	319.8								
Seven years later	1,852.1	175.9	226.3									
Eight years later	1,851.5	176.1										
Nine years later	1,853.4											
Total ultimate claims at 31 December 2010	1,853.4	176.1	226.3	319.8	494.4	298.2	441.1	716.2	503.3	618.9	-	5,647.7
Less accumulated payments	(1,775.8)	(161.5)	(211.5)	(290.2)	(453.0)	(225.9)	(262.8)	(380.3)	(183.0)	(49.1)	-	(3,993.1)
Unearned portion of ultimate claims	-	-	-	-	-	(0.3)	(1.7)	(6.1)	(24.5)	(288.3)	-	(320.9)
Claims handling provision	0.4	0.1	0.2	0.4	0.6	1.1	1.5	5.1	4.3	5.0	-	18.7
Total outstanding claims at 31 December 2010 on a 100% basis	78.0	14.7	15.0	30.0	42.0	73.1	178.1	334.9	300.1	286.5	-	1,352.4
Less unaligned share ³	(0.1)	(0.1)	(0.3)	(0.4)	(0.6)	(0.7)	(1.2)	(7.4)	(17.7)	(17.4)	-	(45.9)
Total outstanding claims at 31 December 2010	77.9	14.6	14.7	29.6	41.4	72.4	176.9	327.5	282.4	269.1	-	1,306.5

Estimated net ultimate claims ^{1,2} (All figures in £m)	2001 & prior	2002	2003	2004	2005	2006	2007	2008	2009	2010	Corporate and other adjustments ⁴	Total
At end of year	1,175.3	191.6	224.3	247.9	318.3	282.7	396.9	549.7	419.8	513.7		
One year later	1,161.4	162.5	204.1	243.2	315.1	306.7	376.3	566.0	419.1			
Two years later	1,156.8	155.8	180.4	229.7	331.8	273.2	379.3	550.9				
Three years later	1,156.3	154.9	170.2	221.3	310.8	263.6	369.4					
Four years later	1,141.8	150.2	172.3	215.3	296.6	263.7						
Five years later	1,140.9	149.3	172.7	211.0	289.4							
Six years later	1,155.7	146.2	170.9	208.0								
Seven years later	1,156.2	145.9	168.4									
Eight years later	1,155.7	144.8										
Nine years later	1,163.1											
Total ultimate claims at 31 December 2010	1,163.1	144.8	168.4	208.0	289.4	263.7	369.4	550.9	419.1	513.7	-	4,090.5
Less accumulated payments	(1,109.3)	(137.2)	(155.0)	(190.6)	(255.5)	(207.3)	(234.2)	(315.6)	(162.3)	(43.3)	-	(2,810.3)
Unearned portion of ultimate claims	-	-	-	-	-	(0.3)	(1.7)	(4.7)	(22.1)	(249.9)	-	(278.7)
Claims handling provision	0.4	0.1	0.2	0.4	0.6	1.1	1.5	5.1	4.3	5.0	-	18.7
Bad debt provision	1.5	0.4	-	0.1	0.1	0.2	0.5	1.2	0.5	0.4	-	4.9
Total outstanding claims at 31 December 2010 on a 100% basis	55.7	8.1	13.6	17.9	34.6	57.4	135.5	236.9	239.5	225.9	-	1,025.1
Less unaligned share ³	(0.1)	(0.1)	(0.3)	(0.4)	(0.6)	(0.7)	(0.9)	(1.5)	(14.6)	(14.6)	-	(33.8)
Less quota share reinsurance	-	-	-	-	-	-	-	-	-	-	(48.3)	(48.3)
Total outstanding claims at 31 December 2010	55.6	8.0	13.3	17.5	34.0	56.7	134.6	235.4	224.9	211.3	(48.3)	943.0

¹ Ultimate claims and accumulated payments as at each year-end converted at 31 December 2010 exchange rates for this analysis.

² The figures above include ultimate claims and accumulated payments for Syndicates 15, 17, 396, 587, 1096, 1204, 1224, 1229 and 1245, which have reinsured to close into Syndicate 1084 at different points in time. The Group typically strengthens reserves on closure, although for the purposes of this analysis, deems this strengthening to have occurred when these syndicates commenced operations.

³ The results include the impact of claims reserves of Syndicate 1176 and Syndicate 4242. The Group initially includes these at a 100% level before their removal on the 'unaligned share' line.

⁴ Corporate and other adjustments include the effect of reinsurance agreements held at corporate level.

The total provision releases from prior years on which the Group participated on a 100% basis amounted to £28.4m (2009 £39.0m) net of reinsurance in the table above. This principally arises because of the Group's reserving approach, which can include the addition of risk loadings to actuarial best estimate reserves where sufficient uncertainty exists, especially in the earlier periods of an underwriting year's development. This practice gives rise to the potential for subsequent releases, which, in 2010, mainly arose in the Energy, Property and Nuclear Divisions (2009 Marine, Energy, Aviation, Property and Specialist Lines Divisions).

The Group's share of the releases above is £20.8m (2009 £31.8m), after taking into account its change in participation in different years of account, the impact of foreign exchange and the application of earning patterns.

3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2010		2009	
	Cost	Fair value	Cost	Fair value
	£m	£m	£m	£m
Funds at Lloyd's and other corporate funds				
Equities	3.2	2.7	3.2	2.1
Bonds	234.0	230.5	225.5	216.7
	237.2	233.2	228.7	218.8
Other ¹	17.0	17.0	17.0	17.0
	254.2	250.2	245.7	235.8
Syndicate participations				
Equities	4.4	3.0	4.5	2.5
Hedge funds ²	5.5	2.7	32.5	37.5
Bonds	531.5	509.7	528.0	532.9
Overseas deposits ³	71.7	71.7	43.1	43.1
	613.1	587.1	608.1	616.0
	867.3	837.3	853.8	851.8

¹ The Group has invested £17m for a shareholding in Antares Holdings Limited (Antares), a Bermudian based holding company established by Lightyear Capital LLC, a private equity firm focused on financial services investments. Antares sponsors Antares Syndicate 1274.

At the end of 2010, the investment in Antares remained unlisted on an active market. Accordingly, the Group has valued it by reference to the Group's share of net assets and future income discounted at an appropriate rate of return.

² At the end of 2010, hedge funds with a total value of £2.7m remained unlisted on an active market. In accordance with stated accounting policies, the Group valued these based on net asset values provided by independent third party fund administrators, by reference to listed securities of a similar nature or by using pricing models which are reviewed and approved by an independent pricing specialist (as applicable).

³ Overseas deposits represent monies maintained in overseas funds managed by Lloyd's. The funds are required in order to protect policyholders in overseas markets and enable the Group to operate in those markets. The access to those funds is restricted and the Group cannot influence the associated investment strategy.

Investment strategy and risk management

The Group approach is that investment activities are complementary to the primary underwriting activities of the business and should not, therefore, divert or utilise financial resources otherwise available for insurance operations.

The maintenance of sufficient capital and liquidity to support the business is at the heart of the Group's financial market risk policy, together with the aim for long-run enhancement of investment returns, within a set of defined risk constraints, through the efficient diversification of investments across a range of asset classes. These asset classes include cash and deposits, investment grade and high yield bonds, equities and hedge funds.

The CHP Board approves the investment risk constraints, which quantify the maximum amount of investment risk permitted over a one-year time horizon, on an annual basis. These establish the risk budget used to derive the maximum allocation assignable to each asset class.

During 2010 and 2009 the Group maintained risk constraints of having no more than a 5% probability of underperforming cash by more than 2.5% on a rolling one-year basis.

Investment managers

The Group invests a significant proportion of funds in fixed income securities managed by professional portfolio managers. Each manager operates within a defined set of investment guidelines, which comprise details of the investment universe from which the manager may select securities and any exposure limits applied to asset classes and counterparties within that universe.

The Group measures the performance of each manager against an appropriate benchmark for each asset class under management.

The table overleaf summarises the performance of each portfolio manager against the chosen benchmark set for portfolios held throughout the year.

	UK Sterling returns		US Dollar returns	
	Manager %	Benchmark %	Manager %	Benchmark %
2010				
GRNEAM	-	-	3.6	2.4
Aberdeen	-	-	4.8	2.4
Amundi	1.5	1.6	1.2	1.3
State Street	2.4	2.7	-	-
Goldman Sachs	-	-	6.1	7.1
Wellington	-	-	7.8	7.1
2009				
GRNEAM	-	-	7.4	1.6
Aberdeen Asset Management	-	-	10.4	1.6
Crédit Agricole	2.0	2.1	1.3	0.5

The strong performance of GRNEAM and Aberdeen Asset Management in 2010 reflect the recovery seen across risk assets in the fixed income market in 2010.

RISK POLICIES

Market risk

Interest rate risk

The most material element of risk within fixed income portfolios is interest rate risk, with risk increasing as durations get longer and returns being mainly dependent on the direction of interest rates in domestic markets.

The sensitivities shown in the table below assume that underlying fixed income securities have a 100% correlation to changes in interest rates.

	Change in interest rates %	Impact on capital £m
31 December 2010	+2.0	(20.7)
	+1.0	(10.4)
31 December 2009	+2.0	(27.1)
	+1.0	(13.6)

Given record low interest rates, the sensitivity analysis does not consider lower short term rates in 2010.

The table below shows the maturity profile of bonds at the balance sheet date.

	Maturity bands (Years) ¹					
	<1 £m	1-2 £m	2-3 £m	3-4 £m	4+ £m	Total £m
31 December 2010						
Government	74.9	34.4	0.9	-	-	110.2
AAA	153.3	80.9	28.5	14.2	59.7	336.6
AA	35.3	12.4	19.7	3.7	8.3	79.4
A	12.1	17.7	17.9	75.3	31.3	154.3
BBB	1.0	3.4	2.6	16.6	30.7	54.3
Other	-	-	-	-	5.4	5.4
	276.6	148.8	69.6	109.8	135.4	740.2
31 December 2009						
Government	45.3	17.7	23.8	-	-	86.8
AAA	92.0	147.2	70.9	14.8	27.2	352.1
AA	47.1	30.5	19.6	5.8	11.5	114.5
A	28.8	11.3	14.9	10.2	57.2	122.4
BBB	0.7	1.8	3.5	-	59.5	65.5
Other	-	-	-	0.5	7.8	8.3
	213.9	208.5	132.7	31.3	163.2	749.6

¹ Maturity assumes the earlier of the next contractual re-pricing date and maturity.

Currency risk

The Group writes a significant proportion of insurance business in currencies other than sterling, which gives rise to an exposure to currency risk, and mitigates this risk by adopting a policy of matching assets and liabilities by currency for all exposures representing more than 5% of the assets of the Group.

At the year-end, the total of financial assets and cash and cash equivalents by currency held was as follows:

	2010 %	2009 %
UK Sterling	51	51
US Dollar	45	45
Other	4	4
	100	100

If Syndicate 1084 holds a material surplus or deficit of non-sterling denominated assets, which are attributable to the Group because of accumulated profits or losses, the Group will manage this exposure with currency purchases and sales as appropriate. There were no open forward currency contracts at the balance sheet date (2009 nil).

The foreign exchange management policy adopted by the Group decreases the exposure to changes in exchange rates. However, due to the treatment of non-monetary assets and liabilities under IFRS, each one cent movement in the US dollar year-end exchange rate will impact the reported profit before tax by between £0.5m and £1.0m.

Equity risk

At 31 December 2010, the Group held less than 0.5% of total financial assets and cash in equities, which comprise three relatively illiquid closed-ended listed securities, two of which will mature in 2011. Assuming their performance fully correlates with equity markets then a 20% fall in value would result in a loss of £1.2m.

Hedge fund risk

At 31 December 2010 the Group held hedge fund investments totalling £2.7m. The Directors consider that a loss scenario of 25% represents a realistic stress test on a forward looking basis which would result in losses of £0.7m based on holdings at 31 December 2010 (2009 £9.4m).

Liquidity risk

The Group is subject to calls on cash resources on a daily basis, mainly in respect of claims on insurance business. The Group operates and maintains a Liquidity Risk Policy designed to ensure that cash is available to settle liabilities and other obligations when due without excessive cost to the Group.

The expected payment profile of undiscounted liabilities at 31 December 2010 is as follows:

	Balance sheet £m	<1 £m	1-2 £m	2-5 £m	5-10 £m	Maturity bands (Years) >10 £m	Total £m
31 December 2010							
Subordinated debt	40.8	1.6	1.6	4.8	8.0	66.6	82.6
Technical provisions	1,740.3	627.5	395.1	453.9	159.3	104.5	1,740.3
Trade and other payables	214.0	210.5	0.1	2.7	0.7	-	214.0
	1,995.1	839.6	396.8	461.4	168.0	171.1	2,036.9
31 December 2009							
Subordinated debt	40.3	1.6	1.6	4.7	7.8	66.9	82.6
Technical provisions	1,532.3	540.5	350.7	405.1	142.5	93.5	1,532.3
Trade and other payables	140.6	129.8	2.3	3.2	5.3	-	140.6
	1,713.2	671.9	354.6	413.0	155.6	160.4	1,755.5

The Group's Liquidity Risk Policy, which is subject to annual review and approval by the CHP Board, sets limits for cash required to meet expected cash flows and includes a Contingency Funding Plan, which details the process and provisions for liquidating assets and/or raising additional funds required to meet liabilities in extreme circumstances.

The majority of financial assets and cash and cash equivalents are liquid or capable of liquidation at very short notice. At 31 December 2010, approximately 81% (2009 88%) of such assets were capable of liquidation within three working days, 84% (2009 1%) within 120 days, and 11% (2009 11%) later than 120 days, of which 98% (2009 83%) are in fixed term deposits where funds can be withdrawn subject to penalties.

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

Credit risk

Investments

The Group invests the majority of funds in high-quality investment grade securities, money market funds and cash deposits. Managers may take credit risk within the constraints of investment guidelines set by the Group Investment Committee for segregated fixed income mandates or within the constraints set by the fund rules where investments have been made in funds.

Insurance and reinsurance debtors

The Group has credit risk exposures from insurance and reinsurance debtors and operates an internal credit rating policy and limit setting process (see note 2).

The following table shows the amount of reinsurance receivables that were past due (outside standard trading terms) but not impaired at the year-end on a 100% basis.

	2010 £m	2009 £m
0-3 months past due	0.6	1.2
4-9 months past due	1.4	0.6
	2.0	1.8

The following table shows the five largest gross counterparty exposures in respect of insurance brokers (on a 100% basis). The Group does not hold collateral in respect of any of these counterparties.

Broker	2010 £m	2009 £m
Marsh	28.9	32.7
Willis	26.0	26.0
Aon	21.4	21.1
Miller Insurance Services	10.9	8.1
Thompson Heath & Bond	8.3	6.4
	95.5	94.3

Determination of fair value and fair value hierarchy

The following table shows an analysis of the fair value financial assets, by Level within the fair value hierarchy:

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets at fair value through profit or loss				
Funds at Lloyd's and other corporate funds				
Equities	2.7	-	-	2.7
Bonds	35.7	194.8	-	230.5
Other	-	-	17.0	17.0
	38.4	194.8	17.0	250.2
Syndicate participations				
Equities	3.0	-	-	3.0
Hedge funds	-	2.7	-	2.7
Bonds	74.5	435.2	-	509.7
Overseas deposits	-	71.7	-	71.7
	77.5	509.6	-	587.1
At 31 December 2010	115.9	704.4	17.0	837.3

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets at fair value through profit or loss				
Funds at Lloyd's and other corporate funds				
Equities	2.1	-	-	2.1
Bonds	22.2	194.5	-	216.7
Other	-	-	17.0	17.0
	24.3	194.5	17.0	235.8
Syndicate participations				
Equities	2.5	-	-	2.5
Hedge funds	-	37.5	-	37.5
Bonds	64.6	468.3	-	532.9
Overseas deposits	43.1	-	-	43.1
	110.2	505.8	-	616.0
At 31 December 2009	134.5	700.3	17.0	851.8

Included in the Level 1 category are financial assets that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the Level 2 category are:

- Financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, obtained via pricing services, but where prices have not been determined in an active market;
- Financial assets with fair values based on broker quotes;
- Investments in private equity funds with fair values obtained via fund managers; and
- Assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

Following a review of the hierarchy classification methodology in 2010, the Group has reclassified Overseas Deposits as Level 2 from Level 1, as this better describes the underlying pricing methodologies.

The only financial asset included in the Level 3 category is the Group's investment in Antares Holdings Limited. Level 3 fair value measurements are those derived from valuation techniques that include inputs for a financial asset that are not based on observable data. Non-market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

There was no movement in the opening and closing recorded amount of Level 3 financial assets held during 2010.

Sensitivity of Level 3 financial assets measured at fair value to changes in key assumptions

The following table shows the sensitivity of the fair value of Level 3 assets to changes in key assumptions, by class of instrument:

	Carrying amount £m	31 December 2010 Effect of reasonably possible alternative assumptions (+/-) £m
Investment in Antares	17.0	1.7

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable inputs. For the investment in Antares, the Group adjusted the assumed net asset multiple. The adjustment made was to increase and decrease the assumed net asset multiple by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on net asset multiples of companies with similar industry and risk profiles.

4. SEGMENTAL INFORMATION

The CHP Board, the Chief Decision Maker, monitors the operating results of each of the divisions below for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is measured differently from the profit or loss from operations in the consolidated financial statements, as a result of the exclusion from divisional results of the foreign exchange impact on non-monetary assets and liabilities. The exclusion is necessary in order to eliminate the volatility in the Group's results created by the imbalance in the valuation of non-monetary balance sheet items (translated at historic rates) and the translation of monetary balances at closing rates. In addition, the divisional analysis excludes the effect of premiums and reserves relating to the reinsurance to close (RITC) of third party syndicates into Syndicate 1084 and any change in the Group's ownership of the RITC of Syndicates 1084 and 1176 following the closure of their previously open years of accounts.

Details of the Group's divisional activities are as follows:

- **Energy** – The Division underwrites a broad energy portfolio encompassing exploration and production, construction, liabilities, downstream and renewables. The coverage offered includes physical damage, business interruption, control of well, seepage and pollution and liabilities. The Division also writes energy insurance through the Group's offices in Singapore, Denmark and Houston.
- **Property** – The Division underwrites a worldwide direct, facultative and treaty property account, which incorporates homeowners, commercial, auto and industrial business. The Division writes this through binding authorities and on an open market basis at the Box at Lloyd's.

The property treaty account comprises mainly catastrophe and per risk excess acceptances, with a small amount of proportional treaty and reinsurance assumed business. The account primarily protects indigenous writers but also contains a worldwide element.

In addition, the Division includes non-marine reinsurance and facultative property books through Chaucer Underwriting A/S, based in Copenhagen, Denmark, and Chaucer Latin America, based in Buenos Aires, Argentina, respectively.

- **Marine** – The Division underwrites a conventional marine account that encompasses hull, excess of loss, liability, cargo and specie. It also underwrites political risk, war and satellite business.
- **Specialist Lines** – The Division comprises financial institutions and professional indemnity, institutional healthcare, miscellaneous short tail and general casualty and claims made. The financial institutions and professional indemnity accounts focus on small to medium sized institutions worldwide. The Division also underwrites liability exposures for healthcare institutions.
- **Aviation** – The Division underwrites a worldwide aviation account including coverage in the following areas: aircraft (including airline), hull and liability, aircraft hull deductible, contingent hull and liability for banks and leasing companies, products liability, airport liability and in non-owned aircraft liability.
- **UK** – The Division provides motor insurance to the UK private car and fleet markets. The Division operates through intermediaries, aggregator sites, a direct website, *ChaucerDirect*, and via its own specialist motorsport broker. In addition, the Division writes specialist classes including commercial vehicle, taxi, motorcycle, motor trade and classic/specialist vehicles, along with other UK small commercial products.
- **Nuclear** – The Division, which underwrites through Nuclear Syndicate 1176, is a leading insurer of nuclear risk. The Syndicate provides coverage across the nuclear fuel cycle, from raw uranium and nuclear fuel to the shipment and storage of waste, although most of the Syndicate's insurance exposures relate to power generation at nuclear power stations. In addition to providing coverage for physical damage loss to civil nuclear power stations, the Syndicate provides a limited liability policy with proven strict terms and restrictions.
- **Syndicate Participations** – This represents the Group's underwriting interests in Syndicates 4000 and 4242.

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

The following table is used to calculate the loss ratios disclosed in the Divisional Performance section of this Report.

Year ended	Energy	Property	Specialist			UK	Nuclear	Syndicate	Run off ²	Total (excluding Eliminations and Other)	Other ³	Eliminations	Total
31 December 2010	£m	£m	Marine £m	Lines £m	Aviation £m	£m	£m	Participations ¹ £m	£m	£m	£m	£m	£m
Adjusted gross written premiums	169.6	200.2	154.6	86.3	46.3	175.6	15.0	8.4	(7.3)	848.7 ⁵	-	0.6	849.3
RITC	-	-	-	-	-	-	0.3	-	-	0.3	-	-	0.3
Gross written premiums⁶	169.6	200.2	154.6	86.3	46.3	175.6	15.3	8.4	(7.3)	849.0	-	0.6	849.6
Adjusted net earned premiums ^{6, 7}	108.1	150.4	122.4	68.4	33.7	156.8	12.9	7.4	(7.3)	652.8 ⁸	(64.8)	0.6	588.6
RITC	1.4	1.1	1.6	1.7	0.4	1.1	0.6	-	-	7.9	-	-	7.9
Foreign exchange on non-monetary items ⁸	(3.4)	(1.9)	(1.3)	(0.7)	(0.6)	-	-	(0.3)	-	(8.2)	0.6	-	(7.6)
Net earned premiums⁹	106.1	149.6	122.7	69.4	33.5	157.9	13.5	7.1	(7.3)	652.5	(64.2)	0.6	588.9
Net investment return ⁹	5.5	4.7	5.2	5.2	1.2	3.8	0.3	0.9	2.1	28.9	4.7	-	33.6
Other operating income ⁹	-	-	-	-	-	-	-	-	-	-	31.6	(19.9)	11.7
Total revenue from operations⁹	111.6	154.3	127.9	74.6	34.7	161.7	13.8	8.0	(5.2)	681.4	(27.9)	(19.3)	634.2
Adjusted net claims incurred ^{6, 7}	(49.7)	(114.8)	(75.5)	(46.9)	(20.0)	(128.4)	1.8	(17.8)	11.7	(439.6)	46.0	-	(393.6)
RITC	(1.4)	(1.1)	(1.6)	(1.7)	(0.4)	(1.1)	(0.6)	-	-	(7.9)	-	-	(7.9)
Net claims incurred⁹	(51.1)	(115.9)	(77.1)	(48.6)	(20.4)	(129.5)	1.2	(17.8)	11.7	(447.5)	46.0	-	(401.5)
Adjusted expenses incurred in insurance activities													
Acquisition costs	(43.7)	(39.8)	(33.8)	(16.0)	(9.7)	(28.8)	(0.4)	(5.2)	-	(177.4)	18.1	1.3	(158.0)
Other expenses ⁴	(4.2)	(6.6)	(4.2)	(3.6)	(1.6)	(9.2)	(1.7)	2.2	(0.2)	(29.1)	4.7	3.4	(21.0)
Foreign exchange on non-monetary items ⁸	3.2	1.5	0.3	0.4	0.5	-	-	0.2	-	6.1	(0.4)	-	5.7
Expenses incurred in insurance activities^{6, 7, 9}	(44.7)	(44.9)	(37.7)	(19.2)	(10.8)	(38.0)	(2.1)	(2.8)	(0.2)	(200.4)	22.4	4.7	(173.3)
Recharges from managing agent ⁴	(2.0)	(1.8)	(2.4)	(3.4)	(0.5)	(2.2)	(2.8)	(0.4)	-	(15.5)	-	15.5	-
Actual expenses transferred from managing agent ⁴	0.9	1.1	0.8	0.5	0.3	1.2	1.5	0.4	-	6.7	-	(6.7)	-
Other operating expenses ⁹	-	-	-	-	-	-	-	-	-	-	(28.0)	5.8	(22.2)
Total operating charges	(96.9)	(161.5)	(116.4)	(70.7)	(31.4)	(168.5)	(2.2)	(20.6)	11.5	(656.7)	40.4	19.3	(597.0)
Underwriting profit/(loss)⁹	10.5	(10.8)	8.9	1.9	2.4	(9.6)	12.6	(13.4)	4.2	6.7	n/a	n/a	n/a
Profit/(loss) from operations⁹	14.7	(7.2)	11.5	3.9	3.3	(6.8)	11.6	(12.6)	6.3	24.7	12.5	-	37.2
Finance costs ⁹	-	-	-	-	-	-	-	-	-	-	(4.3)	-	(4.3)
Profit/(loss) before tax⁹	14.7	(7.2)	11.5	3.9	3.3	(6.8)	11.6	(12.6)	6.3	24.7	8.2	-	32.9

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

Year ended			Specialist					Syndicate		Total (excluding Eliminations			Total
31 December 2009	Energy	Property	Marine	Lines	Aviation	UK	Nuclear	Participations ¹	Run off ²	and Other)	Other ³	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Adjusted gross written premiums	150.6	183.8	152.7	72.8	42.2	158.6	15.7	18.7	0.5	795.6 ⁵	-	0.6	796.2
RITC	-	-	-	-	-	-	0.1	-	-	0.1	-	-	0.1
Gross written premiums ⁵	150.6	183.8	152.7	72.8	42.2	158.6	15.8	18.7	0.5	795.7	-	0.6	796.3
Adjusted net earned premiums ^{6,7}	119.8	151.6	125.7	54.4	30.9	139.8	13.5	36.3	0.6	672.6 ⁵	(43.5)	0.6	629.7
RITC	-	-	-	-	-	-	0.1	-	-	0.1	-	-	0.1
Foreign exchange on non-monetary items ⁸	(7.4)	(6.8)	(5.2)	(1.8)	(1.1)	-	-	(2.4)	-	(24.7)	1.2	-	(23.5)
Net earned premiums ⁹	112.4	144.8	120.5	52.6	29.8	139.8	13.6	33.9	0.6	648.0	(42.3)	0.6	606.3
Net investment return ⁹	8.9	10.4	6.5	4.6	2.1	4.8	0.4	1.1	6.9	45.7	7.6	-	53.3
Other operating income ⁹	-	-	-	-	-	-	-	-	-	-	24.3	(13.1)	11.2
Total revenue from operations ⁹	121.3	155.2	127.0	57.2	31.9	144.6	14.0	35.0	7.5	693.7	(10.4)	(12.5)	670.8
Adjusted net claims incurred ^{6,7}	(61.1)	(69.2)	(87.9)	(36.9)	(12.0)	(116.4)	(2.0)	(34.0)	2.6	(416.9)	27.3	-	(389.6)
RITC	-	-	-	-	-	-	(0.1)	-	-	(0.1)	-	-	(0.1)
Net claims incurred ⁹	(61.1)	(69.2)	(87.9)	(36.9)	(12.0)	(116.4)	(2.1)	(34.0)	2.6	(417.0)	27.3	-	(389.7)
Adjusted expenses incurred in insurance activities													
Acquisition costs	(44.6)	(36.9)	(34.8)	(13.0)	(8.3)	(27.4)	(0.4)	(11.1)	-	(176.5)	11.8	-	(164.7)
Other expenses ⁴	(3.1)	(9.7)	(3.9)	(3.8)	(2.1)	(8.2)	(1.1)	(1.5)	-	(33.4)	5.7	3.9	(23.8)
Foreign exchange on non-monetary items ⁸	(2.5)	(1.5)	(3.0)	(2.0)	(0.9)	-	-	(0.6)	-	(10.5)	0.7	-	(9.8)
Expenses incurred in insurance activities ^{6,7,9}	(50.2)	(48.1)	(41.7)	(18.8)	(11.3)	(35.6)	(1.5)	(13.2)	-	(220.4)	18.2	3.9	(198.3)
Recharges from managing agent ⁴	(1.1)	(1.5)	(1.0)	(0.6)	(0.3)	(2.0)	(2.2)	(0.2)	-	(8.9)	0.6	8.3	-
Actual expenses transferred from managing agent ⁴	0.8	1.2	0.8	0.5	0.3	1.0	0.7	-	-	5.3	-	(5.3)	(0.0)
Other operating expenses ⁹	-	-	-	-	-	-	-	-	-	-	(42.3)	5.6	(36.7)
Total operating charges	(111.6)	(117.6)	(129.8)	(55.8)	(23.3)	(153.0)	(5.1)	(47.4)	2.6	(641.0)	3.8	12.5	(624.7)
Underwriting profit/(loss) ⁹	11.0	35.8	(0.9)	0.7	8.5	(12.2)	10.0	(10.3)	3.2	45.8	n/a	n/a	n/a
Profit/(loss) from operations ⁹	9.7	37.6	(2.8)	1.4	8.6	(8.4)	8.9	(12.4)	10.1	52.7	(6.6)	-	46.1
Finance costs ⁹	-	-	-	-	-	-	-	-	-	-	(4.1)	-	(4.1)
Profit/(loss) before tax ⁹	9.7	37.6	(2.8)	1.4	8.6	(8.4)	8.9	(12.4)	10.1	52.7	(10.7)	-	42.0

¹ Comprises the results of Chaucer's participations on Syndicates 4000 and 4242.

² Comprises the results of Syndicates 1204, 1224, 1229 and 1245 that have reinsured to close into Syndicate 1084.

³ Represents other corporate income and expense items and the capital provision reinsurance contracts in Group corporate members.

⁴ Other expenses includes an elimination of recharges from the Managing Agent, including the Group's share of profit commissions, Managing Agent fees and rent invoiced by the Managing Agent to the syndicates during 2010 and 2009. These are replaced by the actual expenses incurred by the Managing Agent. These eliminations are for Divisional analysis and are reversed in the recharges from managing agent and actual expenses transferred from the managing agent captions.

⁵ The gross written premiums and net earned premiums presented in the Financial Highlights, the Chief Underwriting Officer's report and the Divisional analysis focus on our core business and are thus represented by adjusted premiums, which exclude RITC, foreign exchange on non-monetary items and consolidation adjustments, represented by eliminations and other.

⁶ The underwriting profit or loss presented in the Financial Highlights, the Chief Underwriting Officer's Report and the divisional analysis focus on our core business and are thus represented by adjusted net earned premiums, adjusted net claims incurred and expenses incurred in insurance activities less foreign exchange on non-monetary items excluding consolidation adjustments.

⁷ The claims ratio represents adjusted net claims incurred as a percentage of adjusted net earned premiums. The expense ratio represents expenses incurred in insurance activities less foreign exchange on non-monetary items as a percentage of adjusted net earned premiums. The combined ratio represents the sum of the claims and expense ratios. All ratios exclude consolidation adjustments.

⁸ Under IFRS non-monetary items, consisting of unearned premiums and deferred acquisition costs, are carried at historic rates of exchange rather than at the period end rates. The inconsistency in rates of exchange can obscure the underlying performance of the Group and has therefore been adjusted for in certain performance indicators.

⁹ Represents items calculated in accordance with IFRS, the Total column can be reconciled to the Consolidated Income Statement.

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

For the purposes of monitoring segment performance and allocating resources between segments, the Chief Decision Maker monitors the allocation of the Group's FAL requirement attributable to each segment, along with the gross ultimate claims across those segments.

	Energy £m	Property £m	Marine £m	Specialist Lines £m	Aviation £m	UK £m	Nuclear £m	Syndicate Participations ¹ £m	Run off £m	Total £m
31 December 2010										
FAL requirement ²	79.7	72.7	41.0	49.5	8.0	28.3	40.3	55.4	-	374.9
Ultimate claims	575.4	1,210.6	1,072.2	605.7	202.0	1,282.8	37.4	307.4	354.2	5,647.7
Accumulated payments	(310.1)	(937.3)	(802.7)	(354.1)	(129.7)	(1,041.3)	(10.5)	(102.3)	(305.1)	(3,993.1)
	265.3	273.3	269.5	251.6	72.3	241.5	26.9	205.1	49.1	1,654.6
Corporate adjustments ³										(348.1)
Outstanding claims ⁴										1,306.5
31 December 2009										
FAL requirement ²	51.8	64.7	43.1	31.7	17.7	32.4	40.3	54.8	-	336.5
Ultimate claims	439.0	1,026.2	943.4	530.4	165.3	1,154.8	40.1	287.3	351.7	4,938.2
Accumulated payments	(231.5)	(846.2)	(708.0)	(319.0)	(102.4)	(925.4)	(8.3)	(66.9)	(277.8)	(3,485.5)
	207.5	180.0	235.4	211.4	62.9	229.4	31.8	220.4	73.9	1,452.7
Corporate adjustments ³										(284.0)
Outstanding claims ⁴										1,168.7

¹ Comprises the results of the Group's participations on Syndicates 4000 and 4242.

² Reconciled to the Consolidated Balance Sheet in note 32.

³ Excludes the unaligned share of the 100% syndicate claims and the effect of quota share agreements at the corporate member level.

⁴ Reconciled to the Consolidated Balance Sheet in note 24.

Geographical information

	Europe £m	Americas £m	Asia Pacific £m	Middle East and Africa £m	Worldwide £m	Total £m
31 December 2010						
Gross written premiums	239.5	196.4	57.8	33.4	322.5	849.6
Total assets	1,632.5	681.6	22.8	3.0	-	2,339.9
31 December 2009						
Gross written premiums	216.2	191.3	45.0	33.7	310.0	796.3
Total assets	1,386.8	647.7	19.2	2.4	-	2,056.1

The revenue information is based on the location of risk. No revenue transactions from an individual policyholder or intermediary amounted to more than 10% of the Group's total revenue.

5. NET INVESTMENT RETURN

	2010 £m	2009 £m
Investment return by type of fund		
Funds at Lloyd's and other corporate funds	6.8	10.7
Syndicate funds	27.5	43.1
Investment expenses	(0.7)	(0.5)
	33.6	53.3
Net investment return is further analysed as follows:		
Funds at Lloyd's and other corporate funds		
Interest income	11.5	8.5
Dividend income	0.3	0.3
Movement in unrealised gains less losses	(5.0)	1.9
	6.8	10.7
Syndicate funds		
Interest income	25.9	16.8
Dividend income	0.3	0.3
Realised and unrealised gains and losses	1.3	26.0
	27.5	43.1
	34.3	53.8
Investment expenses	(0.7)	(0.5)
Total investment return	33.6	53.3

6. OTHER OPERATING INCOME

	2010 £m	2009 £m
Managing Agent fees and profit commissions	9.4	8.7
Other income	2.3	2.5
	11.7	11.2
Analysis of managing agency fees and profit commissions		
Managing Agent fees	4.5	6.7
Profit commission	4.9	2.0
	9.4	8.7
Analysis of managing agency fees and profit commissions by source of the income		
In-house syndicates (unaligned share)	3.8	2.8
Third party syndicates	5.5	5.8
Run off syndicates	0.1	0.1
	9.4	8.7

7. EXPENSES INCURRED IN INSURANCE ACTIVITIES

	2010 £m	2009 £m
Gross acquisition costs (note 17)	191.4	173.6
Change in gross deferred acquisition costs (note 17)	(18.2)	(5.6)
	173.2	168.0
Syndicate operating expenses	27.3	26.3
Foreign exchange (gains)/losses	(13.6)	12.6
Personal expenses	7.3	5.8
Gross operating expenses	194.2	212.7
Net contribution from reinsurers	(20.9)	(14.4)
Expenses incurred in insurance activities	173.3	198.3

8. OTHER OPERATING EXPENSES

	2010 £m	2009 £m
Other operating expenses include:		
Bonus payable to directors and managers	5.7	14.2
Depreciation of owned assets	2.1	1.9
Operating leases	3.0	3.2
Professional fees	1.3	2.8
Fees payable to the Company's auditors for the audit of the Consolidated Financial Statements	0.3	0.2
Fees payable to the Company's auditors and their associates for other services to the Group:		
Statutory audit of subsidiaries	0.1	0.1
Statutory audit of syndicates	0.3	0.2
Total audit fees	0.7	0.5
Other services - advice pertaining to capital raising	-	0.4
Total non-audit fees	-	0.4

The bonus payable to executive directors and certain other senior employee's links to the profits of the Group. The Directors' Remuneration Report describes the bases of determination of the bonus and note 26 to the Consolidated Financial Statements, other corporate undertakings creditors, reports the outstanding bonus payable.

9. DIRECTORS' REMUNERATION

The audited part of the Directors' Remuneration Report contains details of directors' remuneration, pensions and share options for the year.

10. STAFF COSTS

The average monthly number of Group employees, including executive directors, during the year was 695 (2009 619), comprising:

	2010 Number	2009 Number
Management	69	74
Underwriting	195	172
Claims handling	173	149
Administration	258	224
	695	619

Staff costs incurred during the year in respect of these employees was:

	2010 £m	2009 £m
Wages and salaries	37.7	34.1
Social security costs	4.3	5.0
Profit related remuneration (excluding social security costs)	5.8	13.8
Other pension costs	1.2	3.7
	49.0	56.6
Less recharged to third party capital providers in managed syndicates	(7.4)	(6.7)
	41.6	49.9

11. FINANCE COSTS

	2010 £m	2009 £m
Interest expense	1.7	1.9
Other	2.6	2.2
	4.3	4.1

Interest expense represents interest charges on the subordinated loan notes and the convertible loan. The charges are estimated at amortised cost.

12. INCOME TAX EXPENSE

	2010 £m	2009 £m
UK corporation tax at 28%	0.3	9.8
Adjustment in respect of prior years	5.6	(1.6)
Current tax	5.9	8.2
Deferred tax movement (note 16)	4.0	5.7
Adjustment to deferred tax due to change in tax rates	0.5	-
Total deferred tax	4.5	5.7
Income tax expense	10.4	13.9

The tax charge for the year is higher (2009 higher) than that resulting from the application of the standard rate of corporation tax in the UK of 28% (2009 28%). The following table reconciles the tax expense for the year to the profit per the Consolidated Income Statement.

The legislation within the Finance Act 2009 enabled the Group to introduce claims equalisation reserves. For Lloyd's corporate members, the calculation of a claims equalisation reserve is solely a tax adjustment and has no impact on reserving for accounts purposes.

At 31 December 2009, for claims equalisation reserve calculation purposes, the Group adopted an approach that disregarded changes in underwriting interest between Group companies. Following discussions with HMRC during 2010, the Group has revised and recalculated the reserve on an entity by entity basis at 31 December 2010. This change has no impact on the tax expense but accelerates the payment of tax deferred at 31 December 2009. Adjustment in respect of prior years includes an additional £8.8m current tax charge, with an opposite credit within the deferred tax movement.

	2010 £m	2009 £m
Profit before tax	32.9	42.0
Tax at 28%	9.2	11.8
Effects of:		
Expense not deductible for tax purposes	1.4	0.9
Impact of share price reduction in deferred tax assets	-	3.0
Other temporary differences	-	(0.3)
Adjustment in respect of prior years	(0.6)	(1.6)
Unrealised loss on revaluation of investment	(0.2)	0.1
Write off of overseas taxes	0.1	-
Adjustment to movement in deferred tax due to change in tax rates	0.5	-
Total income tax expense	10.4	13.9

Legislation was introduced in Finance (No. 2) Act 2010 to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011. The effect of this reduction is reflected above and in the deferred tax asset recorded on the Consolidated Balance Sheet. Any proposed changes that have not been substantively enacted at the balance sheet date are not reflected in the Consolidated Financial Statements.

13. EARNINGS PER SHARE

	Earnings £m	Number of shares Million	Earnings per share Pence
Year ended 31 December 2010			
Basic, based on net profit for year	22.5	527.4	4.3
Diluted, based on net profit for the year	22.5	561.0	4.0
<hr/>			
	Earnings £m	Number of shares Million	Earnings per share Pence
Year ended 31 December 2009			
Basic, based on net profit for year	28.1	480.4	5.8
Diluted, based on net profit for the year	28.1	484.7	5.8

The calculation of the profit for the year for diluted earnings per share is as follows:

	2010 £m	2009 £m
Net profit for the year	22.5	28.1
	22.5	28.1

The calculation of the weighted average number of shares outstanding for basic and diluted earnings per share is as follows:

	2010 Million	2009 Million
Unadjusted weighted average for year	548.1	517.4
Elimination of own shares held	(20.7)	(37.0)
Adjusted basic weighted average	527.4	480.4
Potentially dilutive shares	33.6	4.3
	561.0	484.7

The total number of potential shares outstanding at the balance sheet date that were not dilutive, as vesting conditions with regards to price remained unmet, but have the potential to dilute earnings per share in the future, were 0.9m (2009 2.7m).

From 1 January 2010 the Group has excluded from own shares held those shares held in trust and available to employees, without restriction.

14. INTANGIBLE ASSETS

	Auction costs £m	Goodwill £m	Total £m
Cost at 1 January and 31 December 2009 and 2010	13.3	18.8	32.1
Net book amount at 31 December 2009 and 2010	13.3	18.8	32.1

The key assumptions supporting the values in use calculations are those regarding the discount rate and expected life.

The goodwill arose prior to 1 January 2007 on the acquisition of Chaucer Syndicates Limited, a managing agent, by Aberdeen Lloyd's Insurance Trust plc, which subsequently became Chaucer Holdings PLC, on 23 July 1998. The Group has tested this goodwill for impairment by determining its value in use, considering the cash flows arising to the Managing Agent up to 2016. The Group's long-term business forecast provides estimates of syndicate capacity from which the Managing Agent will earn fees.

The discount rate applied was 9.6% (2009 11.2%), which is based on a combination of factors including the Group's expected return on equity and costs of borrowing. The Group deems the economic gains accruing from ownership of the Managing Agent as indefinite since, under the current business strategy, the Group will continue to benefit from this activity for as long as the Managing Agent continues to undertake business.

The auction costs arose from the purchase of additional capacity in the managed Syndicates for the Group's corporate members. The Group has deemed the income streams from this capacity as indefinite. Auction costs were tested for impairment at the end of 2010 and 2009, based on the value in use of the Group's interest in the Syndicates, by considering the future cash flows of each syndicate up to the 2013 year of account, discounted at a rate of 9.6% (2009 11.2%). The projections of syndicate cash flows represent the Group's best estimate of future underwriting profits, based on an analysis of current market conditions, the position of the Group in the insurance cycle, expected underwriting capacity and actuarial estimations of loss ratios. These estimates are management's best knowledge of current actions and events, although actual outcomes may differ from these estimates.

There is significant headroom on both the goodwill and auction cost impairment tests.

15. TANGIBLE FIXED ASSETS

	Land and buildings £m	Lease improvements £m	Furniture, office fixtures, fittings and computer equipment £m	Total £m
Cost				
At 1 January 2010	6.0	4.2	3.9	14.1
Additions	-	-	0.6	0.6
Disposals	-	-	(0.5)	(0.5)
At 31 December 2010	6.0	4.2	4.0	14.2
At 1 January 2009	6.0	4.2	2.9	13.1
Additions	-	-	1.1	1.1
Disposals	-	-	(0.1)	(0.1)
At 31 December 2009	6.0	4.2	3.9	14.1
Accumulated depreciation				
At 1 January 2010	2.1	2.1	2.0	6.2
Charge for the year	0.2	0.8	1.1	2.1
Disposals	-	-	(0.5)	(0.5)
At 31 December 2010	2.3	2.9	2.6	7.8
At 1 January 2009	1.9	1.3	1.2	4.4
Charge for the year	0.2	0.8	0.9	1.9
Disposals	-	-	(0.1)	(0.1)
At 31 December 2009	2.1	2.1	2.0	6.2
Net book amount at 31 December 2010	3.7	1.3	1.4	6.4
Net book amount at 31 December 2009	3.9	2.1	1.9	7.9

The property included under Land and buildings is subject to a first and only legal charge to a consortium of banks in respect of a £90.0m letter of credit (2009 £51.0m) provided as part of the Group's Funds at Lloyd's.

16. DEFERRED INCOME TAX

	2010 £m	2009 £m
The movement in the deferred tax asset comprises:		
At 1 January	17.0	21.3
Current year movement (note 12)	(4.0)	(5.7)
Adjustment to deferred tax due to change in tax rates	(0.5)	-
Tax credit to other comprehensive income	0.9	1.4
At 31 December	13.4	17.0
The deferred tax asset at 31 December comprises:		
Untaxed underwriting losses	13.5	11.4
Other tax losses carried forward	3.7	5.3
Deferred bonus payment	1.0	6.2
Deferred benefit pension scheme	3.6	4.0
Depreciation in excess of capital allowances	0.5	(0.1)
Equalisation reserves	(8.9)	(9.8)
	13.4	17.0

Based on current forecasts, the Group believes that there will be sufficient future taxable profits generated to utilise these tax losses. There was an unrecognised deferred tax asset of £0.5m relating to capital losses (2009 £0.6m).

The proposed Finance Bill 2011 will reduce the main rate of corporation tax to 26% from 1 April 2011, the Group estimates that the effect of this change will be to reduce the Group's deferred tax asset by £0.5m.

The UK government has also announced its intent to legislate to reduce the main rate of corporation tax further by 1% per annum to 23% for years commencing 1 April 2014, the Group estimates that the effect of this change will be to reduce the value of the Group's deferred tax asset by an additional £1.4m.

These proposed changes have not been substantively enacted at the balance sheet date and as such are not reflected in the Consolidated Financial Statements.

17. DEFERRED ACQUISITION COSTS

	2010 £m	2009 £m
At 1 January	82.3	76.5
Acquisition costs paid in the year (note 7)	191.4	173.6
Acquisition costs recognised in the Income Statement (note 7)	(173.2)	(168.0)
Other adjustments	0.7	0.2
At 31 December	101.2	82.3

18. TRADE AND OTHER RECEIVABLES

	2010 £m	2009 £m
Debtors arising out of direct insurance operations	120.8	80.2
Debtors arising out of reinsurance operations	112.4	113.7
Other corporate undertakings debtors	1.9	1.8
Other syndicate debtors	3.2	11.3
	238.3	207.0
Current	237.5	204.0
Non-current	0.8	3.0
	238.3	207.0

The Group expects to recover all current balances within 12 months and all non-current balances between 12 months and five years after the balance sheet date.

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

The movement in the bad debt provision in respect of debtors arising from direct insurance and reinsurance operations is as follows:

	2010 £m	2009 £m
Balance at the beginning of year	1.9	2.3
Addition/(release) for the year	1.0	(0.3)
Foreign exchange and other adjustments	(0.1)	(0.1)
Balance at the end of the year	2.8	1.9

19. CASH AND CASH EQUIVALENTS

	2010 £m	2009 £m
Funds at Lloyd's	91.0	87.9
Other funds		
Corporate	32.1	55.3
Syndicate	511.6	358.5
	634.7	501.7

The balances above represent cash.

The Group deposits Funds at Lloyd's to support underwriting operations, based on the assessment of risk associated with those operations. Lloyd's restricts access to those funds, preventing their use for any other purpose.

20. SHARE CAPITAL

	2010 Shares Million	2010 Value £m	2009 Shares Million	2009 Value £m
Authorised				
Ordinary shares of 25p each	700.0	175.0	700.0	175.0
Called up, allotted and fully paid				
Ordinary shares of 25p each	548.1	137.0	548.1	137.0

The number of 25p ordinary shares called up, allotted and fully paid were:

	Date	Share price Pence	Number	Ordinary share capital £m	Share premium £m
At 1 January 2010			548,091,645	137.0	90.9
At 31 December 2010			548,091,645	137.0	90.9
At 1 January 2009			348,092,039	87.0	66.0
Shares issued in respect of: Firm Placing and Placing and Open offer	02/09	40.0	199,999,606	50.0	24.9
At 31 December 2009			548,091,645	137.0	90.9

21. MOVEMENTS IN EQUITY**Share capital and share premium**

Share capital and share premium reflect the nominal value and premium elements respectively of any issue of equity shares.

Own shares

Own shares represent those held by employee trust schemes, excluding those held in trust and available to employees, without restriction. The sole purpose of the employee trust schemes is to hold shares of the Company for settlement of share awards. The net number of shares held by the trust schemes at the end of 2010 was 18,290,341 (2009 28,477,230).

Bonus reserve

The bonus reserve contains that element of the bonus payable in shares or share options to employees, in accordance with the terms of the deferred share benefit plan. The charge for the year will increase the reserve while the vesting of shares and share options will decrease it.

The reserve also contains an element of shares granted to employees in accordance with the terms of the Share Incentive Plan (SIP). The SIP grants an incentive of two free shares to those employees who purchase a share under the plan. The movement in the year for SIP costs represents the cost of granting such free shares to employees.

The cost of shares and share options exercise represents the cost of the granted shares when employees exercise share options, less both the exercise price and the fair value of the share options previously expensed in accordance with IFRS 2 Share-based Payment.

Retained earnings

Retained earnings represent the accumulation of profits and losses as at the balance sheet date, after the distribution of dividends and other adjustments. The balance includes £28.1m (2009 £24.7m) of accumulated actuarial losses from revaluations of the pension scheme.

22. SUBORDINATED DEBT

	2010 £m	2009 £m
Debt in Euros	9.9	10.2
Debt in US Dollars	30.9	30.1
	40.8	40.3

On 16 November 2004, the Group issued a €12m floating rate subordinated 30-year note. The Group, subject to meeting certain conditions, has the option of full or partial redemption of the note on any future interest payment date at its principal amount plus any accrued interest.

Interest is paid twice annually each year up to the date of redemption based on the European Inter bank offer rate (Euribor) plus an agreed margin of 3.75%.

The Group reports the financial liability of this note at amortised cost using an effective interest rate of 5.1% (2009 4.9%) as follows:

	£m
Balance at 1 January 2010	10.2
Interest charges in the year	0.5
Interest paid during the year	(0.5)
Foreign exchange adjustments	(0.3)
Balance at 31 December 2010	9.9
Balance at 1 January 2009	11.3
Interest charges in the year	0.6
Interest paid during the year	(0.7)
Foreign exchange adjustments	(1.0)
Balance at 31 December 2009	10.2

As the note is not traded on an active market its fair value is difficult to determine. Based on similar instruments, the fair value of the note is estimated to be approximately £3.8m (2009 £3.2m).

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

On 21 September 2006, the Group issued a US\$50m floating rate unsecured subordinated 30-year note, which pays interest quarterly in arrears up to the date of redemption based on the US Dollar 3-month LIBOR plus an agreed margin of 3.1%. There is the option of full or partial redemption of the note on any interest payment date on or after the relevant date falling in December 2011.

The Group reports the financial liability of this note at amortised cost using an effective interest rate of 3.6% (2009 3.5%), as follows:

	£m
Balance at 1 January 2010	30.1
Interest charges in the year	1.2
Interest paid during the year	(1.2)
Foreign exchange adjustments	0.8
Balance at 31 December 2010	30.9
Balance at 1 January 2009	33.8
Interest charges in the year	1.3
Interest paid during the year	(1.4)
Foreign exchange adjustments	(3.6)
Balance at 31 December 2009	30.1

As the note is not traded on an active market its fair value is difficult to determine. Based on similar instruments, the fair value of the note is estimated to be approximately £8.0m (2009 £7.8m).

23. EMPLOYEE BENEFITS PROVISION

The Group's subsidiary, Chaucer Syndicates Limited (CSL), operates a pension scheme (the scheme), administered by Mercer Human Resource Consulting Limited, comprising a funded defined benefits section providing benefits based on final pensionable salary and, from December 2001, a defined contributions section. Trustees hold and control the funds of the scheme. CSL closed the defined benefits section to new members after setting up the new defined contributions section to the scheme in 2001.

The scheme's actuary determined contributions to the defined benefits section on 30 April 2007 using the attained age method when the value of the scheme's assets was £43.8m. It was assumed that the investment return will average 6.4% before retirement and 4.9% after retirement, salary increases will average 6.1% per annum, inflation will average 3.1% and future pensions will increase at a rate of 3.0% or 2.3% per annum (depending on the period of service). The actuarial value of these assets, expressed as a percentage of the liability for benefits accruing as at 31 December 2010, calculated on an actuarial basis, are 101%, which represented a surplus of £0.3m.

A revised valuation has been instructed, which will determine assumptions to be used based on conditions at 30 April 2010. However, as at the date of this report, this had not been finalised but the valuation and subsequent agreement with the scheme's trustees, is expected to result in the Group adding funds to reduce the deficit to nil over the course of the next ten years from 2011, based on a preliminary deficit trigger model. During 2011 the Group expects to pay additional lump sums totalling £0.3m into the scheme.

In 2010 the Group contributed 27.6% (2009 27.6%) of members' pensionable salaries. In 2011, the Group contributions will reduce to 16.7% of members' pensionable salaries and employees contributions will increase to 5% of the members' pensionable salaries.

The principal actuarial assumptions used are as follows:

	2010 %	2009 %
Used to determine defined benefit obligations at 31 December:		
Discount rate	5.3	5.7
Rate of salary increases	4.5	5.7
Rate of pension increases	3.3	3.5
Inflation ¹	3.0	3.7
Used to determine net pension costs for the year ended 31 December:		
Discount rate	5.3	6.0
Expected long-term return on scheme assets	7.4	7.6
Rate of salary increases	5.7	5.1
Rate of pension increases	3.5	2.9

¹ In July 2010 the U.K. Government announced that the consumer price index (CPI) should be used as the basis for determining the percentage increases when preparing revaluation and indexation of pension rights in defined benefit pension schemes. At 31 December 2010 the defined benefit pension obligations have been calculated using CPI (2009 Retail Price Index (RPI)). This change in basis has reduced scheme liabilities, and thus the scheme deficit, by £0.7m.

The sensitivities to the principal assumptions are set out below:

	Change in assumption %	Impact on scheme deficit %
Used to determine defined benefit obligations:		
Discount rate	±0.25	±25.6
Inflation ¹	±0.25	±25.8
<hr/>		
	Change in assumption %	Impact on pension costs %
Used to determine defined benefit obligations:		
Discount rate	±0.25	±18.5
Expected long-term return on scheme assets	±0.25	±17.3
Inflation ¹	±0.25	±37.2

¹ Salary and pension increase assumptions are based on the inflation assumption, consequently the sensitivity to inflation includes the impact of such a change on salary and pension increase assumptions.

The Continuous Mortality Investigation Bureau (CMIB) published the SAPS (Self Administered Pension Schemes) mortality tables in October 2008, which are based on self administered pension scheme data between 2000 and 2006, centred around 2003, with light tables (for high income pensions) and heavy (for lower incomes). PA92 mortality tables, also produced by the CMIB, are based on insurance company data collected between 1991 and 1994, centred around 1992.

The SAPS tables, which reflect the latest available mortality studies information, are based on a larger amount of data and since based on data relating to occupational scheme members, are considered more representative of members of the Group's pension scheme. As a result, as at 31 December 2010, the mortality tables used were SAPS light adjusted by a one-year downwards age rating (2009 PA92 adjusted one-year downward), since the scheme assumes that pensioners will have a one-year longer life expectancy than statistics in the standard SAPS light tables show. The Group believes that this reflects the scheme's membership profile more accurately.

All demographic assumptions are those used at the 30 April 2007 valuation.

The current life expectancies (in years) underlying the value of the accrued liabilities for the scheme are as follows (figures in brackets refer to the assumption at 31 December 2009):

Life expectancy at age 65	Male	Female
Member currently aged 65	23.9 (23.0)	25.4 (25.9)
Member currently aged 45	26.2 (24.1)	27.8 (26.9)

The sensitivity of the defined benefit obligation to the mortality assumptions are set out below:

	Change in assumption years	Impact on scheme deficit %
Used to determine defined benefit obligations:		
SAPS light adjusted one-year downwards	±1.00	±8.2
<hr/>		
	Change in assumption years	Impact on pension costs %
Used to determine net pension costs:		
SAPS light adjusted one-year downwards	±1.00	±11.2

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

The amount recognised in the Consolidated Income Statement in respect of defined benefit pension arrangements, split between expenses incurred in insurance activities and other operating expenses depending on the allocation of costs to Group syndicates or corporate entities, is as follows:

	2010 £m	2009 £m
Current service cost	1.2	1.3
Interest cost	3.2	2.6
Expected return on scheme assets	(3.3)	(2.6)
Past service cost	(2.7)	-
	(1.6)	1.3

The total pension contributions in respect of the scheme for the year, including £2.6m (2009 £2.3m) in respect of defined contribution pension arrangements, were £5.5m (2009 £3.8m).

The actual return on scheme assets was £4.7m (2009 £8.2m).

The net actuarial loss recognised in the Statement of Comprehensive Income is as follows:

	2010 £m	2009 £m
Actuarial losses on scheme liabilities	(4.8)	(10.6)
Actuarial gains in the fair value of scheme assets	1.4	5.6
Net actuarial loss	(3.4)	(5.0)

The cumulative amount of actuarial losses recognised in retained earnings is £28.1m (2009 £24.7m).

The amounts recognised in the Consolidated Balance Sheet are as follows:

	2010 £m	2009 £m
Present value of defined benefit obligations	(62.2)	(56.3)
Fair value of scheme assets	49.0	42.1
Scheme deficit	(13.2)	(14.2)

The movements in the present value of defined benefit obligations were as follows:

	2010 £m	2009 £m
At 1 January	56.3	42.5
Current service cost	1.2	1.3
Interest cost	3.2	2.6
Contributions by scheme members	0.2	0.2
Benefits paid	(0.8)	(0.9)
Past service costs	(2.7)	-
Actuarial losses	4.8	10.6
At 31 December	62.2	56.3

The movements in the present value of defined benefit obligations were as follows:

	2010 £m	2009 £m
At 1 January	42.1	33.1
Expected return on scheme assets	3.3	2.6
Contributions by employer	2.8	1.5
Contributions by scheme members	0.2	0.2
Benefits paid	(0.8)	(0.9)
Actuarial gains	1.4	5.6
At 31 December	49.0	42.1

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	2010 %	2010 £m	2009 %	2009 £m	2008 %	2008 £m	2007 %	2007 £m	2006 %	2006 £m
Equities	7.7	39.2	8.0	33.8	7.9	25.7	8.0	36.6	7.6	30.8
Bonds	5.6	5.1	5.7	4.7	6.6	4.1	6.1	4.2	5.3	3.7
Property	6.7	4.5	7.0	3.4	6.4	3.1	7.0	4.1	6.6	3.9
Cash	0.5	0.2	0.5	0.2	2.0	0.2	5.5	0.2	5.0	0.5
Total scheme assets		49.0		42.1		33.1		45.1		38.9

The Group bases the assumptions used in deriving the expected return on the scheme assets on market conditions at the period end.

The Group expects to contribute approximately £1.9m to the scheme in 2011 in respect of defined benefit members. In addition, the Group expects to pay approximately £2.3m in respect of defined contribution members.

The actuarial valuation at 31 December 2010 showed a decrease in the scheme deficit from £14.2m to £13.2m, (2009 increase from £9.4m to £14.2m). Based on active scheme members as at 1 January 2010, this is equivalent to a total employer contribution rate of approximately 27.6% (27.6% at 1 January 2009) of pensionable salaries per annum. The rates may be subject to amendment at subsequent funding reviews.

History of actuarial gains and losses	2010	2009	2008	2007	2006
Difference between expected and actual return on plan assets					
Amount (£m)	1.4	5.6	(16.6)	(1.3)	0.6
Percentage of plan assets	2.9	13.0	(50.0)	(3.0)	2.0
Changes in assumptions in respect of scheme liabilities					
Amount (£m)	(4.8)	(10.6)	8.0	(0.1)	(1.2)
Percentage of scheme liabilities	(3.2)	(19.0)	19.0	-	(3.0)
Total gains (losses)					
Amount (£m)	(3.4)	(5.0)	(8.6)	(1.4)	(0.6)
Percentage of scheme liabilities	(5.5)	(9.0)	(20.0)	(3.0)	(1.0)

24. TECHNICAL PROVISIONS

	Provision for unearned premiums £m	Outstanding claims £m	Total £m
Gross			
At 1 January 2010	363.6	1,168.7	1,532.3
Claims paid in the year	-	(450.8)	(450.8)
Net movement in the year	70.2	570.0	640.2
Exchange and other adjustments	-	18.6	18.6
At 31 December 2010	433.8	1,306.5	1,740.3
At 1 January 2009	336.2	1,172.7	1,508.9
Claims paid in the year	-	(416.8)	(416.8)
Net movement in the year	27.0	491.1	518.1
Exchange and other adjustments	0.4	(78.3)	(77.9)
At 31 December 2009	363.6	1,168.7	1,532.3
Reinsurance			
At 1 January 2010	47.7	292.8	340.5
Reinsurance recoveries in the year	-	(109.4)	(109.4)
Net movement in the year	38.3	168.5	206.8
Exchange and other adjustments	(0.1)	11.6	11.5
At 31 December 2010	85.9	363.5	449.4
At 1 January 2009	39.9	299.8	339.7
Reinsurance recoveries in the year	-	(86.3)	(86.3)
Net movement in the year	7.8	101.4	109.2
Exchange and other adjustments	-	(22.1)	(22.1)
At 31 December 2009	47.7	292.8	340.5
Current: 2010	297.0	184.4	481.4
Non-current: 2010	50.9	758.6	809.5
Net at 31 December 2010	347.9	943.0	1,290.9
Current: 2009	270.2	171.5	441.7
Non-current: 2009	45.7	704.4	750.1
Net at 31 December 2009	315.9	875.9	1,191.8
Movement in the year: gross	70.2	119.2	189.4
Movement in the year: reinsurance	38.3	59.1	97.4
Net movement to 31 December 2010	31.9	60.1	92.0
Net movement to 31 December 2009	19.2	59.2	78.4

The movement in the bad debt provision in respect of reinsurers' share of technical provisions was as follows:

	2010 £m	2009 £m
Balance at the beginning of year	5.7	5.7
Charge for the year	(1.1)	0.4
Foreign exchange and other adjustments	0.1	(0.4)
Balance at the end of the year	4.7	5.7

The balance of gross outstanding claims above comprises outstanding claims of £755.4m (2009 £701.4m) and claims incurred but not reported of £551.1m (2009 £467.3m).

During the year, reserve movements in respect of prior periods produced a release of £20.8m (2009 £31.8m). This release includes a loss of £0.1m (2009 £0.6m) in relation to exchange rate movements during the year.

2010 events

Included in technical provisions as at 31 December 2010 are reserves for:

- Bangkok political violence/riots between March and May 2010
- Earthquake losses, including Chile in February and New Zealand in September 2010
- Deepwater Horizon oil rig blowout in April 2010
- Flood losses in Australia during December 2010

The development of other significant loss events reported in 2009, including the fraud relating to Bernard L Madoff, political risk and trade credit account losses and fire loss at the West Atlas Rig was in line with expectations during 2010.

Natural catastrophe events – Chile and New Zealand earthquakes and Australia floods

There were a number of significant earthquakes during 2010. The two largest of these (with the most material impact to the Group) were in Chile's Maule region on 27 February and in Christchurch (Darfield), New Zealand on 4 September 2010. The Chile earthquake measured 8.8 on the Richter scale and was approximately 100km north-east of the second largest city, Concepción. The New Zealand earthquake measured 7.1 on the Richter scale. Estimates of the eventual total insured cost of both events are subject to uncertainty at the end of 2010.

Syndicate 1084 has reserved the Chile earthquake at US\$28.6m net of reinsurance and the New Zealand earthquake at US\$24.3m, with the majority of losses for both events being in the Property Division.

There was also extensive flooding in the state of Queensland, Australia during December 2010 (Rockhampton) and January 2011 (Toowoomba, Ipswich and Brisbane). Syndicate 1084 has included a provision of £5.1m net of reinsurance within technical provisions for event losses up to 31 December 2010. The eventual total insured cost of the flooding is subject to uncertainty due to the size of area affected, the difficulty of assessing damage, issues around policy wordings, hours clauses, extent and type of flood peril coverage offered and categorisation of the flooding in different locations into individual events.

Deepwater Horizon

A blowout of BP's Macondo oil well in the Gulf of Mexico on 20 April 2010 resulted in an explosion on the Transocean Deepwater Horizon oil drilling rig. This event has impacted both the Energy and the Marine Divisions of the Group. These have exposure to the resulting rig damage and potential worker's liability and pollution/cleanup costs. The Group has reviewed a number of loss scenarios for the Energy Division, based on a US\$1.5 billion loss to the market, and has assessed the net of reinsurance loss to Syndicate 1084 at US\$20.2m (including inwards and outwards reinstatement premiums). Marine XL estimates, based on the same market loss scenarios and Group cedant participations on the original placements, are reserved at US\$5.1m net of reinsurance (including inwards and outwards reinstatement premiums).

Bangkok political violence

The Group has exposure to the riots in Bangkok that took place between March and May 2010, caused by civil unrest in the Thai capital, which caused significant damage to a number of commercial buildings.

The Group mapped the areas of unrest with the corresponding damage, including a detailed review of loss adjuster's reports. This was cross referenced with in house exposure data and specific reserves were assigned to each individual assured. Syndicate 1084 has seen a number of claims from this event and currently has reserved the losses at £23.0m gross, with outwards reinsurance recoveries of £16.9m. This produces an overall net of reinsurance loss to the Marine Division of Syndicate 1084 of £8.8m, allowing for reinstatement premiums. Given the size of the loss, there is uncertainty regarding the eventual outcome.

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

The Group's exposures to these losses at 31 December 2010 are summarised below:

	£m
Syndicate 1084's estimated ultimate gross loss	
Chile earthquake	23.7
New Zealand earthquake ¹	15.5
Australia floods (event losses up to 31 December 2010) ¹	5.9
Deepwater Horizon	60.8
Bangkok political violence	23.0
	128.9
Syndicate 1084's estimated ultimate net loss (after reinstatement premiums and reinsurance)	
Chile earthquake	18.2
New Zealand earthquake ¹	15.5
Australia floods (event losses up to 31 December 2010) ¹	5.1
Deepwater Horizon	16.1
Bangkok political violence	8.8
	63.7
Group share of estimated ultimate net loss (after reinstatement premiums and reinsurance)	
Chile earthquake	15.7
New Zealand earthquake ¹	13.1
Australia floods (event losses up to 31 December 2010) ¹	4.3
Deepwater Horizon	13.9
Bangkok political violence	7.4
	54.4

¹ The loss estimates for these losses have been updated since those previously announced (see note 36).

Figures are prepared at closing rates of exchange.

Reinsurance

The reinsurance policies that protect the losses in the above table are with reinsurers rated A (strong) or better by Standard & Poor's, as analysed below:

	Chile %	New Zealand %	Australia %	Deepwater %	Bangkok %
Rating bands (as at 12 February 2011)					
Syndicate 1084					
Lloyd's syndicates (A+)	18.0	nil	nil	16.9	60.3
AA	45.4	nil	62.6	26.6	nil
A (excluding Lloyd's syndicates)	36.6	nil	37.4	56.5	39.7
Total	100.0	nil	100.0	100.0	100.0

25. CURRENT TAX

	2010 £m	2009 £m
The movement in the tax position was as follows:		
At 1 January	(0.4)	4.8
Prior year adjustments	5.6	(1.6)
Tax payments on account	(9.6)	(13.4)
Tax charge for the year (note 12)	0.3	9.8
	(4.1)	(0.4)

26. TRADE AND OTHER PAYABLES

	2010 £m	2009 £m
Creditors arising out of direct insurance operations	12.1	3.6
Creditors arising out of reinsurance operations	185.7	117.5
Other corporate undertakings creditors	5.9	16.8
Other syndicate creditors	10.3	2.7
At 31 December	214.0	140.6
Current	210.5	129.8
Non-current	3.5	10.8
	214.0	140.6

The Group expects to pay all balances within 12 months and all non-current payables within five years of the balance sheet date. Other corporate undertakings creditors includes £4.6m in respect of performance bonuses payable to directors and certain group employees (2009 £12.1m).

The Group's Deferred Share Benefit Plan (DSBP) contains provisions for the calculation of a bonus based on the annual profit. The total charge comprises a current portion, allocated to individual employees, and a long-term portion, carried forward in a pool for future distribution at the discretion of the Remuneration Committee.

The current portion includes an element that is payable in cash and an element that is payable in shares, in accordance with guidelines approved by the Remuneration Committee. The cash element is payable in two instalments, four months and 13 months after the end of the year that generated the bonus.

The application of IAS 19 Employee Benefits and IFRS 2 Share-based Payment has resulted in the application of the following accounting treatment for the bonus:

- The long-term portion is amortised over a period of three years, which represents the Group's best estimate of the allocation of the long-term bonus to individual employees. The amortisation charge begins in the year that generated the bonus.
- Other corporate undertakings creditors contains full recognition of the cash element.
- The element payable in shares is amortised over 52 months, which represents the period from the beginning of the year that generated the bonus to the vesting date of the shares, three years after grant. The amortisation charge begins at the start of the year that generated the bonus. Shareholders' equity funds present the liability resulting from the recognition of this expense as the bonus reserve.

A summary of the recognition of bonuses declared in the Consolidated Income Statement is as follows:

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	Year of recognition in the Income Statement					Total £m
						2011 £m	2012 £m	2013 £m	2014 £m		
Bonus declared for 2006	14.5	7.0	5.7	4.3	0.7	-	-	-	-	-	32.2
Bonus declared for 2007	-	13.6	4.3	4.3	3.2	1.1	-	-	-	-	26.5
Bonus declared for 2009	-	-	-	4.3	1.0	1.0	0.9	0.2	-	-	7.4
Bonus declared for 2010	-	-	-	-	2.3	1.3	1.5	1.2	-	-	6.3
Accounting adjustment to bonus declared in 2006	-	-	(1.6)	1.1	(0.3)	-	-	-	-	-	(0.8)
Accounting adjustment to bonus declared in 2007	-	-	(1.2)	(0.1)	(1.4)	(0.4)	-	-	-	-	(3.1)
Accounting adjustment to bonus declared in 2008	-	-	-	0.3	-	0.1	-	-	-	-	0.4
Accounting adjustment to bonus declared in 2009	-	-	-	-	0.2	-	-	-	-	-	0.2
	14.5	20.6	7.2	14.2	5.7	3.1	2.4	1.4	-	-	69.1

The bonus cost recognised in the year represents the accounting amortisation of bonuses declared in previous years.

During 2009 and 2010, the Group reassessed the assumptions underlying the calculation of the cost of matching bonus shares declared in previous years. This produced a reduction in accounting cost of £0.7m (2009 increased cost £2.6m). The Group will recognise similar adjustments each year as the assumptions underlying the calculations of matching shares change. See note 31 for details about matching shares.

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

The Group recognised the following bonus costs in accordance with IFRS 2 Share-based Payment:

	2010 £m	2009 £m
Other creditors	1.9	5.5
Bonus reserve	3.8	8.7
Total cost recognised	5.7	14.2

The other creditors element of the bonus payable represents the element payable in cash, whereas the bonus reserve represents the element to be settled in shares. The cash element includes the associated social security costs associated with the share element within the bonus.

Other corporate undertakings creditors includes £2.4m (2009 £2.6m) payable to PXRE Holdings Limited (PXRE), resulting from the expected utilisation of tax losses purchased as part of the acquisition in 2005 of Chaucer Corporate Capital (No. 2) Limited. The liability with PXRE represents the net present value of the amount that the Group expects to pay in future years, when the profits of the relevant years of account are taxed.

The Group carries other trade and other payables at fair value since these do not attract any significant discount.

27. NET ASSET VALUE PER ORDINARY SHARE

The net asset and net tangible asset values per ordinary share have been calculated on the equity balance and equity less intangible assets balance respectively, divided by the number of ordinary shares in issue at the year-end, adjusted by own shares held other than those held in trust and available to employees, as shown below:

	2010	2009
Equity funds	£317.9m	£316.7m
Number of adjusted shares	529.8m	513.0m
Net asset value per ordinary share	60.0p	61.7p
Equity funds less intangible assets	£285.8m	£284.6m
Number of adjusted shares	529.8m	513.0m
Net tangible asset value per ordinary share	53.9p	55.5p
Number of shares in issue	548.1m	548.1m
Less own shares held, excluding those held in trust and available to employees, without restriction	18.3m	35.1m
Number of adjusted shares	529.8m	513.0m

28. RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	2010 £m	2009 £m
Profit before tax	32.9	42.0
Net investment return less finance costs	(29.3)	(49.2)
Depreciation of tangible fixed assets	2.1	1.9
Increase in technical provisions	208.0	23.4
Increase in reinsurers' share of technical provisions	(108.9)	(0.8)
(Increase)/decrease in trade and other receivables	(31.3)	52.1
Increase/(decrease) in trade and other payables	73.4	(13.4)
Increase/(decrease) in accruals and deferred income	1.7	(0.7)
Increase in deferred acquisition costs	(18.9)	(5.8)
Increase in prepayments and accrued income	(6.7)	(11.9)
Decrease in employee benefits provision	(4.4)	(0.2)
Unrealised foreign exchange on cash and cash equivalents	(0.7)	11.9
Unrealised foreign exchange on subordinated debt	0.5	(4.8)
Increase in bonus costs deferred share bonus plan	3.7	9.4
Share options cost	0.3	0.6
Cash generated from operations	122.4	54.5

29. DIVIDENDS

	2010 £m	2009 £m
Final dividend for the year ended		
31 December 2009 2.7p per ordinary share, paid on 28 May 2010	14.5	-
Interim dividends for the year ended		
31 December 2010 1.3p per ordinary share, paid on 1 October 2010	7.0	-
31 December 2009 1.3p per ordinary share, paid on 1 October 2009	-	6.8
31 December 2008 3.7p per ordinary share, paid on 13 March 2009	-	11.8
	21.5	18.6

A final dividend in respect of the 2010 financial year of 2.7p per share, amounting to a total of £14.8m, will be proposed at the Annual General Meeting on 19 May 2011. These consolidated financial statements do not recognise the 2010 final dividend.

The total dividend in respect of the 2010 financial year, including the interim paid and final recommended dividend, is 4.0p per share (2009 4.0p).

30. SHARE OPTIONS

The Group grants share options to directors and employees in accordance with the terms of the various share option schemes in place, as described in the Directors' Remuneration Report. The share options are exercisable three, five, seven or ten years from grant date or on satisfaction of the conditions of the share option grant. The movements in the number of share options outstanding and the weighted average exercise price are as follows:

	2010 Weighted average exercise price Pence per share	2010 Share options Thousands	2009 Weighted average exercise price Pence per share	2009 Share options Thousands
Outstanding at 1 January	42.5	9,669	47.2	8,531
Share options granted	38.0	1,275	39.1	4,671
Share options exercised	35.5	(634)	32.5	(813)
Forfeited	84.3	(828)	46.8	(2,538)
Expired	58.3	(694)	46.2	(182)
Outstanding at 31 December	41.3	8,788	42.5	9,669
Exercisable at 31 December	43.8	3,091	45.1	4,234

The share options outstanding at 31 December 2010 had a weighted average remaining contractual life of 2.8 years (2009 3.4 years).

The Group used the Black-Scholes option-pricing model to estimate the fair value of each option on the date of grant. The Black-Scholes model inputs, for valuing the share options granted during the year, are as follows:

	2010	2009
Weighted average share price	49.8p	50.0p
Weighted average exercise price	38.0p	39.0p
Volatility	40.85%	46.38%
Weighted average expected life	4.0years	4.0years
Risk free rate	2.81%	3.90%
Dividend yield	8.04%	9.95%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years on a weighted average basis. The expected life used in the Black-Scholes model is the Group's current best estimate of the effects of non-transferability, exercise restrictions, future market conditions and behavioural considerations.

During the year the Group recognised total expenses of £0.3m (2009 £0.7m) relating to share options granted.

All existing share options issued after 7 November 2002 and not vested at 1 January 2005 have been valued as required by IFRS 2 Share-based Payment.

In 2006 the Group discontinued all share option schemes in place, other than the Save As You Earn scheme, and replaced these with a new share-based incentive scheme, the Deferred Share Bonus Plan, which is described in the Directors' Remuneration Report.

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

Share options outstanding at 31 December 2010 have the following expiry dates and exercise prices:

	Date of grant	Exercise price Pence	Exercise period	2010	2009
Chaucer Holdings PLC Approved Savings Related Share Option Scheme	10/02	25.8	12/09-05/10	-	16,507
	10/03	31.3	12/10-05/11	-	26,789
	10/04	34.7	12/09-05/10	-	47,590
	10/05	41.6	12/10-05/11	28,667	146,441
	10/06	54.7	12/09-05/10	-	204,363
	10/06	54.7	12/11-05/12	45,461	69,389
	10/07	74.9	12/10-05/11	18,950	27,400
	10/07	74.9	12/12-05/13	12,998	12,998
	10/08	46.5	12/11-05/12	390,404	510,573
	10/08	46.5	12/13-05/14	308,406	439,553
	10/09	38.5	12/12-05/13	2,073,939	2,460,684
	10/09	38.5	12/14-05/15	1,608,275	1,741,556
	10/10	38.0	12/13-05/14	789,402	-
	10/10	38.0	12/15-05/16	468,756	-
				5,745,258	5,703,843
Chaucer Holdings PLC Share Option Scheme (Performance related)	07/00	55.0	07/03-07/10	-	110,674
	09/00	61.2	09/03-09/10	-	84,321
	05/01	61.2	05/04-05/11	320,428	564,967
	10/02	32.3	10/05-10/12	855,496	1,106,922
	10/03	42.4	10/06-10/13	148,895	148,895
	10/04	39.6	10/07-10/14	637,948	782,002
				1,962,767	2,797,781
Chaucer Holdings PLC Approved Share Option Scheme (Performance related)	05/01	61.2	05/04-05/11	498,036	547,049
	10/01	49.8	10/04-10/11	68,513	68,513
	10/02	32.3	10/05-10/12	53,756	91,702
	10/03	42.4	10/06-10/13	205,219	205,219
	10/04	39.6	10/07-10/14	254,776	254,776
				1,080,300	1,167,259
				8,788,325	9,668,883

The number of share options that were exercisable at the end of the year was 3,090,684 (2009 4,233,500).

31. SHARE-BASED PAYMENT

The Group implemented a long-term incentive scheme in 2006. The scheme includes an element payable in shares, which resulted in expenses during the year of £3.7m (2009 £8.7m). In accordance with the requirements of IFRS 2 Share-based Payment, in recognition of the share related expenses, the Group has created a bonus reserve within equity.

The scheme will result in the grant of shares, some of which will attract matching shares if the Group's performance meets certain conditions in the future.

For each share granted prior to 31 December 2009 that attracts matching shares, the scheme allows the Group to grant:

- Up to one matching share on satisfaction of a market condition test, which compares the Group's growth in TSR to the growth in an index of comparator companies; and
- Up to one matching share on satisfaction of a non-market condition test, which compares the growth of net asset value per share with that of the UK retail price index.

For each share granted from 1 January 2010 that attracts matching shares the scheme allows the Group to grant:

- Up to one matching share on satisfaction of a non-market condition test, which compares the growth of net asset value per share with that of the UK retail price index.

The Group may grant proportional numbers of shares on partial satisfaction of the performance conditions.

The Group employs an actuarial model to estimate the number of shares required to match the market condition related shares. The model considers the historic out-performance of the group of comparator companies to determine the distribution of probabilities of out-performance and applies a stochastic analysis to determine the expected number of matching shares.

The Group estimates the number of non-market condition related matching shares by comparing both the internal and market growth forecasts for net assets per share with the UK retail price index at relevant future balance sheet dates. The Group bases the fair value of all the shares on estimated market values at the date of grant.

The Group grants shares issued under the scheme four months after the end of the year and the shares then vest three years after the grant date. Accordingly, the total cost of the shares will be amortised over a period of 52 months, the period between issue and vesting. The Group recognised 12 months' worth of costs in 2010. Costs associated with matching shares are also amortised over the same period.

The estimated value of shares that the Group will grant and the associated costs (excluding national insurance costs) are as follows:

	Total cost £m	Cost recognised in 2010 £m	Cost recognised in 2009 £m
Shares granted in 2010			
Attracting matching shares	0.4	0.1	-
Not attracting matching shares	0.4	0.1	-
Matching shares	3.8	0.9	-
	4.6	1.1	-
Shares granted in 2009			
Attracting matching shares	1.2	0.2	0.5
Not attracting matching shares	0.7	0.2	0.2
Matching shares: market condition	0.3	0.3	0.1
Matching shares: non-market condition	1.0	-	0.2
Adjustment to 2009 declared bonus	0.1	0.2	-
	3.3	0.9	1.0
Shares granted in 2008			
Adjustment to 2008 declared bonus ¹	0.6	-	0.3
Shares granted in 2007			
Attracting matching shares	3.1	0.5	0.5
Not attracting matching shares	7.1	1.6	1.6
Matching shares: market condition	0.8	0.6	0.2
Matching shares: non-market condition	2.1	-	0.5
Adjustment to 2007 declared bonus ¹	(2.7)	(1.3)	(0.1)
	10.4	1.4	2.7
Shares granted in 2006			
Attracting matching shares	1.9	0.1	0.4
Not attracting matching shares	11.2	0.9	2.5
Matching shares: market condition	0.6	-	0.2
Matching shares: non-market condition	2.6	-	0.6
Adjustment to 2005/06 declared bonus ¹	(0.3)	(0.7)	1.0
	16.0	0.3	4.7
	34.9	3.7	8.7

¹ Adjustments to the cost of matching shares previously calculated are due to an update of the assumptions supporting the calculations, such as the number of shares in circulation and profit forecasts.

32. CAPITAL

The main component of capital held by the Group is the Funds at Lloyd's (FAL) held by the Group's corporate members and supporting the Group's underwriting interests. The FAL requirements are determined through Lloyd's implementation of the FSA's Individual Capital Assessment (ICA) regulatory regime.

Each managed syndicate is required to produce an ICA that represents the Managing Agent's view of the level of capital required by the Syndicate at the 99.5th percentile of confidence to meet all its ultimate liabilities as they fall due. The ICA considers all existing liabilities, plus those incurred by one year of new business; as such, it encompasses the volatility of future underwriting results, potential reserve deteriorations on prior years and other risks such as financial market volatility, credit risk and operational risk. ICAs are reviewed annually by Lloyd's, although the Managing Agent is required to continually monitor the risk profiles of its managed syndicates to ensure that the current agreed ICAs are appropriate.

For each syndicate, the ICA is uplifted by 35% to determine its Economic Capital Assessment (ECA). Lloyd's then uses this to determine an ECA for each corporate member, taking account of the corresponding underwriting interests in each syndicate. The final ECA for each corporate member is subject to a minimum of 40% of the corporate member's agreed premium capacity. Corporate members are required to hold sufficient FAL to cover both the ECA and any share of solvency deficits on open years of account. The Group's corporate members complied with these requirements throughout the year.

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

The Group currently underwrites at Lloyd's for the 2011 year of account at an ECA of 46.5% (2010 year of account 43.2%) whereby it must deposit FAL to this proportion of the Group's Overall Premium Limit (OPL) for that year. The table below shows the Group's OPL for the 2011 and 2010 years of account and the composition of assets deposited to meet the associated FAL requirements, including the estimate for 2011 based on the updated plan.

	Year of account	
	2011	2010 ³
	£m	£m
Group underwriting interests	707.2	656.9
Capital provision reinsurer participations	99.0	86.6
Overall premium limit	806.2	743.5
FAL ratio (average)	46.5%	43.2%
FAL requirement	374.9	321.1
Funding of open year of account losses	93.9	93.6
Total FAL requirement	468.8	414.7
FAL requirement satisfied by:		
Investments	233.2	232.0
Personal reserves	91.0	104.9
Letters of credit²		
Group economic interest	90.0	51.0
Capital provision reinsurer	50.1	55.9
	464.3¹	443.8

¹ The difference between the FAL requirement and the assets held is due to the revaluation of the US dollar denominated assets and the change in fair value of bond assets at the balance sheet date. The Group's FAL requirement will be revalued by Lloyd's in April 2011, at which point any differences will be settled.

² Letters of credit includes US\$75.2m (2010 year of account US\$60.4m) provided by Flagstone Reassurance Suisse SA, a company registered in Switzerland, under the terms of a reinsurance agreement entered into by the Group and Flagstone in June 2009 and £nil (2010 year of account £15.6m) provided by Labuan Re, a company registered in Malaysia.

³ The Group's underwriting interests in the 2010 underwriting year were reported at 31 December 2009 as £623.3m. Subsequently the Group increased its interests in the 2010 underwriting year to £656.9m. The figures in the table above reflect the increased underwriting interests.

33. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group has entered into a deed of covenant in respect of certain of the corporate member subsidiaries to meet each subsidiary's obligations to Lloyd's. A fixed and floating charge over the investments and other assets of the Group in favour of Lloyd's secures the total guarantee given by the Group under those deeds of covenant (subject to limited exceptions).

Lloyd's has the right to retain income on charged investments, although it is not expected that Lloyd's would exercise the right unless it considers there to be a risk that one or more of the covenants might need to be called and, if called, might not be honoured in full.

The liability under each deed of covenant is limited to a fixed monetary amount. However, Lloyd's may enforce a deed of covenant default by a corporate member if the total value of investments held falls below that covenanted. In doing so, this may result in the appropriation by Lloyd's of a greater amount of the Group's total FAL than that corporate member's assets represent as a proportion of the Group's overall premium limit.

Where the Group reduces its participation on a syndicate, it pays a reinsurance to close premium to other Lloyd's members to assume its ongoing liabilities. The nature of this arrangement is that of reinsurance such that the Group retains liability in the event of failure of these Lloyd's members and the Lloyd's chain of security. There is no mechanism for the Group to quantify its exposure in this regard and the Group considers that the possibility of having to assume these liabilities is remote.

34. COMMITMENTS

Operating leases

The Group is due to make future payments under operating leases over the periods stated as follows:

	2010	2009
	£m	£m
Land and buildings		
Not later than one year	3.2	3.2
Later than one year and not later than five years	11.4	11.5
Later than five years	1.3	4.1
Total future minimum lease payments	15.9	18.8

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

The Group moved to its current premises at Plantation Place, Fenchurch Street, London EC3M 3AD in June 2007. The Group signed the Plantation Place lease in August 2006 for a period of approximately ten years. Costs, which have accrued since the date of the lease agreement, include a rent-free period of 21 months, the value of which extends across the term of the contract.

The Group sublets a portion of the Plantation Place premises, for which it expects to receive the following future income:

	2010 £m	2009 £m
Land and buildings		
Not later than one year	0.8	0.8
Later than one year and not later than five years	0.6	1.4
Total future minimum lease receipts	1.4	2.2

35. RELATED PARTY TRANSACTIONS

The remuneration of the key management personnel of the Group, including all the directors of the Parent Company, is set out below in aggregate for each of the categories specified in IAS 24 Related party disclosures. The audited part of the Directors' Remuneration Report contains further information about the remuneration of individual directors of the Parent. The table below shows benefits payable on an accruals basis, with the granting of shares to directors taking place in the following year.

	2010 £000	2009 £000
Short term employment benefits	1,093	1,041
Post-employment benefits	(51)	323
Other long-term benefits	351	531
Termination payments	-	469
Shared-based payment	18	14
Total compensation to 31 December	1,411	2,378

Chaucer Syndicates Limited acted as the Managing Agent and received amounts for services provided during the year, for the following syndicates:

	Syndicate 1084 £m	Syndicate 1176 £m	Syndicate 4000 £m	Syndicate 4242 £m	Syndicate 1274 £m	Syndicate 1301 £m
31 December 2010						
Managing agent's fees	7.5	1.3	-	0.9	-	1.2
Profit commission	5.0	3.7	-	2.0	-	0.3
Expense recharge	45.5	-	0.8	1.1	-	5.8
Balance owed to Chaucer Syndicates Limited	8.1	3.6	0.1	2.2	-	0.5
31 December 2009						
Managing agent's fees	6.3	1.3	-	1.3	1.6	1.8
Profit commission	-	2.8	-	0.4	-	0.2
Expense recharge	36.0	-	0.7	0.2	0.4	5.0
Balance owed to Chaucer Syndicates Limited	1.0	-	0.4	-	0.1	0.1

36. SUBSEQUENT EVENTS

In January 2011, there was further flooding in the state of Queensland, Australia, in February 2011 Christchurch, New Zealand experienced an earthquake measuring 6.3 on the Richter scale and in March 2011 there was an earthquake measuring 9.0 on the Richter scale and a consequential tsunami that affected the north-east of Japan. The insured costs of these 2011 events are non-adjusting events and have not been reflected in the financial statements of the Group for the year ended 31 December 2010.

The Group's initial loss estimates are £8m for the January 2011 Australia floods and approximately £19m for the February 2011 New Zealand earthquake, based on an assumed industry loss of NZ\$12bn. Syndicate 1084 is currently assessing its exposure to the Japanese events. However, it is currently too early to provide a loss estimate.

The Group previously reported that its combined estimated total loss from the 2010 New Zealand earthquake and Australia floods would be £24.4m. However, following further assessment, the Group has reduced this estimate to £17.4m, as reported in note 24.

The Group considers that the total technical provisions are still within the range of expectations established at 31 December 2010.

Syndicate Statistics

CAPACITY UNDER MANAGEMENT

	2011 £m	2010 ¹ £m	2009 £m	2008 £m	2007 £m
In-house syndicates					
1084	825.0	745.0	634.0	445.0	485.0
1176	31.7	31.7	31.5	27.5	27.5
	856.7	776.7	665.5	472.5	512.5
Third party syndicates					
1274	-	-	165.2	135.4	-
1301	110.0	110.0	95.0	75.0	72.0
4000	-	-	-	73.0	73.0
4242	80.0	99.0	83.6	83.6	83.6
	190.0	209.0	343.8	367.0	228.6
Total capacity under management	1,046.7	985.7	1,009.3	839.5	741.1
Capacity managed for third parties	(339.5)	(328.8)	(429.3)	(319.7)	(194.5)
Chaucer economic interests (see table below)	707.2	656.9	580.0	519.8	546.6

ECONOMIC INTERESTS IN UNDERWRITING CAPACITY

	2011 £m	2010 ¹ £m	2009 £m	2008 £m	2007 £m
In-house syndicates					
1084	788.8	713.0	602.0	445.0	485.0
1176	17.4	17.4	17.4	15.5	14.9
	806.2	730.4	619.4	460.5	499.9
Participations by capital provision reinsurer	(99.0)	(86.6)	(50.7)	(25.0)	(37.6)
	707.2	643.8	568.7	435.5	462.3
Third party syndicate participations					
4000	-	-	-	73.0	73.0
4242	-	13.1	11.3	11.3	11.3
Total economic interests	707.2	656.9	580.0	519.8	546.6

¹ This includes an increase in the capacity of Syndicate 1084 to £745.0m following an increase to underwriting capacity approved by Lloyds on 20 December 2010.

In addition, the Group has an underwriting participation through a £17.0m investment in Antares Holdings Limited, which provides capital to Antares Syndicate 1274.

..... Statement of Directors' Responsibilities in Relation to Chaucer Holdings PLC's Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are also responsible for ensuring the annual report includes information required by the Listing Rules of the Financial Services Authority.

Approved by the Board of Directors on 31 March 2011 and signed on its behalf by

David Turner

Company Secretary

We have audited the parent company financial statements of Chaucer Holdings PLC for the year ended 31 December 2010, which comprise the Company Balance Sheet and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 120, the Directors are responsible for the preparation of the Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent Company financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the Group financial statements of Chaucer Holdings PLC for the year ended 31 December 2010.

Kevin Senior

Senior statutory auditor

for and on behalf of Ernst & Young LLP, Statutory Auditor

London, 31 March 2011

Chaucer Holdings PLC Balance Sheet at 31 December 2010

	Notes	2010 £m	2009 £m
Fixed assets			
Tangible assets	3	3.6	3.8
Shares in group undertakings	4	38.7	39.4
Financial assets	5	250.2	235.8
		292.5	279.0
Current assets			
Debtors: amounts falling due within one year	6	79.3	86.7
Cash at bank and in hand	7	101.1	96.4
		180.4	183.1
Creditors: amounts falling due within one year	8	(154.6)	(155.1)
Net current assets		25.8	28.0
Debtors: amounts falling due after more than one year	6	1.5	1.5
Total assets less current liabilities		319.8	308.5
Creditors: amounts falling due after more than one year			
Other creditors	8	(2.2)	(2.9)
Subordinated debt	9	(40.8)	(40.3)
Net assets		276.8	265.3
Capital and reserves			
Called up share capital	11	137.0	137.0
Own shares	12	(15.5)	(28.3)
Share premium account	12	90.9	90.9
Bonus reserve	12	14.6	27.3
Retained earnings	12	49.8	38.4
Total equity shareholders' funds	12	276.8	265.3

The financial statements were approved by the Board of Directors on 31 March 2011 and signed on its behalf by

Robert Stuchbery

Chief Executive Officer

Ken Curtis

Chief Finance Officer

1. ACCOUNTING POLICIES

Basis of accounting

The accounts have been prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with applicable UK law and accounting standards. The Balance Sheet has been prepared in accordance with Schedule 1 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410). No profit or loss account is presented for the Company as permitted by Section 408 of the Companies Act 2006. The profit dealt with in the accounts of the Company was £30.3m (2009 £19.6m). The Company has taken advantage of the exemption available under FRS 1 (revised) and not prepared a Statement of Cash Flows. The Company has taken advantage of the exemption available under FRS 29 Financial instruments: Disclosure and Presentation to not disclose certain information on the Company's financial instruments as this information is incorporated within the Group financial statements that include the relevant disclosures.

Financial assets

All investments excluding investments in subsidiary undertakings are classified as fair value through profit and loss and are measured at fair value. Fair value is determined using published bid price quotations of each security. Unquoted equity investments are initially carried at cost as the best estimate of fair value and are adjusted thereafter whenever events or changes in circumstances indicate that the carrying amount may not approximate to fair value. The fair value of an unquoted equity security is calculated using the most appropriate valuation technique, such as reference to current fair values of another instrument that is substantially the same, discounted cash flow analysis or option pricing models.

The Directors consider the fair value through profit and loss option to be appropriate as financial assets are managed and their performance evaluated on a fair value basis, in accordance with a documented investment strategy and information is provided internally on that basis to key management personnel. In addition, investment risk is assessed on a total return basis, which is consistent with the adoption of fair value through profit and loss.

All purchases and sales of investments are accounted for at trade date. Investments are initially recognised at fair value and derecognised when sold. Realised and unrealised gains and losses arising from the change in fair value are included in the profit and loss account in the period in which they arise.

Derivative financial instruments

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts to hedge these exposures. The Company does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the profit and loss account.

Other income

Other income comprises rental income and management rebate fees receivable from investment managers. Income is booked when the Company's right to receive payment is established.

Investment income

Investment income comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment management fees. The Company recognises dividend income on establishment of the shareholders' right to receive payment. Interest income is recognised as it accrues and is calculated by using the effective interest rate method.

Expenses

Expenses, including administrative expenses and interest charges, are accounted for on an accruals basis and charged to the profit and loss account as incurred, except as follows:

- Expenses that are incidental to the acquisition of an investment are included within the cost of investments
- Expenses that are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable income for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates applicable at the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on un-remitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Notes to the Financial Statements

Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid. Dividends declared after the balance sheet date but before the financial statements are authorised are not recognised but are disclosed in the notes to the financial statements.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of tangible fixed assets over the estimated useful lives as follows:

Buildings	25 years	Straight line
-----------	----------	---------------

Foreign currency translation

The functional currency used in the financial statements is sterling, being the currency of the primary economic environment of the Company. The financial statements are presented in sterling being the presentation currency for the Company.

Monetary items are translated at period end rates, any exchange differences arising from the change in rates of exchange are recognised in the profit and loss account.

The rates of exchange used to translate monetary balances at the year end in foreign currencies into sterling are as follows:

	2010	2009
US Dollars	1.57	1.61
Euros	1.17	1.13

Long-term assets and liabilities

Where assets and liabilities are payable or recoverable in more than one year, they are initially recognised at their fair value, which is the discounted nominal value of the asset or liability. The unwinding of the related discount is subsequently recognised in the profit and loss account.

Shares in group undertakings

Shares in group undertakings are stated at cost less provision for any impairment in value.

Provisions and contingencies

The Company recognises provisions when it has a present legal or constructive obligation because of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where a reimbursement is expected, this is recognised only when it is virtually certain that the reimbursement will take place and of the amount to be reimbursed.

Contingent liabilities are liabilities that represent a possible obligation arising from a past event whose existence is dependent on one or more uncertain future events not within the control of the Company, or a present obligation where it is not probable that an outflow will be required for settlement of the obligation.

Contingent liabilities are not disclosed where the likelihood of the uncertain future event is remote, unless the disclosure of the contingent liability adds clarity to the financial statements.

Contingent assets, which relate to possible assets and depend on the outcome of uncertain future events, are not recognised. Such an asset is disclosed only where the inflow of economic benefit is probable.

Employee benefits: shares

The Company grants shares to its subsidiary's employees under a number of shares schemes. The shares granted are measured at fair value at the date of the grant and are expensed on a straight-line basis over the vesting period, based on the terms of the share schemes. The expense is recorded against a bonus reserve in equity.

When the shares necessary to satisfy the benefit are purchased, they are recorded as own shares within equity, at their acquisition cost. These shares are held in a separately administered trust fund and deducted from equity.

If the vesting options are exercised by the employee and the shares leave the trust, own shares and the bonus reserve are reduced by the number of vesting shares valued at acquisition cost. If there is any difference between the acquisition cost and the fair value used at the date of setting the bonus reserve, it will be adjusted to retained earnings.

In accordance with the rules of the schemes, certain shares attract matching shares, if certain performance conditions are met. The number of matching shares and the fair values are determined through stochastic models that estimate the probabilities of the performance conditions being met. The cost of matching shares is amortised over the same period of time as the original shares. The assumptions behind the determination of matching shares and their fair values are reassessed, when applicable, at the end of each accounting period and the impact of any change is recorded in the profit and loss account.

Employee benefits: share options

The Company grants share options to its subsidiary's employees under a number of option schemes. The share options granted are measured at fair value at the date of the grant and are expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

FRS 20 Share-based Payment does not require options granted before 7 November 2002 to be fair-valued, or those granted after 7 November 2002 that had vested as at 1 January 2005 to be expensed. Therefore, the costs recognised in the profit and loss account reflect only the share grants made after 7 November 2002 that had not vested before 1 January 2005.

At each balance sheet date, the Company revises its estimate of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit and loss account and a corresponding adjustment to equity over the remaining vesting period. The proceeds received, net of any directly attributable transaction costs, are credited either to share capital (nominal value) and share premium, if shares are issued, or to investments in own shares, if shares are purchased, when the options are exercised. If shares are purchased in the market to settle the options then any difference between the exercise price, the fair value of the options and the cost of the shares issued, is taken to retained earnings.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market (non-vesting) condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Subordinated debt

The long-term loan is recognised initially at fair value, net of transaction costs incurred. The loan is subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest rate method.

2. DIVIDENDS PAID OR DECLARED

	2010 £m	2009 £m
Final dividend for the year ended		
31 December 2009: 2.7p per ordinary share, paid on 28 May 2010	14.5	-
Interim dividends for the year ended		
31 December 2010: 1.3p per ordinary share, paid on 1 October 2010	7.0	-
31 December 2009: 1.3p per ordinary share, paid on 1 October 2009	-	6.8
31 December 2008: 3.7p per ordinary share, paid on 13 March 2009	-	11.8
	21.5	18.6

A final dividend in respect of the 2010 financial year of 2.7p per share, amounting to a total of £14.8m, is to be proposed at the Annual General Meeting on 19 May 2011. These financial statements do not recognise the 2010 final dividend.

The total dividends in respect of the 2010 financial year, including the interim paid and proposed dividend declared are 4.0p per share (2009 4.0p).

3. TANGIBLE FIXED ASSETS

	Land and buildings £m
Cost	
At 1 January and 31 December 2010	5.9
Accumulated depreciation	
At 1 January 2010	(2.1)
Charge for the year	(0.2)
At 31 December 2010	(2.3)
Net book amount at 31 December 2010	3.6
Net book amount at 31 December 2009	3.8

The property included under Land and buildings is subject to a first and only legal charge to a consortium of Banks (the Banks) in respect of a £90.0m letter of credit (2009 £51.0m) provided by the Banks as part of the Company's Funds at Lloyd's.

Notes to the Financial Statements

4. SHARES IN GROUP UNDERTAKINGS

	2010 £m	2009 £m
At 1 January	39.4	39.4
Impairment of investments	(0.7)	-
At 31 December	38.7	39.4

The impairment in the year relates to Chaucer Corporate Capital Limited, due to a reduction in the net asset value of that subsidiary, following the distribution of dividends.

The following were the main subsidiary undertakings at 31 December 2010 (unless otherwise stated):

Company	Activity	Class of share held	Proportion of shares and voting rights held (%)
Aberdeen Underwriting Advisers Limited	Dormant subsidiary	Ordinary	100
ALIT Insurance Holdings Limited	Holding company ¹	Ordinary	100
ALIT Underwriting Limited	Holding company	Ordinary	100
ALIT (No. 1) Limited	Corporate member of Lloyd's	Ordinary	100
ALIT (No. 2) Limited	Corporate member of Lloyd's	Ordinary	100
ALIT (No. 3) Limited	Corporate member of Lloyd's	Ordinary	100
ALIT (No. 4) Limited	Corporate member of Lloyd's	Ordinary	100
ALIT (No. 5) Limited	Corporate member of Lloyd's	Ordinary	100
CH 1997 Limited	Holding company	Ordinary	100
Chaucer Consortium Underwriting Limited	Insurance intermediary	Ordinary	100
Chaucer Corporate Capital Limited	Corporate member of Lloyd's ¹	Ordinary	100
Chaucer Dedicated Limited	Corporate member of Lloyd's	Ordinary	100
Chaucer Freeholds Limited	Property company ¹	Ordinary	100
Chaucer GmbH	Service company	Ordinary	90
Chaucer Insurance Services Limited	Insurance intermediary	Ordinary	100
Chaucer Latin America S.A.	Service company	Ordinary	100
Chaucer Singapore PTE Limited	Service company	Ordinary	100
Chaucer Syndicates Limited	Lloyd's managing agent	Ordinary	100
Chaucer Syndicate Services Limited	Dormant subsidiary	Ordinary	100
Chaucer Underwriting A/S	Insurance intermediary	Ordinary	100
Hayward Brick Stuchbery Holdings Limited	Holding company ¹	Ordinary	100
Insurance4Cargo Services Limited	Service company	Ordinary	100
Chaucer Corporate Capital (No.2) Limited	Corporate member of Lloyd's ¹	Ordinary	100
Chaucer Corporate Capital (No.3) Limited	Corporate member of Lloyd's ¹	Ordinary	100

¹ These companies are direct holdings of the main parent company. All the other entities are indirect subsidiaries.

All subsidiary companies are registered in England and Wales except for Chaucer GmbH, Chaucer Latin America S.A., Chaucer Singapore PTE and Chaucer Underwriting A/S, which are registered in Germany, Argentina, Singapore and Denmark respectively.

Chaucer Latin America S.A.

On 27 September 2010 the Company acquired Glacier Re Argentina S.A. from Glacier Reinsurance AG, for a consideration of US\$26,758. The Company subsequently renamed Glacier Re Argentina S.A. as Chaucer Latin America S.A.

Chaucer Latin America S.A. was established to access facultative property and related risks in Latin America on behalf of Syndicate 1084, in which a subsidiary of the Company has open year participations of £445m, £602m and £713m for the 2008, 2009 and 2010 years of account respectively.

5. FINANCIAL ASSETS

	Cost	2010 Fair value	Cost	2009 Fair value
	£m	£m	£m	£m
Funds at Lloyd's and other corporate funds				
Equities	3.2	2.7	3.2	2.1
Bonds	234.0	230.5	225.5	216.7
Other	17.0	17.0	17.0	17.0
	254.2	250.2	245.7	235.8

The Company deposits Funds at Lloyd's to support the Group's underwriting operations, based on the assessment of risk associated with those operations. The access to those funds is restricted and they are not available for any other purpose.

The movements in Funds at Lloyd's held as financial assets were as follows:

	2010 £m	2009 £m
At 1 January	218.8	172.8
Additional funds	19.4	44.1
Realised losses	(3.3)	(0.6)
Unrealised (losses)/gains	(1.7)	2.5
At 31 December	233.2	218.8

6. DEBTORS

	2010 £m	2009 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	74.5	82.3
Prepayments and accrued income	4.8	4.4
	79.3	86.7
Amounts falling due after one year		
Amounts owed by subsidiary undertakings	1.5	1.5

During 2004, Chaucer Holdings PLC granted a £1.5m subordinated loan to Chaucer Syndicates Limited, a subsidiary undertaking. Under the terms of the agreement, the loan generates interest at a rate of 1.0% above the Three Month Interbank Sterling rate and a one-year notice period is required before any repayment is made. The repayment is subject to Lloyd's approval.

7. CASH AT BANK AND IN HAND

	2010 £m	2009 £m
Funds at Lloyd's	91.0	87.9
Other funds	10.1	8.5
	101.1	96.4

The Company deposits Funds at Lloyd's to support the Group's underwriting operations, based on the assessment of risk associated with those operations. Lloyd's restricts access to those funds, preventing their use for any other purpose.

8. CREDITORS

	2010 £m	2009 £m
Amounts falling due within one year		
Amounts due to subsidiary undertakings	153.2	154.2
Accruals and deferred income	0.1	0.1
Other creditors	0.7	0.8
Amount due to PXRE Holdings Limited	0.6	-
	154.6	155.1
Amounts falling due after one year		
Amount due to PXRE Holdings Limited	2.2	2.9

The amounts payable to PXRE Holdings Limited are in relation to the expected utilisation of tax losses purchased as part of the acquisition of Chaucer Corporate Capital (No.2) Limited (formally PXRE Limited) in 2005. The liability with PXRE Holdings Limited is expected to be settled in 2011 (£0.6m) and 2012 (£2.2m).

9. SUBORDINATED DEBT

	2010 £m	2009 £m
Debt in Euros	9.9	10.2
Debt in US Dollars	30.9	30.1
	40.8	40.3

On 16 November 2004, the Company issued a €12.0m floating rate subordinated 30-year note. The Company, subject to meeting certain conditions, has the option to full or partial redemption of the note on any future interest payment date at its principal amount plus any accrued interest.

Interest is paid semi-annually each year up to the date of redemption and the cost of borrowing is tied to the European Inter bank offer rate (Euribor) plus an agreed margin of 3.75%.

In accordance with the requirements of FRS 26 Financial instruments: Measurement, the financial liability is reported in the balance sheet at amortised cost using an effective interest rate of 4.8% (2009 4.9%). The interest expense is £0.5m (2009 £0.6m).

The calculation of the subordinated note recognised in the balance sheet is as follows:

	2010 £m
Balance at the end of 2009	10.2
Interest charges in the year	0.5
Interest paid during the year	(0.5)
Foreign exchange adjustments	(0.3)
Balance at the end of 2010	9.9

On 21 September 2006, the Company issued US\$50.0m floating rate unsecured subordinated 30-year notes. The Company has the option to full or partial redemption of the notes on any interest payment date on or after the Interest Payment Date falling in December 2011. The Company pays interest quarterly in arrears up to the date of redemption with the cost of borrowing tied to USD 3 month LIBOR plus an agreed margin of 3.1%. In accordance with the requirements of FRS 26 Financial instruments: Measurement, the Company reports the financial liability in the balance sheet at amortised cost using an effective interest rate of 3.5% (2009 3.5%). The interest expense is £1.2m (2009 £1.3m). The calculation of cost of the subordinated note recognised in the balance sheet is as follows:

	2010 £m
Balance at the end of 2009	30.1
Interest charges in the year	1.2
Interest paid during the year	(1.2)
Foreign exchange adjustments	0.8
Balance at the end of 2010	30.9

10. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company has entered into a deed of covenant in respect of certain of the corporate member subsidiaries to meet each subsidiary's obligations to Lloyd's. A fixed and floating charge over the investments and other assets of the Company in favour of Lloyd's secures the total guarantee given by the Company under those deeds of covenant (subject to limited exceptions).

Subsidiaries of the Company underwrite at Lloyd's for the 2011 year of account at an ECA of 46.5% (2010 year of account 43.2%) whereby it must deposit FAL to this proportion of the Overall Premium Limit (OPL) for that year.

Lloyd's has the right to retain income on charged investments, although it is not expected that Lloyd's would exercise the right unless it considers there to be a risk that one or more of the covenants might need to be called and, if called, might not be honoured in full.

The liability under each deed of covenant is limited to a fixed monetary amount. However, Lloyd's may enforce a deed of covenant default by a corporate member if the total value of investments held falls below that covenanted. In doing so, this may result in the appropriation by Lloyd's of a greater amount of the Company's total FAL than that corporate member's assets represent as a proportion of the Company's OPL.

There is no mechanism for the Company to quantify its exposure in this regard and the Company considers that the possibility of having to assume these liabilities is remote.

11. SHARE CAPITAL

	2010 Shares Million	2010 Value £m	2009 Shares Million	2009 Value £m
Authorised				
Ordinary shares of 25p each	700.0	175.0	700.0	175.0
Called up, allotted and fully paid				
Ordinary shares of 25p each	548.1	137.0	548.1	137.0

The number of 25p ordinary shares called up, allotted and fully paid:

	Date	Share price Pence	Number	Ordinary share capital £m	Share premium £m
At 1 January 2010			548,091,645	137.0	90.9
At 31 December 2010			548,091,645	137.0	90.9
At 1 January 2009			348,092,039	87.0	66.0
Shares issued in respect of: Firm Placing and Placing and Open offer	02/09	40.0	199,999,606	50.0	24.9
At 31 December 2009			548,091,645	137.0	90.9

12. MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Called up share capital £m	Own shares £m	Share premium account £m	Bonus reserve £m	Retained earnings £m	Total equity £m
At 1 January 2010	137.0	(28.3)	90.9	27.3	38.4	265.3
Profit for the year	-	-	-	-	30.3	30.3
Dividends paid	-	-	-	-	(21.5)	(21.5)
Investments in own shares	-	(0.6)	-	-	-	(0.6)
Share option costs	-	-	-	0.2	0.1	0.3
Vested shares	-	12.7	-	(18.2)	2.6	(2.9)
Cost of shares and share options exercised	-	0.7	-	(0.1)	(0.1)	0.5
Bonus costs deferred share bonus plan	-	-	-	5.4	-	5.4
At 31 December 2010	137.0	(15.5)	90.9	14.6	49.8	276.8

Share capital and share premium

Share capital and share premium reflect the nominal value and premium elements respectively of any issue of equity shares.

Own shares

Own shares represent those held by employee trust schemes, excluding those held in trust and available to employees, without restriction. The sole purpose of the employee trust schemes is to hold shares of the Company for settlement of share awards. The net number of shares held by the trust schemes at the end of 2010 was 18,290,341 (2009 28,477,230).

Bonus reserve

The bonus reserve contains that element of the bonus payable in shares or share options to employees, in accordance with the terms of the Deferred Share Benefit Plan. The charge for the year will increase the reserve while the vesting of shares and share options will decrease it.

The reserve also contains an element of shares granted to employees in accordance with the terms of the Share Incentive Plan (SIP). The SIP grants an incentive of two free shares to those employees who purchase a share under the plan. The movement in the year for SIP costs represents the cost of granting such free shares to employees.

The cost of shares and share options exercise represents the cost of the granted shares when employees exercise share options, less both the exercise price and the fair value of the share options previously expensed in accordance with IFRS 2 Share-based Payment.

Retained earnings

Retained earnings represent the accumulation of profits and losses as at the balance sheet date, after the distribution of dividends and other adjustments. The balance includes £28.1m (2009 £24.7m) of accumulated actuarial losses from revaluations of the pension scheme.

13. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption allowed by FRS 8 Related Party Disclosures not to disclose related party transactions with its subsidiaries.

Glossary of Terms

Acquisition costs	These represent the costs of obtaining the insurance business, including broker commissions, sales expense and other related expenses
Capacity	The maximum amount of business which may be accepted by a syndicate or a corporate member on a syndicate, expressed in terms of gross premium income net of commission
Claims ratio	Net incurred claims as a percentage of net earned premiums
Claims incurred	All claims payments and the adjustment in the outstanding claims provision of a business year and claim adjustment expenses
Combined ratio	The sum of the claims and expense ratios
Corporate member	A company admitted to membership of Lloyd's
Economic interest	The share of syndicate underwriting capacity supported by capital from Chaucer Holdings PLC
Expense ratio	Net expenses incurred in insurance activities as a percentage of net earned premiums
Exposure	The maximum value of claims made on an insurer from an event or events that would result in the total exhaustion of the cover or indemnity offered by an insurance policy
Funds at Lloyd's (FAL)	Funds lodged and held in trust at Lloyd's as security for the policyholders and to support a corporate member's overall underwriting activities the funds must be in a form approved by Lloyd's and be maintained in value
IBNR	Provision for claims Incurred But Not Reported by the balance sheet date, a term used for claims arising from accidents or events that have occurred, but have not been notified to the insurer
Line size	The maximum exposure or monetary value of a risk or class of risks accepted by an insurer
Managing agent	An agent that runs the affairs of a syndicate
RDS	A Realistic Disaster Scenario is an estimate of the losses that a syndicate would incur from a hypothetical disaster scenario (e.g. a California earthquake)
Retention	Amount of risk which the policyholder or insurer does not insure or reinsure but keeps for its own account
Return on equity	Profit after tax as a percentage of opening shareholders' equity for each period adjusted for share capital issues
Risk appetite	The amount of risk, typically expressed in terms of a 'willingness to lose', that a business is prepared to take in order to achieve its strategic objectives, including the target return
Risk tolerance	The amount of risk that the business is willing to accept for individual risks within the overall risk appetite
RITC	Reinsurance To Close; this is the premium paid by the members of the closing year of account of the Syndicate to the members of the year of account that assumes these liabilities
Solvency II	European Commission-led fundamental review of the capital adequacy regime for the European insurance industry
Syndicate	A group of members underwriting insurance at Lloyd's through the agency of a managing agent, to whom a particular syndicate number is assigned

Lloyd's is the world's leading specialist insurance and reinsurance market.

Lloyd's is the world's leading specialist insurance market, conducting business in over 200 countries and territories worldwide. Lloyd's brings together a unique concentration of specialist underwriting expertise and talent, backed by excellent financial ratings which cover the whole market.

As at 31 December 2010, 80 traditional syndicates operate in Lloyd's, each with its own specialties and areas of expertise. Together, they interact daily with brokers to create insurance solutions for businesses around the world. Lloyd's, as at 31 December 2010, insures 94% of FTSE 100 and 97% of Dow Jones industrial average companies. Lloyd's capital base is diverse and today 85% of Lloyd's capital comes from corporate bodies – primarily the international insurance industry.

Lloyd's enjoys strong financial security and every policy is supported by an **A (excellent)** rating from the rating agency A.M. Best, **A+ (strong)** rating from Standard & Poor's and **A+ (strong)** rating from Fitch Ratings.

Lloyd's is regulated by the Financial Services Authority.

This report contains certain forward-looking statements regarding Chaucer Holdings, its corporate plans, future financial condition, future results of operations, future business plans and strategies. Statements containing the words 'believes', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond Chaucer Holdings' control. These include, among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally, the policies and actions of regulatory authorities, the impact of competition, inflation and deflation, experience in particular with regard to policy prices, renewal rates and loss experience. As a result, Chaucer Holdings' actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Chaucer Holdings' forward-looking statements. Chaucer Holdings undertakes no obligation to update the forward-looking statements contained in this report or any other forward-looking statements it may make.



This document has been printed on Heaven 42, which is produced using virgin wood fibre from fully sustainable forests. All pulps used are Elemental Chlorine Free (ECF).

The use of the FSC logo identifies products which contain wood from well-managed forests certified in accordance with the rules of the Forest Stewardship Council.

The paper is also completely bio-degradable and recyclable.

Designed and produced by **fourfeet.co.uk**

Registered office

Plantation Place
30 Fenchurch Street
London
EC3M 3AD

T: +44 (0) 20 7397 9700
F: +44 (0) 20 7397 9710
chaucerplc.com

Chaucer Underwriting A/S

Landgreven 3, 4th Floor
DK 1301
Copenhagen K
Denmark

T: +45 3314 6022
F: +45 3333 0550

Chaucer Insurance

Prospect House
Chaucer Business Park
Thanet Way, Whitstable
Kent CT5 3FD

T: +44 (0) 1227 284 043
F: +44 (0) 1227 284 701
chaucer-insurance.co.uk

Chaucer Houston

3200 SW Freeway
Suite 1130
Houston
Texas 77027

T: +1 713 260 1032
F: +1 713 952 3978

REIS

8 The Triangle
ng2 Business Park
Nottingham
NG2 1AE

T: +44 (0) 115 985 0165
F: +44 (0) 115 988 2757
reis.co.uk

**Chaucer Singapore
PTE Limited**

1 George Street
#16-06
Singapore 049145

T: +65 6499 0820
F: +65 6499 0829

**Chaucer
Latin America SA**

Av. Córdoba 1131
8° Piso
1055 Buenos Aires

T: +54 11 5353 3400
F: +54 11 5353 3406