

1084

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UNDERWRITING PERFORMANCE

2011 was a challenging period for the international insurance industry, as losses from three significant events – the Japan earthquake and tsunami, the New Zealand earthquake and the Thailand floods – eliminated the gains from a quiet hurricane season. Against this background, Chaucer Syndicate 1084 recorded an underwriting loss of £40.6m (2010 loss £1.1m), although this conceals satisfactory performances from our UK, Marine and Aviation Divisions. The combined ratio for 2011 rose to 105.7% (2010 100.2%).

Gross written premiums increased to £884.5m (2010 £863.5m) as we focused growth in the UK motor market where rates were strong and in our new International Liability Division. Net earned premiums increased by 6.9% to £708.1m in 2011 (2010 £662.5m). After investment income the Syndicate produced a loss for the year of £15.0m (2010 profit £27.2m).

2011 EVENTS

At some US\$100bn, according to Swiss Re, the insured cost of both man made and natural catastrophe losses reached record levels in 2011, with the Japan earthquake and tsunami, New Zealand earthquake and Thailand floods responsible for over half of the total. This followed the tumult of 2010, which saw major insured natural catastrophe losses through European Windstorm Xynthia, earthquakes in Chile and New Zealand and Australia floods, in addition to Deepwater Horizon, the largest man made insured loss during the period. The table below summarises our estimated losses from the largest loss events in 2011.

		Estimated market insured loss	Syndicate 1084 estimated net loss ¹	Affected
Event	Date	(£bn)	(£m)	Divisions
Earthquake/Tsunami, Japan	March	22	47.4	Property, Marine
Flooding, Thailand	October	12	27.5	Property
Earthquake, Christchurch, New Zealand	February	9	33.6	Property
Tornadoes, US	April/May	9	9.8	Property
Hurricane Irene, US	August	3	2.6	Property
Aftershock, Christchurch, New Zealand	June	3	3.0	Property
Flooding, Brisbane, Australia	January	2	4.5	Property

¹ Net of reinsurance and reinstatement premiums receivable and payable.

Despite an active season, only hurricane Irene made landfall in the United States, albeit in North Carolina, and away from potential peak risk areas, so the majority of losses were retained in the domestic market. The performance of our Property and Marine Divisions benefitted from the quiet hurricane season for insured risks.

There were also a number of major energy losses in 2011, including storm damage to the Maersk Oil Gryphon installation in the North Sea and an explosion at the Canadian Natural Resources oil sands processing facility in Northern Alberta. With total insured losses of approximately US\$2.0bn, the impact of these events is greater than that of Deepwater Horizon.

Away from international markets, UK motor rates hardened further in 2011 as the market sought a return to profitability. We began to take action in 2009 to address losses, including major rate increases for our private car products and steps to reduce the cost of fraudulent claims, claims farming and credit hire claims. Our UK Division recorded a healthy combined ratio of 94.3% (2010 106.7%) with the market applying rate increases above inflation during 2010 and into 2011.

UNDERWRITING OUTLOOK

After 24 months of major losses, underwriting margins are improving in the majority of our property, marine and energy markets. These, combined with positive market conditions for UK motor, are expected to generate a beneficial increase in premium rates for our underwriting portfolio in 2012.

Against this background of improving market conditions, we have reviewed our underwriting portfolios for a number of classes, including property retro, marine excess of loss and energy liability, to ensure that we maximise the underwriting margin of each for the level of risk appetite set. These actions will hold back headline growth in our Energy, Marine and Property Divisions in 2012.

We have increased the capacity of our new International Liability Division in 2012, as the direct and coverholder relations developed since the underwriting team joined Chaucer Syndicate 1084 at the end of 2010 begin to generate significant written premium.

Away from these opportunities, the aviation and specialist lines markets are generally weak, with competitive pricing, a flow of new entrants adding to capacity and an absence of major market losses to prompt a correction. In response, and in line with our focus on protecting and enhancing our underwriting margins, we will continue to reduce premium volumes in those accounts that are softening to an unacceptable level during 2012.

In UK motor, we forecast rate increases in 2012, albeit at less than claims inflation. Increases for fleet and specialist motor classes will lead this. The fleet market should improve in 2012, following several years of fierce competition. For 2012, we intend to expand our direct and aggregator distribution capabilities.

DIVISIONAL PERFORMANCE

The following table provides a summary of divisional level underwriting performance.

					Specialist	International			Syndicate
	Energy	Property	Marine	Aviation	Lines	Liability	UK	Run off	1084
	£m	£m	£m	£m	£m	£m	£m	£m	£m
2011									
Gross written premiums	157.9	197.9	171.9	40.2	66.5	46.4	194.8	8.9	884.5
Net earned premiums	102.7	160.1	136.3	33.9	61.5	18.6	186.1	8.9	708.1
Underwriting (loss)/profit	(13.9)	(57.7)	8.4	7.4	(1.4)	(3.8)	10.6	9.8	(40.6)
2010									
Gross written premiums	177.7	209.3	161.6	48.4	90.2	-	183.5	(7.2)	863.5
Net earned premiums	113.2	157.1	127.9	35.3	71.7	-	164.5	(7.2)	662.5
Underwriting profit/(loss)	8.8	(13.8)	7.4	2.0	1.3	-	(11.0)	4.2	(1.1)

Energy Division

The Energy Division produced an underwriting loss of £13.9m (2010, profit £8.8m). Gross premium income fell to £157.9m (2010 £177.7m) as the Division reduced exploration, production and liability income because of continued dissatisfaction with rates, despite increases following a number of major market losses during the first half of 2011. The combined ratio rose to 113.5% (2010 92.2%).

2011 was a period of strengthening and consolidation for our Global Energy Practice, following the team's launch in 2010. We recruited additional underwriters for both the upstream and downstream accounts. In addition, we appointed a Divisional Underwriting Manager and Support Team to provide a strong operational platform to support our service to clients and brokers. We also increased our international presence in Singapore and Houston and opened a new office in Oslo to develop our services to the Norwegian and North Sea energy sector.

Upstream

After the market upturn that followed Deepwater Horizon in 2010, the rating environment flattened at the start of 2011, with increases only returning after a series of large losses, including Maersk Gryphon. This was a period of consolidation for the upstream account, with little change in total income, and steps taken to re-underwrite the more volatile areas of the account and to decline business that did not meet our pricing expectations.

Energy liability

The account reduced as a result of dissatisfaction with rates and is focused on writing risks in support of package business. We have recruited a dedicated class underwriter at our Houston office to develop our onshore liability account in the United States.

Construction

Construction income rose in 2011 as the flow of major energy projects increased worldwide, including the new Shell Prelude FLNG vessel, for which our Singapore office led the construction placement. The construction project flow should continue in 2012.

Downstream

Our downstream account saw rate rises of 10% and improved terms and conditions in the second half of 2011 and was able to exceed planned premium targets. Our midstream and renewable account remained flat. We appointed a Deputy Underwriter and an Underwriting Assistant to develop this account in 2012.

Property Division

2011 was extremely tough, with a plethora of natural perils events, including flooding in Australia, earthquakes in New Zealand, the Japan earthquake and tsunami, US tornado losses and the Thai floods. As a result, and despite the benefit of a quiet hurricane season, the Property Division recorded an underwriting loss of £57.7m (2010 loss £13.8m), on a gross premium income of £197.9m (2010 £209.3m). The combined ratio remained high at 136.0% (2010 108.8%).

International fac

This account was heavily impacted by major losses in both Japan and Thailand during 2011, and rates have hardened for catastrophe perils coverage in both these and other loss affected territories. Rates also improved in other catastrophe exposed areas.

Away from London, our new office in Argentina performed satisfactorily during 2011, having received good support from local brokers and cedants.

International treaty

2011 was very challenging with the New Zealand earthquakes, Australia floods, Japan earthquake and Thailand floods. Our treaty losses from these events were substantial, although not out of line with the market.

Capacity was plentiful in 2011 while rate decreases were rare, there was no generalised market hardening, with increases being loss and territory specific.

Over the course of 2011 and the 2012 renewals, we have worked hard to strengthen the account, reducing our exposure on working layer business, worldwide exposed treaties and non-peak exposures. This will reduce our exposure to both frequency and severity of losses, particularly in non-peak territories. We have consistently sought rate increases and more restrictive contract conditions in order to return the account to the positive territory of 2009 and prior.

International binders

The first half of 2011 was difficult, particularly because of severe floods in Brisbane, Australia in January and the New Zealand earthquake in February. However, market conditions improved markedly after April, with rates increasing throughout our international binder portfolio, notably in Australasia, South Africa and Ireland. Attritional loss rates also improved in 2011, particularly in the UK, Ireland and Northern Europe. These positive trends coincided with an internal portfolio review, which together should improve our underwriting performance in 2012.

US treaty

Pricing was better than plan across all lines. For catastrophe and risk business, most of the improvement followed after the April renewals as international catastrophe losses and the increased modelled loss output of RMS Version 11 took effect. In response, we took advantage of higher premium rates and capacity demands to increase our portfolio.

Engineering treaty

Our proportional treaty portfolio comprises a select number of contracts for long standing cedants. Our premium volume was below plan as we wrote little new business in 2011. The originating market is flat, with high levels of capacity chasing a limited number of projects, as the fragile global economic climate continues to limit new starts. However, there are now signs of recovery, with finance back in place, especially in the UK. Most rates are still at the technical level demanded for planned profitability, with deductibles and wordings remaining strong. Our treaties renewed at 1 January 2012 with commission terms as expiring.

We retained the majority of renewal business under our excess of loss treaty portfolio, although more layers were retained by cedants. Our new business volume was also lower than plan. The portfolio was profitable despite three notable losses during 2011, with rates remaining strong for lower level exposures, enabling our portfolio to achieve an overall rate increase.

Marine Division

The Marine Division produced a positive result in 2011, marked by good performances from our hull, political risk, cargo and specie accounts. The Division recorded an overall underwriting profit of £8.4m (2010 £7.4m) from a gross premium income of £171.9m (2010 £161.6m). The combined ratio was 93.8% (2010 94.2%).

Hull, liability and war

Since the final quarter of 2010, we have re-underwritten our hull account to both strengthen the pricing of the core account and to exit poorer performing classes. The 2011 result benefitted from this action. As previously reported the threat of piracy continues to increase and generated an unprecedented level of claims in 2011. Many initiatives are now underway with ship owners to reduce piracy risks, and we expect that this mitigant combined with increased premium levels should produce an improved result in 2012. The marine liability account performed satisfactorily, with the break up of the vessel Rena off the coast of New Zealand being the only significant loss in 2011.

Cargo and specie

While our cargo account was profitable, we were disappointed with continued market overcapacity, fuelled by new entrants, not least in Lloyd's. We remain committed to long-term success of our account and therefore will not follow market rates downwards. We will also maximise the benefits of our Lloyd's position and strong broker relationships to maintain our account.

We are pleased with the development and results of our specie account, which benefitted from an absence of large market losses in 2011. Pricing discipline was maintained and the substantial limits required for the majority of specie risks supported subscription market discipline.

Marine excess of loss

Major marine and energy related catastrophe losses, notably the Japanese Tsunami and Maearsk Gryphon, heavily affected the marine excess of loss market. In three of the last four years, market losses have exceeded premium income. In response we have reduced capacity and are re-underwriting this account in 2012.

Political risk

The trade credit market continued to benefit from a risk adverse economic climate in 2011, where despite the positive impact of rising commodity prices on the flow of new trade projects, banks continued to apply increasing stringent lending criteria to funding applications and so provided political risk underwriters with a pool of high quality business from which to select.

The one area of concern was Libya, where significant foreign-owned assets and receivables have been trapped by the political turmoil. We are pleased to report that the exposures have been proactively managed to mitigate potential losses.

Throughout 2011, we also recovered funds for claims paid from the global credit crunch in 2007/08/09 and are now significantly ahead of budgeted recoveries, believing that the ultimate loss will be less than initially forecast.

During the second half of 2011, we launched charterer default, a blended credit and marine product, to protect craft owners from lost revenues in the event of hirer failure, to significant market interest.

Political violence

The account produced a good result, despite a number of small and medium-sized terrorism losses during 2011. As planned, our newly enhanced team achieved a broader geographic footprint for aggregate exposures, building successfully on pricing strength and support from our targeted brokers.

Specialist Lines Division

The difficult trading conditions experienced during 2010 continued into 2011, with overcapacity and the reluctance of many markets to recognise rate inadequacy and loss history, depressing rates. Against this background, the Division performed satisfactorily, reducing income to £66.5m (2010 £90.2m) and producing a small underwriting loss of £1.4m (2010 profit £1.3m) as the combined ratio rose to 102.3% (2010 98.2%), due to strengthening of our prior year reserves for financial institutions.

Rates were broadly flat for our underwriting portfolio as we maintained pricing discipline, including our response to the changing risk environment and rising claims inflation. Our success in achieving this was primarily due to the quality of our relationships with brokers and clients. Income reduced by 26% as we retrenched to a core account of quality business.

We are committed to the drive for profitability over income and will continue to reduce our portfolio as necessary. We have avoided many of the large market losses that arose out of the global financial crisis and we believe that adherence to our core strategy will continue to benefit us as market conditions remain volatile.

International Liability Division

This was the first full underwriting year for our new International Liability Division. Our establishment in 2010 coincided with what we believe was the low point of the underwriting cycle for the majority of the international liability classes that we write. Drawing extensively on strong market relationships, the strength and experience of our underwriting team has enabled us to attract a high quality portfolio, at rates similar to those achieved in 2010. Gross premium income was £46.4m (2010 N/A).

We also achieved the balance and spread that we sought. Geographically, we secured binder and facultative accounts in the territories that we had planned to write, with almost two thirds in a lead capacity. Our distribution profile also shows a pleasing lack of reliance on the top 3 brokers.

Aviation Division

Our Aviation Division recorded an underwriting profit of £7.4m in 2011 (2010 £2.0m), on gross premium income of £40.2m (2010 £48.4m), despite challenging market conditions fuelled by continuing over capacity.

Airline hull and liability rates reduced steadily throughout 2011, although premium levels held up better as fleet values and passenger numbers carried rose, and we expect pressure on rates to continue in 2012 in the absence of major losses.

The general aviation account remains stable, with modest reductions balanced by increases on poorer performing accounts. The Reno air show tragedy is unlikely to harden markets.

Our refuellers and products business continues to perform well. Products rates are fairly stable, and we expect these to remain so, while airport rates are slipping.

UK Division

UK motor market rating conditions improved further in 2011, particularly in the private car and commercial vehicle sectors. Chaucer Insurance, our UK Division, benefited from these and actions underway to reduce rising claims costs, to produce an underwriting profit of $\mathfrak{L}10.6$ m (2010 loss $\mathfrak{L}11.0$ m) on a gross premium income of $\mathfrak{L}194.8$ m (2010 $\mathfrak{L}183.5$ m). The combined ratio fell to 94.3% (2010 106.7%).

We increased UK motor premium rates by 16.5%, with standard private car prices rising by more than 30%. Rates within the non-comprehensive private car sector continued to increase significantly following the withdrawal of a number of underwriters. These market conditions enabled us to increase rates by over 40% for our Hi Marque product, while only recording an 18% reduction in business volumes. While these rate increases are substantially higher than claims inflation, the market in general needed these in order to return to profit.

Work has continued 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 are now firmly on the political agenda and we welcome the majority of proposed legislative changes, including the cessation or reduction of claim referral fees. In the absence of actions to halt the UK's growing compensation culture, the market must continue to increase rates to contain the rising costs.

Private car

This business accounts for just under half of our underwriting portfolio. Our products are available via brokers on all of the major aggregator sites, which now take the greatest share of private motor products in the UK. Income from our Chaucer*Direct* web site, which receives customer enquires from aggregator sites, grew to £20.9m in 2011 (£6.5m 2010).

Specialist motor

Our specialist motor account comprises commercial vehicle, specialist vehicles, family fleets, motorcycle and motor trade. The commercial vehicle market began to improve in 2010 and this continued throughout 2011, with rate increases outpacing inflation. We introduced a new commercial vehicle product in 2009, whose sales volumes and loss ratios continue to perform satisfactorily, with written premium increasing to £26.9m in 2011 at our targeted loss ratio. For other personal lines 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.

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. Unlike the private car market, the fleet market has remained very competitive and has not seen major rate rises since 2007. In response we have gradually reduced our account from over half to less than a fifth of our UK Division portfolio. However, the fleet market will inevitably have to apply significant rate increases to return to profitability and we are ready to take advantage of this improvement when this happens.

SME Commercial

We generated income of £6.6m from UK employers and public liability insurance (2010 £5.1m), having launched a combined commercial product on our new technology platform in 2010. We plan further expansion in 2012 with our electronic trading platform for this product becoming available to our brokers.

CONCLUSIONS

I wish to thank all members of the Syndicate 1084 team for their efforts in 2011. We continue to make significant progress as a business and, having weathered a difficult period for the international insurance industry, I believe that we can face the future with confidence. The underwriting outlook is encouraging and, with the underwriting talent, products and portfolio balance in place, underpinned with the strength and commitment of our new owner, The Hanover Insurance Group, I believe that our continued dedication and hard work will produce profitable development of the business in 2012.

John Fowle. Active Underwriter

Chaucer Syndicate 1084 15 March 2012

The Directors of the Managing Agent present their Report for the year ended 31 December 2011.

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

The Managing Agent

The Managing Agent is Chaucer Syndicates Limited, whose registered office is Plantation Place, 30 Fenchurch Street, London EC3M 3AD and registered number is 184915.

Principal activities

This Report covers the business of Syndicate 1084, whose principal activity during the year continued to be the transaction of UK motor and worldwide general insurance and reinsurance business in the United Kingdom.

Review of the business and future developments

The Syndicate's key financial performance indicators during the year were as follows:

	2011 £m	2010 £m
Gross written premiums	884.5	863.5
(Loss)/profit for the financial year	(15.0)	27.2
Combined ratio ¹	105.7%	100.2%

¹ The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. A lower combined ratio represents better performance.

Principal risks and uncertainties

The following paragraphs describe the principal risks and uncertainties facing the Syndicate.

UNDERWRITING RISK

Each Division of the Syndicate undertakes an extensive annual underwriting planning process in order to determine its targets for premium income and return on capital. Underwriting risk appetite defines acceptable probability of different levels of net underwriting loss, expressed as a percentage of net tangible assets for both a single event and accumulated events over 12 months.

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 Syndicate uses Exceedance Probability (EP) curves as one of the tools 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 Syndicate monitors the aggregation of underwriting exposure using specialist modelling software tools where appropriate. The Syndicate 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 Syndicate 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 Syndicate assesses exposures to Realistic Disaster Scenarios (RDS) every quarter to enable the Syndicate to monitor potential accumulations of underwriting exposure against a pre-determined suite of catastrophic events and to confirm no breach of underwriting risk appetite.

Maximum lines

Underwriters manage individual risks through adherence to set maximum line sizes.

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 Syndicate buys reinsurance to limit any potential maximum loss arising from any one assured.

Underwriting controls

The Syndicate 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 a fellow underwriter to ensure adherence to sound underwriting practices. The independent review 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

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 Managing Agent has a defined Emerging Risk process to identify and assess the potential impact of such risks.

Monitoring performance against plan

The Syndicate manages performance against plan through monthly divisional reporting, utilising centrally prepared underwriting management information packs. Each Division reports to an Underwriting Board which in turn reports to the Underwriting Committee and through to the Board of the Managing Agent. 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.

CREDIT RISK

The Managing Agent reviews all reinsurer counterparties with whom the Syndicate wishes 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.

The Syndicate predominantly purchases reinsurance from reinsurers rated strong or better by Standard & Poor's (or equivalent). Maximum exposures per reinsurer are set in response to a reinsurer's rating and net assets.

Broker credit risk limits are also determined depending on the grading of the relevant broker and exposures monitored against limits on a monthly basis.

CLAIMS RISK

While claims events are inherently uncertain and volatile, the claims department is an experienced team covering a wide range of business classes. The Managing Agent has various management controls in place to mitigate claims risk, some of these controls are outlined below.

Claims settlement and reserving authority limits

The Managing Agent 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

Various reports are produced based on several different aspects of the claims handling function such as, significant movements, catastrophes, and static claims. These reports are communicated at various levels both within the business and with key external stakeholders, including the Lloyd's Franchise Performance Directorate.

Management of external experts

The Managing Agent appoints trusted third party loss adjusters, surveyors and legal advisors for claims investigation and assessment services. The development of long standing relationships with key experts and agreed Terms of Engagement ensures the Syndicate always receives a first class service with direct contact actively encouraged. However, this process is not exclusive. If no suitable expert exists on the Syndicate's panel for any one particular claim, an 'Expert Exception' process is in place in order to ensure needs are met without delay.

RESERVING RISK

The Syndicate'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 two 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 Signing Actuary. The Managing Agent's 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 skewed 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 act as a seasonal adjustment to the syndicate reserves, and are entirely formulaic.

The Managing Agent's Board approves all risk loadings within syndicate 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 attritional, large and catastrophe claims 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 Syndicate.

INVESTMENT RISK

The Managing Agent's 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 preservation of capital and maintenance of sufficient liquidity to support the business and the enhancement of investment returns, within a set of defined risk constraints, are at the heart of the financial market risk policies adopted by the Managing Agent.

Investment risk constraints, which quantify the maximum amount of investment risk permitted over a one-year time horizon, are approved by the Managing Agent's Board on an annual basis and are used to derive the maximum allocation, or risk budget, that can be allocated to each asset class.

The Managing Agent reviews and amends asset allocations in accordance with investment risk constraints. Due regard is given to the outlook for each asset class because of changes in market conditions and investment returns. Proposed asset allocations are tested using stochastic modelling techniques prior to formal adoption.

The Syndicate invests a proportion of funds in fixed income securities managed by professional portfolio managers. Each manager operates within a defined set of investment guidelines and against an appropriate benchmark.

Interest rate risk

The most significant proportion of risk within the Syndicate's fixed income portfolio is interest rate risk, which increases as the duration of each portfolio gets longer. In order to manage this risk duration constraints are set, relative to a benchmark to provide downside protection for increases in interest rates although no limit is set for the minimum duration of each portfolio enabling managers to switch to cash or variable rate securities, if considered appropriate.

Currency risk

The Syndicate writes a significant proportion of insurance business in currencies other than Sterling, which gives rise to a potential exposure to currency risk. The Syndicate mitigates this through a policy of matching assets and liabilities by currency.

Equity risk

The Syndicate has one small investment fund holding that matures within 12 months.

Liquidity risk

The Syndicate is subject to calls on cash resources, mainly in respect of claims on insurance business, on a daily basis. The Syndicate 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 business.

The liquidity risk policy sets limits for cash required to meet expected cash flows. It 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.

Credit risk

The Syndicate holds the majority of its investments in high-quality investment grade securities and money market funds, managed by external portfolio managers. Investment managers may take credit risk as a tactical enhancement to fixed income returns when suitable opportunities arise within the risk budget set for each manager. Money market fund managers mitigate credit risk through diversification and by setting maximum limits for individual counterparties.

OPERATIONAL RISK

This is the risk that events caused by people, processes, systems or external events lead to losses to the Syndicate. The Managing Agent seeks to manage this risk through business performance measures, formal disaster recovery and business continuity planning and other governing procedures which are reviewed through a structured programme of testing of processes and systems by Internal Audit and other assurance processes.

REGULATORY & LEGAL RISK

The Managing Agent is required to comply with the requirements of the Financial Services Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss or reputational damage owing to a breach of regulatory and legal requirements or failure to respond to regulatory change. The Managing Agent has a Compliance Officer, who monitors regulatory developments and assesses the impact on agency policy. The Syndicate also undertakes a compliance-monitoring programme.

Staff matters

The Managing Agent considers its staff to be a key resource and seeks to provide a good working environment for its staff that is rewarding and safe and complies with appropriate employee legislation. During the year there have been no significant injuries to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters.

Environmental matters

The Managing Agent does not consider that a business such as a syndicate at Lloyd's has a large adverse impact upon the environment. As a result the agent does not manage its business by reference to any environmental key performance indicators.

Directors of the Managing Agent

The Directors set out below held office throughout the year ended 31 December 2011, unless otherwise stated.

- R V Deutsch, Non-executive Chairman (resigned 30 September 2011)
- K Barber, Practice Head UK Insurance (resigned 12 January 2011)
- B P Bartell, Chief Underwriting Officer
- D C Bendle, Operations Director (resigned 18 January 2011)
- G C Butterworth, Director Risk Officer
- M C Carrillo, Finance Director
- T J Carroll, Independent Non-executive Director
- K D Curtis, Chief Finance Officer
- J Fowle, Active Underwriter for Chaucer Syndicate 1084
- D B Greenfield, Non-executive Director (appointed 13 December 2011)
- S J Helson, Director Third Party Syndicates
- D S Mead, Chief Operating Officer
- J D Perkins, Director Group Actuary
- A S Robinson, Non-executive Director (appointed 12 July 2011)
- R T Scholes, Non-executive Deputy Chairman (resigned 1 October 2011)
- C M Stooke, Independent Non-executive Director
- R A Stuchbery, Chief Executive Officer
- G M Wood, (Chairman) Independent Non-executive Director

Managing Agent's Company Secretary

A Goodenough (appointed 10 August 2011)

D Turner (resigned 5 August 2011)

Managing Agent's Registered Office

Plantation Place 30 Fenchurch Street

London EC3M 3AD

Managing Agent's Registered Number

184915

Syndicate 1084 Active Underwriter

J Fowle

Syndicate Bankers

The custodians of the Syndicate's investment funds are as follows:

Citibank N.A.

Lloyds TSB

Royal Bank of Canada

Syndicate Investment Managers

Amundi (UK) Limited GenRe NEAM Wellington Opus

Syndicate Auditors

PricewaterhouseCoopers LLP, London (appointed 15 September 2011)

Ernst & Young LLP, London (resigned 5 September 2011)

Directors' Interests

None of the Directors of the Managing Agent have any participation in the Syndicate's premium income capacity.

Disclosure of Information to the Auditors

The Directors each confirm that:

- so far as they are aware, there is no relevant audit information of which the Syndicate's Auditors are 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 Syndicate's Auditors are aware of that information.

Auditors

During the year, PricewaterhouseCoopers LLP were appointed auditors of the Syndicate following a review of audit providers by the Managing Agent. PricewaterhouseCoopers LLP has signified its willingness to continue in office as the independent auditor to the Syndicate.

Approved by order of the Board of Chaucer Syndicates Limited.

M C Carrillo

Finance Director 15 March 2012

Profit and Loss Account for the year ended 31 December 2011

		2011	Restated 2010	
	Notes	£m	£m	
Technical Account – General Business				
Gross premiums written	3	884.5	863.5	
Outward reinsurance premiums		(169.6)	(153.3)	
Net premiums written		714.9	710.2	
Change in the provision for unearned premiums				
Gross amount	15	(23.0)	(69.4)	
Reinsurers' share	15	16.2	21.7	
Net change in provision for unearned premiums		(6.8)	(47.7)	
Earned premiums, net of reinsurance		708.1	662.5	
Allocated investment return transferred from the Non-Technical Account	9	25.6	28.3	
Total technical income		733.7	690.8	
Claims incurred, net of reinsurance				
Claims paid				
Gross amount	15	(421.0)	(426.9)	
Reinsurers' share	15	38.7	73.9	
Net claims paid		(382.3)	(353.0)	
Change in the provision for claims				
Gross amount		(218.2)	(150.5)	
Reinsurers' share		100.6	58.6	
Net change in the provision for claims		(117.6)	(91.9)	
Claims incurred, net of reinsurance		(499.9)	(444.9)	
Net operating expenses	3, 5	(248.8)	(218.7)	
Balance on the Technical Account - General Business		(15.0)	27.2	
Non-Technical Account				
Investment income	9	33.9	71.9	
Unrealised gains on investments	9	1.2	-	
Investment expenses and charges	9	(9.5)	(43.6)	
Allocated investment return transferred to the Technical Account - General Busine	SS	(25.6)	(28.3)	
(Loss)/profit for the financial year	14	(15.0)	27.2	

All the amounts above are in respect of continuing operations.

Statement of Total Recognised Gains and Losses for the year ended 31 December 2011

	Notes	2011 £m	Restated 2010 £m
Technical Account – General Business			
(Loss)/profit for the financial year		(15.0)	27.2
Currency translation differences on foreign currency net investment		2.6	0.2
Total recognised gains and losses relating to the financial year		(12.4)	27.4
Prior year adjustment	14	2.1	
Total recognised losses since the last annual report and financial state	ements	(10.3)	

Balance Sheet as at 31 December 2011

		2011	Restated
	Notes	2011 £m	2010 £m
Assets			
Investments			
Other financial investments	11	962.2	946.6
Deposits with ceding undertakings	17	1.2	5.2
Reinsurers' share of technical provisions			
Provision for unearned premiums	15	59.7	42.8
Claims outstanding	15	351.3	247.0
		411.0	289.8
Debtors			
Debtors arising out of direct insurance operations - intermediaries		101.6	110.6
Debtors arising out of reinsurance operations Other debtors	12	149.0 34.1	115.4 5.7
Other debtors	12	284.7	231.7
		204.7	231.7
Other assets			
Cash at bank and in hand	17	59.6	27.5
Overseas deposits	13, 17	65.9	50.0
		125.5	77.5
Prepayments and accrued income			
Deferred acquisition costs		102.3	103.3
Other prepayments and accrued Income		9.2	8.9
		111.5	112.2
Total assets		1,896.1	1,663.0
Liabilities			
Capital and reserves			
Members' balances	14	(70.7)	(17.6)
Technical provisions			
Provision for unearned premiums	15	468.2	442.3
Claims outstanding	15	1,359.7	1,129.9
		1,827.9	1,572.2
Creditors			
Creditors arising out of direct insurance operations - intermediaries		0.1	10.9
Creditors arising out of reinsurance operations		112.3	79.1
Other creditors including tax and social security		5.7	7.7
		118.1	97.7
Accruals and deferred income		20.8	10.7
Total liabilities		1,896.1	1,663.0

The financial statements on pages 14 to 30 were approved by the Board of Chaucer Syndicates Limited on 15 March 2012 and signed on its behalf by:

M C Carrillo

Finance Director

Statement of Cash Flows for the year ended 31 December 2011

	Notes	2011 £m	Restated 2010 £m
Reconciliation of operating (loss)/profit to net cash inflow from operating act	ivities		
Operating (loss)/profit on ordinary activities		(15.0)	27.2
Changes in market value and exchange rates	16, 17	14.2	(2.9)
Increase in net technical provisions		134.5	158.1
Increase in debtors		(52.3)	(55.5)
Increase in creditors		30.5	50.2
Movement in members' balance in respect of tax, members' agent's fees and \boldsymbol{c}	ther	2.8	2.1
Net cash inflow from operating activities		114.7	179.2
Transfer to members in respect of underwriting participations	14	(40.9)	(34.4)
	16, 17	73.8	144.8
Cash flows funded/invested as follows:			
Increase in cash holdings	16, 17	31.8	7.7
Increase in overseas deposits	16, 17	15.8	13.0
Net portfolio investments	16, 17, 18	26.2	124.1
Net investment of cash flows	16, 17	73.8	144.8

1. BASIS OF PREPARATION

These accounts have been prepared under regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (IAD), and reflect the provisions of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) as modified by the IAD and the provisions of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers dated December 2005, as amended in December 2006, with the exception of foreign exchange gains or losses which are recorded in the technical account.

The Syndicate annual accounts have been prepared in accordance with applicable accounting standards. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

Application of accounting policy on foreign currency

During 2011 the Directors reviewed application of SSAP 20 - Foreign Exchange Translation, in relation to deferred acquisition costs and the provision for unearned premiums. Previously these balances were translated at historical rates of exchange, whereas it is now considered that a more appropriate approach is to reflect these balances at closing rates, and the movements recognised in the profit and loss account at average rates for the year. In the Directors' opinion, this change in application of the accounting policy results in a fairer quantification of profit, as it aligns the treatment of foreign exchange affecting the earned and unearned premiums to that applied to the corresponding claims.

The comparatives for the year ended 31 December 2010 have been restated for the impact of this accounting policy change, increasing profit by $\mathfrak{L}2.1m$. The adjustment does not affect ultimate distributions to names as the latter are made on the basis of profits reported in the closing year underwriting accounts prepared on a three-year funded basis.

An additional implication of the change is that the effect of the retranslation of balances and results from US and Canadian Dollars into Sterling is taken to reserves and included in the Statement of Total Recognised Gains and Losses.

The effect of the change in accounting policy on the results for the 2011 calendar year was a £6.8m decrease to net earned premiums and an offsetting £0.1m decrease to net operating expenses, which have been recognised in the Profit and Loss Account of the 2011 calendar year, thereby deteriorating the current year loss from £8.3m to £15.0m. In addition, £2.6m of foreign exchange gains have been taken directly to reserves instead of the Profit and Loss Account.

2. ACCOUNTING POLICIES

Premiums written

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

Unearned premiums

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

Reinsurance premiums ceded

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

Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

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

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

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

Unexpired risks provision

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

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

Deferred acquisition costs

Acquisition costs, which comprise commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date. During 2011, the estimation technique for measuring deferred acquisition costs has been revised, such that only costs which vary with the level of premiums being written are included and deferred over the life of the policy. The effect of this change in estimation technique was to increase the loss for the year by £9.1m.

Net operating expenses

Net operating expenses are recognised on an accruals basis. These comprise the Syndicate's operating expenses such as remuneration, office and administrative costs, acquisition costs, Managing Agency costs, the costs of membership of Lloyd's and other expenses attributable to the Syndicate's underwriting.

Cash at bank and in hand

Cash at bank and in hand on the balance sheet represent cash balances and money market deposits lodged with banks.

Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in US dollars and Canadian dollars are translated at the rate of exchange at the balance sheet date, non-monetary assets and liabilities denominated in other foreign currencies are included at the rate of exchange ruling at the date transaction was processed.

Exchange differences arising on the retranslation of US dollar and Canadian dollar opening balance sheet items at the closing balance sheet rate and the retranslation of the US dollar and Canadian dollar profit and loss accounts for the year from the average rate to the closing balance sheet rate are taken to reserves and included in the Statement of Total Recognised Gains and Losses.

The rates of exchange used to translate monetary balances at the period end in foreign currencies into sterling are as follows:

	31 December 2011	31 December 2010
US Dollars	1.55	1.57
Canadian Dollars	1.58	1.56
Euros	1.20	1.17

Investments

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

Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the Non-Technical Account. A transfer is made from the Non-Technical Account to the General Business Technical Account. Investment return has been wholly allocated to the Technical Account as all investments relate to the Technical Account.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agent is gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earning. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'Other debtors'. No provision has been made for any overseas tax payable by members on underwriting results.

Pension costs

Chaucer Syndicates Limited operates a defined benefit and a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Profit commission

Profit commission is to be charged by the managing agent at a rate of 15% of the profit, on a year of account basis. This is charged to the syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

3. SEGMENTAL ANALYSIS

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

	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses ¹ £m	Reinsurance balance £m	Total £m	Net technical provisions £m
2011							
Direct insurance							
Accident and health	0.3	0.3	1.9	(0.1)	(0.5)	1.6	2.5
Motor (third party liability)	34.4	64.8	(71.5)	(13.2)	0.3	(19.6)	102.1
Motor (other classes)	160.9	130.1	(65.4)	(31.1)	(3.3)	30.3	154.5
Marine, aviation and transport	37.6	39.0	(17.4)	(12.7)	(2.7)	6.2	50.6
Energy	67.9	72.6	(93.1)	(25.6)	14.4	(31.7)	155.3
Fire and other damage to property	51.9	57.0	(58.4)	(19.4)	7.6	(13.2)	84.0
Third party liability	99.5	82.2	(42.7)	(25.9)	(1.3)	12.3	176.9
Miscellaneous	35.3	34.3	(13.5)	(7.7)	(3.2)	9.9	28.3
	487.8	480.3	(360.1)	(135.7)	11.3	(4.2)	754.2
Reinsurance	396.7	381.2	(279.1)	(113.1)	(25.4)	(36.4)	662.7
	884.5	861.5	(639.2)	(248.8)	(14.1)	(40.6)	1,416.9
2010 (restated)							
Direct insurance							
Accident and health	0.4	0.5	0.9	(0.2)	(0.4)	0.8	3.4
Motor (third party liability)	69.9	58.0	(36.9)	(13.7)	(3.9)	3.5	86.1
Motor (other classes)	113.8	113.5	(97.9)	(27.5)	(2.2)	(14.1)	165.5
Marine, aviation and transport	41.6	39.4	(26.6)	(11.5)	(2.4)	(1.1)	55.2
Energy	94.2	78.7	(58.4)	(32.7)	16.0	3.6	128.2
Fire and other damage to property	69.9	68.9	(43.8)	(21.9)	(4.4)	(1.2)	86.2
Third party liability	32.0	28.3	(33.0)	(4.8)	0.2	(9.3)	155.3
Miscellaneous	22.0	22.0	(3.9)	(6.5)	(2.7)	8.9	26.6
	443.8	409.3	(299.6)	(118.8)	0.2	(8.9)	706.5
Reinsurance	419.7	384.8	(277.8)	(99.9)	0.7	7.8	575.9
	863.5	794.1	(577.4)	(218.7)	0.9	(1.1)	1,282.4

¹ Gross operating expenses are the same as net operating expenses shown in the profit and loss account as no commissions in respect of outward reinsurance were received and set off in arriving at the net expenses for 2011 and 2010.

All premiums were concluded in the UK.

Commission on direct insurance, gross premiums during 2011 was £85.2m (2010 £87.0m).

The geographical analysis of gross premiums written by reference to the situs of the risk is as follows:

	2011 £m	2010 £m
UK	207.5	242.2
Other EU countries	48.9	48.6
Americas (including US)	173.3	182.7
Other	454.8	390.0
Gross premiums written	884.5	863.5

4. PRIOR PERIOD RESERVES

During 2011 the Syndicate released £91.0m of technical reserves in respect of prior periods (2010 £32.3m), arising predominantly from the Property, Marine and Energy Divisions (2010 primarily from the Energy and Property Divisions). These releases were due to satisfactory claims development on catastrophes and other claims in 2010.

5. NET OPERATING EXPENSES

	2011 £m	Restated 2010 £m
Acquisition costs:		
- Brokerage and commission	161.1	174.5
- Other	(4.1)	23.4
Change in deferred acquisition costs	1.6	(18.4)
Administrative expenses	85.0	46.1
Loss/(profit) on exchange	5.2	(6.9)
	248.8	218.7
Administrative expenses include:		
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions,		
managing agent's fees and profit commission)	27.8	19.8

Further detail on the impact of foreign currency exchange rate fluctuation on the value of technical provisions is provided in note 15. As described in note 2, the estimation technique for the deferral of acquisition costs - other has been revised in the year, resulting in a reduction of $\mathfrak{L}13.5m$ in this balance in the year when compared to the previous technique, with administrative expenses having increased by $\mathfrak{L}17.9m$ following this change.

6. AUDITORS' REMUNERATION

	2011 £m	2010 £m
Audit of the syndicate annual accounts	0.03	0.03
Other services pursuant to legislation including audit of regulatory returns (PricewaterhouseCoopers LLP)	0.10	-
Other services pursuant to legislation including audit of regulatory returns (Ernst & Young LLP)	0.03	0.11
Audit of the Managing Agent's annual accounts	0.02	0.02
	0.18	0.16

7. STAFF NUMBERS AND COSTS

The Managing Agent employs all staff and recharges the following amounts to the Syndicate in respect of salary costs:

	2011 £m	2010 £m
Wages and salaries	28.5	25.8
Social security costs	3.1	2.5
Other pension costs	3.3	3.5
Other	0.9	1.4
	35.8	33.2

The average number of employees employed by the Managing Agent but working for the Syndicate during the year was as follows:

	2011 Number	2010 Number
Administration and finance	159	156
Underwriting	213	201
Claims	159	157
Investments	1	1
Other	36	31
	568	546

8. EMOLUMENTS OF THE DIRECTORS OF THE MANAGING AGENT

Investment expenses and charges
Realised losses on investments

The Directors of Chaucer Syndicates Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2011 £m	2010 £m
Directors of Chaucer Syndicates Limited	0.7	0.5
Active Underwriter	0.2	0.1
	0.9	0.6
9. INVESTMENT RETURN		
	2011 £m	2010 £m
Investment income		
Income from financial investments	27.8	26.7
Realised gains on investments	6.1	45.2
	33.9	71.9

Investment expenses and charges	(0.9)	(0.7)
	(9.5)	(43.6)
Unrealised gains on investments	1.2	-
Total investment return	25.6	28.3

(8.6)

(42.9)

10. CALENDAR YEAR INVESTMENT YIELD

The average amount of syndicate funds available for investment and the calendar year investment return and yield were as follows:

	2011 £m	2010 £m
Average funds	1,052.0	933.6
Investment return (net of expenses)	25.6	28.3
Calendar year investment yield	2.4%	3.0%
Average funds available for investment by fund		
Sterling	387.0	312.9
United States Dollars	604.4	577.2
Canadian Dollars	60.6	43.5
Analysis of calendar year investment yield by fund	%	%
Sterling	2.3	2.8
United States Dollars	2.8	3.5
Canadian Dollars	1.3	0.7

Average fund is the average of bank balances, overseas deposits, inter-syndicate loans and investments held at the end of each month during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

11. OTHER FINANCIAL INVESTMENTS

	Cost £m	2011 Market value £m	Cost £m	2010 Market value £m
Shares and other variable yield securities and unit trusts	181.4	178.6	279.1	274.8
Debt securities and other fixed income securities	616.7	615.7	440.2	435.6
Deposits with credit institutions	167.9	167.9	236.2	236.2
	966.0	962.2	955.5	946.6
Equities	2.0	0.4	4.5	3.1
Hedge funds	2.5	1.4	5.6	2.7
Bonds	616.7	615.7	481.4	476.8
Deposits with credit institutions	167.9	167.9	236.3	236.3
Money market funds	176.9	176.8	227.7	227.7
	966.0	962.2	955.5	946.6

12. OTHER DEBTORS

	2011 £m	2010 £m
Inter-syndicate loan (see note 19)	-	5.2
Proceeds from sale of investments	23.0	-
Amounts due from Managing Agent	11.1	-
Other debtors	-	0.5
	34.1	5.7

At the year end, the Syndicate had liquidated certain investment holdings, proceeds from which were still receivable at year-end. Amounts due from Managing Agent include £6.1m due to the Syndicate from a service company, paid via the Managing Agent, and a £5.0m payment on account in respect of accrued profit commissions. The former was settled in January 2012.

13. OTHER ASSETS

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries. The funds are required in order to protect policyholders and enable the Syndicate to operate in those markets. The Syndicate has only restricted access to these funds and no influence over their investment.

14. RECONCILIATION OF MEMBERS' BALANCES

		Restated 2010 £m
	2011 £m	
Members' balances brought forward at 1 January (as previously stated in prior		
year's syndicate accounts for the year ending 31 December 2010)	-	(12.5)
Effect of change in accounting policy, prior period adjustment	-	0.3
Members' balances brought forward at 1 January (restated)	(17.6)	(12.2)
Profit for the financial year (as previously stated in prior year's syndicate accounts		
for the year ending 31 December 2010)	-	25.1
Effect of change in accounting policy, prior period adjustment	-	2.1
(Loss)/profit for the financial year (restated)	(15.0)	27.2
Other recognised gains and losses relating to the financial year	2.6	0.2
Payments of profit to members' personal reserve funds	(40.9)	(34.4)
Movement in members' balances in respect of tax, members' agent's fees and other	0.2	1.6
Members' balances carried forward at 31 December	(70.7)	(17.6)

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

15. TECHNICAL RESERVES

	Provisions for unearned premiums £m	Claims outstanding £m	Total £m
Gross			
At 1 January 2011 (restated)	442.3	1,129.9	1,572.2
Exchange adjustments	2.9	11.6	14.5
Claims paid in year	-	(421.0)	(421.0)
Movement in provision	23.0	639.2	662.2
At 31 December 2011	468.2	1,359.7	1,827.9
Reinsurance			
At 1 January 2011 (restated)	42.8	247.0	289.8
Exchange adjustment	0.7	3.7	4.4
Reinsurance recoveries in the year	-	(38.7)	(38.7)
Movement in provision	16.2	139.3	155.5
At 31 December 2011	59.7	351.3	411.0
Net technical provisions			
At 31 December 2011	408.5	1,008.4	1,416.9
At 31 December 2010 (restated)	399.5	882.9	1,282.4

2011 events

Included within the technical provisions as at 31 December 2011 are reserves for:

- New Zealand earthquake, including Canterbury in February 2011
- Japan earthquake in March 2011
- Thailand floods in the second half of 2011

Other significant natural events in 2011 included Hurricane Irene, the Copenhagen Cloudburst and US tornadoes. However the three events noted above were the main causes of the 2011 losses.

New Zealand earthquake

Following the September 2010 earthquakes, New Zealand experienced further earthquakes in 2011, the most significant to the Syndicate being that which occurred near Lyttelton in Canterbury on 22 February 2011. Measuring 6.3 on the Richter scale, the earthquake caused extensive damage to the City of Christchurch and surrounding suburbs, with the destruction of many buildings already weakened by the earthquake in the previous year. Total losses to the Property Division of the Syndicate are currently estimated at £33.3m net of reinsurance and reinstatement premiums, with a further £0.3m on Marine. The Syndicate held reserves for the February 2011 loss of £30.7m at 31 December 2011.

Japan earthquake

On 11 March 2011, an earthquake measuring 9.0 on the Richter scale occurred 43 miles east of the Oshika Peninsula of Tohoku, Japan. This triggered powerful tsunami waves which reached up to 6 miles inland, causing widespread destruction to the area's buildings, power stations and infrastructure. The total loss to the Syndicate is currently estimated at £47.4m, net of reinsurance and reinstatement premiums. The Syndicate held reserves of £30.7m attributed to the loss at 31 December 2011.

Thai floods

From July 2011, Thailand suffered sustained flooding following a severe monsoon season. 64 of Thailand's 77 provinces were affected, with total costs to the insurance industry estimated at $\mathfrak{L}13$ bn. In October floodwaters reached the densely populated northern and central Bangkok regions, including several major industrial regions, which significantly affected manufacturing industries. The Japanese electronics industry was particularly impacted, with long term disruptions to supply chains. Losses to the Syndicate have been difficult to assess, but will be focussed mainly on the Property Division, and are currently estimated at $\mathfrak{L}27.5$ m, net of reinsurance and reinstatement premiums, with reserves held of $\mathfrak{L}27.5$ m as at 31 December 2011.

	£m
Estimated ultimate gross loss	
New Zealand earthquake	40.3
Japan earthquake	73.7
Thai floods	45.9
	159.9
Estimated ultimate net loss (after reinstatement premiums and reinsurance)	
New Zealand earthquake	33.6
Japan earthquake	47.4
Thai floods	27.5
	108.5

Figures are prepared at rates of exchange in place at the end of the year.

Reinsurance

The Syndicate's reinsurance policies protecting the losses in the above table are with reinsurers rated A (strong) or better by Standard & Poor's, as analysed below:

Rating bands (as at 15 March 2012)	New Zealand %	Japan %	Thailand %
Lloyd's syndicates (A+)	5	21	16
AA	-	15	13
A (excluding Lloyd's syndicates)	95	54	57
Collateralised	-	10	14
	100	100	100

16. MOVEMENT IN CASH, OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING

	2011 £m	2010 £m
Net cash inflow for the year	31.8	7.7
Cash flow		
Increase in overseas deposits	15.8	13.0
Increase in portfolio investments	26.2	124.1
Movement arising from cash flows	73.8	144.8
Changes in market value and exchange rates	(14.2)	2.9
Total movement in portfolio investments net of financing	59.6	147.7
Portfolio at 1 January	1,029.3	881.6
Portfolio at 31 December	1,088.9	1,029.3

17. MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	At 1 January 2011 £m	Cash flow £m	Changes to market value and currencies £m	At 31 December 2011 £m
Cash at bank and in hand	27.5	31.8	0.3	59.6
Overseas deposits	50.0	15.8	0.1	65.9
	77.5	47.6	0.4	125.5
Portfolio investments				
Shares and other variable yield securities	274.8	(99.7)	3.5	178.6
Debt securities and other fixed income securities	435.6	199.9	(19.8)	615.7
Deposits with credit institutions	236.2	(70.0)	1.7	167.9
Deposits with ceding undertakings	5.2	(4.0)	-	1.2
	951.8	26.2	(14.6)	963.4
Total cash, portfolio investments and financing	1,029.3	73.8	(14.2)	1,088.9

18. NET CASH OUTFLOW ON PORTFOLIO INVESTMENTS

	2011 £m	2010 £m
Purchase of shares and other variable yield securities and unit trusts	(1,636.5)	(810.6)
Purchase of debt securities and other fixed income securities	(485.9)	(281.8)
Increase in deposits with ceding undertakings	4.0	-
Sale of shares and other variable yield securities and unit trusts	1,736.2	804.9
Sale of debt securities and other fixed income securities	286.0	276.5
Increase/(decrease) in deposits with credit institutions	70.0	(113.1)
Net cash outflow on portfolio investments	(26.2)	(124.1)

19. RELATED PARTIES

Chaucer Syndicates Limited, a wholly owned subsidiary of Chaucer Holdings PLC, is the Managing Agent of the Syndicate. Chaucer Syndicates Limited charged the Syndicate with the following expenses during the year:

	2011 £m	2010 £m
Managing agency fees	8.5	7.1
Expenses recharged	50.0	30.6
Profit Commission	11.4	-
Balance due to Chaucer Syndicates Limited at 31 December	(13.3)	(2.3)
Balance due from Chaucer Syndicates Limited at 31 December (note 12)	11.1	-

The balances due to and from the Managing Agent do not carry the right of offset and are therefore disclosed separately.

A subsidiary of Chaucer Holdings PLC supports the underwriting capacity of Syndicate 1084 as follows:

Year of account	2011	2010	2009
	£m	£m	£m
Chaucer Corporate Capital (No. 2) Limited	788.8	713.0	602.0

Chaucer Latin America S.A, a subsidiary of Chaucer Holdings PLC, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense from Chaucer Latin America S.A during the year:

	2011 £m	2010 £m
Fees paid to Chaucer Latin America S.A Balance due to Chaucer Latin America S.A at 31 December	0.6	0.2 0.2

Chaucer Underwriting A/S, a subsidiary of Chaucer Holdings PLC, provides underwriting services to Syndicate 1084. The Syndicate incurred the following expense from Chaucer Underwriting A/S during the year:

	2011 £m	2010 £m
Commissions paid to Chaucer Underwriting A/S Balance due to Chaucer Underwriting A/S at 31 December	2.4 3.9	1.2 2.6

Chaucer Singapore PTE, a subsidiary of Chaucer Holdings PLC, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense from Chaucer Singapore PTE during the year:

	2011 £m	2010 £m
Fees paid to Chaucer Singapore PTE Balance due to Chaucer Singapore PTE at 31 December	2.5 0.7	1.5 0.6

Chaucer Insurance Services Limited (CISL), a fellow subsidiary and related party of Chaucer Syndicates Limited, is also a regulated insurance intermediary. The Syndicate has incurred the following expense from CISL during the year:

	2011 £m	2010 £m
Commissions paid to CISL	0.9	1.0
Marketing contribution to CISL	-	0.4
Balance due from CISL at 31 December	6.0	2.0

Opus Investment Management, Inc. (Opus) acts as an investment manager to the Syndicate. Opus is a wholly owned subsidiary of The Hanover Insurance Group, Inc., the Managing Agent's ultimate parent company. Opus has charged the Syndicate with the following investment management fees in the year:

	2011	2010
	£m	£m
Investment fees	0.2	-

Chaucer Syndicates Limited, the Managing Agent of the Syndicate, is also the Managing Agent for Syndicates 1176 and 4000.

The Syndicate earned nil interest (2010 £14,000) from Syndicate 1176 during the year in relation to a US\$3m loan facility which was drawn upon during the year. This balance was repaid in January 2011.

The Syndicate earned the following interest income from Syndicate 4000 during the year from drawdown of a US\$5m loan facility, accruing interest at 2.5% above the LIBOR average US rate, with any unutilised facility charged at 0.5% above the LIBOR average US rate. The loan was repaid in June 2011.

	2011 £m	2010 £m
Interest income	-	0.2
Year-end balance due from Syndicate 4000 at 31 December	-	5.2

20. FUNDS AT LLOYD'S

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's, based on FSA requirements and resource criteria. FAL has regard to a number of factors, including the nature and amount of risk to be underwritten by the member and an assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these accounts by way of such capital resources. However, the Managing Agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

21. ULTIMATE PARENT COMPANY AND PARENT UNDERTAKING OF LARGER GROUP OF WHICH THE RESULTS OF THE SYNDICATE ARE INCLUDED The largest and smallest group of undertakings for which group accounts are prepared, and in which the results of the Syndicate is included, is The Hanover Insurance Group, Inc. (THG), a company incorporated and registered in the United States of America. THG became the ultimate parent of the Syndicate's primary corporate member following completion of its acquisition of 100% of Chaucer Holdings PLC through 440 Tessera Limited, its wholly owned subsidiary, on 1 July 2011. A copy of the most recent consolidated accounts is available from the website of The Hanover Insurance Group, Inc. (www.hanover.com).

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate annual report and annual accounts in accordance with applicable law and regulations.

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

In preparing the Syndicate annual accounts, the Managing Agent is required to:

- 1. select suitable accounting policies and then apply them consistently;
- 2. make judgements and estimates that are reasonable and prudent;
- 3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- 4. prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Members of Syndicate 1084

We have audited the Syndicate annual accounts for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

RESPECTIVE RESPONSIBILITIES OF THE MANAGING AGENT AND THE AUDITORS

As explained more fully in the Statement of Managing Agent's Responsibilities, set out on page 31, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts 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 Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

SCOPE OF THE AUDIT OF THE SYNDICATE ANNUAL ACCOUNTS

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual accounts. In addition, we read all the financial and non-financial information in the Underwriter's Report and Managing Agent's Report to identify material inconsistencies with the audited syndicate annual accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON SYNDICATE ANNUAL ACCOUNTS

In our opinion the syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2011 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

OPINION ON OTHER MATTER PRESCRIBED BY THE INSURANCE ACCOUNTS DIRECTIVE (LLOYD'S SYNDICATE AND AGGREGATE ACCOUNTS) REGULATIONS 2008

In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- \bullet the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Andrew Moore (Senior statutory auditor)

For and on behalf of PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors London 15 March 2012



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 2011, 88 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 2011, 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.