

Best's Rating Report



LLOYD'S SYNDICATE 1084

London EC3M 3AD, United Kingdom



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Lloyd's

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Publicly Traded Corporation: Chaucer Holdings PLC
LSE: CHU

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of both the syndicate's Financial Strength, and that of Lloyd's of London (the Market), the syndicate is assigned a Best's Financial Strength Rating of A (Excellent). The syndicate is assigned the Financial Size Category of Class XV, which is the Financial Size Category of the Market.

RATING RATIONALE

Rating Rationale: The rating of Lloyd's Syndicate 1084 reflects its good prospective financial results, prudent reserves and good business profile within Lloyd's. Additionally, the syndicate benefits from the financial strength of the Lloyd's market which underpins the security of all Lloyd's syndicates. The rating is based on A.M. Best's specific syndicate criteria.

Good prospective financial results — A.M. Best expects syndicate 1084 to produce good financial results in 2009, subject to catastrophe experience. On an annually accounted basis, the syndicate produced a pre-tax loss of GBP 33.7 million in 2008, primarily as a result of substantial investment losses. A.M. Best believes that the likelihood of further large investment losses in 2009 has been reduced following steps taken by the syndicate to de-risk its investment portfolio by disposing of its equity and absolute return bond funds and investing the proceeds in cash and high quality bonds. However, the

syndicate remains exposed to hedge funds, which produced substantial losses in 2008. Although the syndicate has served notice to close all its hedge fund investments, reducing them to 8.3% of invested funds as at 30th June 2009 from 20.1% as at year-end 2008, full redemption is not likely to be complete until the end of 2010.

Prudent reserves — A.M. Best anticipates an improvement in the syndicate's combined ratio in 2009 from the 97% achieved in 2008, supported by rate increases for most classes of business written and a reduction in attritional losses. In addition, the syndicate carries prudent reserves, and A.M. Best believes there is a sufficient, although reduced, margin to support future releases. At a group level, there has been a pattern of increasing prior year redundancies since 2004, culminating in a net release of GBP 49.3 million during 2008. This amount includes a one-off release of GBP 11.8 million, due to changes in the syndicate's reserving methodology.

Good business profile — A.M. Best believes the syndicate's business profile within Lloyd's is supported by the franchise of the Chaucer group. Chaucer Syndicates Limited (CSL) offers a diverse range of services within the Lloyd's market. In addition to the management of in-house syndicates 1084 and 1176, which are supported by Chaucer capital, CSL manages syndicates supported by third party capital, offers a turnkey operation to new market entrants and provides run-off management.

Best's Financial Strength Rating: A s

Outlook: Stable

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
08/26/09	A s	08/09/06	A s
07/17/08	A s	07/13/05	A s
07/24/07	A s	08/26/04	A s
03/30/07	A s		

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BUSINESS REVIEW

In A.M. Best's opinion, Lloyd's Syndicate 1084 writes a well-diversified account both in terms of classes of business and geographic spread. Following the streamlining of operations in January 2009, the syndicate now operates through three underwriting divisions each supervised by a practice head: marine (expected to represent 45% of 2009 gross premium), non-marine (35%) and UK (20%). Geographically, 2009 gross premiums written are likely to be split approximately between the United Kingdom (20%), the United States (20%), Europe (5%), Asia and Oceania (5%), multi-national exposures (40%) and others (10%).

For the 2009 underwriting year, the syndicate increased its capacity to GBP 634 million (GBP 445 million in 2008) in anticipation of hardening rates for most classes of business underwritten.

The marine division writes terrorism business along with a traditional marine account comprising hull, energy, liability, war, political risks, excess of loss reinsurance, cargo, specie and satellite risks. In 2009, the marine, aviation and energy divisions came under the supervision of a single practice head and the division now includes a general aviation account underwriting aircraft hull and liability, as well as airport liability business. The aviation book primarily comprises specialist lines of small private fleet and rotor wing business, which have been partially insulated from the price declines experienced in the wider aviation market in recent years. During the first half of 2009, premium rates increased for most classes underwritten by the marine division, particularly for energy business. The division has increased its focus on the energy account since 2006. Rates have remained strong for this account in the wake of 2005's hurricane activity, despite reductions during 2007 and 2008.

The non-marine division encompasses international property written on a direct and treaty basis as well as specialist lines. The direct property account comprises commercial, industrial, and homeowners business, while the treaty account consists of catastrophe and per risk excess of loss reinsurance. A significant amount of business originates from North America where rates began to improve during the first half of 2009. An international engineering account is also written following the acquisition of an underwriting team in 2007. The specialist lines account includes insurance and reinsurance for general casualty, medical malpractice, financial institutions and professional indemnity, with the last two classes focused on small to medium-sized institutions world-wide. Following a prolonged period of softening these classes began to experience rate hardening in early 2009. The syndicate's focus on small to medium sized businesses in its financial institutions account has largely insulated it from claims related to sub-prime debt, and A.M. Best believes its net exposure is minimal.

UK motor and commercial property insurance are written in the UK division. The motor account includes direct fleet and private car business with a focus on small fleets and specialist areas such as commercial vehicle, taxi, motorcycle, motor trade and classic or specialist vehicles. The syndicate is expected to grow its motor business in 2009 as a result of expansion of its private car account in response to improving rates.

FINANCIAL PERFORMANCE

A.M. Best believes that on an annually accounted basis syndicate 1084 will produce good financial results in 2009. Concomitantly, on an underwriting year basis, the open year 2009 is likely to produce good results when closed. However, the open years 2007 and 2008 are expected to be adversely impacted by poor investment results, and in 2008, an increase in attritional claims. On an annually accounted basis, the syndicate produced a pre-tax loss of GBP 33.7 million in 2008, as a result of substantial investment losses. A.M. Best expects financial performance to improve in 2009, supported by general increases in rates across the classes underwritten by the syndicate and positive investment earnings.

Underwriting Income: In A.M. Best's opinion, on an annually accounted basis the syndicate is likely to report good underwriting result for the year ending 2009, subject to catastrophe experience. In 2008, the syndicate's annually accounted combined ratio was high at 97% (84% in 2007) as a result of general downward pressure on rates across most classes underwritten and an increase in attritional claims. An anticipated improvement in underwriting results in 2009 is likely to be supported by general rate hardening across the syndicate's core classes of business.

Investment Income: In A.M. Best's opinion, syndicate 1084 has reduced the exposure of its investment portfolio to potential large losses. On an annually accounted basis the syndicate reported realised and unrealised losses on investments of GBP 94.2 million in 2008, which were partially offset by investment income (GBP 12.5 million) and exchange rate gains (GBP 48.6 million). The majority of the losses related to equities and hedge funds. However, in the first quarter of 2009 the syndicate sold substantially all its equity investments and served notice of redemption on all hedge funds. A.M. Best anticipates that the syndicate will have substantially withdrawn from all hedge funds by the end of 2010. The funds liquidated from these sales are largely held in cash with a proportion invested in high quality bonds.

CAPITALIZATION

A.M. Best's assessment of syndicate 1084's capitalisation reflects the capital strength of the Lloyd's market which underpins the financial strength of all Lloyd's syndicates.

Chaucer Holdings PLC (CHP) owns 95% of syndicate 1084's 2009 capacity through its wholly owned subsidiary, Chaucer Corporate Capital (No 2) Limited (CCCL). The remaining 5% is owned by Labuan Reinsurance Limited. CCCL also participates on syndicates 1176 (GBP 17 million of 2009 capacity) and 4242 (GBP 11 million). In July 2008 CHP sold Pembroke JV Limited, the parent company of Pembroke Managing Agency Limited which manages Lloyd's Syndicate 4000. As part of the transaction, CHP maintains a 100% share of syndicate 4000's capacity for the 2008 and prior years of account. As of 2009, CCCL will provide 20% of the required Fund's at Lloyd's (FAL) to support this participation with the remaining 80% provided by Chaucer Corporate Capital (No 3) Limited (CCCL3).

In 2007 the group reduced the number of corporate members participating on syndicates to one from four. As a result, with the exception of CCCL3's 2009 participation on syndicate 4000's 2008 and prior open years of account, CCCL became CHP's sole participating corporate member and FAL to support past years' underwriting have been made "inter-available" from the other corporate members to facilitate this. For this reason, it is impractical to split Chaucer group's FAL requirements between the syndicates it participates on.

CCCL's provides FAL of GBP 451 million to support the underwriting of syndicates 1084, 1176, 4000 and 4242 in 2009. FAL is financed from internal sources together with a letter of credit (LOC) of GBP 56 million. There is an additional LOC for GBP 16 million provided by Labuan Reinsurance Limited to support its participation on syndicates 1084 (5% of 2009 capacity) and 1176 (1.2%). There is additional FAL of GBP 20 million provided by Flagstone Reinsurance Suisse SA to support a reinsurance agreement with the syndicate.

Reserve Quality: In A.M. Best's opinion, syndicate 1084 maintains reserves at a prudent level with sufficient, although reduced margin to fund future releases.

Since 2004, the Chaucer group has consistently made increasing reserve releases from prior-years. During 2008 the group made net releases of GBP 49.3 million from prior year reserves, this is an increase on 2007's level of GBP 48.6 million and 2006's of GBP 24.4 million. However 2008's releases were supported by a GBP 11.8 million one-off benefit from changes in the group's reserving methodology. Previously, the group had limited the benefit to the profit and loss account of better than expected claims development on held reserves. Going forward this will no longer be the case.

Reserve levels are set by in-house actuaries in co-operation with divisional underwriters, claims and reinsurance staff. The Chaucer group sets appropriate margins where it is perceived that actuarial best estimates may be inadequate due to lack of historical data. The group also applies an additional margin where greater uncertainty exists, for example for new classes of business.

LIQUIDITY

Overall Liquidity: A.M. Best believes the syndicate's liquidity is adequate. The majority of syndicate 1084's investments are highly liquid assets (bonds and cash). This is further supported by the liquidity position of CHP which also maintains a liquid investment portfolio.

SOURCE OF INFORMATION: Company Annual Report

Best's Rating Report

Summarized Accounts as of December 31, 2008
US \$ per Local Currency Unit 1.4479 = 1 British Pound (GBP)

STATEMENT OF INCOME

	12/31/2008 GBP(000)	12/31/2008 USD(000)
Technical account:		
Direct premiums	353,200	511,398
Reinsurance premiums assumed	288,700	418,009
Gross premiums written	641,900	929,407
Reinsurance ceded	81,400	117,859
Net premiums written	560,500	811,548
Increase/(decrease) in gross unearned premiums	51,100	73,988
Reinsurers share unearned premiums	1,100	1,593
Net premiums earned	510,500	739,153
Total underwriting income	510,500	739,153
Net claims paid	260,100	376,599
Net increase/(decrease) in claims provision	88,000	127,415
Net claims incurred	348,100	504,014
Management expenses	39,500	57,192
Acquisition expenses	123,500	178,816
Net operating expenses	163,000	236,008
Total underwriting expenses	511,100	740,022
Balance on technical account	-600	-869
Non-technical account:		
Net investment income	12,500	18,099
Realised capital gains/(losses)	-81,400	-117,859
Unrealised capital gains/(losses)	-12,800	-18,533
Exchange gains/(losses)	48,600	70,368
Profit/(loss) before tax	-33,700	-48,794
Profit/(loss) after tax	-33,700	-48,794
Retained profit/(loss) for the financial year	-33,700	-48,794
Retained profit/(loss) carried forward	-33,700	-48,794

ASSETS

	12/31/2008 GBP(000)	12/31/2008 % of total	12/31/2008 USD(000)
Cash & deposits with credit institutions	276,900	21.5	400,924
Bonds & other fixed interest securities	167,400	13.0	242,378
Shares & other variable interest instruments	322,100	25.0	466,369
Liquid assets	766,400	59.5	1,109,671
Mortgages & loans	4,000	0.3	5,792
Total investments	770,400	59.8	1,115,462
Reins. sh. of tech. reserves - unearned premiums	15,200	1.2	22,008
Reinsurers' share of technical reserves - claims	211,700	16.4	306,520
Total reinsurers share of technical reserves	226,900	17.6	328,529
Deposits with ceding companies	1,300	0.1	1,882
Insurance/reinsurance debtors	213,400	16.6	308,982
Other debtors	7,900	0.6	11,438
Total debtors	221,300	17.2	320,420
Prepayments & accrued income	68,300	5.3	98,892
Total assets	1,288,200	100.0	1,865,185

LIABILITIES

	12/31/2008 GBP(000)	12/31/2008 % of total	12/31/2008 USD(000)
Distributable reserves	-41,500	-3.2	-60,088
Current year net income	-33,700	-2.6	-48,794
Capital & surplus	-75,200	-5.8	-108,882
Gross provision for unearned premiums	291,500	22.6	422,063
Gross provision for outstanding claims	982,500	76.3	1,422,562
Total gross technical reserves	1,274,000	98.9	1,844,625
Insurance/reinsurance creditors	78,700	6.1	113,950
Other creditors	6,100	0.5	8,832
Total creditors	84,800	6.6	122,782
Accruals & deferred income	4,600	0.4	6,660
Total liabilities & surplus	1,288,200	100.0	1,865,185

MANAGEMENT

Syndicate 1084 is managed by Chaucer Syndicates Limited (CSL) and benefits from a management team with significant experience within the Lloyd's market. The management's current strategic objective (derived from its underwriting cycle analysis) is to increase the syndicate's capacity to GBP 1,000 million by the top of the underwriting cycle. Syndicate 1084 underwrites a diversified portfolio of business that enhances its underwriting flexibility and allows the syndicate to move capital to its most profitable lines. A.M. Best believes this enhances the management's ability to maintain the syndicate's profitability in soft market conditions.

A.M. Best believes that the syndicate benefits from the market profile of CSL which pursues a diversified strategy to participating in the Lloyd's market. The group offers a turnkey facility to Lloyd's syndicates, facilitating the entry of new participants to the market. As well as managing syndicate 1084, CSL also manages Lloyd's Syndicate 1176, an in-house syndicate underwriting nuclear risks. Additionally, CSL manages underwriting on behalf of third parties for syndicates 1301, 4242 and 1274. CSL also provides run-off management services and has arranged innovative reinsurance to close transactions.

ANALYSIS OF GROSS PREMIUMS WRITTEN

	GBP (000)	GBP (000)	GBP (000)	GBP (000)	GBP (000)
2008	2008	2007	2006	2005	2004
Accident & health	6,500	7,500	3,700	5,400	1,500
Automobile	94,700	87,900	84,800	95,500	87,800
Automobile - liability	38,200	31,800	36,200	37,800	38,900
Fire	61,000	65,500	72,300	61,000	44,000
Liability	35,300	38,100	45,700	36,900	37,100
Marine, aviation & trans	35,100	26,200	26,200	27,600	23,600
Other classes	82,400	60,100	49,500	23,900	20,200
Reinsurance	288,700	209,300	206,600	186,700	156,500
Total non-life	641,900	526,400	525,000	474,800	409,600

REINSURANCE

A.M. Best believes the syndicate has a comprehensive reinsurance programme in place for the 2009 underwriting year. Excess of loss coverage is placed for each of the business divisions with conservative net retention levels. Additionally, the syndicate has facultative reinsurances and proportional treaties for some classes of business underwritten in the marine and non-marine divisions. The syndicate also benefits from inter-divisional clash cover. The syndicate's management seeks to control exposure through the use of aggregate caps in all territories, particularly those not covered by reinsurance treaties.

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BALANCE SHEET ITEMS

	GBP (000) 2008	GBP (000) 2007	GBP (000) 2006	GBP (000) 2005	GBP (000) 2004
Liquid assets	766,400	696,200	559,100	364,800	224,300
Total investments	770,400	696,200	619,200	373,600	224,300
Total assets	1,288,200	1,106,800	1,071,300	849,400	497,100
Gross technical reserves	1,274,000	958,800	967,900	811,600	429,900
Net technical reserves	1,047,100	776,300	738,800	541,400	316,000
Total liabilities	1,363,400	1,044,900	1,060,400	882,300	493,800
Capital & surplus	-75,200	61,900	10,900	-32,900	3,300

INCOME STATEMENT ITEMS

	GBP (000) 2008	GBP (000) 2007	GBP (000) 2006	GBP (000) 2005	GBP (000) 2004
Gross premiums written	641,900	526,400	525,000	474,800	409,600
Net premiums written	560,500	455,300	443,200	381,600	340,800
Balance on technical account(s)	-600	57,800	58,400	-42,100	-4,800
Profit/(loss) before tax	-33,700	89,800	83,500	-29,100	-2,300
Profit/(loss) after tax	-33,700	89,800	83,500	-29,100	-2,300

LIQUIDITY RATIOS (%)

	2008	2007	2006	2005	2004
Total debtors to total assets	17.2	15.4	16.3	18.9	24.3
Liquid assets to net technical reserves	73.2	89.7	75.7	67.4	71.0
Liquid assets to total liabilities	56.2	66.6	52.7	41.3	45.4
Total investments to total liabilities	56.5	66.6	58.4	42.3	45.4

LEVERAGE RATIOS (%)

	2008	2007	2006	2005	2004
Net premiums written to capital & surplus	-99.9	735.5	999.9	-99.9	999.9
Net technical reserves to capital & surplus	-99.9	999.9	999.9	-99.9	999.9
Gross premiums written to capital & surplus	-99.9	850.4	999.9	-99.9	999.9
Gross technical reserves to capital & surplus	-99.9	999.9	999.9	-99.9	999.9
Total debtors to capital & surplus	-99.9	276.3	999.9	-99.9	999.9
Total liabilities to capital & surplus	-99.9	999.9	999.9	-99.9	999.9

PROFITABILITY RATIOS (%)

	2008	2007	2006	2005	2004
Loss ratio	68.2	48.7	50.0	78.4	64.6
Operating expense ratio	29.1	35.6	36.0	30.8	23.4
Combined ratio	97.3	84.3	85.9	109.2	88.0
Net investment income ratio	2.4	4.3	4.7	3.0	1.7
Operating ratio	94.8	80.0	81.2	106.2	86.4
Return on net premiums written	-6.0	19.7	18.8	-7.6	-0.7
Return on total assets	-2.8	8.2	8.7	-4.3	...
Return on capital & surplus	506.8	246.7	-99.9	196.6	...

Why is this Best's® Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Rating is assigned after an extensive quantitative and qualitative valuation of a company's financial strength, operating performance and market profile.

Best's Ratings are assigned according to the following scale:

Secure Best's Ratings

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

Vulnerable Best's Ratings

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

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