

Best's Rating Report



LLOYD'S SYNDICATE 1084 (CHAUCER SYNDICATES LIMITED)

London EC3M 3AD, United Kingdom



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Lloyd's

LLOYD'S SYNDICATE 1084 (CHAUCER SYNDICATES LIMITED)

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Publicly Traded Corporation: The Hanover Insurance Group, Inc.

NYSE: THG

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 syndicate 1084 reflects the financial strength of Lloyd's of London (Lloyd's), which underpins the security of all Lloyd's syndicates. In addition, the syndicate benefits from a good business profile.

The syndicate is managed by Chaucer Syndicates Ltd. (CSL). Most of the syndicate's capacity (95.6%) is provided by Chaucer Corporate Capital (No. 2) Limited (CCCL), the ultimate parent of which is The Hanover Insurance Group, Inc. (The Hanover), while the Labuan Reinsurance (L) Ltd. group provides the remaining 4.4% through a limited tenancy agreement. For the 2011 year of account, the syndicate's capacity is also supported by Flagstone Reassurance Suisse S.A., which provides reinsurance protection to CCCL. The syndicate's Funds at Lloyd's (FAL) consist of investments, undistributed prior year profits and letters of credit. The acquisition of the Chaucer group of companies by Hanover, which became effective on 1 July 2011, provides the syndicate with a potential source of further capital, which in A.M. Best's opinion enhances its financial flexibility.

A.M. Best expects syndicate 1084 to report an underwriting loss for 2011, with a combined ratio between 100% and 110%, assuming normal catastrophe experience in the remainder of the year. First- and second-quarter catastrophe losses are within A.M. Best's expectations, taking into account the magnitude of the events and the nature of business written by the syndicate. Investment income is expected to be modest but positive, reflecting the low interest rate environment. Significant steps have been taken since 2008 to de-risk the investment portfolio, which now consists primarily of cash and fixed income securities.

Syndicate 1084 writes a well-diversified portfolio comprising energy, marine, aviation, property and specialist lines. A large UK motor book is also written. The syndicate benefits from the profile of its managing agent CSL, which also manages syndicate 1176, offers a turnkey operation to new market entrants and provides run-off management. The Hanover's acquisition of the Chaucer group of companies ends prolonged uncertainty regarding ownership of the syndicate's managing agent and corporate member.

Best's Financial Strength Rating: A s

Outlook: Stable

FIVE YEAR RATING HISTORY

| Date | Best's FSR | Date | Best's FSR |
|----------|------------|----------|------------|
| 07/07/11 | A s | 07/24/07 | A s |
| 08/31/10 | A s | 03/30/07 | A s |
| 08/26/09 | A s | 08/09/06 | A s |
| 07/17/08 | A s | | |

BUSINESS REVIEW

Syndicate 1084 writes a well diversified account comprising marine, energy, aviation, property and specialty lines business. In addition, it also writes a significant UK motor account, through its UK division.

The syndicate's gross written premiums (GWP) are expected to increase in 2011 by 5%-10% as a result of an increase in motor business driven by rate increases, the addition of an international liability division, as well as modest growth in other lines such as energy where rate increases can be achieved.

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Marine business, which includes hull, liability, war, cargo, specie, political risk (including trade credit) and excess of loss reinsurance, accounted for 19% of GWP in 2010. Aviation business is a smaller line for the syndicate at around 6% of GWP in 2010. The syndicate's specialist account represented 9% of GWP in 2010 and includes insurance for general casualty, medical malpractice, financial institutions and professional indemnity as well as treaty casualty business. An international liability underwriting team was recruited in 2010 and commenced underwriting from the 2011 year of account, with an initial forecast gross premium income, net of brokerage and commissions, of GBP 43 million.

The syndicate's UK division, which accounted for 21% of premiums in 2010, is dominated by UK motor business. The syndicate writes private car and fleet insurance. In addition, employers' and public liability insurance is offered, and the syndicate launched a combined commercial product for the UK market in 2010. GWP for this division is expected to increase in 2011 as a result of strong rate increases for motor business as insurers attempt to improve their results in this sector. The syndicate is also aiming to increase the share of its motor account that it sells direct through aggregators, rather than through brokers.

Property accounted for 24% of GWP in 2010 and includes both insurance and reinsurance business. The syndicate ceased writing North American delegated authority and facultative property business with wind or earthquake exposure during 2010 in order to focus on treaty catastrophe exposed property business, following analysis of aggregate exposure and deployment of capital.

Chaucer's energy division accounted for 21% of GWP in 2010. Growth is expected in 2011 as rate rises can be achieved in particular on offshore energy and energy liability business following losses in 2010 and the first part of 2011. The syndicate's managing agent is furthermore in the process of strengthening its energy offering by expanding the underwriting and support teams.

The syndicate writes the majority of its business through its London office, but also accesses business through offices in Copenhagen, Singapore and Houston. An office in Argentina opened in October 2010 to write facultative property and related risks in Latin America.

FINANCIAL PERFORMANCE

The syndicate's 2011 results will be impacted by exposure to a number of large loss events in the first half of the year, and an underwriting loss is expected. Investment income is likely to be positive, but modest.

Underwriting Income: The syndicate's result for 2011 will be affected by the above average loss experience of the first part of the year, following the earthquakes in Japan and New Zealand, Australian floods and a number of energy risk losses. As a result, an underwriting loss for the year is likely, assuming normal catastrophe experience in the remainder of the year.

For 2010, the syndicate's combined ratio of 99.5% reflected losses from the earthquakes in Chile and New Zealand, the Deepwater Horizon oil rig explosion and Australian floods. The syndicate's motor account also made a loss in 2010 and reserves were strengthened. However, the syndicate's motor account has performed relatively well compared to some motor insurers.

On a year of account basis, the 2010 year is likely to return an underwriting loss as well as an overall loss. The year is affected by the events of the first quarter of 2011, including the earthquake and tsunami in Japan and the earthquake on February 22, 2011 in New Zealand, and is also affected by 2010 events such as the Deepwater Horizon oil rig explosion, the earthquake in Chile and the September 4, 2010 earthquake in New Zealand. The 2009 year of account is expected to make an underwriting profit, despite having also been affected by a number of large losses, including the Deepwater Horizon oil rig explosion and the earthquake in Chile.

Investment Income: Syndicate 1084's investment return for 2011 is likely to be positive but modest reflecting the low interest rate environment. Following the syndicate's de-risking of its portfolio in 2009, investments consisted primarily of cash and fixed income securities with only GBP 2.7 million remaining invested in hedge funds and GBP 3.1m in equities at year-end 2010.

CAPITALIZATION

Syndicate 1084 is supported by the financial strength of the Lloyd's market, which underpins the security of all syndicates.

The Chaucer corporate member, Chaucer Corporate Capital (No 2) Limited (CCCL), the ultimate parent of which is The Hanover, owns 95.6% of the capacity of the syndicate. The Labuan Reinsurance (L) Ltd group (Labuan Re) provides the remaining 4.4% through a limited tenancy agreement. CCCL's share of the syndicate's Funds at Lloyd's (FAL) is provided through a combination of investments, undistributed prior year profits and an LOC of GBP 90 million. In addition, Flagstone Reassurance Suisse S.A. (Flagstone Re) provides an LOC of USD 75.2m million towards the syndicate's FAL to reflect its reinsurance protection to CCCL.

The participation of Labuan Re and Flagstone Re has allowed the syndicate to increase its capacity to an extent not possible using only Chaucer's own funds. The acquisition of Chaucer by The Hanover enhances its financial flexibility and provides the syndicate with a potential source of capital should one of the arrangements with Labuan Re or Flagstone Re come to an end.

Reserve Quality: Syndicate 1084's reserves are set at internal actuary's best estimate. A risk margin is added to the best estimate where there is particular uncertainty such as for financial dislocation reserves and for new classes of business. Reserve levels are set by in-house actuaries in co-operation with divisional underwriters, claims and reinsurance staff.

The Chaucer group has made releases from reserves each year since 2004. In 2010, the group released GBP 32.3 million from syndicate 1084's reserves (2009: GBP 34.2 million). However, motor reserves were strengthened in both 2009 and 2010 in response to increased claims inflation driven by personal injury claims.

LIQUIDITY

Overall Liquidity: Syndicate 1084's liquidity has improved strongly relative to 2008, with the majority of investments now held in cash and fixed income securities.

SOURCE OF INFORMATION: Company Annual Report

Summarized Accounts as of December 31, 2010

US \$ per Local Currency Unit 1.54679 = 1 British Pound (GBP)

STATEMENT OF INCOME

| | 12/31/2010 GBP(000) | 12/31/2010 USD(000) |
|--|------------------------|------------------------|
| Technical account: | | |
| Direct premiums | 443,800 | 686,465 |
| Reinsurance premiums assumed | 419,700 | 649,188 |
| Gross premiums written | 863,500 | 1,335,653 |
| Reinsurance ceded | 153,300 | 237,123 |
| Net premiums written | 710,200 | 1,098,530 |
| Increase/(decrease) in gross unearned premiums | 78,000 | 120,650 |
| Reinsurers share unearned premiums | 22,100 | 34,184 |
| Net premiums earned | 654,300 | 1,012,065 |
| Total underwriting income | 654,300 | 1,012,065 |
| Net claims paid | 353,000 | 546,017 |
| Net increase/(decrease) in claims provision | 91,900 | 142,150 |
| Net claims incurred | 444,900 | 688,167 |
| Management expenses | 46,100 | 71,307 |
| Acquisition expenses | 177,600 | 274,710 |
| Net operating expenses | 223,700 | 346,017 |
| Total underwriting expenses | 668,600 | 1,034,184 |
| Balance on technical account | -14,300 | -22,119 |
| Non-technical account: | | |
| Net investment income | 26,000 | 40,217 |
| Realised capital gains/(losses) | 2,300 | 3,558 |
| Exchange gains/(losses) | 11,100 | 17,169 |
| Profit/(loss) before tax | 25,100 | 38,824 |
| Profit/(loss) after tax | 25,100 | 38,824 |
| Retained profit/(loss) for the financial year | 25,100 | 38,824 |
| Retained profit/(loss) carried forward | 25,100 | 38,824 |

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ASSETS

| | 12/31/2010 GBP(000) | 12/31/2010 % of total | 12/31/2010 USD(000) |
|--|------------------------|--------------------------|------------------------|
| Cash & deposits with credit institutions | 313,700 | 18.9 | 485,228 |
| Bonds & other fixed interest securities | 435,600 | 26.2 | 673,782 |
| Shares & other variable interest instruments | 274,800 | 16.5 | 425,058 |
| Liquid assets | 1,024,100 | 61.5 | 1,584,068 |
| Total investments | 1,024,100 | 61.5 | 1,584,068 |
| Reins. sh. of tech. reserves - unearned premiums | 43,200 | 2.6 | 66,821 |
| Reinsurers' share of technical reserves - claims | 247,000 | 14.8 | 382,057 |
| Total reinsurers share of technical reserves | 290,200 | 17.4 | 448,878 |
| Deposits with ceding companies | 5,200 | 0.3 | 8,043 |
| Insurance/reinsurance debtors | 226,000 | 13.6 | 349,575 |
| Other debtors | 5,700 | 0.3 | 8,817 |
| Total debtors | 231,700 | 13.9 | 358,391 |
| Prepayments & accrued income | 112,900 | 6.8 | 174,633 |
| Total assets | 1,664,100 | 100.0 | 2,574,013 |

LIABILITIES

| | 12/31/2010 GBP(000) | 12/31/2010 % of total | 12/31/2010 USD(000) |
|--|------------------------|--------------------------|------------------------|
| Distributable reserves | -45,300 | -2.7 | -70,070 |
| Current year net income | 25,100 | 1.5 | 38,824 |
| Capital & surplus | -20,200 | -1.2 | -31,245 |
| Gross provision for unearned premiums | 445,000 | 26.7 | 688,322 |
| Gross provision for outstanding claims | 1,129,900 | 67.9 | 1,747,718 |
| Total gross technical reserves | 1,574,900 | 94.6 | 2,436,040 |
| Insurance/reinsurance creditors | 91,000 | 5.5 | 140,758 |
| Other creditors | 7,700 | 0.5 | 11,910 |
| Total creditors | 98,700 | 5.9 | 152,668 |
| Accruals & deferred income | 10,700 | 0.6 | 16,551 |
| Total liabilities & surplus | 1,664,100 | 100.0 | 2,574,013 |

MANAGEMENT

Syndicate 1084 is managed by Chaucer Syndicates Limited (CSL) and benefits from the market profile of CSL which pursues a diversified strategy to participating in the Lloyd's market. CSL offers a turnkey facility to Lloyd's syndicates, facilitating the entry of new participants to the market. As well as managing syndicate 1084, CSL manages Lloyd's Syndicate 1176, which underwrites nuclear risks. CSL also provides run-off management services and has arranged innovative reinsurance to close transactions.

A new management team for the Chaucer group was put in place between 2009 and 2010. Continuity has been ensured with several internal appointments. The senior management team remains in place following the acquisition of the Chaucer group of companies by The Hanover.

The syndicate's management launched a business line strategy in November 2010 called "Foundation, Flex, Flagship", which builds on the existing strategy of writing a diversified book of business. Foundation classes of business comprises specialist classes, marine, aviation, non-catastrophe exposed property, the UK division and the managing agent's turnkey facility. Within the "Foundation" classes, management is targeting growth in the motor account supported by strong rate increases and plans to increase the share of the syndicate's private motor business which is written direct. Catastrophe property treaty is a "Flex" class, as management will grow or contract this class in response to market conditions. Finally, syndicate 1084's energy and engineering lines together with syndicate 1176's nuclear business form CSL's Flagship class under a newly formed Global Energy Practice.

Officers: Chief Executive Officer, Robert Stuchbery; Chief Operating Officer, David Mead; Chief Financial Officer, Ken Curtis; Chief Underwriting Officer, Bruce Bartell.

ANALYSIS OF GROSS PREMIUMS WRITTEN

| | GBP (000) | GBP (000) | GBP (000) | GBP (000) | GBP (000) |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Accident & health | 400 | 3,300 | 6,500 | 7,500 | 3,700 |
| Automobile | 113,800 | 127,000 | 94,700 | 87,900 | 84,800 |
| Automobile - liability | 69,900 | 40,900 | 38,200 | 31,800 | 36,200 |
| Fire | 69,900 | 72,600 | 61,000 | 65,500 | 72,300 |
| Liability | 32,000 | 49,400 | 35,300 | 38,100 | 45,700 |
| Marine, aviation & trans | 41,600 | 45,900 | 35,100 | 26,200 | 26,200 |
| Other classes | 116,200 | 83,900 | 82,400 | 60,100 | 49,500 |
| Reinsurance | 419,700 | 375,900 | 288,700 | 209,300 | 206,600 |
| Total non-life | 863,500 | 798,900 | 641,900 | 526,400 | 525,000 |

REINSURANCE

The syndicate's reinsurance programme consists of excess of loss coverage for each of the business divisions. Additionally, the syndicate has facultative reinsurances and proportional treaties for some classes of business.

BALANCE SHEET ITEMS

| | GBP (000) | GBP (000) | GBP (000) | GBP (000) | GBP (000) |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Liquid assets | 1,024,100 | 876,600 | 766,400 | 696,200 | 559,100 |
| Total investments | 1,024,100 | 876,600 | 770,400 | 696,200 | 619,200 |
| Total assets | 1,664,100 | 1,376,800 | 1,288,200 | 1,106,800 | 1,071,300 |
| Gross technical reserves | 1,574,900 | 1,331,100 | 1,274,000 | 958,800 | 967,900 |
| Net technical reserves | 1,284,700 | 1,124,300 | 1,047,100 | 776,300 | 738,800 |
| Total liabilities | 1,684,300 | 1,389,300 | 1,363,400 | 1,044,900 | 1,060,400 |
| Capital & surplus | -20,200 | -12,500 | -75,200 | 61,900 | 10,900 |

INCOME STATEMENT ITEMS

| | GBP (000) | GBP (000) | GBP (000) | GBP (000) | GBP (000) |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Gross premiums written | 863,500 | 798,900 | 641,900 | 526,400 | 525,000 |
| Net premiums written | 710,200 | 686,900 | 560,500 | 455,300 | 443,200 |
| Balance on technical account(s) | -14,300 | 25,000 | -600 | 57,800 | 58,400 |
| Profit/(loss) before tax | 25,100 | 55,500 | -33,700 | 89,800 | 83,500 |
| Profit/(loss) after tax | 25,100 | 55,500 | -33,700 | 89,800 | 83,500 |

LIQUIDITY RATIOS (%)

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|------|------|------|------|------|
| Total debtors to total assets | 13.9 | 14.4 | 17.2 | 15.4 | 16.3 |
| Liquid assets to net technical reserves | 79.7 | 78.0 | 73.2 | 89.7 | 75.7 |
| Liquid assets to total liabilities | 60.8 | 63.1 | 56.2 | 66.6 | 52.7 |
| Total investments to total liabilities | 60.8 | 63.1 | 56.5 | 66.6 | 58.4 |

LEVERAGE RATIOS (%)

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|-------|-------|-------|-------|-------|
| Net premiums written to capital & surplus | -99.9 | -99.9 | -99.9 | 735.5 | 999.9 |
| Net technical reserves to capital & surplus | -99.9 | -99.9 | -99.9 | 999.9 | 999.9 |
| Gross premiums written to capital & surplus | -99.9 | -99.9 | -99.9 | 850.4 | 999.9 |
| Gross technical reserves to capital & surplus | -99.9 | -99.9 | -99.9 | 999.9 | 999.9 |
| Total debtors to capital & surplus | -99.9 | -99.9 | -99.9 | 276.3 | 999.9 |
| Total liabilities to capital & surplus | -99.9 | -99.9 | -99.9 | 999.9 | 999.9 |

PROFITABILITY RATIOS (%)

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|--------------------------------|-------|-------|-------|-------|-------|
| Loss ratio | 68.0 | 63.4 | 68.2 | 48.7 | 50.0 |
| Operating expense ratio | 31.5 | 29.2 | 29.1 | 35.6 | 36.0 |
| Combined ratio | 99.5 | 92.7 | 97.3 | 84.3 | 85.9 |
| Net investment income ratio | 4.0 | 2.4 | 2.4 | 4.3 | 4.7 |
| Operating ratio | 95.5 | 90.3 | 94.8 | 80.0 | 81.2 |
| Return on net premiums written | 3.5 | 8.1 | -6.0 | 19.7 | 18.8 |
| Return on total assets | 1.7 | 4.2 | -2.8 | 8.2 | 8.7 |
| Return on capital & surplus | -99.9 | -99.9 | 506.8 | 246.7 | -99.9 |

Best's Rating Report



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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 Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance 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 an 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 Best's 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 A.M. Best Europe - Rating Services Limited.

A Best's Financial Strength Rating is assigned after a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

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

Secure Best's Financial Strength Ratings

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

Vulnerable Best's Financial Strength 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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