26 August 2010

Chaucer Holdings PLC
Unaudited interim results for the six months ended 30 June 2010

Financial highlights

- Profit before tax of £7m (30 June 2009 £17m)
- Gross written premiums of £493m[1] (30 June 2009 £491m)
- Investment return of £17.7m (30 June 2009 £34.6m)
- Return on average funds of 1.4% (30 June 2009 2.7%); a further return of 0.4% was achieved in July
- Post-tax annualised return on equity of 3.1% (30 June 2009 8.6%)
- Interim dividend of 1.3p declared (30 June 2009 1.3p)
- Undiluted earnings per share of 0.9p (30 June 2009 2.7p)

Underwriting performance

- A difficult underwriting period with a significant number of natural and manmade catastrophes
- Combined ratio[1] of 105% (30 June 2009 91%)
- Chilean earthquake, Deepwater Horizon energy and European windstorm Xynthia loss estimates remain unchanged
- Reserve releases of £5.3m (30 June 2009 £22.2m)
- Contribution of £2.6m from syndicate participation and management activities (30 June 2009 £2.6m)

Business outlook

- Over 50% of underwriting portfolio now showing rate increases
- Targeting UK motor and energy classes where rates continue to rise
- UK motor market continues to harden; portfolio rate increase of 16.8% expected for 2010
- UK motor account forecast to deliver a combined ratio of below 100% for business incepting in 2010
- Recruitment of new International Liability Division complete; £40m income target for 2011
- Expansion of international network in Latin America with new Argentina office
- International energy presence strengthened further with Scandinavian and Latin American partnerships

Commenting on the results, Bob Stuchbery, Chief Executive Officer, said:

"The first half proved to be a difficult underwriting period, with an unprecedented level of catastrophes, although our Property and Energy Divisions still produced credible results. We are also pleased with the strong performances of our Aviation, Specialist Lines and Nuclear Divisions.

This is a transitional period for the UK motor market and we are seeing very encouraging rate increases and the positive impact of our continued fight against claims farming and fraudulent claims. Overall, the outlook for our UK motor account looks promising.

Finally, with over half of our diversified portfolio now showing rate increases for 2010, we are taking full advantage of the opportunities emerging, especially within energy and UK motor"

Key financial information	30 June 2010 £m	30 June 2009 £m	31 December 2009 £m
Gross written premiums[1]	493.0	491.0	795.6
Net earned premiums[1]	315.0	330.2	672.6
Profit before tax	7.0	17.0	42.0
Profit after tax	4.8	11.9	28.1
Per share amounts	**p**	**p**	**p**
Undiluted earnings per share	0.9	2.7	5.8
Net tangible assets per ordinary share	52.3	53.0	55.5
Dividend Interim	1.3	1.3	1.3
Final	-	-	2.7
Key business ratios	**%**	**%**	**%**
Return on equity	3.1	8.6	9.7
Combined ratio[1]	105	91	93

[1] Excluding consolidation adjustments, premiums written to reinsure to close non-Chaucer syndicates into Syndicate 1084, the impact of the increased ownership of in-house syndicates following the reinsurance to close of third-party participations in the year in which the closure occurred and the impact of foreign exchange on non-monetary items.

Under International Financial Reporting Standards, unearned premiums and deferred acquisition costs (non monetary items) are carried at historic exchange rates, while the corresponding monetary items are translated at closing exchange rates.

Chaucer will hold an analysts' meeting at Plantation Place, 30 Fenchurch Street, London at 9:30am Thursday 26 August. An audio webcast of the presentation to analysts will be available at www.chaucerplc.com on Friday 27 August.

Enquiries

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Notes to editors

Chaucer Holdings PLC is a diversified insurance group listed on the London Stock Exchange. Chaucer underwrites business at Lloyd's, the world's leading insurance and reinsurance market.

Chaucer deploys specialist underwriters in over 28 major insurance and reinsurance classes, balancing global marine, energy, non-marine and aviation with UK motor and nuclear.

Headquartered in London, Chaucer has international operations in Copenhagen, Houston and Singapore.

For more information on Chaucer, please visit www.chaucerplc.com

CHAUCER HOLDINGS PLC
INTERIM STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

CHIEF EXECUTIVE OFFICER'S STATEMENT

The Group continues to make good progress in 2010. Despite a challenging period for the insurance industry, with record first half catastrophe losses and continuing volatility in the financial markets, I am pleased with our underwriting performance, healthy investment return and with initiatives to develop high quality underwriting income.

Financial result
Profit before tax was £7m (30 June 2009 £17m), with gross written premiums of £493m (30 June 2009 £491m). Net earned premiums were £315m (30 June 2009 £330.2m) excluding the impact of foreign exchange on non-monetary items.

Underwriting recorded a loss of £16.4m (30 June 2009 profit £28.6m), excluding the impact of foreign exchange on non-monetary items, as high profile losses dominated the period. Our combined ratio was 105% (30 June 2009 91%).

Our investment portfolio recorded a healthy return of £17.7m or 1.4% (30 June 2009 £34.6m or 2.7%), with our conservative investment strategy delivering a positive return during a difficult period for international equity and bond markets. We have achieved a further 0.4% return on average funds during July.

Dividends
As previously announced, in the absence of unforeseen events, we intend to a pay a minimum total dividend of 4.0p per share for 2010 (2009 4.0p). Our interim dividend of 1.3p per share (2009 interim dividend 1.3p) is payable on 1 October 2010 to shareholders on the register on 10 September 2010.

Underwriting performance and outlook
As widely reported, it has been an exceptional period for natural and manmade catastrophes, in particular the Chilean earthquake and the Deepwater Horizon oil platform loss. These affected the results of our Property, Marine and Energy Divisions, although I am pleased to report that our previously announced estimates of net losses to Syndicate 1084 from these events remain unchanged.

We are taking advantage of the positive market conditions arising from these events, particularly within the energy market, where we are already seeing good rate increases, and international property, where we are seeking rate rises in affected areas.

After a difficult 2009, we have focused significant energies on improving the performance of our UK motor account. We achieved material rate increases during the period and, with further rate rises planned, we are forecasting an annual rate increase of 16.8% for 2010. We have also continued the actions that we began in 2008 to address the impact of claims farming and fraudulent claims. This work is progressing well and the combined ratio for business incepting during 2010 is expected to deliver a 7% improvement on 2009 to below 100%. However, we are disappointed with the reported combined ratio of 111% for our UK Division (30 June 2009 108%), which includes the impact of the recently announced 2.5% VAT increase on claims reserves payable from 2011 onwards. This VAT is non-recoverable.

With over half of our underwriting portfolio showing healthy rate increases, we expect premium rates for our portfolio to increase by approximately 2.8% this year and, taking into account the uncertainties of the North Atlantic hurricane season, we are optimistic for the remainder of 2010, with our diversified portfolio continuing to provide us with promising opportunities.

Business development
During the period, we have announced initiatives to increase the breadth and international reach of our underwriting activities.

We have completed recruitment for our new International Liability Insurance Division, which has an income target of £40m for 2011, primarily from professional indemnity and general liability business.

We have also launched two ventures to develop our international energy market presence. Through our North American operation in Houston, we have joined forces with Boots & Coots, the world's premier well control company, and two international insurance brokers, Mexbrit and GSR, to provide control of well coverage in Latin America. In Norway, we have appointed ScandIns as our approved coverholder for renewable and upstream energy in Scandinavia.

Finally, we will open our Argentina office in Buenos Aires in October, to write facultative property and related risks in Latin America. We have recruited an experienced underwriting team with significant regional knowledge from Glacier Re to lead the initiative, which provides an excellent opportunity for us to develop our underwriting in this region.

Board appointments
I am pleased to welcome Tim Carroll to the Board of Chaucer Syndicates Limited, our managing agency, as a Non-Executive Director. Tim is a renowned international insurance industry leader and we look forward to benefiting from his extensive business knowledge and insight.

As previously announced, we are seeking additional non-executive directors for both Chaucer Holdings PLC and Chaucer Syndicates Limited and will update the market on progress in due course.

Domicile
The Board has taken the decision to remain domiciled in the UK for the present, having completed an extensive review of our strategic options. In particular, the Group is expected to obtain significant cash flow benefit from the recent introduction of equalisation reserves and the UK Government's decision to reduce the rate of corporation tax. The review included advice from our legal and tax advisers.

Outlook
Despite a challenging period for the industry as a whole, I am pleased with the Group's performance in the first half of 2010. We have an excellent business model, with a diverse business mix and strong management and underwriting team and I am confident of our prospects for the future.

Robert Stuchbery
Chief Executive Officer
25 August 2010

FINANCIAL REPORT

The financial performance of the Group was satisfactory in the first half of 2010, reporting a profit before tax of £7m (30 June 2009 £17m). Gross written premiums were £493.3m (30 June 2009 £491.1m) and net earned premiums were £285.9m (30 June 2009 £291.2m).

The Group's underwriting operations recorded a loss of £16.4m (30 June 2009 profit £28.6m), before the impact of foreign exchange on non-monetary items, and the combined ratio increased to 105% (30 June 2009 91%).

The Group's investment portfolio contributed £17.7m (30 June 2009 £34.6m), a return of 1.4% on the average funds (30 June 2009 2.7%), with the conservative positioning of the portfolio enabling it to weather successfully a period of record low interest rates and continued financial market volatility.

The table below summarises the Group's result for the period.

	Six months ended 30 June 2010 (unaudited)	Six months ended 30 June 2009 (unaudited)	Year ended 31 December 2009 (audited)
Key financial data	**£m**	**£m**	**£m**
Gross written premiums	493.3	491.1	796.3
Net earned premiums	285.9	291.2	606.3
Net investment return	17.7	34.6	53.3
Total revenue from operations	308.7	331.3	670.8
Total operating charges	(299.9)	(312.4)	(624.7)
Profit from operations	8.8	18.9	46.1
Profit before tax and foreign exchange on non-monetary items [1]	4.1	52.6	75.3
Foreign exchange gain/(loss) on non-monetary items [1]	2.9	(35.6)	(33.3)
Profit before tax	7.0	17.0	42.0
Profit after tax attributable to equity holders	4.8	11.9	28.1
Per share amounts	**p**	**p**	**p**
Basic earnings per share	0.9	2.7	5.8
Net tangible assets per ordinary share	52.3	53.0	55.5
Interim dividend	1.3	1.3	1.3
Final dividend	-	-	2.7
Key business ratios	**%**	**%**	**%**
Post-tax return on equity	3.1	8.6	9.7
Combined ratio [2]	105	91	93

[1] Under International Financial Reporting Standards, unearned premiums and deferred acquisition costs are carried at historic exchange rates, while the corresponding monetary items are translated at closing exchange rates.

[2] Combined ratios exclude the initial impacts of both the RITC of Run off Syndicates 1204, 1224, 1229 and 1245 and of the increased ownership of in-house syndicates following the RITC of third-party participations in the year in which the closure occurs. The ratios also exclude the impact of foreign exchange on non-monetary items and consolidation adjustments.

Underwriting performance

An exceptional period for manmade and natural catastrophes affected the results of the Property, Energy and Marine Divisions, producing a Group combined ratio of 105% (30 June 2009 91%). Prior year reserve releases reduced the combined ratio by 1% (30 June 2009 5%) as the Group released net reserves of £5.3m (30 June 2009 £22.2m). The bulk of the releases were from the Property and Nuclear Divisions.

The performance of the UK Division continues to benefit from strengthening premium rates, particularly in the private car market. The pure year combined ratio for 2010 written business is on track to deliver a 7% improvement on 2009 to below 100%. The reported combined ratio of 111% (30 June 2009 108%) was affected by the recently announced VAT increase on claims payable from 2011 onwards, which is non-recoverable. The combined ratio should improve into 2011 because of premium rate increases above claims inflation and continued work to reduce the costs of claims.

The period's two most costly losses, the Chilean earthquake and European windstorm Xynthia, produced market insured losses of up to US$16bn. As previously announced, the Group estimates a combined net loss to Syndicate 1084 of approximately £25m from these events. In addition, there were also other significant property-related events in the period, including wind and hailstorms in Australia, flash floods in France and windstorms in the United States.

There were two major energy losses during the period; the April sinking of the Deepwater Horizon oil rig in the Gulf of Mexico, which produced physical damage and liability losses in excess of US$1.2bn and the May sinking of the Aban Pearl semi-submersible drilling rig off the coast of Venezuela, with physical damage losses of US$225m. As previously announced, the Group has estimated a net loss to Syndicate 1084 of US$25m from Deepwater Horizon, with exposures arising from the Energy (US$20m) and Marine (US$5m) Divisions. The Energy Division loss from Aban Pearl was £1m. Energy rates have hardened in response to these losses, reversing the rate reductions seen in the first quarter of 2010.

The Marine Division war and terrorism account also experienced a loss of £10.7m relating to the Bangkok riots in May, which produced market losses estimated at US$500m.

Syndicate 4000 has significant exposure to potential claims arising from difficulties within the financial and professional liability markets from the credit crunch and subsequent economic turmoil. These are complex and slowly evolving events, which makes accurate determination of the ultimate loss resulting from these events extremely difficult to forecast. Based on all available information the Group has booked an underwriting loss before investment return of £7m for the period (30 June 2009 loss £3.5m), for the run-off of the Syndicate's remaining exposures.

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

	UK	Marine	Energy	Aviation	Property	Specialist Lines	Nuclear	In-house total	Syndicate[1] participations	Run off [2]	Total
30 June 2010 (unaudited)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross written premiums[3]	80.2	91.0	102.2	22.5	138.1	42.2	12.4	488.6	4.4	-	493.0
Net earned premiums[3]	76.0	59.5	51.0	16.8	71.1	32.0	6.8	313.2	1.7	0.1	315.0
Underwriting profit/(loss)[3,4]	(8.5)	(6.3)	(0.1)	2.5	(7.2)	2.1	7.6	(9.9)	(6.7)	0.2	(16.4)
	%	%	%	%	%	%	%	%	%	%	%
Claims ratio [3, 5]	86	80	57	54	80	67	(21)	73	453	n/a	75
Expense ratio [3, 5]	25	31	43	31	30	26	9	30	41	n/a	30
Combined ratio [3, 5]	111	111	100	85	110	93	(12)	103	494	n/a	105
30 June 2009 (unaudited)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross written premiums[3]	82.9	99.0	94.6	21.4	136.2	35.6	11.7	481.4	9.6	-	491.0
Net earned premiums[3]	66.2	64.7	57.7	15.1	72.4	26.2	6.9	309.2	20.7	0.3	330.2
Underwriting profit/(loss) [3,4]	(5.0)	1.4	12.5	2.1	12.3	3.1	4.7	31.1	(2.8)	0.3	28.6
	%	%	%	%	%	%	%	%	%	%	%
Claims ratio [3, 5]	81	66	35	46	45	56	16	56	74	n/a	56
Expense ratio [3, 5]	27	32	43	40	38	32	16	34	40	n/a	35
Combined ratio [3, 5]	108	98	78	86	83	88	32	90	113	n/a	91

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

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

[3] Excluding premiums written to reinsure to close non-Chaucer syndicates into Syndicate 1084, the impact of the increased ownership of in-house syndicates, following the RITC of third-party participations in the year in which the closure occurred and the impact of foreign exchange on non-monetary items. See note 4 to the interim condensed consolidated financial statements for reconciliation of gross written premiums and net earned premiums to the Income Statement.

[4] Underwriting profit/(loss) is the sum of net earned premiums, net incurred claims and net expenses incurred in insurance activities.

[5] The claims ratio represents net claims incurred as a percentage of net earned premiums. The expense ratio represents expenses incurred in insurance activities as a percentage of net earned premiums. The combined ratio represents the sum of the claims and expense ratios.

Business outlook

The Group forecasts premium rates to increase by approximately 2.8% in 2010 for its underwriting portfolio, with Energy and UK Division rate increases offsetting flat or softening rates across the remainder of the portfolio.

Premium Rating Index	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2010 % Change**
Marine	149	167	171	175	187	184	184	194	195	+0.5
Energy	282	327	310	347	486	445	410	437	460	+5.3
Aviation	175	171	168	164	160	148	146	155	152	-1.9
International Property	169	166	154	148	155	148	140	146	146	-
North American Property	157	165	163	171	232	234	216	234	234	-
Specialist Lines	151	174	187	184	179	171	166	168	165	-1.8
Combined (excluding UK)	**170**	**182**	**182**	**185**	**204**	**197**	**187**	**197**	**199**	**+1.0**
UK	122	130	132	130	130	132	140	149	174	+16.8
Combined	**152**	**156**	**157**	**158**	**181**	**175**	**169**	**178**	**183**	**+2.8**

The index, which provides an overall measure of the financial terms of a policy, is based on Chaucer's internal assessment by reference not only to headline premium rates, but also to other financial aspects of cover, including policy deductibles, commissions and other relevant coverage amendments. The index for 2000 is 100. The 2010E index values are estimates. As nuclear insurance has historically been a non-cyclical business, there is no maintenance of an index.

The Energy and Property Divisions will continue to take advantage of opportunities arising from the exceptional losses in the period, although property rate rises have been typically restricted to affected areas. In addition to the direct effect of Deepwater Horizon, energy rates have also responded to a reassessment of the risks and associated costs of oil extraction at drilling technology limits.

The UK Division will continue to increase volumes selectively as the UK motor market continues to harden. The Division achieved rate rises across all product areas during the first half of 2010 and, with further rate rises planned, forecasts an annual rate increase of 16.8% for 2010.

Aviation rates rose at the beginning of 2010, following heavy airline losses in 2009, and the Group's Division has selectively written more business in response. However, continued over capacity and an absence of major market losses has caused downward rating pressures to re-emerge. The Specialist Lines Division will also continue to write more financial institutions risks as market conditions have improved following the recent global economic upheaval.

The Group will finalise underwriting plans for 2011 toward the end of the current hurricane season.

Investment portfolio performance

The Group achieved an investment return of £17.7m (1.4% return on average funds) for the 6 months ended 30 June 2010, and a further 0.4% return on average funds during July.

Financial investments (excluding the investment in Antares) and cash and deposits totalled £1,394.9m at 30 June 2010 (30 June 2009 £1,269.8m). These supported Funds at Lloyds (FAL) of £336.9m (30 June 2009 £359.2m), syndicate technical reserves of £1,016.3m (30 June 2009 £886.5m) and working capital funds of £41.7m (30 June 2009 £24.1m). The following table provides an analysis of investments and cash and deposits held at 30 June 2010 and of the net investment return for the period.

			30 June 2010 (unaudited)			30 June 2009 (unaudited)			31 December 2009 (audited)
	Value	**Income**	**Return**	**Value**	**Income**	**Return**	**Value**	**Income**	**Return**
	£m	£m	%	£m	£m	%	£m	£m	%
Equities	4.6	0.4	7.4	4.5	(0.1)	(2.4)	4.6	0.3	5.3
Hedge funds	9.3	(1.0)	(3.8)	64.7	10.7	10.7	37.5	14.7	20.9
Absolute return bond funds	-	-	-	-	9.5	2.9	-	9.4	2.9
Bonds	763.0	14.8	1.9	386.5	11.5	2.4	749.6	24.0	4.2
Cash and deposits	618.0	3.8	0.7	814.1	3.3	0.5	544.8	5.4	0.9
	1,394.9	18.0	1.4	1,269.8	34.9	2.7	1,336.5	53.8	4.3
Investment expenses		(0.3)			(0.3)			(0.5)	
Net investment return		17.7			34.6			53.3	
Asset allocation	%			%			%		
Equities	-			-			-		
Hedge funds	1			5			3		
Absolute return bond funds	-			-			-		
Bonds	55			31			56		
Cash and deposits	44			64			41		
	100			100			100		

Hedge funds

The Group redeemed hedge funds with a total value of £29.3m during the first half of 2010. At 30 June 2010, hedge fund participations comprised less than 1% of the Group's investment portfolio.

Bonds

The bond portfolio performed satisfactorily during the period, generating a return of 1.9% (30 June 2009 2.4%). The average duration of the bond portfolio at 30 June 2010 was 1.6 years (30 June 2009 1.1 years) and the weighted average yield to maturity was 2.3% (30 June 2009 3%). The average credit rating of the fixed income portfolio was AA and the allocation to sub-investment grade securities was less than 1% of the portfolio. This consists primarily of previously downgraded mortgage-backed securities. The Group has no exposure to peripheral European sovereign debt.

As the following table shows, investment grade bonds comprised the majority of the Group's fixed income holdings at 30 June 2010.

						Credit rating
	AAA [1]	AA	A	BBB	Other	Total
30 June 2010 (unaudited)	£m	£m	£m	£m	£m	£m
Governments	52.9	-	-	-	-	52.9
Securitised securities (see following table)	59.2	7.2	0.7	-	6.7	73.8
Supranational	17.2	-	-	-	-	17.2
Corporate	257.7	106.1	164.0	56.5	0.2	584.5
Agency	18.0	13.7	-	-	2.9	34.6
	405.0	127.0	164.7	56.5	9.8	763.0

						Credit rating
	AAA [1]	AA	A	BBB	Other	Total
31 December 2009 (audited)	£m	£m	£m	£m	£m	£m
Governments	86.8	-	-	-	-	86.8
Securitised securities (see following table)	69.2	4.6	0.8	1.7	6.0	82.3
Supranational	10.6	-	-	-	-	10.6
Corporate	248.3	102.3	121.6	63.8	2.3	538.3
Agency	24.0	7.6	-	-	-	31.6
	438.9	114.5	122.4	65.5	8.3	749.6

[1] AAA rated bonds include government guaranteed securities

Securitised securities breakdown further as follows:

						Credit rating
	AAA	AA	A	BBB	Other	Total
30 June 2010 (unaudited)	£m	£m	£m	£m	£m	£m
Asset backed securities	9.5	5.4	0.7	-	1.5	17.1
Commercial mortgage backed securities	13.3	-	-	-	-	13.3
Residential mortgage backed securities	36.4	1.8	-	-	5.2	43.4
	59.2	7.2	0.7	-	6.7	73.8

						Credit rating
	AAA	AA	A	BBB	Other	Total
31 December 2009 (audited)	£m	£m	£m	£m	£m	£m
Asset backed securities	20.6	2.1	0.8	1.4	0.4	25.3
Commercial mortgage backed securities	23.8	-	-	-	-	23.8
Residential mortgage backed securities	24.8	2.5	-	0.3	5.6	33.2
	69.2	4.6	0.8	1.7	6.0	82.3

Cash and deposits
The majority of cash deposits remain invested in money market funds, which provide daily access but a low return since interest rates remain at a record low. However, where possible, the Group has enhanced cash returns through the placement of fixed term deposits, which offer a liquidity premium, with selected financial institutions.

Investment portfolio outlook
The Group maintains a conservative investment strategy, with a focus on capital maintenance for underwriting, and forecasts only modest investment returns in the second half of 2010. The Group expects that the performance of the current investment portfolio will remain robust through most economic scenarios, including a double dip recession, growth with inflation environments and stress in sovereign debt markets. Exposure to risk assets (financial assets excluding bonds and cash and deposits) is low and comprises only residual hedge fund and equity participations, which will further reduce as the Group disposes of the underlying securities.

Capital

At 30 June 2010, the Group held economic capital of £391.9m, comprising £321.1m of solvency capital or Funds at Lloyd's (FAL) and £70.8m of capital buffer and working capital. The Group's total underwriting interests are £623.3m for 2010 (2009 £580m). Solvency capital at an economic ratio of 45.5% supports this capacity (2009 48.1%), against a Lloyd's minimum of 40.0%. The table below shows the FAL composition for 2010.

	Year of account	
	2010	**2009**
	£m	£m
Chaucer underwriting interests	623.3	580.0
Reinsurance agreement	82.1	50.6
Overall premium limit	**705.4**	**630.6**
FAL ratio (average)	45.5%	48.1%
FAL requirement	321.1	303.2
Funding of open year of account losses	93.6	149.0
Total FAL requirement	**414.7**	**452.2**
FAL requirement satisfied by:		
Investments	232.0	243.2
Personal reserves	104.9	115.8
Letters of credit:		
Group economic interest	51.0	56.0
Capital provision reinsurer	55.9	35.6
	443.8	**450.6**

The Group's solvency capital comprises a mix of bonds, cash and deposits and a £51m letter of credit (LOC) provided by Lloyds TSB Bank plc. At 30 June 2010, the Group had collateralised £35m of the LOC (31 December 2009 £5m).

The Group has a reinsurance agreement in place with Flagstone Re, which represents £82.1m (2009 £50.6m) of Group underwriting interests for 2010. Funds at Lloyd's include a US$60.4m (2009 US$28.8m) LOC from Flagstone Re to support this.

At 30 June 2010, within the total cash, investments and LOC in FAL, the Group held £350.2m to support the current year of account, which represents a solvency surplus of £29.1m over the FAL requirements of £321.1m. The total of net tangible assets and subordinated debt held by the Group at 30 June represents 150% of ICA requirements of the Group underwriting interests for 2010. The total of net tangible assets, subordinated debt and Group economic interest LOC at 30 June represents 129% of ECA requirements for the Group underwriting interests.

In light of Solvency II expectations and continued regulatory pressures, the Group expects solvency capital requirements to increase for 2011. The Group will fund the increase from a mix of internal funds, LOC and reinsurance arrangements.

Gearing
The Group's debt capital comprises a €12.0m (£9.5m) 30 year loan note issued in 2004 and US$50.0m (£32.3m) of 30 year subordinated debt raised in September 2006 (sterling equivalents are on an amortised cost basis). These arrangements provide the Group with balance sheet gearing to enhance returns for shareholders while maintaining the current risk profile. The total financial gearing including loan notes, uncollateralised letters of credit and subordinated debt was £57.8m (30 June 2009 £90.3m) or 19% of shareholders' funds (30 June 2009 29.9%).

At 30 June 2010, the Group held cash resources outside of syndicates and FAL of £38.5m, including £35m of collateral (30 June 2009 £20.5m, including £5m of collateral), producing net debt of £54.3m (30 June 2009 £74.8m) and gearing of 17.8% (30 June 2009 24.8%).

The following table provides a gearing summary.

		30 June 2010 (unaudited) £m	**30 June 2009** (unaudited) £m
Debt	On balance sheet	41.8	39.3
	Off balance sheet (letters of credit)	51.0	56.0
Cash held outside Lloyd's		(35.0)	(5.0)
Free cash resources		(3.5)	(15.5)
Total net debt		54.3	74.8
Shareholder equity		304.7	302.1
		%	**%**
Gross gearing (debt minus cash held outside Lloyd's, divided by Shareholders' equity)		19.0	29.9
Net gearing (net debt divided by Shareholders' equity)		17.8	24.8

Employee benefits
The Group updated the estimate of the deficit in the defined pension scheme that Chaucer Syndicates Limited, a Group's subsidiary, operates. The result was a net deterioration of £3.2m in the period, which was due to unfavourable financial market conditions affecting the return of the scheme's assets and amendment to the rates used to discount the scheme's liabilities. The net deterioration includes a £2.9m reduction of the deficit resulting from a 5% annual cap introduced on expected pensionable salary growth. The movement is presented as a reduction of Other Operating Expenses.

Taxation
The tax charge in the Interim Condensed Consolidated Income Statement is at the effective tax rate of 31.4%. Given the decision not to re-domicile the Group, at present the tax charge will remain close to the UK rate for the future.

The Group reached the decision not to re-domicile after a detailed review of profit and loss and cashflow forecasts by the Board. The review included advice from legal and tax advisers and corporate brokers. A key driver in the decision was the cash flow advantage that remaining in the UK would provide the Group in the future. The current business mix should ultimately enable the Group to establish equalisation reserves to a value of up to 25% of net written premiums in the next few years. This will represent a material deferral of the corporation tax payable over the period. In addition, re-domicile would accelerate some tax payments and defer the recovery of tax losses. This decision will remain under review as there remains considerable uncertainty over the future tax environment, especially the continuation of equalisation reserves after the implementation of Solvency II.

Going concern
As stated in note 2 of the Condensed Consolidated Financial Statements, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this Report. Accordingly, the Directors continue to adopt the going concern basis in preparing the Interim Condensed Consolidated Financial Statements.

Forward-looking information
The forward-looking statements within this Financial Report have been made by the Directors in good faith, based on the information available to them at the time of their approval of this review.

DIVISIONAL PERFORMANCE

UK

		30 June 2010 (unaudited) £m	30 June 2009 (unaudited) £m
Gross written premiums		80.2	82.9
Gross written premiums by major class	Fleet	12.9	14.4
	Private car	43.1	50.8
	Specialist motor	22.0	16.1
	Commercial liability	2.2	1.6
Net earned premiums		76.0	66.2
Underwriting loss before investment return		(8.5)	(5.0)
		%	**%**
Claims ratio		86	81
Expense ratio		25	27
Combined ratio		111	108

See ‘Underwriting performance’ for definitions of the terms used in this table

The UK Division recorded an underwriting loss before investment income of £8.5m (30 June 2009 loss £5m) Gross premium income was little changed at £80.2m (30 June 2009 £82.9m).

The performance of the UK Division continues to benefit from strengthening premium rates. The pure year combined ratio for 2010 written business is expected to deliver a 7% improvement on 2009 to below 100%. The reported combined ratio of 111% (30 June 2009 108%) was affected by the recently announced VAT increase on claims payable from 2011 onwards, which is non-recoverable. The combined ratio should improve into 2011 because of premium rate increases above claims inflation and continued work to reduce the costs of claims.

The well-publicised events of the past six months have highlighted market issues relating to the high costs of claims farming, third party bodily injury motor claims and credit hire claims. Work continues through specialist units within our claims department to reduce the costs of credit hire and to detect fraudulent claims. However, the market must continue to increase rates to contain the increased costs. Two recently published market surveys have reported double-digit rate increases for the second quarter alone.

The UK Division forecasts a 16.8% increase in UK motor premium rates in 2010, with standard private car prices expected to rise by more than 25%. Rates within the non-comprehensive private car market have also increased dramatically following the withdrawal of a number of underwriters. The Division has increased rates by approximately 36%, with no reduction in business volumes.

In contrast to the private car market, the fleet and commercial markets have remained relatively weak. The UK Division introduced a new commercial vehicle product in early 2009, with sales volumes and loss ratios since performing to budget. In recent months, the commercial vehicle market has shown signs of following the private car market, with rate increases significantly outpacing claims inflation. However, the taxi market remains soft and the Division withdrew its standard taxi product at the end of the first quarter in response. The Division will not re-enter until this market improves.

The UK Division’s fleet account has reduced significantly over the past four years. Remarkably, there have been a number of new entrants over the past two years, joining a market sector that is willing to write new business at rates below those that it would accept for renewals. However, the fleet market is not exempt from claims farming and fraudulent claims and will inevitably have to apply significant rate increases in the future to return to profitability. The UK Division remains ready to take advantage when this happens.

Since mid-2009, the UK Division has written employers and public liability products, either as a standalone product or as part of the Division’s motor trade policy. During the period, premium income from employers’ and public liability was £2.2m (30 June 2009 £1.6m). The volume of premium written remains low, reflecting a continued competitive rating environment. The Division is currently building a number of other UK small commercial products for launch in 2011.

Marine

		30 June 2010 (unaudited) £m	30 June 2009 (unaudited) £m
Gross written premiums		91.0	99.0
Gross written premiums by major class	XL	20.5	21.4
	Hull	14.5	15.1
	Liability	7.7	6.6
	War	4.0	3.2
	Cargo	4.5	10.5
	Specie	11.8	13.9
	Satellite	2.2	2.4
	Political risk and trade credit	25.8	25.9
Net earned premiums		59.5	64.7
Underwriting (loss)/profit before investment return		(6.3)	1.4
		%	**%**
Claims ratio		80	66
Expense ratio		31	32
Combined ratio		111	98

See 'Underwriting performance' for definitions of the terms used in this table

The Marine Division recorded an underwriting loss of £6.3m in the first half of 2010 (30 June 2009 profit £1.4m) as significant marine excess of loss and terrorism losses affected performance. Total gross written premiums decreased by 9% to £91m (30 June 2009 £99m) as the Division reduced business in response to softening rates in a number of marine classes. The combined ratio increased to 111% (30 June 2009 98%).

Marine Excess of Loss
Deepwater Horizon dominated the first half of 2010, with the marine excess of loss account retaining a net exposure of $5.4m. Market rates for energy exposed layers rose in response, although all other business areas remained flat, albeit with no softening of rates or conditions.

Income reduced due to the non-renewal of two significant accounts at the beginning of 2010, as participation was no longer cost-effective. The Division continues to focus away from the United States and to avoid Gulf of Mexico energy physical damage wind policies. The Division successfully grew the Japanese portfolio in April.

Hull, Liability and War
Hull market pricing remained generally flat in the period, with general shipping risk rises offset by reductions in the mega yacht market. The shipping market, in particular the bulk sector, came under increased pressure as the over supply of tonnage caused by the economic downturn continued, although the cruise industry, which the Division also supports, remained buoyant. Yacht rates came under pressure following excellent results in 2009.

The threat of piracy remains significant, with many ship owners purchasing additional specific cover..The Division charges for this through the war account. Recently published statistics indicate that the international maritime presence in the Gulf of Aden is reducing the number of incidents, although this may cause pirates to extend their operations further into the Indian Ocean.

The Deepwater Horizon loss has prompted major oil shippers to purchase additional high-level vessel pollution contracts in excess of the US$1.2bn of protection provided by the International Groups.

During the period, Chaucer Copenhagen recruited an experienced marine hull underwriter. Following the withdrawal of several hull carriers in Norway and Denmark, there are new opportunities and the portfolio will increase on a selective basis in the second half of 2010.

Political Risk
In the aftermath of the global economic crisis, the period has been predictably challenging, although the market is slowly returning to normality. The majority of the claims incurred during the economic crisis have now settled, and the recovery actions on these paid claims are now underway. The Division has seen some early benefit from these actions, with a full recovery of US$0.7m achieved in the second quarter for a banking claim in Kazakhstan.

Underwriting conditions are positive and, having weathered the challenges of 2009, the demand for emerging market risk is strengthening, albeit from a low base. Rates are firm, rising by approximately 8% in the period, and policy wordings continue to tighten and become more refined. The withdrawal of Chubb, a major market presence, has also improved market sentiment. The outlook for business incepting in 2010 looks very positive.

War and Terrorism
The risk of terrorism remains high worldwide, as evidenced by an increased claims frequency in emerging markets during the period. The Bangkok riots of May 2010 produced claims in excess of US$500m, the largest single loss event in the global political violence and terrorism market from a standalone product perspective. The Lloyd's market absorbed a substantial proportion of this loss. The Division's share of this loss was £10.7m.

Underwriting conditions remain mixed. There is overcapacity in certain territories, reducing rates for standalone terrorism products, although the political violence product market remains more disciplined. The risks associated offering extended cover in more active areas remains high. The Bangkok loss should provide the catalyst required for the gradual hardening of the terrorism market.

Cargo and Specie
The cargo market remains soft, with intense competition from over capacity in many major regions, notably North America, London, Singapore and Lloyd's. In response, the Division has concentrated on growing its more profitable Middle East and Chinese accounts, while reducing London Market exposures. These will be slow to improve in the absence of a catastrophe event. The Division's focus will be retention of the profitable core account and expansion into profitable sub-classes where identified.

The specie account continues to trade successfully. The Division has taken an increased market share on certain lower loss ratio classes of business and, while concern remains within the transit and jeweller's block classes, the Division has taken advantage of risks that have suffered losses and are now in payback. Into 2011, the Division will continue to develop the fine art and US Securities Investor Protection Corporation accounts, both of which are performing well.

Energy

		30 June 2010 (unaudited) £m	30 June 2009 (unaudited) £m
Gross written premiums		102.2	94.6
Gross written premiums by major class	Energy construction	31.7	29.7
	Energy liability	3.7	3.4
	Exploration and production	63.6	58.5
	Other	3.2	3.0
Net earned premiums		51.0	57.7
Underwriting (loss)/profit before investment return		(0.1)	12.5
		%	**%**
Claims ratio		57	35
Expense ratio		43	43
Combined ratio		100	78

See 'Underwriting performance' for definitions of the terms used in this table

The Energy Division reported a small underwriting loss before investment income of £0.1m (30 June 2009 profit of £12.5m) as Deepwater Horizon losses of $20m affected performance. Premium income rose to £102.2m (30 June 2009 £94.6m) as the Division benefited from improved rates in the second quarter. The combined ratio was 100% (30 June 2009 78%).

Divisional development continued during the period, with new team members in London and Singapore to support product developments and service enhancements for clients and brokers. Following recent expansion in Singapore and Houston, the Division has now also formalised relationships with business producers for the Scandinavian, Canadian and South American regions.

Exploration and Production
The loss of Deepwater Horizon, the Transocean drilling unit, and the subsequent uncontrolled oil leak from the BP well, Macondo, dominated the offshore exploration market during the period. This is the most significant risk loss (i.e. non-natural catastrophe) to strike energy underwriters since Piper Alpha in 1998. Prior to the loss, and following a benign Gulf of Mexico hurricane season in 2009, pricing was under increasing pressure, with some renewal business attracting rate reductions. Overall however, average pricing was holding steady, highlighting a disciplined market able to differentiate between poorly performing and superior business. Following the loss, the rating environment has transformed, with the Division benefiting from second quarter rate rises in excess of reductions seen during the first quarter.

Construction
The period saw a significant increase in mid to large construction orders received by the market, the result of growing confidence in the world economic recovery. Rates, and more importantly conditions, have remained stable across the sector.

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

Onshore and Renewables
The traditional refining risks written by the Division are continuing to come under pricing pressure as capacity remains high, causing the account to focus on the selective underwriting of superior engineered risks. Rates and conditions for renewable energy source risks remain acceptable although new capacity continues to join the market.

Aviation

		30 June 2010 (unaudited) £m	30 June 2009 (unaudited) £m
Gross written premiums		22.5	21.4
Gross written premiums by major class	Hull and liability	18.2	17.1
	Refuellers and products	4.3	4.3
Net earned premiums		16.8	15.1
Underwriting profit before investment return		2.5	2.1
		%	**%**
Claims ratio		54	46
Expense ratio		31	40
Combined ratio		85	86

See 'Underwriting performance' for definitions of the terms used in this table

Aviation Division income increased to £22.5m (30 June 2009 £21.4m) in response to improving market conditions. The underwriting profit increased to £2.5m (30 June 2009 £2.1m) as the Division benefited from improved rates and an absence of significant market losses. The combined ratio remained low at 85% (30 June 2009 86%).

Airline and Hull Liability
The first half of the year has progressed as previously forecast, with modest further rate increases expected. However, given continued overcapacity and a relatively benign period for losses, expectations have reduced and the Division expects rates to fall in the second half of the year.

General Aviation, Hull and Liability
The account remains stable, with modest reductions to balance increases obtained on poor performing accounts. The significant loss arising from the collapsed aircraft hangars at Dulles International Airport in Washington D.C. in February has not dampened the enthusiasm of the market for corporate jet related business, although the Division only targets modest participations in this area.

Refuellers and Products
Products rates are stable, although airport rates remain under pressure with reductions of up to 10%. The Division has cut participations but continues to target profitable business in this area.

Property

		30 June 2010 (unaudited) £m	30 June 2009 (unaudited) £m
Gross written premiums		138.1	136.2
Gross written premiums by major class	Delegated authorities	19.8	21.5
	Facultative property	25.5	26.3
	Property treaty	72.9	73.3
	Miscellaneous short tail	7.7	7.8
	Engineering	12.2	7.3
Net earned premiums		71.1	72.4
Underwriting (loss)/profit before investment return		(7.2)	12.3
		%	**%**
Claims ratio		80	45
Expense ratio		30	38
Combined ratio		110	83

See 'Underwriting performance' for definitions of the terms used in this table

Losses arising from natural catastrophes during the period, notably the Chilean earthquake, affected the performance of the Property Division. Gross written premiums were £138.1m (30 June 2009 £136.2m) and the underwriting loss was £7.2m (30 June 2009 profit £12.3m). The combined ratio increased to 110% (30 June 2009 83%).

Delegated Authorities
The Australian hailstorms, European windstorm Xynthia and the UK freeze had little impact on the international portfolio. Predicted rate increases have been disappointing, except for a few occupancy classes in Australia. UK and European rates continue to fall as both the appetite and capacity of European underwriters for this business remains strong. Following another quiet hurricane season, Caribbean clients are achieving rate reductions of up to 10%.

In North America, market conditions were challenging, with rates softening as domestic carriers wrote more surplus lines business, especially for non-catastrophe accounts. However, catastrophe rates remain adequate overall and retention rates for coverholders are generally in the range of 70% to 80%. Acquisition of new business remains difficult as many markets continue to reduce rates and offer broadening terms to secure business.

Facultative
Rates have continued to soften, both internationally and in the USA. With insured losses estimated at up to US$8bn, the Chilean earthquake in February is the largest event to hit the international property facultative market for a number of years. While loss information details remain limited, the Division is confident that it has an accurate estimate of the maximum loss and that the previously announced estimates of net losses of £25m to Syndicate 1084 remain unchanged. The Division is now taking advantage of improved Chilean rates. This is a large loss to the reinsurance industry and already there has been some withdrawal of regional facultative capacity.

The Division's US Direct and Facultative Team has completed transfer of the account to a Fortune 2500 focus, selectively withdrawing from other risks throughout 2009. The Team has seen less new business than expected as domestic competitors have continued to put pressure on rates. As the market softens, the Team will write less primary business and concentrate on high excess business, taking particular care with heavy industrial risks, such as mining, where capital expenditure and maintenance typically fell during the global recession.

Treaty
Significant international natural peril loss activity in the period has not dampened reinsurers' appetite for this business and capacity remains plentiful, with existing business retained with little sign of price increases outside of loss-affected territories. While international reinsurers, including Lloyd's syndicates, have been pricing more strictly to improve their underwriting return, competition with local markets keen to maintain their income is strong. Profitable new opportunities are rare and, unable to generate additional business, local market participants will go to significant lengths to maintain their share.

As forecast, catastrophe pricing in North America reduced during the period. Capacity is plentiful but the Division has been able to hold pricing in peak exposure territories where programme limit needs are higher. There have been few acceptable new business opportunities.

Per risk pricing is flat, helped by the re-pricing of some loss making business from 2009, although the Division has achieved a 5% rate increase overall by reducing underlying exposures. A commitment to reduced catastrophe exposures in this account has caused the Division to accept few new business opportunities.

The crop portfolio is static, with price increases on loss-affected contracts and downward pressure on clean programmes. The Division has been presented with many new opportunities but exposures and rates offered have not been attractive.

Chaucer Copenhagen

Europe again saw a heavy frequency of natural event catastrophes; Windstorm Xynthia caused substantial damage in France, Benelux, Germany and Spain, while flooding affected Poland in spring and Southern France in summer. The Group expect losses from these events to erode approximately one third of Chaucer Copenhagen's property treaty income. These events, combined with the loss from the Chilean earthquake, should prevent catastrophe rates from softening at the 2011 renewals.

There is evidence that pro-rata catastrophe capacity (especially for earthquake peril) is reducing, with excess of loss catastrophe capacity increasing to absorb the shortfall. Chaucer Copenhagen should benefit from this change. Excess of loss catastrophe capacity should remain stable.

Engineering

The facultative account has seen a steady improvement since the low of the global economic crisis in 2008. New opportunities and income have increased since 2009, with major infrastructure and oil and power plant developments now underway. However, rates remain flat and capacity growth unchecked, despite two significant losses in Connecticut and Qatar.

The engineering treaty account written has seen a small improvement in terms for excess of loss risks, but a small deterioration in proportional risk terms. Overall income figures are in line with expectations.

Risks written from Singapore have increased as the Asian and Australasian economies have improved. Mining and power plant construction projects and the semi conductor industries are leading the resurgence, and a number of previously deferred oil and gas projects have re-launched.

While operational power rates have remained stable in Australia, the Asian market has sought and frequently achieved rate reductions of between 5% and 20%. Overcapacity is generally the cause, but this has not prevented new capacity from entering the market.

Specialist Lines

		30 June 2010 (unaudited) £m	30 June 2009 (unaudited) £m
Gross written premiums		42.2	35.6
Gross written premiums by major class	Medical malpractice	8.0	8.8
	Financial institutions	8.8	9.9
	E&O / Direct casualty	6.4	5.0
	International treaty	13.6	11.7
	Accident and health	5.2	-
	Other	0.2	0.2
Net earned premiums		32.0	26.2
Underwriting profit before investment return		2.1	3.1
		%	**%**
Claims ratio		67	56
Expense ratio		26	32
Combined ratio		93	88

See 'Underwriting performance' for definitions of the terms used in this table

Income increased to £42.2m (30 June 2009 £35.6m), although this includes the transfer of £5.2m of accident and health premium income, written by Chaucer Copenhagen from the Property Division. Excluding this transfer, Specialist Lines income was flat overall. The underwriting profit before investment income decreased to £2.1m (30 June 2009 £3.1m). The combined ratio was 93% (30 June 2009 88%).

Opportunities within the financial institutions sector and the recruitment of new underwriting teams have led growth over the past two years. However, these drivers are now weakening as the Specialist Lines Division enters a period of consolidation. While there remains some headway for financial institutions, elsewhere rates are either static or under further downward pressure. Set against this, the underwriting strengths and diversity of the Division make it confident of being able to achieve planned income and loss ratio forecasts, and it remains well placed to take advantage of any improvement in market conditions.

Medical Malpractice
The institutional healthcare account has developed a strong market position in excess hospital liability coverage. It remains a competitive class with new business difficult to win, although the high profile of the Underwriting Team and strong relationships with brokers and clients ensure an excellent retention rate of quality accounts. The general medical malpractice account continues to perform well through continued product development and strong producer relationships.

Financial Institutions
The market has continued to strengthen in 2010, although this has attracted new competition. To reduce income volatility and exposure to large single losses, the account focuses on small and medium-sized risks for a broad range of international clients. Claims frequency has reduced considerably over the past 12 months as issues arising from financial markets turbulence have been resolved. The Team's high market profile, service quality and reputation have contributed to the high retention rate of good quality business and a strong showing of new business.

Errors and Omissions/Direct Casualty
The rating environment remains stable, although at a disappointingly low level. While waiting the market upturn the Team has focused on developing its market relationships. The development of high-quality new business has been a positive feature of the period, as core clients here sought to broaden their product offerings. This, together with retention rates ahead of forecast, has produced an increase in gross written premiums of 28% to £6.4m during first half of 2010 (30 June 2009 £5.0m).

International Treaty
This is the second full year for the Division's International Treaty Team, which through a commitment to rate integrity and relationship driven distribution channels, targets those underwriting areas that offer consistent underwriting returns. As forecast, 2010 market conditions are challenging, with little growth in primary rates and flat or decreasing reinsurance rates in our core portfolio. However, more opportunities for the Team are now emerging.

Accident and Health
The worldwide life, accident and health catastrophe account continues to run successfully. Chaucer Copenhagen has built a diversified book of international risks, actively quoting and leading an increasing number of risks within the portfolio. The account, which has been profitable since 2001, has suffered no major losses since the 2004 Indian Ocean Tsunami.

Nuclear

	30 June 2010 (unaudited) £m	**30 June 2009** (unaudited) £m
Gross written premiums	12.4	11.7
Net earned premiums	6.8	6.9
Underwriting profit before investment return	7.6	4.7
	%	**%**
Claims ratio	(21)	16
Expense ratio	9	16
Combined ratio	(12)	32

See 'Underwriting performance' for definitions of the terms used in this table

Nuclear Syndicate 1176 provides coverage across the nuclear fuel cycle, from raw uranium and nuclear fuel to the shipment and storage of waste, although most of the Syndicate's insurance exposures relate to power generation. The Syndicate also issues a limited liability policy with proven strict terms and restrictions. The Syndicate purchases excess of loss reinsurance to limit maximum exposure to a major incident to 237% of capacity.

The Syndicate, which has an underwriting capacity of £31.6m for 2010 (2009 £31.5m), saw little change in net income during the period. The loss record remained favourable, supporting broadly stable rates across the portfolio. The combined ratio of (12)% (30 June 2009 32%) benefited from an exceptional reserve release of £2.3m following the settlement of claims at less than reserve value for the Thorp reprocessing plant.

Turnkey Solutions

The Group's Turnkey Solutions service provides a practical solution for investors that want a Lloyd's syndicate but do not wish to incur the additional costs of a standalone managing agency.

Of the Group's total syndicate capacity under management of £947.7m (2009 £1,009.3m), at the end of the period some £195.9m (2009 £332.5m) was for third party capital providers on three syndicates (2009 four syndicates). This generated a total income of £2.6m from syndicate management in the period (30 June 2009 £2.6m), included within Other Operating Income of £5.1m (30 June 2009 £5.5m).

Syndicate 4242

In addition to management services, the Group provides capital to support the underwriting capacity on US property catastrophe ICM Syndicate 4242.

The Group share of the Syndicate underwriting profit was £0.3m (30 June 2009 £0.7m), reflecting low weather-related losses in the United States during the first half of 2010. The Group has an underwriting interest of £13.1m for the 2010 year of account (2009 £11.3m).

The following table provides a summary of the Group's share of the underwriting performance of Syndicate 4242.

	30 June 2010 (unaudited) £m	**30 June 2009** (unaudited) £m
Gross written premiums	4.9	5.9
Net earned premiums	1.7	1.1
Underwriting profit before investment return	0.3	0.7
	%	%
Claims ratio	29	(46)
Expense ratio	53	82
Combined ratio	82	36

See 'Underwriting performance' for definitions of the terms used in this table

Syndicate 1274

The Group has an economic interest in Syndicate 1274 through a £17m investment in Antares Holdings Limited, a Bermudian-based holding company established by industry investors to provide capital for the Syndicate. The Syndicate, which has an underwriting capacity of £200m for 2010 (2009 £165m), has completed a satisfactory six months.

Syndicate 4000

The Group provided the capital to support the 2008 and prior years of account for Syndicate 4000, which has significant exposure to potential claims arising from difficulties within the financial and professional liability markets from the credit crunch and subsequent economic turmoil.

While these are complex and slowly evolving events, which makes accurate determination of the ultimate resulting loss extremely difficult to forecast, based on all available information, the Group has booked an underwriting loss before investment return of £7m for the period (30 June 2009 loss £3.5m) for the run-off of the Syndicate's remaining exposures. The Syndicate's net IBNR provisions amounted to £73.9m at 30 June 2010 (30 June 2009 £79m), which includes significant loadings retained as a buffer against possible future best estimate reserve deterioration.

The following table provides a summary of the performance of the Syndicate for the period.

	30 June 2010 (unaudited) £m	**30 June 2009** (unaudited) £m
Gross written premiums	(0.5)	3.7
Net earned premiums	-	19.6
Underwriting loss before investment return	(7.0)	(3.5)

See 'Underwriting performance' for definitions of the terms used in this table

Responsibility statement

Each of the Directors confirm to the best of their knowledge that:

1. The condensed set of consolidated financial statements has been prepared in accordance with International Accounting Standards 34, 'Interim Financial Reporting' and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole as required by DTR 4.2.4R;

2. The interim report, includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

3. The interim report includes a fair view of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Robert Stuchbery
Chief Executive Officer
25 August 2010

Ken Curtis
Chief Finance Officer
25 August 2010

Chaucer Holdings PLC
Interim Condensed Consolidated Income Statement
For the six months ended 30 June 2010

	Notes	Six months ended 30 June 2010 (unaudited) £m	Six months ended 30 June 2009 (unaudited) £m	Year ended 31 December 2009 (audited) £m
Gross written premiums	4	493.3	491.1	796.3
Change in provision for gross unearned premiums		(122.5)	(117.4)	(27.0)
Gross earned premiums		370.8	373.7	769.3
Outward reinsurance premiums		(153.2)	(139.0)	(170.8)
Change in provision for unearned premiums – reinsurers' share		68.3	56.5	7.8
Net earned premiums	4	285.9	291.2	606.3
Net investment return	4, 5	17.7	34.6	53.3
Other operating income	4, 6	5.1	5.5	11.2
Total revenue from operations	4	308.7	331.3	670.8
Gross claims paid	14	(248.7)	(189.3)	(416.8)
Movement in gross technical provisions		(86.5)	(31.0)	(74.3)
Gross claims incurred	14	(335.2)	(220.3)	(491.1)
Reinsurers' share of gross claims paid	14	66.9	34.5	86.3
Movement in reinsurers' share of technical provisions		46.0	9.0	15.1
Reinsurers' share of claims incurred	14	112.9	43.5	101.4
Net claims incurred	4	(222.3)	(176.8)	(389.7)
Expenses incurred in insurance activities	7	(69.3)	(118.6)	(198.3)
Other operating expenses	4	(8.3)	(17.0)	(36.7)
Total operating charges		(299.9)	(312.4)	(624.7)
Profit from operations	4	8.8	18.9	46.1
Finance costs		(1.8)	(1.9)	(4.1)
Profit before tax	4	7.0	17.0	42.0
Income tax expense	8	(2.2)	(5.1)	(13.9)
Profit for the period		4.8	11.9	28.1
Earnings per share				
Basic	9	0.9p	2.7p	5.8p
Diluted	9	0.9p	2.6p	5.8p

All of the operations of the Group are continuing.

Chaucer Holdings PLC
Interim Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2010

	Notes	Six months ended 30 June 2010 (unaudited) £m	Six months ended 30 June 2009 (unaudited) £m	Year ended 31 December 2009 (audited) £m
Profit for the period	9	4.8	11.9	28.1
Other comprehensive expense				
Defined benefit pension scheme: actuarial losses for the period		(4.4)	(3.1)	(5.0)
Deferred tax credit in respect of actuarial losses		1.2	0.9	1.4
Other comprehensive expense for the period, net of tax	15	(3.2)	(2.2)	(3.6)
Total comprehensive income for the period, net of tax		1.6	9.7	24.5

Chaucer Holdings PLC
Interim Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2010

	Notes	Called up share capital £m	Own shares £m	Share premium account £m	Bonus reserve £m	Retained earnings £m	Total equity £m
At 1 January 2010		137.0	(28.3)	90.9	27.3	89.8	316.7
Total comprehensive income		-	-	-	-	1.6	1.6
Dividends paid	18	-	-	-	-	(14.5)	(14.5)
Investments in own shares		-	(0.8)	-	0.1	-	(0.7)
Share option costs		-	-	-	0.1	-	0.1
Vested shares		-	8.5	-	(14.0)	2.6	(2.9)
Cost of shares and share options exercise		-	0.2	-	-	-	0.2
Bonus costs deferred share bonus plan		-	-	-	4.2	-	4.2
At 30 June 2010 (unaudited)	13	137.0	(20.4)	90.9	17.7	79.5	304.7
At 1 January 2009		87.0	(31.5)	66.0	20.8	83.2	225.5
Total comprehensive income		-	-	-	-	9.7	9.7
Shares issued		50.0	-	24.9	-	-	74.9
Dividends paid	18	-	-	-	-	(11.8)	(11.8)
Investments in own shares		-	(0.2)	-	0.2	-	-
Share option costs		-	-	-	0.1	-	0.1
Cost of shares and share options exercise		-	0.4	-	(0.3)	-	0.1
Bonus costs deferred share bonus plan		-	-	-	3.6	-	3.6
At 30 June 2009 (unaudited)		137.0	(31.3)	90.9	24.4	81.1	302.1
At 1 January 2009		87.0	(31.5)	66.0	20.8	83.2	225.5
Total comprehensive income		-	-	-	-	24.5	24.5
Shares issued		50.0	-	24.9	-	-	74.9
Dividends paid	18	-	-	-	-	(18.6)	(18.6)
Investments in own shares		-	(0.3)	-	0.3	-	-
Share option costs		-	-	-	-	0.6	0.6
Vested shares		-	2.5	-	(2.9)	0.4	-
Cost of shares and share options exercise		-	1.0	-	(0.3)	(0.3)	0.4
Bonus costs deferred share bonus plan		-	-	-	9.4	-	9.4
At 31 December 2009 (audited)		137.0	(28.3)	90.9	27.3	89.8	316.7

Chaucer Holdings PLC
Interim Condensed Consolidated Balance Sheet
At 30 June 2010

	Notes	30 June 2010 (unaudited) £m	30 June 2009 (unaudited) £m	31 December 2009 (audited) £m
Assets				
Intangible assets		32.1	32.1	32.1
Tangible fixed assets		7.3	8.6	7.9
Reinsurers' share of technical provisions	14	476.1	378.5	340.5
Deferred income tax		16.8	36.5	17.0
Current tax		1.6	-	0.4
Deferred acquisition costs		108.6	99.3	82.3
Prepayments and accrued income		30.3	7.1	15.4
Trade and other receivables		283.2	241.8	207.0
Financial assets	10	859.6	515.9	851.8
Cash and cash equivalents	11	552.3	770.9	501.7
Total assets		2,367.9	2,090.7	2,056.1
Equity				
Share capital	12	137.0	137.0	137.0
Own shares		(20.4)	(31.3)	(28.3)
Share premium account	12	90.9	90.9	90.9
Bonus reserve		17.7	24.4	27.3
Retained earnings		79.5	81.1	89.8
Total equity	13	304.7	302.1	316.7
Liabilities				
Subordinated debt		41.8	39.3	40.3
Employee benefits provision		15.7	12.5	14.2
Technical provisions	14	1,796.4	1,562.3	1,532.3
Current tax		-	17.5	-
Accruals and deferred income		19.7	13.4	12.0
Trade and other payables		189.6	143.6	140.6
Total liabilities		2,063.2	1,788.6	1,739.4
Total equity and liabilities		2,367.9	2,090.7	2,056.1
Net asset value per ordinary share	16	58.4p	59.3p	61.7p
Net tangible asset value per ordinary share	16	52.3p	53.0p	55.5p

The financial statements were approved by the Board of Directors on 25 August 2010 and signed on its behalf by

Robert Stuchbery
Chief Executive Officer

Ken Curtis
Chief Finance Officer

Chaucer Holdings PLC
Consolidated Statement of Cash Flows
For the six months ended 30 June 2010

	Notes	Six months ended 30 June 2010 (unaudited) £m	Six months ended 30 June 2009 (unaudited) £m	Year ended 31 December 2009 (audited) £m
Operating activities				
Cash generated from/(used in) operations	17	55.9	(54.5)	54.5
Interest paid		(1.7)	(2.1)	(4.1)
Return on financial assets		34.8	3.7	23.0
Tax paid		(1.5)	(6.7)	(13.4)
Net cash flows from/(used in) operating activities		87.5	(59.6)	60.0
Investing activities				
Purchases less sales of financial assets		(24.8)	313.7	(22.8)
Purchase of tangible fixed assets		(0.4)	(0.7)	(1.1)
Net cash flows from investing activities		(25.2)	313.0	(23.9)
Financing activities				
Cash received on share option exercise		-	-	0.4
Shares issued, net of expenses		-	74.9	74.9
Dividends paid	18	(14.5)	(11.8)	(18.6)
Net cash flows from financing activities		(14.5)	63.1	56.7
Net increase in cash and cash equivalents		47.8	316.5	92.8
Cash and cash equivalents at 1 January		501.7	420.8	420.8
Effect of changes in rates of exchange		2.8	33.6	(11.9)
Cash and cash equivalents at period end		552.3	770.9	501.7

Notes to the Interim Condensed Consolidated Financial Statements
For the six months ended 30 June 2010

1. GENERAL INFORMATION

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

The financial information contained in this document in relation to the year ended 31 December 2009 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 December 2009 has been delivered to the Registrar of Companies. The auditor's report on these accounts was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

2. ACCOUNTING POLICIES

Basis of preparation
The annual financial statements of CHP have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. IFRS comprises standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The interim condensed set of consolidated financial statements included in this half-yearly financial report have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2009

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following revised and amended standard and interpretations, which are effective for periods starting on or after the date below, with no significant impact on the financial statements of the Group:

- Amendment to IAS 24 Related Party Disclosures (1 January 2011)
- Amendment to IFRS 2 Group cash settled share-based payment transactions (1 January 2010)
- Amendment to IAS 32 Classification of rights issues (1 February 2010)

In addition to the above, IFRS 9 Financial Instruments has been issued by the IASB, which is effective for periods beginning on or after 1 January 2013. The Group does not expect any significant impact on its consolidated financial statements upon adoption of this standard in the future.

Going concern
The Group has considerable financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced and stable team. The Directors believe that the Group is well positioned to manage its business risks successfully in the current uncertain economic environment.

The Directors are satisfied that the Group has sufficient resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the interim condensed set of financial statements.

Seasonality of results
The Group operates in various geographical locations and underwrites in a diverse range of underwriting classes. As a result, the Group may be exposed to a seasonal pattern in the incidence of claims. This is more evident in the risks underwritten in the North American region, where, historically, the Group's exposure to losses resulting from major windstorms has been greater during the second half of the year. Consequently, there is potential for greater volatility in the Group's returns during the second half of 2010.

3. PRINCIPAL RISKS AND UNCERTAINTIES

The risks and uncertainties affecting the Group's operations in 2010 are largely consistent with those disclosed in Notes 2 and 3 to the 2009 Consolidated financial statements. These risks are summarised as follows:

- Underwriting risk
- Reserving risk
- Credit risk
- Financial Market risk
- Operational (including legal and regulatory) risk
- Group risk
- Aggregate risk

4. SEGMENTAL INFORMATION

The CHP Board, the Chief Decision Maker, monitors the operating results of each of the divisions below for the purpose of making decisions about resource allocation and performance assessment. There has been no material change in the basis of segmentation or in the basis of measurement of segment profit or loss in the period.

Segment performance is measured differently from operating profit or loss in the consolidated financial statements, as a result of the exclusion from divisional results of the foreign exchange impact on non-monetary assets and liabilities. The exclusion is necessary in order to eliminate the volatility in the Group's results created by the imbalance in the valuation of non-monetary balance sheet items (translated at historic rates) and the translation of monetary balances at closing rates.

In addition, the divisional analysis excludes the effect of premiums and reserves relating to the reinsurance to close (RITC) of third party syndicates into Syndicate 1084 and any change in the Group's ownership of the RITC of Syndicates 1084 and 1176 following the closure of their previously open years of accounts.

Details about the divisions referred to below are as follows:

- **UK** – The Division underwrites private car, specialist vehicle including commercial vehicle, motor trade and classic vehicles, fleet and SME commercial risks.

- **Marine** – The Division underwrites an account that encompasses hull, excess of loss, liability, cargo and specie. It also underwrites political risk, war and satellite business.

- **Energy** – The Division underwrites a broad energy portfolio encompassing exploration and production, construction, liabilities, downstream and renewables. The coverage offered includes physical damage, business interruption, control of well, seepage and pollution and liabilities. The Division also writes energy insurance through the Group's offices in Singapore, Denmark and Houston.

- **Aviation** – The Division underwrites a worldwide aviation account including coverage in the following areas: aircraft (including airline), hull and liability, aircraft hull deductible, contingent hull and liability for banks and leasing companies, products liability, airport liability, non-owned aircraft liability.

  Property - The Division underwrites a worldwide direct, facultative and treaty property account, which incorporates homeowners, commercial, auto and industrial business. The Division writes this through binding authorities and on an open market basis at the Box at Lloyd's. The property treaty account comprises mainly catastrophe and per risk excess acceptances, with a small amount of proportional treaty and reinsurance assumed business. The account primarily protects indigenous writers but also contains a worldwide element. In addition, the Division includes a non-marine reinsurance book through Chaucer Underwriting A/S, based in Copenhagen, Denmark.

- **Specialist Lines** – The Division comprises financial institutions and professional indemnity, institutional healthcare, miscellaneous short tail and general casualty and claims made. The financial institutions and professional indemnity account focuses on small to medium sized institutions worldwide, with business domiciled in the United Kingdom and Europe providing 40% of forecast premium income. The Division also underwrites liability exposures for healthcare institutions.

- **Nuclear** – The Division, underwrites through Nuclear Syndicate 1176. The Syndicate provides coverage across the nuclear fuel cycle, from raw uranium and nuclear fuel to the shipment and storage of waste, although most of the Syndicate's insurance exposures relate to power generation at nuclear power stations. In addition to providing coverage for physical damage loss to civil nuclear power stations, the Syndicate provides a limited liability policy with proven strict terms and restrictions.

- **Syndicate Participations** – This represents the Group's underwriting interests in Syndicates 4000 and 4242.

The following table is used to calculate the loss ratios disclosed in the Divisional Performance section of this Report.

4. SEGMENTAL INFORMATION (CONTINUED)

Six Months Ended 30 June 2010 (unaudited)	UK £m	Marine £m	Energy £m	Aviation £m	Property £m	Specialist Lines £m	Nuclear £m	Syndicate Participations[1] £m	Run off[2] £m	Total (excluding Eliminations and Other) £m	Eliminations £m	Other[3] £m	Total £m
Adjusted gross written premiums	80.2	91.0	102.2	22.5	138.1	42.2	12.4	4.4	-	493.0	-	-	493.0
RITC	-	-	-	-	-	-	0.3	-	-	0.3	-	-	0.3
Unadjusted gross written premiums	**80.2**	**91.0**	**102.2**	**22.5**	**138.1**	**42.2**	**12.7**	**4.4**	**-**	**493.3**	**-**	**-**	**493.3**
Adjusted net earned premiums	76.0	59.5	51.0	16.8	71.1	32.0	6.8	1.7	0.1	315.0	-	(27.7)	287.3
RITC	1.1	1.6	1.4	0.4	1.1	1.7	0.6	-	-	7.9	-	-	7.9
Foreign exchange on non-monetary items	-	(1.6)	(4.2)	(0.9)	(2.3)	(0.8)	-	(0.3)	-	(10.1)	-	0.8	(9.3)
Unadjusted net earned premiums[5]	**77.1**	**59.5**	**48.2**	**16.3**	**69.9**	**32.9**	**7.4**	**1.4**	**0.1**	**312.8**	**-**	**(26.9)**	**285.9**
Net investment return	1.8	2.6	4.0	0.8	4.2	2.1	0.1	0.5	-	16.1	-	1.6	17.7
Other operating income	-	-	-	-	-	-	-	-	-	-	(9.1)	14.2	5.1
Total revenue from operations	**78.9**	**62.1**	**52.2**	**17.1**	**74.1**	**35.0**	**7.5**	**1.9**	**0.1**	**328.9**	**(9.1)**	**(11.1)**	**308.7**
Adjusted net incurred claims	(65.2)	(47.6)	(29.1)	(9.1)	(57.2)	(21.5)	1.4	(7.7)	0.1	(235.9)	-	21.5	(214.4)
RITC	(1.1)	(1.6)	(1.4)	(0.4)	(1.1)	(1.7)	(0.6)	-	-	(7.9)	-	-	(7.9)
Unadjusted net incurred claims	(66.3)	(49.2)	(30.5)	(9.5)	(58.3)	(23.2)	0.8	(7.7)	0.1	(243.8)	-	21.5	(222.3)
Adjusted net expenses incurred in insurance activities													
Acquisition costs	(14.3)	(16.5)	(20.5)	(5.0)	(19.4)	(7.3)	(0.1)	(2.9)	-	(86.0)	-	8.6	(77.4)
Other expenses	(5.0)	(1.7)	(1.5)	(0.2)	(1.7)	(1.1)	(0.5)	2.2	-	(9.5)	2.9	2.5	(4.1)
Foreign exchange on non-monetary items	-	1.6	5.9	1.0	3.1	1.1	-	0.3	-	13.0	-	(0.8)	12.2
Unadjusted net expenses incurred in insurance activities[5]	**(19.3)**	**(16.6)**	**(16.1)**	**(4.2)**	**(18.0)**	**(7.3)**	**(0.6)**	**(0.4)**	**-**	**(82.5)**	**2.9**	**10.3**	**(69.3)**
Recharges from Managing Agent[4]	(1.1)	(0.9)	(0.8)	(0.2)	(0.9)	(0.9)	(1.5)	(0.1)	-	(6.4)	6.4	-	-
Actual expenses transferred from Managing Agent	0.1	0.2	0.1	0.1	0.2	0.1	0.5	-	-	1.3	(1.3)	-	-
Other operating expenses	-	-	-	-	-	-	-	-	-	-	1.1	(9.4)	(8.3)
Total operating charges	**(86.6)**	**(66.5)**	**(47.3)**	**(13.8)**	**(77.0)**	**(31.3)**	**(0.8)**	**(8.2)**	**0.1**	**(331.4)**	**9.1**	**22.4**	**(299.9)**
Profit/(loss) from operations	**(7.7)**	**(4.4)**	**4.9**	**3.3**	**(2.9)**	**3.7**	**6.7**	**(6.3)**	**0.2**	**(2.5)**	**-**	**11.3**	**8.8**
Finance costs	-	-	-	-	-	-	-	-	-	-	-	(1.8)	(1.8)
Profit/(loss) before tax	**(7.7)**	**(4.4)**	**4.9**	**3.3**	**(2.9)**	**3.7**	**6.7**	**(6.3)**	**0.2**	**(2.5)**	**-**	**9.5**	**7.0**

4. SEGMENTAL INFORMATION (CONTINUED)

Six Months Ended 30 June 2009 (unaudited)	UK £m	Marine £m	Energy £m	Aviation £m	Property £m	Specialist Lines £m	Nuclear £m	Syndicate Participations[1] £m	Run off[2] £m	Total (excluding Eliminations and Other) £m	Eliminations £m	Other[3] £m	Total £m
Adjusted gross written premiums	82.9	99.0	94.6	21.4	136.2	35.6	11.7	9.6	-	491.0	-	-	491.0
RITC	-	-	-	-	-	-	0.1	-	-	0.1	-	-	0.1
Unadjusted gross written premiums	**82.9**	**99.0**	**94.6**	**21.4**	**136.2**	**35.6**	**11.8**	**9.6**	**-**	**491.1**	**-**	**-**	**491.1**
Adjusted net earned premiums	66.2	64.7	57.7	15.1	72.4	26.2	6.9	20.7	0.3	330.2	-	(19.5)	310.7
RITC	-	-	-	-	-	-	0.1	-	-	0.1	-	-	0.1
Foreign exchange on non-monetary items	-	(4.5)	(5.9)	(1.3)	(5.2)	(1.6)	-	(2.1)	-	(20.6)	-	1.0	(19.6)
Unadjusted net earned premiums[5]	**66.2**	**60.2**	**51.8**	**13.8**	**67.2**	**24.6**	**7.0**	**18.6**	**0.3**	**309.7**	**-**	**(18.5)**	**291.2**
Net investment return	4.3	4.1	5.7	1.3	6.5	2.9	0.2	0.6	4.1	29.7	-	4.9	34.6
Other operating income	-	-	-	-	-	-	-	-	-	-	(6.4)	11.9	5.5
Total revenue from operations	**70.5**	**64.3**	**57.5**	**15.1**	**73.7**	**27.5**	**7.2**	**19.2**	**4.4**	**339.4**	**(6.4)**	**(1.7)**	**331.3**
Adjusted net incurred claims	(53.1)	(42.8)	(20.4)	(6.9)	(32.6)	(14.7)	(1.1)	(15.3)	(0.2)	(187.1)		10.4	(176.7)
RITC	-	-	-	-	-	-	(0.1)	-	-	(0.1)	-	-	(0.1)
Unadjusted net incurred claims	**(53.1)**	**(42.8)**	**(20.4)**	**(6.9)**	**(32.6)**	**(14.7)**	**(1.2)**	**(15.3)**	**(0.2)**	**(187.2)**	**-**	**10.4**	**(176.8)**
Adjusted net expenses incurred in insurance activities													
Acquisition costs	(13.8)	(18.0)	(22.3)	(4.1)	(19.1)	(6.1)	(0.3)	(6.3)	-	(90.0)	-	5.5	(84.5)
Other expenses	(4.3)	(2.5)	(2.5)	(2.0)	(8.4)	(2.3)	(0.8)	(1.9)	0.2	(24.5)	2.7	3.7	(18.1)
Foreign exchange on non-monetary items	-	(4.2)	(4.9)	(0.9)	(4.3)	(2.1)	(0.1)	(0.7)	-	(17.2)	-	1.2	(16.0)
Unadjusted net expenses incurred in insurance activities[5]	**(18.1)**	**(24.7)**	**(29.7)**	**(7.0)**	**(31.8)**	**(10.5)**	**(1.2)**	**(8.9)**	**0.2**	**(131.7)**	**2.7**	**10.4**	**(118.6)**
Recharges from Managing Agent[4]	(0.9)	(0.5)	(0.6)	(0.1)	(0.9)	(0.2)	(0.9)	-	-	(4.1)	4.1	-	-
Actual expenses transferred from Managing Agent	0.6	0.5	0.3	0.2	0.7	0.3	0.4	-	-	3.0	(3.0)	-	-
Other operating expenses	-	-	-	-	-	-	-	-	-	-	2.6	(19.6)	(17.0)
Total operating charges	**(71.5)**	**(67.5)**	**(50.4)**	**(13.8)**	**(64.6)**	**(25.1)**	**(2.9)**	**(24.2)**	**-**	**(320.0)**	**6.4**	**1.2**	**(312.4)**
Profit/(loss) from operations	**(1.0)**	**(3.2)**	**7.1**	**1.3**	**9.1**	**2.4**	**4.3**	**(5.0)**	**4.4**	**19.4**	**-**	**(0.5)**	**18.9**
Finance costs	-	-	-	-	-	-	-	-	-	-	-	(1.9)	(1.9)
Profit/(loss) before tax	**(1.0)**	**(3.2)**	**7.1**	**1.3**	**9.1**	**2.4**	**4.3**	**(5.0)**	**4.4**	**19.4**	**-**	**(2.4)**	**17.0**

4. SEGMENTAL INFORMATION (CONTINUED)

Year ended 31 December 2009 (audited)	UK £m	Marine £m	Energy £m	Aviation £m	Property £m	Specialist Lines £m	Nuclear £m	Syndicate Participations[1] £m	Run off[2] £m	Total (excluding Eliminations and Other) £m	Eliminations £m	Other[3] £m	Total £m
Adjusted gross written premiums	158.6	152.7	150.6	42.2	183.8	72.8	15.7	18.7	0.5	795.6	0.6	-	796.2
RITC	-	-	-	-	-	-	0.1	-	-	0.1	-	-	0.1
Unadjusted gross written premiums	**158.6**	**152.7**	**150.6**	**42.2**	**183.8**	**72.8**	**15.8**	**18.7**	**0.5**	**795.7**	**0.6**	**-**	**796.3**
Adjusted net earned premiums	139.8	125.7	119.8	30.9	151.6	54.4	13.5	36.3	0.6	672.6	0.6	(43.5)	629.7
RITC	-	-	-	-	-	-	0.1	-	-	0.1	-	-	0.1
Foreign exchange on non-monetary items	-	(5.2)	(7.4)	(1.1)	(6.8)	(1.8)	-	(2.4)	-	(24.7)	-	1.2	(23.5)
Unadjusted net earned premiums[5]	**139.8**	**120.5**	**112.4**	**29.8**	**144.8**	**52.6**	**13.6**	**33.9**	**0.6**	**648.0**	**0.6**	**(42.3)**	**606.3**
Net investment return	4.8	6.5	8.9	2.1	10.4	4.6	0.4	1.1	6.9	45.7	-	7.6	53.3
Other operating income	-	-	-	-	-	-	-	-	-	-	(13.1)	24.3	11.2
Total revenue from operations	**144.6**	**127.0**	**121.3**	**31.9**	**155.2**	**57.2**	**14.0**	**35.0**	**7.5**	**693.7**	**(12.5)**	**(10.4)**	**670.8**
Adjusted net incurred claims	(116.4)	(87.9)	(61.1)	(12.0)	(69.2)	(36.9)	(2.0)	(34.0)	2.6	(416.9)	-	27.3	(389.6)
RITC	-	-	-	-	-	-	(0.1)	-	-	(0.1)	-	-	(0.1)
Unadjusted net incurred claims	**(116.4)**	**(87.9)**	**(61.1)**	**(12.0)**	**(69.2)**	**(36.9)**	**(2.1)**	**(34.0)**	**2.6**	**(417.0)**	**-**	**27.3**	**(389.7)**
Adjusted net expenses incurred in insurance activities													
Acquisition costs	(27.4)	(34.8)	(44.6)	(8.3)	(36.9)	(13.0)	(0.4)	(11.1)	-	(176.5)	-	11.8	(164.7)
Other expenses	(8.2)	(3.9)	(3.1)	(2.1)	(9.7)	(3.8)	(1.1)	(1.5)	-	(33.4)	3.9	5.7	(23.8)
Foreign exchange on non-monetary items	-	(3.0)	(2.5)	(0.9)	(1.5)	(2.0)	-	(0.6)	-	(10.5)	-	0.7	(9.8)
Unadjusted net expenses incurred in insurance activities[5]	**(35.6)**	**(41.7)**	**(50.2)**	**(11.3)**	**(48.1)**	**(18.8)**	**(1.5)**	**(13.2)**	**-**	**(220.4)**	**3.9**	**18.2**	**(198.3)**
Recharges from Managing Agent[4]	(2.0)	(1.0)	(1.1)	(0.3)	(1.5)	(0.6)	(2.2)	(0.2)	-	(8.9)	8.3	0.6	-
Actual expenses transferred from Managing Agent	1.0	0.8	0.8	0.3	1.2	0.5	0.7	-	-	5.3	(5.3)	-	-
Other operating expenses	-	-	-	-	-	-	-	-	-	-	5.6	(42.3)	(36.7)
Total operating charges	**(153.0)**	**(129.8)**	**(111.6)**	**(23.3)**	**(117.6)**	**(55.8)**	**(5.1)**	**(47.4)**	**2.6**	**(641.0)**	**12.5**	**3.8**	**(624.7)**
Profit/(loss) from operations	**(8.4)**	**(2.8)**	**9.7**	**8.6**	**37.6**	**1.4**	**8.9**	**(12.4)**	**10.1**	**52.7**	**-**	**(6.6)**	**46.1**
Finance costs	-	-	-	-	-	-	-	-	-	-	-	(4.1)	(4.1)
Profit/(loss) before tax	**(8.4)**	**(2.8)**	**9.7**	**8.6**	**37.6**	**1.4**	**8.9**	**(12.4)**	**10.1**	**52.7**	**-**	**(10.7)**	**42.0**

[1] 'Syndicate Participations' comprises the results of Chaucer's participations on Syndicates 4000 and 4242.

[2] 'Run off' comprises the results of Syndicates 1204, 1224, 1229 and 1245 that have closed into Syndicate 1084.

[3] 'Other' represents other corporate income and expense items, and the capital provision reinsurance contracts in two of Chaucer's corporate members.

[4] The elimination of net expenses incurred in insurance activities includes fees and profit commissions charged by the Managing Agent and a portion of the defined benefit pension scheme deficit from the Managing Agent to Syndicate 1084. The portion recharged represents the contributions. The recharges from Managing Agent include the profit commissions, Managing Agent fees and rent invoiced by the Managing Agent to Syndicates 1084 and 1176 during 2010 and 2009. Consolidation eliminates the Group's share of the related income and expenses. In addition, the actual expenses incurred by the Managing Agent (shown as actual expenses transferred from Managing Agent above) in managing the Syndicates are reclassified as net expenses incurred in insurance activities from other operating expenses in each division. The eliminations column removes these transactions. The Group calculates expense ratios on the net expenses incurred in insurance activities figure including the consolidation adjustments and reclassifications explained above. This is in line with previous years' practices.

[5] The unadjusted items in the divisional analysis represent the items calculated in accordance with IFRS.

5. NET INVESTMENT RETURN

	Six months ended 30 June 2010 (unaudited) £m	Six months ended 30 June 2009 (unaudited) £m	Year ended 31 December 2009 (audited) £m
Investment return by type of fund			
Funds at Lloyd's and other corporate funds	2.5	6.8	10.7
Syndicate funds	15.5	28.1	43.1
Investment expenses	(0.3)	(0.3)	(0.5)
	17.7	**34.6**	**53.3**

Net investment return is further analysed as follows:

	Six months ended 30 June 2010 (unaudited) £m	Six months ended 30 June 2009 (unaudited) £m	Year ended 31 December 2009 (audited) £m
Funds at Lloyd's and other corporate funds			
Interest income	5.2	3.7	8.5
Dividend income	0.2	0.2	0.3
Realised and unrealised gains and losses	(2.9)	2.9	1.9
	2.5	6.8	10.7
Syndicate funds			
Interest income	12.2	8.4	16.8
Dividend income	0.2	0.1	0.3
Realised and unrealised gains and losses	3.1	19.6	26.0
	15.5	28.1	43.1
Investment expenses	(0.3)	(0.3)	(0.5)
	15.2	27.8	42.6
Total investment return	**17.7**	**34.6**	**53.3**

6. OTHER OPERATING INCOME

	Six months ended 30 June 2010 (unaudited) £m	Six months ended 30 June 2009 (unaudited) £m	Year ended 31 December 2009 (audited) £m
Managing agent fees and profit commissions	4.2	3.8	8.7
Other income (including rental income and commissions earned by overseas subsidiary)	0.9	1.7	2.5
	5.1	**5.5**	**11.2**
Analysis of managing agency fees and profit commissions			
Managing Agent fees	2.3	3.3	6.7
Profit commission	1.9	0.5	2.0
	4.2	**3.8**	**8.7**
Analysis of managing agency fees and profit commissions by source of the income			
In-house syndicates (unaligned share)	1.6	1.2	2.8
Third party syndicates	2.6	2.5	5.8
Run off syndicates	-	0.1	0.1
	4.2	**3.8**	**8.7**

7. EXPENSES INCURRED IN INSURANCE ACTIVITIES

	Six months ended 30 June 2010 (unaudited) £m	Six months ended 30 June 2009 (unaudited) £m	Year ended 31 December 2009 (audited) £m
Gross acquisition costs	108.7	106.5	173.6
Change in gross deferred acquisition costs	(26.3)	(22.5)	(5.6)
	82.4	84.0	168.0
Syndicate operating expenses	10.7	13.3	26.3
Foreign exchange (gains)/losses	(19.3)	26.4	12.6
Personal expenses	4.0	3.1	5.8
Gross operating expenses	77.8	126.8	212.7
Net contribution from quota share reinsurers	(8.5)	(8.2)	(14.4)
	69.3	**118.6**	**198.3**

8. INCOME TAX EXPENSE

	Six months ended 30 June 2010 (unaudited) £m	Six months ended 30 June 2009 (unaudited) £m	Year ended 31 December 2009 (audited) £m
UK corporation tax at 28% (2009 28.0%)	0.8	19.4	9.8
Adjustment in respect of prior years	-	-	(1.6)
Current tax expense	0.8	19.4	8.2
Deferred tax expense	1.4	(14.3)	5.7
Income tax expense	**2.2**	**5.1**	**13.9**

Tax for the six month period is charged at 31.4% (six months ended 30 June 2009: 30.2%; year ended 31 December 2009: 33.1%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax income of the six month period. This is higher than the standard rate of UK corporation tax mainly due to expenses not allowable for tax purposes being incurred by the Group.

The proposed tax rate changes and capital allowance changes announced during the emergency budget on 22 June 2010 have not been substantively enacted at the balance sheet date. As such the new rates have not been reflected in the financial statements.

The UK corporation tax rate will reduce from 28% to 24%, over four years, with effect from April 2011.

9. EARNINGS PER SHARE

	Earnings £m	Number of shares Million	Earnings per share Pence
Six months ended 30 June 2010 (unaudited)			
Basic, based on net profit for period	4.8	521.3	0.9
Diluted, based on net profit for the period	4.8	553.5	0.9
Six months ended 30 June 2009 (unaudited)			
Basic, based on net profit for period	11.9	447.6	2.7
Diluted, based on net profit for the period	11.9	450.5	2.6
Year ended 31 December 2009			
Basic, based on net profit for year	28.1	480.4	5.8
Diluted, based on net profit for the year	28.1	484.7	5.8

The profit for the period for diluted earnings per share is as follows:

	Six months ended 30 June 2010 (unaudited) £m	Six months ended 30 June 2009 (unaudited) £m	Year ended 31 December 2009 (audited) £m
Net profit for the period	**4.8**	**11.9**	**28.1**

The calculation of the weighted average number of shares outstanding for basic and diluted earnings per share is as follows:

	30 June 2010 (unaudited) Million	30 June 2009 (unaudited) Million	31 December 2009 (audited) Million
Unadjusted weighted average for the period	548.1	486.2	517.4
Elimination of own shares held	(26.8)	(38.6)	(37.0)
Adjusted basic weighted average	**521.3**	**447.6**	**480.4**
Potentially dilutive shares from share options	32.2	2.9	4.3
	553.5	**450.5**	**484.7**

Total potential shares outstanding at the balance sheet date that were not dilutive, as vesting conditions with regards to price have not been met yet, but could potentially dilute earnings per share in the future, were 2.3m (30 June 2009 2.7m)

10. FINANCIAL ASSETS

	30 June 2010 (unaudited) Cost	30 June 2010 (unaudited) Fair value	30 June 2009 (unaudited) Cost	30 June 2009 (unaudited) Fair value	31 December2009 (audited) Cost	31 December2009 (audited) Fair value
	£m	£m	£m	£m	£m	£m
Funds at Lloyd's (FAL) and other corporate funds						
Equities	3.2	2.1	3.2	2.1	3.2	2.1
Bonds	232.8	229.9	137.4	136.3	225.5	216.7
Other[1]	17.0	17.0	17.0	17.0	17.0	17.0
	253.0	249.0	157.6	155.4	245.7	235.8
Syndicate participations						
Equities	4.4	2.5	4.4	2.4	4.5	2.5
Hedge funds[2]	11.2	9.3	72.1	64.7	32.5	37.5
Bonds	549.1	533.1	245.2	250.2	528.0	532.9
Overseas deposits [3]	65.7	65.7	43.2	43.2	43.1	43.1
	630.4	610.6	364.9	360.5	608.1	616.0
	883.4	**859.6**	**522.5**	**515.9**	**853.8**	**851.8**

1 In 2007, the Group invested £15m for a 13.7% shareholding of Antares Holdings Limited (Antares), a Bermudian based holding company established by Lightyear Capital LLC, a private equity firm focused on financial services investments. In November 2007, Antares issued the Group with an additional £2m shares in exchange for the provision of managing agency services in 2008 and 2009. Antares sponsors Antares Syndicate 1274, which began underwriting for the 2008 year of account with an underwriting capacity of £135m. Chaucer Syndicates Limited, a Group company, managed the Syndicate until 31 December 2009. At 30 June 2010, the investment in Antares remained unlisted on an active market. Accordingly, the Group has valued it by reference to the Group's share of net assets and future income discounted at an appropriate rate of return.

2 At 30 June 2010, hedge funds with a total value of £9.3m (30 June 2009 £64.7m) remained unlisted on an active market. In accordance with stated accounting policies, the Group valued these based on net asset values provided by independent third party fund administrators, by reference to listed securities of a similar nature or by using pricing models which are reviewed and approved by an independent pricing specialist (as applicable).

3 Overseas deposits represent monies kept in overseas funds managed by Lloyd's. The funds are required in order to protect policyholders in overseas markets and enable the Group to operate in those markets. The access to those funds is restricted and the Group cannot influence the investment strategy.

11. CASH AND CASH EQUIVALENTS

	30 June 2010 (unaudited) £m	30 June 2009 (unaudited) £m	31 December 2009 (audited) £m
Funds at Lloyd's	104.9	220.8	87.9
Other funds			
Corporate	41.7	24.1	55.3
Syndicate	405.7	526.0	358.5
	552.3	**770.9**	**501.7**

The balances above represent cash.

The Group deposits Funds at Lloyd's to support underwriting operations, based on the assessment of risk associated with those operations. Lloyd's restricts access to those funds, preventing their use for any other purpose.

12. SHARE CAPITAL

	30 June 2010 (unaudited)		30 June 2009 (unaudited)		31 December2009 (audited)	
	Shares Million	**Value £m**	**Shares Million**	**Value £m**	**Shares Million**	**Value £m**
Authorised						
Ordinary shares of 25p each	700.0	175.0	700.0	175.0	700.0	175.0
Called up, allotted and fully paid						
Ordinary shares of 25p each	548.1	137.0	548.1	137.0	548.1	137.0

The number of 25p ordinary shares called up, allotted and fully paid were:

	Number	Ordinary share capital £m	Share premium £m
At 1 January 2010	548,091,645	137.0	90.9
At 30 June 2010 (unaudited)	**548,091,645**	**137.0**	**90.9**
At 30 June 2009 (unaudited)	**548,091,645**	**137.0**	**90.9**
At 31 December 2009 (audited)	**548,091,645**	**137.0**	**90.9**

13. MOVEMENTS IN EQUITY

Share capital and share premium reflect the nominal value and premium elements of any issue of equity shares.

The own shares represent the shares held by employee trust schemes, of which the sole purpose is to hold shares of the Company for settlement of share awards. The number of shares held by the trust schemes for the six months ended 30 June 2010 was 26,524,742 (30 June 2009 38,444,690).

The bonus reserve contains the element of the bonus that is payable in shares or share options to senior members of staff in accordance with the terms of the deferred share benefit plan. The reserve mainly increases with the charge for the period for those elements and decreases when the shares or share options vest.

The reserve also contains an element of shares granted to employees in accordance with the terms of the Share Incentive Plan (SIP). The SIP represents an incentive of two free shares granted to employees who decided to buy one share. The movement in the period for SIP costs represents the cost of granting free shares to employees that purchase shares.

The cost of shares and share options exercise represents the cost of the granted shares when employees exercise share options, less both the exercise price and the fair value of the share options previously expensed in accordance with IFRS 2 Share-based Payment.

Retained earnings represent the accumulation of profits and losses up to the balance sheet date, after the distribution of dividends and other adjustments. The balance includes £29.2m (30 June 2009 £22.8m) of accumulated actuarial losses resulting from the valuation of the pension scheme liability. Retained earnings can be distributed up to the level of realised retained earnings of the parent company (30 June 2010 £59.8m; 30 June 2009 £26.0m).

14. TECHNICAL PROVISIONS

	Provision for unearned premiums £m	Outstanding claims £m	Total £m
Gross			
At 1 January 2010	363.6	1,168.7	1,532.3
Claims paid in the period	-	(248.7)	(248.7)
Net movement in the period	122.5	335.2	457.7
Exchange and other adjustments	0.1	55.0	55.1
At 30 June 2010	**486.2**	**1,310.2**	**1,796.4**
At 1 January 2009	336.2	1,172.7	1,508.9
Claims paid in the period	-	(189.3)	(189.3)
Net movement in the period	117.4	220.3	337.7
Exchange and other adjustments	2.6	(97.6)	(95.0)
At 30 June 2009	**456.2**	**1,106.1**	**1,562.3**
At 1 January 2009	336.2	1,172.7	1,508.9
Claims paid in the year	-	(416.8)	(416.8)
Net movement in the year	27.0	491.1	518.1
Exchange and other adjustments	0.4	(78.3)	(77.9)
At 31 December 2009	**363.6**	**1,168.7**	**1,532.3**
Reinsurance			
At 1 January 2010	47.7	292.8	340.5
Reinsurance recoveries in the period	-	(66.9)	(66.9)
Net movement in the period	68.3	112.9	181.2
Exchange and other adjustments	(0.1)	21.4	21.3
At 30 June 2010	**115.9**	**360.2**	**476.1**
At 1 January 2009	39.9	299.8	339.7
Reinsurance recoveries in the period	-	(34.5)	(34.5)
Net movement in the period	56.5	43.5	100.0
Exchange and other adjustments	(0.2)	(26.5)	(26.7)
At 30 June 2009	**96.2**	**282.3**	**378.5**
At 1 January 2009	39.9	299.8	339.7
Reinsurance recoveries in the year	-	(86.3)	(86.3)
Net movement in the year	7.8	101.4	109.2
Exchange and other adjustments	-	(22.1)	(22.1)
At 31 December 2009	**47.7**	**292.8**	**340.5**
Net at 30 June 2010 (unaudited)	**370.3**	**950.0**	**1,320.3**
Net at 30 June 2009 (unaudited)	**360.0**	**823.8**	**1,183.8**
Net at 31 December 2009 (audited)	**315.9**	**875.9**	**1,191.8**

14. **TECHNICAL PROVISIONS (continued)**

2010 Events

Included within the technical provisions as at 30 June 2010 are reserves for:

- The earthquake in Chile in February 2010
- The sinking of the Deepwater Horizon oil rig in April 2010
- The riots in Bangkok in May 2010

Syndicate 1084 has exposures to the losses above, as summarised below:

	Syndicate 1084 £m
Estimated ultimate gross loss	
Chile earthquake	27.0
Deepwater Horizon	56.9
Bangkok riots	26.7
	110.6
Estimated ultimate net loss (after reinstatement premiums and reinsurance)	
Chile earthquake	21.3
Deepwater Horizon	16.3
Bangkok riots	12.7
	50.3
Group share of estimated ultimate net loss (after reinstatement premiums and reinsurance)	
Chile earthquake	18.4
Deepwater Horizon	14.1
Bangkok riots	10.7
	43.2

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

Events reported in prior periods

- Maddoff, subprime losses, financial turmoil reserves and Political Trade Credit Account - the claims activity during the period has been consistent with expectations. The level of uncertainty surrounding these losses remained significant, as the Group's reserves reflect.

- Hurricanes Ike and Katrina - the level of claims has been consistent with expectations. The level of uncertainty has decreased and the Group's reserves have been reduced accordingly.

15. EMPLOYEE BENEFIT PROVISION

The Group updated its estimate of the deficit in the defined pension scheme that Chaucer Syndicates Limited, a Group's subsidiary, operates. The result was a net deterioration of £3.2m in the period, which was due to overall unfavourable financial market conditions affecting the returns of the scheme's assets and amendment to the rates used to discount the scheme's liabilities.

The net deterioration above includes a £2.9m reduction of the deficit resulting from a 5% annual cap introduced on expected pensionable salary growth. The movement is presented as a reduction of the Other Operating Expenses in the interim condensed consolidated income statement.

16. NET ASSET VALUE PER ORDINARY SHARE

The Group has calculated the net asset and net tangible asset values per ordinary share on the equity balance and equity less intangible assets balance respectively, divided by the number of ordinary shares in issue at the period end, adjusted by own shares held, as shown below:

	Six months ended 30 June 2010 (unaudited)	Six months ended 30 June 2009 (unaudited)	Year ended 31 December 2009 (audited)
Equity funds	£304.7m	£302.1m	£316.7m
Number of adjusted shares	521.6m	509.7m	513.0m
Net asset value per ordinary share	**58.4p**	**59.3p**	**61.7p**
Equity funds less intangible assets	£272.6m	£270.0m	£284.6m
Number of adjusted shares	521.6m	509.7m	513.0m
Net tangible asset value per ordinary share	**52.3p**	**53.0p**	**55.5p**
Number of shares in issue	548.1m	548.1m	548.1m
Less own shares held	(26.5)m	(38.4)m	(35.1)m
Number of adjusted shares	**521.6m**	**509.7m**	**513.0m**

17. RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	Six months ended 30 June 2010 (unaudited) £m	Six months ended 30 June 2009 (unaudited) £m	Year ended 31 December 2009 (audited) £m
Profit before tax	7.0	17.0	42.0
Net investment return less finance costs	(15.9)	(32.7)	(49.2)
Depreciation of tangible fixed assets	1.0	0.7	1.9
Deferred share bonus plan provision	2.1	3.6	9.4
Increase in technical provisions	264.1	53.9	23.4
Increase in reinsurers' share of technical provisions	(135.6)	(38.8)	(0.8)
(Increase)/decrease in trade and other receivables	(76.2)	17.3	52.1
Increase/(decrease) in trade and other payables	46.9	(10.4)	(13.4)
Increase/(decrease) in accruals and deferred income	7.8	0.7	(0.7)
Increase in deferred acquisition costs	(26.3)	(22.8)	(5.8)
Increase in prepayments and accrued income	(14.9)	(3.6)	(11.9)
Decrease in employee benefits provision	(2.9)	-	(0.2)
Unrealised foreign exchange on cash and cash equivalents	(2.8)	(33.6)	11.9
Unrealised foreign exchange on subordinated debt	1.6	(5.8)	(4.8)
Share options cost	-	-	0.6
Cash generated from operations	**55.9**	**(54.5)**	**54.5**

18. DIVIDENDS

	Six months ended 30 June 2010 (unaudited) £m	Six months ended 30 June 2009 (unaudited) £m	Year ended 31 December 2009 (audited) £m
Final dividend for the period ended			
31 December 2009: 2.7p per ordinary share, paid on 28 May 2010	14.5	-	-
Interim dividends for the period ended			
31 December 2009: 1.3p per ordinary share, paid on 1 October 2009	-	-	6.8
31 December 2008: 3.7p per ordinary share, paid on 13 March 2009	-	11.8	11.8
	14.5	**11.8**	**18.6**

The Group has announced an interim dividend in respect of the 2010 financial year of 1.3p per share, amounting to a total of £7m, for payment on 1 October 2010. These interim statements do not include a provision for this dividend.

19. CAPITAL

The Group holds corporate members capital as Funds at Lloyd's (FAL) to support the Group's underwriting interests. The FAL requirements are determined through Lloyd's implementation of the FSA's Individual Capital Assessment (ICA) regulatory regime.

Each managed syndicate is required to produce an ICA that represents the managing agent's view of the level of capital required by the Syndicate at the 99.5% confidence level to meet all its liabilities over a one year time frame. The ICA considers all existing liabilities, plus those incurred by one year of new business; as such, it encompasses the volatility of future underwriting results, potential reserve deteriorations on prior years and other risks such as financial market volatility, credit risk and operational risk. ICAs are reviewed annually by Lloyd's, although the managing agent is required to monitor continually the risk profiles of its managed syndicates to ensure that the current agreed ICAs are appropriate.

For each syndicate, the ICA is uplifted by 35% to determine its Economic Capital Assessment (ECA). Lloyd's then uses this to determine an ECA for each corporate member, taking account of the corresponding underwriting interests in each syndicate. The final ECA for each corporate member is subject to a minimum of 40% of the corporate member's agreed premium capacity. Corporate members are required to hold sufficient FAL to cover both the ECA and any share of solvency deficits on open years of account. The Group's corporate members complied with these requirements to 30 June 2010.

The Group's total underwriting interests are £623.3m for 2010 (2009 £580.0m), with regulatory capital requirements of £321.1m or 45.5% (2009 48.1%), against a Lloyd's minimum of 40.0%. The Group deposits the capital as FAL. The table below shows the FAL composition for 2010.

	Year of account	
	2010	**2009**
	£m	**£m**
Chaucer underwriting interests	623.3	580.0
Reinsurance arrangement	82.1	50.6
Overall premium limit	**705.4**	**630.6**
FAL ratio (average)	45.5%	48.1%
FAL requirement	321.1	303.2
Funding of open year of account losses	93.6	149.0
Total FAL requirement	**414.7**	**452.2**
FAL requirement satisfied by:		
Investments	232.0	243.2
Personal reserves	104.9	115.8
Letters of credit:		
Group economic interest	51.0	56.0
Capital provision reinsurer	55.9	35.6
	443.8	**450.6**

The Group's solvency capital comprises a mix of bonds, cash and deposits and a £51m letter of credit (LOC) provided by Lloyds TSB Bank plc. At 30 June 2010, the Group had collateralised £35m of the LOC (31 December 2009 £5m). The Group has a reinsurance agreement in place with Flagstone Re, which represents £82.1m (2009 £50.6m) of Group underwriting interests for 2010. Funds at Lloyd's include a US$60.4m (2009 US$28.8m) LOC from Flagstone Re to support this.

At 30 June 2010, within the total cash, investments and LOC in FAL, the group held £350.2m to support the current year of account, which represents a solvency surplus of £29.1m over the requirements of £321.1m. The total of net tangible assets and subordinated debt held by the Group at 30 June represents 150% of ICA requirements of the Group underwriting interests for 2010. The total of net tangible assets, subordinated debt and Group economic interest LOC at 30 June represents 129% of ECA requirements for the Group underwriting interests.

In light of Solvency II expectations and continued regulatory pressures, the Group expects solvency capital requirements to increase for 2011. The Group will fund the increase from a mix of internal funds, LOC and reinsurance arrangements.

INDEPENDENT REVIEW REPORT TO CHAUCER HOLDINGS PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the Interim Condensed Consolidated Income Statement, Interim Condensed Consolidated Statement of Comprehensive Income, Interim Condensed Consolidated Statement of Changes of Equity, Interim Condensed Consolidated Balance Sheet, Interim Condensed Consolidated Statement of Cash Flows and the related notes 1 to 19. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom (ISRE 2410). To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with ISRE 2410. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP
London
25 August 2010

FINANCIAL CALENDAR

Interim management statement for the quarter ended 30 September 2010		19 November 2010
Announcement of results for the year ending 31 December 2010		7 March 2011

Dividends

2010 interim dividend for the six months ended 30 June 2010	Ex–dividend	8 September 2010
	Record date	10 September 2010
	Payable	1 October 2010
Annual General Meeting		19 May 2011

We provide a number of shareholder services on our website, including an extensive FAQ section. We welcome queries from current and potential shareholders, via either email at investor.relations@chaucerplc.com or our Company Secretarial Team on 020 7397 9700.

For enquiries regarding share registration you may wish to contact our Registrar, Equiniti Limited, on 0871 384 2079. (Calls to this number are charged at 8p per minute from a BT landline. Other telephone provider costs may vary).

Directors

Martin Gilbert, Chairman
Richard Scholes, Non-executive Director
Bob Deutsch, Non-executive Director
Robert Stuchbery, Chief Executive Officer
Bruce Bartell, Chief Underwriting Officer
Kenneth Curtis, Chief Finance Officer

Registered office

Plantation Place
30 Fenchurch Street
London
EC3M 3AD

Advisers

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Stockbrokers
Numis Securities Limited
Cheapside House
138 Cheapside
London EC2V 6LH

Principal bankers
Lloyds TSB Bank plc
25 Gresham Street
London EC2V 7HN

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

GLOSSARY OF TERMS

Acquisition costs	These represent the costs of obtaining the insurance business: they include the broker's commission, the company's sales expense, and other related expenses
Capacity	The maximum amount of business which may be accepted by a syndicate or a corporate member on a syndicate, expressed in terms of gross premium income net of commission
Claims ratio	Net incurred claims as a percentage of net earned premiums
Claims incurred	All claims payments and the adjustment in the outstanding claims provision of a business year and claim adjustment expenses
Combined ratio	The sum of the claims ratio and the expense ratio
Corporate member	A company incorporated with limited liability admitted to membership of Lloyd's
Expense ratio	Net expenses incurred in insurance activities as a percentage of net earned premiums
Exposure	The maximum value of claims made on an insurer from an event or events that would result in the total exhaustion of the cover or indemnity offered by an insurance policy
Funds at Lloyd's (FAL)	Funds lodged and held in trust at Lloyd's as security for the policyholders and to support a corporate member's overall underwriting activities. The funds must be in a form approved by Lloyd's and be maintained in value
IBNR	Provision for claims Incurred But Not Reported by the balance sheet date. A term used for claims arising from accidents or events that have occurred, but have not been notified to the insurer
Integrated Lloyd's Vehicle	A company which owns or controls dedicated vehicles supporting one or more continuous syndicates and the managing agent
Managing Agent	An agent that runs the affairs of a syndicate
Retention	Amount of risk which the policyholder or insurer does not insure or reinsure but keeps for its own account
Return on equity	Profit after tax as a percentage of opening shareholders' equity for each period adjusted for share capital issues
RITC	Reinsurance to close. This is the premium paid by the members of the closing year of account of the Syndicate to the members of the year of account that assumes these liabilities
Solvency II	The set of regulatory requirements for insurance firms that operate in the European Union.
Syndicate	A group of members underwriting insurance at Lloyd's through the agency of a managing agent, to whom a particular syndicate number is assigned