NAVIGATORS GROUP INC
Form 10-K
February 18, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________.
Commission file no. 0-15886
THE NAVIGATORS GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	**13-3138397**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6 International Drive, Rye Brook, New York	**10573**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (914) 934-8999
Securities registered pursuant to section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, $.10 Par Value	**The NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of voting stock held by non-affiliates as of June 30, 2010 was $503,150,035

The number of common shares outstanding as of February 4, 2011 was 15,747,011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s 2011 Proxy Statement are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14 of this Form 10-K.

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NOTE ON FORWARD-LOOKING STATEMENTS

Some of the statements in this Annual Report on Form 10-K are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in or incorporated by reference in this Annual Report are forward-looking statements. Whenever used in this report, the words estimate , expect , believe , may , will , intend , continue or similar expressions or their negative are identify such forward-looking statements. Forward-looking statements are derived from information that we currently have and assumptions that we make. We cannot assure that anticipated results will be achieved, since actual results may differ materially because of both known and unknown risks and uncertainties which we face. Factors that could cause actual results to differ materially from our forward-looking statements include, but are not limited to, the factors described in Part I, Item 1A, Risk Factors of this report. In light of these risks, uncertainties and assumptions, any forward-looking events discussed in this report may not occur. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of their respective dates. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

The discussion and analysis of our financial condition and results of operations contained herein should be read in conjunction with our Consolidated Financial Statements and accompanying notes which appear elsewhere in this report. They contain forward-looking statements that involve risks and uncertainties. Please see the above Note on Forward-Looking Statements for more information. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed above and elsewhere in this report.

PART I

Item 1. Business

Overview

The accompanying Consolidated Financial Statements, consisting of the accounts of The Navigators Group, Inc., a Delaware holding company established in 1982, and its wholly-owned subsidiaries, are prepared on the basis of U.S. generally accepted accounting principles (GAAP or U.S. GAAP). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting periods along with related disclosures. The terms we , us , our and the Company as used herein are used to mean The Navigators Gro Inc. and its wholly-owned subsidiaries, unless the context otherwise requires. The terms Parent or Parent Company as used herein are used to mean The Navigators Group, Inc. without its subsidiaries.

We are an international insurance company focusing on specialty products within the overall property/casualty insurance market. Our largest product line and most long-standing area of specialization is ocean marine insurance. We have also developed specialty niches in professional liability insurance as well as other specialty insurance lines such as commercial primary and excess liability.

Our revenue is primarily comprised of premiums and investment income. We derive our premiums primarily from business written by wholly-owned underwriting management companies which produce, manage and underwrite insurance and reinsurance for us. Our products are distributed through multiple channels, utilizing global, national and regional retail and wholesale insurance brokers.

We conduct operations through our Insurance Companies and our Lloyd s Operations segments. The Insurance Companies segment consists of Navigators Insurance Company, which includes a United Kingdom Branch (the U.K. Branch), and Navigators Specialty Insurance Company, which underwrites specialty and professional liability insurance on an excess and surplus lines basis. All of the insurance business written by Navigators Specialty Insurance Company is fully reinsured by Navigators Insurance Company pursuant to a 100% quota share reinsurance agreement.

Our Lloyd s Operations segment includes Navigators Underwriting Agency Ltd. (NUAL), a Lloyd s of London (Lloyd s) underwriting agency which manages Lloyd s Syndicate 1221 (Syndicate 1221). Our Lloyd s Operatio primarily underwrite marine and related lines of business along with offshore energy, professional liability insurance and construction coverages for onshore energy business at Lloyd s through Syndicate 1221. We controlled 100% of Syndicate 1221 s stamp capacity for the 2010, 2009 and 2008 underwriting years through our wholly-owned subsidiary, Navigators Corporate Underwriters Ltd. which is referred to as a corporate name in the Lloyd s market. We have also established underwriting agencies in Antwerp, Belgium, Stockholm, Sweden and Copenhagen, Denmark, which underwrite risks pursuant to binding authorities with NUAL into Syndicate 1221. We have also established a presence in Brazil and China through contractual arrangements with local affiliates of Lloyd s. For financial information by segment, see Note 3 to the Consolidated Financial Statements in Item 8 of this report.

During the 2008 second quarter, we closed two small underwriting agencies in Manchester and Basingstoke, England, which did not have a material effect on our financial condition or results of operations.

While management takes into consideration a wide range of factors in planning our business strategy and evaluating results of operations, there are certain factors that management believes are fundamental to understanding how we are managed. First, underwriting profit is consistently emphasized as a primary goal, above premium growth. Management s assessment of our trends and potential growth in underwriting profit is the dominant factor in its decisions with respect to whether or not to expand a business line, enter into a new niche, product or territory or, conversely, to contract capacity in any business line. In addition, management focuses on controlling the costs of our operations. Management believes that careful monitoring of the costs of existing operations and assessment of costs of potential growth opportunities are important to our profitability. Access to capital also has a significant impact on management s outlook for our operations. The Insurance Companies operations and ability to grow their business and take advantage of market opportunities are constrained by regulatory capital requirements and rating agency assessments of capital adequacy. Similarly, the ability to grow our operations at Lloyd s is subject to Lloyd s capital and operating requirements.

Management s decisions are also greatly influenced by access to specialized underwriting and claims expertise in our lines of business. We have chosen to operate in specialty niches with certain common characteristics which we believe provide us with the opportunity to use our technical underwriting expertise in order to realize underwriting profit. As a result, we have focused on underserved markets for businesses characterized by higher severity and lower frequency of loss where we believe our intellectual capital and financial strength bring meaningful value. In contrast, we have avoided niches that we believe have a high frequency of loss activity and/or are subject to a high level of regulatory requirements, such as workers compensation and personal automobile insurance, because we do not believe our technical underwriting expertise is of as much value in these types of businesses. Examples of niches that have the characteristics we look for include bluewater hull which provides coverage for physical damage to, for example, highly valued cruise ships, and directors and officers liability insurance (D&O) which covers litigation exposure of a corporation s directors and officers. These types of exposures require substantial technical expertise. We attempt to mitigate the financial impact of severe claims on our results by conservative and detailed underwriting, prudent use of reinsurance and a balanced portfolio of risks.

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Business Lines

Marine

A summary of our business line divisions and primary products within those divisions, by operating segment, is as follows:

Marine Insurance Companies	Marine and energy liability Bluewater hull Brownwater hull Cargo Specie Protection & indemnity Transport War Customs bonds
Inland Marine Insurance Companies	Transportation Construction Specialty Commercial output policy
Marine Lloyd s Operations	Cargo and specie Marine liability Bluewater hull Marine excess-of-loss reinsurance War

Within the Insurance Companies marine business, there are a number of different product lines. The largest is marine liability, which protects businesses from liability to third parties for bodily injury or property damage stemming from their marine-related operations, such as terminals, marinas and stevedoring. Another significant product line is bluewater hull, which provides coverage to the owners of ocean-going vessels against physical damage to the vessels. We also underwrite insurance for harbor craft and other small craft such as fishing vessels, providing physical damage and third party liability coverage. We underwrite cargo insurance, which provides coverage for physical damage to goods in the course of transit, whether by water, air or land. Our U.K. Branch also underwrites primary marine protection and indemnity (P&I) business, which complements our marine liability business, which is generally written above the primary layer on an excess basis. We began to insure customs bonds in 2005. In 2006, we established an Inland Marine division of Navigators Insurance Company focusing on traditional inland marine insurance products including builders risk, contractors tools and equipment, fine arts, computer equipment and motor truck cargo. Navigators Management Company, Inc., a wholly-owned underwriting agent, writes marine business for Navigators Insurance Company from offices located in major insurance or port locations in Chicago, Houston, Miami, New York, San Francisco and Seattle. Navigators Management (UK) Ltd., another wholly-owned underwriting agent, writes marine business in London for the U.K. Branch.

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Prior to the 2006 underwriting year, Navigators Insurance Company obtained marine business through participation with other unaffiliated insurers in a marine insurance pool managed by our wholly-owned underwriting management subsidiaries. Commencing with the 2006 underwriting year, the marine insurance pool was eliminated and, therefore, all of the marine business generated by our underwriting agencies was exclusively for Navigators Insurance Company. The largest product line within our Lloyd s Operations marine business is currently cargo. Other significant product lines include marine liability, specie, bluewater hull, and assumed reinsurance of other marine insurers on an excess-of-loss basis.

Property Casualty

A summary of our business line divisions and primary products within those divisions, by operating segment, is as follows. All of the Insurance Companies business line divisions are divisions of Navigators Management Company, Inc.:

Property and Casualty Insurance Companies	Life sciences Exporters package liability
Primary Casualty Insurance Companies	General liability Environmental liability
Excess Casualty Insurance Companies	Umbrella & excess (wholesale brokerage) Umbrella & excess (retail agency)
Navigators Technical Risk (NavTech) Insurance Companies	Offshore energy Onshore energy Operational engineering Construction
Navigators Re (NavRe)	Accident and health reinsurance Latin America property reinsurance Agriculture
Casualty Lloyd s Operations	Bloodstock U.S. Casualty written through Lloyd s
Navigators Technical Risk (NavTech) Lloyd s Operations	Offshore energy Onshore energy Engineering and construction

On January 14, 2011, we announced that we entered into a transaction for the sale of the renewal rights for our middle market commercial package and commercial automobile businesses underwritten through our NAV PAC division. We determined that we would not achieve sufficient scale to become profitable in our middle market commercial package and auto business due to the current soft market conditions. This transaction did not include our life sciences and exporters package liability products. During 2010, NAV PAC wrote gross written premiums of $39.3 million, of which approximately $33 million was included in the transaction.

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The Primary Casualty division primarily writes general liability insurance focusing on small general and artisan contractors and other targeted commercial risks. We have developed underwriting and claims expertise that we believe has allowed us to minimize our exposure to many of the large losses sustained in the past several years by other insurers, including losses stemming from coverages provided to larger contractors who work on condominiums, cooperative developments and other large housing developments. Consistent with our approach of emphasizing underwriting profit over market share, we direct our capacity to small to medium-size general contractors as well as artisan contractors. Commencing in 2005, we expanded our product line in this area by writing a limited number of construction wrap-up policies that are general liability policies for owners and developers of residential construction projects. In 2008, the Primary Casualty division diversified its industry focus and product capability to include products liability insurance to life sciences firms as well as environmental coverages, including liability insurance for contractors and environmental consultants and site pollution coverage.

The Excess Casualty division provides commercial umbrella and excess casualty insurance coverage. Areas of specialty include manufacturing and wholesale distribution, commercial construction, residential construction, construction project and wrap-up covers, business services, hospitality and real estate and niche programs.

In 2009, we reorganized our offshore energy, onshore energy, engineering and construction businesses under our NavTech division, which primarily underwrites through our Lloyd s Operations. Our engineering and construction business consists of coverage for construction projects including damage to machinery and equipment and loss of use due to delays. Our onshore and offshore energy insurance principally focuses on the oil and gas, chemical and petrochemical industries, with coverages primarily for property damage and business interruption. In 2010, our NavTech division established an underwriting presence in Brazil through an affiliate of Lloyd s.

The European property business, written by the Lloyd s Operations and the U.K. Branch beginning in 2006, was discontinued during the 2008 second quarter, which did not have any significant effect on our financial condition or results of operations.

In the fourth quarter of 2010 we established Navigators Re, a division focused on specialty assumed reinsurance business. The specialty products on which the unit is currently focused are proportional and excess-of-loss treaty reinsurance covering medical health care exposures, property treaty exposures in Central and South America and the Caribbean, and U.S. Agriculture exposures. We had established our Agriculture reinsurance line in 2009 under the Property and Casualty segment, but reclassified the line under the Navigators Re division in the fourth quarter of 2010.

Professional Liability

A summary of our business line divisions and products within those divisions, by operating segment, is as follows:

Navigators Professional Liability (Navigators Pro) Insurance Companies	Directors & officers liability Employment practices liability Fiduciary liability Crime liability Accountants professional liability Lawyers professional liability Insurance agent errors & omissions Miscellaneous professional liability Technology & media liability Design professionals liability
Navigators Professional Liability (Navigators Pro) Lloyd s Operations	Directors & officers liability Lawyers professional liability

Navigators Pro, a division of one of our wholly-owned insurance agencies, writes professional liability insurance. Our principal product in this division is directors and officers liability insurance we offer for both privately held and publicly traded corporations listed on national exchanges. In addition, we provide fiduciary liability and crime insurance to our directors and officers liability insurance clients.

Navigators Pro writes employment practices liability, lawyers professional liability and miscellaneous professional liability coverages. Our current target market for lawyers professional liability is smaller law firms. In 2005, we commenced writing professional liability coverages for architects and engineers in our Insurance Companies and international directors and officers liability business in our Lloyd s Operations.

In September 2008, Syndicate 1221 began to underwrite professional and general liability insurance coverage in China through the Navigators Underwriting Division of Lloyd s Reinsurance Company (China) Ltd.

In July 2008 and October 2009, we opened underwriting offices in Stockholm, Sweden and Copenhagen, Denmark, respectively, to write professional and management liability business.

Ratings

Our ability to underwrite business is dependent upon the financial strength of the Insurance Companies and Lloyd s. Financial strength ratings represent the opinions of the rating agencies on the financial strength of a company and its capacity to meet the obligations of insurance policies. Independent ratings are one of the important factors that establish our competitive position in the insurance markets. The rating agencies consider many factors in determining the financial strength rating of an insurance company, including the relative level of statutory surplus necessary to support the business operations of the company. These ratings are based upon factors relevant to policyholders, agents and intermediaries and are not directed toward the protection of investors. Such ratings are not recommendations to buy, sell or hold securities. We could be adversely impacted by a downgrade in the Insurance Companies or Lloyd s financial strength ratings, including a possible reduction in demand for our products, higher borrowing costs and our ability to access the capital markets.

For the Insurance Companies, Navigators Insurance Company and Navigators Specialty Insurance Company utilize the financial strength ratings from A.M. Best Company (A.M. Best) and Standard and Poor s Rating Services (S&P) for underwriting purposes. Navigators Insurance Company and Navigators Specialty Insurance Company are both rated A (Excellent stable outlook) by A.M. Best and A (Strong stable outlook) by S&P. Syndicate 1221 utilizes the ratings from A.M. Best and S&P for underwriting purposes which apply to all Lloyd s syndicates. Lloyd s is rated A (Excellent stable outlook) by A.M. Best and A+ (Strong stable outlook) by S&P.

Debt ratings apply to short-term and long-term debt as well as preferred stock. These ratings are assessments of the likelihood that we will make timely payments of the principal and interest for our senior debt. It is possible that, in the future, one or more of the rating agencies may reduce our existing debt ratings. If one or more of our debt ratings were downgraded, we could incur higher borrowing costs and our ability to access the capital markets could be impacted.

We utilize the senior debt ratings from S&P. Our senior debt is rated BBB (Adequate stable outlook) by S&P.

Loss Reserves

We maintain reserves for unpaid losses and unpaid loss adjustment expenses for all lines of business. Loss reserves consist of both reserves for reported claims, known as case reserves, and reserves for losses that have occurred but have not yet been reported, known as incurred but not reported losses (IBNR). Case reserves are established when notice of a claim is first received. Reserves for such reported claims are established on a case-by-case basis by evaluating several factors, including the type of risk involved, knowledge of the circumstances surrounding such claim, severity of injury or damage, the potential for ultimate exposure, experience with the insured and the broker on the line of business, and the policy provisions relating to the type of claim. Reserves for IBNR are determined in part on the basis of statistical information and in part on the basis of industry experience. To the extent that reserves are deficient or redundant, the amount of such deficiency or redundancy is treated as a charge or credit to earnings in the period in which the deficiency or redundancy is identified. These reserves are intended to cover the probable ultimate cost of settling all losses incurred and unpaid, including those incurred but not reported. The determination of reserves for losses and loss adjustment expenses (LAE) is dependent upon the receipt of information from insureds, brokers and agents.

Generally, there is a lag between the time premiums are written and related losses and loss adjustment expenses are incurred, and the time such events are reported to us. Our loss reserves include amounts related to short tail and long tail classes of business. Short tail business refers to claims that are generally reported quickly upon occurrence of an event, making estimation of loss reserves less complex. Our long tail business includes our marine liability, casualty and professional liability insurance products. For the long tail lines, significant periods of time, ranging up to several years or more, may elapse between the occurrence of the loss, the reporting of the loss and the settlement of the claim. Generally, the longer the time span between the incidence of a loss and the settlement of the claim, the more likely the ultimate settlement amount will vary from the original estimate. See the *Casualty and Professional Liability* section below for additional information.

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Loss reserves are estimates of what the insurer or reinsurer expects to pay on claims, based on facts and circumstances then known. It is possible that the ultimate liability may exceed or be less than such estimates. In setting our loss reserve estimates, we review statistical data covering several years, analyze patterns by line of business and consider several factors including trends in claims frequency and severity, changes in operations, emerging economic and social trends, inflation and changes in the regulatory and litigation environment. Based on this review, we make a best estimate of our ultimate liability. We do not establish a range of loss estimates around the best estimate we use to establish our reserves and loss adjustment expenses. During the loss settlement period, which, in some cases, may last several years, additional facts regarding individual claims may become known and, accordingly, it often becomes necessary to refine and adjust the estimates of liability on a claim upward or downward. Such estimates are regularly reviewed and updated and any resulting adjustments are included in the current period s earnings. Even then, the ultimate liability may exceed or be less than the revised estimates. The reserving process is intended to provide implicit recognition of the impact of inflation and other factors affecting loss payments by taking into account changes in historical payment patterns and perceived probable trends. There is generally no precise method for the subsequent evaluation of the adequacy of the consideration given to inflation, or to any other specific factor, because the eventual deficiency or redundancy of reserves is affected by many factors, some of which are interdependent.

Another factor related to reserve development is that we record those premiums which are reported to us through the end of each calendar year and accrue estimates for premiums and loss reserves where there is a time lag between when the policy is bound and the recording of the policy. A substantial portion of the estimated premium is from international business where there can be significant time lags. To the extent that the actual premium varies from estimates, the difference, along with the related loss reserves and underwriting expenses, is recorded in current earnings.

As part of our risk management process, we purchase reinsurance to limit our liability on individual risks and to protect against catastrophic loss. We purchase both quota share reinsurance and excess-of-loss reinsurance. Quota share reinsurance is often utilized on the lower layers of risk and excess-of-loss reinsurance is used above the quota share reinsurance to limit our net retention per risk. Net retention represents the risk that we keep for our own account. Once our initial reserve is established and our net retention is exceeded, any adverse development will directly affect the gross loss reserve, but would generally have no impact on our net retained loss unless the aggregate limits available under the impacted excess-of-loss reinsurance treaty are exhausted. Reinstatement premiums triggered under our excess of loss reinsurance by such additional loss development could have a potential impact on our net premiums during the period in which such additional loss development is recognized. Generally, our limits of exposure are known with greater certainty when estimating our net loss versus our gross loss. This situation tends to create greater volatility in the deficiencies and redundancies of the gross reserves as compared to the net reserves.

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The following table presents an analysis of losses and loss adjustment expenses for each of the last three calendar years:

	Year Ended December 31,		
	2010	**2009**	**2008**
		($ in thousands)	
Net reserves for losses and LAE at beginning of year	$ 1,112,934	$ 999,871	$ 847,303
Provision for losses and LAE for claims occurring in the current year	434,957	444,939	443,877
Decrease in estimated losses and LAE for claims occurring in prior years	(13,802)	(8,941)	(50,746)
Incurred losses and LAE	421,155	435,998	393,131
Losses and LAE paid for claims occurring during:			
Current year	(76,982)	(59,412)	(60,104)
Prior years	(314,565)	(263,523)	(180,459)
Losses and LAE payments	(391,547)	(322,935)	(240,563)
Net reserves for losses and LAE at end of year	1,142,542	1,112,934	999,871
Reinsurance recoverables on unpaid losses and LAE	843,296	807,352	853,793
Gross reserves for losses and LAE at end of year	$ 1,985,838	$ 1,920,286	$ 1,853,664

The following table presents the development of the loss and LAE reserves for 2000 through 2010. The line Net reserves for losses and LAE reflects the net reserves at the balance sheet date for each of the indicated years and represents the estimated amount of losses and loss adjustment expenses arising in all prior years that are unpaid at the balance sheet date. The Reserves for losses and LAE re-estimated lines of the table reflect the re-estimated amount of the previously recorded reserves based on experience as of the end of each succeeding year. The reserve estimates may change as more information becomes known about the frequency and severity of claims for individual years. The net and gross cumulative redundancy (deficiency) lines of the table reflect the cumulative amounts developed as of successive years with respect to the aforementioned reserve liability. The cumulative redundancy or deficiency represents the aggregate change in the estimates over all prior years.

The table calculates losses and loss adjustment expenses reported and recorded in subsequent years for all prior years starting with the year in which the loss was incurred. For example, assuming that a loss occurred in 2000 and was not reported until 2002, the amount of such loss will appear as a deficiency in both 2000 and 2001. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on the table.

A significant portion of the favorable or adverse development on our gross reserves has been ceded to our excess-of-loss reinsurance treaties. As a result of these reinsurance arrangements, our gross losses and related reserve deficiencies and redundancies tend to be more sensitive to favorable or adverse developments such as those described above than our net losses and related reserve deficiencies and redundancies.

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Our gross loss reserves include estimated losses related to the 2005 Hurricanes Katrina and Rita and the 2008 Hurricanes Ike and Gustav and were in total approximately 3.2% of the total December 31, 2010 gross loss reserves and 6.6% of the total December 31, 2009 gross loss reserves. In addition, 3.8% of our 2010 gross loss reserves include estimated losses related to the Deepwater Horizon loss event. When recording these losses, we assess our reinsurance coverage, potential reinsurance recoverable, and the recoverability of those balances.

Losses incurred on business recently written are primarily covered by reinsurance agreements written by companies with whom we are currently doing reinsurance business and whose credit we continue to assess in the normal course of business. See Management s Discussion of Financial Condition and Results of Operations Results of Operations Operating Expenses Net Losses and Loss Adjustment Expenses Incurred and Note 5 *Loss Reserves for Losses and Loss Adjustment Expenses* in the Notes to Consolidated Financial Statements, both of which are included herein, for additional information regarding Hurricanes Katrina, Rita, Ike and Gustav and our asbestos exposure.

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	Year Ended December 31,								
	2000	2001	2002	2003	2004	2005	2006	2007	2008
	($ in thousands)								
nd LAE	$ 174,883	$ 202,759	$ 264,647	$ 374,171	$ 463,788	$ 578,976	$ 696,116	$ 847,303	$ 999,871
AE re-estimated as									
	180,268	209,797	323,282	370,335	460,007	561,762	649,107	796,557	990,930
	183,344	266,459	328,683	360,964	457,769	523,541	589,044	776,845	971,048
	232,530	266,097	321,213	377,229	432,988	481,532	555,448	767,600	
	227,554	256,236	334,991	362,227	401,380	461,563	559,368		
	218,982	264,431	325,249	343,182	391,766	469,195			
	225,031	260,264	314,332	333,857	401,071				
	221,541	257,852	305,051	336,790					
	220,045	250,021	308,593						
	213,198	256,615							
	220,766								
ncy (deficiency)	(45,883)	(53,856)	(43,946)	37,381	62,717	109,781	136,748	79,703	28,823
:									
	53,646	64,785	84,385	80,034	96,981	133,337	142,938	180,459	263,523
	91,352	112,746	133,911	140,644	180,121	219,125	233,211	322,892	460,058
	114,449	138,086	170,236	195,961	238,673	264,663	300,328	441,267	
	127,961	159,042	208,266	223,847	262,425	302,273	359,592		
	141,384	185,037	226,798	239,355	283,538	337,559			
	159,389	196,098	234,284	251,006	305,214				
	171,768	198,760	241,083	263,072					
	171,744	203,370	248,850						
	176,876	208,150							
	180,327								
r	357,674	401,177	489,642	724,612	966,117	1,557,991	1,607,555	1,648,764	1,853,664
	182,791	198,418	224,995	350,441	502,329	979,015	911,439	801,461	853,793
	174,883	202,759	264,647	374,171	463,788	578,976	696,116	847,303	999,871
	467,131	529,894	639,350	695,923	869,081	1,373,048	1,394,109	1,549,651	1,836,848
latest	246,365	273,280	330,757	359,133	468,010	903,853	834,741	782,051	865,799
	220,765	256,614	308,594	336,790	401,071	469,196	559,368	767,600	971,048
dancy (deficiency)	(109,457)	(128,717)	(149,708)	28,689	97,036	184,943	213,446	99,113	16,817

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The following tables identify the approximate gross and net cumulative redundancy (deficiency) at each year-end balance sheet date for the Insurance Companies and Lloyd s Operations contained in the preceding ten year table:

Gross Cumulative Redundancy (Deficiency)

Year Ended	Consolidated Grand Total	Consolidated Excluding Asbestos	Insurance Companies Total	Insurance Companies Asbestos	Insurance Companies All Other(1)	Lloyd s Operations
	($ in thousands)					
2009	$ 1,115	$ 1,753	$ (13,904)	$ (638)	$ (13,266)	$ 15,019
2008	16,817	18,384	(17,428)	(1,567)	(15,861)	34,245
2007	99,113	101,476	46,442	(2,363)	48,805	52,671
2006	213,446	215,029	107,267	(1,583)	108,850	106,179
2005	184,943	186,772	94,498	(1,829)	96,327	90,445
2004	97,036	81,456	79,646	15,580	64,066	17,390
2003	28,689	14,292	16,874	14,397	2,477	11,815
2002	(149,708)	(86,268)	(148,119)	(63,440)	(84,679)	(1,589)
2001	(128,717)	(64,920)	(118,715)	(63,797)	(54,918)	(10,002)
2000	(109,457)	(45,412)	(79,579)	(64,045)	(15,534)	(29,878)

Net Cumulative Redundancy (Deficiency)

Year Ended	Consolidated Grand Total	Consolidated Excluding Asbestos	Insurance Companies Total	Insurance Companies Asbestos	Insurance Companies All Other(1)	Lloyd s Operations
	($ in thousands)					
2009	$ 13,802	$ 14,080	$ 5,455	$ (278)	$ 5,733	$ 8,347
2008	28,823	29,076	14,533	(253)	14,786	14,290
2007	79,703	80,219	54,945	(516)	55,461	24,758
2006	136,748	139,043	93,642	(2,295)	95,937	43,106
2005	109,781	112,305	84,788	(2,524)	87,312	24,993
2004	62,717	65,770	48,828	(3,053)	51,881	13,889
2003	37,381	40,839	17,125	(3,458)	20,583	20,256
2002	(43,946)	(8,808)	(53,507)	(35,138)	(18,369)	9,561
2001	(53,856)	(18,570)	(49,144)	(35,286)	(13,858)	(4,712)
2000	(45,883)	(10,503)	(29,696)	(35,380)	5,684	(16,187)

1) Contains cumulative loss development for all active and run-off lines of business exclusive of asbestos losses.

Casualty and Professional Liability. Substantially all of our casualty business involves general liability policies which generate third party liability claims that are long tail in nature. A significant portion of our general liability reserves relate to construction defect claims.

The professional liability business generates third party claims, which are also longer tail in nature. The professional liability policies mainly provide coverage on a claims-made basis, whereby coverage is generally provided only for those claims that are made during the policy period. The substantial majority of our claims-made policies provide coverage for one year periods. We have also issued a limited number of multi-year claims-made professional liability policies known as tail coverage that provide for insurance protection for wrongful acts prior to the run-off date. Such multi-year policies provide insurance protection for several years.

Our professional liability loss estimates are based on expected losses, an assessment of the characteristics of reported losses at the claim level, evaluation of loss trends, industry data, and the legal, regulatory and current risk environment because anticipated loss experience in this area is less predictable due to the small number of claims and/or erratic claim severity patterns. We believe that we have made a reasonable estimate of the required loss reserves for professional liability. The expected ultimate losses may be adjusted up or down as the accident years mature.

Additional information regarding our loss and loss adjustment expenses incurred and loss reserves can be found in Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Operating Expenses Net Losses and Loss Adjustment Expenses Incurred and Note 5, *Reserves for Losses and Loss Adjustment Expenses*, in the Notes to Consolidated Financial Statements, both of which are included herein.

Catastrophe Risk Management

We have exposure to losses caused by hurricanes and other natural and man-made catastrophic events. The frequency and severity of catastrophes are unpredictable.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in an area affected by the event and the severity of the event. We continually assess our concentration of underwriting exposures in catastrophe exposed areas globally and attempt to manage this exposure through individual risk selection and through the purchase of reinsurance. We also use modeling and concentration management tools that allow us to better monitor and control our accumulations of potential losses from catastrophe exposures. Despite these efforts, there remains uncertainty about the characteristics, timing and extent of insured losses given the nature of catastrophes. The occurrence of one or more severe catastrophic events could have a material adverse effect on our results of operations, financial condition and/or liquidity.

We have significant natural catastrophe exposures throughout the world. Historically, our largest natural catastrophe exposure emanated from offshore energy platforms exposed to hurricanes in the Gulf of Mexico. In 2009 we reduced our exposure to that peril. The majority of the offshore energy policies that have historically exposed us to this peril renew in the second and third quarters of the year. During the third quarter of 2009, we found the available market pricing and policy terms to be unacceptable in most cases and, therefore, offered coverage for the peril of the windstorm in the Gulf of Mexico on only a very small number of risks. This has remained the case in 2010. Accordingly, our current exposure to hurricanes in the Gulf of Mexico is materially less than what it was in the past, and it therefore no longer represents our largest natural catastrophe exposure.

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We estimate that our largest exposure to loss from a single natural catastrophe event now comes from an earthquake on the west coast of the United States. As of January 1, 2011, we estimate that our probable maximum pre-tax gross and net loss exposure for an earthquake event centered at San Francisco, California would be approximately $147 million and $27 million, respectively, including the cost of reinsurance reinstatement premiums.

Like all catastrophe exposure estimates, the foregoing estimate of our probable maximum loss is inherently uncertain. This estimate is highly dependent upon numerous assumptions and subjective underwriting judgments. Examples of significant assumptions and judgments related to such an estimate include the intensity, depth and location of the earthquake, the various types of the insured risks exposed to the event at the time the event occurs and the estimated costs or damages incurred for each insured risk. The composition of our portfolio also makes such estimates challenging due to the non-static nature of the exposures covered under our policies in lines of business such as cargo and hull. There can be no assurances that the gross and net loss amounts that we could incur in such an event or in any natural catastrophe event would not be materially higher than the estimates discussed above given the significant uncertainties with respect to such an estimate. Moreover, our portfolio of insured risks changes dynamically over time and there can be no assurance that our probable maximum loss will not change materially over time.

The occurrence of large loss events could reduce the reinsurance coverage that is available to us and could weaken the financial condition of our reinsurers, which could have a material adverse effect on our results of operations. Although the reinsurance agreements make the reinsurers liable to us to the extent the risk is transferred or ceded to the reinsurer, ceded reinsurance arrangements do not eliminate our obligation to pay claims to our policyholders as we are required to pay the losses if a reinsurer fails to meet its obligations under the reinsurance agreement. Accordingly, we bear credit risk with respect to our reinsurers. Specifically, our reinsurers may not pay claims made by us on a timely basis, or they may not pay some or all of these claims. Either of these events would increase our costs and could have a material adverse effect on our business.

Hurricanes Gustav, Ike, Katrina and Rita

Hurricanes Gustav and Ike (the 2008 Hurricanes) which occurred in the 2008 third quarter and Hurricanes Katrina and Rita (the 2005 Hurricanes) which occurred in the 2005 third quarter generated substantial losses in our marine and energy lines of business, due principally to offshore energy losses. There were no significant hurricane losses in 2010, 2009, 2007 or 2006 that impacted our marine and energy lines of business.

We monitor the development of paid and reported claims activities in relation to the estimate of ultimate losses established for the 2008 Hurricanes and the 2005 Hurricanes. Management believes that should any adverse loss development for gross claims occur from the 2008 Hurricanes or the 2005 Hurricanes, it would be contained within our reinsurance program. Our actual losses from such hurricanes may differ materially from our estimated losses as a result of, among other things, the receipt of additional information from insureds or brokers, the attribution of losses to coverages that, for the purposes of our estimates, we assumed would not be exposed and inflation in repair costs due to the limited availability of labor and materials. In particular, in developing our loss estimate, we have assumed that the wreckage of certain oil rigs damaged by Hurricane Rita will not be required to be removed as a result of the federal Rigs To Reef program. If our actual losses from the 2008 Hurricanes or the 2005 Hurricanes are materially greater than our estimated losses, our business, results of operations and financial condition could be materially adversely affected.

See Management s Discussion of Financial Condition and Results of Operations Results of Operations and Overview Operating Expenses Net Losses and Loss Adjustment Expenses Incurred and Note 5 *Loss Reserves for Losses and Loss Adjustment Expenses* in the Notes to Consolidated Financial Statements, both of which are included herein, for additional information regarding Hurricanes Katrina, Rita, Ike and Gustav.

Reinsurance Recoverables

We utilize reinsurance principally to reduce our exposure on individual risks, to protect against catastrophic losses and to stabilize loss ratios and underwriting results. We are protected by various treaty and facultative reinsurance agreements. The reinsurance is placed either directly by us or through reinsurance intermediaries. The reinsurance intermediaries are compensated by the reinsurers.

Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred or ceded to the reinsurer, ceded reinsurance arrangements do not eliminate our obligation to pay claims to our policyholders. Accordingly, we bear credit risk with respect to our reinsurers. Specifically, our reinsurers may not pay claims made by us on a timely basis, or they may not pay some or all of these claims. Either of these events would increase our costs and could have a material adverse effect on our business. Losses we incurred due to Hurricanes Katrina and Rita in 2005, Hurricanes Gustav and Ike in 2008 and Deepwater Horizon in 2010 have significantly increased our reinsurance recoverables, resulting in an increase to our credit risk exposure to our reinsurers.

We have established a reserve for uncollectible reinsurance in the amount of $13.0 million, which was determined by considering reinsurer specific default risk as indicated by their financial strength ratings.

Our exposure to credit risk from any one reinsurer is managed through diversification by reinsuring with a number of different reinsurers, principally in the United States and European reinsurance markets. When reinsurance is placed, our standards of acceptability generally require that a reinsurer must have a rating from A.M. Best and/or S&P of A or better, or an equivalent financial strength if not rated, plus at least $250 million in policyholders surplus. Our Reinsurance Security Committee, which is included within our Enterprise Risk Management Finance and Credit Sub-Committee, monitors the financial strength of our reinsurers and the related reinsurance recoverables and periodically reviews the list of acceptable reinsurers.

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The credit quality distribution of the Company s reinsurance recoverables of $1.06 billion at December 31, 2010 for ceded paid and unpaid losses and loss adjustment expenses and ceded unearned premiums based on insurer financial strength ratings from A.M. Best was as follows:

A.M. Best Rating [(1)]	**Rating Description**	**Recoverable Amounts** *($ in millions)*	**Percent of Total**
A++, A+	Superior	$ 447.8	42%
A, A-	Excellent	585.0	56%
B++, B+	Very good	4.4	0%[(2)]
NR	Not rated	19.7	2%[(2)]
Total		$ 1,056.9	100%

(1) Equivalent S&P rating used for certain companies when an A.M. Best rating was unavailable.

(2) The Company holds offsetting collateral of approximately 80.2% for B++ and B+ companies and 75.6% for not rated companies which includes letters of credit, ceded balances payable and other balances held by our Insurance Companies and our Lloyd s Operations.

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The following table lists our 20 largest reinsurers measured by the amount of reinsurance recoverable for ceded paid and unpaid losses and loss adjustment expense and ceded unearned premium (constituting 75.7% of our total recoverables) together with the collateral held by us at December 31, 2010, and the reinsurers financial strength rating from the indicated rating agency:

Reinsurer	Reinsurance Recoverables: Unearned Premium	Reinsurance Recoverables: Unpaid/Paid Losses	Reinsurance Recoverables: Total	Collateral Held [1]	Rating & Rating Agency [2]	
	($ in millions)					
Swiss Reinsurance America Corporation	$ 8.2	$ 98.4	$ 106.6	$ 9.0	A	AMB
Munich Reinsurance America Inc.	16.5	80.7	97.2	4.5	A+	AMB
Everest Reinsurance Company	19.4	67.1	86.5	9.0	A+	AMB
Transatlantic Reinsurance Company	21.4	62.6	84.0	8.7	A	AMB
National Indemnity Company	10.1	29.3	39.4	3.5	A++	AMB
Scor Holding (Switzerland) AG	9.1	29.4	38.5	11.5	A	AMB
General Reinsurance Corporation	1.5	34.9	36.4	1.3	A++	AMB
White Mountains Reinsurance of America	0.3	36.0	36.3	0.2	A-	AMB
Partner Reinsurance Europe	8.3	26.8	35.1	16.7	AA-	S&P
Munchener Ruckversicherungs-Gesellschaft	1.1	32.7	33.8	7.7	A+	AMB
Berkley Insurance Company	3.4	29.2	32.6	0.2	A+	AMB
Platinum Underwriters Re	2.1	26.7	28.8	2.5	A	AMB
Lloyd s Syndicate #2003	2.9	23.8	26.7	4.2	A	AMB
Ace Property and Casualty Insurance Company	5.5	19.1	24.6	2.5	A+	AMB
Allied World Reinsurance	7.1	13.1	20.2	2.8	A	AMB
Swiss Re International SE	0.7	15.6	16.3	5.7	A	AMB
AXIS Re Europe	3.6	11.5	15.1	4.0	A	AMB
Axa Corporate Solutions	0.4	14.0	14.4	0.7	AA-	S&P
Hannover Ruckversicherung	0.5	13.6	14.1	2.8	A	AMB
Validus Reinsurance Ltd.	1.8	11.9	13.7	5.6	A-	AMB
Top 20 Total	$ 123.9	$ 676.4	$ 800.3	$ 103.1		
All Other	33.0	223.6	256.6	76.1		
Total	$ 156.9	$ 900.0	$ 1,056.9	$ 179.2		

(1) Collateral includes letters of credit, ceded balances payable and other balances held by our Insurance Companies and our Lloyd s Operations.

(2) A.M. Best

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The largest portion of the collateral held consists of letters of credit obtained from reinsurers in accordance with New York Insurance Department Regulation No. 133. Such regulation requires collateral to be held by the ceding company from reinsurers not licensed in New York State in order for the ceding company to take credit for the reinsurance recoverables on its statutory balance sheet. The specific requirements governing the letters of credit include a clean and unconditional letter of credit and an evergreen clause which prevents the expiration of the letter of credit without due notice to the Company. Only banks considered qualified by the National Association of Insurance Commissioners (NAIC) may be deemed acceptable issuers of letters of credit by the New York Insurance Department. In addition, based on our credit assessment of the reinsurer, there are certain instances where we require collateral from a reinsurer even if the reinsurer is licensed in New York State, generally applying the requirements of Regulation No. 133. The contractual terms of the letters of credit require that access to the collateral is unrestricted. In the event that the counterparty to our collateral would be deemed not qualified by the NAIC, the reinsurer would be required by agreement to replace such collateral with acceptable security under the reinsurance agreement. There is no assurance, however, that the reinsurer would be able to replace the counterparty bank in the event such counterparty bank becomes unqualified and the reinsurer experiences significant financial deterioration. Under such circumstances, we could incur a substantial loss from uncollectible reinsurance from such reinsurer.

Approximately $73.5 million of the reinsurance recoverables for paid and unpaid losses at December 31, 2010 was due from reinsurers as a result of the losses from the 2008 and 2005 Hurricanes. In addition, at December 31, 2010, reinsurance recoverables for paid and unpaid losses of approximately $76.2 million was due from reinsurers in connection with the Deepwater Horizon incident. Also included in reinsurance recoverable for paid and unpaid losses were approximately $8.4 million and $8.9 million in 2010 and 2009, respectively, due from reinsurers in connection with our asbestos exposures.

See Business Regulation United States below for information regarding the Terrorism Risk Insurance Act, the Terrorism Risk Insurance Extension Act and the Terrorism Risk Insurance Program Reauthorization Act.

Investments

The objective of our investment policy, guidelines and strategy is to maximize total investment return in the context of preserving and enhancing shareholder value and statutory surplus of the Insurance Companies. Secondarily, we seek to optimize after-tax investment income.

Our investments are managed by outside professional fixed-income and equity portfolio managers. We seek to achieve our investment objectives by investing in cash equivalents and money market funds, municipal bonds, U.S. Government bonds, U.S. Government agency guaranteed and non-guaranteed securities, corporate bonds, mortgage-backed and asset-backed securities and common and preferred stocks.

Our investment guidelines require that the amount of our consolidated fixed-income portfolio rated below A- but no lower than BBB- by S&P or below A3 but no lower than Baa3 by Moody s Investors Service (Moody s) sh exceed 10% of our total fixed income and short-term investments. Fixed-income securities rated below BBB- by S&P or Baa3 by Moody s combined with any other investments not specifically permitted under our investment guidelines, cannot exceed 5% of our consolidated stockholders equity. Investments in equity securities that are actively traded on major U.S. stock exchanges cannot exceed 20% of consolidated stockholders equity. Finally, our investment guidelines prohibit investments in derivatives other than as a hedge against foreign currency exposures or the writing of covered call options on our equity portfolio.

The Insurance Companies investments are subject to the oversight of their respective Boards of Directors and our Finance Committee of the Parent Company s Board of Directors. The investment portfolio and the performance of the investment managers are reviewed quarterly. These investments must comply with the insurance laws of New York State, the domiciliary state of Navigators Insurance Company and Navigators Specialty Insurance Company. These laws prescribe the type, quality and concentration of investments which may be made by insurance companies. In general, these laws permit investments, within specified limits and subject to certain qualifications, in federal, state and municipal obligations, corporate bonds, preferred stocks, common stocks, real estate mortgages and real estate. The U.K. Branch s investments must comply with the regulations set forth by the Financial Services Authority (FSA) in the U.K.

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The Lloyd s Operations investments are subject to the direction and control of the Board of Directors and the Investment and Capital Committee of NUAL, as well as the Parent Company s Board of Directors and Finance Committee. These investments must comply with the rules and regulations imposed by Lloyd s and the FSA.

The table set forth below reflects our total investment balances, net investment income earned thereon and the related average yield for the last three calendar years:

	Year Ended December 31,		
	2010	**2009**	**2008**
		($ in thousands)	
Invested Assets and Cash			
Insurance Companies	$ 1,675,725	$ 1,604,354	$ 1,509,382
Lloyd s Operations	425,386	388,556	356,184
Parent Company	53,217	63,677	52,149
Consolidated	$ 2,154,328	$ 2,056,587	$ 1,917,715
Net Investment Income			
Insurance Companies	$ 62,792	$ 65,717	$ 63,544
Lloyd s Operations	8,286	9,229	11,655
Parent Company	584	566	1,355
Consolidated	$ 71,662	$ 75,512	$ 76,554
Average Yield (amortized cost basis)			
Insurance Companies	3.8%	4.1%	4.3%
Lloyd s Operations	2.2%	2.7%	3.4%
Parent Company	1.2%	1.0%	3.1%
Consolidated	3.5%	3.8%	4.1%

The tax equivalent yields for 2010, 2009 and 2008 on a consolidated basis were 4.0%, 4.6% and 4.9%, respectively.

At December 31, 2010, the average quality of the investment portfolio was rated AA by S&P and Aa by Moody s. All of the Company s mortgage-backed and asset-backed securities were rated investment grade by S&P and by Moody s except for 40 securities approximating $14.5 million. There were no collateralized debt obligations (CDO s), collateralized loan obligations (CLO s), asset-backed commercial paper or credit default swaps in our investment portfolio. At December 31, 2010 and 2009, all fixed-maturity and equity securities held by us were classified as available-for-sale.

See Management s Discussion of Financial Condition and Results of Operations Investments and Note 4 *Investments* in the Notes to Consolidated Financial Statements, both of which are included herein, for additional information regarding investments.

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Regulation

United States

We are subject to regulation under the insurance statutes, including holding company statutes, of various states and applicable regulatory authorities in the United States. These regulations vary but generally require insurance holding companies, and insurers that are subsidiaries of holding companies, to register and file reports concerning their capital structure, ownership, financial condition and general business operations. Such regulations also generally require prior regulatory agency approval of changes in control of an insurer and of transactions within the holding company structure. The regulatory agencies have statutory authorization to enforce their laws and regulations through various administrative orders and enforcement proceedings.

Navigators Insurance Company is licensed to engage in the insurance and reinsurance business in 50 states, the District of Columbia and Puerto Rico. Navigators Specialty Insurance Company is licensed to engage in the insurance and reinsurance business in the State of New York and is an approved surplus lines insurer or meets the financial requirements where there is not a formal approval process in all other states and the District of Columbia.

The State of New York Insurance Department is our principal regulatory agency. New York insurance law provides that no corporation or other person may acquire control of us, and thus indirect control of our insurance company subsidiaries, unless it has given notice to our insurance company subsidiaries and obtained prior written approval from the Superintendent of Insurance of the State of New York for such acquisition. Any purchaser of 10% or more of the outstanding shares of our common stock would be presumed to have acquired control of us, unless such presumption is rebutted.

Under New York insurance law, Navigators Insurance Company and Navigators Specialty Insurance Company may only pay dividends out of their statutory earned surplus. Generally, the maximum amount of dividends Navigators Insurance Company and Navigators Specialty Insurance Company may pay without regulatory approval in any twelve-month period is the lesser of adjusted net investment income or 10% of statutory surplus. For a discussion of our current dividend capacity, see Management s Discussion of Financial Condition and Results of Operations Liquidity and Capital Resources in Item 7 of this report.

As part of its general regulatory oversight process, the New York Insurance Department conducts detailed examinations of the books, records and accounts of New York insurance companies every three to five years. Navigators Insurance Company and Navigators Specialty Insurance Company were examined for the years 2001 through 2004 by the New York Insurance Department. The New York Insurance Department commenced an examination of the years 2005 through 2009 in January 2010 which is expected to conclude in June 2011.

Under insolvency or guaranty laws in most states in which Navigators Insurance Company and Navigators Specialty Insurance Company operate, insurers doing business in those states can be assessed up to prescribed limits for policyholder losses of insolvent insurance companies. Neither Navigators Insurance Company nor Navigators Specialty Insurance Company was subject to any material assessments under state insolvency or guaranty laws in the last three years.

The Insurance Regulatory Information System, or IRIS, was developed by the NAIC and is intended primarily to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies thirteen industry ratios and specifies usual values for each ratio. Departure from the usual values on four or more of the ratios can lead to inquiries from individual state insurance commissioners as to certain aspects of an insurer s business. As of December 31, 2010, the results for both Navigators Insurance Company and Navigators Specialty Insurance Company were within the usual values for all IRIS ratios.

State insurance departments have adopted a methodology developed by the NAIC for assessing the adequacy of statutory surplus of property and casualty insurers which includes a risk-based capital formula that attempts to measure statutory capital and surplus needs based on the risks in a company s mix of products and investment portfolio. The formula is designed to allow state insurance regulators to identify weakly capitalized companies. Under the formula, a company determines its risk-based capital by taking into account certain risks related to the insurer s assets (including risks related to its investment portfolio and ceded reinsurance) and the insurer s liabilities (including underwriting risks related to the nature and experience of its insurance business). The risk-based capital rules provide for different levels of regulatory attention depending on the ratio of a company s total adjusted capital to its authorized control level of risk-based capital. Based on calculations made by Navigators Insurance Company and Navigators Specialty Insurance Company, their risk-based capital levels exceed the level that would trigger regulatory attention or company action. In their respective 2010 statutory financial statements, Navigators Insurance Company and Navigators Specialty Insurance Company have complied with the NAIC s risk-based capital reporting requirements.

In addition to regulations applicable to insurance agents generally, Navigators Management Company, Inc. is subject to managing general agents acts in its state of domicile and in certain other jurisdictions where it does business.

In 2002, in response to the tightening of supply in certain insurance and reinsurance markets resulting from, among other things, the September 11, 2001 terrorist attacks, the Terrorism Risk Insurance Act, or TRIA, was enacted. TRIA was intended to ensure the availability of insurance coverage for acts of terrorism (as defined) in the United States of America committed by or on behalf of foreign persons or interests. This law established a federal program through the end of 2005 to help the commercial property and casualty insurance industry cover claims related to future losses resulting from acts of terrorism and requires insurers to offer coverage for acts of terrorism in all commercial property and casualty policies. As a result, we are prohibited from adding certain terrorism exclusions to those policies written by insurers in our group that write business in the U.S. On December 22, 2005, the Terrorism Risk Insurance Extension Act of 2005, or TRIEA, was enacted. TRIEA extended TRIA through December 31, 2007 and made several changes in the program, including the elimination of several previously covered lines. The deductible for each insurer was increased to 17.5% and 20% of direct earned premiums in 2006 and 2007, respectively. For losses in excess of an insurer s deductible, the Insurance Companies will retain an additional 10% and 15% of the excess losses in 2006 and 2007, respectively, with the balance to be covered by the Federal government up to an aggregate cap of insured losses of $25 billion in 2006 and $27.5 billion in 2007. Also, TRIEA established a new program trigger under which Federal compensation will become available only if aggregate insured losses sustained by all insurers exceed $50 million from a certified act of terrorism occurring after March 31, 2006 and $100 million for certified acts occurring on or after January 1, 2007. On December 26, 2007, the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) was enacted. TRIPRA, among other provisions, extends for seven years the program established under TRIA, as amended. The imposition of these TRIA deductibles could have an adverse effect on our results of operations. Potential future changes to TRIA, including the increases in deductibles and co-pays and elimination of domestic terrorism coverage proposed by the current administration, could also adversely affect us by causing our reinsurers to increase prices or withdraw from certain markets where terrorism coverage is required. As a result of TRIA, we are required to offer coverage for certain terrorism risks that we may normally exclude. Occasionally in our marine business, such coverage falls outside of our normal reinsurance program. In such cases, our only reinsurance would be the protection afforded by TRIA.

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Our Lloyd s Operations are subject to regulation in the United States in addition to being regulated in the United Kingdom, as discussed below. The Lloyd s market is licensed to engage in insurance business in Illinois, Kentucky and the U.S. Virgin Islands and operates as an eligible excess and surplus lines insurer in all states and territories except Kentucky and the U.S. Virgin Islands. Lloyd s is also an accredited reinsurer in all states and territories of the United States. Lloyd s maintains various trust funds in the state of New York to protect its United States business and is therefore subject to regulation by the New York Insurance Department, which acts as the domiciliary department for Lloyd s U.S. trust funds. There are deposit trust funds in other states to support Lloyd s reinsurance and excess and surplus lines insurance business.

From time to time, various regulatory and legislative changes have been proposed in the insurance and reinsurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the NAIC. We are unable to predict whether any of these laws and regulations will be adopted, the form in which any such laws and regulations would be adopted, or the effect, if any, these developments would have on our operations and financial condition.

United Kingdom

Our United Kingdom subsidiaries and our Lloyd s Operations are subject to regulation by the FSA, as established by the Financial Services and Markets Act 2000. Our Lloyd s Operations is also subject to supervision by the Council of Lloyd s. The FSA has been granted broad authorization and intervention powers as they relate to the operations of all insurers, including Lloyd s syndicates, operating in the United Kingdom. Lloyd s is authorized by the FSA and is required to implement certain rules prescribed by the FSA, which it does by the powers it has under the Lloyd s Act 1982 relating to the operation of the Lloyd s market. Lloyd s prescribes, in respect of its managing agents and corporate members, certain minimum standards relating to their management and control, solvency and various other requirements. The FSA directly monitors Lloyd s managing agents compliance with the systems and controls prescribed by Lloyd s. If it appears to the FSA that either Lloyd s is not fulfilling its delegated regulatory responsibilities, or that managing agents are not complying with the applicable regulatory rules and guidance, the FSA may intervene at its discretion.

We participate in the Lloyd s market through our ownership of NUAL, Millennium Underwriting Ltd. and Navigators Corporate Underwriters Ltd. NUAL is the managing agent for Syndicate 1221. We controlled 100% of Syndicate 1221 s stamp capacity for the 2010, 2009 and 2008 underwriting years through our wholly-owned subsidiary, Navigators Corporate Underwriters Ltd., which is referred to as a corporate name in the Lloyd s market. By entering into a membership agreement with Lloyd s, Navigators Corporate Underwriters Ltd. undertakes to comply with all Lloyd s bye-laws and regulations as well as the provisions of the Lloyd s Acts and the Financial Services and Markets Act that are applicable to it. The operation of Syndicate 1221, as well as Navigators Corporate Underwriters Ltd. and their respective directors, is subject to the Lloyd s supervisory regime.

Underwriting capacity of a member of Lloyd s must be supported by providing a deposit (referred to as Funds at Lloyd s) in the form of cash, securities or letters of credit in an amount determined by Lloyd s equal to a specified percentage of the member s underwriting capacity. The amount of such deposit is calculated by each member through the completion of an annual capital adequacy exercise. The results of this exercise are submitted to Lloyd s for approval. Lloyd s then advises the member of the amount of deposit that is required. The consent of the Council of Lloyd s may be required when a managing agent of a syndicate proposes to increase underwriting capacity for the following underwriting year.

The Council of Lloyd s has wide discretionary powers to regulate members underwriting at Lloyd s. It may, for instance, change the basis on which syndicate expenses are allocated or vary the Funds at Lloyd s ratio or the investment criteria applicable to the provision of Funds at Lloyd s. Exercising any of these powers might affect the return on an investment of the corporate member in a given underwriting year. Further, it should be noted that the annual business plans of a syndicate are subject to the review and approval of the Lloyd s Franchise Board. The Lloyd s Franchise Board was formally constituted on January 1, 2003. The Franchise Board is responsible for setting risk management and profitability targets for the Lloyd s market and operates a business planning and monitoring process for all syndicates.

Corporate members continue to have insurance obligations even after all their underwriting years have been closed by reinsurance to close. In order to continue to perform these obligations, corporate members are required to stay in existence; accordingly, there continues to be an administrative and financial burden for corporate members between the time their memberships have ceased and the time their insurance obligations are extinguished, including the completion of financial accounts in accordance with the Companies Act 1985.

If a member of Lloyd s is unable to pay its debts to policyholders, such debts may be payable by the Lloyd s Central Fund, which acts similarly to state guaranty funds in the United States. If Lloyd s determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd s members. The Council of Lloyd s has discretion to call or assess up to 3% of a member s underwriting capacity in any one year as a Central Fund contribution.

A European Union (E.U.) directive covering the capital adequacy, risk management and regulatory reporting for insurers, known as Solvency II, was adopted by the European Parliament in April 2009. Solvency II will introduce a new system of regulation for insurers operating in the E.U. (including the United Kingdom) and presents a number of risks to us. The measures implementing Solvency II are currently subject to a consultation process and are not expected to be finalized until late 2011, with implementation expected to occur on December 31, 2012. Consequently the Company s implementation plans are based on its current understanding of the Solvency II requirements, which may change. During the next two years, we expect to undertake a significant amount of work to ensure that we meet the new requirements, which may divert finite resources from other business related tasks. Although the details of how Solvency II will apply to Navigators Insurance Company, NUAL and Syndicate 1221 are not yet fully known, it is clear that Solvency II will impose new requirements with respect to capital structure, technical provisions, solvency calculations, governance, disclosure and risk management. There is a also a risk that Solvency II may increase our capital requirements for our U.K. Branch and Syndicate 1221. These new regulations have the potential to adversely affect the profitability of Navigators Insurance Company, NUAL and Syndicate 1221, and to restrict their ability to carry on their businesses as currently conducted. A significant unanswered question about how Solvency II will be implemented is whether the new regulations will apply only to Navigators Insurance Company s U.K. Branch or to all of its operations, both within and outside of the United Kingdom and the other E.U. countries in which it operates. If the regulations are applied to Navigators Insurance Company in its entirety, we could be subject to even more onerous requirements under the new regulations. Such requirements could have a significant adverse affect our ability to operate profitably and could impose other significant restrictions on our ability to carry on our insurance business in the E.U. (including the United Kingdom) as it is now conducted.

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Competition

The property and casualty insurance industry is highly competitive. We face competition from both domestic and foreign insurers, many of whom have longer operating histories and greater financial, marketing and management resources. Competition in the types of insurance in which we are engaged is based on many factors, including our perceived overall financial strength, pricing, other terms and conditions of products and services offered, business experience, marketing and distribution arrangements, agency and broker relationships, levels of customer service (including speed of claims payments), product differentiation and quality, operating efficiencies and underwriting. Furthermore, insureds tend to favor large, financially strong insurers, and we face the risk that we will lose market share to higher rated insurers.

Another competitive factor in the industry is the entrance of other financial services providers such as banks and brokerage firms into the insurance business. These efforts pose new challenges to insurance companies and agents from financial services companies traditionally not involved in the insurance business.

Employees

As of December 31, 2010, we had 494 full-time employees of which 394 were located in the United States, 90 in the United Kingdom, 4 in Belgium, 3 in Sweden and 3 in Denmark.

Available Information

This report and all other filings made by the Company with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act are made available to the public by the SEC. All filings can be read and copied at the SEC Public Reference Room, located at 100 F Street, NE, Washington, DC 20549. Information pertaining to the operation of the Public Reference Room can be obtained by calling 1-800-SEC-0330. We are an electronic filer, so all reports, proxy and information statements, and other information can be found at the SEC website, www.sec.gov. Our website address is http://www.navg.com. Through our website at http://www.navg.com/Pages/sec-filings.aspx, we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The annual report to stockholders, press releases and recordings of our earnings release conference calls are also provided on our website.

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Item 1A. RISK FACTORS

You should carefully consider each of the risks and uncertainties described below and elsewhere in this Annual Report on Form 10-K, as well as any amendments or updates reflected in subsequent filings with the SEC. We believe these risks and uncertainties, individually or in the aggregate, could cause our actual results to differ materially from expected and historical results and could materially and adversely affect our business operations. Further, additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our results and business operations.

The continuing volatility in the financial markets and the current recession could have a material adverse effect on our results of operations and financial condition.

The financial market experienced significant volatility worldwide from the third quarter of 2008 through 2010. Although the U.S. and foreign governments have taken various actions to try to stabilize the financial markets, it is unclear whether those actions will be effective. Therefore, the financial market volatility and the resulting negative economic impact could continue and it is possible that it may be prolonged.

Although we continue to monitor market conditions, we cannot predict future market conditions or their impact on our stock price or investment portfolio. Depending on market conditions, we could incur future additional realized and unrealized losses, which could have a material adverse effect on our results of operations and financial condition. These economic conditions have had an adverse impact on the availability and cost of credit resources generally, which could negatively affect our ability to obtain letters of credit utilized by our Lloyd s Operations to underwrite business through Lloyd s.

In addition, the continuing financial market volatility and economic downturn could have a material adverse affect on our insureds, agents, claimants, reinsurers, vendors and competitors. Certain of the actions U.S. and foreign governments have taken or may take in response to the financial market crisis have impacted certain property and casualty insurance carriers. The U.S. and foreign governments are actively taking steps to implement additional measures to stabilize the financial markets and stimulate the economy, and it is possible that these measures could further affect the property and casualty insurance industry and its competitive landscape.

Our business is concentrated in marine and energy, specialty liability and professional liability insurance, and if market conditions change adversely, or we experience large losses in these lines, it could have a material adverse effect on our business.

As a result of our strategy to focus on specialty products in niches where we have underwriting and claims handling expertise and to decline business where pricing does not afford what we consider to be acceptable returns, our business is concentrated in the marine and energy, specialty liability and professional liability lines of business. If our results of operations from any of these lines are less favorable for any reason, including lower demand for our products on terms and conditions that we find appropriate, flat or decreased rates for our products or increased competition, the reduction could have a material adverse effect on our business.

We are exposed to cyclicality in our business that may cause material fluctuations in our results.

The property/casualty insurance business generally, and the marine insurance business specifically, have historically been characterized by periods of intense price competition due to excess underwriting capacity as well as periods when shortages of underwriting capacity have permitted attractive premium levels. We have reduced business during periods of severe competition and price declines and grown when pricing allowed an acceptable return. We expect that our business will continue to experience the effects of this cyclicality which, over the course of time, could result in material fluctuations in our premium volume, revenues or expenses.

We may not be successful in developing our new specialty lines which could cause us to experience losses.

Since 2001, we have entered into a number of new specialty lines of business, primarily professional liability, excess casualty, primary casualty, inland marine and middle markets. We continue to look for appropriate opportunities to diversify our business portfolio by offering new lines of insurance in which we believe we have sufficient underwriting and claims expertise. However, because of our limited history in these new lines, there is limited financial information available to help us estimate sufficient reserve amounts for these lines and to help evaluate whether we will be able to successfully develop these new lines or the likely ultimate losses and expenses associated with these new lines. Due to our limited history in these lines, we may have less experience managing their development and growth than some of our competitors. Additionally, there is a risk that the lines of business into which we expand will not perform at the levels we anticipate.

We may be unable to manage effectively our rapid growth in our lines of business, which may adversely affect our results.

To control our growth effectively, we must successfully manage our new and existing lines of business. This process will require substantial management attention and additional financial resources. In addition, our growth is subject to, among other risks, the risk that we may experience difficulties and incur expenses related to hiring and retaining a technically proficient workforce. Accordingly, we may fail to realize the intended benefits of expanding into new specialty lines and we may fail to realize value from such lines relative to the resources that we invest in them. Any difficulties associated with expanding our current and future lines of business could adversely affect our results of operations.

We may incur additional losses if our loss reserves are insufficient.

We maintain loss reserves to cover our estimated ultimate unpaid liability for losses and loss adjustment expenses with respect to reported and unreported claims incurred as of the end of each accounting period. Reserves do not represent an exact calculation of liability, but instead represent estimates, generally utilizing actuarial projection techniques and judgment at a given accounting date. These reserve estimates are expectations of what the ultimate settlement and administration of claims will cost based on our assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity, frequency, legal theories of liability and other factors. Both internal and external events, including changes in claims handling procedures, economic inflation, legal trends and legislative changes, may affect the reserve estimation process. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant lags between the occurrence of the insured event and the time it is actually reported to the insurer. We continually refine reserve estimates in a regular ongoing process as historical loss experience develops and additional claims are reported and settled. Adjustments to reserves are reflected in the results of the periods in which the estimates are changed. Because establishment of reserves is an inherently uncertain process involving estimates, currently established reserves may not be sufficient. If estimated reserves are insufficient, we will incur additional charges to earnings.

Our loss reserves include amounts related to short tail and long tail classes of business. Short tail business means that claims are generally reported quickly upon occurrence of an event, making estimation of loss reserves less complex. For the long tail lines, significant periods of time, ranging up to several years or more, may elapse between the occurrence of the loss, the reporting of the loss and the settlement of the claim. The longer the time span between the incidence of a loss and the settlement of the claim, the more likely the ultimate settlement amount will vary. Our longer tail business includes general liability, including construction defect claims, as well as historical claims for asbestos exposures through our marine and aviation businesses and claims relating to our run-off businesses. Our professional liability business, though long tail with respect to settlement period, is produced on a claims-made basis (which means that the policy in-force at the time the claim is filed, rather than the policy in-force at the time the loss occurred, provides coverage) and is therefore, we believe, less likely to result in a significant time lag between the occurrence of the loss and the reporting of the loss. There can be no assurance, however, that we will not suffer substantial adverse prior period development in our business in the future.

In addition to loss reserves, preparation of our financial statements requires us to make many estimates and judgments.

In addition to loss reserves discussed above, the Consolidated Financial Statements contain estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. On an ongoing basis we evaluate our estimates based on historical experience and other assumptions that we believe to be reasonable under the circumstances. Any significant change in these estimates could adversely affect our results of operations and/or our financial condition.

We may not have access to adequate reinsurance to protect us against losses.

We purchase reinsurance by transferring part of the risk we have assumed to a reinsurance company in exchange for part of the premium we receive in connection with the risk. The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, which can affect our business volume and profitability. Our reinsurance programs are generally subject to renewal on an annual basis. If we are unable to renew our expiring facilities or to obtain new reinsurance facilities, either our net exposures would increase, which could increase our costs, or, if we were unwilling to bear an increase in net exposures, we would have to reduce the level of our underwriting commitments, especially catastrophe exposed risks, which would reduce our revenues and possibly net income.

Our reinsurers may not pay on losses in a timely fashion, or at all, which may increase our costs.

Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred or ceded to the reinsurer, ceded reinsurance arrangements do not eliminate our obligation to pay claims to our policyholders. Accordingly, we bear credit risk with respect to our reinsurers. Specifically, our reinsurers may not pay claims made by us on a timely basis, or they may not pay some or all of these claims. Either of these events would increase our costs and could have a material adverse effect on our business.

Intense competition for our products could harm our ability to maintain or increase our profitability and premium volume.

The property and casualty insurance industry is highly competitive. We face competition from both domestic and foreign insurers, many of whom have longer operating histories and greater financial, marketing and management resources. Competition in the types of insurance in which we are engaged is based on many factors, including our perceived overall financial strength, pricing and other terms and conditions of products and services offered, business experience, marketing and distribution arrangements, agency and broker relationships, levels of customer service (including speed of claims payments), product differentiation and quality, operating efficiencies and underwriting. Furthermore, insureds tend to favor large, financially strong insurers, and we face the risk that we will lose market share to higher rated insurers.

We may have difficulty in continuing to compete successfully on any of these bases in the future. If competition limits our ability to write new business at adequate rates, our ability to transact business would be materially and adversely affected and our results of operations would be adversely affected.

We may be unable to attract and retain qualified employees.

We depend on our ability to attract and retain qualified executive officers, experienced underwriters, claims professionals and other skilled employees who are knowledgeable about our specialty lines of business. If the quality of our executive officers, underwriting or claims team and other personnel decreases, we may be unable to maintain our current competitive position in the specialty markets in which we operate and be unable to expand our operations into new specialty markets.

Increases in interest rates may cause us to experience losses.

Because of the unpredictable nature of losses that may arise under insurance policies, we may require substantial liquidity at any time. Our investment portfolio, which consists largely of fixed-income investments, is our principal source of liquidity. The market value of our fixed-income investments is subject to fluctuation depending on changes in prevailing interest rates and various other factors. We do not hedge our investment portfolio against interest rate risk. Increases in interest rates during periods when we must sell fixed-income securities to satisfy liquidity needs may result in realized investment losses.

Our investment portfolio is subject to certain risks that could adversely affect our results of operations and/or financial condition.

Although our investment policy guidelines emphasize total investment return in the context of preserving and enhancing shareholder value and statutory surplus of the insurance subsidiaries, our investments are subject to market-wide risks and fluctuations, as well as to risks inherent in particular types of securities. Due to these risks we may not be able to realize our investment objectives. In addition, we may be forced to liquidate investments at times and prices that are not optimal, which could have an adverse affect on our results of operations. Investment losses could significantly decrease our asset base, thereby adversely affecting our ability to conduct business and pay claims.

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We are exposed to significant capital market risks related to changes in interest rates, credit spreads, equity prices and foreign exchange rates which may adversely affect our results of operations, financial condition or cash flows.

We are exposed to significant capital markets risk related to changes in interest rates, credit spreads, equity prices and foreign currency exchange rates. If significant, declines in equity prices, changes in interest rates, changes in credit spreads and the strengthening or weakening of foreign currencies against the U.S. dollar, individually or in tandem, could have a material adverse effect on our consolidated results of operations, financial condition or cash flows.

Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. Our investment portfolio contains interest rate sensitive instruments, such as fixed income securities, which may be adversely affected by changes in interest rates from governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A rise in interest rates would reduce the fair value of our investment portfolio. It would also provide the opportunity to earn higher rates of return on funds reinvested. Conversely, a decline in interest rates would increase the fair value of our investment portfolio. We would then presumably earn lower rates of return on assets reinvested. We may be forced to liquidate investments prior to maturity at a loss in order to cover liabilities. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to mitigate the interest rate risk of our assets relative to our liabilities.

Included in our fixed income securities are asset-backed and mortgage-backed securities. Changes in interest rates can expose us to prepayment risks on these investments. In periods of declining interest rates, mortgage prepayments generally increase and mortgage-backed securities are prepaid more quickly, requiring us to reinvest the proceeds at the then current rates.

Our fixed income portfolio is invested in high quality, investment-grade securities. However, we are permitted to invest up to 5% of our book value in below investment-grade high yield fixed income securities. These securities, which pay a higher rate of interest, also have a higher degree of credit or default risk. These securities may also be less liquid in times of economic weakness or market disruptions. While we have put in place procedures to monitor the credit risk and liquidity of our invested assets, it is possible that, in periods of economic weakness, we may experience default losses in our portfolio. This may result in a reduction of net income, capital and cash flows.

We invest a portion of our portfolio in common stock or preferred stocks. The value of these assets fluctuates with the equity markets. In times of economic weakness, the market value and liquidity of these assets may decline, and may impact net income, capital and cash flows.

The functional currencies of the Company s principal insurance and reinsurance subsidiaries are the U.S. dollar, U.K. pound and the Canadian dollar. Exchange rate fluctuations relative to the functional currencies may materially impact our financial position. Certain of our subsidiaries maintain both assets and liabilities in currencies different than their functional currency, which exposes us to changes in currency exchange rates. In addition, locally-required capital levels are invested in local currencies in order to satisfy regulatory requirements and to support local insurance operations regardless of currency fluctuations.

Despite our mitigation efforts, an increase in interest rates could have a material adverse effect on our book value.

Capital may not be available in the future, or available on unfavorable terms.

The capital needs of our business are dependent on several factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover our losses. If our current capital becomes insufficient for our future plans, we may need to raise additional capital through the issuance of stock or debt. Otherwise, in the case of insufficient capital, we may need to limit our growth. The terms of an equity or debt offering could be unfavorable, for example, causing dilution to our current shareholders or such securities may have rights, preferences and privileges that are senior to our existing securities. If we were in a situation of having inadequate capital and if we were not able to obtain additional capital, our business, results of operations and financial condition could be adversely affected.

A downgrade in our ratings could adversely impact the competitive positions of our operating businesses.

Ratings are a critical factor in establishing the competitive position of insurance companies. The Insurance Companies are rated by A.M. Best and S&P. A.M. Best s and S&P s ratings reflect their opinions of an insurance company s financial strength, operating performance, strategic position and ability to meet its obligations to policyholders, and are not evaluations directed to investors. Our ratings are subject to periodic review by A.M. Best and S&P. Because these ratings have become an increasingly important factor in establishing the competitive position of insurance companies, if these ratings are reduced, our competitive position in the industry, and therefore our business, could be adversely affected. A significant downgrade could result in a substantial loss of business as policyholders might move to other companies with higher ratings. There can be no assurance that our current ratings will continue for any given period of time. For a further discussion of our ratings, see Business Ratings included herein.

Continued or increased premium levies by Lloyd s for the Lloyd s Central Fund and cash calls for trust fund deposits or a significant downgrade of Lloyd s A.M. Best rating could materially and adversely affect us.

The Lloyd s Central Fund protects Lloyd s policyholders against the failure of a member of Lloyd s to meet its obligations. The Central Fund is a mechanism which in effect mutualizes unpaid liabilities among all members, whether individual or corporate. The fund is available to back Lloyd s policies issued after 1992. Lloyd s requires members to contribute to the Central Fund, normally in the form of an annual contribution, although a special contribution may be levied. The Council of Lloyd s has discretion to call up to 3% of underwriting capacity in any one year.

Policies issued before 1993 have been reinsured by Equitas Insurance Limited (Equitas), an independent insurance company authorized by the Financial Services Authority. However, if Equitas were to fail or otherwise be unable to meet all of its obligations, Lloyd s may take the view that it is appropriate to apply the Central Fund to discharge those liabilities Equitas failed to meet. In that case, the Council of Lloyd s may resolve to impose a special or additional levy on the existing members, including Lloyd s corporate members, to satisfy those liabilities.

Additionally, Lloyd s insurance and reinsurance business is subject to local regulation, and regulators in the United States require Lloyd s to maintain certain minimum deposits in trust funds as protection for policyholders in the United States. These deposits may be used to cover liabilities in the event of a major claim arising in the United States and Lloyd s may require us to satisfy cash calls to meet claims payment obligations and maintain minimum trust fund amounts.

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Any premium levy or cash call would increase the expenses of Millennium Underwriting Ltd. and Navigators Corporate Underwriters Ltd., our corporate members, without providing compensating revenues, and could have a material adverse effect on our results.

We believe that in the event that Lloyd s rating is downgraded, the downgrade could have a material adverse effect on our ability to underwrite business through our Lloyd s Operations and therefore on our financial condition or results of operations.

Our businesses are heavily regulated, and changes in regulation may reduce our profitability and limit our growth.

Our insurance subsidiaries are subject to extensive regulation and supervision in the jurisdictions in which they conduct business. This regulation is generally designed to protect the interests of policyholders, as opposed to insurers and their stockholders and other investors, and relates to authorization for lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non-financial components of an insurance company s business.

Virtually all states require insurers licensed to do business in that state to bear a portion of the loss suffered by some insureds as the result of impaired or insolvent insurance companies. The effect of these arrangements could reduce our profitability in any given period or limit our ability to grow our business.

In recent years, the state insurance regulatory framework has come under increased federal scrutiny, and some state legislatures have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. Further, the NAIC and state insurance regulators are re-examining existing laws and regulations, specifically focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws. Any proposed or future legislation or NAIC initiatives may be more restrictive than current regulatory requirements or may result in higher costs.

In response to the September 11, 2001 terrorist attacks, the United States Congress has enacted legislation designed to ensure, among other things, the availability of insurance coverage for terrorist acts, including the requirement that insurers provide such coverage in certain circumstances. See Business Regulation United States included herein for a discussion of the TRIA, TRIEA and TRIPRA legislation.

The inability of our subsidiaries to pay dividends to us in sufficient amounts would harm our ability to meet our obligations.

The Parent Company is a holding company and relies primarily on dividends from our subsidiaries to meet our obligations for payment of interest and principal on outstanding debt obligations and corporate expenses. The ability of our insurance subsidiaries to pay dividends to the Parent Company in the future will depend on their statutory surplus, on earnings and on regulatory restrictions. For a discussion of our insurance subsidiaries current dividend-paying ability, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources , included herein. The Parent Company and our underwriting subsidiaries are subject to regulation by some states as an insurance holding company. Such regulation generally provides that transactions between companies within our consolidated group must be fair and equitable. Transfers of assets among affiliated companies, certain dividend payments from underwriting subsidiaries and certain material transactions between companies within our consolidated group may be subject to prior notice to, or prior approval by, state regulatory authorities. Our underwriting subsidiaries are also subject to licensing and supervision by government regulatory agencies in the jurisdictions in which they do business. These regulations may set standards of solvency that must be met and maintained, such as the nature of and limitations on investments, the nature of and limitations on dividends to policyholders and stockholders and the nature and extent of required participation in insurance guaranty funds. These regulations may affect our subsidiaries ability to provide us with dividends.

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Catastrophe losses could materially reduce our profitability.

We are exposed to claims arising out of catastrophes, particularly in our marine insurance line of business and our NavTech and Navigators Re businesses. We have experienced, and will experience in the future, catastrophe losses which may materially reduce our profitability or harm our financial condition. Catastrophes can be caused by various natural events, including hurricanes, windstorms, earthquakes, hail, severe winter weather and fires. Catastrophes can also be man-made, such as the World Trade Center attack, or caused by fortuitous events such as the Deepwater Horizon oil rig disaster. The incidence and severity of catastrophes are inherently unpredictable. Although we will attempt to manage our exposure to such events, the frequency and severity of catastrophic events could exceed our estimates, which could have a material adverse effect on our financial condition.

The market price of Navigators common stock may be volatile.

There has been significant volatility in the market for equity securities. The price of Navigators common stock may not remain at or exceed current levels. In addition to the other risk factors detailed herein, the following factors may have an adverse impact on the market price of Navigators common stock:

- actual or anticipated variations in our quarterly results of operations, including the result of catastrophes,
- changes in market valuations of companies in the insurance and reinsurance industry,
- changes in expectations of future financial performance or changes in estimates of securities analysts,
- issuances of common shares or other securities in the future,
- the addition or departure of key personnel, and
- announcements by us or our competitors of acquisitions, investments or strategic alliances.

Stock markets in the United States often experience price and volume fluctuations. Market fluctuations, as well as general political and economic conditions such as recession or interest rate or currency rate fluctuations, could adversely affect the market price of Navigators common stock.

The E.U. Directive on Solvency II may affect how we manage our business, subject us to higher capital requirements and cause us to incur additional costs to conduct our business in the E.U. (including the United Kingdom) and possibly elsewhere.

An E.U. directive covering the capital adequacy, risk management and regulatory reporting for insurers, known as Solvency II, was adopted by the European Parliament in April 2009. Solvency II will introduce a new system of regulation for insurers operating in the E.U. (including the United Kingdom) and presents a number of risks to us. The measures implementing Solvency II are currently subject to a consultation process and are not expected to be finalized until late 2011, with implementation expected to occur on December 31, 2012. Consequently the Company s implementation plans are based on its current understanding of the Solvency II requirements, which may change. During the next two years, we expect to undertake a significant amount of work to ensure that we meet the new requirements, which may divert finite resources from other business related tasks. Although the details of how Solvency II will apply to Navigators Insurance Company, NUAL and Syndicate 1221 are not yet fully known, it is clear that Solvency II will impose new requirements with respect to capital structure, technical provisions, solvency calculations, governance, disclosure and risk management. There is also a risk that Solvency II may increase our capital requirements for our U.K. Branch and Syndicate 1221. These new regulations have the potential to adversely affect the profitability of Navigators Insurance Company, NUAL and Syndicate 1221, and to restrict their ability to carry on their businesses as currently conducted. A significant unanswered question about how Solvency II will be implemented is whether the new regulations will apply only to Navigators Insurance Company s U.K. Branch or to all of its operations, both within and outside of the United Kingdom and the other E.U. countries in which it operates. If the regulations are applied to Navigators Insurance Company in its entirety, we could be subject to even more onerous requirements under the new regulations. Such requirements could have a significant adverse affect our ability to operate profitably and could impose other significant restrictions on our ability to carry on our insurance business in the E.U. (including the United Kingdom) as it is now conducted.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our executive and administrative office is located at 6 International Drive in Rye Brook, NY. Our lease for this space expires in February 2014. Our underwriting operations are in various locations with non-cancelable operating leases including Charlotte, NC, Chicago, IL, Columbia, MD, Coral Gables, FL, Danbury, CT, Houston, TX, Irvine, CA, New York City, NY, Parsippany, NJ, Philadelphia, PA, Pittsburgh, PA, San Francisco, CA, Schaumburg, IL, Seattle, WA, London, England, Antwerp, Belgium, Stockholm, Sweden and Copenhagen, Denmark.

Item 3. LEGAL PROCEEDINGS

In the ordinary course of conducting business, our subsidiaries are involved in various legal proceedings, either indirectly as insurers for parties or directly as defendants. Most the these proceedings are claims litigation involving our subsidiaries as either (a) liability insurers defending or providing indemnity for third party claims brought against insureds or (b) insurers defending first party coverage claims brought against them. We account for such activity through the establishment of unpaid loss and loss adjustment reserves. Our management believes that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and cost of defense, will not be material to our consolidated financial condition, results of operations, or cash flows.

Our subsidiaries are also from time-to-time involved with other legal actions, some of which assert claims for substantial amounts. These actions include claims asserting extra contractual obligations, such as claims involving allegations of bad faith in the handling of claims or the underwriting of policies. In general, we believe we have valid defenses to these cases. Our management expects that the ultimate liability if any, with respect to such extra-contractual matters will not be material to our consolidated financial position. Nonetheless, given the large or indeterminate amounts sought in certain of these matters, and the inherent unpredictability of litigation, an adverse outcome in such matters could, from time-to-time, have a material adverse outcome on our consolidated results of operations or cash flows in a particular fiscal quarter or year.

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In October 2010, Equitas represented by Resolute Management Services Limited (Resolute) commenced litigation and arbitration proceedings (the Resolute Proceedings) against Navigators Management Company, Inc., a wholly-owned subsidiary of the Company (NMC). The arbitration demand and complaint in the Resolute Proceedings allege that NMC failed to make timely payments to Resolute under certain reinsurance agreements in connection with subrogation recoveries received by NMC with respect to several catastrophe losses that occurred in the late 1980 s and early 1990 s. Resolute alleges that it suffered damages of approximately $7.5 million as a result of the alleged delays in payment. The Company believes that the claims of Resolute are without merit and it intends to vigorously contest the claims. While it is too early to predict with any certainty the outcome of the Resolute Proceedings, the Company believes that the ultimate outcome would not be expected to have a significant adverse effect on its results of operations, financial condition or liquidity, although an unexpected adverse resolution of the Resolute Proceedings could have a material adverse effect on the Company s results of operations in a particular fiscal quarter or year.

Part II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The Company s common stock is traded over-the-counter on NASDAQ under the symbol NAVG. Over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions.

The high, low and closing trade prices for the four quarters of 2010 and 2009 were as follows:

	2010			2009		
	High	Low	Close	High	Low	Close
First Quarter	$ 47.99	$ 36.93	$ 39.33	$ 57.58	$ 45.30	$ 47.18
Second Quarter	$ 43.85	$ 36.86	$ 41.13	$ 49.75	$ 42.80	$ 44.43
Third Quarter	$ 45.00	$ 40.92	$ 44.63	$ 56.29	$ 43.59	$ 55.00
Fourth Quarter	$ 52.35	$ 42.82	$ 50.35	$ 57.64	$ 45.83	$ 47.11

Information provided to us by our transfer agent and proxy solicitor indicates that there are approximately 363 holders of record and 3,026 beneficial holders of our common stock.

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Five Year Stock Performance Graph

The Five Year Stock Performance Graph and related Cumulative Indexed Returns table, as presented below, which were prepared with the aid of S&P, reflects the cumulative return on the Company s common stock, the S&P 500 Index and the Insurance Index assuming an original investment in each of $100 on December 31, 2005 (the Base Period) and reinvestment of dividends to the extent declared. Cumulative returns for each year subsequent to 2005 are measured as a change from this Base Period.

The comparison of five year cumulative returns among the Company, the companies listed in the Standard & Poor s 500 Index (S&P 500 Index) and the S&P Property & Casualty Insurance Index (the Insurance Index) is as follows:

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Company / Index	Base Period 2005	2006	Cumulative Indexed Returns Years Ending December 31, 2007	2008	2009	2010
The Navigators Group, Inc.	100.00	110.48	149.05	125.91	108.02	115.45
S&P 500 Index	100.00	115.79	122.16	76.96	97.32	111.98
S&P 500 Property & Casualty Insurance	100.00	112.87	97.11	68.55	76.92	84.02

The following Annual Return Percentage table reflects the annual return on the Company s common stock, the S&P 500 Index and the Insurance Index including reinvestment of dividends to the extent declared.

Company / Index	2006	2007	Annual Return Percentage Years Ending December 31, 2008	2009	2010
The Navigators Group, Inc.	10.48	34.91	-15.52	-14.21	6.88
S&P 500 Index	15.79	5.49	-37.00	26.46	15.06
S&P 500 Property & Casualty Insurance	12.87	-13.96	-29.41	12.21	9.23

Dividends

We have not paid or declared any cash dividends on our common stock. While there presently is no intention to pay cash dividends on the common stock, future declarations, if any, are at the discretion of our Board of Directors and the amounts of such dividends will be dependent upon, among other factors, our results of operations and cash flow, financial condition and business needs, restrictive covenants under our credit facility, the capital and surplus requirements of our subsidiaries and applicable government regulations.

Recent Sales of Unregistered Securities

None

Use of Proceeds from Public Offering of Debt Securities

None

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Purchases of Equity Securities by the Issuer

In November 2009, the Parent Company s Board of Directors adopted a share repurchase program for up to $35 million of the Parent Company s common stock. In March 2010, the Parent Company s Board of Directors adopted a share repurchase program for up to an additional $65 million of the Parent Company s common stock. Purchases are permitted from time to time at prevailing prices in open market or privately negotiated transactions through December 31, 2011. The timing and amount of purchases under the program depend on a variety of factors, including the trading price of the stock, market conditions and corporate and regulatory considerations.

The following table summarizes the Parent Company s purchases of its common stock during 2009 and 2010:

	Total Number of Shares Purchased	Average Cost Paid Per Share		Dollar Value of Shares that May Yet Be Purchased Under the Program (1)	
	($ in thousands, except per share)				
October 2009		$		$	35,000
November 2009	29,021	$	47.30	$	33,627
December 2009	112,555	$	47.83	$	28,243
Subtotal fourth quarter	141,576	$	47.72		
Total 2009 activity	141,576	$	47.72		
January 2010	171,500	$	44.32	$	20,642
February 2010	128,500	$	41.79	$	15,272
March 2010	273,600	$	39.10	$	69,573
Subtotal first quarter	573,600	$	41.27		
April 2010	149,912	$	40.92	$	63,439
May 2010	248,430	$	39.92	$	53,522
June 2010	159,661	$	40.38	$	47,075
Subtotal second quarter	558,003	$	40.32		
July 2010	57,177	$	42.10	$	44,668
August 2010	32,556	$	42.49	$	43,284
September 2010	7,382	$	42.29	$	42,972
Subtotal third quarter	97,115	$	42.25		

October 2010	1,500	$	42.85	$	42,841
November 2010	34,066	$	48.27	$	41,265
December 2010		$		$	41,265
Subtotal fourth quarter	35,566	$	48.04		
Total 2010 activity	1,264,284	$	41.11		
Total share repurchase activity	1,405,860	$	41.78		

(1) Balance as of the end of the month indicated.

The Company did not repurchase any additional shares of its common stock between January 1, 2011 and February 16, 2011 pursuant to its share repurchase program.

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Item 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data including consolidated financial information of the Company for each of the last five calendar years, derived from the Company s audited Consolidated Financial Statements. You should read the table in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , and Item 8, Financial Statements and Supplementary Data , included herein.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	($ in thousands, except per share data)				
Operating Information:					
Gross written premiums	$ 987,201	$ 1,044,918	$ 1,084,922	$ 1,070,707	$ 970,790
Net written premiums	653,938	701,255	661,615	645,796	520,807
Net earned premiums	659,931	683,363	643,976	601,977	468,323
Net investment income	71,662	75,512	76,554	70,662	56,895
Net realized gains (losses) (1)	40,239	(2,660)	(38,299)	2,006	(1,026)
Total revenues	776,975	762,880	683,666	676,659	526,594
Income before income taxes	98,829	86,848	68,731	139,182	106,617
Net income	69,578	63,158	51,692	95,620	72,563
Net income per share:					
Basic	$ 4.33	$ 3.73	$ 3.08	$ 5.69	$ 4.34
Diluted	$ 4.24	$ 3.65	$ 3.04	$ 5.62	$ 4.30
Average common shares outstanding (000s):					
Basic	16,065	16,935	16,802	16,812	16,722
Diluted	16,415	17,322	16,992	17,005	16,856
Combined loss & expense ratio (2):					
Loss ratio	63.8%	63.8%	61.0%	56.6%	57.7%
Expense ratio	36.9%	33.4%	32.8%	30.9%	30.1%
Total	100.7%	97.2%	93.8%	87.5%	87.8%
Balance sheet information (at end of year):					
Total investments and cash	$ 2,154,328	$ 2,056,587	$ 1,917,715	$ 1,767,301	$ 1,475,910
Total assets	3,531,459	3,453,994	3,349,580	3,143,771	2,956,686
Gross losses and LAE reserves	1,985,838	1,920,286	1,853,664	1,648,764	1,607,555
Net losses and LAE reserves	1,142,542	1,112,934	999,871	847,303	696,116
Senior notes	114,138	114,010	123,794	123,673	123,560
Stockholders equity	829,354	801,519	689,317	662,106	551,343
Common shares outstanding (000s)	15,744	16,846	16,856	16,873	16,736
Book value per share (3)	$ 52.68	$ 47.58	$ 40.89	$ 39.24	$ 32.94
Statutory surplus of Navigators Insurance Company	$ 686,919	$ 645,820	$ 581,166	$ 578,668	$ 524,188

(1) Includes Net other-than-temporary impairment losses recognized in earnings.

(2) Calculated based on earned premiums.

(3) Calculated as stockholders equity divided by actual shares outstanding as of the date indicated.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and accompanying notes which appear elsewhere in this Form 10-K. It contains forward-looking statements that involve risks and uncertainties. Please see Note on Forward-Looking Statements and Risk Factors for more information. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Form 10-K.

Overview

We are an international insurance company focusing on specialty products within the overall property/casualty insurance market. Our largest product line and most long-standing area of specialization is ocean marine insurance. We have also developed specialty niches in professional liability insurance and in specialty liability insurance primarily consisting of contractors liability and commercial primary and excess casualty coverages.

Our revenue is primarily comprised of premiums and investment income. We derive our premiums primarily from business written by wholly-owned underwriting management companies which produce, manage and underwrite insurance and reinsurance for us. Our products are distributed through multiple channels, utilizing global, national and regional retail and wholesale insurance brokers.

We conduct operations through our Insurance Companies and our Lloyd s Operations segments. The Insurance Companies segment consists of Navigators Insurance Company, which includes a United Kingdom Branch (the U.K. Branch), and Navigators Specialty Insurance Company, which underwrites specialty and professional liability insurance on an excess and surplus lines basis. All of the insurance business written by Navigators Specialty Insurance Company is fully reinsured by Navigators Insurance Company pursuant to a 100% quota share reinsurance agreement.

Our Lloyd s Operations segment includes Navigators Underwriting Agency Ltd. (NUAL), a Lloyd s of London (Lloyd s) underwriting agency which manages Lloyd s Syndicate 1221 (Syndicate 1221). Our Lloyd s Operatio primarily underwrite marine and related lines of business along with offshore energy, professional liability insurance and construction coverages for onshore energy business at Lloyd s through Syndicate 1221. We controlled 100% of Syndicate 1221 s stamp capacity for the 2010, 2009 and 2008 underwriting years through our wholly-owned subsidiary, Navigators Corporate Underwriters Ltd., which is referred to as a corporate name in the Lloyd s market. We have also established underwriting agencies in Antwerp, Belgium, Stockholm, Sweden and Copenhagen, Denmark, which underwrite risks pursuant to binding authorities with NUAL into Syndicate 1221.

While management takes into consideration a wide range of factors in planning our business strategy and evaluating results of operations, there are certain factors that management believes are fundamental to understanding how we are managed. First, underwriting profit is consistently emphasized as a primary goal, above premium growth. Management s assessment of our trends and potential growth in underwriting profit is the dominant factor in its decisions with respect to whether or not to expand a business line, enter into a new niche, product or territory or, conversely, to contract capacity in any business line. In addition, management focuses on controlling the costs of our operations. Management believes that careful monitoring of the costs of existing operations and assessment of costs of potential growth opportunities are important to our profitability. Access to capital also has a significant impact on management s outlook for our operations. The Insurance Companies operations and ability to grow their business and take advantage of market opportunities are constrained by regulatory capital requirements and rating agency assessments of capital adequacy.

Management s decisions are also greatly influenced by access to specialized underwriting and claims expertise in our lines of business. We have chosen to operate in specialty niches with certain common characteristics which we believe provide us with the opportunity to use our technical underwriting expertise in order to realize underwriting profit. As a result, we have focused on underserved markets for businesses characterized by higher severity and low frequency of loss where we believe our intellectual capital and financial strength bring meaningful value. In contrast, we have avoided niches that we believe have a high frequency of loss activity and/or are subject to a high level of regulatory requirements, such as workers compensation and personal automobile insurance, because we do not believe our technical expertise is of as much value in these types of businesses. Examples of niches that have the characteristics we look for include bluewater hull which provides coverage for physical damage to, for example, highly valued cruise ships, and D&O insurance which covers litigation exposure of a corporation s directors and officers. These types of exposures require substantial technical expertise. We attempt to mitigate the financial impact of severe claims on our results by conservative and detailed underwriting, prudent use of reinsurance and a balanced portfolio of risks.

The discussions that follow include tables that contain both our consolidated and segment operating results for the last three calendar years. In presenting our financial results, we have discussed our performance with reference to underwriting profit or loss and the related combined ratio, both of which are non-GAAP measures of underwriting profitability. We consider such measures, which may be defined differently by other companies, to be important in the understanding of our overall results of operations. Underwriting profit or loss is calculated from net earned premium, less the sum of net losses and LAE, commission expense, other operating expenses and other income (expense). The combined ratio is derived by dividing the sum of net losses and LAE, commission expense, other operating expenses and other income (expense) by net earned premium. A combined ratio of less than 100% indicates an underwriting profit and over 100% indicates an underwriting loss.

For additional information regarding our business, see Business Overview , included herein.

Critical Accounting Policies

It is important to understand our accounting policies in order to understand our financial statements. Management considers certain of these policies to be critical to the presentation of the financial results, since they require management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the financial reporting date and throughout the reporting period. Certain of the estimates result from judgments that can be subjective and complex and, consequently, actual results may differ from these estimates, which would be reflected in future periods.

Our most critical accounting policies involve the reporting of the reserves for losses and LAE (including losses that have occurred but were not reported to us by the financial reporting date), reinsurance recoverables, written and unearned premium, the recoverability of deferred tax assets, the impairment of investment securities and accounting for Lloyd s results.

Reserves for Losses and Loss Adjustment Expenses

Reserves for losses and loss adjustment expenses represent an estimate of the expected cost of the ultimate settlement and administration of losses, based on facts and circumstances then known. Actuarial methodologies are employed to assist in establishing such estimates and include judgments relative to estimates of future claims severity and frequency, length of time to develop to ultimate, judicial theories of liability and other third party factors which are often beyond our control. No assurance can be given that actual claims made and related payments will not be in excess of the amounts reserved. During the loss settlement period, it often becomes necessary to refine and adjust the estimates of liability on a claim either upward or downward. Even after such adjustments, ultimate liability may exceed or be less than the revised estimates.

The numerous factors that contribute to the inherent uncertainty in the process of establishing loss reserves include: interpreting loss development activity, emerging economic and social trends, inflation, changes in the regulatory and judicial environment and changes in our operations, including changes in underwriting standards and claims handling procedures. The process of establishing loss reserves is complex and imprecise as it must take into account many variables that are subject to the outcome of future events. As a result, informed subjective judgments as to our ultimate exposure to losses are an integral component of our loss reserving process.

Our actuaries calculate indicated IBNR loss reserves for each line of business by underwriting year for major products principally using two standard actuarial methodologies which are projection or extrapolation techniques: the loss ratio method and the Bornheutter-Ferguson method. In general the loss ratio method is used to calculate the IBNR for more recent underwriting years while the Bornheutter-Ferguson method is used to calculate the IBNR for more mature underwriting years. When appropriate such methodologies are supplemented by the loss development method and the frequency/severity method which are used to analyze and better comprehend loss development patterns and trends in the data when making selections and judgments. Each of these methodologies, which are described below, are generally applicable to both long tail and short tail lines of business depending on a variety of circumstances. In utilizing these methodologies to develop our IBNR loss reserves, a key objective of management in making their final selections is to deliberate with our actuaries to identify aberrations and systemic changes occurring within historical experience and accurately adjust for them. This process requires the substantial use of informed judgment and is inherently uncertain as it can be influenced by numerous factors including:

- Inflationary pressures (medical and economic) that affect the size of losses;
- Judicial, regulatory, legislative, and legal decisions that affect insurers liabilities;
- Changes in the frequency and severity of losses;
- Changes in the underlying loss exposures of our policies;
- Changes in our claims handling procedures.

There are instances in which facts and circumstances require a deviation from the general process described above. Three such instances relate to the IBNR loss reserve processes for our 2008 Hurricanes losses, our 2005 Hurricanes losses and our asbestos exposures, where extrapolation techniques are not applied, except in a limited way, given the unique nature of hurricane losses and limited population of marine excess policies with potential asbestos exposures. In such circumstances, inventories of the policy limits exposed to losses coupled with reported losses are analyzed and evaluated principally by claims personnel and underwriters to establish IBNR loss reserves.

A brief summary of each actuarial method discussed above follows:

Loss ratio method: This method is based on the assumption that ultimate losses vary proportionately with premiums. Pursuant to the loss ratio method, IBNR loss reserves are calculated by multiplying the earned premium by an expected ultimate loss ratio to estimate the ultimate losses for each underwriting year, then subtracting the reported losses, consisting of paid losses and case loss reserves, to determine the IBNR loss reserve amount. The ultimate loss ratios applied are the Company s best estimates for each underwriting year and are generally determined after evaluating a number of factors which include: information derived by underwriters and actuaries in the initial pricing of the business, the ultimate loss ratios established in the prior accounting period and the related judgments applied, the ultimate loss ratios of previous underwriting years, premium rate changes, underwriting and coverage changes, changes in terms and conditions, legislative changes, exposure trends, loss development trends, claim frequency and severity trends, paid claims activity, remaining open case reserves and industry data where deemed appropriate. Such factors are also evaluated when selecting ultimate loss ratios and/or loss development factors in the methods described below.

Bornheutter-Ferguson method: The Bornheutter-Ferguson method calculates the IBNR loss reserves as the product of the earned premium, an expected ultimate loss ratio, and a loss development factor that represents the expected percentage of the ultimate losses that have been incurred but not yet reported. The loss development factor equals one hundred percent less the expected percentage of losses that have thus far been reported, which is generally calculated as an average of the percentage of losses reported for comparable reporting periods of prior underwriting years. The expected ultimate loss ratio is generally determined in the same manner as in the loss ratio method.

Loss development method: The loss development method, also known as the chainladder or the link-ratio method, develops the IBNR loss reserves by multiplying the paid or reported losses by a loss development factor to estimate the ultimate losses, then subtracting the reported losses, consisting of paid losses and case loss reserves, to determine the IBNR loss reserves. The loss development factor is the reciprocal of the expected percentage of losses that have thus far been reported, which is generally calculated as an average of the percentage of losses reported for comparable reporting periods of prior underwriting years.

Frequency/severity method: The frequency/severity method calculates the IBNR loss reserves by separately projecting claim count and average cost per claim data on either a paid or incurred basis. It estimates the expected ultimate losses as the product of the ultimate number of claims that are expected to be reported and the expected average amount of these claims.

Annual actuarial loss studies are conducted by the Company s actuaries at various times throughout the year for major lines of business employing the methodologies as described above. Additionally, a review of the emergence of actual losses relative to expectations for each line of business, generally derived from the annual loss studies, is conducted each quarter to determine whether the assumptions used in the reserving process continue to form a reasonable basis for the projection of liabilities for each product line. Such reviews may result in maintaining or revising assumptions regarding future loss development based on various quantitative and qualitative considerations. If actual loss activity differs from expectations, an upward or downward adjustment to loss reserves may occur. As time passes, estimated loss reserves for an underwriting year will be based more on historical loss activity and loss development patterns rather than on assumptions based on underwriters input, pricing assumptions or industry experience.

The following discusses the method used for calculating the IBNR for each line of business and key assumptions used in applying the actuarial methods described.

Marine: Generally, two key assumptions are used by our actuaries in setting IBNR loss reserves for major products in this line of business. The first assumption is that our historical experience regarding paid and reported losses for each product where we have sufficient history can be relied on to predict future loss activity. The second assumption is that our underwriters assessments as to potential loss exposures are reliable indicators of the level of our expected loss activity. The specific loss reserves for marine are then analyzed separately by product based on such assumptions, except where noted below, with the major products including marine liability, cargo, P&I, transport and bluewater hull.

The claims emergence patterns for various marine product lines vary substantially. Our largest marine product line is marine liability, which has one of the longer loss development patterns. Marine liability protects an insured s business from liability to third parties stemming from their marine-related operations, such as terminal operations, stevedoring and marina operations. Since marine liability claims generally involve a dispute as to the extent and amount of legal liability that our insured has to a third party, these claims tend to take a longer time to develop and settle. Other longer-tail marine product lines include P&I insurance, which provides coverage for third party liability as well as injury to crew for vessel operators, and transport insurance, which provides both property and third party liability on a primary basis to businesses such as port authorities, marine terminal operators and others engaged in the infrastructure of international transportation. Other marine product lines have considerably shorter periods in which losses develop and settle. Ocean cargo insurance, for example, provides physical damage coverage to goods in the course of transit by water, air or land. By their nature, cargo claims tend to be reported quickly as losses typically result from an obvious peril such as fire, theft or weather. Similarly, bluewater hull insurance provides coverage against physical damage to ocean-going vessels. Such claims for physical damage generally are discovered, reported and settled quickly. The Company currently has extensive experience for all of these products and thus the IBNR loss reserves for all of the marine products are determined using the key assumptions and actuarial methodologies described above. Prior to 2007, however, as discussed below, the Company did not have sufficient experience in the transport product line and instead used its hull and liability products loss development experience as a key assumption in setting the IBNR loss reserves for its transport product.

Property Casualty: The reserves for property and casualty are established separately by product with the major product being contractors liability insurance. Other products include offshore energy, commercial middle markets, primary casualty and excess casualty. Our actuaries generally utilize two key assumptions in this line of business: first, that our historical loss development patterns are reasonable predictors of future loss patterns and second, that our claims personnel s assessment of our claims exposures and our underwriters assessment of our expected losses are reliable indicators of our loss exposure. However, this line of business includes a number of newer products where there is insufficient Company historical experience to project loss reserves and/or loss development is sparse or erratic, which makes extrapolation techniques for those products extremely difficult to apply, and in those circumstances we typically rely more on industry data and our underwriters input in setting assumptions for our IBNR loss reserves as opposed to historical loss development patterns. In addition, as discussed in more detail below with respect to construction defect reserves, our actuaries may take other market trends or events into account in setting IBNR loss reserves.

The substantial majority of the property and casualty loss reserves are for the contractors liability business, which insures mostly general and artisan contractors. Contractor liability claims are categorized into two claim types: construction defect and other general liability. Other general liability claims typically derive from workplace accidents or from negligence alleged by third parties, and frequently take a long time to report and settle. Construction defect claims involve the discovery of damage to buildings that was caused by latent construction defects. These claims take a very long time to report and to settle compared to other general liability claims. Since construction defect claims report much later than other contractor liability claims, they are analyzed separately in an annual actuarial loss study.

We have extensive history in the contractors liability business upon which to perform actuarial analyses and we use the key assumption noted above relating to our own historical experience as a reliable indicator of the future for this product. However, there is inherent uncertainty in the loss reserve estimation process for this line of business given both the long-tail nature of the liability claims and the continuing underwriting and coverage changes, claims handling and reserve changes, and legislative changes that have occurred over a several year period. Such factors are judgmentally taken into account in this line of business in specific periods. The underwriting and coverage changes include the migration to a non-admitted business from admitted business in 2003, which allowed us to exclude certain exposures previously permitted (for example, exposure to construction work performed prior to the policy inception), withdrawals from certain contractor classes previously underwritten and expansion into new states beginning in 2005. Claims changes include bringing the claim handling in-house in 1999 and changes in case reserving practices in 2003 and 2006.

Most recently, in setting the IBNR loss reserves for construction defect claims, our actuaries have begun to consider a new qualitative factor based on their evolving concern with the recent decline in home values caused by the subprime home mortgage crisis and its possible impact on the frequency and severity of construction defect claims. As a result, our actuaries acknowledge this uncertainty and anticipate claims arising from alleged construction defects contributing to housing value declines on policies written on newly constructed homes in our portfolio. We believe our reserves remain adequate to address such potential exposure, but we can give no assurances with respect thereto.

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Offshore energy provides physical damage coverage to offshore oil platforms along with offshore operations related to oil exploration and production. The significant offshore energy claims are generally caused by fire or storms, and thus tend to be large, infrequent, quickly reported, but occasionally not quickly settled because the damage is often extensive but not always immediately known.

Our commercial middle markets or NAV PAC business consists of general liability, auto liability and property exposures for a variety of commercial middle market businesses, principally hospitality, manufacturing and garages. Commencing in 2007, our actuaries are segmenting and analyzing the components of the loss development for this business among the property, liability and auto exposures which had been previously combined. As mentioned in Part I, on January 14, 2011, we announced that we entered into a transaction for the sale of the renewal rights for our middle market commercial package and commercial automobile businesses underwritten through our NAV PAC division. This transaction did not include our Life sciences and exporters package liability products.

Primary casualty insurance provides primary general liability coverage principally to corporations in the construction and manufacturing sector. Excess casualty insurance is purchased by corporations which seek higher limits of liability than are provided in their primary casualty policies. Neither product line has a significant amount of loss activity reported to date. Because we have limited historical experience in these products, the IBNR loss reserves for both of these products are primarily established using the loss ratio method primarily based on our underwriters input and industry loss experience.

Loss reserves include our European property business written by the U.K. Branch which was discontinued in 2008. We have limited loss history and rely primarily on assumptions based on underwriters input and industry experience. In addition, loss reserves for aviation, property and assumed reinsurance business, in run-off since 1999, are periodically monitored and evaluated by claims and actuarial personnel.

Professional Liability: The professional liability policies mainly provide coverage on a claims-made basis mostly for a one-year period. The reserves for professional liability are analyzed separately by product. The major products are D&O liability coverage and E&O liability coverage for lawyers and other professionals.

The losses for D&O business are generally very large and infrequent, and often involve securities class actions. D&O claims report reasonably quickly, but may take several years to settle. Our loss estimates are based on expected losses, an assessment of the characteristics of reported losses at the claim level, evaluation of loss trends, industry data, and the legal, regulatory and current risk environment. Significant judgment is involved because anticipated loss experience in this area is less predictable due to the small number of claims and/or erratic claim severity patterns. As time passes for a given underwriting year, we place additional weight on assumptions relating to our actual experience and claims outstanding. The expected ultimate losses may be adjusted up or down as the underwriting years mature.

The E&O IBNR loss reserve process is similar to the process for D&O, with the exception of a particular book of business of the U.K. Branch written from 2004 through 2006. For the U.K Branch E&O business, we assume the claims, while similar in nature to the claims in the U.S. E&O business, are larger, more frequent and have a longer loss development pattern. The IBNR loss reserves for the U.K. Branch E&O business are determined judgmentally after reviewing recent loss activity relative to the remaining in-force policy count and the loss activity for similar insureds.

Lloyd s Operations: Reserves for the Company s Lloyd s Operations are reviewed separately for the marine and professional liability lines by product. The major marine products are marine liability, offshore energy, cargo, specie and marine reinsurance, and the major products for professional liability are international D&O and international E&O.

The marine liability, offshore energy and cargo products and related loss exposures are similar in nature to that described for marine business above. Specie insurance provides property coverage for chattel, such as jewelry, fine art and cash in transit. Claims tend to be from theft or damage, quick to report and quick to settle. Marine reinsurance is a diversified global book of reinsurance, the majority of which consists of excess-of-loss reinsurance policies for which claims activity tends to be large and infrequent with loss development somewhat longer than for such products written on a direct basis. Marine reinsurance reinsures liability, cargo, hull and offshore energy exposures that are similar in nature to the marine business described above.

The process for establishing the IBNR loss reserves for the marine and professional liability lines of the Lloyd s Operations, and the assumptions used as part of this process, are similar in nature to the process employed by the Insurance Companies.

The Lloyd s Operations products also include property coverages for engineering and construction projects and onshore energy business, which are substantially reinsured. Losses from engineering and construction projects tend to result from loss of use due to construction delays while losses from onshore energy business are usually caused by fires or explosions. Large losses tend to be catastrophic in nature and are heavily reinsured. IBNR loss reserves for attritional losses are established based on the Syndicate s extensive loss experience.

Sensitivity Analysis

We do not calculate a range of loss reserve estimates. We believe that ranges may not be a true reflection of the potential volatility between carried loss reserves and the ultimate settlement amount of losses incurred prior to the balance sheet date.

The actual losses may not emerge as expected, which would cause the ranges to expand or contract from year to year. The impact of these shifts in the ranges will be greater in lines with longer emergence patterns. The individual lines will also have greater variance than the range for the entire book of business. The boundaries of the reasonably likely ranges do not have a symmetrical relationship with our carried reserves and intentionally reflect a wider variation in the increases than for the decreases and, correspondingly, a wider deviation in the deficiency than in the redundancy.

Set forth below is a sensitivity analysis that estimates the effect on our net loss reserve position of using alternative expected loss ratios for the underwriting years 2003 to 2010 and alternative loss development factors for underwriting years beginning in the late 1990 s to 2010 rather than those loss ratios and factors actually used in determining our best estimates at December 31, 2010. The analysis addresses each major line of business and underwriting year for which a material deviation to our overall reserve position is believed reasonably possible, and uses what we believe is a reasonably likely range of potential deviation for each line of business. There can be no assurance, however, that actual reserve development will be materially consistent with either the original or the adjusted expected loss ratios or loss development factor assumptions, or with other assumptions made in the reserving process.

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For the selected alternative expected loss ratios, our actuaries observed the range of ultimate loss ratios recorded for the underwriting years 2003 to 2010 for each major line of business at December 31, 2010.

The reasonably likely ranges of potential deviation in the loss ratios for each line of business for the 2003 to 2010 underwriting years expressed in loss ratio points are as follows:

Reasonably likely loss ratio point variances

	Decrease	Increase
Insurance Companies:		
Marine	6%	8%
Property Casualty	6%	9%
Professional Liability	14%	17%
Lloyd s Operations	7%	12%

For the loss development factor variance, our actuaries employed a standard technique which is based on the historical development factors observed for each line of business from the paid and incurred loss development triangles with the latest evaluation at December 31, 2010. The historical factors are used to generate alternative outcomes which could arise in the ultimate development due to the random variability inherent in future development. The alternative outcomes are generated by a stochastic simulation. The ranges may contract or expand if future development deviates from historical experience.

The reasonably likely ranges of potential deviations in the aggregate or overall loss development factors applicable to the total of all underwriting years for each line of business are as follows:

Reasonably likely ultimate loss development factor variances

	Decrease	Increase
Insurance Companies:		
Marine	9%	13%
Property Casualty	10%	13%
Professional Liability	24%	32%
Lloyd s Operations	12%	16%

Such sensitivity analysis was performed in the aggregate for all products within each line of business. The use of aggregate data was considered more stable and reliable compared to a product-by-product analysis. We cannot assure, however, that such use of aggregate data will provide a more accurate range of the actual variations in loss development. The loss ratio sensitivity analysis uses loss ratios for the 2003 to 2010 underwriting years, which are believed to be more representative compared to years prior to 2003 given our evolving mix of business, product changes and other factors. There can be no assurances, however, that the use of such recent history is more predictive of actual development as compared to employing longer periods of history. In addition, while the net loss reserves include the net loss reserves for asbestos exposures, such amounts were excluded from the sensitivity analysis given the nature of how such reserves are established by the Company. While we believe such net reserves are adequate, we cannot assure that material loss development may not arise in the future from asbestos losses given the complex nature of such exposures.

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The total Company range amounts below were determined by combining the simulated results for each segment into one analysis which estimates a company-wide range reflecting the fact that the individual lines of business are not perfectly correlated. This calculation reflects the reduced volatility benefit from a diversified portfolio of loss exposures. Such amounts may not be representative of the actual aggregate favorable or unfavorable loss development amounts that may occur over time.

	Total Net Loss Reserve	Reasonably Likely Range of Deviation			
		Redundancy		Deficiency	
		Amount	%	Amount	%
		($ in thousands)			
Insurance Companies:					
Marine	$ 216,508	$ 19,486	9%	$ 28,146	13%
Property Casualty	467,353	46,735	10%	60,756	13%
Professional Liability	124,565	29,896	24%	39,861	32%
Total Insurance Companies	808,426	96,117		128,763	
Total Lloyd s Operations	334,116	40,094	12%	53,459	16%
Subtotal	1,142,542	136,211		182,222	
Portfolio effect		(67,658)		(79,393)	
Total Company	$ 1,142,542	$ 68,553	6%	$ 102,829	9%
Increase (decrease) to net income					
Amount		$ 44,559		$ (66,839)	
Per Share [(1)]		$ 2.71		$ (4.07)	

(1) Used 16.4 million average diluted shares outstanding for the year ended December 31, 2010.

Reinsurance Recoverables. Reinsurance recoverables are established for the portion of the loss reserves that are ceded to reinsurers. Reinsurance recoverables are determined based upon the terms and conditions of reinsurance contracts which could be subject to interpretations that differ from our own based on judicial theories of liability. In addition, we bear credit risk with respect to our reinsurers which can be significant considering that certain of the reserves remain outstanding for an extended period of time. We are required to pay losses even if a reinsurer fails to meet its obligations under the applicable reinsurance agreement. Additional information regarding our reinsurance recoverables can be found in the Business Reinsurance Recoverables section and Note 6, *Reinsurance*, to our consolidated financial statements, both included herein.

Written and Unearned Premium. Written premium is recorded based on the insurance policies that have been reported to us and the policies that have been written by agents but not yet reported to us. We must estimate the amount of written premium not yet reported based on judgments relative to current and historical trends of the business being written. Such estimates are regularly reviewed and updated and any resulting adjustments are included in the current year s results. An unearned premium reserve is established to reflect the unexpired portion of each policy at the financial reporting date. Reinsurance reinstatement premium is earned in the period in which the event occurred which created the need to record the reinstatement premium. Additional information regarding our written and unearned premium can be found in Note 1, *Organization and Summary of Significant Accounting Policies*, and Note 6, *Reinsurance*, to our consolidated financial statements, both included herein.

Substantially all of our business is placed through agents and brokers. Since the vast majority of our gross written premiums are primary or direct, as opposed to assumed, the delays in reporting assumed premiums generally do not have a significant effect on our financial statements, since we record estimates for both unreported direct and assumed premium. We also record the ceded portion of the estimated gross written premium and related acquisition costs. The earned gross, ceded and net premiums are calculated based on our earning methodology which is generally pro-rata over the policy period. Losses are also recorded in relation to the earned premium. The estimate for losses incurred on the estimated premium is based on an actuarial calculation consistent with the methodology used to determine incurred but not reported loss reserves for reported premiums.

A portion of our premium is estimated for unreported premium, mostly for the marine business written by our U.K. Branch and Lloyd s Operations. We generally do not experience any significant backlog in processing premiums. Such premium estimates are generally based on submission data received from brokers and agents and recorded when the insurance policy or reinsurance contract is written or bound. The estimates are regularly reviewed and updated taking into account the premium received to date versus the estimate and the age of the estimate. To the extent that the actual premium varies from the estimates, the difference, along with the related loss reserves and underwriting expenses, is recorded in current operations.

Deferred Tax Assets. We apply the asset and liability method of accounting for income taxes whereby deferred assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that the deferred tax assets will be realized. Additional information regarding our deferred tax assets can be found in Note 1, *Organization and Summary of Significant Accounting Policies*, and Note 7, *Income Taxes*, to our consolidated financial statements, both included herein.

Impairment of Invested Assets. Management regularly reviews our fixed maturity and equity securities portfolios to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of investments.

In the first quarter of 2009, we adopted accounting guidance relating to the recognition and presentation of other-than-temporary impairments (OTTI) on fixed maturity securities. When assessing whether the amortized cost basis of a fixed maturity security will be recovered, we compare the present value of cash flows expected to be collected to the current book value. Any shortfalls of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered the credit loss portion of OTTI losses and is recognized in earnings. All non-credit losses are recognized as changes in OTTI losses within Other Comprehensive Income (OCI). Prior to 2009, when a fixed maturity security in our investment portfolio had an unrealized loss that was deemed to be other-than-temporary, we wrote the security down to fair value through a charge to operations.

For equity securities, in general, we focus our attention on those securities whose fair value was less than 80% of their cost for six or more consecutive months. If warranted as the result of conditions relating to a particular security, we will focus on a significant decline in fair value regardless of the time period involved. Factors considered in evaluating potential impairment include, but are not limited to, the current fair value as compared to cost of the security, the length of time the investment has been below cost and by how much. If an equity security is deemed to be other-than-temporarily impaired, the cost is written down to fair value with the loss recognized in earnings.

For equity securities, we consider our intent to hold securities as part of the process of evaluating whether a decline in fair value represents an other-than-temporary decline in value. For fixed maturity securities, we consider our intent to sell a security and whether it is more likely than not that we will be required to sell a security before the anticipated recovery as part of the process of evaluating whether a security s unrealized loss represents an other-than-temporary decline. Our ability to hold such securities is supported by sufficient cash flow from its operations and from maturities within its investment portfolio in order to meet its claims payments and other disbursement obligations arising from its underwriting operations without selling such investments. With respect to securities where the decline in value is determined to be temporary and the security s value is not written down, a subsequent decision may be made to sell that security and realize a loss. Subsequent decisions on security sales are made within the context of overall risk monitoring, changing information and market conditions.

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Day to day management of our investment portfolio is outsourced to third party investment managers. While these investment managers may, at a given point in time, believe that the preferred course of action is to hold securities with unrealized losses that are considered temporary until such losses are recovered, the dynamic nature of the portfolio management may result in a subsequent decision to sell the security and realize the loss based upon a change in market and other factors described above. Investment managers are required to notify management of rating agency downgrades of securities in their portfolios as well as any potential investment valuation issues at the end of each quarter. Investment managers are also required to notify management, and receive approval, prior to the execution of a transaction or series of related transactions that may result in a realized loss above a certain threshold. Additionally, investment managers are required to notify management, and receive approval, prior to the execution of a transaction or series of related transactions that may result in any realized loss up until a certain period beyond the close of a quarterly accounting period.

Accounting for Lloyd s Results. We record Syndicate 1221 s assets, liabilities, revenues and expenses under U.S. GAAP. At the end of the Lloyd s three-year period for determining underwriting results for an account year, the syndicate will close the account year by reinsuring outstanding claims on that account year with the participants for the account s next underwriting year. Additional information regarding our accounting for Lloyd s results can be found in Note 1, *Organization and Summary of Significant Accounting Policies*, to our consolidated financial statements, included herein.

Results of Operations

The following is a discussion and analysis of our consolidated and segment results of operations for the years ended December 31, 2010, 2009 and 2008. All earnings per share data is presented on a per diluted share basis.

Summary

2010 Results

Our total gross written premiums declined 5.5% in 2010 primarily due to several factors:

- Intense competition, excess capacity and a continued weak economy have driven down premiums across the majority of our Marine lines as well as our construction liability line
- The run-off of our personal umbrella line
- A shift in underwriting strategy in our D&O lines toward excess layers

Partially offsetting these factors were:

- An increase in our errors and omissions (E&O) lines primarily due to growth in our Brown & Brown Small Lawyers business
- Improvements in our offshore energy line due to greater demand as well as improved pricing following the Deepwater Horizon incident

With respect to net written premiums, in 2010 we recognized $19.0 million and $3.5 million in reinsurance reinstatement costs triggered by the Deepwater Horizon and West Atlas losses, respectively, which were offset by a reduction in reinsurance purchased on selected lines and shift in business mix toward lines with lower cessions.
Our net investment income declined 5.1% in 2010. Our pre-tax average investment yield declined in 2010 to 3.5% from 3.8% in 2009 resulting from lower short-term yields. Our total investment portfolio increased 4.8% in 2010 and exceeded $2 billion at the end of 2010. We experienced significantly lower investment impairments in our portfolio in 2010 as the financial markets experienced a period of greater stability compared to 2009.
Our overall loss ratio of 63.8% for 2010 was unchanged compared to 2009 and included a $4.9 million increase in the benefit from net prior year loss reserve savings. Although we continued to realize prior year loss reserve savings in our contractors liability lines, we experienced unfavorable prior year development in our D&O and run-off lines.
Our pre-tax underwriting profit declined by $24.4 million to a $4.9 million underwriting loss in 2010 compared to a $19.5 million underwriting profit in 2009. The decline in the pre-tax underwriting profit was primarily due to the recording of net reinstatement premiums of $19.0 million relating to the Deepwater Horizon incident. In addition, the continued soft market reduced rates across most lines and impacted overall profitability in 2010 compared to the prior year.
We recognized $41.3 million of net realized gains in 2010 compared to $9.2 million of net realized gains in 2009. Net realized gains and losses were generated from the sale of securities in the normal course of management of the investment portfolio. Our net realized gains for the year ended December 31, 2010 included the sale of the majority of our general obligation municipal obligations in the second quarter of 2010, the proceeds of which were reinvested in corporate bonds and agency mortgage-backed securities.
Consolidated stockholders equity increased 3.5% to $829.4 million or $52.68 per share at December 31, 2010 compared to $801.5 million or $47.58 per share at December 31, 2009. The increase was primarily due to 2010 net income of $69.6 million partially offset by the repurchase of $52.0 million of shares of our common stock.
Cash flow from operations was $118.2 million, $103.9 million and $245.3 million in 2010, 2009 and 2008, respectively. The increase in cash flow from operations in 2010 compared to 2009 was primarily a result of improved collections on reinsurance recoverable as well as premiums receivable.
2009 Results
2009 net income of $63.2 million increased compared to 2008 primarily as a result of a decrease in net other-than-temporary impairment losses recognized in earnings that caused the net realized loss to decline to $2.7 million in 2009 from $38.3 million in 2008. Underwriting profit for 2009 declined by $19.8 million to $19.5 million compared to $39.3 million in 2008. The decline in the underwriting profit was primarily due to the recording of net favorable development of prior year loss reserves of $8.9 million in 2009 versus $50.7 million in 2008, a decline of $41.8 million. In addition, we recorded a $9.3 million offshore energy loss inclusive of reinstatement premiums resulting from a fire at a mobile offshore drilling unit.

2008 Results

The 2008 results of operations were adversely impacted by hurricane activity and net realized losses. Hurricanes Gustav and Ike reduced 2008 net income by $19.1 million and earnings per share by $1.12. The combined loss and expense ratio was increased by an aggregate 4.3 ratio points for such losses and are inclusive of reinsurance recoveries and related costs for reinsurance reinstatement premiums. Excluding these effects, the underwriting results benefited from increased net premium revenues despite continuing softening market conditions, and the recording of net favorable development of prior years loss reserves of $50.7 million, or $1.94 per share, which reduced the 2008 combined ratio of 93.8% by 7.9 loss ratio points.

Net realized losses were $38.3 million in 2008 compared to net realized gains of $2.0 million in 2007. The 2008 net realized losses include provisions of $37.0 million for declines in the market value of securities which were considered to be other-than-temporary. These provisions reduced 2008 net income by $24.1 million and earnings per share by $1.42 per share.

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Revenues

The following table sets forth our gross and net written premiums, and net earned premiums by segment and line of business for the periods indicated:

	Year Ended December 31,											
	2010				2009				2008			
	Gross Written Premiums	%	Net Written Premiums	Net Earned Premiums	Gross Written Premiums	%	Net Written Premiums	Net Earned Premiums	Gross Written Premiums	%	Net Written Premiums	Ne Earn Premi
					($ in thousands)							
rance panies:												
ine	$ 223,061	23%	$ 151,059	$ 155,846	$ 241,438	23%	$ 171,289	$ 157,534	$ 248,080	23%	$ 147,569	$ 132,
erty alty	312,651	31%	197,845	200,741	352,285	34%	227,234	246,143	405,062	37%	261,322	273,
essional ility	129,793	13%	80,451	82,264	137,053	13%	79,150	75,444	109,048	10%	63,797	57,
rance panies l	665,505	67%	429,355	438,851	730,776	70%	477,673	479,121	762,190	70%	472,688	463,
d s rations:												
ine	182,723	19%	149,340	149,225	191,959	19%	156,153	142,958	192,568	18%	132,788	126,
erty alty	94,799	10%	54,049	49,852	78,151	7%	45,097	39,330	91,292	8%	32,735	32,
essional ility	44,174	4%	21,194	22,003	44,032	4%	22,332	21,954	38,872	4%	23,404	21,
d s rations l	321,696	33%	224,583	221,080	314,142	30%	223,582	204,242	322,732	30%	188,927	180,
l	$ 987,201	100%	$ 653,938	$ 659,931	$ 1,044,918	100%	$ 701,255	$ 683,363	$ 1,084,922	100%	$ 661,615	$ 643,

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Gross Written Premiums

The premium rate increases or decreases as noted below for marine, property casualty and professional liability are calculated primarily by comparing premium amounts on policies that have renewed. The premiums are judgmentally adjusted for exposure factors when deemed significant and sometimes represent an aggregation of several lines of business. The rate change calculations provide a pricing trend and are not meant to be a precise analysis. The calculation can also be affected quarter by quarter depending on the particular policies and the number of policies that renew during that period. Due to market conditions, these rate changes may or may not apply to new business which potentially may be more competitively priced compared to renewal business.

Insurance Companies Gross Written Premiums

Marine Premiums. The gross written premiums by year, including the line of business gross written premiums as a percentage of the total gross written premiums, consisted of the following:

	Twelve Months Ended December 31,					
	2010		**2009**		**2008**	
	($ in thousands)					
Marine liability	$ 77,066	36%	$ 83,915	34%	$ 82,991	32%
Inland marine	29,986	13%	28,573	12%	23,914	10%
Cargo	23,179	10%	26,636	11%	34,202	14%
Craft/Fishing vessel	19,948	9%	19,758	8%	16,545	7%
Other	18,917	8%	15,977	7%	21,246	9%
Bluewater hull	18,610	8%	19,691	8%	17,234	7%
Transport	17,876	8%	21,527	9%	23,013	9%
P&I	17,479	8%	25,361	11%	28,935	12%
Total	$ 223,061	100%	$ 241,438	100%	$ 248,080	100%

The marine gross written premiums for 2010 decreased 7.6% to $223.1 million compared to 2009 due to declining premium in our P&I, marine liability, transport and cargo businesses. The competition in this sector remains significant and excess capacity continues to exist. The weak economy has also led to reduced exposure bases which reduced premiums. The average marine renewal premium rates during 2010 increased approximately 1%. The marine gross written premiums for 2009 decreased 2.7% to $241.4 million compared to 2008 due to declining premium in our cargo, war and P&I businesses due to increased competitive market conditions. The average marine renewal premium rates during 2009 increased approximately 2%.

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Property Casualty Premiums. The gross written premiums by year, including the line of business gross written premiums as a percentage of the total gross written premiums, consisted of the following:

	Twelve Months Ended December 31,					
	2010		**2009**		**2008**	
	($ in thousands)					
Commercial umbrella	$ 96,015	30%	$ 81,405	23%	$ 63,977	16%
Construction liability	88,296	28%	108,744	32%	147,880	37%
Offshore energy	52,148	17%	47,368	13%	56,989	14%
Nav Pac	39,293	13%	40,428	11%	30,095	7%
Primary Casualty	18,954	6%	8,598	2%	45,708	11%
Other	17,945	6%	65,742	19%	60,413	15%
Total	$ 312,651	100%	$ 352,285	100%	$ 405,062	100%

The 2010 property casualty gross written premiums decreased 11.3% to $312.7 million when compared to 2009 due primarily to the run-off of our personal umbrella line as well as continuing weak economic conditions that have reduced demand for construction liability insurance. Our Offshore energy line increased by 10.1% due to greater demand as well as an improved pricing environment resulting from the Deepwater Horizon incident. Finally, our commercial umbrella business line experienced growth in 2010 due to the investments we made in 2008 and 2009 in new underwriters. Our Offshore energy line saw average renewal rate increases of approximately 4%, whereas our contractors liability and excess casualty saw average renewal rate decreases of approximately 5% and 3%, respectively. Our primary casualty line saw a slight average renewal rate decline from 2009.

The 2009 property casualty gross written premiums decreased 13.0% to $352.3 million when compared to 2008 reflecting weak economic conditions that have significantly reduced demand for construction liability, particularly in the western United States, as well as primary excess and surplus insurance. The construction liability line has also seen significant increases in the level of competition from new entrants. Our offshore energy line declined as we wrote very little Gulf of Mexico wind business in 2009 as the terms and conditions were not sufficient and worldwide drilling activity slowed. Partially offsetting these declines was an increase in gross written premiums for our commercial umbrella line and our retail umbrella line which was introduced in 2009. Our NavTech and excess casualty lines saw average renewal rate increases of approximately 8% and 2%, respectively, whereas our contractors liability and NavPac lines saw average renewal rate decreases of approximately 2% and 4%, respectively.

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Professional Liability Premiums. The gross written premiums by year, including the line of business gross written premiums as a percentage of the total gross written premiums, consisted of the following:

	Twelve Months Ended December 31,					
	2010		**2009**		**2008**	
	($ in thousands)					
D&O (public and private)	$ 73,515	57%	$ 99,601	73%	$ 75,010	69%
Errors and omissions	34,135	26%	32,129	23%	28,097	26%
Small Lawyers	17,725	14%		0%		0%
Architects & Engineers	4,418	3%	5,323	4%	5,941	5%
Total	$ 129,793	100%	$ 137,053	100%	$ 109,048	100%

The professional liability gross written premiums decreased 5.3% to $129.8 million in 2010 compared to 2009. The decline in the D&O gross written premiums was driven by the soft market conditions. The D&O market rates have declined to a level that has made it difficult to write new business and a challenge to retain renewal policies while maintaining our pricing discipline in adherence to our underwriting guidelines. The D&O pricing environment does not appear to be improving with ample capacity coupled with weak insurance buying demand due to the anemic economy. Average 2010 renewal premium rates for professional liability decreased approximately 4% in 2010 compared to 2009.

In 2009 we initiated the Brown & Brown Small Lawyers program. Despite adverse market conditions, we were successful in developing a significant portion of the portfolio in segments consistent with our underwriting approach and risk appetite. The Architects and Engineers book has transitioned from being underwritten by an MGA to being underwritten by the Company.

The professional liability gross written premiums increased 25.7% to $137.1 million in 2009 compared to 2008 reflecting continued growth and the expansion of our directors and officers business. Partially offsetting the growth was a reduction in lawyers business within the errors and omissions classification as we were in the process of re-underwriting that line and focusing more on other segments, such as miscellaneous professional liability. Average 2009 renewal premium rates for this business increased approximately 2% in 2009 compared to 2008.

Lloyd s Operations Gross Written Premiums

Marine Premiums. The gross written premiums by year, including the line of business gross written premiums as a percentage of the total gross written premiums, consisted of the following:

	Twelve Months Ended December 31,					
	2010		**2009**		**2008**	
	($ in thousands)					
Cargo and specie	$ 78,515	43%	$ 92,139	48%	$ 92,789	47%
Marine liability	61,230	34%	51,204	27%	58,886	31%
Hull	18,633	10%	18,697	10%	16,416	9%
Assumed reinsurance	14,380	8%	19,756	10%	17,078	9%
War	9,965	5%	10,163	5%	7,399	4%
Total	$ 182,723	100%	$ 191,959	100%	$ 192,568	100%

The 2010 Lloyd s marine gross written premiums decreased 4.8% to $182.7 million compared to 2009 due to declines mostly in Cargo and specie lines as a result of the global economic slowdown. Our marine liability lines experienced a 19.6% increase due to improved energy liability activity. The overall 2009 Lloyd s marine gross written premiums of $192.0 million were flat compared to 2008. There were increases in most lines of business which were offset by decreases in marine liability and cargo lines. The average renewal premium rates increased approximately 3% and 9% in 2010 and 2009 compared to the previous years, respectively.

Property Casualty Premiums. The gross written premiums by year, including the line of business gross written premiums as a percentage of the total gross written premiums, consisted of the following:

	Twelve Months Ended December 31,					
	2010		**2009**		**2008**	
	($ in thousands)					
Offshore Energy	$ 43,479	46%	$ 34,469	43%	$ 51,073	56%
Engineering and Construction	23,411	25%	18,383	24%	21,036	23%
Onshore Energy	17,349	18%	14,055	18%	12,726	14%
Bloodstock	7,487	8%	7,726	10%		0%
US Property Casualty	3,034	3%	3,594	5%	826	1%
Property	39	0%	(76)	0%	5,631	6%
Total	$ 94,799	100%	$ 78,151	100%	$ 91,292	100%

The 2010 Lloyd s property casualty gross written premiums of $94.8 million increased 21.3% compared to 2009 due to increases in our offshore energy, onshore energy and engineering and construction lines. The significant increase in our offshore energy lines was due to an increase in demand as well as an improved pricing environment as a result of the Deepwater Horizon incident. The 2009 Lloyd s property casualty gross written premiums of $78.2 million decreased 14.4% compared to 2008 due to a decline in our offshore energy and engineering and construction lines as well as the cessation of writing our property line. We began writing Bloodstock (animal mortality) business during 2009 by participating in a facility originated by another Lloyd s syndicate. Average premium renewal rates in our NavTech lines increased approximately 1% and 10% in 2010 and 2009 compared to the previous years, respectively.

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Professional Liability Premiums. The gross written premiums by year, including the line of business gross written premiums as a percentage of the total gross written premiums, consisted of the following:

	Twelve Months Ended December 31,					
	2010		**2009**		**2008**	
	($ in thousands)					
D&O (public and private)	$ 30,777	70%	$ 26,776	61%	$ 15,845	41%
E&O	13,397	30%	17,256	39%	23,027	59%
Total	$ 44,174	100%	$ 44,032	100%	$ 38,872	100%

The 2010 and 2009 Lloyd s professional liability gross written premiums increased 0.3% and 13.3% to $44.2 million and $44.0 million, respectively, compared to the respective prior year. We added a team at Lloyd s at the end of 2008 to write excess D&O business. During 2008 and 2009 we began writing professional liability business from our offices in Stockholm, Sweden and Copenhagen, Denmark, respectively.

Ceded Written Premiums In the ordinary course of business, we reinsure certain insurance risks with unaffiliated insurance companies for the purpose of limiting our maximum loss exposure, protecting against catastrophic losses, and maintaining desired ratios of net premiums written to statutory surplus. The relationship of ceded to written premiums varies based upon the types of business written and whether the business is written by the Insurance Companies or the Lloyd s Operations.

The following table sets forth our ceded written premiums by segment and major line of business for the periods indicated:

	2010		**2009**		**2008**	
	Ceded Written Premiums	**% of Gross Written Premiums**	**Ceded Written Premiums**	**% of Gross Written Premiums**	**Ceded Written Premiums**	**% of Gross Written Premiums**
	($ in thousands)					
Insurance Companies:						
Marine	$ 72,002	32.3%	$ 70,149	29.1%	$ 100,511	40.5%
Property Casualty	114,806	36.7%	125,051	35.5%	143,740	35.5%
Professional Liability	49,342	38.0%	57,903	42.2%	45,251	41.5%
Subtotal	236,150	35.5%	253,103	34.6%	289,502	38.0%
Lloyd s Operations:						
Marine	33,383	18.3%	35,806	18.7%	59,780	31.0%
Property Casualty	40,750	43.0%	33,054	42.3%	58,557	64.1%
Professional Liability	22,980	52.0%	21,700	49.3%	15,468	39.8%
Subtotal	97,113	30.2%	90,560	28.8%	133,805	41.5%
Total	$ 333,263	33.8%	$ 343,663	32.9%	$ 423,307	39.0%

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The percentage of total ceded written premiums to total gross written premium in 2010 was 33.8% compared to 32.9% in 2009 and 39.0% in 2008. For the year ended December 31, 2010, the shift in business mix toward lines with lower cessions was offset by the impact of reinsurance reinstatement costs of $19.0 million and $3.5 million resulting from the Deepwater Horizon and West Atlas losses, respectively. The Insurance Companies and Lloyd s Operations 2008 ceded written premiums includes $7.2 million and $5.0 million, respectively, of reinsurance reinstatement premiums related to the losses from Hurricanes Gustav and Ike. Excluding the effect of reinsurance reinstatement premiums for the 2008 Hurricanes losses, the ratio of ceded written premium to gross written premium was 38.4%. The declines in the ratio of ceded written premiums to gross written premiums in 2009 compared to 2008 was due to a reduction in the amount of marine and energy quota share reinsurance purchased for both the Insurance Companies and Lloyd s Operations in 2009 as well as the impact of the $12.2 million of reinsurance reinstatement premiums recognized in 2008 relating to the 2008 Hurricanes.

Net Written Premiums The 2010 net written premiums decreased 6.7% compared to 2009. The impact of lower gross written premiums was offset by the decline in ceded written premiums discussed above. The 2009 net written premiums increased 6.0% compared to 2008 primarily due to the aforementioned reduction in the amount of marine and energy quota share reinsurance purchased in 2009. The 2009 increase was 4.1% compared to 2008 when excluding the $12.2 million of ceded reinstatement premiums resulting from the 2008 Hurricanes.

Net Earned Premiums Net earned premiums decreased 3.4% in 2010 compared to 2009 and increased 6.1% in 2009 compared to 2008. The changes in the 2010 and 2009 net earned premiums reflect the changes in written premiums discussed above. The 2008 net earned premium was reduced by $12.2 million of reinstatement premium as a result of the losses from the 2008 Hurricanes. Excluding the effects of ceded reinstatement premiums as a result of the 2008 Hurricanes, net earned premium increased 4.1% in 2009 compared to 2008 and 9.0% in 2008 compared to 2007.

Net Investment Income Net investment income decreased 5.1% in 2010 to $71.7 million and 1.4% in 2009 to $75.5 million as a result of lower investment yields partially offset by an increase in invested assets resulting from positive cash flow from operations. The pre-tax investment yield was 3.5%, 3.8% and 4.1% in 2010, 2009 and 2008, respectively. See the Investments section below for additional information regarding our net investment income.

Net Other-Than-Temporary Impairment Losses Recognized in Earnings

Our net other-than-temporary impairment losses recognized in earnings for the periods indicated were as follows:

	Year Ended December 31, 2010	2009	2008
		($ in thousands)	
Fixed maturities	$ (693)	$ (3,101)	$ (8,604)
Equity securities	(387)	(8,776)	(28,441)
Net other-than-temporary impairment losses recognized in earnings	$ (1,080)	$ (11,877)	$ (37,045)

The 2010 other-than-temporary impairments were primarily related to residential mortgage-backed securities. The after-tax effects of net other-than-temporary impairment losses recognized in earnings for 2010 was $0.7 million or $0.05 per diluted share.

The 2009 other-than-temporary impairments were primarily related to additional impairments on equity securities that were impaired in 2008 as well as impairments on residential mortgage-backed securities. The after tax effect of net other-than-temporary impairment losses recognized in earnings on the 2009 net income was $7.8 million or $0.45 per diluted share. In 2009, we recognized in earnings OTTI losses of $2.5 million and $0.08 million related to non-agency mortgage and asset backed securities, respectively. In 2009, we recognized in earnings OTTI losses of $8.8 million on 56 common stocks resulting from additional impairments on equity securities that were impaired in 2008. In addition, in 2009 we recognized in earnings OTTI losses of $0.6 million on 2 corporate bonds.

The 2008 other-than-temporary impairments were primarily due to equity impairments where the market value of the security was less than 80% of the book value for six consecutive months resulting from the significant overall market declines in the second half of 2008. In addition, 2008 also included impairments on residential mortgage-backed securities. During 2008, we indentified equity securities with fair value of $34.4 million which were considered to be other-than-temporarily impaired.

Consequently, the cost of such securities was written down to fair value and we recognized realized losses of $28.4 million. The equity impairments include $8.6 million in write-downs to fair value for various broad based ETFs and mutual funds where the fair value was less than 80% of the book value. During 2008, we indentified fixed maturity securities with fair value of $7.4 million which were considered to be other-than-temporarily impaired. Consequently, the cost of such securities was written down to fair value and we recognized realized losses of $8.6 million.

The significant inputs used to measure the amount of credit loss recognized in earnings were actual delinquency rates, default probability assumptions, severity assumptions and prepayment assumptions. Projected losses are a function of both loss severity and probability of default. Default probability and severity assumptions differ based on property type, vintage and the stress of the collateral. We do not intend to sell any of these securities and it is more likely than not that we will not be required to sell these securities before the recovery of the amortized cost basis.

Net Realized Gains (Losses)

Our realized gains and losses for the periods indicated were as follows:

	Year Ended December 31,		
	2010	2009	2008
		($ in thousands)	
Fixed maturities:			
Gains	$ 42,932	$ 18,312	$ 3,650
(Losses)	(3,239)	(9,676)	(1,670)
	39,693	8,636	1,980
Equity securities:			
Gains	1,867	2,110	720
(Losses)	(241)	(1,529)	(3,954)
	1,626	581	(3,234)
Net realized gains (losses)	$ 41,319	$ 9,217	$ (1,254)

Pre-tax net income included $41.3 million of net realized gains for 2010 compared to $9.2 million of net realized gains for 2009 and net realized losses of $1.3 million for 2008. On an after-tax basis, the net realized gains for 2010 were $26.9 million or $1.64 per diluted share compared to net realized gains of $5.9 million or $0.34 per diluted share for 2009 and net realized losses of $0.8 million or $0.05 per diluted share for 2008. Net realized gains and losses are generated from the sale of securities in the normal course of management of the investment portfolio. Our net realized gains for the year ended December 31, 2010 included the sale of the majority of our general obligation municipal obligations in the second quarter of 2010, the proceeds of which were reinvested in corporate bonds and agency mortgage-backed securities.

Other Income/(Expense) Other income/(expense) for 2010, 2009 and 2008 consisted primarily of commission income, foreign exchange gains and losses from our Lloyd s Operations and inspection fees related to our specialty insurance business.

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Operating Expenses

Net Losses and Loss Adjustment Expenses Incurred

The ratios of net losses and loss adjustment expenses to net earned premiums (loss ratios) were 63.8% in both 2010 and 2009 and 61.0% in 2008. The 2010 loss ratio of 63.8% was favorably impacted by 2.1 loss ratio points resulting from a $13.8 million net favorable development of prior years loss reserves.

During the year ended December 31, 2010, we incurred gross loss and loss adjustment expenses of $88.1 million relating to the Deepwater Horizon incident. We ceded $82.1 million of this gross loss to our reinsurance program, resulting in reinsurance reinstatement premiums of $19.0 million. The remaining net loss of $6.0 million was within our loss expectations for the current year. The impact of the Deepwater Horizon loss and related reinstatement premiums on the 2010 loss ratio was an increase of 1.9 loss ratio points.

The 2009 loss ratio of 63.8% was favorably impacted by 1.3 loss ratio points resulting from an $8.9 million net favorable development of prior years loss reserves. The 2008 loss ratio of 61.0% was favorably impacted by 7.9 loss ratio points resulting from a $50.7 million net favorable development of prior years loss reserves and adversely impacted by 3.7 loss ratio points related to the 2008 Hurricanes. The result of underwriting losses caused by Hurricanes Gustav and Ike of approximately $29.3 million, including $12.2 million of reinstatement costs, increased the 2008 combined ratio by 4.3 ratio points.

During 2008, reserve reductions resulting from periodic reviews of the 2005 Hurricanes exposures reduced gross losses incurred by $12.3 million. The reductions to the 2005 Hurricanes gross reserve estimates resulted in reductions of $1.0 million to our 2008 net loss incurred estimates and reductions of $0.8 million to our 2008 reinstatement cost estimates. During 2009 there was a minor increase in the gross and net losses incurred for the 2005 Hurricanes of $0.7 million and $0.1 million, respectively. In 2010, we reduced gross and net losses incurred by $2.3 million and $3.6 million, respectively.

Prior Year Reserve Redundancies/Deficiencies

As part of our regular review of prior reserves, our actuaries may determine, based on their judgment, that certain assumptions made in the reserving process in prior years may need to be revised to reflect various factors, likely including the availability of additional information. As a result of their reserve analyses, management may make corresponding reserve adjustments.

Prior year reserve redundancies of $13.8 million, $8.9 million and $50.7 million net of reinsurance were recorded in 2010, 2009 and 2008, respectively, as discussed below. The relevant factors that may have a significant impact on the establishment and adjustment of loss and LAE reserves can vary by line of business and from period to period.

To the extent that reserves are deficient or redundant, the amount of such deficiency or redundancy is recorded as a charge or credit to earnings in the period in which the deficiency or redundancy is identified based on the information that is available at that time.

The segment and line of business breakdowns of prior period net reserve deficiencies (redundancies) were as follows:

	Year Ended December 31, 2010	2009	2008
	($ in thousands)		
Insurance Companies:			
Marine	$ (4,155)	$ 11,893	$ (5,298)
Property Casualty	(14,923)	(35,658)	(33,065)
Professional Liability	13,623	20,686	(3,559)
Insurance Companies	$ (5,455)	$ (3,079)	$ (41,922)
Lloyd s Operations	(8,347)	(5,862)	(8,824)
Total	$ (13,802)	$ (8,941)	$ (50,746)

Following is a discussion of relevant factors impacting our 2010 loss reserves:

The Insurance Companies recorded $4.2 million of net prior year favorable development for the marine business, of which $2.6 million arose in the marine liability business due to favorable loss emergence relative to our expectations and $1.4 million in Hull as we eliminated IBNR in older underwriting years where we determined the year had been fully reported and saw case reserve reductions on a number of claims.

The Insurance Companies recorded $14.9 million of net prior year savings for property casualty business in total. The favorable development included:

- $29.2 million for West Coast contractors liability due to an internal actuarial review conducted in 2010 which indicated that loss development on underwriting years 2006 to 2008 has been more favorable than our prior expectations with a partial offset for underwriting years 2004 and prior. This internal review includes a more detailed analysis than is included in our regular quarterly reserving process.
- $2.9 million of favorable development on our offshore energy (NavTech) book due to favorable claims trends across a number of prior underwriting years.
- $1.8 million of favorable development on the Somerset Re run-off book of business where we concluded the IBNR was no longer required and $1.5 million on our Agriculture reinsurance book where the reported activity was lower than our initial estimate for the 2009 treaty year.

Partially offsetting these favorable developments were adverse development of:

- $16.5 million in our Specialty run-off books of business, including $13.3 million in our personal umbrella lines across multiple underwriting years where loss activity has exceeded our expectations and $2.0 million of adverse development in our Liquor business due to reported claim activity.
- $1.7 million for New York construction liability due to unfavorable loss emergence.

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The Insurance Companies recorded $13.6 million of net prior year unfavorable development for professional liability:

- The directors and officers liability book of business had $15.7 million of adverse development, which was primarily attributable to a severity study of our open claims completed during the fourth quarter. This study showed our IBNR to be significantly deficient if current trends continued and we raised our loss estimates for underwriting years 2002 to 2009. This was partially offset by $1.4 million of favorable development on a run-off lawyers book of business written from London where we saw favorable settlements of outstanding claims and $0.7 million of favorable development on other lawyers business mostly due to a favorable claim reserve settlement.

The Lloyd s Operations recorded $8.3 million in favorable loss development for prior years during 2010. This included favorable development of $3.2 million in Marine, $4.8 million in NavTech, and $0.5 million in all other areas. The Marine favorable development was primarily from the 2007 and 2008 underwriting years and was driven by loss development on these underwriting years being more favorable than our expectations, particularly in marine liability, assumed reinsurance, and specie classes. NavTech s favorable development was mostly from the 2006 through 2008 underwriting years driven by favorable claims trends in the offshore energy.

Following is a discussion of relevant factors impacting our 2009 loss reserves:

The Insurance Companies recorded $11.9 million of net prior year unfavorable development for the marine business, of which $10.6 million arose in the marine liability business due to large loss activity in excess of our prior expectations mostly across underwriting years 2005 to 2008 that we recognized by reserve strengthening.

The Insurance Companies recorded $35.7 million of net prior year savings for property casualty business in total. The favorable development included:

- $36.5 million for contractors liability due to an actuarial review conducted in 2009 which indicated that loss development on the 2006 and prior underwriting years has been more favorable than our prior expectations for those underwriting years
- $9.3 million from our primary E&S lines and $6.2 million in excess casualty business due to favorable loss trends in underwriting years 2007 and prior
- $8.0 million of favorable development on our offshore energy (NavTech) book due to favorable claims trends across a number of prior underwriting years

Partially offsetting these favorable developments were adverse development of:

- $12.0 million in our Nav Pac business due to reported loss activity in excess of our prior expectations from most underwriting years resulting from reviews of open claims in the auto and liability lines of business
- $6.4 million from our liquor business, which is now in run-off
- $5.9 million in our personal umbrella books of business across most underwriting years where large loss activity has exceeded our expectations

The Insurance Companies recorded $20.7 million of net prior year unfavorable development for professional liability:

- The directors and officers liability book of business had $12.4 million of adverse development, which was primarily attributable to the unexpected development of previously reported claims in the 2006 and prior underwriting years. This loss activity was inconsistent with the loss emergence trends that we observed in calendar years 2007 and 2008 and it caused us to increase our ultimate loss projections in the 2006 and prior underwriting years, as well as those in the more current underwriting years.
- The lawyers liability book of business had adverse development of $8.3 million due to reported loss activity in underwriting years 2005 to 2008 in excess of our prior expectations.

The Lloyd s Operations recorded $5.9 million of net favorable development which included $11.0 million on Marine business concentrated in the liability specie and cargo books due to reported losses being less than our expectations in underwriting years 2004 to 2008 and $2.5 million on offshore energy business due to favorable loss trends in several years, partially offset by $4.7 million of adverse loss development in the professional liability books due to reported loss activity in excess of our expectations in the lawyers liability book of business for losses occurring in 2007 and $3.0 million in the property book due to an extension in the loss development pattern for the 2006 and 2007 underwriting years.

Following is a discussion of relevant factors impacting our 2008 loss reserves:

The Insurance Companies recorded $5.3 million of net prior year savings for marine business, primarily comprised of $4.7 million of savings in the marine liability business, $2.8 million of savings in the protection and indemnity business, $1.4 million of savings in the transport business and $1.4 million of savings due to a review of reinsurance recoverable in the second quarter of 2008, partially offset by $2.7 million of strengthening in the cargo business, $1.4 million of strengthening in the craft and hull businesses, and $0.7 million recorded for a commutation with a reinsurer. The favorable development for marine liability, protection and indemnity, and transport was primarily due to reduced claims activity for underwriting years 2003 through 2006 as well as IBNR loss reserve reductions that resulted from the reduced claims activity. The adverse development for cargo, craft and hull was primarily due to several large claims in underwriting years 2005 and 2006.

The Insurance Companies recorded $33.1 million of net prior year savings for property casualty business. This included $31.6 million savings in the contractors liability business, $3.8 million of savings in the offshore energy business, $3.7 million of net prior year savings in the property and aviation run-off business $1.4 million of savings in the commercial umbrella business, $1.0 million of savings in the personal umbrella business, and $0.8 million of savings in the primary E&S business; partially offset by $1.6 million of net adverse development in the middle markets business as a result of an actuarial analysis that indicated that strengthening is required for the automobile coverage due to frequency and severity in excess of our expectations and $7.1 million of strengthening due to greater than expected loss activity in a discontinued liquor liability program and $0.8 million of strengthening in the program business. The favorable development for contractors liability, commercial umbrella, personal umbrella and primary E&S were primarily due to reduced claims activity in underwriting years 2003 through 2006. The favorable development for the aviation business was as a result of an actuarial analysis that indicated that the losses are substantially reported and the IBNR loss reserves could be reduced. The adverse development for the liquor liability business was due to a discontinued program and the adverse development on the programs business was due to an active program.

The Insurance Companies recorded $3.6 million of net prior year savings for professional liability. This was primarily due to the reduction in case and IBNR reserves for the directors and officers business in underwriting years 2004 through 2006 resulting from reported losses being less than anticipated during 2008.

The Lloyd s Operations recorded $8.8 million of net prior year savings, primarily in the marine liability, energy, specie and reinsurance business for underwriting years 2005 and prior. The favorable development is the result of more extensive analysis of the potential future development which led us to shorten the development patterns.

Hurricanes Gustav and Ike

During 2008, we recorded gross and net loss estimates of $114.0 million and $17.2 million, respectively, exclusive of $12.2 million for the cost of excess-of-loss reinstatement premiums, related to the third quarter 2008 Hurricanes Gustav and Ike. Our pre-tax net loss as a result of Hurricanes Gustav and Ike was approximately $29.3 million, which increased our 2008 combined ratio by 4.3 ratio points.

The following table sets forth our gross and net loss and LAE reserves, incurred loss and LAE, and payments for the 2008 Hurricanes Gustav and Ike for the periods indicated:

	Year Ended December 31,		
	2010	**2009**	**2008**
	($ in thousands)		
Gross of Reinsurance			
Beginning gross reserves	$ 59,509	$ 107,399	$
Incurred loss & LAE	(1,997)	1,039	114,000
Calendar year payments	17,417	48,929	6,601
Ending gross reserves	$ 40,095	$ 59,509	$ 107,399
Gross case loss reserves	$ 17,987	$ 34,015	$ 70,299
Gross IBNR loss reserves	22,108	25,494	37,100
Ending gross reserves	$ 40,095	$ 59,509	$ 107,399
Net of Reinsurance			
Beginning net reserves	$ 2,683	$ 12,923	$
Incurred loss & LAE	1,257	978	17,169
Calendar year payments	3,371	11,218	4,246
Ending net reserves	$ 569	$ 2,683	$ 12,923
Net case loss reserves	$ 569	$ 1,793	$ 11,696
Net IBNR loss reserves		890	1,227
Ending net reserves	$ 569	$ 2,683	$ 12,923

Hurricanes Katrina and Rita

During the 2005 third quarter, we recorded gross and net loss estimates of $471.0 million and $22.3 million, respectively, exclusive of $14.5 million for the cost of excess-of-loss reinstatement premiums, related to Hurricanes Katrina and Rita.

The following tables set forth our gross and net loss and LAE reserves, incurred loss and LAE, and payments for the 2005 Hurricanes Katrina and Rita for the periods indicated:

	Year Ended December 31,		
	2010	2009	2008
	($ in thousands)		
Gross of Reinsurance			
Beginning gross reserves	$ 67,038	$ 97,732	$ 141,831
Incurred loss & LAE	(2,300)	671	(12,250)
Calendar year payments	42,139	31,365	31,849
Ending gross reserves	$ 22,599	$ 67,038	$ 97,732
Gross case loss reserves	$ 19,164	$ 49,291	$ 62,732
Gross IBNR loss reserves	3,435	17,747	35,000
Ending gross reserves	$ 22,599	$ 67,038	$ 97,732
Net of Reinsurance			
Beginning net reserves	$ 3,536	$ 3,667	$ 4,519
Incurred loss & LAE	(3,559)	114	(990)
Calendar year payments	(113)	245	(138)
Ending net reserves	$ 90	$ 3,536	$ 3,667
Net case loss reserves	$ 44	$ 183	$ 279
Net IBNR loss reserves	46	3,353	3,388
Ending net reserves	$ 90	$ 3,536	$ 3,667

The reduction in net incurred loss and LAE shown for the 2005 Hurricanes was due to the release of a reinsurance bad debt reserve established when the events occurred due to the large ceded balances. As those balances have run off and the amounts were fully realized the bad debt reserve has been released back into our general reserve with no change to the overall balance, it has just been reclassified.

Asbestos Liability

Our exposure to asbestos liability principally stems from marine liability insurance written on an occurrence basis during the mid-1980s. In general, our participation on such risks is in the excess layers, which requires the underlying coverage to be exhausted prior to coverage being triggered in our layer. In many instances we are one of many insurers who participate in the defense and ultimate settlement of these claims, and we are generally a minor participant in the overall insurance coverage and settlement.

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The reserves for asbestos exposures at December 31, 2010 are for: (i) one large settled claim for excess insurance policy limits exposed to a class action suit against an insured involved in the manufacturing or distribution of asbestos products being paid over several years (two other large settled claims were fully paid in 2007); (ii) other insureds not directly involved in the manufacturing or distribution of asbestos products, but that have more than incidental asbestos exposure for their purchase or use of products that contained asbestos; and (iii) attritional asbestos claims that could be expected to occur over time. Substantially all of our asbestos liability reserves are included in our marine loss reserves.

We believe that there are no remaining known claims where we would suffer a material loss as a result of excess policy limits being exposed to class action suits for insureds involved in the manufacturing or distribution of asbestos products. There can be no assurances, however, that material loss development may not arise in the future from existing asbestos claims or new claims given the evolving and complex legal environment that may directly impact the outcome of the asbestos exposures of our insureds.

The following tables set forth our gross and net loss and LAE reserves for our asbestos exposures for the periods indicated:

	Year Ended December 31,		
	2010	**2009**	**2008**
		($ in thousands)	
Gross of Reinsurance			
Beginning gross reserves	$ 22,147	$ 21,774	$ 23,194
Incurred loss & LAE	638	928	796
Calendar year payments	681	555	2,216
Ending gross reserves	$ 22,104	$ 22,147	$ 21,774
Gross case loss reserves	$ 14,248	$ 14,291	$ 13,918
Gross IBNR loss reserves	7,856	7,856	7,856
Ending gross reserves	$ 22,104	$ 22,147	$ 21,774
Net of Reinsurance			
Beginning net reserves	$ 16,763	$ 16,683	$ 16,717
Incurred loss & LAE	278	(25)	263
Calendar year payments	289	(105)	297
Ending net reserves	$ 16,752	$ 16,763	$ 16,683
Net case loss reserves	$ 9,101	$ 9,112	$ 9,032
Net IBNR loss reserves	7,651	7,651	7,651
Ending net reserves	$ 16,752	$ 16,763	$ 16,683

The ceded asbestos paid and unpaid recoverables were $8.4 million and $8.9 million in 2010 and 2009, respectively. We believe that we will be able to collect reinsurance on the gross portion of its historic gross asbestos exposure in the above table.

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Loss Reserves

The following table sets forth our overall reinsurance recoverable amounts for paid and unpaid losses for the periods indicated:

	December 31, 2010	December 31, 2009	Change
		($ in thousands)	
Reinsurance recoverables:			
Paid losses	$ 56,658	$ 76,505	$ (19,847)
Unpaid losses and LAE reserves	843,296	807,352	35,944
Total	$ 899,954	$ 883,857	$ 16,097

The following table sets forth our gross reserves for losses and LAE reduced for reinsurance recoverable on such amounts resulting in net loss and LAE reserves (a non-GAAP measure reconciled in the following table) for the periods indicated:

	December 31, 2010	December 31, 2009	Change
		($ in thousands)	
Gross reserves for losses and LAE	$ 1,985,838	$ 1,920,286	$ 65,552
Less: Reinsurance recoverable on unpaid losses and LAE reserves	843,296	807,352	35,944
Net loss and LAE reserves	$ 1,142,542	$ 1,112,934	$ 29,608

The following tables set forth our net case loss and LAE reserves and net IBNR reserves (a non-GAAP measure reconciled above) by segment and line of business for the periods indicated:

	December 31, 2010			
	Net Reported Reserves	Net IBNR Reserves	Total Net Loss Reserves	% of IBNR to Total Net Loss Reserves
	($ in thousands)			
Insurance Companies:				
Marine	$ 107,147	$ 109,361	$ 216,508	51%
Property Casualty	158,740	308,613	467,353	66%
Professional Liability	46,096	78,469	124,565	63%
Total Insurance Companies	311,983	496,443	808,426	61%
Lloyd s Operations:				
Marine	111,914	112,708	224,622	50%
Property Casualty	30,327	29,792	60,119	50%
Professional Liability	9,904	39,471	49,375	80%
Total Lloyd s Operations	152,145	181,971	334,116	54%
Total	$ 464,128	$ 678,414	$ 1,142,542	59%

	December 31, 2009			
	Net Reported Reserves	Net IBNR Reserves	Total Net Loss Reserves	% of IBNR to Total Net Loss Reserves
	($ in thousands)			
Insurance Companies:				
Marine	$ 113,604	$ 100,042	$ 213,646	47%
Property Casualty	134,427	351,985	486,412	72%
Professional Liability	38,410	68,807	107,217	64%
Total Insurance Companies	286,441	520,834	807,275	65%
Lloyd s Operations:				
Marine	107,800	101,851	209,651	49%
Property Casualty	27,148	25,175	52,323	48%
Professional Liability	7,442	36,243	43,685	83%

Total Lloyd s Operations	142,390	163,269	305,659	53%
Total	$ 428,831	$ 684,103	$ 1,112,934	61%

At December 31, 2010, the IBNR loss reserve was $678.4 million or 59.4% of our total loss reserves compared to $684.1 million or 61.5% in 2009.

The increase in net loss reserves in all active lines of business is generally a reflection of the growth in net premium volume over the last three years coupled with a changing mix of business to longer tail lines of business such as the specialty lines of business (construction defect, commercial excess, primary excess), professional liability lines of business and marine liability and transport business in ocean marine. These products, which typically have a longer settlement period compared to the mix of business we have historically written, are becoming larger components of our overall business.

Commission Expense. Commission expenses paid to unaffiliated brokers and agents are generally based on a percentage of the gross written premiums and are reduced by ceding commissions we may receive on the ceded written premiums. Commissions are generally deferred and recorded as deferred policy acquisition costs to the extent that they relate to unearned premium. The percentages of commission expenses to net earned premium was 16.5% in 2010, 14.5% in 2009 and 13.9% in 2008. The increase in the net commission ratios for 2010 when compared to 2009 was mostly attributable to greater retentions for net premiums earned in 2010 for the 2009 underwriting year, particularly on our marine quota share treaties, which have reduced the ceding commission benefit. In addition, reinsurance reinstatement costs of $19.0 million and $3.5 million resulting from the Deepwater Horizon and West Atlas losses, respectively, resulted in lower net earned premiums which in turn increased the net commission ratios by 0.6 points. The 2008 commission expense ratio excluding the effects of the 2008 Hurricanes was 13.7%.

Other Operating Expense. The 5.3% increase in other operating expenses when comparing 2010 to 2009 was due primarily to investments in new underwriting teams, additional letter of credit fees due to the increased size of our facility, higher Lloyd s charges due to greater capacity and higher compliance costs, particularly relating to Solvency II. For the year ended December 31, 2010, our operating expense ratios increased due to the explanations above as well as the impact of the reinstatement costs of $19.0 million and $3.5 million resulting from the Deepwater Horizon and West Atlas losses, respectively, which resulted in lower net earned premiums and therefore increased the operating expense ratios. The 7.7% increase in other operating expenses when comparing 2009 to 2008 was attributable primarily to employee related expenses resulting from expansion of the business.

Interest Expense. The interest expense reflects interest on our Senior notes issued in April 2006.

Income Taxes

The income tax expense was $29.3 million, $23.7 million and $17.0 million for 2010, 2009 and 2008, respectively. The effective tax rates for 2010, 2009 and 2008 were 29.6%, 27.3% and 24.8%, respectively. Our effective tax rate was less than 35% due to permanent differences between book and tax return income, with the most significant item being tax exempt interest. As of December 31, 2010 and 2009, the net deferred federal, foreign, state and local tax assets were $15.1 million and $31.2 million, respectively. The decline in the net deferred tax assets was primarily due to the utilization of capital losses in 2010. A finance bill was enacted in the U.K. in July 2010 that reduces the U.K. corporate tax rate from 28% to 27% effective April 2011. The effect of such tax rate change was not material.

We had net state and local deferred tax assets amounting to potential future tax benefits of $2.2 million and $2.6 million at December 31, 2010 and 2009, respectively. Included in the deferred tax assets are net operating loss carryforwards of $1.4 million and $1.3 million at December 31, 2010 and 2009, respectively. A valuation allowance was established for the full amount of these potential future tax benefits due to the uncertainty associated with their realization. Our state and local tax carryforwards at December 31, 2010 expire from 2023 to 2025.

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Segment Information

We classify our business into two underwriting segments consisting of the Insurance Companies and the Lloyd s Operations, which are separately managed, and a Corporate segment. Segment data for each of the two underwriting segments include allocations of revenues and expenses of the wholly-owned underwriting management companies and the Parent Company s operating expenses and related income tax amounts. The Corporate segment consists of the Parent Company s investment income, interest expense and the related tax effect.

We evaluate the performance of each segment based on its underwriting and GAAP results. The Insurance Companies and the Lloyd s Operations results are measured by taking into account net earned premiums, net losses and loss adjustment expenses, commission expenses, other operating expenses, and other income (expense). Each segment also maintains its own investments, on which it earns income and realizes capital gains or losses. Our underwriting performance is evaluated separately from the performance of our investment portfolios.

Following are the financial results of our two underwriting segments.

Insurance Companies

The Insurance Companies consist of Navigators Insurance Company, including its U.K. Branch, and its wholly-owned subsidiary, Navigators Specialty Insurance Company. They are primarily engaged in underwriting marine insurance and related lines of business, professional liability insurance and specialty lines of business including contractors general liability insurance, commercial umbrella and primary and excess casualty businesses. Navigators Specialty Insurance Company underwrites specialty and professional liability insurance on an excess and surplus lines basis. Navigators Specialty Insurance Company is 100% reinsured by Navigators Insurance Company.

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The following table sets forth the results of operations for the Insurance Companies for the periods indicated:

	Year Ended December 31, 2010	2009	2008
	($ in thousands)		
Gross written premiums	$ 665,505	$ 730,776	$ 762,190
Net written premiums	429,355	477,673	472,688
Net earned premiums	438,851	479,121	463,298
Net losses and loss adjustment expenses	(280,120)	(304,672)	(275,767)
Commission expenses	(59,122)	(61,949)	(55,752)
Other operating expenses	(106,631)	(104,801)	(92,297)
Other income (expense)	1,698	3,498	2,145
Underwriting profit (loss)	(5,324)	11,197	41,627
Net investment income	62,792	65,717	63,544
Net realized gains (losses)	36,057	533	(37,822)
Income before income tax expense	93,525	77,447	67,349
Income tax expense	27,219	19,819	16,401
Net income	$ 66,306	$ 57,628	$ 50,948
Identifiable assets	$ 2,592,679	$ 2,554,037	$ 2,477,139
Loss and loss expenses ratio	63.8%	63.6%	59.5%
Commission expense ratio	13.5%	12.9%	12.0%
Other operating expenses ratio (1)	23.9%	21.1%	19.5%
Combined ratio	101.2%	97.6%	91.0%

(1) Includes *Other operating expenses* and *Other income (expense).*

The following table sets forth the underwriting results for the Insurance Companies for the periods indicated:

	Year Ended December 31, 2010 ($ in thousands)						
	Net Earned Premiums	Losses and LAE Incurred	Underwriting Expenses	Underwriting Profit (Loss)	Loss Ratio	Expense Ratio	Combined Ratio
Marine	$ 155,846	$ 100,579	$ 56,092	$ (825)	64.5%	36.0%	100.5%
Property Casualty	200,741	110,902	77,040	12,799	55.2%	38.4%	93.6%
Professional Liability	82,264	68,639	30,923	(17,298)	83.4%	37.6%	121.0%
Total	$ 438,851	$ 280,120	$ 164,055	$ (5,324)	63.8%	37.4%	101.2%

	Year Ended December 31, 2009 ($ in thousands)						
	Net Earned Premiums	Losses and LAE Incurred	Underwriting Expenses	Underwriting Profit (Loss)	Loss Ratio	Expense Ratio	Combined Ratio
Marine	$ 157,534	$ 109,916	$ 50,451	$ (2,833)	69.8%	32.0%	101.8%
Property Casualty	246,143	123,775	86,116	36,252	50.3%	35.0%	85.3%
Professional Liability	75,444	70,981	26,685	(22,222)	94.1%	35.4%	129.5%
Total	$ 479,121	$ 304,672	$ 163,252	$ 11,197	63.6%	34.0%	97.6%

	Year Ended December 31, 2008 ($ in thousands)						
	Net Earned Premiums	Losses and LAE Incurred	Underwriting Expenses	Underwriting Profit (Loss)	Loss Ratio	Expense Ratio	Combined Ratio
Marine	$ 132,005	$ 84,099	$ 38,184	$ 9,722	63.7%	28.9%	92.6%
Property Casualty	273,977	158,457	87,310	28,210	57.8%	31.9%	89.7%
Professional Liability	57,316	33,211	20,410	3,695	57.9%	35.6%	93.5%
Total	$ 463,298	$ 275,767	$ 145,904	$ 41,627	59.5%	31.5%	91.0%

The net earned premium decreased 8.4% in 2010 primarily due to the reduction in net written premiums in our construction liability and D&O lines. In addition, there was a total of $11.2 million of net reinstatement premiums related to the Deepwater Horizon loss event. Net earned premiums increased 3.4% in 2009 reflecting overall decreased retention of the business written, higher average renewal rates in 2009, expansion of our professional liability business and overall business growth. These factors were partially offset by a decline in our property casualty business in 2009 as well as overall average renewal rate declines in 2008.

The 2010 underwriting results were favorably impacted by $5.5 million or 1.2 loss ratio points for net prior year savings, which is discussed in the prior year reserve redundancies/deficiencies section. The 2010 net prior year savings increased $2.4 million compared to 2009.

The following table sets forth the impact of Hurricanes Gustav and Ike on the Insurance Companies 2008 financial results:

	Hurricane Gustav	Hurricane Ike	Total
		($ in thousands)	
Reduction in net earned premiums for reinstatement costs	$ (871)	$ (6,343)	$ (7,214)
Gross losses incurred	7,200	53,800	61,000
Reinsurance recoverable	4,377	47,546	51,923
Net losses incurred	2,823	6,254	9,077
Underwriting loss	$ (3,694)	$ (12,597)	$ (16,291)
After-tax net loss	$ (2,401)	$ (8,188)	$ (10,589)
Reduction in earnings per share	$ (0.14)	$ (0.48)	$ (0.62)
Effect on combined ratio:			
Loss and LAE ratio	0.7%	2.1%	2.8%
Expense ratio	0.1%	0.4%	0.5%
Combined ratio	0.8%	2.5%	3.3%

The 2008 underwriting results were favorably impacted by $41.9 million or 9.0 loss ratio points for net prior year savings, which is discussed in the prior year reserve redundancies/deficiencies section. The 2008 pre-tax net loss to the Insurance Companies as the result of losses caused by Hurricanes Gustav and Ike of approximately $16.3 million, including $7.2 million of reinstatement costs, increased the Insurance Companies 2008 combined ratio by 10.1 combined ratio points. The after-tax effect reduced net income by $10.6 million.

The approximate annualized pre-tax yields on the Insurance Companies investment portfolio, excluding net realized capital gains and losses, approximated 3.8%, 4.1% and 4.3% for 2010, 2009 and 2008, respectively. The increase in net investment income in 2010, 2009 and 2008 versus the comparable prior year was primarily due to the investment of new funds from positive cash flow from operations. The portfolio s duration was 4.6 years at December 31, 2010 and 4.7 years at December 31, 2009.

The 2010, 2009 and 2008 results included provisions of $0.5 million, $10.2 million and $36.4 million, respectively, for declines in the market value of securities which were considered to be other-than-temporary. The after-tax effects of such provisions on the 2010, 2009 and 2008 net income were $0.4 million, $6.7 million and $23.7 million, respectively.

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Lloyd s Operations

The Lloyd s Operations primarily underwrite marine and related lines of business along with professional liability insurance, and construction coverages for onshore energy business at Lloyd s through Syndicate 1221. The European property business, written by the Lloyd s Operations and the U.K. Branch beginning in 2006, was discontinued in the 2008 second quarter. Our Lloyd s Operations includes NUAL, a Lloyd s underwriting agency which manages Syndicate 1221.

Syndicate 1221 s stamp capacity was £168 million ($264 million) in 2010, £124 million ($194 million) in 2009 and £123 million ($228 million) in 2008. Stamp capacity is a measure of the amount of premium a Lloyd s syndicate is authorized to write as determined by the Council of Lloyd s. We controlled 100% of Syndicate 1221 s total stamp capacity in 2010, 2009 and 2008 through our wholly-owned Lloyd s corporate member (we utilized two wholly-owned Lloyd s corporate members prior to the 2008 underwriting year). Syndicate 1221 s stamp capacity is expressed net of commission (as is standard at Lloyd s). The Syndicate 1221 premium recorded in our financial statements is gross of commission. We provide letters of credit to Lloyd s to support our participation in Syndicate 1221 s stamp capacity as discussed below under the caption *Liquidity and Capital Resources*.

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The following table sets forth the results of operations of the Lloyd s Operations for the following periods:

	Year Ended December 31, 2010	2009	2008
	($ in thousands)		
Gross written premiums	$ 321,696	$ 314,142	$ 322,732
Net written premiums	224,583	223,582	188,927
Net earned premiums	221,080	204,242	180,678
Net losses and loss adjustment expenses	(141,035)	(131,326)	(117,364)
Commission expenses	(49,991)	(37,727)	(34,033)
Other operating expenses	(33,112)	(27,896)	(30,961)
Other income (expense)	3,488	961	(600)
Underwriting profit (loss)	430	8,254	(2,280)
Net investment income	8,286	9,229	11,655
Net realized gains (losses)	3,323	(3,193)	(477)
Income before income tax expense	12,039	14,290	8,898
Income tax expense	4,389	5,582	3,269
Net income	$ 7,650	$ 8,708	$ 5,629
Identifiable assets	$ 842,121	$ 799,577	$ 779,800
Loss and loss expenses ratio	63.8%	64.3%	65.0%
Commission expense ratio	22.6%	18.5%	18.8%
Other operating expenses ratio (1)	13.4%	13.2%	17.5%
Combined ratio	99.8%	96.0%	101.3%

Includes *Other operating expenses and Other income (expense).*

The 2010 earnings in the Lloyd s Operations declined $1.1 million compared to 2009. The Lloyd s Operations experienced greater net written premiums in the Offshore Energy and Engineering and Construction lines which were offset by net reinstatement premiums of $7.8 million related to the Deepwater Horizon loss event. The 2009 earnings in the Lloyd s Operations improved $3.1 million compared to 2008. The Lloyd s Operations utilized less reinsurance in 2009 compared to 2008, resulting in higher net premiums. In addition, 2008 results were impacted by losses caused by Hurricanes Gustav and Ike of approximately $13.1 million, including $5.0 million of reinstatement costs, which increased the 2008 combined ratio by 7.1 combined ratio points and reduced net income by $8.5 million.

The 2010 underwriting results were favorably impacted by approximately $8.3 million or 3.8 loss ratio points for net prior years savings due to favorable loss development trends which are discussed in the prior year reserve redundancies/deficiencies section. The 2010 net prior years savings was an increase of $2.5 million compared to 2009. The 2009 underwriting results were favorably impacted by approximately $5.9 million or 2.9 loss ratio points for net prior years savings due to favorable loss development trends which are discussed in the prior year reserve redundancies/deficiencies section. The 2009 net prior years savings was a decline of $3.0 million compared to 2008.

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The following table sets forth the impact of Hurricanes Gustav and Ike on the Lloyd s Operations 2008 financial results:

	Hurricane Gustav	Hurricane Ike	Total
		($ in thousands)	
Reduction in net earned premiums for reinstatement costs	$ (672)	$ (4,292)	$ (4,964)
Gross losses incurred	6,800	46,200	53,000
Reinsurance recoverable	4,623	40,285	44,908
Net losses incurred	2,177	5,915	8,092
Underwriting loss	$ (2,849)	$ (10,207)	$ (13,056)
After-tax net loss	$ (1,852)	$ (6,635)	$ (8,487)
Reduction in earnings per share	$ (0.11)	$ (0.39)	$ (0.50)
Effect on combined ratio:			
Loss and LAE ratio	1.4%	4.7%	6.1%
Expense ratio	0.2%	0.8%	1.0%
Combined ratio	1.6%	5.5%	7.1%

The 2008 earnings in the Lloyd s Operations were impacted by losses caused by Hurricanes Gustav and Ike of approximately $13.1 million, including $5.0 million of reinstatement costs, which increased the 2008 combined ratio by 7.1 combined ratio points. The after tax effect reduced net income by $8.5 million.

The pre-tax yields on the Lloyd s Operations investments, excluding net realized capital gains and losses, approximated 2.3%, 2.7% and 3.4% for 2010, 2009 and 2008, respectively. Such yields are net of interest credits to certain reinsurers for funds withheld by our Lloyd s Operations. Generally, the Lloyd s Operations investments have been invested with a relatively short average duration, which is reflected in the yield, in order to meet liquidity needs. The decrease in the Lloyd s Operations net investment income in 2010 and 2009 was due to lower investment yields. The average duration of the Lloyd s Operations investment portfolio was 4.0 years at December 31, 2010 compared to 1.6 years at December 31, 2009.

The 2010, 2009 and 2008 results included provisions of $0.5 million, $1.6 million and $0.7 million, respectively, for declines in the market value of securities which were considered to be other-than-temporary. The after-tax effects of such provisions on the 2010, 2009 and 2008 net income were $0.4 million, $1.2 million and $0.5 million, respectively.

See Results of Operations and Overview Income Taxes for a discussion of the Lloyd s Operations income taxes, included herein.

Off-Balance Sheet Transactions

We have no material off-balance sheet transactions with the exception of our letter of credit facility. For a discussion of our letter of credit facility, see Liquidity and Capital Resources , included herein.

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Tabular Disclosure of Contractual Obligations

The following table sets forth the best estimate of our known contractual obligations with respect to the items indicated at December 31, 2010:

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			($ in thousands)		
Reserves for losses and LAE[1]	$ 1,985,838	$ 626,385	$ 762,637	$ 347,321	$ 249,495
7% Senior Notes [2]	159,275	8,050	16,100	16,100	119,025
Operating Leases	57,017	9,748	18,020	14,649	14,600
Total	$ 2,202,130	$ 644,183	$ 796,757	$ 378,070	$ 383,120

(1) The amounts determined are estimates which are subject to a high degree of variation and uncertainty, and are not subject to any specific payment schedule since the timing of these obligations are not set contractually. The amounts in the above table exclude reinsurance recoveries of $843 million. See Business Loss Reserves included herein.

(2) Includes interest payments.

Investments

The following tables set forth our cash and investments as of December 31, 2010 and 2009. The table as of December 31, 2010 includes other-than-temporarily impaired (OTTI) securities recognized within other comprehensive income (OCI).

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December 31, 2010	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost	OTTI Recognized in OCI
			($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 324,145	$ 5,229	$ (4,499)	$ 323,415	$
States, municipalities and political subdivisions	392,250	11,903	(3,805)	384,152	
Mortgage- and asset-backed securities:					
Agency mortgage-backed securities	382,628	10,127	(2,434)	374,935	
Residential mortgage obligations	20,463	24	(2,393)	22,832	(1,646)
Asset-backed securities	46,093	247	(292)	46,138	
Commercial mortgage-backed securities	190,015	4,804	(1,794)	187,005	
Subtotal	639,199	15,202	(6,913)	630,910	(1,646)
Corporate bonds	526,651	15,075	(5,545)	517,121	
Total fixed maturities	1,882,245	47,409	(20,762)	1,855,598	(1,646)
Equity securities common stocks	87,258	22,475	(10)	64,793	
Cash	31,768			31,768	
Short-term investments	153,057			153,057	
Total	$ 2,154,328	$ 69,884	$ (20,772)	$ 2,105,216	$ (1,646)

December 31, 2009	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost	OTTI Recognized in OCI
			($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 471,598	$ 7,397	$ (597)	$ 464,798	$
States, municipalities and political subdivisions	676,699	25,044	(2,917)	654,572	
Mortgage- and asset-backed securities:					
Agency mortgage-backed securities	283,578	12,607	(98)	271,069	
Residential mortgage obligations	31,071		(7,246)	38,317	(5,723)
Asset-backed securities	16,469	612	(34)	15,891	(23)
Commercial mortgage-backed securities	100,393	594	(5,028)	104,827	

Subtotal	431,511	13,813	(12,406)	430,104	(5,746)
Corporate bonds	236,861	9,111	(759)	228,509	
Total fixed maturities	1,816,669	55,365	(16,679)	1,777,983	(5,746)
Equity securities common stocks	62,610	15,244	(10)	47,376	
Cash	509			509	
Short-term investments	176,799			176,799	
Total	$ 2,056,587	$ 70,609	$ (16,689)	$ 2,002,667	$ (5,746)

The fair value of our investment portfolio may fluctuate significantly in response to various factors such as changes in interest rates, investment quality ratings, equity prices, foreign exchange rates and credit spreads. We do not have the intent to sell nor is it more likely than not that we will have to sell debt securities in unrealized loss positions that are not other-than temporarily impaired before recovery. We may realize investment losses to the extent its liquidity needs require the disposition of fixed maturity securities in unfavorable interest rate, liquidity or credit spread environments. Significant changes in the factors we consider when evaluating investment for impairment losses could result in a significant change in impairment losses reported in the consolidated financial statements.

Invested assets increased over the last two years primarily due to cash flows from operations as well as unrealized gains in 2010. The consolidated average investment yield of the portfolio decreased in 2010 to 3.5% from 3.8% due to the general decline in market yields over the period. The tax equivalent yields for 2010, 2009 and 2008 on a consolidated basis were 4.0%, 4.6% and 4.9%, respectively. The portfolio s duration was 4.4 years and 4.2 years as of December 31, 2010 and 2009, respectively. Since the beginning of 2010, the tax-exempt portion of our investment portfolio has decreased by $293.8 million to approximately 18.1% of the fixed maturities investment portfolio at December 31, 2010 compared to approximately 34.9% at December 31, 2009.

We are a specialty insurance company and periods of moderate economic recession or inflation tend not to have a significant direct effect on our underwriting operations. They do, however, impact our investment portfolio. A decrease in interest rates will tend to decrease our yield and have a positive effect on the fair value of our invested assets. An increase in interest rates will tend to increase our yield and have a negative effect on the fair value of our invested assets.

Prepayment assumptions associated with the mortgage-backed and asset-backed securities are reviewed on a periodic basis. When changes in prepayment assumptions are deemed necessary as the result of actual prepayments differing from anticipated prepayments, securities are revalued based upon the new prepayment assumptions utilizing the retrospective accounting method.

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The following table presents, for each of the fair value hierarchy levels, our fixed maturities, equity securities and short-term investments that are measured at fair value as of December 31, 2010:

December 31, 2010	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	($ in thousands)			
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 212,933	$ 111,212	$	$ 324,145
States, municipalities and political subdivisions		392,250		392,250
Mortgage- and asset-backed securities:				
Agency mortgage-backed securities		382,628		382,628
Residential mortgage obligations		20,463		20,463
Asset-backed securities		46,093		46,093
Commercial mortgage-backed securities		188,178	1,837	190,015
Subtotal		637,362	1,837	639,199
Corporate bonds		526,651		526,651
Total fixed maturities	212,933	1,667,475	1,837	1,882,245
Equity securities common stocks	87,258			87,258
Total	$ 300,191	$ 1,667,475	$ 1,837	$ 1,969,503

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The following tables set forth our U.S. Treasury bonds, agency bonds and foreign government bonds as of December 31, 2010 and 2009:

December 31, 2010	**Fair Value**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Cost or Amortized Cost**
		($ in thousands)		
U.S. Treasury bonds	$ 213,544	$ 3,552	$ (3,554)	$ 213,546
Agency bonds	77,229	1,311	(604)	76,522
Foreign government bonds	33,372	366	(341)	33,347
Total	$ 324,145	$ 5,229	$ (4,499)	$ 323,415

December 31, 2009	**Fair Value**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Cost or Amortized Cost**
		($ in thousands)		
U.S. Treasury bonds	$ 362,614	$ 5,549	$ (560)	$ 357,625
Agency bonds	82,739	1,489		81,250
Foreign government bonds	26,245	359	(37)	25,923
Total	$ 471,598	$ 7,397	$ (597)	$ 464,798

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The following table sets forth the fifteen largest holdings categorized as state, municipalities and political subdivisions by counterparty as of December 31, 2010:

	Fair Value	Net Unrealized Gains/(Losses)	Cost or Amortized Cost	S&P Rating
		($ in thousands)		
Issuers:				
University of Pittsburgh	$ 13,594	$ 194	$ 13,400	AA
Virginia Resources Authority	11,140	651	10,489	AAA
New York City Transitional Finance Authority	7,966	165	7,801	A+
Illinois Finance Authority	7,859	(56)	7,915	BBB
County of Hamilton	7,791	7	7,784	A+
New York Local Government Assistance	6,922	428	6,494	AA
Missouri Highway and Transportation Comm	6,899	236	6,663	AA+
Delaware Transportation Authority	6,872	601	6,271	AA
Texas State Transportation Comm	6,616	(293)	6,909	AAA
Ohio State University	6,564	(686)	7,250	AA
Virginia College Building Authority	6,521	214	6,307	AA+
Purdue University	6,039	(239)	6,278	AA+
Pennsylvania Turnpike Commission	6,012	(22)	6,034	A+
Energy Northwest	5,958	(32)	5,990	AA
New York State Thruway Authority	5,913	358	5,555	AA-
Subtotal	112,666	1,526	111,140	
All Other	279,584	6,572	273,012	
Total	$ 392,250	$ 8,098	$ 384,152	

The following table sets forth the composition of the investments categorized as states, municipalities and political subdivisions in our portfolio by generally equivalent S&P and Moody s ratings (not all securities in our portfolio are rated by both S&P and Moody s) as of December 31, 2010:

Equivalent S&P Rating	Equivalent Moody s Rating	Fair Value	Book Value	Net Unrealized Gain/(Loss)
			($ in thousands)	
AAA/AA/A	Aaa/Aa/A	$ 370,250	$ 362,105	$ 8,145
BBB	Baa	16,915	16,966	(51)
BB	Ba			
B	B			
CCC or lower	Caa or lower			
NR	NR	5,085	5,081	4
Total		$ 392,250	$ 384,152	$ 8,098

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The following table sets forth the municipal bond holdings by sector for December 31, 2010 and 2009:

	December 31, 2010		December 31, 2009	
Municipal Sector	Fair Value	Percent of Total	Fair Value	Percent of Total
	($ in thousands)			
General Obligation	$ 13,249	3%	$ 282,738	42%
Prerefunded	14,122	4%	8,771	1%
Revenue	313,166	80%	342,830	51%
Taxable	51,713	13%	42,360	6%
	$ 392,250	100%	$ 676,699	100%

We own $135 million of municipal securities which are credit enhanced by various financial guarantors. As of December 31, 2010, the average underlying credit rating is A+. There has been no material adverse impact to our investment portfolio or results of operations as a result of recent downgrades of the credit ratings for several of the financial guarantors.

We analyze our mortgage-backed and asset-backed securities by credit quality of the underlying collateral distinguishing between the securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) which are Federal government sponsored entities, and the non-FNMA and non-FHLMC securities broken out by prime, Alt-A and subprime collateral. The securities issued by FNMA and FHLMC are the obligations of each respective entity. Recent legislation has provided for guarantees by the U.S. Government of up to $100 billion each for FNMA and FHLMC.

Prime collateral consists of mortgages or other collateral from the most creditworthy borrowers. Alt-A collateral consists of mortgages or other collateral from borrowers which have a risk potential that is greater than prime but less than subprime. The subprime collateral consists of mortgages or other collateral from borrowers with low credit ratings. Such subprime and Alt-A categories are as defined by S&P.

At December 31, 2010, we owned two asset-backed security approximating $0.09 million with subprime mortgage exposures. The securities have an effective maturity of 5.4 years. In addition, we owned residential mortgage obligations approximating $2.5 million classified as Alt-A which is a credit category between prime and subprime. The Alt-A bonds have an effective maturity of 6.0 years. We are receiving principal and/or interest payments on all of these securities and believe such amounts are fully collectible.

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The following tables set forth our mortgage-backed securities and residential mortgage obligations by those issued by the Government National Mortgage Association (GNMA), FNMA, FHLMC, and the quality category (prime, Alt-A and subprime) for all other such investments as of December 31, 2010:

	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost
		($ in thousands)		
Agency mortgage-backed securities:				
GNMA	$ 142,677	$ 3,478	$ (1,006)	$ 140,205
FNMA	191,682	5,386	(937)	187,233
FHLMC	48,269	1,263	(491)	47,497
Total	$ 382,628	$ 10,127	$ (2,434)	$ 374,935

	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost
		($ in thousands)		
Residential mortgage obligations:				
Prime	$ 15,369	$ 24	$ (1,999)	$ 17,344
Alt-A	2,453		(379)	2,832
Subprime				
Non-US RMBS	2,641		(15)	2,656
Total	$ 20,463	$ 24	$ (2,393)	$ 22,832

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The following table sets forth the fifteen largest residential mortgage obligations as of December 31, 2010:

Security Description	Issue Date	Fair Value	Book Value	Unrealized (Loss)	S&P Rating	Moody s Rating
			($ in thousands)			
Arkle Master Issuer Plc 10-2A 1A1	2010	$ 2,497	$ 2,500	$ (3)	AAA	Aaa
Wells Fargo Mtg Bkd Secs Tr 05 Ar4 2A2	2005	877	881	(4)	NR	Ba2
Bear Stearns Adjustable Rate 06 1 A1	2006	606	675	(69)	NR	B2
JP Morgan Mortgage Trust 07-A3 1A1	2007	595	745	(150)	CCC	NR
JP Morgan Mortgage Trust 06 A4 1A1	2006	574	711	(137)	NR	Caa2
Wells Fargo Mtg Bkd Secs Tr 06 Ar6 3A	2006	571	654	(83)	NR	B3
GSR Mortgage Loan Trust 06 Ar1 2A1	2006	570	703	(133)	B+	NR
Banc Of America Fdg Corp 05 F 4A1	2005	565	614	(49)	CCC	Caa2
Citigroup Mtg Ln Tr Inc 04 Hyb3 1A	2004	549	590	(41)	AA-	A1
Wells Fargo Mortgage Backed Se 06-Ar14 2	2006	530	582	(52)	NR	Caa2
Mortgageit Trust 05 1 2A	2005	521	581	(60)	AAA	Ba3
Banc Of America Fdg Corp 06 D 3A1	2006	518	607	(89)	CCC	NR
First Horizon Mtg Pass-Th 05 Ar4 2A	2005	478	493	(15)	CCC	NR
Citigroup Mtg Ln Tr Inc 06 Ar1 3A1	2006	475	533	(58)	NR	Caa3
JP Morgan Mortgage Trust 05 A6 7A1	2005	459	558	(99)	CCC	NR
Subtotal		10,385	11,427	(1,042)		
All Other		10,078	11,405	(1,327)		
Total		$ 20,463	$ 22,832	$ (2,369)		

Details of the collateral of our asset-backed securities portfolio as of December 31, 2010 are presented below:

	AAA	AA	A	BBB	Total Fair Value	Total Amortized Cost	Unrealized Gain/(Loss)
				($ in thousands)			
Auto Loans	$ 545	$ 6,413	$ 35	$ 3,609	$ 10,602	$ 10,570	$ 32
Credit Cards	5,401				5,401	5,498	(97)
Miscellaneous	6,247		20,432	3,411	30,090	30,070	20
Total	$ 12,193	$ 6,413	$ 20,467	$ 7,020	$ 46,093	$ 46,138	$ (45)

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The commercial mortgage-backed securities are all rated investment grade by S&P or by Moody s. The following table sets forth the fifteen largest commercial mortgage-backed securities portfolio as of December 31, 2010:

Security Description	Issue Date	Fair Value	Book Value	Average Underlying LTV %	Delinq. Rate	Subord. Level	S&P Rating	Moody s Rating
				($ in thousands)				
Morgan Stanley Cap I 06 IQ12 A4	2006	$ 22,039	$ 22,671	72.54%	13.29%	29.24%	AAA	NR
Wachovia Bk Comm Mtg Tr 06 C23 A4	2006	15,227	15,569	75.33%	6.44%	32.95%	AA-	Aaa
Banc Of America Comm Mtg 06 2 A4	2006	12,042	12,040	76.82%	12.02%	30.89%	AAA	NR
GSMS 2010-C1 A2	2010	8,077	8,276	53.32%	0.00%	18.60%	NR	Aaa
Wachovia Bk Comm Mtg Tr 05 C18 A4	2005	7,440	6,881	79.92%	14.94%	34.02%	AAA	Aaa
Four Times Square Tr 06-4Ts A	2006	7,267	7,027	39.40%	0.00%	8.04%	AAA	Aa1
Citigroup Comm Mtg Tr 06 C5 A4	2006	7,209	6,977	72.11%	3.74%	29.50%	NR	Aaa
Credit Suisse Mortgage Capital 06-OMA B2	2006	6,928	7,170	65.71%	0.00%	52.76%	NR	Aa1
LB-UBS Comm Mtg Tr 06 C7 A3	2006	6,661	6,324	71.34%	8.07%	30.03%	AAA	NR
GS Mortgage Securities Corpora 10-C1 B	2010	6,097	6,174	53.32%	0.00%	15.08%	NR	Aa2
LB-UBS Comm Mtg Tr 06 C6 A4	2006	5,670	5,795	65.89%	5.78%	28.01%	AAA	Aaa
Bear Stearns Comm Mtg Secs 06 T22 A4	2006	5,325	4,886	58.37%	1.07%	30.62%	NR	Aaa
Morgan Stanley Capital I 06 Hq10 A4	2006	4,765	4,749	73.60%	11.66%	32.37%	NR	Aaa
Citigroup/Deutsche Bk Comm Mtg 05 CD1 A4	2005	4,520	4,207	73.35%	10.74%	31.57%	AAA	Aaa
Commercial Mtg Pt Cert 05 C6 A5A	2005	4,334	4,051	76.59%	9.29%	31.49%	AAA	Aaa
Subtotal		123,601	122,797					
All Other		66,414	64,208					
Total		$ 190,015	$ 187,005					

The following table shows the amount and percentage of our fixed maturities and short-term investments at December 31, 2010 by S&P credit rating or, if an S&P rating is not available, the equivalent Moody s rating. The table includes fixed maturities and short-term investments at fair value, and the total rating is the weighted average quality rating.

Rating	Fair	Percent of

Description	Rating	Value *($ in thousands)*	Total
Extremely Strong	AAA	$ 1,122,760	55%
Very Strong	AA	355,094	17%
Strong	A	441,008	22%
Adequate	BBB	96,894	5%
Speculative	BB & below	14,461	1%
Not Rated	NR	5,085	0%
Total		$ 2,035,302	100%

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Following is a list of the top fifteen corporate bond holdings for fixed maturities at fair value. All such fixed maturities are rated investment grade by S&P and Moody s. These holdings represent direct obligations of the issuer or its subsidiaries and exclude any government guaranteed or government sponsored organizations, securitized, credit enhanced or collateralized asset-backed or mortgage-backed securities.

	Fair Value	Net Unrealized Gains/(Losses)	Cost or Amortized Cost	S&P Rating
		($ in thousands)		
Issuers:				
General Electric	$ 25,750	$ 1,755	$ 23,995	AA
Barclays PLC	17,529	423	17,106	AA-
Morgan Stanley	17,004	110	16,894	A-
Goldman Sachs Group Inc	16,182	344	15,838	A-
J.P. Morgan Chase & Co	16,086	157	15,929	A
Wells Fargo & Co	15,982	184	15,798	A+
Credit Suisse Group AG	14,205	(184)	14,389	A+
Southern Co	12,349	539	11,810	A-
Citigroup Inc	11,398	515	10,883	A-
Consolidated Edison Inc	11,071	356	10,715	A-
Wal-Mart Stores Inc	11,052	(515)	11,567	AA
Baker Hughes Inc	10,972	537	10,435	A
Bank of America Corp	10,950	178	10,772	A-
Deutsche Bank AG	10,245	307	9,938	A+
Transcanada Corp	10,197	741	9,456	A-
Subtotal	210,972	5,447	205,525	
All Other	315,679	4,083	311,596	
Total	$ 526,651	$ 9,530	$ 517,121	

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The following table sets forth the fifteen largest equity securities holdings as of December 31, 2010:

	Fair Value	Net Unrealized Gains/(Losses)	Cost or Amortized Cost
		($ in thousands)	
Issuers:			
Vanguard Total Stock Market Index	$ 5,457	$ 2,066	$ 3,391
Vanguard Emerging Market Stock Index	5,007	2,485	2,522
Vanguard Pacific Stock Index	4,602	1,503	3,099
Vanguard European Stock Index	4,080	1,305	2,775
Conocophillips	2,887	1,037	1,850
Philip Morris International Inc	2,543	839	1,704
Chevron Corp	2,532	788	1,744
Altria Group Inc	2,415	795	1,620
General Electric	2,373	558	1,815
AT&T Inc	2,324	370	1,954
HJ Heinz Co	2,273	404	1,869
Vodafone Group Plc	2,230	675	1,555
Johnson & Johnson	2,193	130	2,063
Bristol-Myers Squibb Co	2,176	396	1,780
Diageo Plc	2,156	672	1,484
Subtotal	45,248	14,023	31,225
All Other	42,010	8,442	33,568
Total	$ 87,258	$ 22,465	$ 64,793

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The following table summarizes all securities in an unrealized loss position at December 31, 2010 and 2009, showing the aggregate fair value and gross unrealized loss by the length of time those securities have continuously been in an unrealized loss position as well as the number of securities:

	December 31, 2010			December 31, 2009		
	Number of Securities	Fair Value	Gross Unrealized Loss	Number of Securities	Fair Value	Gross Unrealized Loss
	($ in thousands except # of securities)					
Fixed Maturities:						
U.S. Government Treasury bonds, agency bonds and foreign government bonds						
0-6 Months	36	$ 163,253	$ 4,499	24	$ 116,566	$ 597
7-12 Months						
> 12 Months						
Subtotal	36	163,253	4,499	24	116,566	597
States, municipalities and political subdivisions						
0-6 Months	57	112,291	3,749	47	108,290	2,291
7-12 Months	1	1,004	20	4	3,534	112
> 12 Months	4	1,317	36	23	17,777	514
Subtotal	62	114,612	3,805	74	129,601	2,917
Agency mortgage-backed securities						
0-6 Months	36	139,226	2,434	5	18,385	98
7-12 Months						
> 12 Months						
Subtotal	36	139,226	2,434	5	18,385	98
Residential mortgage obligations						
0-6 Months	3	3,215	20			
7-12 Months						
> 12 Months	52	15,939	2,373	73	31,071	7,246
Subtotal	55	19,154	2,393	73	31,071	7,246
Asset-backed securities						

0-6 Months	7	28,175	292			
7-12 Months						
> 12 Months	1	2		4	637	34
Subtotal	8	28,177	292	4	637	34
Commercial mortgage-backed securities						
0-6 Months	16	78,212	1,755	11	28,103	324
7-12 Months						
> 12 Months	2	491	39	21	45,135	4,704
Subtotal	18	78,703	1,794	32	73,238	5,028
Corporate bonds						
0-6 Months	98	214,180	5,545	13	33,275	337
7-12 Months						
> 12 Months				8	6,325	422
Subtotal	98	214,180	5,545	21	39,600	759
Total fixed maturities	313	$ 757,305	$ 20,762	233	$ 409,098	$ 16,679
Equity securities common stocks						
0-6 Months	1	$ 322	$ 10		$	$
7-12 Months						
> 12 Months				1	872	10
Total equity securities	1	$ 322	$ 10	1	$ 872	$ 10

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We analyze the unrealized losses quarterly to determine if any are other-than-temporary. The above unrealized losses have been determined to be temporary based on our policies. See *Critical Accounting Estimates Impairment of Invested Assets* for additional information on our policies.

The residential mortgage obligation s gross unrealized loss in the above table for the greater than 12 months category consists primarily of residential mortgage-backed securities. Residential mortgage-backed securities are a type of fixed income security in which residential mortgage loans are sold into a trust or special purpose vehicle, thereby securitizing the cash flows of the mortgage loans.

As of December 31, 2010, the largest single unrealized loss by an issuer in the non-government guaranteed fixed maturities category was $0.7 million.

The following table summarizes the gross unrealized investment losses as of December 31, 2010 by length of time where the fair value is less than 80% of amortized cost.

Period for Which Fair Value is Less than 80% of Amortized Cost

	Less than 3 months	Longer than 3 months, less than 6 months	6 months or longer, less than 12 months	12 months or longer	Total
			($ in thousands)		
Fixed maturities	$	$	$	$ (607)	$ (607)
Equity securities					
Total	$	$	$	$ (607)	$ (607)

The fair value of our investment portfolio may fluctuate significantly in response to various factors such as changes in interest rates, investment quality ratings, equity prices, foreign exchange rates and credit spreads. We do not have the intent to sell nor is it more likely than not that we will have to sell debt securities in unrealized loss positions that are not other-than temporarily impaired before recovery. We may realize investment losses to the extent our liquidity needs require the disposition of fixed maturity securities in unfavorable interest rate, liquidity or credit spread environments. Significant changes in the factors we consider when evaluating impairment losses could result in a significant change in impairment losses reported in the consolidated financial statements.

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The following table shows the composition by NAIC rating and the generally equivalent S&P and Moody s ratings of the fixed maturity securities in our portfolio with gross unrealized losses at December 31, 2010. Not all of the securities are rated by S&P and/or Moody s:

NAIC Rating	Equivalent S&P Rating	Equivalent Moody s Rating	Gross Unrealized Loss Amount	Gross Unrealized Loss Percent of Total	Fair Value Amount	Fair Value Percent of Total
			($ in thousands)			
1	AAA/AA/A	Aaa/Aa/A	$ 17,552	85%	$ 693,279	92%
2	BBB	Baa	1,092	5%	48,831	6%
3	BB	Ba	161	1%	1,908	0%
4	B	B	531	3%	4,044	1%
5	CCC or lower	Caa or lower	1,347	6%	7,945	1%
6	NR	NR	79	0%	1,298	0%
	Total		$ 20,762	100%	$ 757,305	100%

At December 31, 2010, the gross unrealized losses in the table directly above are related to fixed maturity securities that are rated investment grade, which is defined by us as a security having an NAIC rating of 1 or 2, an S&P rating of BBB- or higher, or a Moody s rating of Baa3 or higher. Unrealized losses on investment grade securities principally relate to changes in interest rates or changes in sector-related credit spreads since the securities were acquired.

The contractual maturity by the number of years until maturity for fixed maturity securities with unrealized losses at December 31, 2010 are shown in the following table:

	Gross Unrealized Loss Amount	Gross Unrealized Loss Percent of Total	Fair Value Amount	Fair Value Percent of Total
	($ in thousands)			
Due in one year or less	$ 2	0%	$ 1,430	0%
Due after one year through five years	2,087	10%	153,866	20%
Due after five years through ten years	7,284	35%	218,215	29%
Due after ten years	4,476	22%	118,534	16%
Mortgage- and asset-backed securities	6,913	33%	265,260	35%
Total fixed maturity securities	$ 20,762	100%	$ 757,305	100%

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Due to the periodic repayment of principal, the mortgage-backed and asset-backed securities are estimated to have an effective maturity of approximately 5.2 years.

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Liquidity and Capital Resources

Cash flows from operations were $118.2 million, $103.9 million and $245.3 million for 2010, 2009, and 2008, respectively. The improvement in cash flow from operations in 2010 compared to 2009 was primarily a result of improved collections on reinsurance recoverable as well as premiums receivable. Partially offsetting these items was an increase in losses and LAE paid for claims of $68.6 million. Operating cash flow was used primarily to acquire additional investments of fixed income securities.

Investments and cash increased to $2.15 billion at December 31, 2010 from $2.06 billion at December 31, 2009. The increase was primarily due to the positive cash flow from operations. Net investment income was $71.7 million for 2010, $75.5 million for 2009 and $76.6 million for 2008.

The approximate pre-tax yields of the investment portfolio, excluding net realized gains and losses, were 3.5% for 2010 and 3.8% for 2009 and 4.1% for 2008. The decline in the pre-tax investment yields was due to a decline in yields for our short duration investment holdings.

At December 31, 2010, the weighted average rating of our fixed maturity investments was AA by S&P and Aa by Moody s. We believe that we have reduced exposure to credit risk since the fixed maturity investment portfolio, except for $19.5 million, consists of investment-grade bonds but there can be no assurance that unexpected levels of market volatility or significant negative changes in economic conditions would not result in material credit related losses in the future. At December 31, 2010, our investment portfolio had an average maturity of 5.5 years and a duration of 4.4 years. Management periodically projects cash flow of the investment portfolio and other sources in order to maintain the appropriate levels of liquidity to ensure our ability to satisfy claims. As of December 31, 2010 and 2009, all fixed maturity securities and equity securities held by us were classified as available-for-sale.

On April 1, 2010, we entered into a $140 million credit facility agreement entitled Fifth Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as Administrative Agent, and a syndicate of lenders. The credit facility is a letter of credit facility and amends and replaces the $75 million credit facility that expired by its terms on April 2, 2010. We may request that the facility be increased by an amount not to exceed $25 million. The credit facility, which is denominated in U.S. dollars, is utilized primarily by Navigators Corporate Underwriters Ltd. and Millennium Underwriting Ltd. to fund our participation in Syndicate 1221 through letters of credit. The letters of credit issued under the facility are denominated in British pounds and their aggregate face amount will fluctuate based on exchange rates. The credit facility expires on March 31, 2011. At December 31, 2010, letters of credit with an aggregate face amount of $129.1 million were outstanding under the credit facility.

The above mentioned credit facility contains customary covenants for facilities of this type, including restrictions on indebtedness and liens, limitations on mergers, dividends and the sale of assets, and requirements as to maintaining certain consolidated tangible net worth, statutory surplus and other financial ratios. The credit facility also provides for customary events of default, including failure to pay principal, interest or fees when due, failure to comply with covenants, any representation or warranty made by the Company being false in any material respect, default under certain other indebtedness, certain insolvency or receivership events affecting the Company and its subsidiaries, the occurrence of certain material judgments, or a change in control of the Company. The letter of credit facility is secured by a pledge of the stock of certain insurance subsidiaries of the Company. To the extent the aggregate face amount issued under the credit facility exceeds the commitment amount; we are required to post collateral with the lead bank of the consortium. We were in compliance with all covenants under the credit facility at December 31, 2010.

As a result of the April 1, 2010 amendment of the credit facility, the applicable margin and applicable fee rate payable under the letter of credit facility are now based on a schedule that is decided based on the Company s status as determined from its then-current ratings issued by S&P and Moody s with respect to the Company s senior unsecured long-term debt securities without third-party credit enhancement.

Our reinsurance has been placed with various U.S. and foreign insurance companies and with selected syndicates at Lloyd s. Pursuant to the implementation of Lloyd s Plan of Reconstruction and Renewal, a portion of our recoverables are now reinsured by Equitas (a separate United Kingdom authorized reinsurance company established to reinsure outstanding liabilities of all Lloyd s members for all risks written in the 1992 or prior years of account).

Time lags do occur in the normal course of business between the time gross losses are paid by the Company and the time such gross losses are billed and collected from reinsurers. Reinsurance recoverable amounts related to those gross loss reserves are anticipated to be billed and collected over the next several years as gross losses are paid by the Company.

Generally, for pro rata or quota share reinsurers we issue quarterly settlement statements for premiums less commissions and paid loss activity, which are expected to be settled by the end of the subsequent quarter. We have the ability to issue cash calls requiring such reinsurers to pay losses whenever paid loss activity for a claim ceded to a particular reinsurance treaty exceeds a predetermined amount (generally $1.0 million) as set forth in the pro-rata treaty. For the Insurance Companies, cash calls must generally be paid within 30 calendar days. There is generally no specific settlement period for the Lloyd s Operations cash call provisions, but such billings are usually paid within 45 calendar days.

Generally, for excess-of-loss reinsurers we pay monthly or quarterly deposit premiums based on the estimated subject premiums over the contract period (usually one year) which are subsequently adjusted based on actual premiums determined after the expiration of the applicable reinsurance treaty. Paid losses subject to excess-of-loss recoveries are generally billed as they occur and are usually settled by reinsurers within 30 calendar days for the Insurance Companies and 30 business days for the Lloyd s Operations.

We sometimes withhold funds from reinsurers and may apply ceded loss billings against such funds in accordance with the applicable reinsurance agreements.

At December 31, 2010, ceded asbestos paid and unpaid losses recoverable were $8.4 million. We generally experience significant collection delays for a large portion of reinsurance recoverable amounts for asbestos losses given that certain reinsurers are in run-off or otherwise no longer active in the reinsurance business. Such circumstances are considered in our ongoing assessment of such reinsurance recoverables.

We believe that we have adequately managed our cash flow requirements related to reinsurance recoveries from our positive cash flows and the use of available short-term funds when applicable. However, there can be no assurances that we will be able to continue to adequately manage such recoveries in the future or that collection disputes or reinsurer insolvencies will not arise that could materially increase the collection time lags or result in recoverable write-offs causing additional incurred losses and liquidity constraints to the Company. The payment of gross claims and related collections from reinsurers with respect to Hurricanes Gustav, Ike, Katrina and Rita, as well as Deepwater Horizon, could significantly impact our liquidity needs. However, we expect to continue to pay these hurricane losses over a period of years from cash flow and, if needed, short-term investments. We expect to collect our paid reinsurance recoverables generally under the terms described above.

We believe that the cash flow generated by the operating activities of our subsidiaries will provide sufficient funds for us to meet our liquidity needs over the next twelve months. Beyond the next twelve months, cash flow available to us may be influenced by a variety of factors, including general economic conditions and conditions in the insurance and reinsurance markets, as well as fluctuations from year to year in claims experience.

Our capital resources consist of funds deployed or available to be deployed to support our business operations. At December 31, 2010 and 2009, our capital resources were as follows:

	December 31, 2010	December 31, 2009
	($ in thousands)	
Senior debt	$ 114,138	$ 114,010
Stockholders equity	829,354	801,519
Total capitalization	$ 943,492	$ 915,529
Ratio of debt to total capitalization	12.1%	12.5%

The increase in stockholders equity in 2010 was primarily due to 2010 net income of $69.6 million partially offset by share repurchases of $52.0 million. The increase in stockholders equity in 2009 was primarily due to 2009 net income of $63.2 million and $46.0 million of unrealized gains in 2009 within our investment portfolio.

We monitor our capital adequacy to support our business on a regular basis. The future capital requirements of our business will depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. Our ability to underwrite is largely dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies. In particular, we require (1) sufficient capital to maintain our financial strength ratings, as issued by several ratings agencies, at a level considered necessary by management to enable our Insurance Companies to compete; (2) sufficient capital to enable our Insurance Companies to meet the capital adequacy tests performed by regulatory agencies in the United States and the United Kingdom and (3) letters of credit and other forms of collateral that are necessary to support the business plan of our Lloyd s Operations.

As part of our capital management program, we may seek to raise additional capital or may seek to return capital to our shareholders through share repurchases, cash dividends or other methods (or a combination of such methods). Any such determination will be at the discretion of our board of directors and will be dependent upon our profits, financial requirements and other factors, including legal restrictions, rating agency requirements, credit facility limitations and such other factors as our board of directors deems relevant.

To the extent that our existing capital is insufficient to fund our future operating requirements or maintain such ratings, we may need to raise additional funds through financings or limit our growth. If we are not able to obtain adequate capital, our business, results of operations and financial condition could be adversely affected, which could include, among other things, the following possible outcomes: (1) potential downgrades in the financial strength ratings assigned by ratings agencies to our Insurance Companies which could place the Company at a competitive disadvantage compared to higher-rated competitors; (2) reductions in the amount of business that our Insurance Companies or Lloyd s Operations are able to write in order to meet capital adequacy-based tests enforced by statutory agencies; and (3) any resultant ratings downgrades could, among other things, affect our ability to write business and increase the cost of the credit facility.

In addition to common share capital, we may need to depend on external sources of finance to support our underwriting activities, which can be in the form (or any combination) of debt securities, preference shares, common equity and bank credit facilities providing loans and/or letters of credit. Any equity or debt financing, if available at all, may be on terms that are unfavorable to us. In the case of equity financings, dilution to our shareholders could result, and, in any case, such securities may have rights, preferences and privileges that are senior to those of our outstanding securities.

In November 2009, the Parent Company s Board of Directors adopted a share repurchase program for up to $35 million of the Parent Company s common stock. In March 2010, the Parent Company s Board of Directors adopted a share repurchase program for up to an additional $65 million of the Parent Company s common stock. Purchases are permitted from time to time at prevailing prices in open market or privately negotiated transactions through December 31, 2011. The timing and amount of purchases under the program depend on a variety of factors, including the trading price of the stock, market conditions and corporate and regulatory considerations. See Item 5, *Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities* for a schedule outlining our share repurchases in 2010 and 2009. We did not repurchase any additional shares under the share repurchase program from January 1, 2011 through February 16, 2011.

In July 2009, we filed a universal shelf registration statement with the Securities and Exchange Commission. This registration statement, which expires in July 2012, allows for the future possible offer and sale by the Company of up to $500 million in the aggregate of various types of securities including common stock, preferred stock, debt securities, depositary shares, warrants, units or preferred. The shelf registration statement enables us to efficiently access the public equity or debt markets in order to meet future capital needs, if necessary. This report is not an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such state.

We primarily rely upon dividends from our subsidiaries to meet our Parent Company s obligations. Since the issuance of the senior debt in April 2006, the Parent Company s cash obligations primarily consist of semi-annual interest payments of $4.0 million. Going forward, the interest payments on our senior debt will be made from one or a combination of funds at the Parent Company or dividends from its subsidiaries. The dividends have historically been paid by Navigators Insurance Company. Based on the December 31, 2010 surplus of Navigators Insurance Company, the approximate maximum amount available for the payment of dividends by Navigators Insurance Company during 2011 without prior regulatory approval is $68.7 million. Dividends of $40.0 million and $25.0 million were paid by Navigators Insurance Company during 2010 and 2009, respectively.

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Condensed Parent Company balance sheets as of December 31, 2010 and 2009 are shown in the table below:

	December 31, 2010	December 31, 2009
	($ in thousands, except share data)	
ASSETS		
Cash and investments	$ 53,217	$ 63,676
Investments in subsidiaries	877,999	846,295
Goodwill and other intangible assets	2,534	2,534
Other assets	12,028	5,213
Total assets	$ 945,778	$ 917,718
LIABILITIES		
7% Senior Notes	$ 114,138	$ 114,010
Accounts payable and other liabilities	946	847
Accrued interest payable	1,340	1,342
Total liabilities	116,424	116,199
STOCKHOLDERS EQUITY		
Preferred stock, $.10 par value, authorized 1,000,000 shares, none issued		
Common stock, $.10 par value, authorized 50,000,000 shares, issued 17,274,440 shares for 2010 and 17,212,814 shares for 2009	1,728	1,721
Additional paid-in capital	312,588	304,505
Treasury stock, at cost (1,532,273 shares for 2010 and 366,330 shares for 2009)	(64,935)	(18,296)
Retained earnings	539,512	469,934
Accumulated other comprehensive income:		
Net unrealized gains (losses) on securities available-for-sale, net of tax	31,474	34,958
Foreign currency translation adjustment, net of tax	8,987	8,697
Total stockholders equity	829,354	801,519
Total liabilities and stockholders equity	$ 945,778	$ 917,718

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Sensitive Instruments and Risk Management

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. We are exposed to potential loss to various market risks, including changes in interest rates, equity prices and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The following is a discussion of our primary market risk exposures and how those exposures have been managed through December 31, 2010. Our market risk sensitive instruments are entered into for purposes other than trading and speculation.

The carrying value of our investment portfolio as of December 31, 2010 was $2.15 billion of which 87.4% was invested in fixed maturity securities. The primary market risk to our investment portfolio is interest rate risk associated with investments in fixed maturity securities. We do not have any commodity risk exposure.

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For fixed maturity securities, short-term liquidity needs and the potential liquidity needs of the business are key factors in managing the portfolio. The portfolio duration relative to the liabilities duration is primarily managed through investment transactions.

There were no significant changes regarding the investment portfolio in our primary market risk exposures or in how those exposures were managed for the twelve months ended December 31, 2010. We do not currently anticipate significant changes in our primary market risk exposures or in how those exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

Interest Rate Risk Sensitivity Analysis

Sensitivity analysis is defined as the measurement of potential loss in future earnings, fair values or cash flows of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates and other market rates or prices over a selected time. In our sensitivity analysis model, a hypothetical change in market rates is selected that is expected to reflect reasonably possible near-term changes in those rates. Near-term means a period of time going forward up to one year from the date of the Consolidated Financial Statements. Actual results may differ from the hypothetical change in market rates assumed in this disclosure, especially since this sensitivity analysis does not reflect the results of any actions that would be taken by us to mitigate such hypothetical losses in fair value.

In this sensitivity analysis model, we use fair values to measure our potential loss. The sensitivity analysis model includes fixed maturities and short-term investments. The primary market risk to our market-sensitive instruments is interest rate risk. The sensitivity analysis model uses a 50 and 100 basis points change in interest rates to measure the hypothetical change in fair value of financial instruments included in the model. Changes in interest rates will have an immediate effect on comprehensive income and shareholders equity but will not ordinarily have an immediate effect on net income. As interest rates rise, the market value of our interest rate sensitive securities will decrease. Conversely, as interest rates fall, the market value of our interest rate sensitive securities will increase.

For invested assets, modified duration modeling is used to calculate changes in fair values. Durations on invested assets are adjusted for call, put and interest rate reset features. Duration on tax-exempt securities is adjusted for the fact that the yield on such securities is less sensitive to changes in interest rates compared to Treasury securities. Invested asset portfolio durations are calculated on a market value weighted basis, including accrued investment income, using holdings as of December 31, 2010.

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The following table summarizes the effect that an immediate, parallel shift in the interest rate yield curve would have had on our portfolio at December 31, 2010.

	Interest Rate Shift in Basis Points				
	-100	**-50**	**0**	**+50**	**+100**
			($ in thousands)		
December 31, 2010:					
Total market value	$ 2,132,182	$ 2,084,353	$ 2,035,302	$ 1,986,455	$ 1,938,625
Market value change from base	4.76%	2.41%		-2.40%	-4.75%
Change in unrealized value	$ 96,880	$ 49,051	$	$ (48,847)	$ (96,677)

Equity Price Risk

Our portfolio of equity securities currently valued at $87.3 million, which we carry on our balance sheet at fair value, has exposure to price risk. This risk is defined as the potential loss in fair value resulting from adverse changes in stock prices. Our U.S. equity portfolio is benchmarked to the S&P 500 index and changes in that index may approximate the impact on our portfolio.

Foreign currency exchange rate risk

Our Lloyd s Operations are exposed to foreign currency exchange rate risk primarily related to foreign-denominated cash, cash equivalents and marketable securities (foreign funds), premiums receivable, reinsurance recoverables on paid and unpaid losses and loss adjustment expenses as well as reserves for losses and loss adjustment expenses. The principal currencies creating foreign currency exchange risk for the Lloyd s Operations are the British pound, the Euro and the Canadian dollar. The Lloyd s Operations manages its foreign currency exchange rate risk primarily through asset-liability matching.

Based on the primary foreign-denominated balances within the Lloyd s Operations at December 31, 2010, an assumed 5%, 10% and 15% negative currency movement would result in changes as follows:

(amounts in millions)	USD equivalent as of December 31, 2010	Negative currency movement of 5%	10%	15%
Cash, cash equivalents and marketable securities at fair value	$ 100.5	$ (5.0)	$ (10.1)	$ (15.1)
Premiums receivable	$ 23.9	$ (1.2)	$ (2.4)	$ (3.6)
Reinsurance recoverables on paid, unpaid losses and loss adjustment expenses	$ 72.8	$ (3.6)	$ (7.3)	$ (10.9)
Reserves for losses and loss adjustment expenses	$ (181.4)	$ 9.1	$ 18.1	$ 27.2

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements required in response to this section are submitted as part of Item 15(a) of this report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange act of 1934, as amended (the Exchange Act). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management s Report on Internal Control over Financial Reporting

(a) Management s annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2010.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

The Company s independent registered public accounting firm, KPMG LLP, has audited the effectiveness of the Company s internal control over financial reporting as of December 31, 2010, as stated in their report in item (b) below.

(b) *Attestation report of the registered* public accounting firm

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Navigators Group, Inc.

We have audited The Navigators Group, Inc. and subsidiaries internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Navigators Group, Inc. and subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included under Item 9A, Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Navigators Group, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Navigators Group, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated February 18, 2011 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP
New York, New York
February 18, 2011

(c) Changes in internal control over financial reporting

There have been no changes during our fourth fiscal quarter in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

Part III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning our directors and executive officers is contained under Election of Directors in our 2011 Proxy Statement, which information is incorporated herein by reference. Information concerning the Audit Committee and the Audit Committee s financial expert of the Company is contained under Board of Directors and Committees in our 2011 Proxy Statement, which information is incorporated herein by reference.

We have adopted a Code of Ethics for Chief Executive Officer and Senior Financial Officers, which is applicable to our Chief Executive Officer, Chief Financial Officer, Treasurer, Controller and all other persons performing similar functions. A copy of such Code is available on our website at www.navg.com under the Corporate Governance link. Any amendments to, or waivers of, such Code which apply to any of the financial professionals listed above will be disclosed on our website under the same link promptly following the date of such amendment or waiver.

Item 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is contained under Compensation Discussion and Analysis in our 2011 Proxy Statement, which information is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning the security ownership of the directors and officers of the Company is contained under Election of Directors and Compensation Discussion and Analysis in our 2011 Proxy Statement, which information is incorporated herein by reference. Information concerning securities that are available to be issued under our equity compensation plans is contained under Equity Compensation Plan Information in our 2010 Proxy Statement, which information is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information concerning relationships and related transactions of our directors and officers is contained under Related Party Transactions in our 2011 Proxy Statement, which information is incorporated herein by reference**.** Information concerning director independence is contained under Board of Directors and Committees in our 2011 Proxy Statement, which information is incorporated herein by reference.

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Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information concerning the principal accountant s fees and services for the Company is contained under Independent Registered Public Accounting Firm in the Company s 2011 Proxy Statement, which information is incorporated herein by reference.

Part IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

a. **Financial Statements and Schedules:** The financial statements and schedules that are listed in the accompanying Index to Consolidated Financial Statements and Schedules on page F-1.

b. **Exhibits:** The exhibits that are listed in the accompanying Index to Exhibits on the page which immediately follows page S-8. The exhibits include the management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(a)(10)(iii) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Navigators Group, Inc.
(Company)

Dated: February 18, 2011

By: /s/ FRANCIS W. MCDONNELL
Francis W. McDonnell
Senior Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Name	Title	Date
/s/ TERENCE N. DEEKS Terence N. Deeks	Chairman	February 18, 2011
/s/ STANLEY A. GALANSKI Stanley A. Galanski	President and Chief Executive Officer (Principal Executive Officer)	February 18, 2011
/s/ FRANCIS W. MCDONNELL Francis W. McDonnell	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 18, 2011
/s/ THOMAS C. CONNOLLY Thomas C. Connolly	Vice President and Treasurer Navigators Management Company (Principal Accounting Officer)	February 18, 2011
/s/ H.J. MERVYN BLAKENEY H.J. Mervyn Blakeney	Director	February 18, 2011
/s/ PETER A. CHENEY Peter A. Cheney	Director	February 18, 2011
/s/ WILLIAM T. FORRESTER William T. Forrester	Director	February 18, 2011
/s/ JOHN F. KIRBY John F. Kirby	Director	February 18, 2011
/s/ MARC M. TRACT	Director	

Marc M. Tract		February 18, 2011
/s/ ROBERT V. MENDELSOHN	Director	February 18, 2011
Robert V. Mendelsohn		
/s/ MARJORIE D. RAINES	Director	February 18, 2011
Marjorie D. Raines		

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Navigators Group, Inc.

We have audited the accompanying consolidated balance sheets of The Navigators Group, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedules as listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Navigators Group, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of evaluating other-than-temporary impairments of debt securities due to the adoption of new accounting requirements issued by the Financial Accounting Standards Board, as of January 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Navigators Group, Inc. and subsidiaries internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 18, 2011 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

KPMG LLP
New York, New York
February 18, 2011

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THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
($ in thousands, except share data)

	December 31, 2010	December 31, 2009
ASSETS		
Investments and cash:		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2010, $1,855,598; 2009, $1,777,983)	$ 1,882,245	$ 1,816,669
Equity securities, available-for-sale, at fair value (cost: 2010, $64,793; 2009, $47,376)	87,258	62,610
Short-term investments, at cost which approximates fair value	153,057	176,799
Cash	31,768	509
Total investments and cash	2,154,328	2,056,587
Premiums receivable	188,368	193,460
Prepaid reinsurance premiums	156,869	162,344
Reinsurance recoverable on paid losses	56,658	76,505
Reinsurance recoverable on unpaid losses and loss adjustment expenses	843,296	807,352
Deferred policy acquisition costs	55,201	56,575
Accrued investment income	15,590	17,438
Goodwill and other intangible assets	6,925	7,057
Current income tax receivable, net	1,054	4,854
Deferred income tax, net	15,141	31,222
Other assets	38,029	40,600
Total assets	$ 3,531,459	$ 3,453,994
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Reserves for losses and loss adjustment expenses	$ 1,985,838	$ 1,920,286
Unearned premiums	463,515	475,171
Reinsurance balances payable	105,904	98,555
Senior notes	114,138	114,010
Accounts payable and other liabilities	32,710	44,453
Total liabilities	2,702,105	2,652,475
Stockholders equity:		
Preferred stock, $.10 par value, authorized 1,000,000 shares, none issued		
	1,728	1,721

Common stock, $.10 par value, authorized 50,000,000 shares, issued 17,274,440 shares for 2010 and 17,212,814 shares for 2009		
Additional paid-in capital	312,588	304,505
Treasury stock, at cost (1,532,273 shares for 2010 and 366,330 shares for 2009)	(64,935)	(18,296)
Retained earnings	539,512	469,934
Accumulated other comprehensive income	40,461	43,655
Total stockholders equity	829,354	801,519
Total liabilities and stockholders equity	$ 3,531,459	$ 3,453,994

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

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THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
($ and shares in thousands, except net income per share)

	Year Ended December 31, 2010	2009	2008
Gross written premiums	$ 987,201	$ 1,044,918	$ 1,084,922
Revenues:			
Net written premiums	$ 653,938	$ 701,255	$ 661,615
Change in unearned premiums	5,993	(17,892)	(17,639)
Net earned premiums	659,931	683,363	643,976
Net investment income	71,662	75,512	76,554
Total other-than-temporary impairment losses	(2,222)	(29,265)	(37,045)
Portion of loss recognized in other comprehensive income (before tax)	1,142	17,388	
Net other-than-temporary impairment losses recognized in earnings	(1,080)	(11,877)	(37,045)
Net realized gains (losses)	41,319	9,217	(1,254)
Other income (expense)	5,143	6,665	1,435
Total revenues	776,975	762,880	683,666
Expenses:			
Net losses and loss adjustment expenses	421,155	435,998	393,131
Commission expenses	109,113	98,908	89,785
Other operating expenses	139,700	132,671	123,148
Interest expense	8,178	8,455	8,871
Total expenses	678,146	676,032	614,935
Income before income taxes	98,829	86,848	68,731
Income tax expense	29,251	23,690	17,039
Net income	$ 69,578	$ 63,158	$ 51,692
Net income per common share:			
Basic	$ 4.33	$ 3.73	$ 3.08
Diluted	$ 4.24	$ 3.65	$ 3.04
Average common shares outstanding:			

Basic	16,065	16,935	16,802
Diluted	16,415	17,322	16,992

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

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THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
($ in thousands)

	Year Ended December 31, 2010	2009	2008
Preferred Stock			
Balance at beginning and end of year	$	$	$
Common stock			
Balance at beginning of year	$ 1,721	$ 1,708	$ 1,687
Shares issued under stock plans	7	13	21
Balance at end of year	$ 1,728	$ 1,721	$ 1,708
Additional paid-in capital			
Balance at beginning of year	$ 304,505	$ 298,872	$ 291,616
Share-based compensation	8,083	5,633	7,256
Balance at end of year	$ 312,588	$ 304,505	$ 298,872
Treasury stock, at cost			
Balance at beginning of year	$ (18,296)	$ (11,540)	$
Treasury stock acquired	(51,980)	(6,756)	(11,540)
Issuance related to share-based compensation	5,341		
Balance at end of year	$ (64,935)	$ (18,296)	$ (11,540)
Retained earnings			
Balance at beginning of year	$ 469,934	$ 406,776	$ 355,084
Net income	69,578	63,158	51,692
Balance at end of year	$ 539,512	$ 469,934	$ 406,776
Accumulated other comprehensive income (loss)			
Net unrealized gains (losses) on securities, net of tax			
Balance at beginning of year	$ 30,958	$ (15,062)	$ 10,186
Change in year	(660)	46,020	(25,248)
Balance at end of year	30,298	30,958	(15,062)
Non-credit other-than-temporary impairment gains (losses), net of tax			

Balance at beginning of year		4,000				
Change in year		(2,824)		4,000		
Balance at end of year		1,176		4,000		
Cumulative translation adjustments, net of tax						
Balance at beginning of year		8,697		8,563		3,533
Net adjustment		290		134		5,030
Balance at end of year		8,987		8,697		8,563
Balance at end of year	$	40,461	$	43,655	$	(6,499)
Total stockholders equity at end of year	$	829,354	$	801,519	$	689,317

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

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THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
($ in thousands)

	Year Ended December 31, 2010	2009	2008
Net income	$ 69,578	$ 63,158	$ 51,692
Other comprehensive income (loss):			
Change in net unrealized gains (losses) on investments, net of tax expense (benefit) of $(1,324), $25,602 and $(12,034) in 2010, 2009 and 2008, respectively[1]	(3,484)	50,020	(25,248)
Change in foreign currency translation gains, net of tax expense of $157, $72 and $2,709 in 2010, 2009 and 2008, respectively	290	134	5,030
Other comprehensive income (loss)	(3,194)	50,154	(20,218)
Comprehensive income	$ 66,384	$ 113,312	$ 31,474

(1) Disclosure of reclassification amount, net of tax:

	2010	2009	2008
Unrealized gains (losses) on investments arising during period	$ 22,634	$ 48,068	$ (50,142)
Less: reclassification adjustment for net realized gains (losses) included in net income	26,858	5,882	(768)
reclassification adjustment for other-than-temporary impairment losses recognized in net income	(740)	(7,834)	(24,126)
Change in net unrealized gains (losses) on securities, net of tax	$ (3,484)	$ 50,020	$ (25,248)

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

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THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in thousands)

	Year Ended December 31, 2010	2009	2008
Operating activities:			
Net income	$ 69,578	$ 63,158	$ 51,692
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation & amortization	4,362	4,551	4,761
Deferred income taxes	17,189	(2,285)	(16,522)
Net realized (gains) losses	(40,239)	2,660	38,299
Changes in assets and liabilities:			
Reinsurance recoverable on paid and unpaid losses and loss adjustment expenses	(17,359)	42,781	(48,314)
Reserves for losses and loss adjustment expenses	67,701	54,050	237,817
Prepaid reinsurance premiums	5,298	27,788	(3,701)
Unearned premiums	(10,990)	(8,872)	20,183
Premiums receivable	4,415	(20,447)	(14,369)
Deferred policy acquisition costs	1,212	(8,394)	2,627
Accrued investment income	1,856	(11)	(1,822)
Reinsurance balances payable	7,450	(42,808)	(10,048)
Current income taxes	3,092	(12,094)	(798)
Other	4,656	3,833	(14,530)
Net cash provided by operating activities	118,221	103,910	245,275
Investing activities:			
Fixed maturities			
Redemptions and maturities	206,461	135,374	131,674
Sales	1,191,796	473,913	186,106
Purchases	(1,439,725)	(728,216)	(473,295)
Equity securities			
Sales	6,942	18,899	22,041
Purchases	(23,123)	(21,947)	(40,746)
Change in payable for securities	1,043	(15,836)	(112)
Net change in short-term investments	22,713	47,821	(61,431)
Purchase of property and equipment	(2,568)	(2,781)	(7,548)
Net cash used in investing activities	(36,461)	(92,773)	(243,311)
Financing activities:			
Purchase of treasury stock	(51,980)	(6,756)	(11,540)
Purchase of Senior notes		(7,000)	
Proceeds of stock issued from employee stock purchase plan	868	727	963

Proceeds of stock issued from exercise of stock options		611		944		3,014
Net cash used in financing activities		(50,501)		(12,085)		(7,563)
Increase (decrease) in cash		31,259		(948)		(5,599)
Cash at beginning of year		509		1,457		7,056
Cash at end of year	$	31,768	$	509	$	1,457
Supplemental cash information:						
Income taxes paid, net	$	6,398	$	37,089	$	34,990
Interest paid	$	8,050	$	8,355	$	8,750
Issuance of stock to directors	$	190	$	210	$	200

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

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THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization

The accompanying consolidated financial statements, consisting of the accounts of The Navigators Group, Inc., a Delaware holding company established in 1982, and its wholly-owned subsidiaries, are prepared on the basis of U.S. generally accepted accounting principles (GAAP or U.S. GAAP). The terms we , us , our and the Company herein are used to mean The Navigators Group, Inc. and its subsidiaries, unless the context otherwise requires. The terms Parent or Parent Company are used to mean The Navigators Group, Inc. without its subsidiaries. All significant intercompany transactions and balances have been eliminated. Certain amounts for prior years have been reclassified to conform to the current year s presentation. Commission income, previously disclosed as a separate line item in the Consolidated Statements of Income, is now included in Other income (expense).

We are an international insurance company focusing on specialty products within the overall property/casualty insurance market. Our largest product line and most long-standing area of specialization is ocean marine insurance. We have also developed specialty niches in professional liability insurance as well as other specialty insurance lines such as contractors liability and commercial primary and excess liability coverages.

Our revenue is primarily comprised of premiums and investment income. We derive our premiums primarily from business written by wholly-owned underwriting management companies which produce, manage and underwrite insurance and reinsurance for us. Our products are distributed through multiple channels, utilizing global, national and regional retail and wholesale insurance brokers.

We conduct operations through our Insurance Companies and our Lloyd s Operations segments. The Insurance Companies segment consists of Navigators Insurance Company, which includes a United Kingdom Branch (the U.K. Branch), and Navigators Specialty Insurance Company, which underwrites specialty and professional liability insurance on an excess and surplus lines basis. All of the insurance business written by Navigators Specialty Insurance Company is fully reinsured by Navigators Insurance Company pursuant to a 100% quota share reinsurance agreement.

Our Lloyd s Operations segment includes Navigators Underwriting Agency Ltd. (NUAL), a Lloyd s of London (Lloyd s) underwriting agency which manages Lloyd s Syndicate 1221 (Syndicate 1221). Our Lloyd s Operatio primarily underwrite marine and related lines of business along with offshore energy, professional liability insurance and construction coverages for onshore energy business at Lloyd s through Syndicate 1221. We controlled 100% of Syndicate 1221 s stamp capacity for the 2010, 2009 and 2008 underwriting years through our wholly owned subsidiary, Navigators Corporate Underwriters Ltd., which is referred to as a corporate name in the Lloyd s market. We have also established underwriting agencies in Antwerp, Belgium, Stockholm, Sweden and Copenhagen, Denmark, which underwrite risks pursuant to binding authorities with NUAL into Syndicate 1221. For financial information by segment, see Note 3: *Segment Information* to the Consolidated Financial Statements.

Significant Accounting Policies

Cash

Cash includes cash on hand, demand deposits with banks and treasury bills with original maturities of less than 90 days.

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Investments

As of December 31, 2010 and 2009, all fixed maturity and equity securities held by the Company were carried at fair value and classified as available-for-sale. Available-for-sale securities are debt and equity securities not classified as either held-to-maturity securities or trading securities and are reported at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income as a separate component of stockholders equity. Premiums and discounts on fixed maturity securities are amortized into interest income over the life of the security under the interest method. Fixed maturity securities include bonds and mortgage-backed and asset-backed securities. Equity securities consist of common stock.

Short-term investments are carried at cost, which approximates fair value. Short-term investments mature within one year from the purchase date.

All prices for our fixed maturities, short-term investments and equity securities valued as Level 1, Level 2 or Level 3 in the fair value hierarchy, as defined in the Financial Accounts Standards Board Accounting Standards Codification 820 (ASC 820), *Fair Value Measurements*, are received from independent pricing services utilized by one of our outside investment managers whom we employ to assist us with investment accounting services. This manager utilizes a pricing committee which approves the use of one or more independent pricing service vendors. The pricing committee consists of five or more members, one from senior management and one from the accounting group with the remainder from the asset class specialists and client strategists. The pricing source of each security is determined in accordance with the pricing source procedures approved by the pricing committee. The investment manager uses supporting documentation received from the independent pricing service vendor detailing the inputs, models and processes used in the independent pricing service vendors evaluation process to determine the appropriate fair value hierarchy. Any pricing where the input is based solely on a broker price is deemed to be a Level 3 price. Management has reviewed this process by which the manager determines the prices and has obtained alternative pricing to validate a sample of the prices and assess their reasonableness.

For mortgage-backed and asset-backed securities, anticipated prepayments and expected maturities are utilized in applying the interest rate method to our mortgage-backed and asset-backed securities. An effective yield is calculated based on projected principal cash flows at the time of original purchase. The effective yield is used to amortize the purchase price of the security over the security s expected life. Book values are adjusted to reflect the amortization of premium or accretion of discount on a monthly basis.

The projected principal cash flows are based on certain prepayment assumptions which are generated using a prepayment model. The prepayment model uses a number of factors to estimate prepayment activity including the current levels of interest rates (refinancing incentive), time of year (seasonality), economic activity (including housing turnover) and term and age of the underlying collateral (burnout, seasoning). Prepayment assumptions associated with the mortgage-backed and asset-backed securities are reviewed on a periodic basis. When changes in prepayment assumptions are deemed necessary as the result of actual prepayments differing from anticipated prepayments, securities are revalued based upon the new prepayment assumptions utilizing the retrospective adjustment method, whereby the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The investment in such securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the security. Such adjustments, if any, are included in net investment income for the current period being reported.

Realized gains and losses on sales of investments are recognized when the related trades are executed and are determined on the basis of the specific identification method.

Management regularly reviews our fixed maturity and equity securities portfolios to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of securities.

In the first quarter of 2009, we adopted accounting guidance relating to the recognition and presentation of other-than-temporary impairments (OTTI) on fixed maturity securities. When assessing whether the amortized cost basis of a fixed maturity security will be recovered, we compare the present value of cash flows expected to be collected to the current book value. Any shortfalls of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered the credit loss portion of OTTI losses and is recognized in earnings. All non-credit losses are recognized as changes in OTTI losses within Other Comprehensive Income (OCI) unless we intend to sell such securities. If we intend to sell such securities they are written down to fair value through a charge to operations. Prior to 2009, when a fixed maturity security in our investment portfolio had an unrealized loss that was deemed to be other-than-temporary, we wrote the security down to fair value through a charge to operations.

For equity securities, in general, we focus our attention on those securities whose fair value was less than 80% of their cost for six or more consecutive months. If warranted as the result of conditions relating to a particular security, we will focus on a significant decline in fair value regardless of the time period involved. Factors considered in evaluating potential impairment include, but are not limited to, the current fair value as compared to cost of the security, the length of time the investment has been below cost and by how much. If an equity security is deemed to be other-than-temporarily impaired, the cost is written down to fair value with the loss recognized in earnings.

For equity securities, we consider our intent to hold securities as part of the process of evaluating whether a decline in fair value represents an other-than-temporary decline in value. For fixed maturity securities, we consider our intent to sell a security and whether it is more likely than not that we will be required to sell a security before the anticipated recovery as part of the process of evaluating whether a security s unrealized loss represents an other-than-temporary decline. Our ability to hold such securities is evaluated by the Company and is based on whether there is sufficient cash flow from operations and from maturities within our investment portfolio in order to meet claims payment and other disbursement obligations arising from our underwriting operations without selling such investments. With respect to securities where the decline in value is determined to be temporary and the security s value is not written down, a subsequent decision may be made to sell that security and realize a loss. Subsequent decisions on security sales are made within the context of overall risk monitoring, changing information and market conditions.

Day to day management of our investment portfolio is outsourced to third party investment managers. While these investment managers may, at a given point in time, believe that the preferred course of action is to hold securities with unrealized losses that are considered temporary until such losses are recovered, the dynamic nature of the portfolio management may result in a subsequent decision to sell the security and realize the loss based upon a change in market and other factors described above. Investment managers are required to notify management of rating agency downgrades of securities in their portfolios as well as any potential investment valuation issues at the end of each quarter. Investment managers are also required to notify management, and receive approval, prior to the execution of a transaction or series of related transactions that may result in a realized loss above a certain threshold. Additionally, investment managers are required to notify management, and receive approval, prior to the execution of a transaction or series of related transactions that may result in any realized loss up until a certain period beyond the close of a quarterly accounting period.

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Syndicate 1221

Lloyd s syndicates determine underwriting results by year of account at the end of three years. We record adjustments to recognize underwriting results as incurred, including the ultimate cost of losses incurred. These adjustments to losses are based on actuarial analysis of Syndicate 1221 s accounts, including forecasts of expected ultimate losses.

Translation of Foreign Currencies

Functional currency assets and liabilities are translated into U.S. dollars using period end rates of exchange and the related translation adjustments are recorded as a separate component of *Accumulated other comprehensive income*. Statement of income amounts expressed in functional currencies are translated using average exchange rates. Realized gains and losses resulting from foreign currency transactions are recorded in *Other income (expense)* in our Consolidated Statements of Income.

Premium Revenues

Insurance premiums are recognized as revenue ratably over the period of the insurance contract or over the period of risk if the period of risk differs significantly from the contract period. Written premium is recorded based on the insurance policies that have been reported to us and the policies that have been written by the agents but not yet reported to us. We must estimate the amount of written premium not yet reported based on judgments relative to current and historical trends of the business being written. Such estimates are regularly reviewed and updated and any resulting adjustments are included in the current year s results. An unearned premium reserve is established to reflect the unexpired portion of each policy at the financial reporting date.

Deferred Policy Acquisition Costs

Costs of acquiring business which vary with and are directly related to the production of business are deferred and amortized ratably over the period that the related premiums are recognized as revenue. Such costs primarily include commission expense, other underwriting expenses and premium taxes. The method of computing deferred policy acquisition costs limits the deferral to their estimated net realizable value based on the related unearned premiums and takes into account anticipated losses and loss adjustment expenses, commission expense and operating expenses based on historical and current experience and anticipated investment income.

Reserves for Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses are determined on an individual basis for claims reported on direct business for insureds, from reports received from ceding insurers for insurance assumed from such insurers and on estimates based on Company and industry experience for incurred but not reported claims and loss adjustment expenses (IBNR). Indicated IBNR loss reserves are calculated by our actuaries using several standard actuarial methodologies, including the paid and incurred loss development and the paid and incurred Bornheutter-Ferguson loss methods. Additional analyses, such as frequency/severity analyses, are performed for certain books of business. The provision for unpaid losses and loss adjustment expenses has been established to cover the estimated unpaid cost of claims incurred. Such estimates are regularly reviewed and updated and any resulting adjustments are included in the current year s results. Management believes that the liability it has recognized for unpaid losses and loss adjustment expenses is a reasonable estimate of the ultimate unpaid claims incurred, however, such provisions are necessarily based on estimates and, accordingly, no representation is made that the ultimate liability will not differ materially from the amounts recorded in the accompanying consolidated financial statements. Losses and loss adjustment expenses are recorded on an undiscounted basis.

Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the basic earnings per share adjusted for the potential dilution that would occur if all issued stock options were exercised and all stock grants were fully vested.

Reinsurance Ceded

In the normal course of business, reinsurance is purchased by us from insurers or reinsurers to reduce the amount of loss arising from claims. In order to determine the proper accounting for the reinsurance, management analyzes the reinsurance agreements to determine whether the reinsurance should be classified as prospective or retroactive based upon the terms of the reinsurance agreement and whether the reinsurer has assumed significant insurance risk to the extent that the reinsurer may realize a significant loss from the transaction.

Prospective reinsurance is reinsurance in which an assuming company agrees to reimburse the ceding company for losses that may be incurred as a result of future insurable events covered under contracts subject to the reinsurance. Retroactive reinsurance is reinsurance in which an assuming company agrees to reimburse a ceding company for liabilities incurred as a result of past insurable events covered under contracts subject to the reinsurance. The analysis of the reinsurance contract terms has determined that all of our reinsurance is prospective reinsurance with adequate transfer of insurance risk to the reinsurer to qualify for reinsurance accounting treatment.

Ceded reinsurance premiums and any related ceding commission and ceded losses are reflected as reductions of the respective income or expense accounts over the terms of the reinsurance contracts. Prepaid reinsurance premiums represent the portion of premiums ceded to reinsurers applicable to the unexpired terms of the reinsurance contracts in force. Reinsurance reinstatement premiums are recognized in the same period as the loss event that gave rise to the reinstatement premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Unearned premiums ceded and estimates of amounts recoverable from reinsurers on paid and unpaid losses are reflected as assets. Provisions are made for estimated unrecoverable reinsurance.

Depreciation and Amortization

Depreciation of furniture and fixtures, electronic data processing equipment and amortization of computer software is provided over the estimated useful lives of the respective assets, ranging from three to seven years, using the straight-line method. Amortization of leasehold improvements is provided over the shorter of the useful lives of those improvements or the contractual terms of the leases using the straight-line method.

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Goodwill and Other Intangible Assets

Goodwill and other intangible assets were $6.9 million and $7.1 million at December 31, 2010 and 2009, respectively. The goodwill and other intangible assets consist of $2.5 million for the underwriting agencies at both December 31, 2010 and 2009, and $4.4 million and $4.6 million for the Lloyd s Operations at December 31, 2010 and 2009, respectively. The December 31, 2010 goodwill and intangible assets of $6.9 million consists of $4.8 million of goodwill and $2.1 million of other intangible assets. The December 31, 2009 goodwill and other intangible assets of $7.1 million consists of $4.9 million of goodwill and $2.2 million of other intangible assets. Goodwill and other intangible assets on the Company s consolidated balance sheets do not amortize and may fluctuate due to changes in the currency exchange rates between the U.S. dollar and the British pound.

We completed our annual impairment review of goodwill and other intangible assets which resulted in no impairment as of December 31, 2010.

Income Taxes

We apply the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In addition to all of our reserves for losses and loss adjustment expenses being an estimate, a portion of our premiums are estimated for unreported premiums, mostly for the marine business written by our U.K. Branch and Lloyd s Operations. We generally do not experience any significant backlog in processing premiums. Such premium estimates are generally based on submission data received from brokers and agents and recorded when the insurance policy or reinsurance contract is bound and written. The estimates are regularly reviewed and updated taking into account the premium received to date versus the estimate and the age of the estimate. To the extent that the actual premium varies from the estimates, the difference, along with the related loss reserves and underwriting expenses, is recorded in current operations.

Recently Adopted Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued accounting guidance (Accounting Standards Update (ASU) 2010-06) which improves disclosures about fair value measurements (Accounting Standards Codification (ASC or Codification) 820-10). This guidance requires additional disclosures regarding significant transfers in and out of Levels 1 and 2 and additional disclosures regarding Level 3 purchases, sales, issuances and settlements. In addition, this guidance also requires fair value measurement disclosures for each class of assets and liabilities as well as disclosures about the valuation techniques and inputs used to measure fair value for items classified as Level 2 or Level 3. This guidance was effective as of January 1, 2010 for calendar year reporting entities with the exception of the additional disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements which is effective as of January 1, 2011 for calendar year reporting entities. Early adoption is permitted. We adopted this guidance in the first quarter of 2010 with the exception of the additional disclosures about purchases, sales, issuances and settlement in the roll forward of activity in Level 3 fair value measurements which we will adopt in the first quarter of 2011. Adoption of this guidance did not have a material effect on our consolidated financial condition, results of operations or cash flows.

In June 2009, the FASB issued accounting guidance for the transfer of financial assets (ASC 860-10), which was added to the Codification under ASU 2009-16. This guidance removes the concept of a qualifying special-purpose entity (QSPE) from existing GAAP as well as the removal of the exception from applying ASC 810-10, Consolidation, to QSPEs. This guidance also clarifies the unit of account eligible for sale accounting and requires that a transferor recognize and initially measure at fair value, all financial assets obtained and liabilities incurred as a result of a transfer of an entire financial asset (or group of entire financial assets) accounted for as a sale. Finally, this guidance requires enhanced disclosures to provide greater transparency about transfers of financial assets and a transferor s continuing involvement with transferred financial assets. This guidance was effective as of January 1, 2010 for calendar year reporting entities and early adoption was not permitted. We adopted this guidance in the first quarter of 2010. Adoption of this guidance did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Recent Accounting Developments

In October 2010, the FASB issued accounting guidance (ASU 2010-26) that clarifies which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral (ASC 944). In addition, this guidance specifies that only costs that are related directly to the successful acquisition of new or renewal insurance contracts can be capitalized. This guidance is effective as of January 1, 2012 for calendar year reporting entities. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial condition, results of operations and cash flows.

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Note 2. Earnings Per Share

Following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share (EPS) computations for the periods indicated:

	Year Ended December 31, 2010		
	Net Income	Average Shares Outstanding	Net Income Per Share
	($ and shares in thousands, except net income per share)		
Basic EPS:			
Income available to common stockholders	$ 69,578	16,065	$ 4.33
Effect of dilutive securities:			
Stock options and grants		350	
Diluted EPS:			
Income available to common stockholders	$ 69,578	16,415	$ 4.24

	Year Ended December 31, 2009		
	Net Income	Average Shares Outstanding	Net Income Per Share
	($ and shares in thousands, except net income per share)		
Basic EPS:			
Income available to common stockholders	$ 63,158	16,935	$ 3.73
Effect of dilutive securities:			
Stock options and grants		387	
Diluted EPS:			
Income available to common stockholders	$ 63,158	17,322	$ 3.65

	Year Ended December 31, 2008		
	Net Income	Average Shares Outstanding	Net Income Per Share
	($ and shares in thousands, except net income per share)		
Basic EPS:			
Income available to common stockholders	$ 51,692	16,802	$ 3.08
Effect of dilutive securities:			
Stock options and grants		190	
Diluted EPS:			
Income available to common stockholders	$ 51,692	16,992	$ 3.04

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Options to purchase common shares are not included in the respective computations of diluted earnings per common share when the options exercise price is greater than the average market price of the common shares. This situation did not occur for the years presented in the tables directly above.

Note 3. Segment Information

We classify our business into two underwriting segments consisting of the Insurance Companies and the Lloyd s Operations, which are separately managed, and a Corporate segment (Corporate). Segment data for each of the two underwriting segments include allocations of revenues and expenses of the wholly-owned underwriting management companies and the Parent Company s operating expenses and related income tax amounts. The Corporate segment consists of the Parent Company s investment income, interest expense and the related tax effect.

We evaluate the performance of each segment based on its underwriting and GAAP results. The Insurance Companies and the Lloyd s Operations results are measured by taking into account net earned premiums, net losses and loss adjustment expenses (LAE), commission expenses, other operating expenses and other income (expense). Each segment maintains its own investments on which it earns income and realizes capital gains or losses. Our underwriting performance is evaluated separately from the performance of our investment portfolios.

The Insurance Companies consist of Navigators Insurance Company, including its U.K. Branch and its wholly-owned subsidiary, Navigators Specialty Insurance Company. They are primarily engaged in underwriting marine insurance and related lines of business, professional liability insurance and specialty lines of business including contractors general liability insurance, commercial umbrella and primary and excess casualty businesses. Navigators Specialty Insurance Company underwrites specialty and professional liability insurance on an excess and surplus lines basis. Navigators Specialty Insurance Company is 100% reinsured by Navigators Insurance Company.

The Lloyd s Operations primarily underwrite marine and related lines of business along with offshore energy, professional liability insurance and construction coverages for onshore energy business at Lloyd s through Syndicate 1221. The European property business, written by the Lloyd s Operations and the U.K. Branch beginning in 2006, was discontinued in the 2008 second quarter. Our Lloyd s Operations includes NUAL, a Lloyd s underwriting agency which manages Syndicate 1221.

Syndicate 1221 s stamp capacity was £168 million ($264 million) in 2010, £124 million ($194 million) in 2009, and £123 million ($228 million) in 2008. Stamp capacity is a measure of the amount of premium a Lloyd s syndicate is authorized to write as determined by the Council of Lloyd s. We controlled 100% of Syndicate 1221 s total stamp capacity in 2010, 2009, and 2008 through our wholly-owned Lloyd s corporate member. Syndicate 1221 s stamp capacity is expressed net of commission (as is standard at Lloyd s). The Syndicate 1221 premium recorded in our financial statements is gross of commission. We provide letters of credit to Lloyd s to support our participation in Syndicate 1221 s stamp capacity, see Note 8, *Credit Facility.*

Navigators Management Company, Inc. (NMC) is a wholly-owned underwriting management company which produces, manages and underwrites insurance and reinsurance, and provides corporate services for the Company. During the second quarter of 2008, Navigators California Insurance Services, Inc. and Navigators Special Risk, Inc., also wholly-owned underwriting management companies, were merged into NMC. The operating results for the underwriting management companies are allocated to both the Insurance Companies and Lloyd s Operations.

The Insurance Companies and the Lloyd s Operations underwriting results are measured based on underwriting profit or loss and the related combined ratio, which are both non-GAAP measures of underwriting profitability. Underwriting profit or loss is calculated from net earned premiums, less the sum of net losses and LAE, commission expenses, other operating expenses and other income (expense). The combined ratio is derived by dividing the sum of net losses and LAE, commission expenses, other operating expenses and other income (expense) by net earned premiums. A combined ratio of less than 100% indicates an underwriting profit and over 100% indicates an underwriting loss.

Financial data by segment for 2010, 2009, and 2008 was as follows:

	Year Ended December 31, 2010			
	Insurance Companies	Lloyd s Operations	Corporate [1]	Total
	($ in thousands)			
Gross written premiums	$ 665,505	$ 321,696	$	$ 987,201
Net written premiums	429,355	224,583		653,938
Net earned premiums	438,851	221,080		659,931
Net losses and LAE	(280,120)	(141,035)		(421,155)
Commission expenses	(59,122)	(49,991)		(109,113)
Other operating expenses	(106,631)	(33,112)		(139,743)
Other income (expense)	1,698	3,488		5,186
Underwriting profit (loss)	(5,324)	430		(4,894)
Net investment income	62,792	8,286	584	71,662
Net realized gains (losses)	36,057	3,323	859	40,239
Interest expense			(8,178)	(8,178)
Income (loss) before income taxes	93,525	12,039	(6,735)	98,829
Income tax expense (benefit)	27,219	4,389	(2,357)	29,251
Net income (loss)	$ 66,306	$ 7,650	$ (4,378)	$ 69,578
Identifiable assets [1]	$ 2,592,679	$ 842,121	$ 81,657	$ 3,531,455
Loss and LAE ratio	63.8%	63.8%		63.8%
Commission expense ratio	13.5%	22.6%		16.5%
Other operating expense ratio [2]	23.9%	13.4%		20.4%
Combined ratio	101.2%	99.8%		100.7%

(1) Includes inter-segment transactions causing the row not to cross foot.

(2) Includes *Other operating expenses* and *Other income (expense).*

	Year Ended December 31, 2010		
	Insurance Companies	Lloyd s Operations	Total
	($ in thousands)		
Gross written premiums:			
Marine	$ 223,061	$ 182,723	$ 405,784
Property Casualty	312,651	94,799	407,450
Professional Liability	129,793	44,174	173,967
Total	$ 665,505	$ 321,696	$ 987,201
Net written premiums:			
Marine	$ 151,059	$ 149,340	$ 300,399
Property Casualty	197,845	54,049	251,894
Professional Liability	80,451	21,194	101,645
Total	$ 429,355	$ 224,583	$ 653,938
Net earned premiums:			
Marine	$ 155,846	$ 149,225	$ 305,071
Property Casualty	200,741	49,852	250,593
Professional Liability	82,264	22,003	104,267
Total	$ 438,851	$ 221,080	$ 659,931

	Year Ended December 31, 2009			
	Insurance Companies	Lloyd s Operations	Corporate [1]	Total
	($ in thousands)			
Gross written premiums	$ 730,776	$ 314,142	$	$ 1,044,918
Net written premiums	477,673	223,582		701,255
Net earned premiums	479,121	204,242		683,363
Net losses and LAE	(304,672)	(131,326)		(435,998)
Commission expenses	(61,949)	(37,727)	768	(98,908)
Other operating expenses	(104,801)	(27,896)		(132,697)
Other income (expense)	3,498	961	(768)	3,691
Underwriting profit	11,197	8,254		19,451
Net investment income	65,717	9,229	566	75,512
Net realized gains (losses)	533	(3,193)		(2,660)
Gain on debt repurchase			3,000	3,000
Interest expense			(8,455)	(8,455)
Income (loss) before income taxes	77,447	14,290	(4,889)	86,848
Income tax expense (benefit)	19,819	5,582	(1,711)	23,690
Net income (loss)	$ 57,628	$ 8,708	$ (3,178)	$ 63,158
Identifiable assets [1]	$ 2,554,037	$ 799,577	$ 71,422	$ 3,453,994
Loss and LAE ratio	63.6%	64.3%		63.8%
Commission expense ratio	12.9%	18.5%		14.5%
Other operating expense ratio [2]	21.1%	13.2%		18.9%
Combined ratio	97.6%	96.0%		97.2%

(1) Includes inter-segment transactions causing the row not to cross foot.

(2) Includes *Other operating expenses* and *Other income (expense).*

	Year Ended December 31, 2009		
	Insurance Companies	Lloyd s Operations	Total
	($ in thousands)		
Gross written premiums:			
Marine	$ 241,438	$ 191,959	$ 433,397
Property Casualty	352,285	78,151	430,436
Professional Liability	137,053	44,032	181,085
Total	$ 730,776	$ 314,142	$ 1,044,918
Net written premiums:			
Marine	$ 171,289	$ 156,153	$ 327,442
Property Casualty	227,234	45,097	272,331
Professional Liability	79,150	22,332	101,482
Total	$ 477,673	$ 223,582	$ 701,255
Net earned premiums:			
Marine	$ 157,534	$ 142,958	$ 300,492
Property Casualty	246,143	39,330	285,473
Professional Liability	75,444	21,954	97,398
Total	$ 479,121	$ 204,242	$ 683,363

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	Year Ended December 31, 2008			
	Insurance Companies	Lloyd s Operations	Corporate [1]	Total
	($ in thousands)			
Gross written premiums	$ 762,190	$ 322,732	$	$ 1,084,922
Net written premiums	472,688	188,927		661,615
Net earned premiums	463,298	180,678		643,976
Net losses and LAE	(275,767)	(117,364)		(393,131)
Commission expenses	(55,752)	(34,033)		(89,785)
Other operating expenses	(92,297)	(30,961)	110	(123,148)
Other income (expense)	2,145	(600)	(110)	1,435
Underwriting profit (loss)	41,627	(2,280)		39,347
Net investment income	63,544	11,655	1,355	76,554
Net realized gains (losses)	(37,822)	(477)		(38,299)
Interest expense			(8,871)	(8,871)
Income (loss) before income taxes	67,349	8,898	(7,516)	68,731
Income tax expense (benefit)	16,401	3,269	(2,631)	17,039
Net income (loss)	$ 50,948	$ 5,629	$ (4,885)	$ 51,692
Identifiable assets [1]	$ 2,477,139	$ 779,800	$ 63,452	$ 3,349,580
Loss and LAE ratio	59.5%	65.0%		61.0%
Commission expense ratio	12.0%	18.8%		13.9%
Other operating expense ratio [2]	19.5%	17.5%		18.9%
Combined ratio	91.0%	101.3%		93.8%

[1] Includes inter-segment transactions causing the row not to cross foot.

[2] Includes *Other operating expenses* and *Other income (expense).*

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	Year Ended December 31, 2008		
	Insurance Companies	Lloyd s Operations	Total
		($ in thousands)	
Gross written premiums:			
Marine	$ 248,080	$ 192,568	$ 440,648
Property Casualty	405,062	91,292	496,354
Professional Liability	109,048	38,872	147,920
Total	$ 762,190	$ 322,732	$ 1,084,922
Net written premiums:			
Marine	$ 147,569	$ 132,788	$ 280,357
Property Casualty	261,322	32,735	294,057
Professional Liability	63,797	23,404	87,201
Total	$ 472,688	$ 188,927	$ 661,615
Net earned premiums:			
Marine	$ 132,005	$ 126,126	$ 258,131
Property Casualty	273,977	32,644	306,621
Professional Liability	57,316	21,908	79,224
Total	$ 463,298	$ 180,678	$ 643,976

The Insurance Companies net earned premiums include $86.1 million, $85.4 million, and $69.0 million of net earned premiums from the U.K. Branch for 2010, 2009, and 2008, respectively.

Note 4. Investments

The following tables set forth our cash and investments as of December 31, 2010 and 2009.

December 31, 2010	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost	OTTI Recognized in OCI
			($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 324,145	$ 5,229	$ (4,499)	$ 323,415	$
States, municipalities and political subdivisions	392,250	11,903	(3,805)	384,152	
Mortgage- and asset-backed securities:					
Agency mortgage-backed securities	382,628	10,127	(2,434)	374,935	
Residential mortgage obligations	20,463	24	(2,393)	22,832	(1,646)
Asset-backed securities	46,093	247	(292)	46,138	
Commercial mortgage-backed securities	190,015	4,804	(1,794)	187,005	
Subtotal	639,199	15,202	(6,913)	630,910	(1,646)
Corporate bonds	526,651	15,075	(5,545)	517,121	
Total fixed maturities	1,882,245	47,409	(20,762)	1,855,598	(1,646)
Equity securities common stocks	87,258	22,475	(10)	64,793	
Cash	31,768			31,768	
Short-term investments	153,057			153,057	
Total	$ 2,154,328	$ 69,884	$ (20,772)	$ 2,105,216	$ (1,646)

December 31, 2009	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost	OTTI Recognized in OCI
			($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 471,598	$ 7,397	$ (597)	$ 464,798	$
States, municipalities and political subdivisions	676,699	25,044	(2,917)	654,572	
Mortgage- and asset-backed securities:					
Agency mortgage-backed securities	283,578	12,607	(98)	271,069	
Residential mortgage obligations	31,071		(7,246)	38,317	(5,723)
Asset-backed securities	16,469	612	(34)	15,891	(23)
Commercial mortgage-backed securities	100,393	594	(5,028)	104,827	

Subtotal	431,511	13,813	(12,406)	430,104	(5,746)
Corporate bonds	236,861	9,111	(759)	228,509	
Total fixed maturities	1,816,669	55,365	(16,679)	1,777,983	(5,746)
Equity securities common stocks	62,610	15,244	(10)	47,376	
Cash	509			509	
Short-term investments	176,799			176,799	
Total	$ 2,056,587	$ 70,609	$ (16,689)	$ 2,002,667	$ (5,746)

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The fair value of financial instruments is determined based on the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets. Examples are listed equity and fixed income securities traded on an exchange. Treasury securities would generally be considered level 1.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Examples are asset-backed and mortgage-backed securities which are similar to other asset-backed or mortgage-backed securities observed in the market.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. An example would be a private placement with minimal liquidity.

The following table presents the fair value hierarchy for our fixed maturities, equity securities and short-term investments that are measured at fair value as of December 31, 2010 and 2009:

December 31, 2010	**Quoted Prices In Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**	**Total**
		($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 212,933	$ 111,212	$	$ 324,145
States, municipalities and political subdivisions		392,250		392,250
Mortgage- and asset-backed securities:				
Agency mortgage-backed securities		382,628		382,628
Residential mortgage obligations		20,463		20,463
Asset-backed securities		46,093		46,093
Commercial mortgage-backed securities		188,178	1,837	190,015
Subtotal		637,362	1,837	639,199
Corporate bonds		526,651		526,651
Total fixed maturities	212,933	1,667,475	1,837	1,882,245
Equity securities common stocks	87,258			87,258
Total	$ 300,191	$ 1,667,475	$ 1,837	$ 1,969,503

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December 31, 2009	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
		($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 331,921	$ 139,677	$	$ 471,598
States, municipalities and political subdivisions		676,699		676,699
Mortgage- and asset-backed securities:				
Agency mortgage-backed securities		283,578		283,578
Residential mortgage obligations		31,071		31,071
Asset-backed securities		16,469		16,469
Commercial mortgage-backed securities		100,393		100,393
Subtotal		431,511		431,511
Corporate bonds		236,861		236,861
Total fixed maturities	331,921	1,484,748		1,816,669
Equity securities common stocks	62,610			62,610
Total	$ 394,531	$ 1,484,748	$	$ 1,879,279

There were no significant judgments made in classifying instruments in the fair value hierarchy.

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The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value using Level 3 inputs during the twelve months ended December 31, 2010 and 2009:

	Year Ended December 31, 2010	2009
	($ in thousands)	
Level 3 investments as of December 31	$	$ 156
Unrealized net gains included in other comprehensive income (loss)	(19)	23
Purchases, sales, paydowns and amortization	1,856	(23)
Transfer from Level 3		(156)
Transfer to Level 3		
Level 3 investments as of December 31	$ 1,837	$

In the fourth quarter of 2010 we acquired one commercial mortgage-backed security whose fair value was determined based on a model priced by proxy. As a result, this security was categorized as a Level 3 investment for valuation purposes.

The following table shows the amount and percentage of our fixed maturities and short-term investments at December 31, 2010 by S&P credit rating or, if an S&P rating is not available, the equivalent Moody s rating. The table includes fixed maturities and short-term investments at fair value, and the total rating is the weighted average quality rating.

Rating Description	Rating	Fair Value	Percent of Total
		($ in thousands)	
Extremely Strong	AAA	$ 1,122,760	55%
Very Strong	AA	355,094	17%
Strong	A	441,008	22%
Adequate	BBB	96,894	5%
Speculative	BB & below	14,461	1%
Not Rated	NR	5,085	0%
Total		$ 2,035,302	100%

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The scheduled maturity dates for fixed maturity securities by the number of years until maturity at December 31, 2010 are shown in the following table:

Period from December 31, 2010 to Maturity	**Fair Value**	**Amortized Cost**
	($ in thousands)	
Due in one year or less	$ 31,073	$ 30,871
Due after one year through five years	472,812	462,407
Due after five years through ten years	490,251	482,401
Due after ten years	248,910	249,009
Mortgage- and asset-backed (including GNMAs)	639,199	630,910
Total	$ 1,882,245	$ 1,855,598

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Due to the periodic repayment of principal, the mortgage-backed and asset-backed securities are estimated to have an effective maturity of approximately 5.2 years.

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The following table summarizes all securities in an unrealized loss position at December 31, 2010 and 2009, showing the aggregate fair value and gross unrealized loss by the length of time those securities have continuously been in an unrealized loss position as well as the number of securities:

	December 31, 2010			December 31, 2009		
	Number of Securities	Fair Value	Gross Unrealized Loss	Number of Securities	Fair Value	Gross Unrealized Loss
	($ in thousands except # of securities)					
Fixed Maturities:						
U.S. Government Treasury bonds, agency bonds and foreign government bonds						
0-6 Months	36	$ 163,253	$ 4,499	24	$ 116,566	$ 597
7-12 Months						
> 12 Months						
Subtotal	36	163,253	4,499	24	116,566	597
States, municipalities and political subdivisions						
0-6 Months	57	112,291	3,749	47	108,290	2,291
7-12 Months	1	1,004	20	4	3,534	112
> 12 Months	4	1,317	36	23	17,777	514
Subtotal	62	114,612	3,805	74	129,601	2,917
Agency mortgage-backed securities						
0-6 Months	36	139,226	2,434	5	18,385	98
7-12 Months						
> 12 Months						
Subtotal	36	139,226	2,434	5	18,385	98
Residential mortgage obligations						
0-6 Months	3	3,215	20			
7-12 Months						
> 12 Months	52	15,939	2,373	73	31,071	7,246
Subtotal	55	19,154	2,393	73	31,071	7,246

Asset-backed securities								
0-6 Months	7	28,175		292				
7-12 Months								
> 12 Months	1	2			4	637		34
Subtotal	8	28,177		292	4	637		34
Commercial mortgage-backed securities								
0-6 Months	16	78,212		1,755	11	28,103		324
7-12 Months								
> 12 Months	2	491		39	21	45,135		4,704
Subtotal	18	78,703		1,794	32	73,238		5,028
Corporate bonds								
0-6 Months	98	214,180		5,545	13	33,275		337
7-12 Months								
> 12 Months					8	6,325		422
Subtotal	98	214,180		5,545	21	39,600		759
Total fixed maturities	313	$ 757,305	$	20,762	233	$ 409,098	$	16,679
Equity securities common stocks								
0-6 Months	1	$ 322	$	10		$	$	
7-12 Months								
> 12 Months					1	872		10
Total equity securities	1	$ 322	$	10	1	$ 872	$	10

We analyze the unrealized losses quarterly to determine if any are other-than-temporary. The above unrealized losses have been determined to be temporary based on our policies.

In the above table the residential mortgage obligation gross unrealized loss for the greater than 12 months category consists primarily of residential mortgage-backed securities. Residential mortgage-backed securities are a type of fixed income security in which residential mortgage loans are sold into a trust or special purpose vehicle, thereby securitizing the cash flows of the mortgage loans.

To determine whether the unrealized loss on structured securities is other-than-temporary, we project an expected principal loss under a range of scenarios and utilize the most likely outcomes. The analysis relies on actual collateral performance measures such as default rate, prepayment rate and loss severity. These assumptions are applied throughout the remaining term of the deal, incorporating the transaction structure and priority of payments, to generate loss adjusted cash flows. Results of the analysis will indicate whether the security ultimately incurs a loss or whether there is a material impact on yield due to either a projected loss or a change in cash flow timing. A breakeven default rate is also calculated. A comparison to the break even default rate to the actual default rate provides an indication of the level of cushion or coverage to the first dollar principal loss. The analysis applies these assumptions throughout the remaining term of the transaction to forecast cash flows, which are then applied through the transaction structure to determine whether there is a loss to the security. For securities in which a tranche loss is present, and the net present value of loss adjusted cash flows is less than book value, impairment is recognized. The output data also includes a number of additional metrics such as average life remaining, original and current credit support, over 60 day delinquency and security rating.

As of December 31, 2010, the largest single unrealized loss by a non-government backed issuer in the fixed maturities was $0.7 million.

The following table summarizes the cumulative amounts related to our credit loss portion of the OTTI losses on debt securities held as of December 31, 2010 that we do not intend to sell and it is more likely than not that we will not be required to sell prior to recovery of the amortized cost basis and for which the non-credit loss portion is included in other comprehensive income:

($ in thousands)

Beginning balance at January 1, 2010	$	2,523
Credit losses on securities not previously impaired as of January 1, 2010		123
Reductions for securities sold during the period		(988)
Ending balance at December 31, 2010	$	1,658

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The following table summarizes the gross unrealized investment losses as of December 31, 2010 by length of time where the fair value is less than 80% of amortized cost.

Period for Which Fair Value is Less than 80% of Amortized Cost

	Less than 3 months	Longer than 3 months, less than 6 months	6 months or longer, less than 12 months	12 months or longer	Total
			($ in thousands)		
Fixed maturities	$	$	$	$ (607)	$ (607)
Equity securities					
Total	$	$	$	$ (607)	$ (607)

The fair value of our investment portfolio may fluctuate significantly in response to various factors such as changes in interest rates, investment quality ratings, equity prices, foreign exchange rates and credit spreads. We do not have the intent to sell nor is it more likely than not that we will have to sell debt securities in unrealized loss positions that are not other-than temporarily impaired before recovery. We may realize investment losses to the extent our liquidity needs require the disposition of fixed maturity securities in unfavorable interest rate, liquidity or credit spread environments. Significant changes in the factors we consider when evaluating impairment losses could result in a significant change in impairment losses reported in the consolidated financial statements.

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The table below summarizes our activity related to OTTI losses for the periods indicated:

	Year ended December 31,					
	2010		2009		2008	
	Number of Securities	**Amount**	**Number of Securities**	**Amount**	**Number of Securities**	**Amount**
	($ in thousands, except # of securities)					
Total other-than-temporary impairment losses						
Corporate and other bonds		$	2	$ 564	1	$ 748
Commercial mortgage-backed securities						
Residential mortgage-backed securities	18	1,835	39	19,783	4	7,856
Asset-backed securities			1	143		
Equities	2	387	56	8,775	59	28,441
Total	20	$ 2,222	98	$ 29,265	64	$ 37,045
Portion of loss in accumulated other comprehensive income (loss)						
Corporate and other bonds		$		$		$
Commercial mortgage-backed securities						
Residential mortgage-backed securities		1,142		17,324		
Asset-backed securities				64		
Equities						
Total		$ 1,142		$ 17,388		$
Impairment losses recognized in earnings						
Corporate and other bonds		$		$ 564		$ 748
Commercial mortgage-backed securities						
Residential mortgage-backed securities		693		2,458		7,856
Asset-backed securities				79		
Equities		387		8,776		28,441
Total		$ 1,080		$ 11,877		$ 37,045

The significant inputs used to measure the amount of credit loss recognized in earnings were actual delinquency rates, default probability assumptions, severity assumptions and prepayment assumptions. Projected losses are a function of both loss severity and probability of default. Default probability and severity assumptions differ based on property type, vintage and the stress of the collateral. We do not intend to sell any of these securities and it is more likely than not that we will not be required sell these securities before the recovery of the amortized cost basis.

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For the twelve months ended December 31, 2010, for fixed maturity securities that we recognized an OTTI in earnings, we initially recorded $1.1 million in OTTI losses in OCI as a result of non-credit losses on non-agency residential mortgage-backed securities. Subsequent declines in unrealized losses related to the value of securities for which an OTTI loss in OCI was initially recorded resulted in a balance of $1.6 million of OTTI losses in OCI as of December 31, 2010.

	Year Ended December 31,					
	2010			2009		
	Number of Securities	Pre-Tax Amount	After-Tax Amount	Number of Securities	Pre-Tax Amount	After-Tax Amount
	($ in thousands, except # of securities)					
Beginning balance at January 1						
Residential mortgage-backed securities	39	$ 5,723	$ 3,984		$	$
Asset-backed securities	1	23	16			
Total		$ 5,746	$ 4,000		$	$
Portion of loss in accumulated other comprehensive income (loss)						
Residential mortgage-backed securities	18	$ 1,142	$ 742	39	$ 17,324	$ 11,261
Asset-backed securities				1	64	42
Total		$ 1,142	$ 742		$ 17,388	$ 11,303
Subsequent net unrealized losses (gains) related to securities in which an OTTI loss was recorded in accumulated other comprehensive income (loss)						
Residential mortgage-backed securities	31	$ (3,668)	$ (2,542)	39	$ (11,601)	$ (7,277)
Asset-backed securities		(15)	(11)	1	(41)	(26)
Total		$ (3,683)	$ (2,553)		$ (11,642)	$ (7,303)
Subsequent sale of securities in which an OTTI loss was recorded in accumulated other comprehensive income (loss)						
Residential mortgage-backed securities	9	$ (1,551)	$ (1,008)		$	$
Asset-backed securities	1	(8)	(5)			
Total		$ (1,559)	$ (1,013)		$	$
Ending balance at December 31						
Residential mortgage-backed securities	31	$ 1,646	$ 1,176	39	$ 5,723	$ 3,984

Asset-backed securities			1	23	16
Total	$ 1,646	$ 1,176		$ 5,746	$ 4,000

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The contractual maturity by the number of years until maturity for fixed maturity securities with unrealized losses at December 31, 2010 are shown in the following table:

	Gross Unrealized Loss		Fair Value	
	Amount	Percent of Total	Amount	Percent of Total
	($ in thousands)			
Due in one year or less	$ 2	0%	$ 1,430	0%
Due after one year through five years	2,087	10%	153,866	20%
Due after five years through ten years	7,284	36%	218,215	28%
Due after ten years	4,476	22%	118,534	16%
Mortgage- and asset-backed securities	6,913	32%	265,260	36%
Total fixed maturity securities	$ 20,762	100%	$ 757,305	100%

Our net investment income was derived from the following sources:

	Year Ended December 31,		
	2010	2009	2008
	($ in thousands)		
Fixed maturities	$ 69,996	$ 74,779	$ 73,493
Equity securities	3,028	2,464	2,359
Short-term investments	965	811	3,925
	73,989	78,054	79,777
Investment expenses	(2,327)	(2,542)	(3,223)
Net investment income	$ 71,662	$ 75,512	$ 76,554

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Our realized gains and losses were as follows:

	Year Ended December 31, 2010	2009	2008
	($ in thousands)		
Fixed maturities:			
Gains	$ 42,932	$ 18,312	$ 3,650
(Losses)	(3,239)	(9,676)	(1,670)
	39,693	8,636	1,980
Equity securities:			
Gains	1,867	2,110	720
(Losses)	(241)	(1,529)	(3,954)
	1,626	581	(3,234)
Net realized gains (losses)	$ 41,319	$ 9,217	$ (1,254)

The change in net unrealized gains/(losses) consisted of:

	Year ended December 31, 2010	2009	2008
	($ in thousands)		
Fixed maturities	$ (12,039)	$ 59,667	$ (34,813)
Equity securities	7,231	15,955	(2,469)
	(4,808)	75,622	(37,282)
Deferred income tax (charged) credited	1,324	(25,602)	12,034
Change in unrealized gains (losses), net	$ (3,484)	$ 50,020	$ (25,248)

At December 31, 2010 and 2009, fixed maturities with amortized values of $10.9 million and $10.6 million, respectively, were on deposit with various state insurance departments. In addition, at December 31, 2010, investments of $1.2 million were on deposit at a U.K. bank to comply with the regulatory requirements of the Financial Services Authority for Navigators Insurance Company s U.K. Branch. In addition, at both December 31, 2010 and 2009, $0.3 million of investments were pledged as security under a reinsurance treaty.

At December 31, 2010 and 2009, we did not have a concentration of greater than 5% of invested assets in a single non-U.S. government-backed issuer.

Note 5. Reserves for Losses and Loss Adjustment Expenses

Insurance companies and Lloyd s syndicates are required to maintain reserves for unpaid losses and unpaid loss adjustment expenses for all lines of business. These reserves are intended to cover the probable ultimate cost of settling all losses incurred and unpaid, including those incurred but not reported. The determination of reserves for losses and LAE for insurance companies such as Navigators Insurance Company and Navigators Specialty Insurance Company, and Lloyd s corporate members such as Navigators Corporate Underwriters Ltd. is dependent upon the receipt of information from the agents and brokers which produce the insurance business for us. Generally, there is a lag between the time premiums are written and related losses and loss adjustment expenses are incurred, and the time such events are reported to the agents and brokers and, subsequently, to Navigators Insurance Company, Navigators Specialty Insurance Company, Navigators Corporate Underwriters Ltd. and Millennium Underwriting Ltd.

Case reserves are established by our Insurance Companies and Syndicate 1221 for reported claims when notice of the claim is first received. Reserves for such reported claims are established on a case-by-case basis by evaluating several factors, including the type of risk involved, knowledge of the circumstances surrounding such claim, severity of injury or damage, the potential for ultimate exposure, experience with the line of business, and the policy provisions relating to the type of claim. Reserves for IBNR are determined in part on the basis of statistical information, in part on industry experience and in part on the judgment of our senior corporate officers. Indicated reserves are calculated by our actuaries using several standard actuarial methodologies, including the paid and incurred loss development and the paid and incurred Bornheutter-Ferguson loss methods. Additional analyses, such as frequency/severity analyses, are performed for certain books of business. To the extent that reserves are deficient or redundant, the amount of such deficiency or redundancy is treated as a charge or credit to earnings in the period in which the deficiency or redundancy is recognized.

Total loss reserves are estimates of what the insurer or reinsurer expects to pay on claims, based on facts and circumstances then known. It is possible that the ultimate liability may exceed or be less than such estimates. In setting our loss reserve estimates, we review statistical data covering several years, analyze patterns by line of business and consider several factors including trends in claims frequency and severity, changes in operations, emerging economic and social trends, inflation and changes in the regulatory and litigation environment. Using the aforementioned actuarial methods and different underlying assumptions, our actuaries produce a number of point estimates for each class of business. After reviewing the appropriateness of the underlying assumptions, management selects the carried reserve for each class of business. We do not calculate a range of loss reserve estimates. We believe that ranges may not be a true reflection of the potential volatility between carried loss reserves and the ultimate settlement amount of losses incurred prior to the balance sheet date. The numerous factors that contribute to the inherent uncertainty in the process of establishing loss reserves include: interpreting loss development activity, emerging economic and social trends, inflation, changes in the regulatory and judicial environment and changes in our operations, including changes in underwriting standards and claims handling procedures. During the loss settlement period, which, in some cases, may last several years, additional facts regarding individual claims may become known and, accordingly, it often becomes necessary to refine and adjust the estimates of liability on a claim upward or downward. Such estimates are regularly reviewed and updated and any resulting adjustments are included in the current year s income statement. Even then, the ultimate liability may exceed or be less than the revised estimates. The reserving process is intended to provide implicit recognition of the impact of inflation and other factors affecting loss payments by taking into account changes in historical payment patterns and perceived probable trends. There is generally no precise method for the subsequent evaluation of the adequacy of the consideration given to inflation, or to any other specific factor, because the eventual deficiency or redundancy of reserves is affected by many factors, some of which are interdependent.

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The following table summarizes the activity in our reserve for losses and LAE during the three most recent years:

	Year Ended December 31, 2010	2009	2008
	($ in thousands)		
Net reserves for losses and LAE at beginning of year	$ 1,112,934	$ 999,871	$ 847,303
Provision for losses and LAE for claims occurring in the current year	434,957	444,939	443,877
Decrease in estimated losses and LAE for claims occurring in prior years	(13,802)	(8,941)	(50,746)
Incurred losses and LAE	421,155	435,998	393,131
Losses and LAE paid for claims occurring during:			
Current year	(76,982)	(59,412)	(60,104)
Prior years	(314,565)	(263,523)	(180,459)
Losses and LAE payments	(391,547)	(322,935)	(240,563)
Net reserves for losses and LAE at end of year	1,142,542	1,112,934	999,871
Reinsurance recoverables on unpaid losses and LAE	843,296	807,352	853,793
Gross reserves for losses and LAE at end of year	$ 1,985,838	$ 1,920,286	$ 1,853,664

The segment breakdown of prior years net reserve deficiency (redundancy) was as follows:

	Year Ended December 31, 2010	2009	2008
	($ in thousands)		
Insurance Companies:			
Marine	$ (4,155)	$ 11,893	$ (5,298)
Property Casualty	(14,923)	(35,658)	(33,065)
Professional Liability	13,623	20,686	(3,559)
Insurance Companies	$ (5,455)	$ (3,079)	$ (41,922)
Lloyd s Operations	(8,347)	(5,862)	(8,824)
Total	$ (13,802)	$ (8,941)	$ (50,746)

The 2010 consolidated net redundancy of $13.8 million consisted of prior year savings of $5.5 million from the Insurance Companies and $8.3 million from the Lloyd s Operations.

The Insurance Companies recorded $4.2 million of net prior year favorable development for the marine business, of which $2.6 million arose in the marine liability business due to favorable loss emergence relative to our expectations and $1.4 million in Hull as we eliminated IBNR in older underwriting years where we determined the year had been fully reported and saw case reserve reductions on a number of claims.

The Insurance Companies recorded $14.9 million of net prior year savings for property casualty business in total. The favorable development included:

- $29.2 million for West Coast contractors liability due to an internal actuarial review conducted in 2010 which indicated that loss development on underwriting years 2006 to 2008 has been more favorable than our prior expectations with a partial offset for underwriting years 2004 and prior. This internal review includes a more detailed analysis than is included in our regular quarterly reserving process.
- $2.9 million of favorable development on our offshore energy (NavTech) book due to favorable claims trends across a number of prior underwriting years.
- $1.8 million of favorable development on the Somerset Re run-off book of business where we concluded the IBNR was no longer required and $1.5 million on our Agriculture reinsurance book where the reported activity was lower than our initial estimate for the 2009 treaty year.

Partially offsetting these favorable developments were adverse development of:

- $16.5 million in our Specialty run-off books of business, including $13.3 million in our personal umbrella lines across multiple underwriting years where loss activity has exceeded our expectations and $2.0 million of adverse development in our Liquor business due to reported claim activity.
- $1.7 million for New York construction liability due to unfavorable loss emergence.

The Insurance Companies recorded $13.6 million of net prior year unfavorable development for professional liability.

- The directors and officers liability book of business had $15.7 million of adverse development, which was primarily attributable to a severity study of our open claims completed during the fourth quarter. This study showed our IBNR to be significantly deficient if current trends continued and we raised our loss estimates for underwriting years 2002 to 2009. This was partially offset by $1.4 million of favorable development on a run-off lawyers book of business written from London where we saw favorable settlements of outstanding claims and $0.7 million of favorable development on other lawyers business mostly due to a favorable claim reserve settlement.

The Lloyd s Operations recorded $8.3 million in favorable loss development for prior years during 2010. This included favorable development of $3.2 million in Marine, $4.8 million in NavTech, and $0.5 million in all other areas. The Marine favorable development was primarily from 2007 and 2008 and was driven by liability, assumed reinsurance, and specie. NavTech s favorable development was mostly from 2006-2008 driven by offshore energy.

Management believes that the reserves for losses and loss adjustment expenses are adequate to cover the ultimate cost of losses and loss adjustment expenses on reported and unreported claims. We continue to review our reserves on a regular basis.

Note 6. Reinsurance

We utilize reinsurance principally to reduce our exposure on individual risks, to protect against catastrophic losses, and to stabilize loss ratios and underwriting results. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred or ceded to the reinsurer, ceded reinsurance arrangements do not eliminate our obligation to pay claims to our policyholders. Accordingly, we bear credit risk with respect to our reinsurers. Specifically, our reinsurers may not pay claims made by us on a timely basis, or they may not pay some or all of these claims. Either of these events would increase our costs and could have a material adverse effect on our business. We are required to pay the losses even if the reinsurer fails to meet its obligations under the reinsurance agreement. Hurricanes Gustav and Ike in 2008 and Hurricanes Katrina and Rita in 2005 significantly increased our reinsurance recoverables which increased our credit risk.

We have established a reserve for uncollectible reinsurance in the amount of $13.0 million, which is determined by considering reinsurer specific default risk as indicated by their financial strength ratings.

We are protected by various treaty and facultative reinsurance agreements. Our exposure to credit risk from any one reinsurer is managed through diversification by reinsuring with a number of different reinsurers, principally in the United States and European reinsurance markets. To meet our standards of acceptability, when the reinsurance is placed, a reinsurer generally must have a rating from A.M. Best Company (A.M. Best) and/or S&P of A or better, or an equivalent financial strength if not rated, plus at least $250 million in policyholders surplus. Our Reinsurance Security Committee, which is part of our Enterprise Risk Management Reinsurance Sub-Committee, monitors the financial strength of our reinsurers and the related reinsurance receivables and periodically reviews the list of acceptable reinsurers. The reinsurance is placed either directly by us or through reinsurance intermediaries. The reinsurance intermediaries are compensated by the reinsurers.

The credit quality distribution of our reinsurance recoverables of $1.06 billion at December 31, 2010 for ceded paid and unpaid losses and loss adjustment expenses and ceded unearned premiums based on insurer financial strength ratings from A. M. Best or S&P was as follows:

A.M. Best Rating (1)	Rating Description	Recoverable Amounts *($ in millions)*	Percent of Total
A++, A+	Superior	$ 447.8	42%
A, A-	Excellent	585.0	56%
B++, B+	Very good	4.4	0%(2)
NR	Not rated	19.7	2%(2)
Total		$ 1,056.9	100%

(1) Equivalent S&P rating used for certain companies when an A.M. Best rating was unavailable.

(2) The Company holds offsetting collateral of approximately 80.2% for B++ and B+ companies and 75.6% for not rated companies which includes letters of credit, ceded balances payable and other balances held by our Insurance Companies and our Lloyd s Operations.

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The following table lists our 20 largest reinsurers measured by the amount of reinsurance recoverable for ceded losses and loss adjustment expense and ceded unearned premium (constituting approximately 75.8% of our total recoverables) together with the reinsurance recoverables and collateral at December 31, 2010, and the reinsurers rating from the indicated rating agency:

Reinsurer	Reinsurance Recoverables: Unearned Premium	Reinsurance Recoverables: Unpaid/Paid Losses	Reinsurance Recoverables: Total	Collateral Held (1)	Rating & Rating Agency (2)	
	($ in millions)					
Swiss Reinsurance America Corporation	$ 8.2	$ 98.4	$ 106.6	$ 9.0	A	AMB
Munich Reinsurance America Inc.	16.5	80.7	97.2	4.5	A+	AMB
Everest Reinsurance Company	19.4	67.1	86.5	9.0	A+	AMB
Transatlantic Reinsurance Company	21.4	62.6	84.0	8.7	A	AMB
National Indemnity Company	10.1	29.3	39.4	3.5	A++	AMB
Scor Holding (Switzerland) AG	9.1	29.4	38.5	11.5	A	AMB
General Reinsurance Corporation	1.5	34.9	36.4	1.3	A++	AMB
White Mountains Reinsurance of America	0.3	36.0	36.3	0.2	A-	AMB
Partner Reinsurance Europe	8.3	26.8	35.1	16.7	AA-	S&P
Munchener Ruckversicherungs-Gesellschaft	1.1	32.7	33.8	7.7	A+	AMB
Berkley Insurance Company	3.4	29.2	32.6	0.2	A+	AMB
Platinum Underwriters Re	2.1	26.7	28.8	2.5	A	AMB
Lloyd s Syndicate #2003	2.9	23.8	26.7	4.2	A	AMB
Ace Property and Casualty Insurance Company	5.5	19.1	24.6	2.5	A+	AMB
Allied World Reinsurance	7.1	13.1	20.2	2.8	A	AMB
Swiss Re International SE	0.7	15.6	16.3	5.7	A	AMB
AXIS Re Europe	3.6	11.5	15.1	4.0	A	AMB
Axa Corporate Solutions	0.4	14.0	14.4	0.7	AA-	S&P
Hannover Ruckversicherung	0.5	13.6	14.1	2.8	A	AMB
Validus Reinsurance Ltd.	1.8	11.9	13.7	5.6	A-	AMB
Top 20 Total	$ 123.9	$ 676.4	$ 800.3	$ 103.1		
All Other	33.0	223.6	256.6	76.1		
Total	$ 156.9	$ 900.0	$ 1,056.9	$ 179.2		

(1) Collateral includes letters of credit, ceded balances payable and other balances held by our Insurance Companies and our Lloyd s Operations.

(2) A.M. Best

The largest portion of our collateral consists of letters of credit obtained from reinsurers in accordance with New York Insurance Department Regulation No. 133. This regulation requires collateral to be held by the ceding company from assuming companies not licensed in New York State in order for the ceding company to take credit for the reinsurance recoverables on its statutory balance sheet. The specific requirements governing the letters of credit include a clean and unconditional letter of credit and an evergreen clause which prevents the expiration of the letter of credit without due notice to the Company. Only banks considered qualified by the NAIC may be deemed acceptable issuers of letters of credit by the New York Insurance Department. In addition, based on our credit assessment of the reinsurer, there are certain instances where we require collateral from a reinsurer even if the reinsurer is licensed in New York State, generally applying the requirements of Regulation No. 133. The contractual terms of the letters of credit require that access to the collateral is unrestricted. In the event that the counter-party to our collateral would be deemed not qualified by the NAIC, the reinsurer would be required by agreement to replace such collateral with acceptable security under the reinsurance agreement. There is no assurance, however, that the reinsurer would be able to replace the counter-party bank in the event such counter-party bank becomes unqualified and the reinsurer experiences significant financial deterioration or becomes insolvent. Under such circumstances, we could incur a substantial loss from uncollectible reinsurance from such reinsurer.

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Approximately $43.7 million and $69.7 million of the reinsurance recoverables for paid and unpaid losses at December 31, 2010 and 2009, respectively, were due from reinsurers as a result of the losses from Hurricanes Gustav and Ike. Approximately $29.7 million and $68.5 million of the reinsurance recoverables for paid and unpaid losses at December 31, 2010 and 2009, respectively, were due from reinsurers as a result of the losses from Hurricanes Katrina and Rita. In addition, also included in reinsurance recoverables for paid and unpaid losses was approximately $76.2 million due from reinsurers as a result of the losses from Deepwater Horizon.

The following table summarizes written premium:

	Year Ended December 31,		
	2010	2009	2008
		($ in thousands)	
Direct	$ 916,817	$ 966,251	$ 1,016,521
Assumed	70,384	78,667	68,401
Ceded	(333,263)	(343,663)	(423,307)
Net	$ 653,938	$ 701,255	$ 661,615

The following table summarizes earned premium:

	Year Ended December 31,		
	2010	2009	2008
		($ in thousands)	
Direct	$ 925,935	$ 977,170	$ 993,123
Assumed	72,643	78,932	69,989
Ceded	(338,647)	(372,739)	(419,136)
Net	$ 659,931	$ 683,363	$ 643,976

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The following table summarizes losses and loss adjustment expenses incurred:

	Year Ended December 31,		
	2010	2009	2008
	($ in thousands)		
Direct	$ 669,949	$ 625,558	$ 646,095
Assumed	32,505	44,318	38,013
Ceded	(281,299)	(233,878)	(290,977)
Net	$ 421,155	$ 435,998	$ 393,131

We are required to pay losses in the event the assuming reinsurers are unable to meet their obligations under their reinsurance agreements. Charges for uncollectible reinsurance amounts, all of which were recorded to incurred losses, were $(0.8) million, $2.0 million, and $2.4 million for 2010, 2009, and 2008, respectively.

Note 7. Income Taxes

We are subject to the tax laws and regulations of the United States (U.S.) and foreign countries in which we operate. We file a consolidated U.S. federal tax return, which includes all domestic subsidiaries and the U.K. Branch. The income from the foreign operations is designated as either U.S. connected income or non-U.S. connected income. Lloyd s is required to pay U.S. income tax on U.S. connected income written by Lloyd s syndicates. Lloyd s and the IRS have entered into an agreement whereby the amount of tax due on U.S. connected income is calculated by Lloyd s and remitted directly to the Internal Revenue Service (IRS). These amounts are then charged to the corporate members in proportion to their participation in the relevant syndicates. Our corporate members are subject to this agreement and will receive United Kingdom (U.K.) tax credits for any U.S. income tax incurred up to the U.K. income tax charged on the U.S. connected income. The non-U.S. connected insurance income would generally constitute taxable income under the Subpart F income section of the Internal Revenue Code (Subpart F) since less than 50% of Syndicate 1221 s premiums are derived within the U.K. and would therefore be subject to U.S. taxation when the Lloyd s year of account closes. Taxes are accrued at a 35% rate on our foreign source insurance income and foreign tax credits, where available, are utilized to offset U.S. tax as permitted. Our effective tax rate for Syndicate 1221 taxable income could substantially exceed 35% to the extent we are unable to offset U.S. taxes paid under Subpart F tax regulations with U.K. tax credits on future underwriting year distributions. U.S. taxes are not accrued on the earnings of our foreign agencies as these earnings are not considered currently taxable Subpart F income. These earnings are subject to taxes under U.K. tax regulations at a 28% rate. We have not provided for U.S. deferred income taxes on the undistributed earnings of our non-U.S. subsidiaries since these earnings are intended to be permanently reinvested in our non-U.S. subsidiaries. A finance bill was enacted in the U.K. in July 2010 that reduces the U.K. corporate tax rate from 28% to 27% effective April 2011. The effect of such tax rate change was not material.

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The components of current and deferred income tax expense (benefit) were as follows:

	Year Ended December 31, 2010	2009	2008
	($ in thousands)		
Current income tax expense:			
Federal and foreign	$ 11,965	$ 25,833	$ 33,126
State and local	97	142	435
Subtotal	12,062	25,975	33,561
Deferred income tax expense (benefit):			
Federal and foreign	17,189	(2,285)	(16,522)
State and local			
Subtotal	17,189	(2,285)	(16,522)
Total income tax expense	$ 29,251	$ 23,690	$ 17,039

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A reconciliation of total income taxes applicable to pre-tax operating income and the amounts computed by applying the federal statutory income tax rate to the pre-tax operating income was as follows:

	Year Ended December 31,					
	2010		2009		2008	
	($ in thousands)					
Computed expected tax expense	$ 34,590	35.0%	$ 30,397	35.0%	$ 24,056	35.0%
Tax-exempt interest	(5,093)	-5.2%	(7,051)	-8.1%	(6,650)	-9.7%
Dividends received deduction	(611)	-0.6%	(508)	-0.6%	(493)	-0.7%
Current state and local income taxes, net of federal income tax	63	0.1%	93	0.1%	284	0.4%
Change in the deferred state and local income tax, net of deferred tax assets	463	0.5%	3,546	4.1%	(154)	-0.2%
Change in the valuation allowance	(463)	-0.5%	(3,546)	-4.1%	154	0.2%
Other	302	0.3%	759	0.9%	(158)	-0.2%
Actual tax expense and rate	$ 29,251	29.6%	$ 23,690	27.3%	$ 17,039	24.8%

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The tax effects of temporary differences that give rise to federal, foreign, state and local deferred tax assets and deferred tax liabilities were as follows:

	Year ended December 31, 2010	2009
	($ in thousands)	
Deferred tax assets:		
Loss reserve discount	$ 30,190	$ 31,798
Unearned premiums	14,358	15,023
Investment impairments	2,585	19,327
Compensation related	5,149	6,052
State and local net deferred tax assets	2,185	2,648
Other	1,287	721
Total gross deferred tax assets	55,754	75,569
Less: Valuation allowance	(2,185)	(2,648)
Total deferred tax assets	53,569	72,921
Deferred tax liabilities:		
Deferred acquisition costs	(11,645)	(12,205)
Net unrealized gains on securities	(17,638)	(18,962)
Other	(9,145)	(10,532)
Total deferred tax liabilities	(38,428)	(41,699)
Net deferred income tax asset	$ 15,141	$ 31,222

We have not provided for U.S. deferred income taxes on the undistributed earnings of approximately $65.6 million of our non-U.S. subsidiaries since these earnings are intended to be permanently reinvested in our foreign subsidiaries. However, in the future, if such earnings were distributed to the Company, taxes of approximately $4.6 million would be payable on such undistributed earnings and would be reflected in the tax provision for the year in which these earnings are no longer intended to be permanently reinvested in the non-U.S. subsidiary assuming all foreign tax credits are realized.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and anticipated future taxable income in making this assessment and believes it is more likely than not that we will realize the benefits of its deductible differences at December 31, 2010, net of any valuation allowance.

We had state and local deferred tax assets amounting to potential future tax benefits of $2.2 million and $2.6 million for December 31, 2010 and 2009, respectively. Included in the deferred tax assets are net operating loss carryforwards of $1.4 million and $1.3 million at December 31, 2010 and 2009, respectively. A valuation allowance was established for the full amount of these potential future tax benefits due to the uncertainty associated with their realization. Our state and local tax carryforwards at December 31, 2010 expire from 2023 to 2025.

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As of December 31, 2010 and 2009, we had no material unrecognized tax benefits. For the years ended December 31, 2010, 2009 and 2008, we did not recognize any interest or penalties in our statement of operations. U.S. federal, state and foreign income tax returns for the tax years 2007 through 2009 are subject to examination by the relevant tax authorities.

Note 8. Credit Facility

On April 1, 2010, we entered into a $140 million credit facility agreement entitled Fifth Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as Administrative Agent, and a syndicate of lenders. The credit facility is a letter of credit facility and amends and replaces the $75 million credit facility that expired by its terms on April 2, 2010. We may request that the facility be increased by an amount not to exceed $25 million. The credit facility, which is denominated in U.S. dollars, is utilized primarily by Navigators Corporate Underwriters Ltd. and Millennium Underwriting Ltd. to fund our participation in Syndicate 1221 through letters of credit. The letters of credit issued under the facility are denominated in British pounds and their aggregate face amount will fluctuate based on exchange rates. The credit facility expires on March 31, 2011. At December 31, 2010, letters of credit with an aggregate face amount of $129.1 million were outstanding under the credit facility.

The above mentioned credit facility contains customary covenants for facilities of this type, including restrictions on indebtedness and liens, limitations on mergers, dividends and the sale of assets, and requirements as to maintaining certain consolidated tangible net worth, statutory surplus and other financial ratios. The credit facility also provides for customary events of default, including failure to pay principal, interest or fees when due, failure to comply with covenants, any representation or warranty made by the Company being false in any material respect, default under certain other indebtedness, certain insolvency or receivership events affecting the Company and its subsidiaries, the occurrence of certain material judgments, or a change in control of the Company. The letter of credit facility is secured by a pledge of the stock of certain insurance subsidiaries of the Company. To the extent the aggregate face amount issued under the credit facility exceeds the commitment amount, we are required to post collateral with the lead bank of the consortium. We were in compliance with all covenants under the credit facility at December 31, 2010.

As a result of the April 1, 2010 amendment of the credit facility, the applicable margin and applicable fee rate payable under the letter of credit facility are now based on a schedule that is decided based on the Company s status as determined from its then-current ratings issued by S&P and Moody s with respect to the Company s senior unsecured long-term debt securities without third-party credit enhancement.

Note 9. Senior Note due May 1, 2016

On April 17, 2006, we completed a public debt offering of $125 million principal amount of 7% senior unsecured notes due May 1, 2016 (the Senior Notes) and received net proceeds of $123.5 million. We contributed $100 million of the proceeds to the capital and surplus of Navigators Insurance Company and retained the remainder at the Parent Company for general corporate purposes. Interest is payable on the Senior Notes each May 1 and November 1. The effective interest rate related to the Senior Notes, based on the proceeds net of discount and all issuance costs, is approximately 7.17%.

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In April 2009, we repurchased $10.0 million aggregate principal amount of the Senior Notes from an unaffiliated noteholder on the open market for $7.0 million, which generated a $2.9 million pretax gain that is reflected in Other income. As a result of this transaction, approximately $115.0 million aggregate principal amount of the Senior Notes remains issued and outstanding.

The Senior Notes, our only senior unsecured obligation, will rank equally with future senior unsecured indebtedness. We may redeem the Senior Notes at any time and from time to time, in whole or in part, at a make-whole redemption price. The terms of the Senior Notes contain various restrictive business and financial covenants typical for debt obligations of this type, including limitations on mergers, liens and dispositions of the common stock of certain subsidiaries. As of December 31, 2010, we were in compliance with all such covenants.

Interest expense on the Senior Notes in 2010 and 2009 was $8.2 million and $8.5 million. The fair value of the Senior Notes, which is based on the quoted market price, was $117.6 million at both December 31, 2010 and 2009 respectively.

Note 10. Fiduciary Funds

Prior to 2006, the underwriting agencies managed insurance pools in which Navigators Insurance Company participated. Functions performed by the underwriting agencies included underwriting business, collecting premiums from the insured, paying claims, collecting paid recoverables from reinsurers, paying reinsurance premiums to reinsurers and remitting net account balances to member insurance companies. Funds received by the Company belonging to non-related participants in the former insurance pools are not material. They are held in a fiduciary capacity and are included in the accompanying consolidated balance sheets.

Note 11. Commitments and Contingencies

Future minimum annual rental commitments at December 31, 2010 under various noncancellable operating leases for our office facilities, which expire at various dates through 2020, are as follows:

Year Ended December 31,	*($ in thousands)*
2011	$ 9,748
2012	9,082
2013	8,938
2014	7,737
2015	6,912
Subsequent to 2015	14,600
Total	$ 57,017

We are also liable for additional payments to the landlords for certain annual cost increases. Rent expense for the years ended December 31, 2010, 2009, and 2008 was $9.3 million, $8.6 million, and $7.1 million, respectively.

In the ordinary course of conducting business, our subsidiaries are involved in various legal proceedings, either indirectly as insurers for parties or directly as defendants. Most the these proceedings are claims litigation involving our subsidiaries as either (a) liability insurers defending or providing indemnity for third party claims brought against insureds or (b) insurers defending first party coverage claims brought against them. We account for such activity through the establishment of unpaid loss and loss adjustment reserves. Our management believes that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and cost of defense, will not be material to our consolidated financial condition, results of operations, or cash flows.

Our subsidiaries are also from time-to-time involved with other legal actions, some of which assert claims for substantial amounts. These actions include claims asserting extra contractual obligations, such as claims involving allegations of bad faith in the handling of claims or the underwriting of policies. In general, we believe we have valid defenses to these cases. Our management expects that the ultimate liability if any, with respect to future extra-contractual matters will not be material to our consolidated financial position. Nonetheless, given the large or indeterminate amounts sought in certain of these matters, and the inherent unpredictability of litigation, an adverse outcome in such matters could, from time-to-time, have a material adverse outcome on our consolidated results of operations or cash flows in a particular fiscal quarter or year.

In October 2010, Equitas Insurance Limited represented by Resolute Management Services Limited (Resolute) commenced litigation and arbitration proceedings (the Resolute Proceedings) against Navigators Management Company, Inc., a wholly-owned subsidiary of the Company (NMC). The arbitration demand and complaint in the Resolute Proceedings allege that NMC failed to make timely payments to Resolute under certain reinsurance agreements in connection with subrogation recoveries received by NMC with respect to several catastrophe losses that occurred in the late 1980 s and early 1990 s. Resolute alleges that it suffered damages of approximately $7.5 million as a result of the alleged delays in payment. The Company believes that the claims of Resolute are without merit and it intends to vigorously contest the claims. While it is too early to predict with any certainty the outcome of the Resolute Proceedings, the Company believes that the ultimate outcome would not be expected to have a significant adverse effect on its results of operations, financial condition or liquidity, although an unexpected adverse resolution of the Resolute Proceedings could have a material adverse effect on the Company s results of operations in a particular fiscal quarter or year.

Wherever a member of Lloyd s is unable to pay its debts to policyholders, such debts may be payable by the Lloyd s Central Fund. If Lloyd s determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd s members up to 3% of a member s underwriting capacity in any one year. We do not believe that any assessment is likely in the foreseeable future and, therefore, have not provided any allowance for such an assessment.

Note 12. Share Capital and Share Repurchases

Our authorized share capital consists of 50,000,000 common shares with a par value of $0.10 per share and 1,000,000 preferred shares with a par value of $0.10 per share.

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Changes in our issued and outstanding common shares are reflected in the following table:

	Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Balance, beginning of year	16,846	16,856	16,873
Vested stock grants	109	74	36
Employee stock purchase plan	22	17	17
Stock options exercised	29	41	155
Treasury shares purchased	(1,264)	(142)	(225)
Balance, end of year	15,742	16,846	16,856

There are no preferred shares issued.

In November 2009, the Parent Company s Board of Directors adopted a stock repurchase program for up to $35 million of the Parent Company s common stock. In March 2010, the Parent Company s Board of Directors adopted a share repurchase program for up to an additional $65 million of the Parent Company s common stock. Purchases are permitted from time to time at prevailing prices in open market or privately negotiated transactions through December 31, 2011. The timing and amount of purchases under the program depend on a variety of factors, including the trading price of the stock, market conditions and corporate and regulatory considerations.

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The following presents our share repurchases under the aforementioned programs for the periods indicated:

	Total Number of Shares Purchased	Average Cost Paid Per Share	Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
	($ in thousands, except per share)		
October 2009		$	$ 35,000
November 2009	29,021	$ 47.30	$ 33,627
December 2009	112,555	$ 47.83	$ 28,243
Subtotal fourth quarter	141,576	$ 47.72	
Total 2009 activity	141,576	$ 47.72	
January 2010	171,500	$ 44.32	$ 20,642
February 2010	128,500	$ 41.79	$ 15,272
March 2010	273,600	$ 39.10	$ 69,573
Subtotal first quarter	573,600	$ 41.27	
April 2010	149,912	$ 40.92	$ 63,439
May 2010	248,430	$ 39.92	$ 53,522
June 2010	159,661	$ 40.38	$ 47,075
Subtotal second quarter	558,003	$ 40.32	
July 2010	57,177	$ 42.10	$ 44,668
August 2010	32,556	$ 42.49	$ 43,284
September 2010	7,382	$ 42.29	$ 42,972
Subtotal third quarter	97,115	$ 42.25	
October 2010	1,500	$ 42.85	$ 42,841
November 2010	34,066	$ 48.27	$ 41,265
December 2010		$	$ 41,265
Subtotal fourth quarter	35,566	$ 48.04	

Total 2010 activity	1,264,284	$	41.11
Total share repurchase activity	1,405,860	$	41.78

(1) Balance as of the end of the month indicated.

Note 13. Dividends from Subsidiaries and Statutory Financial Information

Navigators Insurance Company may pay dividends to the Parent Company out of its statutory earned surplus pursuant to statutory restrictions imposed under the New York insurance law. At December 31, 2010, the maximum amount available for the payment of dividends by Navigators Insurance Company during 2011 without prior regulatory approval was $68.7 million. Navigators Insurance Company paid $40.0 million, $25.0 million, and $20.0 million in dividends to the Parent Company in 2010, 2009, and 2008, respectively.

The Insurance Companies statutory net income as filed with the regulatory authorities for 2010 (unaudited), 2009 and 2008 was $81.1 million, $44.5 million and $34.0 million, respectively. The statutory surplus as filed with the regulatory authorities was $686.9 million and $645.8 million at December 31, 2010 (unaudited) and 2009, respectively.

The NAIC has codified statutory accounting practices for insurance enterprises. As a result of this process, the NAIC issued a revised statutory Accounting Practices and Procedures Manual that became effective January 1, 2001, and is updated each year. We prepare our statutory basis financial statements in accordance with the most recently updated statutory manual subject to any deviations prescribed or permitted by the New York Insurance Commissioner. The significant differences between SAP and GAAP, as they relate to our operations, are as follows: (1) acquisition and commission costs are expensed when incurred, while under GAAP these costs are deferred and amortized as the related premium is earned; (2) bonds are stated at amortized cost, while under GAAP bonds are classified as available-for-sale and reported at fair value, with unrealized gains and losses recognized in other comprehensive income as a separate component of stockholders equity; (3) certain deferred tax assets are not permitted to be included in statutory surplus, while under GAAP deferred taxes are provided to reflect all temporary differences between the carrying values and tax basis of assets and liabilities; (4) unearned premiums and loss reserves are reflected net of ceded amounts, while under GAAP the unearned premiums and loss reserves are reflected gross of ceded amounts; (5) agents balances over ninety days due are excluded from the balance sheet, and uncollateralized amounts due from unauthorized reinsurers are deducted from surplus, while under GAAP they are restored to the balance sheet, subject to the usual tests regarding recoverability.

As part of its general regulatory oversight process, the New York Insurance Department conducts detailed examinations of the books, records and accounts of New York insurance companies every three to five years. Navigators Insurance Company and Navigators Specialty Insurance Company were examined by the New York Insurance Department for the years 2001 through 2004. The New York Insurance Department commenced an examination of the years 2005 through 2009 in January 2010 which is expected to conclude by June 2011. The U.K. Branch is required to maintain certain capital requirements under U.K. regulations and subject to examination by the U.K. Financial Services Authority.

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Note 14. Stock Option Plans, Stock Grants, Stock Appreciation Rights and Employee Stock Purchase Plan

At our May 2005 Annual Meeting, the stockholders approved the 2005 Stock Incentive Plan. The 2005 Stock Incentive Plan authorizes the issuance in the aggregate of 1,000,000 incentive stock options, non-incentive stock options, restricted shares and stock appreciation rights for our common stock. In April 2009, the stockholders approved an amendment to the 2005 Stock Incentive Plan increasing the available number of incentive stock options, non-incentive stock options, restricted shares and stock appreciation rights from 1,000,000 to 1,500,000. Stockholders further amended and restated the 2005 Stock Incentive Plan in 2010. Now known as the 2005 Amended and Restated Stock Incentive Plan, but no additional shares authorized for issuance. As of December 31, 2010, 955,171 of such awards were issued leaving 544,829 awards available to be issued in subsequent periods. Upon the approval of the 2005 Amended and Restated Stock Incentive Plan, no further awards are being issued under any of our other stock plans or the stock appreciation rights plan. All stock options issued under the 2005 Amended and Restated Stock Incentive Plan are exercisable upon vesting for one share of our common stock and are granted at exercise prices no less than the fair market value of our common stock on the date of grant.

Restricted stock grants are expensed in tranches over the vesting period. The pre-tax amounts charged to expense were $5.6 million in 2010, and $8.8 million in both 2009 and 2008. In addition, $30,000 in each of 2010, 2009 and 2008 of the Company s common stock was earned by each non-employee director as a portion of the director s compensation for serving on the Company s Board of Directors. The stock is issued in the first quarter of the year following the year of service and is fully vested when issued. The expense for 2010, 2009 and 2008 for the stock earned by directors was $210,000, $180,000 and $210,000 respectively.

Options and grants generally vest equally over a four year period and the options have a maximum term of ten years. In some cases, grants vest over five years with one-third vesting in each of the third, fourth and fifth years.

A portion of our restricted stock grants are performance based and dependent on the rolling three-year average return on beginning equity. The actual shares that vest will range between 150% to 0% of the original award depending on the results. We are currently accruing for these awards at the forecasted target.

Unvested restricted stock grants outstanding at December 31, 2010, 2009, and 2008 were as follows:

	Year Ended December 31,		
	2010	**2009**	**2008**
Stock grants outstanding at beginning of year	619,739	558,049	391,866
Granted	169,134	202,731	243,587
Vested	(156,723)	(104,677)	(63,768)
Forfeited	(41,489)	(36,364)	(13,636)
Balance at end of year	590,661	619,739	558,049

The pretax amounts charged to expense for stock options were zero in 2010 and 2009, and $235,000 in 2008.

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Stock options outstanding at December 31, 2010, 2009, and 2008 were as follows:

	Year ended December 31,					
	2010		2009		2008	
	No. of Shares	Average Exercise Prices	No. of Shares	Average Exercise Prices	No. of Shares	Average Exercise Prices
Options outstanding at beginning of year	191,000	$ 26.21	231,750	$ 25.62	384,350	$ 23.34
Granted						
Exercised	(29,000)	$ 21.12	(40,750)	$ 23.16	(152,350)	$ 19.78
Expired or forfeited	(4,500)	$ 26.69		$	(250)	$ 29.11
Options outstanding at end of year	157,500	$ 27.13	191,000	$ 26.21	231,750	$ 25.67
Number of options exercisable	157,500	$ 27.13	191,000	$ 26.21	230,250	$ 25.62

The following table summarizes information about options outstanding at December 31, 2010:

Price Range	Outstanding Options	Average Remaining Contract Life	Average Exercise Price	Exercisable Options	Average Exercise Price
$16 to $20	27,000	1.1	$ 17.62	27,000	$ 17.62
$21 to $30	109,000	3.0	$ 28.25	109,000	$ 28.25
$31 to $37	21,500	4.2	$ 33.39	21,500	$ 33.39

We have a Stock Appreciation Rights Plan which allows for the grant of up to 300,000 stock appreciation rights (SARs) at prices of no less than 90% of the fair market value of the common stock. As a result of the approval of the 2005 Amended and Restated Stock Incentive Plan, no further awards will be issued from the Stock Appreciation Rights Plan. The pre-tax amounts recognized as a benefit relating to SARs in 2010, 2009 and 2008 were $0.1 million, $0.4 million and $0.6 million, respectively.

SARs outstanding at December 31, 2010, 2009, and 2008 were as follows:

	Year Ended December 31,					
	2010		2009		2008	
	SARs	Average Exercise Prices	SARs	Average Exercise Prices	SARs	Average Exercise Prices
SARs outstanding at beginning of year	52,000	$ 14.05	59,250	$ 13.89	64,250	$ 13.63
Granted		$		$		$
Exercised	(35,500)	$ 11.86	(7,250)	$ 12.76	(5,000)	$ 10.50
Expired or forfeited		$		$		$
SARs outstanding at end of year	16,500	$ 18.74	52,000	$ 14.05	59,250	$ 13.89
Number of SARs exercisable	16,500	$ 18.74	52,000	$ 14.05	59,250	$ 13.89

We offer an Employee Stock Purchase Plan (the ESPP) to all of our eligible employees. The employee is offered the opportunity to purchase our common stock at 90% of fair market value at the lower of the price at the beginning or the end of each six month offering period. Employees can invest up to 10% of their base compensation through payroll withholding towards the purchase of our common stock subject to the lesser of 1,000 shares or total market value of $25,000. There will be approximately 10,588 shares purchased in 2011 from funds withheld during the July 1, 2010 to December 31, 2010 offering period. There were 22,451 shares purchased in 2010 in the aggregate from funds withheld during the offering periods of July 1, 2009 to December 31, 2009 and January 1, 2010 to June 30, 2010. We expense both the value of the 10% discount and the look-back option which provides for the more favorable price at either the beginning or end of the offering period. The amount of expense recorded for 2010, 2009, and 2008 relating to the ESPP was $0.2 million for each period, respectively.

Note 15. Retirement Plans

We sponsor a defined contribution plan covering substantially all our U.S. employees. For 2010 and 2009, Company contributions were equal to 7.5% of each eligible employee s gross pay (plus bonus of up to $2,500), up to the amount permitted by certain Federal regulations. Employees vest at 20% per year beginning at the end of their second year and an additional 20% at the end of each subsequent year until being fully vested after six years of service. The expense recorded for the defined contribution plan was $2.9 million $2.7 million and $2.8 million in 2010, 2009, and 2008, respectively. We sponsor a similar defined contribution plan under U.K. regulations for our U.K. employees. Contributions, which are fully vested when made, are equal to 15% of each eligible employee s gross base salary. The expense recorded for the U.K. defined contribution plan was $1.5 million for 2010 and $1.4 million for 2009 and 2008, respectively. Such expenses are included in Other operating expenses.

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We have a 401(k) plan for all eligible employees. Each eligible employee can contribute a portion of their salary, limited by certain Federal regulations. Beginning in 2008, we matched 100% of the first 4% that each eligible employee contributes; our contribution vests immediately. In addition, beginning in 2008, we have the discretion of contributing up to 4% to each eligible employee s 401(k) plan irrespective of the employees contribution amount which also vests immediately. The expense recorded for such plan was $1.7 million, $1.2 million and $0.9 million for 2010, 2009 and 2008, respectively.

Note 16. Quarterly Financial Data (Unaudited)

Following is a summary of quarterly financial data for the periods indicated:

	March 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010
	($ in thousands, except net income per share)			
Gross written premiums	$ 270,145	$ 253,568	$ 233,638	$ 229,850
Net written premiums	189,317	165,005	157,807	141,809
Revenues:				
Net earned premiums	164,069	161,471	168,233	166,158
Net investment income	17,972	17,853	17,839	17,998
Total other-than-temporary impairment losses	(251)	(489)	(1,034)	(448)
Portion of loss recognized in Other comprehensive income (before tax)	170	334	365	273
Net other-than-temporary impairment losses recognized in earnings	(81)	(155)	(669)	(175)
Net realized gains (losses)	6,113	11,020	4,521	19,665
Other income (expense)	1,070	(899)	2,767	2,205
Total revenues	189,143	189,290	192,691	205,851
Expenses:				
Net losses and loss adjustment expenses	103,807	99,863	107,463	110,022
Commission expenses	25,316	25,677	25,185	32,935
Other operating expenses	34,586	34,513	34,682	35,919
Interest expense	2,044	2,044	2,045	2,045
Total expenses	165,753	162,097	169,375	180,921
Income before income taxes	23,390	27,193	23,316	24,930
Income tax expense	6,345	8,223	7,091	7,592
Net income	$ 17,045	$ 18,970	$ 16,225	$ 17,338
Comprehensive income (loss)	$ 24,505	$ 26,164	$ 40,023	$ (24,308)
Combined ratio	99.1%	99.7%	97.8%	106.3%
Net income per common share:				
Basic	$ 1.02	$ 1.18	$ 1.03	$ 1.10
Diluted	$ 1.00	$ 1.16	$ 1.00	$ 1.07

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	March 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009
	($ in thousands, except net income per share)			
Gross written premiums	$ 275,259	$ 272,729	$ 245,191	$ 251,739
Net written premiums	200,652	183,007	156,001	161,595
Revenues:				
Net earned premiums	164,946	169,868	171,271	177,278
Net investment income	18,743	18,656	19,110	19,003
Total other-than-temporary impairment losses	(26,871)	(1,876)	(22)	(496)
Portion of loss recognized in Other comprehensive income (before tax)	16,171	1,407	(525)	335
Net other-than-temporary impairment losses recognized in earnings	(10,700)	(469)	(547)	(161)
Net realized gains (losses)	(1,537)	2,596	6,682	1,476
Other income (expense)	143	5,302	1,241	(21)
Total revenues	171,595	195,953	197,757	197,575
Expenses:				
Net losses and loss adjustment expenses	100,247	100,728	107,591	127,432
Commission expenses	22,448	26,278	22,852	27,330
Other operating expenses	30,535	33,019	35,018	34,099
Interest expense	2,219	2,150	2,042	2,044
Total expenses	155,449	162,175	167,503	190,905
Income before income taxes	16,146	33,778	30,254	6,670
Income tax expense	4,146	10,128	8,822	594
Net income	$ 12,000	$ 23,650	$ 21,432	$ 6,076
Comprehensive income (loss)	$ 19,503	$ 34,876	$ 62,119	$ (3,186)
Combined ratio	92.8%	92.9%	95.9%	106.5%
Net income per common share:				
Basic	$ 0.71	$ 1.40	$ 1.26	$ 0.36
Diluted	$ 0.71	$ 1.39	$ 1.24	$ 0.35

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SCHEDULE
SUMMARY OF CONSOLIDATED INVESTMENTS   OTHER THAN INVESTMENTS IN RELATED PARTIES

SCHEDULE I

THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
SUMMARY OF CONSOLIDATED INVESTMENTS   OTHER THAN INVESTMENTS IN RELATED PARTIES
December 31, 2010

December 31, 2010	**Fair Value**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Cost or Amortized Cost**	**OTTI Recognized in OCI**
			($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 324,145	$ 5,229	$ (4,499)	$ 323,415	$
States, municipalities and political subdivisions	392,250	11,903	(3,805)	384,152	
Mortgage- and asset-backed securities:					
Agency mortgage-backed securities	382,628	10,127	(2,434)	374,935	
Residential mortgage obligations	20,463	24	(2,393)	22,832	(1,646)
Asset-backed securities	46,093	247	(292)	46,138	
Commercial mortgage-backed securities	190,015	4,804	(1,794)	187,005	
Subtotal	639,199	15,202	(6,913)	630,910	(1,646)
Corporate bonds	526,651	15,075	(5,545)	517,121	
Total fixed maturities	1,882,245	47,409	(20,762)	1,855,598	(1,646)
Equity securities common stocks	87,258	22,475	(10)	64,793	
Cash	31,768			31,768	
Short-term investments	153,057			153,057	
Total	$ 2,154,328	$ 69,884	$ (20,772)	$ 2,105,216	$ (1,646)

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CONDENSED FINANCIAL INFORMATION OF REGISTRANT

SCHEDULE II

THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
THE NAVIGATORS GROUP, INC.
BALANCE SHEETS
(Parent Company)
($ in thousands, except share data)

	December 31, 2010	December 31, 2009
ASSETS		
Cash and investments	$ 53,217	$ 63,676
Investments in subsidiaries	877,999	846,295
Goodwill and other intangible assets	2,534	2,534
Other assets	12,028	5,213
Total assets	$ 945,778	$ 917,718
LIABILITIES		
7% Senior Notes	$ 114,138	$ 114,010
Accounts payable and other liabilities	946	847
Accrued interest payable	1,340	1,342
Total liabilities	116,424	116,199
STOCKHOLDERS EQUITY		
Preferred stock, $.10 par value, 1,000,000 shares authorized, none issued		
Common stock, $.10 par value, 50,000,000 shares authorized:		
authorized; issued 17,274,440 shares for 2010 and 17,212,814 shares for 2009	1,728	1,721
Additional paid-in capital	312,588	304,505
Treasury stock, at cost (1,532,273 shares for 2010 and 366,330 shares for 2009)	(64,935)	(18,296)
Retained earnings	539,512	469,934
Accumulated other comprehensive income:		
Net unrealized gains (losses) on securities available-for-sale, net of tax	31,474	34,958
Foreign currency translation adjustment, net of tax	8,987	8,697
Total stockholders equity	829,354	801,519
Total liabilities and stockholders equity	$ 945,778	$ 917,718

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SCHEDULE II

THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)
THE NAVIGATORS GROUP, INC.
STATEMENTS OF INCOME
(Parent Company)
($ in thousands)

	Year Ended December 31,		
	2010	**2009**	**2008**
Revenues:			
Net investment income	$ 630	$ 583	$ 1,354
Dividends received from wholly-owned subsidiaries	40,000	25,000	20,000
Total revenues	40,630	25,583	21,354
Expenses:			
Interest expense	8,178	8,455	8,871
Other (income) expense	634	(1,482)	1,016
Total expenses	8,812	6,973	9,887
Income before income tax benefit	31,818	18,610	11,467
Income tax benefit	(2,846)	(2,174)	(3,495)
Income before equity in undistributed net income of wholly owned subsidiaries	34,664	20,784	14,962
Equity in undistributed net income of wholly-owned subsidiaries	34,914	42,374	36,730
Net income	$ 69,578	$ 63,158	$ 51,692

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SCHEDULE II

THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)
THE NAVIGATORS GROUP, INC.
STATEMENTS OF CASH FLOWS
(Parent Company)
($ in thousands)

	Year Ended December 31, 2010	2009	2008
Operating activities:			
Net income	$ 69,578	$ 63,158	$ 51,692
Adjustments to reconcile net income to net cash provided by (used in) operations:			
Equity in undistributed net income of wholly-owned subsidiaries	(74,914)	(67,374)	(56,730)
Dividends received from subsidiaries	40,000	25,000	20,000
Other	4,543	4,682	604
Net cash provided by operating activities	39,207	25,466	15,566
Investing activities:			
Fixed maturities, available-for-sale			
Sales	26,313	9,103	9,637
Purchases	(28,213)	(34,932)	(13,500)
Equity securities			
Sales	2,995		
Purchases	(2,367)		
Net increase in short-term investments	5,122	13,863	2,432
Net cash provided by (used in) investing activities	3,850	(11,966)	(1,431)
Financing activities:			
Capital contribution		(2,000)	
Purchase of treasury stock	(51,980)	(6,756)	(11,540)
Purchase of Senior notes		(7,000)	
Proceeds of stock issued from employee stock purchase plan	868	727	963
Proceeds of stock issued from exercise of stock options	611	944	3,014
Net cash used in financing activities	(50,501)	(14,085)	(7,563)
Increase (decrease) in cash	(7,444)	(585)	6,572
Cash at beginning of year	9,090	9,675	3,103
Cash at end of year	$ 1,646	$ 9,090	$ 9,675

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SUPPLEMENTARY INSURANCE INFORMATION

SCHEDULE III

THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION
($ in thousands)

	Deferred policy acquisition costs	Reserve for losses and loss adjustment expenses	Unearned premiums	Other policy claims and benefits payable	Net earned premiums	Net investment income (1)	Losses and loss adjustment expenses incurred	Amortization of deferred policy acquisition costs (2)	Other operating expenses (1)	Net written premiums
Year ended December 31, 2010										
Insurance Companies	$ 33,273	$ 1,433,556	$ 318,119	$	$ 438,851	$ 62,792	$ 280,120	$ 59,122	$ 106,631	$ 429,355
Lloyd s Operations	21,928	552,282	145,396		221,080	$ 8,286	$ 141,035	$ 49,991	$ 33,112	$ 224,583
	$ 55,201	$ 1,985,838	$ 463,515	$	$ 659,931	$ 71,078	$ 421,155	$ 109,113	$ 139,743	$ 653,938
Year ended December 31, 2009										
Insurance Companies	$ 34,872	$ 1,395,876	$ 334,798	$	$ 479,121	$ 65,717	$ 304,672	$ 61,949	$ 104,801	$ 477,673
Lloyd s Operations	21,703	524,410	140,373		204,242	9,229	131,326	37,727	27,896	223,582
	$ 56,575	$ 1,920,286	$ 475,171	$	$ 683,363	$ 74,946	$ 435,998	$ 99,676	$ 132,697	$ 701,255
Year ended December 31, 2008										
Insurance Companies	$ 33,308	$ 1,359,231	$ 348,824	$	$ 463,298	$ 63,544	$ 275,767	$ 55,752	$ 92,297	$ 472,688
Lloyd s Operations	14,310	494,433	131,841		180,678	11,655	117,364	34,033	30,961	188,927
	$ 47,618	$ 1,853,664	$ 480,665	$	$ 643,976	$ 75,199	$ 393,131	$ 89,785	$ 123,258	$ 661,615

(1) Net investment income and Other operating expenses reflect only such amounts attributable to the Company s insurance operations.

(2)

Amortization of deferred policy acquisition costs reflects only such amounts attributable to the Company s insurance operations. A portion of these costs is eliminated in consolidation.

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REINSURANCES
SCHEDULE IV

THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
REINSURANCE
Written Premiums
($ in thousands)

	Direct Amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
Year ended December 31, 2010					
Property-Casualty	$ 916,817	$ 333,263	$ 70,384	$ 653,938	11%
Year ended December 31, 2009					
Property-Casualty	$ 966,251	$ 343,663	$ 78,667	$ 701,255	11%
Year ended December 31, 2008					
Property-Casualty	$ 1,016,521	$ 423,307	$ 68,401	$ 661,615	10%

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VALUATION AND QUALIFYING ACCOUNTS

SCHEDULE V

THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
($ in thousands)

Description	Balance at January 1, 2010	Charged (Credited) to Costs and Expenses	Charged to Other Accounts	Deductions (Describe)	Balance at December 31, 2010
Allowance for uncollectible reinsurance	$ 13,799	$ (829)	$	$	$ 12,970
Valuation allowance in deferred taxes	$ 2,648	$ (463)	$	$	$ 2,185

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SUPPLEMENTARY INFORMATION CONCERNING PROPERTY-CASUALTY INSURANCE OPERATIONS

SCHEDULE VI

THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION CONCERNING PROPERTY-CASUALTY INSURANCE OPERATIONS

($ in thousands)

Affiliation with Registrant	Deferred policy acquisition costs	Reserve for losses and loss adjustment expenses	Discount, if any, deducted	Unearned premiums	Net earned premiums	Net investment income (1)	Losses and loss adjustment expenses incurred related to Current year	Losses and loss adjustment expenses incurred related to Prior years	Amortization of deferred policy acquisition costs (2)	Other operating expenses (1)	Net written premiums
Consolidated Subsidiaries											
Year ended December 31, 2010	$ 55,201	$ 1,985,838	$	$ 463,515	$ 659,931	$ 71,078	$ 434,957	$ (13,802)	$ 109,113	$ 139,743	$ 653,938
Year ended December 31, 2009	$ 56,575	$ 1,920,286	$	$ 475,171	$ 683,363	$ 74,946	$ 444,939	$ (8,941)	$ 99,676	$ 132,697	$ 701,255
Year ended December 31, 2008	$ 47,618	$ 1,853,664	$	$ 480,665	$ 643,976	$ 75,199	$ 443,877	$ (50,746)	$ 89,785	$ 123,258	$ 661,615

(1) Net investment income and Other operating expenses reflect only such amounts attributable to the Company s insurance operations.

(2) Amortization of Deferred policy acquisition costs reflects only such amounts attributable to the Company s insurance operations. A portion of these costs is eliminated in consolidation.

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INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit	Previously Filed and Incorporated Herein by Reference to:
3-1	Restated Certificate of Incorporation	Form S-8 filed July 26, 2002 (File No. 333-97183)
3-2	Certificate of Amendment to the Restated Certificate of Incorporation	Form S-8 filed July 26, 2002 (File No. 333-97183)
3-3	By-laws, as amended	Form S-1 (File No. 33-5667)
3-4	Certificate of Amendment to the Restated Certificate of Incorporation	Form 10-Q for June 30, 2006
4-1	Specimen of Common Stock certificate, par value $0.10 per share	Form S-8 filed June 20, 2003 (File No. 333-106317)
10-1	Management Agreement between Navigators Insurance Company and Navigators Management Company, Inc. (formerly Somerset Marine, Inc.)	Form S-1 (File No. 33-5667)
10-2	Agreement between the Company and Navigators Management Company, Inc. (formerly Somerset Marine, Inc.)	Form S-1 (File No. 33-5667)
10-3*	Stock Option Plan	Form S-1 (File No. 33-5667)
10-4*	Non-Qualified Stock Option Plan	Form S-4 (File No. 33-75918)
10-5	Agreement with Bradley D. Wiley dated June 3, 1997	Form 10-K for December 31, 1997
10-6	Employment Agreement with Salvatore A. Margarella dated March 1, 1999	Form 10-K for December 31, 1998
10-7	Employment Agreement with Stanley A. Galanski effective March 26, 2001	Form 10-Q for March 31, 2001
10-8	Employment Agreement with R. Scott Eisdorfer dated September 1, 1999	Form 10-K for December 31, 2002
10-9*	2002 Stock Incentive Plan	Proxy Statement for May 30, 2002
10-10*	Employee Stock Purchase Plan	Proxy Statement for May 29, 2003
10-11*	Executive Performance Incentive Plan	Proxy Statement for May 29, 2003
10-12	Form of Indemnity Agreement by the Company and the Selling Stockholders (as defined therein)	Amendment No. 2 to Form S-3 dated October 1, 2003 (File No. 333-108424)
10-14	Form of Stock Grant Award Certificate and Restricted Stock Agreement for the 2002 Stock Incentive Plan (approved at Annual Meeting of Shareholders held May 30, 2002)	Form 10-Q for September 30, 2004
10-15	Form of Option Award Certificate for the 2002 Stock Incentive Plan (approved at Annual Meeting of Shareholders held May 30, 2002)	Form 10-Q for September 30, 2004
10-16	Agreement with Jane E. Keller	Form 10-Q for September 30, 2004
10-17	Common Stock Grant Award to Stanley A. Galanski under the 2002 Stock Incentive Plan	Form 8-K filed December 14, 2004

10-18	Commutation Agreement between Navigators Insurance Company and Somerset Insurance Limited	Form 8-K filed January 18, 2005
10-19	Second Amended and Restated Credit Agreement among the Company and the Lenders dated January 31, 2005	Form 8-K filed February 4, 2005
10-20*	2005 Stock Incentive Plan	Proxy Statement for May 20, 2005
10-23	Third Amended and Restated Credit Agreement among the Company and the Lenders dated February 2, 2007	Form 8-K filed February 7, 2007
10-24	Paul J. Malvasio Letter Agreement and Retirement Agreement	Form 10-Q for March 31, 2008
10-25	Agreement with Francis W. McDonnell	Form 8-K filed July 29, 2008

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Exhibit No.	Description of Exhibit	Previously Filed and Incorporated Herein by Reference to:
10-26	Fourth Amended and Restated Credit Agreement among the Company and the Lender dated April 3, 2009	Form 8-K filed April 7, 2009
10-27*	Amended 2005 Stock Incentive Plan	Proxy Statement for April 29, 2009
10-28	Agreement with Bruce J. Byrnes	Form 8-K filed June 16, 2009
11-1	Statement re Computation of Per Share Earnings	**
21-1	Subsidiaries of Registrant	**
23-1	Consent of Independent Registered Public Accounting Firm	**
31-1	Certification of CEO per Section 302 of the Sarbanes-Oxley Act	**
31-2	Certification of CFO per Section 302 of the Sarbanes-Oxley Act	**
32-1	Certification of CEO per Section 906 of the Sarbanes-Oxley Act (This exhibit is intended to be furnished in accordance with regulation S-K item 601(b)(32)(ii) and shall not be deemed to be filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference).	**
32-2	Certification of CFO per Section 906 of the Sarbanes-Oxley Act (This exhibit is intended to be furnished in accordance with regulation S-K item 601(b)(32)(ii) and shall not be deemed to be filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference).	**

* Compensatory plan.

** Included herein.