



Chaucer Analyst and Investor Day

Friday 9 July 2010

Format for the day

- Welcome
- Safety briefing
- Presentations from Chaucer Management and Underwriters
- Questions
- Shooting briefing
- 2pm – shooting rotations and lunch
- 5.45pm - close and disembark

Chaucer attendees

- Robert Stuchbery, Chief Executive Officer
- Bruce Bartell, Chief Underwriting Officer
- Ken Curtis, Chief Finance Officer
- John Fowle, Active Underwriter Syndicate 1084
- Nick Kilhams, Political Risk Underwriter
- Chris White, Energy Divisional Head
- Andrew Voke, Head of 1084 Production and Practice Head of Marine
- Brian Everall, Head of Specialist Lines
- Michael Dawson, Active Underwriter Nuclear Syndicate 1176

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Robert Stuchbery, Chief Executive Officer

A Compelling Proposition

The Chaucer business model

We are a diversified Lloyd's insurance Group with:

- A capital efficient underwriting portfolio
- A healthy average combined ratio
- A substantial and conservatively managed investment portfolio
- A Turnkey Solutions Division to defray expenses
- A healthy return on equity for shareholders

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Our diversified underwriting is capital efficient

- We balance global marine, energy, non-marine and aviation with UK motor and nuclear
- Our total underwriting interests are £623m for 2010
- Our ECA is currently £297m or 47.7%
- This provides exceptional underwriting leverage for shareholders

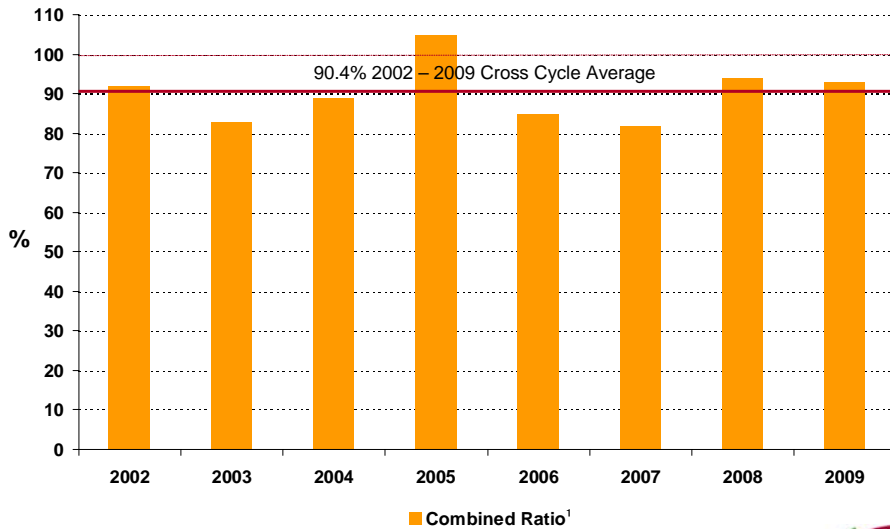


£2.10 of premium for every £1 of ECA

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We produce a healthy average combined ratio



7 ¹ Before IFRS foreign exchange on non-monetary items, run off and RITC premiums



We benefit from a substantial investment portfolio

- Investment portfolio of £1,365.1m at 31 March 2010
- 0.9% return on average funds for the first quarter of 2010
- Average cross-cycle investment return 2002 to 2009 of 2.9%
- Our portfolio provides excellent investment leverage for shareholders

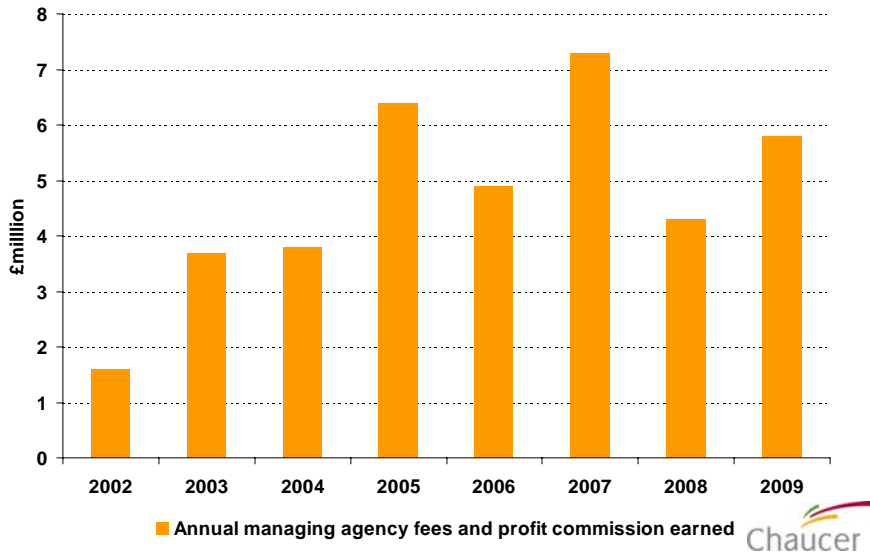


£4.60 of investment portfolio for every £1 of regulatory capital

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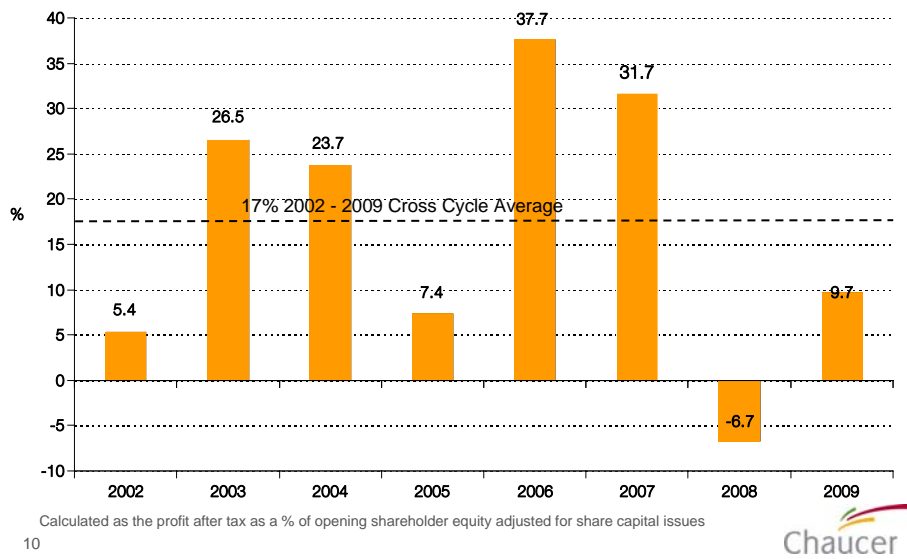


Turnkey Solutions reduce our expenses



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The Chaucer business model produces a healthy ROE



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Bruce Bartell, Chief Underwriting Officer

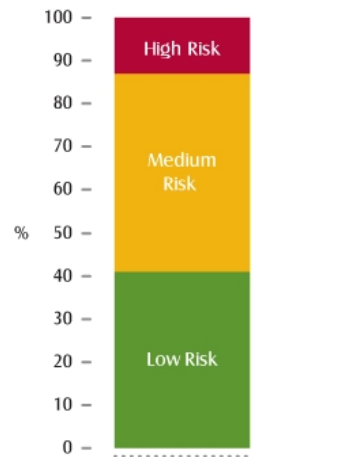
Underwriting Portfolio Diversity

Agenda

- Diversified portfolio
 - Capital benefit
 - Result benefit
- Current portfolio
- Portfolio differentiation
 - Current rate increases
- 2011 opportunities

Diversified portfolio

- 41% of our premium income is low risk, low capital classes of business
 - UK, Aviation, Marine
- 46% Medium Risk:
 - Energy, Property Direct, Specialist Lines
- 13% of our premium income is high risk, high capital, high return classes of business
 - Nuclear, Marine Treaty, Property Treaty



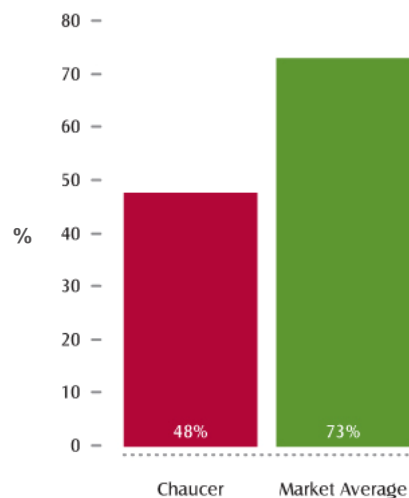
Portfolio Composition 2010



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Diversified portfolio: Capital benefit

- 2010 Capital Ratio of 47.7%
- Compares with Lloyd's market average of 73%†
- Average Return on Equity of 17% across 8 year cycle



† Source: Lloyd's of London

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Diversified portfolio: result benefit

- 2005 Underwriting Year Result

- Catastrophe Loss Year:

- Katrina (USD 41bn)[†]
- Rita (USD 5bn)[†]
- Wilma (USD 10bn)[†]

- Whole Account ULR: 89%

- Lloyd's Average ULR: 100%[‡]

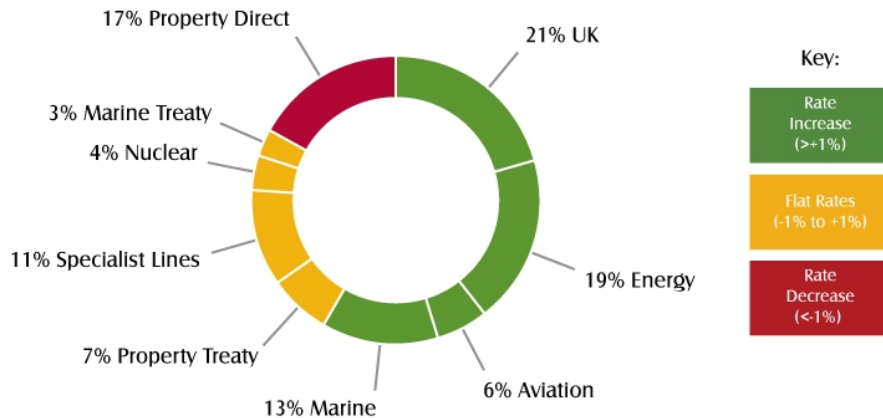
Class of Business	Net Ultimate Loss Ratio
Motor	70%
Property	95%
Marine	127%
Aviation	58%
Specialist Lines	64%
Energy	147%
Whole Account	89%
Nuclear	51%

[†] Insured Losses. Source: US National Hurricane Center
[‡] Source: Lloyd's of London

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Current portfolio: 2010 premium income by %



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Portfolio differentiation

Class of Business	Forecast 2010 Premium Income %	Forecast 2010 Rate Increases %	
Motor	21		14
Financial Institutions	3		11
Political Risk	2		8
Energy	19	-10 Pre-Deepwater Horizon (May 2010)	+13 Post-Deepwater Horizon (June 2010)
Aviation	6		4

Positive rating environment regardless of Gulf Of Mexico (GOM) wind loss experience in 2010

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2011 opportunities

- 51% of 2010 portfolio showing healthy rate increases
 - Regardless of outcome of GOM wind season
- Able to take advantage of adverse GOM wind season
 - Property Treaty Account
 - Property Facultative Account
 - Energy Account
 - Marine Treaty Account
- New International Liability Division
- Proven underwriting track record

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Underwriting presentations

- Nick Kilhams, Political Risk Underwriter
 - Managing emerging market risks
- Chris White, Head of Energy Division
 - Building an international energy underwriting platform
- John Fowle, Active Underwriter Syndicate 1084
 - Building a new International Liability Division

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Nick Kilhams, Political Risk Underwriter

Managing Emerging Market Risks

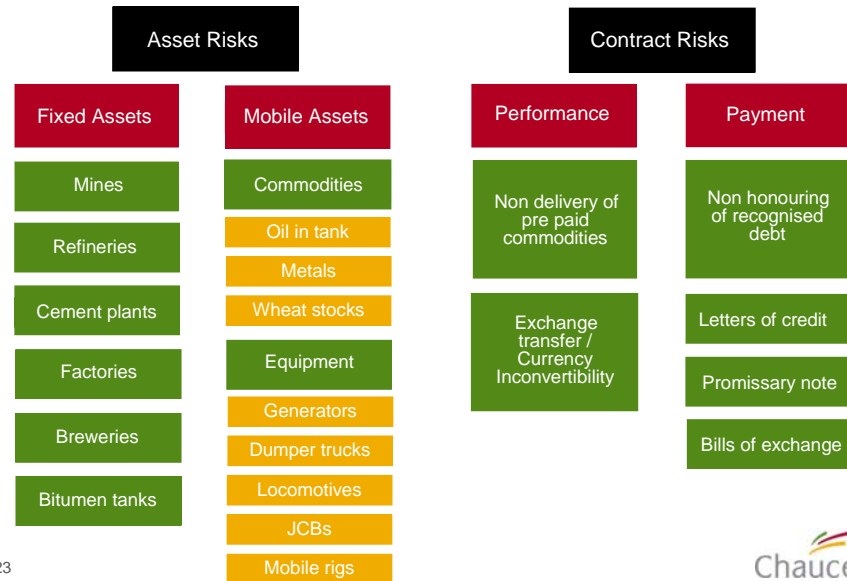
Profile

- Nick Kilhams, Senior Political Risk Underwriter
- 19 years of market experience
- Responsibility for underwriting the Political Risk account
- Joined Chaucer in 1998
- Chairman of the Financial Contingencies Panel at Lloyd's
- Prior to this, a Political Risk Underwriter for AIG

Agenda

- Political Risks account
- Political Risks map
- Global exposures
- Portfolio selection and reinsurance purchase
- Market place
- What can go wrong?
- Claims process
- Credit Crisis
- Looking forward
- Conclusion

Political risks



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Emerging market risks



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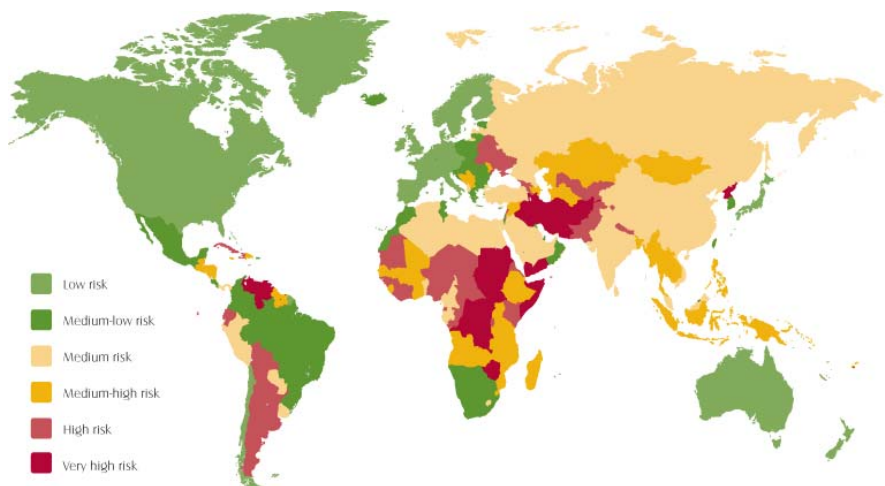
Underwriting process

- The Underwriting Process
- Line sizes:
 - Political / Government Frustration USD 20m per risk
 - Credit / Private Obligor USD 5m per risk
And per obligor
- Tenors: Maximum 5 years
Average 18 months

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Political Risk map – Risk areas



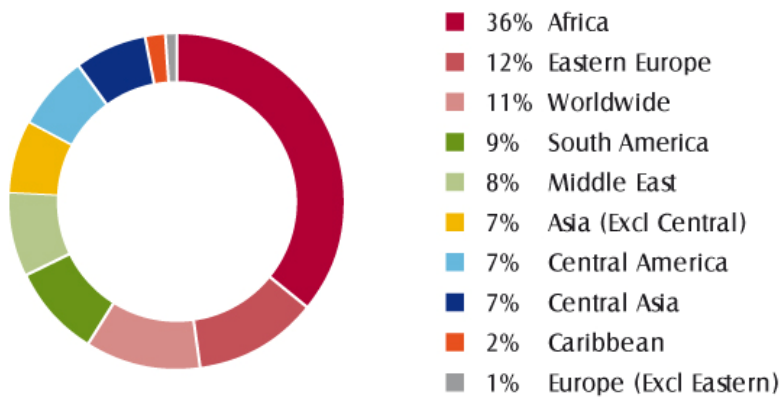
26 Source: AON, 2010



Global exposures



Geographic spread



Portfolio selection

- Proportional vs. non proportional
- Facultative vs. treaty
- Aggregating the exposures
- Systemic risks

Reinsurance Purchase – Gross to Net line capacity

- 37.5% Quota Share (All Risks)
- Per Risk XL above USD 5m
- Country Risk XL USD 20m XS 10m (Net Basis)

Our regular clients

- Trade Finance Banks



- Commodities Traders



- Construction Companies
- Engineering Companies
- Junior / Senior Mining Companies
- Telecoms Companies
- Oil Companies

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Who makes up the market place?

- Large Lloyd's Syndicates
- Selected Company Markets



- Local markets (to the client base)



- Bermudan markets



Global premium income £300m
Lloyd's income £150m
Chaucer income £20m

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What can go wrong?

- Traditionally a very low loss frequency
- Prior to the Credit Crisis, two or three paid claims a year

Claims

- Typical claims can arise from the following:
 - Corruption / fraud
 - Change of government (especially abrupt change)
 - Sudden rapid fall (or rise) in commodity price
 - Economy of a second world country going through the 'tipping point'
 - (Civil) War

Claims process

- Circumstance of loss
- Recoveries
- Recovery rate

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Credit Crisis

- How the Credit Crisis has affected this class of business:
 - Ukrainian Banking losses
 - Kazakh Banking losses
 - Metals Losses (Eastern Europe)
 - Brazilian soft commodities losses
 - Higher incidence of general claims

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Looking forward

- The market has been tested out and found to be robust
- The clients are impressed how we performed during the crisis
- The reinsurance community has reacted well
- The recovery potential for the vast majority of the claims is very high

Conclusion

- We believe that the insurance market is the natural home for emerging market risk
- It offers trade finance institutions a viable alternative to syndicating with direct competitors
- It offers a large supply of available capacity on peak exposures, which it would be difficult to lay off elsewhere in large, or sufficient quantities
- It offers an alternative to the slow, bureaucratic / idiosyncratic ECAs
- Most importantly it does all this in a way that is potentially very profitable indeed for the carriers of the class
- Everyone is a winner



Chris White, Head of Energy Divisions

Building an International Energy Underwriting Platform

Profile

- Chris White, Head of Energy Division
- 28 years of market experience
- 20 years of experience at Chaucer (17 years as energy specialist)
- Appointed Energy Underwriter in 2004:
 - 2004, 1 Underwriter, total team of 3
 - 2008, Energy Division created
 - 2010, 7 Underwriters globally, total team of 16

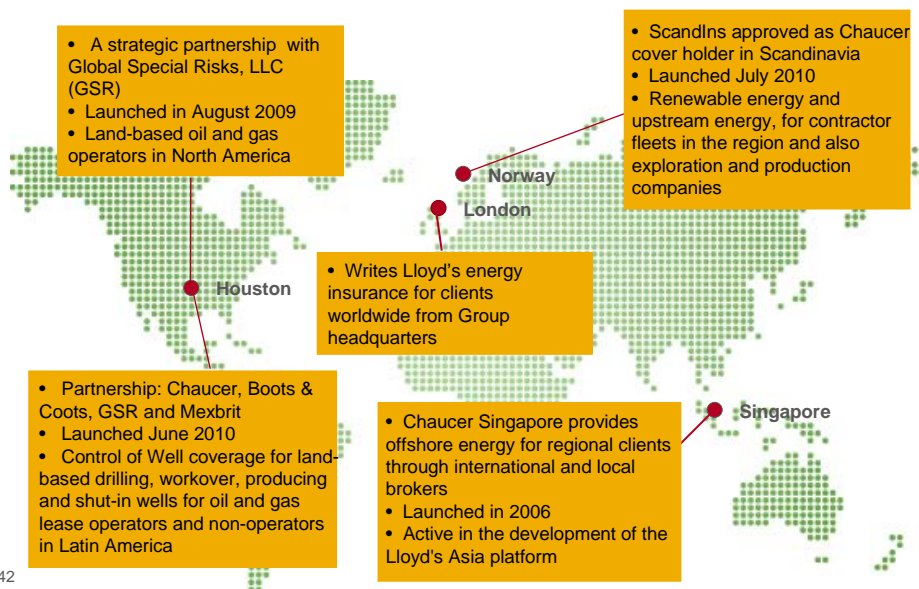
Agenda

- Our International Energy Network
- The Market
- Energy business mix for 2010
- Our global exposure
- Underwriting practice
- Energy capacity management
- Recent market events
- Our opportunities
- Conclusion

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Our International energy network



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Underwriting practice

- All risks modelled for pricing adequacy
- Renewed risks are modelled for pricing trend
- All risks aggregated into global mapping and catastrophe modelling software
- We have a collective approach to underwriting major risks, ensuring a consistent standard between lines of business and offices

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The market

- Other global leading energy underwriters



- Global premium income £3,500m
- Lloyd's income £1,600m
- Chaucer income £123m
 - 8% of total Lloyd's income, with 30% written as leader

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Energy business mix for 2010



- 51% Offshore Exploration
- 21% Construction
- 15% Liabilities
- 10% Onshore
- 3% Renewables

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Low risk fixed complex

- High quality construction
- Production phase of field life
- High valuation asset
- Benign natural catastrophe area
- Packaged coverages



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High risk mobile offshore drilling unit

- Fragile construction quality
- Exploration phase of field life
- Low asset value
- High natural catastrophe area
- Packaged coverages, overweight in high risk coverages



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Our global exposures for 2010



- 25% UK & North Sea
- 21% Asia & Pacific
- 15% Central & South America
- 14% Africa
- 9% North America
- 8% Middle East
- 8% Europe & Russia

- Gulf of Mexico Windstorm Exposure Gross USD 17.5m Net USD 11m

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Global exposures



Energy capacity management

- Gross maximum line size: USD 150m
- Strong technical understanding of risks assumed
 - Need for experienced lead underwriters who meet frequently with their client base to understand the industrial challenges faced
- Active management of gross line size to particular structures and coverages
 - Maximum line only exposed on the highest quality lists, much smaller lines exposed on standalone volatile coverages
- Strong reinsurance relationships to manage net exposure position
 - Essential to be recognised as a quality underwriting team
 - Established long-term relationships
 - Actively courted by major reinsurers, particularly on proportional basis

Recent market events: Deepwater Horizon

- Gross exposure USD 63.5m
- Expected Net loss USD 20m
 - Including reinstatement premiums
- Largest offshore disaster since Piper Alpha
- Highest media profile event since Hurricane Katrina
- Realisation by operating companies of true risk being carried on their balance sheets
- New tougher regulatory practices to be enforced on operators



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Our opportunities

- Very positive rating environment on all lines of offshore business including:
 - Control of well
 - Pollution and liabilities
 - Physical damage
- Chaucer well placed compared to competition:
 - Leadership position
 - Global reach
 - Exposure management

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Conclusion

We are well positioned to:

- Continue to align our expertise and global reach with our clients
- Provide highly technical underwriting solutions to the energy industry
- To take advantage of our unique position to offer diversified energy coverage including nuclear and green initiatives

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John Fowle, Active Underwriter Syndicate 1084

Building a new International Liability Division

Profile

- John Fowle, Active Underwriter Syndicate 1084
- 19 years of market experience
- Joined Chaucer in 2002
- Always an underwriter, specialising in liability and casualty classes: US and Non-US, direct, facultative, binders, treaty and retro
- Prior to current role: Head of Specialist Lines, Deputy Active Underwriter and Practice Head of Property and Casualty

Agenda

- Philosophy and strategy
- Recent market trends
- Timing
- The team
- The portfolio

Philosophy and Strategy

- Cycle management is key
- Expertise and rate integrity
 - force cycle management
 - the recruitment of quality, grounded underwriters
- Deliver a consistent message to clients and brokers
- Maintain market reputation
- Actively manage claims
- Prudently set reserves

Recent market trends

- We are in the 'denial' phase of the liability market cycle
- International liability rates have been reducing by around 6% per year since 2002
 - Plus claims inflation of around 5% per year
- Do any of the loss ratios out there reflect this?
 - Investment income is down
 - Reserve releases are drying up
 - PI losses from the credit crisis
- 'Realisation' is on the horizon

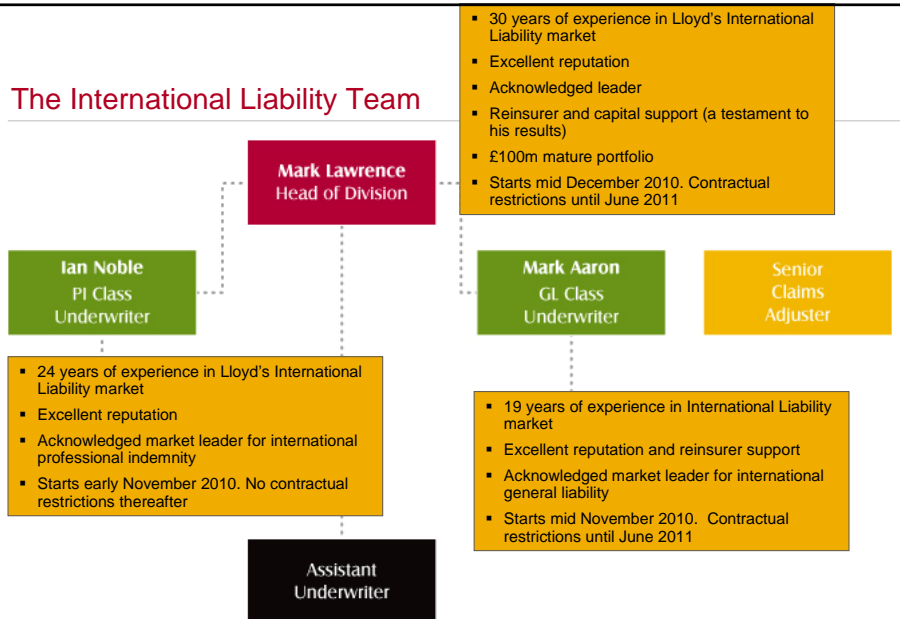
Timing

- In principle:
 - Enter in time for the 'realisation' phase of the cycle
 - Invest in proven underwriters
 - Price integrity key to the philosophy
 - Manage the cycle
- In practice:
 - Watched this market sector since the last peak
 - Identified as long-term target in 2004
 - Began to plan entrance in 2008
 - Recruited in 2010
 - Enter in 2011

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The International Liability Team

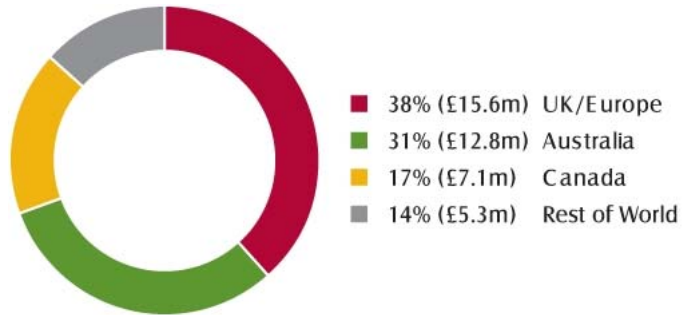


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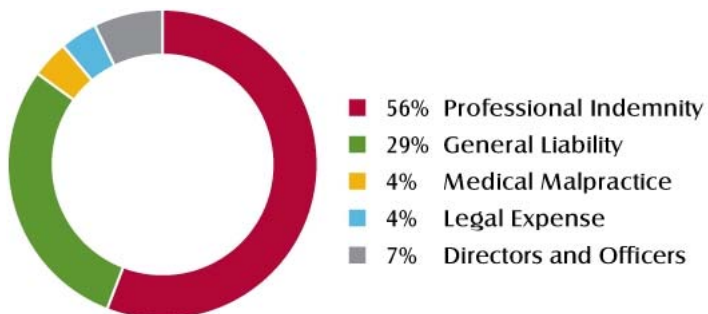
The portfolio: Geography split

Current proposed income for 2011 £40m



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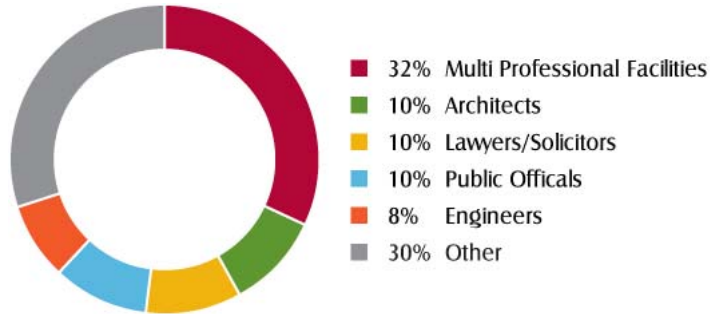
The portfolio: Class split



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The planned portfolio: Trades

Professional Indemnity trade split

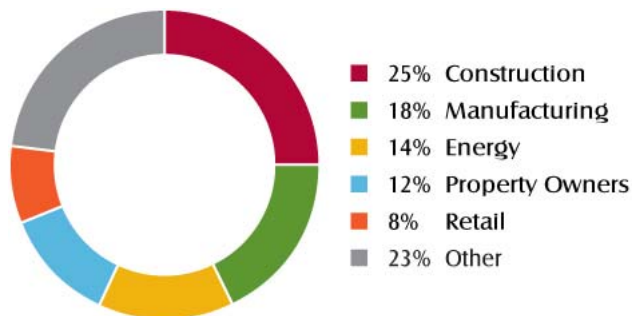


- Professional Indemnity levels of attachment
 - Primary 80%
 - Excess 20%

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The planned portfolio: Trades

General Liability trade split



- General Liability levels of attachment
 - Primary 70%
 - Excess 30%

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Summary

- Leading team of underwriters with a proven market cycle track record
- Good fit – non-correlating, fits strategy and philosophy
- Good timing – rate correction without losses

The Chaucer logo, consisting of the word "Chaucer" in white sans-serif font with a colorful, multi-colored swoosh above the letters "a" and "u", set against a black background.

Robert Stuchbery, Chief Executive Officer

A Compelling Proposition

Summary: A compelling proposition

- Exceptional underwriting leverage for shareholders
 - £2.10 of premium for every £1 of regulatory capital
- Underwriting excellence
 - A healthy average combined ratio of 90.4% across the cycle (2002 – 2009)
 - Over 50% of our portfolio is experiencing rate increases
 - Market leading underwriters
- A diversified portfolio
 - An ECA of 47.7% well below the market average of 73%
- Continue to add new complementary classes of business
- A healthy cross cycle ROE of 17% (2002 – 2009)
- Well positioned to take advantage of market opportunities

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Questions?

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Shooting Briefing