



Half year results to 30 June 2010

Thursday 26 August 2010

## Disclaimer

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Certain statements in this presentation are or may constitute ‘forward-looking statements’ that reflect management’s current views with respect to future events. Statements containing the words ‘believes’, ‘expects’, ‘plans’, ‘seeks’ and ‘anticipates’, and words of similar meaning, are forward-looking.

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There is no intention, nor any duty or obligation assumed to update any forward-looking statement contained in this presentation.

## Agenda

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- **Introduction**  
Bob Stuchbery, Chief Executive Officer
- **30 June 2010 Results**  
Ken Curtis, Chief Finance Officer
- **Underwriting Update**  
Bruce Bartell, Chief Underwriting Officer
- **Outlook**  
Bob Stuchbery, Chief Executive Officer

## Introduction

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- Profit before tax £7m
- Annualised return on equity 3.1%
- Main drivers
  - Underwriting loss £16.4m
  - Investment return £17.7m (1.4% return on average funds)
- Interim dividend 1.3p per share
- Non-executive Director appointments
  - Tim Carroll appointed to CSL Board
  - Additional appointments pending
- No immediate plans to re-domicile
- Promising start to second half of year



Financial Performance  
Ken Curtis, Chief Finance Officer

## Financial Highlights

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- Gross written premiums £493.3m
- Pre-tax profit £7m
  - £16.4m loss from underwriting
  - £17.7m or 1.4% net investment return
  - Additional return on average funds of 0.4% for July
  - £2.9m foreign exchange gain on non-monetary items
- Reported combined ratio 105%
- Earnings per share 0.9p
- Post-tax annualised return on equity 3.1%
- Interim dividend 1.3p

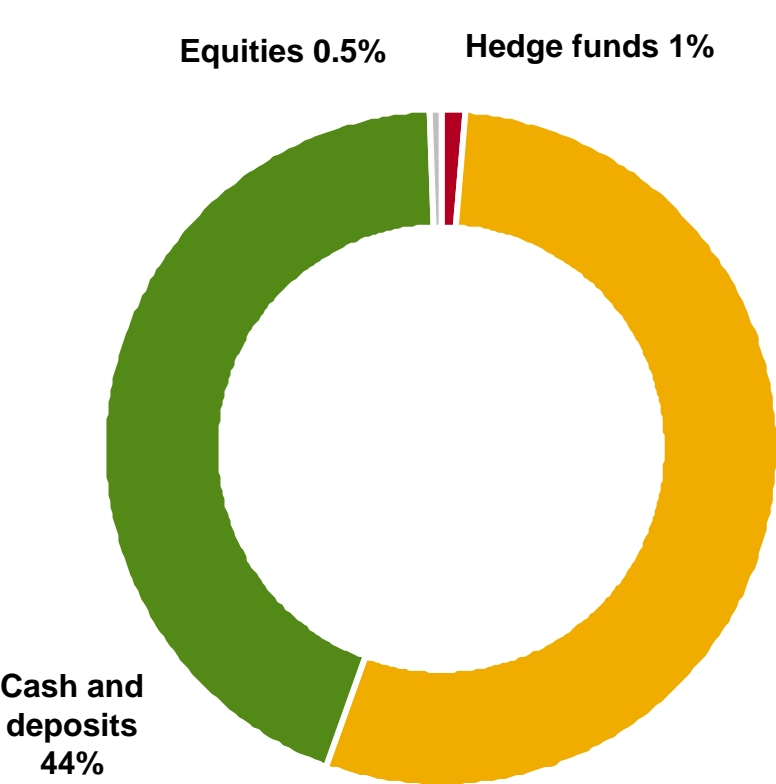
## Income Statement Highlights

	30 June 2010 £m	30 June 2009 £m	31 Dec 2009 £m
Gross written premiums	493.3	491.1	796.3
Net written premiums	340.1	352.1	625.5
Net earned premiums	285.9	291.2	606.3
Net investment return	17.7	34.6	53.3
Other operating income	5.1	5.5	11.2
Profit before tax	7.0	17.0	42.0
Profit after tax attributable to equity holders	4.8	11.9	28.1
	p	p	p
Earnings per share	0.9	2.7	5.8
Dividend per share (Interim/Annual)	1.3	1.3	4.0

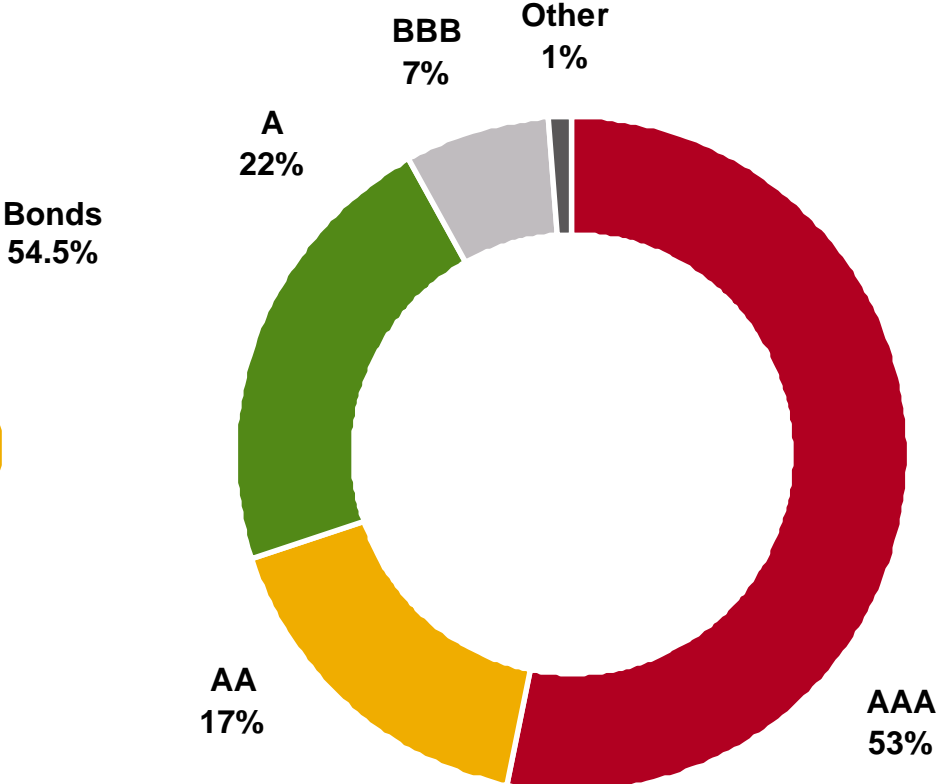
## Investment Return

	30 June 2010	
	£m	%
<b>Continuing portfolio:</b>		
<b>Bonds</b>	<b>14.8</b>	<b>1.9</b>
<b>Deposits and cash</b>	<b>3.8</b>	<b>0.7</b>
	<b>18.6</b>	
<b>Disposed of or on notice:</b>		
<b>Equities</b>	<b>0.4</b>	<b>7.4</b>
<b>Hedge funds</b>	<b>(1.0)</b>	<b>(3.8)</b>
	<b>18.0</b>	
<b>Investment expenses</b>	<b>(0.3)</b>	
<b>Net investment return</b>	<b>17.7</b>	<b>1.4</b>

# Investment Portfolio at 30 June 2010



Composition



Bond security

## Other Operating Income

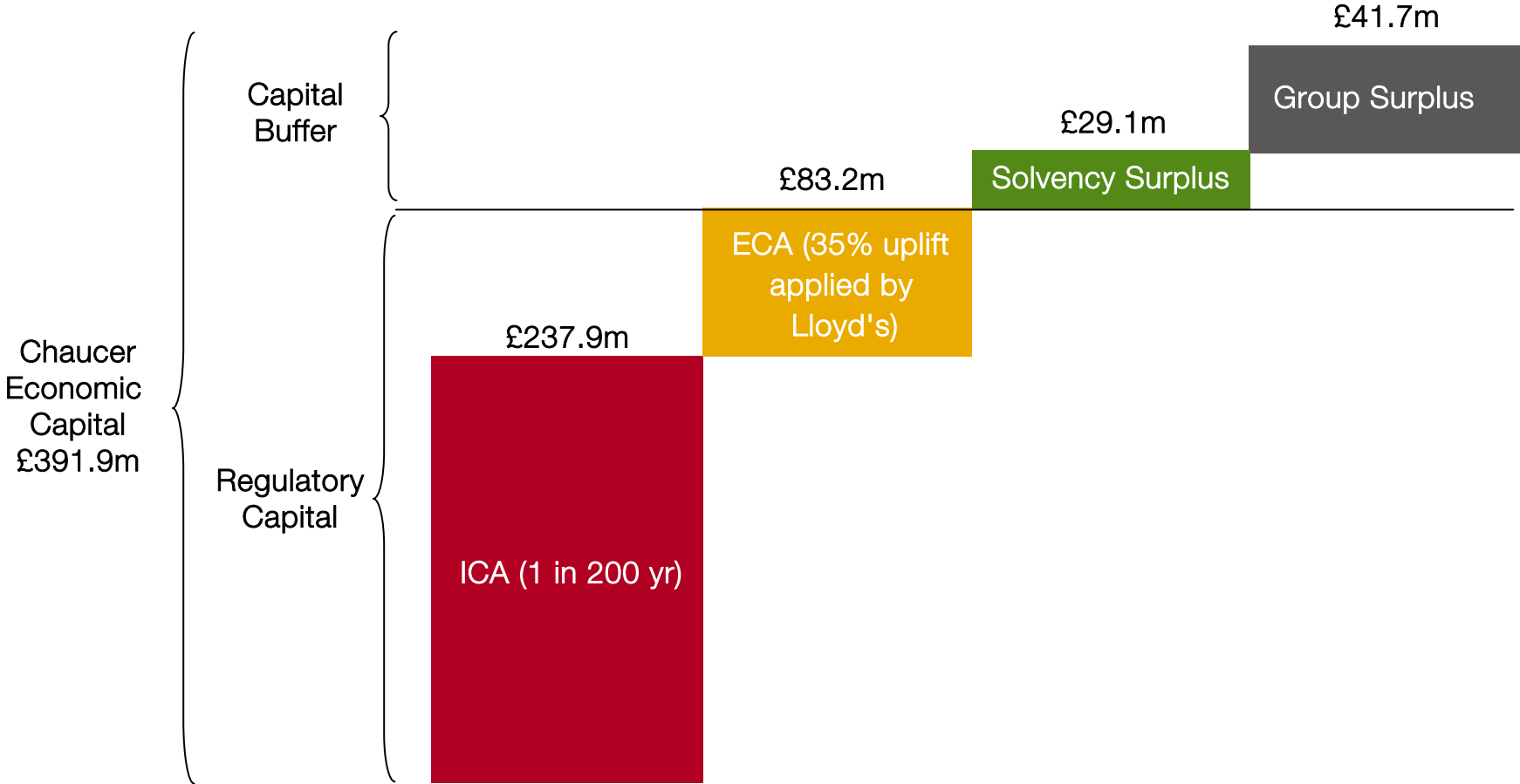
	30 June 2010 £m	30 June 2009 £m	31 Dec 2009 £m
<b>Managing agency fees and profit commissions</b>			
- In-house syndicates <sup>1</sup>	1.6	1.2	2.8
- Third party syndicates	2.6	2.5	5.8
- Run off syndicates	-	0.1	0.1
	4.2	3.8	8.7
<b>Other income</b>	0.9	1.7	2.5
<b>Other operating income</b>	5.1	5.5	11.2

<sup>1</sup> Non-aligned share

## Balance Sheet Highlights

	30 June 2010 £m	30 June 2009 £m	31 Dec 2009 £m
Shareholder equity	304.7	302.1	316.7
Intangible assets	(32.1)	(32.1)	(32.1)
Net tangible assets	272.6	270.0	284.6
Net technical claims reserves	950.0	823.8	875.9
Net unearned premium reserves	370.3	360.0	315.9
	p	p	p
Net assets per share	58.4	59.3	61.7
Net tangible assets per share	52.3	53.0	55.5
	%	%	%
Gearing			
Gross	19.0	29.9	27.2
Net	17.8	24.8	12.3

# Group Capital Buffer at 30 June 2010



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- Board decision taken to remain domiciled in the UK for the present
- The Group will obtain significant cash flow benefit
  - From the recent introduction of equalisation reserves
  - UK Government's decision to reduce the rate of corporation tax
  - Faster use of losses
- Decision follows extensive review of the strategic options, including advise from legal and tax advisers



Underwriting Performance  
Bruce Bartell, Chief Underwriting Officer

## Underwriting Performance

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- Rate increases achieved on over 50% of underwriting portfolio
  - 2.8% increase forecast for 2010
- Gross written premiums of £493.3m (30 June 2009 £491.1m)
- Underwriting loss of £16.4m (30 June 2009 profit £28.6m)
- Combined ratio of 105% (30 June 2009 91%)
- Major losses: Chilean earthquake and Deepwater Horizon
- UK Division reported combined ratio of 111%
  - Forecast combined ratio of under 100% for 2010 incepting business
- Good performances from Aviation, Specialist Lines and Nuclear Divisions

## Property

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- Exceptional period for natural catastrophes
- Previously announced loss of £25m from Chile earthquake and Windstorm Xynthia remains unchanged
- Underwriting loss of £7.2m and combined ratio of 110%
- International rates improving in affected territories

Events	Date	Estimated Losses
US windstorms, East and West Coast	February	US\$550m – US\$1.35bn
Chile earthquake	February	US\$8.0bn
European Windstorm Xynthia	February	US\$1.6 – US\$4.1bn
Australian wind and hail storms	March	US\$1.3bn
US storms and tornadoes, Mid West	June	US\$200m
French flash flooding	June	US\$870m

Source: Inside FAC July 2010/2

## Energy

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- Solid underwriting performance
- Underwriting loss of £0.1m and a combined ratio of 100%
- Previously announced Deepwater Horizon loss of US\$25m for Energy and Marine XL remains unchanged
- Exploration, production and casualty rates increasing in response
  - Pre-Deepwater Horizon -10%; Post +13%
- Division has limited 2010 Gulf of Mexico windstorm exposure
  - Gross US\$18m; Net US\$11m
- Well positioned as energy market leaders

Events	Date	Estimated Losses
Deepwater Horizon	April	US\$4bn to US\$6bn
Aban Pearl	May	US\$235m

Source: Towers Watson, August 2010

## UK Motor

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- Underwriting loss £8.5m (30 June 2009 loss £5.0m)
- Premium income £80.2m (30 June 2009 £82.9m)
- Combined ratio 111% (30 June 2009 108%), which includes 2% for VAT
- 2010 forecast portfolio rate increase of 16.8% (2009 6.4%)
  - Private car 28% for 2010 (2009 10%)
- Actions to improve UK motor account continue
- Forecast to deliver a combined ratio of below 100% for business incepting in 2010
- Market hardening and panel exits will generate significant underwriting opportunities

## UK Division Performance Differentiators

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- Division has consistently out performed the general market
- Significant strengthening of reserves in 2009
  - Early identification of claims farming and multi-claimant trends in 2004
  - Increased rates before majority of the market (major increases from June 2009)
- Competitors slower to react

	30 June 2010	2009	2008	2007	2006	2005	2004
	%	%	%	%	%	%	%
<b>Reported combined ratio</b>	<b>111</b>	<b>108</b>	<b>102</b>	<b>94</b>	<b>97</b>	<b>86</b>	<b>82</b>
<b>Market combined ratio</b>	<b>N/A</b>	<b>107</b>	<b>105</b>	<b>102</b>	<b>101</b>	<b>103</b>	<b>101</b>

Source: Deloitte and CHP Annual Report

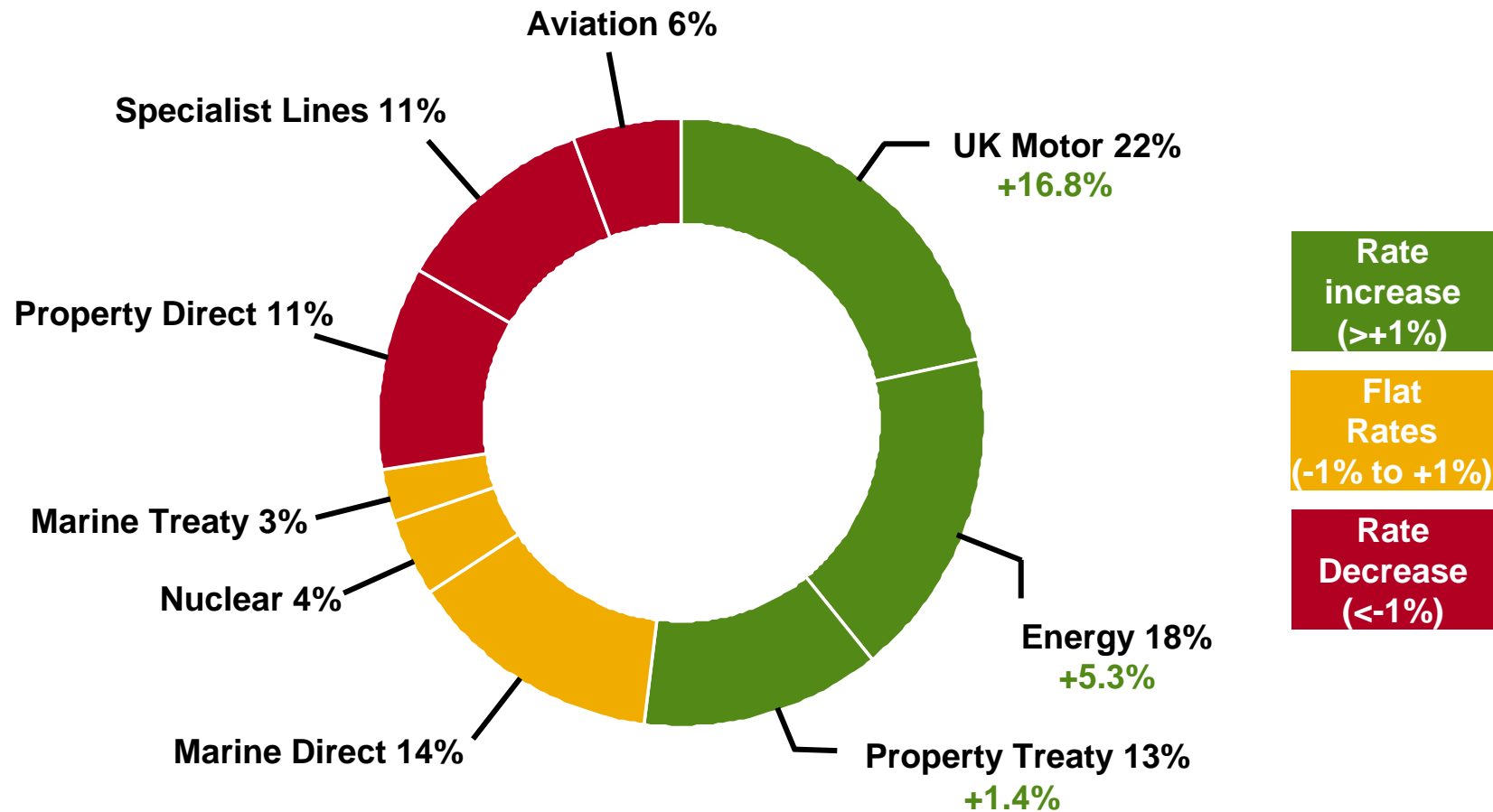
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## Claims Management

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- Specialist fraud team created in January 2009
  - Working with SIRA (Syndicated Intelligence for Risk Avoidance) and IFB (Insurance Fraud Bureau)
  - 6 major fraud rings identified to date
  - Voice stress analysis
    - 38% “go away” rate on theft /malicious damage claims
    - Pay or Decline scheme with Hill Dickinson; 62 cases to trial 77% won
- Specialist credit hire team created in January 2008
  - Proactive approach to reduce credit hire company bills (shortening periods of hire and negotiating hire rates)
- Underwriting
  - Use of fraud data in underwriting criteria for post codes
- EMB review of MI commissioned

## Current Portfolio: 2010 Premium Income by %



- Over 50% of portfolio currently experiencing rate increases

## Significant Business Developments

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- Energy Division
  - International network extended to include Scandinavia, Canada and the United States
- Property Division
  - Office opened in Buenos Aires to access Latin American business
- New International Liability Insurance Division
  - £40m target income for 2011
  - Underwriting and claims team recruited

# Chaucer



## Outlook

Bob Stuchbery, Chief Executive Officer

## Outlook

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- Over 50% of our portfolio is experiencing rate increases
- Continuing to develop access to high quality business
  - New international Liability Insurance Division
  - Extension of International network into Latin America
- Well positioned to take advantage of market opportunities
- Outlook for the second half of 2010 and 2011 promising

# Chaucer



## Appendix Divisional performance

## Contents

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- UK
- Marine
- Energy
- Aviation
- Property
- Specialist Lines
- Nuclear
- Turnkey Solutions

# UK

	30 June 2010 £m	30 June 2009 £m
Premium Income	80.2	82.9
U/W Result*	(8.5)	(5.0)
Reserve Movement	(2.9)	(2.0)
	%	%
Claims Ratio	86	81
Expense Ratio	25	27
Combined Ratio	111	108
<b>Rating Index</b>		
<b>2010E</b>		<b>+16.8%</b>
* Excludes impact of foreign exchange on non-monetary items		

- Motor market rapidly hardening
- Division forecasts 16.8% UK motor premium rate forecast for 2010
- Combined ratio of less than 100% for business incepting in 2010
- Improvements slowly feeding through to reported combined ratio
  - 109%, excluding impact of vat increase on claims provisions
- Unusually, fleet and commercial markets remain weak

## Marine

	30 June 2010 £m	30 June 2009 £m
Premium Income	91.0	99.0
U/W Result*	(6.3)	1.4
Reserve Movement	(1.1)	2.8
	%	%
Claims Ratio	80	66
Expense Ratio	31	32
Combined Ratio	111	98
Rating Index		
2010E		+0.5%
* Excludes impact of foreign exchange on non-monetary items		

- Two significant losses affected Division performance
  - Marine XL US\$5.4m from Deepwater Horizon
  - Terrorism £10.7m from Bangkok riots
- Hull and liability market remains flat
- Political risks market improving
  - Recovery actions underway
  - Exit of Chubb
- Cargo remains soft; overcapacity dominates
- Specie performing better, with rates responding to recent losses

## Energy

	30 June 2010 £m	30 June 2009 £m
Premium Income	102.2	94.6
U/W Result*	(0.1)	12.5
Reserve Movement	(0.7)	7.3
	%	%
Claims Ratio	57	35
Expense Ratio	43	43
Combined Ratio	100	78
<b>Rating Index</b>		
<b>2010E</b>		<b>+5.3%</b>
* Excludes impact of foreign exchange on non-monetary items		

- Robust underwriting result in light of US\$20m Deepwater Horizon loss
- Exploration, production and casualty rates increasing in response
- High oil price also underpinning premium rates and volumes
- Limited 2010 Gulf of Mexico Windstorm Exposure
  - Gross US\$18m; Net US\$11m

## Aviation

	30 June 2010 £m	30 June 2009 £m
Premium Income	22.5	21.4
U/W Result*	2.5	2.1
Reserve Movement	1.6	2.1
	%	%
Claims Ratio	54	46
Expense Ratio	31	40
Combined Ratio	85	86
<b>Rating Index</b>		
<b>2010E</b>		<b>-1.9%</b>
* Excludes impact of foreign exchange on non-monetary items		

- Another good underwriting performance
- Benefited from improved rates and absence of significant market losses
- Softening of rates has resumed
  - Continued overcapacity
  - Benign period for losses

## Property

	30 June 2010 £m	30 June 2009 £m
Premium Income	138.1	136.2
U/W Result*	(7.2)	12.3
Reserve Movement	9.2	0.6
	%	%
Claims Ratio	80	45
Expense Ratio	30	38
Combined Ratio	110	83
<b>Rating Index</b>		
International	2010E	-0.2%
North America	2010E	-0.1%
* Excludes impact of foreign exchange on non-monetary items		

- Satisfactory underwriting performance despite difficult circumstances
  - £25m loss from Chilean earthquake and windstorm Xynthia
  - Market impacted by major weather-related losses in Australia, Europe and the US
- However, international rates remain under pressure, except for loss-affected territories
- US rates also continue to soften

## Specialist Lines

	30 June 2010 £m	30 June 2009 £m
Premium Income	42.2	35.6
U/W Result*	2.1	3.1
Reserve Movement	1.2	7.7
	%	%
Claims Ratio	67	56
Expense Ratio	26	32
Combined Ratio	93	88
<b>Rating Index</b>		
2010E		-1.8%
* Excludes impact of foreign exchange on non-monetary items		

- Underwriting performance as forecast
- Sector rates predominantly static or under pressure
- New competition affecting financial institutions classes

## Nuclear

	30 June 2010 £m	30 June 2009 £m
Premium Income	12.4	11.9
U/W Result*	7.6	4.7
Reserve Movement	4.5	1.8
	%	%
Claims Ratio	(21)	16
Expense Ratio	9	16
Combined Ratio	(12)	32

Non-cyclical: no maintenance of rating index

\* Excludes impact of foreign exchange on non-monetary items

- Another excellent underwriting performance
- Claims ratio remains low following a period free of material loss events
- Benefited from exceptional reserve release of £2.3m from settlement of Thorp reprocessing plant claim

## Turnkey Solutions

	30 June 2010 £m	30 June 2009 £m
<b>Syndicate 4242</b>		
Premium Income	4.9	5.9
U/W Result*	0.3	0.7
	%	%
<b>Combined Ratio</b>	<b>82</b>	<b>36</b>

\* Excludes impact of foreign exchange on non-monetary items

- Syndicate 4242
  - Good result, benefited from significantly reduced weather-related losses in the US
- Syndicate 1274 (Antares)
  - Continues to develop satisfactorily
  - £17m holding company investment