

CHAUCER HOLDINGS PLC

Interim Management Statement for the 3 months ended 31 March 2010

Challenging period for the market

Highlights

- Total gross written premium income was £250.1m (2009 Q1: £257.8m)
- First quarter rate increases of 3.0% were achieved across our underwriting portfolio, against an annual target of 2.0%
- UK motor market conditions continue to harden and we achieved average rate increases of 11% for our portfolio in the quarter, with new business and retention rates remaining stable
- Reserve releases of £10.8m during the quarter (2009 Q1: £11.3m)
- Higher than expected industry catastrophe losses for the year to date
- Previously announced Chilean earthquake, European windstorm Xynthia and Deepwater Horizon energy loss estimates remain unchanged
- Significant increase in offshore energy rates forecasted
- Net investment return of £11.3m for the quarter (0.9% return on average funds)

Bob Stuchbery, Chief Executive Officer, said:

“This has been a challenging period for the insurance industry, dominated by high profile natural and manmade catastrophes.

Despite exposure to these events, Chaucer’s performance was robust and the business is taking advantage of the opportunities now available.

At 0.9%, the investment income from our conservative investment strategy was healthy.”

Financial performance and position

Current trading and outlook

Gross written premium income was £250.1m (2009 Q1 £257.8m) for the first quarter of 2010. At constant exchange rates, growth in premium income was £3.0m (1.2%). The following table provides an analysis of income for the period.

	Gross written premiums ¹ 1 January to 31 March	
	2010 £m	2009 Restated £m
UK	36.1	34.8
Marine	49.1	62.0
Energy	44.1	38.9
Aviation	11.8	12.0
Property	77.3	78.3
Specialist Lines	24.4	20.3
Nuclear	5.1	5.9
Total divisional income	247.9	252.2
Syndicate participations ²	2.3	5.6
Run off	(0.1)	-
Total income	250.1	257.8

¹ Excludes the impact of our increased ownership of Syndicates 1084 and 1176 arising from the reinsurance to close of third party participations in the year of account in which the closure occurs

² Group underwriting interest on Syndicate 4242 and Syndicate 4000 (2008 year of account only)

We achieved combined first quarter premium rate increases of 3.0%. At 31 March, the full year forecast for our underwriting portfolio was +2.0% in 2010, against our previously published forecast of +2.2%.

	Full year forecast 31 March 2010 %	Full year forecast 1 January 2010 %
Marine	+1.0	+0.5
Energy	-0.2	+1.1
Aviation	+4.6	+4.5
North American Property	-0.8	-0.7
International Property	-1.1	+1.3
Specialist Lines	+1.8	+1.2
Combined (excluding UK)	+0.6	+0.5
UK	+13.9	+14.1
Combined	+2.0	+2.2

As expected, after a quiet 2009, the first quarter saw some softening of rates, especially for North American property and catastrophe-exposed marine and energy classes. As a whole prices remain acceptable, although competition for the best business is increasing as underwriters seek to utilise surplus capacity and add diversity.

At the beginning of May, we completed our review of losses from the Deepwater Horizon oil platform loss in the Gulf of Mexico. We estimated a net loss to Syndicate 1084 of US\$25m. Energy rates are now hardening in response to this loss, reversing the reductions of the first quarter.

Aviation rates have strengthened following heavy airline losses in 2009 and our Division will

selectively write more business in response. Within our Specialist Lines Division, we are writing more financial institutions risks as market conditions have improved following the recent global economic upheaval.

Opportunities are now arising for our international property account, following a series of high profile losses, including the Chilean and Haiti earthquakes, European windstorm Xynthia and the Australian floods. We are seeking rate increases in affected areas, especially for international treaty business. As previously announced, we estimate a combined net loss to Syndicate 1084 of approximately £25m from the Chilean earthquake and windstorm Xynthia. This is contained within our annual catastrophe loss budget.

The UK motor market continues to harden and we have achieved rate rises across all product areas during the first quarter of 2010, while retention rates have remained steady. We plan further rate rises this year and forecast an annual rate increase of 13.9%.

Our Nuclear Division continues to perform well, with both income and claims experience remaining within budgeted targets.

During the quarter, we released net loss reserves created in 2009 and prior years of £10.8m (2009 Q1 £11.3m), with the bulk provided by the Marine, Property, Specialist Lines and Nuclear Divisions.

Investment portfolio performance

We achieved a healthy net investment return of £11.3m (0.9% return on average funds) for the first quarter of 2010 (2009 Q1 £16.2m or 1.3%). The return for April 2010 was £3.9m or 0.3%.

At 31 March 2010, we held financial investments (excluding the £17.0m investment in Antares Holdings Limited), cash and deposits of £1,365.1m (31 December 2009 £1,336.5m). The following table provides an analysis of investments, cash and deposits held and the net investment return for the period.

Income and return	31 March 2010		31 March 2009		31 December 2009	
	£m	%	£m	%	£m	%
Equities	0.2	3.5	(1.7)	(30.9)	0.3	5.3
Hedge funds	(0.3)	(0.7)	3.1	2.5	14.7	20.9
Absolute return bond funds ¹	-	-	9.4	8.8	9.4	2.9
Bonds	9.8	1.3	4.1	0.9	24.0	4.2
Cash and deposits	1.8	0.3	1.5	0.3	5.4	0.9
	11.5	0.9	16.4	1.3	53.8	4.3
Investment expenses	(0.2)		(0.2)		(0.5)	
	11.3		16.2		53.3	
Asset allocation	£m	%	£m	%	£m	%
Equities	4.2	0.3	4.0	0.3	4.6	0.3
Hedge funds	10.6	0.8	101.1	7.7	37.5	2.8
Bonds	736.9	54.0	402.7	30.8	749.6	56.1
Cash and deposits	613.4	44.9	801.1	61.2	544.8	40.8
	1,365.1	100.0	1,308.9	100.0	1,336.5	100.0

¹ The Group disposed of its absolute return fund holdings in the first quarter of 2009

Hedge funds

Our remaining fixed income hedge funds now comprise less than 1% of the Group's investment portfolio. Losses from fixed income hedge funds, which have emerging market debt and direct lending exposures, offset positive returns from our fund of hedge funds. We redeemed our fund of hedge funds holding at 31 March 2010.

Bonds

The portfolio performed satisfactorily during the quarter, recording a return of 1.3%.

The average duration of the bond portfolio at 31 March 2010 was 1.9 years (31 December 2009 1.8 years) and the weighted average yield to maturity was 2.2% (31 December 2009 2.3%).

Credit spreads narrowed during the quarter, accelerating returns but lowering running yields for the remainder of 2010.

We have no exposure to sovereign debt issued by Greece, Spain, Portugal or Italy.

Cash and deposits

Returns remain more certain than for other asset classes but poor because of continued record low interest rates. Where approved liquidity and credit limits permit, we have placed funds on longer-term deposit at favourable rates.

Investment outlook

We have a conservative investment strategy, with a focus on capital maintenance. While we anticipate that investment returns will be modest because of record low interest rates, the portfolio remains well protected against downside economic risks, including a double dip recession and high inflation environments. We will maintain cash on deposit, in money market funds and call accounts, to take advantage of increasing bond yields and other investment opportunities that arise.

Calendar

We hold our AGM at 12 noon today and will announce our half-year results for the six months to 30 June 2010 on 26 August 2010.

Subject to confirmation at today's AGM, the Group will pay a final dividend of 2.7p on 28 May to shareholders on the register on 7 May 2010.

Enquiries

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Notes to editors

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

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

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

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