

Chartis Insurance UK Ltd

GENERAL INFORMATION

Domicile	UK
Key Shareholders	American International Group
Financial Year End	30 November 2009 - Data Source: Annual Report & Accounts
Year of Incorporation	1980

Profile: In 2007 AIG created a single UK general insurance company when it transferred the business of New Hampshire Ins Co Ltd to Landmark Ins Co Ltd (now AIG UK). This had a significant impact on the published results for 2008 and premium volumes, in particular, are not comparable between 2008 and 2009 in this table. See table below for comparatives.

RATING INFORMATION

	<u>Rating</u>	<u>Outlook</u>	<u>Date</u>
A.M. Best	Not Rated		
S&P	A+	Negative	01/04/2010

SUMMARY INCOME DATA

	USD mn	GBP mn	GBP mn
	<u>2009</u>	<u>2009</u>	<u>2008</u>
Gross Premiums Written	3,474	2,171	4,355
Net Premiums Written	1,881	1,176	2,306
Underwriting Result	-129	-81	-63
Net Investment Earnings (incl. realised gains/losses)	163	102	126
Unrealised Investment Gains	140	88	-151
Other	-42	-26	265
Profit Before Tax	133	83	177
Dividends	98	61	48

KEY BALANCE SHEET DATA

	USD mn	GBP mn	GBP mn
<u>Assets</u>	<u>2009</u>	<u>2009</u>	<u>2008</u>
Liquid Assets	4,968	3,105	2,860
Total Investments	5,009	3,130	2,896
Insurance/Reinsurance Debts	1,071	669	783
Reinsurers Share of Technical Reserves	3,642	2,276	2,307
All Other Assets	472	295	322
Total Assets	10,194	6,371	6,307
<u>Liabilities & Surplus</u>			
Total Gross Provisions	7,718	4,824	4,549
Net Technical Reserves	3,709	2,318	1,985
Total Liabilities	8,341	5,213	5,158
Shareholders' Funds (Equity)	1,852	1,158	1,149

*Ex Rate = 1.6

KEY RATIO ANALYSIS

	2009	2008	S&P Benchmark
Underwriting Performance :			
Loss Ratio [Inc Claims/NPE]	73.9%	77.1%	
Expense Ratio [Underwriting Exp/NPW]	30.3%	21.4%	
Combined Ratio [Underwriting Performance]	104.3%	98.5%	<100%
Investment Performance :			
[Investment Income/Liquid Assets]	3.4%	4.5%	
Profitability :			
[Pre-Tax Profit/Equity]	7%	15%	>5%
Solvency :			
[Equity/Net Premium]	98.5%	49.8%	>33%
[Equity/Net Technical Reserves]	49.9%	57.9%	
[Total Liabilities/Equity]	450.3%	448.8%	
Retention:			
[Net Premium/Gross Premium]	54.2%	53.0%	>50%
Gearing :			
[Long Term Debt/Equity]	0.0%	0.0%	
Liquidity :			
[Insurance Debts/Equity]	57.8%	68.1%	
[Liquid Assets/Liabilities]	59.6%	55.5%	
[Net Technical Reserves/Liquid Assets]	74.7%	69.4%	<100%

JLT has access to publicly available financial data only. Whilst the information on which we rely is obtained from sources considered to be reliable, we give no assurance about nor accept any responsibility for the financial standing or performance of any (re)insurer. We do not accept any liability for financial loss or damage, howsoever caused, arising from reliance on the review process or this document.

2008 Comparatives (Taken from 2009 Chartis UK Financial Statement)

On 1 December 2007, American International Group, Inc. created a single UK general insurance company when it transferred the UK general insurance business of its subsidiary New Hampshire Insurance Company to its subsidiary Landmark Insurance Company Limited. Landmark was renamed AIG UK Limited. On 1 December 2009, AIG UK Limited was renamed Chartis Insurance UK Limited (see Note 2 to the financial statements on page 43). As the Table below, indicates, this accounting treatment had a significant impact on the reported results for 2008, which do not portray the underlying 2008 trading results for Chartis Insurance UK Limited. The directors believe that the underwriting profit excluding the effect of restructuring is representative of the underlying performance for 2008.

In 2009 Chartis Insurance UK Limited (Chartis UK) recorded a pre-tax profit on ordinary activities of £83.0 million (2008: £324.3 million) – see Table. The combined operating ratio for 2009 deteriorated from 91.7% in 2008 to 105.8%. This movement was driven by an increase in both the loss ratio (by 8.4 points) and the expense ratio (by 5.7 points).

<u>£m</u>	<u>2009</u>	<u>2008</u> <u>Excluding</u> <u>Restructure</u>	<u>% Change</u> <u>Excluding</u> <u>Restructure</u>	<u>2008</u> <u>Including</u> <u>Restructure</u>
Gross premium written	2,171.3	2,282.5	(4.9)%	4,354.8
Net premium written	1,175.9	1,108.5	6.1%	2,306.4
Net earned premium	1,120.0	1,115.1	0.4%	1,913.9
Incurred losses	(827.8)	(730.5)	13.3%	(1,475.8)
Operating expenses	(356.9)	(292.2)	22.1%	(493.1)
Changes in equalisation provision	(16.2)	(8.0)	102.5%	(8.0)
UNDERWRITING RESULT	(80.9)	84.4	(195.9)%	(63.0)
Investment result	169.5	(71.3)	337.7%	(71.3)
INSURANCE RESULT	88.6	13.1	576.3%	(134.3)
Net foreign exchange movement	(5.6)	311.2	(101.8)%	311.2
PROFIT BEFORE TAX	83.0	324.3	(74.4)%	176.9
Loss ratio	73.9%	65.5%	8.4%	77.1%
Expense ratio	31.9%	26.2%	5.7%	25.8%
COMBINED OPERATING RATIO	105.8%	91.7%	14.1%	102.9%

A statement from chief executive officer Lex Baugh within the financial statement read: "This was a difficult year, with the market continuing to suffer from overcapacity and the weak economy contributing to lower demand. At the same time, the problems faced by our parent company, AIG, caused some concern among our clients and brokers in the early part of the year. I would like to thank our people for their hard work and dedication, which helped us to overcome these challenges and achieve excellent levels of client retention. We are grateful to our clients and brokers for their support."

OWNERSHIP INFORMATION

The company is a wholly owned subsidiary of the US based American International Group, Inc, through its Chartis Inc. business unit. For an overview of recent events at AIG see main Group profile: <http://www.iltgroup.com/market-update/>

Whilst Chartis currently remains wholly owned by AIG a spin-off, in whole or part, is possible in the future.

Chartis is a world leading property-casualty and general insurance organisation serving more than 40 million clients in over 160 countries and jurisdictions. Chartis is the marketing name for the worldwide property-casualty and general insurance operations of Chartis Inc.

BUSINESS PROFILE

Gross premium written by class of business £000:

	<u>2009</u>	<u>2008</u>
DIRECT INSURANCE		
Accident and Health	200,617	261,626
Aviation	158,973	111,671
Commercial Lines	1,059,006	1,091,552
Marine and Energy	321,886	353,343
Personal Lines	122,063	156,439
Part VII Transfer	-	2,072,304
Other	1,077	6,543
	<u>1,863,622</u>	<u>4,053,478</u>
REINSURANCE ACCEPTANCES		
Accident and Health	9,690	14,350
Aviation	158,532	134,234
Commercial Lines	10,688	10,526
Marine and Energy	128,767	142,200
Personal Lines	-	-
Part VII Transfer	-	-
Other	2	-
	<u>307,679</u>	<u>301,310</u>
TOTAL	<u>2,171,301</u>	<u>4,354,788</u>

Gross premium written by destination/(location of risk) £000:

	2009	2008
UK	1,081,400	2,883,111
Other EU member countries	324,230	139,364
Rest of the World	765,671	1,332,313
Total	<u>2,171,301</u>	<u>4,354,788</u>

Chartis Insurance UK is one of the largest companies specialising in the UK business insurance market. Based in London and with offices throughout the country, it includes over half the top 1000 UK companies amongst its clients as well as many public sector organisations and smaller businesses.

All assets held by the company for solvency purposes comply with FSA rules on admissibility and are certified as unencumbered by the FSA. The assets held by the company for solvency purposes cannot be accessed by AIG Inc. or by any other AIG company. Any dividend payment from AIG UK to its parent entity would need to go through the standard FSA notification process and solvency assessment. In 2009, AIG UK paid £61 million (2008: £48 million) in dividend.

Following the restructuring of AIG in financial years 2007 and 2008, the company reviewed its existing reinsurance arrangements in place. As a result, the reinsurance cover provided by an internal group quota share treaty underwritten jointly by American Home Assurance Company, AIUO Limited, National Union Fire Insurance Company of Pittsburgh, Pennsylvania, and New Hampshire Insurance Company, UK Branch (all 100% owned AIG inc. subsidiaries) was recaptured through a retrocession of those interests. The retrocession was independently priced on an arm's-length basis, resulting in a ceding commission due to the reinsurers of the group quota share treaty. The ceding commission had tentatively been estimated at £106m, based on best estimate at the date of signing the company's 2007 financial statements, which was later revised to a final amount of £123m. The retrocession and group quota share treaty were commuted during 2008 with no further loss to the company.

RATINGS INFORMATION SUMMARY

AIG UK is not rated by Best's. The company carries a financial strength rating of A+ from Standard & Poor's. The rating, which carries a negative outlook, was last affirmed on April 1st 2010. The affirmation primarily reflects S&P's view that the U.S. Treasury and the Federal Reserve will continue their financial support of and ongoing commitment to AIG Inc. as the revised recapitalisation AIG Inc announced improves its capital adequacy by making available more equity capital and reduces pressure on debt holders. The ratings reflect a combination of the extraordinary external support from the U.S. government in light of AIG Inc's status as a highly systemically important financial institution. S&P expects this support to be ongoing during AIG Inc's period of stress. The ratings are also based on the stand-alone insurance subsidiaries' 'A+' credit characteristics. The full rating rationale can be accessed via the main Group profile as above.

RESTRUCTURING

Chartis International announced on March 11th 2010 the creation of a new structure established around four regional groups - Asia Pacific, Emerging Markets, Europe and the Far East.

Chartis' new European region will consist of all the countries that are members of the European Union, plus Norway and Switzerland. Chartis believes that this will enable them to provide greater authority locally and improve service to clients. Together with the new structure in the rest of the world Chartis believes it will also enable them to improve service for multinational clients. In practical terms brokers will continue to deal with Chartis exactly as they do now in the locations in which they do now.

Lex Baugh will assume the newly created position of President and CEO of Chartis Europe Holdings Limited, the Irish based holding company for Chartis Insurance UK, Chartis Insurance Ireland and Chartis Europe SA. In this new role he will oversee the regional operations of Chartis in the UK and Ireland, Continental Europe, and the other EU countries currently part of Chartis Central Europe. This will facilitate a pan-European solution for the preparation of Solvency II.

James Shea, currently Regional President for Chartis CECIS, will become Managing Director of Chartis UK reporting to Lex Baugh.

In addition Julio Portalatin will continue as Regional President for Chartis Europe SA, and will shortly transition to a new role as President and Chief Executive Officer of Emerging Markets - Chartis International's operations in Latin America, the Middle East, Africa, South Asia, and the Commonwealth of Independent States (CIS) including Russia, Turkey, and other Central European countries who are not members of the European Union.