

Lloyd's 2004 Financial Results

6th April 2005

Agenda

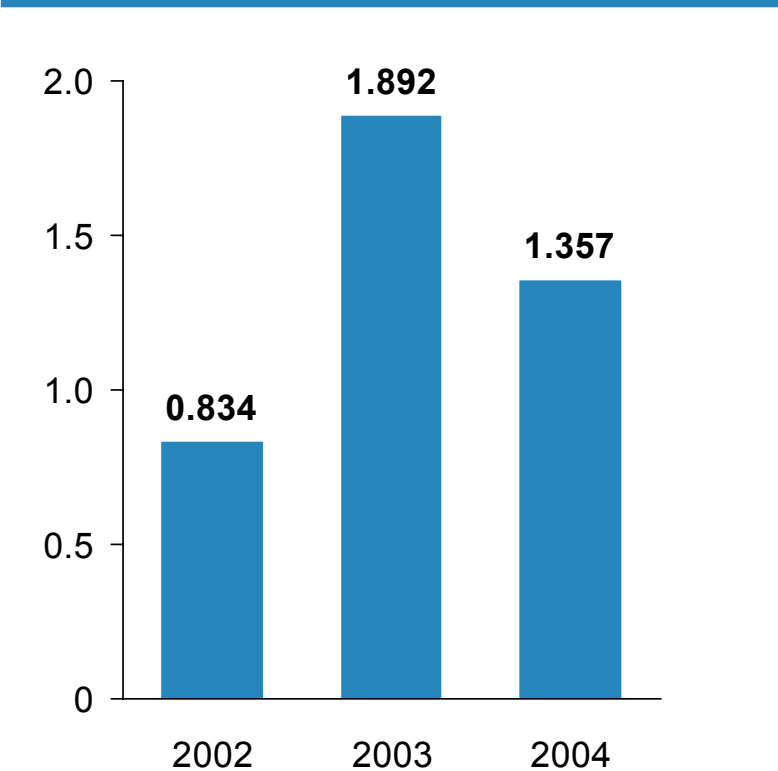
- Introduction – Lord Levene
- Overview – Nick Prettejohn
- Financial results – Luke Savage
- Concluding remarks – Nick Prettejohn
- Q&A

2004: Another year of profit and progress

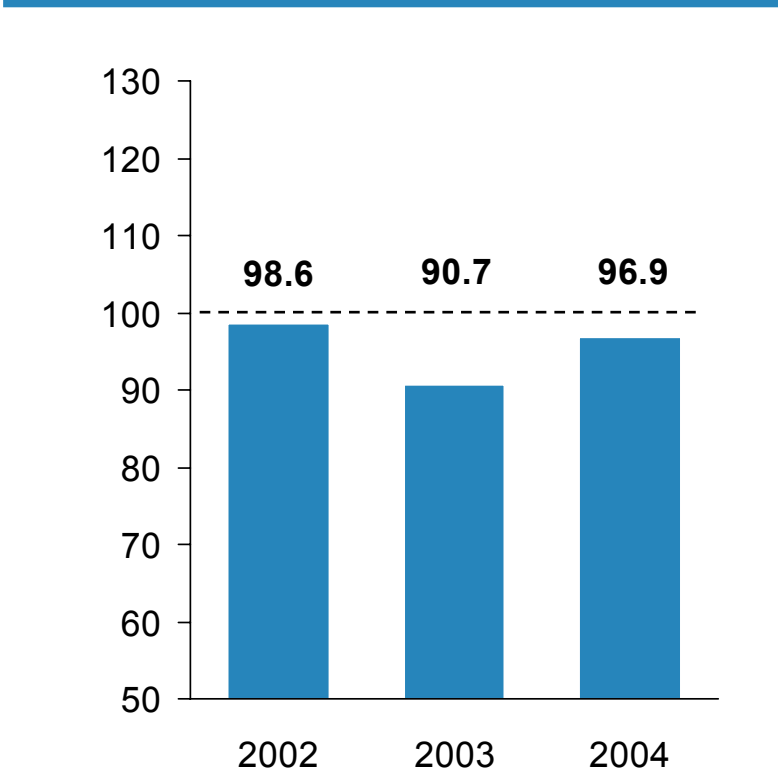
Nick Prettejohn – Chief Executive Officer

2004: A third successive year of strong profits despite the significant US hurricane losses...

Pre-tax profit (£bn)



Combined ratio¹ (%)



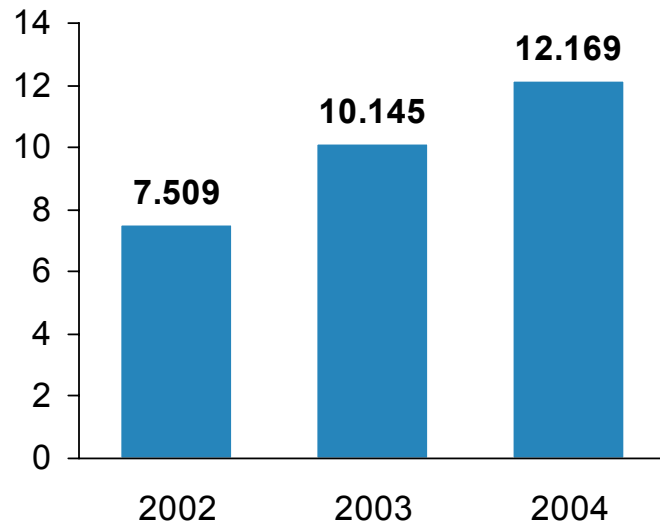
Source: Lloyd's 2004 results on pro forma annual accounting basis

1) Combined ratio = (net incurred claims + expenses) / net earned premium

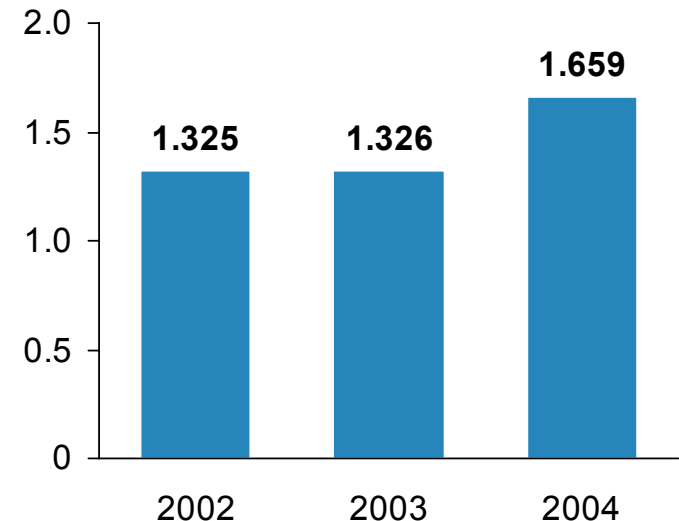
...with further strengthening of the balance sheet

- Further growth in resources of Society and its members
- Central resources strengthened by £500m subordinated debt issue

Resources of Society and members¹ (£bn)



Central solvency assets² (£bn)



Source: Lloyd's 2004 results on pro forma annual accounting basis

1) Members funds and central assets, including subordinated debt proceeds

2) Eligible assets of the Central Fund and Society, subordinated debt proceeds and callable layer (2004 unaudited)

There has been significant progress on many fronts

- Successful debut in debt market
- Lloyd's security ratings upgraded
- Further embedding of the Franchise disciplines
- Leadership role in improving business process in London market

Financial Results

Luke Savage – Director, Finance and Risk Management

2004 produced a good result from a disciplined market...

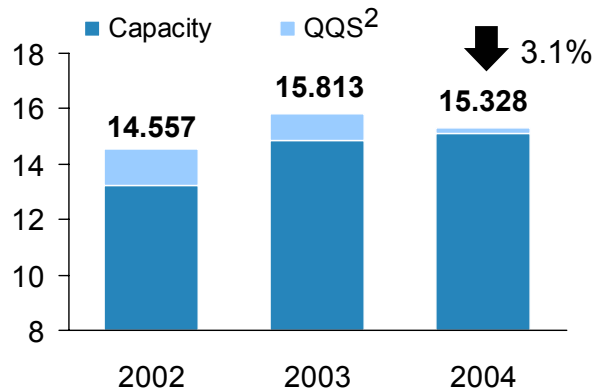
£m	2002	2003	2004
Net earned premiums	10,669	11,711	11,789
Net claims and operating expenses ¹	10,524	10,619	11,419
Underwriting profit	145	1,092	370
Other expenses ²	(115)	(93)	(36)
Investment return	804	893	1,023
Profit on ordinary activities	834	1,892	1,357
Combined Ratio	98.6%	90.7%	96.9%

Source: Lloyd's 2004 results on pro forma annual accounting basis

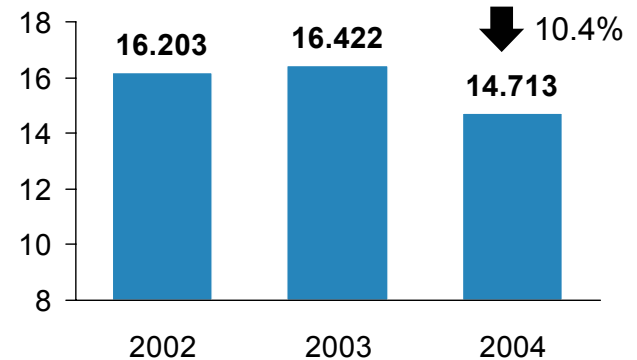
1) Technical account; includes loss on exchange 2) Non-technical account

...with written premium having peaked in 2003...

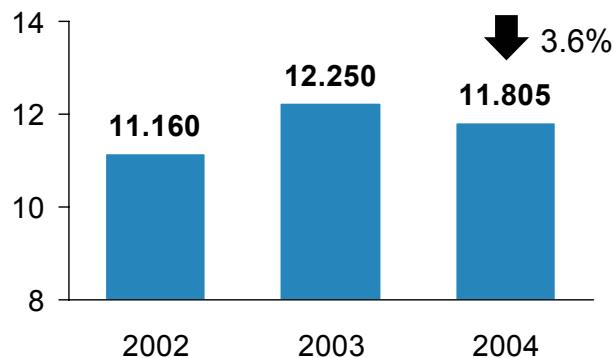
Capacity¹ (£bn)



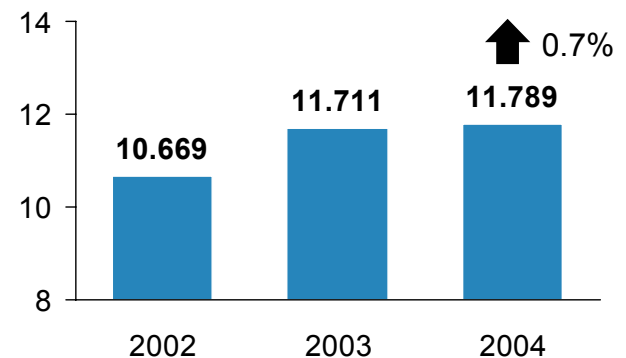
Gross written premium (£bn)



Net written premium (£bn)



Net earned premium (£bn)



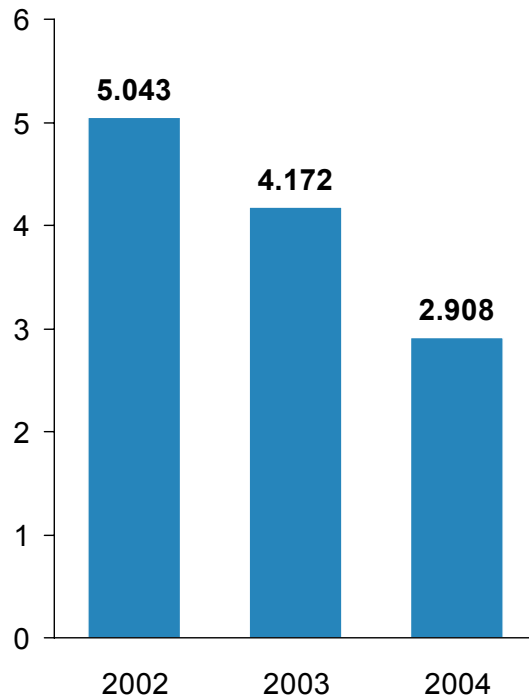
Source: Lloyd's 2004 results on pro forma annual accounting basis

1) Capacity = maximum amount of premium (gross of reinsurance, net of brokerage) that may be written

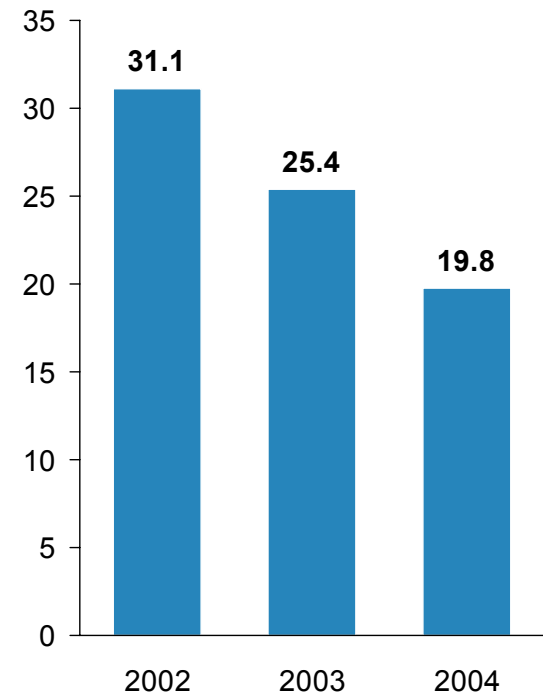
2) Authorised qualifying quota share reinsurance

...and a reduced reliance on reinsurance

Reinsurance spend (£bn)

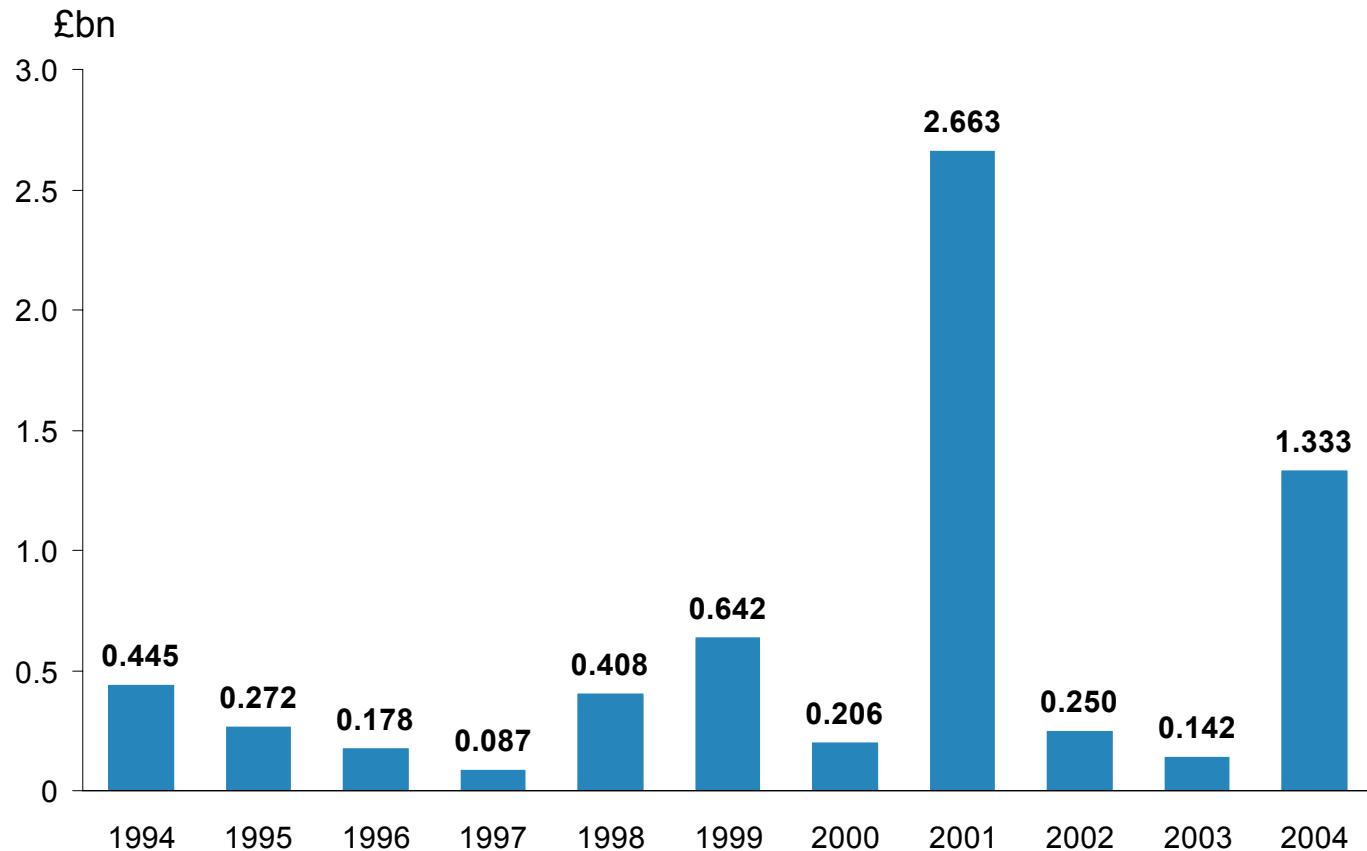


Reinsurance spend as % gross written premiums



Source: Lloyd's 2004 results on pro forma annual accounting basis

2004 saw Lloyd's second worst year in recent times for catastrophe claims...



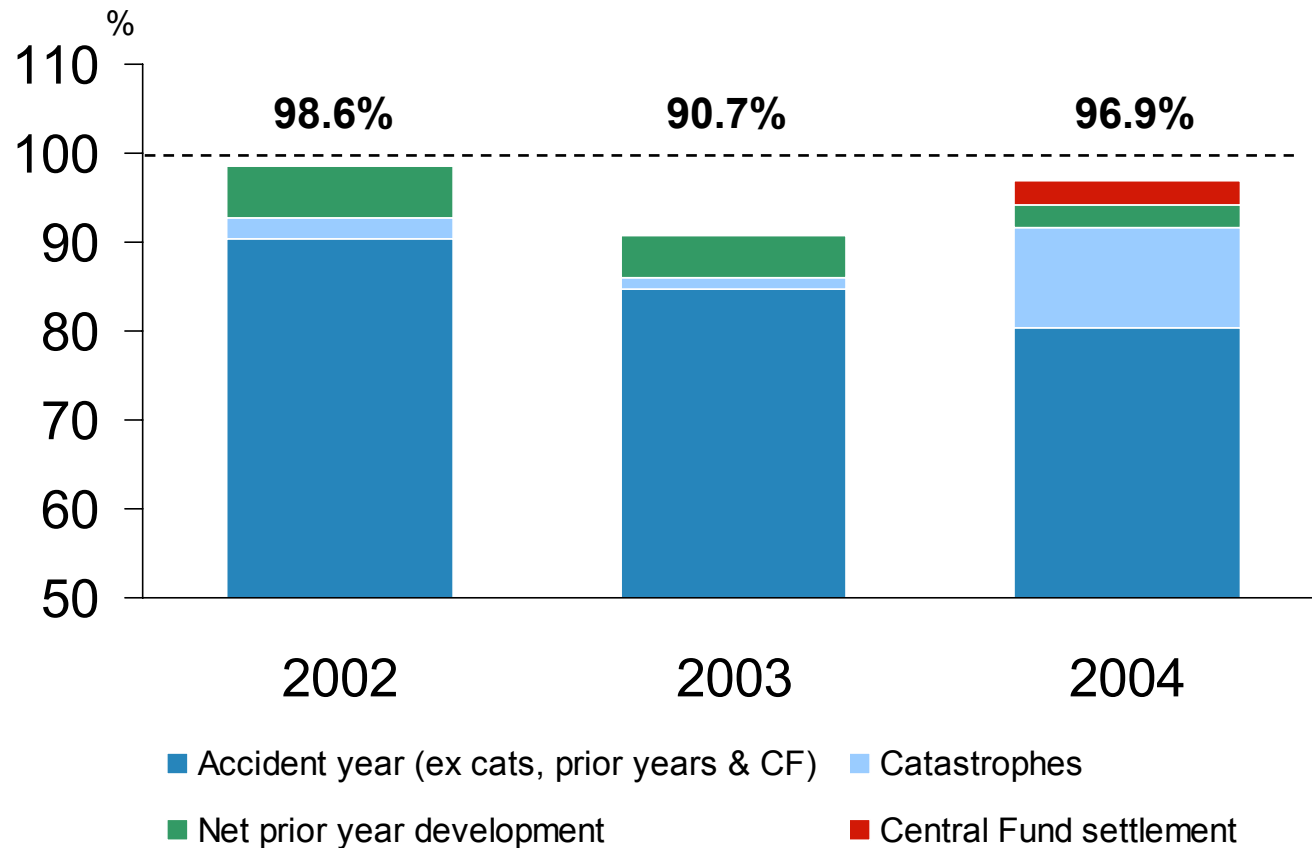
Source: Syndicate quarterly returns; net ultimate claims

...driving the increase in net claims while operating expenses fell

£m	2002	2003	2004	%
Net incurred claims	6,652	6,697	7,667	14.5
Acquisition costs	2,681	3,038	2,801	(7.8)
Administrative expenses	790	854	900	5.4
Loss on exchange	401	30	51	70.0
Net claims and operating expenses	10,524	10,619	11,419	7.5

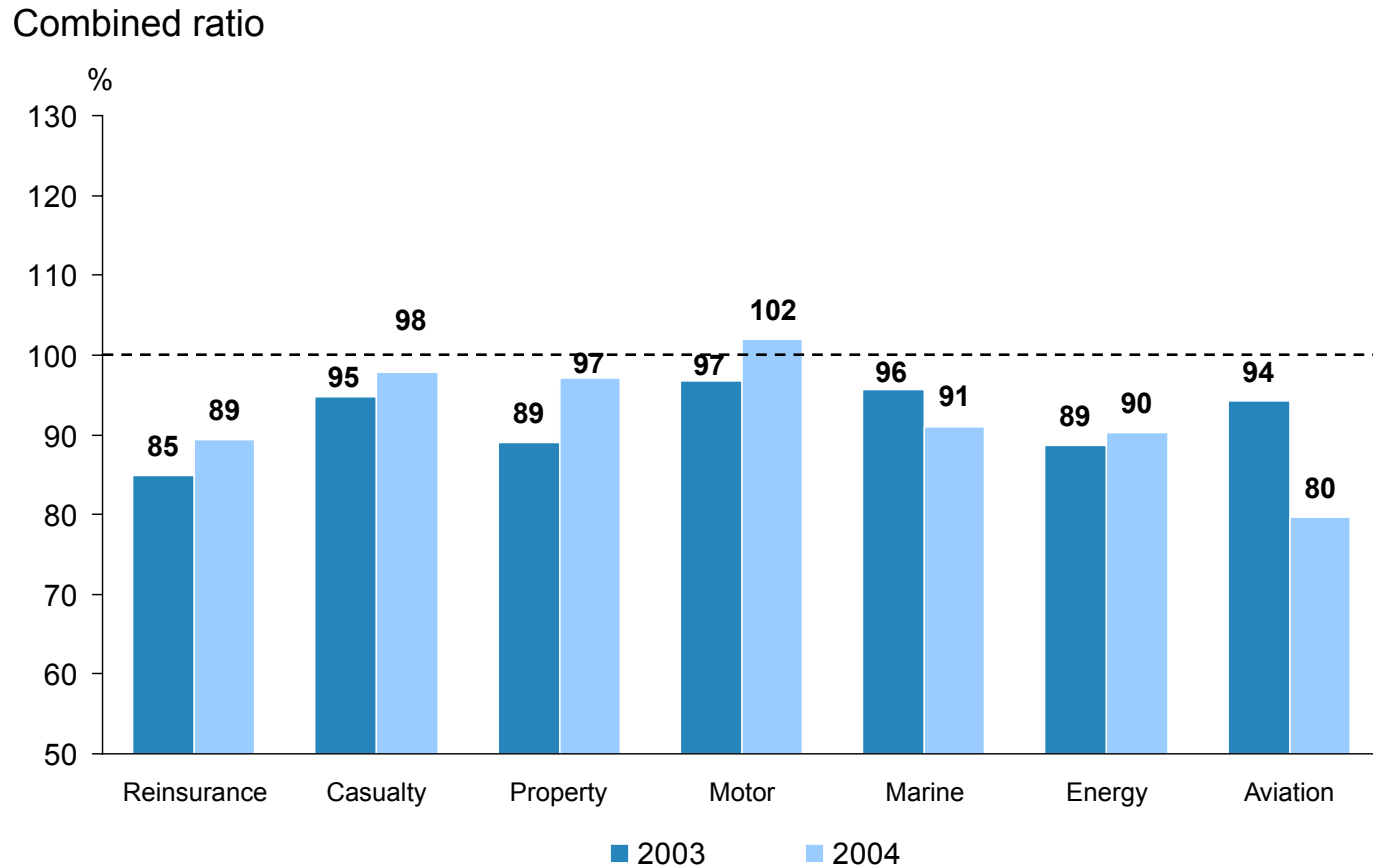
Source: Lloyd's 2004 results on pro forma annual accounting basis

Underlying underwriting conditions were strong...



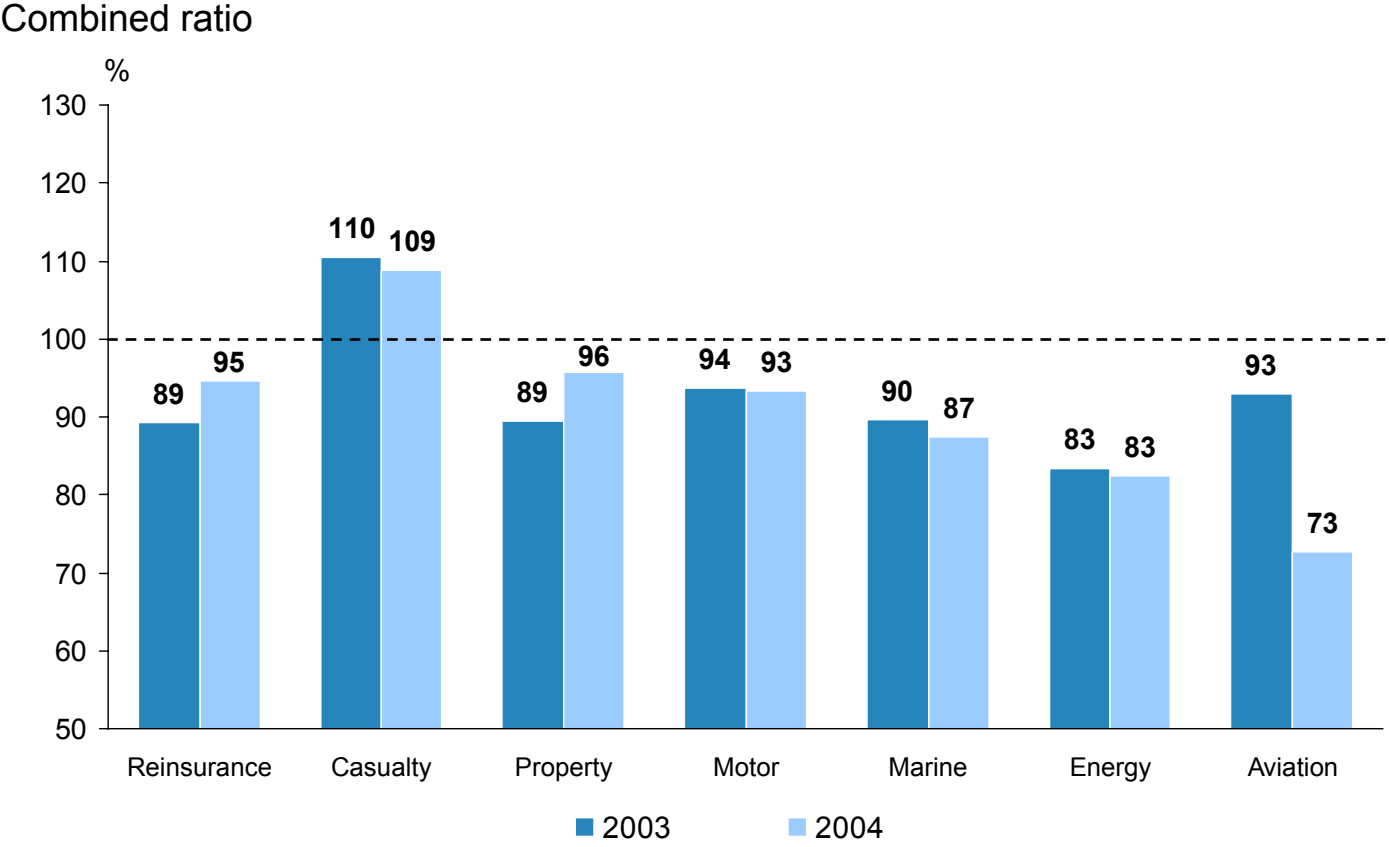
Source: Lloyd's 2004 results on pro forma annual accounting basis

...with most classes of business continuing to be profitable on an accident year basis...



Source: Lloyd's, pro forma annual accounting basis at syndicate level

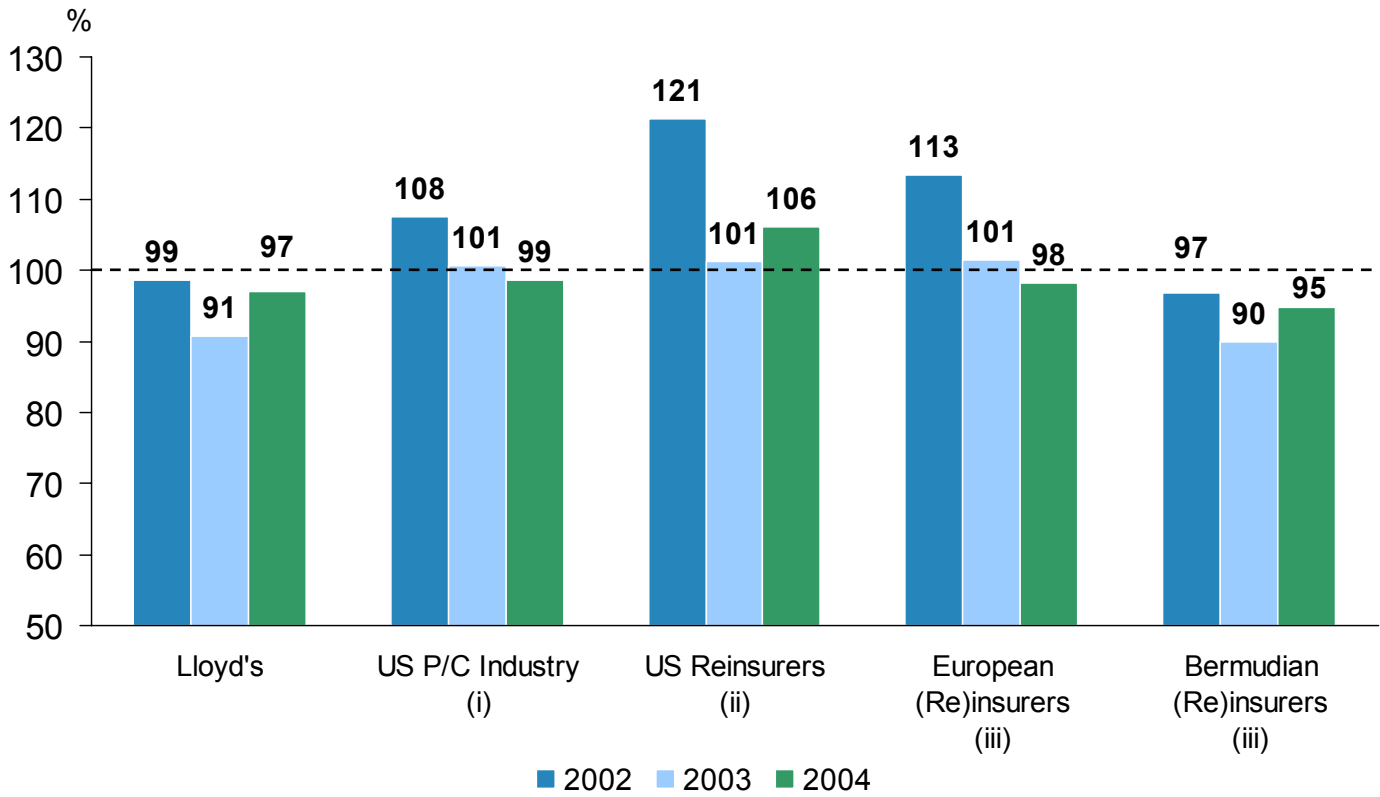
...with further reserve strengthening in casualty lines...



Source: Lloyd's, pro forma annual accounting basis at syndicate level

Lloyd's performance again compared favourably with our peers

Combined ratio



Source: Lloyd's 2004 results on pro forma annual accounting basis
 Sources: i) Insurance Information Institute estimate, ii) Reinsurance Association of America,
 iii) Company data (8 European companies: 16 Bermudian companies)

A prudent investment mix...

£m	Equities	Fixed income	Cash / other	Total
Syndicate Premiums Trust Funds	436	13,209	6,925	20,570
Members' Funds at Lloyd's	786	858	7,978	9,622
Central assets	258	688	224	1,170
	1,480	14,755	15,127	31,362
% of total	4.7	47.1	48.2	100.0

Source: Lloyd's 2004 results on pro forma annual accounting basis

...and investment conditions improved during second half of the year

£m	2002	2003	2004		
			H1	H2	Year
Average investment funds	21,325	25,441	28,177	28,561	28,369
Yield	3.8%	3.5%	1.0%	2.6%	3.6%
Return	804	893	293	730	1,023

Source: Lloyd's 2004 results on pro forma annual accounting basis

Three-year accounting result and projections

Year of account result (£m)	Dec 2004	% capacity
2002 & prior years of account ¹	1,193	
2003 pure year projection	2,069	13.9
2004 pure year projection	1,074	7.1

Source: Lloyd's, 3 year accounting as at 31.12.2004

1) includes 2001 & prior closed years of account and calendar year result on years of account in run-off at 31.12.2004

Lloyd's balance sheet has seen a further year of significant strengthening...

£m	2002	2003	2004
Cash & investments	24,512	27,893	31,362
Reinsurers' share of technical provisions	13,693	11,180	9,876
Other assets	11,091	9,830	9,010
Total assets	49,296	48,903	50,248
Total liabilities	(41,787)	(38,758)	(38,079)
Net resources	7,509	10,145	12,169
<i>Represented by:</i>			
Balance due to/(from) members	(2,022)	(295)	1,363
Funds at Lloyd's	8,968	9,659	9,622
Central assets ¹	563	781	1,184
	7,509	10,145	12,169

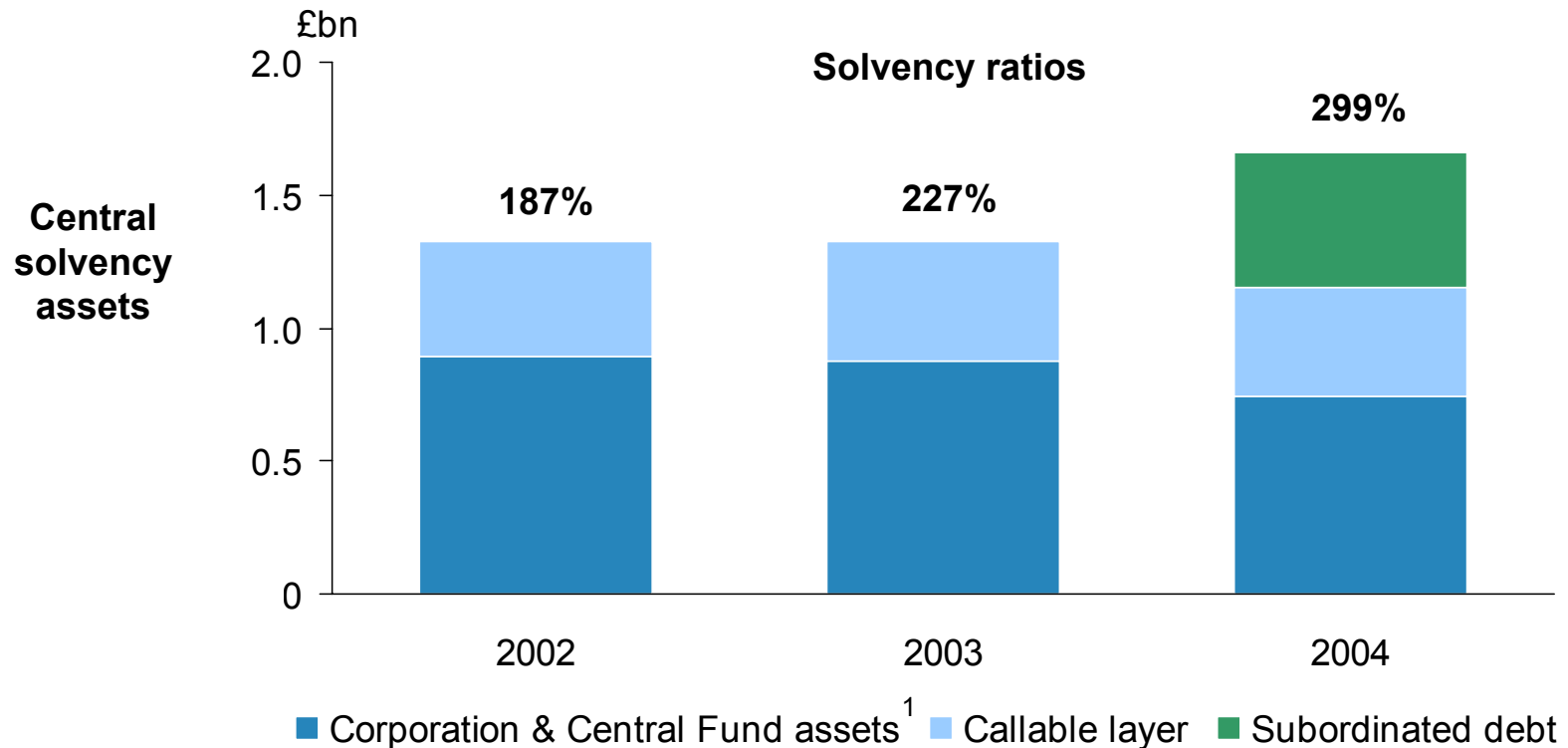
Source: Lloyd's 2004 results on pro forma annual accounting basis 1) includes proceeds of subordinated debt issue

...with an increase in central assets following the subordinated debt issue...

£m	2002	2003	2004
Central Fund (start of year)	327	476	711
Contributions and premium levy	381	439	191
Claims	(334)	(190)	(152)
Insurance recoveries	246	110	(324)
Other (including tax)	<u>(144)</u>	<u>(124)</u>	<u>130</u>
Central Fund (end of year)	476	711	556
Corporation assets	87	70	122
Subordinated debt issue			506
Total central assets	563	781	1,184

Source: Lloyd's 2004 results on pro forma annual accounting basis

...and we have added to the strength and flexibility of our central solvency assets...



- Central solvency assets supplemented by £102m of syndicate loans in 2005

Source: Lloyd's FSA return as at year end: 2004 unaudited

1) as adjusted for solvency

...with initiatives continuing to improve the market's financial strength

- Financial transparency
 - Annual accounting
 - Interim reporting (half-yearly)
 - Adoption of IFRS for Society's accounts

- Capital efficiency to maximise returns
 - Earlier profits release
 - Alternative sources of central assets
 - Overhaul of capital setting rules to improve alignment between risk and capital

- Asset efficiency
 - Overhaul of eligible asset rules to improve asset management capability, covering both
 - Market assets
 - Assets of the Central Fund

Summary – 2004 financial highlights

- Profit £1,357m (2003: £1,892m)
- Combined ratio 96.9% (2003: 90.7%)
- Net resources £12,169m (2003: £10,145m)
- Solvency ratio 299% (2003: 227%)

Source: Lloyd's 2004 results on pro forma annual accounting basis

Trading outlook is profitable but there is no room for complacency...

- 2005 capacity reduced by 10% on 2004 (including QQS)
- Lloyd's will expect capacity to respond to market conditions
- Underwriting discipline remains key

Source: Lloyd's

...whilst work continues to make the Lloyd's platform even stronger and more efficient

- Continued leadership role in improving business process in London market
- Protecting, strengthening and promoting the Lloyd's brand
- Maintenance and development of Lloyd's licence network
- Lloyd's as platform of choice
- No illusions regarding the challenges ahead

Lloyd's 2004 - Another year of profit and progress

Questions?

Cautionary note on forward-looking statements

This presentation includes forward-looking statements. These statements are based on currently available information and consistent accounting policies as applied at 31 December 2004. They reflect Lloyd's current expectations, projections and forecasts about future events and financial performance. All forward-looking statements address matters that involve risks, uncertainties and assumptions. Based on a number of factors, actual results could vary materially from those anticipated by the forward-looking statements. These factors include, but are not limited to, the following:

- Rates and terms and conditions of policies may vary from those anticipated.
- Actual claims paid and the timing of such payments may vary from estimated claims and estimated timings of payments, taking into account the preliminary nature of such estimates.
- Claims and loss activity may be greater or more severe than anticipated, including as a result of natural or man-made catastrophic events.
- Competition on the basis of pricing, capacity, coverage terms or other factors may be greater than anticipated.
- Reinsurance placed with third parties may not be fully recoverable, or may not be paid on a timely basis, or such reinsurance from creditworthy reinsurers may not be available or may not be available on commercially attractive terms.
- Developments in the financial and capital markets may adversely affect investments of capital and premiums, or the availability of equity capital or debt.
- Changes in legal, regulatory, tax or accounting environments in relevant countries may adversely affect (i) Lloyd's ability to offer its products or attract capital, (ii) claims experience, (iii) financial return, or (iv) competitiveness.
- Economic contraction or other changes in general economic conditions could adversely affect (i) the market for insurance generally or for certain products offered by Lloyd's, or (ii) other factors relevant to Lloyd's performance.

The foregoing list of factors is not comprehensive, and should be read in conjunction with other cautionary statements that are included herein or elsewhere. Lloyd's undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.