

# 2008 ANNUAL RESULTS

24 March 2009

# 2008 Highlights

## Resilience in testing times

- Market discipline maintained - strong risk management and effective oversight
- Solid financial position with strongest ever Central Fund
- Global reach extended and strengthened
- Business initiatives continuously improved
- Lloyd's Act updated
- Market ratings affirmed

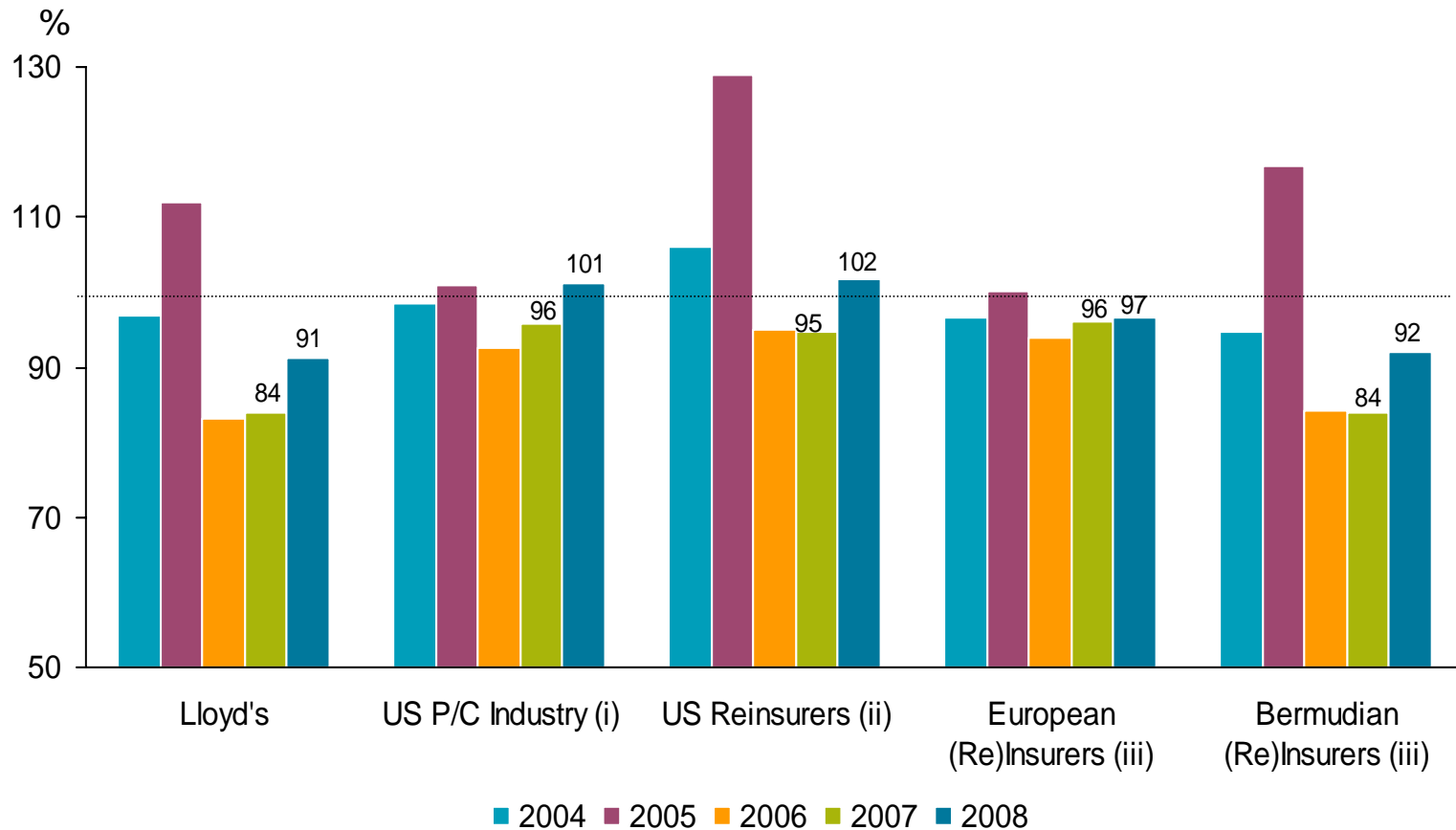
# Strong results in challenging economic conditions

|                             | 2007     | 2008            |
|-----------------------------|----------|-----------------|
| Gross written premiums      | £16,366m | <b>£17,985m</b> |
| Combined ratio              | 84.0%    | <b>91.3%</b>    |
| Investment return           | £2,007m  | <b>£957m</b>    |
| Profit before tax           | £3,846m  | <b>£1,899m</b>  |
| Return on capital (pre-tax) | 29.3%    | <b>13.7%</b>    |

Source: Lloyd's pro forma financial statements, Dec 2008

# Our performance continues to compare well against our peers

## COMBINED RATIO



Sources i) Insurance Information Institute (estimate-2008), ii) Reinsurance Association of America, iii) Company data (8 European companies: 18 Bermudian companies)

# **FINANCIAL RESULTS**

# Solid underwriting results and positive investment returns

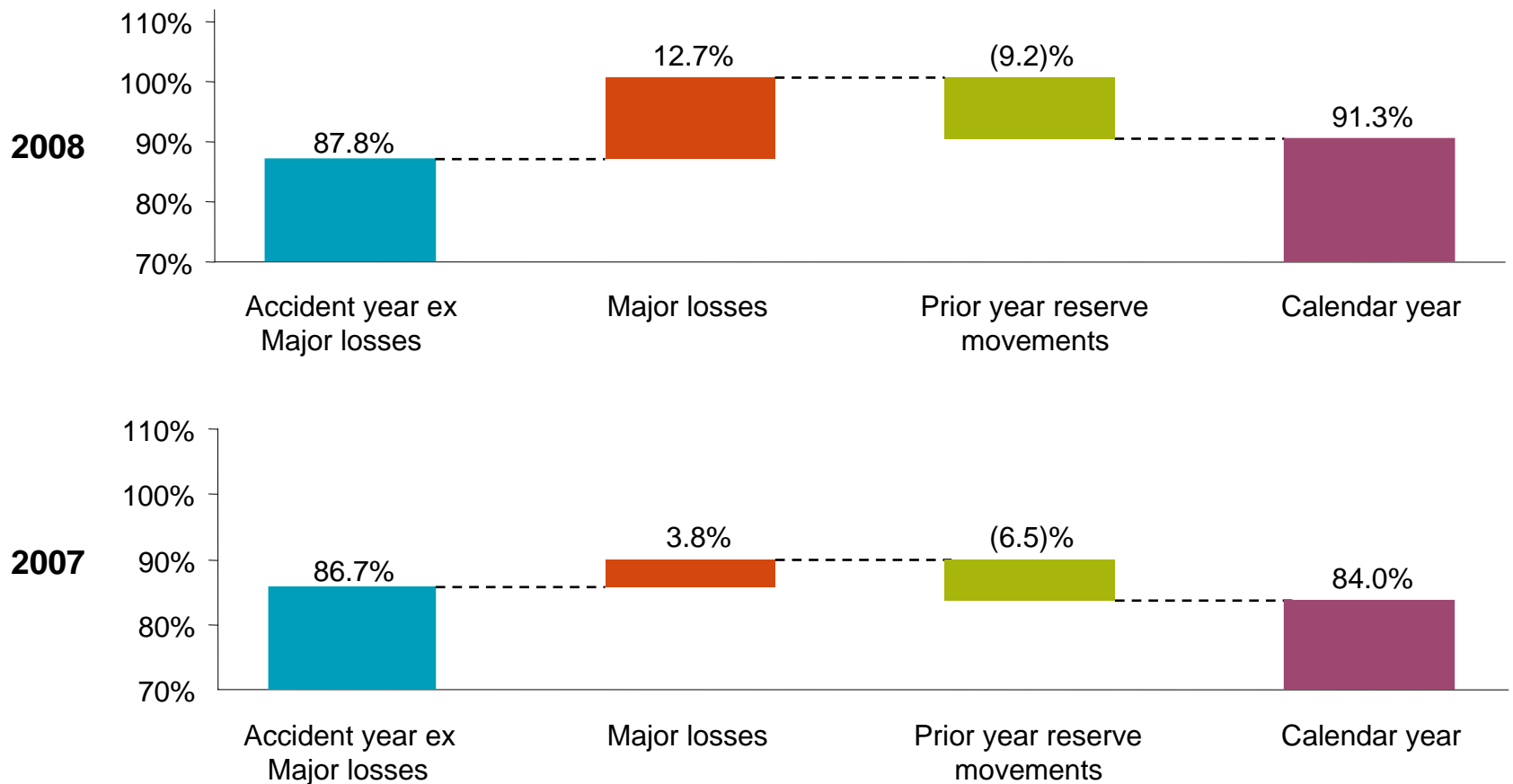
| £m                                      | 2007    | 2008           | %      |
|---|---------|----------------|--------|
| Gross written premiums                  | 16,366  | <b>17,985</b>  | 9.9    |
| Net earned premiums                     | 13,097  | <b>13,796</b>  | 5.3    |
| Net incurred claims                     | (6,547) | <b>(8,464)</b> | 29.3   |
| Net operating expenses <sup>1</sup>     | (4,451) | <b>(4,134)</b> | (7.1)  |
| Underwriting result                     | 2,099   | <b>1,198</b>   | (42.9) |
| Investment return                       | 2,007   | <b>957</b>     | (52.3) |
| Other income less expenses <sup>2</sup> | (260)   | <b>(256)</b>   | (1.5)  |
| Profit before tax                       | 3,846   | <b>1,899</b>   | (50.6) |
| Combined ratio                          | 84.0%   | <b>91.3%</b>   |        |

1) Technical account 2) Non-technical account  
 Source: Lloyd's pro forma financial statements, Dec 2008

# **UNDERWRITING PERFORMANCE**

# Underwriting profits impacted by increase in hurricane claims

## COMBINED RATIO



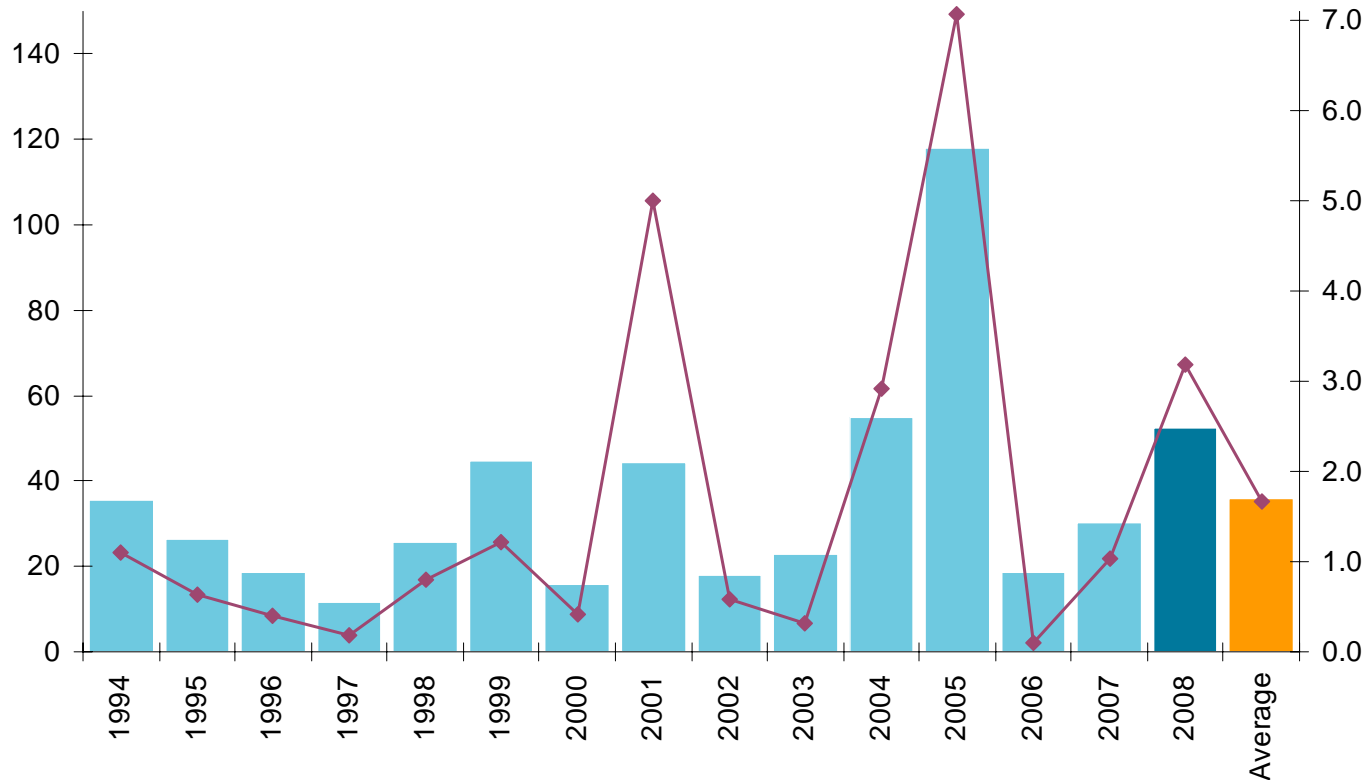
Source: Lloyd's pro forma financial statements, Dec 2008



# Industry catastrophe losses reached \$52.5bn in 2008

**INDUSTRY CAT LOSSES**  
\$BN INDEXED TO 2008

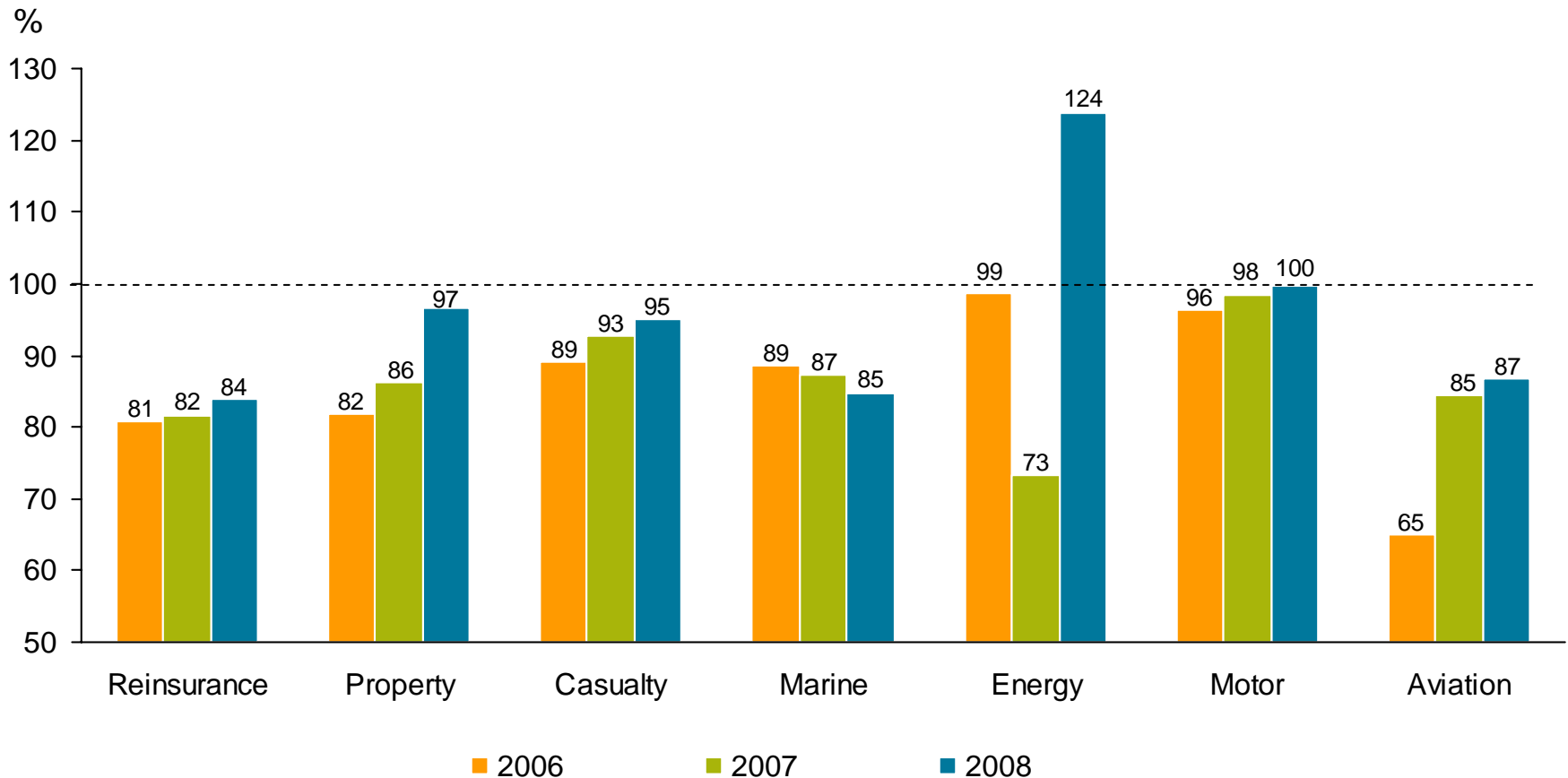
**LLOYD'S CAT LOSSES**  
\$BN INDEXED TO 2008



Source: Industry - Swiss Re, Sigma No 2/2009; Lloyd's – Net ultimate claims for catastrophes per syndicate QMRs, Lloyd's pro forma financial statements, Dec 08

# Underwriting results benefited from prior year releases and currency movements

## CALENDAR YEAR COMBINED RATIO



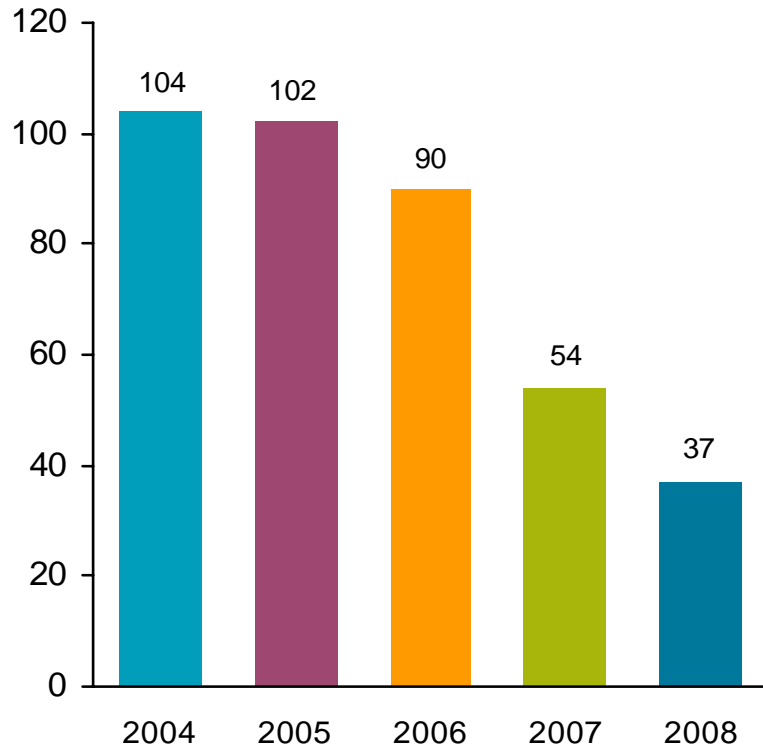
Source: Lloyd's pro forma basis at syndicate level, Dec 08

# Underwriting exposure to Financial Institutions expected to be manageable

- Policies affected generally on a claims-made basis
- Lines which could be impacted: D&O, E&O, PI and Crime - principally US financial institutions and related professions
- Lloyd's writes less of this type of business now than historically
- No direct exposure to Madoff and any liability exposure expected to be within normal course of business
- Stanford – liability exposure is limited

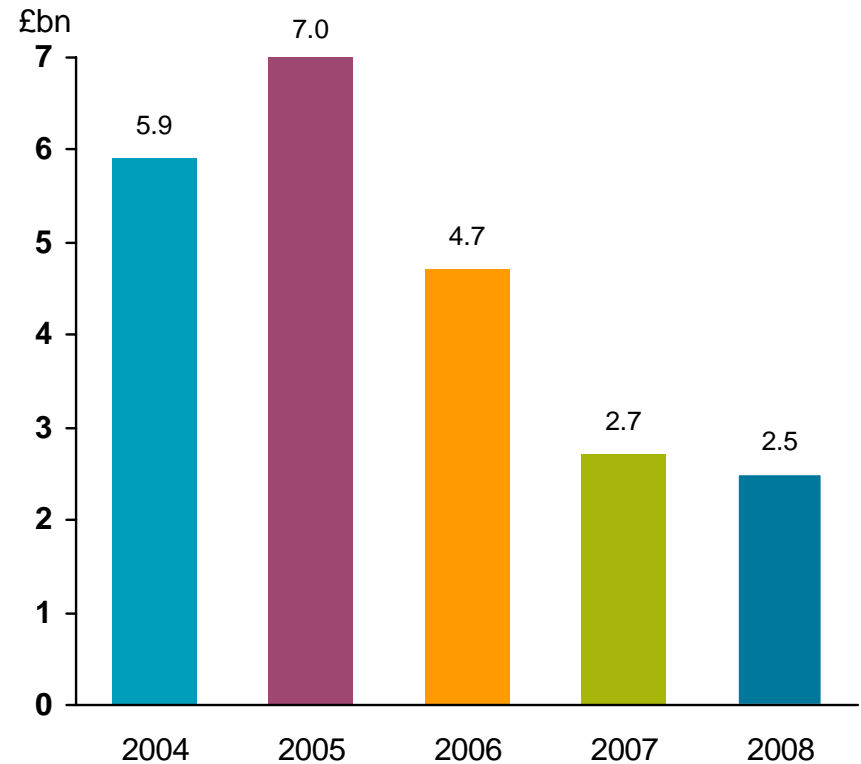
# Prior year reserve releases and open years position continue to improve

## YEARS



No. of syndicate years of account in run off

## LEVEL OF GROSS RESERVES



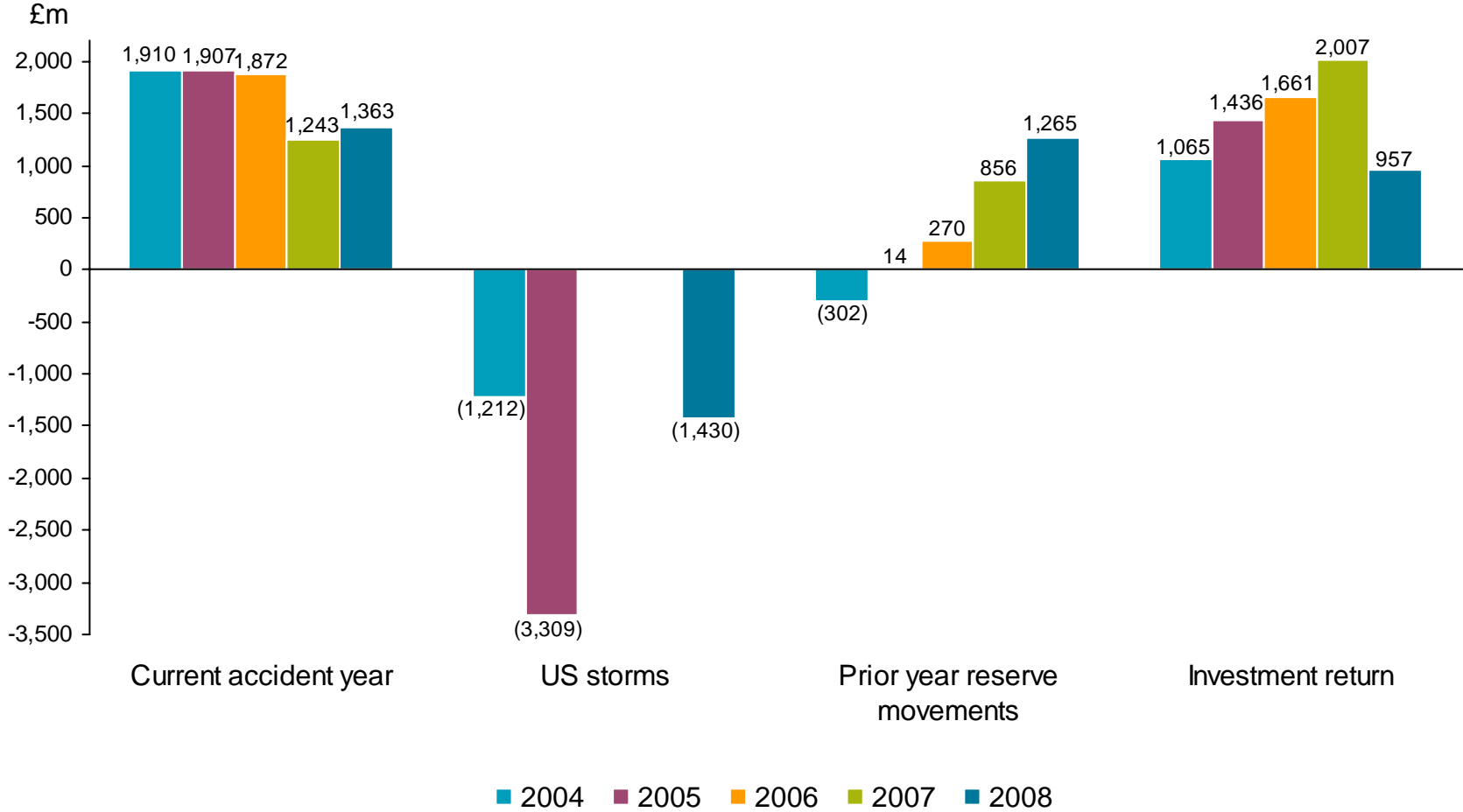
Source: Lloyd's pro forma financial statements, Dec 2008

# Operating expenses helped by decline in value of sterling

| £m                            | 2007   | 2008          | %     |
|-------------------------------|--------|---------------|-------|
| Net earned premiums           | 13,097 | <b>13,796</b> | 5.3   |
| Acquisition costs             | 3,449  | <b>3,720</b>  | 7.9   |
| Admin expenses                | 1,117  | <b>1,267</b>  | 13.4  |
| Sub total                     | 4,566  | <b>4,987</b>  | 9.2   |
| (Gains) / losses on exchange  | (115)  | <b>(853)</b>  | 641.7 |
| <b>Net operating expenses</b> | 4,451  | <b>4,134</b>  | (7.1) |

Source: Lloyd's pro forma financial statements, Dec 2008

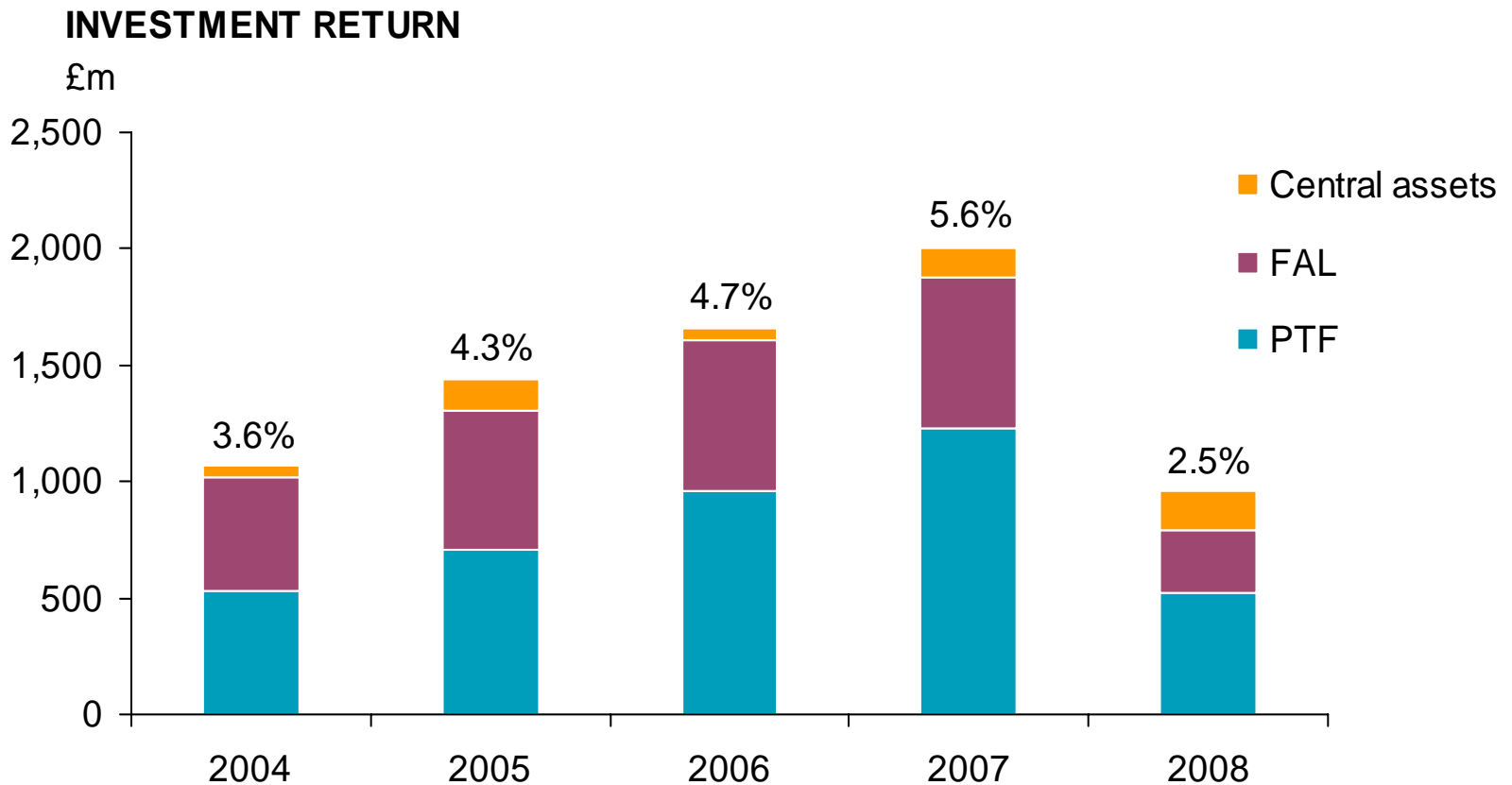
# Current underwriting supported by prior year reserve releases and solid investment returns



Source: Lloyd's pro forma financial statements, Dec 2008

# **INVESTMENT PERFORMANCE**

# Positive investment return under challenging financial market conditions

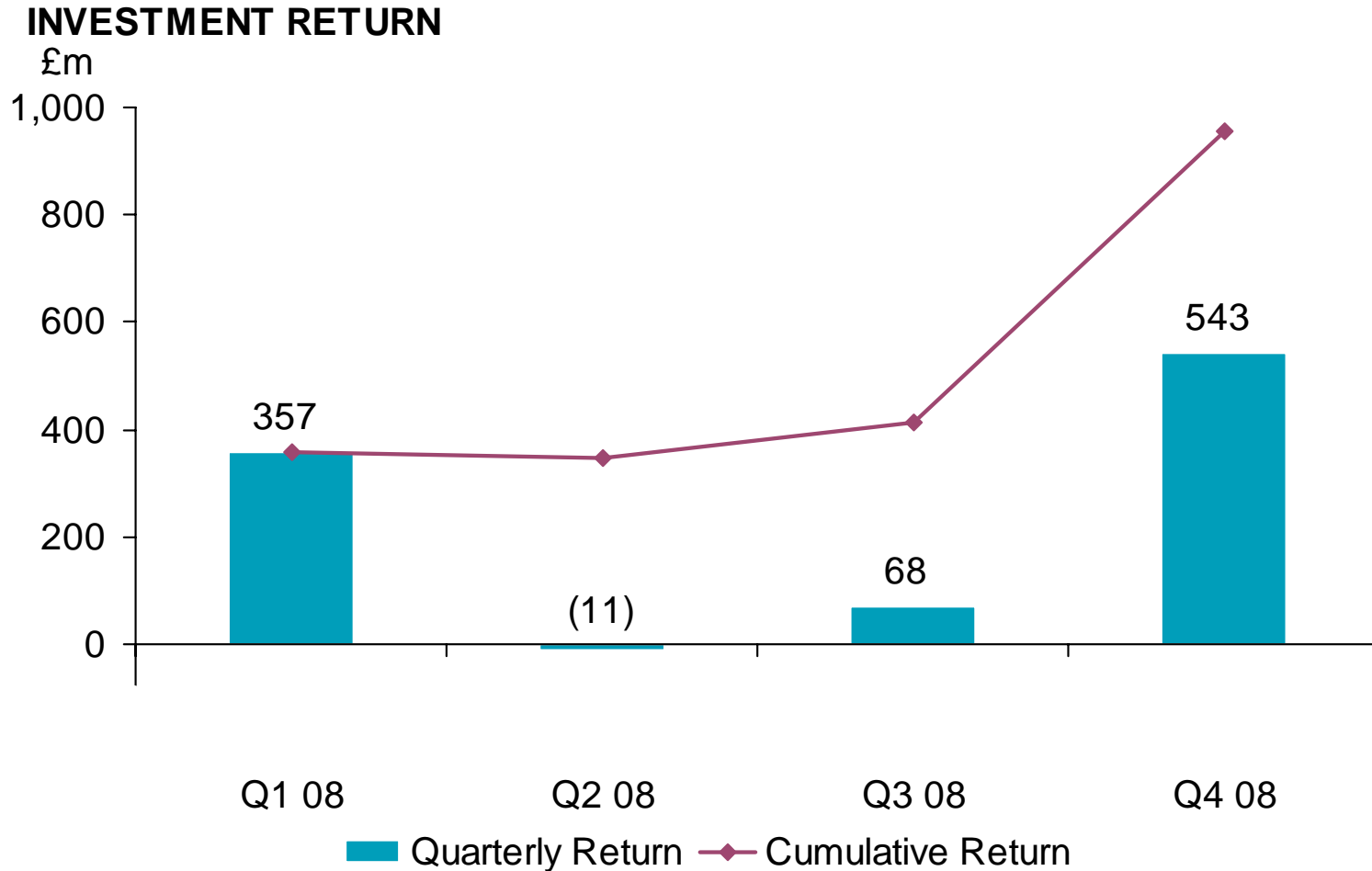


Note: FAL - Member's Funds at Lloyd's; PTF - Syndicate Premium Trust Funds

Source: Lloyd's pro forma financial statements, Dec 2008

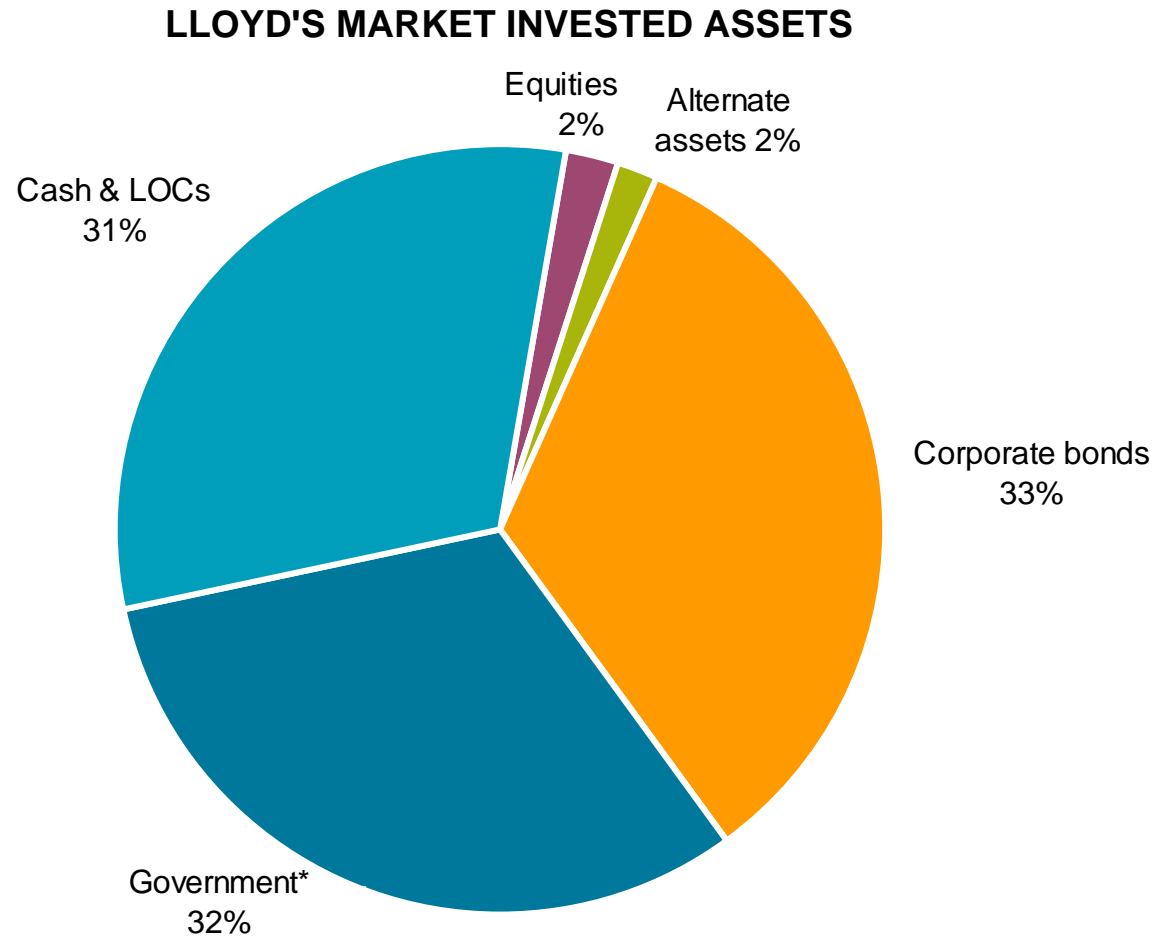


# Investment returns recovered in the last quarter in 2008



Source: Lloyd's quarterly monitoring returns

# Over 60% of total invested assets are held in government bonds and cash...

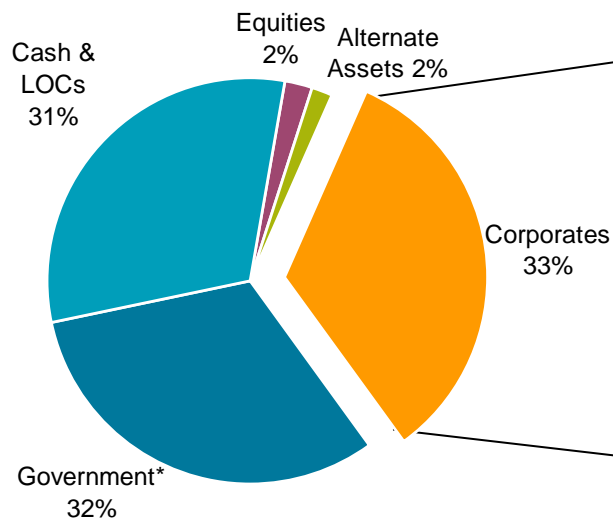


\* Includes supra nationals and government agencies

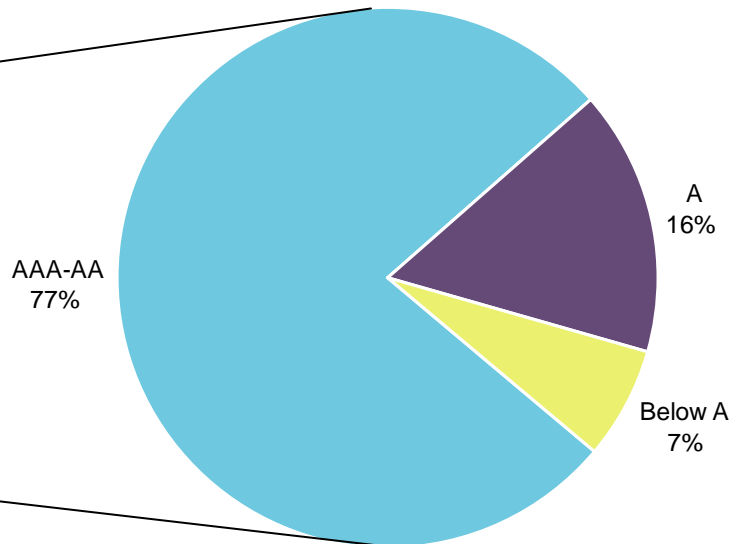
Source: Lloyd's pro forma financial statements, Dec 2008

# ...and corporate bonds are invested in high quality holdings

## LLOYD'S MARKET INVESTED ASSETS



## CORPORATE BONDS

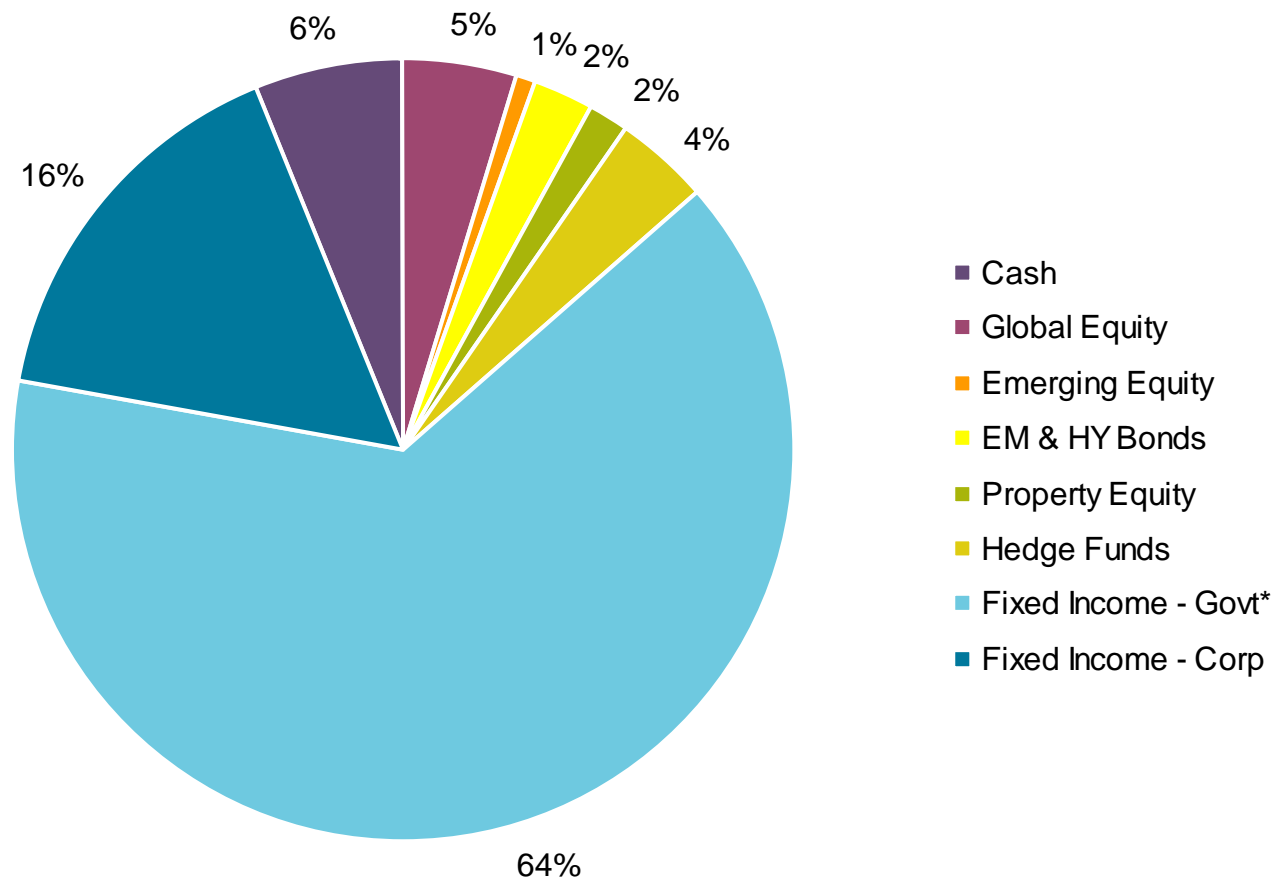


\* Includes supra nationals and government agencies  
Source: Lloyd's pro forma financial statements, Dec 2008

# Central Fund dominated by high quality government bonds

**CENTRAL FUND DISPOSITION**

Bond portfolios  
total 80%



\* Includes supra nationals and government agencies  
Source: Lloyd's pro forma financial statements, Dec 2008

# BALANCE SHEET

# Net resources remain strong

| £m  | 2007     | 2008            | %    |
|---|----------|-----------------|------|
| Cash and investments                      | 36,981   | <b>44,370</b>   | 20.0 |
| Reinsurers' share of technical provisions | 8,290    | <b>11,671</b>   | 40.8 |
| Other assets                              | 8,682    | <b>11,291</b>   | 30.1 |
| Total assets                              | 53,953   | <b>67,332</b>   | 24.8 |
| Unearned premiums                         | (7,282)  | <b>(9,043)</b>  | 24.2 |
| Other liabilities                         | (32,210) | <b>(43,025)</b> | 33.6 |
| Net resources <sup>1</sup>                | 14,461   | <b>15,264</b>   | 5.6  |
| <i>Represented by:</i>                    |          |                 |      |
| Members' assets <sup>2</sup>              | 12,510   | <b>13,192</b>   | 5.5  |
| Central assets <sup>3</sup>               | 1,951    | <b>2,072</b>    | 6.2  |
|   | 14,461   | <b>15,264</b>   | 5.6  |

1. Capital, reserves & subordinated loan notes and securities

2. Includes syndicate balances and Funds at Lloyd's

3. Stated on a UK GAAP basis; excludes subordinated debt liabilities

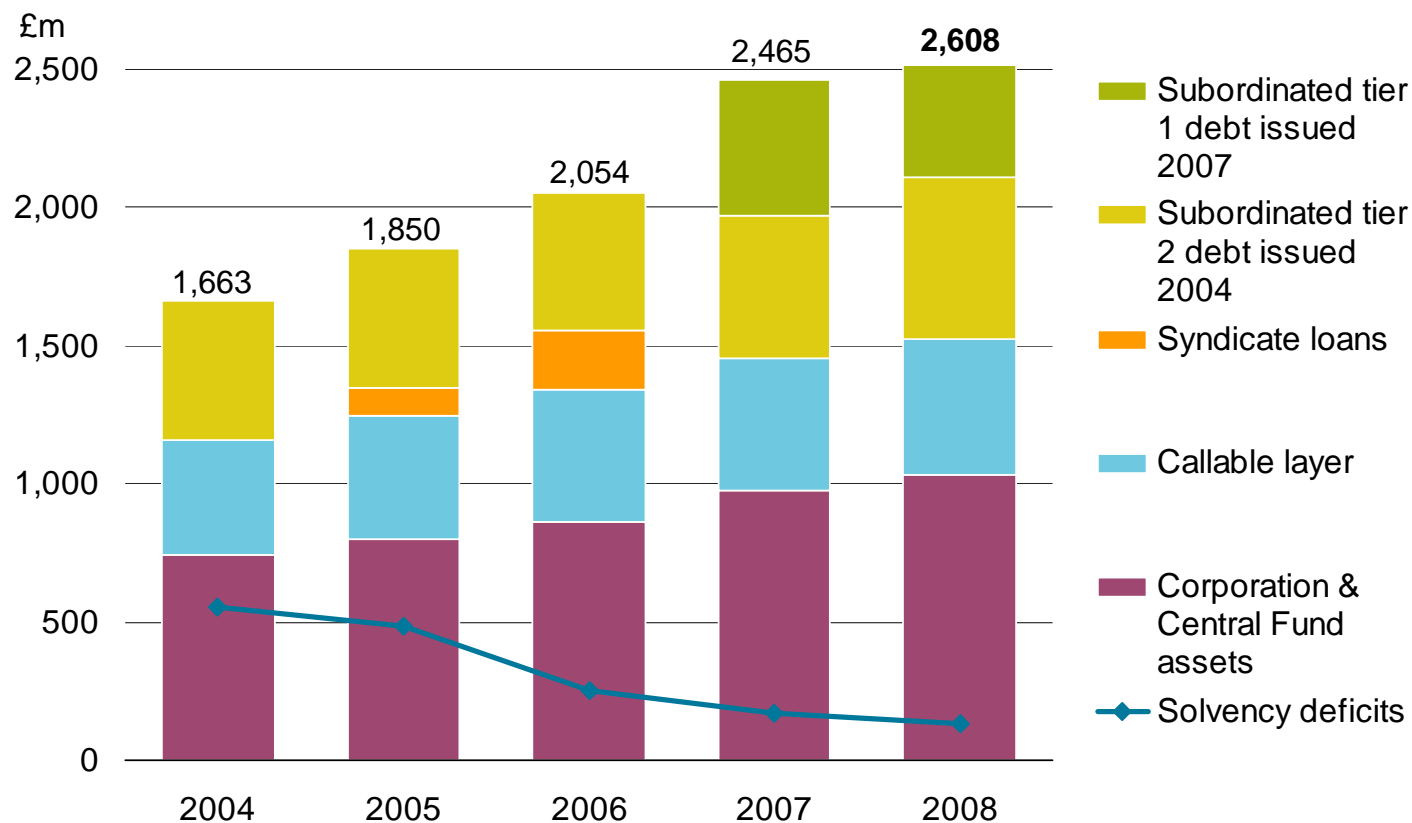
Source: Lloyd's pro forma financial statements, Dec 2008

# Central resources continue to grow...

| £m   | 2007         | 2008         |
|--|--------------|--------------|
| Net Central Fund assets at 1 January         | 843          | <b>772</b>   |
| Contributions from members                   | 168          | <b>84</b>    |
| Repayment of syndicate loans                 | (211)        | -            |
| Contribution to Equitas – Berkshire Hathaway | (90)         | -            |
| Claims and provisions credit                 | 18           | <b>6</b>     |
| Net finance income                           | 46           | <b>3</b>     |
| Other  | (2)          | <b>(13)</b>  |
| <b>Net Central Fund assets at 31 Dec</b>     | <b>772</b>   | <b>852</b>   |
| Corporation of Lloyd's + subsidiaries        | 167          | <b>138</b>   |
| Tier II subordinated debt                    | 516          | <b>586</b>   |
| Tier I subordinated debt                     | 496          | <b>496</b>   |
| <b>Central assets</b>                        | <b>1,951</b> | <b>2,072</b> |
| Callable layer                               | 478          | <b>495</b>   |
| Other adjustments for solvency               | 36           | <b>41</b>    |
| <b>Central resources for solvency</b>        | <b>2,465</b> | <b>2,608</b> |

Source: Society of Lloyd's financial statements (under IFRS), Dec 08

# ... resulting in a solvency surplus of £2.5bn



Source: Society of Lloyd's financial statements, Dec 08

- 1) Callable layer calculated at 3% of market capacity
- 2) Solvency deficits are the aggregate shortfall in members assets against liabilities
- 3) Corporation & Central Fund assets for solvency purposes © Lloyd's



# **SUMMARY**

# Summary

- Maintaining underwriting discipline
- Preserving capital
- Capitalising on market opportunities

*‘To be the **platform of choice** for specialist insurance and reinsurance’*

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