

CHAIRMAN'S STATEMENT

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Recently I spoke at a conference in the Gulf and was introduced by the Minister of Finance who began with these words:

"In this part of the world, the oldest, best known, and most respected name in insurance is Lloyd's, no one else comes close."

Such spontaneous comment cannot be bought and is hard to achieve. In the last few years, our reputation has been restored, thanks to a lot of hard work and dedication from those who work in the market and in the Corporation.

The opportunities which this provides in growing our existing markets and developing new ones are being seized. I do not believe that we would have succeeded in launching our operation in China without the name recognition that we have worldwide, and further opportunities beckon.

While on the topic of reputation, I would like to pay tribute to the work of the Trustees and management of Equitas who worked so hard on the landmark deal that enables us to close a chapter in our history. We have been firm in our view for a long time that Equitas was being well run, and presented no threat to Lloyd's. However, it was seen by many as a cloud that hung over us, and was always in the minds of the rating agencies. The transaction which Equitas has agreed with National Indemnity will, when finally implemented, remove that cloud, end the contingent legal liabilities of Lloyd's and bring finality to members reinsured by Equitas. This is a welcome and major boost to the standing of Lloyd's in the commercial and financial arenas and was clearly recognised at our EGM, when over 99% of the capacity-weighted vote supported the decision of the Council of Lloyd's to contribute to this deal. Phase one of the transaction has now been completed, providing Equitas with an additional \$5.7bn of reinsurance cover and work has commenced on phase two.

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But Lloyd's does not operate in a vacuum. It is a major component of the Financial Services industry of the UK. Indeed, we represent over 50% of the total London market business. Last year, the Chancellor of the Exchequer singled out the Financial Services industry as the largest contributor to the UK economy, recognising what many of us had been saying for some years. I am presently chairing a group which will present to the Chancellor our thoughts on how the non-life insurance industry can maintain and enhance its position, and become even more competitive.

We are not complacent at Lloyd's and although we enjoyed an excellent year in 2006, like any global business we face challenges, not least the permanent shadow of the insurance cycle and the increasing threat of climate change.

We have demonstrated that we can adapt, change and react to changing circumstances and meet the challenges that face us. But there is still much that remains to be done.

The work which Richard Ward is leading, as you will see from his report, is critical for our future. We must be more efficient to be more competitive, we are relying on the whole market to make every effort along with us to do this and to do it quickly. We have made significant progress but the pace of change must be accelerated if we are to realise our vision of being the platform of choice. Our Three-Year Plan 2007-2009 launched last December sets out the steps we are taking to ensure this.

We have also been undertaking work to ensure that the market is attractive to new entrants. Over the past year, we have seen new syndicates enter the market and I led a review of the Annual Venture which recommended new ways in which private capital can invest in Lloyd's.

It seems to be fashionable, even sometimes by those in Government to heap criticism on the FSA. We take the contrary view. They carry out an essential and complex task well, they are always ready to listen, and one of the reasons our reputation around the world remains so high, is in part, because it is known that they are there to regulate us.

No Chairman's statement would be complete without thanking those who contribute to our success. I would particularly like to thank those members of Council who have recently completed their terms of office, in particular Broniek Masojada, who has been a source of invaluable and instantly available advice to me in his role as Deputy Chairman.

In March of this year, we also say goodbye and thank you to Sir Brian Hayes who has served as Lloyd's Members' Ombudsman since 1994. During the past 13 years he has played an important role in seeking to ensure that the Society maintains the highest standards in its dealings with its members. He is succeeded by Sir Robin Mountfield.

Finally I would like to thank all of those who work for the Corporation under Richard's leadership. I know that they are proud of this institution, and we are proud of them.

Peter Levene, Chairman

28 March 2007



INVESTING FOR THE FUTURE: LLOYD'S IN CHINA

China is predicted to become the world's largest economy by 2040. So the approval by the Chinese regulator in March 2007 to begin operations for Lloyd's new reinsurance company in Shanghai, Lloyd's Reinsurance Company (China) Limited (LRCL), is very significant. Already, 17 managing agents will be participating in Lloyd's China, with a number transferring underwriters to the Shanghai office.

Insurance will play a pivotal role in the development of this emerging economic superpower. The licence will enable Lloyd's to reinsure local currency business, which is estimated to comprise some 70% of the total Chinese reinsurance market. This will extend the market's foothold in the world's fastest growing economy, while providing Chinese insurers with access to the specialist underwriting expertise – and the capital – at Lloyd's.

Much of China's economic development is taking place in areas with catastrophic risk exposures. As Chinese businesses grow they encounter increasing global scrutiny. Lloyd's can draw on decades of offshore trading with China, in areas such as marine and aviation, to help ensure these risks are properly managed. The Chinese insurance market is in its infancy, but it won't be for long. This is an investment for the future.