

LLOYD'S MARKET RESULTS

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LLOYD'S ANNUAL REPORT

The Lloyd's Annual Report presents the financial results of the Society of Lloyd's and its members. Lloyd's is not an insurance company. It is a Society of members, both corporate and individual, which underwrite insurance in syndicates. These syndicates can comprise one single corporate member or any number of corporate and individual members, underwriting severally for their own account. In view of Lloyd's unique structure, this report includes three sets of financial statements:

- Pro forma financial statements;
- Aggregate Accounts; and
- Society of Lloyd's report and financial statements.

The reason for each of these sets of accounts and the relationship between them is explained below.

Pro forma financial statements (pages 39 to 45)

The pro forma financial statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies. The PFFS include the Aggregate Accounts (as below), members' funds at Lloyd's (FAL) and the Society of Lloyd's financial statements (as below).

The Aggregate Accounts report the results for all syndicates which transacted business during the year and include the syndicate level assets, which represent the first link in the Lloyd's chain of security, as described in detail in the 'Security underlying policies issued at Lloyd's' section on pages 58 to 62.

The capital provided by members is held centrally as FAL, not at syndicate level, and is not, therefore, reported in the Aggregate Accounts. FAL represent the second link in the chain of security. The non-technical account of the PFFS includes a notional investment return on FAL.

The Society of Lloyd's financial statements report the central resources of the Society, which form the third link in Lloyd's chain of security. The Aggregate Accounts are prepared using UK GAAP, and, therefore, the central resources of the Society within the PFFS are also presented this way for consistency. The Society financial statements are prepared using IFRS and the financial effects of the differences between the two bases of presentation are reflected in the PFFS.

The profit and loss account in the PFFS, therefore, aggregates the syndicate underwriting results, the notional investment return on members' capital and the results of the Society of Lloyd's. The balance sheet in the PFFS aggregates the assets held at syndicate level, members' assets held as FAL and the central resources of the Society. Overall, therefore, the PFFS aggregate the results and resources of the Society and its members and reflect all the links in Lloyd's chain of security. The PFFS may, therefore, be used as a reasonable presentation of the pre-tax results and state of affairs of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

Aggregate Accounts (pages 47 to 57)

The Aggregate Accounts represent the total of the accounts reported by syndicates in their own audited financial statements.

Lloyd's is required to present this aggregation in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. The syndicate annual accounts are prepared on an annual accounting basis, in accordance with UK GAAP.

The Aggregate Accounts replace the global accounts on a three-year basis which are no longer prepared. The aggregation also reflects the restated 2004 comparative figures as reported in syndicate annual accounts. The change in presentation from using three-year accounting to annual accounting has no impact on the result ultimately attributable and distributable to members.

Society of Lloyd's report and financial statements (pages 93 to 140)

The group financial statements of the Society of Lloyd's (the 'Society') comprise the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates.

Byelaws made under Lloyd's Act 1982 require that the financial statements of the Society are prepared and approved by the Council of Lloyd's, and are subsequently approved by the members of Lloyd's in a general meeting.

Following the issue by the Society of subordinated loan notes, which are listed on the London Stock Exchange, the Society has been admitted to trading on a regulated market within the European Union and has adopted International Financial Reporting Standards (IFRS) from 1 January 2005. The Society previously used UK GAAP as its basis for accounting and the 2004 comparative figures have been restated on an IFRS basis.

REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE 2005 LLOYD'S PRO FORMA FINANCIAL STATEMENTS

We have examined the Lloyd's pro forma financial statements ('PFFS') for the year ended 31 December 2005, which comprise the pro forma profit and loss account, the pro forma statement of total recognised gains and losses, the pro forma balance sheet and the pro forma cash flow statement and the related notes 1 to 12, which have been prepared on the basis set out in note 2.

This report is made solely to the Council of Lloyd's in accordance with its instructions to us. Our work has been undertaken so that we might state to the Council those matters which we are required to state in this report in accordance with the Council's instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the addressee of this report, for our work, for this report, or for the conclusions we have formed.

Respective responsibilities of the Council of Lloyd's and Ernst & Young LLP

The Council of Lloyd's is responsible for the preparation and approval of the PFFS.

Our responsibility is to examine the PFFS and to report to you whether the PFFS have been properly prepared in accordance with the basis of preparation set out in note 2.

Basis of Conclusion

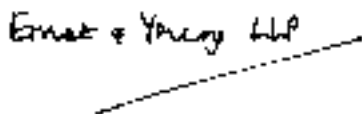
The PFFS have been compiled in part from an aggregation of financial information extracted from the balance sheet and profit and loss account included in syndicate accounts by the managing agent of each syndicate, which has been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported. We have relied absolutely on those reports by syndicate auditors. We have not audited those extractions. Our work is solely intended to enable us to make this report.

Our work, which has been carried out in accordance with International Standard on Assurance Engagements, ISAE 3000, 'Assurance Engagements other than audits or reviews of Historical Financial Information', consisted principally of making enquiries of the Council of Lloyd's and applying analytical procedures to the financial information and underlying financial data. It excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions as included in the PFFS. We have also carried out such investigations and examined such evidence, on a test basis, as we considered necessary to form an opinion as to whether the PFFS have been properly prepared in accordance with the basis of preparation set out in note 2.

However, our work provides less assurance than an audit or a review in accordance with International Auditing Standards. We have not performed an audit and, consequently, we do not express an audit opinion on the financial information set out in the PFFS.

Conclusion

In our opinion, the PFFS for the financial year ended 31 December 2005 have been properly prepared in accordance with the basis of preparation set out in note 2.

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive style and is positioned above a solid horizontal line that extends to the right.

Ernst & Young LLP, London

5 April 2006

PRO FORMA PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005

	Note	2005		2004 Restated	
		£m	£m	£m	£m
Technical account					
Gross premiums written – continuing operations		14,979		14,268	
– discontinued operations	5	3		346	
			14,982		14,614
Outward reinsurance premiums			(3,212)		(2,880)
Premiums written, net of reinsurance			11,770		11,734
Change in the gross provision for unearned premiums		230		380	
Change in provision for unearned premiums, reinsurers' share		(215)		(317)	
			15		63
Earned premiums, net of reinsurance			11,785		11,797
Allocated investment return transferred from the non-technical account			705		532
			12,490		12,329
Claims paid					
Gross amount		10,181		8,387	
Reinsurers' share		(3,418)		(2,967)	
			6,763		5,420
Change in provision for claims					
Gross amount		6,726		1,388	
Reinsurers' share		(3,984)		838	
			2,742		2,226
Claims incurred, net of reinsurance			9,505		7,646
Net operating expenses	10		3,668		3,755
Balance on the technical account for general business			(683)		928
Attributable to – continuing operations			(538)		1,652
– discontinued operations	5		(145)		(724)
Total			(683)		928
Non-technical account					
Balance on the technical account for general business			(683)		928
Syndicate investment return		705		532	
Notional investment return on funds at Lloyd's		602		487	
Investment return and other income on Society assets		191		148	
		1,498		1,167	
Allocated investment return to the technical account		705		532	
			793		635
Other expenses			(213)		(196)
Result for the financial year before tax	8		(103)		1,367
Statement of total recognised gains and losses					
	Note		2005 £m		2004 Restated £m
Result for the financial year			(103)		1,367
Other recognised gains and losses			42		(22)
Total recognised gains and losses	8		(61)		1,345

PRO FORMA BALANCE SHEET

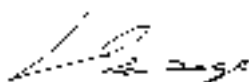
as at 31 December 2005

	Note	2005		2004 Restated	
		£m	£m	£m	£m
Investments					
Financial investments	11		25,523		22,068
Deposits with ceding undertakings					
			14		15
Reinsurers' share of technical provisions					
Claims outstanding		14,450		9,678	
Unearned premiums		696		872	
			15,146		10,550
Debtors					
Debtors arising out of direct operations		3,853		3,444	
Debtors arising out of reinsurance operations		3,629		3,411	
Other debtors		685		687	
			8,167		7,542
Other assets					
Tangible assets		17		16	
Cash at bank and in hand	12	8,045		8,105	
Overseas deposits		1,444		1,239	
Other		10		12	
			9,516		9,372
Prepayments and accrued income					
Accrued interest and rent		93		63	
Deferred acquisition costs		1,503		1,444	
Other prepayments and accrued income		91		111	
			1,687		1,618
Total assets					
			60,053		51,165
Capital, reserves and subordinated loan notes					
Members' funds at Lloyd's		10,206		9,622	
Members' balances		(408)		1,426	
Central reserves		693		615	
Capital and reserves					
	8	10,491		11,663	
Subordinated loan notes		501		506	
			10,992		12,169
Technical provisions					
Provision for unearned premiums		6,829		6,780	
Claims outstanding		37,719		28,849	
			44,548		35,629
Deposits received from reinsurers					
			142		37
Creditors					
Creditors arising out of direct insurance operations		884		458	
Creditors arising out of reinsurance operations		2,228		1,894	
Other creditors including taxation		1,113		758	
			4,225		3,110
Accruals and deferred income					
			146		220
Total liabilities					
			60,053		51,165

Signed on behalf of the Council of Lloyd's on 5 April 2006



Lord Levene of Portsoken, Chairman



Luke Savage, Director, Finance and Risk Management
and Acting CEO

PRO FORMA CASH FLOW STATEMENT

for the year ended 31 December 2005

	2005	2004
	£m	Restated £m
Result on ordinary activities before tax	(103)	1,367
Depreciation	2	3
Realised and unrealised (gains)/losses and foreign exchange	(1,060)	690
Net purchase of investments	(2,212)	(4,302)
Notional return on funds at Lloyd's	(602)	(487)
Increase in technical provisions	4,314	1,774
(Increase)/decrease in debtors	(519)	1,369
Increase/(decrease) in creditors	1,031	(501)
Cash generated from operations	851	(87)
Income taxes received/(paid)	82	(58)
Net cash from operating activities	933	(145)
Cash flows from financing activities		
Net (profits)/losses (paid to)/received from members	(994)	510
Increase in loans	40	–
Interest paid	(39)	–
Issue of subordinated loan notes	–	504
Net (decrease)/increase in cash holdings	(60)	869
Cash holdings at 1 January	8,105	7,236
Cash holdings at 31 December	8,045	8,105

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS

for the year ended 31 December 2005

1. Introduction

Lloyd's is not an insurance company. It is a Society of members which underwrite insurance (each for their own account) as members of syndicates. The pro forma financial statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies.

2. Basis of preparation

General

The PFFS include the Aggregate Accounts (pages 47 to 57), members' funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's, also known as the Corporation of Lloyd's, (pages 93 to 140).

The Aggregate Accounts report the audited results for calendar year 2005 and the financial position at 31 December 2005 for all syndicates which transacted business during the year. The Aggregate Accounts include the syndicate level assets, which represent the first link in the chain of security (see pages 58 to 62).

The capital provided by members is held centrally as FAL, not at syndicate level, and is not, therefore, reported in the Aggregate Accounts. FAL represent the second link in the chain of security. The non-technical account of the PFFS includes a notional investment return on FAL.

The Society of Lloyd's audited financial statements report the central resources of the Society, which form the third link in Lloyd's chain of security.

The profit and loss account in the PFFS, therefore, aggregates the syndicate underwriting results, the notional investment return on members' capital and the results of the Society of Lloyd's. The balance sheet in the PFFS aggregates the assets held at syndicate level, members' assets held as funds at Lloyd's and the central resources of the Society. Overall, therefore, the PFFS aggregate the results and resources of the Society and its members and reflect all the links in Lloyd's chain of security as described in detail in the 'Security underlying policies issued at Lloyd's' section on pages 58 to 62. The PFFS may, therefore, be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

Comparative figures for calendar year 2004

The comparative figures for calendar year 2004 have been restated. This is necessary for two reasons:

- The pro-forma annual accounting statements in the 2004 Annual Report were compiled from syndicate returns prepared by managing agents in accordance with instructions issued by Lloyd's. The agents were required to follow relevant accounting policies as set out in the instructions. With effect from 1 January 2005, syndicates prepare their annual accounts in accordance with UK GAAP and each business applies the accounting policies appropriate to their business. The restated figures for 2004 in the PFFS are based on the comparative figures for calendar year 2004, included in the Aggregate Accounts and reflect the differences arising now that full annual accounting has been adopted by syndicates. The comparative figures also include the results and net assets of ten syndicates which closed by reinsurance in 2004;
- The Society's financial statements have been restated to include the results of its two insurance subsidiary undertakings, Centrewrite Limited and Lioncover Insurance Company Limited, and the adoption of FRS 17 'Retirement Benefits' as required under UK GAAP from 1 January 2005.

Taxation

The PFFS report the market's result before tax. Members are directly responsible for tax payable on their syndicate results and investment income on FAL. For consistency, therefore, the results of the Society are also included pre-tax in the profit and loss account. The balance sheet includes the tax provisions in the Society financial statements.

Funds at Lloyd's

Funds at Lloyd's (FAL) comprise the capital provided by members to support their underwriting, and are the equivalent of capital shown in insurance companies' accounts. The valuation of FAL has been included in the pro forma balance sheet.

FAL comprise the three trust funds in which members' assets may be held: the Lloyd's deposit, the special reserve fund and the personal reserve fund held under the terms of the premiums trust deed. These are each available to meet cash calls made on the member in respect of a syndicate. The assets in funds at Lloyd's must be readily realisable, may include letters of credit and bank and other guarantees, and must be at least equivalent to the aggregate of the members' net funds at Lloyd's requirement and certain liabilities in respect of its underwriting business. Each member's net funds at Lloyd's requirement to support its underwriting at Lloyd's is determined using Lloyd's Individual Capital Assessment (ICA) capital setting methodology.

42 Market results

A notional investment return on FAL has been calculated, which is the equivalent of insurance companies generating investment return on the capital that they hold to support their underwriting. The notional investment return is calculated on the average value of FAL during the year, based on indices yields on each type of asset held. The typical investment return on bank deposits has been applied to FAL provided as letters of credit or bank guarantees.

Society of Lloyd's financial statements

The PFFS include the results and assets reported in the consolidated financial statements of the Society of Lloyd's, comprising the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates.

In order to present the Society financial information on a basis consistent with the Aggregate Accounts, the Society financial information is presented on a UK GAAP basis within the PFFS. The effect of restating the Society financial statements is shown in note 8, and described in the conversion to IFRS document set out in note 30 to the Society financial statements.

Transactions between syndicates and the Society

- (1) Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate annual accounts and as income in the Society financial statements.
- (2) Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls and do not have the resources to meet those cash calls are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund other income includes recoveries from insolvent members. The Aggregate Accounts for calendar year 2005 and earlier years include those members' results and balances.
- (3) Syndicate loans to the Central Fund (and annual interest payments on the loans) are reported as assets (and accrued income) within the Aggregate Accounts. The Society financial statements report the loans as equity and account for interest payable when the Council formally approves interest payments.
- (4) Loans funding statutory overseas deposits are reported as assets within the syndicate annual accounts and as liabilities in the Society financial statements.

Transactions between the syndicates and the Society which have been reported within both the Aggregate Accounts and the Society financial statements have been eliminated (note 8).

Intra-syndicate loans

The Aggregate Accounts report debtor and creditor balances for intra-syndicate loans totalling £315m (2004: £245m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the PFFS.

Subordinated loan notes

In late 2004, Lloyd's raised capital by issuing £500m of subordinated loan notes. In accordance with the terms of these notes, the capital raised is available for payment to policyholders in advance of repayment to the note holders. Accordingly, the amount of the notes is included in the 'capital, reserves and subordinated loan notes' as reported in the pro forma balance sheet.

3. Accounting policies notes

A. Aggregate Accounts

The accounting policies adopted in respect of the syndicate annual accounts are set out on pages 50 to 52 of the Aggregate Accounts.

B. Funds at Lloyd's

Funds at Lloyd's are valued in accordance with their market value at the year end, and using year end exchange rates.

C. Society of Lloyd's

The accounting policies adopted in the Society of Lloyd's financial statements in accordance with IFRS are set out on pages 96 to 103.

4. Variability

Calendar year movements in reserves are based upon best estimates as at 31 December 2005 taking into account all available information as at the Balance Sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimate are reflected in the technical account of the year in which they occur.

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS continued

for the year ended 31 December 2005

The effect of claims from hurricanes Katrina, Rita and Wilma are included in the PFFS based on the disclosures reported in the Aggregate Accounts (see note 6 on page 53).

5. Discontinued operations

Continuing/discontinued operations represent the analysis reported in the syndicate annual accounts between business that they are continuing to underwrite and business that they have ceased to underwrite. It is quite possible, however, that business discontinued by one syndicate continues to be written at Lloyd's by one or more other syndicates.

Where business has been reported as discontinued in 2005, the results for that business have also been reported as discontinued in the 2004 comparative figures.

6. Members' funds at Lloyd's

The valuation of members' funds at Lloyd's (FAL) in the balance sheet totals £10,206m (2004: £9,622m).

The notional investment return on FAL included in the non-technical profit and loss account totals £602m (2004: £487m).

7. Society of Lloyd's

The results of the group financial statements of the Society included in the profit and loss account are a net profit of £183m (2004: £2m loss) in the technical account and a net loss of £13m (2004: £36m loss) in the non-technical account.

8. Aggregation of results and net assets

A reconciliation between the results, statement of realised gains and losses and net assets reported in the Aggregate Accounts, members' funds at Lloyd's and the Society financial statements is set out below:

	2005	2004 Restated
	£m	£m
Result per aggregate financial statements	(871)	975
Result per Society financial statements under IFRS	(28)	123
Central Fund claims and provisions in Society financial statements	224	153
Central Fund recoveries from insolvent members	(12)	(20)
Adjustments arising due to pre-tax differences between IFRS and UK GAAP in Society financial statements	3	(333)
Taxation (credit)/charge in Society financial statements	(17)	39
Interest receivable on syndicate loans to Central Fund accrued in Aggregate Accounts	(4)	–
Results of syndicates closed by reinsurance in 2004	–	(57)
Notional investment return on members' funds at Lloyd's	602	487
PFFS result on ordinary activities pre-tax	(103)	1,367

	2005	2004 Restated
	£m	£m
Result for the financial year	(103)	1,367
Other recognised gains and losses per Aggregate Accounts	(14,832)	(212)
Other recognised gains and losses per Society financial statements	(1)	2
Elimination of prior year adjustment in Aggregate Accounts	14,875	188
Total recognised gains and losses	(61)	1,345

	2005	2004 Restated £m
	£m	
Net assets per Aggregate Accounts	(463)	1,385
Net assets of syndicates closed by reinsurance in 2004	–	(51)
Equity per Society financial statements under IFRS	765	690
Central Fund claims and provisions in Society financial statements	166	92
Adjustments arising due to differences between IFRS and UK GAAP in Society financial statements	(72)	(75)
Members' funds at Lloyd's	10,206	9,622
Syndicate loans to Central Fund in Aggregate Accounts	(107)	–
Interest receivable on syndicate loans to Central Fund accrued in Aggregate Accounts	(4)	–
Capital and reserves per PFFS	10,491	11,663

Transactions between syndicates and the Society which have been reported within both the Aggregate Accounts and the Society financial statements have been eliminated in the PFFS as set out in note 2.

9. Segmental analysis

A segmental analysis of the insurance operations of Lloyd's syndicates is reported in the Aggregate Accounts (note 4 on pages 52 and 53). The Society financial statements include a segmental analysis of the activities of the Corporation's insurance subsidiary undertakings, Centrewrite Limited and Lioncover Insurance Company Limited (note 3 on pages 103 to 106). These disclosures have not been repeated in the PFFS.

	2005	2004 Restated £m
	£m	
10. Net operating expenses		
Acquisition costs	2,921	2,803
Change in deferred acquisition costs	(8)	2
Administrative expenses	872	880
(Profit)/loss on exchange	(117)	70
	3,668	3,755

	Market value	
	2005	2004 Restated £m
	£m	
11. Financial Investments		
Shares and other variable yield securities and units in unit trusts	2,398	2,498
Debt securities and other fixed income securities	20,279	17,095
Participation in investment pools	564	704
Loans and deposits with credit institutions	2,275	1,737
Other	7	34
	25,523	22,068

12. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' funds at Lloyd's to meet policyholder claims as required, totalling £5,595m (2004: £5,712m).

AGGREGATE ACCOUNTS

Statement of Council's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ('the Regulations') require the Council of Lloyd's to prepare Aggregate Accounts in respect of the financial year by totalling all the syndicate annual accounts prepared in accordance with Regulation 3 of the Regulations.

The Regulations also require the Council to prepare an Annual Report on the insurance business carried on by the members of Lloyd's during the financial year. The Annual Report is set out in the Market Commentary on pages 14 to 17, 20, 21, 24, 25, 28 and 29.

Report of Ernst & Young LLP to the Council of Lloyd's on the 2005 Lloyd's Aggregate Accounts

We have examined the Lloyd's Aggregate Accounts for the year ended 31 December 2005, which comprise an aggregate profit and loss account, aggregate statement of total recognised gains and losses, aggregate balance sheet and aggregate statement of cash flows and the related notes 1 to 23, together with the Annual Report which have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ('the Regulations') on the basis set out in note 1.

This report is made solely to the Council of Lloyd's in accordance with the Regulations. Our work has been undertaken so that we might state to the Council those matters which we are required to state in this report in accordance with the Regulations and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the addressee of this report, for our work, for this report, or for the conclusions we have formed.

Respective responsibilities of the Council of Lloyd's and Ernst & Young LLP

As described in the Statement of Responsibilities, the Council of Lloyd's is responsible for the preparation and approval of the Aggregate Accounts and the Annual Report in accordance with the Regulations.

Our responsibility is to examine the Aggregate Accounts and the Annual Report and to report to you whether the Aggregate Accounts and the Annual Report have been properly prepared and correctly aggregated in accordance with the Regulations. We also report to you if the Aggregate Accounts are not consistent with the syndicate information which has been aggregated to prepare the Aggregate Accounts, if the Annual Report is not consistent with the Aggregate Accounts or if we have not received all the information and explanations we require for the purposes of our work. We read the Annual Report and consider whether it is consistent with the Aggregate Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Aggregate Accounts. Our responsibilities do not extend to any other information.

Basis of conclusion

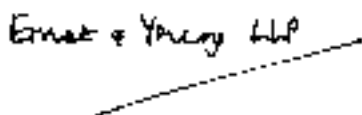
The Aggregate Accounts have been compiled from an aggregation of financial information extracted from the balance sheet and profit and loss account included in syndicate accounts by the managing agent of each syndicate which has been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported. We have relied absolutely on those reports by syndicate auditors. We have not audited those extractions. Our work is solely intended to enable us to make this report.

Our work, which has been carried out in accordance with International Standard on Assurance Engagements, ISAE 3000, 'Assurance Engagements other than audits or reviews of Historical Financial Information', consisted principally of making enquiries of the Council of Lloyd's and applying analytical procedures to the financial information and underlying financial data. It excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions as included in the Aggregate Accounts and the Annual Report. We have also carried out such investigations and examined such evidence, on a test basis, as we considered necessary to form an opinion as to whether the Aggregate Accounts and the Annual Report have been properly prepared and correctly aggregated in accordance with the Regulations.

However, our work provides less assurance than an audit or a review in accordance with International Auditing Standards. We have not performed an audit and, consequently, we do not express an audit opinion on the financial information set out in the Aggregate Accounts or the Annual Report.

Conclusion

In our opinion, the Aggregate Accounts and the Annual Report for the financial year ended 31 December 2005 have been properly prepared and correctly aggregated in accordance with the Regulations.



Ernst & Young LLP, London

5 April 2006

AGGREGATE PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005

	Notes	2005		2004	
		£m	£m	Restated £m	£m
Technical account					
Gross premiums written – continuing operations		14,997		14,319	
– discontinued operations		3		368	
	4		15,000		14,687
Outward reinsurance premiums			(3,212)		(2,872)
Premiums written, net of reinsurance			11,788		11,815
Change in the provision for unearned premiums					
Gross amount		230		367	
Reinsurers' share		(215)		(315)	
Change in the net provision for unearned premiums			15		52
Earned premiums, net of reinsurance			11,803		11,867
Allocated investment return transferred from the non-technical account			709		524
			12,512		12,391
Claims paid					
Gross amount		10,073		8,041	
Reinsurers' share		(3,310)		(2,829)	
			6,763		5,212
Change in provision for claims					
Gross amount		6,674		1,839	
Reinsurers' share		(3,911)		295	
			2,763		2,134
Claims incurred, net of reinsurance			9,526		7,346
Net operating expenses	9		3,848		4,058
Balance on the technical account for general business			(862)		987
Attributable to – continuing operations		(717)		1,347	
– discontinued operations		(145)		(360)	
Total			(862)		987
Non-technical account					
Balance on the technical account for general business			(862)		987
Investment income	10	942		754	
Unrealised gains on investments		(80)		(25)	
Investment expenses and charges	11	(153)		(205)	
Allocated investment return transferred to the technical account		(709)		(524)	
Other charges	12	(9)		(12)	
Balance on the non-technical account			(9)		(12)
Result for the financial year			(871)		975
Statement of total recognised gains and losses					
	Notes		2005 £m		2004 Restated £m
Result for the financial year			(871)		975
Exchange differences on translating foreign operations			43		(24)
Prior year adjustment	7		(14,875)		(188)
Total recognised gains and losses			(15,703)		763

AGGREGATE BALANCE SHEET

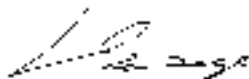
as at 31 December 2005

	Notes	2005		2004 Restated	
		£m	£m	£m	£m
Investments					
Financial investments	13		19,650		16,817
Deposits with ceding undertakings					
			14		15
Reinsurers' share of technical provisions					
Claims outstanding		13,929		9,090	
Unearned premiums		696		872	
			14,625		9,962
Debtors					
Debtors arising out of direct operations	14	3,853		3,433	
Debtors arising out of reinsurance operations	15	3,650		3,371	
Other debtors		937		773	
			8,440		7,577
Other assets					
Cash at bank and in hand		2,386		2,268	
Other		1,454		1,523	
			3,840		3,791
Prepayments and accrued income					
Accrued interest and rent		92		62	
Deferred acquisition costs		1,503		1,444	
Other prepayments and accrued income		81		92	
			1,676		1,598
Total assets					
			48,245		39,760
Capital and reserves					
Members' balances	16		(463)		1,385
Technical provisions					
Provision for unearned premiums		6,829		6,780	
Claims outstanding		37,202		28,243	
			44,031		35,023
Deposits received from reinsurers					
			142		37
Creditors					
Creditors arising out of direct insurance operations	17	884		454	
Creditors arising out of reinsurance operations	18	2,228		1,812	
Other creditors		1,317		870	
			4,429		3,136
Accruals and deferred income					
			106		179
Total liabilities					
			48,245		39,760

Signed on behalf of the Council of Lloyd's on 5 April 2006



Lord Levene of Portsoken, Chairman



Luke Savage, Director, Finance and Risk Management
and Acting CEO

AGGREGATE STATEMENT OF CASH FLOWS

for the year ended 31 December 2005

	Notes	2005 £m	2004 Restated £m
Net cash inflow from operating activities	19	2,948	3,976
Transfer (to)/from members in respect of underwriting participations		(994)	370
Financing			
Increase in bank/inter-syndicate loans		50	164
Other		(10)	1
		1,994	4,511
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings	20	(18)	310
Net portfolio investments		2,012	4,201
Net investment of cash flows		1,994	4,511

NOTES TO THE AGGREGATE ACCOUNTS

for the year ended 31 December 2005

1. Basis of preparation

A Basis of reporting

The Aggregate Accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004, and in accordance with applicable Accounting Standards and under the historic cost accounting rules, modified to include the revaluation of investments, in accordance with the provisions of Section 255A, Schedule 9A and other requirements of the Companies Act 1985.

B Aggregation of syndicate annual accounts

The Aggregate Accounts as at 31 December 2005 have been prepared by totalling the annual accounts of the 123 syndicates reporting as at 31 December 2005. The result does not present a consolidated view of the results of Lloyd's business taken as a single entity and, in particular, it does not eliminate inter-syndicate reinsurances.

2. Change in reporting basis

The result for the year is determined on the annual basis of accounting in accordance with UK GAAP. This represents a fundamental change in reporting basis rather than a series of changes in accounting policies. The prior year figures have been restated as set out in note 7. The comparative figures exclude syndicates which closed by reinsurance in 2004 and have not, therefore, prepared annual accounts as at 31 December 2005.

3. Accounting policies

General

Under the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004, managing agents must prepare the syndicate annual accounts under UK GAAP. However, where UK GAAP permits different accounting treatments, each managing agent is able to adopt the accounting policies it considers most appropriate to its syndicate. The following accounting policies are therefore generic in nature.

Premiums written

Premiums written represent premiums on business incepting during the year, together with adjustments for premiums written in previous accounting periods. Premiums written are stated before deduction of commissions but net of taxes, duties levied on premiums and other deductions.

Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportioned as appropriate.

Reinsurance premium ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Statistical techniques are used to assist in making these estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future

50 Market results

claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors of each syndicate's managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events, which may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated at syndicate level by reference to classes of business which are managed together, and may take into account relevant investment return.

Acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Foreign currencies

Income and expenditure in foreign currencies are translated into pound sterling using the exchange rates prevailing at the date of the transactions or, the average rate may be used when this is a reasonable approximation.

Where the overseas operations for a syndicate are treated as a branch, its branch assets and liabilities are translated into pound sterling at the rates of exchange ruling at the balance sheet date. The exchange differences arising from the re-translation of the opening net investment in the branch are accounted for through reserves.

For other overseas operations, monetary assets and liabilities are translated into pound sterling at the rates of exchange ruling at the balance sheet date. Resulting exchange differences on translation may be recorded in the profit and loss account.

Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at their bid price market value, and deposits with credit institutions and overseas deposits are stated at cost.

Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

NOTES TO THE AGGREGATE ACCOUNTS

for the year ended 31 December 2005

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

No provision has been made for any overseas tax payable by members on underwriting results.

Operating expenses

Operating expenses (including pension and other staff costs) have been charged to the syndicates in accordance with the policies adopted by the managing agents.

Profit commission

Where profit commission is charged by the managing agent it does not become payable until after the appropriate year of account closes, normally at 36 months. The profit commission is accrued in the profit and loss account in accordance with the earned profit.

4. Segmental analysis

The following segmental analysis is derived from the equivalent notes in the syndicate annual accounts. The syndicate annual accounts report the material direct classes of business and aggregate the balance as 'other'. Consequently, aggregation of those figures is not meaningful. Syndicates have provided returns to Lloyd's, including segmental analysis and syndicate auditors have given review opinions confirming that those returns have been prepared in accordance with instructions issued by Lloyd's, and that they are consistent with the syndicate annual accounts. Those figures have been aggregated to provide the following tables:

	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Operating expenses £m	Re-insurance balance £m	Result £m
2005						
Accident and health	410	424	(227)	(160)	(57)	(20)
Motor (third-party liability)	98	105	(73)	(33)	–	(1)
Motor (other classes)	797	874	(557)	(238)	4	83
Marine, aviation and transport	2,024	1,983	(2,686)	(521)	1,195	(29)
Fire and other damage to property	3,118	3,151	(3,411)	(877)	681	(456)
Third-party liability	2,992	3,162	(2,133)	(752)	(78)	199
Pecuniary loss	224	223	(235)	(65)	28	(49)
Life	47	44	(13)	(21)	(9)	1
Other	29	25	(16)	(9)	8	8
Total direct	9,739	9,991	(9,351)	(2,676)	1,772	(264)
Reinsurance acceptances	5,261	5,239	(7,396)	(1,172)	2,022	(1,307)
Total	15,000	15,230	(16,747)	(3,848)	3,794	(1,571)

	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Operating expenses £m	Re-insurance balance £m	Result £m
2004 restated						
Accident and health	457	458	(299)	(149)	(14)	(4)
Motor (third-party liability)	128	126	(92)	(34)	11	11
Motor (other classes)	887	914	(646)	(227)	7	48
Marine, aviation and transport	2,034	2,095	(1,167)	(569)	(129)	230
Fire and other damage to property	3,231	3,333	(1,953)	(990)	(218)	172
Third-party liability	3,358	3,551	(2,665)	(960)	11	(63)
Pecuniary loss	213	240	(261)	(70)	(19)	(110)
Life	65	35	(20)	(7)	3	11
Other	47	50	(164)	(12)	104	(22)
Total direct	10,420	10,802	(7,267)	(3,018)	(244)	273
Reinsurance acceptances	4,267	4,252	(2,613)	(1,040)	(409)	190
Total	14,687	15,054	(9,880)	(4,058)	(653)	463

The syndicate returns to Lloyd's provided additional information to derive the following table in respect of the classes of business reviewed in the Market Commentary:

	Gross premiums written £m	Net earned premium £m	Result £m
2005			
Reinsurance	5,261	3,722	(1,307)
Casualty	3,402	2,949	179
Property	3,199	2,474	(457)
Marine	1,017	853	73
Motor	895	937	82
Energy	804	508	(238)
Aviation	375	327	96
Life	47	33	1
Total	15,000	11,803	(1,571)

5. Life business

The Aggregate Accounts include the results of all life and non-life syndicates transacting business during 2005. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results and net assets for life business are reported in the segmental analysis (note 4).

6. 2005 US hurricanes

The effect of claims from hurricanes Katrina, Rita and Wilma are included in the Aggregate Accounts. The size and complexity of the losses arising, particularly the unusual combination of wind storm and flood for hurricane Katrina, creates an additional level of uncertainty, but not over and above that normally associated with establishing claims reserves for insurance business.

All syndicates have provided unaudited returns to Lloyd's including the estimated impact of the 2005 US hurricanes. Based on these returns, the estimated effect of the 2005 US hurricanes is gross claims of £8.8bn and net claims of £3.3bn, after accounting for reinsurance recoveries, inwards reinstatement premiums and outwards reinstatement premiums. These estimates do not take into account, *inter alia*, the original premium income on policies which have given rise to claims and do not, therefore, represent an estimate of the overall financial position resulting from those policies.

7. Change in reporting basis

As set out in note 2, these accounts are presented using the annual basis of accounting. Prior to 1 January 2005, the global results were prepared in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 1993. Syndicate results were reported on the three-year basis whereby the result was ascertained only at the end of the third year when the year of account was closed by reinsurance, normally to the syndicate's following year of account. Under the three-year basis, premiums were recognised on a cash basis, net of brokerage, and no technical provisions were made in the accounts until the end of the third year.

This change represents a fundamental difference in the reporting basis rather than a series of changes of accounting policies. Comparative amounts for 2004 have been restated. The impact of the change in reporting basis on the financial statements for the previous period is summarised below:

	£m	2004 £m
Members' balances under previous basis		16,260
Annual accounting adjustments arising from:		
Premiums	1,185	
Claims	(6,816)	
Expenses	(3,870)	
Reinsurance to close	(5,380)	
Other	6	
		(14,875)
Members' balances restated under new basis		1,385

The change in the basis of accounting has no effect on the quantum and allocation of profits and losses ultimately attributable to members.

NOTES TO THE AGGREGATE ACCOUNTS continued

for the year ended 31 December 2005

8. Claims outstanding

The aggregate of the prior year surpluses/deficiencies is a surplus of £14m. The surplus primarily arises in respect of short-tail classes for the 2002 and 2003 accident years offset by additional reserves established for professional liability business written in 1998 to 2001.

	2005	2004 Restated
	£m	£m
9. Net operating expenses		
Acquisition costs	2,921	2,803
Change in deferred acquisition costs	(8)	(1)
Administrative expenses	1,052	1,185
(Profit)/loss on exchange	(117)	71
	3,848	4,058

	2005	2004 Restated
	£m	£m
10. Investment income		
Income from investments	843	673
Gains on the realisation of investments	99	81
	942	754

	2005	2004 Restated
	£m	£m
11. Investment expenses and charges		
Investment management expenses, including interest	22	17
Losses on realisation of investments	131	188
	153	205

12. Other charges

Included in other charges are exchange losses of £3m (2004: £1m).

	Market value		Cost	
	2005	2004 Restated	2005	2004 Restated
	£m	£m	£m	£m
13. Financial investments				
Shares and other variable yield securities and units in unit trusts	1,350	1,583	1,302	1,476
Debt securities and other fixed income securities	17,231	14,069	17,325	14,154
Participation in investment pools	123	362	121	363
Loans and deposits with credit institutions	939	777	906	781
Other	7	26	12	38
	19,650	16,817	19,666	16,812

	2005	2004 Restated £m
	£m	
14. Debtors arising out of direct insurance operations		
Due within one year		
– policyholders	83	41
– intermediaries	3,748	3,352
Due after one year		
– policyholders	–	35
– intermediaries	22	5
	3,853	3,433

	2005	2004 Restated £m
	£m	
15. Debtors arising out of reinsurance operations		
Due within one year	3,621	3,349
Due after one year	29	22
	3,650	3,371

	2005	2004 Restated £m
	£m	
16. Reconciliation of members' balances		
Members' balances brought forward at 1 January (note 7)	16,260	10,699
Prior year adjustment (note 7)	(14,875)	(10,570)
Members' balances restated at 1 January (note 7)	1,385	129
Result for the financial year	(871)	975
Transfers (to)/from members' personal reserve funds	(977)	281
Members' balances carried forward at 31 December	(463)	1,385

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account with reference to policies incepting in that year of account.

	2005	2004 Restated £m
	£m	
17. Creditors arising out of direct insurance operations		
Due within one year	883	454
Due after one year	1	–
	884	454

NOTES TO THE AGGREGATE ACCOUNTS continued

for the year ended 31 December 2005

	2005	2004 Restated £m
	£m	
18. Creditors arising out of reinsurance operations		
Due within one year	2,219	1,802
Due after one year	9	10
	2,228	1,812

	2005	2004 Restated £m
	£m	
19. Reconciliation of operating (loss)/profit to net cash inflow from operating activities		
Operating (loss)/profit on ordinary activities	(871)	975
Realised and unrealised investment (gains)/losses	(1,196)	678
Increase in net technical provisions	4,315	2,282
(Increase)/decrease in debtors	(514)	759
Increase/(decrease) in creditors	1,056	(605)
Other net cash inflow from operating activities	158	(113)
	2,948	3,976

	At 1 January 2005	Cash flow	Changes to market value and currencies	At 31 December 2005
	£m	£m	£m	£m
20. Movement in cash, portfolio investments and financing				
Cash at bank and in hand	2,268	(18)	136	2,386
Loans, deposits and investments	18,022	2,012	1,060	21,094
	20,290	1,994	1,196	23,480

21. Related parties

The annual accounts of each syndicate provide, where appropriate, the required disclosures on related parties. The syndicate level disclosures are specific to that syndicate and its managing agent. As such, it is not practical or meaningful to aggregate the syndicate level disclosures into a single related parties note for these Aggregate Accounts.

22. Funds at Lloyd's

Every member is required to hold capital at Lloyd's to support their underwriting, which is held in trust as funds at Lloyd's (FAL).

The level of FAL which Lloyd's requires a member to maintain is determined in accordance with Lloyd's Individual Capital Assessment (ICA) capital setting framework. FAL is not dedicated to any specific syndicate year of account participation for any member.

23. Staff numbers and costs

The following disclosures are made in order to comply with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. These figures are aggregated from the syndicate accounts that made this disclosure.

	2005	2004 Restated
	£m	£m
Wages and salaries	277	247
Social security costs	30	27
Other pension costs	57	39
	364	313

The average number of employees as reported in the syndicate annual accounts was:

	2005	2004 Restated number
	Number	
Administration and finance	2,047	1,899
Underwriting	2,100	1,970
Claims	876	832
Other	39	35

SECURITY UNDERLYING POLICIES ISSUED AT LLOYD'S

as at 31 December 2005

Summary

Lloyd's is not an insurance company. It is a Society of members, both corporate and individual, which underwrite insurance in syndicates. These syndicates can comprise of one single corporate member or any number of corporate and individual members, underwriting severally for their own account.

There are 62 syndicates registered to conduct business at Lloyd's in 2006. Each syndicate is managed by a managing agent. Managing agents write insurance business on behalf of the member(s) of the syndicate, which receive profits or bear losses in proportion to their share in the syndicate for each underwriting year of account. The adoption of annual accounting and presentation of the aggregate syndicate accounts do not change the allocation of profits and losses to members.

Every member underwriting at Lloyd's in 2006 is subject to an annual risk assessment, based on Lloyd's Individual Capital Assessment (ICA) capital setting framework. This determines a member's capital requirement subject to prescribed minimum levels. Members' capital requirements are held centrally as funds at Lloyd's and are not held at syndicate level.

The Lloyd's chain of security

The majority of claims are met from members' premiums trust funds, forming part of what is described below as the first link in the Lloyd's chain of security. However, the resources described in each further link are also available to meet valid claims by Lloyd's policyholders. Although aggregate numbers are shown below, the first two links each operate on a several basis: each member's resources are only available to meet their share of claims. The third link represents assets available to meet the liabilities of any member on a mutual basis. The key features of the chain of security are summarised below and the sections which follow describe each of these links in greater detail.

The description of the chain of security set out below relates to the support of policies written for the 1993 and subsequent years of account for non-life business and all life business written at Lloyd's. Liabilities in relation to the 1992 and prior years of account for non-life business were reinsured into Equitas as at 31 December 1995, as part of 'Reconstruction and Renewal'.

The three key features of the Lloyd's chain of security are described below. In combination, they provide strong security to all Lloyd's policyholders, reflected in the high ratings assigned by leading rating agencies.

First link – syndicate assets

All premium receipts and reserves at syndicate level are held in premiums trust funds or overseas regulatory deposits. Profits are distributed only after provision for all outstanding liabilities.

Premiums trust funds and overseas regulatory deposits*: £29,109m.

Second link – members' assets

Capital requirements are determined for each member by Lloyd's ICA capital setting framework, subject to prescribed minimum levels.

Capital held at Lloyd's*: £10,206m.

Third link – central resources of the Society

At the discretion of the Council, the Central Fund is available to meet any portion of any member's insurance liabilities that the member is unable to meet in full. The Council is also able to call from members' premiums trust funds (first link) an amount up to 3% of members' premium limits in aggregate, in any one year (the callable layer). In addition, the other assets of the Society are available to meet underwriting liabilities in the last resort.

Society central resources excluding the subordinated debt liability and the callable layer*: £1,266m.

*as at 31 December 2005.

The first link

The first link in the chain of security is the members' premiums trust funds, and other assets held in trust at syndicate level. To protect the interests of policyholders, all premiums and other monies received or receivable in connection with the member's underwriting business are initially paid into the premiums trust funds, managed by the managing agent of the syndicate concerned. Payments from these funds may only be made to meet permitted trust outgoings: claims, reinsurance premiums, underwriting expenses and the like, including funding overseas regulatory deposits. Profit is not distributed until provision has been made for all outstanding liabilities.

58 Market results

Profits on open years of account, to the extent permitted by reference to the cumulative annual accounting result at the year end, may be applied to meet cash calls and loss payments. Any profits not used in this way will be held in the members' personal reserve funds and will be available for release to members subject to the rules of the Release Test.

There are separate premiums trust funds for life business and non-life general business. There is a further segregation in that a number of the premiums trust funds are exclusively available to support certain overseas underwriting of members. The Lloyd's Dollar Trust Funds (LDTF) receive premiums in respect of US dollar denominated non-life business underwritten or incepting on or after 1 August 1995. Receipts in respect of non-life US dollar denominated business originally written and incepting before that date are held in the Lloyd's American Trust Fund (LATF) of each member, in New York. There are separate LATFs in New York for US dollar denominated life business, whenever written or incepting.

The other overseas premiums trust funds are the Lloyd's Canadian Trust Fund (LCTF) in Canada, comprising members' underwriting receipts in respect of Canadian situs business and the 'Lloyd's Asia' trust funds for general business written by members through service companies in Singapore.

Members are obliged, by the terms of the underwriting agency agreements with their managing agents, to ensure that there are sufficient funds in the member's premiums trust fund for the syndicate to meet all claims, necessary expenses and outgoings in connection with the syndicate business; they are required to meet a request to make such funds available (a 'cash call'). Cash calls are met by members from their own resources or, if necessary, from their funds at Lloyd's or, at the Council's discretion, the New Central Fund.

Premiums trust funds are used to fund overseas regulatory deposits. The US situs business of each syndicate is supported by US situs syndicate level trust funds (for US situs surplus lines business, US situs reinsurance business as accredited reinsurers, and for Illinois and Kentucky licensed business respectively). In addition, separate joint asset trust funds provide joint security for members' US situs reinsurance, surplus lines and Kentucky business respectively.

These deposits would be available to meet judgment debts of a member in respect of business connected with the relevant overseas territory in the event that the relevant premiums trust fund of the member, even after replenishment from other links in the chain of security and other free assets of the member in question, was inadequate.

Underwriters also maintain regulatory deposit trust funds in Australia and South Africa and various deposits in other countries.

The total value of all the above funds was £29,109m in aggregate, at 31 December 2005.

The second link

The second link is members' funds at Lloyd's. Funds at Lloyd's comprise the three trust funds in which members' assets may be held: the Lloyd's deposit, the special reserve fund and the personal reserve fund held under the terms of the premiums trust deed. These are each available to meet cash calls made on the member in respect of a syndicate. The assets in funds at Lloyd's must be readily realisable, may include letters of credit and bank and other guarantees, and must be at least equivalent to the aggregate of the member's net funds at Lloyd's requirement and certain liabilities in respect of its underwriting business. Each member's net funds at Lloyd's requirement is determined using Lloyd's ICA capital setting framework.

Minimum capital ratios are set at 40% for both corporate and individual members (35% for those members writing mainly UK motor business).

Individual members underwrite with unlimited liability and thus may be required to meet their share of claims to the full extent of their wealth. A corporate member may also have assets, beyond its funds at Lloyd's, which can be called upon to meet its underwriting liabilities.

As at 31 December 2005, the total value of funds at Lloyd's held in trust by members amounted to £10,206m in the aggregate.

The third link

The third link is the central resources of the Society. These comprise the assets of the New Central Fund, 'Old' Central Fund and other assets of the Society.

The New Central Fund has been established to be available, at the discretion of the Council of Lloyd's, to ensure that policyholders' claims are met in the event of members being unable to meet their underwriting liabilities relating to 1993 and post non-life business and all life business. In practice, this entails the payment of syndicate cash calls where a member is unable to do so from their funds at Lloyd's or their own resources.

SECURITY UNDERLYING POLICIES ISSUED AT LLOYD'S continued

as at 31 December 2005

The New Central Fund is funded by annual contributions from members. In addition, with effect from the 2005 year of account, the net resources are enhanced by loans made to it by active syndicates. These amounts are treated as equity in the Society's financial statements. Repayment of these loans may be deferred at the discretion of the Council of Lloyd's although current expectations are that repayment will be made upon closure of the year of account. The net assets of the Central Fund (ie the New Central Fund and the 'Old' Central Fund) as at 31 December 2005 were £670m.

In late 2004, Lloyd's issued subordinated loan notes amounting to £501m in value at 31 December 2005, which are reflected as an asset and a liability within the Society's financial statements. As set out in note 20 to the Society's financial statements, payments on the notes are subordinated to certain payments which may be made out of central assets, including payments made to discharge the liabilities of an insolvent member to any person (including any policyholders) arising out of or in connection with insurance business carried on at Lloyd's by that insolvent member.

New Central Fund assets may be supplemented by an amount not exceeding 3% of members' overall premium limits callable in any one calendar year from members' premium trust funds (described and included in the first link).

In addition, the other assets of the Society, totalling £95m at 31 December 2005, are available to meet underwriting liabilities in the last resort.

In aggregate, the value of the central resources of the Society (excluding the subordinated debt liability and the callable layer), amounted to £1,266m at 31 December 2005.

Aggregate resources

The total of syndicate assets, members' funds at Lloyd's and central resources as at 31 December 2005, after the elimination of syndicate loans to the Central Fund and annual interest receivable, were £40.5bn. The total amount of net syndicate technical provisions (estimated current and future insurance liabilities) at the end of 2005 was £29.4bn. The total net aggregate declared resources of the Society and its members were therefore £11.1bn (excluding the subordinated debt liability). This reconciles to the 'capital, reserves and subordinated loan notes' of £11.0bn as shown in the PFFS on page 40, in accordance with note 2 to the financial summary on page 62.

The results on which the aggregated resources are based are determined by aggregating the assets and liabilities of all members and those of the Society. The aggregate declared resources of the Society do not represent a consolidated statement of the financial position of Lloyd's business taken as a single entity and, as indicated above, the first two links of the chain of security operate on a several, not mutual, basis.

Solvency controls

One of the most important controls on the solvency of the members of Lloyd's is the annual solvency test. Each member trades for its own account, and Lloyd's has, since the beginning of the last century, required an annual report of each member's underwriting position.

All members have an obligation to keep sufficient funds in trust to meet their liabilities and to satisfy any request for funds in respect of audited losses or future liabilities.

The annual solvency process requires the managing agent of each syndicate to estimate and provide for all current and future liabilities for each year of account. These liabilities (ie solvency reserves or 'technical provisions for solvency') are subject to a statement of actuarial opinion. In the event that it is not possible for the managing agent to secure an unqualified actuarial opinion for any reason, the solvency reserves would be determined by the Lloyd's Actuary, who would provide a report to the FSA. In addition, any syndicate which is not able to secure an unqualified actuarial opinion will normally be subject to a monitoring review by Lloyd's. There were no qualified actuarial opinions at 31 December 2005.

The Lloyd's solvency test has two stages to the calculation:

Firstly, each member's solvency position is calculated. Each member must have sufficient assets – those held in the premiums trust funds, overseas regulatory deposits and its funds at Lloyd's – to cover its underwriting liabilities and on top of this an additional solvency margin. The solvency margin is calculated separately for each member, determined essentially as the greater of 16% of total annual premium income or 23% of average claims incurred over a three-year period. Premiums and claims in respect of certain types of liability business have their value increased by 50%, for the purpose of this calculation. Where a member's assets are not sufficient to cover the aggregate of its underwriting liabilities and its solvency margin, the member has a solvency shortfall.

The second part of the solvency test calculation requires that the net central assets of the Society must be sufficient to cover the aggregate of all members' shortfalls calculated at the solvency test date. Central assets include the value of the Central Fund and the other net assets of the Society, excluding the subordinated debt liability but including the amount of the callable layer referred to previously – for this purpose the 'effective' callable layer, ie that part of the callable layer not attributed to members with a solvency shortfall.

Lloyd's is required to maintain solvency on a continuous basis, and the solvency position of each member – and thus of Lloyd's as a whole – is monitored on a regular basis. The FSA are advised of the results of this monitoring.

Where it is apparent, either from the solvency testing process or elsewhere, that a member has insufficient assets in trust to meet its underwriting liabilities and solvency margin, Lloyd's will take action in respect of that member in order to protect policyholders, which will result in the member having to cease underwriting unless new funds are provided by that member.

Each year, Lloyd's files a return – the Lloyd's Return – with the FSA. This return is intended to ensure Lloyd's regulatory reporting requirements are in line with other UK insurers, adapted where appropriate to reflect Lloyd's unique structure. This return reports the results of Lloyd's solvency test.

SECURITY UNDERLYING POLICIES ISSUED AT LLOYD'S: FINANCIAL SUMMARY

as at 31 December 2005

	2005 £m	2004 Restated £m
I Assets held at syndicate level (several basis)	29,109	26,487
II Members' funds at Lloyd's (several basis)		
Deposits	9,702	8,976
Personal reserves	468	636
Special reserves	36	10
	10,206	9,622
III Central resources of the Society (mutual basis)		
Net Central Fund assets	670	607
Subordinated debt	501	506
Other net assets of the Society	95	83
	1,266	1,196
Elimination of syndicate loans to Central Fund and annual interest receivable	(111)	–
Total resources of the Society of Lloyd's and its members	40,470	37,305
Net syndicate technical provisions	(29,406)	(25,061)
Total net resources of the Society of Lloyd's and its members	11,064	12,244

Notes

1. This financial summary has been compiled by aggregating the assets and liabilities of all the underlying syndicates, the declared members' qualifying assets and other net assets of the Society of Lloyd's. The statement does not purport to disclose the solvency position of each member of Lloyd's.
2. The 'total net resources of the Society of Lloyd's and its members' reconciles to the 'capital, reserves and subordinated loan notes' shown in the PFFS as set out below:

	2005 £m	2004 Restated £m
Total net resources of the Society of Lloyd's and its members	11,064	12,244
Adjustments arising due to differences between IFRS and UK GAAP in Society financial statements	(72)	(75)
Capital, reserves and subordinated loan notes (per PFFS, see page 40)	10,992	12,169

