

# INTERIM RESULTS JUNE 2008

25 September 2008

# Overview

- Managing the cycle, promoting market discipline
- Solid financial position with strongest ever Central Fund
- Market ratings reaffirmed
- Improving and expanding our global reach
- Significant progress on business reform initiatives and governance arrangements

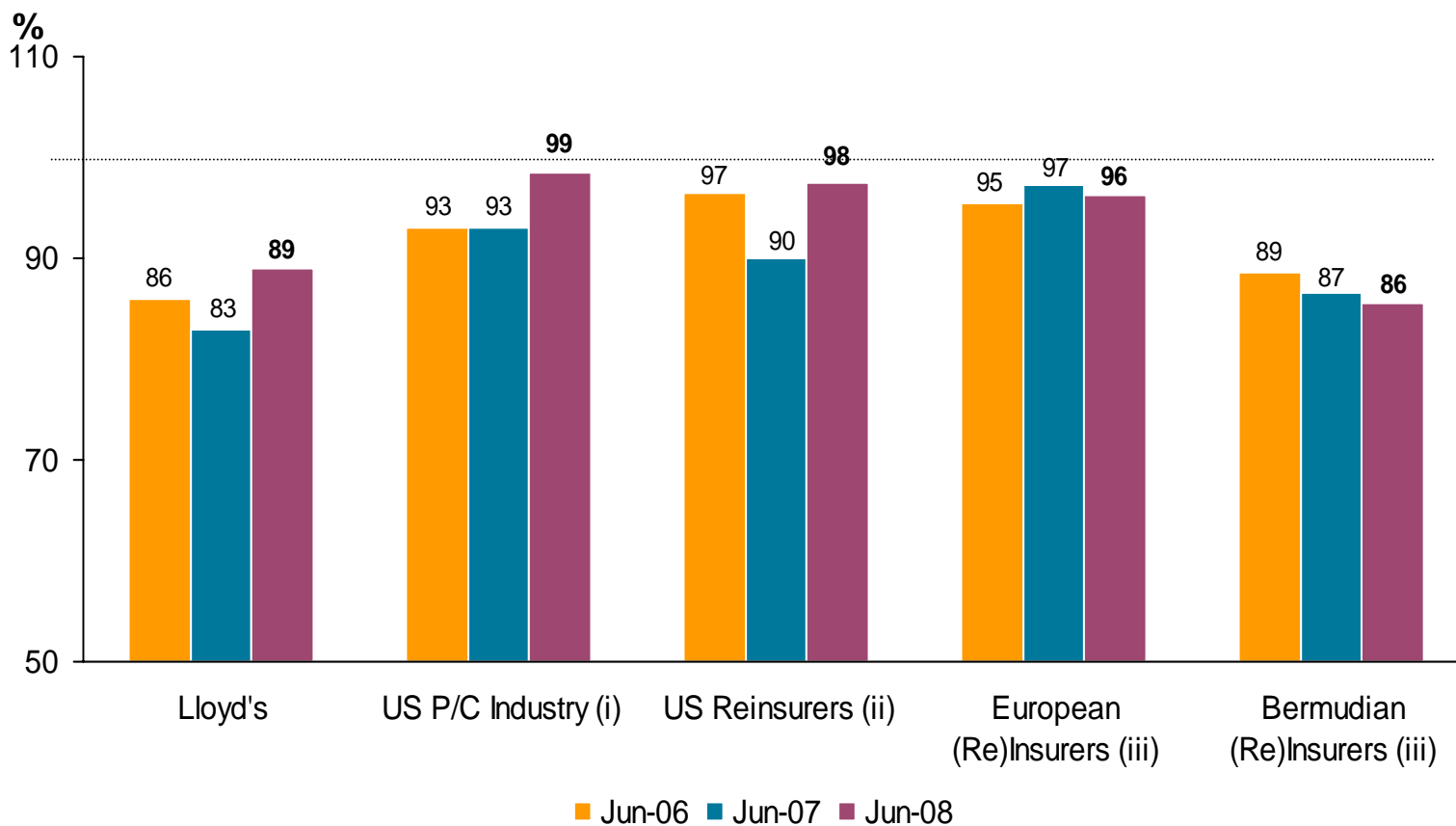
# Good half year results in challenging economic conditions

|                                | 6 months to<br>June 2008 | 6 months to<br>June 2007 | 12 months to<br>Dec 2007 |
|--------------------------------|--------------------------|--------------------------|--------------------------|
| Gross written premiums         | <b>£9,983m</b>           | £9,864m                  | £16,366m                 |
| Combined ratio                 | <b>89.0%</b>             | 82.9%                    | 84.0%                    |
| Investment return              | <b>£346m</b>             | £846m                    | £2,007m                  |
| Profit before tax              | <b>£949m</b>             | £1,807m                  | £3,846m                  |
| Return on capital (annualised) | <b>14.7%</b>             | 28.6%                    | 29.3%                    |

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

# Performance continues to compare well against our peers

## Combined ratio



Sources i) Insurance Information Institute estimate, ii) Reinsurance Association of America, iii) Company data (8 European companies: 15 Bermudian companies)

# **FINANCIAL RESULTS**

# Underwriting profitability and investment returns decline from record levels

| £m                                   | 6 months to<br>June 2008 | 6 months to<br>June 2007 | % change | 12 months to<br>Dec 2007 |
|--------------------------------------|--------------------------|--------------------------|----------|--------------------------|
| Gross written premiums               | <b>9,983</b>             | 9,864                    | 1.2      | 16,366                   |
| Net earned premiums                  | <b>6,362</b>             | 6,424                    | (1.0)    | 13,097                   |
| Net incurred claims                  | <b>(3,407)</b>           | (3,218)                  | 5.9      | (6,547)                  |
| Net operating expenses <sup>1</sup>  | <b>(2,256)</b>           | (2,110)                  | 6.9      | (4,451)                  |
| Underwriting result                  | <b>699</b>               | 1,096                    | (36.2)   | 2,099                    |
| Investment return                    | <b>346</b>               | 846                      | (59.1)   | 2,007                    |
| Other income / expenses <sup>2</sup> | <b>(96)</b>              | (135)                    | (28.9)   | (260)                    |
| Profit before tax                    | <b>949</b>               | 1,807                    | (47.5)   | 3,846                    |
| Combined ratio                       | <b>89.0%</b>             | 82.9%                    |          | 84.0%                    |

1) Technical account 2) Non-technical account

Source: Lloyd's pro forma basis, June 2008

# Rising attritional claims offset by prior year releases

## Combined ratios



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

# Operating expenses

| £m                                     | 6 months to<br>June 2008 | 6 months to<br>June 2007 | % change | 12 months to<br>Dec 2007 |
|--|--------------------------|--------------------------|----------|--------------------------|
| Net earned premiums                    | <b>6,362</b>             | 6,424                    | (1.0)    | 13,097                   |
| Acquisition costs                      | <b>1,715</b>             | 1,643                    | 4.4      | 3,449                    |
| Admin expenses excl. profit commission | <b>446</b>               | 384                      | 16.1     | 887                      |
| Managing agent profit commission       | <b>131</b>               | 103                      | 27.2     | 230                      |
| Sub total                              | <b>2,292</b>             | 2,130                    | 7.6      | 4,566                    |
| (Gains) / losses on exchange           | <b>(36)</b>              | (20)                     | 80.0     | (115)                    |
| Net operating expenses                 | <b>2,256</b>             | 2,110                    | 6.9      | 4,451                    |

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

# **INVESTMENT PERFORMANCE**

# Conservative investment mix limits our exposure to financial market volatility

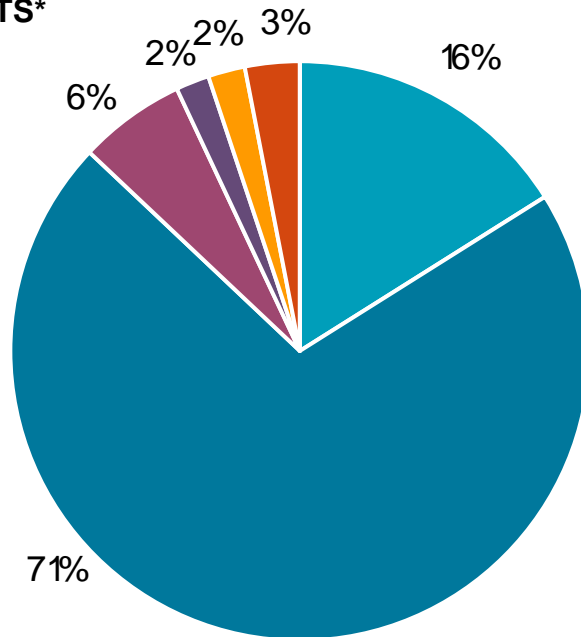
| % (by market value)      | Syndicate level assets <sup>1</sup> |           | Funds at Lloyd's |           | Central Assets |           | Total (weighted) |           |
|--------------------------|-------------------------------------|-----------|------------------|-----------|----------------|-----------|------------------|-----------|
|                          | June 2008                           | June 2007 | June 2008        | June 2007 | June 2008      | June 2007 | June 2008        | June 2007 |
| <b>Bonds</b>             | <b>79</b>                           | 78        | <b>17</b>        | 19        | <b>68</b>      | 63        | <b>63</b>        | 59        |
| <b>Equities</b>          | <b>5</b>                            | 5         | <b>10</b>        | 12        | <b>12</b>      | 14        | <b>6</b>         | 8         |
| <b>Cash and other</b>    | <b>16</b>                           | 17        | <b>73</b>        | 69        | <b>20</b>      | 23        | <b>31</b>        | 33        |
|                          | <b>100</b>                          | 100       | <b>100</b>       | 100       | <b>100</b>     | 100       | <b>100</b>       | 100       |
| <b>Total assets (£m)</b> | <b>24,282</b>                       | 21,871    | <b>9,593</b>     | 10,797    | <b>2,237</b>   | 2,485     | <b>36,112</b>    | 35,153    |
| <b>Return (£m)</b>       | <b>302</b>                          | 480       | <b>64</b>        | 350       | <b>(20)</b>    | 16        | <b>346</b>       | 846       |
| <b>Return</b>            | <b>1.2%</b>                         | 2.2%      | <b>0.7%</b>      | 3.2%      | <b>(0.9%)</b>  | 0.8%      | <b>0.9%</b>      | 2.4%      |

1) Net of syndicate loans and assets of Additional Securities Limited, which are included in central assets

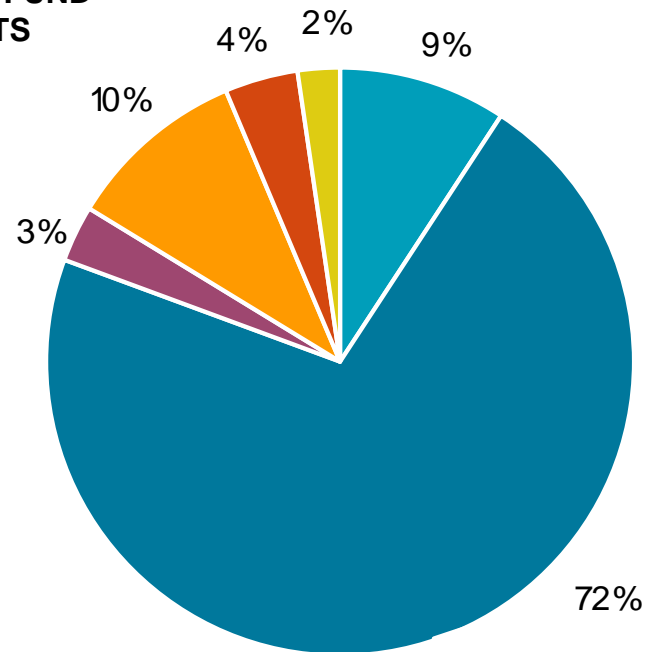
Source: Lloyd's pro forma financial statements, June 2008

# High quality assets...

**SYNDICATE ASSETS\***



**CENTRAL FUND ASSETS**



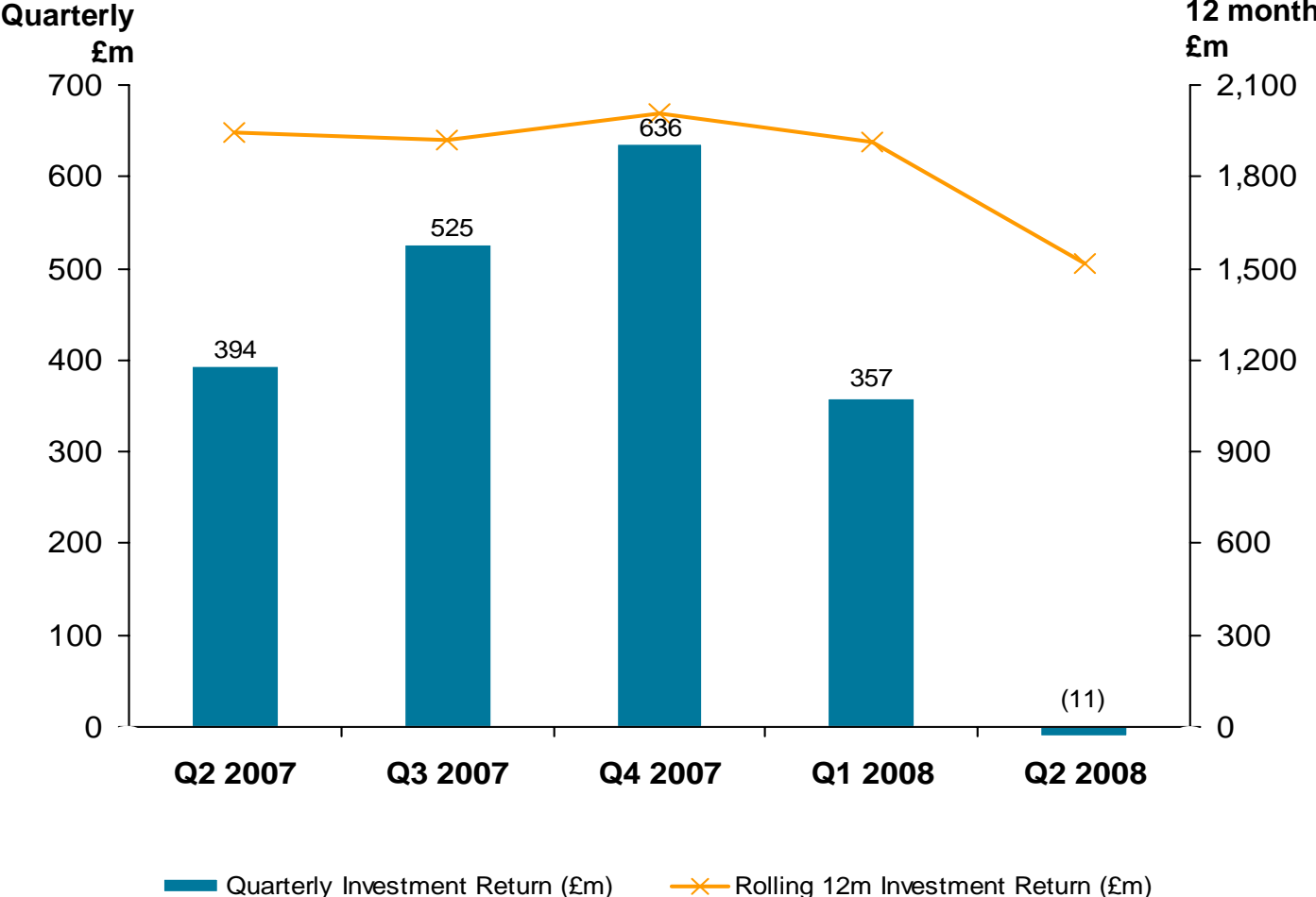
- Cash & Short term deposits
- A bonds
- Equities
- High Yield and emerging markets

- Govt, AAA and AA bonds
- BBB and below bonds
- Hedge Funds

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

\*Includes syndicate level assets only; excludes members' funds at Lloyd's

# ... preserve capital in volatile market conditions



Source: Lloyd's quarterly monitoring returns  
 12 Interim Results Presentation June 2008

# BALANCE SHEET

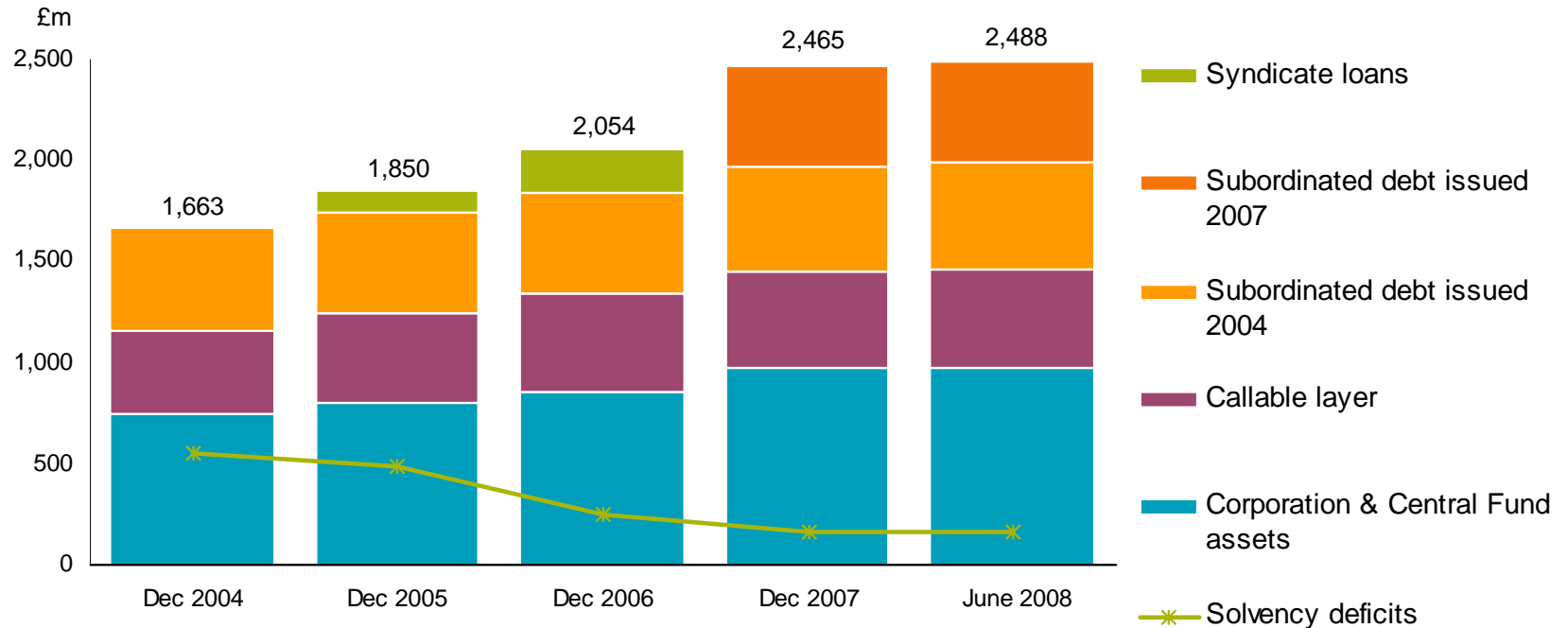
# Net resources remain strong...

| £m  | June<br>2008    | June<br>2007 | % change | Dec<br>2007 |
|---|-----------------|--------------|----------|-------------|
| Cash and investments                      | <b>36,112</b>   | 35,153       | 2.7      | 36,981      |
| Reinsurers' share of technical provisions | <b>9,317</b>    | 9,759        | (4.5)    | 8,290       |
| Other assets                              | <b>10,747</b>   | 10,798       | (0.5)    | 8,682       |
| <b>Total assets</b>                       | <b>56,176</b>   | 55,710       | 0.8      | 53,953      |
| Unearned premiums                         | <b>(9,316)</b>  | (8,973)      | 3.8      | (7,282)     |
| Other liabilities                         | <b>(33,489)</b> | (33,300)     | 0.6      | (32,210)    |
| <b>Net resources</b>                      | <b>13,371</b>   | 13,437       | (0.5)    | 14,461      |
| Represented by:                           |                 |              |          |             |
| Members' assets <sup>1</sup>              | <b>11,435</b>   | 11,272       | 1.4      | 12,510      |
| Central assets <sup>2</sup>               | <b>1,936</b>    | 2,165        | (10.6)   | 1,951       |
|   | <b>13,371</b>   | 13,437       | (0.5)    | 14,461      |

1. Includes syndicate balances and funds at Lloyd's 2. Stated on a UK GAAP basis; excludes subordinated debt liability

Source: Lloyd's pro forma basis, June 2008

# ... resulting in a solvency surplus of £2.3bn



Source: Society of Lloyd's financial statements

# SUMMARY

# Market conditions are getting tougher...

- Softening in almost all lines of business – excess capacity continues to put pressure on rates
- Major catastrophes recently seen:
  - Hurricane Gustav and Hurricane Ike
- Challenging financial markets environment

**... however, Lloyd's is in a strong position to meet these challenges**

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