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REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE 2004 GLOBAL RESULTS

We have reviewed the global results for the year ended 31 December 2004 which comprise the global balance sheet, the underwriting account for the 2002 and prior years of account, the underwriting accounts for the 2002, 2003 and 2004 years of account respectively, and the related notes 1 to 16. These global results have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Council of Lloyd's in accordance with its instructions to us set out under 'Respective responsibilities of the Council of Lloyd's and Ernst & Young LLP' below. 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 opinions we have formed.

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

Lloyd's is responsible for the preparation of the global results, which are approved by the Council of Lloyd's, in accordance with the Lloyd's Sourcebook issued by the Financial Services Authority under the Financial Services and Markets Act 2000.

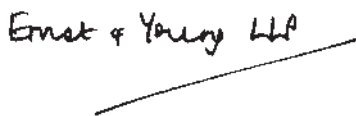
Our responsibility is to review the global results and report to you our opinion as to whether the global results have been properly prepared in accordance with the Lloyd's Sourcebook.

Basis of review opinion

Our review consisted principally of making enquiries of Lloyd's and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the global results have been properly prepared in accordance with the Lloyd's Sourcebook. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions as stated in the global results. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. In addition, the global results have been compiled from syndicate returns on which syndicate auditors and syndicate actuaries have reported. We have relied absolutely on those reports by syndicate auditors and syndicate actuaries. We have not audited those returns. Consequently, we do not express an audit opinion on the financial information set out in the global results.

Opinion

On the basis of the review described above, in our opinion the global results have been properly prepared in accordance with the Lloyd's Sourcebook.



Ernst & Young LLP, London
6 April 2005

2002 AND PRIOR YEARS OF ACCOUNT

as at 31 December 2004

2001 and prior years of account Total £m		2002 year of account		2001 and prior years of account	Total £m
		Pure year result £m	Movement on years of account reinsured therein £m	Calendar year movement on run-off years of account £m	
11,085	Gross premiums written (net of brokerage)	11,319	111	98	11,528
4,293	Outward reinsurance premiums	3,783	47	139	3,969
6,792	Net premiums	7,536	64	(41)	7,559
6,023	Reinsurance to close premiums received from earlier years of account	–	6,236	–	6,236
2,792	Amounts retained to meet all known and unknown outstanding liabilities brought forward	–	–	4,612	4,612
15,607		7,536	6,300	4,571	18,407
11,196	Gross claims paid	3,340	2,481	1,578	7,399
5,096	Reinsurers' share	726	1,291	727	2,744
6,100	Net claims	2,614	1,190	851	4,655
6,661	Reinsurance premiums paid to close the year of account	2,178	4,733	402	7,313
4,822	Amounts retained to meet all known and unknown outstanding liabilities carried forward	304	622	3,668	4,594
17,583		5,096	6,545	4,921	16,562
(1,976)	Underwriting result	2,440	(245)	(350)	1,845
(1,976)		2,195		(350)	1,845
30	Profit on exchange	69		27	96
(658)	Syndicate operating expenses	(667)		(44)	(711)
(2,604)	Balance on technical account	1,597		(367)	1,230
600	Investment income	529		109	638
(18)	Investment expenses and charges	(13)		(2)	(15)
(60)	Investment gains less losses	(88)		(40)	(128)
(2,082)	Result before personal expenses	2,025		(300)	1,725
(296)	Personal expenses	(532)		–	(532)
(2,378)	Result after personal expenses	1,493		(300)	1,193

UNDERWRITING ACCOUNT FOR THE 2002 YEAR OF ACCOUNT

after three years as at 31 December 2004

2001 at 36 months £m		at 24 months £m	2002 Change in calendar year £m	at 36 months £m
11,263	Syndicate allocated capacity	13,239	–	13,239
11,001	Gross premiums written (net of brokerage)	11,430	–	11,430
4,071	Outward reinsurance premiums	3,817	13	3,830
6,930	Net premiums	7,613	(13)	7,600
5,857	Reinsurance to close premiums received from earlier years of account	6,477	(241)	6,236
12,787		14,090	(254)	13,836
10,113	Gross claims paid	2,318	3,503	5,821
4,612	Reinsurers' share	467	1,550	2,017
5,501	Net claims	1,851	1,953	3,804
6,093	Reinsurance premiums paid to close the year of account	–	6,911	6,911
2,840	Amounts retained to meet all known and unknown outstanding liabilities	–	926	926
14,434		1,851	9,790	11,641
(1,647)	Underwriting balance/result	12,239	(10,044)	2,195
11	Profit on exchange	45	24	69
(634)	Syndicate operating expenses	(639)	(28)	(667)
(2,270)	Balance on technical account	11,645	(10,048)	1,597
527	Investment income	217	312	529
(17)	Investment expenses and charges	(7)	(6)	(13)
(38)	Investment gains less losses	(37)	(51)	(88)
(1,798)	Balance/result before personal expenses	11,818	(9,793)	2,025
(295)	Personal expenses	(372)	(160)	(532)
–	Balance after personal expenses	11,446	(9,953)	–
(2,093)	Result after personal expenses	–	–	1,493

UNDERWRITING ACCOUNT FOR THE 2003 YEAR OF ACCOUNT

after two years as at 31 December 2004

2002 at 24 months £m		2003 at 12 months £m	2003 Change in calendar year £m	at 24 months £m
13,239	Syndicate allocated capacity	14,859	–	14,859
11,430	Gross premiums written (net of brokerage)	8,622	3,022	11,644
3,817	Outward reinsurance premiums	2,622	583	3,205
7,613	Net premiums	6,000	2,439	8,439
6,477	Reinsurance to close premiums received from earlier years of account	117	6,993	7,110
14,090		6,117	9,432	15,549
2,318	Gross claims paid	507	1,746	2,253
467	Reinsurers' share	107	361	468
1,851	Net claims	400	1,385	1,785
12,239	Underwriting balance	5,717	8,047	13,764
45	Profit on exchange	9	13	22
(639)	Syndicate operating expenses	(551)	(88)	(639)
11,645	Balance on technical account	5,175	7,972	13,147
217	Investment income	57	186	243
(7)	Investment expenses and charges	(4)	(3)	(7)
(37)	Investment gains less losses	(16)	(30)	(46)
11,818	Balance on open year of account before personal expenses	5,212	8,125	13,337
(372)	Personal expenses	(414)	6	(408)
11,446	Balance on open year of account after personal expenses	4,798	8,131	12,929

The balance on the 2003 year of account is prepared using the three year accounting method described in note 2A and excludes any estimation for future claims and hence does not purport to show a profit or loss.

UNDERWRITING ACCOUNT FOR THE 2004 YEAR OF ACCOUNT

after one year as at 31 December 2004

2003 at 12 months £m		2004 at 12 months £m
14,859	Syndicate allocated capacity	15,092
8,622	Gross premiums written (net of brokerage)	8,124
2,622	Outward reinsurance premiums	2,009
6,000	Net premiums	6,115
117	Reinsurance to close premiums received from earlier years of account	66
6,117		6,181
507	Gross claims paid	1,041
107	Reinsurers' share	206
400	Net claims	835
5,717	Underwriting balance	5,346
9	Profit on exchange	4
(551)	Syndicate operating expenses	(451)
5,175	Balance on technical account	4,899
57	Investment income	59
(4)	Investment expenses and charges	(4)
(16)	Investment gains less losses	(9)
5,212	Balance on open year of account before personal expenses	4,945
(414)	Personal expenses	(494)
4,798	Balance on open year of account after personal expenses	4,451

The balance on the 2004 year of account is prepared using the three year accounting method described in note 2A and excludes any estimation for future claims and hence does not purport to show a profit or loss.

GLOBAL BALANCE SHEET

as at 31 December 2004

2003 £m		Notes	2004 £m
	Assets		
14,172	Financial investments	3	16,867
14	Deposits with ceding undertakings		9
5,173	Debtors	4	3,886
3,481	Other assets	6	3,693
91	Prepayments and accrued income		143
22,931	Total assets		24,598
	Liabilities		
(2,093)	Result for the 2002 year of account	7	1,493
(285)	Result for the 2001 and prior run-off years of account	8	(300)
(2,378)			1,193
(290)	Balance of net uncalled deficiency on run-off years of account		(501)
	Balances on open years of account:		
11,446	Balance on 2003 year of account		12,929
4,798	Balance on 2004 year of account		4,451
4,822	Reserves retained in respect of run-off years of account		4,594
92	Deposits received from reinsurers		37
4,371	Creditors	9	1,830
70	Accruals and deferred income		65
22,931	Total liabilities		24,598

Signed on behalf of the Council of Lloyd's on 6 April 2005



Lord Levene of Portsoken, Chairman



Nick Prettejohn, Chief Executive Officer

NOTES TO THE GLOBAL RESULTS

as at 31 December 2004

1. Basis of preparation of global results

A Basis of reporting

The global results, comprising the underwriting accounts and the balance sheet, have been compiled from syndicate returns prepared by managing agents and reported on by syndicate auditors and other information and comply with the requirements of Regulation 4 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 1993.

B Aggregation of syndicate results

The global results of the Lloyd's market as at 31 December 2004 are determined by aggregating the results as reported by all syndicates in their returns. The global results do not present a consolidated view of Lloyd's business. These results include 93 syndicates which underwrote for the 2002 year of account (2001: 112 syndicates) together with the calendar year results of 97 prior years of account in run-off during 2004 (2003: 98 years of account in run-off).

The global results show the balances on the open years 2003 and 2004. In keeping with the three year accounting method described in note 2A below, these balances exclude any estimation for future claims, and hence do not purport to show a profit or loss.

2. Statement of accounting policies

A Three-year accounting method

The underwriting accounts are prepared using the three-year accounting method and are held open for a minimum of three years from the commencement of each underwriting year. By the end of the three-year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor syndicate. The two most recent years of account remain open under this accounting method, allowing further premium and claim transactions to be taken into account. The balances on the open years do not purport to give any indication of the likely profit or loss that may be determined when these years of account are finally closed.

B Premiums

Gross premiums, net of brokerage and commission, are allocated to years of account on the basis of the inception date of the policy. Gross premiums and reinsurance premiums include premiums in respect of inter-syndicate reinsurances. Commission and brokerage are charged to the same year of account to which the relevant policy is allocated. Premiums in respect of reinsurance ceded are either attributed to the same year as the original risk being protected or the year insured by the reinsurance policy as approved by the underwriter.

C Claims

Gross claims, defined as claims under contracts of insurance underwritten by the members of a syndicate plus internal and external claims settlement expenses less salvage or other recoveries, but before the deduction of reinsurance recoveries are allocated to the same year of account as that to which the corresponding premiums are allocated. Reinsurance recoveries are normally allocated to the year of account to which the claim was charged.

D Reinsurance to close

A year of account is normally closed at the end of the third year by the payment of a reinsurance to close premium to a successor syndicate. This premium is determined by reference to outstanding liabilities, including claims incurred but not yet reported, relating to the closed year and to all previous closed years reinsured therein. Although the estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined.

E Reserves retained in respect of run-off years of account

Where substantial uncertainties affect the assessment of the outstanding liabilities, a year of account might not be closed. In such cases, an amount to meet all known and unknown outstanding liabilities is retained at each year-end until the year of account is finally closed. Such an account is referred to as a run-off year of account. As at 31 December 2004 there were 104 years of account in run-off (31 December 2003: 97 years of account in run-off).

F Return on investments

The gross investment return, comprising income and investment gains less losses, net of investment expenses and charges, arising in a calendar year, is normally allocated to years of account in proportion to the average funds available for investment attributable to those years. Investments are stated at the market value ruling at the balance sheet date.

G Syndicate operating expenses

Syndicate operating expenses are normally allocated to the year of account for which they are incurred. The expenses of the open years of account are those incurred to date and are not finalised until the account is closed.

H Basis of currency translation

Underwriting business conducted in US and Canadian dollars, and other non-sterling settlement currency, is translated into sterling at the rate of exchange ruling at the year end. Other currency transactions are translated into sterling at the rate ruling at the time that those transactions are processed through the Lloyd's central accounting system.

I Taxation

The results are disclosed gross of all direct taxation. Managing agents are not required to deduct basic rate income tax from trading income of syndicates and any basic rate tax deducted at source from syndicates' investment income is recoverable by the managing agents and included in the amounts distributable to members. Consequently no charges to UK taxation are shown in the global results.

J Underwriting account for run-off years

All transactions in respect of years of account in run-off at the preceding year end are included on the basis of calendar year movements only.

	2004 £m	2003 £m
3. Financial investments		
Shares and other variable-yield securities	1,537	1,434
Debt securities and other fixed-income securities	14,270	12,087
Participation in investment pools	398	256
Loans guaranteed by mortgage	23	16
Deposits with credit institutions	617	369
Other	22	10
	16,867	14,172

	2004 £m	2003 £m
4. Debtors		
Brokers' balances	2,893	3,014
Reinsurance to close premiums receivable from other Lloyd's syndicates	406	1,576
Inter-syndicate balances	169	168
Unpaid cash calls	101	101
Other debtors	317	314
	3,886	5,173

5. Reinsurance bad debts

The global result at 31 December 2004 for the 2002 and prior years of account is shown after providing £347m (2003: £574m) in respect of reinsurance bad debts, analysed into £143m (2003: £246m) arising on reinsurers' share of claims paid and £204m (2003: £328m) relating to recoveries included within reinsurance to close and amounts retained to meet liabilities on run-off years. The balances due from reinsurers on paid claims are included in brokers' balances in note 4 and are shown net of the bad debt provision.

	2004 £m	2003 £m
6. Other assets		
Cash at bank and in hand	2,369	2,235
Overseas deposits	1,324	1,246
	3,693	3,481

NOTES TO THE GLOBAL RESULTS continued

as at 31 December 2004

	2004 £m	2003 £m
7. Result for the 2002 year of account		
Life syndicates	2	(1)
Other syndicates	1,491	(2,092)
	1,493	(2,093)

	2004 £m	2003 £m
8. Result for 2001 and prior run-off years of account		
Life syndicates	–	6
Other syndicates	(300)	(291)
	(300)	(285)

	2004 £m	2003 £m
9. Creditors		
Brokers' balances	1,456	1,809
Advance cash calls made	23	989
Continuous solvency transfer	(816)	(392)
Reinsurance to close premiums payable to other Lloyd's syndicates	406	1,576
Reinsurance to close premiums payable to the 2005 year of account	247	12
Inter-syndicate balances	169	168
Taxation	13	10
Overpaid cash calls	11	11
Other creditors and accruals	321	188
	1,830	4,371

	2002 year of account £m	2001 year of account £m
10. Personal expenses		
Annual subscriptions	32	28
Central Fund contributions	131	86
Managing agents' fees	188	136
Members' agents' fees	21	24
Managing agents' profit commission	160	21
	532	295

The personal expenses included above are broadly proportional to members' participation on syndicates underwriting for the 2002 year of account.

The managing agents' profit commission of £160m is in respect of 37 of the 69 syndicates which made a profit on the 2002 year of account (2001: £21m in respect of 17 of the 33 syndicates).

Personal expenses in respect of the open years comprise similar items. Profit commission is not charged until the year of account is closed.

Members may also incur other expenses on an individual basis in respect of their underwriting liabilities.

The global results are stated before deduction of members' agents' profit commission, which is only known once the distribution exercise is completed. The aggregate amount chargeable in respect of the 2002 year of account is estimated at £20m (2001 year of account: less than £1m).

	2004 £m	2003 £m
11. Members' qualifying assets		
Lloyd's deposits	8,976	9,102
Personal reserve funds	636	541
Special reserve funds	10	16
	9,622	9,659
Other qualifying assets	219	278
	9,841	9,937

The Lloyd's deposits, personal reserve funds and special reserve funds shown as at 31 December 2004 represent the total assets lodged at Lloyd's by all members to support their underwriting. The 'other qualifying assets' of £219m relate to other personal wealth declared by individual members. Certain corporate members may have other assets, beyond their funds at Lloyd's, which may be available to support their underwriting; these assets are not included in the above table.

12. Lloyd's central resources

Lloyd's central resources at 31 December 2004 totalled £1,184m (2003: £781m) as follows:

- A The net assets of the Central Fund at 31 December 2004 amounted to £556m (2003: £711m) as shown in the Central Fund financial statements on page 108.
- B The total value of the subordinated loan notes at 31 December 2004, as disclosed at note 14 on page 117 of the Central Fund financial statements, is £506m (2003: nil). As set out in note 14 to the Central Fund 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 insolvent members to any person (including any policyholders) arising out of or in connection with insurance business carried out at Lloyd's by the insolvent member.
- C The net assets of the Corporation of Lloyd's amounted to £122m as at 31 December 2004 (2003: £70m), as shown in the Corporation of Lloyd's financial statements on page 83.

13. Inter-syndicate premiums and claims

No adjustment has been made in the underwriting accounts for inter-syndicate reinsurance premiums amounting to £466m for the 2004 calendar year (2003: £644m) and inter-syndicate claims paid in 2004 amounting to £306m (2003: £388m).

14. Average rate of brokerage and commission

The average deduction for brokerage and commission across all markets by agents and brokers at Lloyd's has been estimated at 20.3% (2003: 20.2%).

15. Members' premium income limit

The maximum annual premium income limit of members at Lloyd's is calculated by reference to the value of their funds at Lloyd's. Individual members are permitted to take credit for demonstrated personal wealth up to certain limits. Further details concerning the relationship between members' premium income limits and their capital provided are set out in the 'Security underlying policies issued at Lloyd's' section (pages 55 to 59).

16. Technical provisions for long term insurance business

The technical provisions for long term insurance business have been derived using appropriate actuarial principles which have due regard to the reasonable expectation of policyholders and make proper provision, using prudent assumptions, for all liabilities.

LLOYD'S MARKET STATISTICS

seven year summary

Summary of results by year of account	1996	1997	1998	1999	2000	2001	2002
	£m	£m	£m	£m	£m	£m	£m
Net premiums	4,810	4,709	4,869	5,785	6,203	6,930	7,600
Underwriting result:							
– pure year	575	4	(904)	(1,563)	(1,794)	(1,396)	2,440
– prior years	160	159	127	(166)	(329)	(580)	(595)
– total	735	163	(777)	(1,729)	(2,123)	(1,976)	1,845
Gross investment return (before expenses)	591	398	520	596	608	540	510
Result after personal expenses	606	(209)	(1,065)	(1,952)	(2,397)	(2,378)	1,193
Exchange rate at close of account:							
£1 = US\$	1.66	1.61	1.49	1.46	1.61	1.79	1.92
£1 = CAN\$	2.56	2.34	2.24	2.32	2.54	2.31	2.30

The results and investment return shown above include calendar year movements in respect of run-off years.

Market capacity by year of account	1999	2000	2001	2002	2003	2004	2005
Total number of underwriting members participating:							
Individual	4,503	3,317	2,848	2,466	2,198	2,048	1,625
Corporate	668	853	895	837	762	752	705
Total market capacity:							
Individual	£m 2,700	2,003	1,800	1,766	1,844	1,869	1,445
Corporate	£m 7,170	8,042	9,463	11,473	13,015	13,223	12,277
Total	£m 9,870	10,045	11,263	13,239	14,859	15,092	13,722

Comparative information by year of account	1998	1998	1999	1999	2000	2000	2001	2001	2002	2002
	£m	%	£m	%	£m	%	£m	%	£m	%
Net premiums	4,869	100.0%	5,785	100.0%	6,203	100.0%	6,930	100.0%	7,600	100.0%
Direct syndicate expenses	339	7.0%	378	6.6%	379	6.1%	394	5.7%	383	5.0%
Corporation charges	72	1.5%	71	1.2%	83	1.3%	91	1.3%	76	1.0%
Premium levy	82	1.7%	96	1.7%	113	1.8%	149	2.2%	208	2.8%
Members' subscriptions										
(excluding Central Fund)	51	1.0%	35	0.6%	27	0.5%	28	0.4%	32	0.4%
Central Fund	132	2.7%	99	1.7%	100	1.6%	86	1.2%	131	1.7%
Agents' fees	98	2.0%	92	1.6%	134	2.2%	160	2.3%	209	2.8%
Managing agents' profit commission	21	0.4%	8	0.1%	15	0.2%	21	0.3%	160	2.1%
Total market costs	795	16.3%	779	13.5%	851	13.7%	929	13.4%	1,199	15.8%

Details of net premiums and expenses are shown at the 36 months stage of the account; i.e. they do not reflect subsequent movements on run-off years.