AGENDA

- Year-end 2013 results
- Reserves
- Capital
- Capital Setting
- Solvency II
- Summary & Questions
YEAR-END 2013
RESULTS: KEY MESSAGES

► Outstanding profit of £3.2bn (2012: £2.8bn)
► Strong underwriting result driven by surplus on prior years’ reserves and limited major claims
► Outperformed peers
► Limited premium growth
► Lower investment income reflecting low interest rate environment
► Strong and efficient capital delivering return of 16.2%
STRONG UNDERWRITING RESULT MODERATED BY LOW INVESTMENT RETURNS...

<table>
<thead>
<tr>
<th>£m</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross written premium</td>
<td>23,477</td>
<td>25,500</td>
<td>26,106</td>
<td>2</td>
</tr>
<tr>
<td>Net earned premium</td>
<td>18,100</td>
<td>18,685</td>
<td>19,725</td>
<td>6</td>
</tr>
<tr>
<td>Net incurred claims</td>
<td>(12,900)</td>
<td>(10,098)</td>
<td>(9,581)</td>
<td>(5)</td>
</tr>
<tr>
<td>Net operating expenses(^1)</td>
<td>(6,437)</td>
<td>(6,926)</td>
<td>(7,539)</td>
<td>9</td>
</tr>
<tr>
<td>Underwriting result</td>
<td>(1,237)</td>
<td>1,661</td>
<td>2,605</td>
<td>57</td>
</tr>
<tr>
<td>Investment return(^2)</td>
<td>955</td>
<td>1,311</td>
<td>839</td>
<td>(36)</td>
</tr>
<tr>
<td>Other income/expenses(^3)</td>
<td>(234)</td>
<td>(201)</td>
<td>(239)</td>
<td>19</td>
</tr>
<tr>
<td>Profit/(loss) before tax</td>
<td>(516)</td>
<td>2,771</td>
<td>3,205</td>
<td>16</td>
</tr>
<tr>
<td>Combined ratio%</td>
<td>106.8</td>
<td>91.1</td>
<td>86.8</td>
<td></td>
</tr>
</tbody>
</table>

Source: Lloyd’s pro forma financial statements, \(^1\) Technical account, \(^2\) Return on syndicates’ assets, members’ funds at Lloyd’s and central assets, \(^3\) Non-technical account
...driven by limited major claims and favourable prior years development

**COMBINED RATIOS**

<table>
<thead>
<tr>
<th>Year</th>
<th>AY excl. Major claims</th>
<th>Major claims</th>
<th>Prior year reserve movements</th>
<th>Calendar year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>90.4%</td>
<td>4.4%</td>
<td>(8.0%)</td>
<td>86.8%</td>
</tr>
<tr>
<td>2012</td>
<td>88.6%</td>
<td>9.7%</td>
<td>(7.2%)</td>
<td>91.1%</td>
</tr>
</tbody>
</table>
2013 MAJOR CLAIMS SIGNIFICANTLY BELOW LONG TERM AVERAGE

Source: Lloyd’s pro forma basis. Indexed to December 2013
Claims in foreign currency translated at the exchange rate prevailing at the date of loss
CURRENT YEAR PROFITS MAINLY FROM CATASTROPHE EXPOSED CLASSES...

**NEP:** £6.8bn £4.6bn £3.8bn £1.8bn £1.2bn £1bn £0.5bn

*Source: Lloyd’s pro forma basis at syndicate level, Dec 2013*

*NEP: Net Earned Premium*
...WITH PRIOR YEARS RELEASES BRINGING ALL CLASSES EXCEPT MOTOR INTO OVERALL PROFIT...

Source: Lloyd’s pro forma basis at syndicate level, Dec 2013
NEP : Net Earned Premium
...WITH SIMILAR NET RESULTS AFTER REINSURANCE ANALYSED BY UNDERLYING CLASS

Source: Lloyd’s pro forma basis at syndicate level, Dec 2013
NEP: Net Earned Premium
LLOYD’S OUTPERFORMS PEERS

Source: Lloyd’s pro forma financial statements, Dec 2013
Peer group formed of 11 companies operating in the US, European and Bermudan markets
RESERVES
EARNED RESERVES ARE SLIGHTLY LOWER AT YEAR-END 2013

<table>
<thead>
<tr>
<th>High level COB</th>
<th>Earned Reserves (net of DAC)</th>
<th>Net of Reinsurance excl. ULAE £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Casualty</td>
<td>9,457</td>
<td>1,301</td>
</tr>
<tr>
<td>Property (D&amp;F)</td>
<td>3,446</td>
<td>1,775</td>
</tr>
<tr>
<td>Marine</td>
<td>4,126</td>
<td>1,235</td>
</tr>
<tr>
<td>Property Treaty</td>
<td>3,190</td>
<td>653</td>
</tr>
<tr>
<td>Energy</td>
<td>2,124</td>
<td>732</td>
</tr>
<tr>
<td>Aviation</td>
<td>1,375</td>
<td>313</td>
</tr>
<tr>
<td>Casualty Treaty</td>
<td>1,696</td>
<td>169</td>
</tr>
<tr>
<td>Accident &amp; Health</td>
<td>1,095</td>
<td>415</td>
</tr>
<tr>
<td>UK Motor</td>
<td>960</td>
<td>392</td>
</tr>
<tr>
<td>Overseas Motor</td>
<td>248</td>
<td>101</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27,717</strong></td>
<td><strong>7,087</strong></td>
</tr>
</tbody>
</table>

*Total as at 2012 year-end*

28,157 6,764

Source: Lloyd’s TPD database. Includes life syndicates, excludes ULAE.
THE BETTER THAN EXPECTED EXPERIENCE IS ACROSS ALL YEARS OF ACCOUNT....

Gross Ex Cat IBNR Burn over 2013 calendar year for 2012 and Prior YoAs

Note: Gross of reinsurance

Source: 2012YE TPD (Technical Provisions Data) and Q1-Q4 2013 GQD (Gross Quarterly Data)
….AND ACROSS MOST CLASSES ...
...AND RESERVE MOVEMENTS COME FROM THE SYNDICATES WE WOULD EXPECT...

Prior year Result:

- 74% of reserve deteriorations from quartiles 3 or 4

VS

- £1.575bn

- 71% of reserve releases from quartiles 1 or 2

Deteriorations (only) split by RBI quartile

 Releases (only) split by RBI quartile
..AND THE CASUALTY RESERVING CYCLE REMAINS TO PROVIDE ASSURANCE ...

Source: Lloyd’s provisional TPD database – Excludes one syndicate. Net of reinsurance
...WITH THE PICTURE LESS DEFINED (BUT STILL POSITIVE) AT A WHOLE ACCOUNT LEVEL

Source: Lloyd’s provisional TPD database – Excludes one syndicate. Net of reinsurance
EMPHASIS REMAINS ON REFINING RATHER THAN OVERHAULING BOOKS

Some key principles:

- controlled growth
  - focus on “good performance”
  - or genuine new opportunities
- removing underperforming elements
  - or re-underwriting
- review of reinsurance efficiency
- keeping an eye on T&Cs and costs
WE HAVE ALSO SEEN A CONTINUED STABLE RUN OFF OF LARGE CLAIMS...

Earthquake Development (Gross)

Source: Lloyd’s QMR and Xchanging data. Analysis is gross of reinsurance.
...WHICH IS CONSISTENT WITH MOVEMENTS IN SAO LARGE LOSS WORDING

- SAO large loss wordings gauge the size/sources of reserve uncertainty
- Year-end 2013 saw a reduction in wordings relating to previous events, particularly for Hurricane Sandy.
- There were no new major events during 2013

<table>
<thead>
<tr>
<th>Event</th>
<th>2012</th>
<th>2013</th>
<th>Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hurricane Sandy</td>
<td>32</td>
<td>5</td>
<td>(27)</td>
</tr>
<tr>
<td>Other</td>
<td>16</td>
<td>7</td>
<td>(9)</td>
</tr>
<tr>
<td>Subprime / Credit Crunch</td>
<td>4</td>
<td>2</td>
<td>(2)</td>
</tr>
<tr>
<td>Aggregated Wording</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>WTC</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>18</td>
<td>(38)</td>
</tr>
</tbody>
</table>

Source: Lloyd’s SAO analyses – Wordings of severity 3 or 4
OVERALL THERE REMAINS COMFORT IN THE WAY RESERVES ARE DEVELOPING…

► Non-cat loss development in calendar-year 2013 has performed better than expected
  – this is a continuation from recent calendar years
  – and is across most classes and underwriting years

► There are no “new” non-cat reserving issues on top of:

► There are always a few syndicate specific and general issues but currently they are all minor
  – so we did carry out a number of thematic investigations
  – None resulted in any concern

► No reviews of an individual syndicates
  – i.e. there were no syndicate that merited that level of action
The positive results have seen net resources increase again to over £21bn ...

<table>
<thead>
<tr>
<th>£m</th>
<th>Dec 2011</th>
<th>Dec 2012</th>
<th>Dec 2013</th>
<th>YTD %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments</td>
<td>51,415</td>
<td>51,767</td>
<td>51,494</td>
<td>(1)</td>
</tr>
<tr>
<td>Reinsurers’ share of unearned premium</td>
<td>1,557</td>
<td>1,759</td>
<td>1,909</td>
<td>9</td>
</tr>
<tr>
<td>Reinsurers’ share of claims outstanding</td>
<td>10,597</td>
<td>10,680</td>
<td>9,557</td>
<td>(11)</td>
</tr>
<tr>
<td>Other assets</td>
<td>12,979</td>
<td>13,885</td>
<td>13,619</td>
<td>(2)</td>
</tr>
<tr>
<td>Total assets</td>
<td>76,548</td>
<td>78,091</td>
<td>76,579</td>
<td>(2)</td>
</tr>
<tr>
<td>Gross unearned premiums</td>
<td>(10,605)</td>
<td>(11,314)</td>
<td>(11,838)</td>
<td>5</td>
</tr>
<tr>
<td>Gross claims outstanding</td>
<td>(41,313)</td>
<td>(40,203)</td>
<td>(37,983)</td>
<td>(6)</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(5,516)</td>
<td>(6,381)</td>
<td>(5,651)</td>
<td>(11)</td>
</tr>
<tr>
<td>Net resources</td>
<td>19,114</td>
<td>20,193</td>
<td>21,107</td>
<td>5</td>
</tr>
<tr>
<td>Represented by:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members’ assets</td>
<td>16,726</td>
<td>17,708</td>
<td>18,723</td>
<td>6</td>
</tr>
<tr>
<td>Central assets</td>
<td>2,388</td>
<td>2,485</td>
<td>2,384</td>
<td>(4)</td>
</tr>
</tbody>
</table>

Source: Lloyd’s pro forma financial statements, 31 Dec 2013
... WITH SOLVENCY SURPLUS STABLE AT OVER £3.1BN

Source: Lloyd’s pro forma financial statements, 31 Dec 2013,
### WHICH WE CAN LOOK AT IN TERMS OF THE “CHAIN OF SECURITY”

<table>
<thead>
<tr>
<th>SEVERAL ASSETS</th>
<th>FIRST LINK</th>
<th>SYNDICATE LEVEL ASSETS</th>
<th>All premiums received by a syndicate are held in its premium trust funds and are the first resource for paying policyholder claims from that syndicate.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>£ 41,990m</td>
<td></td>
</tr>
<tr>
<td>SECOND LINK</td>
<td></td>
<td>MEMBERS FUNDS AT LLOYD’S</td>
<td>Each member provides Capital to support its underwriting at Lloyd’s. Each managing agent produces an Individual Capital Assessment stating how much capital it requires to cover its underlying business risks at a 99.5% confidence level.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>£15,088m</td>
<td></td>
</tr>
<tr>
<td>MUTUAL ASSETS</td>
<td>THIRD LINK</td>
<td>CENTRAL FUND £1,513m</td>
<td>The Central Fund is available at the discretion of the Council of Lloyd’s to meet any valid claim that cannot be met by the resources of any member. It is funded by members’ annual contributions and subordinated debt issued by the Corporation in 2004 and 2007.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CORPORATION £150m</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>CALLABLE LAYER (≤ 3%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>£788m</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>SUBORDINATED DEBT/SECURITIES £721m</td>
<td></td>
</tr>
</tbody>
</table>

Source: Lloyd’s pro forma financial statements, 31 December 2013
CAPITAL SETTING
CAPITAL NOW SET USING A “SOLVENCY II” BASIS
WHilst ENSURING EQUIVALENCE TO ICAS

Now

ICA

UK GAAP
Technical Provisions

Total 1:200 asset stack

Uplift and Central Assets

Solvency II

Ultimate Risk

SCR
(one year risk)

Solvency II
Technical Provisions
EARLY FEEDBACK – WAS EFFECTIVE

► Aimed to give the market earlier feedback
► Two goals of early feedback / engagement was to:
  – avoid late shocks
  – reduce the number of syndicate loadings
► This has been broadly successful
  – probably never going completely remove
    – we won’t agree on everything
    – things can emerge after the first submission
► One possible exception may have been “ULRs”
WE DID SEE A REDUCTION IN LOADINGS – BOTH IN TERMS OF NUMBERS & AMOUNTS

£m Increase

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>281</td>
</tr>
<tr>
<td>2011</td>
<td>218</td>
</tr>
<tr>
<td>2012</td>
<td>255</td>
</tr>
<tr>
<td>2013</td>
<td>282</td>
</tr>
<tr>
<td>2014</td>
<td>219</td>
</tr>
</tbody>
</table>

No. of Syndicates

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>23</td>
</tr>
<tr>
<td>2011</td>
<td>23</td>
</tr>
<tr>
<td>2012</td>
<td>12</td>
</tr>
<tr>
<td>2013</td>
<td>17</td>
</tr>
<tr>
<td>2014</td>
<td>26</td>
</tr>
</tbody>
</table>

Increases to final submitted ICA / uSCR following Lloyd’s review
For 2014, this includes increases associated with “ULRs for capital setting” differences
...AND THAT THE CAPITAL REQUIREMENTS DID INCREASE DURING THE REVIEW

► Reserve margins restricted to independent SAO view
► Business plan assumptions
  – ULR increases in a few cases for capital setting purposes only
► Parameters challenged. Most common were:
  – diversification
  – credit risk
  – market risk; and
  – operational risk
► We will continue to focus on all key themes going forwards
► Remember the impact of new syndicates is limited in scale
OVERALL CAPITAL HAS INCREASED SLIGHTLY TO 85% OF GROSS PREMIUM

(1) Gross premium, net of acquisition costs; at date that ICA/SCRs approved for year-end CIL
(2) Excludes reserve margin credit
AS EXPECTED, INSURANCE RISK DOMINATES SYNDICATE ULTIMATE SCRs

Note: Insurance diversification apportioned between Reserving and Underwriting Risks
Source: Lloyd’s Capital Return pro-forma
# Reminder of Key Dates for This Year’s Review

<table>
<thead>
<tr>
<th>Submission / Approval Dates</th>
<th>SBF and LCR</th>
<th>Required Submissions</th>
</tr>
</thead>
</table>
| **3 July**                 | - Provisional 2015 SBF  
- Draft 2015 LCR  
- Supplementary Questionnaire | - Aligned and non-aligned syndicates |
| **3 July**                 |             | - Provisional Validation Report (optional but strongly encouraged) |
| **18 July**                |             | - Lloyd’s SBF Feedback deadline for Non-aligned syndicates |
| **16 September**           | - Final 2014 SBF  
- Final 2014 LCR  
- Supplementary Questionnaire | - All syndicates |
| **23 September**           | - Final Validation Report | - All syndicates |
| **24 October**             |             | - Lloyd’s non-aligned approval deadline |
| **21 November**            |             | - Lloyd’s aligned approval deadline |
| **26 November**            |             | - Coming into Line |
SOLVENCY II
THE IMPACT ON TPS IS STILL SIGNIFICANT – AND WILL IMPACT CAPITAL

Source: 2013YE Lloyd’s QMC/ TPD returns
LLOYD’S EXPECTS EACH AGENT TO MEET THE FULL TESTS AND STANDARDS BY END 2014...  

► Lloyd’s wrote to agents in January setting out its view as to where agent stood against tests and standards  
► Agents submitted final ‘action plans’ by end February  
► Review by the Standards Assurance Group (SAG) and assign initial ratings against full tests and standards  
► Lloyd’s will continue to work with agents during the remainder of 2014 to help them close the remaining gaps…  
► …leading up to final agent Board attestation in December  

...and has set out a clear plan to achieve this
Recap on SAG process

- Agent action plans received and reviewed
- SAG meetings throughout March
  - Account Manager’s view on
    a) Number of gaps
    b) Materiality of gaps
    c) Credibility of plan
  - Overall ratings agreed based on these 3 criteria
- Consistency meeting early April
  - Resulting in a number of rating changes
- Outcome now communicated to all agents
Outcome of SAG reviews

COMMON ISSUES DRIVING “FAILS”

<table>
<thead>
<tr>
<th>December 2013 (Principles)</th>
<th>April 2014 (Full tests)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORSA</td>
<td>ORSA</td>
</tr>
<tr>
<td>Validation</td>
<td>Validation</td>
</tr>
<tr>
<td>Use Test</td>
<td>Actuarial Function Report</td>
</tr>
<tr>
<td></td>
<td>Model Change</td>
</tr>
<tr>
<td></td>
<td>Reporting &amp; Disclosure</td>
</tr>
</tbody>
</table>

The bar has been raised with agents needing to comply with the full tests with some areas not tested before e.g. Reporting
OUR REVIEW OF AGENT PROGRESS IN 2014 WILL FEED INTO THE CAPITAL SETTING EXERCISE FOR 2015

► Standards Assurance Group (SAG) assesses agents’ progress towards Solvency II compliance

► Capital and Planning Group (CPG) oversees Lloyd’s capital setting and syndicate business planning processes

► CPG will make decision on prudential measures based on SAG input:
  - Capital loadings
  - Business plan restrictions

SAG
Terms of Reference:
• “Assess MA compliance with Lloyd’s Standards”
• “Assess compliance with SII internal model tests and standards”
• “Authorise the use of syndicate internal models for capital setting & provide input to CPG”
• “Authorise syndicate major model changes”

CPG
Terms of Reference:
• “Approve all Business plans & Syndicate capital requirements”
• “Approve any Franchise Guideline dispensations”

RISK ASSURANCE FUNCTION

TECHNICAL REVIEW TEAMS

AGENT CONTACT

OVERSIGHT AND DECISION MAKING

REVIEW WORK & AGENT INTERACTION
WHY ARE ALSO REFRESHING THE STANDARDS?

- One set of standards covering all requirements for Managing Agents
  - A clear framework within which all Managing Agents are expected to operate
  - Consistency in interpretation, presentation and publication
  - Alignment to Solvency II and PRA requirements

CURRENT STANDARDS
- Claims Management
- Risk Management
- Underwriting
- Reinsurance
- Delegated Authorities
- Exposure Management
- Effective operational processes
- Governance
- Management of investment risk
- Reputation & Brand

REVISED STANDARDS
- Underwriting Management
- Claims Management
- Reserving
- Governance
- Risk Management
- Scope, Use & Change
- Modelling Design & Implementation
- Validation
- Investment Management
- International Regulatory
- Compliance
- Conduct Risk
- Operating at Lloyd’s

SOLVENCY II
THE UPDATED 2014 TIMETABLE IS NOW LIGHTER THAN PREVIOUS EDITIONS

KEY DATES FOR 2014

<table>
<thead>
<tr>
<th>JANUARY</th>
<th>FEBRUARY</th>
<th>MARCH</th>
<th>APRIL</th>
<th>MAY</th>
<th>JUNE</th>
<th>JULY</th>
<th>AUGUST</th>
<th>SEPTEMBER</th>
<th>OCTOBER</th>
<th>NOVEMBER</th>
<th>DECEMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>14 January</td>
<td>6 March</td>
<td>3 May</td>
<td>30 May</td>
<td>2 July</td>
<td>2 July</td>
<td>4 Sept</td>
<td>9 October</td>
<td>30 October</td>
<td>12 Dec</td>
<td></td>
<td></td>
</tr>
<tr>
<td>QRO return</td>
<td>Balance sheet</td>
<td>Standard formula</td>
<td>2014 LCR</td>
<td>2014 LCR</td>
<td>Draft LCR via LCR</td>
<td>Final BCR via LCR</td>
<td>2015 QRO return</td>
<td>Use test review</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Solvency II Quantitative Submissions**
  - 6 March 2014 LCR Re-assessment
  - 30 May Standard formula BCR
  - 2 July Draft LCR via LCR
  - 4 Sept QRO return QRO return
  - 9 October QRO return

- **Solvency II Qualitative Submissions**
  - 27 March LCR Submissions
  - 1 April to 30 May Actuals Function Report
  - 27 June Evidence - Template Submissions
  - 3 July Voluntary interim Validation Report
  - 23 Sept Validation Report

- **Solvency II Thematic Review**
  - P&L Attribution & Backtesting

- **RISK Assurance/Minimum Standards**
  - Use test review

- **Workshops/Briefings**
  - 25 January QRO briefing
  - 25 February QRO briefing
  - 1 & 2 July Director briefing
  - 9 & 10 June QRO/SCAP
  - 1 & 2 July Standard, launch & self-assessment guidance
  - 13 & 16 June 2015 workshop
  - 13 & 16 October Directors briefing
  - 15 & 16 Nov 2015 training
SUMMARY AND QUESTIONS
SUMMARY

- Results showed a very strong profit
  - Lack of major claims activity
  - Includes continued trend of reserve releases
    - But leaving reserves in strong position
- Current underwriting is a challenge
- Capital set using SII approach
  - Ultimate SCRs plus SII TPs
  - Maintain equivalence to ICAs
- Move to the “final push” in SII implementation
  - Now assess against full “test and standards”
  - Work to do but confident of result
ANY QUESTIONS?