Agenda

- Year to date
  - results
  - ICAs
- Dry Run
  - 2010 & 2011
  - QIS5
- LIM
- Looking forward
  - reserving
  - year-end 2010 & beyond
- Summary & Questions
Profits are down and the first half of the year has been challenging

<table>
<thead>
<tr>
<th>£m</th>
<th>June 2008</th>
<th>June 2009</th>
<th>June 2010</th>
<th>% change</th>
<th>Dec 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross written premiums</td>
<td>9,983</td>
<td>13,462</td>
<td>13,490</td>
<td>0</td>
<td>21,973</td>
</tr>
<tr>
<td>Net earned premiums</td>
<td>6,362</td>
<td>8,086</td>
<td>8,285</td>
<td>2</td>
<td>16,725</td>
</tr>
<tr>
<td>Net incurred claims</td>
<td>(3,407)</td>
<td>(4,461)</td>
<td>(5,403)</td>
<td>21</td>
<td>(8,624)</td>
</tr>
<tr>
<td>Net operating expenses</td>
<td>(2,256)</td>
<td>(2,947)</td>
<td>(2,775)</td>
<td>(6)</td>
<td>(5,712)</td>
</tr>
<tr>
<td>Underwriting result</td>
<td>699</td>
<td>678</td>
<td>107</td>
<td>(84)</td>
<td>2,320</td>
</tr>
<tr>
<td>Investment return</td>
<td>346</td>
<td>708</td>
<td>597</td>
<td>(16)</td>
<td>1,769</td>
</tr>
<tr>
<td>Other income / expenses</td>
<td>(96)</td>
<td>(64)</td>
<td>(76)</td>
<td>19</td>
<td>(221)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>949</td>
<td>1,322</td>
<td>628</td>
<td>(52)</td>
<td>3,868</td>
</tr>
<tr>
<td>Combined ratio</td>
<td>89.0%</td>
<td>91.6%</td>
<td>98.7%</td>
<td>86.1%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Lloyd’s pro forma basis, 1) Technical account 2) Return on syndicates’ assets, members’ funds at Lloyd’s and central assets 3) Non-technical account
H1 2010 dominated by large losses with some offset from reserve releases

Source: Lloyd’s pro forma basis
Here is a quick recap on major events...........

Chilean Earthquake
$1.4bn

Deepwater Horizon
$300m - $600m
.....and UK Motor has deteriorated beyond the strengthening seen in 2009

<table>
<thead>
<tr>
<th>2009 COMBINED RATIO</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCIDENT YEAR</td>
<td>104.5%</td>
</tr>
<tr>
<td>PRIOR YEAR RESERVE MOVEMENT</td>
<td>3.9%</td>
</tr>
<tr>
<td>CALENDAR YEAR</td>
<td>108.4%</td>
</tr>
</tbody>
</table>
Continue to estimate a lag of 4 years between reserve cycle and observed releases…

Source: Lloyd’s SRD and Annual Report
...which would imply future releases will exist but reduce over the coming years

Source: Lloyd’s SRD and Annual Report
Streamlined 2011 ICA Process….

**Approach**

- Streamlined for 2011 capital setting
  - intended to free up market resources for Solvency II dry run
  - does not remove need for appropriate ICA
- Heavily dependent on ICP benchmark movement
- Tier 1 syndicates (ICA<£100m)
  - reduced pro-forma
- Tier 2 syndicates (<£150m)
  - full pro-forma
- Tier 3 syndicates (>£150m)
  - full pro-forma plus analysis of change
  - more detail for “big” syndicate (>£300m)
...and already a long way through process

<table>
<thead>
<tr>
<th>Date</th>
<th>Non-Aligned</th>
<th>Aligned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial ICA</td>
<td>9 July</td>
<td>9 July</td>
</tr>
<tr>
<td>Final SBF</td>
<td>10 September</td>
<td>1 October</td>
</tr>
<tr>
<td>Final ICA</td>
<td>11 October</td>
<td>25 October</td>
</tr>
<tr>
<td>Coming into Line</td>
<td>29 November</td>
<td>29 November</td>
</tr>
</tbody>
</table>

- Tier 1 syndicates have option to elect the benchmark at times during process
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Solvency II dry run timetable - reminder

Qualitative dry run review
Phase 1 - Preparation
Phase 2 - Delivery (Stage 1)
Phase 2 - Delivery (Stage 2)
Phase 2 - Delivery (Stage 3)
Phase 3 - Refinement

Quantitative dry run review
Preparatory work with LMA
SCR calculation kernel
Technical provisions

Regulatory review
QIS 5

Lloyd’s
Agents
Both
Dry Run update – Stage 1

- Initial review of Stage 1 evidence completed
- Lloyd’s scores allocated and detailed feedback being given to all agents
- Scoring sheets being provided to substantiate scores
  - also cover expectations going forward
  - original 1-10 basis still applies
    - just trying to provide more specific detail
- Feed into agent ratings

<table>
<thead>
<tr>
<th>Overall SOG</th>
<th>General Governance</th>
<th>Fit and Proper</th>
<th>Risk Management</th>
<th>Internal Control</th>
<th>Internal Audit</th>
<th>Actuarial Function</th>
<th>Outsourcing</th>
<th>Overall MSG</th>
<th>Risk and Business Coverage</th>
<th>Use Test</th>
<th>Model Governance</th>
<th>Model Change Policy</th>
<th>Overall DOC</th>
<th>Documentation Process</th>
<th>Design and Operational Details</th>
<th>Theory etc</th>
<th>Model Not Working Effectively</th>
<th>Model Change Documentation</th>
</tr>
</thead>
</table>
Dry Run update – Stage 2

- As for Stage 1, wide range of submitted scores
- Ongoing review of all areas
  - Statistical quality standards
  - Calibration, Validation and P&L Attribution
  - External Models and Data
- More technical detail than Stage 1 reviews
- Developing scoring sheets as we go through review process
Dry Run update – Stage 3

- Stage 3 templates due to be submitted by 1 November
- Technical provisions as well as reporting and ORSA
  - quantitative elements via QIS5 but qualitative to be covered by dry run
- As for previous stages full completion of templates required
- Same 1-10 scoring basis should be applied
- Be as descriptive as possible on evidence and don’t list if it is not available
- Lloyd’s will aim to turn around requests as quickly as possible
  - likely to request everything that is available unless it refers to ICA
What happens after Stage 3?

- Detailed plans for 2011 being worked on internally
  - follow up on qualitative aspects
  - cover quantitative reviews
  - preparation for “soft test” in Q4 2011
- Ongoing quarterly submission of templates will be required
  - likely to begin with submission in January 2011 of position as at Q4 2010
- Template submission dates and 2011 process will be confirmed as soon as possible
Current status of QIS5 at Lloyd’s

• Lloyd’s to complete central aggregate return to be supplied to FSA
• Syndicates to complete QIS5 and submit to Lloyd’s
  – mandatory for all syndicates in Lloyd’s Dry Run
• Detailed guidance issued Sept 2010
• Workshops held 7 / 8 September
• FAL / trust fund underlying assets issued FAQs on Lloyds.com
  – approaching 100
QIS5 - common issues

• No real surprises
  – doesn’t mean it’s easy!

• Common issues:
  – USPs
  – non-life Cat risk
  – TP calculations
  – data
  – market risk

• Early signs are that:
  – TPs are down but not if allowing for future premiums
  – results look high – especially NL cat risk

\[ NP_{lob} = \sqrt{1 + \left( \frac{\Omega_{lob}^{net}}{M_{lob}^{net}} \right)^2} \sqrt{1 + \left( \frac{\Omega_{lob}^{gross}}{M_{lob}^{gross}} \right)^2} \]
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The LIM will depend on syndicate internal models…

… and both must meet Solvency II standards
Overview of the LIM

Syndicate models
Syndicate input data
Other data sources
Reserving

LIM CAT model
Input interfaces
LIM Treasury model

LIM Capital Calculation Kernel (CCK)

Lloyd’s Internal Model
Model outputs, e.g. to risk appetite
Current status of LIM

- Working model, all risk types, end 2010
  - LIRM and LCM for Asset and Cat risk: on track
- Specifying “at risk”
  - iterative cycle of implementing, testing and specifying
- Refining during 2011
- On track, but a big and difficult project
- Making ICP Solvency II compliant
- Debating detail of member capital setting
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We have seen a steady increase in average SAO report “scores”

- Getting very close to our goal

**Overall performance for all producers by year-end**

<table>
<thead>
<tr>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>60%</td>
<td>61%</td>
<td>65%</td>
<td>69%</td>
<td>71%</td>
</tr>
</tbody>
</table>

- Unacceptable
- Poor
- Meets Requirements
- Good
- Excellent
Current Focus for Reserving - reserving cycles

- They exist – not just at Lloyd’s - linked to underwriting cycle

Source: Lloyd’s SRD database
Reserving: Evidence of Boards seeing reserving issues

- We will be asking reserving actuaries to demonstrate that Boards have considered reserving issues...
- …such as concerns about the soft market,…
- …particular classes…
- …and any agent specific issues
Year End 2010 issues (2)

Professional Guidance

• GN33: hope it will become AP2 by year end
• GN12: presume repealed?
• TAS R – signing actuary to assure him/herself of compliance
  – report must precede decision
• TAS D / GN20

Process

• Valuation of Liabilities - Unchanged apart from dates
• Dates – reports by 31 March
• Signing Actuaries’ Forum 6 December
...and Beyond!

Reserving

- Evidence of Boards seeing reserving issues

Begin to see influence of Solvency II basis?

- Best estimate
- Binary events
- Actuarial Function
- Future of the SAO?
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Summary

Half year results affected by some big losses
- Reserve release but issues as well - signs of softening market?

Solvency II
- Dry run / QIS5
- LIM / Member capital

Year end
- Reserve governance
- Guidance changes
- Dates changing
Questions or comments?

The views expressed in this presentation are those of the presenters.