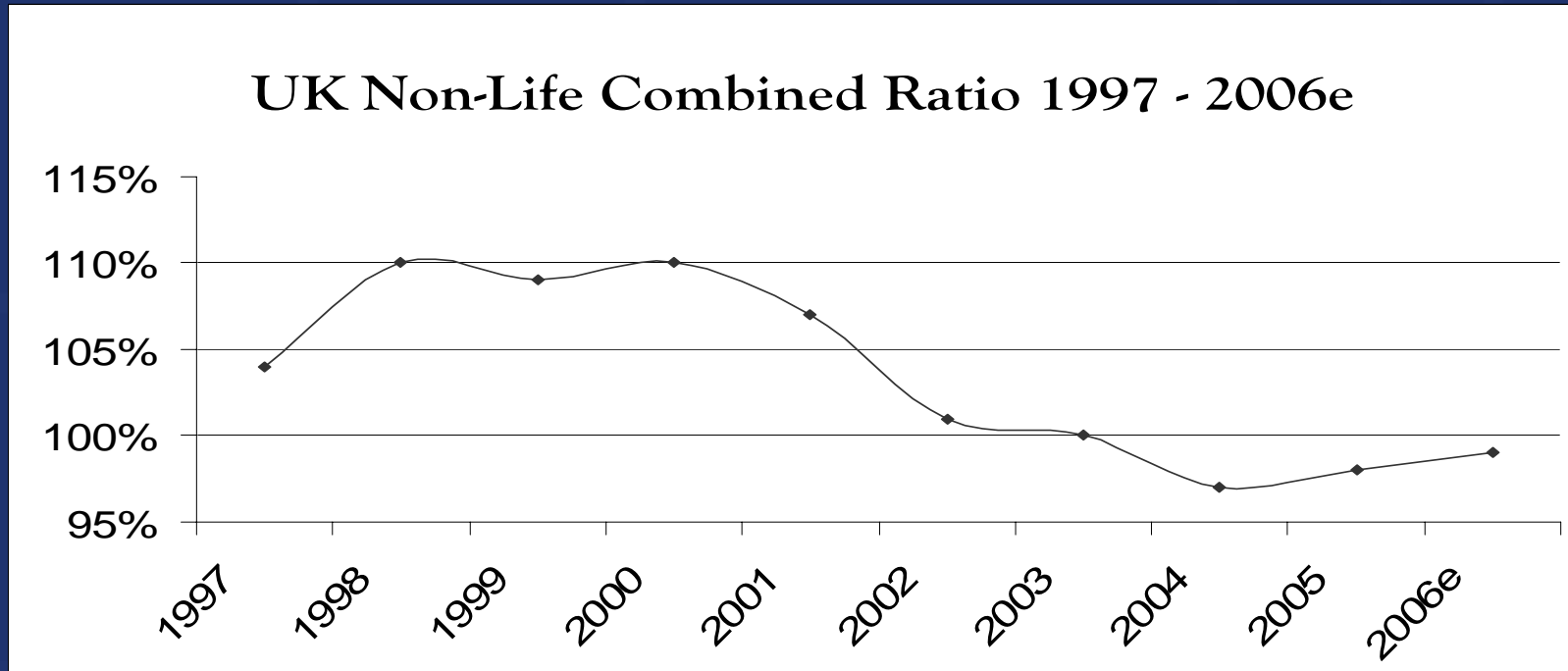


## UK Non-Life Update

Miles Trotter  
Assistant General Manager  
A.M. Best Europe

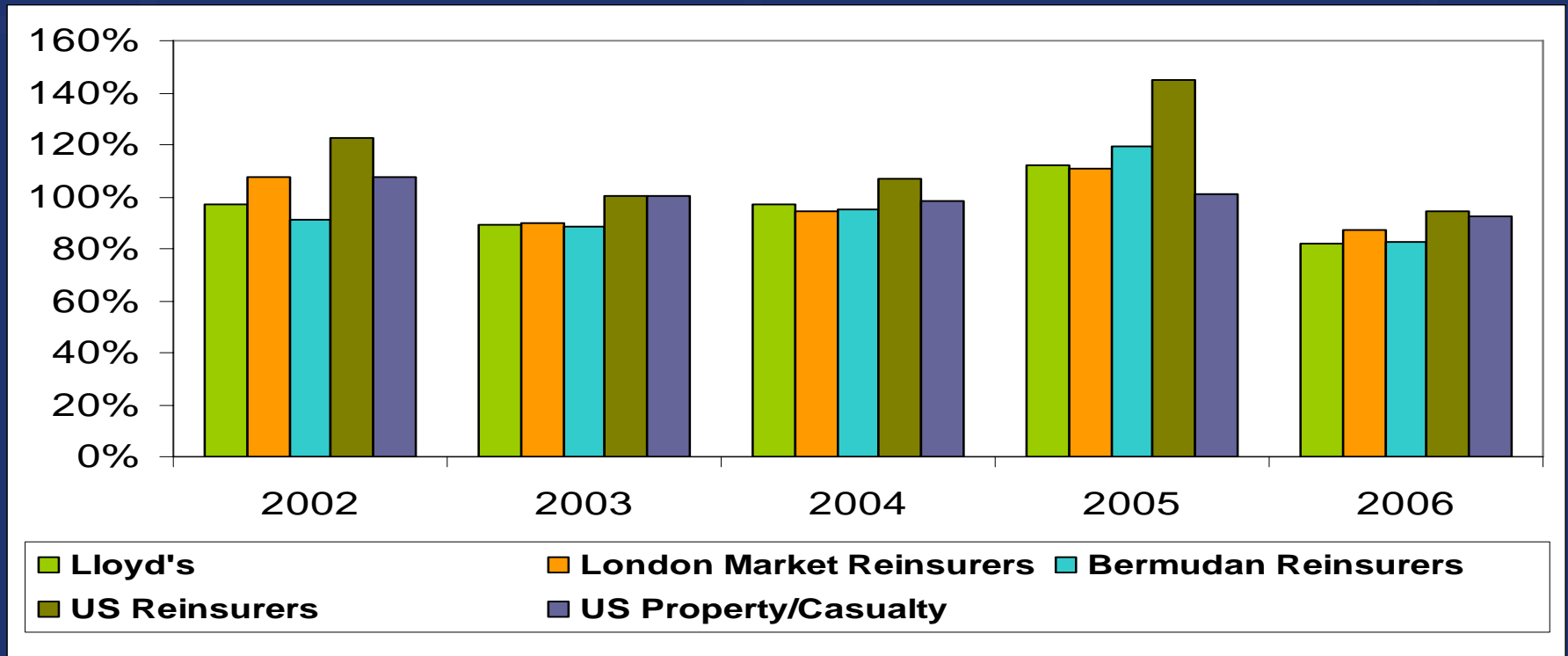
## UK non-life: upward pressure on combined ratio from a low level



Source: Company report and accounts

- A small underwriting profit likely for 2006 with benign claims experience offsetting rate decreases
- Likely to be further upward pressure on the combined ratio in 2007 due to Kyrill losses and pricing pressure

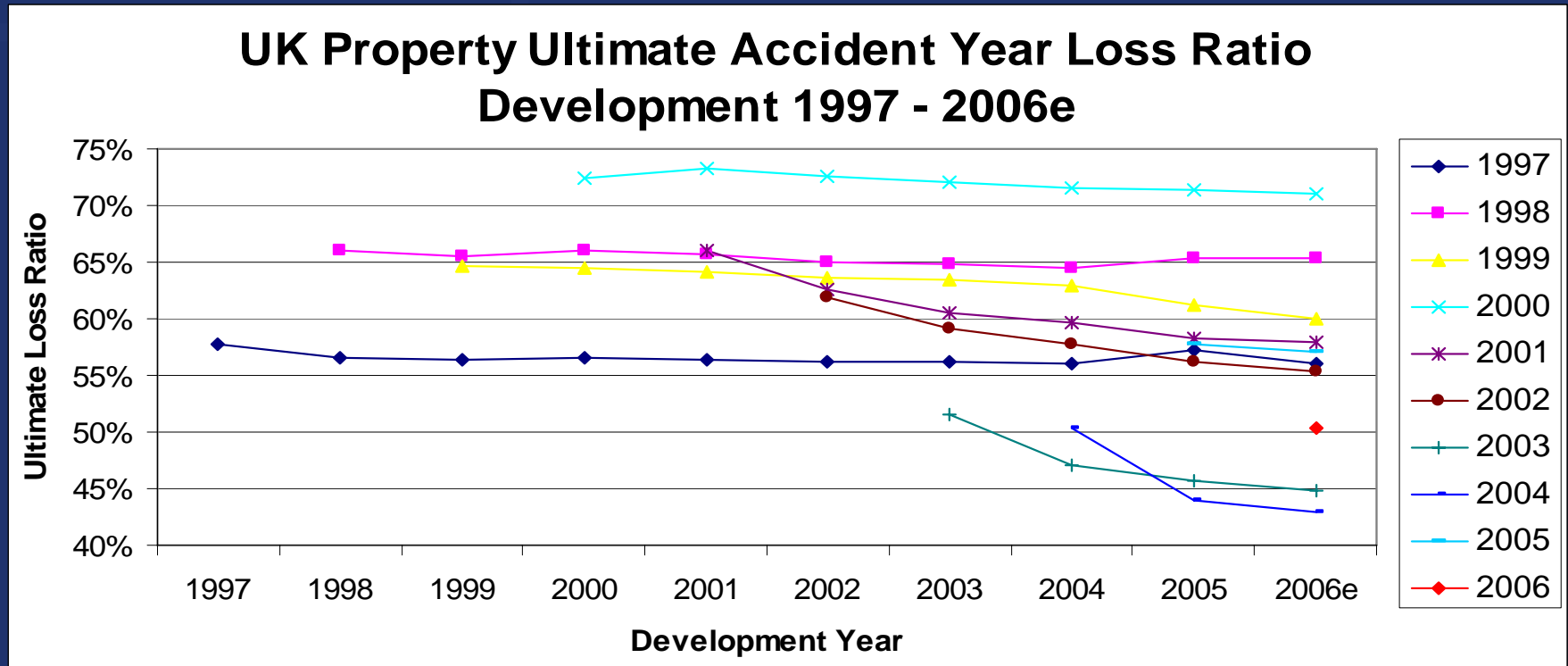
## Lloyd's and London Market: comparative combined ratios 2002-2006



2006 for the London Market Reinsurers is estimated. 2002-2003 figures for the Bermudan Reinsurers based on reinsurance business only.

- Lloyd's and London Market reinsurers compare favourably with other sectors across the five year period
- 2006 a strong year for all markets, particularly Lloyd's

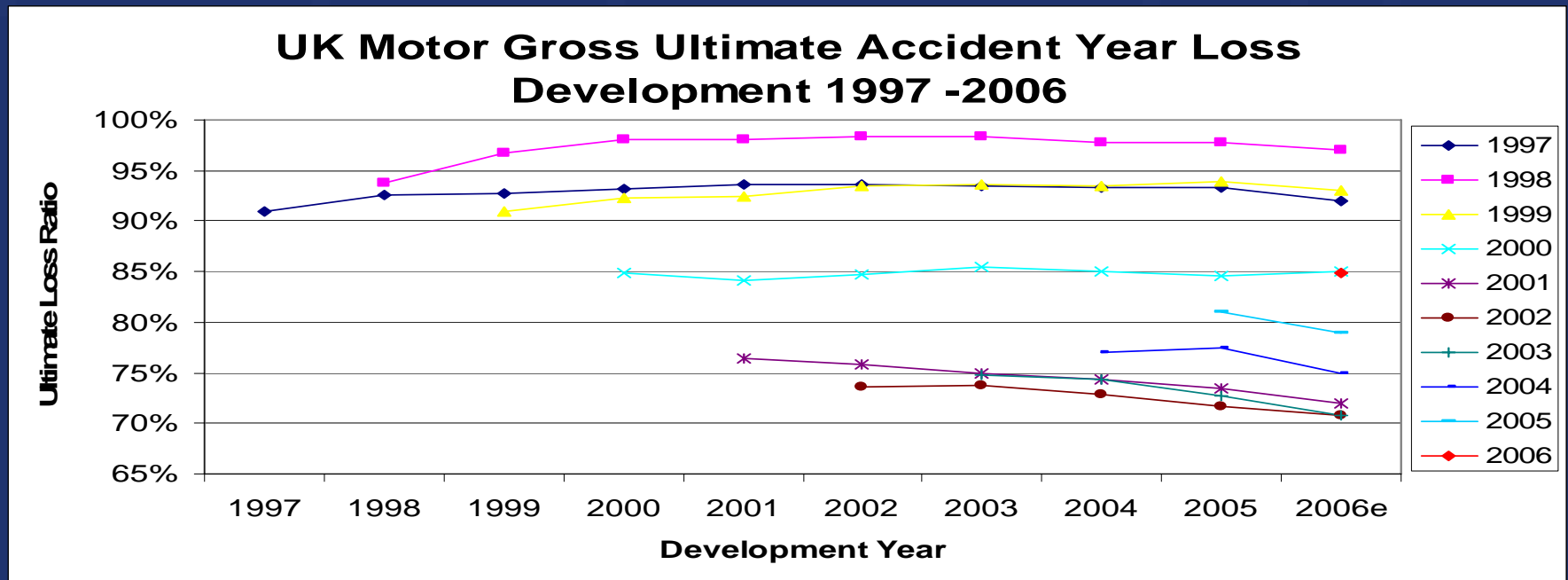
## UK property reserve releases for more recent accident years



Source: FSA returns

- Further increase in ultimate loss ratio expected in 2007
- Significant reserve releases from 2001 accident year onwards
- Stable overall pattern based on prudent initial reserving

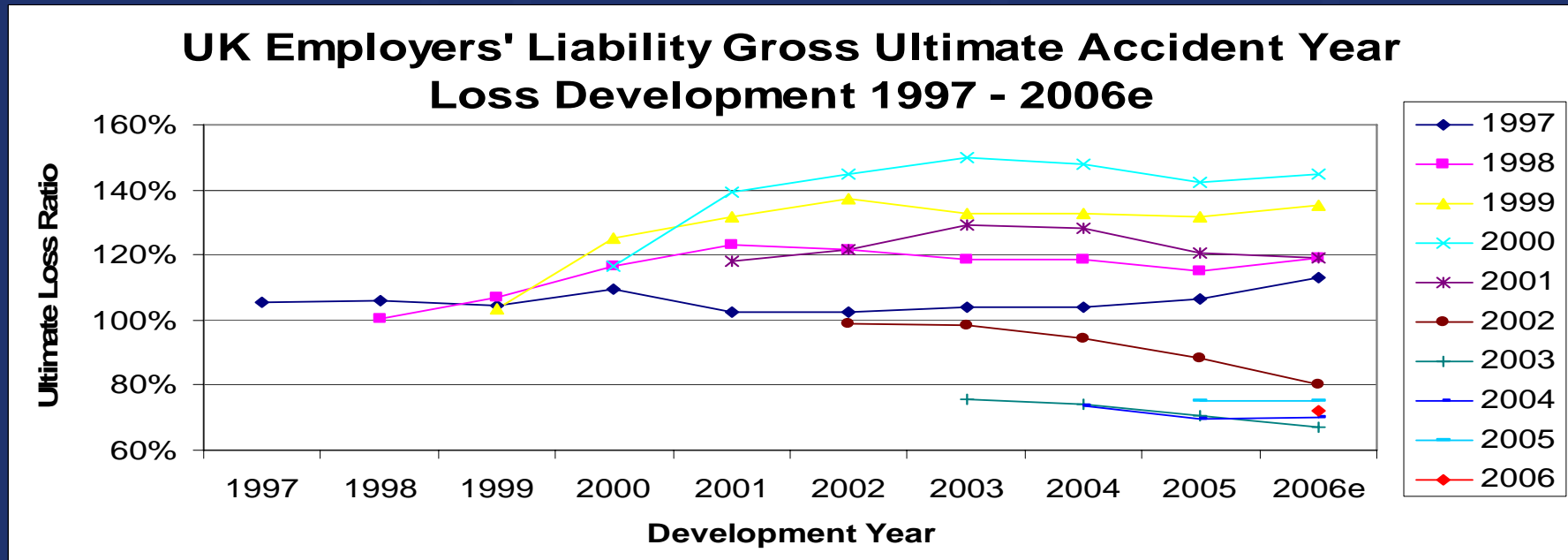
## Motor reserving broadly stable but loss ratios rising since 2004



Source: FSA returns

- Marked rise in ultimate loss ratio in 2004-2006e reflecting a more competitive market, further less marked increase expected for 2007
- Weak phase in the market 1997-1999 a trend of initial under-reserving
- 2000 onwards, better ultimate loss ratios and some reserve releases

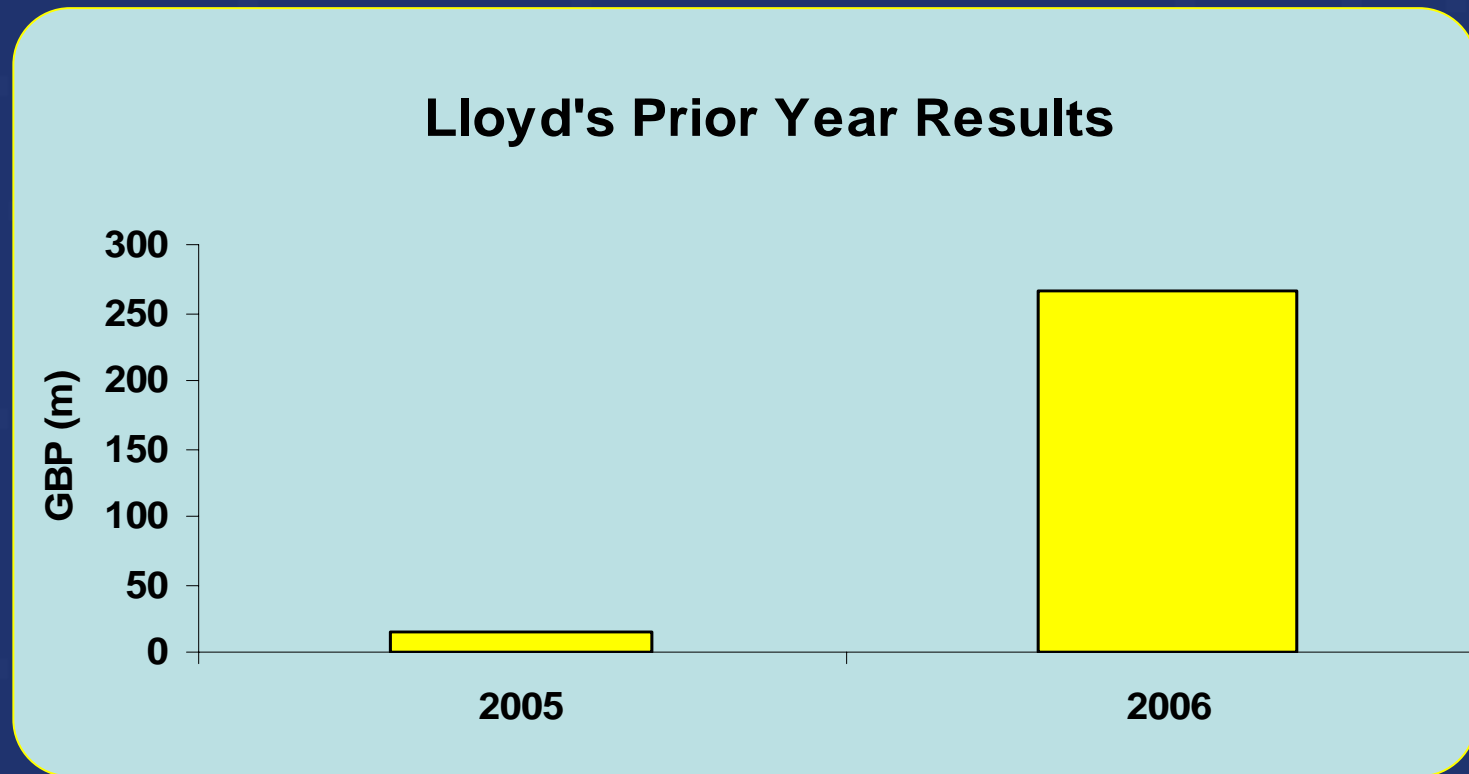
## Employers' liability: reserve volatility likely to continue



Source: FSA returns

- Lower ultimate loss ratios and a pattern of releases emerging for more recent accident years
- Long-term volatility likely to remain a feature
- Initial reserves 1998 - 2001 inadequate

## Lloyd's: overall reserve position favourable 2005-2006

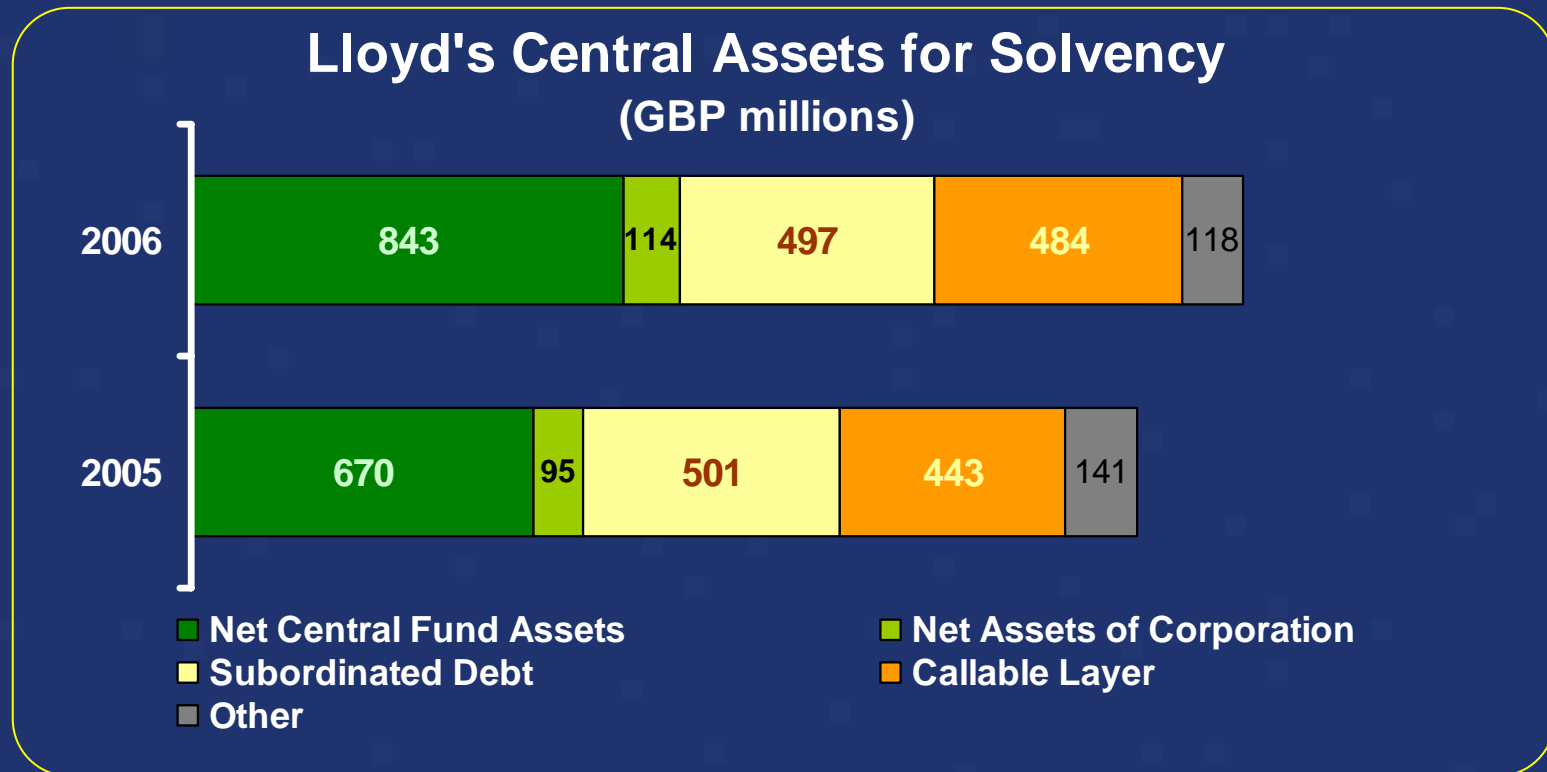


- After a period of reserve shortfalls, near breakeven in 2005 and a substantial release in 2006 despite reserve additions for the 2005 catastrophes

## UK non-life: strong capitalisation likely to be maintained 2007/8

- Risk adjusted capitalisation expected to remain strong 2007/08 despite deteriorating underwriting conditions
- Greater earnings focus from insurers
- FSA encouragement to capital preservation and risk management
- Risk adjusted capitalisation strong at year-end 2006 due to several years of good earnings
- Overall reserving position stable
- Conservative investment portfolios: over 65% bonds or cash, less than 15% equities

## Lloyd's Growth in Solvency Assets continues in 2006



- Improvement in Central Fund net assets as anticipated due to increase in the contribution rate to 1% from 0.5%

## Growth in competition to the London Market

- Bermuda start-ups
  - Castle Point      2006
  - Ironshore        2007
  - Paris Re          2007
- Bermuda sidecars, including Panther Re for Lloyd's Syndicate 33
- Capital market products, e.g. Catlin / Bay Haven
- Impact of Florida House Bill 1A and expansion of Florida Hurricane Cat Fund

## A.M. Best's outlook for the UK market

- A.M. Best global outlook for reinsurance is stable
- For the UK market as a whole better capital management is likely in this soft cycle as a result of implementation of ICAS
- Current reserving position good but liability lines likely to continue to be subject to volatility
- As expected, problems reducing from US casualty business written in London between 1997-2001
- Progress with business process reform – G6 managing agencies at Lloyd's, use of RI3K's electronic trading platform
- Increasing competition to London from other markets including the capital markets.