LLOYD'S

AGGREGATE ACCOUNTS 2008

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2008 HIGHLIGHTS

- → Lloyd's achieved a profit before tax of £1,899m (2007: £3,846m) and a combined ratio of 91.3% (2007: 84.0%), a solid performance during an exceptionally turbulent year for the financial sector.
- → Profit before tax, excluding foreign exchange movements on non-monetary items, of £1,529m (2007: £3,846m).
- → Syndicate investment return of £522m (2007: £1,228m), benefiting from a conservative investment strategy.
- → Overall surplus on prior years of £1,265m (2007: £856m) as claims develop within projections for the fourth year in a row.

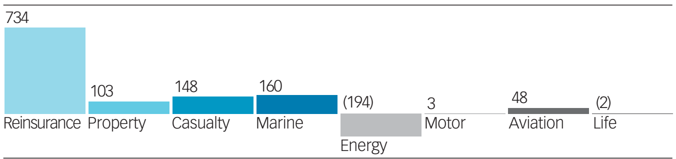
2008 combined ratio*

Accident year	100.5%
Prior year reserve movement	(9.2%)
Calendar year	91.3%

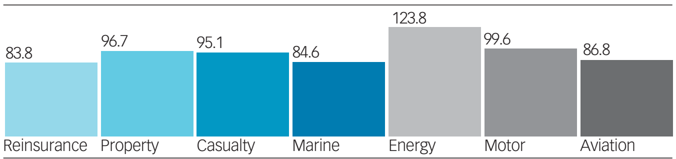
2008 combined ratio excluding foreign exchange movements on non-monetary items

Accident year	103.2%
Prior year reserve movement	(9.2%)
Calendar year	94.0%

Underwriting results by class
(£m)



Combined ratio by class
(%)



*The combined ratio for the market and by class of business is the ratio of net incurred claims and net operating expenses to net earned premiums. The prior year reserve movement represents the ratio of the surplus/deficit arising on reserves at December 2007 to overall net earned premiums in calendar year 2008.

The overall combined ratio includes central adjustments in the technical account in respect of transactions between syndicates and the Society as described in notes 2 and 8 to the PFFS (pages 73 and 76 of the Lloyd's Annual Report). The combined ratios and results for individual classes of business do not include these adjustments as the market commentary for each class reflects trading conditions at syndicate level as reported in syndicate annual accounts.

The Lloyd's market produced a good result during a year that brought a series of challenges, both old and new, for the insurance industry. Not only did it see an increased level of catastrophes and a series of major individual risk losses, but it was also faced with unprecedented turmoil in financial markets.

Following two years of remarkably few catastrophes, the US windstorm season again brought havoc to the southern United States and the Gulf of Mexico. Hurricanes Gustav and Ike struck in September, causing huge disruption to communities and destruction to homes, business property and the offshore energy industry. The extent of the damage and the cost of reconstruction inevitably impacted the Lloyd's market's results – principally for the reinsurance, property and energy lines of business.

In addition, there was a series of single event losses that were significant in size and frequency. Man-made and technological catastrophes caused around US$7bn in insured losses last year, some 46% higher than the annual average of US$4.8bn. Nineteen events across 11 countries resulted in insured losses ranging from US$80m to nearly US$2bn each.

2008 will be remembered above all for the near-collapse of confidence in the banking system, extreme dislocation in financial markets and the onset of recession. For Lloyd's and other insurers, the return on investments suffered as a result. Despite this, our overall investment performance remained positive, with strong cash balances and the high credit quality of fixed income investments offsetting falls in value of many corporate bond securities and equities. Lloyd's conservative investment policy has preserved capital and ensured that our balance sheet has remained strong.

CURRENCY MOVEMENTS

The last four months of 2008 also saw sterling's rapid depreciation against the US dollar and other Lloyd's operating currencies. The US is Lloyd's single largest market and this, together with the fact that a large proportion of the world's trade is transacted in US currency, means that some 60% of Lloyd's premiums are written in US dollars. The decline in the value of sterling against the US dollar, in particular, has had a marked effect on our reported results in sterling terms.

Another consideration is that Lloyd's has a diverse capital base and our US and Bermudian capital providers report their own group results in US dollars. For these companies, the US dollar is their home currency.

Lloyd's results are reported in sterling and in accordance with UK GAAP. Each managing agent applies the appropriate accounting policies for its managed syndicates. As a result of the different accounting treatments applied, some agents have reported the impact of currency exchange movements within the profit and loss account (P&L) while others have recognised the movements within the Statement of Total Recognised Gains and Losses (STRGL). Where the movement is booked through the P&L, it comes through in three ways:

Firstly, for underwriting profit and investment returns generated in currencies other than sterling; under conventional accounting methods, these items are reported at the average rate of exchange for the period. Balance sheet items, however, are generally restated at closing rates of exchange. The retranslation of the reported results for the period from average rate (in the P&L) to closing rate (in the balance sheet) is recognised as a profit or loss on exchange and is reported within net operating expenses in the P&L. In 2008, the average rate of exchange was US$1.85:£1 and the closing rate of exchange at 31 December was US$1.44:£1. The retranslation of US dollar underwriting profits and investment returns into sterling therefore produces a gain on exchange in 2008.

Secondly, the assets and liabilities held in different currencies at 1 January are retranslated from the opening rates of exchange to the closing rates. Lloyd's naturally holds assets in currency to match outstanding liabilities, principally future claims. Indeed, at 1 January 2008, some US$30bn (£15bn) of future liabilities were denominated in US dollars. Following the Lloyd's market's record profits in the last two years, the Lloyd's market holds more assets than liabilities in both sterling and foreign currency. The opening rate of exchange at 1 January 2008 was US $1.99:£1 and retranslating these balances at the rate prevailing at 31 December 2008 produces an additional profit on exchange.

Thirdly, profits on exchange have arisen through an accounting treatment adopted for non-monetary items. The main items defined as 'non-monetary' are unearned premium reserves and deferred acquisition costs. Some 21 syndicates have adopted this treatment in their syndicate accounts, in line with their group reporting under IFRS, where this accounting treatment is mandatory. This accounting policy requires the accounts to carry non-monetary items at the foreign exchange rate prevailing at the time of initial recognition, without revaluation to the closing exchange rate. There is therefore a mismatch between the exchange rates used to convert non-monetary items (predominantly liabilities in the balance sheet) and monetary items (net assets). This produces unfortunate volatility in reported results across different periods – if sterling continues to trade at or around US$1.44, the past year's exchange gain will largely reverse this year.

The gain on exchange arising from retranslation of profits made in foreign currency and net assets and liabilities totals £445m.

The gain arising through carrying non-monetary items at initial rates of exchange and monetary items at closing rates totals £408m. A significant proportion of this gain, £370m, will reverse in 2009.

The overall impact is an exchange gain of £853m in the P&L and a gain of £659m recognised in the STRGL.

Future movements in foreign exchange rates will have an impact on the market's results and net assets reported in sterling.

LOOKING AHEAD

The outlook for 2009 is dominated by concerns about the impact of the financial crisis. Capital constraints and the low yield environment for investments would normally be expected to create a favourable climate for improvements in underwriting conditions. More difficult to predict is the effect of the economic downturn on the demand for insurance cover and premium volumes as asset values fall and world trade contracts.

Attritional claims levels rose throughout 2008 and are expected to continue rising into 2009. Coupled with this rise is the heavy claims inflation, which was fuelled by the escalating costs of raw materials in the earlier part of 2008.

Great uncertainty exists over the impact that a prolonged downturn will have on the insurance industry, but it is expected that claims frequency will rise further across all lines of business.

The dislocation in financial markets will trigger multiple class actions as investors seek to recover their losses. We anticipate that plaintiffs will bring suits against any targets that they consider have the resources to recompense them and the Professional Indemnity (PI) coverage available will be a key consideration. This will include Directors & Officers' insurance (D&O) and Errors & Omissions insurance (E&O) for financial institutions and financial advisers. In previous years, Lloyd's has suffered material losses on these accounts, notably during the soft market conditions of 1997–2001. The level of coverage now offered by the Lloyd's market, however, is much lower as many syndicates have largely withdrawn from providing PI cover for major US financial institutions. This greatly reduced exposure will be the single most significant defence against such losses recurring, although the tighter terms and conditions imposed in recent years and the burden of proof on plaintiffs should also limit industry losses.

The crisis may well give rise to numerous claims and class actions on credit insurance and the reinsurance of bond insurers. However, Lloyd's exposure to such claims is limited by the restrictions on the level of financial guarantee business that Lloyd's syndicates can write.

2008 PERFORMANCE

Gross written premium for the year, excluding inter syndicate reinsurance to close, increased by 10% to £17,985m (2007: £16,366m), reflecting new business opportunities and the strengthening of the US dollar in the latter part of the year.

A number of syndicates have started trading in the past three years, bringing new business to the market. In addition, the peak in the oil price and increased commodity prices during the earlier part of the year brought additional premiums for the energy and cargo lines of business, among others. This offset weakening terms and conditions that reduced premium per risk written.

The depreciation in sterling has increased the value of business written in foreign currencies when reported in sterling in the results. The accounting convention is to recognise premiums at the rate prevailing when the contract is written, and with an average rate throughout the year of US$1.85:£1 in 2008 (2007: US$2.00:£1), this results in an estimated increase of 5% in reported premiums. In underlying currency, the true business growth is closer to 5% than the 10% headline figure.

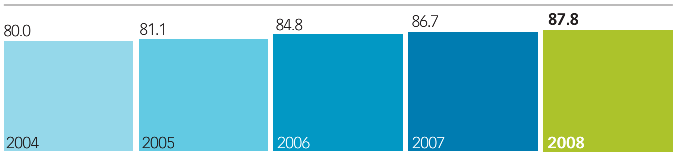
ACCIDENT YEAR RESULTS

Despite the high level of catastrophe losses occurring in 2008, Lloyd's achieved a near break-even accident year combined ratio of 100.5% (2007: 90.5%).

This includes a gain on exchange from non-translation of non-monetary items, which reduced the combined ratio in 2008 by 2.7%. This should be borne in mind when considering the performance by class in 2008.

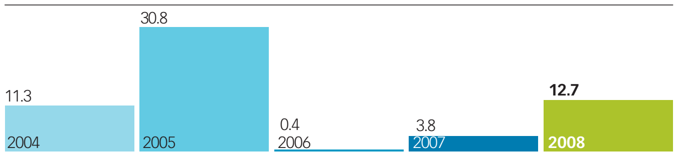
The combined ratio, excluding major losses, of 87.8% (2007: 86.7%) has been achieved through disciplined underwriting in the face of softening market conditions experienced in 2007 and 2008.

Accident year excluding major losses
(%)



Combined ratio

Major losses
(%)



Combined ratio

Sixteen named storms in the Atlantic basin made 2008 the fourth worst year on record for named storms. The length of the hurricane season was record breaking – with the last storm, Hurricane Paloma, developing as late as November. This was only the fourth major hurricane to develop in November since Atlantic storm records began.

While Lloyd's did not incur significant losses on all these events, the severity of Ike and Gustav led to substantial claims. The current estimated ultimate net loss to Lloyd's is £1,211m (US$2,180m) for Ike, and £219m (US$394m) for Gustav.

Ike was the most destructive hurricane of 2008. It made landfall in the US on 13 September as a strong Category 2 storm on the Saffir-Simpson scale, although its windfield and pressure characteristics were those of a much stronger storm.

It was extremely difficult to estimate the cost of Ike in the immediate aftermath, principally because of the size of the windfield and the storm surge impacts on coastal areas.

Catastrophe modelling agencies provided an initial range of claims estimates of US$6bn to US$18bn (onshore and offshore combined). Various (re)insurance companies reported potential industry losses ranging from US$10bn to US$16bn for the storm's onshore component. Offshore losses remained uncertain. Lloyd's advised a more conservative view in line with an aggregate industry loss for Gustav and Ike of between US$20bn and US$25bn. Subsequent year end reporting has produced estimated industry loss estimates of over US$20bn.

Industry loss estimates have increased since the Q3 estimates were announced by a number of primary insurance and reinsurance companies, The principal reasons for the increase are:

Firstly, the storm's spatial extent was underestimated. The area that experienced high wind speeds extended a long way both inland and along the Gulf Coast. Once Ike hit land, the winds persisted and continued to cause damage much further inland than would normally be associated with a hurricane. In addition, Ike encountered an extratropical frontal system in the northern US states, creating hurricane force winds in states such as Ohio.

Secondly, early assessments of the impact of coastal storm surge on land were inaccurate. Although flooding in and around Galveston was less extensive than initially feared one or two days before landfall, the coastal surge was experienced along large stretches of the Texas and Louisiana coastline. Offshore, the large windfield caused widespread platform damage in the Gulf of Mexico with some 1,450 of the Gulf's 3,800 oil and gas platforms exposed to hurricane force winds. Of these, 54 were subsequently confirmed as destroyed.

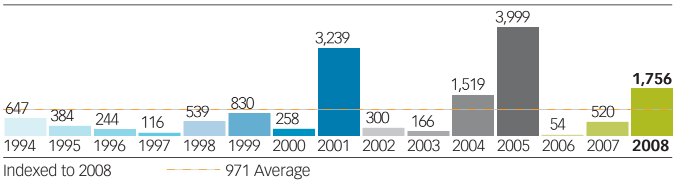
Lastly, offshore losses have historically proved difficult to estimate, and this again has proved to be the case with Ike. Initial estimates of losses around US$2-3bn, have increased to over US$4bn.

Early estimates suggested that Ike and Gustav losses would be borne mainly by direct insurers. The increase in loss estimates across the board has shifted the impact of the storms from primary insurers to reinsurers. Late advices such as the Louisiana cat pool have only served to exacerbate this.

Despite the exceptional nature of Hurricane Ike, the Lloyd's market was well prepared for a storm of this type. Since the mid-1990s, we have been using our Realistic Disaster Scenario (RDS) framework to manage peak catastrophe risk within individual syndicates and the market as a whole. The RDS framework regularly tests the market against necessarily severe catastrophe scenarios, involving claims of over US$100bn, including a Gulf of Mexico onshore and offshore loss event. The RDS for 2009 is being reviewed, following Ike, to reassess the assumptions, particularly regarding the impact on Offshore Energy.

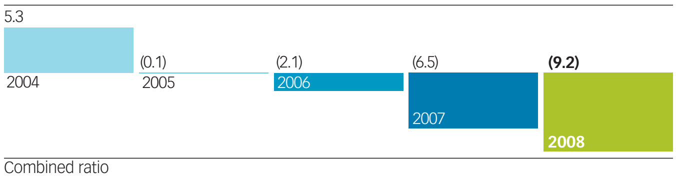
Largely as a consequence of Ike and Gustav, the level of catastrophe claims in 2008 was above the long-term average for the Lloyd's market.

Lloyd's major losses: net ultimate claims
(£m)



Lloyd's continues to benefit from prior year reserve movement, improving the combined ratio by 9.2% (2007: 6.5%). This was the fourth successive year of prior year surpluses. The strong levels of reserves support these releases, but future years are likely to see reductions in the levels of release.

Prior year reserve movement
(%)



As in 2007, the emerging surpluses arise mainly on claims reserves established for business written during 2002-2006, where claims development remains benign and well within previous estimates.

The claims estimates for the 2005 US hurricanes have been stable and development on the longer-tail business written in the soft market conditions of 1997-2001 continues to be within expectations.

The surplus includes foreign exchange gains arising from the retranslation of assets and liabilities in foreign currency from opening rates of exchange to closing rates.

REINSURANCE PROTECTION

With respect to traditional reinsurance, there have been a number of credit downgrades during the year. The credit quality of the market's reinsurance cover remains extremely high, however, with over 95% rated A and above. The anticipated recoveries due within claims reserves have risen, principally due to the cost of Hurricane Ike and in sterling terms through the strengthening of the US dollar.

For non-traditional reinsurance, 2008 began with an anticipation that the trend of increasing catastrophe bond issues would continue. While the first half of the year produced a strong pipeline of securitisations, all issuances came to an abrupt halt in August/September. Liquidity in financial markets dried up and finally the collapse of Lehman Brothers signalled the end of any activity for 2008.

Along with the financial crisis, the increase in natural catastrophe activity has also increased investor uncertainty and reluctance to participate in catastrophe bond transactions. While principal remained untouched, the US windstorms had an effect on issuer perspectives, as fears mounted about having to pay higher interest rates for new catastrophe bond issuances. Credit risk concerns exacerbated the fall in investor confidence as existing bonds were downgraded by the rating agencies.

The uncertainty as to the direction of traditional reinsurance rates has also played a part as insurers considered their risk transfer options. Line of business, geography, and loss history influenced pricing, making generalisation difficult. Few could say with confidence that they knew where reinsurance rates were going, and the uncertainty led insurers to wait for the 1 January 2009 renewals to become evident before pursuing any further bond issuances.

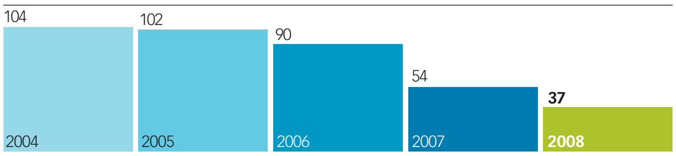
RESULT FOR THE CLOSED YEAR AND RUN-OFF YEARS OF ACCOUNT

The 2006 calendar year had one of the lowest catastrophe claims levels on record. This is reflected in the result of the 2006 underwriting year of account which closed with a profit of £4,035m. This includes the benefit arising from surpluses on the 2005 and prior reinsurance to close (RITC) received as at December 2007 of £964m.

In aggregate, run-off years reported an overall profit of £104m including investment income (2007: £75m) and syndicates backed by insolvent members supported by the Central Fund reported a small overall surplus.

In 2008, the market maintained its appetite for the RITC of orphan syndicates, and by the year end the number of underwriting years of account in run-off was significantly down. A number of specialist syndicates have been set up to underwrite third-party RITC and this has led to strong competition in the run-off market. No fewer than six managing agents have written RITC in the past two years, enabling 18 syndicates to close.

Years of account in run-off



The results of the major classes of business are discussed in detail on pages 07 to 13.

INVESTMENT REVIEW

Financial markets experienced unprecedented volatility throughout much of 2008. The US sub-prime mortgage crisis, which emerged during 2007, rapidly developed into a global financial crisis with sweeping consequences for nearly all asset classes.

As investor confidence in the credit quality of structured securities deteriorated, the value of these instruments fell significantly. Many banks held large amounts of these securities and increasingly hoarded their dwindling capital, causing credit conditions to tighten dramatically. As a result, liquidity all but disappeared in many financial markets and investors' risk appetite evaporated, causing further reductions in the value of riskier securities.

With financial markets closed, corporate entities, including banks, were unable to refinance maturing borrowings and some banks failed as confidence collapsed. The insolvency of Lehman Brothers in September dramatically increased fears about the integrity of the global financial system. Subsequently, global governments have committed substantial amounts of capital to ensure that markets continue to function and that credit remains available to consumers. These measures, however, could not prevent the global economic recession.

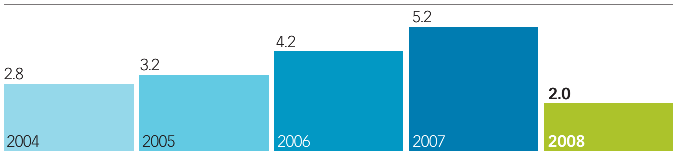
The list of types of investment which did not experience losses in 2008 is uncomfortably short. Even cash deposited with banks was not necessarily considered safe, as a number of institutions with respectable credit ratings required significant government support.

Equities fell faster than had been seen for three-quarters of a century, many structured debt securities lost a substantial proportion of their value and even highly rated and established corporate entities saw significant reductions in the value of their debt as the yields demanded by investors rose. Margins (yield in excess of the risk free rate) on highly rated 'AA' UK corporate securities maturing in three to five years rose from 1.6% to 5.2% during 2008. Hedge funds generally failed to live up to their promise – to be able to make money irrespective of underlying market conditions – and many experienced large losses. Only government debt proved robust in this environment. As interest rates were cut repeatedly, the yield on UK government bonds maturing in two years fell from 5.2% to 1.1% in the final six months of 2008, generating significant capital gains on these securities. Government bonds in most developed economies were similarly affected.

Syndicate premium assets form the largest element of investment assets at Lloyd's. Managing agents are responsible for the investment of these funds, which are used to meet insurance claims as they become payable. This need to ensure sufficient liquidity, often at relatively short notice, has traditionally led syndicates to adopt conservative investment policies using cash and high quality fixed interest securities of relatively short duration. More recently, a number of syndicates have diversified their investments to include elements of more volatile asset classes, such as equities, hedge funds and lower rated debt. Exposures to these riskier asset classes, however, generally remain limited and are less than 5% in aggregate; high quality, short dated, fixed interest securities continue to dominate syndicate portfolios. The predominance of more liquid investments has ensured that syndicates remain able to liquidate assets as required to meet cash flow needs, notwithstanding the significant reduction in capital supporting secondary trading in many areas of the financial markets.

Investment returns varied significantly between syndicates in 2008. Some syndicates experienced negative returns, driven by exposures to more volatile asset classes, but most of these limited their losses by maintaining significant exposures to more conservative asset classes. Conversely, many syndicates benefited from significant government bond exposures and generated relatively high returns. Overall, syndicate investments returned £522m, or 2.0% (2007: £1,228m, 5.2%). Investments are valued at market prices and unrealised gains and losses are included within quoted investment returns. Although the contribution from syndicate investments was well below the return achieved in 2007, it remained significant in 2008 and represented a solid performance in very difficult market conditions.

Syndicate investment return
(%)



RESULTS SUMMARY

Lloyd's achieved a profit for the financial year before tax of £1,899m (2007: profit of £3,846m) in the pro forma financial statements (PFFS) and a combined ratio of 91.3% (2007: 84.0%). The PFFS aggregates the results of the syndicate annual accounts, notional investment return on funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. The basis of preparation of the PFFS is set out in note 2 on page 73 of the Lloyd's Annual Report. The syndicate annual accounts reported an aggregate profit of £1,523m (2007: profit of £3,051m).

During 2008, certain syndicates changed their accounting policies resulting in a restatement of the comparative figures for 2007 within their annual accounts and the Aggregate Accounts have been restated accordingly. The restatements are not material and therefore the comparative figures within the PFFS have not been restated.

BUSINESS ENVIRONMENT
THE WORLD HAS CHANGED

The collapse of confidence in the banking system and the economic turmoil are events from which no industry is immune. The substantial markdown in equity values has impacted balance sheets while capital-raising has become more difficult. Profitability is being affected by falling investment returns, making prudent underwriting even more crucial. The global recession will also have an effect on the claims environment. These are uncertain times for the insurance industry, but Lloyd's remains well-placed to meet these challenges.

A DETERIORATING CLAIMS ENVIRONMENT

After two relatively benign years, 2008 saw the return of significant catastrophe and large risk losses. Hurricanes Ike and Gustav proved more costly than many insurers and modelling agencies first anticipated. Once again, the energy market was hit disproportionately hard. Aside from the increase in severity of losses, 2008 also witnessed an increase in attritional claims frequency. This is a trend that is expected to quicken due to the economic downturn.

The full impact of the recession is beginning to materialise in 2009 and will continue through to 2010.

An acceleration of claims has been predicted extensively although the industry's response to this deteriorating risk environment, for example through more prudent risk pricing, has been mixed so far.

PRUDENT CYCLE MANAGEMENT REMAINS KEY

Softening premium rates and/or policy terms were the norm across most lines of business during 2008 with market conditions near, or at, the bottom of the insurance cycle. In the wake of the financial turmoil, by the end of the year several commentators were hopeful for a rapid improvement in fortunes during 2009. In practice, however, the January renewal season did not herald the sea-change in rates across the board that had been hoped for, and a level of uncertainty still persists in many lines.

Reinsurance rates are showing signs of improvement in the wake of increasing demand as some insurers, facing new capital pressures, seek greater reinsurance coverage. Elsewhere, the hurricanes are expected to have a positive impact on rates in the energy market in 2009.

The aviation market began to stabilise by the end of 2008. Some major accounts showed modest rate increases, although the global economic situation is having a depressing affect on demand as some airlines reduce their fleets.

SOME GOOD NEWS FOR THE SUBSCRIPTION MARKET

The recent financial turmoil has further reinforced the advantages to insureds of spreading their risk cover through the subscription market. This trend should be particularly beneficial to the Lloyd's market, where efficient syndication of risk can be achieved.

RECAPITALISATION

The decline in asset values, poor investment returns and falling underwriting returns, all arising from the economic downturn, are having an effect on capital requirements. A real or perceived weakening capital position that is believed to be spreading from the banking industry to the insurance sector has led to some insurers looking to raise new equity to increase confidence and safeguard themselves against the uncertain times ahead. A further worrying trend has been the falling sterling exchange rate that may raise issues for global insurers with a sterling capital base but who pay a large proportion of claims in other currencies.

The diversity of capital providers at Lloyd's has been described on page 11 of the Lloyd's Annual Report. In addition to traditional capital markets, there is a flexible supply of private capital that may be available to businesses to finance their underwriting operations.

UNCERTAIN TIMES AHEAD

The general prognosis for the global insurance industry is that a period of uncertainty will persist while the consequences of the traumatic events of 2008 continue to play themselves out. At such times, maintaining financial strength and prudent cycle management are key priorities for insurers.

GLOBAL ECONOMIC AND ENVIRONMENTAL TRENDS

Global economic and financial conditions deteriorated rapidly in 2008. The crisis that started as a credit crunch led to a string of high profile failures in the financial sector and a tightening of the money and credit markets around the globe.

The severity of the financial crisis and its impact on the wider economy prompted governments from the largest economies to fund rescue and stabilisation measures on an unprecedented scale. In addition, efforts to stimulate economic activity and avoid a prolonged recession are leading to higher levels of public spending and intervention in economies around the world.

The global economic slowdown has already increased claims frequency and costs. Looking ahead, recession in key developed economies and slower growth in emerging economies could reduce demand for insurance. Volatile and modest investment returns will also impact performance, further emphasising the need for prudent underwriting discipline.

The world is becoming a riskier place, in a number of ways:

- The effects of climate change are already being observed. There is evidence of rising sea levels in many areas of the planet and coastal flooding is an increasing threat.
- Natural and man-made disasters are increasing in frequency and severity.
- The more litigious environment is creating a greater risk of liability exposure.
- Technology and innovation are advancing so fast that companies may find it difficult to keep pace with the legal implications. For example, the risks posed by nanotechnology remain largely unforeseeable and unquantifiable.

These developments present threats but also opportunities for the Lloyd's market. For example, more frequent disasters highlight the importance of insurance and reinforce Lloyd's role as a specialist insurance provider.

EMERGING MARKETS AND INTERNATIONAL AND REGIONAL TRADING CENTRES

In 1998, the GDP of the G7 countries represented 50% of world GDP; by 2008 this had fallen to 42%. Clearly, emerging markets present new opportunities for the insurance industry – but also challenges as to how best to access them. The Corporation continues to work closely with the market to examine how Lloyd's can best develop presences in the Middle East, South America and Eastern Europe.

DISTRIBUTION

As local insurance markets develop and cost pressures drive brokers and insurers to seek more cost-effective distribution channels, complex commercial insurance business will increasingly tend to stay in local markets that can develop their underwriting capabilities. Together with changes in brokers' business models – for example, consolidation or the development of regional insurance hubs – this could change the way in which business flows to the Lloyd's market.

Changes to the Lloyd's Act 1982 through the Legislative Reform Order now enable non-Lloyd's brokers to deal directly with managing agents. New arrangements are in place to ensure that minimum standards apply to all brokers placing business directly in the market.

The Franchise Board has agreed a distribution strategy to enable the Lloyd's market to adapt and continue conducting business through diverse distribution channels. The London market and the close relationships between managing agents and Lloyd's brokers will continue to be at the core of the distribution strategy, which is focused on:

- Delivering simple, cost-effective controlled access to the Lloyd's market.
- Applying the same minimum prudential standards for both Lloyd's and non-Lloyd's brokers dealing directly with the market.
- Identifying market development opportunities in co-operation with managing agents and brokers.
- Providing relationship management support for brokers and coverholders.
- Enhancing the attractiveness of Lloyd's overseas trading centres.

TAX

The UK tax regime is making it increasingly difficult for the Lloyd's market to compete with insurers and reinsurers in other jurisdictions. The Corporation has been discussing tax-deductible claims equalisation reserves with the Government for some time, and in his Pre-Budget Report the Chancellor of the Exchequer in November 2008 announced the Government's intention to introduce a claims equalisation reserve for Lloyd's members. We welcome this, as it enhances our ability to compete globally.

The Corporation is now discussing the details with the Treasury. It also continues to lobby on other ways to improve the competitiveness of the UK tax regime, including a reduction in the rate of corporation tax.

ONGOING REGULATORY CHANGE

The insurance industry will experience significant regulatory change in the coming years as a result of legislative initiatives at global, regional and national level.

At a global level, the International Association of Insurance Supervisors (IAIS) continues to produce global standards, principles and guidance on a wide range of regulatory issues such as reinsurance, solvency, mutual recognition of different regulatory regimes and corporate governance. These initiatives should lead to greater convergence of national regulatory rules and a reduction in conflicting and duplicative laws for insurers and reinsurers trading internationally.

The EU continues to be very active in considering initiatives affecting insurance – the most significant being the proposed Solvency II directive. This seeks to create a harmonised, risk-based approach to supervision and capital requirements in the EU. It is also likely to have a substantial influence on the IAIS's work on global standards.

The detailed content of the Solvency II regime, which is scheduled to be implemented throughout the EU by October 2012, is still being developed and discussed. The Franchise Board supports the Solvency II objectives and, in close cooperation with managing agents, will work to ensure that the market is ready for implementation. Increased market engagement on the detail of Solvency II is a key priority.

In the US, the National Association of Insurance Commissioners (NAIC) has put forward its Reinsurance Regulatory Modernisation Framework Proposal for full adoption. If implemented, this will significantly relieve the current onerous collateral requirements applying to non-US reinsurers. The NAIC is likely to seek a federal mechanism to ensure uniform implementation across all states, and Lloyd's continues to lobby for regulatory reform both at the NAIC and in Washington.

At a national level the recently published Turner review and accompanying FSA discussion paper on "a regulatory response to the global banking crisis" signals the FSA's intent to introduce a much more intrusive regulatory approach to its UK supervised firms, not just those in the banking sector, and also raises wider issues about steps the international community needs to take to raise regulatory standards, supervisory approaches and international cooperation and coordination.

The UK Law Commission's work on the modernisation of insurance contract law will also have an impact on the industry. Working with the Lloyd's Market Association, the Corporation will continue to review and comment on the Law Commission's proposals.

The turmoil in the financial markets may prompt some politicians and regulators to make a case for more national, protectionist policies. This could threaten the trend towards greater harmony of insurance regulation. Lloyd's will continue to argue for close co-operation between regulators to foster a common approach that reflects the global nature of the insurance industry.

CONVERGENCE OF CAPITAL MARKETS AND INSURANCE MARKETS

Before the dislocation in the financial markets, banks were showing some strategic interest in developing insurance risk as an asset class. There was also the possibility that significant players in the capital markets could seek to participate in the (re)insurance markets. While recent events have probably brought about a reappraisal on the part of the capital markets, the Corporation will continue to monitor financial institutions' strategies for the (re)insurance markets. The use of capital market risk transfer products continues to attract interest from specialist capital market investors and reinsurers alike, including some Lloyd's businesses, although the uptake has not been significant in 2008.

MARKET OPERATING ENVIRONMENT

As part of a global industry, Lloyd's must stay comparable to other markets in terms of the ease, time and cost of doing business. Progress has been made to improve process efficiency and work will continue to build on the market's achievements in delivering a streamlined, flexible, technology-backed operating model that attracts business to Lloyd's.

The Corporation is sponsoring a new service, the Lloyd's Exchange, which will allow market participants to transfer risk information using electronic messaging standards. This will be piloted in 2009 and rolled out to the market in line with demand. It has the support of the LMA, the London broker community and the International Underwriting Association. Market-wide adoption of this facility is regarded as an important step in achieving further process efficiencies for Lloyd's and the London market.

Work to improve claims settlement is also making progress. The current focus is on segmenting and handling claims in a more tailored way according to their complexity. The Corporation and the LMA are working together to review the market's future business requirements for claims and gain a better understanding of the processes and IT support needed in the long-term.

Many of the market's support functions are currently provided by a major outsource provider. The Corporation recognises that technological advances provide an opportunity to rethink processes and introduce greater choice. Consultation with the market will continue so that an agreed approach can be found.

The Corporation will work with the LMA, the London and International Insurance and Reinsurance Brokers Association, the Market Reform Group, ACORD and other stakeholders to ensure that the market as a whole continues to move forward and embrace change.

REINSURANCE
STRONG DEMAND FOR LLOYD'S SECURITY

2008 highlights

- High catastrophe loss experience worldwide.
- Rating environment remained strong.

2008 combined ratio

Accident year	95.9%
Prior year reserve movement	(12.1%)
Calendar year	83.8%

The reinsurance sector covers a wide range of classes and types, both short- and long-tail, and uses a variety of placement types including facultative (individual) risk placements, proportional treaties, and non-proportional treaties such as excess of loss placements.

The largest classes of business within this sector are property facultative, catastrophe excess of loss and property non-proportional risk excess. In addition, there is a limited amount of retrocessional business. A large proportion of this business provides protection for US insurance companies for their peak earthquake and windstorm exposures. In addition, many syndicates underwrite accident & health and liability reinsurance on a facultative basis, although the amount of casualty treaty business written is limited. The sector also includes class specific reinsurance, including energy, marine and aviation.

2008 PERFORMANCE

Lloyd's reported gross written premium for 2008 of £6,298m (2007: £5,453m), an increase of 15%.

The Lloyd's market's excellent credit ratings, together with its effective broker subscription market have led to increased demand from insurers to place their reinsurance programmes with Lloyd's security.

ACCIDENT YEAR PERFORMANCE

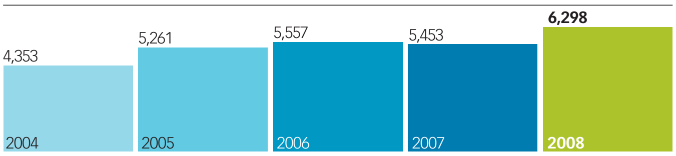
The accident year combined ratio for 2008 was 95.9% (2007: 86.3%). The increase in claims through Gustav and Ike makes 2008 one of the worst years ever for catastrophes in the US. And while the US windstorms tended to grab the headlines in 2008, the rest of the world was also affected by natural catastrophes. China experienced both snowstorm and earthquake events; Australia had both floods and hail; and Europe saw Windstorm Emma and hailstorms.

Other major losses that affected the Lloyd's market in 2008 were the Californian fires and the Severstal furnace explosion.

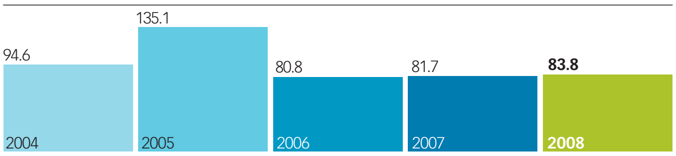
PRIOR YEAR RESERVE MOVEMENT

The prior year reserve movement was a surplus of 12.1% (2007: 4.6%). This follows the release of catastrophe risk loadings within claims reserves, which can be released due to the limited claims experience in the last two years.

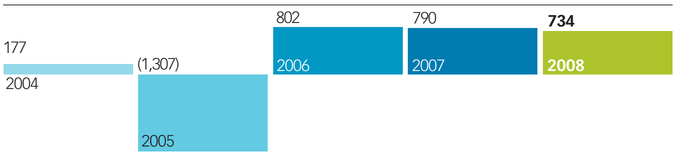
Gross written premium
(£m)



Combined ratio
(%)



Underwriting result
(£m)



LOOKING AHEAD

The January 2009 reinsurance renewal season showed that rates had stabilised and some rises had been achieved. The balance between underlying improvement in terms and conditions and re-rating accounts for changes in risk profile following loss experience remains unclear. It would appear, however, that the reinsurance market is a driving force in applying pressure on primary insurers to increase rates. Lloyd's is well placed to take advantage of opportunities that arise, but there is no room for complacency. Rapidly changing exposures must be properly understood and factored into pricing. The recession will mean a very challenging claims environment for many classes – robust risk selection and cycle management are now even more crucial.

All of the published forecasts for Atlantic hurricane activity in 2009 are above the 1950-2008 long-term average. For example, the Colorado State University team are forecasting 14 named storms and three major hurricanes.

While the focus has been on the recent level of hurricanes in the Gulf of Mexico, an area that has not received much attention, but may in the future, is a major earthquake related catastrophe. As the insurance industry has not been hit by a major earthquake for some time, the likelihood that one will occur is arguably increasing.

Demand for reinsurance is likely to increase in 2009. A number of industry balance sheets have suffered due to the crisis in financial markets as well as higher attritional and catastrophe loss experience. Surplus capital has been eroded and many primary insurers will look to de-risk their balance sheets and modify their own risk appetite; reinsurance protection is a valuable tool available to protect against further capital depletion. Optimism is more focused on US business that renews later in the year, where the recent loss experience means that an increase in rates should be achievable.

PROPERTY
RATE SOFTENING SLOWS, BUT MARGINS INSUFFICIENT TO MEET CATASTROPHE CLAIMS

2008 highlights

- Hurricane claims and major risk losses push current trading into loss.
- Recent years produce significant reserve releases.

2008 combined ratio

Accident year	103.2%
Prior year reserve movement	(6.5%)
Calendar year	96.7%

The Lloyd's property sector covers both commercial and private property, with the US representing the largest market. Business is written via the broker distribution chain or through appointed local agents and coverholders.

2008 PERFORMANCE
Gross written premium for the Lloyd's property sector in 2008 was £3,971m (2007: £3,809m), an increase of 4%.

During the year US catastrophe rates fell to their pre Katrina/Rita/Wilma levels, and some indices showed rates returning to 2002 levels or below. The first half of the year saw rate reductions of over 10% and, although the level of reductions slowed in the second half after Hurricanes Gustav and Ike, rates have not yet recovered. Higher reinsurance costs put a further squeeze on margins in a soft market.

The market for terrorism insurance has become increasingly competitive. The implementation of the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) for 2008, which extended cover to include both domestic and international terrorism, has reduced the demand for standalone policies covering US risks. Demand for this cover is expected to diminish further if the broader property market reduces the number of terrorism exclusions.

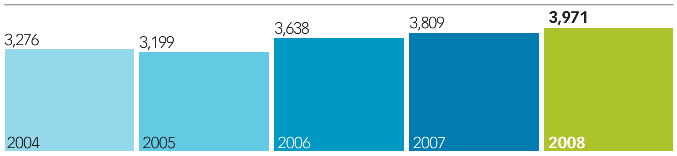
ACCIDENT YEAR PERFORMANCE
The increases in loss levels caused the accident year loss ratio to rise to 103.2% (2007: 92.3%).

The Lloyd's market was heavily impacted by Hurricanes Gustav and Ike, which affected states as far inland as Ohio.

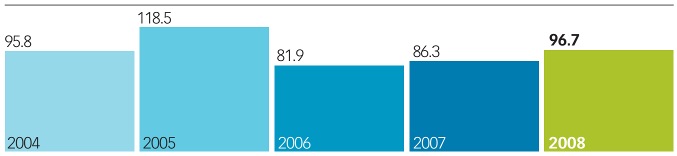
As well as the catastrophe losses there was an increase in the frequency of large losses including the incidents at the Severstal furnace and Universal Studios in the US.

PRIOR YEAR RESERVE MOVEMENT
Further surpluses were generated in 2008, as releases from reserves established in 2002 to 2006 continued, while 2005 US hurricane losses remained stable. This improved the combined ratio by 6.5% (2007: 6.0%).

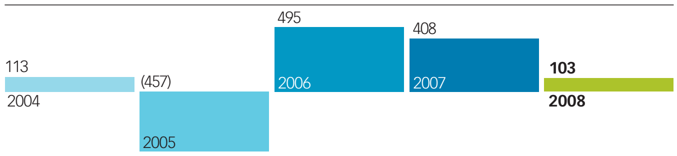
Gross written premium
(£m)



Combined ratio
(%)



Underwriting result
(£m)



LOOKING AHEAD
In 2009, the downward trend in rates is expected to reverse as direct property writers feel the pressure of higher reinsurance and capital costs.

On the other hand, a higher frequency of loss will minimise any anticipated margin in this business. The increased value of the US dollar will continue to squeeze the cost of capital for those entities backed by non-US dollar assets. Ultimately this will force insurers to raise prices.

Should capacity suddenly be reduced by, for instance, the withdrawal of one or two larger players, rate increases could follow quickly.

CASUALTY
RECESSION MAY HERALD SURGE IN CLAIMS FREQUENCY

2008 highlights

- Impact of financial crisis spreads across all liability lines.
- Prior year releases of £227m.

2008 combined ratio

Accident year	103.9%
Prior year reserve movement	(8.8%)
Calendar year	95.1%

Lloyd's casualty sector covers professional indemnity, medical malpractice, accident and health, general liability and employers' liability. Casualty business is written worldwide with the largest markets being in the US, UK and Europe.

2008 PERFORMANCE

2008 saw gross written premium of £3,762m (2007: £3,364m), an increase of 12%.

In the US, general liability rates peaked in 2003/04 and have been falling by an average of 10% each year since then. In 2008, transportation, energy and manufacturing rates came under the most pressure.

International professional indemnity (PI) rates showed a patchy improvement following the September banking and economic crisis. For some business, rates remained flat; but in other cases reductions of around 5% were being given, although this was less than previous reductions of 10% or more.

ACCIDENT YEAR PERFORMANCE

The casualty sector achieved an accident year combined ratio of 103.9% (2007: 101.8%).

While we expect claims resulting from financial turmoil, no firm loss amounts have so far been reported. Attritional losses did rise compared to 2007 and are expected to increase much further in 2009 and 2010.

PRIOR YEAR RESERVE MOVEMENT

Prior year reserve movement improved the combined ratio by 8.8% (2007: 9.1%). For the fourth successive year underlying claims development led to a surplus. The pressure on margins and terms and conditions, together with the consequences of the financial crisis, may well reduce the levels of release in future years.

LOOKING AHEAD

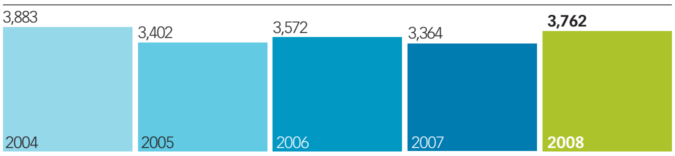
The full impact of the economic recession will begin to materialise in 2009 and is expected to continue through to 2010. The widely anticipated surge in claims has been trailed extensively in the press and at conferences but the market response to this potential claims exposure is still mixed.

Insurers remain concerned by the prospect of rising claims driven, for example, by increased litigation, particularly in the US. Some are already seeing an increase in claims notifications that they regard as directly related to the financial crisis.

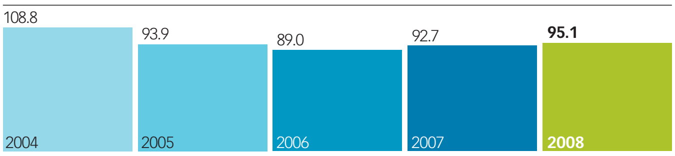
Any increase in rates will depend on the level of capacity in the casualty market. Going into 2009 there appears to be more than enough, making rate rises difficult to achieve. However, capacity may reduce if some insurers choose to use their capacity in other markets.

A longer-term factor that may affect the level of future claims is whether or not Europe adopts class actions closer to the US model. Currently European litigants must opt in to an action, in contrast to the US, where all possible litigants are assumed to be included in the action unless they opt out. The opt-in basis makes it harder to establish a class action. Another key difference is that in the US the award is decided by jury – considered to be one of the main causes of the high level of tort costs in the US.

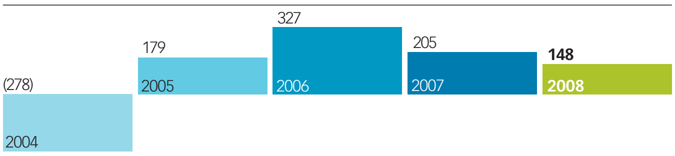
Gross written premium
(£m)



Combined ratio
(%)



Underwriting result
(£m)



The cumulative impact of sub-prime related losses, the failure and subsequent bail-out of US banks and finally the Madoff fraud have led to significant rate increases for US Financial Institutions (FI) business – E&O and D&O liability – at 1 January renewal.

These increases are gradually extending to non-US domiciled FI business as the full extent of the European exposures to Madoff emerges. The significant reduction in FI reinsurance has also encouraged primary underwriters to improve their rates in order to secure and cover the increased costs.

The non FI Directors and Officers (D&O) and Errors and Omissions (E&O) covers have shown a less pronounced movement at renewal. International E&O covers (including the UK) have generally been renewed at either unchanged rates or small increases. International D&O rates are still under pressure as there have been very few claims. There is anecdotal evidence that the first and second quarters of 2009 will start to show evidence of increasing claims activity as the full impact of the recession related losses begins to be apparent.

UK employers' liability had still not shown major rate increases at 1 January renewal. But here, too, the increased incidence of recession related claims in the first two quarters – for example, stress caused by threat of redundancy – will start to impact results that have so far been satisfactory due to low claims frequency. To a lesser extent, general liability business will follow the same pattern

The overall picture for casualty business is cautiously optimistic for 2009, as the combined effects of Lloyd's financial standing and a continuing deterioration in the economic environment encourage underwriters to adopt a more proactive stance at 1 April and 1 July renewals.

MARINE
RECENT STRONG PERFORMANCE UNDER THREAT AS WORLD ECONOMIES CONTRACT

2008 highlights

- Premiums continued to rise on the back of spiralling commodity prices earlier in the year.
- Limited incidence of total losses.

2008 combined ratio

Accident year	92.4%
Prior year reserve movement	(7.8%)
Calendar year	84.6%

The most significant classes of business within the Lloyd's marine sector are hull, cargo, marine liability and specie.

2008 PERFORMANCE
The marine sector achieved gross written premium of £1,334m (2007: £1,226m), an increase of 9%.

The earlier part of the year saw the escalating cost of raw materials and this fed through into higher cargo and hull premium volumes.

The marine market remained soft throughout 2008 as an abundance of capacity more than offset any reaction to the increase in attritional losses. The general economic downturn caused freight rates to plummet in the second half of 2008 and this has led to reducing fleet values. The industry has therefore been faced with the problem of insured values being greater than current market value.

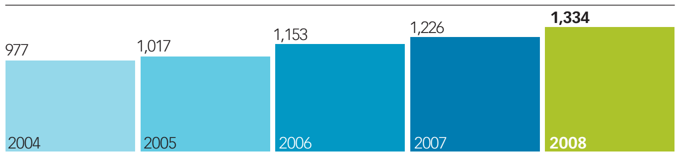
ACCIDENT YEAR PERFORMANCE
The accident year combined ratio was 92.4% (2007: 95.0%) reflecting the absence of significant total losses. Major partial losses, however, continued to increase, both in frequency and in cost. The rise in frequency can be attributed, at least in part, to the shortage of trained crews. Lack of experience can cause losses through poor navigation or poor vessel maintenance.

Towards the end of 2008 there was a rise in pirate activity off the coast of East Africa. It was not just the rise in the number of vessel hijackings that caused concern, but also the size of the ships being targeted. The hijacking of the oil tanker Sirius Star took these events to a new level – both in the size of the ship the pirates were prepared to tackle, and the fact that it was 450 nautical miles off the coast of Kenya when it was boarded.

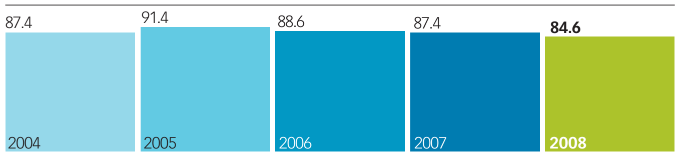
The marine liability account has suffered from the escalating cost of claims settlements – wreck removal costs on the Napoli and the New Flame have increased – and higher reinsurance costs.

PRIOR YEAR RESERVE MOVEMENT
An overall release from prior years' reserves reduced the combined ratio by 7.8% for the year (2007: 7.6%). This has continued the trend for prior years to develop within expectation, with a surplus arising for the fifth consecutive year.

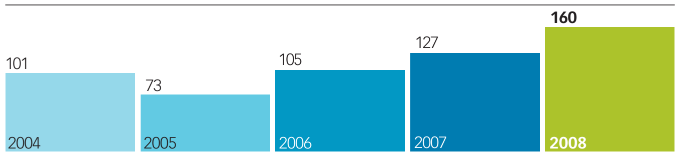
Gross written premium
(£m)



Combined ratio
(%)



Underwriting result
(£m)



LOOKING AHEAD
Hull underwriters are undertaking critical price renegotiations after the collapse of ship values amid the crisis that stalled capital markets. Most of the world merchant fleet, estimated to be US$1.3trn shortly before the upheavals at the end of last year, has fallen in value, giving rise to 'moral hazard' – the temptation for less scrupulous ship operators to commit fraud. Reassessment will reduce global marine hull insurance premium; it will also reinforce the need for tighter underwriting.

Against this background, the market is hardening very slightly and rate increases are expected to gather pace through 2009. However, hull premium income may decline due to the reduction in agreed values. There is still no sign of upward movement in deductibles, which have not changed since the mid '90s.

The economic downturn will also impact the cargo market. The value of cargoes to be transported is reducing – oil in particular, but also all other commodities from foodstuffs to metals. While cargo rates remain flat, this will reduce premium income for underwriters.

ENERGY
HURRICANE CLAIMS PRODUCE SECOND MAJOR LOSS IN FOUR YEARS

2008 highlights

- Offshore energy market hit by Gulf of Mexico hurricanes.
- Volatile results reflect the sector's catastrophe risk.

2008 combined ratio

Accident year	132.0%
Prior year reserve movement	(8.2%)
Calendar year	123.8%

The Lloyd's energy sector includes a variety of onshore and offshore property and liability classes, ranging from construction to exploration and production, refinery and distribution.

A significant part of the portfolio is offshore energy business and a large proportion of this is located in the Gulf of Mexico (GOM).

2008 PERFORMANCE

The Lloyd's energy sector achieved gross written premium of £1,150m (2007: £1,019m), an increase of 13%.

At the beginning of 2008 the market was soft, with onshore energy rates seeing price reductions typically around 25-35%. However, increasing losses as the year progressed had the effect of reversing the trend so that by the end of the year rate increases of 10% and more were being achieved.

The GOM has seen five named, major windstorms in the last five years. In 2004 Hurricane Ivan resulted in record losses for the offshore energy insurance industry. It was followed in 2005 by Hurricanes Katrina and Wilma. The next two years provided some respite from losses but also saw rates fall. And then, in 2008, Hurricanes Gustav and Ike struck, with Ike proving to be the second largest energy loss ever, after Katrina.

ACCIDENT YEAR PERFORMANCE

The accident year combined ratio for 2008 was 132.0% (2007: 77.3%). This high combined ratio was inevitable after the impact of Ike and Gustav on the oilfields in the GOM.

Ike has required a further revision to the estimating of losses from GOM windstorms. As a Category 2 storm, Ike was not expected to have a significant impact, but this assessment ignored Ike's windfield that caused damage over a much greater area than anticipated.

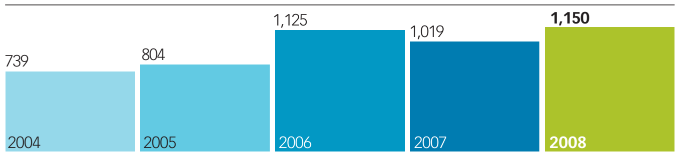
While the impact of Ike and Gustav in the GOM generated the most noteworthy losses, the industry also suffered other large losses in 2008, particularly in the onshore market.

The claims ratio, excluding operating expenses, climbed to 90% of net premiums. This included the benefit of considerable reinsurance recoveries with Ike losses exceeding primary insurers' retentions. The gross claims ratio of 119% of gross premiums reflects the high level of catastrophe risk inherent in this class. This volatility demands high capital requirements as the exposures to both large single risk losses and natural catastrophes are key drivers of peak losses for many syndicates. Rating in this class must bear in mind the returns required over time to compensate for the potential for large losses to occur.

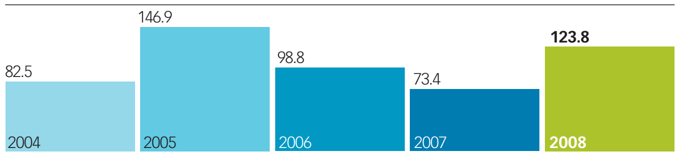
PRIOR YEAR RESERVE MOVEMENT

The prior year reserve movement improved in 2008 as the loss estimates for the 2005 hurricanes remained stable, resulting in a surplus on prior years of 8.2% (2007: 3.9%).

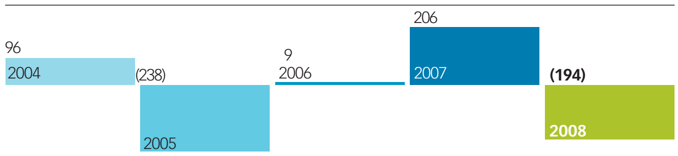
Gross written premium
(£m)



Combined ratio
(%)



Underwriting result
(£m)



LOOKING AHEAD

While there have been considerable increases in the insured values, the retention levels have remained relatively static. Retentions and premiums need to be increased to the point where the offshore energy sector's profitability can withstand another major windstorm.

The high frequency of major losses requires the offshore energy insurance industry to radically rethink the way that it offers insurance in the GOM. Achieving substantial increases in rates is part of the answer but another significant contribution can be made by changing the amount of exposure that the energy industry retains itself.

There are concerns over the level of capacity that will be available in this sector throughout 2009. As a result, some clients are bringing forward their renewal dates rather than wait until June when there may be no more capacity available.

While the GOM is the main focus of the need for change, there have been a number of significant energy losses in 2008 and rates and conditions are likely to be amended across the whole onshore and offshore energy account.

MOTOR
HIGHLY COMPETITIVE MARKET CONTINUES ITS BATTLE WITH CLAIMS INFLATION

2008 highlights

- Marginal results reflect soft market conditions.
- Lloyd's motor sector focuses on niche markets.

2008 combined ratio

Accident year	100.9%
Prior year reserve movement	(1.3%)
Calendar year	99.6%

This class has become less prominent in the market in recent years, but remains an important part of Lloyd's overall diversified business. In the face of intense competition in the private car market from large consumer-facing organisations such as supermarkets, the mix of motor business written within Lloyd's has changed.

There has been a move to underwrite company fleet business and non-standard risks such as high value vehicles, vintage or collectors' vehicles, high risk drivers and affinity groups. As a result, less than half the market's premium income now derives from private car insurance.

The bespoke nature of these risks plays to Lloyd's traditional strengths, as the exposures are more complex and require a higher level of skill and experience to underwrite effectively.

The overseas market continues to be an important part of Lloyd's portfolio, with around 16% of business now originating outside of the UK.

2008 PERFORMANCE
Gross written premium in 2008 for the Lloyd's motor sector was £939m (2007: £983m), a decrease of 4%.

For UK motor, 2008 saw a return to rate increases at or above claims inflation for the personal lines sectors of the motor market and profitability returned to more sustainable levels.

The commercial areas of fleet, commercial vehicles and taxis have yet to realise the same levels of rate increases and while profitability was feasible in some areas, this arena remained challenging.

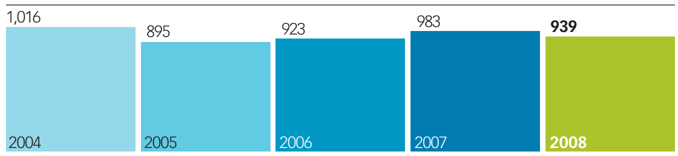
Claims inflation continues at around 4.5%. Credit hire costs have grown significantly in recent years to become a large element of claims costs. This is an issue that needs addressing across the market. Courts Act claims remain a concern but, to date, there are very few in the market.

Lloyd's overseas motor business is diverse and rates and performance vary significantly between territories. A large proportion of this business emanates from North America and relates to physical damage exposures for private auto and static risks.

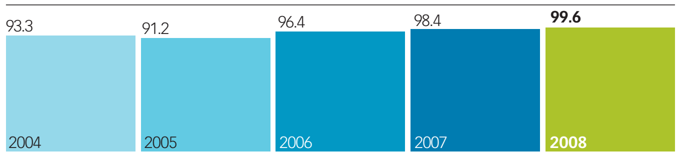
ACCIDENT YEAR PERFORMANCE
The trend for claims costs to outstrip inflation continues. Personal injury costs are the main driver of this and continue to increase through higher medical and legal costs. Combined with continuing soft market conditions, this resulted in a further accident year loss of 100.9% (2007: 104.8%).

PRIOR YEAR RESERVE MOVEMENT
Prior year reserve movement improved the combined ratio by 1.3% (2007: 6.4%) as claims continue to develop as expected.

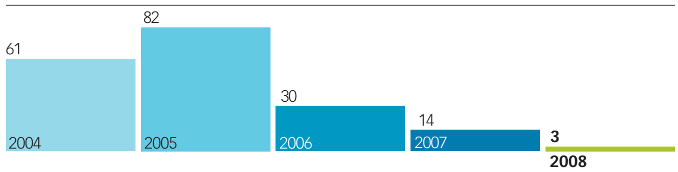
Gross written premium
(£m)



Combined ratio
(%)



Underwriting result
(£m)



LOOKING AHEAD
2009 should show further price improvement. UK personal lines motor products are already realising improvements in rates and it is expected that commercial motor products will follow suit. The current recession has impacted expected investment returns and with some insurers reporting losses there will be added pressure on rates to increase throughout 2009.

UK Ministry of Justice reforms are expected in October 2009. The main impact on insurers is the need to ensure they are in a position to make a decision on liability within 15 days. If they are unable to do so, there will be a cost implication in the handling of road traffic accident personal injury claims under £10,000. Fast track limits will be raised to £25,000 from £15,000, enabling these claims to be dealt with faster at lower cost.

Over 60% of Lloyd's UK motor business is fleet/commercial vehicle, and although commercial fleet rates are slower to respond than private car rates, there are reports that they are now also starting to improve. The impact of the financial crisis on the motor industry may see an increased tendency to claim as well as fraudulent claims – two trends which are closely linked to economic conditions and will require close monitoring.

Fraud remains a huge issue for the industry, particularly in an economic downturn. The industry continues to improve and refine fraud strategies to combat this growing problem.

AVIATION
POOR RATING LEVELS UNABLE TO COVER NORMAL LOSS EXPERIENCE

2008 highlights

- A return to longer-term claims experience highlights inadequate rating levels.
- Overall profit dependent on reserve releases.

2008 combined ratio

Accident year	110.5%
Prior year reserve movement	(23.7%)
Calendar year	86.8%

Lloyd's is an industry leader in the global aviation market, with a balanced portfolio across all sectors of this specialist class, including airline, aerospace, general aviation and space business.

2008 PERFORMANCE

Aviation business is written as both direct and reinsurance acceptances, on an excess of loss, proportional or facultative basis. On a direct basis gross written premium was £481m (2007: £464m), an increase of 4%. In 2008, Lloyd's syndicates wrote £262m of aviation business on a facultative and treaty reinsurance basis (2007 figures not available).

Rates in the aviation market have been in steady decline since the rise that immediately followed the heavy 9/11 and Queens losses in 2001. This trend continued in 2008 until the final quarter of 2008, which saw some improvement in airline rates and a more stable rating environment elsewhere.

ACCIDENT YEAR PERFORMANCE

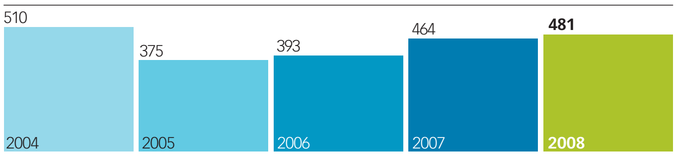
The accident year combined ratio for 2008 was 110.5% (2007: 102.8%). The reasons for this further increase in the ratio are similar to those highlighted last year: continuing softening market conditions coupled with an increase in loss incidence.

When the Air New Zealand Airbus 320 leased to XL crashed in the Mediterranean in November 2008 it was the 24th Western-built aircraft to suffer a total loss in the year, bringing the total hull loss figure for the year to over US$350m.

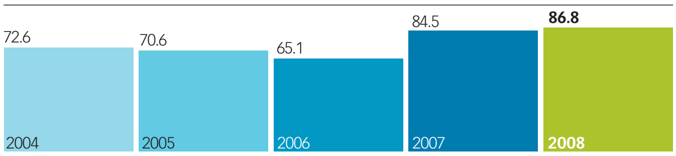
PRIOR YEAR RESERVE MOVEMENT

Surpluses on prior years' claims reserves improved the combined ratio by 23.7% (2007: 18.3%), continuing the trend for benign claims development across the entire portfolio. This reflects the low incidence of loss in recent years, which is considerably lower than the long-term average.

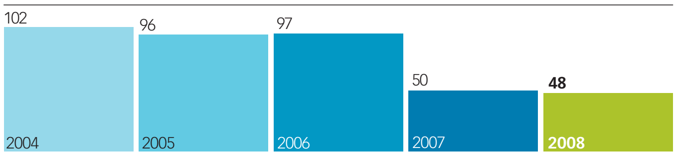
Gross written premium
(£m)



Combined ratio
(%)



Underwriting result
(£m)



LOOKING AHEAD

The economic downturn will have consequences for airline underwriters, particularly in 2009, as the reduction in passengers and flights will inevitably result in less premium unless there is a substantial rise in rates. The demise of a number of carriers, XL Leisure Group being the largest to date, provides another challenge to maintaining premium levels.

There is still overcapacity in this market, but lines are shrinking and further tightening is expected in 2009 as capital providers insist on higher returns to offset the increased cost of capital.

General aviation continues to be keenly rated. Claims experience is generally good, so that the sector remains profitable, but not enough to offset the wider problems in aviation.

ANNUAL REPORT

The market commentary on pages 1 to 13 forms the Annual Report required under the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004 and was approved by the Council of Lloyd's on 23 March 2009.

Lord Levene of Portsoken, Chairman

STATEMENT OF COUNCIL'S RESPONSIBILITIES

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ('the Regulations') require the Council of Lloyd's to prepare Aggregate Accounts in respect of the financial year by totalling all the syndicate annual accounts prepared in accordance with Regulation 3 of the Regulations.

The Regulations also require the Council to prepare an Annual Report on the insurance business carried on by the members of Lloyd's during the financial year. The Annual Report is set out in the market commentary on pages 1 to 13.

REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE 2008 LLOYD'S AGGREGATE ACCOUNTS

We have examined the Lloyd's Aggregate Accounts for the year ended 31 December 2008, which comprise an aggregate profit and loss account, aggregate statement of total recognised gains and losses, aggregate balance sheet and aggregate statement of cash flows and the related notes 1 to 19, together with the Annual Report which have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ('the Regulations') on the basis set out in note 1.

This report is made solely to the Council of Lloyd's in accordance with the Regulations. 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 Regulations 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 conclusions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL OF LLOYD'S AND ERNST & YOUNG LLP

As described in the Statement of Responsibilities, the Council of Lloyd's is responsible for the preparation and approval of the Aggregate Accounts and the Annual Report in accordance with the Regulations.

Our responsibility is to examine the Aggregate Accounts and the Annual Report and to report to you whether the Aggregate Accounts and the Annual Report have been properly prepared and correctly aggregated in accordance with the Regulations. We also report to you if the Aggregate Accounts are not consistent with the syndicate information which has been aggregated to prepare the Aggregate Accounts, if the Annual Report is not consistent with the Aggregate Accounts or if we have not received all the information and explanations we require for the purposes of our work. We read the Annual Report and consider whether it is consistent with the Aggregate Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Aggregate Accounts. Our responsibilities do not extend to any other information.

BASIS OF CONCLUSION

The Aggregate Accounts have been compiled from an aggregation of financial information extracted from the balance sheet and profit and loss account included in syndicate accounts by the managing agent of each syndicate which has been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported. We have relied absolutely on those reports by syndicate auditors. We have not audited those extractions. Our work is solely intended to enable us to make this report.

Our work, which has been carried out in accordance with International Standard on Assurance Engagements, ISAE 3000, 'Assurance Engagements other than audits or reviews of Historical Financial Information', consisted principally of making enquiries of the Council of Lloyd's and applying analytical procedures to the financial information and underlying financial data. It excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions as included in the Aggregate Accounts and the Annual Report. We have also carried out such investigations and examined such evidence, on a test basis, as we considered necessary to form an opinion as to whether the Aggregate Accounts and the Annual Report have been properly prepared and correctly aggregated in accordance with the Regulations.

However, our work provides less assurance than an audit or a review in accordance with International Auditing Standards. We have not performed an audit and, consequently, we do not express an audit opinion on the financial information set out in the Aggregate Accounts or the Annual Report.

CONCLUSION

In our opinion, the Aggregate Accounts and the Annual Report for the financial year ended 31 December 2008 have been properly prepared and correctly aggregated in accordance with the Regulations.

ERNST & YOUNG LLP, LONDON
23 March 2009

AGGREGATE PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2008

Technical account	Note	£m	2008 £m	£m	2007 Restated £m
Gross written premiums – continuing operations			**18,080**		16,461
– discontinued operations			**178**		241
	3		**18,258**		16,702
Outward reinsurance premiums			**(3,768)**		(3,110)
Written premiums, net of reinsurance			**14,490**		13,592
Change in the provision for unearned premiums					
Gross amount		**(559)**		(230)	
Reinsurers' share		**137**		77	
Change in the net provision for unearned premiums			**(422)**		(153)
Earned premiums, net of reinsurance			**14,068**		13,439
Allocated investment return transferred from the non-technical account			**543**		1,225
Other technical income, net of reinsurance			**(1)**		-
			14,610		14,664
Claims paid					
Gross amount		**9,701**		8,718	
Reinsurers' share		**(2,130)**		(2,493)	
			7,571		6,225
Change in provision for claims					
Gross amount		**2,137**		(761)	
Reinsurers' share		**(968)**		1,413	
			1,169		652
Claims incurred, net of reinsurance			**8,740**		6,877
Net operating expenses	6		**4,328**		4,739
Balance on the technical account for general business			**1,542**		3,048
Attributable to: – continuing operations			**1,353**		2,762
– discontinued operations			**189**		286
Total			**1,542**		3,048
Non-technical account					
Balance on the technical account for general business			**1,542**		3,048
Investment income	7	**1,456**		1,248	
Net unrealised (losses) / gains on investments		**(451)**		165	
Investment expenses and charges	8	**(483)**		(185)	
Other income		**2**		-	
Allocated investment return transferred to the technical account		**(543)**		(1,225)	
Balance on the non-technical account			**(19)**		3
Profit for the financial year before tax			**1,523**		3,051

Statement of total recognised gains and losses	Note	2008 £m	2007 £m
Profit for the financial year before tax		**1,523**	3,051
Exchange differences on translating foreign operations		**666**	63
Total recognised gains and losses for the financial year		**2,189**	3,114
Prior year adjustment	1	**4**	-
Total recognised gains and losses since previously reported		**2,193**	3,114

AGGREGATE BALANCE SHEET

as at 31 December 2008

	Note	£m	2008 £m	£m	2007 Restated £m
Investments					
Financial investments	9		**26,625**		21,851
Deposits with ceding undertakings			**10**		9
Reinsurers' share of technical provisions					
Claims outstanding		**9,928**		7,062	
Unearned premiums		**1,167**		840	
			11,095		7,902
Debtors					
Debtors arising out of direct operations	10	**4,663**		3,426	
Debtors arising out of reinsurance operations	11	**3,756**		2,918	
Other debtors		**332**		288	
			8,751		6,632
Other assets					
Cash at bank and in hand		**3,221**		1,919	
Other		**1,666**		1,305	
			4,887		3,224
Prepayments and accrued income					
Accrued interest and rent		**135**		144	
Deferred acquisition costs		**2,064**		1,661	
Other prepayments and accrued income		**188**		114	
			2,387		1,919
Total assets			**53,755**		41,537
Capital and reserves					
Members' balances	12		**2,502**		2,527
Technical provisions					
Provision for unearned premiums		**9,043**		7,276	
Claims outstanding		**37,754**		28,570	
			46,797		35,846
Deposits received from reinsurers			**161**		58
Creditors					
Creditors arising out of direct insurance operations	13	**770**		681	
Creditors arising out of reinsurance operations	14	**2,558**		1,540	
Other creditors		**744**		687	
			4,072		2,908
Accruals and deferred income			**223**		198
Total liabilities			**53,755**		41,537

Approved and authorised for issue by the Council of Lloyd's on 23 March 2009 and signed on their behalf by

LORD LEVENE OF PORTSOKEN, CHAIRMAN

RICHARD WARD, CHIEF EXECUTIVE OFFICER

AGGREGATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2008

	Notes	**2008 £m**	2007 Restated £m
Net cash inflow from operating activities	15	**3,060**	3,471
Transfer to members in respect of underwriting participations		**(2,201)**	(1,524)
Financing			
Capital transferred into syndicate PTFs		**107**	322
		966	2,269
Cash flows were invested as follows:			
Increase in cash holdings	16	**880**	20
Net portfolio investments		**86**	2,249
Net investment of cash flows		**966**	2,269

NOTES TO THE AGGREGATE ACCOUNTS

as at 31 December 2008

1. BASIS OF PREPARATION

A. BASIS OF REPORTING

The Aggregate Accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004, and in accordance with applicable Accounting Standards and under the historic cost accounting rules, modified to include the revaluation of investments, in accordance with the provisions of Section 255A, Schedule 9A and other requirements of the Companies Act 1985.

B. AGGREGATION OF SYNDICATE ANNUAL ACCOUNTS

The aggregate accounts as at 31 December 2008 have been prepared by totalling the annual accounts of the 112 syndicates reporting as at 31 December 2008. The result does not present a consolidated view of the results of Lloyd's business taken as a single entity and, in particular, it does not eliminate inter-syndicate reinsurances.

C. RESTATEMENT OF PRIOR YEAR

During 2008, certain syndicates changed their accounting policies in relation to foreign exchange resulting in a restatement of the comparative figures for 2007 within their annual accounts and the Aggregate Accounts have been restated accordingly.

2. ACCOUNTING POLICIES

GENERAL

Under the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004, managing agents must prepare the syndicate annual accounts under UK GAAP. However, where UK GAAP permits different accounting treatments, each managing agent is able to adopt the accounting policies it considers most appropriate to its syndicate. The following accounting policies are therefore generic in nature.

WRITTEN PREMIUMS

Written premiums represent premiums on business incepting during the year, together with adjustments for premiums written in previous accounting periods. Written premiums are stated before deduction of commissions but net of taxes, duties levied on premiums and other deductions.

UNEARNED PREMIUMS

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportioned as appropriate.

REINSURANCE PREMIUM CEDED

Reinsurance premium ceded comprise the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premiums represents that part of reinsurance premium written which is estimated to be earned in following financial years.

CLAIMS PROVISIONS AND RELATED RECOVERIES

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Statistical techniques are used to assist in making these estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors of each syndicate's managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events, which may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

UNEXPIRED RISKS PROVISION

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated at syndicate level by reference to classes of business which are managed together, and may take into account relevant investment return.

2. ACCOUNTING POLICIES CONTINUED

ACQUISITION COSTS

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

FOREIGN CURRENCIES

Income and expenditure in foreign currencies are translated into pound sterling using the exchange rates prevailing at the date of the transactions, or the average rate may be used when this a reasonable approximation.

Where the overseas operations for a syndicate are treated as a branch, its branch assets and liabilities are translated into pound sterling at the rates of exchange ruling at the balance sheet date. The exchange differences arising from the re-translation of the opening net investment in the branch are accounted for through the statement of total recognised gains and losses.

For other overseas operations, monetary assets and liabilities are translated into pound sterling at the rates of exchange ruling at the balance sheet date. Resulting exchange differences on translation are recorded in the profit and loss account or in the statement of total recognised gains and losses.

INVESTMENTS

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at their bid price market value, and deposits with credit institutions and overseas deposits are stated at cost.

Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

INVESTMENT RETURN

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account where the investments generating the return relate to insurance business. In 2007 a rule change permitted any members that only participate on one syndicate to hold the capital supporting their underwriting in their syndicate's premium trust funds. Where a member takes advantage of this facility, the investment return arising from the investments representing the capital held in the premiums trust fund is retained within the non-technical account.

TAXATION

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

No provision has been made for any overseas tax payable by members on underwriting results.

OPERATING EXPENSES

Operating expenses (including pension and other staff costs) have been charged to the syndicates in accordance with the policies adopted by the managing agents.

PROFIT COMMISSION

Where profit commission is charged by the managing agent it will normally be fully paid once the appropriate year of account closes, normally at 36 months. The profit commission is accrued in the profit and loss account in accordance with the earned profit.

Managing agents may make payments on account of their anticipated profit commission from the syndicate premiums trust funds prior to the closure of a year of account where they have transferred open year surpluses (interim profits) from the syndicate level premiums trust funds to the members' personal reserve fund. Any payments on account of such commission are restricted to the profit commission expensed in the profit and loss account in striking the level of interim profits declared and subsequently released.

3. SEGMENTAL ANALYSIS

The following segmental analysis is derived from the equivalent notes in the syndicate annual accounts. The syndicate annual accounts report the material direct classes of business and aggregate the balance as 'other'. Consequently, aggregation of those figures is not meaningful. Syndicates have provided returns to Lloyd's, including segmental analysis and syndicate auditors have given review opinions confirming that those returns have been prepared in accordance with instructions issued by Lloyd's and that they are consistent with the syndicate annual accounts. Those figures have been aggregated to provide the following tables.

2008	**Gross written premiums £m**	**Gross premiums earned £m**	**Gross claims incurred £m**	**Operating expenses £m**	**Reinsurance balance £m**	**Result £m**
Accident and health	626	571	(291)	(217)	(14)	**49**
Motor (third party liability)	115	106	(77)	(35)	2	**(4)**
Motor (other classes)	824	846	(614)	(230)	5	**7**
Marine, aviation and transport	2,770	2,662	(2,004)	(702)	91	**47**
Fire and other damage to property	3,775	3,744	(2,514)	(989)	(265)	**(24)**
Third-party liability	3,135	3,016	(2,183)	(774)	39	**98**
Pecuniary loss	367	331	(109)	(92)	(40)	**90**
Life	49	44	(11)	(24)	(11)	**(2)**
Other	244	240	(263)	(14)	23	**(14)**
Total direct	**11,905**	**11,560**	**(8,066)**	**(3,077)**	**(170)**	**247**
Reinsurance acceptances	6,353	6,139	(3,772)	(1,251)	(363)	**753**
Total	**18,258**	**17,699**	**(11,838)**	**(4,328)**	**(533)**	**1,000**

2007 Restated	Gross written premiums £m	Gross premiums earned £m	Gross claims incurred £m	Operating expenses £m	Reinsurance balance £m	Result £m
Accident and health	537	503	(243)	(189)	(20)	51
Motor (third party liability)	122	115	(60)	(37)	(9)	9
Motor (other classes)	861	815	(541)	(225)	(44)	5
Marine, aviation and transport	2,558	2,467	(1,032)	(741)	(361)	333
Fire and other damage to property	3,715	3,617	(1,527)	(1,166)	(520)	404
Third-party liability	2,827	2,835	(1,636)	(823)	(222)	154
Pecuniary loss	223	210	(55)	(55)	(37)	63
Life	46	36	(10)	(21)	(2)	3
Other	22	22	(23)	(8)	–	(9)
Total direct	10,911	10,620	(5,127)	(3,265)	(1,215)	1,013
Reinsurance acceptances	5,791	5,838	(2,830)	(1,481)	(737)	790
	16,702	16,458	(7,957)	(4,746)	(1,952)	1,803
Prior year adjustment (note 1)	-	14	-	7	(1)	20
Total	16,702	16,472	(7,957)	(4,739)	(1,953)	1,823

The syndicate returns to Lloyd's provided additional information to derive the following table in respect of the classes of business reviewed in the market commentary.

2008	**Gross written premiums £m**	**Net premiums earned £m**	**Result £m**
Reinsurance	**6,298**	**4,522**	**734**
Property	**3,971**	**3,125**	**103**
Casualty	**3,762**	**3,005**	**148**
Marine	**1,334**	**1,041**	**160**
Energy	**1,150**	**814**	**(194)**
Motor	**939**	**897**	**3**
Aviation	**481**	**363**	**48**
Life	**49**	**28**	**(2)**
Inter-syndicate reinsurance to close	**274**	**273**	**–**
Total	**18,258**	**14,068**	**1,000**

3. SEGMENTAL ANALYSIS CONTINUED

2007	Gross written premiums Restated £m	Net premiums earned Restated £m	Result Restated £m
Reinsurance	5,453	4.312	790
Property	3,809	2,975	408
Casualty	3,364	2,805	205
Marine	1,226	1,010	127
Energy	1,019	774	206
Motor	983	866	14
Aviation	464	323	50
Life	46	30	3
Inter-syndicate reinsurance to close	338	331	–
	16,702	13,426	1,803
Prior year adjustment (note 1)	-	13	20
Total	16,702	13,439	1,823

4. LIFE BUSINESS

The Aggregate Accounts include the results of all life and non-life syndicates transacting business during 2008. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 3).

5. CLAIMS OUTSTANDING

The aggregate of the prior year surpluses/deficiencies is a surplus of £1,265m (2007: £856m). The surplus primarily arises in respect of business written in the 2003 to 2006 accident years and includes gains on retranslation of foreign currency assets and liabilities.

6. NET OPERATING EXPENSES

	2008 £m	2007 Restated £m
Acquisition costs	**3,898**	3,522
Change in deferred acquisition costs	**(177)**	(70)
Administrative expenses	**1,460**	1,412
(Profit) / loss on exchange	**(853)**	(125)
	4,328	4,739

7. INVESTMENT INCOME

	2008 £m	2007 Restated £m
Income from investments	**1,064**	1,031
Gains on the realisation of investments	**392**	217
	1,456	1,248

8. INVESTMENT EXPENSES AND CHARGES

	2008 £m	2007 Restated £m
Investment management expenses, including interest	**31**	25
Losses on realisation of investments	**452**	160
	483	185

9. FINANCIAL INVESTMENTS

	Market value		Cost	
	2008 £m	2007 Restated £m	2008 £m	2007 Restated £m
Shares and other variable yield securities and units in unit trusts	**2,686**	2,315	**2,950**	2,218
Debt securities and other fixed income securities	**21,589**	17,400	**21,767**	17,150
Participation in investment pools	**794**	784	**811**	772
Loans and deposits with credit institutions	**1,538**	1,346	**1,566**	1,338
Other	**18**	6	**14**	4
	26,625	21,851	**27,108**	21,482

10. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2008 £m	2007 Restated £m
Due within one year		
– policyholders	**22**	68
– intermediaries	**4,625**	3,333
Due after one year		
– policyholders	**–**	–
– intermediaries	**16**	25
	4,663	3,426

11. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2008 £m	2007 Restated £m
Due within one year	**3,415**	2,795
Due after one year	**341**	123
	3,756	2,918

12. RECONCILIATION OF MEMBERS' BALANCES

	2008 £m	2007 Restated £m
Members' balances brought forward at 1 January	**2,523**	653
Prior year adjustment	**4**	–
Members' balances restated at 1 January	**2,527**	653
Total recognised gains and losses for the financial year	**2,189**	3,114
Transfers to members' personal reserve funds	**(2,231)**	(1,539)
Capital transferred into syndicate PTFs	**107**	322
Other movements	**(90)**	(23)
Members' balances carried forward at 31 December	**2,502**	2,527

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account with reference to policies incepting in that year of account. Members' balances are held severally.

In 2007 a rule change permitted any members that only participate on one syndicate to hold the capital supporting their underwriting in their syndicate's premium trust funds.

13. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2008 £m	2007 Restated £m
Due within one year	**768**	680
Due after one year	**2**	1
	770	681

14. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2008 £m	2007 Restated £m
Due within one year	**2,468**	1,514
Due after one year	**90**	26
	2,558	1,540

15. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2008 £m	2007 Restated £m
Operating profit on ordinary activities	**1,523**	3,051
Realised and unrealised investment (gains) / losses	**(4,883)**	(313)
Increase in net technical provisions	**7,757**	611
(Increase) / decrease in debtors	**(2,561)**	583
Increase / (decrease) in creditors	**1,224**	(451)
Other net cash inflow from operating activities	**–**	(10)
	3,060	3,471

16. MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	At 1 January 2008 Restated £m	Cash flow £m	Changes to market value and currencies £m	At 31 December 2008 £m
Cash at bank and in hand	1,919	**880**	**422**	**3,221**
Loans, deposits and investments	23,144	**86**	**5,053**	**28,283**
	25,063	**966**	**5,475**	**31,504**

17. RELATED PARTIES

The annual accounts of each syndicate provide, where appropriate, the required disclosures on related parties. The syndicate level disclosures are specific to that syndicate and its managing agent. As such it is not practical or meaningful to aggregate the syndicate level disclosures into a single related parties note for these Aggregate Accounts.

18. FUNDS AT LLOYD'S

Every member is required to hold capital at Lloyd's to support their underwriting, which until mid 2007 was all held in trust as Funds at Lloyd's (FAL). In 2007 a rule change permitted any members that only participate on one syndicate to hold the capital supporting their underwriting in their syndicate's premium trust funds. Capital held in syndicate premium trust funds is not reported as FAL.

The level of FAL/capital which Lloyd's requires a member to maintain is determined in accordance with Lloyd's Individual Capital Assessment (ICA) capital setting framework. FAL are not dedicated to any specific syndicate year of account participation for any member.

19. STAFF NUMBERS AND COSTS

The following disclosures are made in order to comply with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. These figures are aggregated from the syndicate accounts of the 79 syndicates (2007: 83) that made this disclosure.

	2008 £m	2007 Restated £m
Wages and salaries	**438**	342
Social security costs	**47**	39
Other pension costs	**77**	61
	562	442

The average number of employees as reported in the syndicate annual accounts was:

	2008 Number	2007 Restated Number
Administration and finance	**2,138**	2,112
Underwriting	**2,413**	2,232
Claims	**1,171**	1,171
Other	**354**	320

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