LLOYD'S

ANNUAL REPORT 2006

COMPETITIVE ADVANTAGES, STRONG PERFORMANCE.

A BENIGN CLAIMS ENVIRONMENT HELPED DELIVER GOOD PROFITABILITY, CREATING A STRONG POSITION FOR LLOYD'S IN 2006. WE CONTINUE TO WORK TO DELIVER AN EFFICIENT, ROBUST MARKET THAT CAN SUCCESSFULLY COMPETE FOR BUSINESS ALL AROUND THE WORLD.

How Lloyd's works

Lloyd's is a market where members join together as syndicates to insure and reinsure risks. This section explains how the market is organised, outlines the roles of the key players and describes the security Lloyd's provides to policyholders.

Strategy

Lloyd's strategy has been developed to deliver our vision of being the platform of choice. We operate a rolling Three-Year Plan, the latest version of which, covering 2007-2009, was published in December 2006. This section outlines the vision, direction and priorities contained in that plan.

Corporate responsibility

Lloyd's takes its responsibilities to its neighbours and the environment extremely seriously, and this section explains how.

Market results

The pro forma financial statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies. The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. The Aggregate Accounts are reported as a separate document and can be found at www.lloyds.com/financialreports

Society results

These comprise the consolidation of the financial results of the Corporation and all of its subsidiary undertakings, the Lloyd's Central Fund and the group's interest in associates.

This report is printed on recycled paper.

CONTENTS

HIGHLIGHTS OF 2006

WWW.LLOYDS.COM/2006RESULTS

- Standard & Poor's assigned Positive Outlook to Lloyd's A rating.
- Fitch Ratings placed Lloyd's A rating on Credit Watch Positive.
- Continued improvement in perceptions of customer service.
- Expansion of Lloyd's Asia platform.
- Good progress on key business reform initiatives:
  - Exceeded 85% contract certainty target.
  - Electronic repositories for claims and back office processing put in place.
- Lloyd's attracted good quality new entrants to the market.

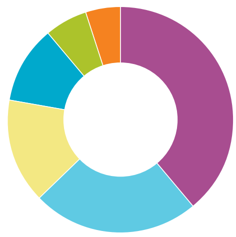
LLOYD'S BUSINESS BY CLASS

Lloyd's underwrites a diversified portfolio of business.

34%	Reinsurance
22%	Casualty
22%	Property
7%	Marine
7%	Energy
6%	Motor
2%	Aviation

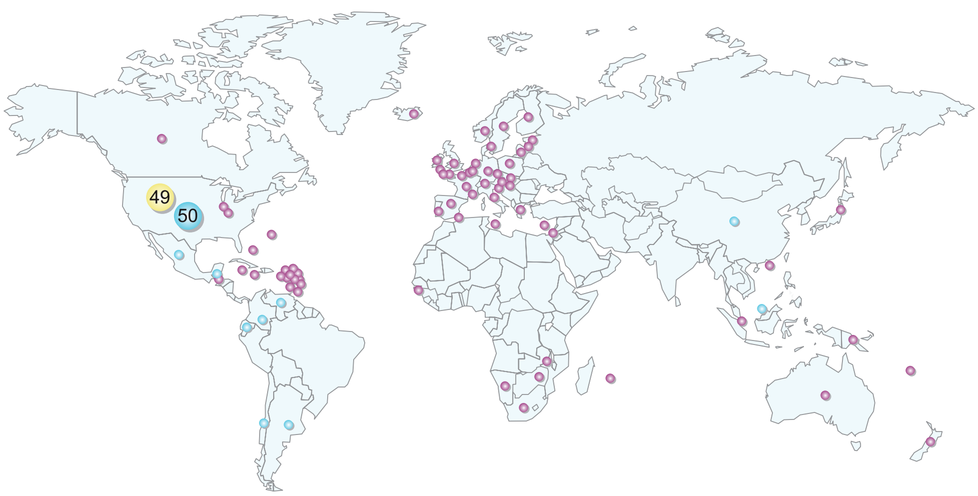
LLOYD'S BUSINESS BY REGION

Lloyd's portfolio is also highly diverse from a geographical perspective.



39%	United States
24%	United Kingdom
15%	Europe
11%	Other Americas
6%	Asia/Africa
5%	Rest of the World

LLOYD'S LICENCES



50 Accredited reinsurer in 50 US states

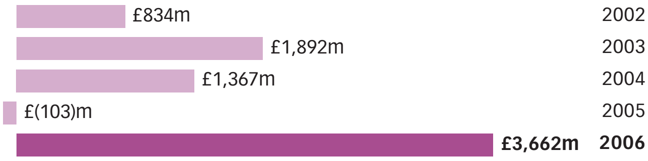
49 Eligible 'surplus lines' insurer in 49 US states

Licensed or eligible to undertake insurance business

Registered or licensed to write reinsurance business

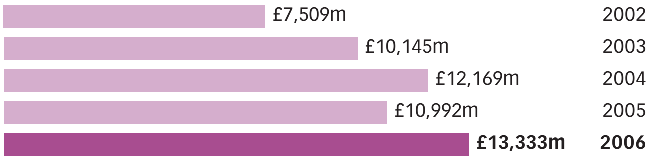
PROFIT BEFORE TAX

£3,662m



CAPITAL, RESERVES AND SUBORDINATED LOAN NOTES

£13,333m

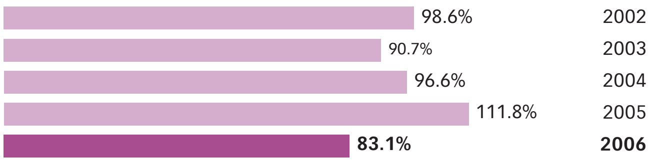


GROSS PREMIUMS WRITTEN

£16,414m

COMBINED RATIO

83.1%

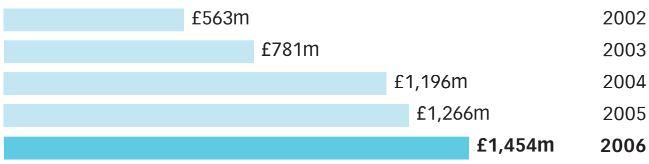


FINANCIAL HIGHLIGHTS

- Lloyd's gross premium income in 2006 increased 9.6% to £16,414m (2005: £14,982m).
- Lloyd's achieved a profit before tax of £3,662m (2005: loss of £103m) and a combined ratio of 83.1% (2005: 111.8%) reflecting the strong underlying performance and low loss incidence during the year.
- Hardening underwriting conditions in US catastrophe exposed business and stable or softening conditions elsewhere.
- In aggregate, claims development in respect of prior year reserves has been better than projected and has led to an overall surplus of £270m (2005: £14m).
- Central assets increased by 14.8% to £1,454m (2005: £1,266m).

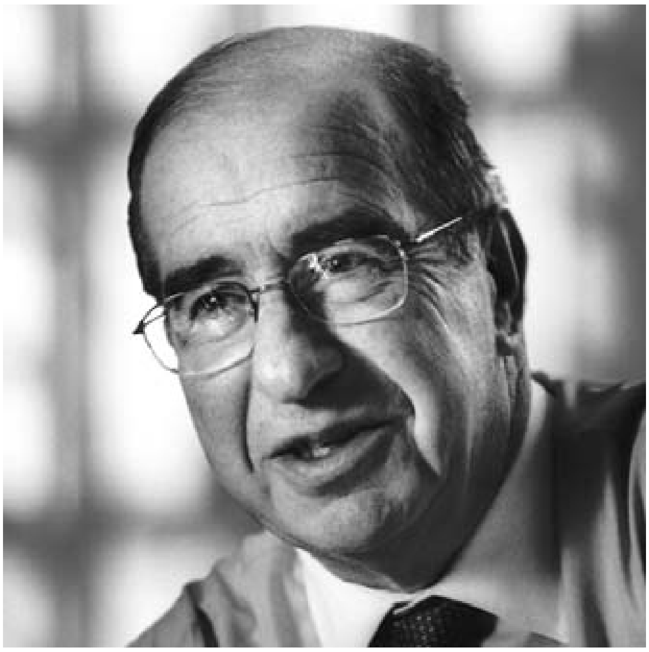
CENTRAL ASSETS

£1,454m



CHAIRMAN'S STATEMENT

WWW.LLOYDS.COM/2006RESULTS



Recently I spoke at a conference in the Gulf and was introduced by the Minister of Finance who began with these words:

"In this part of the world, the oldest, best known, and most respected name in insurance is Lloyd's, no one else comes close."

Such spontaneous comment cannot be bought and is hard to achieve. In the last few years, our reputation has been restored, thanks to a lot of hard work and dedication from those who work in the market and in the Corporation.

The opportunities which this provides in growing our existing markets and developing new ones are being seized. I do not believe that we would have succeeded in launching our operation in China without the name recognition that we have worldwide, and further opportunities beckon.

While on the topic of reputation, I would like to pay tribute to the work of the Trustees and management of Equitas who worked so hard on the landmark deal that enables us to close a chapter in our history. We have been firm in our view for a long time that Equitas was being well run, and presented no threat to Lloyd's. However, it was seen by many as a cloud that hung over us, and was always in the minds of the rating agencies. The transaction which Equitas has agreed with National Indemnity will, when finally implemented, remove that cloud, end the contingent legal liabilities of Lloyd's and bring finality to members reinsured by Equitas. This is a welcome and major boost to the standing of Lloyd's in the commercial and financial arenas and was clearly recognised at our EGM, when over 99% of the capacity-weighted vote supported the decision of the Council of Lloyd's to contribute to this deal. Phase one of the transaction has now been completed, providing Equitas with an additional $5.7bn of reinsurance cover and work has commenced on phase two.

"IN THE LAST FEW YEARS, THE REPUTATION OF WHICH WE ARE SO PROUD HAS BEEN RESTORED, THANKS TO A LOT OF HARD WORK AND DEDICATION FROM THOSE WHO WORK IN THE MARKET AND IN THE CORPORATION. WE ARE NOT COMPLACENT AT LLOYD'S AND ALTHOUGH WE ENJOYED AN EXCELLENT YEAR IN 2006, LIKE ANY GLOBAL BUSINESS WE FACE CHALLENGES."

But Lloyd's does not operate in a vacuum. It is a major component of the Financial Services industry of the UK. Indeed, we represent over 50% of the total London market business. Last year, the Chancellor of the Exchequer singled out the Financial Services industry as the largest contributor to the UK economy, recognising what many of us had been saying for some years. I am presently chairing a group which will present to the Chancellor our thoughts on how the non-life insurance industry can maintain and enhance its position, and become even more competitive.

We are not complacent at Lloyd's and although we enjoyed an excellent year in 2006, like any global business we face challenges, not least the permanent shadow of the insurance cycle and the increasing threat of climate change.

We have demonstrated that we can adapt, change and react to changing circumstances and meet the challenges that face us. But there is still much that remains to be done.

The work which Richard Ward is leading, as you will see from his report, is critical for our future. We must be more efficient to be more competitive, we are relying on the whole market to make every effort along with us to do this and to do it quickly. We have made significant progress but the pace of change must be accelerated if we are to realise our vision of being the platform of choice. Our Three-Year Plan 2007-2009 launched last December sets out the steps we are taking to ensure this.

We have also been undertaking work to ensure that the market is attractive to new entrants. Over the past year, we have seen new syndicates enter the market and I led a review of the Annual Venture which recommended new ways in which private capital can invest in Lloyd's.

It seems to be fashionable, even sometimes by those in Government to heap criticism on the FSA. We take the contrary view. They carry out an essential and complex task well, they are always ready to listen, and one of the reasons our reputation around the world remains so high, is in part, because it is known that they are there to regulate us.

No Chairman's statement would be complete without thanking those who contribute to our success. I would particularly like to thank those members of Council who have recently completed their terms of office, in particular Bronek Masojada, who has been a source of invaluable and instantly available advice to me in his role as Deputy Chairman.

In March of this year, we also say goodbye and thank you to Sir Brian Hayes who has served as Lloyd's Members' Ombudsman since 1994. During the past 13 years he has played an important role in seeking to ensure that the Society maintains the highest standards in its dealings with its members. He is succeeded by Sir Robin Mountfield.

Finally I would like to thank all of those who work for the Corporation under Richard's leadership. I know that they are proud of this institution, and we are proud of them.

Peter Levene, Chairman
28 March 2007

INVESTING FOR THE FUTURE: LLOYD'S IN CHINA

China is predicted to become the world's largest economy by 2040. So the approval by the Chinese regulator in March 2007 to begin operations for Lloyd's new reinsurance company in Shanghai, Lloyd's Reinsurance Company (China) Limited (LRCCL), is very significant. Already, 17 managing agents will be participating in Lloyd's China, with a number transferring underwriters to the Shanghai office.

Insurance will play a pivotal role in the development of this emerging economic superpower. The licence will enable Lloyd's to reinsure local currency business, which is estimated to comprise some 70% of the total Chinese reinsurance market. This will extend the market's foothold in the world's fastest growing economy, while providing Chinese insurers with access to the specialist underwriting expertise – and the capital – at Lloyd's.

Much of China's economic development is taking place in areas with catastrophic risk exposures. As Chinese businesses grow they encounter increasing global scrutiny. Lloyd's can draw on decades of offshore trading with China, in areas such as marine and aviation, to help ensure these risks are properly managed. The Chinese insurance market is in its infancy, but it won't be for long. This is an investment for the future.

CHIEF EXECUTIVE OFFICER'S STATEMENT

WWW.LLOYDS.COM/2006RESULTS

Lloyd's has a clear vision – to be the platform of choice – and a clear strategy to achieve it.

Over the course of 2006, we made significant progress towards this goal and the market remains in a strong competitive position.

Interest from new sectors, record capacity levels, rating agency affirmations and a number of new syndicate start-ups were positive acknowledgements that Lloyd's is an attractive place to do business.

Lloyd's, like any global organisation, cannot afford to stand still and we have shown time and again that we can adapt and change. To meet the challenges we face and compete successfully in the global insurance industry, however, we have to continue to change the way we think and act.

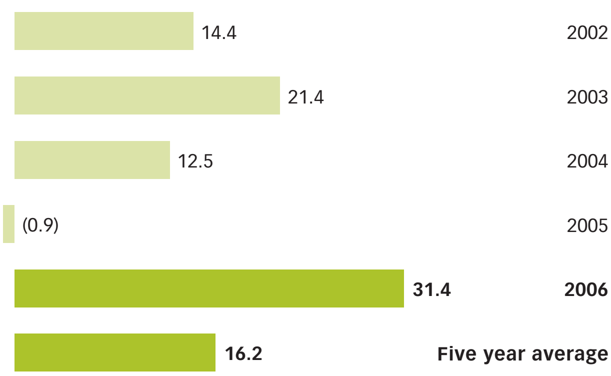
We recognise that underwriters, brokers and policyholders have a choice as to where they operate and place their business and that Lloyd's is not the only market where large and specialist insurance is placed.

We have developed a rolling Three-Year Plan to address the structural issues and trends within the market and the wider industry to ensure that we become the true platform of choice.

Against the backdrop of an increasingly demanding regulatory environment, greater customer expectations, mobility of capital, a rise of regional markets and a complex underwriting cycle, the delivery of this plan remains fundamental to Lloyd's future.

Another exceptional year but for a very different reason
After two exceptional years of hurricane activity, 2006 was also an exceptional year but for very different reasons. A lack of catastrophe activity and rate increases in windstorm affected lines combined to produce a profit of £3,662m.

RETURN ON CAPITAL* (%)



* Result on ordinary activities before tax as a ratio of average capital and reserves held.

A combined ratio of 83.1% and a return on capital of 31.4% compare well with our peers. This result is clear evidence of the flexibility, responsiveness, resilience and underlying financial strength of the Lloyd's market.

However, while there were significant underlying improvements in the way that businesses in the market manage risks and reserves, we cannot be complacent or fool ourselves into believing that market or weather conditions will not change. With an increasing trend for more frequent and severe natural catastrophes overlaying the peaks and troughs of the insurance cycle we must continue our focus on underwriting for profit.

Lloyd's remains a well diversified market but we cannot escape the fact that what we have seen is a 'tale of two markets'. Although rates increased in wind-exposed business, particularly in the USA, other lines of business showed signs of softening. This dichotomy makes good cycle management and underwriting discipline more important than ever.

There is clear evidence that the market, having worked with the Franchise Performance Directorate over a number of years, is now better prepared to manage the insurance cycle. Through a combination of underwriting for profit rather than market share, the use of state-of-the-art modelling tools and better availability and application of data, it is hoped that the market can shield itself from the worse effects of the cycle.

The platform of choice
During 2006, we made significant progress towards meeting the goals set out in 'Building the Optimal Platform' published in January 2006. There are a number of areas, however, where we need to accelerate the pace of change.

Our strategy centres on the five key benefits of operating at Lloyd's (see pages 24 and 25). We regularly test our strategy against market feedback and changing external circumstances and we published the latest version of the Three-Year Plan at the end of December 2006.

Performance framework
We want a clear and transparent performance framework that supports the achievement of superior operating returns for all of the businesses that operate in the market.

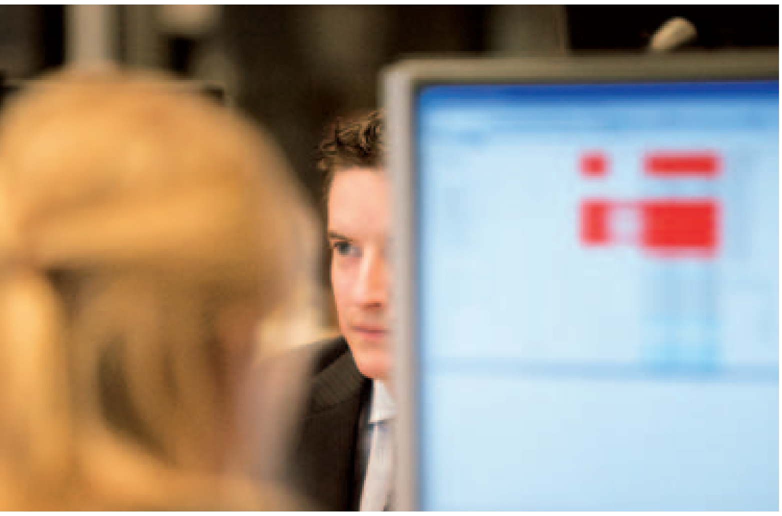
Our relationship with the market has evolved over the last three years to one of commercial partner. Last year, we introduced a set of Franchise Standards on underwriting, claims and risk management to help each market firm understand the minimum level to which they are expected to perform. Together with the market we are looking at further areas where minimum standards would be appropriate.

During the year under review, we continued our work to improve the ability of the businesses in the market to manage their exposures and risks. We introduced a Risk Management Toolkit which supports and promotes best practice risk management. In addition, we continued to update our suite of Realistic Disaster Scenarios, including introducing a $100bn hurricane scenario and an aviation terrorism scenario, thereby further testing the Lloyd's market's resilience to extreme catastrophic events.

Business efficiency – operations and processes
We have to deliver more efficient business processes at a lower cost and ensure that the underwriters, brokers and policyholders who form the customers of this market are receiving the level of service they expect and demand.

Over the past year, the London market has demonstrated that it wants to change and there is clear evidence that progress is being made, but the pace of change is still too slow.

At the end of the year, we repeated a customer satisfaction survey to test our service levels. Just under two thirds of those questioned believe that Lloyd's processes have improved and our overall satisfaction score has remained a reasonably healthy 7.6 out of 10. However, there remain areas where our customers want to see improvement. These include speed of issuing contract documentation and underwriter availability.



A BIG STEP FORWARD: ELECTRONIC CLAIMS FILE

Brokers and underwriters carrying bulging files may be one of the classic images on the streets around One Lime Street. Lloyd's is actively working to reduce this, and in particular, is using the new Electronic Claims File (ECF). This went live in September 2006 and will significantly cut the amount of paper in circulation on the claims side of the market.

ECF brings together the Insurers' Market Repository and the Lloyd's Claims Loss Advice and Settlement System. Brokers can now submit claim file documents electronically to all insurers on risk simultaneously – no more going around the Underwriting Room to present the file time after time. Insurers also have real-time access to the claims file, including key claims processing functions.

ECF seeks to ensure the Lloyd's market is a more efficient and cost-effective place to do business. It's a major step towards eliminating paper processes while also improving the market's environmental sustainability. Two more ECF releases planned for 2007 will help Lloyd's towards its stated aim: to process all new claims electronically by the end of 2007 – and to help consign those bulging files to history.

There are three pillars to our strategy to address these issues:

- Electronic claims handling.
- Accounting and Settlement.
- Pre-bind quality assurance.

Last year we introduced an electronic filing cabinet, a document repository that enables claims and premiums to be handled quickly and efficiently without the need for paper files. Every managing agent is committed to processing their claims electronically, and currently a third of all managing agents are doing so. This is a major step forward in our drive for a paperless market and we aim to have all new claims processed electronically by the end of 2007.

By the end of the year 15% of all premium transactions were going through the repository and a quarter of all premium transactions in the London market were handled electronically by the end of February 2007.

We achieved a major milestone when we exceeded the target for 85% of all contracts being contract certain in December last year. We now want to embed contract certainty into business as usual activities and ensure that managing agents are making the right contract certainty, tax, regulatory and risk management checks before entering into contracts.

Although we deal in complex risks we do not need to operate a complex business model. In the last 12 months we have streamlined the complexity of our structure and processes and reduced the burden of operating within it. As part of this work we:

- Completed a duplication review to ensure that market firms were not subject to a dual compliance burden by Lloyd's and the FSA.
- Sought to ease the reporting burden on businesses by limiting any changes to reporting requirements unless they simplify or reduce those requirements.
- Began work to simplify the framework of the rules and requirements for operating at Lloyd's.
- Conducted a review of the impact of the Annual Venture and suggested ways to improve the current business planning timetable and update the existing agency agreement.
- Developed proposals to facilitate new syndicate start-ups and increases in capacity backed by unaligned capital at various points mid-year. In the past, new syndicates backed by private capital could only start underwriting on 1 January.

Capital advantages

2006 was the second year in which managing agents' own capital assessments drove member capital setting. This process helped to embed risk management within the overall business process of each syndicate and enabled them critically to assess the capital required for their own risk profile. We implemented an enhanced ICA review process which provided us with an informed insight into the risks and capital requirements for each market business. In addition, we developed improved benchmarking options for assessing claims reserves.

We remain committed to reducing the cost of mutuality through improved performance and capital setting. Following the introduction of measures to strengthen the Central Fund, if conditions permit, we are aiming to reduce the Central Fund contribution rate for the 2008 Year of Account, a year earlier than originally planned.

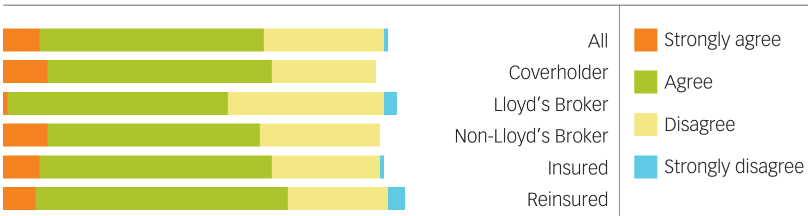
During 2006, we worked closely with the market to create a less prescriptive environment for making investment decisions and removed a whole layer of complexity that applied to Lloyd's compared with the company market: admissible asset rules for syndicate investments have now been brought in line with the FSA's requirements for all UK insurers.

Furthermore, the Central Fund investment strategy was reviewed and amended, following consultation with the market. A revised risk management framework was introduced and asset allocations were revised to optimise risk adjusted returns.

LLOYD'S CUSTOMER SATISFACTION SURVEY 2006

The survey asked customers their perceptions of Lloyd's service on a set of key touch points, from access to underwriters to speed of claims payment. 65% agreed that the processes covered in the survey had improved in the last year.

PERCEIVED IMPROVEMENT IN PROCESSES



478 interviewees
September/October 2006

Through these measures we have made real progress towards the development and implementation of a flexible capital framework.

Security and ratings
The strength of the market was confirmed in 2006 with affirmations from all three rating agencies: A.M. Best, Fitch Ratings and Standard & Poor's. Following the announcement of the Equitas and Berkshire Hathaway deal, Fitch Ratings placed Lloyd's on Credit Watch Positive and Standard & Poor's assigned a Positive Outlook. Just this week, the first phase of the Equitas deal was completed and as a result Fitch Ratings upgraded Lloyd's to A+. This upgrade will enhance the perceptions of Lloyd's amongst insurance buyers, brokers and potential investors.

Market access
We continue to expand our global footprint and move into developing markets. The trend eastwards was highlighted by the regulatory approval of our reinsurance operation in China and the expansion of our platform in Singapore.

We began work to restructure our global network of offices and representatives to ensure that it is clearly aligned to managing agents' needs and service requirements. This work is expected to be completed this year.

We also reviewed our distribution channels, particularly access options in the US, and began a project to streamline the broker accreditation process.

Our people
Our people remain our greatest asset and we continue to invest in their development, potential and their working environment. During the year in review, we began to develop a leadership programme and implement a working environment programme.

We have a demanding agenda to deliver in a fast-moving environment; the structure and culture of our organisation must be flexible and responsive, and our people accountable if we are to succeed in being the platform of choice. We will continue to make organisational changes to meet our business needs as they evolve and have introduced a change programme to help develop the behaviours and culture needed to deliver our objectives.

The year ahead
With market conditions changing, our focus remains on underwriting discipline. This will be supported by our continuing drive to modernise market practices, thereby helping to maintain our position as a recognised leader of specialist underwriting.

Conclusion
As I come to the end of my first year at Lloyd's I would like to thank the staff at the Corporation and all those who work throughout the market for their support and hard work.

I would like to pay particular thanks to my Executive Team. They have provided strong leadership over the past year and have been instrumental in the delivery of our objectives.

Julian James, Director of Worldwide Markets, leaves Lloyd's at the end of April. He has played a large role in developing Lloyd's global presence and I am grateful for his hard work and dedication.

I have been impressed by the commitment and professionalism of everyone at Lloyd's and I look forward to working with the Corporation and market over the coming years.

Richard Ward, Chief Executive Officer
28 March 2007

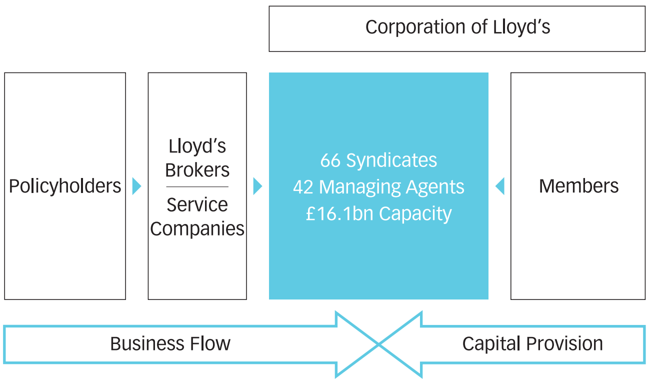
"THE MARKET REMAINS IN A STRONG COMPETITIVE POSITION. INTEREST FROM NEW SECTORS, RECORD CAPACITY LEVELS, RATING AGENCY AFFIRMATIONS AND A NUMBER OF NEW SYNDICATE START-UPS WERE POSITIVE ACKNOWLEDGEMENTS THAT LLOYD'S IS AN ATTRACTIVE PLACE TO DO BUSINESS."

HOW LLOYD'S WORKS: STRUCTURE

WWW.LLOYDS.COM/2006RESULTS

THE LLOYD'S MARKET BRINGS TOGETHER AN OUTSTANDING CONCENTRATION OF UNDERWRITING EXPERTISE AND FLEXIBLE POOLS OF CAPITAL.

Lloyd's is not an insurance company, it is a market where the members of Lloyd's join together as syndicates to insure and reinsure risks. Much of our business is written on a subscription basis, with more than one syndicate participating on the same risk.



Providing the capital: the members

It is the members of Lloyd's who provide the capital to support the syndicates' underwriting. Today, our members are drawn from some of the world's major insurance groups and companies listed on the UK stock exchanges as well as individuals and limited partnerships. Corporate members provide a significant majority of the total capital, and therefore capacity, of the Lloyd's market. Private members typically support a number of syndicates, while many corporate members underwrite through a single syndicate. Members' agents provide advisory and administrative services to members. A member is liable only for its share of the risks underwritten and is not responsible for meeting any other members' underwriting liabilities.

The diverse sources of our capital in 2007 are shown below. An outline of capital setting at Lloyd's begins on page 18.

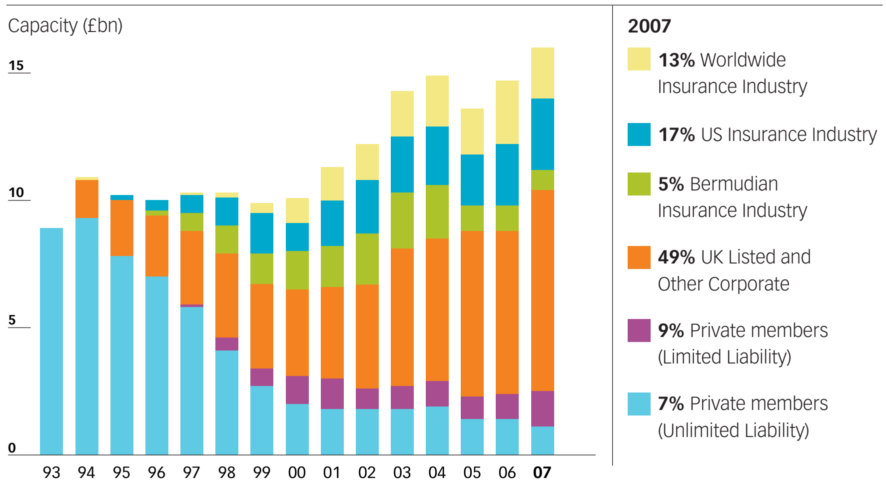
Writing the insurance risks: the syndicates

As at 1 January 2007, there were 66 syndicates in the Lloyd's market. A syndicate may trade under the same name and number for years, but it is in fact a series of annual ventures. Members have the right – but not the obligation – to participate in syndicates for the following year.

In practice, most syndicates are supported by the same capital providers for several years and so, in capital terms, function more like permanent insurance operations under the Lloyd's umbrella.

A large proportion of Lloyd's business is conducted in the Underwriting Room at Lloyd's, where most of the syndicates have a base. Here, detailed face-to-face negotiations take place regarding the risks brokers wish to place at Lloyd's. Having this breadth of underwriting skill in one location and allowing direct access to underwriters have given us our excellent reputation for expertise, innovation and quick decision-making.

LLOYD'S SOURCES OF CAPITAL BY TYPE AND LOCATION



Most of Lloyd's business is placed with the assistance of a broker. In the UK, all insurance intermediaries must be authorised by the FSA, but Lloyd's also requires Lloyd's brokers to meet high standards of professionalism and competence. Syndicates may also take advantage of other distribution channels, including coverholders and service companies, together with Lloyd's overseas underwriting platforms such as those in Singapore and China.

Managing the syndicates: the managing agents

A managing agent is a company set up to manage one or more Lloyd's syndicates on behalf of the members who have provided the capital. Many syndicates are now managed and funded by a single corporate group, integrating the management and capital provision, as shown in the diagram below. For other syndicates, the capital is provided by a 'spread' of different members, who may include both private individuals and corporate groups, and the managing agent may be separately owned and managed.

The managing agent employs the underwriting staff and handles the day-to-day running of a syndicate's infrastructure and operations. There is a full list of managing agents and the syndicates they manage on pages 12 and 13.

Examples of Syndicate Operating Models

	Integrated capital and management	'Spread' capital provision and independent management	
Management	Managing Agency	Managing Agency	
Underwriting	Syndicate	Syndicate	
Capital Provision	Corporate Member	Corporate Member(s)	Private Members

Supporting the market: the Corporation of Lloyd's

The Corporation of Lloyd's (the 'Corporation') oversees and provides services to support the market and promotes Lloyd's around the world. The senior executives of the Corporation exercise the day-to-day powers and functions of the Council and the Franchise Board (see page 14 for more detail regarding the governance of Lloyd's). The Corporation (including its subsidiaries) had 763 employees worldwide, as at 31 December 2006. More information regarding the Corporation's employment strategy can be found in the Society Review, page 61.

In addition to its objective to provide cost-effective services that are essential to the smooth running of the market, the Corporation strives to raise the standards and improve the performance of the market. The Corporation's work includes:

- Approving the admission of new syndicates to the market.
- Determining the capital that Lloyd's members must provide to support their proposed underwriting.
- Overseeing business activities of the market by establishing standards and monitoring the performance of syndicates in areas such as exposure management, cycle management, claims management and operational risk management.
- Working with the management of underperforming syndicates to facilitate improved performance and intervening directly if stronger action is required.
- Managing financial and regulatory reporting for the Lloyd's market, including the production of Lloyd's market results and Lloyd's FSA return.
- Managing and developing Lloyd's global network of licences and the Lloyd's brand.

AN EFFECTIVE PLACE TO DO BUSINESS: THE SUBSCRIPTION MARKET

Lloyd's is the world's leading face-to-face subscription insurance market, allowing individual syndicates to subscribe to cover all or part of a risk, according to their own risk appetite and capacity. In the Underwriting Room at One Lime Street there are 42 managing agents running 66 syndicates. It is an outstanding concentration of underwriting expertise.

For brokers and their clients, having so many syndicates under one roof and direct access to decision makers, means complex and large risks can be placed efficiently within a marketplace environment. It also helps brokers foster relationships with multiple trading partners and provides flexibility when extra underwriting capacity is needed quickly – for example after a major acquisition by a client or a major market loss.

For underwriters, Lloyd's allows even relatively small syndicates to participate on some of the world's largest insurance exposures on a shared basis. Lloyd's is currently working hard with market participants to improve business processes, seeking to create an electronic infrastructure that will support – but not replace – our competitive face-to-face subscription market.

HOW LLOYD'S WORKS: MANAGING AGENTS AND SYNDICATES

WWW.LLOYDS.COM/2006RESULTS

In 2007, Lloyd's has the capacity to accept insurance premiums of £16.1bn, net of brokerage or acquisition costs. Total capacity is shown for those managing agents continuing in 2007. 2006 capacity figures were as at 31 December 2006. 2007 capacity figures are as at 1 January 2007.

ACE Underwriting Agencies Limited
Syndicates: 2488
2006 capacity: £370,000,000
2007 capacity: £400,000,000

Advent Underwriting Limited
Syndicates: 0780
2006 capacity: £152,828,000
2007 capacity: £150,550,914

AEGIS Managing Agency Ltd
Syndicates: 1225
2006 capacity: £210,000,000
2007 capacity: £221,000,000

Amlin Underwriting Limited
Syndicates: 2001
2006 capacity: £1,000,000,000
2007 capacity: £1,000,000,000

Argenta Syndicate Management Ltd
Syndicates: 1965, 2121, 3334, 6101, 6102
2006 capacity: £114,336,836
2007 capacity: £276,131,950

Ascot Underwriting Limited
Syndicates: 1414
2006 capacity: £550,000,000
2007 capacity: £625,000,000

Atrium Underwriters Limited
Syndicates: 0570, 0609
2006 capacity: £364,899,609
2007 capacity: £340,781,524

Beaufort Underwriting Agency Limited
Syndicates: 0318
2006 capacity: £158,924,157
2007 capacity: £201,833,614

Beazley Furlonge Ltd
Syndicates: 0623, 2623
2006 capacity: £829,950,318
2007 capacity: £861,022,843

Brit Syndicates Limited
Syndicates: 2987
2006 capacity: £500,000,000
2007 capacity: £525,000,000

Canopius Managing Agents Limited
Syndicates: 0044, 4444
2006 capacity: £303,000,000
2007 capacity: £451,800,000

Cathedral Underwriting Limited
Syndicates: 2010
2006 capacity: £250,067,495
2007 capacity: £300,005,494

Catlin Underwriting Agencies Limited
Syndicates: 2003
2006 capacity: £480,000,000
2007 capacity: £1,094,315,491

Chaucer Syndicates Limited
Syndicates: 1084, 1176, 1301, 4000, 4242
2006 capacity: £619,511,551
2007 capacity: £734,154,634

Equity Syndicate Management Limited
Syndicates: 0218, 1208
2006 capacity: £400,732,035
2007 capacity: £425,768,080

Faraday Underwriting Limited
Syndicates: 0435
2006 capacity: £325,000,000
2007 capacity: £325,000,000

Gerling at Lloyd's Limited
Syndicates: 1206
2006 capacity: £60,250,000
2007 capacity: £60,250,000

Hardy (Underwriting Agencies) Ltd
Syndicates: 0382, 3820
2006 capacity: £110,004,208
2007 capacity: £175,000,000

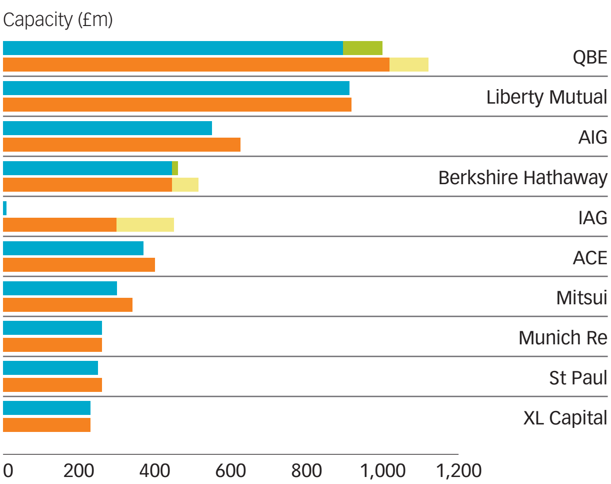
Heritage Managing Agency Limited
Syndicates: 1200, 3245
2006 capacity: £264,434,957
2007 capacity: £314,998,897

Hiscox Syndicates Limited
Syndicates: 0033
2006 capacity: £832,968,324
2007 capacity: £875,000,000

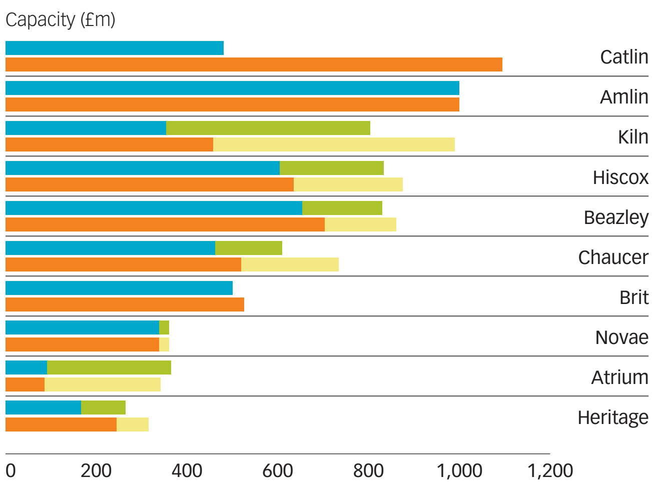
Illium Managing Agency Ltd
Syndicates: 4040
2006 capacity: £53,927,893
2007 capacity: £53,927,893

Imagine Syndicate Management Ltd
Syndicates: 1400, 2525, 2526
2006 capacity: £221,814,694
2007 capacity: £198,814,949

LARGEST INSURANCE INDUSTRY CAPITAL PROVIDERS



LARGEST UK-LISTED BUSINESSES



Jubilee Managing Agency Ltd
Syndicates: 0779, 1231, 5820
2006 capacity: £136,999,253
2007 capacity: £127,999,253

KGM Underwriting Agencies Limited
Syndicates: 0260
2006 capacity: £43,000,000
2007 capacity: £49,965,879

Liberty Syndicate Management Limited
Syndicates: 4472
2006 capacity: £912,000,000
2007 capacity: £917,000,000

Limit Underwriting Ltd
Syndicates: 2999, 0386
2006 capacity: £999,892,479
2007 capacity: £1,119,892,479

Managing Agency Partners Ltd
Syndicates: 2791, 6103
2006 capacity: £399,961,711
2007 capacity: £502,858,977

Markel Syndicate Management Limited
Syndicates: 3000
2006 capacity: £160,000,000
2007 capacity: £160,000,000

Marketform Managing Agency Limited
Syndicates: 2468
2006 capacity: £100,000,000
2007 capacity: £100,000,000

Marlborough Underwriting Ltd
Syndicates: 1861, 1919
2006 capacity: £135,000,000
2007 capacity: £190,000,000

Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited
Syndicates: 3210
2006 capacity: £300,000,000
2007 capacity: £340,000,000

Munich Re Underwriting Limited
Syndicates: 0457
2006 capacity: £260,000,000
2007 capacity: £260,000,000

Navigators Underwriting Agency Ltd
Syndicates: 1221
2006 capacity: £122,750,000
2007 capacity: £140,000,000

Newline Underwriting Management Ltd
Syndicates: 1218
2006 capacity: £100,000,000
2007 capacity: £85,000,000

Novae Syndicates Limited
Syndicates: 2007
2006 capacity: £359,999,866
2007 capacity: £359,999,866

Omega Underwriting Agents Ltd
Syndicates: 0958
2006 capacity: £249,432,372
2007 capacity: £249,432,373

R.J. Kiln & Co Ltd
Syndicates: 0557, 0308, 0510, 0807
2006 capacity: £802,967,994
2007 capacity: £990,136,850

S.A. Meacock & Company Ltd
Syndicates: 0727
2006 capacity: £72,380,523
2007 capacity: £73,820,523

St Paul Travelers Syndicate Management Ltd
Syndicates: 5000
2006 capacity: £250,000,000
2007 capacity: £260,000,000

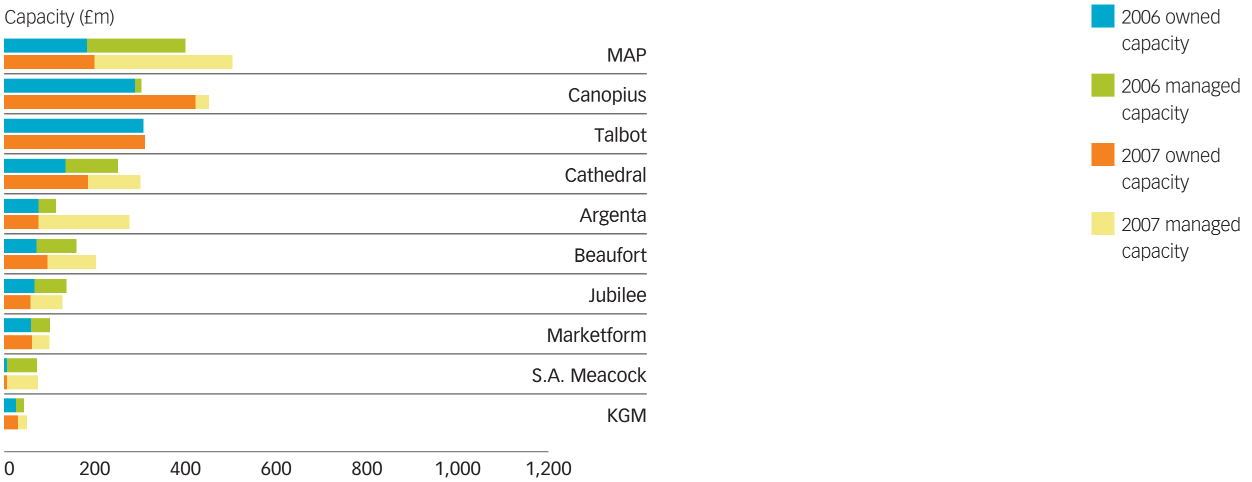
Talbot Underwriting Ltd
Syndicates: 1183
2006 capacity: £307,000,000
2007 capacity: £310,000,000

Whittington Underwriting Management Ltd
Syndicates: 4455
2006 capacity: £8,600,000
2007 capacity: £24,500,000

XL London Market Ltd
Syndicates: 1209
2006 capacity: £230,000,000
2007 capacity: £230,000,000

Since 1 January 2007, Lloyd's has approved the admission of three new managing agents: Pembroke Managing Agency Limited (to manage syndicate 4000, previously managed by Chaucer Syndicates Limited), RITC Syndicate Management Ltd (to manage syndicate 5678, a dedicated RITC syndicate whose capacity will be set on a deal by deal basis), and Ark Syndicate Management Ltd (to manage syndicate 4020, whose 2007 capacity is £114m). Additionally, Spectrum Syndicate Management Ltd has been authorised to manage syndicate 2112, whose 2007 capacity is £33.5m.

LARGEST PRIVATELY OWNED BUSINESSES



HOW LLOYD'S WORKS: GOVERNANCE AND RISK MANAGEMENT

WWW.LLOYDS.COM/2006RESULTS

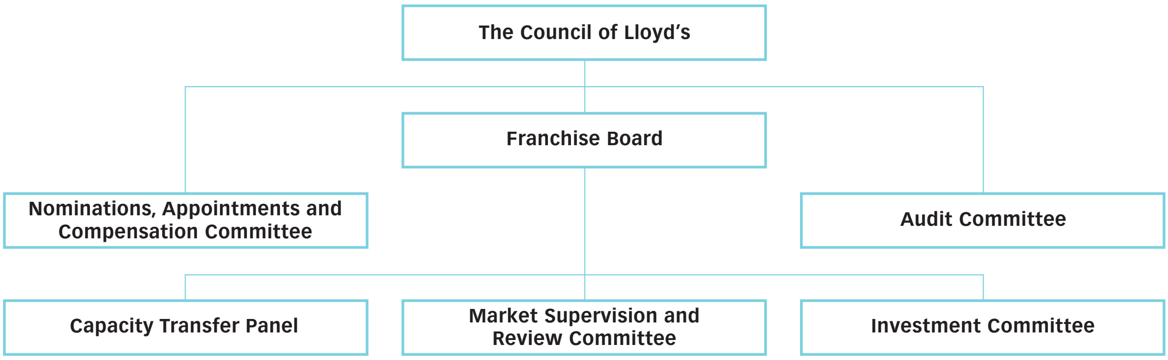
Governance: the Council and Franchise Board

The Council of Lloyd's is the governing body of the Society of Lloyd's, with overall responsibility for the management of Lloyd's. For many of its functions, the Council now acts through the Franchise Board, whose members are appointed by the Council and are drawn from inside and outside the Lloyd's market. Further details regarding the membership and roles of the Council, Franchise Board and their respective committees can be found on pages 76 to 79. The day-to-day powers and functions of the Council and Franchise Board are exercised by the executive of the Corporation. The members of the Executive Team are the Chief Executive Officer and the Directors of the Corporation. Their details can be found at www.lloyds.com/managementteam

The members of the Council and the Franchise Board are listed on pages 16 and 17.

Since 2001, the UK Financial Services Authority (FSA) has been responsible for regulating Lloyd's, including direct supervision of managing agents and monitoring capital and solvency. The Corporation plays an active role in managing risk within the market to ensure that Lloyd's central assets, brand and reputation are protected.

Principal committees of Lloyd's



REALISTIC DISASTER SCENARIOS

The specified event scenarios are defined in detail annually by Lloyd's and are used to evaluate aggregate market exposures as well as the exposure of each syndicate to those specific events. Syndicate-specific scenarios are prepared by each syndicate according to the particular characteristics of the business it writes.

SPECIFIED EVENT SCENARIOS

- **Florida windstorm**
- **California earthquake**
- **New Madrid earthquake**
- **European windstorm**
- **Japanese earthquake**
- **Terrorism**
- **Gulf of Mexico windstorm**
- **Japanese typhoon**
- **Two consecutive Atlantic seaboard windstorms**

SYNDICATE-SPECIFIC SCENARIOS

- **Marine event**
- **Loss of major complex**
- **Aviation collision**
- **Major risk loss**
- **Satellite risks**
- **Liability risks**
- **Political risks**
- **Two syndicate-defined Realistic Disaster Scenarios**

Managing risk at Lloyd's

Each managing agent is responsible for managing its own risks and those of the syndicates it manages. The Corporation manages the risks facing the Corporation and the market as a whole. Lloyd's focuses on risks in several categories – insurance, operational, capital, business strategy, financial markets, credit, liquidity and regulatory.

As with all insurers, the largest risk facing Lloyd's is insurance risk: the inherent uncertainty of the size and timing of insurance liabilities. At Lloyd's, each syndicate sets its own risk appetite, develops a business plan, plans its reinsurance protection and manages its exposures and claims. Through the Franchise Performance Directorate, the Corporation regularly reviews the performance of the syndicates in each of these activities to ensure that it is satisfied with the level of risk posed to the overall market and its mutual assets.

The Corporation uses various tools to control and monitor insurance risk, including:

- Setting guidelines for catastrophe exposure and reinsurance usage.
- Setting realistic disaster scenarios to assist in the measurement and management of catastrophe exposures at a syndicate and market level (see full list on previous page).
- Reviewing business plans and determining appropriate capital requirements.
- Establishing and monitoring underwriting standards, including claims and exposure management principles.

Each area of potential risk is considered by expert teams within the Corporation. If a syndicate's operations pose an unacceptable risk, the Corporation will work with that syndicate to make appropriate changes. If the syndicate does not respond to this facilitative approach, the Corporation can also withhold or withdraw approval of a business plan and in extreme cases can terminate the right of a managing agent and its syndicate to trade in the market.

The process of setting required capital for syndicates and members also begins with the syndicate's assessment of its own risks. See page 18 for detailed information on capital setting.

More information on risk categories and controls can be found on page 64.

PREPARING FOR THE WORST: REALISTIC DISASTER SCENARIOS

Careful management of catastrophe risk is a business imperative at Lloyd's and with total hurricane losses in the 2005 storm season of \$6.6bn, it's easy to see why. The Corporation has devised a set of Realistic Disaster Scenarios (RDS) to stress test both individual syndicates and the market as a whole to see how they stand up to chains of accumulated exposure in very extreme cases – contemplating over \$100bn of insurance industry losses.

One of our latest disaster scenarios is a category 4 hurricane, which cuts directly across offshore oil platforms in the Gulf of Mexico, before making landfall in Texas and moving over the densely populated Houston area. This test was introduced in recognition of – and to examine – the significant correlation between onshore and offshore risks to hurricane events.

The scenario and guidance draws on a wealth of underwriting experience and is used by energy underwriters worldwide as an industry standard approach to offshore energy risk management. We believe this kind of active exposure management helped mitigate losses from hurricanes Katrina and Rita. Through its ongoing work on RDS, the Corporation is helping the market to prepare for each new storm season.

HOW LLOYD'S WORKS: MEMBERS OF THE COUNCIL

1. Lord Levene of Portsoken
Chairman of Lloyd's
(Working member)
Peter Levene was elected as Lloyd's Chairman in November 2002. He is the Chairman of General Dynamics UK Limited and a member of the Board of TOTAL SA, China Construction Bank and Haymarket Group. He is an Alderman of the City of London and served as Lord Mayor for the year 1998/99.

2. Richard Ward
Chief Executive Officer
(Nominated member)
Richard Ward joined Lloyd's as Chief Executive Officer in April 2006. Previously he worked as both CEO and Vice-Chairman at the International Petroleum Exchange (IPE), re-branded ICE Futures. Prior to this, he held a range of senior positions at British Petroleum and Tradition Financial Services.

3. Ewen Gilmour
Deputy Chairman of Lloyd's
(Working member)*†
Ewen Gilmour is a chartered accountant and the Chief Executive of Chaucer Holdings PLC. Formerly a corporate financier with Charterhouse Bank, he joined the Corporation to help facilitate the introduction of corporate capital to the Lloyd's market in 1993. He is the Chairman of the Lloyd's Market Association Processes Committee.

4. Graham White
Deputy Chairman of Lloyd's
(Working member)
Graham White is Deputy Chairman of Argenta Syndicate Management Ltd and has worked in the Lloyd's market since 1968 as reinsurance broker, company secretary and members' and managing agent. He has an MBA from Cranfield.

5. Bill Knight
Deputy Chairman of Council
(Nominated member)*†
Bill Knight is the Chairman of the Financial Reporting Review Panel and a Gambling Commissioner. He is a solicitor and was formerly the Senior Partner of Simmons & Simmons.

6. Rupert Atkin
(Working member)†
Rupert Atkin is the active underwriter for syndicate 1183 and a director of all Talbot Group companies. He has served on various market bodies, including the Lloyd's Regulatory Board and has chaired both the Lloyd's Underwriters Association and the Joint War Risk Committee.

7. Celia Denton
(Nominated member)*
Celia Denton, a chartered accountant, was a senior audit partner at Deloitte & Touche and Head of its General Insurance Practice for 10 years. She was responsible for risk management in the assurance and advisory practice, prior to her retirement in 2003.

8. Nigel Hanbury
(Working member)†
Nigel Hanbury is the CEO of Hampden Agencies Ltd, a members' agent. He also serves on the Board of the Association of Lloyd's Members, the committee of the High Premium Group, the Board of Syndicate 138 Ltd and participates on other Lloyd's working parties and committees.

9. Judith Hanratty
(Nominated member)†
Judith Hanratty, a barrister, is currently a director of Partner Re Limited, Charles Taylor Consulting plc, the UK Gas and Electricity Markets Authority, and is Chairman of the Commonwealth Institute. She was Company Secretary of BP plc until her retirement in 2004.

10. Christopher Harman
(Working member)
Christopher Harman is the founder member and Deputy Chairman of Harman Wicks & Swayne, a Lloyd's broker. He has worked in the Lloyd's market as a reinsurance broker since 1971, specialising in reinsurances of Lloyd's syndicates and companies writing global business.

11. Philip Lader
(Nominated member)†
Philip Lader, a lawyer, is Chairman of WPP Group plc. He is a former US Ambassador to the Court of St. James's and member of President Clinton's Cabinet. He is also a Senior Adviser to Morgan Stanley and serves on the boards of Marathon Oil, AES, RAND and Rusal Corporations.

12. Alan Lovell
(External member)
Alan Lovell is Chief Executive of Infinis Limited and Chairman of the Mary Rose Trust Appeal Committee. He has held senior positions at Costain Group plc, Dunlop Slazenger and most recently at Jarvis plc.

13. Barbara Merry
Representative of Hardy Underwriting Limited
(External member)
Barbara Merry, a chartered accountant, is the CEO of Hardy Underwriting Group plc. She has worked in the Lloyd's community since 1985, first as a market regulator and then as MD of Omega Underwriting Agents Limited.

14. Peter Morgan
Representative of AJSLP09
(External member)†
Peter Morgan is a director of the Association of Lloyd's Members, Oxford Instruments and Hyder Consulting and Chairman of Strategic Thought, Technetix and IXICO. He is a former director of IBM UK and IBM Europe and former Director General of the Institute of Directors.

15. Dermot O'Donohoe
Representative of Dornoch Limited
(External member)
Dermot O'Donohoe is the CEO of XL London Markets Ltd, the Lloyd's managing agency of the XL Capital Group. He is the Chief Underwriting Officer for XL's Global Specialty businesses, a number of whom utilise the Group's Syndicate (1209) to write business. Dermot is a director of several group companies in the UK and Ireland.

16. Andreas Prindl
(Nominated member)*
Andreas Prindl worked for Morgan Guaranty in New York, London and as General Manager in Tokyo and then set up Nomura Bank International, which he chaired. He was appointed a CBE for his contributions to financial services education in Britain and Eastern Europe and is Master of the Musicians Company.

17. David Shipley
Representative of MAP Capital Limited
(External member)*
David Shipley has been named underwriter for MAP Syndicate 2791 since Managing Agency Partners Limited was formed in 2000. He has worked as a Lloyd's underwriter since 1976, and has participated as a Name, and subsequently with limited liability, since 1984.

18. Anthony Townsend
Representative of Brit UW Limited
(External member)*
Anthony Townsend is Chairman of Brit Syndicates Ltd and a non-executive director of other Brit companies. He served on Lloyd's Regulatory Board from 1996-2002 and is chairman or a non-executive director of a number of investment trusts.

Council as at 28 March 2007

* Member of Audit Committee.

† Member of Nominations, Appointments and Compensation Committee.

MEMBERS OF THE FRANCHISE BOARD

WWW.LLOYDS.COM/2006RESULTS

1. Lord Levene of Portsoken
Chairman of Lloyd's
Biography on previous page.

2. Richard Ward
Chief Executive Officer
Biography on previous page.

3. Roy Brown
Roy Brown, a chartered engineer, is the non-executive Chairman of GKN plc and a non-executive director of BUPA and the HMV Group. He was formerly an Executive Director of Unilever NV and Unilever plc and has an MBA from Harvard Business School.

4. Steven Burns
Steven Burns, a chartered accountant, is CEO of QBE's European Operations, including the Limit Group which is QBE's Lloyd's division. He has over 20 years' Lloyd's experience and was a member of the Council of Lloyd's between 2003 and 2005.

5. Edward Creasy
Edward Creasy is Chief Executive Officer of Kiln plc and Chairman and Chief Executive of R.J. Kiln & Co Ltd. He has worked in Lloyd's since 1978 as a broker, underwriter and manager. He is a founding director of the Lloyd's Market Association.

6. Stephen Hodge*
Stephen Hodge is a member of the Advisory Council of Cass Business School and is Chairman of Shell Pensions Trust Ltd. He worked until 2001 for the Shell Group as Treasurer and Finance Director with responsibility for Insurance matters. He was Audit Committee Chairman for O2 plc until January 2006.

7. Andrew Kendrick
Andrew Kendrick is Chairman and Chief Executive Officer of ACE European Group Limited. Prior to this, he served as President and Chief Executive Officer, ACE Bermuda. He has over 25 years of insurance industry experience. He was appointed Chairman of the Lloyd's Market Association in January 2006.

8. Luke Savage
Director, Finance, Risk Management and Operations
Luke Savage, a chartered accountant, joined Lloyd's in 2004. He has 20 years' experience in financial services, spent mostly supporting sales and trading in investment banks including Morgan Stanley and Deutsche Bank.

9. Jim Stretton*
Jim Stretton is Chairman of the Wise Group. He was formerly UK Chief Executive of The Standard Life Assurance Company and a member of the Court of the Bank of England.

10. Rolf Tolle
Director, Franchise Performance
Rolf Tolle joined Lloyd's in March 2003. He is a non-executive director of the Xchanging Claims Services Board. Previously, he was Chief Underwriting Officer of Faraday Group and has held senior positions within various insurance companies operating in Germany, Norway and the US.

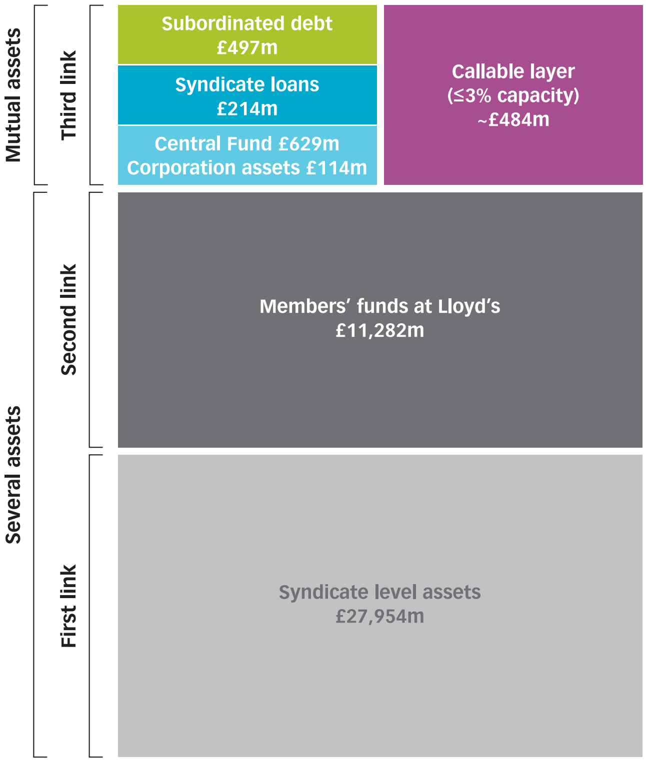
Franchise Board as at 28 March 2007

* Member of Audit Committee.

HOW LLOYD'S WORKS: SECURITY AND RATINGS

WWW.LLOYDS.COM/2006RESULTS

Financial strength: the chain of security
Lloyd's unique capital structure, often referred to as the 'chain of security', provides excellent financial security to policyholders and capital efficiency to members. The Corporation is responsible for setting both member and central capital to achieve a level of capitalisation that is robust and allows members to earn reasonable returns. There are three 'links' in the chain: the funds in the first and second links are held in trust, primarily for the benefit of policyholders whose contracts are underwritten by that member.



All figures as at 31 December 2006.

Members underwrite for their own account and are not liable for other members' losses. The third link contains mutual assets held by the Corporation which are, subject to the approval of the Council, available to meet the insurance liabilities of any member. Further information regarding the security underlying policies at Lloyd's can be found on page 55.

First link: syndicate level assets
All premiums received by a syndicate are held in premiums trust funds, and are the first resource for paying policyholder claims of that syndicate.

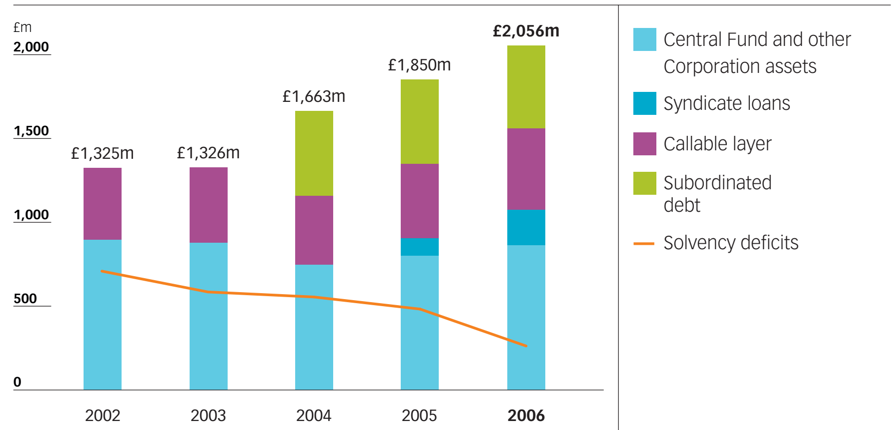
Members must have sufficient funds in trust for their syndicate(s) to meet all claims, expenses and outgoings, such as reinsurance premiums and underwriting expenses. Funds are generally held in liquid assets to ensure that liabilities can be met as they fall due.

Profits are not released until full provision has been made for estimated underwriting liabilities. The reserves of each syndicate are subject to annual independent audit and actuarial review.

Second link: members' funds at Lloyd's
Each member, either corporate or individual, must provide capital to support its underwriting at Lloyd's. In accordance with the FSA regime, each syndicate produces an 'Individual Capital Assessment' (ICA) stating how much capital it believes is needed to cover its underlying business risks. The FSA delegates the annual review of syndicate ICAs to the Corporation, although the FSA reviews a small sample of syndicate ICAs in order to validate the effectiveness of the reviews carried out by the Corporation.

The Corporation reviews each syndicate's ICA, using all the information held regarding the historical performance, business plans and risk appetite of that syndicate in assessing the adequacy of the capital level proposed. When agreed, each ICA is then 'uplifted' (by 35% for 2007) to ensure extra capital is in place to support Lloyd's ratings and financial strength. This uplifted ICA

CENTRAL SOLVENCY ASSETS*



* The aggregate value of the central resources of the Society, including the callable layer, for solvency purposes.

(known as the Economic Capital Assessment) for the syndicate is used to determine the 'funds at Lloyd's' that the syndicate's members must provide to support their underwriting. Members' funds at Lloyd's are held in trust by the Corporation, as readily realisable assets including cash, securities, letters of credit and bank and insurance company guarantees. If required, these assets can be used to meet any Lloyd's insurance liabilities of that member but not the liabilities of other members.

Third link: central assets
The Corporation's central assets are the third level of security. They provide strong protection to every Lloyd's policyholder and capital efficiency to the members who underwrite.

The Central Fund is funded by members' annual contributions, the subordinated debt issued by the Corporation in 2004 and syndicate loans, which are provided on a three-year rolling basis.

In addition to the Central Fund and assets of the Corporation, central assets may be supplemented by a 'callable layer' of up to 3% of members' current underwriting capacity. If required, these funds can be drawn from members' premiums trust funds.

Through detailed analysis, the Corporation determines the optimum level of central assets, seeking to balance the need for robust financial security against the members' desire for cost-effective mutuality of capital. In particular, the Corporation's sophisticated modelling stress tests each member's underwriting portfolio against a number of stress scenarios and a range of forecasts of market conditions. The Corporation's current central assets target for solvency purposes is £1.7bn, net of outstanding liabilities.

Members' contributions to the Central Fund are set at 1% of underwriting capacity for 2007, with a further 0.75% provided in the form of a syndicate loan which is expected to be repaid after three years. The Council of Lloyd's regularly reviews the central assets target and the level of contributions in light of the current financial position and forecasted needs, and will adjust the contribution levels if required.

Lloyd's ICA and solvency
The Corporation also prepares an ICA for Lloyd's overall, using the FSA's six risk categories to examine the risks that are not captured in each member's ICA. The Corporation, for example, must consider the risks posed by a global pandemic or damage to the Lloyd's building itself.

In addition, the Corporation calculates and reports on the statutory solvency position of the Society of Lloyd's to the FSA. As at 31 December 2006, Lloyd's had an estimated solvency surplus of £1,794m.

Lloyd's ratings
The world's leading insurance rating agencies recognise Lloyd's strengths and robust capitalisation and currently rate Lloyd's as follows:

A.M. Best:	A (Excellent), Stable Outlook
Fitch Ratings:	A+ (Strong), Stable Outlook
Standard & Poor's:	A (Strong), Positive Outlook

The Lloyd's financial strength ratings apply to every policy issued by every syndicate at Lloyd's since 1993. In recent years, while the ratings of many insurers and reinsurers have been downgraded, our ratings have been resilient, reflecting our financial and competitive strength.

"THE RATING OF THE LLOYD'S INSURANCE MARKET REFLECTS THE ONGOING COMMITMENT OF CAPITAL PROVIDERS TO THE MARKET AND THE MAINTENANCE OF LLOYD'S STRONG COMPETITIVE POSITION, CAPITALISATION AND OPERATING PERFORMANCE."
Standard & Poor's, September 2006

DRAWING A LINE: THE EQUITAS DEAL

In October, Equitas, set up in 1996 to reinsure and run off Lloyd's 1992 and prior non-life liabilities, announced a deal with National Indemnity, an AAA rated subsidiary of Berkshire Hathaway. When fully implemented this deal will end the contingent legal liabilities of Lloyd's and bring finality to members reinsured by Equitas.

The transaction is in two phases. In phase one, which has been completed, National Indemnity has provided Equitas with an additional $5.7bn of reinsurance cover and has taken over the run-off of the Equitas reinsured liabilities. In phase two, Equitas will seek the transfer of the residual liabilities of reinsured names and certain Lloyd's subsidiaries to Equitas or to a special purpose company. The transfer of those liabilities will enable Equitas to purchase additional reinsurance protection from National Indemnity of up to $1.3bn. As part of the deal, Lloyd's will contribute a total of £90m.

STRATEGY – COMPETITIVE ENVIRONMENT AND FUTURE OUTLOOK

WWW.LLOYDS.COM/2006RESULTS

LLOYD'S PLAYS A SIGNIFICANT ROLE IN BOTH THE UK ECONOMY AND THE GLOBAL INSURANCE INDUSTRY. IT IS THE LARGEST SUBSCRIPTION MARKET, A RECOGNISED LEADER OF SPECIALIST UNDERWRITING AND THE WORLD'S THIRD LARGEST NON-LIFE REINSURER*.

Lloyd's competitive position
Lloyd's has a strong competitive position, derived from the capabilities of the businesses in the market and the benefits and services provided by the Corporation:

- Businesses trading at Lloyd's benefit from access to a worldwide licence network, a market-wide security rating and an established reputation and brand.
- Lloyd's is primarily a subscription market, and is unique in having a back office infrastructure to support this.
- Members at Lloyd's benefit from capital efficiency derived from a several and mutual capital framework.
- Lloyd's businesses bring an outstanding breadth and depth of specialist underwriting expertise.
- New businesses can start up with immediate access to business flows and the backing of a secure rating.

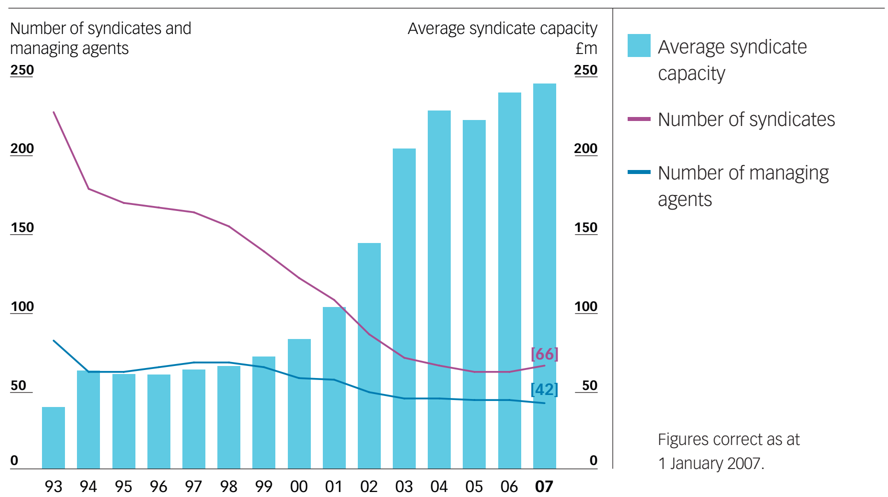
To develop and strengthen its competitive position, Lloyd's needs to address structural issues and trends both within the market and in the wider industry.

Significant trends in the global insurance environment

- The insurance industry operates in an increasingly demanding regulatory environment which, while increasing transparency, adds to costs and workload.
- Consolidation and regulatory scrutiny are driving structural and business model changes in the broker market.
- There is an increasingly complex underwriting cycle, where loss trends and market forces are driving cycles with characteristics that differ by line of business and territory. At the same time, there are increasing demands from shareholders and rating agencies for an effectively diversified portfolio.
- Regional insurance markets are increasing in importance as less complex business is placed closer to home. Other markets for complex or international business are also growing. These trends are fuelled by the increasing mobility of global capital.
- There is an increasing interplay between insurance and the international capital markets (eg securitisation).

* 'Lloyd's is the world's third largest non-life reinsurer', Standard & Poor's Global Reinsurance Highlights 2006.

SYNDICATES AND MANAGING AGENTS



Figures correct as at 1 January 2007.

Trends in participation at Lloyd's

- The size and number of managing agents and syndicates operating at Lloyd's have changed markedly. Over 400 syndicates in 1980 have become 66 in 2007, with average capacity rising from £6m to £244m. The majority of managing agents are now owned by listed companies or backed by insurance-related capital.

- There have been major changes in the nature of capital backing with a significant reduction in private capital (from 45% to 16% of market capacity in the last ten years).

- Insurance businesses have more choice. Lloyd's is not the only market where large and specialist insurance business is transacted. 68% of Lloyd's capacity is now controlled by organisations with at least one underwriting platform outside Lloyd's.

- The managing agents operating at Lloyd's vary considerably (eg from subsidiaries of global, multi-platform insurers to specialist Lloyd's-only businesses). As such, our offer must be tailored to meet the differing needs of all users.

Our vision is aimed at meeting these challenges and is delivered through a rolling Three-Year Plan, reviewed and tested on an annual basis.

IN CONTROL: RISK MANAGEMENT TOOLKIT

Risk is the business of Lloyd's. An in-depth understanding and control of risk is essential for keeping exposure within a set risk appetite. Yet, as every business at Lloyd's is unique, there is no one-size-fits-all answer to risk management in the market.

After consultation with the Lloyd's Market Association Risk Management Committee, in July 2006, Lloyd's launched a comprehensive Risk Management Toolkit (RMT), supporting and promoting best-practice risk management. Using tools, techniques and templates, worked examples and practical advice, the RMT is designed so each business can tailor it to its individual needs. By comparing current practice against the toolkit, businesses can undertake a gap analysis and can also use it as a training tool. It was one of only four non-FSA reference materials quoted in the FSA's recent briefing 'Risk Management in Insurers'.

It's not just for insurance risks: businesses face a variety of other risks as part of their day-to-day operations and the RMT is designed to help businesses manage these non-insurance risks as well. The toolkit will evolve alongside industry practices, allowing Lloyd's to provide market participants with ever more sophisticated tools to manage their risks. The RMT is available on www.lloyds.com/rmtoolkit

OUR VISION IS TO BE THE PLATFORM OF CHOICE FOR INSURANCE AND REINSURANCE BUYERS AND SELLERS TO ACCESS AND TRADE BOTH SPECIALIST AND LARGE PROPERTY AND CASUALTY RISKS.

Key features

Supporting the vision, there are a number of key features of Lloyd's and the way we operate. These are detailed in full in the Three-Year Plan 2007-2009 at www.lloyds.com/threeyearplan. They include:

- Lloyd's is a specialist property and casualty subscription market. Other types of business can be written but the subscription market is at Lloyd's core.
- Mutuality of capital will remain. It helps Lloyd's to be more capital efficient than many competitors while underpinning our licences and ratings.
- Lloyd's success will be seen in profitable cross-cycle growth. This does not necessarily translate into year-on-year growth as it may be necessary to contract at certain points in the underwriting cycle.
- Lloyd's is a disciplined marketplace where the standards of the best businesses will become those of the market as a whole.
- Lloyd's welcomes diversity of business types and diverse sources of capital.
- The Underwriting Room is central to the operation of an effective subscription market and will continue for the foreseeable future.
- Lloyd's distribution model consists of wholesale and retail brokers, coverholders, service companies and international, centrally-sponsored underwriting initiatives (eg Lloyd's Asia). While no fundamental changes are envisaged to the model, the supporting processes and operations are inadequate and will be reformed.
- The not-for-profit business model of the Corporation will remain. Its main function is to lead or support changes to ensure the market operates in the most commercially attractive and efficient manner.

THE BENEFITS

Taken as a whole, the intended benefits of Lloyd's to market participants will be:

For managing agents: A central core of standards, security and market access, plus the provision of flexible tools and services which can be used as appropriate to execute individual strategies.

For brokers: A secure market with diverse participants with differing strategies and risk appetites, where policyholders benefit from Lloyd's reputation and service quality.

For members: An opportunity to participate, within a capital efficient framework, in businesses with the ability to maximise their performance in the specialist insurance market.

The Three-Year Plan

The rolling Three-Year Plan is aimed at delivering our vision. The current plan covers 2007-2009 and identifies the five key benefits of Lloyd's as a place to do insurance business and the steps being taken to strengthen these attributes and improve Lloyd's position in the global insurance market.

1. PERFORMANCE FRAMEWORK >

An overarching, consistent performance management framework across all key aspects of a managing agent's business, that supports the achievement of superior operating returns as part of an effective enterprise risk model.

2. CAPITAL ADVANTAGES >

A capital framework in which the benefits of mutuality demonstrably outweigh the costs and which cannot easily be duplicated outside Lloyd's.

3. SECURITY AND RATINGS >

Stable insurer financial strength ratings (currently at least 'A') necessary to attract specialist and large property and casualty business.

4. MARKET ACCESS >

Cost-effective, easy access to the world's major markets supported by a global brand and licence network.

5. OPERATIONS AND PROCESSES

Integrated processes and technology, standards and value-added services that enable managing agents, brokers and other producers to trade, irrespective of location, cost-effectively and efficiently.

Each benefit is designed to be tailored by market participants to meet individual needs and characteristics. There is a central core to the offer comprising minimum standards, a mutual and several capital framework, licences, the market rating and some central services. Beyond this, we will offer additional services and infrastructure, which can be used as appropriate by individual managing agents (eg distribution channels, treasury services).

A FAIR WIND: SCOTTISH POWER

Climate change is challenging the world to find viable alternatives to fossil fuels. Wind power has huge potential but demands major effort and investment, which in turn depends on high-quality insurance cover. In 1999, a consortium of Lloyd's syndicates anticipated the trend and began to offer cover for wind power operators. Today Lloyd's has a 25% share of the global market in this specialist risk class.

One of our biggest clients in this class, Scottish Power, has invested in major wind energy projects around the world as it positions itself in the changing global energy market. Their portfolio of projects, including sites in the US, has a combined value of more than £1,000m.

For Scottish Power, Lloyd's offers three major advantages. One is the breadth and scope of the cover. Another is the flexibility offered by licences all over the world – important when you are delivering projects in multiple locations. Finally, there is capacity: Lloyd's can take on the largest individual risks. With its projects covered at Lloyd's, Scottish Power is well placed to benefit from the trend towards green energy.

STRATEGY – THE FIVE BENEFITS

WWW.LLOYDS.COM/2006RESULTS

The five benefits at the centre of our strategy are regularly tested and reviewed in the light of feedback from the market, progress and the evolving external environment. Each benefit is set out below in more detail. These descriptions outline the desired position for each benefit. We are close to this state for some benefits, such as Security and Ratings, whereas for others, notably Operations and Processes, much remains to be done.

A detailed description of the workstreams to deliver each benefit and a progress update as at the end of 2006 can be found at www.lloyds.com/threeyearplan (see also pages 7 to 9 of the Chief Executive Officer's statement).

1. Performance framework

An overarching, consistent performance management framework across all key aspects of a managing agent's business, that supports the achievement of superior operating returns as part of an effective enterprise risk model.

- A performance framework that recognises, reacts to and rewards the relative performance of individual managing agents and raises standards across the market.
- The provision of differentiated levels of support and intervention by the Corporation, depending on the capabilities of each managing agent.
- Business planning tools that enable managing agents, their capital providers and the Corporation to better understand the risks and performance potential of individual businesses.
- The provision of relevant data and information which allows managing agents to benchmark, plan, measure and manage their business.
- A framework for the expert management of complex and subscription claims in order to further enhance the claims handling capability of the market.

2. Capital advantages

A capital framework in which the benefits of mutuality demonstrably outweigh the costs and which cannot easily be duplicated outside Lloyd's.

- A risk-adjusted capital-setting process, based on the FSA's ICAS regime, that reflects the level of exposure of the mutual assets to an individual business and 'commercially prices' this accordingly, taking into account the market's ratings requirements and each managing agent's enterprise risk management capability.
- Capital structures, including mutual assets, that can be tailored and give managing agents the opportunity to benefit from strong ratings and obtain increased returns for their capital providers, compared to trading on a stand-alone basis.
- The cost of maintaining Lloyd's mutual assets targeted to be on average less than 1% of gross written premiums across the insurance cycle.
- A capital framework that actively assists managing agents in accessing flexible sources of capital at a competitive cost.
- Managing agents able to increase their capital resources expeditiously to take advantage of business opportunities as they arise.
- Managing agents able to pay out excess funds through bi-annual release of profit from their syndicates and capital providers able to reduce their commitment where surplus capital exists.
- Asset admissibility criteria that allow flexibility in how capital is provided which enhances potential investment returns.

OTHER SIGNIFICANT ACTIVITIES FOR 2007

The Three-Year Plan 2007-2009 also outlines a number of other significant issues outside the five benefits which are of major importance to the current and future attractiveness of Lloyd's. These include:

- Work to reduce the actual and perceived complexity of operating at Lloyd's, including:
  - Reviewing managing agents' reporting requirements.
  - Revising the Lloyd's/FSA oversight protocol.
  - Developing processes to allow syndicates to start mid-year.
  - Introducing a more streamlined business planning and capital timetable.
- Analysis to understand and address actual and perceived cost disadvantages of the Lloyd's platform.
- Developing relationship management and marketing strategies for both existing and potential new users of the Lloyd's platform.

3. Security and ratings

Stable insurer financial strength ratings (currently at least 'A') necessary to attract specialist and large property and casualty business.

- Within reasonable bounds of expectation, Lloyd's maintains its ratings across the insurance cycle.
- Lloyd's has the capability to survive a '1 in 200' industry-level event and enable managing agents to trade forward with a secure rating.

4. Market access

Cost-effective, easy access to the world's major markets supported by a global brand and licence network.

- A turnkey licence structure that offers access to the major markets in specialist and large property and casualty risks.
- International offices that provide business development and support services to managing agents.
- A leading global brand and reputation, which helps managing agents to win and retain preferred business.
- Access to multiple distribution channels capable of supporting acquisition costs that are commercially comparable with those of non-Lloyd's businesses.
- An attractive platform for brokers and other producers of business to place risks in the market in terms of cost and ease of access.
- Co-ordinated reporting by the Corporation to regulatory and tax authorities to protect the licences and reduce the burden on individual managing agents.
- Local underwriting operations in worldwide markets open to local capital providers as well as existing capital providers.
- Access, through the Lloyd's network, to a pool of insurance talent and a choice of service providers and professional firms with insurance knowledge and expertise.

5. Operations and processes

Integrated processes and technology, standards and value-added services that enable managing agents, brokers and other producers to trade, irrespective of location, cost-effectively and efficiently.

- Business processing standards and quality targets, aligned with the wider Performance Framework, that support the effective operation of the market.
- Simple and cost-effective processes that support multiple distribution channels.
- Brokers and other producers are able to place subscription business, dealing with Lloyd's underwriters as one market, using non-duplicative and non-repetitive processes.
- A market that operates primarily with electronic data capture, enabling data exchange between firms to international standards.
- Streamlined provision of relevant data to the Corporation, sourced once and used many times.
- Proven, resilient technology used to provide services and systems relevant to the needs of each managing agent and the Corporation.
- Where demand and cost efficiencies exist, centrally sponsored, value-added services which leverage Lloyd's collective strength.

WIDENING CHOICE: THUNDERBIRD RE

The availability and affordability of reinsurance cover for US catastrophic risk is an important issue in the Lloyd's market. Syndicates at Lloyd's are now exploring new types of loss mitigation and looking at capital markets alternatives to supplement traditional sources of reinsurance.

Last year, Lloyd's widened the market's options further, with the establishment of Thunderbird Re, a new framework to provide Lloyd's syndicates with a cost-effective way to access capital markets through the issuance of catastrophe-linked bonds ('cat bonds'). Thunderbird Re is a special purpose reinsurer dedicated to the Lloyd's market. It has been uniquely designed to support Lloyd's syndicates either on a bespoke or collective basis.

A working party of managing agents is now meeting to determine the size and nature of syndicates' cat bond requirements. It's an example of Lloyd's exploring alternatives and providing options for the market to make optimum choices.

CORPORATE RESPONSIBILITY: MAKING A DIFFERENCE

WWW.LLOYDS.COM/2006RESULTS

LLOYD'S BELIEVES IN PROVIDING THE BEST WORKPLACE FOR OUR PEOPLE, SUPPORTING OUR NEIGHBOURING COMMUNITIES AND MINIMISING OUR ENVIRONMENTAL IMPACT.

We continue to take these responsibilities extremely seriously and respond to other new issues that emerge. Our efforts begin at home, at One Lime Street and at Chatham, where we aim to make Lloyd's an inspiring, fair and diverse place to work. We strive to give our people the opportunities to fulfil themselves both in and outside of work. We are committed to playing our part in the UK effort to cut carbon emissions and improve our environmental impact.

Social and ethical issues matter at Lloyd's. The Lloyd's Community Programme supports our neighbours in Tower Hamlets and Hackney (some of the poorest areas in the UK) and encourages people and businesses in the market to get involved. We also back charitable causes in the UK and abroad through our three grant-making charities and encourage both Corporation employees and market participants to support some of society's most vulnerable people.

Our Corporate Responsibility policy sets out our thinking in this area and our annual Corporate Responsibility plan helps to embed these attitudes into our decision-making – and how we work every day.

Putting it into practice

We frequently review our Corporate Responsibility policy and produce an annual action plan. In 2005, we compared how we do things at Lloyd's with best practices at other leading UK organisations. Our 2006 action plan focused on four key areas: responsibilities in the marketplace, to our employees, to the environment, and to the wider community.

Coming together

The Corporation recognises that it is the responsibility of each company in the market to develop their own approach to corporate responsibility, focusing on the issues that matter most to them. During 2006, however, a number of initiatives by the Corporation, including the 360 Risk Project on Climate Change, brought market participants together to share ideas and best practices. We know that by working together across the market we can have a bigger impact than we can alone.

Community – at home and abroad

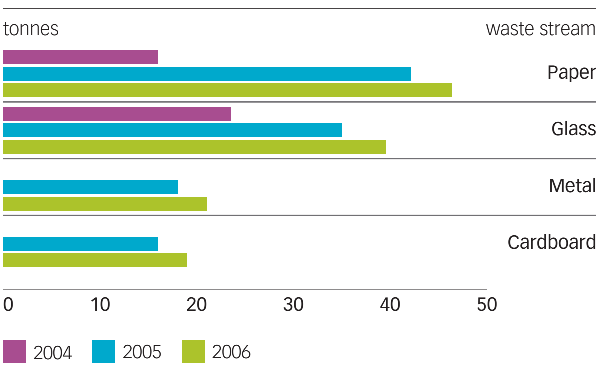
We recognise our responsibility to neighbouring communities in London. The Lloyd's Community Programme has been supporting our local London boroughs since 1989. Our three charitable trusts also offer support in the UK and, reflecting the global nature of our business, overseas. Find out more on pages 28 and 29.

The Corporation also backs employees and market participants in their charitable works. In 2006, a new Charitable Involvement policy was created to encourage employees to give, raise funds and volunteer to help charities. As well as time-off for volunteer activities and a payroll giving scheme, we introduced a matched funding scheme, supporting employees' charity fund raising efforts.

Green issues: managing our environmental impact

With 88% of the Corporation's (including its subsidiaries) employees based in our two UK business locations, at One Lime Street and in Chatham, the Corporation's direct environmental impact is relatively

WASTE RECYCLED FROM ONE LIME STREET



small. However, we believe we have a clear responsibility to manage it as effectively as possible.

While the Lloyd's building was ahead of its time in including design features with energy efficiency specifically in mind, we are committed to maximising energy efficiency and cutting carbon emissions. To this end we invited the Carbon Trust to undertake an audit of energy use at One Lime Street. We are now aiming to cut energy use further in 2007 and have set ourselves resource reduction targets, including improving the efficiency of our heating systems.

Fidentia House, the Corporation's new building in Chatham, has received a 'Very Good' environmental rating from the Building Research Establishment. It includes features such as occupant-sensitive lighting, heat recovery systems and localised heating systems with individual time and temperature controls.

Our approach goes beyond energy to cover waste, cleaning, catering, procurement, transport and communication. We work with suppliers, tenants, staff and market participants on a number of environmental initiatives.

Last year, we worked with our in-house caterers, Avenance, to introduce more biodegradable and recycled products. We began the 'A Greener Lloyd's' campaign to engage Corporation employees in environmental issues. We also issued Best Practice Environmental Guidelines to employees and set up a network of 'environment champions' across the Corporation. Since 2004, we have cut the volume of waste going into landfill from the Lloyd's building by 10%. Over the same period we have increased the amount we recycle from 12% to 32% of total waste.

Leading on climate change

Climate change was one of the biggest business issues of 2006 and will continue to be so going forward. Given the nature and extent of the weather risks insured at Lloyd's, climate change is an especially important subject for the Corporation, market participants and those directly affected.

In June 2006, we launched the 360 Risk Project on Climate Change, bringing together experts from the insurance industry and the worlds of business, politics and academia. The aim is to better understand and ultimately manage the risks posed by climate change. As part of this work, the Corporation established an Emerging Risks team to inform and actively engage with the market's efforts in preparing for emerging risks, including climate change.

The Corporation is a contributor to the finance group of the London Climate Change Partnership, an initiative backed by the Mayor of London to encourage the Financial Services industry to incorporate climate change into its business planning.

A fair place to work: talent and diversity

The Corporation recognises that people are our most valuable asset. We are committed to treating staff with fairness, respect and integrity. We have updated policies covering recruitment, remuneration, work/life balance, equal opportunities, diversity, flexible working practices, training and development, communications, health and safety, physical and job security and grievances.

It is vital for Lloyd's and for the wider insurance industry to continue to attract and retain the best talent. Diversity is an important part of this. In 2006, the Diversity Steering Group held discussion forums for employees and set up a new dedicated area on the intranet featuring policies, case studies and resources on diversity.

We continued to issue computer-based training on 'Diversity at Work' for all new employees and hosted discussion groups with firms in the market to share ideas and best practices. We also hosted an event, Talent and Diversity, for people from the Lloyd's market and the wider industry to discuss this issue.

A revised Work/Life Balance policy introduced a new sabbatical policy to enable employees to satisfy their own personal development ambitions within the context of developing a career over the long term.

CLIMATE CHANGE – A 360 VIEW

The first series of Lloyd's 360 Risk Project focused on catastrophe trends and what we can do to anticipate and respond to these risks.

As part of our efforts to be involved in the latest climate change research and thinking, the Corporation is funding a PhD post specialising in climate change, working with Professor Lenny Smith at the London School of Economics and Political Science (LSE). This will look specifically at what robust decisions the insurance industry could make based on mathematical models of the climate. Ideally the project will contribute to two-way communication, feeding back to climate scientists on the sort of information that is useful for decision makers. Our aim is to increase the industry's understanding of climate models so that underwriters can better understand the risks and prepare for them.

The Corporation has also become a core member of the Lighthill Risk Network, a network that has been established in response to the need for greater technical assessments of the increasing risks facing insurers. Bringing together the worlds of commerce and scientific research, the Lighthill Risk Network aims to play a dynamic role by enhancing knowledge transfer into insurance from academic, government and professional experts at the forefront of risk-related research, including climate change.

CORPORATE RESPONSIBILITY: CHARITY INITIATIVES

WWW.LLOYDS.COM/2006RESULTS

THROUGHOUT OUR HISTORY, LLOYD'S HAS BELIEVED IN GIVING CHARITABLE SUPPORT TO SOME OF THE MOST VULNERABLE IN SOCIETY, IN THE UK AND AROUND THE WORLD.

In 2006, the Lloyd's Charities Trust continued its partnership with three major charities at home and abroad. The Lloyd's Patriotic Fund supported a number of ex-servicemen and women and their dependants, while the Lloyd's Tercentenary Foundation backed innovative scientific research.

Lloyd's Charities Trust
Lloyd's Charities Trust was established in 1953 to make charitable donations on behalf of the Lloyd's market. In 2006, we continued our three-year partnerships with Macmillan Cancer Support, Hope and Homes for Children and St Giles Trust – charities focusing on health, children and young people and social welfare.

Macmillan Cancer Support
Macmillan Cancer Support provides medical and emotional support for people living with cancer. Funding from the Lloyd's Charities Trust is enabling the charity to expand the Macmillan CancerLine, a national telephone helpline service, so it can respond better to the needs of children and young people. It has also helped launch a bilingual line.

When Macmillan Cancer Support applied to the Lloyd's Charities Trust for funding, over 50% of CancerLine calls were from or about a child or young person – yet there was no dedicated support service for young people affected by cancer. During our three-year partnership, Macmillan has trained CancerLine staff and volunteers in working with young people and produced materials giving practical information.

In October 2006, YouthLine was officially launched by television presenter Fearne Cotton. The free national telephone helpline offers information and support for 12 to 21-year-olds who have questions or concerns about cancer. YouthLine also gives information to teachers and health professionals who want advice and information for young people. In the first three months after its launch, the YouthLine dealt with over 200 calls from young people and the popularity of the service continues to grow. In December 2006, the YouthLine pages on Macmillan's website received 6,047 visitors, up from 542 in November.

Macmillan's CancerLine service for minority and ethnic groups also had a successful year, recruiting three bilingual staff fluent in Punjabi, Hindi and Urdu. The service launched in March 2007 and is directing callers towards information and services available to them and their families.

Taking part
In August 2006, women from across the Lloyd's market showed their support for Macmillan by taking part in the Hydro Active Women's Challenge 5km run in Hyde Park, London. Twenty-two women including underwriters, brokers and Corporation staff joined the 20,000 runners.

In September, underwriters and brokers took part in the World's Biggest Coffee Morning. The event was held in the Underwriting Room at Lloyd's, where, over coffee and cake, people could make donations to Macmillan and learn about its work. Simultaneous

A HELPING HAND IN 2006

363 children, young mothers and families in Sierra Leone helped by Hope and Homes for Children.

7,006 calls and visitors to Macmillan YouthLine cancer information service since its launch.

65 prisoners have volunteered as Peer Advisors and completed NVQ Level 3 in Advice and Guidance under the St Giles Trust Peer Advisor Scheme.

185 special grants and annuities provided to ex-service men and women, widows and dependants through Lloyd's Patriotic Fund.

4 academic research fellowships supported by Lloyd's Tercentenary Foundation.


Image courtesy of HHC

events were also held in ten companies from the market and at our Chatham office in Kent.

Hope and Homes for Children
Hope and Homes for Children (HHC) works to transform the lives of orphaned and homeless children in Central and Eastern Europe and Africa by providing them with the love of a family and the security of a home. The Lloyd's Charities Trust contributes to HHC's work in Sierra Leone, supporting the country's poorest children left vulnerable after a decade of civil war.

HHC has transformed the lives of children in Sierra Leone since 1994, helping families back to self-sufficiency. The partnership with Lloyd's helps to provide childcare services in the capital, Freetown and the southern district of Bonthe. In Bonthe, teenage mothers are provided with childcare advice as well as schooling or vocational training so that they have the skills to care for their babies and plan for their futures.

St Giles Trust
St Giles Trust helps disadvantaged people and the homeless. Due to lack of support, ex-offenders often find themselves in a cycle of homelessness and re-offending. Funding from the Lloyd's Charities Trust is supporting a new Peer Advisors Scheme in seven prisons in Kent and one young offenders institution, helping short-term prisoners with housing advice and guidance on how to get back on their feet after release and break the cycle of re-offending.

The project provides training for prisoners up to NVQ Level 3, giving them a qualification and allowing them to act as volunteer Peer Advisors, providing housing and resettlement advice to vulnerable short-term prisoners. In 2006, 65 prisoners volunteered as Peer Advisors and completed the NVQ Level 3 in Advice and Guidance and the project will now be expanded into further prisons.

Lloyd's Patriotic Fund
For more than 200 years the Lloyd's Patriotic Fund has provided financial assistance to former servicemen and women, their widows and dependants. With conflicts continuing in Iraq and Afghanistan, the number of ex-servicemen and women requiring financial support continues to grow.

In 2006, the Fund increased its financial provision to help 95 former servicemen and women in need, in association with charity SSAFA Forces Help. In addition, the fund provided annuities to top up low incomes for 45 WWII ex-servicemen and their widows.

The Lloyd's Patriotic Fund also supported 31 Gurkha pensioners and 14 children of service personnel at nominated schools and help was given towards the rebuilding and refurbishment of the veterans' accommodation at the Royal Hospital, Chelsea.

Lloyd's Tercentenary Foundation
Lloyd's Tercentenary Foundation is a charitable trust, established to fund education and research in fields of medicine, science, engineering and the environment. In 2006, the foundation provided financial support for two post-doctoral research fellows of outstanding promise. A further two candidates were selected in July to commence two-year fellowships in October 2006.


Image courtesy of Macmillan Cancer Support

TALKING ABOUT CANCER – YOUTHLINE

Macmillan's YouthLine, which has been supported through funds from the Lloyd's Charities Trust, receives calls from young people diagnosed with cancer and also from young people who have had a friend or family member diagnosed. Whatever the situation, the young people are often distressed and confused and they need to talk.

Eighteen-year-old Jane* from Newcastle has benefited from the service. She said, "I'd just started at university when my Mum was diagnosed with breast cancer. As well as worrying about her, I felt terrible being so far away from home and that I was letting my family down by not being there.

"Speaking to someone on the YouthLine really helped me get it in perspective. We talked about what was happening to my Mum, what the rest of the family was going through and how I could go and visit my Mum while not having to feel guilty about wanting to live my life. It just felt good to tell someone how I felt."

* The name has been changed.

CORPORATE RESPONSIBILITY: LLOYD'S COMMUNITY PROGRAMME

WWW.LLOYDS.COM/2006RESULTS

A RECORD YEAR IN 2006 WITH MORE VOLUNTEERS AND MORE INITIATIVES TO BENEFIT PEOPLE IN EAST LONDON.

The Lloyd's Community Programme was set up in 1989, to mobilise the time, skills and resources of companies and individuals in the market and Corporation employees to help improve the opportunities and environment in our neighbouring East London boroughs.

In 2006, over 850 volunteers from 77 Lloyd's market companies and the Corporation took part in a wide range of opportunities. Education support in schools, where volunteers give their time to help pupils with literacy, numeracy or language skills, is the mainstay of the volunteer programme.

A sporting chance

Lloyd's is also creating sporting opportunities for local schools. In May, 180 children competed for the first Lloyd's Football Cup at the Leyton Orient Community Sports Grounds in Waltham Forest. Volunteers partnered up with local primary schools to provide coaching in the months leading up to the event and helped run the tournament. In July, more volunteers supported the Lloyd's Cricket Cup at Victoria Park, Hackney, which involved over 350 children.

Through the Lloyd's Community Programme, Brit Insurance, a Lloyd's managing agent, took more than 100 children from Hackney and Tower Hamlets to spend a day at the Brit Insurance Oval cricket ground in London in June. The children were coached by Surrey coaching staff and former England captain Alec Stewart.

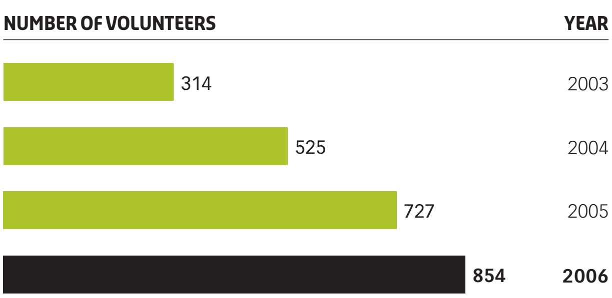
Educational successes, employment challenges

2006 was a year of achievement for Tower Hamlets schools, with primary school children (aged 11) achieving above the national average in both English and Maths. At secondary level the improvement in GCSEs continued: the number of pupils achieving five GCSE grades A*-C, including Maths and English in Year 11 (16-year-olds) increased from 30.2% (2005) to 34%. Tower Hamlets' primary and secondary schools have improved a great deal in the last ten years and Lloyd's Community Programme volunteers have played a part in this success through helping with literacy and numeracy.

Employability, however, remains a real challenge. For many pupils in the borough, improvements in grades are not necessarily translating into good jobs. Tower Hamlets has the highest unemployment rate in London (12.7% compared to 5.5% nationally). The number of young people not in employment, education or training in the borough is estimated at 12.3% in 2006 – significantly higher than other parts of the country.

Recognising this challenge, the Lloyd's Community Programme intensified its focus on employability and work-related learning. In August, a one-day introductory course on insurance and the Lloyd's market was held at One Lime Street, staged with the Tower Hamlets Summer University. Fifteen young people had the chance to spend

LLOYD'S COMMUNITY PROGRAMME VOLUNTEERS



time in the Underwriting Room experiencing work as either a broker or an underwriter. We will continue this initiative, especially in Hackney, which faces similar challenges to Tower Hamlets.

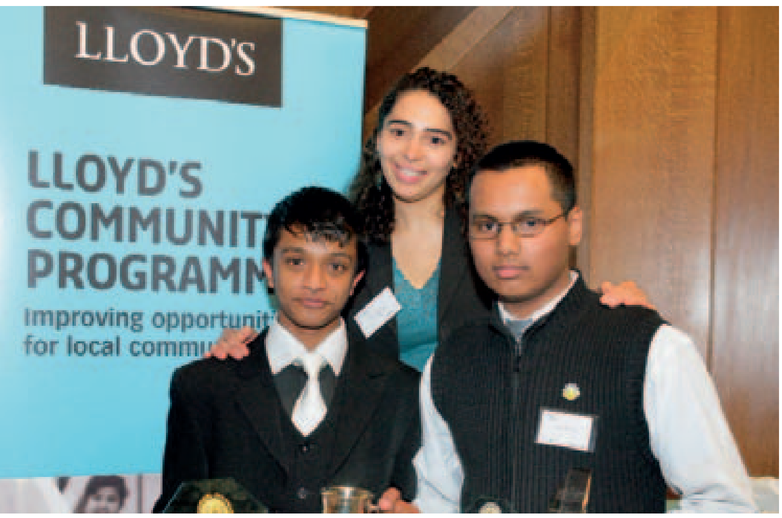
Summer jobs, seminars, business mentoring
We also worked with the City of London Business Traineeship Programme, run by The Brokerage, a charity which helps young people from inner city London find work experience and jobs. In January, a seminar on the insurance sector for 25 graduates was held at Lloyd's. During the summer, a number of Lloyd's market companies accepted students on extended work placements. Lloyd's was also delighted to host the City of London Business Traineeship of the Year Awards.

The Lloyd's Community Programme continues to support regeneration in East London through the East London Small Business Centre. A loan fund set up by Lloyd's with an initial investment of £50,000 in 1987 has been successfully loaned and recycled to help 126 small businesses off the ground, which would have otherwise been unable to raise the money. The funding also enabled four-day training courses for potential business entrepreneurs, attended by 800 people during 2006.

Five senior managers from the Lloyd's market worked with the Bromley-by-Bow Centre, mentoring entrepreneurs who are starting up social enterprises. Fluid IT in Hackney is one such social enterprise that has benefited from this mentoring programme. Fluid IT invests in the local community by providing IT support and services to businesses in East London and employment to local people.

Thank you: the Lloyd's Community Programme member companies
The Lloyd's Community Programme is able to undertake its work in the East London community thanks to the support of the following market companies and service providers:

- ACE European Group
- Advent Underwriting Limited
- Alexander Forbes
- Amlin plc
- Aon Limited
- Ascot Underwriting Limited
- Atrium
- BMS Group Limited
- Barlow Lyde & Gilbert
- Beazley Furlonge Ltd
- Benfield
- Bowood Partners Limited
- Brit Insurance Holdings plc
- Canopius Managing Agencies Limited
- Capita Insurance Services
- Catlin Underwriting Agencies Limited
- Chaucer Syndicates Limited
- CMGL
- Denis M Clayton & Co Limited
- Ernst & Young
- Faraday Underwriting Limited
- Hardy Underwriting Group plc
- Heath Lambert Group
- Hiscox plc
- Holman's
- HSBC Insurance Brokers Limited
- Ince & Co
- Jardine Lloyd Thompson Group plc
- Kendall Freeman
- Kiln plc
- LeBoeuf, Lamb, Greene & MacRae
- Liberty Syndicates
- Lloyd's
- Marketform Group
- Marsh Limited
- Mazars
- Miller Insurance Services Limited
- Munich Re Underwriting Limited
- Navigators Underwriting Agency Ltd
- Omega Underwriting Agents Ltd
- PricewaterhouseCoopers
- QBE Insurance Group
- Reynolds Porter Chamberlain
- St Paul Travelers Foundation
- Talbot Underwriting Ltd
- Wellington Underwriting Limited
- Xchanging Claims Services
- Xchanging Ins-sure Services
- XL London Markets Ltd



IN HIS OWN WORDS: TOWER HAMLETS PUBLIC SPEAKING COMPETITION

Fifteen-year-old Rabby Fozlay was the winner of the 2006 Tower Hamlets Schools' Public Speaking Competition, sponsored by the Lloyd's Community Programme. The competition, run by Tower Hamlets Education Business Partnership, is open to 14-15-year-olds. The finals, held in Lloyd's Old Library, saw nine students debate the topic of education reforms.

Rabby, a student at Swanlea Secondary School, impressed the judges with his thinking and eloquence. When he revealed his ambition to become a barrister, one of the judges, a former barrister, offered to arrange a mini pupillage for him. He also went on to meet HRH Prince of Wales, who was visiting Lloyd's in July and gave a speech at Lloyd's Community Programme AGM in December.

"The competition gave me a platform to prove I am as able and dedicated as any of my age in the country," said Rabby. "It provided me with a means to represent every other pupil at my school and show why Tower Hamlets' schools are progressing fast."

Rabby Fozlay (left) with Monica Gomes of Tower Hamlets Education Business Partnership and Hanif Ahmed (right), winner of the Ralph Charan 'Most Improved Speaker' trophy.

MARKET RESULTS

WWW.LLOYDS.COM/2006RESULTS

MARKET COMMENTARY

WWW.LLOYDS.COM/2006RESULTS

2006 HIGHLIGHTS

- Lloyd's gross premium income in 2006 increased 9.6% to £16,414m (2005: £14,982m).
- Lloyd's achieved a profit before tax of £3,662m (2005: loss of £103m) and a combined ratio of 83.1% (2005: 111.8%) reflecting the strong underlying performance and low loss incidence during the year.
- Hardening underwriting conditions in US catastrophe exposed business and stable or softening conditions elsewhere.
- In aggregate, claims development in respect of prior year reserves has been better than projected and has led to an overall surplus of £270m (2005: £14m).

2006 COMBINED RATIO

85.2%

ACCIDENT YEAR

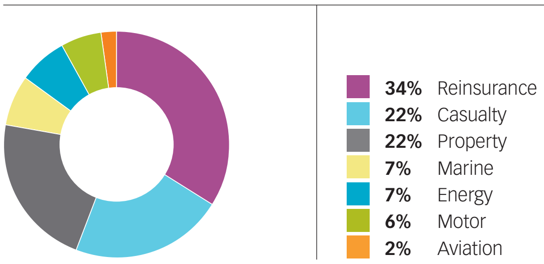
(2.1)%

PRIOR YEAR RESERVE MOVEMENT

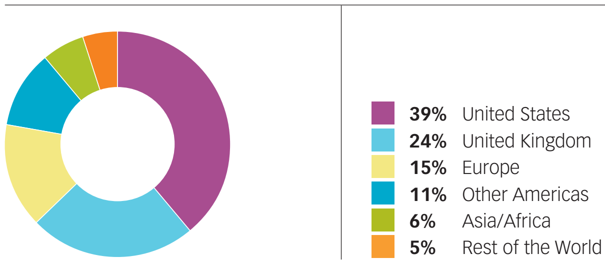
83.1%*

CALENDAR YEAR

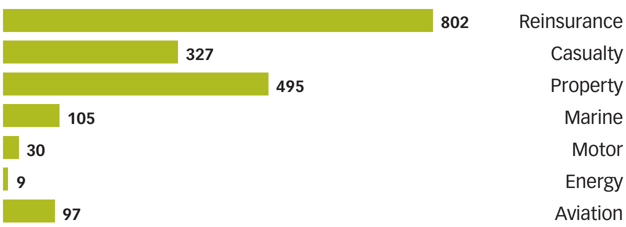
LLOYD'S BUSINESS BY CLASS



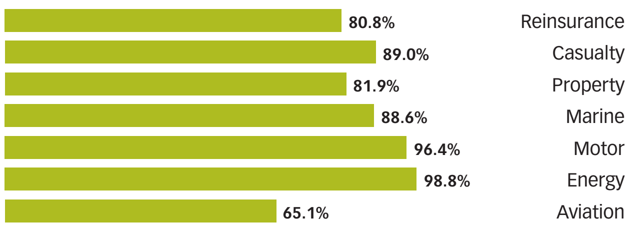
LLOYD'S BUSINESS BY REGION



LLOYD'S RESULT BY CLASS (£M)



LLOYD'S 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 2005 to overall net earned premiums in calendar year 2006.

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 48 and 52). The combined ratios 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.

Lloyd's reported excellent results for 2006 based on strong underlying performance across all major classes of business and the exceptional absence of major catastrophes. In addition, 2006 saw overall prior year claims development within projections and improved investment returns.

Following the record hurricane claims of 2004 and 2005, the US windstorm season defied predictions of above average activity. While 2006 was an exceptional loss-free year, the consensus view, including the opinions of RMS and scientists at Colorado State University, is that we remain in a cycle of above average North Atlantic hurricane activity.

The debate about climate change continues but it is a fact that the insurance industry will be affected by the increasing severity and frequency of extreme weather – a predicted side-effect of global warming. Lloyd's retains its risk appetite for providing coverage against extreme catastrophes with the focus remaining firmly on achieving the levels of return appropriate for the risks underwritten.

The US windstorm season was not the only area of major risk that passed quietly in 2006; non-catastrophe loss activity has been relatively benign despite significant individual claims in marine hull, cargo, cash-in-transit and airline markets.

Lloyd's achieved a profit for the financial year before taxation of £3,662m (2005: loss of £103m) in the pro forma financial statements (PFFS) and a combined ratio of 83.1% (2005: 111.8%). 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 48. The syndicate annual accounts reported an aggregate profit of £2,825m (2005: loss of £862m). These results are reported in a separate document (the Aggregate Accounts) and can be viewed on www.lloyds.com/financialreports. During 2006, certain syndicates changed their accounting policies in relation to foreign exchange resulting in a restatement of the comparative figures for 2005 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.

'Tale of two markets'

2006 saw an increase in gross premiums written of 9.6% to £16,414m (2005: £14,982m) driven by hardening of terms for catastrophe business, especially windstorm exposed risks in the US. However, we are currently seeing a 'tale of two markets'. Although rates have increased in wind-exposed catastrophe business in the US, non-catastrophe exposed business continues to soften. This has led to a clear disparity between the pricing of US windstorm exposed property risks and other classes, with many key casualty accounts reporting a third or fourth year of rate reductions. This makes good cycle management and underwriting discipline more important than ever.

The main classes of business where there is evidence of a pricing increase are those that were hit by the hurricane losses of 2004 and 2005. As a result, property direct, facultative and treaty, along with energy, have seen the biggest pricing changes and growth in gross premiums written. This demonstrates the flexibility of the Lloyd's market and its ability to rapidly position capacity in order to take advantage of attractive terms supported by the diversity of its underwriting and an efficient capital base.

The cost and availability of reinsurance

In 2006, reinsurance capacity was in short supply for peak US catastrophe exposures, with increased prices and reductions in coverage. Notwithstanding alternative forms of capacity such as Industry Loss Warranty covers and catastrophe bonds, there was a marked emphasis on reducing direct and assumed reinsurance aggregate exposure and reviewing the point at which policies attached. The relative lack of reinsurance capacity had a significant impact on the way in which business was underwritten as well as the risk appetite of the market.

Prior year surplus

In aggregate, claims development in respect of claims reserves for prior years has been better than projected leading to an overall surplus on prior years of £270m (2005: £14m).

Claims development on longer-tail business written in the soft market conditions of 1997-2001 has stabilised. Following four years of material reserve strengthening for these lines, particularly US casualty business, 2006 showed a stable result.

Surpluses have emerged on claims reserves set up for business written during 2002-2004, where claims development has been benign and within expectations. These surpluses have more than offset the increases in claim estimates for the 2005 US hurricanes. Demand surge has led to claims inflation and together with increased business interruption claims on the energy account, resulted in a charge of £415m during the year. This increase in ultimate net claims estimates to £3,724m (2005: £3,309m) reflects the size and complexity of the US hurricane claims.

The majority of our homeowner and commercial property claims in the affected states have been paid. Inevitably, however, with a loss of this size and complexity there are a number of individual claims that are difficult to assess. Lloyd's is working hard to ensure that all valid claims are settled as swiftly as possible. We are aware that there have been a limited number of adverse judgements (although none against Lloyd's directly) that are currently being appealed. This adds to the uncertainty of the estimate of the final loss.

In aggregate, run-off years reported a near break-even result for 2006, being a deficit of £3m (2005: deficit of £325m) and syndicates backed by insolvent members supported by the Central Fund reported a small overall surplus.

The results of the major classes of business are discussed in detail on pages 37 to 43.

Investment review 2006

Syndicate assets are invested primarily in fixed interest securities of high credit quality. Increasingly, some syndicates are utilising additional asset classes, including equities, in order to maximise returns. However, such exposures form a very small proportion of syndicate assets overall. The currency of investments broadly reflects the currencies in which insurance business is written and this causes US dollar and sterling investments to dominate. In recent years, rising yield levels have led to poor investment returns, particularly in the US. 2006 saw a modest improvement in returns as investment conditions in the US stabilised, although rising yields in sterling reduced overall returns. In total, syndicate investments returned £957m, or 4.2%, during the year (2005: £705m, 3.2%).

Market conditions, affecting the level and direction of bond yields, can cause significant variations between investment returns in different periods. However, the risk associated with syndicate investment strategies is limited by application of appropriate constraints, such that the probability of significant investment losses arising is relatively low. This is appropriate in view of the primary purpose of these assets, which is to be available to meet valid claims.

Members' capital is held centrally as FAL. A notional investment return of £651m (2005: £602m) has been included in the PFFS.

The investment performance in respect of central assets is described in the Society review on page 73.

Impact of US dollar exchange rate fluctuations
The US is the single largest market for Lloyd's and fluctuations in exchange rates impact the results. The US dollar has weakened during the year to a rate of exchange of 1.96 at the year end (2005: 1.72). The level of profitability in 2006 has led to many businesses holding a surplus of US dollar assets over liabilities. While Lloyd's distributes its profits by currency, this can lead to a loss on exchange when retranslating these balances into sterling prior to distribution. In addition, adverse timing differences can arise for those Lloyd's businesses adopting accounting policies that recognise non-monetary liabilities at transaction rates while the associated assets are reported at weaker year end exchange rates.

Looking ahead

Capacity for 2007
Market capacity has increased overall for 2007 and is currently £16.1bn (2006: £14.8bn). This increase in capacity reflects the continuing business opportunities available to Lloyd's in the aftermath of the 2005 US hurricanes.

It is important to note that capacity is only an indication of the business the market plans to write, provided market conditions remain attractive and show the appropriate potential profit margins.

Worldwide regulatory risk
Lloyd's operates worldwide in multiple regulatory and political jurisdictions. A number of industry commentators have highlighted the risk faced by insurers in the US, where state-led oversight can affect regional market conditions. While the recent legislative changes in Florida are not considered to have a significant direct impact on premium income for Lloyd's, there is a risk that other insurers, who perceive that this will impact their premium targets, will seek to move into other lines of business written by Lloyd's.

Windstorm Kyrill
Windstorm Kyrill was a powerful windstorm which swept across northern Europe on 18 January 2007. Industry loss estimates range from €2bn to €8bn (£1.4bn to £5.4bn).

Based on our current information, we consider that the loss to the Lloyd's market will be less than £200m and there will be a limited impact on future pricing terms and conditions.

2007 hurricane predictions
Initial predictions indicate that the 2007 hurricane season will be more active than average, with a relatively high probability of a major hurricane making landfall in the US and an above average chance in the Caribbean.

Managing the cycle
Strong market conditions and the exceptionally low level of catastrophes have led to the industry reporting excellent results for 2006. Notwithstanding that, the issue of volatile performance and managing the cycle remains of paramount importance. Indeed, market behaviour in non-US catastrophe lines, where rates are softening, only emphasises the need for discipline at this stage of the cycle.

In addition, after only 12 months of loss-free experience for US catastrophe, insurers are returning to this market providing additional direct and reinsurance capacity. While current market conditions support the market's business plan volumes and mix for 2007, managing insurance cycles continues to be a major challenge. Global liquidity remains very high, and the insurance market will continue to remain extremely competitive for the foreseeable future, in view of increasingly flexible capital markets.

There are several steps that the market can take to minimise the impact of competitive pressure. These include the reinforcing of a culture that puts a greater focus on the prudent setting of terms and conditions, including pricing, for the benefit of Lloyd's and policyholders, rather than underwriting for market share.

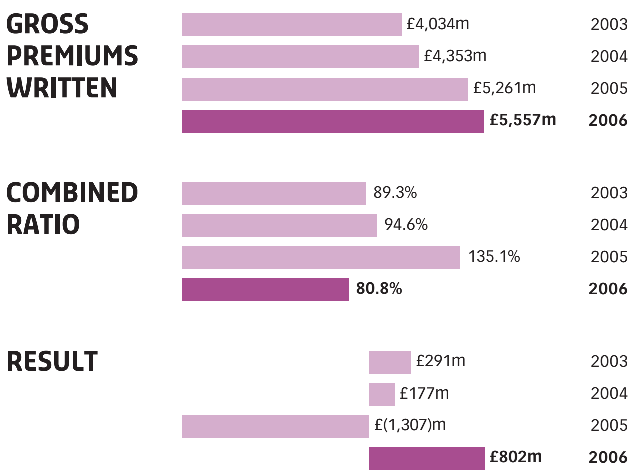
Improved processes will play a key role in helping to manage the cycle. Risk-based pricing, in turn, depends on using state-of-the-art risk modelling tools and loss data, and on robust internal communication systems that enable underwriters to gain access to this information. Proper pricing and reallocation of capital to achieve optimum returns also depends on incentive schemes that encourage underwriters to adopt this practice.

The Franchise Performance Directorate is supporting the market through providing feedback at a market and class of business level to give agents access to better information and analysis to help the market to assess risk.

Through a combination of underwriting for profit rather than market share and these tools, we believe that the market can go a long way to shield itself from some of the more damaging aspects of the cycle.

REINSURANCE: EXPERIENCED EXCELLENT RETURNS IN 2006

WWW.LLOYDS.COM/2006RESULTS



The market as a whole did not report annual accounting information at a class of business level for the 2002 year end.

2006 COMBINED RATIO

77.0%
ACCIDENT YEAR

3.8%
PRIOR YEAR RESERVE MOVEMENT

80.8%
CALENDAR YEAR

2006 HIGHLIGHTS

- Benign US windstorm season.
- Low catastrophe loss experience worldwide.
- Excellent return in 2006 must be balanced against increasing risk of extreme events.

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, or individual risk placements; proportional treaties; and non-proportional treaties such as excess of loss placements.

The main classes of business within this sector are property non-proportional risk, catastrophe excess of loss reinsurance and property facultative reinsurance. In addition, there is a limited amount of retrocessional business. A large proportion of this business provides protection for US insurance and reinsurance companies.

2006 performance
Following the 2004 and 2005 US hurricanes, the market, in conjunction with its catastrophe modelling advisers, has revisited loss severity and frequency assumptions. Lloyd's revised Realistic Disaster Scenarios in 2006 to include a $100bn industry loss and a $65bn industry loss from a hurricane making landfall in New England. The Realistic Disaster Scenarios also examined the impact of two events occurring in the same year.

Insurers and reinsurers are increasingly concerned with the concentration of property values in both Florida and further up the east coast of the US and have increased rates and tightened conditions accordingly.

Lloyd's reported gross written premiums for 2006 of £5,557m (2005: £5,261m), an increase of 5.6%, reflecting the strong trading conditions in US wind-exposed business. The market for non wind-exposed business continued to soften and increased pressure on profit margins.

An accident year combined ratio of 77.0% was achieved in 2006 (2005: 133.6%) reflecting the strong underlying performance and low loss incidence in this sector.

Despite meteorological experts forecasting an above normal Atlantic hurricane season, the US windstorm season was benign. Scientists have identified various possible reasons for the lack of hurricane activity during 2006. These explanations vary considerably, but the consensus is that climate conditions indicate that we are in a cycle of above average North Atlantic hurricanes and that 2006 was an exceptional year.

The catastrophe loss activity for other perils was also extremely low leading to excellent returns.

Prior year development
The prior year development has been affected by increases in the loss estimates for the 2005 US hurricanes.

Overall, prior year reserve strengthening added 3.8% (2005: 1.5%) to the combined ratio.

Risks and uncertainties
The renewal season is showing that outside of the US, pricing within the reinsurance sector remains flat to softening, although it is anticipated that windstorm Kyrill may serve to stabilise the European market.

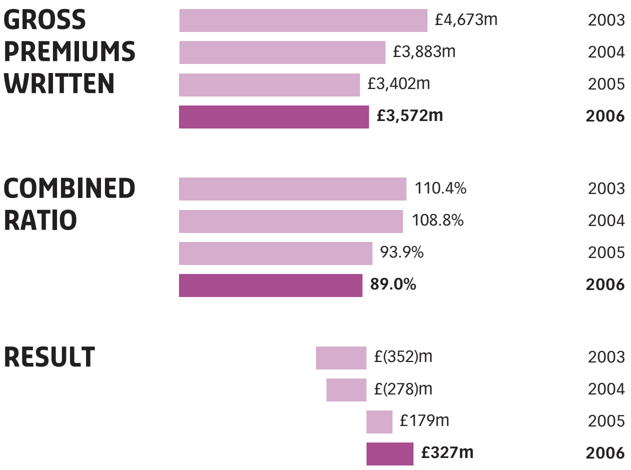
The recent Florida legislation will reduce the industry's reinsurance premium income, which may lead to reinsurers seeking to utilise capacity elsewhere and increased competition.

While the 2006 result reflected a strong performance in the reinsurance sector, managing aggregates and underwriting discipline continue to be the critical issues, especially as the low incidence of hurricane activity may not be repeated.

MARKET COMMENTARY continued

CASUALTY: OVERALL PERFORMANCE CONTINUES TO IMPROVE

WWW.LLOYDS.COM/2006RESULTS



The market as a whole did not report annual accounting information at a class of business level for the 2002 year end.

2006 COMBINED RATIO

96.3%
ACCIDENT YEAR

(7.3)%
PRIOR YEAR RESERVE MOVEMENT

89.0%
CALENDAR YEAR

2006 HIGHLIGHTS

- Limited major loss activity.
- Stable prior year development.
- Non-US rates under increasing pressure.

Lloyd's casualty sector covers professional indemnity, medical malpractice, accident and health, directors' and officers' liability, financial institutions, general and employers' liability. A large proportion of casualty business provides coverage within the US market.

Casualty risks are particularly specialist and complex. The tort system and legal processes in the US continue to be a significant factor in dealing with long-term liability claims and this is being replicated in other countries as plaintiffs seek to reproduce the success achieved in the US. There are signs that tort reform in some countries, such as Australia, is partially addressing this risk and has resulted in reduced claims frequency.

2006 performance

2006 saw gross premiums written of £3,572m (2005: £3,402m). This is in line with the 2005 premium income levels but a reduction of over 20% from the peaks experienced in 2003.

During 2006, evidence of a two-tier market continued to emerge. US casualty rates have been largely stable although the market began to soften following the previous sharp increases in premium rates. Outside of the US, the market continued to soften with certain lines of business showing a decrease in rates and an erosion of margins.

The casualty sector achieved an accident year combined ratio of 96.3% (2005: 89.8%). This reflects the improved performance, compared to the soft market experienced in 1997-2001, arising from the more specialised mix of business being written. This result, together with the stabilisation of claims development in prior years, resulted in an overall profit of £327m (2005: £179m).

In recent years the US casualty market, in particular, experienced severe underwriting losses arising from litigation brought by investors due to falls in the stock market. 2005 saw a significant reduction in the number of class actions, a trend which has continued into 2006.

Prior year development

The long tail characteristic of casualty business means that prior year development has a significant bearing on the overall combined ratio.

Following significant deterioration in recent years, which drove the Lloyd's casualty sector into an aggregate loss position, 2005 saw a stabilisation in the claims development on prior years' reserves and this trend has continued in 2006.

There are encouraging signs that many Lloyd's businesses have now addressed the legacy issues arising on business written in soft market conditions in 1997-2001. In addition, surpluses have emerged in respect of claims reserves established on business written in 2002-2005. The impact on the combined ratio was an improvement of 7.3% (2005: deterioration of 4.1%).

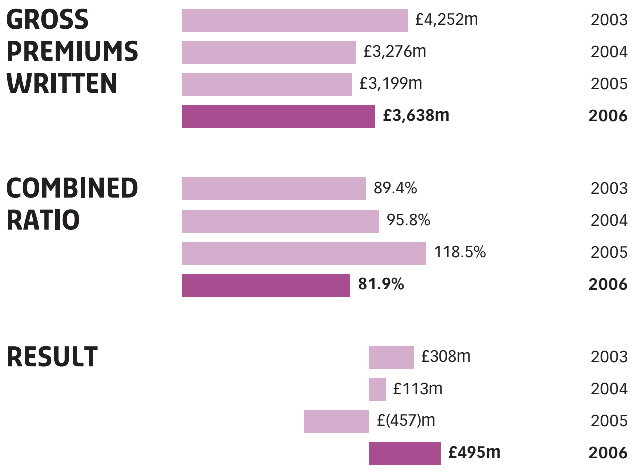
Risks and uncertainties

The 2007 renewals have shown a continuation of the trend experienced during 2006, with the US market generally stable with some classes showing signs of softening driven by the increased presence of new Bermudian markets in this class and general diversification pressures. The non-US market is experiencing sharp decreases in rates from the recent peaks.

A key risk is the macro economic environment and any major change could seriously affect the casualty sector. Although current underwriting conditions continue to show potential profit margins, the market will need to focus on managing terms and conditions as pressure on rates increases.

PROPERTY: STRONG TERMS AND CONDITIONS AND A BENIGN LOSS RECORD

WWW.LLOYDS.COM/2006RESULTS



The market as a whole did not report annual accounting information at a class of business level for the 2002 year end.

2006 COMBINED RATIO

86.2%
ACCIDENT YEAR

(4.3)%
PRIOR YEAR RESERVE MOVEMENT

81.9%
CALENDAR YEAR

2006 HIGHLIGHTS

- Growth in income driven by rate increases.
- Exceptionally low loss incidence experienced during 2006.
- Increasing pressure on worldwide rates.

The direct and reinsurance property business continues to be the largest sector at Lloyd's, with the US remaining the biggest market.

2006 performance

Over recent years the property sector has seen decreases in gross premiums written from the levels experienced in 2002 and 2003. This trend was reversed in 2006, which saw an increase of 13.7% to £3,638m (2005: £3,199m) driven by the hardening of terms for windstorm exposed risks in the US. This has been offset by the clear disparity between the pricing of US windstorm exposed property risks and other lines of business elsewhere, which continue to experience significant rate decreases.

This increase in premium income and the limited loss occurrence during the year contributed to an accident year combined ratio of 86.2% in 2006 (2005: 119.5%) and resulted in the sector declaring an excellent profit of £495m (2005: loss of £457m).

Prior year development

Overall, the claims development on prior years has been within expectations leading to a surplus that reduced the combined ratio by 4.3% (2005: 1.0%). While there have been instances of increases to the claims reserves for the 2005 US storms, these have been more than offset by releases from other areas of the account, particularly from reserves established in 2002 and 2003.

Risks and uncertainties

The renewal season in the early part of 2007 has shown a levelling off in rates for US windstorm exposed risks with an increase in competition as capacity in the market increases.

The need for the industry to continue to improve the understanding, capture and aggregation of exposures to natural catastrophes remains crucial. Underwriters will need to work closely with their modelling advisers and carefully assess the model outputs and 'sense check' the results.

For other property lines of business, the market continues to be extremely competitive with capacity increasing as insurers seek to diversify away from catastrophe business. Maintaining underwriting discipline in the face of this pressure on rates and erosion of margins is critical.

MARINE: OVERALL STRONG PERFORMANCE IN THE FACE OF INCREASED COMPETITION

WWW.LLOYDS.COM/2006RESULTS

GROSS PREMIUMS WRITTEN

£1,098m	2003
£977m	2004
£1,017m	2005
£1,153m	**2006**

COMBINED RATIO

89.7%	2003
87.4%	2004
91.4%	2005
88.6%	**2006**

RESULT

£78m	2003
£101m	2004
£73m	2005
£105m	**2006**

The market as a whole did not report annual accounting information at a class of business level for the 2002 year end.

2006 COMBINED RATIO

99.0%

ACCIDENT YEAR

(10.4)%

PRIOR YEAR RESERVE MOVEMENT

88.6%

CALENDAR YEAR

2006 HIGHLIGHTS

- Maintained discipline in face of intense competition.
- Prior year development trend remains within expectations.

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

2006 performance

The marine sector achieved gross premiums written of £1,153m (2005: £1,017m) and an accident year combined ratio of 99.0% (2005: 98.8%).

Rates in the two largest marine classes, hull and cargo, remained relatively flat during the year. Following the losses caused by hurricane Katrina, anticipated rate increases in the hull and cargo classes of business were not as significant as expected.

The marine liability account continues its track record in producing good results and achieved moderate rate increases during 2006. The International Group of P&I Clubs programme constitutes a major part of this class of business.

Specie, the insurance of highly valued items such as fine art, remains a very competitive market, although rates remained stable. The result of this class was affected by significant cash-in-transit losses.

Prior year development

An overall release from prior years' reserves reduced the combined ratio by 10.4% for the year (2005: release of 7.4%). This has continued the trend for prior years to develop within expectation with a surplus arising for the fourth consecutive year.

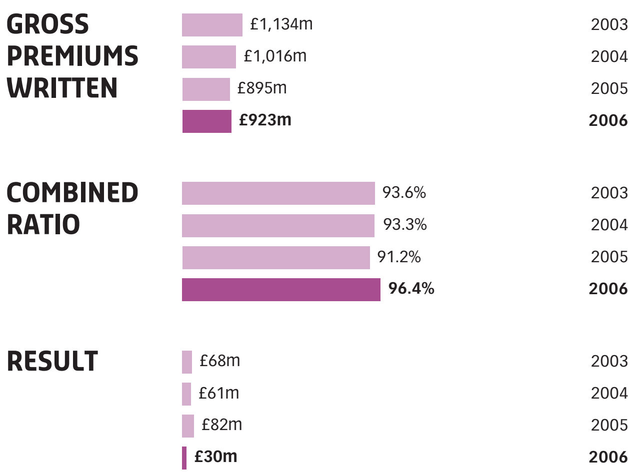
Risks and uncertainties

For the hull, cargo and marine liability classes of business the renewal season to date has been relatively flat. Within the specie class of business, those lines impacted by the cash-in-transit losses have seen large increases in rates, elsewhere rates have come under increasing pressure with rate reductions in evidence.

With the growth in world trade, bigger ships are being built to meet the demand for tonnage which leads to increasing exposure and added volatility. This volatility increases the 'miss factor' inherent in marine hull and may lead to insurers, who do not experience the losses, putting additional pressure on terms and conditions.

MOTOR: SPECIALIST NICHE BUSINESS CONTINUES TO PRODUCE REASONABLE RETURNS

WWW.LLOYDS.COM/2006RESULTS



The market as a whole did not report annual accounting information at a class of business level for the 2002 year end.

2006 COMBINED RATIO

101.7%

ACCIDENT YEAR

(5.3)%

PRIOR YEAR RESERVE MOVEMENT

96.4%

CALENDAR YEAR

2006 HIGHLIGHTS

- Premium income increased marginally.
- Continuation of positive prior year development.
- Specialist lines play to traditional strengths of the Lloyd's market.

In recent years this class has become less prominent in the market as a whole but remains an important part of our overall business. In the face of intense competition within the private car market from large consumer-facing organisations such as supermarkets, the mix of motor business written within Lloyd's has changed, with a shift of emphasis to company fleet business and non-standard risks such as high value vehicles, vintage or collectors' vehicles, high risk drivers and affinity groups to the extent that less than half the current premium income 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 our portfolio, with around 25% now originating outside of the UK.

2006 performance

Overall, the UK motor market has experienced softening rates since 2003. While there was upward pricing pressure on the wider private car market, the fleet sector has not seen rate increases of any substance. Partly as a consequence of this, the accident year shows a small underwriting loss with a combined ratio of 101.7% (2005: 97.3%). Total gross premiums written were £923m (2005: £895m).

Claims inflation continues to increase, largely driven by increased litigation costs and changes to the basis of some court awards in respect of periodic payments.

Prior year development

The trend in claims development proving to be within initial projections continued in 2006. This led to an overall release of £44m, reducing the combined ratio by 5.3% (2005: 6.1%).

Risks and uncertainties

Early indications in 2007 are that rates for commercial and private car business are beginning to show signs of stabilisation following reductions experienced in recent years.

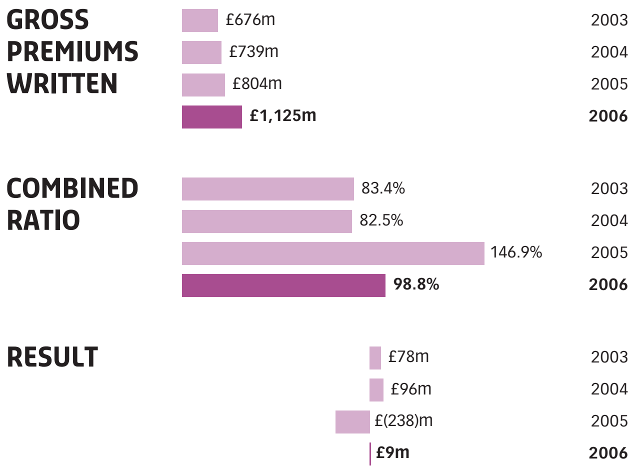
The Lloyd's motor market is facing increased competition following an increase in capacity coming from the company market into areas that would historically have been written in Lloyd's.

Motor insurers will need to maintain their focus on the key risks to their business from claims inflation, including levels of court awards.

MARKET COMMENTARY continued

ENERGY: STRONG PERFORMANCE IN 2006 OFFSETS DETERIORATION ON 2005 US STORMS

WWW.LLOYDS.COM/2006RESULTS



The market as a whole did not report annual accounting information at a class of business level for the 2002 year end.

2006 COMBINED RATIO

83.7%

ACCIDENT YEAR

15.1%

PRIOR YEAR RESERVE MOVEMENT

98.8%

CALENDAR YEAR

2006 HIGHLIGHTS

- Increase in premium income driven by rate increases.
- Tightening of terms and conditions.
- 2005 US hurricane final claims estimates remain uncertain.

The Lloyd's energy market 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.

2006 performance

In aggregate, 2006 saw an increase in gross premiums written of 39.9% to £1,125m (2005: £804m) predominantly due to the significant rate increases experienced in Gulf of Mexico business.

At the start of 2006, the cost and reduced availability of reinsurance cover led to a capacity shortage and an increased focus on managing and reducing aggregate exposures.

Gulf of Mexico risks were restructured with a tightening of terms and conditions, particularly in respect of cover for business interruption (pre-assigned cost per barrel of lost production, agreed contract value, agreed daily indemnity and an increase in waiting periods (deductibles)).

Elsewhere, offshore business has also seen rate increases, although towards the latter stages of 2006 this trend became less evident as markets diversified away from the Gulf of Mexico.

Onshore energy markets have experienced rate increases in catastrophe exposed lines of business, with rates remaining stable elsewhere.

The accident year combined ratio for 2006 was 83.7% (2005: 148.5%), which offset the prior year reserve deterioration and resulted in an overall profit for the year of £9m (2005: loss of £238m). The accident year performance was driven by the large increases in premium income combined with a relatively benign loss experience.

Prior year development

The prior year reserve movement added 15.1% to the overall combined ratio reflecting an overall deterioration of £111m (2005: release of 1.6%, £8m).

The prior year development has been affected by the deterioration in the 2005 US hurricane estimates predominantly due to escalating wreck removal costs, costs of plugging and abandoning wells and claims inflation following the demand surge arising from a lack of skilled labour. The sheer number of separate energy claims leads to uncertainty in assessing ultimate claims costs.

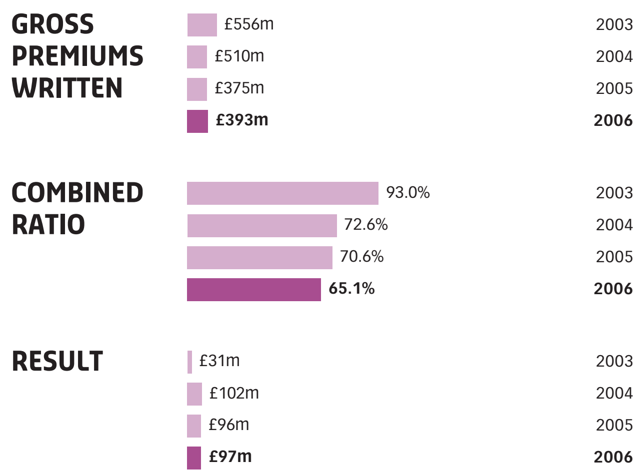
Risks and uncertainties

The early 2007 renewal season shows that the rates achieved in 2006 are being maintained.

The market should concentrate on maintaining its pricing and aggregate exposure discipline and continue to develop a more sophisticated approach to pricing catastrophe risk in order to produce less volatile results in future.

AVIATION: CONTINUES TO PERFORM STRONGLY DESPITE PRESSURE ON RATES

WWW.LLOYDS.COM/2006RESULTS



The market as a whole did not report annual accounting information at a class of business level for the 2002 year end.

2006 COMBINED RATIO

87.4%

ACCIDENT YEAR

(22.3)%

PRIOR YEAR RESERVE MOVEMENT

65.1%

CALENDAR YEAR

2006 HIGHLIGHTS

- Another year of low loss activity continues to put pricing under pressure.
- Lloyd's continues to perform strongly with prior years contributing to the strong combined ratio.

Lloyd's is an industry leader within the global aviation market and has a balanced portfolio across all sectors of this specialist class, including airline, general aviation, products, air traffic control, war and terrorist coverage, airports and satellite business.

2006 performance

The aviation class continued to produce excellent results with a profit of £97m (2005: £96m) and an accident year combined ratio of 87.4% (2005: 80.4%). Gross premiums written were £393m (2005: £375m).

The aviation market was severely affected by the heavy losses of 2001, namely 9/11 and Queens. As a result, pricing, terms and conditions improved sharply and significantly. Since 2001, the loss experience has been well below the industry long-term average, due to the industry's continuing investment in new aircraft and safety systems, increased security both at airports and on the airlines and improved regulation. These factors have attracted new capacity and led to a reduction in rates from their peak in late 2001.

Within the airline sector there have been five consecutive years of rate reductions and an increase in exposure as a result of growth in both worldwide air passenger traffic volumes and fleet values.

Diminishing margins within the airline sector has led to diversification into other aviation lines and softening rates in the products and airports liabilities markets as a result.

Prior year development

An overall release from prior years' claims reserves reduced the combined ratio by 22.3% (2005: release of 9.8%). This release continues the trend for benign claims development on prior years' reserves across the entire portfolio, including airlines, aviation war and space.

Risks and uncertainties

Exceptional performance in recent years has resulted in over capacity within the aviation sector and, therefore, softening underwriting conditions and it would appear that the market is approaching the bottom of the cycle.

While the improvements in technology, security and regulation have contributed to a low loss incidence in recent years, pilot error continues to be the main cause of airline losses. The potential for increases in loss frequency and severity is still considered to be high.

As rates continue to fall and margins are eroded following the recent benign claims experience, there is a significant risk that airline premiums will reach levels that will be insufficient to meet a single major catastrophe. It is, therefore, critical that appropriate steps are taken to manage the cycle and maintain discipline in the face of these falling rates.

REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE 2006 LLOYD'S PRO FORMA FINANCIAL STATEMENTS

We have examined the Lloyd's pro forma financial statements ('PFFS') for the year ended 31 December 2006, which comprise the pro forma profit and loss account, the pro forma statement of total recognised gains and losses, the pro forma balance sheet and the pro forma cash flow statement and the related notes 1 to 14 which have been prepared on the basis set out in note 2.

This report is made solely to the Council of Lloyd's in accordance with its instructions to us. Our work has been undertaken so that we might state to the Council those matters which we are required to state in this report in accordance with the Council's instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the addressee of this report for our work, for this report, or for the conclusions we have formed.

Respective responsibilities of the Council of Lloyd's and Ernst & Young LLP
The Council of Lloyd's is responsible for the preparation and approval of the PFFS.

Our responsibility is to examine the PFFS and to report to you whether the PFFS have been properly prepared in accordance with the basis of preparation set out in note 2.

Basis of conclusion
The PFFS have been compiled in part from an aggregation of financial information extracted from the balance sheet and profit and loss account included in syndicate annual 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, ISA 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 PFFS. 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 PFFS have been properly prepared in accordance with the basis of preparation note 2.

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 PFFS.

Conclusion
In our opinion, the PFFS for the financial year ended 31 December 2006 have been properly prepared in accordance with the basis of preparation set out in note 2.

Ernst & Young LLP, London
28 March 2007

PRO FORMA PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2006

Technical account	Note	2006 £m	2006 £m	2005 £m	2005 £m
Gross premiums written – continuing operations			**16,390**		14,979
– discontinued operations	5		**24**		3
	9		**16,414**		14,982
Outward reinsurance premiums			**(3,213)**		(3,212)
Premiums written, net of reinsurance			**13,201**		11,770
Change in the gross provision for unearned premiums		**(644)**		230	
Change in provision for unearned premiums, reinsurers' share		**131**		(215)	
			(513)		15
Earned premiums, net of reinsurance			**12,688**		11,785
Allocated investment return transferred from the non-technical account			**957**		705
			13,645		12,490
Claims paid					
Gross amount		**11,718**		10,181	
Reinsurers' share		**(5,120)**		(3,418)	
			6,598		6,763
Change in provision for claims					
Gross amount		**(4,524)**		6,726	
Reinsurers' share		**4,145**		(3,984)	
			(379)		2,742
Claims incurred, net of reinsurance			**6,219**		9,505
Net operating expenses	11		**4,327**		3,668
Balance on the technical account for general business			**3,099**		(683)
Attributable to: – continuing operations			**3,032**		(538)
– discontinued operations	5		**67**		(145)
Total			**3,099**		(683)
Non-technical account					
Balance on the technical account for general business			**3,099**		(683)
Syndicate investment return		**957**		705	
Notional investment return on funds at Lloyd's		**651**		602	
Investment return and other income on Society assets		**121**		191	
		1,729		1,498	
Allocated investment return to the technical account		**957**		705	
			772		793
Other expenses			**(209)**		(213)
Result on ordinary activities before tax	8		**3,662**		(103)

Statement of total recognised gains and losses	Note	2006 £m	2005 £m
Result for the financial year		**3,662**	(103)
Other recognised gains and losses		**38**	42
Total recognised gains and losses	8	**3,700**	(61)

PRO FORMA BALANCE SHEET

as at 31 December 2006

	Note	2006 £m	2006 £m	2005 £m	2005 £m
Investments					
Financial investments	12		**27,165**		26,967
Deposits with ceding undertakings			**17**		14
Reinsurers' share of technical provisions					
Claims outstanding		**9,259**		14,450	
Unearned premiums		**771**		696	
			10,030		15,146
Debtors					
Debtors arising out of direct operations		**3,520**		3,853	
Debtors arising out of reinsurance operations		**3,190**		3,629	
Other debtors		**382**		685	
			7,092		8,167
Other assets					
Tangible assets		**22**		17	
Cash at bank and in hand	13	**7,926**		8,045	
Other		**20**		10	
			7,968		8,072
Prepayments and accrued income					
Accrued interest and rent		**98**		93	
Deferred acquisition costs		**1,582**		1,503	
Other prepayments and accrued income		**163**		91	
			1,843		1,687
Total assets			**54,115**		60,053
Capital, reserves and subordinated loan notes					
Members' funds at Lloyd's		**11,282**		10,206	
Members' balances	14	**597**		(408)	
Members' assets (held severally)		**11,879**		9,798	
Central reserves (mutual assets)		**957**		693	
Capital and reserves	8	**12,836**		10,491	
Subordinated loan notes		**497**		501	
			13,333		10,992
Technical provisions					
Provision for unearned premiums		**7,024**		6,829	
Claims outstanding		**30,377**		37,719	
			37,401		44,548
Deposits received from reinsurers			**69**		142
Creditors					
Creditors arising out of direct insurance operations		**831**		884	
Creditors arising out of reinsurance operations		**1,643**		2,228	
Other creditors including taxation		**715**		1,113	
			3,189		4,225
Accruals and deferred income			**123**		146
Total liabilities			**54,115**		60,053

Signed on behalf of the Council of Lloyd's on 28 March 2007.

Lord Levene of Portsoken, Chairman **Richard Ward, Chief Executive Officer**

PRO FORMA CASH FLOW STATEMENT

for the year ended 31 December 2006

	2006 £m	2005 £m
Result on ordinary activities before tax	**3,662**	(103)
Depreciation	**2**	2
Realised and unrealised losses/(gains) and foreign exchange	**1,553**	(1,060)
Net purchase of investments	**(1,065)**	(2,212)
Notional return on funds at Lloyd's	**(651)**	(602)
(Decrease)/increase in technical provisions	**(1,822)**	4,314
Decrease/(increase) in debtors	**721**	(519)
(Decrease)/increase in creditors	**(859)**	1,031
Cash generated from operations	**1,541**	851
Income taxes received	**2**	82
Net cash from operating activities	**1,543**	933
Cash flows from financing activities		
Net profits paid to members	**(1,616)**	(994)
Increase in loans	**–**	40
Interest paid	**(46)**	(39)
Net decrease in cash holdings	**(119)**	(60)
Cash holdings at 1 January	**8,045**	8,105
Cash holdings at 31 December	**7,926**	8,045

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS

as at 31 December 2006

1. Introduction

Lloyd's is not an insurance company. It is a Society of members which underwrite insurance (each for their own account) as members of syndicates. The pro forma financial statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies.

2. Basis of preparation

General

The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' FAL and the financial statements of the Society of Lloyd's (pages 93 to 132).

The aggregate of syndicate annual accounts report the audited results for calendar year 2006 and the financial position at 31 December 2006 for all syndicates which transacted business during the year. They include the syndicate level assets, which represent the first link in the chain of security (see pages 55 to 58). The Aggregate Accounts are reported as a separate document and can be viewed at www.loyds.com/financialreports. During 2006, certain syndicates changed their accounting policies in relation to foreign exchange resulting in a restatement of the comparative figures for 2005 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.

The capital provided by members is held centrally as FAL and represents the second link in the chain of security. The non-technical account of the PFFS includes a notional investment return on FAL.

The Society of Lloyd's audited financial statements report the central resources of the Society, which forms the third link in Lloyd's chain of security.

The profit and loss account in the PFFS aggregates the syndicate underwriting results, the notional investment return on members' capital and the results of the Society of Lloyd's. The balance sheet in the PFFS aggregates the assets held at syndicate level, members' assets held as FAL and the central resources of the Society. Overall, the PFFS aggregate the results and resources of the Society and its members and reflect all the links in Lloyd's chain of security as described in detail in the 'Security underlying policies issued at Lloyd's' section on pages 55 to 58. The PFFS may, therefore, be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

Taxation

The PFFS report the market's result before tax. Members are directly responsible for tax payable on their syndicate results and investment income on FAL. For consistency, the results of the Society are also included pre-tax in the profit and loss account. The balance sheet includes the tax provisions in the Society financial statements.

Funds at Lloyd's

FAL comprise the capital provided by members to support their underwriting, and are the equivalent of capital shown in insurance companies' accounts. The valuation of FAL has, therefore, been included in the pro forma balance sheet.

FAL are available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable, may include letters of credit and bank and other guarantees, and must be at least equivalent to the aggregate of the member's net FAL requirement and certain liabilities in respect of its underwriting business. Each member's net FAL requirement to support its underwriting at Lloyd's is determined using Lloyd's Individual Capital Assessment (ICA) capital setting methodology.

A notional investment return on FAL has been calculated, which is the equivalent of insurance companies generating investment return on the capital that they hold to support their underwriting. The notional investment return is calculated on the average value of FAL during the year, based on indices yields on each type of asset held. The typical investment return on bank deposits has been applied to FAL provided as letters of credit or bank guarantees.

Society of Lloyd's financial statements

The PFFS include the results and assets reported in the consolidated financial statements of the Society of Lloyd's, comprising the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates.

Transactions between syndicates and the Society

(1) Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate annual accounts and as income in the Society financial statements.

(2) Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls and do not have the resources to meet those cash calls are reported as a profit and loss charge and balance sheet liability in the Society financial statements.

The Central Fund other income includes recoveries from insolvent members. The syndicate annual accounts for calendar year 2006 and earlier years include those members' results and at the balance sheet date will report the outstanding liability within members' balances.

(3) Syndicate loans to the Central Fund (and annual interest payments on the loans) are reported as assets (and accrued income) within the syndicate annual accounts. The Society financial statements report the loans as equity and account for interest payable when the Council formally approves interest payments.

(4) Loans funding statutory overseas deposits are reported as assets within the syndicate annual accounts and as liabilities in the Society financial statements.

Transactions between the syndicates and the Society which have been reported within both the syndicate annual accounts and the Society financial statements have been eliminated (note 8).

Intra-syndicate loans
The syndicate annual accounts report debtor and creditor balances for intra-syndicate loans totalling £372m (2005: £315m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the PFFS.

Subordinated loan notes
In accordance with the terms of the subordinated loan notes, the capital raised is available for payment to policyholders in advance of repayment to the note holders. Accordingly, the amount of the notes is included in the 'capital, reserves and subordinated loan notes' as reported in the pro forma balance sheet.

3. Accounting policies notes

A. Aggregate Accounts

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.

Premiums written
Premiums written represent premiums on business incepting during the year, together with adjustments for premiums written in previous accounting periods. Premiums written 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
Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

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.

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS continued

as at 31 December 2006

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.

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 are normally 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 may be recorded in the profit and loss account or through 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.

Syndicate investment return

Syndicate 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.

Syndicate 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. Syndicate investment return has been wholly allocated to the technical account as all syndicate investments relate to the 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 does not currently become payable until after 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.

B. Funds at Lloyd's
FAL are valued in accordance with their market value at the year end, and using year end exchange rates.

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.

C. Society of Lloyd's
The accounting policies adopted in the Society of Lloyd's financial statements are as set out on pages 96 to 101.

4. Variability
Calendar year movements in reserves are based upon best estimates as at 31 December 2006 taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimate are reflected in the technical account of the year in which they occur.

5. Discontinued operations
Continuing/discontinued operations represent the analysis reported in the syndicate annual accounts between business that they are continuing to underwrite and business that they have ceased to underwrite. It is quite possible, however, that business discontinued by one syndicate continues to be written at Lloyd's by one or more other syndicates.

When a syndicate has ceased underwriting, their operations are reported as discontinued within the syndicate's annual accounts. Where the entire book of business continues to be written by another syndicate, however, an adjustment is made in the PFFS to reflect the continuing nature of this business to Lloyd's and its members as a whole.

Where business has been reported as discontinued in 2006, the results for that business have also been reported as discontinued in the 2005 comparative figures.

6. Members' funds at Lloyd's
The valuation of members' FAL in the balance sheet totals £11,282m (2005: £10,206m).

The notional investment return on FAL included in the non-technical profit and loss account totals £651m (2005: £602m).

7. Society of Lloyd's
The results of the group financial statements of the Society included in the profit and loss account are a net profit of £275m (2005: £183m) in the technical account and a net loss of £88m (2005: £13m loss) in the non-technical account.

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS continued

as at 31 December 2006

8. Aggregation of results and net assets

A reconciliation between the results, statement of realised gains and losses and net assets reported in the syndicate annual accounts, members' FAL and by the Society is set out below:

Profit and loss account	2006 £m	2005 £m
Result per syndicate annual accounts	**2,825**	(862)
Result of the Society	**84**	(25)
Central Fund claims and provisions in Society financial statements	**116**	224
Central Fund recoveries from insolvent members	**(20)**	(12)
Taxation charge/(credit) in Society financial statements	**7**	(17)
Interest receivable on syndicate loans to Central Fund accrued in syndicate annual accounts	**(1)**	(4)
Notional investment return on members' funds at Lloyd's	**651**	602
Elimination of prior year adjustment in syndicate annual accounts	**–**	(9)
Result on ordinary activities before tax	**3,662**	(103)

Statement of total recognised gains and losses	2006 £m	2005 £m
Result for the financial year	**3,662**	(103)
Other recognised gains and losses per syndicate annual accounts	**39**	67
Other recognised gains and losses of the Society	**(1)**	(1)
Elimination of prior year adjustment in syndicate annual accounts	**–**	(24)
Total recognised gains and losses	**3,700**	(61)

Capital and reserves	2006 £m	2005 £m
Net assets per syndicate annual accounts	**657**	(448)
'Equity' of the Society	**957**	693
Central Fund claims and provisions	**159**	166
Members' funds at Lloyd's	**11,282**	10,206
Syndicate loans to Central Fund in syndicate annual accounts	**(214)**	(107)
Interest receivable on syndicate loans to Central Fund accrued in syndicate annual accounts	**(5)**	(4)
Elimination of prior year adjustment in syndicate annual accounts	**–**	(15)
Total capital and reserves	**12,836**	10,491

Transactions between syndicates and the Society which have been reported within both the syndicate annual accounts and the Society financial statements have been eliminated in the PFFS as set out in note 2.

9. Segmental analysis
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.

2006	**Gross premiums written £m**	**Net earned premium £m**	**Result £m**
Reinsurance	**5,557**	**4,186**	**802**
Casualty	**3,572**	**2,964**	**327**
Property	**3,638**	**2,730**	**495**
Marine	**1,153**	**921**	**105**
Motor	**923**	**829**	**30**
Energy	**1,125**	**737**	**9**
Aviation	**393**	**278**	**97**
Life	**50**	**40**	**2**
Total from syndicate operations	**16,411**	**12,685**	**1,867**
Transactions between syndicates and the Society (notes 2 and 8) and insurance operations of the Society	**3**	**3**	**275**
Total per PFFS	**16,414**	**12,688**	**2,142**

2005	Gross premiums written £m	Net earned premium £m	Result £m
Reinsurance	5,261	3,722	(1,307)
Casualty	3,402	2,949	179
Property	3,199	2,474	(457)
Marine	1,017	853	73
Motor	895	937	82
Energy	804	508	(238)
Aviation	375	327	96
Life	47	33	1
Total from syndicate operations	15,000	11,803	(1,571)
Transactions between syndicates and the Society (notes 2 and 8) and insurance operations of the Society	(18)	(18)	183
Total per PFFS	14,982	11,785	(1,388)

10. Life business
The PFFS include the results of all life and non-life syndicates transacting business during 2006. 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 9).

11. Net operating expenses

	2006 £m	2005 £m
Acquisition costs	**3,354**	2,921
Change in deferred acquisition costs	**(163)**	(8)
Administrative expenses	**910**	872
	4,101	3,785
Loss/(profit) on exchange	**226**	(117)
	4,327	3,668

12. Financial investments

	2006 £m	2005 £m
Shares and other variable yield securities and units in unit trusts	**3,078**	2,398
Debt securities and other fixed income securities	**19,174**	20,279
Participation in investment pools	**813**	564
Loans and deposits with credit institutions	**4,093**	3,719
Other	**7**	7
	27,165	26,967

13. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £5,851m (2005: £5,595m).

14. Members' balances

	2006 £m	2005 £m
Balance at 1 January	**(408)**	1,426
Result for the year	**2,824**	(875)
Distribution on close of 2003 (2002) year of account	**(1,956)**	(890)
Advance distributions	**(296)**	(625)
Cash calls	**571**	568
Loan to the Central Fund	**(107)**	(107)
Other movements	**(31)**	95
Balance at 31 December	**597**	(408)

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 represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members.

SECURITY UNDERLYING POLICIES ISSUED AT LLOYD'S

as at 31 December 2006

Summary

Lloyd's is not an insurance company. It is a Society of members, both corporate and individual, which underwrite insurance in syndicates. These syndicates can comprise one single corporate member or any number of corporate and individual members, underwriting severally for their own account.

There were 66 syndicates, as at 1 January 2007, registered to conduct business at Lloyd's in 2007. Each syndicate is managed by a managing agent. Managing agents write insurance business on behalf of the member(s) of the syndicate, which receive profits or bear losses in proportion to their share in the syndicate for each underwriting year of account. The adoption of annual accounting and presentation of the syndicate annual accounts do not change the allocation of profits and losses to members.

The capital provided by every member is assessed according to the Lloyd's Individual Capital Assessment (ICA) capital setting framework. When agreed, each ICA is then 'uplifted' (by 35% for 2006) to provide an extra buffer to support Lloyd's rating and financial strength. This uplifted ICA, which is the Economic Capital Assessment (ECA) is used to determine members' capital requirement subject to prescribed minimum levels.

The Lloyd's chain of security

The three key features of the Lloyd's chain of security provide strong security to all Lloyd's policyholders, reflected in the high ratings assigned by leading rating agencies.

The first two links in the Lloyd's chain of security each operate on a several basis: each member's resources are only available to meet their share of claims. The third link represents assets available to meet the liabilities of any member on a mutual basis. The key features of the chain of security are summarised below and the sections which follow describe each of these links in greater detail.

The chain of security supports policies written for the 1993 and subsequent years of account for non-life business and all life business written at Lloyd's. Liabilities in relation to the 1992 and prior years of account for non-life business were reinsured into Equitas as at 31 December 1995, as part of 'Reconstruction and Renewal'.

First link – syndicate level assets

All premium receipts and reserves at syndicate level are held in premiums trust funds or overseas regulatory deposits. Profits are distributed only after provision for all outstanding liabilities.

Premiums Trust Funds and overseas regulatory deposits*: £28,173m

Second link – members' funds at Lloyd's

Capital requirements are determined for each member by Lloyd's ICA capital setting framework, subject to prescribed minimum levels.

FAL*: £11,282m

Third link – central assets

At the discretion of the Council, the Central Fund is available to meet any portion of any member's insurance liabilities that the member is unable to meet in full.

Society central resources excluding the subordinated debt liability and the callable layer*: £1,454m

* As at 31 December 2006.

The first link

The first link in the chain of security is the member's premiums trust funds, and other assets held in trust at syndicate level. To protect the interests of policyholders, all premiums and other monies received or receivable in connection with the member's underwriting business are initially paid into the premiums trust funds, managed by the managing agent of the syndicate concerned. Payments from these funds may only be made to meet permitted trust outgoings: claims, reinsurance premiums, underwriting expenses and the like, including funding overseas regulatory deposits. Profit is not distributed until provision has been made for all outstanding liabilities.

There are separate premiums trust funds for life business and non-life general business. There is a further segregation in that a number of the premiums trust funds are exclusively available to support certain overseas underwriting of members. The Lloyd's Dollar Trust Funds (LDTF) receive premiums in respect of US dollar denominated non-life business underwritten or incepting on or after 1 August 1995. Receipts in respect of non-life US dollar denominated business originally written and incepting before that date are held in the Lloyd's American Trust Fund (LATF) of each member, in New York. There are separate LATFs in New York for US dollar denominated life business, whenever written or incepting.

SECURITY UNDERLYING POLICIES ISSUED AT LLOYD'S continued

as at 31 December 2006

The other overseas premiums trust funds are the Lloyd's Canadian Trust Fund (LCTF) in Canada, comprising members' underwriting receipts in respect of Canadian situs business and the Lloyd's Asia trust funds for general business written by members through service companies in Singapore.

Members must ensure that there are sufficient funds in the members' premiums trust fund for the syndicate to meet all claims, necessary expenses and outgoings in connection with the syndicate business; they are required to meet a request to make such funds available (a 'cash call'). Cash calls are met by members from their own resources or, if necessary, from their FAL or, at the Council's discretion, the New Central Fund.

Premiums trust funds are used to fund overseas regulatory deposits. The US situs business of each syndicate is supported by US situs syndicate level trust funds (for US situs surplus lines business, US situs reinsurance business as accredited reinsurers, and for Illinois and Kentucky licensed business respectively). In addition, separate joint asset trust funds provide joint security for members' US situs surplus lines, US situs reinsurance and Kentucky business respectively.

These deposits would be available to meet judgment debts of a member in respect of business connected with the relevant overseas territory in the event that the relevant premiums trust fund of the member, even after replenishment from other links in the chain of security and other free assets of the member in question, was inadequate.

Underwriters also maintain regulatory deposit trust funds in Australia and South Africa and various deposits in other countries.

The total value of all the above funds was £28,173m in aggregate, at 31 December 2006.

The second link
The second link is members' FAL. FAL comprise the three trust funds in which members' assets may be held: the Lloyd's deposit, the special reserve fund and the personal reserve fund held under the terms of the premiums trust deed. These are each available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable, may include letters of credit and bank and other guarantees, and must be at least equivalent to the aggregate of the member's net FAL requirement and certain liabilities in respect of its underwriting business. FAL will include assets lodged by members to cover deficits declared by syndicates. Where syndicates report such losses on open years that do not immediately trigger a cash call requirement at syndicate level, members are required to deposit additional assets centrally to cover these deficits, so that their FAL are sufficient to meet both open year losses and their ECA.

Minimum capital ratios are set at 40% of overall premium limits (25% for those members writing mainly EU motor business).

Individual members underwrite with unlimited liability and thus may be required to meet their share of claims to the full extent of their wealth. A corporate member may also have assets, beyond its FAL, which can be called upon to meet its underwriting liabilities.

As at 31 December 2006, the total value of FAL held in trust by members amounted to £11,282m in the aggregate.

The third link
The third link is the central resources of the Society. These are the assets of the Central Fund (comprising the New Central Fund and the 'Old' Central Fund) and other assets of the Society.

The New Central Fund has been established to be available, at the discretion of the Council of Lloyd's, to ensure that policyholders' claims are met in the event of members being unable to meet their underwriting liabilities relating to 1993 and post non-life business and all life business. In practice, this entails the payment of syndicate cash calls where a member is unable to do so from their FAL or their own resources.

The New Central Fund is funded by annual contributions from members. In addition, the net resources are enhanced by loans made to it by syndicates. These amounts are treated as equity in the Society's financial statements. Repayment of these loans may be deferred at the discretion of the Council of Lloyd's although current expectations are that repayment will be made upon closure of the relevant years of account. The net assets of the Central Fund as at 31 December 2006 were £843m.

In 2004, Lloyd's issued subordinated loan notes which, as at 31 December 2006, are included as a liability of £497m within the Society's financial statements. As set out in note 20 to the Society's financial statements, payments on the notes are subordinated to certain payments which may be made out of central assets, including payments made to discharge the liabilities of an insolvent member to any person (including any policyholders) arising out of or in connection with insurance business carried on at Lloyd's by that insolvent member.

Central Fund assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds (described and included in the first link).

In addition, the other assets of the Society, totalling £114m at 31 December 2006, are available to meet underwriting liabilities in the last resort.

In aggregate, the value of the central resources of the Society (excluding the subordinated debt liability and the callable layer), amounted to £1,454m at 31 December 2006.

Aggregate resources

The total of syndicate assets, members' FAL and central resources of the Society as at 31 December 2006, after the elimination of syndicate loans to the Central Fund and annual interest receivable, were £40,690m. The total of net syndicate technical provisions at the end of 2006 was £27,357m. The total net resources of the Society and its members were therefore £13,333m (excluding the subordinated debt liability) as shown in the PFFS on page 46.

The results on which the aggregated resources are based are determined by aggregating the assets and liabilities of all members and those of the Society. The aggregate declared resources of the Society do not represent a consolidated statement of the financial position of Lloyd's business taken as a single entity and, as indicated above, the first two links of the chain of security operate on a several, not mutual, basis.

Solvency controls

One of the most important controls on the solvency of the members of Lloyd's is the annual solvency test.

The annual solvency process requires the managing agent of each syndicate to estimate and provide for all current and future liabilities for each year of account. These liabilities (ie solvency reserves or 'technical provisions for solvency') are subject to a statement of actuarial opinion. In the event that it is not possible for the managing agent to secure an unqualified actuarial opinion for any reason, the solvency reserves would be determined by the Lloyd's Actuary, who would provide a report to the FSA. In addition, any syndicate which is not able to secure an unqualified actuarial opinion will normally be subject to a monitoring review by Lloyd's. There were no qualified actuarial opinions at 31 December 2006.

The Lloyd's solvency test has two stages to the calculation:

Firstly, each member's solvency position is calculated. Each member must have sufficient assets – those held in the premiums trust funds, overseas regulatory deposits and its FAL – to cover its underwriting liabilities and on top of this an additional solvency margin. The solvency margin is calculated separately for each member, determined essentially as the greater of 16% of total annual premium income or 23% of average claims incurred over a three-year period. Premiums and claims in respect of certain types of liability business have their value increased by 50%, for the purpose of this calculation. Where a member's assets are not sufficient to cover the aggregate of its underwriting liabilities and its solvency margin, the member has a solvency shortfall.

The second part of the solvency test calculation requires that the net central assets of the Society must be sufficient to cover the aggregate of all members' shortfalls calculated at the solvency test date. Central assets include the value of the Central Fund and the other net assets of the Society, excluding the subordinated debt liability but including the callable layer – for this purpose, the 'effective' callable layer, ie that part of the callable layer not attributed to members with a solvency shortfall.

Lloyd's is required to maintain solvency on a continuous basis, and the solvency position of each member – and thus of Lloyd's as a whole – is monitored on a regular basis. The FSA are advised of the results of this monitoring.

The solvency test sets out the assets required to be held in trust by members to meet underwriting liabilities and solvency margin. This is the minimum capital requirement for all members.

Lloyd's will take action where the member has insufficient assets to meet their ECA, which will include requiring the member to cease underwriting unless new funds are provided.

Each year, Lloyd's files a return – the Lloyd's Return – with the FSA. This return is intended to ensure Lloyd's regulatory reporting requirements are in line with other UK insurers, adapted where appropriate to reflect Lloyd's unique structure. This return reports the results of Lloyd's solvency test.

SECURITY UNDERLYING POLICIES ISSUED AT LLOYD'S: FINANCIAL SUMMARY

As at 31 December 2006

	2006 £m	2005 £m
I Syndicate level assets (several basis)	**28,173**	29,109
Elimination of syndicate loans to Central Fund and annual interest receivable	**(219)**	(111)
	27,954	28,998
II Members' funds at Lloyd's (several basis)	**11,282**	10,206
III Central assets (mutual basis)		
Net Central Fund assets	**843**	670
Subordinated debt	**497**	501
Other net assets of the Society	**114**	23
	1,454	1,194
Total resources of the Society of Lloyd's and its members	**40,690**	40,398
Net syndicate technical provisions	**(27,357)**	(29,406)
Total net resources of the Society of Lloyd's and its members	**13,333**	10,992

Notes

1. This financial summary has been compiled by aggregating the assets and liabilities of all the underlying syndicates, the declared members' qualifying assets and other net assets of the Society of Lloyd's. The statement does not purport to disclose the solvency position of each member of Lloyd's.

2. The 'total net resources of the Society of Lloyd's and its members' agrees to the 'capital, reserves and subordinated loan notes' shown in the PFFS as set out on page 46.

SOCIETY RESULTS

WWW.LLOYDS.COM/2006RESULTS

SOCIETY REVIEW

WWW.LLOYDS.COM/2006RESULTS

Financial highlights

	2006 £m	2005 £m	2004 £m
Income statement			
Operating and other group income	**198**	184	201
Central Fund contributions	**152**	70	191
Total income	**350**	254	392
Central Fund claims and provisions	**(116)**	(224)	(126)
Net insurance claims received	**2**	–	5
Other group operating expenses	**(171)**	(172)	(173)
Operating surplus/(deficit)	**65**	(142)	98
Profit on sale of Lloyd's buildings	**–**	–	24
Surplus/(deficit) before finance, associates and tax	**65**	(142)	122
Net finance income	**24**	95	38
Share of profits of associates	**2**	2	2
Surplus/(deficit) before tax	**91**	(45)	162
Tax (charge)/credit	**(7)**	17	(39)
Surplus/(deficit) for the year	**84**	(28)	123
Balance sheet			
Net assets	**957**	765	690
Movement in net assets %	**25.1%**	10.9%	22.1%
Net financial assets			
Financial assets	**1,803**	1,672	1,467
Financial liabilities	**(830)**	(869)	(813)
	973	803	654
Solvency*			
Central assets for solvency purposes	**2,056**	1,850	1,663
Solvency shortfalls	**(262)**	(482)	(554)
Excess of central assets over solvency shortfalls	**1,794**	1,368	1,109
Solvency ratio %	**785%**	384%	300%
Movement in central assets for solvency purposes %	**11.1%**	11.2%	194.3%

* The solvency position for 2006 is an estimate of the amount which will be finalised in June 2007 for submission to the FSA.

This review considers the activities and the financial results of the Society of Lloyd's, which includes the Corporation of Lloyd's (the Corporation) and all of its subsidiary undertakings, the Lloyd's Central Fund and the group's interest in associates. The activities and financial results of the Lloyd's market are reported in the market commentary on pages 34 to 43 and in the pro forma financial statements on pages 45 to 54. The pro forma financial statements also include the results of the Society.

Strategy – Lloyd's vision

The Lloyd's vision is to be the platform of choice for insurance and reinsurance buyers and sellers to access and trade both specialist and large property and casualty risks. The role of the Corporation is to provide the necessary support to help ensure the achievement of Lloyd's vision.

The Corporation's goal is: 'To create and maintain a commercial environment at Lloyd's in which the long-term return to members is maximised'. This goal is encapsulated within the Lloyd's Three-Year Plan. Further details on Lloyd's strategy and the Three-Year Plan are provided on pages 20 to 25.

The Corporation's main function is to lead or support change to ensure that the market operates in the most commercially attractive and efficient manner. More specifically, the Corporation will:

- Work with the market to raise performance, by ensuring that minimum standards are met and that guidelines are published where appropriate.
- Protect the Central Fund and minimise the cost of mutuality.
- Protect the Lloyd's brand, reputation and licence network.
- Provide support, guidance and information, including market and industry benchmarking analysis, to managing agents.
- Provide services, on a mandatory basis where essential for the conduct of business or, on an optional basis, in which case managing agents can choose whether or not to use them.
- Attract appropriate new entrants when market conditions are right and minimum standards are met.
- Signal the desired future state of the market, but let market forces drive its achievement.

People strategy – improving performance and releasing potential

The nature of our business means success rests on intellectual capital. People are the ultimate source of value, and strategy is no more than good intentions until turned into action by our staff. Attracting, retaining and rewarding the right people are, therefore, at the heart of our business strategy.

A programme of change

During 2006, we embarked on a substantial programme of change aimed at improving leadership, raising standards, identifying talent, nurturing potential and releasing ability. The programme is also intended to reinforce the cultural shift required by the Corporation as the Lloyd's market's strategic business partner. The major ingredients of this programme included:

- Improving leadership skills.
- Restructuring the organisation to achieve greater flexibility and better alignment of resources with priorities.
- Engaging employees in the process of change and developing leadership skills through a 'PaceSetters' programme.
- Introducing a new bonus and performance management system.
- Commencing a project aimed at redesigning the working environment.

Performance management

Performance management is central to our people strategy. It goes beyond appraisals and is an integrated process aimed at facilitating the delivery of business strategy and, over the longer term, building the skills and capability necessary for sustained organisational success. Its main characteristics are:

- Assisting the implementation of strategy and goals by aligning organisational objectives and values with employee interests.
- Encouraging cultural change by rewarding behaviour reflecting desired values and capabilities.
- Concentrating on strengths to be developed rather than weaknesses to be overcome.
- Recognising that objective setting, performance review, coaching and counselling are skilled processes and, therefore, providing relevant support and training.
- Relying on consensus: managers and employees discuss and agree objectives and development plans. The system is open and recognises the mutual dependence of managers and their teams in achieving results.

Communication and engagement
The Corporation continued its policy of actively promoting employees' understanding of and involvement in the business objectives of Lloyd's. This is achieved by regular team meetings to keep employees informed and provide feedback to management; staff forums at which the CEO and Executive Team brief staff and answer questions on business progress and issues; an intranet (C-net) which provides information rapidly to employees; and CEO lunches where employees communicate directly with the CEO. During the year, we also conducted several '60 second' surveys which are anonymous online opinion surveys designed to obtain quick feedback on particular issues. During 2006, surveys were conducted on performance management, Flexible Benefits, Lloyd's whistle-blowing policies and Business Continuity Planning.

Training and development
The Corporation continued its strong commitment to training and development. This was aimed at making sure we have the skills, values and capabilities to achieve business objectives, meet FSA requirements and improve individual performance. Employees are actively encouraged to obtain relevant qualifications and fulfil their potential; financial and other support is available to all. A system of internal job advertising is in place so that as many vacancies as possible are filled through internal promotions, transfers and secondments. Building upon the creation of an e-learning programme in 2005, during 2006, all employees received computer-based training to gain an understanding of Anti-Money Laundering regulations and requirements.

Diversity and talent
In addition to formal policies, the Corporation has an active diversity group sponsored by the Director of Finance, Risk Management and Operations. The diversity initiative is about promoting an environment at Lloyd's where all are valued and respected for individual abilities, skills and experience; where difference is respected and seen as a potential asset. In practice, this means attracting and retaining a diverse workforce; harnessing its different skills, experiences and intellectual capability to enhance business performance; and making sure that employees receive equal treatment regardless of factors such as age, race, colour, religion, belief, sex, sexual orientation, national or ethnic origin, marital status or disability.

During 2006, the diversity group focused its agenda on employee and market engagement and education. A number of activities were carried out to support this, including discussion on diversity issues, communicating latest initiatives and research results through a diversity website and newsletter, reviewing and re-launching Lloyd's flexible working policies, the continued provision of computer-based training on 'Diversity at Work' for all new employees, and facilitating the sharing of diversity business drivers and best practice within the Lloyd's market.

2007 initiatives
During 2007, the programme of change will continue. The overall aim of the people strategy will be to support the delivery of the Three-Year Plan 2007-2009, move the organisation to a higher level of performance and continue the programme of cultural change necessary to fulfil the Corporation's role in relation to its customers.

This will be done by means of projects, programmes and activities aimed at:

- Improving leadership and management skills.
- Expanding the 'PaceSetters' programme to engage all employees.
- Conducting a review of skills and resources required to deliver the business plan and improve longer-term performance.
- Identifying the main people risks to the business and practical ways of addressing and mitigating them.

Employee demographics

The Society's employees are employed by the Corporation in the UK and by overseas subsidiaries. The demographic profile which includes both permanent and contracted staff is shown below:

	2006 Number	2005 Number
UK	**668**	669
USA	**29**	29
Canada	**3**	1
Asia	**25**	20
Europe	**31**	32
Africa, Australasia, Central and South America	**7**	7
	763	758

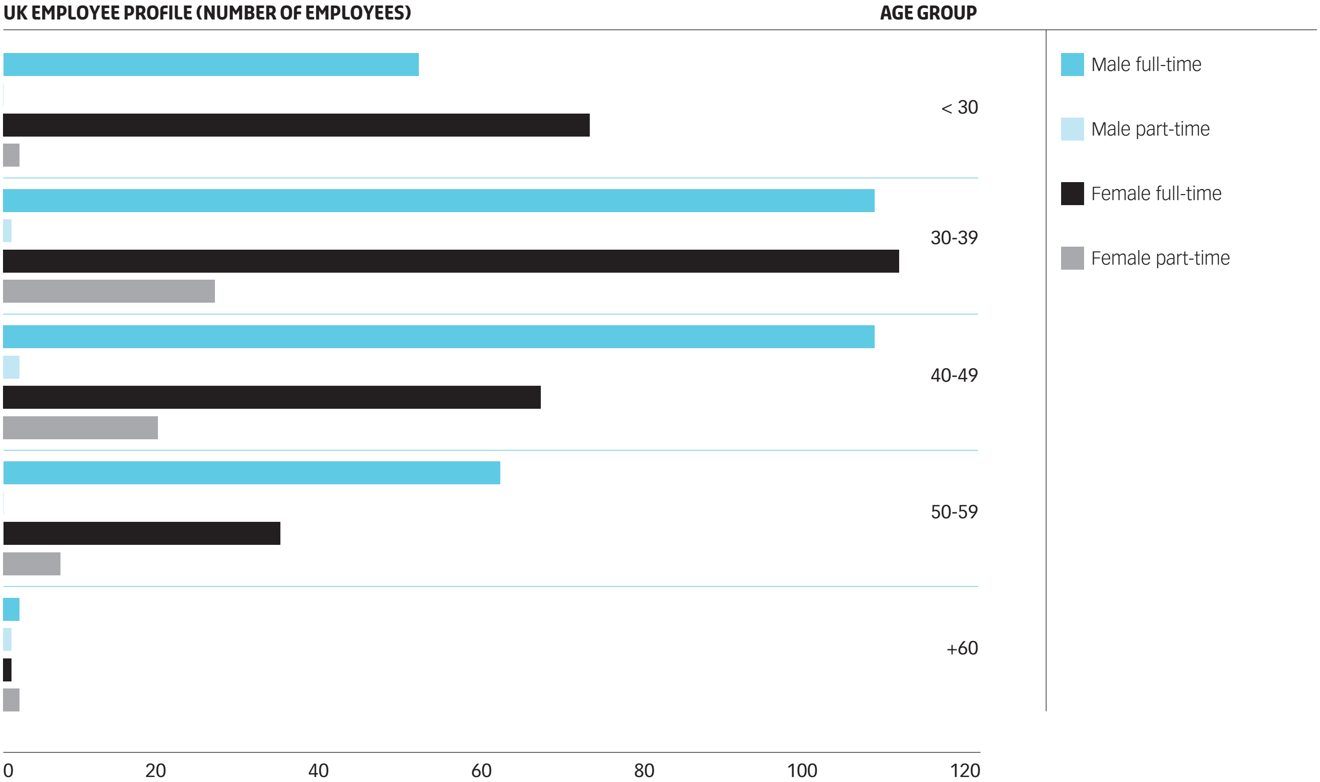
UK employee turnover and absence	2006 Number
Total employees as at 1 January 2006	**669**
Number of joiners (hires, rehires and insourced) in 2006	**162**
Number of voluntary leavers in 2006	**(45)**
Number of involuntary leavers (redundancies and dismissals) in 2006 – Kinnect Limited	**(42)**
– Other	**(44)**
Number of retirements in 2006	**(6)**
Number of contracts completed	**(26)**
Total UK employees as at 31 December 2006	**668**
	%
Total turnover including Kinnect Limited	**24.4%**
Turnover excluding Kinnect Limited	**18.1%**
Industry average turnover	**16.1%**
Voluntary turnover	**6.7%**
Industry average voluntary turnover	**10.3%**
Absence	**1.9%**
Industry average absence	**2.4%**

During 2006, UK voluntary staff turnover, excluding retirements and redundancies, continued to be low at 6.7% compared to the Financial Services industry average of 10.3%, as did our sickness absence record at 1.9% compared to the industry average of 2.4%.

The Corporation's UK employee segmentation and profile as at 31 December 2006 is shown below:

UK employee segmentation	**Executive**	**Head of Function**	**Manager**	**Professional/ Technical**	**Admin**	**Total**
	Number	Number	Number	Number	Number	**Number**
Male	7	31	119	131	39	**327**
Female	–	8	65	136	132	**341**
Total employees	7	39	184	267	171	**668**
	Years	Years	Years	Years	Years	**Years**
Average age	49	45	42	38	37	**39**
Average service	5	8	9	9	6	**8**

UK EMPLOYEE PROFILE (NUMBER OF EMPLOYEES)



Risk management

Risk is managed at Lloyd's via a comprehensive risk management framework, supported by a robust governance structure and the assurance processes of Internal Audit, Compliance and Financial Control.

The responsibility for managing risk is considered to be the role of all Corporation employees and, as such, is included as a key capability within the performance management framework. Employees are assessed against this capability in annual performance appraisals. The risk management framework aims to pull together the key risks, and enable an assessment of these risks on a common basis. It seeks to provide assurance to the Franchise Board that risk is being identified and managed effectively. The overall risk management framework has a dual focus with regard to addressing significant risk issues at Lloyd's. Corporation risk is addressed through the Lloyd's Risk Framework, which is subject to oversight by the Lloyd's Risk Committee. Syndicate and agent level risk is addressed by the Syndicate Risk Matrix. These channels for managing risk are discussed in more detail below.

The principal risk faced by Lloyd's is represented by insurance risk. More specifically, the risks arising from the underwriting, reinsurance, claims and reserving activities of the Lloyd's market. Fundamental to the management of insurance risk at Lloyd's is the Franchise Performance Directorate (FPD). The number and scale of activities conducted by FPD to manage insurance risk is an indication of the priority placed on the effective management of this risk, and of the importance of these risk management activities to the success of the Society.

The Syndicate Risk Matrix

The Syndicate Risk Matrix is a tool used to bring together syndicate level risk and performance issues and enable coordinated decision making and action planning. Syndicates are assessed against a number of key risk and performance indicators gathered from across the Corporation. This information is gathered in the Matrix and discussed at a monthly meeting.

The monthly meeting focuses on syndicates or issues of concern, and on determining and monitoring appropriate actions. Key areas monitored include business planning, control environment, reserving and capital adequacy. The meeting output is shared with the Executive Team and the FSA, and is fed into the Franchise Risk and Control Assessment (discussed on the following page). The key aim is to obtain a wider understanding of syndicate and market wide risk and performance issues, resulting in more coordinated management, decision-making and action planning.

The Lloyd's Risk Framework

The Lloyd's Risk Framework (as outlined below) is managed by the Risk Committee, which was established during 2006 as a sub-committee of the Executive Team. The function of the Risk Committee is to provide assurance to the Executive Team and the Franchise Board that risks are identified and managed in accordance with approved risk policy and appetite. The Risk Committee is not intended to consider risks within individual syndicates or managing agents. However, those risks identified through the Syndicate Risk Matrix, which are relevant at the Lloyd's market or Corporation level, are provided to the Risk Committee for consideration (as described in the 'risk assessment' section on the following page).

The terms of reference of the Risk Committee include:

- Ensuring that risk policy and appetite remain relevant and appropriate and that these are fully aligned with the risk management framework and the Society ICA.

- Reviewing the risk management framework to ensure it meets best practice and regulatory requirements and considering changes to the framework or methodology.

- Determining the key issues that should be escalated to the Executive Team and recommending any required action.

- Providing assurance to the Franchise Board (via the Executive Team) that risks are identified and managed in accordance with agreed policy and to the parameters set by the Franchise Board.

The Risk Committee oversees the identification, assessment and management of risk process, as outlined below:

Risk identification

Risks are identified using a combination of the Franchise Risk and Control Assessment (FRCA) process, environment scanning and the Emerging Risk team and are documented in the Lloyd's Risk Register.

The FRCA is a continuous self-assessment process, which is embedded within the business and is subject to formal quarterly updates. This process is coordinated and facilitated by the Risk Analysis team and is one of the main channels for the identification of new risks, or changes to the profile of known risks.

Environment scanning for significant risk issues is conducted on an ongoing basis by the Risk Analysis team and is included as a standard agenda item for all Risk Committee meetings. This process includes systematic review of press publications (provided by an external media company), websites and internal communications. This process is supported by regular liaison between the Risk Analysis team and other Corporation departments regarding issues such as strategy and project management. This is a feature of the move towards an integrated approach to risk management across the Corporation.

Environment scanning is also conducted on an ad-hoc basis by the directorates, project groups, the Executive Team and the Franchise Board and the output is reported into the Risk Committee. For example, the Franchise Board conducted a risk assessment session during 2006, the output of which was reviewed by the Risk Committee and incorporated into the Risk Register.

An Emerging Risks team has been established as part of the Franchise Performance Directorate to focus primarily on insurance risk. The remit of the team is to consider genuinely new risks (for example, nanotechnology) and existing risks where new information suggests the level of risk is changing unexpectedly (for example, the impact of climate change on flood risk). Historically, the insurance market has suffered losses that had been predicted by other industries or academia. The Emerging Risks team is attempting to ensure such early warning information is captured going forward. As the nature of the risks facing the Society is dominated by insurance risk, this is the primary focus of the Emerging Risk team. However, other risk categories will also be considered as required. The Risk Committee has a standing agenda item to consider emerging risks.

The team was set up in late 2006 and is working with the Lloyd's Market Association (LMA) and with the Lighthill Risk Network – a worldwide network put together to collaborate regarding emerging risk – to identify and manage emerging risks. Lloyd's has developed a 'radar' of prioritised risks which will be used as a dynamic risk register to capture emerging risks going forward. The team will research these key risks and findings will be fed into relevant Lloyd's departments, the Risk Committee and internal/external communication processes as appropriate. The intention is to use lloyds.com as a key tool to document the Corporation's thought leadership in this field.

The Risk Register categorises risks into one of eight risk categories. The Risk Framework does not consist of a fixed number of risks or categories, but evolves with changes to the business and its environment. In addition, the Risk Committee categorise risks as either 'primary' or 'secondary' in order to ensure there is sufficient focus on key risks. Listed on the next page are descriptions of the current risk categories, including commentary on some of the specific key risks at the present time:

Insurance: This risk category represents the most significant risks facing Lloyd's, which is directly reflected in the level of resource and activity dedicated to controlling insurance risk. Insurance risks include those arising from the underwriting, reinsurance, claims and reserving activities of the Lloyd's market, reflecting the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. These risks feature most prominently in the Risk Committee's 'primary' risks.

Business strategy: While often included as an operational risk, Lloyd's treats this area as significant in its own right. This covers risks that are potentially fundamental to the strategic viability of Lloyd's including the risk of adopting an inappropriate strategy, ratings downgrade and failure to maintain competitive position or attractiveness to new and existing businesses and capital providers.

Capital: The Lloyd's market has a unique capital structure, which generates a number of risks to the achievement of the Society's objectives. These include the risks associated with the structure itself, but also a number of risks relating to the calculation of an appropriate level of capital.

Credit: Exposure to credit risk arises from financial relationships with a number of counterparties, including brokers and policyholders, members, reinsurers, banks and investment issuers and custodians.

Financial markets: Exposure to financial market risk arises from potential fluctuation in markets – including asset markets, interest rates and exchange rates – resulting in uncertainty in asset values and investment returns.

Liquidity: Risks in this category are centred around liquidity and solvency concerns for the Society in the UK and overseas.

Operational: This covers the risks associated with inadequate or failed internal processes, people or systems, or from external events. The key risks include the potential for major operational disruption to impact the Society, the failure to effectively execute the agreed strategy and the management and implementation of required business change. This category also includes risks associated with human resources, information systems, supplier management and the provision of adequate processing functions to the market.

Regulatory and legal: Lloyd's operates within a highly regulated industry and across multiple jurisdictions, generating a number of risks to the achievement of the Society objectives. The key risks facing Lloyd's in this category are the risk of regulatory action, over-regulation and internal and external financial crime.

Risk assessment

All risks identified by the processes outlined above are monitored using the FRCA process. Each risk is allocated an appropriate owner, who is the key focal point for the management of that particular risk, with the support of a network of control and action owners across the Corporation. Risk is assessed by the risk owner, under challenge from the Risk Committee, in terms of the potential impact on the Society should it occur, and the perceived likelihood of occurrence within the next 12 months.

Initially, risk is determined on an 'inherent' (before controls) basis. The controls in place to mitigate the risk are then identified and assessed. Controls are also allocated an owner and are self-assessed according to their design and performance – how well have they been designed to manage a particular risk and how well the control is performing.

Risk assessment and control measurement are independently verified and challenged using a number of risk information flows. This not only establishes a robust challenge to the self-assessment process, but assists in ensuring a 'coordinated view' of risk and integrated approach to risk management. The key risk information channels are as follows:

Internal Audit: During 2007, Internal Audit will consider the content of the Risk Register as part of their audits. Further, Risk Analysis will use the audit output to challenge risk and control self-assessments. A project is under way to align the content of the Risk Register with the key processes and controls identified by Internal Audit in the course of their audit work. This will further enhance the integration of Risk Management and Internal Audit.

Compliance and Finance: The Compliance department conducts a monthly process to capture any breach of compliance with legislation or regulation across the Corporation. In addition, this mechanism is used to capture internal control failures for the Finance team. This information is mapped on a monthly basis to the Risk Register and is used to challenge risk and control assessments.

The Syndicate Risk Matrix: Although the process was designed to assess risk at syndicate level, it captures risk information that might be relevant at the Lloyd's market level. As such, data is analysed and linked to the Risk Committee reporting process to ensure consistency between the two key risk reporting channels.

Risk management and mitigation
Depending on the performance of controls, the risk is then assessed on a 'residual' (after controls) basis and a risk appetite is determined for each risk, which is articulated as a 'target' score on the Risk Register. Where residual risk exceeds appetite, actions are generated and recorded in the Risk Register. The FRCA process then tracks actions by key milestones or deliverables to ensure that risk gap is reduced within the desired time frame.

In order to further support the integration of risk management across the Corporation, the Risk Analysis team liaise with the strategic and directorate planning functions quarterly to ensure that, where relevant, the key actions that are articulated in the Society plans, and progress against those actions, are reflected accurately in the risk register.

The results of the formal quarterly FRCA process are reported to, and agreed by, the Risk Committee on behalf of the Executive Team. The Risk Committee uses these results to maintain oversight of the risks in order to provide assurance to the Franchise Board about the effective management of risk and the maintenance of a robust system of internal control.

Individual Capital Assessment (ICA)
The risk management framework is also used in the calculation of the Society ICA, which is the level of capital resources required to withstand a 1-in-200-year event over a one-year time frame. Each risk within the risk framework is assessed to ensure it is treated appropriately from a capital perspective; as part of the stochastic model, as part of the stress and scenario testing or by being controlled by alternative methods.

While there is considerable stochastic modelling of insurance risk, and some other elements of risk such as credit risk, the risk framework was used to identify relevant stress and scenario tests for risks that were outside of the stochastic model. The scenario tests that followed were based on events where one or more of the risks in the framework could occur, and assessing the potential loss from a significant event. The results were fed into the calculation of the Society ICA.

Business Continuity Planning (BCP)
Business Impact Analysis
The risks to the Society from a major operational disruption are reviewed annually in conjunction with the Directors against our Business Impact Analysis (BIA). In 2006, the BIA was reviewed in July and focused on three core scenarios – unavailability of either the London or Chatham office, loss of the Data Centre and an influenza pandemic. The BIA is used to validate recovery objectives and solutions and the following tests were planned for 2006:

Loss of London or Chatham buildings: All business units tested specified activities and supporting systems against pre-defined 'critical success factors' at the business continuity recovery site. The tests were attended by approximately 200 employees. The majority of critical success factors were met and all issues arising from the test were resolved.

Loss of Data Centre: A simulation recovery test of the Data Centre was planned for October 2006. However, the implementation of the Warm Start project resulted in this test being postponed until early 2007. Warm Start is a project to improve recovery timescales and enable an ongoing regular testing programme.

Influenza pandemic: Lloyd's participated in the Tripartite Committee Market Wide Exercise from 13 October to 24 November 2006, which simulated a five-month influenza pandemic. Approximately 35 Lloyd's staff and 35 alternates took part, as well as Xchanging (testing key supplier risk) and two managing agents. The test was successful in identifying critical dependencies to maintain key business activities, all of which continued to operate within the outlined scenario, supported by stakeholder management for any disruption of service.

Crisis Management exercises
Two successful Crisis Management exercises were conducted on 11 May 2006 and 3 November 2006 that included all Crisis Management roles, business unit staff and the Market Associations. Also, managing agent IT systems were successfully tested at the ExCel Centre, the contingency site for the Underwriting Room, on 15 March 2006 and 6 July 2006. This test was offered out to all managing agents with a take up rate of 24 companies in total (approximately half of the market).

Lloyd's BCP in action
At approximately 2pm on Monday 13 November 2006, two major unrelated incidents occurred at Lloyd's that significantly affected the Corporation's IT systems – a water leak at Fidentia House in Chatham and a failure of central storage equipment in London. The systems impacted included the majority of Corporation data, printing and email facilities as well as a number of specific business applications including Treasury, Coverholder Registration and Market Returns.

The Emergency Response team was convened and determined that a full recovery would not be possible by close of normal working hours. A controlled recovery plan was therefore actioned to utilise the time available between close of business on Monday 13 November 2006 and the start of business on Tuesday 14 November 2006. The systems were recovered overnight and normal services resumed ahead of business hours on Tuesday morning.

In both incidents, the option taken for recovery took account of the extra time available overnight. Different options were available should the incident have happened earlier in the day, necessitating a faster recovery. As a result of the successful invocation of recovery plans, downtime was limited to less than three business hours which, while disruptive, had limited business impact. Full communication was maintained with related market bodies, specifically LMA, LMBC and Xchanging throughout and after the effected period.

The response to these incidents indicates the robustness and flexibility of Lloyd's recovery and continuity planning. However, as a matter of best practice, the Emergency Response team conducted a review of the incidents during late November and identified further opportunities to improve resilience and response capability.

Operating review

During 2006, the Executive Team and the Franchise Board monitored progress against a series of financial and operating objectives and targets. These targets were aligned to the Three-Year Plan 2006-2008 (Building the Optimal Platform) which was published in January 2006. This plan described benefits of operating at Lloyd's and the steps necessary to deliver these. The Three-Year Plan was updated in December in respect of 2007-2009 objectives and targets. With respect to the operating objectives relating to the Society's activities, the following were key achievements in 2006:

Economics

2006 was the second year in which managing agents' own capital assessments have driven member capital setting. This process has provided Lloyd's with a good understanding of the risk profile of each business. An enhanced ICA review process was implemented and benchmarking options for new reserving audits were developed. Work to review admissibility of non-regulatory capital (part of ECA) and to develop a new member capital allocation tool is progressing.

During 2006, Lloyd's explored the possibility of introducing differential economic uplifts based on the business written by a syndicate. After consultation with the market, the Franchise Board decided to retain a flat 35% uplift to syndicate ICAs for the 2007 year of account (YOA) as Lloyd's was not yet in a position to deliver a stable and transparent differential uplift option. During 2006, work was undertaken to identify solutions for differential economic uplifts for the 2008 YOA. Work to explore the potential advantages and disadvantages of implementing differential economic capital uplifts will continue during 2007.

Lloyd's remains committed to its aim of reducing the cost of mutuality through improved performance and capital setting. Following the introduction of measures to strengthen the New Central Fund (eg the introduction of syndicate loans), and assuming conditions permit, Lloyd's is aiming to reduce the New Central Fund contribution rate for 2008, a year earlier than originally planned. The planned reduction should not be impacted by the Equitas reinsurance transaction referred to below.

Equitas/Berkshire Hathaway transaction

During 2006, Equitas entered into a retrocession and run-off contract with National Indemnity Company (NICO), a Berkshire Hathaway subsidiary undertaking, in which NICO has provided Equitas with retrocession cover up to a limit of US$14bn. This contract, which became effective on 27 March 2007, provides further assurance in respect of the recoverability of the reinsurance assets of Lioncover Insurance Company Limited, a wholly-owned subsidiary of the Society, which as at 31 December 2006, were £394m.

As part of Phase 1, a contribution of £72m was paid by the Society on 27 March 2007 and, as part of Phase 2, it is intended that a further contribution of £18m is paid by the Society before 31 December 2009. Further details are provided in note 29 on page 131.

Security

Annual rating review meetings were held with all three agencies in 2006: A.M. Best, Fitch Ratings and Standard & Poor's. All three agencies affirmed the Lloyd's financial strength rating. Following the announcement in 2006 of the Equitas and Berkshire Hathaway deal, Fitch Ratings placed Lloyd's on Credit Watch Positive and Standard & Poor's assigned a Positive Outlook.

The Open Years Management team continued to work closely with the managing agents of run-off syndicates and participate in the review and reserving meetings to understand the impact on the Central Fund of insolvent members and ensure that robust closure plans have been put in place.

As described in the Risk Management section, the risk profile of the Society continues to be developed. The appetite for each risk is identified and assessed in order to develop a risk mitigation strategy. During 2006, a comprehensive Risk Management Toolkit was developed (in close consultation with the LMA Risk Management Committee) to support the development of best practice risk management across the Lloyd's market. The toolkit was launched in July 2006, and is available for download at lloyds.com/rmtoolkit. In the FSA's recent Insurance Sector Briefing: Risk Management in Insurers, the Lloyd's Risk Management Toolkit was quoted as one of only four non-FSA reference materials.

Infrastructure
An electronic claims repository went live in September 2006. The electronic claims file (ECF) enables an electronic copy of the claims file to be shared between brokers, XCS and managing agents in support of Lloyd's claims strategy. This is an early and very important step in removing paper and improving service to all involved in the claims process, including the policyholder. Through continued work in 2006, the aim is that all claims will be processed electronically by the end of 2007.

An Accounting and Settlement (A&S) repository was implemented during 2006. The repository enables documents relating to premium transactions to be transferred between market participants more swiftly and with greater control than the current paper-based processes. As with ECF, encouraging the use of the A&S repository will be a key priority during 2007. By the end of 2006, 15% of all premium transactions were using the system.

During 2006, a design for a future state electronic message-based peer-to-peer A&S process was completed and published to the market. This has the potential to eliminate rekeying and, in conjunction with the A&S repository, significantly speed up processing of premiums and claims payments.

Work to streamline the broker accreditation and coverholder approval process as well as to develop an online coverholder data repository progressed during 2006 and will be completed by the end of 2007.

Market access
Following good progress during 2006, Lloyd's received approval in March 2007 to establish an onshore reinsurance presence in China. Trading is expected to begin shortly.

Lloyd's Asia grew strongly during 2006. By the end of the year, eight managing agents were operating on the platform, an increase from just two managing agents at the beginning of 2004.

Through continued progress in 2006, Lloyd's remains on track to restructure its global network of offices and representatives during 2007 to ensure that it is clearly aligned to managing agents' needs and service requirements. A classification of the international representative offices' respective services and skills has been completed and communicated to the market.

Brand
Focused activities to maximise the impact of Lloyd's brand have centred on events programmes, enhancements to lloyds.com and thought leadership initiatives (for example, Lloyd's initiated the 360 Risk Project on Climate Change, hosting a climate change forum in July 2006). The second Customer Satisfaction Survey on Lloyd's core business processes was conducted during September and October 2006 and included more than 450 interviews in the UK and US with brokers, coverholders and end buyers. During 2006, work commenced on the lloyds.com website to enable secure market access and personalisation.

The plans for the refurbishment of the Lloyd's 1986 Building lower ground concourse progressed during 2006 with anticipated works due to commence during 2007.

Operations
Over 66 separate service standards for the supply of information and services to the market were agreed in 2006 with the Lloyd's Market Association. As at 31 December 2006, 92.4% of these service standards were met. The impact of those service standards not achieved is considered low.

The Complaints department handled 2,469 new complaints from Lloyd's policyholders on behalf of the market and closed 2,536 cases in 2006. The department received 1,645 general enquiries during 2006. This department also dealt with approximately 700 verification of coverage enquiries from US Departments of Insurance and residents seeking to claim under their insurance for damage resulting from hurricanes Katrina, Rita and Wilma. The correct insurer, not always Lloyd's, was identified for 99% of these.

Contingency planning and testing of business continuity plans progressed in 2006 and in conjunction with the FSA, a Market wide influenza pandemic exercise was completed. Further details are set out on page 67.

During 2006, Property Services handled the office relocation from the Lloyd's Gun Wharf premises in Chatham into new leased premises nearby. The move was successful with limited disruption to Lloyd's operations. On 8 December 2006, Lord Levene officially opened Fidentia House. Special guests included 11 members of staff who were working at Gun Wharf when it was officially opened by the Queen Mother in 1979. They were joined by members of the Lloyd's Executive Team and departmental managers of Fidentia House. Fidentia House was designed and built by Abstract Securities as part of their redevelopment of vacant land in the Chatham Maritime area.

Lloyd's Three-Year Plan 2007-2009

The most recent iteration of the Lloyd's Three-Year Plan (covering 2007-2009) was published in December 2006, along with the 2007 Business Plan. Both can be found at lloyds.com/threeyearplan. Tracking and reporting will continue during 2007 to help ensure implementation remains on target.

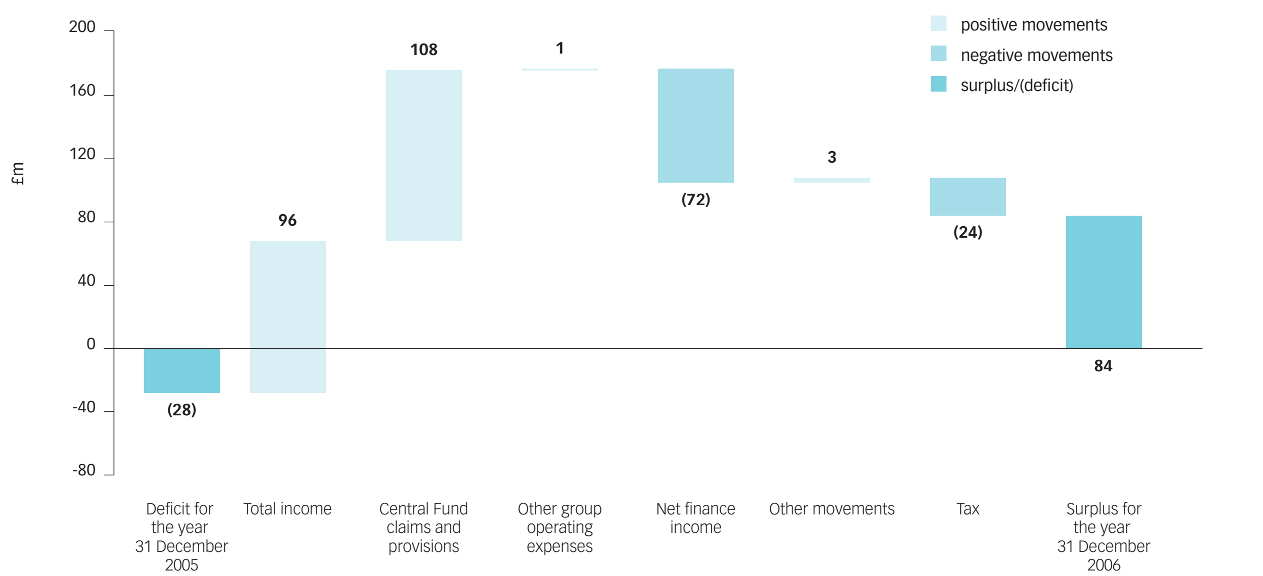
Financial review

This review should be read in conjunction with the financial statements of the Society on pages 93 to 132.

Overall financial result

The surplus for the year after taxation is £83.6m (2005: deficit of £27.6m). The surplus is mainly a consequence of the increase in Central Fund contributions to 1.00% during 2006 (2005: 0.50%) and the decrease in the level of New Central Fund claims and provisions. This has been offset by a material decrease in net finance income. The movement in the surplus for the year is shown below:

Movement in group income statement

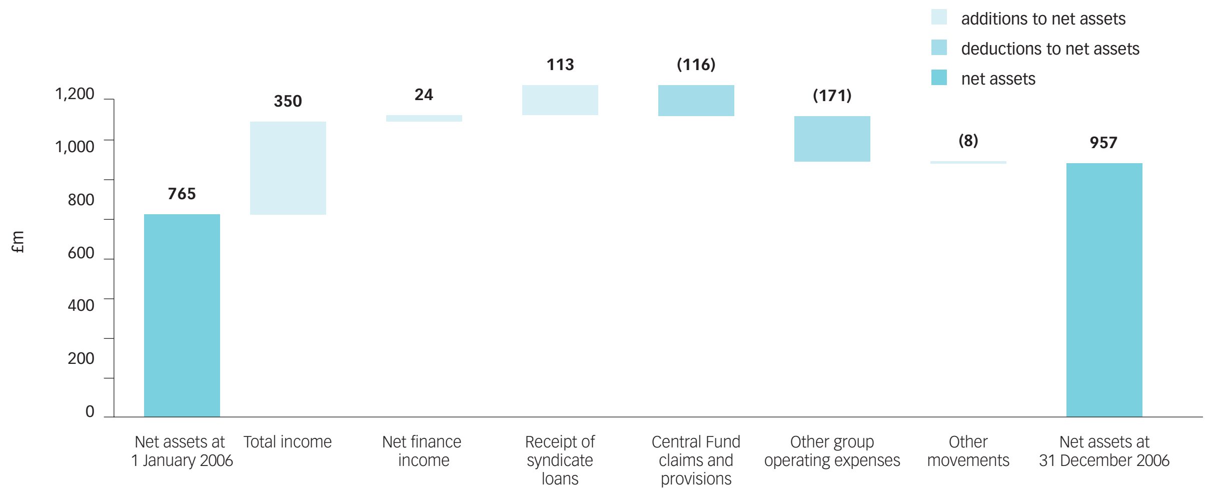


Members contribute to the Central Fund based on a percentage of their allocated overall premium limit. However, as in 2005, this is partly achieved by contributions of 1.00% (2005: 0.50%) and partly by way of interest-bearing loans from syndicate premiums trust funds, referred to as syndicate loans, of 0.75% (2005: 0.75%) see note 25. The syndicate loans are treated as part of the Society of Lloyd's equity rather than as contributions from members in the group income statement. Syndicate loans will ordinarily be repaid on the closure of the year of account after three years. Interest payable on the loans is accounted for when the Council of Lloyd's formally approves interest payments to be made. An amount of £8.2m was approved on 28 March 2007 in respect of estimated interest for the year to 31 March 2007 (31 March 2006: £4.4m).

New corporate members underwriting on new syndicates are required to contribute to the New Central Fund at an increased rate for their first three years of operations at Lloyd's. The rate for 2006 was 2.50% with the rate being reduced by 0.50% to 2.00% for 2007. Members' subscriptions which are used to finance the operations of the Society were unchanged in 2006 at 0.50%.

The Society net assets have increased from £764.6m to £956.9m. Details are set out below:

Movement of net assets



The net assets of the Central Fund are included within the above amounts and at 31 December were £843.2m (2005: £670.4m).

Solvency

Total assets for solvency purposes are set out below. The 2006 position is an estimate of the amount which will be finalised in June 2007 for submission to the FSA:

	2006 £m	2005 £m
Net assets at 31 December	**957**	765
Subordinated loan notes	**497**	501
Central assets	**1,454**	1,266
Callable Central Fund contributions	**484**	443
Other solvency adjustments	**118**	141
Central assets for solvency purposes	**2,056**	1,850
Solvency shortfalls	**(262)**	(482)
Excess of central assets over solvency shortfalls	**1,794**	1,368

Based on central assets for solvency purposes of £2.1bn (2005: £1.9bn), the estimated solvency ratio is 785% (2005: 384%).

In setting contribution levels, account is taken of the Society's ICA to ensure that Lloyd's is prudently but competitively capitalised. The medium-term target is that the central asset position, net of outstanding liabilities, should exceed £1.7bn.

The operating surplus/(deficit) before tax as reported by business segment is set out below:

	Corporation of Lloyd's £000	Central Fund £000	Insurance activities £000	2006 Total £000	2005 Total £000
Total income	**172,566**	**174,635**	**2,834**	**350,035**	253,836
Central Fund claims and provisions	**–**	**(115,735)**	**–**	**(115,735)**	(223,889)
Gross insurance claims incurred	**–**	**–**	**(55,461)**	**(55,461)**	(30,039)
Insurance claims recoverable from reinsurers	**–**	**–**	**56,804**	**56,804**	29,844
Other group operating expenses	**(164,946)**	**(5,677)**	**(172)**	**(170,795)**	(172,097)
Operating surplus/(deficit)	**7,620**	**53,223**	**4,005**	**64,848**	(142,345)

SOCIETY RESULTS

Income

The Society's income has increased in 2006 by £96.2m to £350.0m (2005: £253.8m). New Central Fund contributions recognised within income increased from £70.1m to £152.2m, an increase of £82.1m. This reflects both the increase in capacity during the year and an increase in the contribution rate from 0.50% in 2005 to 1.00% in 2006. Members' subscriptions increased from £68.8m to £74.5m, an increase of £5.7m, and reflect the change of capacity in 2006 with the subscription rate remaining unchanged at 0.50%.

Central Fund claims and provisions

Central Fund claims and provisions decreased in 2006 by £108.2m to £115.7m (2005: £223.9). This principally reflects the granting of annual undertakings to insolvent members in order to meet their financial commitments to policyholders from the Central Fund. Annual undertakings are approved at the discretion of the Council of Lloyd's and are based on anticipated cash flow requirements of insolvent members in the following 12 months. During 2006, payments made in respect of insolvent corporate members totalled £131.2m (2005: £147.7m) with additional payments made in respect of individual members of £3.5m (2005: £2.3m).

Gross insurance claims incurred and insurance claims recoverable from reinsurers

The Corporation has two insurance company subsidiary undertakings, Centrewrite Limited and Lioncover Insurance Company Limited. Centrewrite provides Exeat insurance to resigned members participating only on run-off syndicates, allowing an early exit from Lloyd's and Estate Protection Plan insurance to members. The insurance contract liabilities of Lioncover were wholly reinsured into Equitas in 1997 and the company does not accept new business. Within both gross insurance claims incurred and insurance claims recoverable from reinsurers is a matching £57.0m relating to Lioncover. Movements in Lioncover's reserves do not therefore affect the result for the year. Further security in respect of Lioncover's insurance liabilities has been provided as a result of the retrocession and run-off contract between Equitas and NICO (see note 29).

Other group operating expenses

Operating expenses were reduced slightly in 2006 at £170.8m (2005: £172.1m) and are principally attributable to the Corporation. Maintaining cost discipline is a priority, and opportunities to improve the efficiency of operations and bring down the cost of doing business at Lloyd's will continue to be sought, while focusing on achieving the rolling Three-Year Plan.

Net finance income

Finance costs of £29.0m in 2006 (2005: £33.7m) include interest on subordinated loan notes issued in November 2004 of £32.0m (2005: £32.2m). The decrease in finance income to £52.8m (2005: £129.0m) reflects (a) losses arising on fixed interest investments in an environment of rising yields and (b) foreign exchange losses driven by the weakening of the US dollar during the year. Since May 2006, currency hedging of naturally unhedged assets and liabilities has been implemented. The hedge policy has resulted in the reduction in foreign exchange losses by £14.4m during the period to 31 December 2006. The overall gross investment return on central assets was 3.2% (2005: 8.9%). The disposition of financial investments as at the year end is set out in note 16 on pages 116 to 118. The proceeds of the issue of subordinated loan notes and syndicate loans are broadly invested to immunise the related liabilities.

Taxation

A tax charge of £7.0m (2005: tax credit £17.3m) on the surplus before tax of £90.6m (2005: deficit £45.0m) has been recognised for the year ended 31 December 2006. The 2006 tax charge includes a prior year deferred tax credit of £15.4m. Further details are set out in note 9 on pages 107 and 108.

Pension liabilities

On an IFRS valuation basis, the group pension liabilities as at 31 December 2006 reduced by £6.7m to £45.8m before allowance for deferred tax of £13.5m (31 December 2005: £52.5m deficit before allowance for deferred tax of £15.7m). The movement in the pension liabilities during the year is summarised below:

	2006 £000
Pension liabilities as at 1 January 2006	**(52,541)**
Pension expense recognised in the group income statement	**(10,601)**
Employer contributions – normal	**4,933**
– special	**14,300**
Actuarial loss recognised in the group statement of recognised income and expense	**(1,867)**
Pension liabilities as at 31 December 2006	**(45,776)**

In November 2006, the Corporation made special contributions to the Lloyd's Pension Scheme of £14.3m. These contributions included the funding of a discretionary increase to pre 6 April 1997 pensions in payment of £4.3m, together with a lump sum payment of £10.0m to reduce the pension liabilities of the scheme.

An actuarial loss of £1.9m has been recognised in the group statement of recognised income and expense (2005: actuarial loss £2.4m). For the purposes of the IAS 19 valuation, as at 31 December 2006, the mortality assumptions have been updated to incorporate the CMI's published 'medium cohort' improvements from 1992 to 2006 and in the future. The impact of this change in assumption has been to increase the balance sheet liability by £22.5m and is included as an actuarial loss. This actuarial loss has been offset by the following:

- An actuarial gain due to the increase in the rate used to discount the Lloyd's Pension Scheme's liabilities from 4.8% as at 31 December 2005 to 5.1% as at 31 December 2006.

- From 6 April 2006 (as a result of amendments to the Finance Act 2004), members are allowed to commute a significantly higher proportion of their pension at retirement. As at 31 December 2006, an actuarial assumption has been made that members will commute 20% of their pension at retirement which has resulted in an actuarial gain of £9.3m.

- During 2006, due to favourable investment conditions, the actual investment return on the scheme's assets for the year ended 31 December 2006 exceeded the expected return and has resulted in an actuarial gain of £7.4m.

The actuarial valuation of liabilities is particularly sensitive to changes in market conditions, which determine the discount rate, and changes to mortality assumptions. Further details are provided in note 21 on pages 119 to 122 which includes the sensitivity of the valuation to changes in these assumptions.

During 2006, a number of initiatives mitigated exposure to pension scheme liabilities. These included the introduction of employee contributions from July 2006 and the closure of the final salary scheme to new joiners after June 2006. New entrants from 1 July 2006 have been eligible to join a career average scheme.

Cash flows and liquidity
Cash and cash equivalents decreased during the year ended 31 December 2006 by £206.8m to £210.3m (2005: £417.1m). This principally reflects the longer duration of cash deposits (in excess of three months) and are therefore included within financial investments in the group balance sheet. Cash balances are maintained at appropriate levels to meet the short-term operating expenses of the Society. Any surplus cash balances are invested and are included as financial investments within the group balance sheet.

Free cash balances for the Corporation are monitored continually. Free cash represents the cash amounts, both at bank and on deposit, held in the UK available for the Corporation in respect of operating expenses. Free cash excludes any client money balance held in respect of insurance and arbitration activities. Free cash balances during the year ended 31 December 2006 decreased by £16.5m to £78.7m (2005: £95.2m).

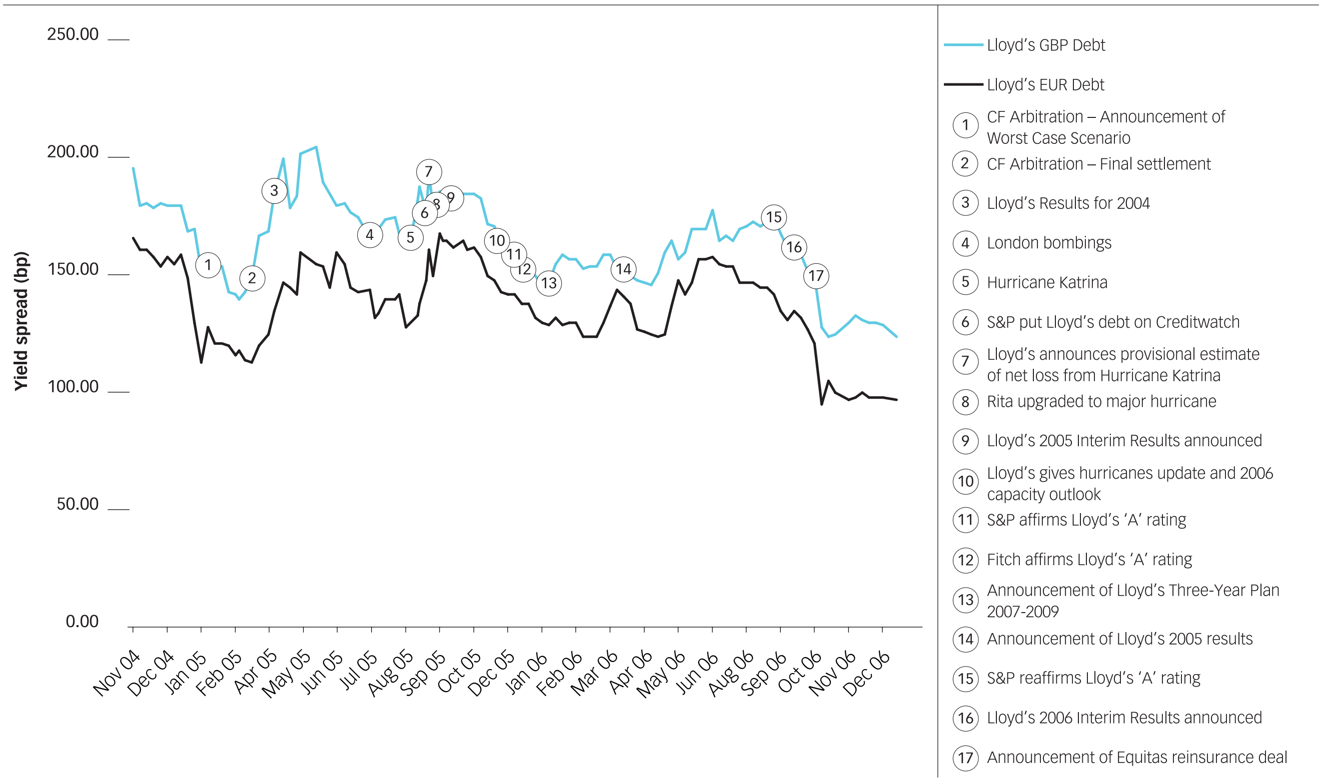
The liquidity of the Central Fund is monitored separately. Cash balances are managed to meet short-term operational commitments including the payment of drawdowns. Any surplus cash balances are invested in compliance with defined investment parameters approved by the Investment Committee.

Central Fund investment strategy
During 2006, the Central Fund investment strategy was reviewed and amended, following consultation with the market. A revised risk management framework was introduced and dispositions were reviewed in order to optimise risk adjusted returns. The balance between bond and equity exposures has been revised, a new global property portfolio added and currency management has been amended such that substantially all non-sterling investment exposures are now eliminated by hedging. During 2007, bond and equity mandates will be revised to ensure broad diversification and appropriate hedge fund exposures will be introduced.

Investment performance
During the year ended 31 December 2006, the Society reported a 3.2% gross investment return. Investment assets are maintained by the Society for a variety of purposes. Individual investment portfolios are managed within specific parameters which are relevant to their particular purpose and risk tolerance. In many cases, investment strategy is designed to manage risks associated with particular liabilities of the Society, including subordinated loan notes and syndicate loans, and not to maximise returns. Consequently, the overall investment return is difficult to interpret in isolation. The performance of each investment portfolio is monitored against a benchmark return which reflects the investment constraints applying to that portfolio. The surplus assets of the Central Fund are least constrained in the pursuit of an absolute investment return and these returned 9.9% in 2006. The benchmark return for this portfolio was 7.2%.

Central Fund subordinated loan notes
The yield spread of the Central Fund subordinated loan notes since issuance is shown in the table below:

EXCESS YIELD OF LLOYD'S SUBORDINATED DEBT ISSUES OVER GOVERNMENT BONDS
Chart also highlights Important Events for Lloyd's – see key



The graph shows the difference between the yield at which the Lloyd's debt issues have traded in the capital markets and the yield on relevant Sovereign debt issues, in the period since the Lloyd's debt was issued. Changes in this yield spread may be indicative of changes in investor's perceptions of the credit quality of Lloyd's debt obligations although other, more generic, capital market developments will also have an effect. From the graph, it can be seen that spreads have varied significantly over the period. The substantial increases during the first half of 2005 coincide with Hurricane Katrina, while the fall in spreads at the end of 2006 reflects the announcement of the Equitas and Berkshire Hathaway reinsurance transaction and subsequent positive comments from the rating agencies. Overall, spreads have narrowed by around 70 basis points in the period since issue, suggesting improved investor perception of Lloyd's creditworthiness.

Treasury management and policies
Financial instrument risk management
The Society's principal financial instruments comprise cash and liquid resources, investments, borrowings, provisions and items that arise directly from operations such as trade receivables and payables. These include assets and liabilities of the Central Fund.

The Society's treasury operations and investments are managed by reference to established policies which are reviewed regularly. Policies for managing these risks are summarised below:

Interest rate risk
Borrowings from the Lloyd's market for the purpose of funding insurance deposits do not bear a fixed rate of interest. Instead, investment returns earned on the borrowed assets are passed on to lenders. Consequently, no interest rate risk arises on such borrowings. Short-term assets held by the Society may be significant at certain times but such balances cannot be accurately predicted. These are invested in money market instruments of up to 12 months in duration with the objective of maximising current income while meeting liquidity requirements.

Interest rate risk arising from the requirement to make fixed rate coupon payments in respect of the Lloyd's subordinated debt issues is managed by investing relevant assets in securities having similar currency and term profiles to the Lloyd's issues.

Liquidity risk
The value and term of short-term assets are carefully monitored against those of the Society's liabilities. The Society aims to maintain sufficient liquid assets to meet liabilities as they fall due.

Foreign currency risk
The Society enters into a variety of foreign exchange transactions in response to the foreign currency requirements of Lloyd's group companies. In managing the exposures arising from such foreign exchange activity, which may involve transactions for forward settlement, the net risk arising from all such exposures is considered and the level of this risk is managed within closely defined parameters. Consequently, while some net foreign exchange exposures may accrue to the Society from time to time as a result of this activity, the level of such exposures is carefully monitored and is not significant in the context of its combined activities.

Separately, the Society provides a Currency Conversion Service (CCS) to participating Lloyd's syndicates, converting insurance premiums and claims between pounds sterling and other Lloyd's settlement currencies as required.

Foreign exchange exposures arising from the provision of the CCS are again managed on a net basis, within defined parameters. The CCS is operated separately from other foreign exchange activity of the Society because, under the terms of the service, any profit (or loss) arising from CCS exposures is distributed to (or collected from) syndicates participating in the CCS. Currency exposures arising from CCS activity consequently do not, ultimately, represent risks to the Society.

Credit risk
A list of permissible bank counterparties, for the purposes of money-market investment, is maintained and restricted to banks having strong balance sheets and credit ratings. Investment parameters exist for all investment assets, ensuring high credit quality and appropriate risk diversification. Permitted counterparties to capital market transactions are also carefully controlled. All applicable parameters are reviewed regularly by the Lloyd's Investment Committee.

Further disclosures with regard to financial instruments are provided in note 24 on pages 125 to 128.

Related party transactions
Except for disclosures made in note 27 (see page 129), no other related party has had material transactions with the Society of Lloyd's in 2006.

Going concern statement
After making enquiries, the members of the Council of Lloyd's have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Society financial statements.

Statement as to disclosure of information to auditors
Having made enquiries, the Council of Lloyd's confirms that:

- To the best of each Council member's knowledge and belief there is no information relevant to the preparation of the Society review of which the Society of Lloyd's auditors are unaware.

- Each Council member has taken all the steps a Council member might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Society of Lloyd's auditors are aware of that information.

Outlook
Market capacity for 2007 is £16.1bn, an increase of 9% on 2006 capacity (2006: £14.8bn). Central Fund contributions, members' subscriptions and syndicate loan rates remain at 2006 levels. Income from members' subscriptions will increase to £80.5m (2006: £74.5m). Central Fund contributions will increase to £161.0m (2006: £152.2m) and syndicate loans to £120.8m (2006: £112.6m).

On 28 March 2007, the Council of Lloyd's gave further undertakings to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. After taking account of the expiry of unutilised undertakings, the net increase in undertakings, which will be reflected as a charge in the 2007 income statement is £14.7m (see note 4 on page 105).

The operating expenses for the Corporation are budgeted to increase by £9.1m to £174.0m in 2007 (2006: actual £164.9m) with a continued focus in achieving the rolling Three-Year Plan.

The Council of Lloyd's is committed to the principle of good corporate governance and supports the application of the principles of the Combined Code on Corporate Governance, as far as they can be applied to the governance of a Society of members and a market of separate, competing entities.

Governing body: The Council of Lloyd's
Under Lloyd's Act 1982, the governing body of the market is the Council of Lloyd's. Under the Act, the Council has the management and superintendence of the affairs of the Society and the power to regulate and direct the business of insurance at Lloyd's. In addition, the Council also has the power to make byelaws for the proper and better execution of the Lloyd's Acts and the furtherance of the objects of the Society, and for various specific purposes set out in the Act.

The members of the Council as at 28 March 2007 are listed on page 16. The Council comprises six working and six external members, together with six nominated members. Nominated members are usually appointed for three-year terms which can be renewed. Working and external members are generally elected for terms of three years by the working and external members of the Society respectively. In accordance with Lloyd's Act 1982, the Chairman and Deputy Chairmen of Lloyd's are elected annually by the Council from among the working members of the Council.

The Chairman of Lloyd's commits as much time as is necessary to successfully undertake the role. The Council acknowledges that the Chairman has other commitments outside Lloyd's and is satisfied that these can be accommodated with the Chairmanship of Lloyd's.

The nominated members of the Council may be regarded, for the purposes of the Combined Code, as independent members of the Council with the exception of the CEO who is included within their number. Although the concept of a senior independent director does not strictly apply to the Council, Bill Knight (a nominated member) was elected a Deputy Chairman of the Council by the Council.

In the elections for working members of the Council, voting operates on a one member, one vote basis. In the elections for external members of the Council, the voting entitlement of an external member of the Society is based on the member's allocated underwriting capacity as determined under the Council and Committee Byelaw. The Council reports to the members at the Annual General Meeting. Voting entitlement at general meetings is capacity-based for both external and working members, except at general meetings called on the requisition of members under section 6(4) of the Lloyd's Act 1982 for the purpose of revoking or annulling byelaws, at which each member has one vote. The Council met six times in 2006.

Governance Policies
In April 2006, the Council agreed Governance Policies which, amongst other matters, are intended to improve the clarity around the role of the Council and to establish a more structured relationship with the Franchise Board.

The Governance Policies establish the Purpose for Lloyd's: 'To maintain, in accordance with Lloyd's Acts, an organisation that will enable the long-term return from carrying out the business of insurance to be maximised for capital providers' (ie members).

The Governance Policies also establish the process by which the Council manages its own activities and affairs. There are a number of issues that only the Council can deal with under the terms of the Lloyd's Acts – for example, the making and amending of byelaws. In addition, the Council reserves to itself the ability to set the level of contributions to the New Central Fund and the amount of the annual subscription, the right to appoint members of the Franchise Board and other committees of the Council and reviewing the budget and the Franchise Board's Three-Year and Annual Plans. The Council must also approve all expenditure above a specified amount.

Under the Governance Policies, the Council is also responsible for assessing the long-term strategic development of Lloyd's by reference to both the interests of capital providers and other stakeholders and through an evaluation of economic, political and social issues impacting the international insurance and reinsurance markets.

In respect of the majority of its other functions, the Council acts by the Franchise Board. The Governance Policies therefore define the accountability linkage between the Franchise Board and the Council. This includes determining the boundaries within which the Franchise Board will operate (the Franchise Board Limitations) and establishing a Monitoring and Assurance regime which, amongst other matters, requires the Chairman of the Franchise Board to report to the Council on all material issues impacting the world insurance market and Lloyd's as well as providing a summary of key performance indicators.

Franchise Board
The Council established the Franchise Board as from 1 January 2003 and set it a goal: 'To create and maintain a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised'. The Franchise Board must operate within the boundaries of the limitations established by the Council which include operating in accordance with the Franchise Principles. The latter cover three main areas: the overriding principles (relating to legal, regulatory and corporate governance); the capital principles (which emphasise equity between capital providers and prudence in capital setting); and the operating principles (including setting the market supervision framework in accordance with FSA requirements).

The members of the Franchise Board as at 28 March 2007 are listed on page 17. In 2006, the Franchise Board comprised the Chairman of Lloyd's, who was also its Chairman, the CEO (from the date of his appointment on 24 April 2006), the Franchise Performance Director and the Director, Finance, Risk Management and Operations (who was also the Acting CEO until 24 April 2006). The balance of the Board was made up of three non-executives connected with the Lloyd's market and three independent non-executives. The Franchise Board held 12 meetings in 2006 including one all day off-site meeting.

The main committees of the Franchise Board and their purpose are outlined below.

Market Supervision and Review Committee (MSARC)
MSARC acts as a review body capable, where appropriate, of amending, modifying or withdrawing certain decisions taken by the executive affecting managing agents. It also acts as the body that determines whether certain decisions can be referred to the Lloyd's Appeal Tribunal and can also make certain business decisions itself. MSARC also takes decisions regarding the exercise of Lloyd's enforcement powers. The MSARC met on five occasions in 2006.

Capacity Transfer Panel
The Capacity Transfer Panel has been established principally to exercise the Council's powers in relation to minority buyouts and mergers. The Panel met on seven occasions in 2006.

Underwriting Advisory Committee (UAC)
The UAC was established to provide the Franchise Board and the executive with an internally and externally informed view on the insurance cycle. It also identified broader and longer-term issues that may influence the underwriting environment.

As from 30 September 2006, the Franchise Board disbanded the UAC. It reached this decision because following the introduction of the Governance Policies, which require the Council to consider long-term strategic developments, the UAC's remit was limited to a review of the underwriting cycle. This was a task the Board believed it was able to undertake itself without the assistance of a dedicated committee. The UAC met three times in 2006 prior to its disbandment.

Investment Committee
The Investment Committee sets the investment objectives and parameters of centrally managed assets and is responsible for monitoring the performance of these funds. In addition, it monitors the investment operations of the Treasury department in respect of all funds under its management and approves all investment counterparties. It may also make more general recommendations concerning investment activity at Lloyd's. The Investment Committee met on four occasions in 2006.

Other principal committees of the Council
Franchise Principles Committee
As a result of the introduction of the Governance Policies and, in particular, the new Monitoring and Assurance arrangements, the Council agreed in April 2006 that there was no need for a dedicated committee to monitor the effectiveness of the delegation from the Council to the Franchise Board. The Franchise Principles Committee was, therefore, disbanded. It met on one occasion in 2006 prior to its disbandment.

Audit Committee
The Audit Committee's role ensures that the financial activities of Lloyd's are subject to independent review and audit. The Audit Committee reviews Lloyd's annual and interim financial statements, the aggregate syndicate results and the Lloyd's Return to the FSA. It also reviews both the external and internal audit plans and the compliance plan. The CEO, Director, Finance, Risk Management and Operations, General Counsel, senior managers and external and internal auditors attend meetings as appropriate. Reports from internal and external auditors on aspects of internal control and reports from the Head of Internal Audit and Compliance on internal and overseas compliance are reviewed by the Audit Committee and appropriate action taken in response. The Audit Committee met on five occasions in 2006.

The terms of reference of the Audit Committee are available from the Secretary to the Council on request.

Nominations, Appointments and Compensation Committee (NACC)
The NACC is principally responsible for making recommendations to the Council on the appointment of the Chairman, CEO, new nominated Council members, Franchise Board members (including the Director, Finance, Risk Management and Operations and Franchise Performance Director), members of a number of the Council and Franchise Board committees and the Secretary to the Council. The NACC reviews the remuneration of these individuals and makes recommendations to the Council on the remuneration of the members of these bodies, including the Chairman, CEO, Director, Finance, Risk Management and Operations and Franchise Performance Director. The NACC is also responsible for succession planning arrangements for these positions. The NACC met on three occasions in 2006.

The terms of reference of the NACC are available from the Secretary to the Council on request.

Performance assessment
An evaluation of the performance of the Council and its principal committees in 2006 (defined for this purpose as the Franchise Board, the Audit Committee and the NACC) was undertaken during the year. The evaluation also covered the performance of the Council and committee members including the chairman of each committee.

The assessment was conducted by the Secretary to the Council who met all Council and committee members on an individual basis to seek their views on 2006 performance. These discussions were based around the Performance Evaluation Guidance in the Higgs report on the 'Review of the role and effectiveness of non-executive directors'. As part of this process, Council and Franchise Board members' comments on the performance of the Chairman were discussed privately with him. The same process was followed with the chairmen of the other committees subject to the performance assessment.

The principal conclusion of the assessment was that the current governance arrangements were working effectively and that the introduction of the Governance Policies had assisted in providing greater clarity around the role of the Council and its relationship with the Franchise Board although it was too soon to draw definitive conclusions on their effectiveness.

Amongst the other major findings of the review were:

- Broad support for the briefing sessions held outside formal Council and Franchise Board meetings and a view that future briefings should encompass wider insurance industry issues.
- A view that the current authorities exercisable by the executive should be reviewed by the Franchise Board to ensure they remain relevant and up to date.

These and other suggestions for performance improvements for individual committees subject to the assessment will be taken forward by those committees.

Board training and induction
As part of the induction process, new members of the Council and Franchise Board without extensive knowledge of Lloyd's are offered briefing sessions with senior executive management and others. Members of the Council and Franchise Board with pre-existing knowledge and involvement at Lloyd's are given the opportunity to receive briefings on subjects of particular interest to them.

In 2006, briefing sessions on a range of Lloyd's related topics were made available to all members of the Council and the Franchise Board.

Independent professional advice
Members of the Council and Franchise Board have access to independent professional advice, if required.

Authority to act
The Franchise Board may act through the CEO, directors and employees of the Corporation save in respect of those functions and powers reserved to it, the Council and their committees. The CEO, directors and employees must act in accordance with the Franchise Board Limitations (including the Franchise Principles) and in accordance with the Franchise Goal and Principles and in accordance with the strategy, policy and principles set by the Franchise Board.

Corporate governance of the Lloyd's market
The corporate governance of each entity within the Lloyd's market is the responsibility of that entity. The Council provides, through the Corporation, a framework for the governance of these businesses including the assessment of capital adequacy and market supervision (including inspections, visits and audits of market entities). Managing agents' governance arrangements are also reviewed on registration and as part of risk management assessments.

Attendance record

	Council	Franchise Board	Audit Committee	NACC[1]	Franchise Principles Committee	MSARC[2]	Capacity Transfer Panel	Underwriting Advisory Committee	Investment Committee
Council and Franchise Board members:									
Chairman of the Council of Lloyd's:									
Lord Levene of Portsoken	[A]6/6	[A]12/12	–	–	–	–	–	–	–
Executive Directors:									
Richard Ward	4/4	9/9	–	–	–	–	–	–	–
Luke Savage	–	12/12	–	–	–	–	–	–	4/4
Rolf Tolle	–	12/12	–	–	–	–	–	–	–

Attendance record continued

	Council	Franchise Board	Audit Committee	NACC[1]	Franchise Principles Committee	MSARC[2]	Capacity Transfer Panel	Under-writing Advisory Committee	Investment Committee
Non–Executive Council members:									
Working members:									
Christine Dandridge	5/6	–	–	2/3	0/1	–	–	–	–
Ewen Gilmour	6/6	–	1/1	1/2	–	–	–	–	–
Nigel Hanbury	5/6	–	–	–	–	–	–	–	–
Bronek Masojada	5/6	–	–	3/3	1/1	–	–	–	–
Graham White	6/6	–	–	–	–	–	1/1	–	–
External members:									
Thomas Corfield	3/3	–	–	–	–	–	–	–	–
Sean Dalton	2/3	–	2/3	–	–	–	–	–	–
Quentin Davies	5/6	–	–	–	–	–	*5/7	–	–
Peter Morgan	4/6	–	–	3/3	0/1	–	–	–	–
Charles Philipps	5/6	–	–	2/3	1/1	–	–	–	–
David Shipley	6/6	–	5/5	–	–	–	–	–	–
Anthony Townsend	6/6	–	–	–	–	–	–	–	–
Nominated members:									
Celia Denton	6/6	–	5/5	–	–	5/5	–	–	–
Judith Hanratty	5/6	–	–	2/3	–	[A]5/5	–	–	–
Bill Knight	6/6	–	4/5	[A]3/3	[A]1/1	–	–	–	–
Philip Lader	5/6	–	–	–	1/1	–	–	–	–
Andreas Prindl	6/6	–	4/5	–	–	–	[A]6/7	–	[A]4/4
Non–Executive Franchise Board members:									
Roy Brown	–	10/12	–	–	–	–	–	–	–
Steven Burns	–	10/12	–	–	–	–	–	–	–
Stephen Catlin	–	9/12	–	–	–	–	–	–	–
Edward Creasy	–	11/12	–	–	–	–	–	–	–
Stephen Hodge	–	11/12	[A]5/5	–	–	–	–	–	–
Jim Stretton	–	11/12	1/1	–	–	–	–	[A]3/3	–
Former Council members:									
John Coldman	–	–	–	1/1	–	–	–	–	–
Other Committee members:									
Ralph Aldwinckle	–	–	–	–	–	–	6/7	–	–
Ian Agnew	–	–	–	–	–	5/5	–	–	–
Andrew Carrier	–	–	–	–	–	–	–	3/3	–
Lady Delves Broughton	–	–	–	–	–	–	*4/7	–	4/4
David Gilchrist	–	–	–	–	–	5/5	–	–	–
David Gittings	–	–	–	–	–	–	*3/7	–	–
Mark Graham	–	–	–	–	–	–	–	–	2/4
Michael Green	–	–	–	–	–	–	–	–	3/3
Richard Hextall	–	–	–	–	–	–	–	–	4/4
Tony Holt	–	–	–	–	–	–	–	1/3	–
Christopher Klein	–	–	–	–	–	–	–	2/3	–
David Lang	–	–	–	–	–	–	–	3/3	–
Robin Mitra	–	–	–	–	–	–	–	3/3	–
Ian Salter	–	–	–	–	–	–	6/7	–	–
Oliver Sparrow	–	–	–	–	–	–	–	2/3	–
Morley Speed	–	–	–	–	–	–	–	3/3	–
Paul Swain	–	–	–	–	–	–	*5/7	–	–

A Chairman.
1 Nominations, Appointments and Compensation Committee.
2 Market Supervision and Review Committee.
* On occasion, members of the Capacity Transfer Panel, other than the independent members, will be unable to attend meetings because they are conflicted.

INTERNAL CONTROL STATEMENT

The Franchise Board, on behalf of the Council of Lloyd's, has responsibility for the Corporation system of internal control and for reviewing its effectiveness. The executive is responsible for the implementation and maintenance of the internal control system. This incorporates an embedded, ongoing process for identifying, evaluating and managing significant business, operational, financial, compliance and other risks. The system is designed to reduce, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee monitors and reviews the effectiveness of the system of internal control of the Corporation and bi-annual reports are provided to the Franchise Board. There is an ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, which has been established for identifying, evaluating and managing significant risks. Other procedures such as whistle-blowing, whereby any member of staff may take matters that concern them to the Head of Internal Audit and Compliance or, where appropriate, to the FSA, are clearly set out. This process has been in place throughout 2006 and up to the date of the approval of the financial statements. Associate companies, Ins-sure Holdings Limited and Xchanging Claims Services Limited, are not dealt with as part of the group for the purposes of applying the Turnbull Guidance.

The group's key risk management processes and the system of internal control procedures include the following:

Management structure
'Lloyd's Governance Arrangements: The Guide for Members of Lloyd's Committees' outlines the governance structure and committee members' duties and responsibilities, including confidentiality; and conflicts and declaration of interest.

There is a clearly defined organisation structure with terms of reference agreed for the CEO and all directors which set out, inter alia, their functions and powers, authority to act and limitations on authority. Employees have role profiles agreed by their line manager which set out equivalent information.

The Society is committed to the highest standards of business conduct. Corporate policies and procedures are available to all staff and include the Compliance Manual, Employee Handbook, Health & Safety Policy, Information Security and Computer Usage Policy, Procurement Policy, Financial Policies and authorisation limits.

Lloyd's maintains an internal audit function that reports to the Chief Executive Officer and the Audit Committee. The Head of Internal Audit and Compliance is supported by KPMG LLP who provide resources to execute the internal audit plan.

Identification and evaluation of business risks
A risk management framework has been developed in recent years to identify, assess and monitor the major risks affecting the Society. A comprehensive franchise risk and control assessment is provided on a quarterly basis. This review re-assesses the existing risks and identifies any new risks. It evaluates controls in terms of adequacy of design and performance and also seeks to monitor the action plans in place to help manage risks. These processes are described in more detail in the Risk Management section of the Society Review.

A Risk Committee, a sub-committee of the Executive Team was established in October 2006 to consider the different aspects of the assessment of the risk, control and regulatory environment. This includes determining and assessing the Corporation's inherent and residual risks, compliance (replacing the internal compliance committee) and monitoring of control exceptions. Its function is to provide assurance that the Corporation and franchise risks are identified and managed in accordance with approved policy and appetite.

A framework of self-certification is in place; quarterly for the risk assessment and monthly for control exceptions. Where control failures have been reported, details of the circumstances are required together with appropriate corrective actions. A summary of these reports is reviewed by the executive and Franchise Board on a regular basis.

Internal auditors also perform independent reviews of control activities as part of their annual programme as approved by the Audit Committee. The Head of Internal Audit and Compliance reports to the executive on a regular basis and to each Audit Committee meeting.

A franchise compliance plan is in place to manage the risk associated with non-compliance with FSA regulatory processes. The Head of Internal Audit and Compliance provides progress reports to the Risk Committee and the Audit Committee. The Risk Committee also oversees the wider coordination of compliance activities.

Information and financial reporting systems
An annual budget for the Corporation is reviewed in detail by the executive and is considered and approved by the Franchise Board and Council. Monthly financial reports compare actual performance with the annual budget and management action is taken, where appropriate, when variances arise. Revised forecasts are prepared regularly.

REPORT OF THE NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE

WWW.LLOYDS.COM/2006RESULTS

This report is based upon best practice as set out in the Combined Code. This code is directed at companies listed on the London Stock Exchange, whereas Lloyd's is a market of many separate and competing trading entities; nonetheless, Council supports its principles in so far as they can be applied to the governance of the Society.

Composition of the NACC
The Nominations, Appointments and Compensation Committee (NACC) currently comprises three nominated, two external and three working members of the Council. The NACC members for 2006 are indicated within the remuneration table on page 85.

The Committee met three times during the year. The attendance at meetings by members of the Committee is set out in the Corporate Governance report on page 79. The Committee's terms of reference are available on request from the Secretary to the Council.

Nominations and appointments
The NACC is responsible for making recommendations to Council on the appointment of the Chairman, Chief Executive Officer (CEO), nominated Council members, Franchise Board members and members of a number of Council and Franchise Board committees.

In 2006, the NACC completed the search for a new CEO following Nick Prettejohn's resignation. Richard Ward was appointed as CEO and commenced employment at Lloyd's on 24 April 2006. He was also appointed as a member of the Franchise Board and a nominated member of Council from the same date.

Other than the annual exercise of making recommendations with respect to the composition of Council and Franchise Board committees, the NACC also recommended to Council during 2006 that an existing nominated member of Council should be reappointed for a second three year term; that one non-executive director on the Franchise Board whose term of office expired at the end of 2006 should be asked to serve a second term of one year's duration; and that two new members should be appointed to the Audit Committee. These recommendations were accepted by Council.

To assist it with its work in this area, the NACC employs external search consultants from time to time as well as making use of its own resources and expertise.

Remuneration and compensation
The Council of Lloyd's is assisted in determining the remuneration of members of the Council and its subsidiary boards and committees by the NACC. The NACC also recommends for approval by the Council, the fees, salaries, bonuses and the terms and conditions of office of the Chairman, the CEO, the Director, Finance, Risk Management and Operations and the Franchise Performance Director.

In determining their recommendations for the year, the NACC consulted with the Chairman and the CEO about its proposals as well as engaging the assistance of remuneration advisers, Deloitte & Touche LLP. During the year, Deloitte & Touche LLP also provided other services to the Corporation including the production of a report on the global insurance market.

Remuneration of Council and Franchise Board members who are employees of the Corporation
Lloyd's remuneration policy for all current and future employees is set out in the Employee Handbook as follows:

'Lloyd's remuneration policy is designed to meet individual and business needs by providing rewards that are linked to individual performance and the delivery of business objectives.

Our total remuneration approach is supported by the following practices:

- We look beyond base salary to the value of the total reward package in meeting the needs of employees.

- We recognise and reward superior performance.

Lloyd's policy is therefore based on providing a package of rewards (salary plus benefits) that is business driven, competitive, fair and flexible. It is founded on the proposition that the ultimate source of value is people. Putting this together means a policy which:

- Emanates from business strategies and priorities.

- Is based on business success (ability to pay).

- Provides a flexible mix of rewards which will attract, retain and motivate the high calibre people we need with the varied range of experience and skills the business requires.

- Is externally competitive and regularly monitored by means of remuneration surveys.
- Rewards for performance, not the cost of living.
- Ensures employees understand the criteria by which rewards are determined and reviewed.
- Gives managers as much freedom as possible in deciding the rewards of their teams.
- Is in line with our equal opportunities and diversity policy.'

Remuneration
The current remuneration package of Council and Franchise Board members who are employees of the Corporation comprises both performance and non-performance related components. The performance related components comprise annual bonuses as well as a long-term incentive plan, while the non-performance related components comprise base salaries, benefits and pension entitlements.

The annual salary of the Chairman, CEO, Director, Finance, Risk Management and Operations and the Franchise Performance Director is reviewed by the NACC annually with increases taking effect from 1 April. No director plays a part in any discussion about his or her own remuneration.

The Chairman is entitled to receive private medical and life insurance. The CEO, Director, Finance, Risk Management and Operations and the Franchise Performance Director are entitled to receive certain benefits including a car or car allowance, private medical and life insurance in addition to their base salary.

It is NACC policy that a significant proportion of executive remuneration should be at risk and determined by performance reviews.

Long-Term Incentive Plan
A long-term incentive plan (LTIP) for the CEO and other senior executives of the Corporation was established with the approval of the NACC and Council in March 2004. This replaced the previous LTIP with effect from 1 January 2004, although transitional measures applied for 2004 only. Vested awards under the previous LTIP continue to be paid as they fall due, subject to the rules of that plan.

Objectives
The LTIP has been designed to meet key strategic objectives by enabling the Corporation to offer a long-term incentive which:

- Is directly linked to the profitability of the Lloyd's market and will, therefore, align the interests of participants with members.
- Will provide competitive incentives and, therefore, enable Lloyd's to recruit and retain the talented executives required to support the future strategy for the market.

The plan is operated at the discretion of the NACC and can be terminated at any time.

Operation of the LTIP
Three-year pooling principle
Payments made under the LTIP are based on the aggregate profitability of the Lloyd's market over three years, taking into account both profits and losses over that three-year period. The principle of pooling means that any losses made over the three-year period will offset profits when determining payments, thus encouraging prudential behaviour. Pooling also means that awards may be made in loss-making years. This would be the case if the aggregate profits outweighed the aggregate losses over the relevant three-year period.

The three-year profits pool will be calculated each year on a rolling basis.

Profit/loss
Profit or loss is defined as the pro forma profit or loss on ordinary activities before tax as reported in the Lloyd's Annual Report, excluding investment returns on FAL.

Eligibility
Selected senior permanent employees of the Corporation are eligible for the scheme including the CEO, directors and existing staff in role level one as at 1 January each year. The NACC retains absolute and sole discretion as to who participates in the LTIP in any particular year.

Limits
There is an overall limit such that the total LTIP awards for all participants in any year will not exceed 0.075% of the aggregate profits and losses for the relevant three-year period.

Joining employment
Subject to NACC's discretion, executives who are newly recruited or promoted may be made an LTIP award on a pro-rated basis. When this occurs, awards will normally be pro-rated in relation to the number of full months of employment during the 36-month period to which the three-year pool relates.

Leaving employment
The NACC retains absolute discretion over the treatment of any and all LTIP awards (or any part thereof) on the termination of employment for any reason whatsoever of the CEO, Director, Finance, Risk Management and Operations and the Franchise Performance Director. Unless the NACC resolves otherwise, the CEO retains absolute discretion over the treatment of any and all LTIP awards (or any part thereof) on the termination of employment of all other participants. If a participant leaves employment due to retirement, redundancy, death, disability or ill-health prior to the end of the deferred payment period, he or she will normally receive any outstanding instalments of previous awards, which will usually be paid on the normal payment dates. Any awards partially earned in the year of departure may be paid on a pro-rated basis.

If a participant leaves employment for any other reason, any outstanding instalments due in respect of previous financial years and any LTIP award due in respect of the financial year during which employment is terminated will normally both be forfeited immediately. The NACC or the CEO, in respect of participants other than the CEO himself, the Director, Finance, Risk Management and Operations, and the Franchise Performance Director, have discretion to make payments if they consider it appropriate.

Calculation of award and timing of payments
The value of the LTIP award is calculated as a percentage of the aggregate profits for the relevant three-year period for each £1m of aggregate LTIP participants' salaries. For the CEO and for each director, this percentage is 0.008%. For other participants, the percentage used is lower, 0.004%. The percentages have been set by reference to external market data on remuneration levels as measured against other organisations of similar complexity and size.

For the financial year 2006, the award made under the LTIP, subject to adjustment for discretionary awards, is the aggregate profits of the Lloyd's market for the financial years 2004-2006 of £3,176m x relevant % x salary of LTIP participant per £1m.

The payment of each award is made in three tranches, subject to continued employment with the Corporation, in April of each of the three years following the end of the LTIP year. For participants other than the CEO, the Director, Finance, Risk Management and Operations, and the Franchise Performance Director, the first tranche of each award is discretionary and that award may be increased or decreased by a maximum of 100%, to reflect the individual's performance over the year. However, in no circumstances can an adjustment be made to increase the total value of discretionary awards. The further two payments (of equal amounts) will be paid in the following two years, subject to the individual remaining in employment with the Corporation.

Details of the awards to the CEO, the Director, Finance, Risk Management and Operations and the Franchise Performance Director are shown on page 87.

Pension arrangements
The CEO, Director, Finance, Risk Management and Operations and the Franchise Performance Director are members of the Lloyd's Pension Scheme. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. The pension arrangements for the Director, Finance, Risk Management and Operations and the Franchise Performance Director provide for a pension at normal retirement of two-thirds base annual salary after 20 years' eligible service less any entitlement from previous pension arrangements and subject to a Scheme earnings cap of £108,600 from 6 April 2006. The pension arrangements for the CEO provide for a pension on retirement based on a standard accrual rate of one sixtieth of base annual salary subject to the Scheme earnings cap, for each year of eligible service, with the facility to increase the accrual rate to one thirtieth for an additional contribution via salary sacrifice. No other payments to the CEO, the Director, Finance, Risk Management and Operations and the Franchise Performance Director are pensionable.

New pensions legislation came into force from 'A day' on 6 April 2006 with the introduction of new Life Time Allowance requirements. Due to these changes, the Lloyd's Pension Scheme rules have been changed to restrict the earnings that can be counted towards the calculation of benefits to a maximum earnings cap, which from 6 April 2006 was £108,600 for those who joined the Scheme on or after 1 June 1989. This will increase each tax year in line with inflation.

In 2006, the CEO, Director, Finance, Risk Management and Operations and the Franchise Performance Director were each entitled to a cash allowance of 20% of their base salary. Due to the tax changes affecting Funded Unapproved Retirement Benefit Schemes (FURBS), the 20% of annual base salary that Lloyd's had paid into the FURBS accounts of the executive directors was paid as a cash allowance from 6 April 2006. It is anticipated that cash allowances will continue to be paid in the future.

REPORT OF THE NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE continued

A pension contribution of £10,560 and a cash allowance of £32,580 were payable in respect of the Chairman for 2006. Due to the Life Time Allowance rules introduced from 'A day' it is no longer possible for Lloyd's to make payments to the Chairman's personal pension. From 6 April 2006, this payment which equates to 40% of the maximum earnings cap has been paid as a cash allowance.

The Lloyd's Pension Scheme introduced member contributions with effect from 1 July 2006 and from this date the Director, Finance, Risk Management and Operations and the Franchise Performance Director paid 10% of the earnings cap as a contribution via salary sacrifice and the CEO paid 5% of the earnings cap as a contribution for a sixtieth accrual rate and an extra 24.1% of the earnings cap to increase the accrual rate to thirtieths, both paid via salary sacrifice.

Contracts of employment
The Chairman has a three-year contract which is subject to 12 months' notice of termination by either party, expiring in November 2008.

The CEO, Director, Finance, Risk Management and Operations and Franchise Performance Director have rolling one-year contracts providing for a maximum of one year's notice.

Details of these contracts are summarised in the table below.

Members of the Council and Franchise Board who are employees of the Corporation

	Contract Date	Unexpired Term as at 31 Dec 2006	Notice Period(i)
Lord Levene of Portsoken	01/11/02	22 months	12 months
Richard Ward(ii)	24/04/06	rolling 1 year	12 months
Luke Savage(iii)	20/09/04	rolling 1 year	12 months
Rolf Tolle(iv)	03/03/03	rolling 1 year	12 months

(i) Employment contracts do not contain provisions for additional compensation payable upon early termination.
(ii) Richard Ward was appointed to the Franchise Board and Council on 24 April 2006.
(iii) Luke Savage was appointed to the Franchise Board on 30 September 2004.
(iv) Rolf Tolle was appointed to the Franchise Board on 3 March 2003.

Remuneration and contracts of service for members of the Council of Lloyd's and Franchise Board who are not employees of the Corporation
Remuneration for all members of Council and Franchise Board who are not employees of the Corporation is designed to attract people of sufficient calibre and experience to govern Lloyd's affairs by providing an appropriate level of fees which reflects the demands made upon them. Reference is also made to independent surveys of fees paid to non-executive directors of similar organisations.

In 2006, fees for members of Council and Franchise Board were £28,000 and £45,000 per annum, respectively. Fees for members of both Council and the Franchise Board were £55,000. The Deputy Chairmen are paid £38,000 per annum. Fees are also payable in respect of membership of a number of Council and Franchise Board committees, including a number of ad hoc committees established to consider specific issues requiring a significant time commitment. Non-employee members of the Council and Franchise Board are not eligible to join the Lloyd's Pension Scheme.

Individual remuneration of all members of the Council and Franchise Board can be found in the table opposite.

External and working members are elected to Council while nominated members are appointed to Council, usually for a three-year period. Members of the Franchise Board are appointed by Council with non-executive directors' terms of office varying between one and three years. These are not contractual arrangements and compensation is not paid if a member leaves early.

Information subject to audit
Basis of preparation
The following section provides details of the remuneration of all members of the Council of Lloyd's and the Franchise Board for the year ended 31 December 2006. This section contains the following information in the form specified in Schedule 7A Part 3 of the Companies Act 1985:

- Amount of each member's emoluments and compensation in the current financial year.
- Details of each member's accrued benefits in the Lloyd's Pension Scheme and transfer values of those accrued benefits.
- Details of each member's interests under the Long-Term Incentive Plan.

Remuneration of members of the Council of Lloyd's and the Franchise Board

Individual remuneration, excluding LTIP awards, for the year to 31 December is shown in the table below. LTIP awards are shown on page 87.

	Salary/fees		Taxable benefits(i)		Annual bonus		Other(xi)		Total	
	2006 £000	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000
Chairman of Council of Lloyd's										
Lord Levene of Portsoken(ii)(viii)	**450**	440	**7**	28	**150**	150	**58**	41	**665**	659
Executive Directors										
Richard Ward(ii)(viii)(xii)	**307**	–	**8**	–	**300**	–	**88**	–	**703**	–
Luke Savage(ii)(ix)	**369**	344	**10**	9	**265**	117	**77**	105	**721**	575
Rolf Tolle(ii)(ix)(xiii)	**492**	467	**27**	43	**500**	400	**121**	105	**1,140**	1,015
Non-Executive Council Members										
Working members										
Christine Dandridge(x)	**43**	35	**–**	–	**–**	–	**–**	–	**43**	35
Ewen Gilmour, Deputy Chairman(x)(xv)	**43**	–	**–**	–	**–**	–	**–**	–	**43**	–
Nigel Hanbury	**28**	23	**–**	–	**–**	–	**–**	–	**28**	23
Bronek Masojada, Deputy Chairman(x)	**46**	41	**–**	–	**–**	–	**–**	–	**46**	41
Graham White(xxi)	**26**	–	**–**	–	**–**	–	**–**	–	**26**	–
External members										
Thomas Corfield(vii)	**14**	–	**–**	–	**–**	–	**–**	–	**14**	–
Quentin Davies(xvi)	**39**	30	**–**	–	**–**	–	**–**	–	**39**	30
Peter Morgan(v)(x)	**36**	56	**1**	3	**–**	–	**–**	–	**37**	59
Charles Philipps(iv)(x)	**36**	35	**–**	–	**–**	–	**–**	–	**36**	35
David Shipley(xiv)	**38**	31	**–**	–	**–**	–	**–**	–	**38**	31
Anthony Townsend(vi)(xxi)	**26**	–	**–**	–	**–**	–	**–**	–	**26**	–
Nominated members										
Celia Denton(xix)	**44**	30	**–**	–	**–**	–	**–**	–	**44**	30
Judith Hanratty(x)	**51**	42	**–**	–	**–**	–	**–**	–	**51**	42
Bill Knight, Deputy Chairman of the Council of Lloyd's(x)	**65**	53	**–**	–	**–**	–	**–**	–	**65**	53
Philip Lader	**39**	30	**2**	5	**–**	–	**–**	–	**41**	35
Andreas Prindl	**57**	37	**–**	–	**–**	–	**–**	–	**57**	37
Non-Executive Franchise Board Members										
Roy Brown	**45**	38	**–**	–	**–**	–	**–**	–	**45**	38
Steven Burns(xvii)	**48**	56	**–**	–	**–**	–	**–**	–	**48**	56
Stephen Catlin(xviii)	**45**	39	**–**	–	**–**	–	**–**	–	**45**	39
Edward Creasy	**45**	38	**–**	–	**–**	–	**–**	–	**45**	38
Stephen Hodge	**59**	48	**–**	–	**–**	–	**–**	–	**59**	48
Jim Stretton	**54**	48	**5**	–	**–**	–	**–**	–	**59**	48
Former Members										
Julian Avery(iii)	**–**	5	**–**	–	**–**	–	**–**	–	**–**	5
John Coldman(xv)	**4**	36	**–**	–	**–**	–	**–**	–	**4**	36
Sean Dalton(vii)	**20**	31	**–**	–	**–**	–	**–**	–	**20**	31
Preben Prebensen(iii)	**2**	21	**–**	–	**–**	–	**–**	–	**2**	21
Nick Prettejohn, CEO(ii)(xx)	**–**	512	**–**	18	**–**	–	**–**	180	**–**	710

(i) Taxable benefits include items such as company car or car allowance, medical insurance. They also include life insurance premiums for the period to 5 April 2006.

(ii) Employee of the Corporation.

(iii) Representative of Wellington (Five) Limited. Preben Prebensen was the representative from 25 February 2005 until 31 January 2006.

(iv) Representative of Amlin Corporate Member Limited.

(v) Representative of AJSLP 9. Fees for 2005 include amounts paid in respect of Mr Morgan's position as a non-executive director of Kinnect Holdings Ltd.

(vi) Representative of Brit UW Limited.

(vii) Sean Dalton resigned as the representative of Liberty Corporate Capital Limited in July 2006. Thomas Corfield took his place in August 2006.
(viii) Member of both Council and the Franchise Board for 2006.
(ix) Member of the Franchise Board only.
(x) Member of the Nominations, Appointments and Compensations Committee (NACC) for 2006.
(xi) Other includes life insurance premiums for the period from 6 April 2006 and payments into a Funded Unapproved Retirement Benefit Scheme (FURBS) of 20% of Executive Directors' total salary. The amount stated in respect of the Chairman represents pension contributions to a personal pension scheme. From 6 April, following the introduction of new Life Time Allowance rules, these payments were made as cash allowances.
(xii) Richard Ward joined the Corporation on 24 April 2006 and was appointed to the Franchise Board and Council on the same date.
(xiii) Rolf Tolle occupies a property leased to Lloyd's; in August 2006 he moved to new premises. Rolf Tolle pays the lease rental £48,000 (2005: £54,000) on the property via salary sacrifice. These amounts are not included in the table above.
(xiv) David Shipley's term of office as a working member came to an end on 31 January 2006. He was elected as the representative of MAP Underwriting Limited from 1 February 2006.
(xv) John Coldman was a member of the Nominations, Appointments and Compensation Committee until 31 January 2006. Ewen Gilmour joined the Committee in February 2006.
(xvi) Representative of SUMAC Underwriting (UK) Limited.
(xvii) Steven Burns was a member of the Council and Franchise Board for 2005. On the Council he represented Limit (No. 2) Limited whose term of office came to an end on 31 January 2006. He continued as a member of the Franchise Board for 2006.
(xviii) Stephen Catlin was a member of the Council until his term of office expired on 31 January 2005.
(xix) Celia Denton was appointed a member of the Council on 16 March 2005.
(xx) Nick Prettejohn resigned with effect from 31 December 2005. In 2005, he was a member of both the Council and the Franchise Board.
(xxi) Brit UW Limited, represented by Anthony Townsend, and Graham White were elected as members of Council in February 2006.

Lloyd's Pension Scheme provisions

	Salary sacrifice in year to 31 Dec 2006[i] £000	Age at 31 Dec 2006	Increase in pension in year to 31 Dec 2006 – actual £000	Increase in pension in year to 31 Dec 2006 – net of price inflation £000	Total accrued annual pension in year to 31 Dec 2006 £000 pa	Retirement age
Richard Ward	**16**	**49**	**2**	**2**	**2**	**65**
Luke Savage	**5**	**45**	**3**	**2**	**6**	**60**
Rolf Tolle	**5**	**59**	**4**	**4**	**14**	**60**

(i) The Lloyd's Pension Scheme was made a contributory pension scheme with effect from 1 July 2006. The contributions due from the CEO, Director, Finance, Risk Management and Operations and the Franchise Performance Director are collected by salary sacrifice.

Transfer values of accrued pension benefits

	Transfer value of accrued pension as at 31 Dec 2005 £000	Transfer value of accrued pension as at 31 Dec 2006 £000	Increase in transfer value over the year less director's own contributions via salary sacrifice £000
Richard Ward	n/a	**22**	**6**
Luke Savage	38	**73**	**30**
Rolf Tolle	169	**254**	**80**

The transfer value represents a liability of the Lloyd's Pension Scheme, not a sum paid or due to the individual.

Members of the Council of Lloyd's and Franchise Board's share of the Long-Term Incentive Plan

			Estimated Long-Term Bonus						
	Award year	Performance bonus £000	As at 31 Dec 2005 £000	Change in year £000	As at 31 Dec 2006 £000	Total £000	Amount paid in prior years £000	Amount paid during the year ended 31 Dec 2006 £000	Total award outstanding as at 31 Dec 2006 £000
Richard Ward	**2006**	**8**	**–**	**17**	**17**	**25**	**–**	**–**	**25**
Luke Savage	**2004**	**6**	**13**	**–**	**13**	**19**	**6**	**6**	**7**
	2005	**15**	**30**	**–**	**30**	**45**	**–**	**15**	**30**
	2006	**32**	**–**	**63**	**63**	**95**	**–**	**–**	**95**
Rolf Tolle	**2003**	**126**	**356**	**–**	**356**	**482**	**319**	**163**	**–**
	2004	**89**	**187**	**94**	**281**	**370**	**150**	**64**	**156**
	2005	**21**	**41**	**–**	**41**	**62**	**–**	**21**	**41**
	2006	**46**	**–**	**92**	**92**	**138**	**–**	**–**	**138**

Bill Knight, Chairman
Nominations, Appointments and Compensation Committee

REPORT OF THE AUDIT COMMITTEE

This report sets out the role, remit and activities of the Audit Committee during 2006.

Composition of the Audit Committee

At the end of 2006, the Audit Committee comprised three nominated members of Council, one working and one external and two non-executive members of the Franchise Board. The Committee met five times during the year. The members of the Committee in 2006 and their attendance at meetings are shown in the Corporate Governance report on page 79.

All of the Committee have extensive commercial experience. For the purposes of the Combined Code, Celia Denton and Stephen Hodge, the Chairman of the Committee, are considered by the Council to have recent and relevant financial experience.

Terms of reference

The Council has delegated to the Committee responsibility for overseeing the financial reporting and internal controls of the Corporation and its subsidiaries and the Central Fund. The Committee follows an agreed annual work plan. The principal responsibilities of the Committee include:

- Ensuring that the financial activities of Lloyd's are subject to independent review and audit. The Committee reviews Lloyd's published annual and interim financial statements including the pro forma financial statements, the Aggregate Accounts, the group financial statements of the Society of Lloyd's and Lloyd's Return to the FSA.
- Reviewing and monitoring the arrangements for ensuring the objectivity and effectiveness of the external and internal audit functions.
- Considering, on behalf of the Council, the appointment or removal of the external auditors.
- Reviewing and monitoring the effectiveness of the systems of internal control of the Society.
- Ensuring that appropriate arrangements are in place for ensuring compliance with relevant laws and regulations.
- Ensuring appropriate whistle-blowing arrangements are in place by which members of staff can, in confidence, raise concerns relating to possible improprieties.

The Committee's terms of reference are available on request from the Secretary to the Council.

Report on the Committee's activities in 2006

The principal issues addressed during 2006 were:

- The annual financial statements for 2005 including pro forma financial statements and aggregate accounts, the financial statements of the Society, which were prepared under International Financial Reporting Standards (IFRS), and financial disclosures and various accounting matters raised by management and auditors.
- The interim financial statements for the six months to 30 June 2006 including the pro forma financial statements and the financial statements of the Society of Lloyd's.
- The 2005 Lloyd's Return to the FSA.
- The external auditors' status reports and management letters.
- The independence and objectivity of the external auditors, including a review of non-audit fees.
- The external and internal audit plans.
- The reports of the Head of Internal Audit and Compliance, including follow-up of internal audit findings and the annual compliance plan.
- Reports from the Internal Compliance Committee (responsibilities now assumed by the Risk Committee).
- Assessment of the effectiveness of internal controls.

During the year, the Committee requested a review of the Lloyd's whistle-blowing policy. The review, which was considered by the Committee in September 2006, concluded that while the whistle-blowing policy satisfied the principal requirements of the FSA guidelines and other best practice, it was appropriate for a more detailed policy with clearer process to be developed. As a result, management undertook a survey of all staff in the fourth quarter of 2006 to increase awareness of the policy and procedures.

The Committee also carried out an effectiveness review of internal and external auditors.

During 2006, the committee members attended a training programme where, amongst other topics, it debated its role in relation to the management of risks to the Corporation. The Committee also reviewed its own performance.

Support

The CEO, Director, Finance, Risk Management and Operations, Director and General Counsel, Head of Internal Audit and Compliance, Financial Controller, Head of Market Reporting and the external and internal auditors attended meetings as appropriate. During the year, the Committee met separately with the external and internal auditors without executive management present.

The Committee has access to external independent advice, if required.

Stephen Hodge, Chairman
Audit Committee

LLOYD'S MEMBERS' OMBUDSMAN'S REPORT

WWW.LLOYDS.COM/2006RESULTS

Report by Sir Brian Hayes GCB, Lloyd's Members' Ombudsman

I am pleased to present the annual report of the Lloyd's Members' Ombudsman to the Council of Lloyd's for the year ending 31 December 2006.

The role of the Lloyd's Members' Ombudsman is to investigate complaints by members and former members who were members at any time after 30 November 2001, who believe that they have suffered injustice in consequence of maladministration in relation to any action taken by or on behalf of the Society.

During the year I received four new complaints; three fewer than the previous year.

In three cases I decided, after conducting the necessary investigations, to take no further action, as I was satisfied that considerations of maladministration did not arise. One case fell outside my jurisdiction as Ombudsman.

I also received further representations from a complainant whose complaint I had first considered and rejected in 2005. I considered the matter again on a further four occasions; however, I did not alter my view and wrote to the complainant on each occasion explaining why I was unable to support his complaint.

The expenses incurred by my office amounted to £22,000.

MEMBERS' COMPENSATION SCHEME REPORT

Report by Bill Knight, Chairman of the Members' Compensation Panel

An application has been made for compensation in the order of £20m under the Members' Compensation Scheme Byelaw. The application relates to Cotesworth & Co Limited and to syndicates 535 and 536. The Council appointed a Members' Compensation Panel to consider and administer the application. The Panel comprises Bill Knight (Chairman), Judith Hanratty and Andreas Prindl. The Panel has required the applicants to pursue proceedings in the High Court and has adjourned the application pending the outcome of the proceedings. Payment of any compensation under the Scheme is met by contributions or reimbursement from underwriting agents and members in accordance with the terms of the Byelaw. The Panel will review the Scheme and make any recommendations to the Council for its amendment later this year.

STATEMENT OF THE COUNCIL OF LLOYD'S RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

WWW.LLOYDS.COM/2006RESULTS

The Council of Lloyd's is responsible for preparing the group financial statements in accordance with byelaws made under Lloyd's Act 1982 and International Financial Reporting Standards (IFRS) adopted by the European Union.

The Council of Lloyd's is required to prepare group financial statements for each financial year which present fairly the financial position of the Society and the financial performance and cash flows of the Society for that period. In preparing those group financial statements, the Council of Lloyd's is required to:

- Select suitable accounting policies and then apply them consistently.

- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Society's financial position and financial performance.

- State that the Society has complied with IFRS, subject to any material departures disclosed and explained in the group financial statements.

The Council of Lloyd's is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable it to ensure that the group financial statements comply with Article 4 of the IAS Regulation. As the Society's subordinated loan notes are admitted to trading in a regulated market in the European Union, Article 4 requires group financial statements to be prepared in conformity with International Accounting Standards. The Council of Lloyd's is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LLOYD'S

We have audited the group financial statements of the Society of Lloyd's ('the Society') for the year ended 31 December 2006 which comprise the group income statement, group statement of recognised income and expense, group balance sheet, group cash flow statement and the related notes 1 to 29. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Report of the Nominations, Appointments and Compensation Committee that is described as having been audited.

This report is made solely to the members of Lloyd's, as a body, in accordance with the Council of Lloyd's instructions summarised under 'Respective responsibilities of the Council of Lloyd's and auditors' below. Our audit work has been undertaken so that we might state to the members of Lloyd's as a body those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the members of Lloyd's as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Council of Lloyd's and auditors

The Council of Lloyd's is responsible for the preparation of the group financial statements in accordance with byelaws made under Lloyd's Act 1982 and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the Statement of the Council of Lloyd's Responsibilities and for the preparation of the Report of the Nominations, Appointments and Compensation Committee.

Our responsibility is to audit the group financial statements and the part of the Report of the Nominations, Appointments and Compensation Committee to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the group financial statements give a true and fair view and are properly prepared in accordance with Article 4 of the IAS Regulation and the part of the Report of the Nominations, Appointments and Compensation Committee to be audited is properly prepared in accordance with the basis described therein. We also report to you if, in our opinion, the Report of the Nominations, Appointments and Compensation Committee is not consistent with the group financial statements, if the Society has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding members' remuneration and other transactions is not disclosed. We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. This other information comprises the Society Review. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the Report of the Nominations, Appointments and Compensation Committee to be audited. It also includes an assessment of the significant estimates and judgments made by the Council of Lloyd's in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's and Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements and the part of the Report of the Nominations, Appointments and Compensation Committee to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements and the part of the Report of the Nominations, Appointments and Compensation Committee to be audited.

Opinion

In our opinion:

- The group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its surplus for the year then ended and have been properly prepared in accordance with Article 4 of the IAS Regulation.

- The part of the Report of the Nominations, Appointments and Compensation Committee to be audited have been properly prepared in accordance with the basis described therein.

Ernst & Young LLP, Registered Auditor, London

28 March 2007

GROUP INCOME STATEMENT

for the year ended 31 December 2006

	Note	2006 £000	2005 £000
Operating income		**171,498**	162,353
Central Fund contributions		**152,226**	70,077
General insurance net premium income		**2,834**	2,769
Other group income		**23,477**	18,637
Total income	3b	**350,035**	253,836
Central Fund claims and provisions	4	**(115,735)**	(223,889)
Gross insurance claims incurred	14	**(55,461)**	(30,039)
Insurance claims recoverable from reinsurers	14	**56,804**	29,844
Other group operating expenses	5	**(170,795)**	(172,097)
Operating surplus/(deficit)		**64,848**	(142,345)
Finance costs	8	**(28,955)**	(33,653)
Finance income	8	**52,818**	129,033
Share of profits of associates	13a	**1,867**	2,006
Surplus/(deficit) before tax		**90,578**	(44,959)
Tax (charge)/credit	9a	**(7,012)**	17,343
Surplus/(deficit) for the year		**83,566**	(27,616)

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December 2006

	Note	2006 £000	2005 £000
Exchange difference on translating foreign operations		**(17)**	(43)
Actuarial (loss)/gain on pension liabilities – group	21	**(1,867)**	(2,354)
– associates	13a	**970**	375
Tax on items taken directly to equity		**193**	594
Net income and expense recognised directly in equity		**(721)**	(1,428)
Surplus/(deficit) for the year		**83,566**	(27,616)
Total recognised income and expense for the year		**82,845**	(29,044)

GROUP BALANCE SHEET

as at 31 December 2006

	Note	2006 £000	2005 £000
ASSETS			
Intangible assets	10	**319**	176
Lloyd's Collection	13b	**9,710**	9,710
Property, plant and equipment	11	**12,036**	7,426
Deferred tax asset	9c	**7,423**	11,319
Investment in associates	13a	**4,379**	4,162
Reinsurance assets – Lioncover Insurance Company Limited	14	**394,492**	526,848
Reinsurance assets – Centrewrite Limited	14	**–**	174
Loans recoverable	15	**62,201**	61,609
Financial investments	16	**1,499,290**	1,153,146
Inventories	17	**184**	401
Trade and other receivables	18	**26,568**	34,440
Prepayments and accrued income		**12,397**	12,685
Tax receivable		**6,759**	9,917
Forward currency contracts	24	**2,289**	1,886
Cash and cash equivalents	19	**210,298**	417,109
Total assets		**2,248,345**	2,251,008
EQUITY AND LIABILITIES			
Equity			
Accumulated reserve	25	**733,667**	648,008
Syndicate loans	25	**213,560**	106,834
Revaluation reserve	25	**9,710**	9,710
Foreign currency translation reserve	25	**(1)**	16
Total equity		**956,936**	764,568
Liabilities			
Subordinated loan notes	20	**497,374**	500,782
Insurance contract liabilities – Lioncover Insurance Company Limited	14	**394,492**	526,848
Insurance contract liabilities – Centrewrite Limited	14	**14,148**	16,424
Pension liabilities	21	**45,776**	52,541
Provisions	22	**162,160**	183,118
Loans funding statutory insurance deposits	16b	**120,812**	115,750
Trade and other payables	23	**30,406**	50,157
Accruals and deferred income		**23,795**	39,013
Forward currency contracts	24	**2,446**	1,807
Total liabilities		**1,291,409**	1,486,440
Total equity and liabilities		**2,248,345**	2,251,008

Signed on behalf of the Council of Lloyd's on 28 March 2007.

Lord Levene of Portsoken, Chairman **Richard Ward, Chief Executive Officer**

GROUP CASH FLOW STATEMENT

for the year ended 31 December 2006

	Note	2006 £000	2005 £000
Cash flows from operating activities			
Operating surplus/(deficit)		**64,848**	(142,345)
Central Fund claims and provisions		**115,735**	223,889
Operating surplus before Central Fund claims and provisions		**180,583**	81,544
Adjustments for:			
Depreciation		**1,966**	1,874
Amortisation of intangible assets		**167**	126
Impairment losses		**354**	231
Loss on sale of fixed assets		**51**	3
Operating surplus before working capital changes and claims paid		**183,121**	83,778
Decrease in receivables		**12,238**	41,519
Decrease in inventories		**217**	60
Decrease in payables		**(46,190)**	(25,899)
(Decrease)/increase in provisions other than for Central Fund claims		**(1,925)**	681
Cash generated from operations before claims paid		**147,461**	100,139
Claims paid in respect of corporate members		**(131,099)**	(145,587)
Tax and interest payments in respect of corporate members		**(125)**	(2,121)
Claims paid in respect of individual members		**(1,274)**	(2,329)
Claims paid in respect of Limited Financial Assistance Agreements		**(2,270)**	–
Cash generated from/(used in) operations		**12,693**	(49,898)
Tax received		**1,836**	82,082
Net cash from operating activities		**14,529**	32,184
Cash flows from investing activities			
Purchase of plant, equipment and software		**(7,603)**	(2,774)
Proceeds from the sale of equipment		**83**	168
Proceeds from sale of buildings		**–**	9,463
(Purchase)/sale of financial investments		**(392,681)**	62,522
Dividends received from associates		**2,329**	1,390
Interest received		**74,886**	59,239
Dividends received		**4,253**	2,874
Net cash (used in)/generated from investing activities		**(318,733)**	132,882
Cash flows from financing activities			
Syndicate loan interest paid		**(4,365)**	–
Other interest paid		**(46,515)**	(39,162)
Increase in borrowings for statutory insurance deposits		**20,165**	4,591
Receipt of syndicate loans		**112,578**	103,611
Net proceeds from financing activities		**81,863**	69,040
Net (decrease)/increase in cash and cash equivalents		**(222,341)**	234,106
Effect of exchange rates on cash and cash equivalents		**15,530**	1,558
Cash and cash equivalents at 1 January		**417,109**	181,445
Cash and cash equivalents at 31 December	19	**210,298**	417,109

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2006

1. Basis of preparation and consolidation

In 1871, by Lloyd's Act 1871, the then existing association of underwriters was incorporated as the Society and Corporation ('Lloyd's' or the 'Society' or the 'Corporation'). Its activities are accordingly governed by statute and, since 1982, have been managed by the Council of Lloyd's (the 'Council') pursuant to Lloyd's Act 1982.

The Society's main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The group financial statements of the Society of Lloyd's (the 'Society') comprise the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the group's interest in associates as at each balance sheet date. Subsidiary undertakings are consolidated from the date of their acquisition, being the date on which the Society obtains control, and continue to be consolidated until the date that such control ceases. The financial statements are prepared using consistent accounting policies. All intra-group balances and transactions have been eliminated in full.

The financial statements of subsidiary undertakings are prepared for the same reporting year as the parent company with the exception of Lioncover Insurance Company Limited ('Lioncover') which has a reporting year of 31 March. This reporting date is the consequence of all Lioncover's reinsurance liabilities being reinsured with Equitas Reinsurance Limited ('Equitas') and hence its alignment to Equitas' reporting year. Reinsurance contract assets and liabilities at 31 March have been adjusted to reflect claims settled from April to December.

The group financial statements have been prepared in accordance with International Financial Reporting Standards (as adopted by the European Union) and on a historic cost basis, except for financial assets and liabilities at fair value through profit or loss, which are measured at fair value. Loans and receivables and other financial liabilities are carried at amortised cost. The Lloyd's Collection and loans recoverable are stated at fair value. The group financial statements are presented in pound sterling and all values are rounded to the nearest thousand (£000).

Lloyd's is regulated by the FSA.

2. Principal accounting policies

A Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and any impairment in value.

Depreciation is charged on a straight line basis on the following principal categories:

- Freehold buildings are depreciated over 60 years.
- Plant, vehicles and equipment are depreciated over three to 25 years according to the estimated life of the asset.
- Equipment on hire or lease is depreciated over the period of the lease.
- Land is not depreciated.

B Software development

Costs incurred in acquiring and developing computer software are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable asset of value. Software development is held at cost less accumulated depreciation and any impairment in value. Capitalised software is amortised over three years (2005: four years).

C Lloyd's Collection

Lloyd's Collection represents various paintings, antiques and artefacts which are included at fair value. Any revaluation surplus or deficit is taken to equity and is reflected in the revaluation reserve.

D Investment in associates

An associate is an entity in which the Society has significant influence and which is not a subsidiary undertaking or joint venture. The Society's investment in associates is accounted for under the equity method of accounting.

Under the equity method, the investment in associates is carried in the group balance sheet at cost plus post-acquisition changes in the Society's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Society determines whether it is necessary to recognise any additional impairment loss with respect to the Society's net investment in the associate. The group income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the group recognises its share of any changes and discloses this, when applicable, in the group statement of recognised income and expense.

2. **Principal accounting policies** continued

E Impairment of assets

The Society performs annual impairment testing to assess whether there is an indication that an asset may be impaired. If any such indication exists, the Society makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When the carrying amount exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount.

F Financial instruments

The Society classifies its financial instruments within the scope of IAS 39 into the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition as follows:

i) Financial assets and liabilities at fair value through profit or loss (including derivatives held for trading)
Financial assets and liabilities at fair value through profit or loss include financial instruments held for trading and those assets designated at fair value through profit or loss. A financial instrument is classified in this category if it is acquired principally for the purpose of selling or repurchasing in the short term or if it is a financial asset or liability so designated by management on initial recognition. Financial investments are classified in this category, and meet the recognition criteria under IAS 39, as the investment portfolios are managed on a fair value basis. Derivatives are included as held for trading.

ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable.

iii) Other financial liabilities
Other financial liabilities which include the subordinated loan notes are carried at amortised cost using the effective interest method.

When financial instruments are recognised initially, they are measured at fair value plus, in the case of loans and receivables and other financial liabilities, transaction costs. Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss are included in the group income statement in the period in which they arise. When financial assets and liabilities are interest-bearing, interest calculated using the effective interest method is recognised in the group income statement. Loans and receivables and other financial liabilities are carried at amortised cost using the effective interest method.

The Society assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Purchases and sales of investments are recognised on the settlement date. Other investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Society has transferred substantially all risks and rewards of ownership.

iv) Non-hedging derivatives
Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the group income statement. The Society does not consider that it meets the strict hedging requirements under IFRS.

v) Fair value estimation
The fair value of financial instruments traded in organised active financial markets is based on quoted market prices at the close of business on the balance sheet date. The quoted market price used for financial assets held by the Society is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price.

The fair value of financial instruments for which there is no quoted market price is determined by a variety of methods incorporating assumptions that are based on market conditions existing at each balance sheet date.

The fair value of forward foreign exchange contracts is determined by adjusting each contract price by:

- The difference between the spot rate at the date of the contract and the spot rate at the balance sheet date.

- The amortisation of the contract forward premium or discount from the date of the contract to the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values.

2. Principal accounting policies continued

G Insurance contracts (liabilities and reinsurance)

In accordance with IFRS 4 'Insurance contracts', the Society applies established UK accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards. This includes the application of the Statement of Recommended Practice (SORP) on accounting for insurance business issued by the Association of British Insurers in December 2005.

Insurance contracts are defined as those containing significant insurance risk which arises if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Reinsurance assets primarily include amounts due from Equitas arising from the reinsurance arrangements entered into by Lioncover as described in note 14. An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Society may not receive all amounts due to it under the terms of the contract and that this can be measured reliably.

H Inventories

Inventories are stated at the lower of cost and net realisable value on a first in, first out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

I Employee benefits

The Society accounts for pensions and similar benefits (principally income protection due to ill health) under IAS 19 'Employee Benefits'. The Society of Lloyd's operates a number of defined benefit pension schemes in which obligations are measured at discounted present value using the projected unit credit method, while plan assets are recorded at fair value. The operating and financing income and costs of the scheme are recognised in the group income statement. Service costs and financing income and costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in full in the group statement of recognised income and expense in the period in which they occur. Discretionary awards in respect of past service costs are recognised in the group income statement when awarded.

Payments to separately administered defined contribution schemes are charged to the group income statement as they fall due. Entitlements to payments to Funded Unapproved Retirement Benefits Schemes (FURBS) are recognised when the obligations to make the payments are incurred.

J Loans recoverable

Recoverable Central Fund loans made to hardship members are recognised at fair value. Any gains and losses arising from changes in the fair value are included in the group income statement in the period in which they arise.

K Taxation

Corporation tax on the surplus or deficit for the periods presented comprises current and deferred tax. Corporation and income tax is recognised in the group income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

L Subordinated loan notes

Subordinated loan notes are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, the loan notes are subsequently recorded at amortised cost using the effective interest rate over the period to the earliest option date. Amortised cost is calculated by taking into account issue costs and issue discount.

2. Principal accounting policies continued

M Cash and cash equivalents

For the purposes of the group cash flow statement, cash comprises cash at banks and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

N Income recognition

Income which is stated net of value added tax, comprises the fair value of amounts receivable. Income is recognised as follows:

i) Members' subscriptions, market charges and other services

Members' subscriptions, market charges and other services are recognised in the period to which the service is provided. They are recognised on a basis that reflects the timing, nature and value of the benefits provided.

ii) Central Fund contributions

Central Fund contributions from members underwriting in the year are recognised when no significant uncertainty as to its collectibility exists.

iii) Interest income

Interest receivable is recognised in the group income statement on a time apportioned basis using the effective interest method. Any unwinding of discount is recognised as interest income.

iv) Dividend income

Dividend income from equity investments is included in the group income statement on the ex-dividend date.

v) Other income

Other income consists of market settlement recoveries which represent continuing debt recoveries from the 1996 'Reconstruction and Renewal' settlement and recoveries in respect of undertakings given by the Lloyd's Central Fund. Other income is recognised when recoverability is agreed.

O Insurance premiums

Premiums are recognised as being fully earned at the date on which the policies incept, with adjustments for premiums earned in previous accounting periods.

P Insurance claims

Claims incurred in insurance related activities consist of claims and claims handling expenses paid during the year together with the movement in outstanding claims. Outstanding claims are the estimated final cost of all claims incurred but not settled at the balance sheet date, including claims incurred but not reported (IBNR). Outstanding claims are not discounted. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are reflected within the group financial statements of later years.

Q Central Fund claims and provisions

Central Fund claims and provisions (undertakings) are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council on an annual basis and therefore are not deemed to be constructive obligations, except for renewals of those commitments previously granted. For those corporate members in provisional liquidation, the Council provides a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up, commencing on the date of the provisional liquidation. As the supporting undertakings are legally enforceable commitments, an estimate of their value is included within provisions in the group financial statements and changes during the period are reflected in the group income statement.

Recoveries in respect of the undertakings previously given are credited to the group income statement when contractually committed to be received.

2. Principal accounting policies continued

R Foreign currency and derivative instruments

i) Functional and presentation currency

The group financial statements are presented in pound sterling, which is the Society's functional and presentation currency. Items included in the financial statements of each of the Society's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

ii) Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to the group income statement.

Translation differences on non-monetary items measured at fair value are reported as part of the fair value gain or loss and are included in either the group statement of recognised income and expense or the group income statement as appropriate.

The results and financial position of overseas Society operations are translated into pound sterling as follows:

- Assets and liabilities are translated at the closing rate at the date of that balance sheet.
- Income and expenses are translated at the average exchange rate for the year.
- All resulting exchange differences are recognised as a separate component of equity.

The Society enters into forward currency contracts to manage exposures to fluctuation in foreign exchange rates, and to provide a service to the Lloyd's market. Where gains and losses are not expected to be refunded to or recovered from the Lloyd's market, these amounts are taken to the group income statement. There are no embedded derivatives separated from the host contract or that are designated as hedging instruments.

The principal year end exchange rates were:

	2006	2005
US$	**1.96**	1.72
Can$	**2.28**	2.01
Euro	**1.48**	1.46

S Leases

Payments made under operating leases are charged to the group income statement on a straight-line basis over the period of the lease.

T Syndicate loans

Syndicate loans are treated as equity as they have no fixed repayment date and the payment of interest is made only at the discretion of the Council. Interest on these loans is accounted for when the Council formally approves interest payments to be made.

2. Principal accounting policies continued

U New standards and interpretations not applied

The International Accounting Standards Board and International Financial Reporting Interpretations Committee have issued the following standards and interpretations relevant to the Society. At the date these financial statements were approved, the following standards were in issue but not effective:

		Effective date (for accounting periods beginning on or after)
International Accounting Standards		
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IFRS 8	Operating Segments	1 January 2009
IAS 1	Amendment – added disclosures about an entity's capital	1 January 2007
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006

The Council does not consider that the adoption of these standards and interpretations will have a material impact on the Society's financial statements in the period of initial application.

3. Segmental analysis

Segment information is presented in respect of the Society's business segments. The primary business segments are based on the Society's management and internal reporting structure.

Intra-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Segment information in respect of geographical location is not presented. The Society's main source of income is from the Lloyd's market based primarily in the UK. Assets are primarily held by the Society's UK-based operations.

The Society's primary business segments are as follows:

i) Corporation and non-insurance related subsidiary undertakings: the main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The activities of authorised insurance company subsidiary undertakings are excluded from this business segment.

ii) Lloyd's Central Fund: these funds comprising the New Central Fund and the 'Old' Central Fund are assets of the Society and are held and administered at the discretion of the Council, primarily as funds available for the protection of policyholders.

iii) Insurance activities: the Society has two insurance company subsidiary undertakings, Centrewrite Limited and Lioncover Insurance Company Limited. Centrewrite provides Exeat insurance to resigned members participating only on run-off syndicates allowing an early exit from Lloyd's and Estate Protection Plan insurance to members. The insurance contract liabilities of Lioncover were wholly reinsured into Equitas in 1997 and the company does not accept new business.

3. Segmental analysis continued

a) Information by business segment	Note	2006 Corporation of Lloyd's £000	2006 Lloyd's Central Fund £000	2006 Insurance activities £000	2006 Society total £000
Segment income					
Segment income (unconsolidated)		175,474	174,635	2,834	352,943
Less intra-segment income		(2,908)	–	–	(2,908)
Total income from external sources	3b	172,566	174,635	2,834	350,035
Segment operating expenses (consolidated)					
Central Fund claims and provisions	4	–	(115,735)	–	(115,735)
Gross claims incurred		–	–	(55,461)	(55,461)
Claims recoverable from reinsurers		–	–	56,804	56,804
Other group operating expenses:					
Employment (including pension costs)	6	(72,996)	–	–	(72,996)
Premises		(34,629)	–	–	(34,629)
Legal and professional	5a	(14,819)	(3,541)	(82)	(18,442)
Systems and communications		(20,394)	–	–	(20,394)
Other		(22,108)	(2,136)	(90)	(24,334)
Total other group operating expenses		(164,946)	(5,677)	(172)	(170,795)
Total segment operating expenses		(164,946)	(121,412)	1,171	(285,187)
Net finance income		6,005	17,481	377	23,863
Segment surplus		13,625	70,704	4,382	88,711
Share of profits of associates	13a	1,867	–	–	1,867
Tax charge					(7,012)
Surplus for the year					83,566
Segment assets and liabilities					
Segment assets		281,135	1,505,902	442,747	2,229,784
Investment in associates	13a	4,379	–	–	4,379
Tax assets					14,182
Total assets					2,248,345
Segment liabilities		(220,163)	(662,028)	(409,218)	(1,291,409)
Other Segment information					
Capital expenditure	10/11	7,374	–	–	7,374
Depreciation	11	1,966	–	–	1,966
Amortisation of intangible assets	10	167	–	–	167
Impairment of long-term assets	10/11	354	–	–	354
Average number of UK employees (permanent and contract)		669	–	–	669
Average number of overseas employees (permanent and contract)		92	–	–	92
Average number of total employees (permanent and contract)		761	–	–	761

3. **Segmental analysis** continued

a) **Information by business segment** continued	Note	2005 Corporation of Lloyd's £000	2005 Lloyd's Central Fund £000	2005 Insurance activities £000	2005 Society total £000
Segment income					
Segment income (unconsolidated)		170,737	83,306	2,769	256,812
Less intra-segment income		(2,976)	–	–	(2,976)
Total income from external sources	3b	167,761	83,306	2,769	253,836
Segment operating expenses (consolidated)					
Central Fund claims and provisions	4	–	(223,889)	–	(223,889)
Gross claims incurred		–	–	(30,039)	(30,039)
Claims recoverable from reinsurers		–	–	29,844	29,844
Other group operating expenses:					
Employment (including pension costs)	6	(72,201)	–	–	(72,201)
Premises		(32,074)	–	–	(32,074)
Legal and professional	5a	(17,624)	(3,887)	(85)	(21,596)
Systems and communications		(23,608)	–	–	(23,608)
Other		(20,499)	(2,020)	(99)	(22,618)
Total other group operating expenses		(166,006)	(5,907)	(184)	(172,097)
Total segment operating expenses		(166,006)	(229,796)	(379)	(396,181)
Net finance income		5,489	86,816	3,075	95,380
Segment surplus/(deficit)		7,244	(59,674)	5,465	(46,965)
Share of profits of associates	13a	2,006	–	–	2,006
Tax credit					17,343
Deficit for the year					(27,616)
Segment assets and liabilities					
Segment assets		303,131	1,346,631	575,848	2,225,610
Investment in associates	13a	4,162	–	–	4,162
Tax assets					21,236
Total assets					2,251,008
Segment liabilities		(258,046)	(684,262)	(544,132)	(1,486,440)
Other Segment information					
Capital expenditure	10/11	3,511	–	–	3,511
Depreciation	11	1,874	–	–	1,874
Amortisation of intangible assets	10	126	–	–	126
Impairment of long-term assets	10/11	231	–	–	231
Average number of UK employees (permanent and contract)		652	–	–	652
Average number of overseas employees (permanent and contract)		89	–	–	89
Average number of total employees (permanent and contract)		741	–	–	741

3. Segmental analysis continued

b) Income	Corporation 2006 £000	Corporation 2005 £000	Lloyd's Central Fund 2006 £000	Lloyd's Central Fund 2005 £000	Insurance activities 2006 £000	Insurance activities 2005 £000	Society total 2006 £000	Society total 2005 £000
Market charges								
Managing agents and syndicates	**56,949**	54,007	**–**	–	**–**	–	**56,949**	54,007
Members and members' agents	**14,893**	13,288	**–**	–	**–**	–	**14,893**	13,288
Franchise Performance and Risk Management charge	**12,041**	11,581	**–**	–	**–**	–	**12,041**	11,581
Total market charges	**83,883**	78,876	**–**	–	**–**	–	**83,883**	78,876
Members' subscriptions	**74,455**	68,804	**–**	–	**–**	–	**74,455**	68,804
Other charges	**11,907**	13,539	**1,253**	1,134	**–**	–	**13,160**	14,673
Total operating income	**170,245**	161,219	**1,253**	1,134	**–**	–	**171,498**	162,353
Central Fund contributions								
Individual members	**–**	–	**14,264**	7,175	**–**	–	**14,264**	7,175
Corporate members	**–**	–	**137,962**	62,902	**–**	–	**137,962**	62,902
Total Central Fund contributions	**–**	–	**152,226**	70,077	**–**	–	**152,226**	70,077
General insurance net premium income	**–**	–	**–**	–	**2,834**	2,769	**2,834**	2,769
Other group income	**2,321**	6,542	**21,156**	12,095	**–**	–	**23,477**	18,637
Total income	**172,566**	167,761	**174,635**	83,306	**2,834**	2,769	**350,035**	253,836

Members contribute to the Central Fund based on a percentage of their allocated overall premium limit. During 2006, this was partly achieved by contributions of 1.00% (2005: 0.50%) and partly by way of interest-bearing loans from syndicate premiums trust funds of 0.75% (2005: 0.75%), referred to as syndicate loans. The syndicate loans are treated as part of the Society's equity rather than as contributions from members in the group income statement (see note 25).

4. Central Fund claims and provisions	2006 £000	2005 £000
Provision for amounts paid and payable under undertakings given to insolvent members	**109,448**	217,438
Provisions made in respect of Limited Financial Assistance Agreements (note 22)	**4,888**	2,001
Claims payable in respect of individual members	**1,274**	2,329
Tax and interest payable in respect of insolvent members	**125**	2,121
	115,735	223,889
Consisting of:		
Annual undertakings granted	**114,576**	217,568
Decrease in the value of supporting commitments (note 22)	**(5,128)**	(130)
Provisions made in respect of Limited Financial Assistance Agreements (note 22)	**4,888**	2,001
Claims payable in respect of individual members	**1,274**	2,329
Tax and interest payable in respect of insolvent members	**125**	2,121
	115,735	223,889

The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. Undertakings are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council on an annual basis and therefore are not deemed constructive obligations, except for renewals of commitments previously granted (see note 22). Unutilised undertakings as at 31 December 2006 were £147.7m. Those undertakings have expired and have been replaced by further annual undertakings given on 28 March 2007 that total £162.4m, a net increase of £14.7m. No provision has been included in these financial statements in respect of these further undertakings.

For those corporate members in provisional liquidation, the Council has also provided a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation. As the supporting undertakings are legally enforceable commitments, an estimate of their value has been included within provisions in the group financial statements and changes during the year are reflected in the group income statement, as shown in the table above.

5a) Other group operating expenses	2006 Corporation of Lloyd's £000	2006 Lloyd's Central Fund £000	2006 Insurance activities £000	2006 Total £000	2005 Total £000
Other group operating expenses include:					
Employment costs (note 6)	**72,996**	–	–	**72,996**	72,201
Operating lease rentals – Lloyd's 1986 building	**16,767**	–	–	**16,767**	16,767
Operating lease rentals – other	**1,542**	–	–	**1,542**	870
Professional fees, including legal fees and related costs	**13,786**	**3,489**	–	**17,275**	20,125
Audit services	**284**	**52**	**63**	**399**	416
Assurance services payable to Ernst & Young LLP	**578**	–	–	**578**	705
Actuarial services payable to Ernst & Young LLP	**120**	–	**19**	**139**	191
Tax services payable to Ernst & Young LLP	–	–	–	–	26
Other services payable to Ernst & Young LLP	**51**	–	–	**51**	133
Total legal and professional fees	**14,819**	**3,541**	**82**	**18,442**	21,596
Charitable donations	**423**	–	–	**423**	281

Excluded from the 2005 comparatives are additional fees of £30,000 paid to Ernst & Young LLP that were capitalised in relation to the Society's issue of subordinated loan notes.

b) Kinnect Limited

Kinnect Limited closed its operations on 24 January 2006. The costs of Kinnect Limited in the year to 31 December 2006 total £2.3m (2005: £15.5m) which included closure costs of £1.1m.

6. Employment	2006 £000	2005 £000
Salaries and wages (including performance-related bonus)	**42,575**	40,920
Long-term Incentive Plan (excluding social security costs – note 22)	**1,886**	2,104
Lloyd's Pension Scheme costs	**10,524**	10,589
Other pension costs	**1,016**	1,561
Social security costs	**5,159**	5,035
Severance costs	**2,013**	1,875
Contract and agency staff	**5,708**	4,549
Other employment costs	**4,115**	5,568
	72,996	72,201

The emoluments of the Chairman, CEO, members of the Council and Franchise Board are included in the report of the Nominations, Appointments and Compensation Committee on pages 85 to 87.

7. Overseas operating expenses

Included within other group operating expenses for the Corporation are the operating costs of overseas activities which include:

	2006 £000	2005 £000
Employment	**7,225**	6,141
Premises	**1,863**	1,611
Legal and professional	**5,717**	7,211
Systems and communications	**5,006**	3,706
Other expenses	**5,103**	4,445
	24,914	23,114

8. Finance	2006 Corporation of Lloyd's £000	2006 Central Fund £000	2006 Insurance activities £000	2006 Total £000	2005 Total £000
Finance costs					
Interest payable and similar charges	**(317)**	**(32,046)**	**–**	**(32,363)**	(39,387)
Amortisation of issue costs and discount	**–**	**(558)**	**–**	**(558)**	(564)
Unrealised exchange gain on borrowings	**–**	**3,966**	**–**	**3,966**	6,298
Total finance costs	**(317)**	**(28,638)**	**–**	**(28,955)**	(33,653)
Finance income					
Bank interest received	**6,010**	**11,653**	**109**	**17,772**	16,584
Dividends received	**–**	**4,253**	**–**	**4,253**	2,874
Other returns on investments	**740**	**27,602**	**884**	**29,226**	66,550
Unrealised fair value movement of investments	**(428)**	**(1,412)**	**(492)**	**(2,332)**	40,287
Increase in valuation of loans recoverable	**–**	**4,023**	**–**	**4,023**	2,314
Other movements	**–**	**–**	**(124)**	**(124)**	424
Total finance income	**6,322**	**46,119**	**377**	**52,818**	129,033

Returns on investments include dividends and interest receivable, realised fair value gains and losses and realised and unrealised exchange differences arising on the revaluation of foreign currency investment holdings.

Other movements include realised and unrealised exchange differences arising on the revaluation of foreign currency operating cash flows.

9. Taxation

a) Analysis of charge in the year	2006 £000	2005 £000
Current tax:		
Corporation tax based on profits for the year at 30% (2005: 30%)	**(2,551)**	–
Adjustments in respect of previous years	**31**	7,351
Foreign tax suffered	**(112)**	(6)
Total current tax	**(2,632)**	7,345
Deferred tax:		
Origination and reversal of timing differences – current year	**(19,817)**	9,998
– prior year	**15,437**	–
Tax (charge)/credit	**(7,012)**	17,343

b) Reconciliation of effective tax rate	2006 £000	2006 £000	2005 £000	2005 £000
Surplus/(deficit) on ordinary activities before tax		**90,578**		(44,959)
Corporation tax at 30%	**30.0%**	**(27,173)**	30.0%	13,488
Expenses not deductible for tax purposes	**1.2%**	**(1,138)**	(11.0%)	(4,947)
Non-taxable income	**(6.3%)**	**5,739**	4.1%	1,860
Utilisation of tax credits	**(0.1%)**	**103**	–	2
Unutilised tax losses in respect of Kinnect Limited	**0.6%**	**(545)**	(2.5%)	(1,128)
Overseas tax	**0.1%**	**(112)**	–	(6)
Other	**(0.7%)**	**646**	1.6%	723
Deferred tax prior year credit	**(17.1%)**	**15,437**	–	–
Adjustments in respect of previous years	**–**	**31**	16.4%	7,351
Tax (charge)/credit (note 9a)	**7.7%**	**(7,012)**	38.6%	17,343

The deferred tax prior year credit of £15.4m arises from a reassessment of the tax base in respect of financial investments (£8.4m) and loans recoverable (£7.0m).

Non-taxable income in 2006 includes £3.1m arising from an increase in the tax base of financial investments during the year.

c) Deferred tax	2006 Balance at 1 January £000	2006 Income statement £000	2006 Equity £000	2006 Balance at 31 December £000
Property, plant and equipment	**2,760**	**1,830**	**–**	**4,590**
Loans recoverable	**–**	**(11,616)**	**–**	**(11,616)**
Financial investments	**(9,839)**	**6,857**	**–**	**(2,982)**
Pension liabilities	**15,663**	**(2,613)**	**484**	**13,534**
Other employee benefits	**952**	**(316)**	**–**	**636**
Unutilised tax losses	**173**	**3,088**	**–**	**3,261**
Other items	**1,610**	**(1,610)**	**–**	**–**
	11,319	**(4,380)**	**484**	**7,423**

9. Taxation continued

c) **Deferred tax** continued	2005 Balance at 1 January £000	2005 Income statement £000	2005 Equity £000	2005 Balance at 31 December £000
Property, plant and equipment	1,165	1,595	–	2,760
Loans recoverable	(18,981)	18,981	–	–
Financial investments	(3,281)	(6,558)	–	(9,839)
Pension liabilities	16,110	(1,153)	706	15,663
Other employee benefits	890	62	–	952
Provisions	3,394	(3,394)	–	–
Unutilised tax losses	–	173	–	173
Other items	1,318	292	–	1,610
	615	9,998	706	11,319

Deferred tax has not been recognised in respect of tax losses where it has not been considered probable that suitable taxable profits will be available to utilise these losses. These unrecognised tax losses amount to £8.9m (2005: £7.2m).

10. Intangible assets – software development	**Total £000**
Cost:	
At 1 January 2005	4,541
Additions	27
At 31 December 2005	4,568
Additions	**342**
Disposals	**(29)**
At 31 December 2006	**4,881**
Amortisation:	
At 1 January 2005	4,266
Charge for the year	126
At 31 December 2005	4,392
Charge for the year	**167**
Impairment losses	**32**
Disposals	**(29)**
At 31 December 2006	**4,562**
Net book value at 31 December 2006	**319**
Net book value at 31 December 2005	176

The amortisation charge is included in other group operating expenses in the group income statement.

Impairment losses

During 2006, an assessment of the recoverability of software licence fees included within software development was undertaken. As part of this assessment of the carrying value of assets, £32,000 was written off which is included within other group operating expenses.

11. Property, plant and equipment	Freehold land and buildings £000	Plant and other assets £000	Total £000
Cost:			
At 1 January 2005	413	36,873	37,286
Additions	–	3,484	3,484
Disposals	–	(2,244)	(2,244)
At 31 December 2005	413	38,113	38,526
Additions	**–**	**7,032**	**7,032**
Disposals	**–**	**(1,575)**	**(1,575)**
At 31 December 2006	**413**	**43,570**	**43,983**
Depreciation and impairment:			
At 1 January 2005	349	30,813	31,162
Depreciation charge for the year	32	1,842	1,874
Impairment losses	–	231	231
Disposals	–	(2,167)	(2,167)
At 31 December 2005	381	30,719	31,100
Depreciation charge for the year	**–**	**1,966**	**1,966**
Impairment losses	**32**	**290**	**322**
Disposals	**–**	**(1,441)**	**(1,441)**
At 31 December 2006	**413**	**31,534**	**31,947**
Net book value at 31 December 2006	**–**	**12,036**	**12,036**
Net book value at 31 December 2005	32	7,394	7,426

Impairment losses

During 2005 and 2006, annual impairment reviews were undertaken in which assets within plant and other assets had their recoverable amounts reassessed. As part of this assessment of the carrying value of assets, £322,000 was written off (2005: £231,000) which is included within other group operating expenses. The majority of the written down assets related to redundant or obsolete computer equipment.

12. Principal investments in subsidiary undertakings and associates

Entity	Nature of business	Proportion of equity capital held
Subsidiary undertakings		
Additional Securities Limited	Provision of deposits overseas on behalf of Lloyd's underwriters to comply with local insurance regulations	100%
Centrewrite Limited	Authorised UK insurance company	100%
Lioncover Insurance Company Limited	Authorised UK insurance company	100%
Associates		
Ins-sure Holdings Limited	Provision of premiums and claims accounting and settlement, policy production and ancillary insurance services principally to the London insurance market	25%
Xchanging Claims Services Limited	Provision of claims and recoveries services	50%

The issued share capital of Ins-sure Holdings Limited is £4,000. There are three classes of shares. The Society holds 1,000,000 B shares of 0.1p each that have the right to participate in 25% of any profits available for distribution.

The issued share capital of Xchanging Claims Services Limited is £4,001. There are three classes of shares. The Society holds 1,000 A shares of £1 each and 2,501 C shares of £1 each. The A and C shares have the following rights with respect to dividends:

a) The C shares carry a right to a fixed cumulative preference dividend of 5% calculated on the nominal capital and a variable participating dividend calculated by reference to trading profits.

b) The A shares participate in 50% of any profits available for distribution after taking account of the dividend rights outlined above.

13. Investments

a) Investments in associates	2006 Goodwill £000	2006 Share of other net assets £000	2006 Total £000	2005 Total £000
At 1 January	**861**	**3,301**	**4,162**	3,283
Share of operating profits	**–**	**2,794**	**2,794**	3,059
Share of interest income	**–**	**175**	**175**	122
Share of tax on profit on ordinary activities	**–**	**(1,102)**	**(1,102)**	(1,175)
Total share of profits of associates	**–**	**1,867**	**1,867**	2,006
Share of actuarial gain on pension liability	**–**	**970**	**970**	375
Share of tax on items taken directly to equity	**–**	**(291)**	**(291)**	(112)
Dividends received	**–**	**(2,329)**	**(2,329)**	(1,390)
At 31 December	**861**	**3,518**	**4,379**	4,162

13. Investments continued

a) Investments in associates continued

Summary financial information for associates – 100%:

	Assets £000	Liabilities £000	Revenues £000	Profit after tax £000
2006				
Ins-sure Holdings Limited	**27,900**	**(17,233)**	**57,211**	**3,935**
Xchanging Claims Services Limited	**13,615**	**(8,675)**	**29,383**	**3,748**
	41,515	**(25,908)**	**86,594**	**7,683**
2005				
Ins-sure Holdings Limited	28,814	(16,605)	53,180	4,529
Xchanging Claims Services Limited	11,031	(7,447)	24,442	2,302
	39,845	(24,052)	77,622	6,831

b) Lloyd's Collection

The Lloyd's Collection represents various paintings, antiques and artefacts. The collection was valued by Gurr Johns Limited, valuers and fine art consultants in September 2004, on the basis of open market auction value assuming all items are not sold at the same time taking into account the nature, age, condition and quality of each chattel. This resulted in a revaluation gain of £2.8m. In 2005 and 2006, it has been assessed there was no change in valuation.

14. Insurance activities

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the balance sheet date. Outstanding claims provisions are not discounted for the time value of money.

Insurance claims	2006 Lioncover Insurance Company Limited £000	2006 Centrewrite Limited £000	2006 Total £000	2005 Total £000
Gross claims incurred:				
Claims paid	**(124,175)**	**(759)**	**(124,934)**	(107,537)
Change in provision for claims	**67,197**	**2,276**	**69,473**	77,498
	(56,978)	**1,517**	**(55,461)**	(30,039)
Claims recoverable from reinsurers:				
Claims recovered from reinsurers	**124,175**	**–**	**124,175**	108,629
Change in reinsurance contract assets	**(67,197)**	**(174)**	**(67,371)**	(78,785)
	56,978	**(174)**	**56,804**	29,844

14. Insurance activities continued

Lioncover Insurance Company Limited

Lioncover Insurance Company Limited (Lioncover) is a wholly-owned subsidiary undertaking of the Society. Since its formation, Lioncover has reinsured the liabilities of private members on syndicates formerly managed by PCW Underwriting Agencies Limited, WMD Underwriting Agencies Limited and Richard Beckett Underwriting Agencies Limited and on syndicates 2 and 49 (collectively referred to as 'the PCW syndicates'). On 18 December 1997, Lioncover entered into an unlimited reinsurance of those liabilities with Equitas Reinsurance Limited (ERL).

Notwithstanding the reinsurance of liabilities by ERL, Lioncover remains liable to its policyholders in respect of the business originally underwritten. Accordingly, the Society's financial statements reflect a provision for claims outstanding, including losses incurred but not reported (IBNR), in respect of that business and an equal amount as recoverable from ERL.

Lioncover's long-term insurance liabilities include pollution and asbestos. Lioncover does not underwrite any new policies.

Insurance contract liabilities may be analysed as follows:

	2006 Insurance contracts liabilities £000	**2006 Reinsurer's share of liabilities £000**	**2006 Net £000**	2005 Insurance contract liabilities £000	2005 Reinsurer's share of liabilities £000	2005 Net £000
Provision for claims reported	**162,695**	**(162,695)**	**–**	379,856	(379,856)	–
Provision for IBNR claims	**231,797**	**(231,797)**	**–**	146,992	(146,992)	–
Insurance contract liabilities	**394,492**	**(394,492)**	**–**	526,848	(526,848)	–

The movement in provision for insurance contract liabilities can be analysed as follows:

	2006 Insurance contracts liabilities £000	**2006 Reinsurer's share of liabilities £000**	**2006 Net £000**	2005 Insurance contract liabilities £000	2005 Reinsurer's share of liabilities £000	2005 Net £000
At 1 January	**526,848**	**(526,848)**	**–**	541,835	(541,835)	–
Claims incurred	**56,978**	**(56,978)**	**–**	30,356	(30,356)	–
Claims paid	**(124,175)**	**124,175**	**–**	(108,629)	108,629	–
Effect of exchange rates	**(65,159)**	**65,159**	**–**	63,286	(63,286)	–
At 31 December	**394,492**	**(394,492)**	**–**	526,848	(526,848)	–

The provision for claims outstanding is based upon actuarial and other studies of the ultimate cost of liabilities performed by ERL including exposure based and statistical estimation techniques.

Significant delays occur in the notification and settlement of certain claims, and a substantial measure of experience and judgment is involved in making the assumptions for assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. The gross provision for claims outstanding and related reinsurance recoveries is estimated on the basis of information currently available.

The provision for claims outstanding includes significant amounts in respect of notified and potential IBNR claims for long-tail liabilities. The settlement of these claims is not expected to occur for many years, and there is considerable uncertainty as to the amounts at which they will be settled.

14. Insurance activities continued

Lioncover Insurance Company Limited continued

Where a claim is disputed, the validity of the claim is ultimately an issue that can only be determined by the courts. The provision for a disputed claim is based on Lioncover's view as to the expected outcomes of such court decisions.

Uncertainty is further increased because of the potential for unforeseen changes in the legal, judicial, technological or social environment, which may increase or decrease the cost, frequency or reporting of claims, and because of the potential for new sources or types of claim to emerge.

Asbestos claims

In estimating asbestos liabilities, Lioncover follows a highly developed actuarial framework. The majority of asbestos reserves are estimated by modelling the expected claims from policyholders of the reinsured syndicates.

The number of future claims is projected for direct policyholders based on past claims experience combined with the results of epidemiological and, other relevant studies that predict the incidence of asbestos-related diseases into the future. This is then combined with estimates of the average cost of settling different types of claims for each policyholder to give a total value of claims to the relevant underlying policyholders. The results of these projections are then applied to the insurance coverage available for those policyholders, resulting in an estimation of Lioncover's liabilities arising from claims against those policyholders. The results are then adjusted to take into account liabilities in respect of policyholders that are not modelled explicitly, including an amount for those liabilities of which Lioncover may be currently unaware.

The techniques described above include a number of important assumptions, including:

- The projected level of future valid claims filings for each policyholder by disease type.
- Future levels of claims settlements values.
- The impact of bankruptcy of policyholders on the amount and timing of claims payments.
- The legal interpretation of insurance policies and the outcome of litigation, based upon legal advice received.
- The period between the filing and payment of claims.

The assumptions on the proportion of claims filings that will ultimately lead to claims payments reflect an assessment that the claims management strategies adopted by Lioncover will reduce claims payments below the level that they would otherwise have been.

Pollution and health hazard claims

Pollution liabilities are estimated for policyholders of the reinsured syndicates by evaluating the expected costs to be incurred by the policyholders in cleaning up polluted sites and then applying these costs to the insurance coverage available. The pollution liabilities expected by means of inward reinsurance are evaluated in a similar manner, but with the additional step of applying the ceding companies' expected liabilities to the reinsurance cover available.

Allowance is then made for liabilities in respect of policyholders for which either sufficient information is unavailable to carry out the above analysis or, which have not yet been identified.

Health hazard liabilities are estimated using similar principles to the above, in that the liabilities of the policyholder are estimated for the majority of reserves and then applied to the insurance coverage.

These evaluation techniques involve a number of important assumptions, including:

- The validity and quantum of the claims potentially faced by the policyholder.
- The legal interpretation of insurance policies and the outcome of litigation, based upon legal advice received.
- The degree to which potential or unforeseen health hazards may have an effect on the liabilities.

14. Insurance activities continued
Lioncover Insurance Company Limited continued
Reinsurance recoveries
The run-off and reinsurance contract that ERL and its subsidiary undertaking, Equitas Limited, have entered into with National Indemnity Company (NICO), as described in note 29, provides substantial additional cover for Equitas and, therefore, Lioncover. Despite significant uncertainties regarding the determination of the ultimate cost of claims borne by ERL, the likelihood that ERL will not be able to pay claims in full has been significantly reduced by this transaction.

Centrewrite Limited
The company's principal activities are:

a) To underwrite the Lloyd's Members' Estate Protection Plan.

b) To reinsure individual members of Lloyd's participations on syndicates for underwriting years of account which have not been closed.

Insurance contract liabilities may be analysed as follows:

	2006 Insurance contracts liabilities £000	2006 Reinsurers' share of liabilities £000	2006 Net £000	2005 Insurance contract liabilities £000	2005 Reinsurers' share of liabilities £000	2005 Net £000
Provision for claims reported	14,076	–	14,076	16,283	(174)	16,109
Provision for IBNR claims	72	–	72	141	–	141
Insurance contract liabilities	14,148	–	14,148	16,424	(174)	16,250

The movement in provision for insurance contract liabilities can be analysed as follows:

	2006 Insurance contracts liabilities £000	2006 Reinsurers' share of liabilities £000	2006 Net £000	2005 Insurance contract liabilities £000	2005 Reinsurers' share of liabilities £000	2005 Net £000
At 1 January	16,424	(174)	16,250	15,649	(686)	14,963
Claims (released)/incurred	(1,517)	174	(1,343)	(317)	512	195
Claims (paid)/recovered	(759)	–	(759)	1,092	–	1,092
At 31 December	14,148	–	14,148	16,424	(174)	16,250

Claims incurred consist of claims and claims handling expenses paid during the year, together with the movement in outstanding claims. Full provision is made, on the basis of available information, for the estimated ultimate cost of claims notified but not settled as at the date of the balance sheet, after taking into account handling costs and settlement trends. A provision for claims incurred but not notified is also established as at that date on a statistical basis. The provision also reflects claims settlement expenses and anticipated reinsurance and other recoveries. The provision for outstanding claims is based on information available at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any difference between the provision and subsequent settlements are dealt with in the group income statements of later years.

14. Insurance activities continued

Claims development triangles

The tables below show the development of claims over a period of time on a gross basis.

The tables show the cumulative incurred claims, including both notified and IBNR claims for each successive year at balance sheet date, together with cumulative claims at the current balance sheet date.

Lioncover Insurance Company Limited	2002 and prior £000	2003 £000	2004 £000	2005 £000	2006 £000	**Total £000**
At end of underwriting year	1,064,520	–	–	–	–	
One year later	840,945	–	–	–		
Two years later	848,850	–	–			
Three years later	942,492	–				
Current year	934,311					
Current estimate of cumulative claims	934,311	–	–	–	–	
Cumulative payments to date	(539,819)	–	–	–	–	
Insurance contract liabilities	394,492	–	–	–	–	**394,492**

The impact of exchange rate movements has decreased the claims provision by £65.2m (2005: increase in claims provision of £63.3m). This is represented in the movement in claims in the table above.

Centrewrite Limited	2002 and prior £000	2003 £000	2004 £000	2005 £000	2006 £000	**Total £000**
At end of underwriting year	108,779	4,640	4,101	3,407	2,586	
One year later	102,860	4,399	3,621	3,001		
Two years later	72,617	4,118	3,211			
Three years later	64,411	3,624				
Four years later	33,730					
Current estimate of cumulative claims	33,730	3,624	3,211	3,001	2,586	
Cumulative payments to date	(28,543)	(2,317)	(530)	(421)	(193)	
Insurance contract liabilities	5,187	1,307	2,681	2,580	2,393	**14,148**

15. Loans recoverable	**2006 £000**	2005 £000
At 1 January	**61,609**	63,269
Recoveries during the year	**(3,431)**	(3,974)
Change in valuation of loans recoverable	**4,023**	2,314
At 31 December	**62,201**	61,609

16. Financial investments

	2006 £000	2005 £000
Statutory insurance deposits (note 16a)	**126,742**	121,484
Other investments (note 16c)	**1,372,548**	1,031,662
	1,499,290	1,153,146

a) Statutory insurance deposits

	2006 Securities £000	2006 Deposits £000	2006 Total £000	2005 Total £000
Market value at 1 January	**39,313**	**82,171**	**121,484**	112,622
Additions at cost	**32,298**	**289,994**	**322,292**	276,046
Disposal proceeds	**(19,889)**	**(286,823)**	**(306,712)**	(271,721)
(Deficit)/surplus on the sale and revaluation of investments	**(3,903)**	**(6,419)**	**(10,322)**	4,537
Market value at 31 December	**47,819**	**78,923**	**126,742**	121,484

Analysis of securities at year end – statutory insurance deposits

	2006 Cost £000	2006 Valuation £000	2005 Cost £000	2005 Valuation £000
Listed on:				
Overseas stock exchanges	**46,099**	**42,829**	33,918	33,118
	46,099	**42,829**	33,918	33,118
Unlisted:				
Fixed interest	**5,043**	**4,990**	5,990	6,195
	51,142	**47,819**	39,908	39,313

Basis of valuation: listed, fixed and floating rate securities are valued at their quoted bid market price at the balance sheet date.

Unlisted fixed interest securities

	2006 £000	2005 £000
Foreign treasury bills	**4,824**	5,622
Foreign government debentures	**166**	573
	4,990	6,195

b) Loans funding statutory insurance deposits

These amounts comprise floating rate advances in foreign currencies and pound sterling repayable within one year:

	2006 £000	2005 £000
Lloyd’s market – deposits	**(120,812)**	(115,750)
Allocated to:		
Financing of underwriting deposits	**(115,610)**	(110,548)
Working capital	**(5,202)**	(5,202)
	(120,812)	(115,750)

16. Financial investments continued

Finance is arranged by advances from syndicates in the Lloyd's market. These advances are renewed annually. By agreement with the lenders, investment returns earned on these assets are paid, in appropriate proportions, to the lenders. In this way, the Society avoids any risk arising from a mismatch between borrowing and lending terms (see note 24).

The provision of funds by members is in respect of the establishment and maintenance of overseas deposits and is a condition of permission to underwrite insurance business at Lloyd's.

c) Other investments	**2006 Corporation of Lloyd's £000**	**2006 Central Fund £000**	**2006 Insurance activities £000**	**2006 Total £000**	2005 Total £000
Market value at 1 January	**389**	**989,794**	**41,479**	**1,031,662**	1,040,834
Additions at cost	**–**	**580,323**	**47,580**	**627,903**	1,003,135
Increase/(decrease) in short-term deposits	**37,148**	**76,230**	**–**	**113,378**	(35,127)
Disposal proceeds	**–**	**(319,382)**	**(44,798)**	**(364,180)**	(1,034,855)
(Deficit)/surplus on the sale and revaluation of investments	**–**	**(34,342)**	**(1,873)**	**(36,215)**	57,675
Market value at 31 December	**37,537**	**1,292,623**	**42,388**	**1,372,548**	1,031,662
Analysis of securities at year end:					
Listed on London Stock Exchange:					
Fixed interest	**–**	**564,568**	**35,566**	**600,134**	476,572
Equities	**–**	**130,301**	**–**	**130,301**	103,096
	–	**694,869**	**35,566**	**730,435**	579,668
Listed on overseas stock exchanges:					
Fixed interest	**–**	**336,613**	**6,822**	**343,435**	324,516
Equities	**–**	**165,655**	**–**	**165,655**	100,658
	–	**502,268**	**6,822**	**509,090**	425,174
Short-term deposits	**37,537**	**74,486**	**–**	**112,023**	5,820
Security deposits (see below)	**–**	**21,000**	**–**	**21,000**	21,000
	37,537	**95,486**	**–**	**133,023**	26,820
Market value at 31 December	**37,537**	**1,292,623**	**42,388**	**1,372,548**	1,031,662

Security deposits

Tutelle Limited

In 1996 the Council set aside, under a Lloyd's special account, £20m of the 'Old' Central Fund to secure the Society's obligations under staff indemnities and certain indemnities which have been given by Lloyd's to certain individuals and advisers in respect of the 'Reconstruction and Renewal' plan. These include members of the Reserve Group, directors and officers of Equitas, members of the Council, Lloyd's Regulatory Board, Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees and Corporation staff.

Unless and until there is any default under the security documentation, interest earned on the trust fund is paid to the 'Old' Central Fund.

The security was deposited for an initial period of two years and the Council exercised its discretion to renew this in June 1998. The Council further amended the period of the deposit, in November 1998, so that the security could only be released if the Council was satisfied that there was no reasonable prospect of a claim being made under these indemnities.

Tutelle's position is under biennial review and, having been reviewed in June 2006, will be reviewed again in June 2008. The security may continue for a period of up to 80 years. Any of the funds remaining after this period will be repaid to the 'Old' Central Fund.

16. Financial investments continued

Lioncover Insurance Company Limited

In 1999, Lloyd's assigned to Lioncover £1m of the 'Old' Central Fund by way of security for a period of ten years for its obligations to Lioncover under the indemnity bond referred to in note 28. The security was provided as consideration to those private members whose underwriting liabilities are reinsured by Lioncover for the release of Lloyd's syndicate 9001, for which Lioncover was substituted as direct reinsurer to close of those members. Any of the funds remaining after this period will be repaid to the 'Old' Central Fund.

Unless and until there is any default under the security documentation, interest earned on the security is paid to the 'Old' Central Fund.

17. Inventories	2006 £000	2005 £000
Consumables	**184**	401

18. Trade and other receivables	2006 £000	2005 £000
Due within one year:		
Trade and other debtors	**26,568**	34,440
	26,568	34,440

19. Cash and cash equivalents	2006 £000	2005 £000
Cash at banks	**30,521**	36,068
Short-term deposits	**179,777**	381,041
	210,298	417,109

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Society, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £210.3m (2005: £417.1m).

20. Subordinated loan notes	2006 £000	2005 £000
Details of loans payable wholly or partly after more than five years:		
6.875% subordinated notes of £300m maturing 17 November 2025	**300,000**	300,000
5.625% subordinated notes of €300m maturing 17 November 2024	**202,129**	206,129
	502,129	506,129
Less: issue costs to be charged in future years	**(2,996)**	(3,361)
Less: discount on issue to be unwound in future years	**(1,759)**	(1,986)
	497,374	500,782

The Sterling Notes mature on 17 November 2025, although the Society may redeem them at 17 November 2015 and 17 November 2020. In the event that the Society does not redeem the Sterling Notes on 17 November 2015, the rate of interest payable will be the rate per annum which is the aggregate of the Gross Redemption Yield on the relevant Benchmark Gilt (a UK government security having a maturity date on or nearest to the next reset date) plus a margin of 3.07%.

The Euro Notes mature on 17 November 2024, although the Society may redeem them at 17 November 2014 or on any interest payment date thereafter. In the event that the Society does not redeem the Euro Notes on 17 November 2014, the rate of interest payable will be three month Euribor plus a margin of 2.72%.

The Notes are subordinated obligations of the Society. Each tranche of the Notes will rank *pari passu* with the other in a winding-up of the Society. Upon the occurrence of any winding-up proceedings of the Society, payments on the Notes will be subordinated in right of payment to the prior payment in full of all other liabilities of the Society, except for liabilities which rank equally with or junior to the Notes. Payments on the Notes will also be subordinated to certain payments which may be made out of central assets including payments made to discharge the liabilities of an insolvent member to any person (including any policyholders) arising out of or, in connection with insurance business carried on at Lloyd's by that insolvent member and payments made in respect of the costs required by or under any insolvency procedure to which the Society or the Lloyd's market may be subject.

20. Subordinated loan notes continued

However, in the event of a winding-up of the Society, the claims of the holders of the Notes rank senior to the Society's obligations to members under the New Central Fund Syndicate Loans which commenced on 1 April 2005 (see note 25) and also in priority to the distribution of any central assets to members of Lloyd's generally (other than payments made to members in their capacity as senior creditors of the Society).

21. Pension liabilities

The Society operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme which is a defined benefit scheme. Other schemes have been established for certain employees based overseas. These schemes are generally funded by the payment of contributions to separately administered funds.

Defined benefit plans

The net pension liabilities of the schemes at 31 December 2006 are as follows:

	2006 £000	2005 £000
Lloyd's Pension Scheme	**45,113**	52,209
Overseas pension schemes	**663**	332
	45,776	52,541

The amounts charged to the group income statement and group statement of recognised income and expense, in respect of defined benefit plans, are as follows:

	2006 £000	2005 £000
Group income statement:		
Lloyd's Pension scheme	**10,524**	10,589
Overseas pension schemes	**77**	52
	10,601	10,641
Group statement of recognised income and expense:		
Lloyd's Pension scheme	**(1,613)**	(2,354)
Overseas pension schemes	**(254)**	–
	(1,867)	(2,354)

Lloyd's Pension Scheme

The Corporation operates a defined benefit pension scheme with assets held in a separately administered fund, the Lloyd's Pension Scheme. For the purposes of determining the funding position of the scheme and future contributions, a formal actuarial valuation of the scheme was carried out by Watson Wyatt LLP, actuaries and consultants, as at 30 June 2004 using the projected unit credit method. The principal actuarial assumptions adopted in the valuation were that (in real terms relative to retail price inflation), present and future pensions in payment relating to benefits accruing on or after 6 April 1997 would remain constant while total pensionable remuneration would increase by 1.8% per annum. The real rate of return on investments held at the valuation date was assumed to be approximately 3.9% while the real rate of return on future contributions receivable after the valuation date was assumed to be 4.2%. The total market value of the scheme's assets at the date of valuation were £245m, which equates to 96% of the value placed on the benefits that had accrued to members of £254m, after allowing for assumed future increases in pensionable remuneration. These figures exclude both liabilities and the related assets in respect of money purchase AVCs and in respect of the accrued benefits of scheme members employed by LPSO Limited, LCO Marine Limited and LCO Non-Marine and Aviation Limited. While these companies are participating employers of the scheme, they ceased to be subsidiary undertakings during 2001.

No allowance has been made for discretionary increases to pre 6 April 1997 benefits when in payment. In 2003, the Corporation instructed Watson Wyatt LLP not to allow for such increases in calculating the scheme's liabilities when carrying out a 2003 interim review and for future actuarial valuations. Such increases have always been payable at the discretion of Lloyd's and will continue to be considered on the basis of affordability, but are no longer taken into account by the actuary in determining the funding level.

The Corporation made two special contributions to the Lloyd's Pension Scheme to eliminate the past service deficit of £9m, revealed by the actuarial valuation as at 30 June 2004. The past service deficit having been eliminated, the actuary determined the contribution rate for the Corporation in respect of future service from 1 July 2004 should be 21.2% of pensionable pay for existing members.

21. Pension liabilities continued
In order to mitigate exposure to pension scheme liabilities, several changes have been made to the Lloyd's Pension Scheme. From February 2005, the senior management section of the scheme was closed to new entrants and the normal retirement age for joiners was increased from 60 to 65. The final salary scheme was closed to new joiners at the end of June 2006. New entrants from July 2006 have been eligible to join the Lloyd's Pension Scheme but accrue benefits on an eightieths career average basis and are contracted-in to the State Second Pension. Employee contributions at 5%, or 10% for members of the senior management section, of pensionable earnings up to the Scheme earnings cap where applicable, normally payable by salary sacrifice, have been introduced from July 2006, with a matching reduction in employer contributions. The next triennial valuation for funding purposes will be as at 30 June 2007.

Principal actuarial assumptions in respect of IAS 19
The demographic assumptions which are the most financially significant are those relating to the longevity of retired members. For the 2004 actuarial valuation for funding purposes, assumed mortality in retirement was based on published actuarial tables (PMA92BAS for men and PFA92BAS for women, rated down by one year for females), together with an allowance for future improvements in longevity. The assumptions for the purposes of the IAS 19 valuation as at 31 December 2006 updates the mortality assumptions to incorporate the CMI's published 'medium cohort' improvements from 1992 to 2006 and in the future.

These assumptions are equivalent to expected longevity at age 60 approximately as follows:

- For pensioners currently aged 60: ranging from 27 years to 29 years (2005: 23 years to 27 years).

- For non-pensioners currently aged 45: ranging from 28 years to 30 years (2005: 24 years to 28 years).

The impact of this change in mortality assumption has been to increase the balance sheet liability by £22.5m. This change in assumption has been recognised in the group statement of recognised income and expense.

The other major financial assumptions used by the actuary as at 31 December 2006 for the purposes of IAS 19 were as follows:

		2006 % per annum	2005 % per annum	2004 % per annum
General salary and wage inflation		**3.00%**	4.60%	4.60%
Rate of increase in pensions in payment				
– pre 6 April 1997 (in excess of GMPs)		**–**	–	–
– 6 April 1997 to 5 April 2005		**3.00%**	2.80%	2.80%
– post 5 April 2005		**2.50%**	2.80%	n/a
Increases to deferred pensions		**3.00%**	2.80%	2.80%
Discount rate		**5.10%**	4.80%	5.40%
Price inflation		**3.00%**	2.80%	2.80%
Expected rate of return	– Bonds	**4.70%**	4.40%	5.00%
	– Equities	**7.80%**	7.90%	8.20%
	– Cash and net current assets	**4.90%**	3.80%	3.60%

In previous reporting periods, no explicit allowance was made for the commutation of pension at retirement. However, as a result of the Finance Act 2004, with effect from 6 April 2006, members are permitted to commute a significantly higher percentage of their pension at retirement. As a result, the 2006 calculations include an allowance for members to commute 20% (2005: nil) of their pension on retirement. This has resulted in the liability in the group balance sheet at 31 December 2006 being reduced by £9.3m. The effect of this change of assumption has been recognised in the group statement of recognised income and expense.

The expected rate of return on assets is determined based on market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

21. Pension liabilities continued

Sensitivity of disclosures to changes in assumptions

The actuarial valuation of liabilities under IAS 19 is particularly sensitive to changes in market conditions, which determine the rate at which pension liabilities are discounted.

A change of 0.1% pa in the discount rate as at 31 December 2006 would result in a change to the pension liability at that date of around 2%, or approximately £8m.

A change in the mortality assumptions would have a significant impact on the pension liability. For instance, if the allowance for future improvements were amended to incorporate the CMI's published 'long cohort', this would add up to another two years to expected future longevity (in addition to that based on the medium cohort). This could increase the pension liability by a further 3%.

Amounts for the current and previous years are as follows:

Asset analysis of the scheme	2006 Fair value £000	2005 Fair value £000	2004 Fair value £000
Bonds	**135,839**	126,363	104,686
Equities	**215,386**	193,226	162,835
Cash and net current assets	**437**	203	235
Total market value of assets	**351,662**	319,792	267,756
Actuarial value of scheme liabilities	**(396,775)**	(372,001)	(321,456)
Deficit in the scheme	**(45,113)**	(52,209)	(53,700)

Changes in the present value of the defined benefit obligation are as follows:

	2006 £000	2005 £000
Actuarial value of scheme liabilities at 1 January	**372,001**	321,456
Interest cost on pension scheme liabilities	**17,525**	17,005
Current service cost (net of employee contributions)	**8,667**	8,495
Past service cost	**4,860**	3,595
Employee contributions	**1,326**	625
Benefits paid	**(16,643)**	(13,433)
Experience losses/(gains) arising in scheme liabilities	**6,509**	(606)
Change in assumptions underlying the present value of the scheme liabilities	**2,530**	34,864
Actuarial value of scheme liabilities at 31 December	**396,775**	372,001

Changes in the fair value of plan assets are as follows:

	2006 £000	2005 £000
Fair value of scheme assets at 1 January	**319,792**	267,756
Expected return on pension scheme assets	**20,528**	18,506
Employer contributions – normal	**4,933**	5,537
– special	**14,300**	8,897
Employee contributions	**1,326**	625
Benefits paid	**(16,643)**	(13,433)
Actuarial gain on scheme assets	**7,426**	31,904
Fair value of scheme assets at 31 December	**351,662**	319,792

The Society expects to contribute £4.5m in normal contributions to the pension scheme in 2007.

21. Pension liabilities continued

Analysis of the amount recognised in the group statement of recognised income and expense (SORIE)	**2006 £000**	2005 £000
Actual return on pension scheme assets	**27,954**	50,410
Less expected return on pension scheme assets	**(20,528)**	(18,506)
Actual return less expected return on pension scheme assets	**7,426**	31,904
Experience (losses)/gains arising on scheme liabilities	**(6,509)**	606
Changes in the assumptions underlying the present value of the scheme liabilities	**(2,530)**	(34,864)
Actuarial loss recognised in the SORIE	**(1,613)**	(2,354)

Included within changes in the assumptions underlying the present value of the scheme liabilities in 2006 are:

- Losses of £22.5m relating to the use of more prudent mortality assumptions.
- A gain of £9.3m relating to the change in commutation assumption.

The cumulative actuarial loss recognised in the group statement of recognised income and expense since 1 January 2004 is £5,067,000 (2005: £3,454,000 actuarial loss).

Analysis of the amount charged to the group income statement (recognised in other group operating expenses)	**2006 £000**	2005 £000
Current service cost	**8,667**	8,495
Past service cost	**4,860**	3,595
Expected return of pension scheme assets	**(20,528)**	(18,506)
Interest on pension scheme liabilities	**17,525**	17,005
Total operating charge	**10,524**	10,589

The measurement bases set by IAS 19 are likely to give rise to significant fluctuations to the scheme's assets and liabilities. However, this may not necessarily require changes to the contribution rate, as recommended by the independent actuary, which is based on expected long-term rates of return.

History of experience gains and losses	**2006 £000**	2005 £000	2004 £000
Difference between the expected and actual return on scheme assets:			
Amount	**7,426**	31,904	10,312
Percentage of scheme assets	**2.1%**	10.0%	3.9%
Experience (losses)/gains on scheme liabilities:			
Amount	**(6,509)**	606	44
Percentage of the present value of the scheme liabilities	**(1.6%)**	0.2%	0.0%
Total amount recognised in the SORIE:			
Amount	**(1,613)**	(2,354)	(1,100)
Percentage of the present value of the scheme liabilities	**(0.4%)**	(0.6%)	(0.3%)

Overseas pension schemes
The Society operates a number of defined benefit plans for qualifying employees based overseas. The most recent actuarial valuations of these pension liabilities at 31 December 2006 were £0.7m (2005: £0.3m). The total expense recognised in other operating expenses of £0.1m (2005: £0.1m) represents the related current service cost of these schemes. An actuarial loss of £0.3m has also been recognised in the group statement of recognised income and expense.

Defined contribution plans
The Society operates a number of defined contribution retirement benefit plans for qualifying employees based overseas. The assets of the plans are held separately from those of the Society in funds under the control of the trustees.

In some countries, employees are members of state-managed retirement benefit plans. The Society is required to contribute a specified percentage of payroll costs to fund these benefits. The only obligation to the Society with respect to the retirement benefit plan is to make the specified contributions.

The total expense recognised in the group income statement of £0.2m (2005: £0.2m) represents contributions payable to these plans by the Society at rates specified in the rules of these plans.

22. Provisions	2006 Undertakings given to insolvent members £000	2006 Limited Financial Assistance Agreements £000	2006 Income Support Schemes £000	2006 Long-term Incentive Plan £000	2006 Other £000	2006 Total £000	2005 Total £000
Balance at 1 January	**175,070**	**2,001**	**1,629**	**2,718**	**1,700**	**183,118**	108,585
Charged/(credited) to the group income statement	**109,448**	**4,888**	**1,600**	**2,128**	**(378)**	**117,686**	223,481
Arising on sale of assets held for sale	**–**	**–**	**–**	**–**	**–**	**–**	1,343
Utilised in the year	**(131,099)**	**(2,270)**	**(1,594)**	**(2,716)**	**(965)**	**(138,644)**	(150,291)
Balance at 31 December	**153,419**	**4,619**	**1,635**	**2,130**	**357**	**162,160**	183,118

Provision for undertakings given to insolvent members

The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. For those corporate members in provisional liquidation, the Council has also provided a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation.

	2006 £000	2006 £000	2005 £000	2005 £000
Provisions for amounts payable at 1 January		**163,885**		91,904
Undertakings given in the year		**114,576**		217,568
Analysis of paid undertaking by members:				
Blodget and Hazard Limited	**(3,662)**		(3,203)	
Cotesworth Capital Ltd	**(17,500)**		–	
Crowe Corporate Capital Limited	**(2,043)**		(2,500)	
Crowe Dedicated Limited	**–**		(535)	
Dreason Underwriting Limited	**(217)**		(475)	
Duncanson & Holt Underwriters Limited	**–**		(973)	
Grenville Underwriting I/II/III Limited	**(624)**		(6,518)	
Jago Capital Limited	**–**		(1,116)	
Kite Dedicated Capital Limited (formerly Goshawk Dedicated (No 2) Limited)	**(69,665)**		(76,225)	
MMO UK Limited	**–**		(4,917)	
Shrewsbury Underwriting Capital (Bermuda) Limited and Shrewsbury Underwriting Capital Limited	**(29,871)**		(40,000)	
Riverside Corporate underwriters	**(4,500)**		–	
SOC Corporate Member No. 1 Limited	**(1,419)**		(6,870)	
Winford Company Limited	**(133)**		(182)	
Other corporate members	**(1,465)**		(2,073)	
Paid during the year		**(131,099)**		(145,587)
Provisions for amounts payable at 31 December		**147,362**		163,885
Supporting commitments at 31 December		**6,057**		11,185
Undertakings given to insolvent members at 31 December		**153,419**		175,070

The aggregate amount of all undertakings (excluding the supporting commitments) given by the Council at 31 December 2006 was £1,257m of which £1,110m had been paid by that date.

22. Provisions continued

Limited Financial Assistance Agreements (LFAA)

The first LFAA were provided to private members in 2005 to meet their outstanding underwriting liabilities. Further LFAAs have been provided in 2006. Assistance is provided to individuals who are reliant on their funds at Lloyd's (FAL) either because it is in the form of a bank guarantee secured on their sole residence or because they are reliant on the income generated by their FAL. All costs are funded by the New Central Fund.

Income Support Schemes

i) Hardship Income Top-up Scheme

The Hardship Scheme was created in 1989 to assist private members who had reduced means as a result of high underwriting losses. Members in the scheme are eligible to receive ex-gratia top-up income payments from Lloyd's by virtue of having a Hardship Trust Fund (HTF) or having been awarded litigation recoveries used in 'Reconstruction and Renewal' to pay Equitas premiums. The Hardship Scheme is permanent and non-discretionary, but the granting of Hardship Income Top-up payments is at Lloyd's discretion. All costs are currently funded by the 'Old' Central Fund.

ii) Income and Housing Support Scheme (IHSS)

The IHSS was established in 1996 to provide financial assistance to private members who accepted the 'Reconstruction and Renewal' settlement offer, to ensure that their housing and income requirements were maintained at a reasonable level. The payments under the scheme are discretionary and are currently funded by the 'Old' Central Fund.

Long-term Incentive Plan (LTIP)

The Society operates a Long-term Incentive Plan for executive directors and senior employees that is related to the results of the Lloyd's market. This helps to ensure that the objectives of directors and employees are aligned with those of the Lloyd's market. Details of the plan are outlined in the report of the Nominations, Appointments and Compensation Committee on pages 81 to 87. The provision, including employers' National Insurance, for estimated contribution amounts due in respect of the plan is as follows:

	2006 Balance at 1 January £000	2006 (Credited)/ charged in the year £000	2006 Paid in the year £000	2006 Balance at 31 December £000
2003 LTIP	**1,874**	**29**	**(1,903)**	**–**
2004 LTIP	**686**	**1,693**	**(807)**	**1,572**
2005 LTIP	**158**	**16**	**(6)**	**168**
2006 LTIP	**–**	**390**	**–**	**390**
Total provisions	**2,718**	**2,128**	**(2,716)**	**2,130**

Included within the charge for the year are National Insurance contributions of £0.2m (2005: £0.2m).

Payments are made over three years commencing in the year following the underwriting year. One-third of the amounts payable are discretionary and based on performance.

Other provisions

Other provisions include amounts provided for obligations arising from the sale of LPSO Limited during 2001 of £0.4m.

As at 31 December 2005, other provisions included contingent sale proceeds received on the sale of the Lloyd's Chatham building on 15 April 2005 (£1.3m) which could have been repayable if certain conditions had occurred within three years of the sale. In February 2007, a final settlement in respect of the sale was agreed. As a result, £378,000 has been credited to operating income in the group income statement.

23. Trade and other payables	2006 £000	2005 £000
Due within one year:		
Trade and other creditors	**21,974**	42,712
Taxation and social security	**1,777**	1,197
Arbitration awards	**2,710**	2,276
Interest payable on subordinated loan notes	**3,945**	3,972
	30,406	50,157

24. Financial instruments

An explanation of the Society's financial instrument risk management objectives, policies and strategies are set out in the discussion of Treasury policies on pages 74 to 75 of the Society Review.

Financial assets and liabilities held

The following material financial assets and liabilities were held at 31 December 2006:

	2006 Carrying value £000	2006 Fair value £000	2005 Carrying value £000	2005 Fair value £000
Primary financial instruments held or issued to finance operations				
Loans recoverable	**62,201**	**62,201**	61,609	61,609
Statutory insurance deposits	**126,742**	**126,742**	121,484	121,484
Other investments	**1,372,548**	**1,372,548**	1,031,662	1,031,662
Trade and other receivables	**26,568**	**26,568**	34,440	34,440
Accrued income	**4,398**	**4,398**	5,257	5,257
Cash and cash equivalents	**210,298**	**210,298**	417,109	417,109
Financial assets	**1,802,755**	**1,802,755**	1,671,561	1,671,561
Subordinated loan notes	**(497,374)**	**(525,303)**	(500,782)	(548,590)
Provisions	**(162,160)**	**(162,160)**	(183,118)	(183,118)
Loans funding statutory insurance deposits	**(120,812)**	**(120,812)**	(115,750)	(115,750)
Trade and other payables	**(30,406)**	**(30,406)**	(50,157)	(50,157)
Accruals	**(19,104)**	**(19,104)**	(19,073)	(19,073)
Financial liabilities	**(829,856)**	**(857,785)**	(868,880)	(916,688)
Net	**972,899**	**944,970**	802,681	754,873
Derivative financial instruments				
Outstanding forward foreign exchange gains	**2,289**	**2,289**	1,886	1,886
Outstanding forward foreign exchange losses	**(2,446)**	**(2,446)**	(1,807)	(1,807)

Included within other investments as at 31 December 2006 is an unrealised foreign exchange gain of £947,000 (2005: £nil). This arises from the revaluation to fair value of outstanding forward foreign exchange contracts.

Loans funding statutory insurance deposits consist of annual multicurrency floating rate interest loans which earn interest at various interest rates linked to currency borrowing rates. The currency profile is shown in the currency and interest rate profile table below.

Provisions are interest free and denominated in pound sterling.

24. Financial instruments continued

The currency and interest rate profiles of the financial assets and liabilities were as follows:

	Financial assets				Financial liabilities				
	2006 Fixed rate £000	2006 Floating rate £000	2006 Interest free £000	2006 Total £000	2006 Fixed rate £000	2006 Floating rate £000	2006 Interest free £000	2006 Total £000	Net £000
Pound sterling	600,134	571,557	30,966	1,202,657	(296,895)	–	(211,670)	(508,565)	694,092
US dollar	133,592	80,023	–	213,615	–	–	–	–	213,615
Euro	209,844	19,751	–	229,595	(200,479)	–	–	(200,479)	29,116
Canadian dollar	–	2,997	–	2,997	–	–	–	–	2,997
Yen	–	14,850	–	14,850	–	–	–	–	14,850
Australian dollar	832	4,103	–	4,935	–	(991)	–	(991)	3,944
Swiss franc	41,815	8,810	–	50,625	–	(50,892)	–	(50,892)	(267)
Singapore dollar	–	42,383	–	42,383	–	(39,767)	–	(39,767)	2,616
Hong Kong dollar	–	29,044	–	29,044	–	(23,990)	–	(23,990)	5,054
Rand	–	2,517	–	2,517	–	–	–	–	2,517
Others	5,172	4,365	–	9,537	–	(5,172)	–	(5,172)	4,365
	991,389	780,400	30,966	1,802,755	(497,374)	(120,812)	(211,670)	(829,856)	972,899

	Financial assets				Financial liabilities				
	2005 Fixed rate £000	2005 Floating rate £000	2005 Interest free £000	2005 Total £000	2005 Fixed rate £000	2005 Floating rate £000	2005 Interest free £000	2005 Total £000	Net £000
Pound sterling	476,572	586,364	39,697	1,102,633	(296,884)	–	(252,348)	(549,232)	553,401
US dollar	102,485	85,565	–	188,050	–	–	–	–	188,050
Euro	222,031	33,081	–	255,112	(203,898)	–	–	(203,898)	51,214
Canadian dollar	–	3,333	–	3,333	–	–	–	–	3,333
Yen	–	2,834	–	2,834	–	–	–	–	2,834
Australian dollar	919	60	–	979	–	(973)	–	(973)	6
Swiss franc	31,999	8,531	–	40,530	–	(41,152)	–	(41,152)	(622)
Singapore dollar	–	39,859	–	39,859	–	(40,378)	–	(40,378)	(519)
Hong Kong dollar	–	27,592	–	27,592	–	(27,346)	–	(27,346)	246
Rand	–	2,905	–	2,905	–	–	–	–	2,905
Others	6,395	1,339	–	7,734	–	(5,901)	–	(5,901)	1,833
	840,401	791,463	39,697	1,671,561	(500,782)	(115,750)	(252,348)	(868,880)	802,681

Interest-free financial liabilities include provisions (see note 22).

24. Financial instruments continued

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Society's financial instruments that are exposed to interest rate risk:

as at 31 December 2006	**Within 1 year £000**	**1-2 years £000**	**2-3 years £000**	**3-4 years £000**	**4-5 years £000**	**More than 5 years £000**	**Total £000**
Fixed rate							
Statutory insurance deposits	**14,617**	**12,022**	**19,947**	**–**	**1,205**	**28**	**47,819**
Other investments (excluding equities)	**66,597**	**106,047**	**114,701**	**41,037**	**38,204**	**576,983**	**943,569**
Subordinated loan notes	**–**	**–**	**–**	**–**	**–**	**(497,374)**	**(497,374)**
Floating rate							
Loans recoverable	**983**	**–**	**–**	**–**	**699**	**60,519**	**62,201**
Statutory insurance deposits	**78,923**	**–**	**–**	**–**	**–**	**–**	**78,923**
Other investments (excluding equities)	**112,023**	**–**	**1,000**	**–**	**–**	**20,000**	**133,023**
Cash and cash equivalents	**210,298**	**–**	**–**	**–**	**–**	**–**	**210,298**
Loans funding statutory insurance deposits	**(120,812)**	**–**	**–**	**–**	**–**	**–**	**(120,812)**

as at 31 December 2005	Within 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
Fixed rate							
Statutory insurance deposits	14,756	4,051	5,977	13,393	–	1,136	39,313
Other investments (excluding equities)	35,303	77,131	36,959	15,148	55,310	581,237	801,088
Subordinated loan notes	–	–	–	–	–	(500,782)	(500,782)
Floating rate							
Loans recoverable	1	–	–	29	224	61,355	61,609
Statutory insurance deposits	82,171	–	–	–	–	–	82,171
Other investments (excluding equities)	5,820	–	–	1,000	–	20,000	26,820
Cash and cash equivalents	417,109	–	–	–	–	–	417,109
Loans funding statutory insurance deposits	(115,750)	–	–	–	–	–	(115,750)

Credit risk

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, in the group balance sheet.

24. Financial instruments continued

Borrowing facilities

The maturity profile of the undrawn committed facility is shown below:

	2006 £000	2005 £000
Expiring in one year or less	–	40,000

Derivative instruments

The Society enters into forward currency contracts to manage exposures to fluctuation of exchange rates and to provide a service to the Lloyd's market.

Where contracts are entered into to provide a service to the Lloyd's market, the fair value is determined using spot amortised exchange rates at the balance sheet date. Where gains and losses are not expected to be refunded to, or recovered from, the Lloyd's market, these amounts are taken to the group income statement.

25. Reconciliation of movement in equity	Accumulated reserve £000	Syndicate loans £000	Revaluation reserve £000	Foreign currency translation reserve £000	Total equity £000
At 1 January 2005	680,232	–	9,710	59	690,001
Total recognised income and expense for the year	(29,001)	–	–	(43)	(29,044)
Receipt of syndicate loans	–	103,611	–	–	103,611
Revaluation of syndicate loans	(3,223)	3,223	–	–	–
At 31 December 2005	648,008	106,834	9,710	16	764,568
Total recognised income and expense for the year	**82,862**	**–**	**–**	**(17)**	**82,845**
Receipt of syndicate loans	**–**	**112,578**	**–**	**–**	**112,578**
Payment of syndicate loan interest	**(4,365)**	**–**	**–**	**–**	**(4,365)**
Tax on payment of syndicate loan interest	**1,310**	**–**	**–**	**–**	**1,310**
Revaluation of syndicate loans	**5,852**	**(5,852)**		**–**	**–**
At 31 December 2006	**733,667**	**213,560**	**9,710**	**(1)**	**956,936**

Accumulated reserves	2006 £000	2005 £000
Attributable to:		
Corporation and non-insurance related subsidiary undertakings	**63,730**	53,456
Central Fund	**626,813**	555,786
Insurance related subsidiary undertakings	**33,534**	31,722
Associates	**9,590**	7,044
	733,667	648,008

Syndicate loans

The syndicate loans bear interest payable annually at a rate equal to specified market indices which record the performance of short-dated fixed interest securities. The principal will ordinarily be repaid on the closure of the syndicate year of account to which the loans relate. Both the payment of annual interest and repayment of principal may be deferred at the discretion of the Council. Syndicate loans are treated as equity and there is no fixed repayment date. Current expectations are that interest will be paid annually and the principal will be repaid at the closure of the relevant syndicate year of account. Interest is accounted for when the Council formally approves interest payments to be made. Consequently, as at 31 December 2006, interest accruing of £5.6m (2005: £3.8m) has not been recognised in these financial statements.

Revaluation reserve

The revaluation reserve is used to record increases in the fair value of the Lloyd's Collection and decreases to the extent that such decreases relate to the amount previously recognised in equity.

25. Reconciliation of movement in equity continued

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiary undertakings.

26. Commitments

a) Capital expenditure commitments

No contractual commitments exist at 31 December 2006 other than those included within the financial statements. The same applied at 31 December 2005.

b) Operating lease commitments	2006 £000	2005 £000
Non-cancellable operating lease rentals are payable as follows:		
Within one year	**18,379**	17,522
After one year but not more than five years	**71,616**	70,882
More than five years	**170,619**	175,198

Commitments outstanding under the terms of the lease for the Lloyd's 1986 building have been included at the current rental value (£16.8m per annum) to the first break of the lease in 2021. The lease was subject to a rent review in March 2006, the next review will be during 2011. The new Lloyd's Chatham building is included at the current rental value (£0.4m per annum) to the first break in the lease in 2016. The lease will be subject to rent review in 2011.

Subsidiary undertakings are party to a number of small operating leases mainly for property rental and small machinery where it has not been in Lloyd's interest to purchase these assets. The commitments outstanding have been included at the current rental value (£1.2m per annum) to the first break in the lease. These arrangements do not impose any significant restrictions on Lloyd's, renewals are at the option of each entity that holds the lease.

During the year ended 31 December 2006, £18.3m (2005: £17.6m) was recognised as an expense in the group income statement in respect of operating leases.

27. Disclosure of related party transactions

The group financial statements include the financial statements of the Society of Lloyd's and all of its subsidiary undertakings, the Lloyd's Central Fund and the group's interests in its associates as listed in note 12.

Other related party transactions

Associates

Services provided to Ins-sure Holdings Limited group in the year ended 31 December 2006 included operating systems support and development, premises and other administrative services. The total value of the services provided was £1,227,000 (2005: £2,382,000). In addition, Ins-sure Holdings Limited group have charged the Corporation £1,924,000 for services provided in the same year (2005: £1,338,000).

At 31 December 2006, there was a balance of £237,000 (2005: £316,000) owing from Ins-sure Holdings Limited group to the Corporation. The Corporation owed £291,000 to Ins-sure Holdings Limited at the same date (2005: £11,000).

Services provided to Xchanging Claims Services Limited group in the year ended 31 December 2006 included premises and other administrative services. The total value of the services provided was £206,000 (2005: £339,000). In addition, Xchanging Claims Services Limited group have charged the Corporation £nil for services provided in the same year (2005: £nil).

At 31 December 2006, there was a balance of £12,000 (2005: £94,000) owing from Xchanging Claims Services Limited group to the Corporation. The Corporation owed £nil (2005: £nil) to Xchanging Claims Services Limited at the same date.

Transactions with associates are priced on an arm's length basis.

There were no other related party transactions in 2006 requiring disclosure.

28. Contingent liabilities

a) General average guarantees have been given on behalf of, and secured by, Lloyd's underwriters. It is estimated that the aggregate of the liabilities attaching to these guarantees at 31 December 2006 amounted to £12.6m (2005: 14.3m).

b) The Society has taken on the responsibilities of some private members under hardship and other agreements. The Society has also given indemnity bonds to Lioncover Insurance Company Limited (Lioncover) and Centrewrite Limited (Centrewrite) respectively against any shortfall in their assets.

Following the implementation of 'Reconstruction and Renewal', private members underwriting in respect of 1992 and prior years, Lioncover and Centrewrite were reinsured into Equitas. If Equitas were unable to discharge in full the liabilities which it has reinsured, any resulting shortfall in respect of Lioncover or Centrewrite could be met out of both the 'Old' Central Fund and the New Central Fund under the terms of their respective Lloyd's bond. Both the 'Old' Central Fund and the New Central Fund would also be available to meet the claims of policyholders of private members who are party to hardship agreements executed before 4 September 1996, to the extent that such an event resulted in a shortfall. However, unless the members of the Society resolve in a general meeting to make the New Central Fund available, only the 'Old' Central Fund would be available to meet the claims of policyholders of private members who are not party to hardship agreements executed before 4 September 1996.

The Council has determined that any losses resulting from such indemnities will be met by the Lloyd's Central Fund.

The reinsurance of Equitas' reinsurance obligations with National Indemnity Company makes these contingent liabilities considerably less likely to crystallise as described in note 29.

c) Uncollateralised bank guarantees and other arrangements have been entered into by the Corporation and its subsidiary undertaking, Additional Securities Limited, to provide security in connection with the underwriting activities of the members of Lloyd's in the countries shown:

			2006 £000	2005 £000
Guarantees provided by the Corporation:				
USA	US $1,500,000	(2005: US $1,500,000)	**766**	872
Guarantees provided by the Corporation and Additional Securities Limited:				
Cayman Islands:				
Letter of credit	US $1,250,000	(2005: US $1,000,000)	**639**	581

d) The Corporation has given indemnities to certain of its subsidiary undertakings, and the directors thereof, in respect of any claims or actions which may be brought against them or any future operating losses incurred by them in connection with the companies' activities. The Corporation has also given indemnities to and has agreed to cover certain specific costs that may be incurred by members of the Council, Lloyd's Franchise Board, Lloyd's Regulatory Board and Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees, Corporation staff and also certain individuals and organisations who have been asked to carry out or provide services to the Corporation or on behalf of, or for the benefit of its members.

e) Three private members have commenced proceedings claiming misfeasance in public office against Lloyd's in respect of an alleged failure to regulate, leading to the private members incurring underwriting losses as members of the 1993 accounts of syndicates 103 and 178, the business of which it is claimed was unauthorised and conducted fraudulently by their managing agents. Lloyd's does not accept any liability in respect of this action.

f) A counterclaim alleging fraud by Lloyd's has been filed in the US by one private member, in response to Lloyd's proceedings seeking recognition of a judgment obtained by Lloyd's in England. Lloyd's does not accept any liability in respect of this claim.

28. Contingent liabilities continued

g) In Quebec, proceedings have been issued by Agence Nationale D'Encadrement Du Secteur Financier as the regulator of the Quebec policyholder protection fund, by 91 alleged insureds and by one intermediary who was offering extended warranty programs to automobile dealers, against Lloyd's and other parties arising out of the issue by a coverholder of purported 'policies of insurance' without the authority of a Lloyd's syndicate. Lloyd's does not accept any liability in respect of this action.

h) An action by two individuals in Alabama, US against Lloyd's underwriters and Lloyd's has been referred to arbitration for damages in respect of an alleged wrongful failure to pay an insurance claim and failure to provide adequate supervision over certain Lloyd's underwriters. Lloyd's does not accept any liability in respect of this action.

i) Lloyd's has been joined to an action in New Jersey, US brought by two Lloyd's underwriters against a coverholder (and associated individuals) alleging that the coverholder issued policies outside the terms of a binding authority. Three of the defendants have joined Lloyd's to the proceedings alleging that Lloyd's has made false and defamatory statements against them in letters issued to producing brokers in July 2005. The action is presently stayed. Lloyd's does not accept any liability in respect to this claim.

j) In the United States, the dismissal of a complaint issued against Lloyd's and others on behalf of descendents of slaves in respect of the insurance of slaves was affirmed on appeal except as to consumer protection claims which have been remanded back to the District Court. Lloyd's does not accept any liability in respect of this action.

k) In Greece, proceedings have been issued against Lloyd's alleging a conspiracy to frustrate an insurance claim. The sum claimed is €14m. Lloyd's does not accept any liability in respect of this action.

In respect of all contingent liabilities disclosed as at 31 December 2006, no provision has been made in the Society financial statements as Lloyd's does not accept any liability in respect of any of the claims.

29. Reinsurance of Equitas' reinsurance obligations with National Indemnity Company

On 10 November 2006, Equitas Holdings Limited and Equitas Limited (EL) entered into a retrocession and run-off contract with National Indemnity Company (NICO), becoming effective on 27 March 2007, by which NICO has provided to EL retrocession cover up to a limit of US$14bn (EL's net undiscounted claims reserves as at 31 March 2006 plus US$5.7bn) less adjustments for claims payments between 1 April 2006 and the date when the transaction became effective. The premium for that retrocession was all of EL's existing assets (including its residual beneficial interest in the Equitas American Trust Fund) less £172m plus a contribution of £72m from Lloyd's, which was paid on 27 March 2007 following approval by Lloyd's members at the Extraordinary General Meeting held on 22 February 2007. This Phase 1 of the transaction has provided substantial additional retrocessional cover for Equitas, and thus for the Society's subsidiary undertaking, Lioncover Insurance Company Limited, which as at 31 December 2006, recognises a reinsurance asset due from Equitas Reinsurance Limited (ERL) of £394m (see note 14).

The Society's contingent liabilities in respect of responsibilities arising from the reinsurance of liabilities into ERL as part of the implementation of 'Reconstruction and Renewal' as described in note 28b are now also considerably less likely to crystallise.

Phase 2 of the transaction involves the transfer of Equitas-reinsured members' obligations to policyholders to another company, which will be EL, ERL or a specially-created insurance company. This transfer of business is required to be sanctioned by the High Court under Part VII of the Financial Services and Markets Act 2000. Provided the transfer is completed by 31 December 2009, EL has the option to purchase up to US$1.3bn of additional reinsurance from NICO at a cost of £40m. It is intended that a further £18m be paid by the Society subject to approval by the Council before 31 December 2009. The option to purchase the additional reinsurance cover will not be available if EL's net undiscounted reserves (inclusive of IBNR) have deteriorated by more than US$2bn since 31 March 2006.

As part of Phase 1, £50m will be paid by Equitas as a return premium, subject to the approval of the FSA, to reinsured members, Lioncover Insurance Company Limited and Centrewrite Limited. The Society will account for that part of the return premium in the group financial statements only when Lioncover Insurance Company Limited and Centrewrite Limited are entitled to receive it and only to the extent that they have not waived, assigned or otherwise disposed of their right to such return premium.

THREE YEAR SUMMARY

	2006 £000	2005 £000	2004 £000
Operating income	**171,498**	162,353	169,166
Central Fund contributions	**152,226**	70,077	190,657
General insurance net premium income	**2,834**	2,769	3,428
Other group income	**23,477**	18,637	28,979
Total income	**350,035**	253,836	392,230
Central Fund claims and provisions	**(115,735)**	(223,889)	(125,540)
Gross insurance claims incurred	**(55,461)**	(30,039)	(47,735)
Insurance claims recoverable from reinsurers	**56,804**	29,844	52,053
Other group operating expenses:			
Employment (including pension costs)	**(72,996)**	(72,201)	(68,415)
Premises	**(34,629)**	(32,074)	(31,668)
Legal and professional	**(18,442)**	(21,596)	(22,768)
System and communications	**(20,394)**	(23,608)	(22,604)
Other	**(24,334)**	(22,618)	(27,961)
Total other group operating expenses	**(170,795)**	(172,097)	(173,416)
Operating surplus/(deficit)	**64,848**	(142,345)	97,592
Profit on sale of Lloyd's buildings	**–**	–	23,638
Surplus/(deficit) before finance, associates and tax	**64,848**	(142,345)	121,230
Finance costs	**(28,955)**	(33,653)	(7,177)
Finance income	**52,818**	129,033	45,875
Share of profits of associates	**1,867**	2,006	1,872
Surplus/(deficit) before tax	**90,578**	(44,959)	161,800
Tax (charge)/credit	**(7,012)**	17,343	(38,959)
Surplus/(deficit) for the year	**83,566**	(27,616)	122,841

Since merchants first met to insure their ships at Edward Lloyd's coffee shop over 300 years ago, nearly every aspect of the way we do business has changed. But one constant is the bold confidence proclaimed by our motto, reflected in both our unique appetite for risk and our worldwide reputation for settling valid claims.

The cover of this report is printed on Revive 50:50 Silk, a recycled paper containing 50% recovered waste, 50% virgin fibre and is certified as an FSC mixed sources grade. Revive 50:50 is manufactured to the certified environmental management system ISO 14001.

The internal pages of this report are printed on Revive 50:50 Offset, a recycled paper containing 50% recovered waste, 50% virgin fibre and is certified as an FSC mixed sources grade. Revive 50:50 is manufactured at a mill certified with environmental management system ISO 14001.

Designed by Corporate Edge. Printed by The Midas Press. Lloyd's is a registered trademark of the Society of Lloyd's.

Lloyd's One Lime Street London EC3M 7HA Telephone +44 (0)20 7327 1000 Fax +44 (0)20 7626 2389 www.lloyds.com