2008 financial highlights

> Lloyd's achieved a profit before tax of £1,899m (2007: £3,846m) and a combined ratio of 91.3% (2007: 84.0%). This was a solid performance during an exceptionally turbulent year for the financial sector. Higher levels of catastrophes and attritional claims were partially offset by currency movements and prior year releases.

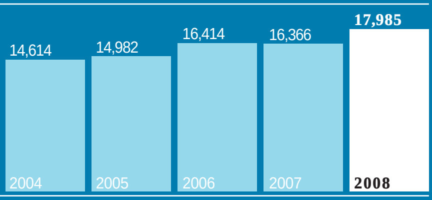
> Return on investments of 2.5% (2007: 5.6%) benefited from a conservative investment strategy.

> Surplus on prior years of £1,265m (2007: £856m) based on strong reserves.

> Central assets increased further to £2,072m (2007: £1,951m).

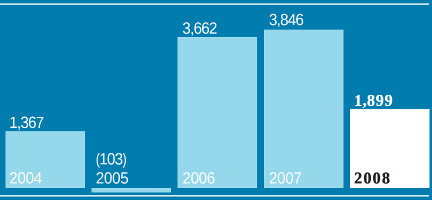
Gross written premium*
(£m)

£17,985m



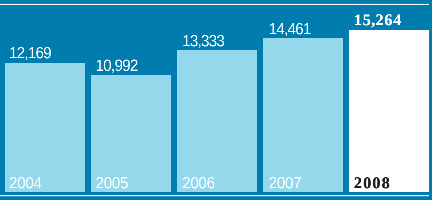
Profit/(loss) before tax
(£m)

£1,899m



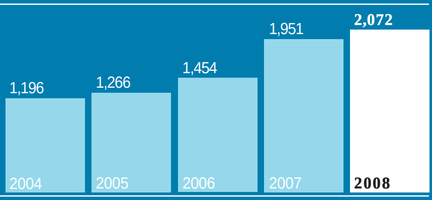
Capital, reserves and subordinated debt and securities
(£m)

£15,264m



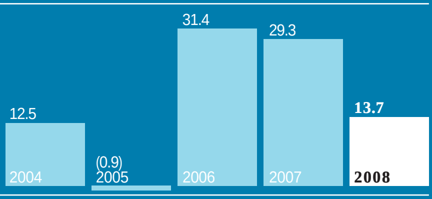
Central assets*
(£m)

£2,072m



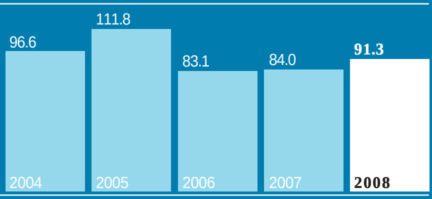
Return on capital
(%)

13.7%



Combined ratio*
(%)

91.3%



*See Glossary on page 140.

2008 BUsiness highlights

> A.M. Best, Fitch Ratings and Standard & Poor's affirmed their Lloyd's security ratings of A (Excellent), A+ (Strong) and A+ (Strong) respectively.

> New trading licences obtained in Brazil – where Lloyd's was the first 'Admitted' reinsurer – Poland and Austria.

> By the end of 2008, over 90% of in-scope claims and 96% of original premiums were processed electronically through the Electronic Claims File and Accounting & Settlement repositories.

> Lloyd's successfully lobbied for the inclusion of letters of credit in the EU's Solvency II framework.

> Lloyd's governance arrangements have been modernised and access to the market widened following the passing of the Legislative Reform Order.

> The US regulatory authorities are considering a new framework that, when implemented, will reduce US collateral requirements necessary to conduct reinsurance business.

> HM Revenue & Customs agreed to reduce the tax burden for corporate members by introducing tax relief in the form of a Claims Equalisation Reserve.

Strategy

vision

our vision is to be the platform of choice

we have a clear strategy to achieve our vision

Lloyd's has set out its vision to be the platform of choice for insurance and reinsurance buyers and sellers to access and trade specialist property and casualty risks.

STRATEGIC PRIORITIES:

> Managing the cycle
> Market access
> Operating environment

For more information on Lloyd's strategy see page 30.

benefits of operating at lloyd's

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 readily be duplicated outside Lloyd's.
3 SECURITY AND RATINGS >	Stable insurer financial strength ratings (currently at least 'A') necessary to attract specialist property and casualty business.
4 MARKET ACCESS >	Cost-effective, easy access to the major markets supported by a global brand and licence network.
5 OPERATING ENVIRONMENT >	An efficient, cost-effective operating environment that allows managing agents and brokers, irrespective of their location, to deliver excellent service to customers.

contents

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**

This report includes the consolidated financial statements of the Society of Lloyd's and all of its subsidiary undertakings, the Central Fund and the group's interest in associates.

Well placed to face the challenges ahead.

Amidst the unprecedented slump in the world economy, Lloyd's remains in good shape. This has been reflected in our full year results. We have reported a profit of £1,899m and a combined ratio of 91.3%. Albeit that our profits have inevitably been impacted by lower insurance rates, natural catastrophes and a reduction in investment income and offset by currency movements and prior year surpluses.

Our conservative investment strategy and sound underwriting performance have meant that our capital remains intact. Our solvency position continues to strengthen, with limited draw downs on our Central Fund to meet legacy claims, and no new member insolvencies since 2003.

At the same time it is to be noted that the rapid depreciation in sterling in the last four months of 2008 against the dollar, and other major currencies, has also had a significant impact on our results. Lloyd's holds a major proportion of its assets in the currencies in which it transacts business. The decline in the value of sterling means that profits generated in foreign currency are higher when converted back to sterling.

These results underline the importance which we have attached to risk management and underwriting discipline. Our focus on these core elements has been fundamental to the market's resilience and it will remain so as we look to the opportunities and the challenges the future brings. It was important that the market learnt the lessons of the past – pulling back from providing wide insurance cover for financial institutions in the wake of the Enron and WorldCom scandals. As a result, the impact of the sub prime crisis on the market is within the normal course of business.

We cannot of course expect to escape other financial and recessionary trends. We are already taking a long-term view of the potential issues that may arise from the fall in the value of sterling and are working with businesses to assess the impact on capital requirements to support our overseas business. We are also likely to see a rise in claims frequency as the recession starts to bite.

The challenges of the current economic conditions will, however, provide opportunities for insurers. Insurance is largely a non-discretionary product, and while asset values will fall, businesses and individuals will still need to buy cover for their risks. In fact, some argue that the demand for insurance will be even greater as businesses seek to protect their assets and shareholders. Our subscription model, which is underpinned by the concept of spreading risk, will continue to be fundamental in meeting our customers' needs. Less surplus capital in the industry and a low investment return outlook should also improve underwriting discipline, helping to improve market conditions.

Ultimately, the long-term trend in profitability for the industry is not linked to the economic cycle. Statistics show that the industry did better during the Great Depression than for most of the boom years of the 1980s. However, as a sector we are still vulnerable to the vagaries of the underwriting cycle.

Market conditions

The recent run of calm summers ended in 2008 as Hurricanes Ike and Gustav roared into the Gulf of Mexico destroying hundreds of coastal homes and surging inland. Together these storms are projected to produce net claims for the Lloyd's market of £1,430m ($2,574m).

The absence of major catastrophes in the last two years has, as always, been a double edged sword for the industry – reducing the volume of claims to generate good underwriting figures but also forcing down rates and adding to the already soft market environment. In the wake of Hurricane Ike and in light of the current economic conditions, some businesses are calling the bottom of the cycle, although it is too early to say if prices are improving outside catastrophe-exposed classes.

Hurricane Ike and the prevailing economic crisis have demonstrated only too well that risks continue to pose challenges for the market and we need to remain adept at meeting them, utilising our expertise and flexibility. Any upturn in the market should not detract from the continuing need to exercise underwriting discipline.

The regulatory and global landscape

Like the wider economy the regulatory landscape has also felt the force of change. Despite this, Lloyd's lobbying efforts have helped to deliver progress for the market in a number of areas, both in Europe and North America:

- Lobbying for the inclusion of letters of credit in the Solvency II Framework.
- The US regulatory authorities considering a new framework that would reduce collateral requirements for non-US based reinsurers.
- The UK Government agreeing to reduce the tax burden for corporate members by introducing tax relief in the form of a Claims Equalisation Reserve, finally bringing parity in the tax treatment of reserves with other UK insurance companies.

One of the consequences of the financial crisis has been to increase the political pressures around the world for more regulation. It is now more important than ever that Lloyd's continues to take part in these debates, offering a voice of experience and reason.

Closer to home we undertook to modernise our governance arrangements through a Legislative Reform Order, which, over the long-term, will also widen access to the market, helping Lloyd's to compete on an equal footing with our competitors. We are most grateful to HM Treasury for their help in achieving its successful passage through both Houses of Parliament.

Summary

Sound risk management, effective oversight and management focus are the fundamentals that have supported Lloyd's well in recent years.

We have undergone a remarkable transformation but have always stuck to our core offering – devising innovative and tailored solutions for complex risks. There is no greater ambition for us than to be the world's leading insurance market.

We stand ready to continue our role in supporting the world's economy and its businesses – providing insight so that they can have the foresight to manage tomorrow's risks.

At Lloyd's we have the capital, risk appetite and expertise to help to shoulder the risks of the world. As a subscription market built on the concept of sharing risk, we also have the strength and flexibility that can only come from a marketplace of over 50 individual businesses and a 321-year history.

I would like to end by thanking all of those within the Corporation and market who have contributed to Lloyd's success over the last year. Richard Ward and his team within the Corporation have shown great leadership and the market has continued to demonstrate its professional approach, skills and attributes that have made it world famous.

I must also pay tribute to Bill Knight and Peter Morgan for their outstanding contributions during their nine years on Council and to Edward Creasy, Roy Brown and Stephen Hodge for their hard work and important contribution since the Franchise Board's inception. I look forward to working with the new members of both bodies.

Peter Levene
Chairman
23 March 2009

BEHIND THE ICONIC GLASS LIFTS AND STEEL DUCTS IS ONE OF THE WORLD’S MOST DYNAMIC ORGANISATIONS.

Lloyd’s is the world’s leading specialist insurance market, conducting business in over 200 countries and territories worldwide – and is often the first to insure new, unusual or complex risks. We bring together an outstanding concentration of specialist expertise and talent, backed by excellent financial ratings which cover the whole market.

Lloyd’s began over 300 years ago in Edward Lloyd’s coffee house – a place where shipowners could meet people with capital to insure them.

Since then, Lloyd’s has grown from its marine insurance base to become the world’s leading market for specialist property and casualty insurance.

To this day, Lloyd’s remains a dynamic, innovative market where individuals meet face-to-face. Like any market, it enables those with something to sell – underwriters providing insurance coverage – to make contact with those who want to buy – brokers, working on behalf of clients who are seeking insurance. We gain our strength from the diversity of managing agents who choose to operate here, backed by capital from diverse sources around the world.

The Underwriting Room is central to the smooth running of the Lloyd’s subscription market, where large and complex risks can be shared between market participants. We offer a range of distribution channels that allow managing agents to access specialist businesses.

We continue to introduce ways to make Lloyd’s an easier place to do business, increasing efficiency and standards of service.

Our processes may change, but mutuality of capital will remain central to Lloyd’s. It helps us to be more competitive and underpins our licences and ratings.

We continue our steady expansion into overseas markets to build our platform for the future. A major priority has been and continues to be managing performance throughout the cycle. Although our resolve has been tested over the past 12 months, our disciplined approach to underwriting and our conservative investment mix have ensured that we maintain our strong competitive position.