

AGGREGATE ACCOUNTS 2007

TABLE OF CONTENTS

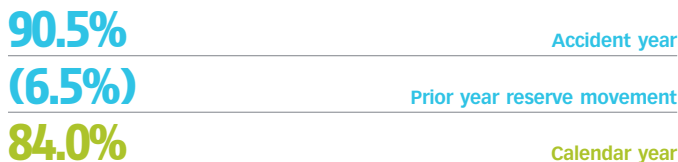
- 1** Market commentary
- 12** Statement of Council's responsibilities
- 12** Report of Ernst & Young LLP to the Council of Lloyd's
on the 2007 Aggregate Accounts
- 13** Aggregate Accounts

MARKET COMMENTARY

2007 highlights

- Lloyd's achieved a profit before tax of £3,846m (2006: £3,662m) and a combined ratio of 84.0% (2006: 83.1%) reflecting continued strong performance.
- Return on syndicate investments at 5.2% (2006: 4.2%) the highest for five years.
- Overall surplus on prior years of £856m (2006: £270m) as claims develop within projections for the third successive year.

2007 combined ratio*



Underwriting results by class

Class	£m
Reinsurance	790
Property	408
Casualty	205
Marine	127
Motor	14
Energy	206
Aviation	50

Combined ratio by class

Class	%
Reinsurance	81.7
Property	86.3
Casualty	92.7
Marine	87.4
Motor	98.4
Energy	73.4
Aviation	84.5

The Lloyd's market reported a second successive year of excellent results. The underlying performance across all major classes of business in the Lloyd's market remains strong, with the level of catastrophe losses below the long-term average. The strength of the balance sheet also contributed to the results through surpluses arising on established claims reserves and an improved investment performance.

2007 PERFORMANCE

Gross written premium for the year, excluding inter-syndicate reinsurance to close, was £16,366m (2006: £16,414m), a decrease of 0.3%. While 2006 was a tale of two markets, the hardening in wind-exposed catastrophe business in the US has largely ceased and in 2007 Lloyd's saw evidence of concessions on rates across all major classes of business.

The US is the single largest market for Lloyd's and the weaker US dollar during the year means that lower written premiums are reported in converted sterling compared to 2006.

ACCIDENT YEAR PERFORMANCE

Lloyd's achieved an accident year combined ratio of 90.5% (2006: 85.2%).

The underlying combined ratio, excluding catastrophes, of 86.7% (2006: 84.8%) has benefited from the strong underwriting conditions experienced in 2006, with premiums continuing to be earned throughout 2007. This is an impressive result considering the softening market conditions that were experienced in 2007.

Underlying performance excluding catastrophes

Year	Combined ratio %
2003	84.8
2004	80.0
2005	81.1
2006	84.8
2007	86.7

Combined ratio

The turmoil from the US sub-prime crisis has dominated headlines and the impact on the insurance industry as a whole continues to provoke significant debate, with a wide range of estimates being quoted, although the full effect is unlikely to be felt until at least the latter stage of 2008.

So far Lloyd's has received a small number of claims notifications and the restrictions on the level of financial guarantee business that may be written are likely to limit the potential exposure to credit insurance and the reinsurance of bond insurers to negligible levels. Lloyd's continues to monitor the situation as it develops but does not expect to have a significant sub-prime exposure.

However, with the variety of class actions that could be triggered and the potential for repercussions beyond the US, this is clearly an area of great uncertainty and Lloyd's expects to have a clearer picture of potential exposures as the issue develops. The Franchise Performance Directorate will continue to work closely with the market to identify and manage potential exposures.

Catastrophes

Year	Combined ratio %
2003	1.2
2004	11.3
2005	30.8
2006	0.4
2007	3.8

Combined ratio

The accident year performance also benefited from a relatively low level of catastrophe losses during the year, with the most significant to the market as a whole being the UK floods and the European Windstorm Kyrill.

The severe flooding in the UK in June and July has resulted in industry loss estimates at around £2.2bn. However, Lloyd's has a relatively small proportion of the overall market for direct UK property business and as a result of retention levels, the main impact of this loss will be borne by the primary insurers. The current estimate of the impact to the Lloyd's market is a net loss of £215m, including provision for claims incurred but not reported.

*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 2006 to overall net earned premiums in calendar year 2007.

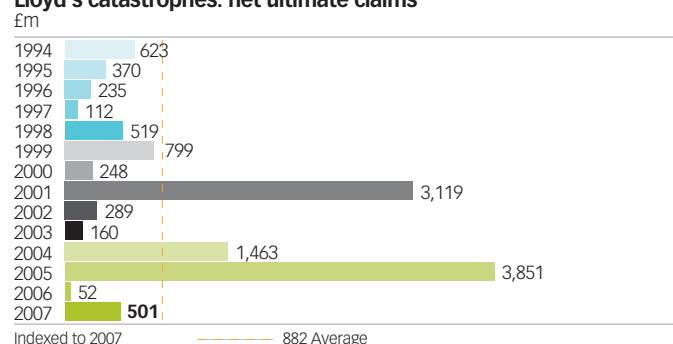
The overall combined ratio includes central adjustments in the technical account in respect of transactions between syndicates and the Society as described in notes 2 and 8 to the PFFS (pages 73 and 77) of the Lloyd's Annual Report. The combined ratios and results for individual classes of business do not include these adjustments as the market commentary for each class reflects trading conditions at syndicate level as reported in syndicate annual accounts.

MARKET COMMENTARY CONTINUED

Industry estimates for Windstorm Kyrill, which swept across northern Europe on 18 January, are around £3.0bn. The current estimate of the impact to the Lloyd's market is £85m.

While the impact of catastrophes on the combined ratio of 3.8% (2006: 0.4%) is greater than the previous year, the level of catastrophes was below the long-term average for the Lloyd's market, as can be seen in the chart below.

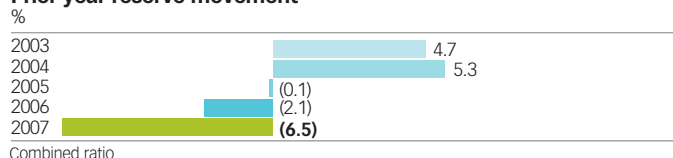
Lloyd's catastrophes: net ultimate claims



PRIOR YEAR RESERVE MOVEMENT

Prior year reserve movement has improved the combined ratio by 6.5% (2006: 2.1%). This is the third successive year of prior year surpluses and encouragingly releases are being seen across all major classes.

Prior year reserve movement



The emerging surpluses arise mainly on claims reserves established for business written during 2002-2006, where claims development remains benign and well within expectations.

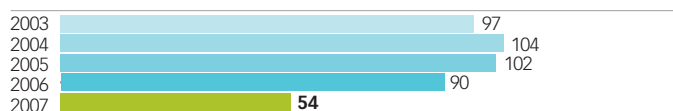
Claims estimates for the 2005 US hurricanes are showing signs of stabilisation and development on the longer-tail business written in the soft market conditions of 1997-2001 continues to be within expectations.

Despite ultimate net claims estimates for the 2005 US hurricanes being £3,802m (2006: £3,724m) the 2005 underwriting year of account closed at a profit of £340m, benefiting from surpluses on the 2004 and prior RITC received at December 2006.

In aggregate, run-off years reported an overall profit of £75m including investment income (2006: £125m) and syndicates backed by insolvent members supported by the Central Fund reported a small overall surplus.

2007 also saw an increase in the market's appetite to accept the reinsurance to close of orphan syndicates with the number of underwriting years of account in run-off significantly decreased by the year end.

Years of account in run-off



The results of the major classes of business are discussed in detail on pages 5 to 11.

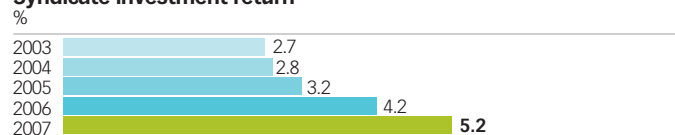
INVESTMENT REVIEW

Managing agents are responsible for investment of syndicate premium assets. Whilst the trend towards asset class diversification continues, with growing exposure to equities and hedge funds, the overwhelming majority of syndicate assets continue to be invested in fixed-interest securities of high credit quality. Currency dispositions of investments broadly reflect the currency of syndicates' insurance exposures. The average term of fixed-interest investments tends to be relatively short, limiting the volatility of such exposures. This is appropriate in view of the requirement that syndicate assets be available to meet claims as they fall due.

Fixed-interest markets experienced a turbulent year in 2007. Emerging concerns about the creditworthiness of sub-prime mortgage borrowers in the US caused the value of structured securities backed by such obligations to fall significantly. Such falls quickly spread to other securities having exposure to corporate credit risk, as investors reassessed the level of risk inherent in such investments. As borrowing in financial markets became more expensive, fears grew that this 'credit crunch' may lead to recession. This had the effect of further eroding confidence in corporate borrowers and with growing expectations that interest rates would fall to protect economic growth, led to a significant reduction in the general level of yields.

Even AAA rated structured securities were not immune to sub-prime related losses, so that the high credit quality of most syndicate investments was not a guaranteed protection against the adverse market developments. In fact, only a limited number of syndicates had any significant exposure to the worst affected securities and these exposures were insignificant across the market as a whole. Having largely avoided sub-prime related losses, syndicate bond investments instead benefited from falling yields. Overall syndicate investments returned £1,226m, or 5.2% in 2007 (2006: £957m, 4.2%). This is the highest return from syndicate investments for the last five years, and represents a significant element of Lloyd's total profit.

Syndicate investment return



RESULTS SUMMARY

Lloyd's achieved a profit for the financial year before tax of £3,846m (2006: profit of £3,662m) in the pro forma financial statements (PFFS) and a combined ratio of 84.0% (2006: 83.1%). The PFFS aggregates the results of the syndicate annual accounts, notional investment return on funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. The basis of preparation of the PFFS is set out in note 2 on page 73 of the Lloyd's Annual Report. The syndicate annual accounts reported an aggregate profit of £3,029m (2006: profit of £2,826m). During 2007, certain syndicates changed their accounting policies resulting in a restatement of the comparative figures for 2006 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.

LOOKING AHEAD

THE INSURANCE CYCLE

With the insurance industry reporting excellent results for a second successive year, capacity will inevitably remain in both the direct and reinsurance markets. As a significant element of Lloyd's business is from mature markets, such as the US and the UK, the level of competition is even more intense.

As evidenced by the January 2008 renewal season, this increased competition has led to further rate reductions in most lines. We have seen some softening of terms and conditions and the re-emergence of multi-year policies in certain areas. In the absence of major adverse claims development or catastrophes, this trend is likely to continue.

While some lines of business, particularly those exposed to North Atlantic windstorms, are seeing rates soften from a relatively hard position achieved in recent years, there is concern that rates in other lines are approaching their break-even price, with minimal underwriting margins available. Some may already be below this level.

Although the length and severity of the downcycle cannot be predicted with certainty, Lloyd's recognises that a major priority for the medium term is to ensure prudent underwriting discipline is maintained. Emphasis will continue to be placed on working with managing agents to improve performance although, ultimately, the Corporation has other powers at its disposal to help prevent or mitigate significant underperformance.

AN INCREASINGLY RISKY WORLD

Despite the low level of insured losses, the number of catastrophe events during 2007 was above average. The hurricane season saw 15 named storms, with two category five hurricanes making landfall. A high pressure system off Florida helped steer the hurricanes away from the US coastline. If this high-pressure system had been further north, in its more usual position near Bermuda, the hurricanes could have made landfall in the US, potentially causing significant damage.

The recent trend in weather extremes shows that climate change is already taking effect and an increase in severe windstorm events is expected in the future. The consensus view, including the opinions of scientists at Colorado State University, continues to be that we remain in a cycle of above average North Atlantic windstorm activity.

However, it is not just that windstorm events are becoming more frequent. Their economic impact is also on an upward trend, reflecting an increasing concentration of property values in highly exposed areas. Large-scale migration to coastal areas, particularly in Florida, is a cause for concern and we expect this trend will continue.

The recent UK floods show that the insurance market is susceptible to major natural catastrophes that are not just hurricane related. The increasing frequency of flooding events, and associated losses, in the UK has illustrated the potential benefit of enhanced flood risk assessment capabilities within the Lloyd's market.

During the last decade flood losses have been the largest natural peril affecting the UK insurance industry, with large discrete events in 1998, 2000, 2002, 2004, 2005 and most recently in June and July 2007. Climate change modelling indicates a potential for more frequent and more severe future flooding, due to increases in sea level or changes in the frequency, duration, and intensity of storms.

Lloyd's has developed a flood risk assessment tool. A sophisticated web-based application, it combines flood risk assessment with additional mapping functionality and will improve managing agents' understanding

and management of their flood risk exposures over time. These exposure snapshots will be available quarterly, although the new application will also permit flood risk assessments for individual risk queries in real time.

In other parts of the world, there has been significant typhoon activity in Asia and the Far East, four earthquakes of magnitude 8 or greater, windstorm Kyrill in Northern Europe, storms in Australia and wildfires in California.

CAPITAL MANAGEMENT

It is generally acknowledged that the insurance industry is in a period of downturn in the cycle with diminishing margins. This leads to a risk of the industry seeking to underwrite greater volumes of business in order to meet the return on capital demands of investors.

However, this risk has been partly mitigated by a more robust approach to capital management within the insurance industry; for example, by returning surplus capital through share buybacks or the payment of special dividends. Lloyd's has also responded through recognising and releasing profits as they are earned to avoid surplus or trapped capital and by its adoption of the FSA's Individual Capital Adequacy Standards to ensure capital reflects current market conditions.

GROWTH IN COMPETITION FROM INTERNATIONAL AND REGIONAL TRADING HUBS

More locations are establishing themselves as centres for the transaction of specialist (re)insurance business. The growth of these hubs is driven by a combination of insurers and brokers seeking both to diversify and to lower their costs, and by favourable local government policy.

While London continues to strengthen its relative competitive position through the reform of market processes, the UK tax regime does not compare favourably with those prevailing elsewhere. This has been cited as one of the reasons why some insurance businesses have sought to relocate or redomicile to low tax insurance centres. The London Insurance Market Review Group, chaired by Lord Levene, has been established to contribute to the work of the Government's High Level Review Group looking at overall City competitiveness. Through this group, Lloyd's will continue to lobby HM Treasury to help create a more level playing field.

LOCALISATION OF BUSINESS FLOWS

As local insurance markets develop and cost pressures drive brokers and insurers to seek more cost-effective distribution channels, the transaction of 'less complex' commercial insurance increasingly remains in local markets.

This, along with the development of specialty insurance hubs, means that efforts must continue to be made to maintain the flow of insurance business into the Lloyd's market. The aim is to make it as easy and cost-effective as possible to bring business to London. The Corporation will also develop options to help market participants to access business closer to its source.

BROKER BUSINESS MODELS

Increasing cost pressures, the demand for transparency and the localisation of business flows are driving brokers to change their business models. In seeking to access local markets more easily and cost effectively, brokers' strategies have implications for the flow of certain types of business into London. Lloyd's will seek to understand these strategies and requirements, which will inform our business development and process reform agenda.

MARKET COMMENTARY CONTINUED

ONGOING REGULATORY CHANGE

The insurance industry will experience significant regulatory change in the coming years, following the introduction of new regimes such as Solvency 2 and amendments to existing legislative frameworks. Lloyd's will continue to lobby local and overseas market regulators to influence these developments.

Through the implementation of the Solvency 2 Directive, the EU will establish a common approach to capitalisation in the insurance industry, based on the alignment of capital with risk. Although implementation has been delayed until 2012, Solvency 2 is welcomed by Lloyd's. The current proposals will allow the continuing use of letters of credit and bank guarantees as admissible assets in order to meet the proposed solvency capital requirements.

CONVERGENCE OF CAPITAL MARKETS AND INSURANCE MARKETS

Capital market interaction with insurance markets is being seen in the form of new product types and new capital providers. Lloyd's needs to consider both the threats and opportunities of this convergence and test potential responses with market participants.

THE LLOYD'S AND LONDON MARKETS' OPERATING ENVIRONMENT

The Lloyd's and London markets continue to face operational challenges. The Lloyd's subscription market and distribution chain bring real benefits, but can also drive a higher perceived administrative burden than other platforms. The costs of operating at Lloyd's are also often perceived to be higher than those elsewhere. While significant progress is being made to address these issues, more needs to be done to ensure Lloyd's ongoing success. Market participants recognise that they must take ownership of this issue and jointly develop solutions to maintain the Lloyd's and London markets' competitive position.

As in all previous cycles, in a phase of downturn, margins in the business are further reduced by increasing acquisition costs. In some lines of business Lloyd's is beginning to see pressure to increase the level of brokerage. This risk could potentially increase if there is further consolidation within the broking community.

REINSURANCE

SECOND YEAR OF STRONG EARNINGS

2007 highlights

- Low catastrophe loss experience worldwide.
- Prior year releases of £198m.

2007 combined ratio

86.3%

Accident year

(4.6%)

Prior year reserve movement

81.7%

Calendar year

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

The largest classes of business within this sector are property facultative, catastrophe excess of loss and property non-proportional risk excess. In addition, there is a limited amount of retrocessional business. A large proportion of this business provides protection for US insurance and reinsurance companies and includes a small amount of casualty treaty business. The sector also includes class specific reinsurance, including energy and aviation.

2007 PERFORMANCE

Lloyd's reported gross written premium for 2007 of £5,453m (2006: £5,557), a decrease of 1.9%.

Following last year's strong trading conditions in US wind-exposed business, combined with a benign catastrophe season, 2007 saw an increase in the available capacity for this class of business, as well as alternative forms of capacity, leading to rate reductions during the last three-quarters of the year.

Last year we highlighted the political risk faced by insurers in the US, where state-led oversight can affect regional market conditions. The legislative changes in Florida, concerning the Florida Hurricane Catastrophe Fund (FHCF), did not have a significant direct impact on premium income for Lloyd's in 2007 with savings made by primary companies often being used to buy more coverage. While this model has not been adopted in other states, it remains to be seen whether the FHCF will give rise to further changes in the US.

Other markets remained extremely competitive with rates flat or continuing to soften, showing little reaction to events such as windstorm Kyrill or the UK floods.

Class specific coverage, particularly aviation, experienced accelerated rate reductions in line with the direct market.

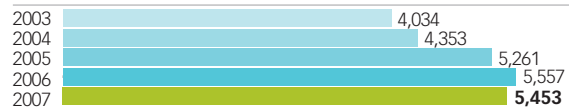
ACCIDENT YEAR PERFORMANCE

The accident year combined ratio for 2007 was 86.3% (2006: 77.0%). The level of losses has increased compared to the prior year due to events such as windstorm Kyrill and the UK floods, although 2007 was still a benign year with incurred loss incidence below long-term averages.

Combined with the loss experience, the softening market conditions discussed above have caused the slight deterioration in the accident year combined ratio, although it remains significantly below 100%.

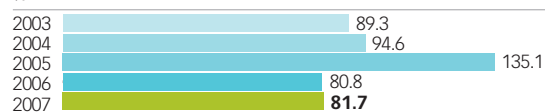
Gross written premium

£m



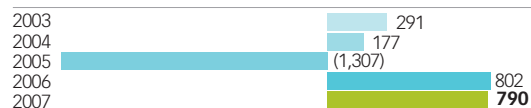
Combined ratio

%



Underwriting result

£m



PRIOR YEAR RESERVE MOVEMENT

The prior year reserve movement was a surplus of 4.6% (2006: deterioration of 3.8%). The improvement, compared to 2006, is a result of the stabilisation in the loss estimates for the 2005 US hurricanes combined with releases from other areas of the account.

LOOKING AHEAD

The traditional reinsurance market and the capital markets are converging. Insurance linked securities are becoming more accessible, affordable and accepted by rating agencies, with a number of new trading exchanges established during the last year. The popularity of these products, due to the attraction of insurance linked securities as an uncorrelated risk, does not appear to be waning, despite the issues facing the wider credit markets.

The reinsurance sector is also affected by the increase in self-insurance. Modelling techniques have become more sophisticated and readily available to all parties in the risk transfer chain. This is driven by new technologies and a greater understanding and availability of data on the risk environment. Tolerable remaining risk is increasingly being self-insured with only the higher-risk, more volatile elements being passed to the insurance industry.

Competition within the reinsurance sector is further intensified by entities operating out of lower tax jurisdictions or those that benefit from a tax deduction for a portion of their capital in excess of technical reserves, ie claims equalisation reserves, as they are able to operate with lower technical prices.

The non-US reinsurance sector is facing additional pressure from entities, particularly recent start-ups operating out of Bermuda, with large capital levels and a desire to diversify their portfolio.

This increased competition has led to another late renewal season, with a range of rate reductions. Extreme movements were less evident than in the insurance sector. Concessions were mainly on pricing with no significant changes in coverage.

Managing the cycle remains of paramount importance, as the level of alternative risk transfer mechanisms could significantly impact the ability of traditional reinsurers to take advantage of the upturn in the insurance cycle.

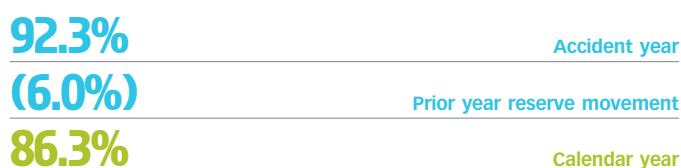
PROPERTY

DECLINING RATES FROM HIGH POINT IN CYCLE

2007 highlights

- Benign US windstorm season.
- Limited impact from worldwide catastrophe losses.

2007 combined ratio



The Lloyd's property sector covers both commercial and private property. Business is written via insurance agents or the broker distribution chain. The US is the largest geographical segment within the property sector.

2007 PERFORMANCE

Gross written premium for the Lloyd's property sector in 2007 was £3,809m (2006: £3,638m), an increase of 4.7%.

For US catastrophe exposed business, competition increased during 2007, particularly from the US domestic and Bermudian markets. This has resulted in softening rates, albeit from the highs of 2006.

Elsewhere, other lines of business continued to face increased competition, particularly as some insurers seek to diversify their portfolios away from catastrophe exposed risks. As a result the softening market conditions experienced in recent years have continued.

ACCIDENT YEAR PERFORMANCE

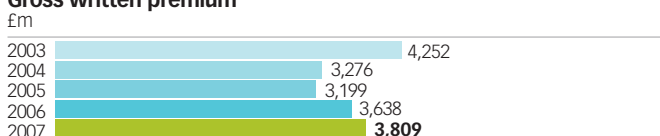
Windstorm Kyrill in Northern Europe, the California wildfires, hurricane Dean, and the record floods in the UK all impacted the property sector during 2007. While Lloyd's share of the industry losses for these events was not significant, they did contribute to an increase in the level of accident year losses when compared to the exceptionally low loss incidence experienced during 2006.

The increases in the level of losses, allied with the softening market conditions, caused the accident year loss ratio to rise to 92.3% (2006: 86.2%).

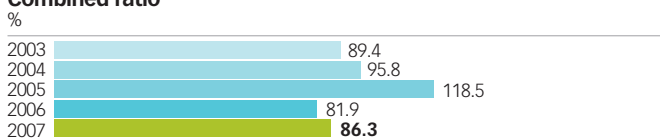
PRIOR YEAR RESERVE MOVEMENT

The stabilisation in the 2005 US hurricanes losses, and the continued releases from reserves established in 2002 to 2006, have generated further surpluses and improved the combined ratio by 6.0% (2006: 4.3%).

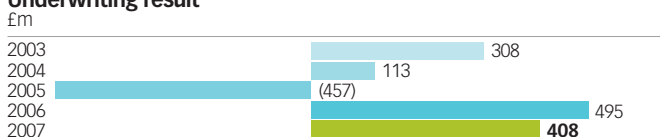
Gross written premium



Combined ratio



Underwriting result



LOOKING AHEAD

Along with the reinsurance and energy sectors, the Lloyd's property sector is heavily impacted by US windstorms. As such the view that we are in a cycle of above average North Atlantic hurricane activity continues to dominate the outlook for the sector.

Despite these predictions, competition within US catastrophe exposed lines is intensifying. This has resulted in further softening of rates during the 2008 January renewal season.

Furthermore, within other lines of business, the level of competition shows no signs of dissipating. This competitive pressure is beginning to spread to deductibles and coverage, which have broadly held since 2001, without a commensurate increase in pricing. There is a risk that these concessions will lead to rising attritional losses and further erode margins.

CASUALTY

CHANGING ECONOMIC ENVIRONMENT THREATENS RETURNS

2007 highlights

- Third successive year of prior year surpluses.
- Excellent performance must be balanced against increasingly fragile global economy.

2007 combined ratio

101.8%	Accident year
(9.1%)	Prior year reserve movement
92.7%	Calendar year

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 is within the US, UK and European markets.

2007 PERFORMANCE

2007 saw gross written premium of £3,364m (2006: £3,572m), a decrease of 5.8%.

Within the US, rates came increasingly under pressure and began to fall, albeit from relatively high levels, following the sharp rises in 2002 and 2003 and the more stable environment from 2004 to 2006.

Outside of the US the picture is very different with competition intense and rates continuing to fall.

ACCIDENT YEAR PERFORMANCE

The casualty sector achieved an accident year combined ratio of 101.8% (2006: 96.3%).

To date the US sub-prime crisis has resulted in few claims notifications being received by the Lloyd's market. Elsewhere, there has been limited major loss activity, reflecting the continued favourable economic conditions experienced during much of 2007.

For casualty business, profits emerge over time due to the longer tail for claims development. Consequently, the prior year reserve movement has a significant bearing on the overall combined ratio. The recent adverse history of this sector, particularly on business written in 1997–2001, has led to higher accident year combined ratios.

While performance varies between the different products and geographical segments, in aggregate the softening conditions and the changing economic environment have eroded what was a small margin. Should these conditions continue, the Lloyd's casualty sector runs the risk of becoming reliant on uncertain prior year reserve movements to achieve an underwriting profit on a calendar year basis.

PRIOR YEAR RESERVE MOVEMENT

Prior year reserve movement improved the combined ratio by 9.1% (2006: 7.3%). For the third successive year underlying claims development has led to a surplus, a trend which confirms that Lloyd's businesses have now addressed the legacy issues arising on business written in soft market conditions in 1997–2001.

Overall results for casualty syndicates benefited from investment returns earned on assets held to meet the longer tail claims for this class.

Gross written premium

£m	
2003	4,673
2004	3,883
2005	3,402
2006	3,572
2007	3,364

Combined ratio

%	
2003	110.4
2004	108.8
2005	93.9
2006	89.0
2007	92.7

Underwriting result

£m	
2003	(352)
2004	(278)
2005	179
2006	327
2007	205

LOOKING AHEAD

While the January renewal season has seen some stabilisation of rates in those lines of business most closely linked to the US sub-prime crisis, the general rating trend in the sector as a whole continues downwards, albeit in the case of the US from a hard market position.

The US sub-prime crisis is a significant issue for the insurance industry and the global casualty sector in particular with professional indemnity and D&O among the classes that could be affected. Several class actions have already been instigated in the US and, irrespective of the indemnity potential, the costs of defending these claims will be significant.

Lessons have been learned from the previous underwriting cycle and a more specialised mix of business is being written within Lloyd's. Wall Street exposure is no longer as significant as previously, and Lloyd's is not expected to incur substantial direct sub-prime losses.

However, the sub-prime crisis and the global 'credit crunch', combined with the turmoil in the US real estate market, has caused more and more economists to predict that the US economy is heading for a recession, if not already there, with likely knock-on impacts to other economies around the world.

This possible downturn in the global economy is likely to widen the potential for more varied losses, particularly within the casualty arena.

The various tort systems and legal processes around the world are a significant factor in dealing with long-term liability claims. Recent tort reforms in some countries are partially addressing this risk, resulting in reduced claim frequency and reduced costs.

The extent to which these reforms are apolitical and neutral to the changing economic landscape will have a significant impact on the future profitability of the casualty sector.

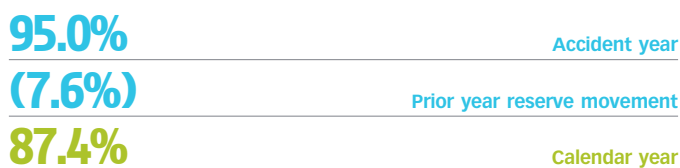
MARINE

LLOYD'S MARKET AVOIDS LARGE INDUSTRY LOSSES

2007 highlights

- Competition remains intense.
- Fifth consecutive year of prior year releases.

2007 combined ratio



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

2007 PERFORMANCE

The marine sector achieved gross written premium of £1,226m (2006: £1,153m), an increase of 6.3%.

The two largest marine classes, hull and cargo, remain highly competitive. As a consequence, rates remain under pressure with reductions experienced during the year.

By contrast, the value of risks has increased, as the booming growth in world trade leads to a demand for bigger and faster ships to transport goods.

This has led to increased exposures and higher premiums, despite lower rates; ie a masking of the softening conditions.

Overall, rates in the marine liability account reduced during the year. 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, with rate reductions experienced during the year.

ACCIDENT YEAR PERFORMANCE

In 2007, the global marine market saw major hull losses running at levels not experienced since the 1980s, when there were structural failures amongst the ageing bulk carrier fleet. In recent years, Lloyd's syndicates have exercised caution in this market, particularly in relation to blue water fleets where the impact of a single loss can be severe. The benefit of this caution has been that Lloyd's syndicates have been able to avoid several of these losses.

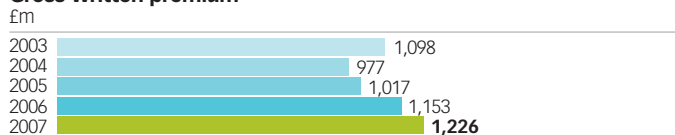
Within the rest of this sector, the International Group of P&I Clubs programme and specie also experienced notable losses, while the cargo account experienced a second year of favourable claims activity.

Whilst market conditions have softened, the overall decrease in the level of claims has resulted in an improvement in the accident year combined ratio to 95.0% (2006: 99.0%).

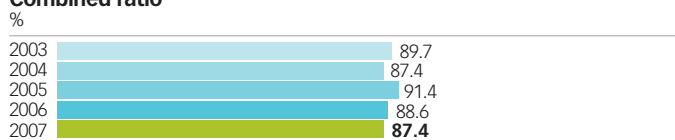
PRIOR YEAR RESERVE MOVEMENT

An overall release from prior years' reserves reduced the combined ratio by 7.6% for the year (2006: release of 10.4%). This has continued the trend for prior years to develop within expectation with a surplus arising for the fifth consecutive year.

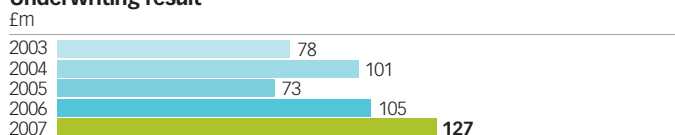
Gross written premium



Combined ratio



Underwriting result



LOOKING AHEAD

Following the loss experience during 2007, the 2008 January renewal season for the hull class was flat, and rate increases were experienced in the International Group of P&I Clubs programme. However, other classes of business within the marine sector continue to experience softening market conditions.

The size and number of blue water fleets have increased over recent years to meet the demand from the growth in world trade. A collision involving one of these vessels would be a major catastrophe and the current rating environment is marginal.

With shipyards around the world operating at full capacity to meet the demand for new vessels, repair facilities and trained engineers are at a premium. This, allied to the continuing rise in the price of commodities, has resulted in an increase in the costs of the vessels, their repair and the cargoes they are transporting.

The shortage of experienced officers and crew together with new regulations aimed at improving crew members' hours and working conditions, whilst laudable, unfortunately coincides with the launch of an increasing number of ships. As a result the number of adequately experienced mariners will be spread ever more thinly.

P&I clubs are also affected by new legislation and changes to existing laws, which may give rise to additional liabilities, as well as having to prepare for a more demanding regulatory environment.

This potential for increased loss frequency and severity heightens the continued need for underwriting discipline on both rates and terms and conditions.

MOTOR

SPECIALIST MIX HELPS PERFORMANCE IN TOUGH MARKET CONDITIONS

2007 highlights

- Soft market conditions continue pushing current trading further into loss.
- Reliance on positive prior year reserve movement for overall underwriting profit.

2007 combined ratio

104.8%

Accident year

(6.4%)

Prior year reserve movement

98.4%

Calendar year

In recent years this class has become less prominent in the market as a whole but remains an important part of our overall diversified 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.

There has been a move to underwrite company fleet business and non-standard risks such as high value vehicles, vintage or collectors' vehicles, high risk drivers and affinity groups; 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 Lloyd's portfolio, with around 16% now originating outside of the UK.

2007 PERFORMANCE

Gross written premium in 2007 for the Lloyd's motor sector was £983m (2006: £923m), an increase of 6.5%.

In the UK, while conditions vary across the different lines of business, overall the softening rates experienced since 2003 continued into 2007, although there were signs of rates flattening in the final quarter of the year.

The overseas motor market continued to experience softening conditions throughout the year, although performance varies between territories

ACCIDENT YEAR PERFORMANCE

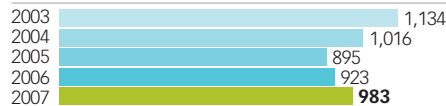
The trend for claims costs to outstrip inflation continues. This combined with the ongoing soft market conditions has resulted in a further increase in the accident year combined ratio to 104.8% (2006: 101.7%).

PRIOR YEAR RESERVE MOVEMENT

Prior year reserve movement improved the combined ratio by 6.4% (2006: 5.3%) as claims continue to develop within expectations.

Gross written premium

£m



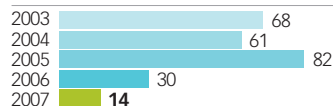
Combined ratio

%



Underwriting result

£m



LOOKING AHEAD

In the face of continued soft market conditions, the Lloyd's motor sector has become dependent on reserve releases to turn accident year losses into profitable results. This is not a sustainable strategy and the motor market must look to underwrite for profit.

While some analysts predict that the UK motor market is at the bottom of the cycle, with a general upturn forecast for the next few years, momentum is likely to be slow as the market remains extremely competitive. The growing popularity of the aggregators offering price comparison sites, means that consumers are increasingly focusing on price rather than other factors such as brand, claims service or coverage.

The Lloyd's market offering of niche products is key if it is to avoid the most intense areas of competition.

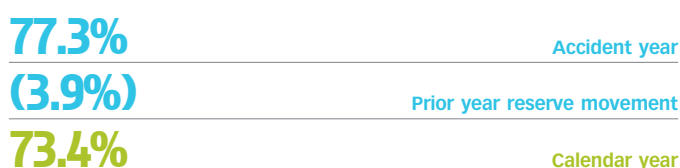
ENERGY

CONTINUING STRONG CONDITIONS AND A BENIGN LOSS EXPERIENCE

2007 highlights

- Increase in asset values.
- Aggregate prior year release following stabilisation of 2005 US hurricane claims estimates.

2007 combined ratio



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

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

2007 PERFORMANCE

The Lloyd's energy sector achieved gross written premium of £1,019m (2006: £1,125m), a decrease of 9.4%.

Following the significant rate increases experienced in the aftermath of the 2005 hurricanes and the benign loss experience in 2006, competition intensified during the year, with softening market conditions being experienced in both the offshore and onshore markets. Significant increases in asset values, however, are partially masking the impact of soft market conditions on premium volumes.

ACCIDENT YEAR PERFORMANCE

The accident year combined ratio for 2007 was 77.3% (2006: 83.7%). The improvement in the ratio is being driven by the strong underwriting conditions experienced in 2006, with premiums continuing to be earned throughout 2007, as loss experience was once again benign.

PRIOR YEAR RESERVE MOVEMENT

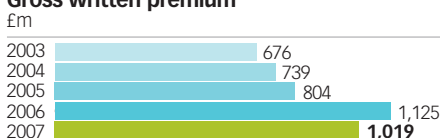
2007 saw a significant improvement in the prior year reserve movement as the loss estimates for the 2005 hurricanes stabilised, resulting in a surplus on prior years of 3.9% (2006: deficit of 15.1%).

LOOKING AHEAD

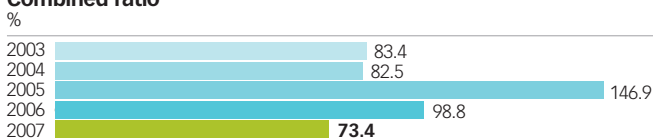
The future performance of the energy sector for Lloyd's is intrinsically linked to the hurricane season in the Gulf of Mexico. Following a second year of low loss levels and strong accident year performance, industry capacity for most lines of business is expected to increase again in 2008, despite predictions that we are in a cycle of above average North Atlantic hurricane activity.

The increase in competition is already being seen in the recent renewals. These show a continuation of the softening conditions, although rates are still relatively high by historical standards. Other signs of the softening market are now being seen with concessions being given on terms and conditions such as increased wind limits for Gulf of Mexico risks, expansion or deletion of sub-limits and attempts to place multi-year policies.

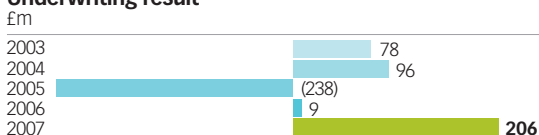
Gross written premium



Combined ratio



Underwriting result



The price of crude oil continues to rise, recently exceeding US\$100 per barrel, as supply struggles to cope with the high demand from emerging countries. This has led to existing facilities operating at or near capacity, with the price per barrel increasingly sensitive to any small production disruptions and a significant increase in the number of new projects worldwide.

These projects are looking more and more at fields that had previously been considered marginal or inaccessible, requiring innovative technology and increased exploration, drilling and construction at a time when resources are scarce and commodities such as steel, concrete and cement are already in high demand.

This has led to further increases in contractor rates and rises in commodity prices driving up project costs and a knock-on increase in the valuation of existing facilities.

As a result of the ageing existing facilities and rising valuations, business interruption remains a key concern, particularly with regard to the values presented truly reflecting the risk that underwriters are being asked to assume. In addition, the shortage in skilled resources is likely to cause further delays to the time required to restore facilities to operational status following physical damage. Estimates have risen from 24 months to between 36 and 48 months and in a few cases up to 60 months.

The rising asset values are resulting in increased premium levels and a rise in the number of projects which offer business opportunities for the energy insurance sector. However, this will be tempered by the likelihood of an increase in loss frequency and severity.

Maintaining discipline on terms and conditions as well as pricing and aggregate exposure is critical to the ongoing profitability of this sector.

AVIATION PRESSURE ON RATES REACHES CRITICAL POINT

2007 highlights

- Sixth consecutive year of rate softening.
- Increased loss incidence during the year.
- Continuing prior year releases a key component of the strong combined ratio.

2007 combined ratio

102.8%

Accident year

(18.3%)

Prior year reserve movement

84.5%

Calendar year

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, aerospace, general aviation and space business.

2007 PERFORMANCE

Aviation business is written as both direct and reinsurance acceptances, on an excess of loss, proportional or facultative basis. On a direct basis gross written premium was £464m (2006: £393m), an increase of 18.1%. This increase is driven by a reclassification from reinsurance to direct aviation to more appropriately reflect the underlying nature of the business written; the prior year analysis has not been restated. Overall, direct and reinsurance aviation business combined has seen an increase of less than 4% in gross written premium.

While rates in the aviation market improved significantly immediately after the heavy losses of 2001, namely 9/11 and Queens, subsequent years have seen persistent falls in airline rates. This trend continued throughout 2007.

As margins diminished further within the airline sector, capacity has continued to move into other aviation classes, with the result that rates in these classes also softened further in 2007.

ACCIDENT YEAR PERFORMANCE

The accident year combined ratio for 2007 was 102.8% (2006: 87.4%). While the increase in the ratio is in part due to the continuing softening market conditions, the main driver has been the increase in the level of loss incidence during the year, which is higher than the average over the last ten years.

PRIOR YEAR RESERVE MOVEMENT

Surpluses on prior years' claims reserves improved the combined ratio by 18.3% (2006: 22.3%), continuing the trend for benign claims development across the entire portfolio.

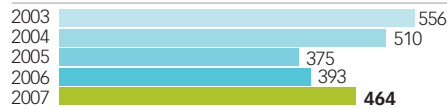
LOOKING AHEAD

The global airline market invests heavily in technology and training to improve safety and security. Nevertheless, pilot error remains the main cause of airline losses and this, allied with the continued increase in the number of flights, means there is potential for a rise in loss frequency.

During 2007, we continued to see an increase in exposure with fleet values and passenger numbers over 10% higher than 2006. Furthermore, the introduction of two new super-jumbos means that there is also potential for a rise in loss severity.

Gross written premium

£m



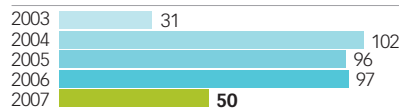
Combined ratio

%



Underwriting result

£m



Following a sixth consecutive year of falling rates, there is a risk that the current level of premium is insufficient to cover these potential increases in loss frequency and severity, let alone any major catastrophe.

In light of the loss experience in 2007 and with margins diminishing, capacity may leave the airline sector, which would cause a hardening of rates. This will be largely dependent on the performance of the sector leading up to the main renewal season in the fourth quarter of 2008. There is also likely to be pressure to underwrite multi-year policies as airlines will seek to take advantage of the current rating environment.

With the increasing popularity of corporate and private jets, particularly under shared ownership schemes, the general aviation sector is growing. Also safety features and technology, such as ground proximity warnings, are filtering down from airlines into the general aviation market, improving the overall risk management of the sector.

This creates opportunities for existing insurers but will also attract additional capacity to the sector, putting further pressure on what is already a soft rate environment.

The space sector did experience significant losses during 2007, which could have an impact on the rates in 2008. However, there have also been improvements in reliability and a maturing of the satellite and launch vehicle technology. Allied to new satellite applications this has led to an increase in the number of satellites being launched each year. This, combined with the prospect of space tourism in the near future, means that there continue to be opportunities within the space insurance sector.

ANNUAL REPORT

The Market Commentary on pages 1 to 11 forms the Annual Report required under the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004 and was approved by the Council of Lloyd's on 2 April 2008.

Lord Levene of Portsoken, Chairman

AGGREGATE ACCOUNTS

STATEMENT OF COUNCIL'S RESPONSIBILITIES

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

The Regulations also require the Council to prepare an Annual Report on the insurance business carried on by the members of Lloyd's during the financial year. The Annual Report is set out in the Market Commentary on pages 1 to 11.

REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE 2007 LLOYD'S AGGREGATE ACCOUNTS

We have examined the Lloyd's Aggregate Accounts for the year ended 31 December 2007, which comprise an aggregate profit and loss account, aggregate statement of total recognised gains and losses, aggregate balance sheet and aggregate statement of cash flows and the related notes 1 to 20, together with the Annual Report which have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ('the Regulations') on the basis set out in note 1.

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

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

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

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

BASIS OF CONCLUSION

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

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

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

CONCLUSION

In our opinion, the Aggregate Accounts and the Annual Report for the financial year ended 31 December 2007 have been properly prepared and correctly aggregated in accordance with the Regulations.

Ernst & Young LLP, London
2 April 2008

AGGREGATE PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2007

	Note	2007		2006	
		£m	£m	Restated £m	£m
Technical account					
Gross written premiums – continuing operations			16,463		15,754
– discontinued operations			239		891
Outward reinsurance premiums	3		16,702		16,645
			(3,110)		(3,315)
Written premiums, net of reinsurance			13,592		13,330
Change in the provision for unearned premiums					
Gross amount		(244)		(647)	
Reinsurers' share		78		131	
Change in the net provision for unearned premiums			(166)		(516)
Earned premiums, net of reinsurance			13,426		12,814
Allocated investment return transferred from the non-technical account			1,223		957
Other technical income, net of reinsurance			–		–
			14,649		13,771
Claims paid					
Gross amount		8,718		11,635	
Reinsurers' share		(2,493)		(5,038)	
			6,225		6,597
Change in provision for claims					
Gross amount		(761)		(4,135)	
Reinsurers' share		1,413		3,886	
			652		(249)
Claims incurred, net of reinsurance			6,877		6,348
Net operating expenses	6		4,746		4,594
Balance on the technical account for general business			3,026		2,829
Attributable to: – continuing operations			2,738		2,557
– discontinued operations			288		272
Total			3,026		2,829
Non-technical account					
Balance on the technical account for general business			3,026		2,829
Investment income	7	1,246		1,122	
Net unrealised gains on investments		165		20	
Investment expenses and charges	8	(185)		(185)	
Allocated investment return transferred to the technical account		(1,223)		(957)	
Other charges	9	–		(3)	
Balance on the non-technical account			3		(3)
Profit for the financial year before tax			3,029		2,826
Statement of total recognised gains and losses					
Profit for the financial year before tax			3,029		2,826
Exchange differences on translating foreign operations			73		42
Total recognised gains and losses for the financial year			3,102		2,868
Prior year adjustment	1		(4)		–
Total recognised gains and losses since previously reported			3,098		2,868

AGGREGATE BALANCE SHEET

as at 31 December 2007

	Note	2007		2006 Restated	
		£m	£m	£m	£m
Investments					
Financial investments	10		21,722		19,226
Deposits with ceding undertakings			9		17
Reinsurers' share of technical provisions					
Claims outstanding		7,061		8,767	
Unearned premiums		841		771	
			7,902		9,538
Debtors					
Debtors arising out of direct operations	11	3,428		3,520	
Debtors arising out of reinsurance operations	12	2,918		3,195	
Other debtors		287		607	
			6,633		7,322
Other assets					
Cash at bank and in hand		2,039		1,927	
Other		1,312		1,301	
			3,351		3,228
Prepayments and accrued income					
Accrued interest and rent		144		103	
Deferred acquisition costs		1,656		1,583	
Other prepayments and accrued income		115		150	
			1,915		1,836
Total assets			41,532		41,167
Capital and reserves					
Members' balances	13		2,523		653
Technical provisions					
Provision for unearned premiums		7,282		7,029	
Claims outstanding		28,569		29,871	
			35,851		36,900
Deposits received from reinsurers			42		69
Creditors					
Creditors arising out of direct insurance operations	14	697		877	
Creditors arising out of reinsurance operations	15	1,534		1,597	
Other creditors		737		972	
			2,968		3,446
Accruals and deferred income			148		99
Total liabilities			41,532		41,167

Approved and authorised for issue by the Council of Lloyd's on 2 April 2008 and signed on their behalf by

Lord Levene of Portsoken, Chairman

Richard Ward, Chief Executive Officer

AGGREGATE STATEMENT OF CASH FLOWS

for the year ended 31 December 2007

	Notes	2007 £m	2006 Restated £m
Net cash inflow from operating activities	16	3,458	2,505
Transfer to members in respect of underwriting participations		(1,537)	(1,654)
Financing			
Capital transferred into syndicate PTFs		322	–
		2,243	851
Cash flows were invested as follows:			
Increase in cash holdings	17	64	(46)
Net portfolio investments		2,179	897
Net investment of cash flows		2,243	851

NOTES TO THE AGGREGATE ACCOUNTS

as at 31 December 2007

1. BASIS OF PREPARATION

A. BASIS OF REPORTING

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

B. AGGREGATION OF SYNDICATE ANNUAL ACCOUNTS

The aggregate accounts as at 31 December 2007 have been prepared by totalling the annual accounts of the 118 syndicates reporting as at 31 December 2007. The result does not present a consolidated view of the results of Lloyd's business taken as a single entity and, in particular, it does not eliminate inter-syndicate reinsurances.

C RESTATEMENT OF PRIOR YEAR

During 2007, certain syndicates changed their accounting policies in relation to foreign exchange resulting in a restatement of the comparative figures for 2006 within their annual accounts and the Aggregate Accounts have been restated accordingly.

2. ACCOUNTING POLICIES

GENERAL

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

WRITTEN PREMIUMS

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

UNEARNED PREMIUMS

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

REINSURANCE PREMIUM CEDED

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

CLAIMS PROVISIONS AND RELATED RECOVERIES

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

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

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

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

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

UNEXPIRED RISKS PROVISION

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

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

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 is a reasonable approximation.

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

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

INVESTMENTS

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

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

INVESTMENT RETURN

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

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

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

TAXATION

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

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

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

OPERATING EXPENSES

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

PROFIT COMMISSION

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

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

NOTES TO THE AGGREGATE ACCOUNTS CONTINUED

as at 31 December 2007

3. SEGMENTAL ANALYSIS

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

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

2006	Gross written premiums Restated £m	Gross premiums earned Restated £m	Gross claims incurred Restated £m	Operating expenses Restated £m	Reinsurance balance Restated £m	Result Restated £m
Accident and health	483	487	(212)	(204)	(11)	60
Motor (third party liability)	114	110	(39)	(33)	(37)	1
Motor (other classes)	810	794	(458)	(238)	(69)	29
Marine, aviation and transport	2,671	2,464	(1,169)	(716)	(369)	210
Fire and other damage to property	3,401	3,183	(1,296)	(997)	(480)	410
Third party liability	3,089	3,059	(1,494)	(901)	(393)	271
Pecuniary loss	218	223	(77)	(84)	22	84
Life	50	55	(17)	(25)	(11)	2
Other	18	15	11	(6)	(19)	1
Total direct	10,854	10,390	(4,751)	(3,204)	(1,367)	1,068
Reinsurance acceptances	5,791	5,607	(2,749)	(1,391)	(665)	802
	16,645	15,997	(7,500)	(4,595)	(2,032)	1,870
Prior year adjustment (note 1)	-	1	-	1	-	2
Total	16,645	15,998	(7,500)	(4,594)	(2,032)	1,872

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.

2007	Gross written premiums £m	Net premiums earned £m	Result £m
Reinsurance	5,453	4,312	790
Property	3,809	2,975	408
Casualty	3,364	2,805	205
Marine	1,226	1,010	127
Motor	983	866	14
Energy	1,019	774	206
Aviation	464	323	50
Life	46	30	3
Inter-syndicate reinsurance to close	338	331	-
Total	16,702	13,426	1,803

3. SEGMENTAL ANALYSIS CONTINUED

2006	Gross written premiums Restated £m	Net premiums earned Restated £m	Result Restated £m
Reinsurance	5,557	4,186	802
Property	3,638	2,730	495
Casualty	3,572	2,964	330
Marine	1,153	921	105
Motor	923	829	30
Energy	1,125	737	9
Aviation	393	278	97
Life	50	40	2
Inter-syndicate reinsurance to close	234	128	–
	16,645	12,813	1,870
Prior year adjustment (note 1)	–	1	2
Total	16,645	12,814	1,872

4. LIFE BUSINESS

The Aggregate Accounts include the results of all life and non-life syndicates transacting business during 2007. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 3).

5. CLAIMS OUTSTANDING

The aggregate of the prior year surpluses/deficiencies is a surplus of £856m (2006: £270m). The surplus primarily arises in respect of business written in the 2002 to 2006 accident years.

6. NET OPERATING EXPENSES

	2007 £m	2006 restated £m
Acquisition costs	3,519	3,354
Change in deferred acquisition costs	(70)	(163)
Administrative expenses	1,412	1,180
(Profit)/loss on exchange	(115)	223
	4,746	4,594

7. INVESTMENT INCOME

	2007 £m	2006 Restated £m
Income from investments	1,029	1,005
Gains on the realisation of investments	217	117
	1,246	1,122

8. INVESTMENT EXPENSES AND CHARGES

	2007 £m	2006 Restated £m
Investment management expenses, including interest	25	25
Losses on realisation of investments	160	160
	185	185

NOTES TO THE AGGREGATE ACCOUNTS CONTINUED

as at 31 December 2007

9. OTHER CHARGES

Included in other charges are exchange losses of £0m (2006: £3m).

10. FINANCIAL INVESTMENTS

	Market value		Cost	
	2007 £m	2006 Restated £m	2007 £m	2006 Restated £m
Shares and other variable yield securities and units in unit trusts	2,240	1,895	2,143	1,737
Debt securities and other fixed income securities	17,457	15,934	17,198	16,000
Participation in investment pools	684	267	674	276
Loans and deposits with credit institutions	1,337	1,123	1,329	1,153
Other	4	7	4	6
	21,722	19,226	21,348	19,172

11. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2007 £m	2006 Restated £m
Due within one year		
– policyholders	68	101
– intermediaries	3,335	3,320
Due after one year		
– policyholders	–	–
– intermediaries	25	99
	3,428	3,520

12. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2007 £m	2006 Restated £m
Due within one year	2,795	3,182
Due after one year	123	13
	2,918	3,195

13. RECONCILIATION OF MEMBERS' BALANCES

	2007 £m	2006 Restated £m
Members' balances brought forward at 1 January	657	(447)
Prior year adjustment	(4)	–
Members' balances restated at 1 January	653	(447)
Total recognised gains and losses for the financial year	3,102	2,868
Transfers to members' personal reserve funds	(1,539)	(1,673)
Capital transferred into syndicate PTFs	322	–
Other movements	(15)	(95)
Members' balances carried forward at 31 December	2,523	653

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

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

14. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2007 £m	2006 Restated £m
Due within one year	696	844
Due after one year	1	33
	697	877

15. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2007 £m	2006 Restated £m
Due within one year	1,508	1,596
Due after one year	26	1
	1,534	1,597

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

	2007 £m	2006 Restated £m
Operating profit on ordinary activities	3,029	2,826
Realised and unrealised investment (gains)/losses	(311)	1,728
Increase/(decrease) in net technical provisions	586	(2,130)
Decrease in debtors	620	961
(Decrease) in creditors	(466)	(879)
Other net cash inflow from operating activities	–	(1)
	3,458	2,505

17. MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	At 1 January 2007 Restated £m	Cash flow £m	Changes to market value and currencies £m	At 31 December 2007 £m
Cash at bank and in hand	1,927	64	48	2,039
Loans, deposits and investments	20,507	2,179	337	23,023
	22,434	2,243	385	25,062

18. RELATED PARTIES

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

19. FUNDS AT LLOYD'S

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

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

NOTES TO THE AGGREGATE ACCOUNTS CONTINUED

as at 31 December 2007

20. STAFF NUMBERS AND COSTS

The following disclosures are made in order to comply with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. These figures are aggregated from the syndicate accounts of the 83 syndicates (2006: 86) that made this disclosure.

	2007	2006 Restated
	£m	£m
Wages and salaries	342	262
Social security costs	39	31
Other pension costs	61	62
	442	355

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

	2007	2006 Restated
	Number	Number
Administration and finance	2,225	2,047
Underwriting	2,232	2,254
Claims	1,171	1,147
Other	207	390