

PERFORMANCE

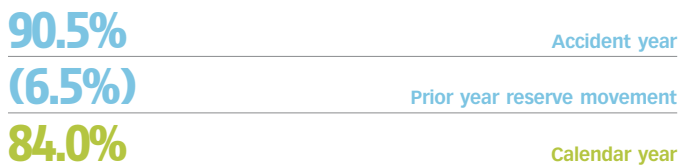
HOW THE MARKET PERFORMED IN 2007

2007 PERFORMANCE REVIEW

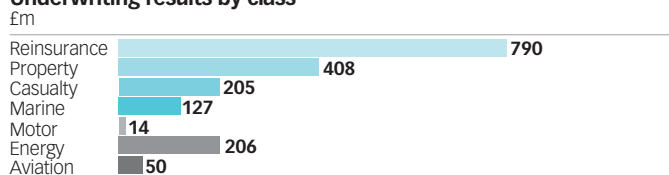
2007 highlights

- 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.
- Pre-tax return on capital of 29.3% (2006: 31.4%) reflecting a second successive year of excellent results.

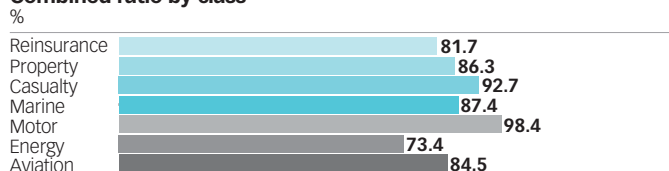
2007 combined ratio*



Underwriting results by class



Combined ratio by class



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 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.

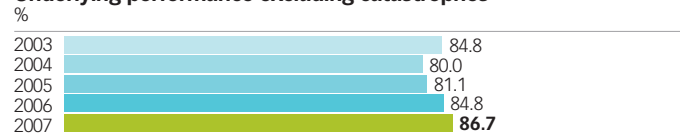
The US is the single largest market for Lloyd's and the weaker US dollar during the year means that lower written premiums are reported in converted sterling compared to 2006.

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



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



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.

*See Glossary on page 152.

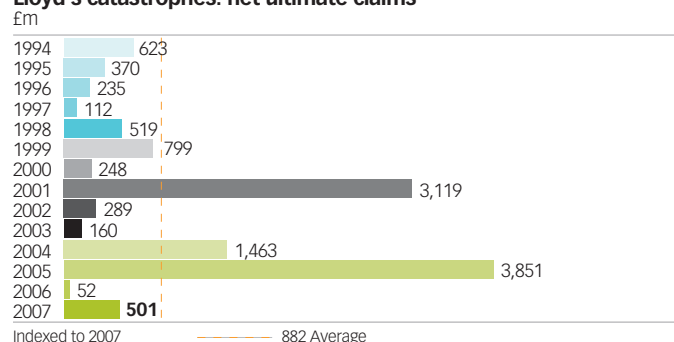
The overall combined ratio includes central adjustments in the technical account in respect of transactions between syndicates and the Society as described in notes 2 and 8 to the PFFS (pages 73 and 77). The combined ratios and results for individual classes of business do not include these adjustments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

2007 PERFORMANCE REVIEW 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.

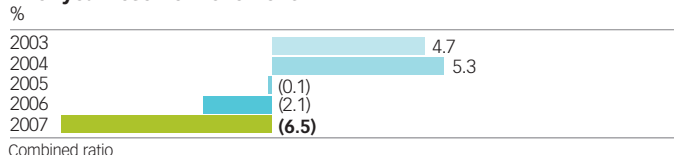
Lloyd's catastrophes: net ultimate claims



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.

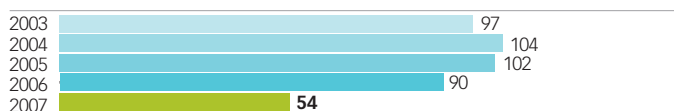
Claims estimates for the 2005 US hurricanes are showing signs of stabilisation and development on the longer-tail business written in the soft market conditions of 1997-2001 continues to be within expectations.

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 51 to 57.

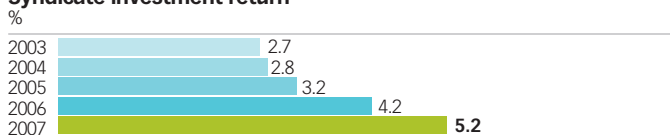
INVESTMENT REVIEW

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



Members' capital is generally held centrally at Lloyd's. A proportion of this capital is maintained in investment assets and managed at members' direction. A notional investment return of £653m or 6.0% (2006: £651m, 5.9%), based on the disposition of invested capital and market indices, has been included in the Pro Forma Financial Statements (PFFS).

Investment performance of Lloyd's central assets is discussed on page 108.

RESULTS SUMMARY

Lloyd's achieved a profit for the financial year before tax of £3,846m (2006: profit of £3,662m) 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. The syndicate annual accounts reported an aggregate profit of £3,029m (2006: profit of £2,826m). These results are reported in a separate document (the Aggregate Accounts) and can be viewed on www.lloyds.com/financialreports. 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.

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.

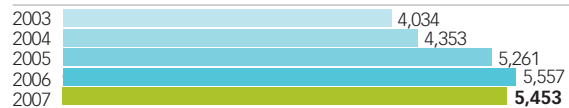
ACCIDENT YEAR PERFORMANCE

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%.

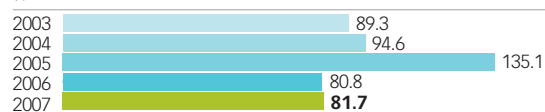
Gross written premium

£m



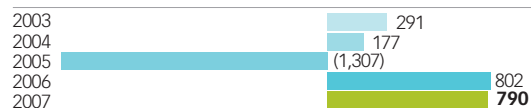
Combined ratio

%



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.

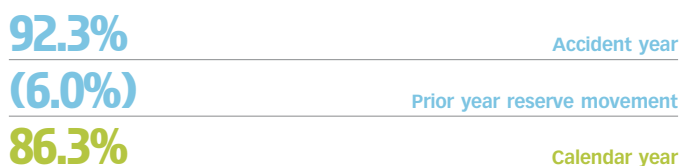
PROPERTY

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

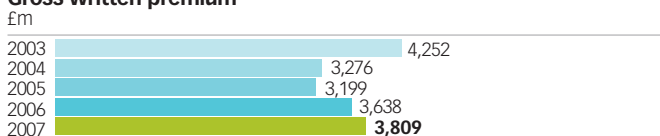
Windstorm Kyrill in Northern Europe, the California wildfires, hurricane Dean, and the record floods in the UK all impacted the property sector during 2007. While Lloyd's share of the industry losses for these events was not significant, they did contribute to an increase in the level of accident year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

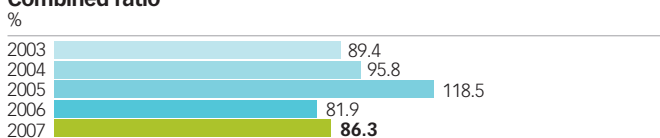
PRIOR YEAR RESERVE MOVEMENT

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%).

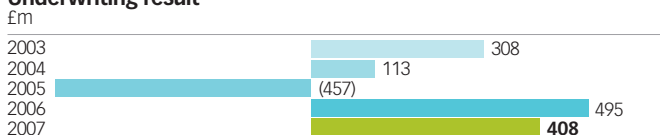
Gross written premium



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.

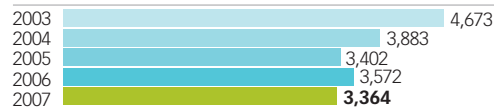
PRIOR YEAR RESERVE MOVEMENT

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



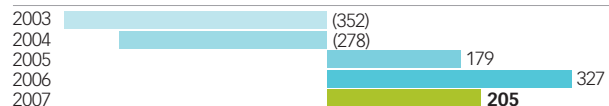
Combined ratio

%



Underwriting result

£m



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.

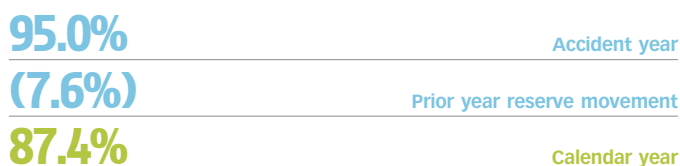
MARINE

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.

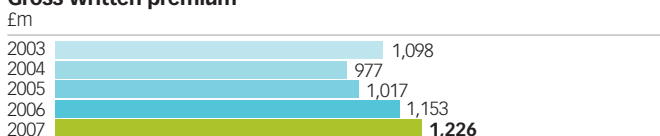
Within the rest of this sector, the International Group of P&I Clubs programme and specie also experienced notable losses, while the cargo account experienced a second year of favourable claims activity.

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%).

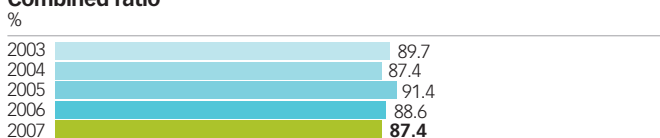
PRIOR YEAR RESERVE MOVEMENT

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.

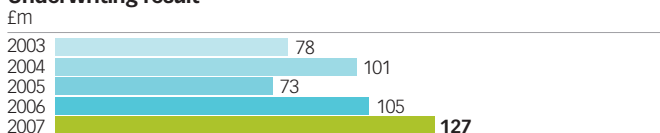
Gross written premium



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



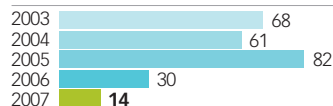
Combined ratio

%



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

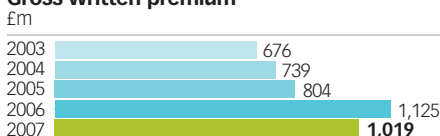
2007 saw a significant improvement in the prior year reserve movement as the loss estimates for the 2005 hurricanes stabilised, resulting in a surplus on prior years of 3.9% (2006: deficit of 15.1%).

LOOKING AHEAD

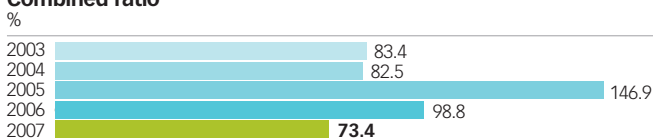
The future performance of the energy sector for Lloyd's is intrinsically linked to the hurricane season in the Gulf of Mexico. Following a second year of low loss levels and strong accident year performance, industry capacity for most lines of business is expected to increase again in 2008, despite predictions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

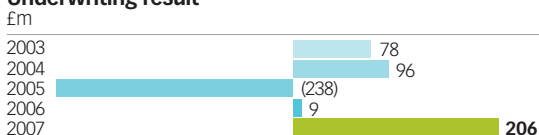
Gross written premium



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.

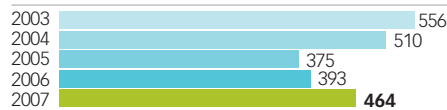
LOOKING AHEAD

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.

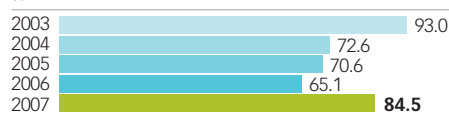
Gross written premium

£m



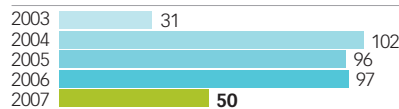
Combined ratio

%



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.