

PERFORMANCE



REINSURANCE

 See page 61.



PROPERTY

 See page 62.



CASUALTY

 See page 63.



MARINE

 See page 64.



ENERGY

 See page 65.



MOTOR

 See page 66.



AVIATION

 See page 67.

HOW THE MARKET PERFORMED IN 2008

2008 HIGHLIGHTS

- Profit before tax of £1,899m (2007: £3,846m) and a combined ratio of 91.3% (2007: 84.0%), a solid performance during an exceptionally turbulent year for the financial sector.
- Profit before tax, excluding foreign exchange movements on non-monetary items, of £1,529m (2007: £3,846m).
- Total investment return of £957m (2007: £2,007m), benefiting from a conservative investment strategy.
- Overall surplus on prior years of £1,265m (2007: £856m) as claims develop within projections for the fourth year in a row.
- Pre-tax return on capital of 13.7% (2007: 29.3%).

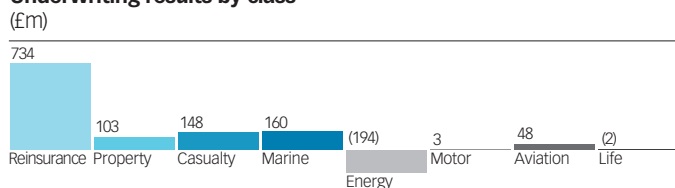
2008 combined ratio*

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

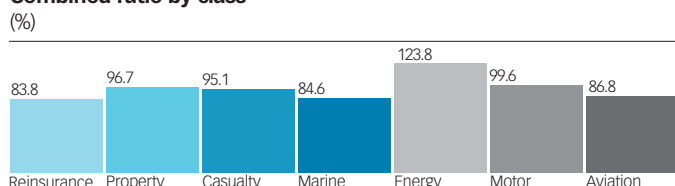
2008 combined ratio excluding foreign exchange movements on non-monetary items

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

Underwriting results by class



Combined ratio by class



*See Glossary on page 140.

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 74 and 76). The combined ratios and results for individual classes of business do not include these adjustments as the market commentary for each class reflects trading conditions at syndicate level as reported in syndicate annual accounts.

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

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

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

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

CURRENCY MOVEMENTS

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

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

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

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

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

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

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

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

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

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

LOOKING AHEAD

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

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

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

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

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

2008 PERFORMANCE

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

A number of syndicates have started trading in the past three years, bringing new business to the market. In addition, the peak in the oil price

and increased commodity prices during the earlier part of the year brought additional premiums for the energy and cargo lines of business, among others. This offset weakening terms and conditions that reduced premium per risk written.

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

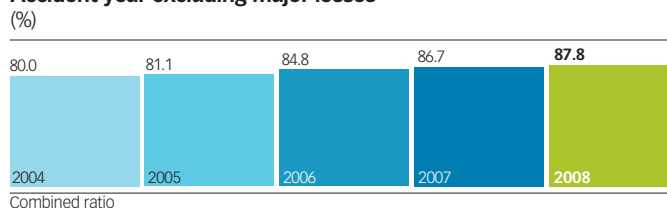
ACCIDENT YEAR RESULTS

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

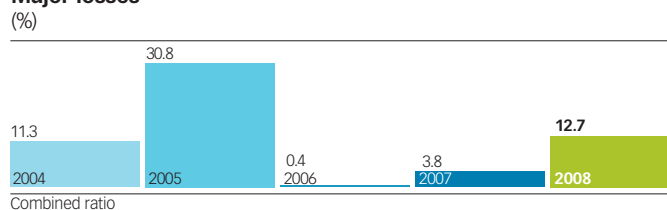
This includes a gain on exchange from non-translation of non-monetary items, which reduced the combined ratio in 2008 by 2.7%. This should be borne in mind when considering the performance by class in 2008.

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

Accident year excluding major losses



Major losses



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

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

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

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

Catastrophe modelling agencies provided an initial range of claims estimates of US\$6bn to US\$18bn (onshore and offshore combined). Various (re)insurance companies reported potential industry losses ranging from US\$10bn to US\$16bn for the storm's onshore component. Offshore

losses remained uncertain. Lloyd's advised a more conservative view in line with an aggregate industry loss for Gustav and Ike of between US\$20bn and US\$25bn. Subsequent year end reporting has produced estimated industry loss estimates of over US\$20bn.

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

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

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

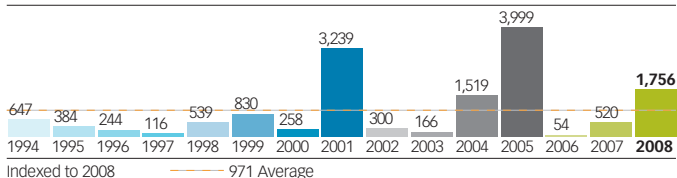
Lastly, offshore losses have historically proved difficult to estimate, and this again has proved to be the case with Ike. Initial estimates of losses around US\$2-3bn, have increased to over US\$4bn.

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

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

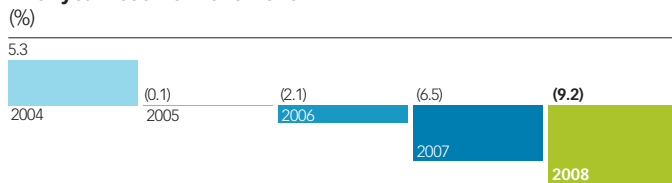
Largely as a consequence of Ike and Gustav, the level of catastrophe claims in 2008 was above the long-term average for the Lloyd's market.

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



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

Prior year reserve movement



Combined ratio

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

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

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

REINSURANCE PROTECTION

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

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

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

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

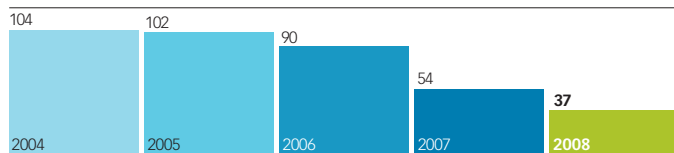
RESULT FOR THE CLOSED YEAR AND RUN-OFF YEARS OF ACCOUNT

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

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

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

Years of account in run-off



The results of the major classes of business are discussed in detail on pages 61 to 67.

INVESTMENT REVIEW

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

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

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

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

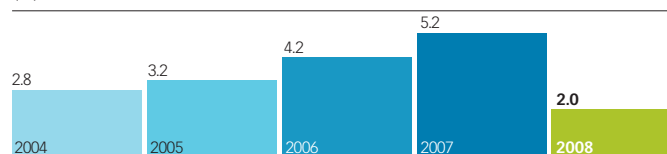
Equities fell faster than had been seen for three-quarters of a century, many structured debt securities lost a substantial proportion of their value and even highly rated and established corporate entities saw significant reductions in the value of their debt as the yields demanded by investors rose.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

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

investments has ensured that syndicates remain able to liquidate assets as required to meet cash flow needs, notwithstanding the significant reduction in capital supporting secondary trading in many areas of the financial markets.

Investment returns varied significantly between syndicates in 2008. Some syndicates experienced negative returns, driven by exposures to more volatile asset classes, but most of these limited their losses by maintaining significant exposures to more conservative asset classes. Conversely, many syndicates benefited from significant government bond exposures and generated relatively high returns. Overall, syndicate investments returned £521m, or 2.0% (2007: £1,226m, 5.2%). Investments are valued at market prices and unrealised gains and losses are included within quoted investment returns. Although the contribution from syndicate investments was well below the return achieved in 2007, it remained significant in 2008 and represented a solid performance in very difficult market conditions.

Syndicate investment return (%)



Members' capital is generally held centrally at Lloyd's. A proportion of this capital is maintained in investment assets and managed at members' discretion. A notional investment return on members' capital of £271m or 2.7% (2007: £653m, 6.0%) has been included in the Pro Forma Financial Statements (PFFS). This is based on the investment disposition of the relevant assets and market index returns. The investment return on Lloyd's central assets is also included in the PFFS. This was £165m or 7.8% in 2008. (2007: £128m, 6.6%) The investment performance of central assets is discussed on page 99. The total contribution from investment returns, including syndicate assets, members' capital and central assets, was £957m or 2.5%. (2007: £2,007m, 5.6%).

RESULTS SUMMARY

Lloyd's achieved a profit for the financial year before tax of £1,899m (2007: profit of £3,846m) and a combined ratio of 91.3% (2007: 84.0%). The PFFS aggregates the results of the syndicate annual accounts, notional investment return on funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. The basis of preparation of the pro forma financial statements (PFFS) is set out in note 2 on page 74. The syndicate annual accounts reported an aggregate profit of £1,523m (2007: profit of £3,029m). These results are reported in a separate document (the Aggregate Accounts) and can be viewed at www.lloyds.com/financialreports.

REINSURANCE STRONG DEMAND FOR LLOYD'S SECURITY



2008 highlights

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

2008 combined ratio

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

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

The largest classes of business within this sector are property facultative, catastrophe excess of loss and property non-proportional risk excess. In addition, there is a limited amount of retrocessional business.

A large proportion of this business provides protection for US insurance companies for their peak earthquake and windstorm exposures. In addition, many syndicates underwrite accident & health and liability reinsurance on a facultative basis, although the amount of casualty treaty business written is limited. The sector also includes class specific reinsurance, including energy, marine and aviation.

2008 PERFORMANCE

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

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

ACCIDENT YEAR PERFORMANCE

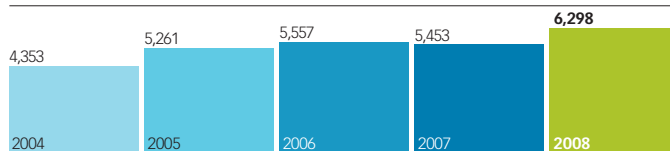
The accident year combined ratio for 2008 was 95.9% (2007: 86.3%). The increase in claims through Gustav and Ike makes 2008 one of the worst years ever for catastrophes in the US. And while the US windstorms tended to grab the headlines in 2008, the rest of the world was also affected by natural catastrophes.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

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

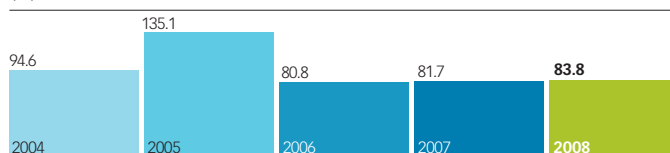
PRIOR YEAR RESERVE MOVEMENT

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

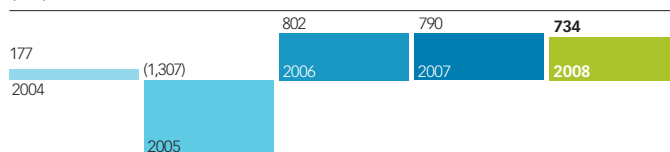
Gross written premium (£m)



Combined ratio (%)



Underwriting result (£m)



LOOKING AHEAD

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

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

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

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

PERFORMANCE

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



2008 highlights

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

2008 combined ratio

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

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

2008 PERFORMANCE

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

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

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

ACCIDENT YEAR PERFORMANCE

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

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

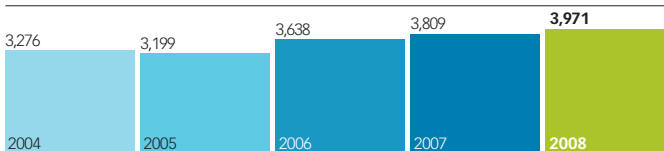
As well as the catastrophe losses there was an increase in the frequency of large losses including the incidents at the Severstal furnace and Universal Studios in the US.

PRIOR YEAR RESERVE MOVEMENT

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

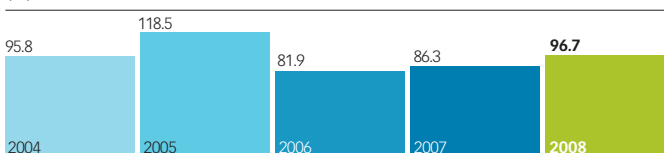
Gross written premium

(£m)



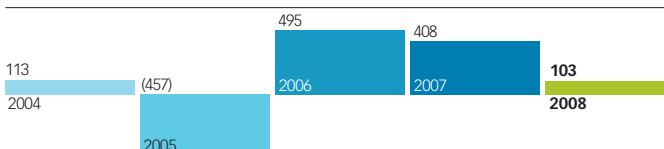
Combined ratio

(%)



Underwriting result

(£m)



LOOKING AHEAD

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

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

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

CASUALTY RECESSION MAY HERALD SURGE IN CLAIMS FREQUENCY



2008 highlights

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

2008 combined ratio

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

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

2008 PERFORMANCE

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

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

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

ACCIDENT YEAR PERFORMANCE

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

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

PRIOR YEAR RESERVE MOVEMENT

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

LOOKING AHEAD

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

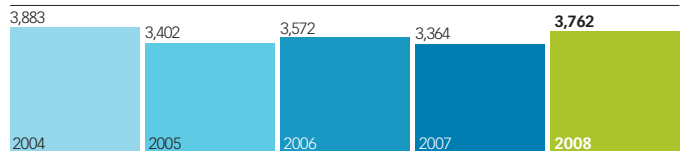
Insurers remain concerned by the prospect of rising claims driven, for example, by increased litigation, particularly in the US. Some are already seeing an increase in claims notifications that they regard as directly related to the financial crisis.

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

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

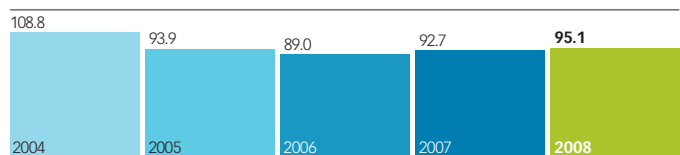
Gross written premium

(£m)



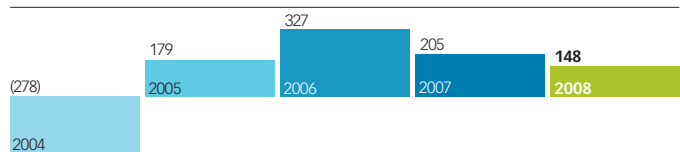
Combined ratio

(%)



Underwriting result

(£m)



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

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

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

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

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

PERFORMANCE

MARINE RECENT STRONG PERFORMANCE UNDER THREAT AS WORLD ECONOMIES CONTRACT



2008 highlights

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

2008 combined ratio

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

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

2008 PERFORMANCE

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

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

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

ACCIDENT YEAR PERFORMANCE

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

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

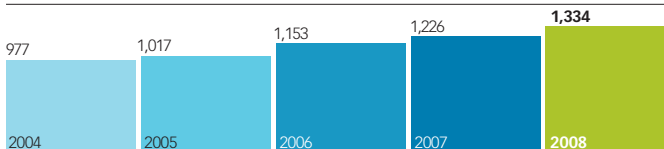
The marine liability account has suffered from the escalating cost of claims settlements – wreck removal costs on the Napoli and the New Flame have increased – and higher reinsurance costs.

PRIOR YEAR RESERVE MOVEMENT

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

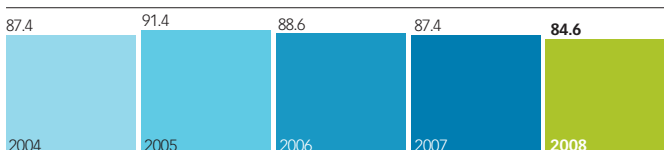
Gross written premium

(£m)



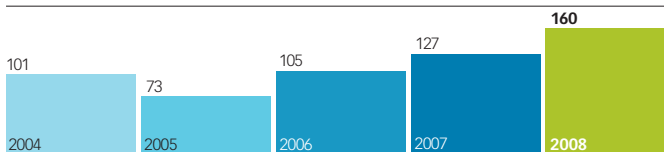
Combined ratio

(%)



Underwriting result

(£m)



LOOKING AHEAD

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

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

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

ENERGY HURRICANE CLAIMS PRODUCE SECOND MAJOR LOSS IN FOUR YEARS



2008 highlights

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

2008 combined ratio

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

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

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

2008 PERFORMANCE

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

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

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

ACCIDENT YEAR PERFORMANCE

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

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

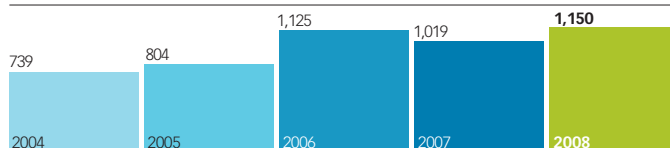
While the impact of Ike and Gustav in the GOM generated the most noteworthy losses, the industry also suffered other large losses in 2008, particularly in the onshore market.

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

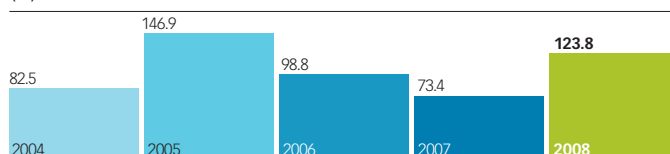
PRIOR YEAR RESERVE MOVEMENT

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

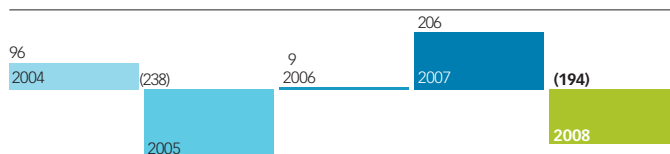
Gross written premium (£m)



Combined ratio (%)



Underwriting result (£m)



LOOKING AHEAD

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

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

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

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

PERFORMANCE

MOTOR HIGHLY COMPETITIVE MARKET CONTINUES ITS BATTLE WITH CLAIMS INFLATION



2008 highlights

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

2008 combined ratio

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

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

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

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

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

2008 PERFORMANCE

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

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

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

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

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

ACCIDENT YEAR PERFORMANCE

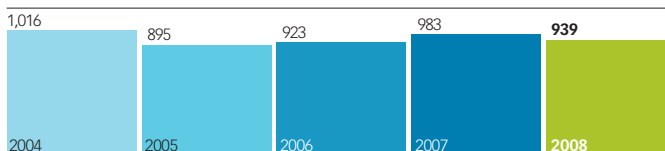
The trend for claims costs to outstrip inflation continues. Personal injury costs are the main driver of this and continue to increase through higher medical and legal costs. Combined with continuing soft market conditions, this resulted in a further accident year loss of 100.9% (2007: 104.8%).

PRIOR YEAR RESERVE MOVEMENT

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

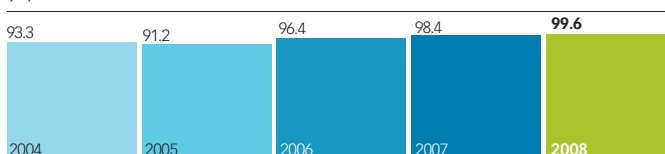
Gross written premium

(£m)



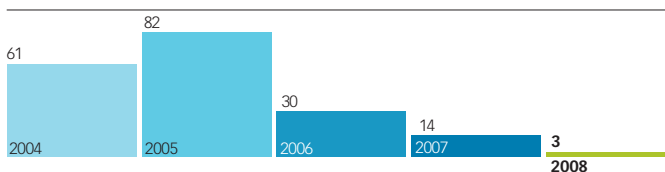
Combined ratio

(%)



Underwriting result

(£m)



LOOKING AHEAD

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

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

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

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

AVIATION POOR RATING LEVELS UNABLE TO COVER NORMAL LOSS EXPERIENCE



2008 highlights

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

2008 combined ratio

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

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

2008 PERFORMANCE

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

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

ACCIDENT YEAR PERFORMANCE

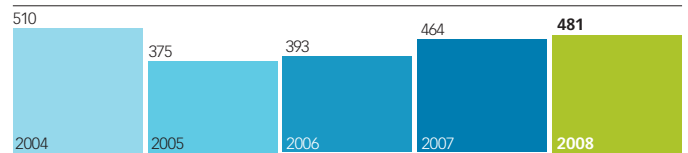
The accident year combined ratio for 2008 was 110.5% (2007: 102.8%). The reasons for this further increase in the ratio are similar to those highlighted last year: continuing softening market conditions coupled with an increase in loss incidence.

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

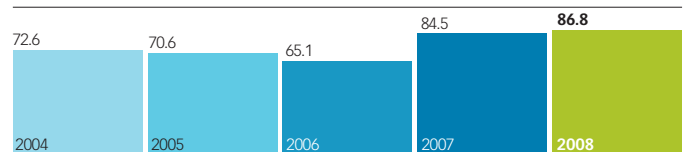
PRIOR YEAR RESERVE MOVEMENT

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

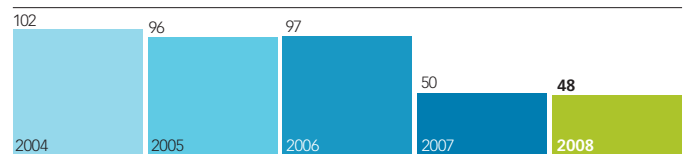
Gross written premium (£m)



Combined ratio (%)



Underwriting result (£m)



LOOKING AHEAD

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

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

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