LLOYD'S

AGGREGATE ACCOUNTS 2006

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MARKET COMMENTARY

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

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

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

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

Lloyd's achieved a profit for the financial year before taxation of £3,662m (2005: loss of £103m) in the pro forma financial statements (PFFS) and a combined ratio of 83.1% (2005: 111.8%). The PFFS aggregates the results of the syndicate annual accounts, notional investment return on funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. The basis of preparation of the PFFS is set out in note 2 on page 48 of the Lloyd's Annual Report. The syndicate annual accounts reported an aggregate profit of £2,825m (2005: loss of £862m) and a combined ratio of 85.4% (2005: 113.2%). During 2006, certain syndicates changed their accounting policies in relation to foreign exchange resulting in a restatement of the comparative figures for 2005 within their annual accounts and the Aggregate Accounts have been restated accordingly. The restatements are not material and, therefore, the comparative figures within the PFFS have not been restated.

'Tale of two markets'

The PFFS within the Annual Report for 2006, which exclude inter-syndicate reinsurance to close, report an increase in gross premiums written of 9.6% to £16,414m (2005: £14,982m). The Aggregate Accounts, which include inter-syndicate reinsurance to close, report gross premiums written of £16,645m (2005: £15,000m). The increase was driven by hardening of terms for catastrophe business, especially windstorm exposed risks in the US. However, we are currently seeing a 'tale of two markets'. Although rates have increased in wind-exposed catastrophe business in the US, non-catastrophe exposed business continues to soften. This has led to a clear disparity between the pricing of US windstorm exposed property risks and other classes, with many key casualty accounts reporting a third or fourth year of rate reductions. This makes good cycle management and underwriting discipline more important than ever.

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

The cost and availability of reinsurance

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

Prior year surplus

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

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

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

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

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

The results of the major classes of business are discussed in detail on pages 3 to 9.

Investment review 2006

Syndicate assets are invested primarily in fixed interest securities of high credit quality. Increasingly, some syndicates are utilising additional asset classes, including equities, in order to maximise returns. However, such exposures form a very small proportion of syndicate assets overall. The currency of investments broadly reflects the currencies in which insurance business is written and this causes US dollar and sterling investments to dominate. In recent years, rising yield levels have led to poor investment returns, particularly in the US. 2006 saw a modest improvement in returns as investment conditions in the US stabilised, although rising yields in sterling reduced overall returns. In total, syndicate investments returned £958m, or 4.2%, during the year (2005: £709m, 3.2%).

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

Impact of US dollar exchange rate fluctuations

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

Looking ahead

Capacity for 2007

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

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

Worldwide regulatory risk

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

Windstorm Kyrill

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

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

2007 hurricane predictions

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

Managing the cycle

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

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

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

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

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

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

MARKET COMMENTARY continued

REINSURANCE: EXPERIENCED EXCELLENT RETURNS IN 2006

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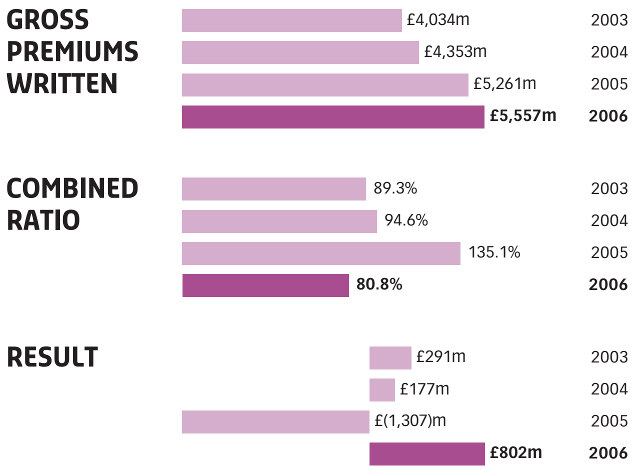

These figures are drawn from the PFFS, which include central adjustments to eliminate inter-syndicate reinsurance to close. The Aggregate Accounts, which include inter-syndicate reinsurance to close, report gross premiums written of £5,791m in 2006 and a combined ratio of 81.4%.

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

2006 COMBINED RATIO

77.0%

ACCIDENT YEAR

3.8%

PRIOR YEAR RESERVE MOVEMENT

80.8%

CALENDAR YEAR

2006 HIGHLIGHTS

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

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

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

2006 performance

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

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

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

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

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

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

Prior year development

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

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

Risks and uncertainties

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

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

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

MARKET COMMENTARY continued

CASUALTY: OVERALL PERFORMANCE CONTINUES TO IMPROVE

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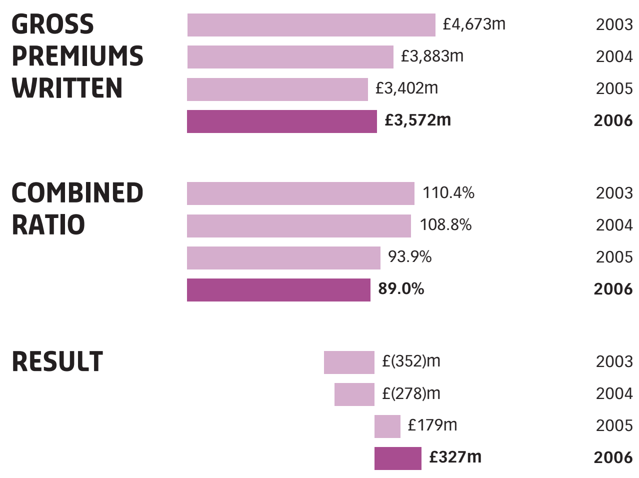

These figures are drawn from the PFFS. The Aggregate Accounts report a profit of £330m for 2006 and a combined ratio of 88.9%, since they include a £3m re-allocation of expenses from the technical account to the non-technical account.

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

2006 COMBINED RATIO

96.3%
ACCIDENT YEAR

(7.3)%
PRIOR YEAR RESERVE MOVEMENT

89.0%
CALENDAR YEAR

2006 HIGHLIGHTS

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

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

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

2006 performance

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

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

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

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

Prior year development

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

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

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

Risks and uncertainties

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

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

MARKET COMMENTARY continued

PROPERTY: STRONG TERMS AND CONDITIONS AND A BENIGN LOSS RECORD

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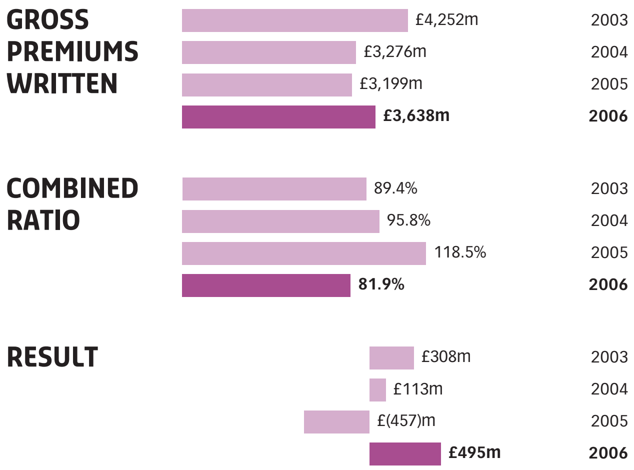

The market as a whole did not report annual accounting information at a class of business level for the 2002 year end.

2006 COMBINED RATIO

86.2%

ACCIDENT YEAR

(4.3)%

PRIOR YEAR RESERVE MOVEMENT

81.9%

CALENDAR YEAR

2006 HIGHLIGHTS

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

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

2006 performance

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

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

Prior year development

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

Risks and uncertainties

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

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

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

MARINE: OVERALL STRONG PERFORMANCE IN THE FACE OF INCREASED COMPETITION

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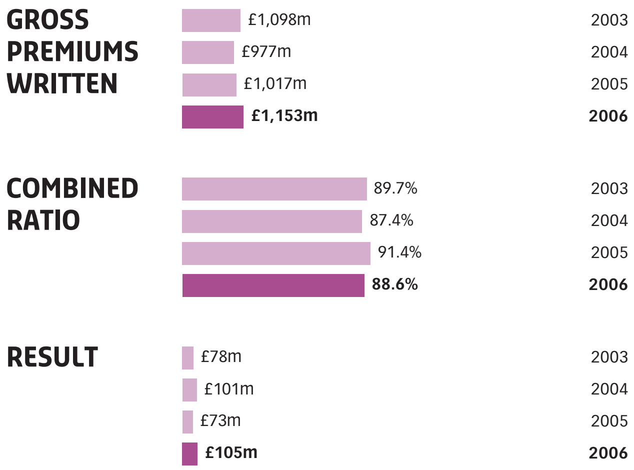

The market as a whole did not report annual accounting information at a class of business level for the 2002 year end.

2006 COMBINED RATIO

99.0%

ACCIDENT YEAR

(10.4)%

PRIOR YEAR RESERVE MOVEMENT

88.6%

CALENDAR YEAR

2006 HIGHLIGHTS

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

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

2006 performance

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

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

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

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

Prior year development

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

Risks and uncertainties

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

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

MOTOR: SPECIALIST NICHE BUSINESS CONTINUES TO PRODUCE REASONABLE RETURNS

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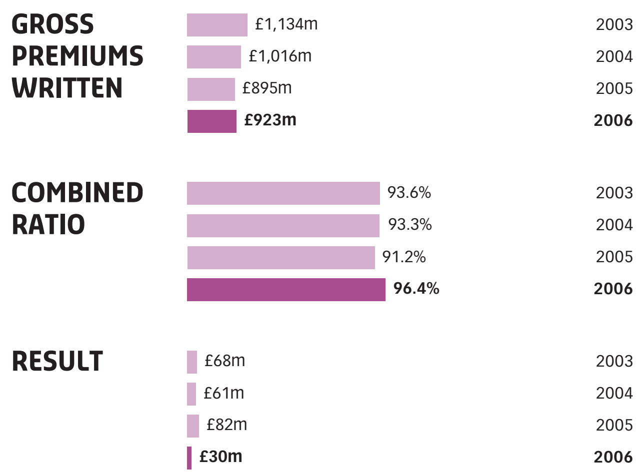

The market as a whole did not report annual accounting information at a class of business level for the 2002 year end.

2006 COMBINED RATIO

101.7%

ACCIDENT YEAR

(5.3)%

PRIOR YEAR RESERVE MOVEMENT

96.4%

CALENDAR YEAR

2006 HIGHLIGHTS

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

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

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

The overseas market continues to be an important part of our portfolio, with around 25% now originating outside of the UK.

2006 performance

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

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

Prior year development

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

Risks and uncertainties

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

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

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

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

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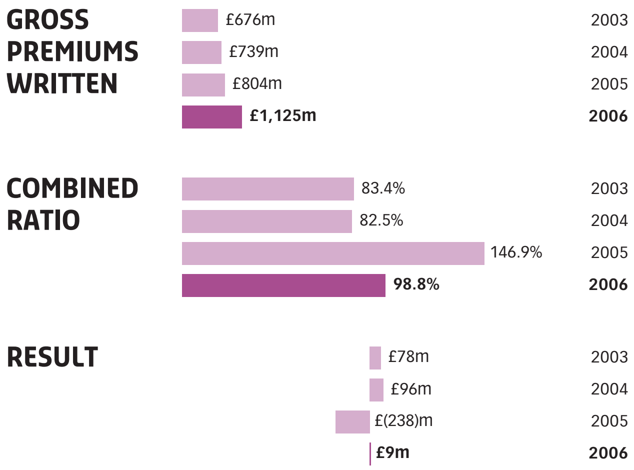

The market as a whole did not report annual accounting information at a class of business level for the 2002 year end.

2006 COMBINED RATIO

83.7%
ACCIDENT YEAR

15.1%
PRIOR YEAR RESERVE MOVEMENT

98.8%
CALENDAR YEAR

2006 HIGHLIGHTS

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

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

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

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

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

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

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

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

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

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

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

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

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

AVIATION: CONTINUES TO PERFORM STRONGLY DESPITE PRESSURE ON RATES

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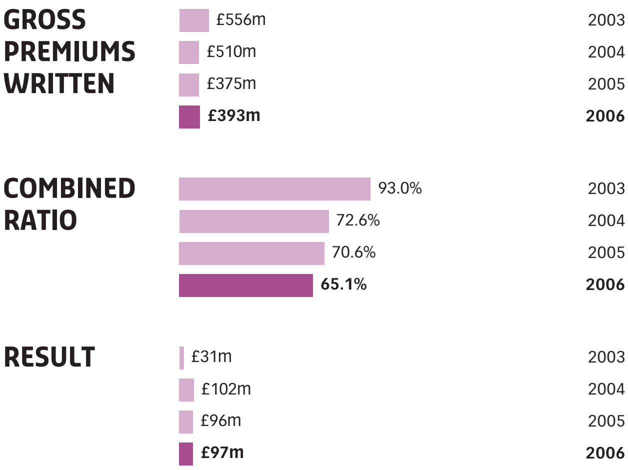

The market as a whole did not report annual accounting information at a class of business level for the 2002 year end.

2006 COMBINED RATIO

87.4%
ACCIDENT YEAR

(22.3)%
PRIOR YEAR RESERVE MOVEMENT

65.1%
CALENDAR YEAR

2006 HIGHLIGHTS

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

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

2006 performance
The aviation class continued to produce excellent results with a profit of £97m (2005: £96m) and an accident year combined ratio of 87.4% (2005: 80.4%). Gross premiums written were £393m (2005: £375m).

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

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

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

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

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

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

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

ANNUAL REPORT

The Market Commentary on pages 1 to 9 forms the Annual Report required under the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004 and was approved by the Council of Lloyd's on 28 March 2007.

Lord Levene of Portsoken, Chairman

AGGREGATE ACCOUNTS

Statement of Council's responsibilities

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

The Regulations also require the Council to prepare an Annual Report on the insurance business carried on by the members of Lloyd's during the financial year. The Annual Report is set out in the Market Commentary on pages 1 to 9.

Report of Ernst & Young LLP to the Council of Lloyd's on the 2006 Lloyd's Aggregate Accounts

We have examined the Lloyd's Aggregate Accounts for the year ended 31 December 2006, which comprise an aggregate profit and loss account, aggregate statement of total recognised gains and losses, aggregate balance sheet and aggregate statement of cash flows and the related notes 1 to 20, together with the Annual Report which have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ('the Regulations') on the basis set out in note 1.

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

Respective responsibilities of the Council of Lloyd's and Ernst & Young LLP

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

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

Basis of Conclusion

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

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

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

Conclusion

In our opinion, the Aggregate Accounts and the Annual Report for the financial year ended 31 December 2006 have been properly prepared and correctly aggregated in accordance with the Regulations.

Ernst & Young LLP, London
28 March 2007

AGGREGATE PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2006

Technical account	Note	2006 £m	2006 £m	2005 Restated £m	2005 Restated £m
Gross premiums written – continuing operations			**15,754**		14,997
– discontinued operations			**891**		3
	3		**16,645**		15,000
Outward reinsurance premiums			**(3,315)**		(3,212)
Premiums written, net of reinsurance			**13,330**		11,788
Change in the provision for unearned premiums					
Gross amount		**(648)**		240	
Reinsurers' share		**131**		(214)	
Change in the net provision for unearned premiums			**(517)**		26
Earned premiums, net of reinsurance			**12,813**		11,814
Allocated investment return transferred from the non-technical account			**958**		709
Other technical income, net of reinsurance			**–**		–
			13,771		12,523
Claims paid					
Gross amount		**11,635**		10,077	
Reinsurers' share		**(5,038)**		(3,314)	
			6,597		6,763
Change in provision for claims					
Gross amount		**(4,135)**		6,674	
Reinsurers' share		**3,886**		(3,911)	
			(249)		2,763
Claims incurred, net of reinsurance			**6,348**		9,526
Net operating expenses	6		**4,595**		3,850
Balance on the technical account for general business			**2,828**		(853)
Attributable to: – continuing operations			**2,557**		(708)
– discontinued operations			**271**		(145)
Total			**2,828**		(853)
Non-technical account					
Balance on the technical account for general business			**2,828**		(853)
Investment income	7	**1,122**		942	
Net unrealised gains/(losses) on investments		**20**		(80)	
Investment expenses and charges	8	**(184)**		(153)	
Allocated investment return transferred to the technical account		**(958)**		(709)	
Other charges	9	**(3)**		(9)	
Balance on the non-technical account			**(3)**		(9)
Result for the financial year			**2,825**		(862)

Statement of total recognised gains and losses	Note	2006 £m	2005 Restated £m
Result for the financial year		**2,825**	(862)
Exchange differences on translating foreign operations		**23**	67
Total recognised gains and losses for the financial year		**2,848**	(795)
Prior year adjustment	1	**16**	–
Total recognised gains and losses since previously reported		**2,864**	(795)

AGGREGATE BALANCE SHEET

as at 31 December 2006

	Note	2006 £m	2006 £m	2005 Restated £m	2005 Restated £m
Investments					
Financial investments	10		**19,179**		19,911
Deposits with ceding undertakings			**17**		14
Reinsurers' share of technical provisions					
Claims outstanding		**8,767**		13,929	
Unearned premiums		**771**		696	
			9,538		14,625
Debtors					
Debtors arising out of direct operations	11	**3,520**		3,718	
Debtors arising out of reinsurance operations	12	**3,195**		3,785	
Other debtors		**607**		957	
			7,322		8,460
Other assets					
Cash at bank and in hand		**2,017**		2,294	
Other		**1,258**		1,285	
			3,275		3,579
Prepayments and accrued income					
Accrued interest and rent		**103**		92	
Deferred acquisition costs		**1,582**		1,502	
Other prepayments and accrued income		**150**		81	
			1,835		1,675
Total assets			**41,166**		48,264
Capital and reserves					
Members' balances	13		**657**		(448)
Technical provisions					
Provision for unearned premiums		**7,024**		6,811	
Claims outstanding		**29,871**		37,202	
			36,895		44,013
Deposits received from reinsurers			**69**		142
Creditors					
Creditors arising out of direct insurance operations	14	**831**		747	
Creditors arising out of reinsurance operations	15	**1,643**		2,365	
Other creditors		**972**		1,339	
			3,446		4,451
Accruals and deferred income			**99**		106
Total liabilities			**41,166**		48,264

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

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

AGGREGATE STATEMENT OF CASH FLOWS

for the year ended 31 December 2006

	Note	2006 £m	2005 Restated £m
Net cash inflow from operating activities	16	**2,755**	2,950
Transfer to members in respect of underwriting participations		**(1,617)**	(994)
Financing			
Increase in bank/inter-syndicate loans		**–**	50
Other		**–**	(9)
		1,138	1,997
Cash flows were invested as follows:			
Increase in cash holdings	17	**44**	6
Net portfolio investments		**1,094**	1,991
Net investment of cash flows		**1,138**	1,997

1. Basis of preparation

A Basis of reporting

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

B Aggregation of syndicate annual accounts

The aggregate accounts as at 31 December 2006 have been prepared by totalling the annual accounts of the 117 syndicates reporting as at 31 December 2006. The result does not present a consolidated view of the results of Lloyd's business taken as a single entity and, in particular, it does not eliminate inter-syndicate reinsurances.

C Restatement of prior year

During 2006, certain syndicates changed their accounting policies in relation to foreign exchange resulting in a restatement of the comparative figures for 2005 within their annual accounts and the Aggregate Accounts have been restated accordingly.

2. Accounting policies

General

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

Premiums written

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

Unearned premiums

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

Reinsurance premium ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Claims provisions and related recoveries

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

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

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

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

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

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

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

Acquisition costs
Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Foreign currencies
Income and expenditure in foreign currencies are translated into pound sterling using the exchange rates prevailing at the date of the transactions or, the average rate may be used when this a reasonable approximation.

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

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

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

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

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

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

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

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

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

Operating expenses

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

Profit commission

Where profit commission is charged by the managing agent it does not become payable until after the appropriate year of account closes, normally at 36 months. The profit commission is accrued in the profit and loss account in accordance with the earned profit.

3. Segmental analysis

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

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

2005	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Operating expenses £m	Re-insurance balance £m	Result £m
Accident and health	410	424	(227)	(160)	(57)	(20)
Motor (third party liability)	98	105	(73)	(33)	–	(1)
Motor (other classes)	797	874	(557)	(238)	4	83
Marine, aviation and transport	2,024	1,983	(2,686)	(521)	1,195	(29)
Fire and other damage to property	3,118	3,151	(3,411)	(877)	681	(456)
Third party liability	2,992	3,162	(2,133)	(752)	(78)	199
Pecuniary loss	224	223	(235)	(65)	28	(49)
Life	47	44	(13)	(21)	(9)	1
Other	29	25	(16)	(9)	8	8
Total direct	9,739	9,991	(9,351)	(2,676)	1,772	(264)
Reinsurance acceptances	5,261	5,239	(7,396)	(1,172)	2,022	(1,307)
	15,000	15,230	(16,747)	(3,848)	3,794	(1,571)
Prior year adjustment (note 1)	–	10	(4)	(2)	5	9
Total	15,000	15,240	(16,751)	(3,850)	3,799	(1,562)

The syndicate returns to Lloyd's provided additional information to derive the following table in respect of the classes of business reviewed in the market commentary.

2006	Gross premiums written £m	Net earned premium £m	Result £m
Reinsurance	**5,791**	**4,314**	**802**
Casualty	**3,572**	**2,964**	**330**
Property	**3,638**	**2,730**	**495**
Marine	**1,153**	**921**	**105**
Motor	**923**	**829**	**30**
Energy	**1,125**	**737**	**9**
Aviation	**393**	**278**	**97**
Life	**50**	**40**	**2**
Total	**16,645**	**12,813**	**1,870**

2005	Gross premiums written £m	Net earned premium £m	Result £m
Reinsurance	5,261	3,722	(1,307)
Casualty	3,402	2,949	179
Property	3,199	2,474	(457)
Marine	1,017	853	73
Motor	895	937	82
Energy	804	508	(238)
Aviation	375	327	96
Life	47	33	1
	15,000	11,803	(1,571)
Prior year adjustment (note 1)	–	11	9
Total	15,000	11,814	(1,562)

4. Life business

The Aggregate Accounts include the results of all life and non-life syndicates transacting business during 2006. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results and net assets for life business are reported in the segmental analysis (note 3).

5. Claims outstanding

The aggregate of the prior year surpluses/deficiencies is a surplus of £270m (2005: £14m). The surplus primarily arises in respect of business written in the 2002 to 2004 accident years offset by additional reserves established for 2005 US windstorm claims.

6. Net operating expenses	2006 £m	2005 Restated £m
Acquisition costs	**3,354**	2,922
Change in deferred acquisition costs	**(163)**	(7)
Administrative expenses	**1,181**	1,055
(Profit)/loss on exchange	**223**	(120)
	4,595	3,850

7. Investment income	2006 £m	2005 £m
Income from investments	**1,005**	843
Gains on the realisation of investments	**117**	99
	1,122	942

8. Investment expenses and charges	2006 £m	2005 £m
Investment management expenses, including interest	**24**	22
Losses on realisation of investments	**160**	131
	184	153

9. Other charges

Included in other charges are exchange losses of £3m (2005: £3m).

10. Financial Investments	Market value 2006 £m	Market value 2005 Restated £m	Cost 2006 £m	Cost 2005 Restated £m
Shares and other variable yield securities and units in unit trusts	**1,793**	1,393	**1,635**	1,345
Debt securities and other fixed income securities	**15,934**	17,231	**16,010**	17,325
Participation in investment pools	**279**	172	**274**	170
Loans and deposits with credit institutions	**1,166**	1,108	**1,153**	1,075
Other	**7**	7	**6**	12
	19,179	19,911	**19,078**	19,927

11. Debtors arising out of direct insurance operations	2006 £m	2005 Restated £m
Due within one year		
– policyholders	**101**	83
– intermediaries	**3,320**	3,624
Due after one year		
– policyholders	**–**	–
– intermediaries	**99**	11
	3,520	3,718

12. Debtors arising out of reinsurance operations	2006 £m	2005 £m
Due within one year	**3,182**	3,756
Due after one year	**13**	29
	3,195	3,785

13. Reconciliation of members' balances	2006 £m	2005 Restated £m
Members' balances brought forward at 1 January	**(463)**	1,385
Prior year adjustment	**15**	–
Members' balances restated at 1 January	**(448)**	1,385
Total recognised gains and losses for the financial year	**2,848**	(795)
Transfers to members' personal reserve funds	**(1,673)**	(982)
Other movements	**(70)**	(56)
Members' balances carried forward at 31 December	**657**	(448)

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

14. Creditors arising out of direct insurance operations	2006 £m	2005 £m
Due within one year	**798**	746
Due after one year	**33**	1
	831	747

15. Creditors arising out of reinsurance operations	2006 £m	2005 Restated £m
Due within one year	**1,642**	2,356
Due after one year	**1**	9
	1,643	2,365

16. Reconciliation of operating profit/(loss) to net cash inflow from operating activities	2006 £m	2005 Restated £m
Operating profit/(loss) on ordinary activities	**2,825**	(862)
Realised and unrealised investment losses/(gains)	**1,728**	(1,200)
(Decrease)/increase in net technical provisions	**(1,819)**	4,318
Decrease/(increase) in debtors	**848**	(550)
(Decrease)/increase in creditors	**(826)**	1,067
Other net cash (outflow)/inflow from operating activities	**(1)**	177
	2,755	2,950

17. Movement in cash, portfolio investments and financing	At 1 January 2006 Restated £m	Cash flow £m	Changes to market value and currencies £m	At 31 December 2006 £m
Cash at bank and in hand	2,294	44	(321)	**2,017**
Loans, deposits and investments	21,196	1,094	(1,873)	**20,417**
	23,490	1,138	(2,194)	**22,434**

18. Related parties

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

19. Funds at Lloyd's

Every member is required to hold capital at Lloyd's to support their underwriting, which is held in trust as funds at Lloyd's (FAL).

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

20. Staff numbers and costs

The following disclosures are made in order to comply with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. These figures are aggregated from the syndicate accounts of the 82 syndicates (2005: 89) that made this disclosure.

	2006 £m	2005 £m
Wages and salaries	**256**	277
Social security costs	**30**	30
Other pension costs	**61**	57
	347	364

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

	2006 Number	2005 Number
Administration and finance	**1,922**	2,047
Underwriting	**2,124**	2,100
Claims	**1,115**	876
Other	**417**	39

Lloyd's One Lime Street London EC3M 7HA Telephone +44 (0)20 7327 1000 Fax +44 (0)20 7626 2389 www.lloyds.com