

Reinsurers
UK
Credit Analysis

Lloyd's of London

Ratings

	Current Ratings
Lloyd's of London Insurer Financial Strength	A+
Society of Lloyd's Long-Term IDR	A
Lloyd's Reinsurance Company (China) Ltd Insurer Financial Strength	A+

Outlook

Insurer Financial Strength	Stable
Long-Term IDR	Stable

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Rating Rationale

- The Insurer Financial Strength (IFS) Rating of 'A+' for Lloyd's of London (Lloyd's) reflects its strong 2007 results, with record profitability, strong investment income and a low combined operating ratio (COR), enhanced by net releases from prior-year reserves. All these factors have led to an increase in net assets and stronger capital at the Central Fund level. Although these strong results were expected in the light of a benign catastrophe environment in 2007, Fitch Ratings notes they were ahead of the strong results delivered by a number of peers. Given the historical track record of volatile performance in the Lloyd's market, Fitch will look for evidence of the impact of the Franchise Performance Directorate (FPD), set up by Lloyd's in 2003, on the ability of Lloyd's to weather increasingly soft conditions in a number of market segments and, should they arise, significant future catastrophe losses.
- Fitch views positively the many initiatives undertaken by FPD, such as the issuance of underwriting guidelines, review of syndicates' business plans, development of various benchmarking tools and oversight of the new entrants process. While progress has been made, the effectiveness of FPD's initiatives and oversight has not yet been fully tested. FPD continued its efforts in 2007 to improve the market's long-term profitability and performance, with cycle management being a key priority in the three-year strategic plan.
- Fitch expects Lloyd's to achieve good profitability in 2008, although at lower levels than those of 2006 and 2007, and to continue performing well against its peers. In the absence of severe natural catastrophes, Lloyd's net income is likely to be well below GBP3,000m and Fitch expects the COR to rise to the low to mid-90s, driven by lower net reserve releases than in 2007. In the event of significant natural catastrophes, Fitch expects the results to show a narrowing differential with the industry's in the years of weak pricing and high catastrophe activity, reflecting the impact of FPD's measures and reducing results volatility.

Key Rating Drivers

- Significant reduction in volatility of results over the medium term and evidence of sustained profitability in the soft market conditions will put positive pressure on the rating
- Significant deterioration in profitability, poor performance relative to peers and erosion of capital, including Central Fund assets, will put negative pressure on the rating

Recent Events

On 27 March 2007 Phase 1 of Lloyd's arrangement for the Equitas/Berkshire Hathaway deal became effective. Under Phase 1 Berkshire Hathaway will provide up to USD14bn of reinsurance cover (USD5.7bn above the net undiscounted claims reserves as at 31 March 2006) to Equitas for GBP358m, of which Lloyd's of London paid GBP72m during 2007.

In June 2007 Lloyd's completed a hybrid debt issue of GBP500m. The issue replaced syndicate loans of GBP335m. It is intended that this restructuring will provide a more stable capital base for Lloyd's and reduce the opportunity cost of mutuality for members. The net cost to Lloyd's of the replacement will be GBP7.5m pa.

Key Rating Issues

Strong Profitability in 2007, in Line with Expectations and Ahead of Industry Results

Following significant losses in 2005 relating to Hurricanes Katrina, Wilma and Rita, Lloyd's reported very strong operating performance for 2006 and 2007. On an annual accounting basis, the market reported record aggregate profit of GBP3.85bn in 2007 (2006: GBP3.66bn). Return on adjusted equity reached an impressive 29% at year-end 2007. The combined operating ratio reached a five-year low of 82.8% in 2006 and rose slightly in 2007 to 83.9% (according to Fitch's calculations). Strong results were achieved with the benefit of two years of relatively benign catastrophe activity, with Lloyd's recording a lower level of catastrophe losses than the industry for the second year in a row. In addition, performance in 2007 was improved by net prior-year releases of GBP856m (2006: GBP270m) from across all lines of business. Its results in 2007 also benefited from record-level investment yields, with total yield based on Fitch's calculation reaching 5.6% in a favourable investment environment, and total investment income reaching a record GBP2,007m in 2007 (2006: 1,661m).

Volatility of Results and Tendency to Underperform the Industry in Years of High Losses, but Out-Perform in Years of Benign Claims Activity

While 2007 was an impressive year for Lloyd's, the results were in line both with its own and Fitch's expectations, and were also comparable to the healthy results reported by most of the large diversified reinsurance players in Europe and US. While Lloyd's has always done well in a benign catastrophe environment, and often outperformed the industry in the "good" years, the real test of Lloyd's performance occurs in the "bad" years of severe catastrophe losses (e.g. 2001 and 2005), when Lloyd's has traditionally recorded much higher losses than the industry.

In addition to the trend in performance in catastrophe-affected years discussed above, Lloyd's has tended to outperform the company market during the hard part of the underwriting cycle and under-perform it during the soft part of the cycle. Fitch believes one of the reasons for this volatility has been the fact that its complex structure, and in particular the reinsurance to close (RITC) procedure, has not allowed it to use loss reserves to smooth calendar year underwriting results to the same extent as the company market. However, since the late 1990s an increasing amount of Lloyd's capacity has been derived from corporate investors, which are aligned with one syndicate, diminishing the requirement for equity between capital providers from one underwriting year to the next. In addition, Fitch expects the control mechanisms introduced by the franchise board to improve relative results reported by Lloyd's. Consequently, the agency expects that future results for Lloyd's are likely to be less volatile than in the past.

Strong Capital, and Benefits of Mutuality at Central Fund Level Capital

Lloyd's has strong capitalisation. The capital strength of Lloyd's is derived from assets held as part of member capital and central capital. Following the 10% decline in net assets during 2005 as Lloyd's was hit hard by the impact of the US hurricanes, capitalisation improved significantly during 2006, with total net assets increasing 22%, and a further 5% increase during 2007 resulted in GBP13.4bn of net asset as at year-end 2007. Coverage of the FSA's individual capital adequacy (ICA) requirement stands at a healthy 235%.

The variety of sources of funding for the Central Fund provides the Society with significant financial flexibility. The Society has powers to raise funds both internally through the use of contributions, levies and syndicate loans and externally through the capital markets. This flexibility has been illustrated in the past with the market's agreement to an increase in the Central Fund contributions from 0.5% to 1% for 2006, followed by a reduction to 0.5% in 2008. The GBP500m of hybrid debt raised through the capital markets in 2007 also illustrates this flexibility.

FPD's Work on Cycle Management - Good Progress but Impact Still Untested

Fitch believes the FPD's responsibility for the review of syndicate underwriting and business plans, as well as its initiatives on improving business information tools and developing benchmarking tools for the syndicates and managing agents, will help to manage the underwriting cycle and reduce volatility in profitability seen historically. However, the effectiveness of the FPD's initiatives and oversight has not yet been tested, since it was set up in the hard part of the underwriting cycle, and, in addition, the last two years have seen a relatively benign catastrophe environment. A true test of FPD's performance can begin to be made now, as the underwriting cycle is turning soft, and Fitch feels it is still too early to access accurately the impact the FPD's work has had on the market.

Some testament to FPD's influence is the fact that in the softer market conditions of 2007, while capacity (being the maximum amount of insurance premiums which a member can accept) in Lloyd's grew, actual premiums written decreased marginally. Fitch expects capacity and premiums to remain relatively stable in 2008.

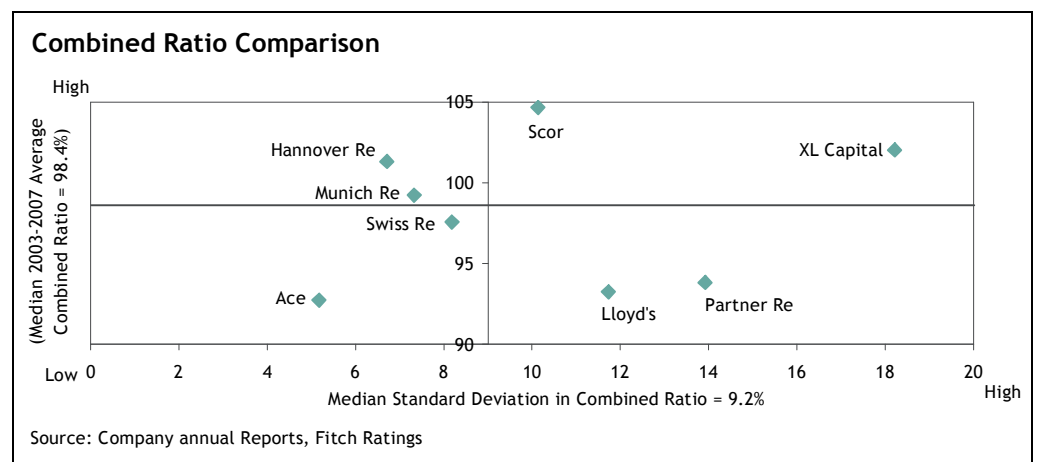
Peer Analysis

Due to its unique structure and mix of business underwritten, Lloyd's has no directly comparable peers. However, some meaningful comparison can be made with the large global reinsurance players, as the table below shows. Amongst those, Lloyd's ranked fourth by premium income in 2007, and second by net income, and has outperformed the rest of the peers on underwriting profitability, achieving the lowest COR at 83.1% in 2006 and 84% in 2007.

Table 1: Peer Analysis

(USDm)	Net premiums earned		Combined ratio (%)		Net income		ROAE (%)	
	2007	2006	2007	2006	2007	2006	2007	2006
Munich Re	49,217	45,177	96.4	92.6	5,431	4,451	15.2	13.9
Berkshire Hathaway	31,783	23,964	89.7	84.0	13,213	11,015	11.5	11.2
Swiss Re	26,539	23,711	90.2	90.5	3,488	3,663	13.1	17.1
Lloyd's	26,302	23,569	84.0	83.1	7,937	6,873	29.3	31.4
ACE Ltd	12,297	11,825	87.9	88.1	2,578	2,305	16.7	18.0
Hannover Re	10,061	8,971	99.7	100.8	1,173	762	22.9	18.1

Note: Currency translations have been made where necessary
Source: Company annual reports, press releases, Fitch



Company Profile

Lloyd's is a global insurance market composed of 71 syndicates (as at 30 June 2008). It operates in over 200 countries and territories and in 2007 reported gross written premiums of GBP16,366m (2006: GBP16,414m).

Policyholders obtain access to the market through Lloyd's brokers. The market is overseen by the Council of Lloyd's and the Franchise Board, while the Corporation, managing agents and members' agents are regulated by the Financial Services Authority (FSA).

Capital is provided to the market by members. They can be either private individuals (so-called "names") or corporate capital providers. As at year-end 2007, only 16% of capital was provided by around 1100 individual members (either with limited or unlimited liability), 49% of capital came from UK corporate sources, and the remaining 35% came from worldwide corporate sources (including the US and Bermuda). The proportion of corporate capital has been growing steadily since the 1990s, though has remained relatively flat in the last three years.

Syndicates are the vehicles used for underwriting policies. They are not legal entities and are a feature unique to the Lloyd's insurance market. Syndicates can be made up of numerous members, or, as is becoming more common, just one corporate member. Capacity limits are set at the member level.

Syndicates are managed by managing agents. These are authorised, regulated legal entities. Managing agents' responsibilities are wide-ranging: they create and implement the syndicate's business plan, employ the underwriters that write the business and process claims. The managing agents are required to report financial results for the syndicates they manage to Lloyd's on a quarterly basis as well as to submit business plans on an annual basis. From 2005, managing agents have also been required to calculate the capital needed by the syndicate to fulfil its business plan and report this to Lloyd's.

Complex interactions exist between members, syndicates and managing agents. For example, a syndicate may obtain its capital from several members who are themselves members on several syndicates. In addition, a syndicate's managing agent may manage several different syndicates. Where a corporate member and a managing agent of a syndicate are owned by the same company or part of the same corporate group, the corporate member is said to be "aligned". Some members have no ownership links with managing agents and are therefore "unaligned". Aligned capacity decreased from GBP12,999m in 2007 to GBP12,290m in 2008.

Franchise Performance Directorate

Lloyd's has significantly improved the market's risk controls following the establishment of the FPD in January 2003. The aim of FPD is to improve the market's long-term profitability and performance, with stated emphasis on cycle management in the context of the three-year strategic plan. It brought in initiatives aimed at improving business information tools, to enable better-quality data for assessment of syndicates' pricing, reserving and underwriting performance. In addition, it has a number of benchmarking tools which are shared with the managing agents, which help the managing agents to compare their performance against the market, class of business and against their individual plan. The FPD has also issued underwriting guidelines and the syndicates must demonstrate they comply with these guidelines or justify any exceptions. The FPD's influence has been illustrated with the closure of underperforming syndicates. Syndicates with limited evidence of cycle management are subject to vigorous monitoring in 2008.

FPD is also responsible for review and admission of new members to Lloyd's. It is of some concern that new capacity continues to be admitted to the market in the face of the softening market conditions; but Fitch takes comfort in the fact that while during 2007 capacity (being the maximum amount of insurance premiums which a member can accept) in Lloyd's grew, actual premiums written decreased marginally, and the agency expects capacity and premiums to remain relatively stable in 2008. Fitch views positively the additional oversight over new members provided by Lloyd's, which exists for 12-24 months, with frequent reviews, visits and analysis.

Additional uplift to capital held, on top of the 35% loading applied to all syndicates' ICA results, is required for three years for all new entrants.

Security at Lloyd's

Insurance policies issued by Lloyd's are backed by what is often referred to as Lloyd's "Chain of Security", which has three main "links": syndicate-level assets, members' funds at Lloyds and the central assets held as part of the Central Funds at Lloyd's.

The Lloyd's market is characterised by partial mutuality. The mutuality only exists at the central assets level. Prior to this link, members' liabilities are several, including within an individual syndicate. For example, in a case where there were two members (A and B) participating in a syndicate and a large claim arose, should the claim exhaust member A's funds but not member B's, member B would not be required to meet member A's remaining liabilities. However, at this stage the Central Fund mechanism would be applied and the Council of Lloyd's may exercise its discretion and pay the outstanding balance of member A. Table 2 illustrates the claims-paying resources present in the Lloyd's market at 31 December 2007.

Table 2: Claims-Paying Resources at Lloyd's

	(GBPm)	Level at which funds are held	Liability
Premium trust funds	30,601	Syndicate	Several
Funds at Lloyd's	9,858	Member	Several
Central fund	767	Society	Joint
Corporation assets	172	Society	Joint
Subordinated debt/securities	1,012	Society	Joint

Source: Fitch

Premiums Trust Funds (PTFs)

To protect policyholders, all premiums and other underwriting income are placed in PTFs upon receipt by the syndicate. Until 2005, Lloyd's regulations only allowed the payment of claims and other permitted expenses from these trust funds over the three-year accounting period. Any profit after three years was paid to members participating in that syndicate. Following the introduction of annual accounting, new arrangements were introduced in 2005, which allow profits to be paid out of syndicates in the year immediately following the year of account. However, before the profits are released out to members, certain solvency requirements have to be complied with. This change in regulation removes a key competitive disadvantage to the company market, as there is now a mechanism in place to release "trapped profits".

Funds at Lloyd's (FAL)

Lloyd's members deposit FAL based on the results of the ICA calculation which each syndicate must provide for the FSA regime. Lloyd's reviews each syndicate's ICA submissions, and requires an uplift (set at 35% in 2007) to be applied to the required capital under the ICA risk-based calculation, in order to support Lloyd's credit rating and financial strength. This increased capital requirement, called Economic Capital Assessment (ECA), is used to determine the capital that each syndicate must provide to support their underwriting.

FAL are accessible to pay claims and other underwriting liabilities if insufficient funds are available in the PTFs. The aim of the FAL risk-based calculation is to equalise the risk of each member making a claim on the Central Fund. Just over 50% of FAL are provided by letters of credit and bank guarantees, with around 20% placed in bonds, and the remainder in equities and cash. Letters of credit and bank guarantees provide an efficient use of capital for members and thus increase the attractiveness of the market.

Central Fund

This is a key component of the marketplace and Fitch's rating of the market, as this is the point at which funds become mutual. If a member is unable to meet its liabilities, the Council of Lloyd's can use its discretion to meet those liabilities from the Central Fund. The Corporation manages the Central Fund and is required to act in the best interests of the members. Thus, although Council has discretion over the payments from the Central Fund in Fitch's view, it is highly likely to meet member's underwriting obligations in order to protect the Lloyd's franchise. However, it should be noted that in the unlikely event that the Society used its discretion not to meet a claim, then the policyholder's legal recourse would be to the original members of the syndicate that wrote the policy. The Central Fund is a part of the assets of the Society. Given its purpose, separate financial statements are produced for the Central Fund.

The components of the Central Fund are as follows.

Central Fund Contributions

Members are required to pay an annual contribution based on their underwriting capacity. In 2005, the contribution fell by 0.75% to 0.50% of a member's capacity and syndicate loans at 0.75% of capacity were introduced. From 2006, members' contribution were increased to 1.0% in order to raise net assets to approximately GBP1.7bn, which Lloyd's viewed as necessary to support its credit ratings and its own security aspirations in light of projected Central Fund draw-downs and the Central Fund arbitration settlement. In 2008 the contribution from members reduced to 0.5% as the necessary funds have been raised. In addition, the basis of these charges has been changed in 2008 from capacity to gross written premiums (GWP).

Subordinated Debt Issues

In November 2004, the Society issued public debt for the first time in its history. The GBP500m issue consisted of dated subordinated notes issued in the GBP and EUR markets. The proceeds of the notes were used to enhance Lloyd's net resources for solvency and capital purposes and are categorised as Lower Tier 2 capital for the purposes of FSA regulatory capital.

In June 2007 Lloyd's issued an additional Tier 1 GBP500m of subordinated hybrid debt, which was used to repay the syndicate loans.

Callable Layer

The Society has the option to make calls on members. The callable layer is available to a maximum of 3% of a member's overall premium limit.

The callable layer is recognised for solvency and regulatory capital purposes. The callable layer provides the Society with the flexibility to transfer funds between the PTFs and the Central Fund and thus "mutualise" these funds.

Premium Levy

In the past Lloyd's has also used its discretion to charge a premium levy in addition to the regular Central Fund contributions. In 2001, it was increased from 1.1% to 2% in order to boost the Central Fund following the losses suffered in relation to the 11 September 2001 terrorist attacks. This additional levy ceased at the end of 2003, having achieved its objective of boosting the Central Fund to the GBP equivalent of USD1.0bn.

Syndicate Loans

2005 was the first time that the Society used loans from syndicates to form part of the Central Fund. The loans were deeply subordinated to any other Society obligations, including the subordinated debt issued in 2004, and qualified as Upper Tier 2 Capital in the FSA's new capital adequacy regime. The loans were completely repaid using the subordinated debt issued during 2007.

Ownership Structure

Lloyd's is a marketplace rather than a corporation or company, and thus does not have owners or shareholders like all other traditional insurance companies. Capital is provided to Lloyd's by corporate and individual members, as described in the section above.

Key Events

On 27 March 2007 Phase 1 of Lloyd's arrangement for the Equitas/Berkshire Hathaway deal became effective. Under Phase 1 Berkshire Hathaway will provide up to USD14bn of reinsurance cover (USD5.7bn above the net undiscounted claims reserves as at 31 March 2006) to Equitas for £GBP358m, of which Lloyd's of London paid £GBP72m during 2007. Equitas has the option, under Phase 2 of the deal, to buy a further USD1.3bn of reinsurance cover from Berkshire Hathaway for a premium of up to £GBP40m, with Lloyd's paying a further £GBP18m. Whether or not this stage of the deal will proceed is under discussion, and is subject to a High Court ruling. Under the agreement, Berkshire Hathaway's unit National Indemnity Co has taken on the staff and operations of Equitas and will now handle the run-off of Equitas' liabilities. Equitas is now left with £GBP172m to meet any legal costs and possible reinsurance costs arising from future situations. Any balance left over will be paid to "names".

Also during 2007, Lloyd's issued GBP500m of Tier 1 subordinated hybrid debt, with the proceeds used to repay the syndicate loans and strengthen the Central Fund. This was the second debt issuance made by Lloyd's, with the first issuance going to market in 2004 and raising GBP500m of subordinated debt.

Progress in the market reform initiative was made during 2007, with over 70% of all claims and original premium transactions now being processed electronically, after the launch of the Electronic Claims File (ECF) in September 2006.

In April 2007 Lloyd's established a subsidiary in China (Lloyd's Reinsurance Company (China) Ltd), and saw significant growth in Lloyd's Asia platform based in Singapore, expanding to 13 syndicates. Initiatives focused on expanding the franchise into South America, India and Middle East continued during 2007.

A three-year plan for 2007-2009 was revised during 2007 and the 2008-2010 plan was published in December 2007, with the emphasis on managing the softer market conditions and maintaining underwriting discipline amongst managing agents.

Products

The portfolios of Lloyd's syndicates benefit from significant diversification across both products and geographies. The split of premium by line of business has remained stable over the past three years, and is shown below.

Table 3: Lloyd's Split of GWP By Line of Business

	2007	2006	2007 (%)	2006 (%)
Reinsurance	5,453	5,557	33	34
Property	3,809	3,638	23	22
Casualty	3,364	3,572	21	22
Marine	1,226	1,153	8	7
Energy	1,019	1,125	6	7
Motor	983	923	6	6
Aviation	464	393	3	2
Total	16,318	16,361	100	100

Source: Fitch

The reinsurance sector covers both short and long tail, with a variety of placement types including facultative, proportional treaties and non-proportional treaties such

as excess-of-loss placements. The largest classes of business within reinsurance are property facultative, catastrophe excess of loss, and property non-proportional risk excess. The sector also includes class-specific reinsurance such as energy and aviation.

The property sector covers both commercial and private property, with the US being responsible for the largest geographical share of the segment.

The casualty sector covers professional indemnity, medical malpractice, accident and health, directors' and officers' liability, financial institutions, general and employers' liability. A large proportion of casualty business is within the US, UK and European markets.

The marine sector's most significant classes of business are hull, cargo, marine liability and specie. The International Group of P&I Clubs programme constitutes a major part of the marine liability class of business.

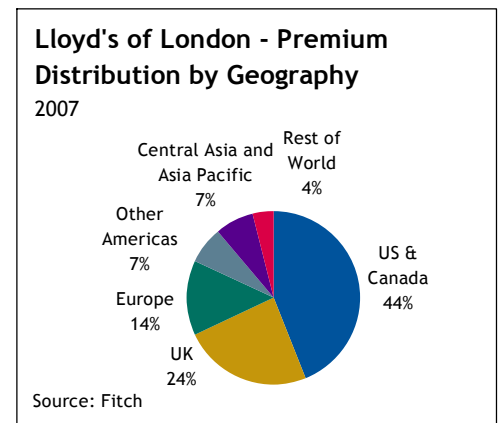
The mix of motor business written within Lloyd's has changed recently, moving away from private car insurance due to strong competitive pressure from the traditional insurance market and consumer-facing organisations such as supermarkets and aggregator web-sites. Less than half the current motor premium income comes from private car insurance, and the shift has been towards company fleet business and non-standard risks such as high-value vehicles, vintage or collectors' vehicles, high-risk drivers and affinity groups. Around 16% of motor business originates outside the UK.

The risks underwritten as part of the energy portfolio include 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.

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

Target Markets

Lloyd's provides insurance and reinsurance cover to a wide variety of segments across the globe, and Fitch considers it a well-diversified provider. The current geographical reach of Lloyd's is shown in the chart, and has not changed materially since 2006. In addition, Lloyd's is committed to expanding its presence in Asia and Latin America, with recent initiatives such as the opening of the Lloyd's subsidiary in China. Europe remains Lloyd's key objective for 2008: it plans to open new offices in Ireland, Scandinavia, Poland and Netherlands, it is applying for new licences in Poland, Czech Republic, Austria and Portugal, and it continues to strengthen its operations in Germany. In addition Lloyd's is committed to establishing a presence in the Middle East and Latin America, in particular Brazil.



Distribution Channels

Distribution of products in Lloyd's is primarily through brokers, with some business placed directly with service companies owned by managing agents. A large proportion of the business is conducted in the Underwriting Room at Lloyd's, where

face-to-face negotiations between brokers and underwriters take place. There are 176 firms of brokers working at Lloyd's, many of whom specialise in particular risk categories. Lloyd's operates an accreditation process for brokers seeking access to the Lloyd's market. All brokers must satisfy all relevant regulatory requirements. Lloyd's performs a careful assessment of all applicant brokers, affirming their reputation and financial standing, and investigating the character and suitability of officers and employees before making the decision to accredit. Firms receive provisional accreditation for three years before becoming entitled to use the term "Lloyd's broker". Use of non-Lloyd's brokers is also currently under discussion in the framework of reform of the Lloyd's Act 1982 undertaken by Parliament.

Regulation

The Society, managing agents and members' agents are regulated by the FSA.

The FSA aims to regulate Lloyd's in an equivalent manner to the company market. However, the unique nature of Lloyd's means that the FSA's rules require some adaptation.

The FSA holds different market participants as responsible for different elements of its regulatory regime. The Corporation, members' agents and managing agents are all regulated entities. The FSA does not regulate the syndicates themselves, as it sees them as merely vehicles used by members for carrying on insurance business, and furthermore the syndicates have no legal personality. The FSA does not regulate members. The FSA holds managing agents responsible for the risks affecting syndicate-level assets and the Corporation responsible for the risks affecting FAL and central assets. However, capital requirements are calculated at member level, syndicate level and the Society level.

The FSA asks managing agents to calculate the capital resource requirement for each syndicate that the agent manages. To do this the agent must produce a Syndicate ICA. Each syndicate ICA is apportioned between its members. The Society is then required to aggregate each member's apportioned ICA arising from each syndicate participation and, adjusting as appropriate for aggregation and diversification of risk, to calculate a member ICA. The member ICA is the minimum amount of capital the member must hold to satisfy the FSA, but it is not the same as the member capital requirement set by Lloyd's, otherwise known as FAL. Lloyd's uses the member ICA as the basis for FAL requirements, but has chosen to set FAL higher than ICA. This is to provide a capital buffer and optimum protection for the central fund.

Working capital is held in syndicate trust funds but most regulatory capital (e.g. FAL and the Central Fund) is held by the Society. Managing agents must therefore rely on confirmation from the Society of the adequacy of regulatory capital to meet the syndicates' capital resource requirement. Where there is a shortfall in a member's FAL, the Society is required to ensure that Central Assets are adequate to meet the shortfall. In assessing the anticipated adequacy of central funds, the Society may take account of diversification effects.

Financial Analysis

Profitability

Following significant losses in 2005 relating to Hurricanes Katrina, Wilma and Rita, Lloyd's operating performance in 2006 and 2007 was very strong. On an annual accounting basis, the market reported record aggregate profit of GBP3.8bn in 2007 (2006: GBP3.7bn). Return on adjusted equity reached an impressive 29% at year-end 2007, and the combined operating ratio was in the low 80s in both years, reaching a five-year low of 82.8% in 2006, and rising slightly in 2007 to 83.9% (according to Fitch's calculations).

It must be noted that these strong results were achieved with the benefit of two years of relatively benign catastrophe activity, with Lloyd's recording lower levels of catastrophe losses than the industry for the second year in a row. During 2007, catastrophe-related losses contributed 3.8% to the COR (2006: 0.4%). In addition, performance in 2007 was improved by net prior-year releases of GBP856m (2006: GBP270m) from across all lines of business, which improved the COR by 6.5% (2006: 2.1% improvement). Relative to 2006, the releases were enhanced by the absence of deterioration on the claims arising from Hurricanes Katrina, Wilma and Rita, which in 2006 caused GBP415m deterioration in reserves. The 2007 results also benefited from record-level investment yields, with totals yield based on Fitch's calculation reaching 5.6% in a favourable investment environment, and total investment income reaching a record GBP2,007m in 2007 (2006: GBP1,661m).

Underwriting performance in 2007 was strong in all business lines, with low levels of catastrophe losses and reserve releases in all lines, enhancing CORs. Underwriting results by line of business are shown in Table 4.

Table 5: Lloyd's Combined Operating Ratio (%)*: By Line of Business

Calendar year	2007	2006	2005	2004	2003
Reinsurance	81.7	80.8	135.1	94.6	89.3
Casualty	92.7	89.0	93.9	108.8	110.4
Property	86.3	81.9	118.5	95.8	89.4
Marine	87.4	88.6	91.4	87.4	89.7
Motor	98.4	96.4	91.2	93.3	93.6
Energy	73.4	98.8	146.9	82.5	83.4
Aviation	84.5	65.1	70.6	72.6	93.0

* Includes Impact of Movement in Prior-Year Reserves
Source: Lloyd's, Fitch

The reinsurance portfolio experienced a 1.9% decrease in GWP, as rate conditions softened in the absence of significant catastrophe losses and increased capacity in the market. At 86.3%, the accident year COR for 2007 was strong, but higher than in 2006, due to the winter storm Kyrill, UK floods and softening rate conditions. Releases of GBP198m from across the prior-year reserves in the whole portfolio in 2007 improved the COR by 4.6% (2006: strengthening of GBP161m and deterioration of 3.8%). Fitch expects results in 2008 to come under pressure from a variety of sources, such as further rate softening in the absence of significant catastrophe losses in the market and increased competition from alternative sources for reinsurance, such as self-insurance, insurance-linked securitisation and increased competition from reinsurance entities operating out of low-tax jurisdictions, allowing them to set lower technical prices on risks.

The property portfolio saw an increase in the volume of premiums written in 2007, with the GWP rising by 4.7% to GBP3,809m (2006: GBP3,638m), despite the rate environment softening from the highs of 2006. Competition continues to increase, especially in the catastrophe-exposed business of US and Bermudian markets. In particular, the softening rate environment is starting to put pressure on terms and conditions of policies, with impact on deductibles and coverage levels, which Fitch expects to have a negative impact on the underwriting results of 2008. An increased level of catastrophes in 2007 relative to 2006, as well as the softening rate environment, caused a deterioration in the accident year COR of 2007 to 92.3% (2006: 86.2%). The accident year COR was enhanced by GBP179m of reserve releases from prior years, leading to a 6% reduction in the calendar year COR (2006: GBP120m release and 4.3% improvement to COR). Fitch expects underwriting results in the property portfolio in 2008 to experience some further deterioration, provided the absence of catastrophe claims leads to further rate softening, but to continue to profit from releases of reserves from prior years, albeit at a lower rate than in 2007.

The casualty book benefited from reserve releases of GBP256m, which improved the COR by 9.1% (2006: GBP217m release with 7.3% improvement), and led to a calendar year COR of 92.7%. On an accident year basis, the book reported a GBP51m underwriting loss for the first time in five years in 2007, due to continuing deterioration in premium rates and some impact of subprime claims. This led to a 101.8% accident year COR, but results for the second year in a row benefited from significant prior-year releases, as profits from the last three years of profitable business began to emerge. In 2007, Fitch views positively the continuing positive developments in prior-year claims reserves, and sees this as evidence of the reversal of negative trends from business written in 1997-2001, when soft market conditions led to significant reserve deterioration during 2003-2005 calendar years of almost GBP1bn. Although Lloyd's does not have significant asset exposure to direct subprime losses, Fitch expects the continuing impact of the "credit crunch" and a downturn in economic conditions worldwide to lead to a higher frequency of losses in the casualty book, and higher reliance being placed on profitable run-off of prior-year reserves to achieve underwriting profitability.

The energy portfolio at Lloyd's had another very profitable year, due to a continuing benign loss environment and releases from prior-year reserves after significant deterioration in reserves in 2006 caused by losses relating to Hurricane Rita. The COR for the 2007 accident year improved to 77.3%, and releases of GBP30m from reserves (2006: deterioration of GBP111m) led to a COR of 73.4%. Premium levels in 2007 were down almost 10%, due to increasing pressure on rates from benign loss experience. In addition, an increase in asset values, partially brought about by significant increases in the price of crude oil, has masked some of the impact of rate deterioration, and in 2008 Fitch expects premium volume to stabilise, even though no improvement in the rate environment is expected.

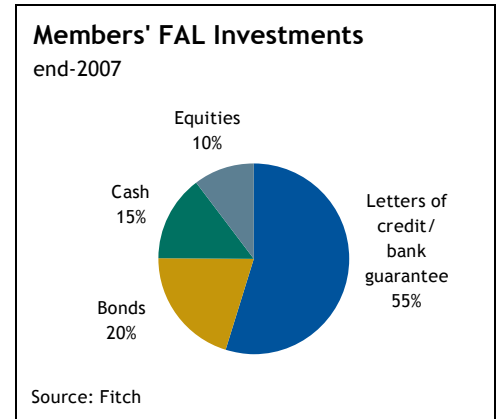
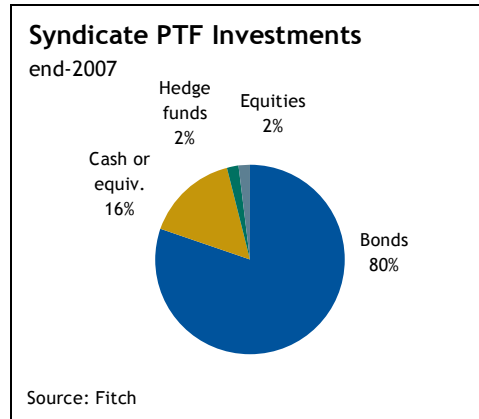
The marine portfolio at Lloyd's avoided some of the major hull losses seen in the market in 2007, and achieved an improved result for the accident year COR of 95% (2006: 99%). However, as in the energy book, the premium volume has experienced rate deterioration, masked by increasing values of risks and high exposures. Fitch expects some pressure on future profitability to come from this worsening rate environment, especially if the syndicates do not exercise caution in underwriting at lower rates but increased exposure levels.

The motor portfolio of Lloyd's is the second of only two portfolios to return an accident year underwriting loss in 2007, as rate conditions continued to worsen, and claims costs continued to outstrip inflation. While Lloyd's does not have a large share of the private motor market, which is currently in the depths of a soft cycle, competition in the segments where it operates (fleet business and non-standard risks) is also intense, and accident year underwriting results are wholly reliant on prior-year reserve releases to return a profit. The COR for the 2007 accident year was 104.8%, improved by 6.4% from prior-year releases (2006: 101.7%, and 5.3% reserve improvement).

The aviation market is at the bottom of a soft cycle, with rates being charged often below the technical price. This, together with higher incidence of losses in 2007, led to an accident year COR of 102.8%, enhanced by reserve releases to reach 84.5% for the 2007 calendar year. After six consecutive years of rate decreases, Fitch expects the market to start recovering, especially if the loss environment worsens and capacity leaves the market due to poor returns.

Investments and Liquidity

Lloyd's operates a conservative investment policy. It has investment criteria for all of the links in the Chain of Security.



The PTFs investments follow the guidelines set by the FSA, and are generally invested in liquid, short-duration, high-quality assets. Around 80% of assets are invested in bonds, of which 90% are in 'AAA' to 'AA' US and UK government bonds, and 98% are rated 'A' or above. Less than GBP100m of assets are "wrapped", and syndicates' investment had no material exposure to subprime assets, with the exposure below 1% for any syndicate. Syndicates' investments have to abide by FSA "prudent man" investment rules, and the returns on investments are fairly well correlated with the performance of the standard index benchmarks for one- to three-year government and 'A'-rated corporate bonds.

Just over 50% of FAL investments consist of letters of credit and 15% are invested in the cash/money market, 10% in equities and the rest in bonds.

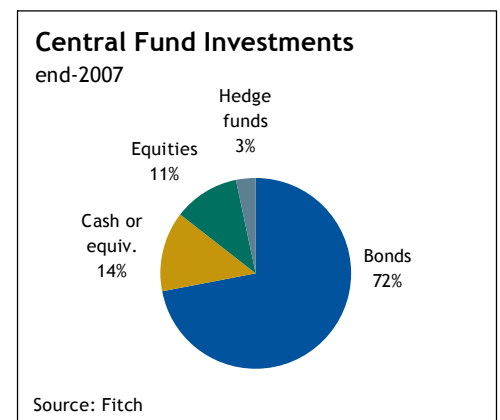
The value of the Central Fund has continued to increase, especially following the issuance of hybrid debt in 2007, and reached GBP1.9bn (including issued sub-debt and corporation assets) by year-end 2007. The Central Fund is composed of 16% cash, 68% bonds and 16% equities and hedge funds. Investment risk appetite has remained unchanged in 2007 at GBP100m, with limited subprime exposure. Most Central Fund bonds are rated at least 'A', with no credit ratings dependent on monoline "wrappers".

Reinsurance Protection and Credit Quality

Each syndicate is required to make its own reinsurance arrangements. Syndicates managed by the same managing agent cannot share or pool their reinsurance needs. Across the market, the "external" reinsurance utilisation rate is around 19% (2006: 19.6%), down from a high of 25% in 2003. Reinsurance within the market between syndicates is excluded from this ratio.

Reinsurance Recoverables

Lloyd's has been proactively managing its reinsurance recoverables, one of the largest entries on its balance sheet, which at year-end 2007 totalled GBP7.8bn (shown as reinsurers' share of technical reserves on p17) – down by 20% from year-end 2006, and significantly down from a peak of GBP17.4bn at the end of 2001 following the 11 September 2001 terrorist attack. Fitch regards the reinsurance recoverables as generally of high quality, with 95.2% of reinsurers being rated 'A-' and above, and adequate diversification.



The value of aged debt is also at its lowest since 2001, with GBP251m being aged at six months or greater – a 27% improvement on year-end 2006 figures. There has been a marked improvement in this area, as it has been a key area of focus for Lloyd's, and meetings are regularly held with managing agents, brokers and reinsurers to address this issue. As a result the definition of "aged" debt has been revised from 12 months to six months old, as older debt has been eliminated from the balance sheet.

Reserve Adequacy and Development

Lloyd's reserving position has improved significantly since the 1992 and prior liabilities were reinsured into Equitas in 1996, and subsequently further reinsured with the Berkshire Hathaway deal in 2007. Prior to the establishment of Equitas, the long-tail exposures, including asbestos, which existed within Lloyd's, were extremely large and jeopardised the functioning of the entire Lloyd's market.

Equitas was therefore set up to provide some degree of "finality" to the names concerned and to allow the Lloyd's market to continue trading. In return for reinsuring the 1992 and prior liabilities, Equitas was capitalised with a transfer of existing reserves and additional reinsurance premiums from individual members. At its eventual launch in September 1996, Equitas was capitalised at GBP14.8bn.

With the transfer of long-tailed liabilities into Equitas, the reserving position of Lloyd's is now much less volatile, as the proportion of long-tailed reserves is significantly diminished. Over the last two years, the results of Lloyd's have benefited from reserve releases, on the back of the hard market environment of the early 2000s, when profitable business was written at high premium rates, and prudent reserves were established. In 2007, overall reserve releases reached GBP856m, as claims continued to develop within projections for the third year running. Fitch believes these releases from prior reserves reflect actual redundancies, rather than a weakening in reserve strength. Further, the ratio of incurred but not reported (IBNR) claims to total reserves has remained stable since 2003 at around 45%, which, given no significant change in the mix of business underwritten, suggests that reserving strength has not been compromised by the recent releases. In addition, IBNR usage (defined as the ratio of decrease in IBNR during calendar year to starting IBNR) has declined significantly in recent years to 16.6% on a gross basis and 10% on a net basis, down from a high of nearly 40% on a gross basis in 2003. This reduction supports the releases from reserves, and reduces the severity of any potential deterioration in IBNR. In addition, the incurred cost of the 2005 US hurricanes stabilised during 2006 and 2007, with no further deterioration of reserves relating to these claims expected in the future.

Capitalisation

In Fitch's view Lloyd's has strong capitalisation. The capital strength of Lloyd's is derived from assets held as part of member capital and Central Capital. Following the 10% decline in net assets during 2005 as Lloyd's was hit hard by the impact of the US hurricanes, capitalisation improved significantly during 2006, with total net assets increasing 22%, and a further 4% increase during 2007 resulted in GBP13.4bn of net asset as at year-end 2007. Coverage of the FSA's ICA requirement stands at a healthy 235%.

Lloyd's follows a risk-based approach to setting the capital at both member level and central capital. At member level, the capital is set at 135% (this percentage has not changed since 2006) of the syndicates' ICA result – Lloyd's reviews each syndicate's ICA in detail, and requires uplifts if it deems the syndicate's calculations deficient. Lloyd's feels that the 35% loading allows for sufficient capital to maintain financial strength and credit ratings at their current levels. FSA has reviewed a sample of syndicates' ICAs in parallel with Lloyd's, and in 2006 agreed that Lloyd's review was thorough, though it identified two cases where it would have applied a higher uplift than that recommended by Lloyds.

The variety of sources of funding for the Central Fund provides the Society with significant financial flexibility. The Society has powers to raise funds both internally through the use of contributions, levies and syndicate loans and externally through the capital markets. This flexibility has been illustrated recently with the market's agreement to an increase in the Central Fund contributions from 0.5% to 1% for 2006, and the GBP500m of hybrid debt raised through the capital markets in 2007.

Financial Leverage and Balance Sheet Quality

Fitch believes Lloyd's uses a minimal amount of financial leverage on the balance sheet, with the leverage levels able to increase up to the 30% range before it would exceed Fitch's range of leverage guidelines at the current rating level. The capital structure of Lloyd's includes two issues of subordinated bonds and perpetual securities. Fitch has designated each of these class D securities and thus currently assigns 75% equity credit to them for the purposes of calculating financial leverage.

Fitch believes that Lloyd's has good quality of capital, with very low levels of intangible assets and deferred acquisition costs.

Debt-Servicing Capabilities

The subordinated debt issued in 2004 and 2007 is the obligation of the Society of Lloyd's. In a going-concern scenario, the Society has several options available for the repayment of principal and interest, as it has complete discretion over the use of the Central Fund. The Central Fund receives a regular supply of funds from the syndicate contributions, syndicate loans and investment income. Furthermore, if necessary, the society could increase members' contributions, impose a premium levy as it has in the past, or use the callable layer. These can all be used on an ongoing basis to pay the interest on the debt.

Lloyd's of London - Summary Rating Data

(GBPm)	2003	2004	2005	2006	2007
Key financials					
Total revenue	13,270.0	12,901.0	13,268.0	14,930.0	15,263.0
Operating result	2,112.0	1,563.0	110.0	3,871.0	4,106.0
Net income	1,892.0	1,367.0	(103.0)	3,662.0	3,846.0
Combined ratio (%)	90.3	96.7	111.8	82.8	83.9
Return on revenue (%)	15.9	12.1	0.8	25.9	26.9
Total assets	36,256.0	39,171.0	43,404.0	42,503.0	44,007.0
Total adjusted equity	10,145.0	11,663.0	10,491.0	12,836.0	13,449.0
Coverage of the estimated minimum margin (x)	5.2	6.2	5.6	6.1	6.3
Business statistics					
Non-life gross written premiums	16,422.0	14,614.0	14,982.0	16,414.0	16,366.0
Annual change (%)	1.4	(11.0)	2.5	9.6	(0.3)
Total gross written premiums	16,422.0	14,614.0	14,982.0	16,414.0	16,366.0
Annual change (%)	1.4	(11.0)	2.5	9.6	(0.3)
Non-life net written premiums	12,250.0	11,734.0	11,770.0	13,201.0	13,256.0
Annual change (%)	9.8	(4.2)	0.3	12.2	0.4
Total net written premiums	12,250.0	11,734.0	11,770.0	13,201.0	13,256.0
Annual change (%)	9.8	(4.2)	0.3	12.2	0.4
Operating statistics					
Total revenue	13,270.0	12,901.0	13,268.0	14,930.0	15,263.0
Operating result	2,112.0	1,563.0	110.0	3,871.0	4,106.0
Net income	1,892.0	1,367.0	(103.0)	3,662.0	3,846.0
Return on revenue (ex. gains) (%)	15.9	12.1	0.8	25.9	26.9
Return on revenue (incl. gains) (%)	15.9	12.1	0.8	25.9	26.9
Return on assets (incl. gains) (%)	5.2	3.5	(0.2)	8.6	8.7
Return on book equity (incl. gains) (%)	18.6	11.7	(1.0)	28.5	28.6
Return on adj. equity (incl. gains) (%)	18.6	11.7	(1.0)	28.5	28.6
Non-life					
Incurred loss ratio (%)	57.2	64.8	80.7	49.0	50.0
Commission ratio (%)	25.9	23.8	24.7	25.1	26.3
Expense ratio (%)	7.0	7.5	7.4	6.9	8.4
Reins. comm., profit participation, other ratio (%)	0.2	0.6	(1.0)	1.7	(0.9)
Combined ratio (%)	90.3	96.7	111.8	82.8	83.9
Portfolio performance					
Net investment income	1,020.0	1,167.0	1,498.0	1,729.0	2,007.0
Running yield (%)	3.9	3.9	4.5	4.9	5.6
Running yield (incl. realised gains) (%)	3.9	3.9	4.5	4.9	5.6
Running yield on technical reserves (%)	2.0	2.3	2.7	3.6	4.7
Total yield (incl. unrealised gains) (%)	3.9	3.9	4.5	4.9	5.6
Portfolio composition (%)					
Real estate	0.0	0.0	0.0	0.0	0.0
Shares	5.8	10.2	8.5	11.1	11.5
Affiliate equity	0.0	0.0	0.0	0.0	0.0
Affiliate loans	0.0	0.0	0.0	0.0	0.0
Bonds	43.8	23.8	28.8	22.5	29.6
Funds at Lloyd's	34.6	30.6	29.1	32.1	26.7
Loans	0.0	0.0	0.0	0.0	0.0
Mortgages	0.0	0.0	0.0	0.0	0.0
Cash & bank deposits	14.7	35.3	33.6	34.2	32.2
Bank deposits	7.0	9.5	10.6	11.7	11.9
Current bank accounts and cash	7.7	25.8	23.0	22.6	20.3
Deposits with cedents	0.1	0.0	0.0	0.0	0.0
Other invested assets	1.0	0.1	0.0	0.0	0.0

Source: Fitch, Lloyd's of London annual reports

Lloyd's of London - Summary Rating Data (cont.)

(GBPm, % and x coverage)	2003	2004	2005	2006	2007
Financial statistics					
Total assets	36,256.0	39,171.0	43,404.0	42,503.0	44,007.0
Total adjusted equity	10,145.0	11,663.0	10,491.0	12,836.0	13,449.0
Change in adj. equity (%)	35.1	15.0	(10.0)	22.4	4.8
Coverage of the estimated minimum margin (x)	5.2	6.2	5.6	6.1	6.3
Non-life technical reserves/non-life NPW (%)	183.2	201.4	237.0	195.4	198.5
Non-life claims reserves/non-life NPW (%)	145.3	163.4	197.7	160.0	162.4
Life technical reserves/life NPW (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Non-life technical reserves/adj. equity (%)	221.3	202.6	265.9	200.9	195.6
Technical reserves/adj. equity (%)	221.3	202.6	265.9	200.9	195.6
Invested assets/(adj. equity + technical reserves) (%)	85.6	89.0	91.2	90.9	93.0
Liquid assets/technical reserves (%)	79.9	92.0	88.9	92.3	103.1
Investment leverage (%)	16.0	27.5	28.2	30.3	31.6
Affiliated investment leverage (%)	16.0	27.5	28.2	30.3	31.6
Debt/capital (%)	0.0	4.2	4.6	3.7	7.0
Interest coverage (x)	n.a.	n.a.	n.a.	n.a.	n.a.
Fixed charge coverage (x)	n.a.	n.a.	n.a.	n.a.	n.a.
Non-life reinsurance utilisation ratio (%)	25.4	19.7	21.4	19.6	19.0
Life reinsurance utilisation ratio (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax rate (%)	0.0	0.0	0.0	0.0	0.0
Minority interests/net income (%)	0.0	0.0	0.0	0.0	0.0
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Underwriting cash flow ratio (%)	140.0	0.0	0.0	0.0	0.0
Operating cash flow ratio (%)	150.0	0.0	0.0	0.0	0.0

Source: Fitch, Lloyd's of London annual reports

Lloyd's of London - Balance Sheet

(GBPm)	2003	2004	2005	2006	2007
Assets					
Investments					
Real estate					
Shares	1,626.0	3,202.0	2,962.0	3,891.0	4,255.0
Affiliate equity					
Affiliate loans					
Bonds	12,221.0	7,473.0	10,073.0	7,892.0	10,953.0
Funds at Lloyd's	9,659.0	9,622.0	10,206.0	11,282.0	9,858.0
Loans					
Mortgages					
Cash & bank deposits	4,094.0	11,081.0	11,764.0	12,019.0	11,911.0
Bank deposits	1,954.0	2,976.0	3,719.0	4,093.0	4,414.0
Current bank accounts and cash	2,140.0	8,105.0	8,045.0	7,926.0	7,497.0
Deposits with cedents	14.0	15.0	14.0	17.0	9.0
Other invested assets	279.0	34.0	7.0	7.0	4.0
Total investments (non-linked)	27,893.0	31,427.0	35,026.0	35,108.0	36,990.0
Insurance receivables	7,666.0	3,444.0	3,853.0	3,520.0	3,428.0
Reinsurance receivables		3,411.0	3,629.0	3,190.0	2,918.0
Other receivables	469.0	687.0	685.0	382.0	318.0
Life acquisition costs					
Non-life acquisition costs					
Differences from consolidation					
Tangible assets	15.0	16.0	17.0	22.0	26.0
Goodwill					
Other intangible assets					
Accruals	143.0	174.0	184.0	261.0	299.0
Other assets	70.0	12.0	10.0	20.0	28.0
Total assets	36,256.0	39,171.0	43,404.0	42,503.0	44,007.0
Liabilities					
Technical reserves					
Unearned premium reserve	7,335.0	6,780.0	6,829.0	7,024.0	7,282.0
Reinsurers' share	(1,221.0)	(872.0)	(696.0)	(771.0)	(841.0)
Less deferred acquisition costs	(1,467.0)	(1,444.0)	(1,503.0)	(1,582.0)	(1,656.0)
Outstanding claims reserve	27,758.0	28,849.0	37,719.0	30,377.0	28,971.0
Reinsurers' share	(9,959.0)	(9,678.0)	(14,450.0)	(9,259.0)	(7,449.0)
Other technical provisions					
Reinsurers' share					
Total non-life technical reserves	22,446.0	23,635.0	27,899.0	25,789.0	26,307.0
Reinsurance deposits	92.0	37.0	142.0	69.0	42.0
Insurance payables	2,710.0	458.0	884.0	831.0	697.0
Reinsurance payables		1,894.0	2,228.0	1,643.0	1,534.0
Provisions for other risks & charges					
Short-term debt					
Long-term debt					
Subordinated debt - liability	0.0	506.0	501.0	497.0	1,012.0
Secured lending					
Fund for future appropriation					
Other creditors	732.0	758.0	1,113.0	715.0	774.0
Accruals	131.0	220.0	146.0	123.0	192.0
Other liabilities					
Total liabilities	26,111.0	27,508.0	32,913.0	29,667.0	30,558.0
Equity					
Members' FAL	9,659.0	9,622.0	10,206.0	11,282.0	9,858.0
Members' balances	(295.0)	1,426.0	(408.0)	597.0	2,652.0
Central Fund balance	711.0	615.0	693.0	957.0	939.0
Corporation reserves	70.0				
Reserve for own shares					
Profit and loss account					
Total shareholders' funds	10,145.0	11,663.0	10,491.0	12,836.0	13,449.0
Claims equalisation reserve					
Minority interests					
Total equity	10,145.0	11,663.0	10,491.0	12,836.0	13,449.0
Surplus value of investments	0.0	0.0	0.0	0.0	0.0
Uncalled capital	0.0	0.0	0.0	0.0	0.0
Own shares (treasury stock)	0.0	0.0	0.0	0.0	0.0
Adjusted equity	10,145.0	11,663.0	10,491.0	12,836.0	13,449.0
Balance check	0.0	0.0	0.0	0.0	0.0

Source: Fitch, Lloyd's of London annual reports

Lloyd's of London - Profit & Loss Account

(GBPm)	2003	2004	2005	2006	2007
Non-life technical account					
Gross written premiums	16,422.0	14,614.0	14,982.0	16,414.0	16,366.0
Premiums ceded	(4,172.0)	(2,880.0)	(3,212.0)	(3,213.0)	(3,110.0)
Net written premiums	12,250.0	11,734.0	11,770.0	13,201.0	13,256.0
Change in UPR	539.0	(63.0)	(15.0)	513.0	159.0
Net premiums earned	11,711.0	11,797.0	11,785.0	12,688.0	13,097.0
Gross claims paid	9,204.0	8,387.0	10,181.0	11,718.0	8,741.0
Reinsurance recoveries	3,661.0	2,967.0	3,418.0	5,120.0	2,515.0
Net claims paid	5,543.0	5,420.0	6,763.0	6,598.0	6,226.0
Change in claims case reserves	1,154.0	2,226.0	2,742.0	(379.0)	321.0
Change in IBNR					
Net claims incurred	6,697.0	7,646.0	9,505.0	6,219.0	6,547.0
Premium refunds					
Acquisition costs	3,038.0	2,805.0	2,913.0	3,191.0	3,449.0
Increase in deferred acquisition costs					
Administrative expenses	854.0	880.0	872.0	910.0	1,117.0
Renewal commission					
Reinsurance commission & profit participation					
Other underwriting income/(expenses)	(30.0)	(70.0)	117.0	(226.0)	115.0
Total underwriting expenses	3,922.0	3,755.0	3,668.0	4,327.0	4,451.0
Technical interest	445.0	532.0	705.0	957.0	1,223.0
Non-life underwriting result	1,537.0	928.0	(683.0)	3,099.0	3,322.0
Non-technical account					
Investment income	1,020.0	1,167.0	1,498.0	1,661.0	2,007.0
Investment expenses					
Less technical interest	(445.0)	(532.0)	(705.0)	(957.0)	(1,223.0)
Net investment income	575.0	635.0	793.0	704.0	784.0
Interest paid	0.0	0.0	0.0	0.0	0.0
Operating result	2,112.0	1,563.0	110.0	3,803.0	4,106.0
Non-insurance activities					
Amortisation of goodwill and other intangibles					
Other income/(expenses)	(220.0)	(196.0)	(213.0)	(141.0)	(260.0)
Pre-tax income before realised gains	1,892.0	1,367.0	(103.0)	3,662.0	3,846.0
Realised capital gains/(losses)					
Less technical realised gains/(losses) in life account					
Pre-tax income	1,892.0	1,367.0	(103.0)	3,662.0	3,846.0
Tax					
Net income	1,892.0	1,367.0	(103.0)	3,662.0	3,846.0
Minority interests					
Change in claims equalisation reserve					
Unrealised capital gains/(losses)					
Less technical unrealised gains/(losses) in life account					
Reported net income	1,892.0	1,367.0	(103.0)	3,662.0	3,846.0
Allocation of profit					
Profit brought forward	0.0	0.0	0.0	0.0	0.0
Ordinary dividends	0.0	0.0	0.0	0.0	0.0
Preferred dividends	0.0	0.0	0.0	0.0	0.0
To reserves	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Profit carried forward	0.0	0.0	0.0	0.0	0.0
Balance	1,892.0	1,367.0	(103.0)	3,662.0	3,846.0

Source: Fitch, Lloyd's of London

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