Syndicate 2525

Annual Report 2008

Annual accounting contents

Closing year of account contents

Annual Report and Accounts
for the year ended 31 December 2008

Managing agent: Directors and administration

Managing agent

Max at Lloyd's Ltd.

Directors

I J Bremner (Managing Director)
W M Becker
J M Boylan
L J Gibbins
P A Minton
G E Morrison
A Mullan
M A Petzold
J W Roberts
A T West*
C A T W Von Bechtolsheim*

*Non-executive directors

Company secretary

P M Armfield

Managing agent's registered office

4th Floor
XL House
70 Gracechurch Street
London EC3V 0XL

Managing agent's registered number

03304600

Syndicate:

Active underwriter

D L Pratt

Bankers

Barclays Plc
Citibank N.A., New York

Investment managers

Crédit Agricole Asset Management (UK) Limited

Registered auditors

KPMG Audit Plc

Report of the directors of the managing agent at 31 December 2008

The directors of the managing agent present its report for the year ended 31 December 2008.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No. 3219 of 2004, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the 2004 Regulations").

Corporate governance

Max at Lloyd's Ltd (Max) is managed by a Board of Directors consisting of a management team of nine Executives, including an Executive Chairman and two Non-Executives. The Board meets regularly throughout the year and a number of matters are specifically reserved for its consideration and approval. In addition the Board delegates a number of items to various sub-committees that have clearly defined terms of reference.

Active underwriter

The Active Underwriter during 2008 was David Pratt.

Principal activity and review of the business

Syndicate 2525 writes employers' and public liability insurance primarily in the United Kingdom.

A full review is included in the underwriter's report.

Results overview

The result for calendar year 2008 is a profit before other recognised gains and losses of £13.7 million (2007: profit of £16.0 million). Profits or losses will continue to be distributed or collected by reference to the results of individual underwriting years. The contribution of the three open underwriting years to the calendar year profit is stated below. A full review of the result and future developments is given in the Underwriters Report.

Year	Profit/(Loss) £m
2006	16.4
2007	2.9
2008	(5.6)
Calendar year 2008	13.7

Investment Policy and Performance

Max operates a Risk Management Committee, which is responsible for recommending to the Agency Board the longer term strategy and investment policy of the syndicate, and the appointment of investment managers of the syndicate's funds. The Committee is also responsible for monitoring the performance of investment managers and ensuring that all relevant Lloyd's and other regulatory requirements are met.

Credit Agricole Asset Management (UK) were appointed as Investment Managers to the syndicate with effect from 1 January 2001 and have continued in office since.

Investment Policy

The Investment Objective is to invest the Premiums Trust Funds in a manner calculated to maximise return within agreed restraints and in line with policies approved by the Agency. In consideration of this policy, portfolios are predominantly invested in short-term, high quality fixed income securities. The Investment Managers have been instructed to invest for the highest total return consistent with maintaining adequate liquidity and security. The Investment Managers have discretion to invest in private sector securities for a limited proportion of the portfolio and within diversity limits for individual credits. Limiting the target duration of the overall portfolio controls the exposure of the investments to adverse price conditions. An investment committee and formal procedures for monitoring investments exist in line with guidance from Lloyd's.

Review of Calendar Year 2008

2008 was a year of unprecedented monetary and fiscal easing, direct central bank liquidity relief, bank bail-outs and partial nationalisation, bank defaults, collapsing investor confidence and the effective closure of credit markets … the list continues, and it appears that it is only the start of a severe economic slow-down. The usual cycle of recession first, credit crunch second has been reversed with the current credit crunch pitching all Western economies into what looks set to become a severe economic recession. The full impact of increasing default rates and declining margins has yet to be felt in the corporate market. Monetary policy ammunition has been all but spent with U.K, U.S. and European interest rates down to 2.0%, 0-0.25% and 2.5% respectively at the end of 2008. Whilst further easing

Report of the directors of the managing agent at 31 December 2008

Review of Calendar Year 2008 *(continued)*

is likely, the impact of that easing will decline. The next tool is fiscal stimulus packages, something that the U.S. and the U.K. have declared and are implementing, whilst European action will be more fragmented as individual member countries meet their own political agendas.

Credit markets not only severely underperformed in the past 12 months but secondary markets in many corporates and most ABS/MBS have, to all intents and purposes, closed. The Syndicate's portfolios had very little exposure to the worst affected of these asset classes, and portfolio returns, and liquidity, have remained very satisfactory.

Investment returns were at the top end of estimates made at the beginning of 2008 and comfortably above credit market indices in all currencies.

Net cash-flows in invested portfolios were particularly negative over the year, reducing total investment earnings. There was a significant increase in cash holdings in the fourth quarter funded from the maturities of a number of portfolio holdings. These proceeds were reinvested into AAA rated global treasury funds authorised by the FSA as a UCITS. This was to offer the syndicate capital stability, daily liquidity and a wholesale money market rate of return.

2009 Outlook

Conditions in credit markets may well deteriorate further in 2009 with continued credit spread widening possible in sub-investment grade universe as headline and default risk remain high. Low bond yields and falling cash rates mean that returns in 2009 will, most likely, be lower than 2008 in all currencies. That said, the historically wide spreads on higher rated paper means that low Government bond yields can be significantly off-set with high-grade Quasi-Government paper. In particular the raft of Government guaranteed Bank issues have allowed the Investment Manager to increase the yield on the more liquid portfolios without increasing default risk. Other opportunities have been taken with non-cyclical corporates with strong cash reserves. The potential for negative capital price movements means that durations will likely be kept short from the beginning of 2009; curve positioning means durations may be slightly longer than at the start of 2008. This policy is unlikely to change in the short-term as the extremely low absolute level of bond yields means that the potential for capital losses remains high; Investment Objectives are currently biased towards protecting the portfolio against unnecessary losses. However, wider credit spreads mean that the portfolio allocation to attractively priced, highly rated, non-Government paper may further increase when the opportunities arise and markets permit. The Investment Manager has the flexibility to utilise such securities within the Guidelines defined in the Investment Management Agreement.

Stock Lending

No stock was made available for lending, in the non-centrally managed funds, on behalf of members of the syndicate during 2008. No stock was being lent on behalf of members of the syndicate at 31st December 2008.

Reinsurance Programme

As required by the Syndicate Accounting Byelaw, reinsurance resumes setting out a summary of the reinsurance programme protecting all years of account have been approved by the Directors of Max and are available for inspection at the registered office of Max.

Principal Risks and Uncertainties

The Managing Agent sets risk appetite annually as part of the syndicate's business planning and Individual Capital Assessment process. The agency has a Risk Group and Risk Committee which meet quarterly. The principal risks and uncertainties facing the syndicate are as follows:

(a) Insurance risk

Insurance risk includes the risks that policies will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Agency manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Agency then monitors performance against the business plan monthly throughout the year.

Report of the directors of the managing agent at 31 December 2008

(a) Insurance risk *(continued)*

Key to the performance of the syndicate is the adequacy of its reserves. As a longer tail liability class business, development of claims over the 7 to 10 year tail will have a material impact on its profitability. This will be impacted on by both claims development volatility and changing trends in claims inflation rates. Reserve adequacy is monitored through quarterly review by an independent actuary.

Equally important to the syndicate is the ability to successfully manage its own risk exposure through the outwards cession of risk to reinsurers. Careful modelling and assessment of underlying risks borne inform the purchase of the syndicate's reinsurance programme; it is key that this programme mitigates the syndicate's gross exposure in the manner expected.

(b) Credit risk

The key aspects of credit risk are the risk of default by one or more of the syndicate's reinsurers, insurance brokers or investment counterparties. The Agency has a Syndicate Broker Vetting and Reinsurance Security Committee that meets quarterly and reviews & assesses all reinsurers and brokers before business is placed with them. Insurance brokers are credit assessed for solvency to minimise the risk of default and bad debt. The Risk Committee board reviews and assesses the investment portfolio on a regular basis.

(c) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as interest rates, equity prices and foreign exchange rates. A key aspect of market risk is that the syndicate incurs losses through adverse movements in interest and exchange rates. The treasury manager and investment managers manage this risk and are monitored by the Risk Committee.

(d) Liquidity risk

This is the risk that the syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk the agency reviews cash flow projections monthly to ensure sufficient liquid assets are held.

(e) Operational risk

This is the risk that errors caused by people, processes or systems lead to losses to the syndicate. The agency seeks to manage this risk through the use of detailed procedure manuals, a structured programme of testing of processes and systems by internal audit and a detailed disaster recovery plan, which is regularly tested.

As a business dependent on human capital, the syndicate is exposed to the risk of loss of key staff, especially in the underwriting teams. Loss of key individuals could have a material impact on the syndicate's future profitability. To mitigate this, syndicate management endeavours to structure appropriate incentivisation packages to align underwriters' interests and retain staff loyalty.

(f) Regulatory risk

The agency is required to comply with the requirements of the Financial Services Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The agency has a compliance officer who monitors regulatory developments and assesses the impact on agency policy.

Key performance indicators

The principal financial key performance indicators (KPI) relevant to the syndicate are:

Gross Written Premium – This has increased to £43.1 million from £42.3 million in 2007.
Net Underwriting Income – This has decreased in 2008 to £14.4 million (2007: £23.0 million).
Investment Return – This has seen an increase to 5.2% (2007: 5.0%).
Year of Account Return on Capacity – 2006 account 36.7% (2005 account: 42.8%)

Given the nature of the syndicate's business, the main regulatory financial KPI considered relevant is:

Capacity Utilisation – This has been 66.5% for 2008 (2007: 74.9%).

Report of the directors of the managing agent at 31 December 2008

Directors

The Directors of the managing agent who served during the year ended 31 December 2008 were as follows:

Name	Appointed/Resigned
I J Bremner	
G E A Morrison	
M P Daly	Resigned (30 September 2008)
L J Gibbins	
R J Forness	Resigned (30 June 2008)
M A Petzold	
A T West*	
C A T W Von Bechtolsheim*	
N H H Smith*	Resigned (6 November 2008)
W M Becker	Appointed (6 November 2008)
J M Boylan	Appointed (6 November 2008)
PA Minton	Appointed (6 November 2008)
A Mullan	Appointed (6 November 2008)
J W Roberts	Appointed (6 November 2008)

* Non-Executive Directors.

Subcontracted functions

The managing agent has sub contracted the following functions:

Maintenance of accounting records and certain data processing functions: Capita Commercial Insurance Services Limited.

Investment management: Credit Agricole Asset Management (UK) Limited.

Errors and omissions insurance

Lloyd's underwriting agents errors and omission insurance cover is not a mandatory requirement by Lloyd's. With only uncommerical terms currently available, no errors and omissions insurance has been purchased by Max at Lloyd's. The matter continues to be under review.

Change of Ownership

On 6 November 2008, the managing agent's parent company and all of its subsidiaries were acquired by Max Capital Group Ltd. As a consequence the managing agency changed its name to Max at Lloyd's Ltd.

Names' Annual General Meeting

The new Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Lloyd's Regulations 2008") requires that the members appoint the syndicate auditor. To facilitate this, an AGM will be held on 24 April 2009 to appoint the syndicate auditors. The full details are included on a separate notification.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Syndicate's auditors are unaware; and each director has taken all the steps that he / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Auditors

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Lloyd's Regulations 2008") KPMG offer themselves for re-election as syndicate auditors at the AGM.

Approved by the Board of Directors and signed on behalf of the Board

I J Bremner
Managing Director

Date 17 March 2009

Registered Office
70 Gracechurch Street
London EC3V 0XL

Underwriter's report for the year ended 31 December 2008

2006 year of account

Allocated Capacity	£49.8m
Capacity utilisation	86.4%
Profit in 2008	£16.4m

I am very pleased to report a calendar profit of £16.4 million pounds, a figure which is higher than previously forecast.

Stamp utilisation was disappointing for 2006 but the main driver for the business in soft market conditions has been to resist, as much as is possible, price reductions and to maintain the profitable core of the account. I believe this is demonstrated by the 2006 whole account loss ratio which compare favourably to 2005's ratio at the same stage of development. However, downward pressure on rates from the market peak in the latter part of 2003 did continue in 2006.

The high level make-up of the account in 2006 was very similar to that in 2005. Indeed, this has changed little since I became Active Underwriter in 2003. The decrease in the amount of Contractors' business underwritten in 2005 continued and the Excess Account, which increased during 2005, remained at the same level. The territorial split of business underwritten (UK – 95% and Republic of Ireland – 5%) and our Employers' Liability and Third Party Liability split remained constant at 50%/50%. Whilst there was pressure on rating we continued to remain firm on terms, conditions, and exceptions and the excesses on primary business were held at a realistic level.

There was a small deterioration on the underwriting position for the pure 2006 Underwriting Year with the balance of the result coming from investment income, foreign exchange gains, and reserve releases from closed years. The majority of the releases came from post 2003 underwriting years.

2007 year of account

Allocated Capacity	£41.9m
Forecast Utilisation	85%
Profit in 2008	£2.9m

In response to continued downward pressure on rates, we reduced our stamp capacity to £42m for the 2007 Year of Account. This was also in recognition of the fact that 2006 utilisation was lower than expected. Competition within our market sector continued but there was a marked reduction in the level of rate deterioration than that experienced in 2006.

The account make up remained largely unchanged with only minor adjustments to the EL ratio, which increased slightly (mainly due to greater pressure on PL rates) and to the amount of Republic of Ireland business underwritten, which reduced, due to the increasingly poor rating environment in that territory. Encouragingly – and experienced in all years since 2003 – the terms, conditions, exceptions, and primary excesses all remained constant.

2008 year of account

Stamp Capacity	£41.8
Forecast Utilisation	78%
Loss in 2008	£5.6m

Our stamp capacity remained the same as 2007 for the 2008 Year of Account, as it became clear that the rating environment remained challenging. As was noted for 2006/2007 however the rate reductions in 2008 have slowed yet again.

The loss reported in the 2008 account is mainly due to projecting from immature data relating to our long tail account at such an early stage and the provisions that need to be made for unearned premiums. In addition, very little investment income has been credited in the year due to the RIESCO provisions of Lloyd's three-year accounting. It should be noted for example that the calendar year result for the 2007 Year of Account improved from a loss of £2.9m last year to a profit of £2.9m this year.

During 2008, we extended the classes of business written to include International Excess of Loss Liability (worldwide excluding North America) within the Syndicate's portfolio, the rationale being to increase both our PL and Excess accounts, both of which have been highly profitable. The income allocated to this new class was less than £500,000 during 2008.

The account and the business ratios for the balance of business underwritten were once again very similar to the previous year, although the Employers'

Underwriter's report for the year ended 31 December 2008

2008 year of account *(continued)*

Liability account was again marginally ahead of expectations. As in previous years, terms and conditions remained static and we were able to impose similar excesses on the Third Party Primary account.

I previously reported the launch of our exclusive Re-Wage product which is designed for negating or reducing claimants legal costs and this last year saw the deployment of a Direct Settlement Scheme product, which provides a framework through which employees injured at work by our policyholder can recover fair compensation quickly and efficiently without needing legal representation at all.

2009 year of account and the future

Stamp Capacity	£42.0m

The upheaval in the financial sector and the banking sector in particular, has brought the business environment into sharp focus. The insurance market should not consider itself "ring-fenced" from the consequences of the last few years' excesses and we must quickly learn from the mistakes that others have made.

The most important skill for an underwriter to possess is risk selection. Sadly, and for some years now, it seems that insurance entities have sought to 'sub-contract' such function through Managing General Agencies and the like or to augment business written by offering unsustainable commission levels to brokers whose only bargaining tool is size! The current financial woes and the uncertain and depressed investment returns will, I hope, open insurers' eyes to focus on the basic requirements of our industry, to underwrite for profit! The recent and highly publicised difficulties experienced by other high profile companies such as AIG should serve as a salutary reminder that size and market share do not offer immunity against such concerns.

I hold the view that as an industry we must position our business as close as possible to every policy we underwrite to have as detailed an understanding as possible of the nature of the risks we assume. As Active Underwriter, 'the buck stops' with me and I accept this responsibility knowing that, in an increasingly tumultuous world, we retain absolute control of the fundamental decisions that will determine our success.

Notwithstanding this, I am pleased to note recent embryonic recovery in other classes of insurance. Premium rates in both the motor and property markets are beginning to recover and composite insurers are now seeking to increase liability rates also. This in turn is generating more enquiries within the Lloyd's market. There are also genuine ongoing concerns regarding the future of AIG and this, too, is creating new opportunities for the Syndicate. As referred to earlier, rating reductions are beginning to bottom out (see table below) and I genuinely feel that we have reached the nadir of the current cycle.

2525 Renewal Rating Table

2004	-10%
2005	-9.5
2006	-8.82%
2007	-5.75%
2008	-4%
2009	-2.61% (to-date)

What is difficult to judge, however, is the longer term impact of the current economic climate and how the recession – currently most acute in the construction trades – will affect our ability to retain a similar income to that in 2008, even if rates remain static or increase. Careful monitoring of the exposures on our account indicates that year on year comparisons show signs of improvement. This is due in part to the relatively small size of our Contractors' Account and also to the size of our Offshore Account, which has, to date, been ring-fenced from the current financial downturn. We shall maintain a close watch during the year to track these exposures and act accordingly where necessary.

Of course, markets such as ours are enormously sensitive to the vagaries of the business cycle and we do need to make periodical price adjustments. I do feel that we are very close to just such an adjustment. The current financial upheavals, lack of any genuine investment income, and the current recent run of negative returns should persuade insurers that the time is right for an upward price adjustment. Our industry needs to batten down the hatches and get back to its core values: to actually underwrite for one's own account! The market appears to have forgotten that the trick is to make sure that when the losses do come they are not fatal. My Claims Director tells me that his over-riding ambition is to settle claims for 5% less than our competitors: if he is right and we are not yet at the bottom of the cycle trough, then we may end up

Underwriter's report for the year ended 31 December 2008

2009 year of account and the future *(continued)*

being the last man standing!! But if, as we very much suspect, we are through the worst, I believe that any losses we may face will not be significant and will be considered an acceptable risk for the high returns that we have made since 2003.

The Managing Agency was acquired in November 2008 by the Max Capital Group and we welcome them as our business partner. The Syndicate's capacity, however, is almost entirely sourced from both non-aligned trade and third party capital. It remains to be seen what impact the current climate will have on our capital base but it is reassuring for me as active underwriter to know that Max Capital has the ability to increase their support on 2525 should names/direct corporate capital reduce in the future.

I remain optimistic that we have reached the lowest point in the current cycle and hope, therefore, that our capital base has the faith to remain firmly behind the Syndicate for 2010 and beyond.

D L Pratt
Active Underwriter

Date 17 March 2009

Registered Office
70 Gracechurch Street
London EC3V 0XL

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate annual report and annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 require the managing agent to prepare the Syndicate annual accounts at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). The annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2004 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of syndicate 2525

We have audited the syndicate 2525 annual accounts for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. The syndicate annual accounts have been prepared under the accounting policies set out therein.

This report is made solely to the members of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of managing agent and auditors

The managing agent's responsibilities for preparing the syndicate annual accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of managing agent's responsibilities on page 11.

Our responsibility is to audit the syndicate annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the syndicate annual accounts give a true and fair view and are properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you whether in our opinion the managing agent's report is consistent with the syndicate annual accounts.

In addition we report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of that syndicate, if the syndicate annual accounts are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding remuneration of the directors of the managing agent and other transactions is not disclosed.

We read the other information attached to the syndicate annual accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the syndicate annual accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate annual accounts. It also includes an assessment of the significant estimates and judgments made by the managing agent in the preparation of the syndicate annual accounts, and of whether the accounting policies are appropriate to the syndicate's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the syndicate annual accounts.

Opinion

In our opinion:

- the syndicate annual accounts give a true and fair view in accordance with UK Generally Accepted Accounting Practice of the state of syndicate 2525's affairs as at 31 December 2008 and of its profit for the year then ended;

- the syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and

- the information given in the managing agent's report is consistent with the syndicate annual accounts.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London, EC4Y 8BB

17 March 2009

Profit and loss account: technical account – general business at 31 December 2008

	Notes	2008 £000	2008 £000	2007 £000	2007 £000
Earned premiums, net of reinsurance					
Gross premiums written	3	43,074		42,379	
Outward reinsurance premiums		(7,002)		(6,469)	
Net premiums written		36,072		35,910	
Change in the provision for unearned premiums					
Gross amount		1,005		1,650	
Reinsurers' share		(243)		(273)	
Change in net provision for unearned premiums		762		1,377	
Earned premiums, net of reinsurance			36,834		37,287
Allocated investment return transferred from the non-technical account			7,737		7,072
Claims incurred, net of reinsurance					
Claims paid – Gross amount		(19,224)		(16,146)	
– Reinsurers' share		2,381		1,674	
Net claims paid		(16,843)		(14,472)	
Change in the provision for claims					
Gross amount		(12,970)		(3,913)	
Reinsurers' share		7,397		4,138	
		(5,573)		225	
Claims incurred, net of reinsurance	4		(22,416)		(14,247)
Net operating expenses	5		(8,430)		(14,112)
Balance on the technical account – for general business			13,725		16,000

All operations are continuing.

The notes on pages 19 to 27 form part of the financial statements.

Profit and loss account: non-technical account at 31 December 2008

	Notes	2008 £000	2007 £000
Balance on the technical account – general business		13,725	16,000
Investment income	10	7,967	7,146
Unrealised gains on investments		1,384	888
Investment expenses and charges	11	(193)	(629)
Unrealised losses on investments		(1,421)	(333)
Allocated investment return transferred to general business technical account		(7,737)	(7,072)
Profit for the financial year	15	13,725	16,000

All operations are continuing.

The notes on pages 19 to 27 form part of the financial statements.

Statement of total recognised gains and losses at 31 December 2008

	Notes	2008 £000	2007 £000
Profit for the financial year		13,725	16,000
Foreign exchange movement on members' funds	15	1,748	245
Total recognised gains and losses since last annual report		15,473	16,245

All operations are continuing.

The notes on pages 19 to 27 form part of the financial statements.

Balance sheet – assets at 31 December 2008

	Notes	2008 £000	2008 £000	2007 £000	2007 £000
Assets					
Investments					
Other financial investments	12		87,212		115,604
Reinsurers' share of technical provisions					
Provision for unearned premiums		2,366		2,610	
Claims outstanding		37,106		29,234	
			39,472		31,844
Debtors					
Due within 1 year:					
Debtors arising out of direct insurance operations	13	11,443		11,628	
Debtors arising out of reinsurance operations	14	2,741		1,289	
Other debtors		278		288	
			14,462		13,205
Due after 1 year:					
Amounts due from members			210		279
Other assets					
Cash at bank and in hand		53,980		22,657	
Overseas deposits		6,830		4,217	
			60,810		26,874
Prepayments and accrued income					
Deferred acquisition costs		3,560		3,536	
Other prepayments and accrued income		67		238	
			3,627		3,774
Total assets			205,793		191,580

The notes on pages 19 to 27 form part of the financial statements.

Balance sheet – liabilities at 31 December 2008

		2008		2007	
	Notes	**£000**	**£000**	**£000**	**£000**
Liabilities					
Capital and reserves					
Members' balances	15		12,100		15,553
Technical provisions					
Provision for unearned premiums		16,272		16,954	
Claims outstanding		168,474		151,796	
Unexpired risk provision		1,453		–	
			186,199		168,750
Creditors					
Due within one year:					
Creditors arising out of direct insurance operations	16	912		1,463	
Creditors arising out of reinsurance operations	17	2,882		1,937	
Other creditors including taxation and social security		3,443		3,634	
			7,237		7,034
Due after one year:					
Other creditors		31		82	
Accruals and deferred income		226		161	
			257		243
Total liabilities			205,793		191,580

The notes on pages 19 to 27 form part of the financial statements.

The financial statements on pages 13 to 27 were approved by the Board of Max at Lloyd's Ltd on 17 March 2009 and were signed on its behalf by

I J Bremner
Managing Director

17 March 2009

Statement of cash flows at 31 December 2008

	Notes	2008 £000	2007 £000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit on ordinary activities		13,725	16,000
Realised and unrealised investments losses		(9,889)	(2,048)
Decrease in net technical provisions		(1,041)	(316)
Decrease/(Increase) in debtors		9,820	(429)
Increase in creditors		217	296
Foreign exchange movements on balance due to members		1,748	245
Net cash inflow from operating activities		14,580	13,748
Payment of agency fees		(298)	(268)
Transfer to members in respect of underwriting participations:		(18,628)	(14,776)
Financing:			
Cash calls not paid		–	(1)
	18	(4,346)	(1,297)
Cash flows were invested as follows:			
Increase in cash holdings	18	30,859	2,974
Net portfolio investment	20	(35,205)	(4,271)
Net investment of cash flows		(4,346)	(1,297)

Notes to the financial statements at 31 December 2008

1. Basis of preparation

The financial statements are prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004, applicable Accounting Standards in the United Kingdom, and comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006) ("the ABI SORP").

2. Accounting policies

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(a) Premiums written

Gross premiums written comprise premiums on contracts incepted during the financial year. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified, as well as adjustments made in the year to premiums written in prior accounting periods.

(b) Unearned premiums

Gross premium written is 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 apportionment as appropriate.

(c) 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.

(d) Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred, but not yet reported (IBNR).

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date, but not reported until after the year end.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by external consulting actuaries. These techniques 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. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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 reinsurers' share of provisions for claims is based on calculated 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. The syndicate used a number of statistical techniques to assist in making these estimates.

Accordingly the two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of 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 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, ultimate liability will vary as a result of subsequent information and events and this 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.

(e) Unexpired risks provision

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

Notes to the financial statements at 31 December 2008

2. Accounting policies *(continued)*

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

(f) 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.

(g) Foreign currencies
Income and expenditure in US Dollars, Canadian Dollars and Euros are translated into Sterling at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Syndicate assets and liabilities, are translated into sterling at the rates of exchange at the balance sheet dates. Differences arising on translation of opening foreign currency amounts are included in the statement of total recognised gains and losses.

(h) Investments
Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid-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 were traded on the balance sheet date or the last trading day before that date.

(i) 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. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, 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 to reflect the investment return on funds supporting underwriting business.

(j) 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 (currently at 20%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members of 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 other overseas tax payable by members on underwriting results.

(k) Pension costs
Max at Lloyd's Ltd operates a defined contribution scheme. Pension contributions to Syndicate staff are charged to the syndicate and included within net operating expenses.

(l) Profit Commission
Profit commission is charged by the managing agent at a rate of 15% of profit subject to the operation of a deficit clause. Such commission does not become payable until after the appropriate year of account closes normally at 36 months. Profit commission, on naturally open years' is accrued on the basis of earned profit to date.

(m) Syndicate Operating Expenses
Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of managed syndicates, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the Managing Agent and managed syndicates are apportioned between the Managing Agent and the syndicates depending on the amount of work performed, resources used and volume of business transacted.

Notes to the financial statements at 31 December 2008

3. Segmental analysis

An analysis of the underwriting result before investment return is set out below:

2008	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Third party liability	43,074	44,079	(32,194)	(8,430)	2,533	5,988
Total	43,074	44,079	(32,194)	(8,430)	2,533	5,988

2007	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Third party liability	42,379	44,029	(20,059)	(14,112)	(930)	8,928
Total	42,379	44,029	(20,059)	(14,112)	(930)	8,928

All premiums were written in the UK. Analysis by destination is not materially different from the analysis above.

4. Claims

There were favourable movements during the year of £6.1 million, (2007: £15.2 million), in net incurred claims, on reserves held at 31 December 2007.

5. Net operating expenses

	2008 £000	2007 £000
Acquisition costs	8,349	8,716
Change in deferred acquisition costs	27	185
Administration expenses	4,200	4,395
(Profit)/loss on exchange	(4,146)	816
	8,430	14,112

Administration expenses include:

	2008 £000	2007 £000
Auditors' remuneration		
Fees payable to the Syndicate's auditor for the audit of these financial statements	97	89
Fees payable to the Syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	5	9
Total auditors' remuneration	102	98

Notes to the financial statements at 31 December 2008

6. Staff numbers and costs

All staff are employed by the service company. The following amounts were recharged to the syndicate in respect of salary costs:

	2008 £000	2007 £000
Wages and salaries	1,295	1,407
Social security costs	149	130
Other pension costs	159	133
	1,603	1,670

The average number of employees employed by the service company but working for the syndicate during the year was as follows:

	2008 Number	2007 Number
Administration and finance	4	6
Underwriting	8	7
Claims	8	7
	20	20

7. Emoluments of the directors of Max at Lloyd’s Ltd

The directors of Max at Lloyd’s Ltd received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2008 £000	2007 £000
Emoluments	75	78
Contributions to pension schemes	6	6
	81	84

Notes to the financial statements at 31 December 2008

8. Active underwriter's emoluments

The active underwriter received the following aggregate remuneration charged as a syndicate expense:

	2008 £000	2007 £000
Emoluments	197	197
Contributions to pension schemes	20	20
	217	217

9. Highest paid director's emoluments

The highest paid director received the following aggregate remuneration charged as a syndicate expense:

	2008 £000	2007 £000
Emoluments	25	25
Contributions to pension schemes	3	3
	28	28

10. Investment income

	2008 £000	2007 £000
Income from investments	6,952	7,079
Gains on the realisation of investments	1,015	67
	7,967	7,146

11. Investments expenses and charges

	2008 £000	2007 £000
Investment management expenses, including interest	116	146
Losses on realisation of investments	77	483
	193	629

Notes to the financial statements at 31 December 2008

12. Other financial investments

	Market value		Cost	
	2008 £000	2007 £000	2008 £000	2007 £000
Debt securities and other fixed income securities	87,212	115,604	85,774	114,671
	87,212	115,604	85,774	114,671

All debt securities and other fixed interest securities are listed on a recognised stock exchange.

All investments are rated AAA to A- by external rating agencies.

13. Debtors arising out of direct insurance operations

	2008 £000	2007 £000
Due within one year		
– intermediaries	11,443	11,628
	11,443	11,628

14. Debtors arising out of reinsurance operations

	2008 £000	2007 £000
Due within one year		
– intermediaries	2,741	1,289
	2,741	1,289

15. Reconciliation of members' balances

	2008 £000	2007 £000
Members' balances brought forward at 1 January	15,553	14,354
Profit for the financial year	13,725	16,000
Exchange movement	1,748	245
Distribution to members	(18,926)	(15,046)
Balance carried forward at 31 December	12,100	15,553

Members participate on syndicates by reference to years of account. Their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of the the years on which they participate.

16. Creditors arising out of direct insurance operations

	2008 £000	2007 £000
Due within one year		
– Intermediaries	912	1,463
	912	1,463

Notes to the financial statements at 31 December 2008

17. Creditors arising out of reinsurance operations

	2008 £000	2007 £000
Due within one year		
– intermediaries	2,882	1,973
	2,882	1,973

18. Movement in opening and closing portfolio investments net of financing

	2008 £000	2007 £000
Net cash inflow from the year	30,859	2,974
Cash flow – portfolio investments	(35,205)	(4,271)
Movement arising from cash flows	(4,346)	(1,297)
Changes in market value and exchange rates	9,889	2,047
Total movement in portfolio investments net of financing	5,543	750
Balance brought forward at 1 January	142,478	141,728
Balance carried forward at 31 December	148,021	142,478

19. Movement in cash and portfolio investments

	At 1 January 2008 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2008 £000
Cash at bank and in hand	22,657	30,859	463	53,979
Debt securities and other fixed income securities	115,604	(37,818)	9,426	87,212
Overseas deposits	4,217	2,613	–	6,830
Total portfolio investments	142,478	(4,346)	9,889	148,021

20. Net cash inflow on portfolio investments

	2008 £000	2007 £000
(Purchase)/Sale of overseas deposits	(2,613)	7,112
Sale of deposits with credit institutions	–	725
Sale/(Purchase) of debt securities and other fixed interest securities	37,818	(3,566)
Net cash inflow on portfolio investments	35,205	4,271

Notes to the financial statements at 31 December 2008

21. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

22. Disclosure of interests

Max at Lloyd's Ltd (MALL)

Total fees payable to MALL in respect of services provided to the syndicate amounted to £252,000 (2007: £251,000).

Profit commission of £3.23 million (2007: £3.34 million) is also due to MALL in respect of the profit on the 2006 (2005) closed year. Profit commission of £31,000 (2007: £82,000) has been accrued for the 2007 year of account. Profit commission is only payable on closure of the account: the 2007 year of account will normally close at 31 December 2009 and the 2008 year of account at 31 December 2010.

Expenses totalling £3.05 million (2006: £1.35 million) were recharged to the syndicate by MALL & MUUSL. Expenses incurred jointly by the managing agent and the syndicate are apportioned between them on the basis of work performed and resources used. Expenses are charged to the year of account for which they are incurred.

Max UK Underwriting Services Ltd (MUUSL)

MUUSL is a non-profit making service company that has been granted a binding authority to underwrite on behalf of Syndicate 2525 and 2526. MUUSL places employers' liability, public liability and professional indemnity business with the syndicates.

MUUSL receives an overrider commission on the premium underwritten on behalf of Syndicate 2525, in 2008 this amounted to £86,000 (2007: £114,000). MUUSL has rebated this overrider commission to Syndicate 2525 and this is included as a credit against syndicate expenses. MALL executives have not received any benefit for acting as directors of MUUSL. No overriding commission is charged on premiums underwritten on behalf of Syndicate 2526.

Notes to the financial statements at 31 December 2008

23. Related parties

In addition to MALL, Max has interests in other Lloyd's managing agencies and related corporate capital vehicles:

Max Corporate Capital 2 Limited (formerly Imagine Corporate Capital 2 Limited)
Max Corporate Capital 3 Limited (formerly Imagine Corporate Capital 3 Limited)
Max Corporate Capital 4 Limited (formerly Imagine Corporate Capital 4 Limited)
Max Corporate Capital 5 Limited (formerly Imagine Corporate Capital 5 Limited)
Max Corporate Capital 6 Limited (formerly Imagine Corporate Capital 6 Limited)

The participations of Max Corporate Capital 2 Limited & Max Corporate Capital 3 Limited are shown below:

	2006 £	2007 £	2008 £
Max Corporate Capital 2 Ltd	736,999	250,081	250,081
Max Corporate Capital 3 Ltd	275,000	600,000	600,000

MALL is the managing agency responsible for the management of all of the following syndicates:

994, 1400, 2525 & 2526

24. Post balance sheet event

The 2006 underwriting year result of £18.030 million will be distributed to members during 2009.

2006 Closing Year
Reports and Accounts

Report of the directors of the managing agent for the 2006 closing year of account

The directors of the managing agent present its report at 31 December 2008 for the 2006 closed year of account.

This report is prepared in accordance with the Lloyd's Syndicate Accounting Bylaw (No 8 of 2005). It accompanies the underwriting year accounts prepared on an underwriting year basis of accounting as required by Statutory Instrument No 3219 of 2004, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004.

We are very pleased to announce that the 2006 Year of Account on the traditional Lloyd's three-year accounting basis has closed with a profit (after deduction of profit commission but before members' agent fees) of £18.314 million, which is above our most recent forecast.

2006 Highlights

Allocated Capacity	£49.8m
Capacity Utilisation	86.4%
Profit	£18.314m

Active Underwriter's comments on the 2006 year of account

The result for the 2006 year of account is 36.7% of capacity.

As indicated in my commentary last year, the Syndicate continues to exercise close control over the vast majority of claims on both our primary book and our excess book. It is a matter of philosophy that we believe we display a rapid incurred claims development at an earlier stage than our peers. The reserve development patterns we experience have been extremely consistent since 2003 and we have no reason to expect future development patterns will behave differently.

Central to our approach remains the belief that the amount of profit that can be derived from each pound of premium is materially affected by how we handle claims. We are determined to reduce the cost of claims and have developed our claims handling function to reflect this at every level. We strive to drive down the excessive frictional costs, occasionally unnecessarily incurred, to bring claims to settlement. Claimant's legal costs are far too high a proportion of the overall cost of claims and it is the unfortunate case these days that almost all claims are brought by a legal representative. Further, we exert direct control over the cost of loss adjusting services as well as our own unavoidable legal defence costs.

The fact that we have full control of the vast majority of claims on both our primary book and our excess book means that we alone control the philosophy belying the manner in which we reserve for our claims liabilities. I would draw your attention to the underwriters' report in the annual accounts and to the 2007 commentary, in particular, as an example of this process. See below for a comparison of incurred loss ratio development on closed years:

2003 net incurred loss ratio at close	30.4%
2003 incurred loss ratio at close 2008	25.2%
2004 incurred loss ratio at close	46.6%
2004 incurred loss ratio at close 2008	42.0%
2005 incurred loss ratio at close	63.6%
2005 incurred loss ratio at close 2008	63.6%
2006 incurred loss ratio at close	61.4%

As I stated in one of my first Underwriting Reports we cannot wait for the legislature to ease the cost in settling claims, we must devise systems ourselves and trust our own judgement. Just recently the long awaited reform regarding these issues fell a long way short from that advocated by the ABI and demonstrates clearly why the initiative must come from us.

As an organisation underwriting a long liability account we must have at our foundation a fully functional, pro-active, efficient, and expert claims handling system, that is able to use its professionalism and resources to achieve its desired objectives within an imperfect system. I have great admiration for all our claims staff, whether in-house or mandated, and I thank them for their continued excellent performance.

That is not to say that the skill of underwriting is not equally important to the success of the Syndicate! All of our underwriters are aware of the absolute imperative that we must charge the 'right' premium for every risk that we underwrite. If we take on business without achieving this, it does not matter how good we are at settling claims, our business will fail. All our underwriters have specialised their entire careers in the classes of business that we underwrite and I, myself, have now been underwriting for nearly

Report of the directors of the managing agent for the 2006 closing year of account

Active Underwriter's comments on the 2006 year of account *(continued)*

thirty years! We may not be the best, for one can always improve and develop, but, I know that the team has the skills to get close to the right terms for each of the risks we consider. Additionally, as we delegated less than 1% of the underwriting function, that applies to virtually every risk insured by the Syndicate.

Having decided the premium, the quality of the risk must then be carefully considered before we commit. The experience we have as underwriters provides the instinct to detect those risks that may perform better than the average, but this is not foolproof. Therefore the Syndicate has a fully integrated system to help the underwriters in determining the quality of its client base. Where there are signs of poorly controlled risks, we have developed a system of risk survey, to ensure we have detailed knowledge of how problems might arise, and risk management to aid and assist our client base to minimize the liability potential. For larger clients we engage in a more comprehensive risk management programme coupled with longer period policies that allow for the implementation of our suggested improvements and maintain continuity with these core clients.

Finally, my thanks to all at the Syndicate and the Agency who have enabled us to produce another excellent result. We owe much to all our supporting brokers in the London Market too and to the continuing support of our re-insurers and of course, our capital base, who have supported the Syndicate for many years and I hope, will continue to do so in the future.

Approved by the Board of Directors and signed on behalf of the Board

I J Bremner
Managing Director

17 March 2009

Registered Office
70 Gracechurch Street
London EC3V 0XL

Statement of managing agent's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 require the managing agent to prepare syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005).

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members of the same syndicate for different years of account, be equitable between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the Lloyd's Regulations and Syndicate Accounting Byelaw. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of syndicate 2525 – 2006 closed year of account

We have audited the syndicate 2525 underwriting year accounts for the three years ended 31 December 2008 on pages 33 to 41, which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These have been prepared under the accounting policies set out therein.

This report is made solely to the members of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005). Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and auditors

The managing agent's responsibilities for preparing the syndicate underwriting year accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of managing agent's responsibilities on page 31.

Our responsibility is to audit the syndicate underwriting year accounts in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the syndicate underwriting year accounts give a true and fair view of the result of the closed year of account. We also report to you if, in our opinion the managing agent's report is not consistent with the syndicate underwriting year accounts, if the managing agent has not kept proper accounting records in respect of the syndicate, if the underwriting year accounts are not in agreement with the accounting records or if we have not received all the information and explanations we require for our audit.

We read the managing agent's report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate underwriting year accounts. It also includes an assessment of the significant estimates and judgements made by the directors of the managing agent in the preparation of the syndicate underwriting year accounts, and of whether the accounting policies are appropriate to the syndicate's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the syndicate underwriting year accounts.

Opinion

In our opinion the syndicate underwriting year accounts give a true and fair view in accordance with UK Generally Accepted Accounting Practice of the result for the 2006 closed year of account.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

17 March 2009

Profit and loss account for the 36 months ended 31 December 2008

Technical account – general business

	Notes	2008 £000	£000
Earned premiums, net of reinsurance			
Gross premiums written	3	50,239	
Outward reinsurance premiums		(8,359)	
			41,880
Reinsurance to close premiums received, net of reinsurance			80,209
Allocated investment return transferred from the non-technical account			8,014
Claims incurred, net of reinsurance			
Claims paid – Gross amount		(14,927)	
– Reinsurers' share		2,381	
Net claims paid		(12,546)	
Reinsurance to close premium payable, net of reinsurance		(90,962)	
			(103,508)
Net operating expenses	5		(8,281)
Balance on the technical account for general business			18,314

The underwriting year has closed: all items therefore relate to discontinued operations.

The notes on pages 36 to 41 form part of the financial statements.

Profit and loss account for the 36 months ended 31 December 2008

Non-technical account

	Notes	2008 £000
Balance on the general business technical account		18,314
Investment income	6	7,363
Unrealised gains on investments		1,336
Investment expenses and charges		(112)
Unrealised losses on investments		(1,266)
Realised gains on investments		880
Realised losses on investments		(187)
Allocated investment return transferred to the general business technical account		(8,014)
Profit for the closed year of account		18,314

The underwriting year has closed: all items therefore relate to discontinued operations.

The notes on pages 36 to 41 form part of the financial statements.

Balance sheet at 31 December 2008

	Notes	2008 £000	£000
ASSETS			
Investments	7		66,439
Debtors			
Debtors arising out of direct insurance operations	8	95	
Debtors arising out of reinsurance operations	9	2,741	
Other debtors		297	
			3,133
Reinsurance recoveries anticipated on gross reinsurance premiums payable to close the account			27,542
Cash at bank and in hand			45,215
TOTAL ASSETS			142,329
LIABILITIES			
Amounts due to members	10		18,030
Reinsurance to close premiums payable to close the account – gross amount			118,504
Creditors			
Creditors arising out of direct business	11	660	
Creditors arising out of reinsurance operations	12	1,903	
Other creditors including taxation and social security		3,232	
			5,795
TOTAL LIABILITIES			142,239

The notes on pages 36 to 41 form part of these financial statements.

The syndicate underwriting year accounts were approved by the Board of Max at Lloyd's Limited on 17 March 2009 and were signed on its behalf by

I Bremner
Director
17 March 2009

Notes to the accounts for the 36 months ended 31 December 2008

1. Basis of preparation

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the Lloyd's Regulations") and in accordance with the Syndicate Accounting Byelaw and applicable Accounting Standards in the United Kingdom.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2006 year of account which has been closed by reinsurance to close at 31 December 2008; consequently the balance sheet represents the assets and liabilities of the 2006 year of account and the profit and loss account reflects the transactions for that year of account during the 36 months period until closure.

As each syndicate year of account is a separate annual venture, there are no comparative figures.

2. Accounting policies

Underwriting Transactions

(a) The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of that three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

(b) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due, but not yet notified to the syndicate year of account.

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the balance of premiums written in the period to the balance sheet date that relate to unexpired risks of policies in force at that date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Outwards reinsurance premiums ceded are attributed to the same year as the original risk being produced.

(c) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

(d) The reinsurance to close premium determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums, net of deferred acquisition costs and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

(e) The outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss

Notes to the accounts for the 36 months ended 31 December 2008

2. Accounting policies *continued*

adjusters and previous experience of the cost of settling claims with similar characteristics. The amount included in respect of IBNR is based on statistical techniques of estimation applied by the syndicate's external consulting actuaries. These techniques 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 are may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The provision for claims includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated 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.

The syndicate used a number of statistical techniques to assist in making the above estimates.
The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of 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 methods used, and the estimates made, are reviewed regularly.

(f) A provision for unexpired risks is created where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

(g) Acquistion costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums at the balance sheet date.

Investment and Investment Return

(h) Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those funds. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the end of the previous calendar year, together with the reversal of unrealised gains and losses recognised in earlier calendar years 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 to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

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

Notes to the accounts for the 36 months ended 31 December 2008

2. Accounting policies *continued*

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

Syndicate Operating Expenses

(i) Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned as follows:

Salaries and Related Costs – According to time of each individual spent on syndicate matters.
Accommodation Costs – According to number of personnel.
Other Costs – As appropriate in each case.

Profit commission is charged by the managing agent at a rate of 15% of profit subject to the operation of a deficit clause. Such commission does not become payable until after the appropriate year of account closes normally at 36 months. Profit commission, on naturally open years' is accrued on the basis of earned profit to date.

The managing agent operates a defined contribution pension scheme and its recharges to the syndicate in respect of salaries and related costs include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

Amounts recharged by the managing agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Taxation

(j) 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 income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members of their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of Currency Translation

(k) Transactions in US dollars, Canadian dollars and Euros are translated at the date of the transaction or at an approximation average rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange at the date the transaction is processed.

Assets and liabilities are re-translated into sterling at the rate of exchange at the balance sheet date.

Although transactions are translated as described above, the final result for the year of account is calculated with US Dollars, Canadian Dollars and Euros translated at the balance sheet rates of exchange.

Differences arising on the re-translation of foreign currency amounts are included in the non technical account under "other charges" or "other income", dependent on whether it is a loss or a profit.

Where Euros are sold or bought relating to the profit or loss of a closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where US dollars and Canadian dollars relating to the profit or loss of a closed underwriting account are brought or sold by members on that year, any exchange profit or loss accrues to those members.

Notes to the accounts for the 36 months ended 31 December 2008

3. Particulars of business written

TYPE OF BUSINESS

An analysis of the underwriting result before investment return is set out below:

2008	Gross premiums written and earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:					
Third party liability	50,239	(133,431)	(8,281)	101,773	10,330
Total	50,239	(133,431)	(8,281)	101,773	10,300

All business is written in the United Kingdom. Analysis by destination is not materially different from the analysis above.

Gross operating expenses are the same as net operating expenses.

4. Analysis of result by year of account

	2005 & prior years of account £000	2006 pure Year £000	2006 Total £000
Technical account balance before allocated investment return and net operating expenses	9,255	9,326	18,581
Brokerage and commission on gross premium	3	(7,189)	(7,186)
	9,258	2,137	11,395
Other acquisition costs	–	(1,700)	(1,700)
Net other expenses	511	94	605
Investment income	769	7,245	8,014
Balance on technical account	10,538	7,776	18,314

Notes to the accounts for the 36 months ended 31 December 2008

5. Net operating expenses

	2008 £000
Acquisition costs	8,886
Member's agent fee	4,279
Administration expenses	747
Foreign exchange profit	(5,631)
	8,281

The closed year profit is stated after charging:

	2008 £000
Auditors' remuneration:	
Fees payable to the Syndicate's auditor for the audit of these financial statements	107
Fees payable to the Syndicate's auditor and its associates in respect of:	
Other services pursuant to legislation	4
	111

The auditors did not receive any other remuneration other than that stated above.

6. Investment income

	2008 £000
Income from investments	7,363
	7,363

7. Investments

	Market value 2008 £000
Debt securities and other fixed income securities	66,439
	66,439

All debt securities and other fixed income securities are listed on a recognised stock exchange. All investments are rated AAA to A- by external rating agencies.

8. Debtors arising out of direct insurance operations

	2008 £000
Due within one year – intermediaries	50
Due after one year – intermediaries	45
	95

Notes to the accounts for the 36 months ended 31 December 2008

9. Debtors arising out of reinsurance operations

	2008 £000
Due within one year	2,741
	2,741

10. Amounts due to members

	2008 £000
Profit for the closed year of account	18,314
Members' agents' fees paid on behalf of members	(284)
Members' balances carried forward at 31 December 2008	18,030

11. Creditors arising out of direct insurance operations

	2008 £000
Due within one year	660
	660

12. Creditors arising out of reinsurance operations

	2008 £000
Due within one year	1,903
	1,903

13. Related parties

In addition to MALL, Max has interests in other Lloyd's managing agencies and related corporate capital vehicles:

Max Corporate Capital 2 Limited (formerly Imagine Corporate Capital 2 Limited)
Max Corporate Capital 3 Limited (formerly Imagine Corporate Capital 3 Limited)
Max Corporate Capital 4 Limited (formerly Imagine Corporate Capital 4 Limited)
Max Corporate Capital 5 Limited (formerly Imagine Corporate Capital 5 Limited)
Max Corporate Capital 6 Limited (formerly Imagine Corporate Capital 6 Limited)

The participations of Max Corporate Capital 2 Limited & Max Corporate Capital 3 Limited are shown below:

	2006 £	2007 £	2008 £
Max Corporate Capital 2 Ltd	736,999	250,081	250,081
Max Corporate Capital 3 Ltd	275,000	600,000	600,000

MALL is the managing agency responsible for the management of all of the following syndicates:

994, 1400, 2525 & 2526

14. Post balance sheet event

The 2006 underwriting year result of £18.030 million will be distributed to members during 2009.

Summary of closed year results at 31 December 2008

	2000 £000	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000
Syndicate allocated capacity	£25,612	£37,087	£44,786	£41,992	£73,988	£44,282	£49,848
Number of underwriting members	307	307	294	280	514	421	478
Aggregate net premiums	£19,597	£31,667	£32,315	£29,690	£40,400	£32,361	£32,994
Results for an illustrative share of £10,000	£	£	£	£	£	£	£
Gross premiums	9,846	11,394	9,593	11,442	8,778	11,208	10,078
Net premiums	7,651	8,539	7,215	7,070	5,460	7,308	6,619
Reinsurance to close from and earlier account	–	4,877	10,364	15,802	9,408	17,680	16,091
Net claims	(2,248)	(2,552)	(2,770)	(3,352)	(2,134)	(2,996)	(2,517)
Reinsurance to close	(6,890)	(12,489)	(14,971)	(16,576)	(10,582)	(18,113)	(18,247)
Loss on exchange	(33)	(75)	(88)	33	(4)	(135)	1,130
Syndicate operating expenses	(843)	(634)	(231)	(274)	(118)	(234)	(151)
Balance on technical account	(2,363)	(2,334)	(481)	2,703	2,030	3,510	2,925
Investment income less investment expenses and charges and investment gains less losses	635	715	688	984	642	1,681	1,608
Profit/(loss) on ordinary activities	(1,728)	(1,619)	207	3,687	2,672	5,191	4,533
Illustrative personal expenses							
Managing agent's fee	60	60	60	60	60	60	60
Profit commission	–	–	–	525	373	751	652
Other personal expenses (excluding members' agents fees)	125	100	125	125	125	125	125
	185	160	185	710	558	936	837
Profit/(loss) on ordinary activities after illustrative managing agent's fee and profit commission and illustrative personal expenses	(1,913)	(1,779)	22	2,977	2,114	4,255	3,696
Total of syndicate operating expenses, managing agent's fee and profit commission	£903	£694	£291	£859	£551	£1,045	£863
Capacity utilised	98.5%	113.9%	95.9%	96.1%	74.0%	94.1%	86.4%
Net capacity utilised	76.5%	85.4%	69.9%	77.6%	54.6%	76.2%	69.6%
Underwriting (loss)/profit ratio	(24.0%)	(20.5%)	(5.0%)	23.6%	23.1%	31.3%	29.0%

Notes

1. The summary of closed year results has been prepared from the audited accounts of the syndicate.
2. Personal expenses have been stated at the amount which would be incurred pro rata by individual Names writing the illustrative premium income in the syndicate irrespective of any minimum charge applicable. Corporate members may be charged at different rates. Foreign tax, which may be treated as a credit for personal tax purposes, has been excluded.
3. As regards the 2007 and 2008 years of account, an illustrative share of £10,000 represents 0.0239% and 0.0239% of the respective allocated capacity.

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