LLOYD'S

LLOYD'S AGGREGATE ACCOUNTS 2010

CONTENTS

STRATEGIC OVERVIEW

OVERVIEW OF LLOYD'S COMPETITIVE ENVIRONMENT

GLOBAL ECONOMY

Although global economic growth has been slightly ahead of forecasts, recovery remains fragile. There is a disparity between the slow pace of growth in developed economies and the more robust position of many emerging markets. The full impact of the difficulties being experienced by some members of the Eurozone and the austerity policies of many developed countries is yet to be seen. The overall economic outlook is characterised by a lack of confidence in the future and the sustained demand, and growth, needed to remedy this are unlikely to appear in the short term.

The disparity in growth levels adds fuel to the ongoing shift in economic power between the developed Western world and emerging economies. This could heighten the risk of the introduction of protectionist international trade policies.

UK ECONOMY

The UK economy remains in a delicate position. However, the focus on economic re-balancing must not undermine the financial services sector. While reforms to the banking sector are necessary, these should not inadvertently penalise the insurance industry. In the short-term, financial services will remain a major driver of growth and, in the long-term, a healthy financial services sector provides capital, credit and risk transfer to the wider economy.

London remains a major international financial services centre and steps should be taken to secure this position, which will benefit the wider UK economy.

INSURANCE INDUSTRY

The global insurance industry faces a number of different pressures.

IMPACT OF ECONOMIC CONDITIONS

The ramifications of the economic turmoil of 2007-8 continue to be felt. The full impact of recession-related claims remains to be seen and levels of demand in some areas remain suppressed as insurance buyers seek to reduce expenditure and/or increase their levels of risk retention. Investment returns remain under pressure, reinforcing the need for underwriting profitability at a time when insurance rates remain low.

IMPACT OF UNDERWRITING CONDITIONS

Underwriting conditions remain soft with no strong drivers for change. One of the principal reasons for this is the amount of excess capital in both primary and reinsurance markets. While rates for some lines of business are improving, the overall rating environment remains difficult. Property rates, a driver of profit in the recent past, remain challenging and casualty lines are under even greater pressure.

Surplus capital and a weak pricing environment point to further merger and acquisition activity within the industry. Solvency II may add to this trend as strong insurers look for scale and/or diversification and weaker businesses find the demands of the new regime too onerous.

REGULATORY CHANGE

The insurance industry is facing a major upheaval in its regulatory architecture. In addition to Solvency II, the UK insurance industry is experiencing uncertainty following the announcement to restructure the FSA.

Much work is needed to determine how the new UK regulatory architecture can be made to deliver a credible structure without creating unnecessary complexity and cost for the industry. Lloyd's will continue its engagement with the Government, the Bank of England and the FSA to work on the detail and to ensure that the competitive position of the Lloyd's market is protected.

The uncertainty in regulatory supervision comes at a time when insurers and regulators are focused on delivering Solvency II. The industry must ensure that its voice (and that of the FSA and its successor bodies) remains influential in Europe and at home. In Europe this will mean engagement with the new regulatory authority, the European Insurance and Occupational Pensions Authority (EIOPA). Insurers also need to continue to guard against being burdened with inappropriate and potentially damaging regulation primarily aimed at the banking sector.

CHANGING BUSINESS FLOWS

London remains the world's largest international insurance market. That said, some existing business, which may have traditionally come to London, is now written in regional insurance hubs. Some of these hubs are now relatively well established, such as Singapore, whereas in other regions, such as the Middle East, a number of locations are vying for ascendancy.

Insurance markets continue to develop in the BRIC (Brazil, Russia, India and China) economies. In some countries, access to this new business requires local recognition and sometimes, although not always, local presence.

In response to these changes, both insurers and brokers are expanding their global presence in order to increase the amount of business to which they have access.

INSURERS' BUSINESS MODELS

The multiplatform model – where insurers operate from more than one location – is now well established as the standard business model for specialist global insurers. The role of different platforms within this model will vary depending on both their ability to access business and their attractiveness as a location of domicile. Decisions on platform selection may also be influenced by a platform's relative capital efficiency and/or its trading and processing infrastructure.

The past year has seen increased interest in a number of international insurance centres as locations of domicile. A number of (re)insurers have redomiciled to, or launched operations in, Zurich, citing the attractions of the low tax regime, regulatory framework and access to business. Bermuda remains an important global (re)insurance destination.

BROKERS' BUSINESS MODELS

Brokers are facing challenges as soft market conditions, and increasingly demanding clients, put pressure on their revenues. Their responses are wide ranging and include mergers and acquisitions; rationalisation of insurer panels; increasing their presence throughout the distribution chain; and a number of other initiatives designed to raise revenue from insurers.

CHANGING RISKS AND PRODUCTS

In addition to the current rating conditions, insurers also face challenges from the many ongoing changes in the underlying risk landscape. The severity of both natural and man-made events continues to increase, driven principally by increasing urbanisation, climate change and terrorism. New categories of insurance claims are emerging, especially those connected with new technologies, such as cyber terrorism and crime. In addition, the cost of claims associated with more traditional risks is rising in part because of an increasingly litigious culture.

The risk securitisation market continues its gradual recovery, with new catastrophe bond issuance figures for 2010 expected to exceed those of 2009. These products are, in the main, related to the most extreme natural catastrophe events (eg US windstorm risks). Further significant growth in this sector will probably require both an increased demand for cover for other geographies or risk types, and more interest from the mainstream investment community.

Despite these challenges, opportunities exist for insurers which are able to balance flexibility with discipline and are well prepared for the coming regulatory change.

STRATEGIC OVERVIEW
CONTINUED

CHALLENGES FACING THE LLOYD'S MARKET

LLOYD'S POSITION

Lloyd's continues to be in a strong position with a healthy balance sheet, a conservative investment strategy and a business model which seeks to focus on underwriting discipline and underwriting profit. The market continues to deliver a robust performance despite the level of catastrophe claims in 2010 and the ongoing challenges presented by both economic and underwriting conditions.

Notwithstanding this strong position, the market faces a number of challenges in its competitive environment. The five principal challenges identified in last year's strategic plan remain broadly the same, although with added emphasis on the supervisory and regulatory environment.

MARKET PRIORITIES

At a high level, these challenges are being addressed through the market's priorities for the plan period, which remain the same as last year, namely:

> To maintain and develop the attractiveness of the Lloyd's market.
> A resolute focus on underwriting discipline and risk management.

More specific responses on the part of market participants and the Corporation are outlined in the table below.

CHALLENGES	RESPONSES
MAINTAINING MARKET PERFORMANCE > Challenging rating environment > Excess capital within the industry > Challenging economic conditions	> Managing agents: continue to demonstrate appropriate discipline across all aspects of their insurance operations > Corporation: will emphasise its challenging business partner role
MAINTAINING THE ATTRACTIVENESS OF LONDON > Competition to be domicile of choice – based on tax and regulatory frameworks > Choice of locations for accessing insurance business flows > Attracting and developing talent	> Market and Corporation: continue to work together and with other stakeholders to promote the competitiveness of London as a financial services centre > Market and Corporation: continue to support both industry-wide and Lloyd's-specific talent and development initiatives
MAINTAINING THE ATTRACTIVENESS OF LLOYD'S > Ensuring brand strength is not undermined > Lloyd's platform increasingly used to write more 'volatile' business > Changing nature of market participants > Ensuring any new entrants are of an appropriate quality > Addressing the length and complexity of the Lloyd's distribution chain > Maintaining a vibrant subscription market > Continuing to modernise the market's operating environment	> Market: active participation in market modernisation initiatives by brokers and managing agents; managing agents to continue to operate in line with franchise standards and guidelines > Corporation: continue to maintain and enhance Lloyd's strengths; continue to co-ordinate, lead and resource market modernisation initiatives
MAINTAINING ACCESS TO CHANGING BUSINESS FLOWS AND DISTRIBUTION > Consolidation of brokers; dominance of the largest three brokers > Regionalisation of specialist insurance business > Growth of 'Lloyd's type' business in emerging markets > Leveraging position in established markets	> Managing agents and Corporation: continue to develop effective relationship management programmes with brokers to deliver reciprocal benefits > Corporation: to maintain Lloyd's licence network and, subject to market demand, pursue market development opportunities
A CHANGING SUPERVISORY AND REGULATORY ENVIRONMENT > Uncertainty around international financial services regulatory reform > A new framework for insurance regulation in the UK > Operational and strategic implications of Solvency II	> Managing agents and Corporation: continued commitment to Solvency II implementation > Corporation: continue lobbying activities to influence the design of domestic and international regulatory frameworks

MARKET PERFORMANCE

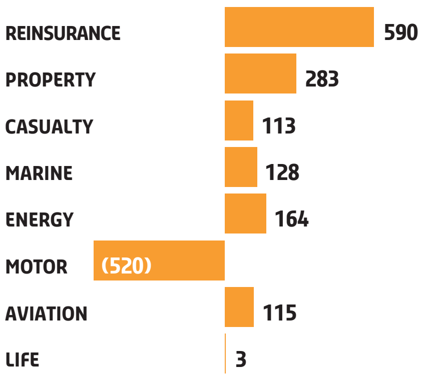
2010 HIGHLIGHTS

- Profit before tax of £2,195m (2009: £3,868m) and a combined ratio of 93.3% (2009: 86.1%)
- Combined ratio excluding foreign exchange movements on non-monetary items of 93.3% (2009: 83.8%)
- Total investment return of £1,258m (2009: £1,769m)
- Overall surplus on prior years of £1,016m (2009: 934m)
- Pre-tax return on capital of 12.1% (2009: 23.9%)

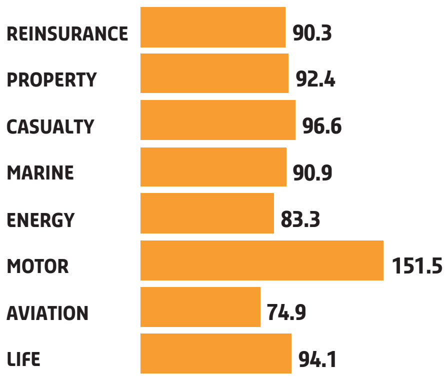
2010 COMBINED RATIO

ACCIDENT YEAR	**99.2%**
PRIOR YEAR RESERVE MOVEMENT	**(5.9)%**
CALENDAR YEAR	**93.3%**

UNDERWRITING RESULTS BY CLASS
£m



COMBINED RATIO BY CLASS
%



* The combined ratio for the market and by class of business is the ratio of net incurred claims and net operating expenses to net earned premiums. The prior year reserve movement represents the ratio of the surplus/deficit arising on reserves at December 2009 to overall net earned premiums in calendar year 2010. The overall combined ratio includes central adjustments in the technical account in respect of transactions between syndicates and the Society as described in notes 2 and 8 to the PFFS (pages 63 and 66 of the Lloyd's Annual Report). The combined ratios and results for individual classes of business do not include these adjustments as the market commentary for each class reflects trading conditions at syndicate level as reported in syndicate annual accounts.

The Lloyd's market produced a profit of £2.2bn in 2010 despite a higher than average level of catastrophes and an economic environment that meant high investment returns were difficult to achieve.

In previous years a key factor in determining the market's profitability has been the level of claims arising from the Atlantic hurricane season. After a very low number of storms in 2009, this year saw a very active hurricane season with 19 named storms. The paths that these storms followed, however, kept them offshore and away from the energy production platforms in the Gulf of Mexico. None made landfall in the US with the result that insured losses were below average.

Nevertheless, 2010 served as a reminder that as a global insurer and reinsurer our exposure to natural catastrophes is worldwide and throughout the year.

We were only 12 days into 2010 when the first natural catastrophe struck; an earthquake that brought enormous human misery to Haiti. As the year progressed we were to see insurance losses arising from more earthquakes, storm damage, floods and even from volcanic activity. The final major insurable event was the year's second incident of flooding in Queensland, Australia, on 26 December.

The impact of these natural catastrophes alone has meant that we have been helping clients in North America, South America, Europe, Australia and New Zealand to rebuild their lives and their businesses.

The first three months of 2011 have seen further natural catastrophes: heavy rainfall with flooding in Australia, another earthquake in New Zealand, and then the earthquake and tsunami that devastated North East Japan in March. While scientists continue to argue over climate change, as a global insurer and reinsurer it is vital that we do all we can to improve our understanding of what may trigger natural catastrophes and the consequences they have for our clients. We then need to develop strategies with our clients to help them mitigate the impact of these events.

MARKET PERFORMANCE
CONTINUED

LOOKING AHEAD

In both our 2008 and 2009 Annual Reports we cautioned that the market was entering a softer phase of the underwriting cycle and that it is was therefore imperative that underwriting discipline be maintained. The message this year remains the same.

Reported industry results continue to be profitable, fuelling the supply of capital which is at, or near, peak levels. Some companies are returning capital to shareholders but there remains an abundance of capacity and this is acting as a barrier to obtaining rate improvements. In addition, we consider that the increases in capacity are not matched by demand in most lines.

One area where we do expect to see rate increases is in UK motor and some other personal lines. Such increases are driven by the rapid rise in bodily injury claims and will need to be significant to return to a position of premium adequacy, let alone generate ongoing underwriting profits.

In commercial lines the prospects for rate increases are low. With the high capacity levels and the absence of any market-shifting loss events, rates in 2011 are expected to either remain flat or soften.

Aside from the need to be ready for Solvency II next year, robust pricing methodologies, careful risk selection and diligent exposure management are vital in the current environment. Cycle management is always necessary and needs to extend to defensive underwriting in a number of classes where margins are now questionable. The need for underwriting discipline is further heightened by the continuing low interest rate environment, so restricting any buffer from investment returns to offset weak underwriting results.

2010 PERFORMANCE

Gross written premium for the year increased by 2.8% to £22,592m (2009: £21,973m). This increase is mainly attributable to new opportunities for Lloyd's market participants through our strong market ratings and extensive licence network. Risk adjusted rates are slightly down on last year. Movements in exchange rates were not a material factor in 2010 (the average rate for US dollars in 2010 was US$1.55:£1 compared to US$1.57:£1 for 2009). US dollar denominated business accounts for the largest share of Lloyd's business. In 2010 the proportion of US dollar denominated business reduced slightly compared to 2009.

Throughout 2010 there was increased rating pressure across most lines of business with overall cumulative reductions of between 0% and 5%. There were some instances of increases, but confined to those classes that were impacted by significant claims activity, particularly energy and UK motor. For UK motor the level of increase was not sufficient to compensate for claims inflation.

ANALYSIS OF EXCHANGE GAIN/(LOSS)

	2010 £m	2009 £m
Impact of translating non-monetary items at average rates and monetary items at closing rates	**(9)**	(9)
Accident year – other	**99**	(88)
Prior years	**138**	28
Profit/(loss) on exchange	**228**	(69)
Gain/(loss) within premiums/expenses through reversal of exchange movement reported in previous year	**9**	(370)
Total	**237**	(439)

ACCIDENT YEAR PERFORMANCE

For 2010 the Lloyd's market has delivered a profitable accident year combined ratio of 99.2% (2009: 91.7%).

The underlying accident year ratio adjusted to exclude major events stands at 86.5% (2009: 89.6%) a similar level to calendar years 2006 to 2009 on the same basis.

With respect to claims from major events, there is no season for earthquakes and the first event occurred on January 12 when Haiti was struck leaving more than 220,000 people dead. This appalling loss of life represents almost three quarters of all estimated 2010 fatalities arising from natural catastrophes.

In the following month Chile was struck by an earthquake that was five-hundred times more powerful than that in Haiti and the fifth-strongest ever measured. As a more developed country than Haiti, Chile has building codes that ensure construction takes into account the possibility of earthquake damage and as a consequence there was relatively little loss of life. However, the Chile earthquake did generate the largest catastrophe-related losses of the year (estimated at US$30bn) and the largest insured loss (US$8bn) of 2010. The estimate of net ultimate claims to the Lloyd's market from this event is £857m.

In September, Christchurch on the south island of New Zealand was also hit by an earthquake. The estimate of net ultimate claims to Lloyd's arising from this event totals £428m.

A note of caution should always accompany estimates for earthquake-related claims in view of historical experience which shows that uncertainty in predictions of the final claims costs persists for many years after the event.

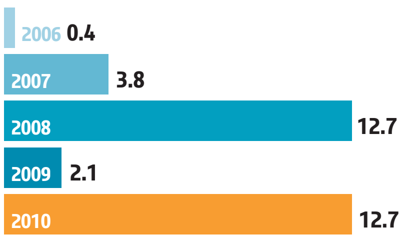
A further key factor in the market's result is the impact of the Atlantic windstorm season. The 2010 windstorm season had 19 named tropical cyclones, the third highest number in the last 100 years, behind 2005 with 28 and 1933 with 21 (Source: Munich Re). In terms of insured losses, however, the 2010 windstorm season can be counted as one of the more benign years. The tracks of most of the storms, including the largest, 'Igor', meant that the US and the Gulf of Mexico energy fields were spared. The most expensive storm in terms of insured losses was 'Karl', which struck Mexico, followed by 'Tomas' which hit the Caribbean.

Winter storms and floods also took their toll in 2010. The Eastern United States were struck by severe snow storms in February, and in the same month France and Spain were hit by Winter Storm Xynthia. In March, Australia was struck by two severe hailstorms and Queensland suffered under heavy flood waters. The end of the year saw severe weather return to Australia and Queensland was again victim to flood waters.

ACCIDENT YEAR EXCLUDING MAJOR LOSSES
%

5 year average 87.1
10 year average 88.6

MAJOR LOSSES
%



5 year average 6.3
10 year average 10.4

MARKET PERFORMANCE CONTINUED

2010 saw one further type of natural disaster but its impact on the insurance industry was indirect rather than direct. In April the Icelandic volcano Eyjafjallajökull erupted and the dust particles that were thrown into the atmosphere led to planes in Northern Europe being grounded for days. Airlines are not generally insured for consequential loss so had to absorb the loss of earnings themselves. As the crisis continued, however, people and goods became displaced and other industry sectors that do purchase business interruption insurance became affected.

As well as natural catastrophes there were major insured losses related to industrial activities. The worst such event for 2010 was the Deepwater Horizon disaster in the Gulf of Mexico. Most of the insurable loss from this event will be borne by BP but Lloyd's estimate of net ultimate claims to the market of between US$300m and US$600m remains unchanged from our announcement in May.

We noted last year, and it remains the case, that we have not yet seen the full anticipated claims impact of the worldwide recession. That said, underlying attritional loss activity in liability lines was higher in 2010 compared to last year and was still rising in terms of numbers of claims, although this is not yet translating into higher claims by value.

Although UK motor represents just 5% of Lloyd's overall business, the size of the losses reported this year is material at the market level. These are discussed in more detail in the motor section.

PRIOR YEAR MOVEMENT

Lloyd's continues to benefit from prior year reserve releases, improving the combined ratio by 5.9% (2009: 5.6%). The release is 4.0% of net claims reserves brought forward at 1 January 2010.

This was the sixth successive year of prior year surpluses. The strong level of claims reserves support the releases that are being made from most classes of business, with the majority arising on the 2002 – 2006 accident years. Actual claims development for these years remains significantly below previous estimates. Claims estimates for the 2008 US hurricanes remain stable and development on the longer-tail business written in the soft market conditions of 1997-2001 continues to be within expectations.

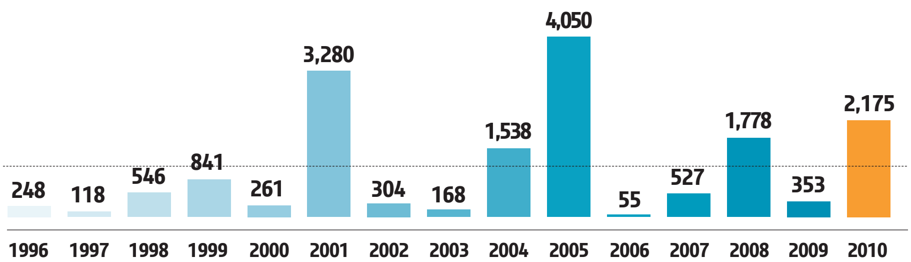
The overall level of release has been impacted in 2010 by the need for reserve strengthening for UK motor. This is a relatively small class of business for Lloyd's, but the impact of claims inflation beyond previous estimates has generated an aggregate deficit of £370m.

REINSURANCE PROTECTION

The credit quality of the Lloyd's market's reinsurance cover remains extremely high with over 96% rated 'A' and above. While there are few AAA rated reinsurers, the top 10 reinsurers are all rated A or better.

The insurance linked securities (ILS) market recovery continued into 2010 but remains lower than the level of aggregate exposure in 2007. Innovative structures to mitigate

LLOYD'S MAJOR LOSSES: NET ULTIMATE CLAIMS
£m



Indexed for inflation to 2010. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

£1,017m 17 year average
£1,083m 15 year average

counterparty credit risk helped to increase interest in these products. Notwithstanding this, risk carriers' appetite for traditional reinsurance risk transfer remains healthy.

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

Under Lloyd's three-year accounting policy for final distribution of each underwriting year of account, the 2008 account reached closure at 31 December 2010. The 2008 calendar year was impacted by a significant level of major losses, particularly Hurricanes Ike and Gustav. Furthermore, the year saw unprecedented turmoil in the financial markets. Despite these challenges the 2008 year of account closed with a profit of £1,645m. The result includes a surplus of £875m arising on the 2007 and prior reinsurance to close (RITC) received as at 31 December 2009.

In aggregate, run-off years reported a profit of £127m including investment income (2009: £117m) and syndicates backed by insolvent members supported by the Central Fund reported an overall surplus for the third successive year.

The Lloyd's open years management team have had further success in their work with the market to achieve the closure of syndicates with run-off years of account. By the end of 2010, a further nine syndicates with a total of 16 years of account were closed. The closures included s102, previously managed by Goshawk and s376 (Alleghany) substantially eliminating the legacy issues that impacted the Central Fund.

Four syndicates were unable to close their 2008 year of account at the year end and, therefore, the net reduction in open years is 12. The aggregate net reserves on run-off years of account have now fallen to £0.7bn from £4.4bn at December 2005.

The results of the major classes of business are discussed in detail on pages 11 to 17.

INVESTMENT REVIEW

The consequences of the credit crisis continue to haunt financial markets. Global bond yields were already low at the beginning of 2010 and fell significantly further in many cases. This was driven by growing concerns around the sustainability of the global economic recovery, which increased expectations that interest rates would remain low for an extended period. This has aided investment returns from many fixed income portfolios, as falling yields generated capital gains on such securities. At the same time, lower yields mean that the outlook for future investment returns remains poor and they increase the risk that a sudden reversion to more normal yield levels could generate investment losses.

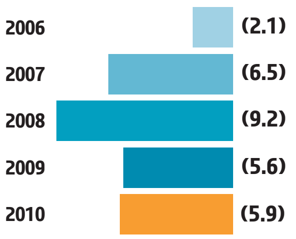
The move to lower yield levels has not been universal. Some sovereign issuers, particularly in peripheral European countries, saw yields on their securities rise dramatically as investors increasingly doubted their ability to fund large budget deficits. This caused some to question the future of the eurozone, notwithstanding the efforts of the European authorities to support affected countries. Lloyd's has little exposure to these securities.

Corporate bonds saw continuing volatility through ongoing uncertainty surrounding global economic prospects. Their performance in 2010 varied by industry and geographic location, but returns overall were good. However, they have not repeated the very strong performance seen in 2009.

Syndicate premium assets form the largest element of investment assets at Lloyd's. Managing agents are responsible for the investment of these funds, which are used to meet insurance claims as they become payable. Traditionally, syndicates adopt conservative investment policies, utilising cash and high quality fixed interest securities of relatively short duration. More recently, a number of syndicates have diversified their investments to include elements of more volatile asset classes, such as equities, hedge funds and lower rated debt securities. However, high quality, short dated, fixed interest securities continue to dominate syndicate portfolios.

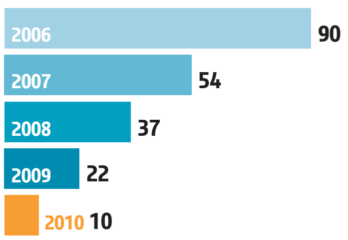
Overall, syndicate investments returned £914m, or 2.9% in 2010 (2009: £1,387m, 4.5%). Investments are valued at market prices and unrealised gains and losses are included within reported investment returns.

PRIOR YEAR RESERVE MOVEMENT
%



Combined ratio

YEARS OF ACCOUNT IN RUN-OFF



The results of the major classes of business are discussed in detail on **pages 11-17**.

MARKET PERFORMANCE
CONTINUED

Although modest by historic standards, syndicate investment returns in 2010 significantly exceeded expectations overall. This is because the low available yields were augmented by capital gains on fixed interest securities as yields continued to fall. Also, syndicate investments were not significantly exposed to the poor performing peripheral European bond markets. Those syndicates which maintained longer fixed interest durations through most of the year have achieved the highest returns, while those with shorter durations, and lower volatility, have performed less well.

Members' capital is generally held centrally at Lloyd's. A proportion of this capital is maintained in investment assets and managed at members' discretion. A notional investment return on members' capital of £211m or 1.5% (2009: £266m, 2.2%) has been included in the Pro Forma Financial Statements (PFFS). This is based on the investment disposition of the relevant assets and market index returns. The low return in 2010 reflects the high levels of cash and equivalent instruments held within members' capital.

The investment return on Lloyd's central assets is also included in the PFFS. This was £133m or 5.6% in 2010 (2009: £116m, 5.2%). The investment performance of central assets is discussed on page 96 of the Lloyd's Annual Report. The total contribution from investment returns, including syndicate assets, members' capital and central assets, was £1,258m, 2.6% (2009: £1,769m, 3.9%).

The low prevailing level of yields generally will continue to make it difficult to achieve attractive investment returns in 2011. Ongoing uncertainty around the path of economic recovery and emerging inflationary pressures suggest that financial markets may remain volatile. This creates further challenges for investment strategy.

RESULTS SUMMARY

Lloyd's achieved a profit before tax for the financial year of £2,195m (2009: £3,868m) and a combined ratio of 93.3% (2009: 86.1%). The PFFS aggregates the results of the syndicate annual accounts, notional investment return on funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. The basis of preparation of the pro forma financial statements is set out in note 2 on page 63 of the Lloyd's Annual Report. The syndicate annual accounts reported an aggregate profit of £1,790m (2009 restated: profit of £3,380m).

RISKS AND UNCERTAINTIES

RISKS AND UNCERTAINTIES

The approach to risk adopted by the Corporation is discussed in the Strategic Overview (pages 30 to 32 of the Lloyd's Annual Report). This includes oversight of the risks present in the market. In addition, managing agents are responsible for identifying the risks that they and each of their syndicates face and developing relevant policies and procedures to mitigate those risks. Syndicates' risk profiles vary so the steps taken to mitigate those risks will differ from one managing agent to another. Whilst this section provides an overview of the main risks faced by managing agents and their syndicates, the descriptions are generic in nature, based on the minimum standards Lloyd's requires of managing agents in dealing with risk.

INSURANCE RISK

The dominant category of risk faced by Lloyd's syndicates is insurance risk. This can be defined as the risk arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. In practice insurance risk can be subdivided into underwriting risk and reserving risk.

UNDERWRITING RISK

This includes the risk that a policy will be written for too low a premium, provide inappropriate cover, or that the frequency or severity of insured events will be higher than expected.

Underwriting strategy is agreed by the board of each managing agent and set out in the Syndicate Business Plan which is submitted to the Corporation each year.

The managing agents' underwriting controls should ensure that underwriting is aligned with their strategy, approved business plan and underwriting policy.

Managing agents are expected to have controls in place to ensure that regulatory requirements and the scope of Lloyd's market licences are clearly understood and that risks are written within those requirements.

Managing agents need to have clear processes for pricing business and an audit trail to show how pricing will deliver the projected results within the approved business plan and how pricing will be managed over the relevant underwriting cycle.

Managing agents may use catastrophe modelling software, where appropriate, to monitor aggregate exposure to catastrophe losses. The Corporation has developed a suite of Realistic Disaster Scenarios to measure syndicate level and aggregate market exposure to both natural catastrophes and man made losses. These are monitored frequently and revised annually.

The Corporation reviews all Syndicate Business Plans to ensure that it is content with those plans at the syndicate level and also from the perspective of the market as a whole. Once a plan is accepted the Corporation uses performance management data to identify whether each syndicate's business performance is progressing in line with the business plan or that variations are understood and accepted.

RESERVING RISK

Reserving risk arises where the reserves established in the balance sheet are not adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for Incurred But Not Reported Claims (IBNR). These shortfalls can arise from inadequate reserving processes or from the naturally uncertain progress of insurance events.

Currently Lloyd's view of the underwriting cycle is that following several years of reserve releases, reserves could start to come under pressure, particularly in the Casualty and UK Motor classes. This risk has been emphasised to managing agents in a number of seminars and in a letter to the Finance Directors of managing agents.

Syndicate claim reserves should make financial provision at reported loss levels, without prejudice to coverage, based on currently available information and factual supporting information in the claim file.

Legal advisers and loss adjusters, together with underwriters' informed knowledge and judgement, are used to set the estimated level of reserves required.

In the reserving process managing agents will be assisted by the use of statistical analyses of historical loss development patterns, adjusted for known changes to wordings or the claims environment. Lloyd's syndicates have significant exposure to volatile classes of business which carry material inherent risk that the ultimate claims settlement will vary from previous assessments of reserves.

RISKS AND UNCERTAINTIES CONTINUED

The syndicates' full reserves are subject to actuarial opinion at the year end and are also reviewed by the Corporation.

REGULATORY RISK

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. Managing agents monitor regulatory development to ensure ongoing compliance and any impact on claims reserves.

CREDIT RISK (INCLUDING REINSURER COUNTERPARTY RISK)

Credit risk is the exposure to loss by a syndicate if a counterparty fails to perform its contractual obligations.

The market's principal credit risk is that the reinsurance purchased to protect the syndicate's gross losses does not respond as expected. This can occur because the reinsurance policy is poorly worded, there is a mismatch with the gross loss, reinsurance limits are exhausted or a combination of willingness and ability to pay by reinsurers.

Managing agents are expected to have a clear and comprehensive plan for the reinsurance of each syndicate. This takes into account risk appetite for retained insurance risk and the potential for the accumulation of risk.

The managing agent should monitor and assess the security of, and exposure to, each reinsurer and intermediary. Reinsurance credit risk is subject to quarterly review by Lloyd's.

Syndicates are also exposed to credit risk in their investment portfolio and their premium debtors. FSA investment guidelines are designed to mitigate credit risk by ensuring diversification of holdings. Credit risk in respect of premium debt is controlled through broker approval and regular monitoring of premium settlement performance.

MARKET RISK

Market risk is the risk that the value of financial instruments will fluctuate because of movements in foreign currency, interest rates or asset values.

CURRENCY RISK

Managing agents must identify the main currencies in which each syndicate transacts its business. For the market overall, the US dollar is the largest currency exposure. Assets are then held in each of those currencies to match the relevant liabilities. Managing agents must ensure that assets match liabilities and take corrective action where a mismatch arises. Lloyd's also reviews the matching of assets to liabilities at the syndicate level as well as at the market level.

INTEREST RATE RISK

Interest rate risk is the risk that the value and future cash flows of a financial instrument will fluctuate because of changes in interest rates. Lloyd's syndicates operate a generally conservative investment strategy with material cash and short dated bonds portfolios which reduces the interest rate risk exposure.

ASSET VALUE

Asset value relates to financial assets whose values will fluctuate as a result of changes in market prices.

Syndicate assets are held in premium trust funds and are subject to the asset rules contained in the FSA's handbook. Managing agents manage asset risk through their investment strategy.

The potential financial impact of changes in market value is monitored through the ICA process and asset mix must be reported to Lloyd's on a quarterly basis, including credit rating analysis of fixed income portfolios.

LIQUIDITY RISK

Liquidity risk arises where a syndicate has insufficient funds to meet its liabilities, particularly claims. Managing agents are expected to manage the cash needs of their syndicates on an ongoing basis and to avoid becoming forced sellers of assets. They are required to match the duration of their syndicates' investments with the liabilities to policyholders. Generally syndicates have a high concentration of liquid assets, namely cash and government securities.

Lloyd's centrally monitors syndicate liquidity both in terms of asset mix and future funding needs.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Managing agents manage these risks through internal compliance monitoring and the use of detailed procedure manuals. Lloyd's sets minimum standards to be applied by agents and monitors to ensure these are met.

REINSURANCE

STRENGTH OF RESERVES OFFSETS SIGNIFICANT EARTHQUAKE CLAIMS

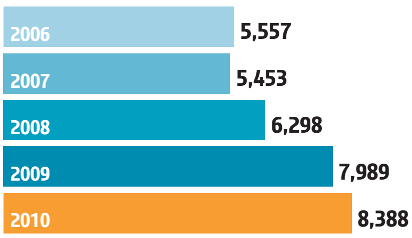
2010 HIGHLIGHTS

- Chilean earthquake highlights worldwide catastrophe risk profile
- Benign US hurricane season
- Declining property catastrophe rates with 2010 events having little effect on overall rating environment

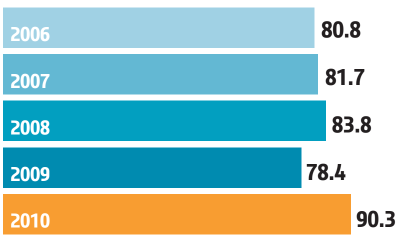
2010 COMBINED RATIO

ACCIDENT YEAR	**99.8%**
PRIOR YEAR RESERVE MOVEMENT	**(9.5)%**
CALENDAR YEAR	**90.3%**

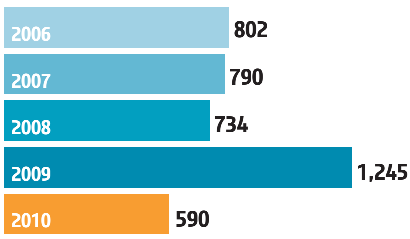
GROSS WRITTEN PREMIUM
£m



COMBINED RATIO
%



UNDERWRITING RESULT
£m



The reinsurance market at Lloyd's covers a wide range of classes, both short and long-tail. Business is written as both facultative and treaty, mainly on an excess of loss basis.

The predominant class is property, which includes catastrophe risks worldwide with a significant exposure to the US market. This segment experienced downward rating pressure in most markets due to excess capacity and a general lack of growth in the underlying markets. The favourable catastrophe experience in the US was offset by the earthquake related claims from the events in Chile and New Zealand and multiple weather related events in Australia. The enormous economic cost from the loss of the Deepwater Horizon oil rig and ensuing pollution has impacted the marine and off-shore energy reinsurance classes.

PROPORTION OF REINSURANCE PREMIUMS WRITTEN BY SEGMENT

PROPERTY	**59%**
CASUALTY	**16%**
MARINE	**8%**
ENERGY	**8%**
AVIATION	**5%**
MOTOR	**4%**

In Lloyd's casualty treaty is still reasonably disciplined and there has been little widening of cover. Direct insurers are still looking to retain more risk and are tending to drop first layer coverage to secure lower premiums. Claims frequency and severity remains within planning assumptions with no indication that this trend is changing. Stable rates are still being achieved by reinsurers.

There have been no unexpected performance issues in the other reinsurance classes which include accident and health, motor and aviation.

2010 PERFORMANCE

Lloyd's gross written premium for 2010 was £8,388m (2009: £7,989m), an increase of 5%.

ACCIDENT YEAR PERFORMANCE

The year was notable again for the absence of a major land-falling hurricane in the US, which has had a positive effect on results. Lloyd's is exposed to the earthquakes in Chile and New Zealand, as well as multiple storms and floods in Australia, but these are expected to fall within planned annual catastrophe loss ratios.

The Deepwater Horizon loss has had a major impact on the offshore energy reinsurance market particularly with regard to the assessment of liabilities.

The property risk excess book has benefited from the absence of large risk losses.

The property pro-rata treaty sector is mainly a catastrophe and specialist lines portfolio and is expected to outperform the primary market.

PRIOR YEAR MOVEMENT

The prior year reserve movement was a surplus of 9.5% (2009: 5.8%). Catastrophe risk loadings continue to be released with stable development in property claims for Hurricanes Ike and Gustav.

LOOKING AHEAD

Reinsurance capital has increased to historically high levels with a consequent increase in the supply of capacity. Competition is expected to continue and even intensify on the back of favourable results in 2010.

The January renewals have indicated a continuing rate reduction across nearly all treaty and facultative reinsurance lines. Rating pressure may increase further as the year develops. Additional negative factors include the tendency of direct insurers to retain more business, reducing the premium available for reinsurers, and the spike in commodity prices including oil and minerals which may drive up claims inflation for business interruption coverages.

PROPERTY

PERFORMANCE REFLECTS INCREASED INCIDENCE OF LARGE LOSSES IN A DECLINING RATE ENVIRONMENT

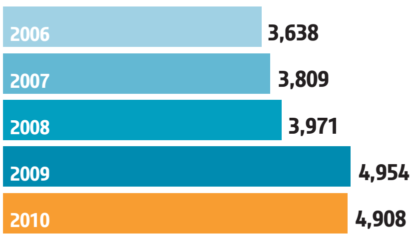
2010 HIGHLIGHTS

- Impact of Chilean earthquake
- Increasing attritional loss ratios
- Pricing levels under downward pressure

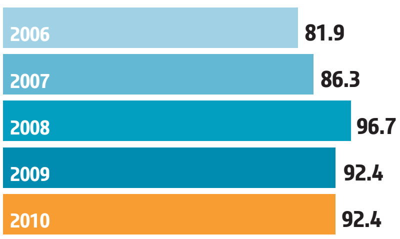
2010 COMBINED RATIO

ACCIDENT YEAR	99.1%
PRIOR YEAR RESERVE MOVEMENT	(6.7)%
CALENDAR YEAR	92.4%

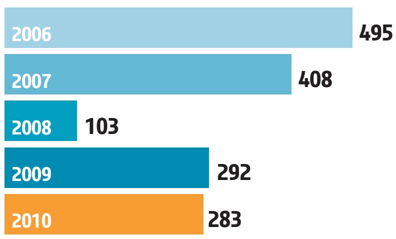
GROSS WRITTEN PREMIUM
£m



COMBINED RATIO
%



UNDERWRITING RESULT
£m



The property sector consists of a broad range of risks written worldwide. It is predominantly made up of surplus lines business with a weighting to the industrial and commercial sectors, binder business of mainly non-standard commercial and residential risks, and specialist classes including terrorism, power (electricity) generation, engineering and nuclear risks.

Business is written through the broker network as well as using the framework of coverholders and delegated authorities.

2010 PERFORMANCE

Gross written premium for the Lloyd's property sector in 2010 was £4,908m (2009: £4,954m), a marginal decrease.

In 2010, average rates for property classes written at Lloyd's reduced slightly. Reductions were experienced throughout the year even in low margin binder business. There was less pressure on terms and conditions.

Political risks and financial guarantee (particularly credit risk) rates increased as a result of the distressed economic climate.

ACCIDENT YEAR PERFORMANCE

2010 was notable for the absence of major catastrophes in North America. Elsewhere, significant claims from the earthquake in Chile were the largest single contributor of loss to the property class. Attritional (frequency) loss ratios have deteriorated as a result of recessionary influences, with business written through International Binders (outside the US) performing poorly. The terrorism book has been affected by losses in Thailand but overall the class was profitable.

There have been a number of trade credit claims advised following the collapse of banks in Eastern Europe.

The low incidence of large fire risk losses supported a break even overall result for the property sector.

PRIOR YEAR MOVEMENT

Further surpluses were generated in 2010 as releases from reserves established in 2002 to 2006 continued and the 2005 and 2008 US hurricane claims estimates remained stable. This improved the combined ratio by 6.7% (2009: 3.4%).

US open market property and terrorism have developed favourably in prior years. Engineering has been affected by losses from Scottish Power (2006) and Kleen Energy (2008). The International Binder book has deteriorated in 2008 and 2009.

LOOKING AHEAD

2011 is expected to be competitive in all areas of property business, with pressure on rates and terms and conditions, until such time as capacity is reduced in the market. Specialist classes such as terrorism, engineering and bloodstock continue to attract increased capacity which puts more pressure on rating levels. International binder business will remain under pressure due to excess capacity in the industry and high levels of commission. The continued uplift in commodity prices is expected to have an adverse inflationary effect on claims costs. However the major influence on the market's profitability continues to be the incidence and severity of catastrophe-related claims.

CASUALTY

SURPLUS CAPACITY MAINTAINS PRESSURE ON RATES

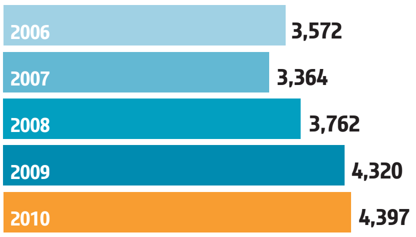
2010 HIGHLIGHTS

- Surplus capacity and lower than anticipated claims fuelling increased competition
- Prior year reserves releases act as disincentive for insurers to increase rates

2010 COMBINED RATIO

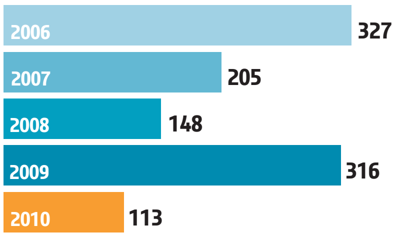
ACCIDENT YEAR	101.1%
PRIOR YEAR RESERVE MOVEMENT	(4.5)%
CALENDAR YEAR	96.6%

GROSS WRITTEN PREMIUM
£m



COMBINED RATIO
%

UNDERWRITING RESULT
£m



The casualty market at Lloyd's comprises a broad range of classes. The most significant are general liability, professional liability and medical malpractice. The US market is the largest single market for Lloyd's casualty business followed by the UK/Europe, Canada and Australia.

2010 PERFORMANCE

Gross written premium for the Lloyd's casualty sector in 2010 was £4,397m (2009: £4,320m), an increase of 2%.

Casualty rates came under increasing pressure during 2010 with most lines experiencing low single digit rate reductions. In particular the US market experienced higher than anticipated pressure on general liability, workers' compensation and directors' and officers' business. This was driven by surplus capacity and a lower than expected incidence of reported claims. Medical malpractice also faced significant downwards pressure on rates, particularly in the hospital sector. The significant increase in financial institutions' rates in 2009 was short lived. In 2010 most financial institutions' lines of business faced flat to low single digit rate reductions. The industry classes which came under the most pressure were manufacturing, public entity, transportation and service companies, particularly for very large accounts.

There is a similar story for non-US casualty rates with over-capacity ensuring that rates remained under pressure throughout the year. This is despite the fact that there is increased demand for D&O cover from non-executive directors, due to more stringent regulatory requirements and heightened awareness of liability arising from corporate failures.

ACCIDENT YEAR PERFORMANCE

The 2010 accident year combined ratio for the casualty sector was 101.1% (2009: 99.1%).

Concerns regarding financial institution exposures are likely to be exacerbated by the poor quality debts held by European banks. The year also saw loss notifications increase for real estate and Ponzi type claims. The US economic recovery is still fragile and the potential for recession related losses has yet to diminish.

In the UK, recession-related losses are gradually increasing. This is a long-tail class and the depth and longevity of the recession means that it may take a considerable time for the full effects of the economic downturn to be determined.

PRIOR YEAR MOVEMENT

This sector is continuing to produce prior year reserve releases, improving the combined ratio by 4.5% (2009: 8.3%). However, notifications for sub-prime losses have started to increase for previous years as banks begin to unwind their loan portfolios. The reporting tail for these losses will be up to 24 months longer than the 1990-91 recession due to more complex products.

LOOKING AHEAD

It is likely that 2011 will see a continuation of the increases in loss notifications in both the US and non-US books of business. However, there does not seem to be any immediate likelihood of capacity withdrawing from this sector so there will continue to be pressure on rates. Those casualty lines of business expected to experience the most pressure on margins are medical malpractice, US workers' compensation, general liability (US and non-US) and US professional indemnity. Underwriting discipline will be vital in 2011.

MARINE

RESILIENT PERFORMANCE IN COMPETITIVE MARKET

2010 HIGHLIGHTS

- Limited total loss claims
- Significant piracy losses
- Industry over-capacity

2010 COMBINED RATIO

ACCIDENT YEAR	98.4%
PRIOR YEAR RESERVE MOVEMENT	(7.5)%
CALENDAR YEAR	90.9%

GROSS WRITTEN PREMIUM
£m

2006	1,153
2007	1,226
2008	1,334
2009	1,606
2010	1,671

COMBINED RATIO
%

2006	88.6
2007	87.4
2008	84.6
2009	88.7
2010	90.9

UNDERWRITING RESULT
£m

2006	105
2007	127
2008	160
2009	147
2010	128

Lloyd's is an industry leader of marine business. Main classes include hull, cargo, marine liability and specie, (the insurance of valuable property such as precious metals, art or jewellery).

2010 PERFORMANCE

Gross written premium for the Lloyd's marine sector in 2010 was £1,671m (2009: £1,606m), a marginal increase.

During 2010, marine markets remained flat due to over-capacity and the absence of major losses. The increase in Marine underwriting capacity and the perceived profitability of this class overall has created an increasingly competitive marketplace.

In the cargo market there were signs of this class benefiting as economies slowly emerged from the global recession. This should bolster trade volumes and insured values. Despite early rate rises, the marine liability market has shown softening during 2010 due to excess capacity. All other marine classes were flat or had small rate reductions during 2010.

ACCIDENT YEAR PERFORMANCE

There has been a high level of attritional hull claims, although total losses are light. The well documented Gulf of Aden/Indian Ocean piracy attacks, despite lulls during the monsoon season, are expected to continue for the foreseeable future. During 2010 it was reported that 1,200 seafarers were taken hostage by pirates; with the pirates' tactics and weaponry evolving and the costs associated with dealing with piracy increasing, marine underwriters have been bearing the brunt of the cost of covering ship-owners' losses, some US$238m. Media coverage has encouraged a resurgence of piracy and thefts elsewhere in the World, in particular the South China Sea and West Africa.

In Political Risk and Credit Risk, although disciplines imposed following the poor results arising from the credit crunch appear to be sustained, the return of competition in international banking and trade finance is being tracked by the political risk/credit market's increase in capacity and general easing of terms. New loss advices on 2007 and 2008 years have slowed down.

PRIOR YEAR MOVEMENT

For the seventh year in a row the sector has produced an overall release from prior year reserves, reducing the combined ratio by 7.5% (2009: 7.4%).

LOOKING AHEAD

There are signs that the world is slowly emerging from the global economic recession, although the true impact of this will not be seen until mid to late 2011. This development should bolster both trade volumes and insured values, and therefore premium income should increase, although rating is not expected to improve. Over-capacity is now a feature in most marine lines (notably hull and cargo) and rates are likely to remain flat or come under increasing pressure during 2011.

ENERGY

ROBUST EXPOSURE MANAGEMENT CRITICAL FOR ASSESSING RISK ACROSS MULTIPLE POLICIES

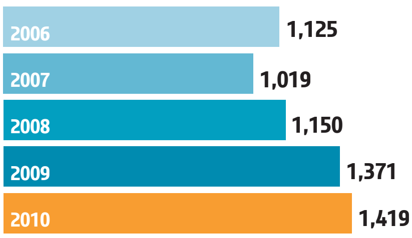
2010 HIGHLIGHTS

- Deepwater Horizon disaster impacts liability market
- High demand for US liability coverage
- Over-capacity in onshore energy and power generation

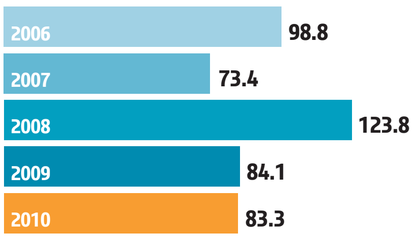
2010 COMBINED RATIO

ACCIDENT YEAR	101.6%
PRIOR YEAR RESERVE MOVEMENT	(18.3)%
CALENDAR YEAR	83.3%

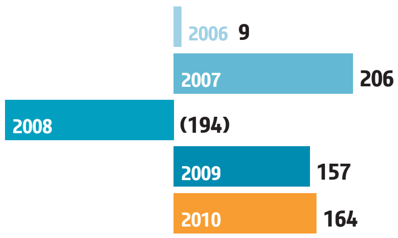
GROSS WRITTEN PREMIUM
£m



COMBINED RATIO
%



UNDERWRITING RESULT
£m



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

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

2010 PERFORMANCE

Gross written premium for the Lloyd's energy sector in 2010 was £1,419m (2009: £1,371m), an increase of 4%.

Prior to the Deepwater Horizon disaster, surplus capacity was driving rates down. From the Physical Damage/Control of Well (COW) perspective, the loss was containable and that area has benefited from the overall resultant rating upswing. Post Deepwater Horizon risk rates rose and wind rates stabilised. Operators and drilling contractors operating in the GOM, particularly with deepwater exposures, have a greater appetite to purchase higher policy limits.

The final Deepwater Horizon loss to the insurance industry is likely to fall upon the liability market and this may be market-changing to the liability arena. Given the attention paid by the media and the US government to the loss, demand is high for liability coverage.

The significance of the Deepwater Horizon event and the implications of potential changes to OPA 90 and Certificates of Financial Responsibility limitation for economic loss from oil pollution in the US will have an extensive impact on the Energy Liability and Marine XL markets. In addition, the changes to Offshore Pollution Liability Agreement – for UK and North West Europe, a limitation increase from 1 October 2010 – is also having an impact in terms of additional premium and exposures.

Worldwide over-capacity and absence of significant physical damage or liability losses in the onshore energy, power and utilities sector led to rate reductions during 2010.

ACCIDENT YEAR PERFORMANCE

As well as the Deepwater Horizon loss, the 2010 accident year result was also hit by the Aban Pearl claim (US$96m). The anticipated liability deterioration from Deepwater Horizon has not yet materialised. There were no significant losses in onshore energy and power generation in 2010.

PRIOR YEAR MOVEMENT

While there was a significant increase in the West Atlas reserves those for Hurricane Ike were stable through 2010. The sector has therefore been able to produce a reserve release of 18.3% (2009: 6.2%).

LOOKING AHEAD

This is a fully capitalised market and absence of claims from major hurricanes (for a second year) means that rates, terms and conditions for GOM wind will be under pressure in 2011.

Rating increases for Risk (excl Wind) are expected, particularly in offshore energy liabilities and deepwater COW. In addition the market is expected to tighten up liability wordings and coverage and concentrate on risk accumulation management from all sections of policies. Due to increased competition from US domestic markets, who are also offering broader coverage, the market is not seeing anticipated rate rises in all areas. Market capacity is high, and although pricing in some areas is expected to increase, overall adequacy is doubtful.

Reinsurance markets were expected to increase rates during 2011, putting pressure on direct insurers, however direct rates are likely to stabilise in 2011 as there continues to be plenty of capacity available.

Absence of losses and over-capacity in Onshore Energy and Power Generation will mean further softening conditions for onshore in 2011.

MOTOR

RAPID RISE IN CLAIMS INFLATION DRIVES MATERIAL RESERVE STRENGTHENING

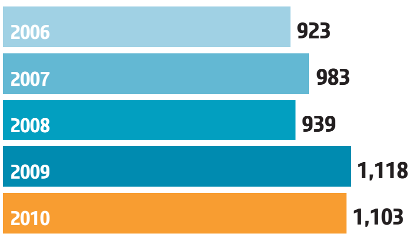
2010 HIGHLIGHTS

- Rate increases fail to halt negative results
- Adverse claims development produces significant prior year deficit
- UK motor market remains challenging

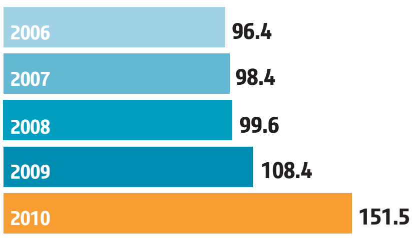
2010 COMBINED RATIO

ACCIDENT YEAR	114.8%
PRIOR YEAR RESERVE MOVEMENT	36.7%
CALENDAR YEAR	151.5%

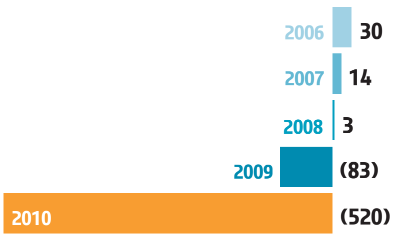
GROSS WRITTEN PREMIUM
£m



COMBINED RATIO
%



UNDERWRITING RESULT
£m



Lloyd's motor market primarily covers UK private car, motorcycle and commercial/fleet business. Private car represents about 50% of Lloyd's UK motor premium and includes niche motor risks. Lloyd's commercial/fleet business is very diverse, ranging from light commercial vehicles and taxis to buses and heavy haulage.

International motor is also written and a large proportion of this is from North America, including private auto and static risks such as Dealers Open Lot.

2010 PERFORMANCE

Gross written premium for the Lloyd's motor sector in 2010 was £1,103m (2009: £1,118m).

UK motor insurers generally continued to face unprecedented challenges from the considerably more hostile claims environment, with many underestimating the issues and reacting too slowly.

Despite some positive trends, including a reduction in the number of road accidents and vehicle thefts, claims inflation has escalated to historically high levels. This is primarily being driven by the significant increase in the frequency and severity of third party property damage and bodily injury claims.

The relatively recent phenomenon of 'claims farming' by accident lawyers and claims management companies has led to more claimants per accident seeking compensation for bodily injury. Credit hire organisations, an increasing feature of the UK motor insurance market, have also significantly contributed to the rise in claims. Fraud remains a perennial problem for motor insurers, and the current economic downturn has led to increased claims activity in this regard.

The significant deterioration in performance has been a catalyst for Private Car insurers to achieve rate increases above claims inflation throughout 2010. However, fuelled by popularity of aggregator sites, strong competition has hampered efforts to return the industry to profitability. The Commercial/Fleet sector has been less affected by adverse claims trends and rate increases were broadly in line with claims inflation. Rates for the diverse overseas motor portfolio were broadly flat.

ACCIDENT YEAR PERFORMANCE

The extent of rating action and re-underwriting was not enough to return the Lloyd's motor market to profitability. Performance between syndicates varied greatly, with those early to recognise and adjust for the dramatic change in the claims environment benefiting from better results.

The international motor sector performance continues to be marginal.

PRIOR YEAR MOVEMENT

The specialist motor syndicates moved to strengthen their prior years' reserves in 2009 but the severe claims inflation significantly outpaced the allowances within their reserves. This contributed to a need for further large reserve strengthening which produced a deterioration of 36.7% (2009: deterioration of 3.9%) in the sector's combined ratio.

LOOKING AHEAD

With no clear signs yet of a change in the claims environment, upwards rating momentum is expected to continue. The industry is now better equipped to understand recent claims trends and reserves are under much closer scrutiny. However, the market remains highly competitive and without a significant withdrawal of capacity, the prospect of a return to profitability in 2011 is still questionable.

It is too early to judge how much benefit will be derived from the recent Ministry of Justice reforms, but insurers should eventually see a reduction in claims cost. Whether or not the new OFT regulations, aimed at reducing transparency of competitor pricing strategies, increases competition is also unclear. Other important matters for UK motor insurers to consider are the review of the Ogden Tables and the findings on the Test Achats case heard at the European Court of Justice.

AVIATION

PROFITABLE PERFORMANCE DESPITE FREQUENCY OF LARGE LOSSES

2010 HIGHLIGHTS

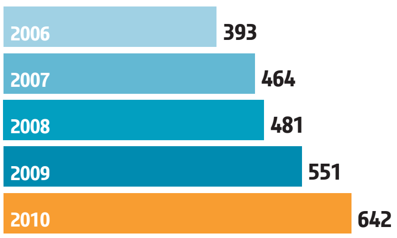
> High frequency of large airline losses continues

> Over-capacity further limits ability to restore rating levels

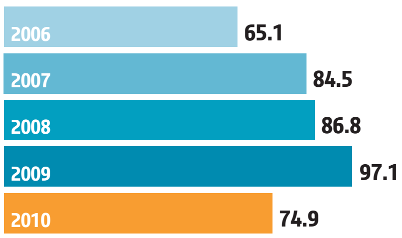
2010 COMBINED RATIO

ACCIDENT YEAR	99.4%
PRIOR YEAR RESERVE MOVEMENT	(24.5)%
CALENDAR YEAR	74.9%

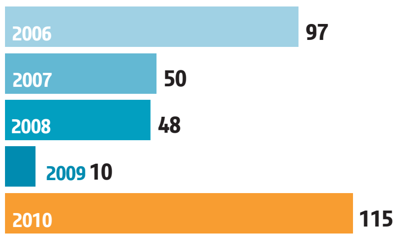
GROSS WRITTEN PREMIUM
£m



COMBINED RATIO
%



UNDERWRITING RESULT
£m



Lloyd's is an industry leader in the global aviation market and writes across all main business segments including airline, aerospace, general aviation and space. Airline (hull and liability) is the largest segment but Lloyd's aviation is also actively involved in the underwriting of general aviation (eg privately owned light aircraft, helicopters and large private corporate jets), airport liability, aviation product manufacturers' liability, aviation war/terrorism and satellite launch/in-orbit risks.

2010 PERFORMANCE

Aviation business is written as both direct and reinsurance acceptances, on an excess of loss, proportional or facultative basis. Direct gross written premium was £642m (2009: £551m). In 2010, Lloyd's syndicates wrote £399m (2009: £367m) of aviation business on a facultative and treaty reinsurance basis. Over-capacity continued to feature in all main aviation segments (notably airline) leading to rate reductions in most sectors.

ACCIDENT YEAR PERFORMANCE

Despite a high frequency of relatively large losses, Lloyd's aviation market produced a satisfactory profit overall. Notable large insured losses included Ethiopian Airlines, Afriqiyah Airlines, Air India, Airblue and UPS, the Dulles Jet Centre hangar collapse that saw significant damage to several high valued private corporate aircraft due to heavy snow, a fire at a storage facility in Saudi Arabia destroying airline spares, and the declared total loss of a Eutelsat W3B satellite.

Airline performance was again disappointing. Despite four consecutive loss years at global level, the airline market remained extremely competitive and there was little evidence of capacity withdrawal. There were signs of an improvement in rates at the start of the year but this proved rather short-lived and reductions were again commonplace during the important final quarter renewals.

PRIOR YEAR MOVEMENT

Surpluses on prior years' claims reserves improved the combined ratio by 24.5% (2009: 16.6%), following a further year of better than expected claims development across the entire portfolio.

LOOKING AHEAD

The global economy continues to improve and increased aviation industry confidence should see a further growth in exposures. To what extent this leads to increased insurance premiums in 2011 depends largely on the aviation rating environment and prospects currently are not favourable.

Abundant capacity is still a feature in most aviation lines and the compound effect of rate softening over several years in some classes (eg airline) has made it extremely difficult for insurers to underwrite profitably. Without a significant withdrawal of global underwriting capacity, rates are likely to remain depressed and some lines may well experience further downwards pressure. Robust pricing and risk-selection capabilities will be even more critical in 2011.

GOVERNANCE

COUNCIL OF LLOYD'S

The following were members of the Council of Lloyd's during 2010.

Lord Levene of Portsoken KBE

Aprilgrange Ltd
(represented by Barnabas Hurst-Bannister)

Catlin Syndicate Ltd
(represented by Paul Jardine)

Celia Denton

Faraday Capital Limited
(represented by Lord Ashton of Hyde)

Ewen Gilmour

Christopher Harman

The Honourable Philip Lader
(Retired 2 March 2010)

Sir David Manning
(Appointed 1 September 2010)

Novae Corporate Underwriting Limited
(represented by Matthew Fosh)

Graham White

Dr Richard Ward

Rupert Atkin

Michael Deeny

Dornoch Ltd (represented by Eileen McCusker). Retired 31 January 2010)

Sir Robert Finch

Hardy Underwriting Ltd (represented by Barbara Merry). (Retired 31 January 2010)

Dr Reg Hinkley

Alan Lovell

Nicholas Marsh

Dr Andreas Prindl CBE

Further information on the Society of Lloyd's governance is included in the Annual Report 2010

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

Having made enquiries of fellow Council members and of the Society's auditors, the Council of Lloyd's confirms that:

To the best of each Council member's knowledge and belief there is no information relevant to the preparation of the Aggregate Accounts of which the auditors are unaware;

Each Council member has taken all the steps a Council member might reasonably be expected to have taken to be aware of relevant audit information and to establish that the auditors are aware of that information.

ANNUAL REPORT

The Annual Report required under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, comprising the strategic review, market performance and governance sections on pages 1 to 18, was approved by the Council of Lloyd's on 29 March 2011.

STATEMENT OF COUNCIL'S RESPONSIBILITIES.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations') require the Council of Lloyd's to prepare Aggregate Accounts in respect of the financial year by totalling all the syndicate annual accounts prepared in accordance with Regulation 3 of the Regulations.

The Regulations also require the Council to prepare an Annual Report on the insurance business carried on by the members of Lloyd's during the financial year. The Annual Report is set out in the strategic review, market performance and governance sections on pages 1 to 18.

Lord Levene of Portsoken
Chairman

CONTENTS

REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE 2010 LLOYD'S AGGREGATE ACCOUNTS

We have examined the Lloyd's Aggregate Accounts for the year ended 31 December 2010, which comprise an aggregate profit and loss account, aggregate statement of total recognised gains and losses, aggregate balance sheet and aggregate statement of cash flows and the related notes 1 to 20, together with the Annual Report which have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations') on the basis set out in note 1.

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

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL OF LLOYD'S AND ERNST & YOUNG LLP

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

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

BASIS OF CONCLUSION

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

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

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

CONCLUSION

In our opinion, the Aggregate Accounts and the Annual Report for the financial year ended 31 December 2010 have been properly prepared and correctly aggregated in accordance with the Regulations.

Andrew McIntyre

(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, London
29 March 2011

AGGREGATE PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2010

	Note	£m	2010 £m	Restated £m	2009 Restated £m
Technical account					
Gross written premiums					
– continuing operations		**22,655**		22,157	
– discontinued operations		**23**		131	
	3		**22,678**		22,288
Outward reinsurance premiums			**(4,922)**		(4,853)
Written premiums, net of reinsurance			**17,756**		17,435
Change in the provision for unearned premiums					
Gross amount		**(517)**		(846)	
Reinsurers' share		**(28)**		330	
Change in the net provision for unearned premiums			**(545)**		(516)
Earned premiums, net of reinsurance			**17,211**		16,919
Allocated investment return transferred from the non-technical account			**868**		1,336
Other technical income, net of reinsurance			**3**		8
			18,082		18,263
Claims paid					
Gross amount		**11,610**		11,580	
Reinsurers' share		**(2,747)**		(2,468)	
			8,863		9,112
Change in provision for claims					
Gross amount		**1,406**		(992)	
Reinsurers' share		**(123)**		705	
			1,283		(287)
Claims incurred, net of reinsurance			**10,146**		8,825
Net operating expenses	6		**6,192**		6,102
Balance on the technical account for general business			**1,744**		3,336
Attributable to:					
– continuing operations		**1,526**		3,143	
– discontinued operations		**218**		193	
Total			**1,744**		3,336
Non-technical account					
Balance on the technical account for general business			**1,744**		3,336
Investment income	7	**1,196**		1,431	
Net unrealised gains/(losses) on investments		**77**		357	
Investment expenses and charges	8	**(355)**		(408)	
Allocated investment return transferred to the technical account		**(868)**		(1,336)	
Other income		**(4)**		–	
Balance on the non-technical account			**46**		44
Profit for the financial year before tax			**1,790**		3,380

	Note	2010 £m	2009 £m
Statement of total recognised gains and losses			
Profit for the financial year before tax		**1,790**	3,380
Exchange differences on translating foreign operations		**64**	(21)
Total recognised gains and losses for the financial year		**1,854**	3,359
Prior year adjustment	1	**6**	–
Total recognised gains and losses since previously reported		**1,860**	3,359

AGGREGATE BALANCE SHEET

as at 31 December 2010

	Note	£m	2010 £m	Restated £m	2009 Restated £m
Financial investments	9		**28,189**		27,372
Deposits with ceding undertakings			**11**		10
Reinsurers' share of technical provisions					
Unearned premiums		**1,454**		1,456	
Claims outstanding		**8,735**		8,410	
			10,189		9,866
Debtors					
Debtors arising out of direct insurance operations	10	**4,825**		4,551	
Debtors arising out of reinsurance operations	11	**3,524**		3,516	
Other debtors		**734**		473	
			9,083		8,540
Other assets					
Cash at bank and in hand		**1,790**		1,671	
Other		**2,306**		1,899	
			4,096		3,570
Prepayments and accrued income					
Accrued interest and rent		**96**		100	
Deferred acquisition costs		**2,371**		2,190	
Other prepayments and accrued income		**151**		142	
			2,618		2,432
Total assets			**54,186**		51,790
Capital and reserves					
Members' balances	12		**2,931**		3,865
Technical provisions					
Provision for unearned premiums		**10,120**		9,445	
Claims outstanding		**36,178**		33,902	
			46,298		43,347
Deposits received from reinsurers			**89**		96
Creditors					
Creditors arising out of direct insurance operations	13	**722**		865	
Creditors arising out of reinsurance operations	14	**2,820**		2,570	
Other creditors		**1,005**		749	
			4,547		4,184
Accruals and deferred income			**321**		298
Total liabilities			**54,186**		51,790

Approved by the Council of Lloyd's on 29 March 2011 and signed on its behalf by

Lord Levene of Portsoken
Chairman

Richard Ward
Chief Executive Officer

AGGREGATE STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	Note	2010 £m	2009 Restated £m
Net cash inflow from operating activities	15	**3,039**	2,952
Transfer to members in respect of underwriting participations		**(2,993)**	(2,172)
Financing			
Capital transferred into syndicate PTFs		**243**	146
		289	926
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	16	**171**	(1,405)
Net portfolio investment		**118**	2,331
Net investment of cash flows		**289**	926

NOTES TO THE AGGREGATE ACCOUNTS

as at 31 December 2010

1. BASIS OF PREPARATION

A. BASIS OF REPORTING

The Aggregate Accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and in accordance with applicable Accounting Standards and under the historic cost accounting rules.

B. AGGREGATION OF SYNDICATE ANNUAL ACCOUNTS

The Aggregate Accounts as at 31 December 2010 have been prepared by totalling the annual accounts of the 109 syndicates reporting as at 31 December 2010. The result does not present a consolidated view of the results of Lloyd's business taken as a single entity and, in particular, it does not eliminate inter-syndicate reinsurances.

C. RESTATEMENT OF PRIOR YEAR

During 2010, certain syndicates changed their accounting policies in relation to foreign exchange resulting in a restatement of the comparative figures for 2009 within their annual accounts and the Aggregate Accounts have been restated accordingly.

2. ACCOUNTING POLICIES

GENERAL

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, managing agents must prepare the syndicate annual accounts under UK GAAP. However, where UK GAAP permits different accounting treatments, each managing agent is able to adopt the accounting policies it considers most appropriate to its syndicate. The following accounting policies are therefore generic in nature.

WRITTEN PREMIUMS

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

UNEARNED PREMIUMS

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

REINSURANCE PREMIUMS CEDED

Reinsurance premiums ceded comprise the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premiums represents that part of reinsurance premiums ceded which is estimated to be earned in following financial years.

CLAIMS PROVISIONS AND RELATED RECOVERIES

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

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

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

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

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

UNEXPIRED RISKS PROVISION

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

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

ACQUISITION COSTS

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

FOREIGN CURRENCIES

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

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

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

2. ACCOUNTING POLICIES CONTINUED

INVESTMENTS

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

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

INVESTMENT RETURN

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

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account where the investments generating the return relate to insurance business. In 2007 a rule change permitted any members that only participate on one syndicate to hold the capital supporting their underwriting in their syndicate's premium trust funds. Where a member takes advantage of this facility, the investment return arising from the investments representing the capital held in the premiums trust fund is retained within the non-technical account.

TAXATION

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

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

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

OPERATING EXPENSES

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

PROFIT COMMISSION

Where profit commission is charged by the managing agent it will normally be fully paid once the appropriate year of account closes, normally at 36 months. The profit commission is accrued in the profit and loss account in accordance with the earned profit.

Managing agents may make payments on account of their anticipated profit commission from the syndicate premiums trust funds prior to the closure of a year of account where they have transferred open year surpluses (interim profits) from the syndicate level premiums trust funds to the members' personal reserve fund. Any payments on account of such commission are restricted to the profit commission expensed in the profit and loss account in striking the level of interim profits declared and subsequently released.

NOTES TO THE AGGREGATE ACCOUNTS CONTINUED

as at 31 December 2010

3. SEGMENTAL ANALYSIS

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

2010	**Gross written premium £m**	**Gross premiums earned £m**	**Gross claims incurred £m**	**Operating expenses £m**	**Reinsurance balance £m**	**Result £m**
Accident and health	747	749	(354)	(331)	(31)	**33**
Motor (third party liability)	153	141	(117)	(40)	(1)	**(17)**
Motor (other classes)	950	938	(1,150)	(276)	(15)	**(503)**
Marine, aviation and transport	3,493	3,412	(1,832)	(975)	(229)	**376**
Fire and other damage to property	4,551	4,479	(2,163)	(1,412)	(718)	**186**
Third-party liability	3,650	3,492	(2,186)	(949)	(277)	**80**
Pecuniary loss	575	533	(191)	(162)	(61)	**119**
Life	63	64	(31)	(29)	(1)	**3**
Other	108	111	(125)	(14)	37	**9**
Total direct	**14,290**	**13,919**	**(8,149)**	**(4,188)**	**(1,296)**	**286**
Reinsurance acceptances	8,388	8,242	(4,867)	(2,004)	(784)	**587**
Total	**22,678**	**22,161**	**(13,016)**	**(6,192)**	**(2,080)**	**873**

2009	Gross written premium £m	Gross premiums earned £m	Gross claims incurred £m	Operating expenses £m	Reinsurance balance £m	Result £m
Accident and health	764	716	(368)	(290)	(37)	21
Motor (third party liability)	130	128	(102)	(37)	(11)	(22)
Motor (other classes)	988	944	(743)	(261)	(1)	(61)
Marine, aviation and transport	3,283	3,060	(1,493)	(887)	(410)	270
Fire and other damage to property	4,657	4,617	(1,989)	(1,374)	(752)	502
Third-party liability	3,556	3,514	(2,090)	(953)	(175)	296
Pecuniary loss	514	511	(508)	(152)	(23)	(172)
Life	60	62	(20)	(31)	(10)	1
Other	165	164	(181)	(13)	39	9
Total direct	14,117	13,716	(7,494)	(3,998)	(1,380)	844
Reinsurance acceptances	8,155	7,749	(3,094)	(2,018)	(1,396)	1,241
Total	22,272	21,465	(10,588)	(6,016)	(2,776)	2,085
Prior year adjustment (note 1C)	16	(23)	–	(86)	16	(93)
Total	22,288	21,442	(10,588)	(6,102)	(2,760)	1,992

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

3. SEGMENTAL ANALYSIS CONTINUED

2010	Gross written premiums £m	Net earned premiums £m	Result £m
Reinsurance	**8,388**	**6,112**	**590**
Property	**4,908**	**3,736**	**283**
Casualty	**4,397**	**3,353**	**113**
Marine	**1,671**	**1,408**	**128**
Energy	**1,419**	**983**	**164**
Motor	**1,103**	**1,009**	**(520)**
Aviation	**642**	**458**	**115**
Life	**63**	**51**	**3**
Inter-syndicate reinsurance to close and other central adjustments	**87**	**101**	**(3)**
Total	**22,678**	**17,211**	**873**

2009 Restated	Gross written premiums £m	Net earned premiums £m	Result Restated £m
Reinsurance	7,989	5,763	1,245
Property	4,954	3,859	292
Casualty	4,320	3,430	316
Marine	1,606	1,303	147
Energy	1,371	985	157
Motor	1,118	984	(83)
Aviation	551	344	10
Life	60	53	1
Inter-syndicate reinsurance to close	303	205	–
Total	22,272	16,926	2,085
Prior year adjustment (note 1C)	16	(7)	(93)
Total	22,288	16,919	1,992

4. LIFE BUSINESS

The Aggregate Accounts include the results of all life and non-life syndicates transacting business during 2010. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 3).

5. CLAIMS OUTSTANDING

The aggregate of the prior year surpluses/deficiencies is a surplus of £1,016m (2009: £934m). The surplus primarily arises in respect of business written in the 2002 to 2006 accident years.

6. NET OPERATING EXPENSES

	2010 £m	2009 Restated £m
Acquisition costs	**5,088**	4,911
Change in deferred acquisition costs	**(135)**	(225)
Administrative expenses	**1,728**	1,539
Reinsurance commissions and profit participations	**(261)**	(266)
(Profit)/loss on exchange	**(228)**	143
	6,192	6,102

NOTES TO THE AGGREGATE ACCOUNTS
CONTINUED
as at 31 December 2010

6. NET OPERATING EXPENSES CONTINUED
Total commissions for direct insurance accounted for in the year amounted to £3,145m (2009: £2,971m).

Schedule 2 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires the disclosure of the remuneration receivable by the auditor of the aggregate accounts. This remuneration is not reflected in the profit and loss account of these Aggregate Accounts, all these amounts are borne by the Society of Lloyd's and its subsidiaries and are reported in the Society's accounts.

The total remuneration payable by the Society to its auditors in respect of audit and other services is set out below:

	2010 £000	2009 £000
Services pursuant to legislation in respect of the Aggregate Accounts	**30**	30
Audit of the accounts of Society of Lloyd's and its associates	**682**	685
Other fees to auditors:		
– Other services pursuant to legislation	**426**	416
– Other services relating to taxation	**53**	165
– Valuation and actuarial services	**50**	153
– Other services	**149**	206
Total	**1,390**	1,655

The syndicate annual accounts, from which the Aggregate Accounts are compiled, are the subject of true and fair opinions by their respective auditors. The contract with Ernst & Young LLP in respect of its examination of the Aggregate Accounts includes a limitation on the firm's liability of £2m. This was considered acceptable in view of the limited scope of the firm's work, the prevalence of such terms in contracts for comparable services and the level of the fee. There is no liability limitation in respect of Ernst & Young LLP's audit of the financial statements of the Society of Lloyd's.

7. INVESTMENT INCOME

	2010 £m	2009 Restated £m
Income from investments	**802**	873
Gains on the realisation of investments	**394**	558
	1,196	1,431

8. INVESTMENT EXPENSES AND CHARGES

	2010 £m	2009 Restated £m
Investment management expenses, including interest	**43**	36
Losses on realisation of investments	**312**	372
	355	408

9. FINANCIAL INVESTMENTS

	Market value		Cost	
	2010 £m	2009 Restated £m	2010 £m	2009 Restated £m
Shares and other variable yield securities and units in unit trusts	**3,393**	3,189	**3,356**	3,184
Debt securities and other fixed income securities	**22,474**	21,814	**22,418**	21,567
Participation in investment pools	**1,094**	817	**1,077**	829
Loans and deposits with credit institutions	**1,207**	1,519	**1,199**	1,529
Other	**21**	33	**20**	30
	28,189	27,372	**28,070**	27,139

10. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2010 £m	2009 Restated £m
Due within one year		
– policyholders	**16**	14
– intermediaries	**4,737**	4,523
Due after one year		
– policyholders	**–**	–
– intermediaries	**72**	14
	4,825	4,551

11. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2010 £m	2009 Restated £m
Due within one year	**3,363**	3,245
Due after one year	**161**	271
	3,524	3,516

12. RECONCILIATION OF MEMBERS' BALANCES

	2010 £m	2009 Restated £m
Members' balances brought forward at 1 January	**3,859**	2,595
Prior year adjustment	**6**	–
Members' balances restated at 1 January	**3,865**	2,595
Total recognised gains and losses for the financial year	**1,854**	3,359
Transfers to members' personal reserve funds	**(3,035)**	(2,196)
Capital transferred into syndicate PTFs	**243**	146
Other movements	**4**	(39)
Members' balances carried forward at 31 December	**2,931**	3,865

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

In 2007 a rule change permitted any members that only participate on one syndicate to hold the capital supporting their underwriting in their syndicate's premium trust funds.

13. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2010 £m	2009 Restated £m
Due within one year	**721**	863
Due after one year	**1**	2
	722	865

NOTES TO THE AGGREGATE ACCOUNTS
CONTINUED
as at 31 December 2010

14. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2010 £m	2009 Restated £m
Due within one year	**2,740**	2,495
Due after one year	**80**	75
	2,820	2,570

15. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2010 £m	2009 Restated £m
Operating profit on ordinary activities	**1,790**	3,380
Realised and unrealised investment (gains)/losses	**(985)**	1,419
Increase/(decrease) in net technical provisions	**2,583**	(2,171)
(Increase)/decrease in debtors	**(805)**	140
Increase in creditors	**456**	184
	3,039	2,952

16. MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	At 1 January 2010 restated £m	Cash flow £m	Changes to market value and currencies £m	At 31 December 2010 £m
Cash at bank and in hand	**1,671**	**171**	**(52)**	**1,790**
Loans, deposits and investments	**29,260**	**118**	**1,110**	**30,488**
	30,931	**289**	**1,058**	**32,278**

17. RELATED PARTY TRANSACTIONS
The annual accounts of each syndicate provide, where appropriate, the required disclosures on related parties. Syndicate level disclosures are specific to that syndicate and its managing agent. For 2010, there were no material related party transactions conducted outside normal market conditions reported in the syndicate annual accounts requiring disclosure in the aggregate accounts.

18. OFF-BALANCE SHEET ARRANGEMENTS
Schedule 3 of the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 requires the disclosure of off-balance sheet arrangements where they have been disclosed in the syndicate annual accounts and where the information is necessary for enabling the financial position of the Lloyd’s market to be assessed. No such off-balance sheet arrangements were reported in the 2010 syndicate annual accounts.

19. FUNDS AT LLOYD’S
Every member is required to hold capital at Lloyd’s to support their underwriting, which until mid 2007 was all held in trust as Funds at Lloyd’s (FAL). In 2007 a rule change permitted any members that only participate on one syndicate to hold the capital supporting their underwriting in their syndicate’s premium trust funds. Capital held in the syndicate premium trust funds is not reported as FAL.

The level of FAL/capital which Lloyd’s requires a member to maintain is determined in accordance with Lloyd’s Individual Capital Assessment (ICA) capital setting framework. FAL are not dedicated to any specific syndicate year of account participation for any member and are not therefore reported in the Aggregate Accounts.

20. POST BALANCE SHEET EVENTS
The first three months of 2011 have seen a number of natural catastrophes, in particular heavy flooding and Cyclone Yasi in Australia, the earthquake in Christchurch, New Zealand and the earthquake and tsunami in north east Japan. Lloyd’s syndicates do have exposure to these events but at this stage it is too early to quantify an estimate of the losses. These are non-adjusting events and therefore are not reflected in the Aggregate Accounts for the year ended 31 December 2010.

Since merchants first met to insure their ships at Edward Lloyd's coffee shop over 300 years ago, nearly every aspect of the way we do business has changed. But one constant is the bold confidence proclaimed by our motto, reflected in both our unique appetite for risk and our worldwide reputation for settling valid claims.

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