LLOYD'S

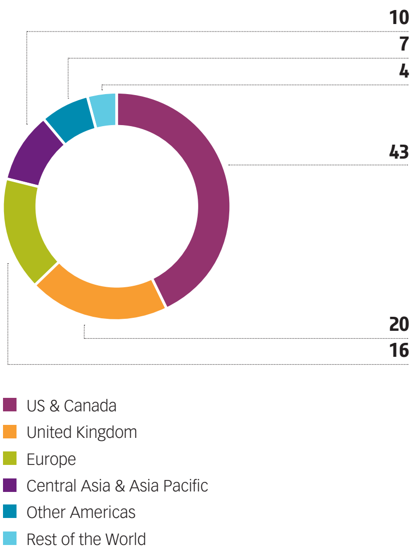
LLOYD'S ANNUAL REPORT 2010

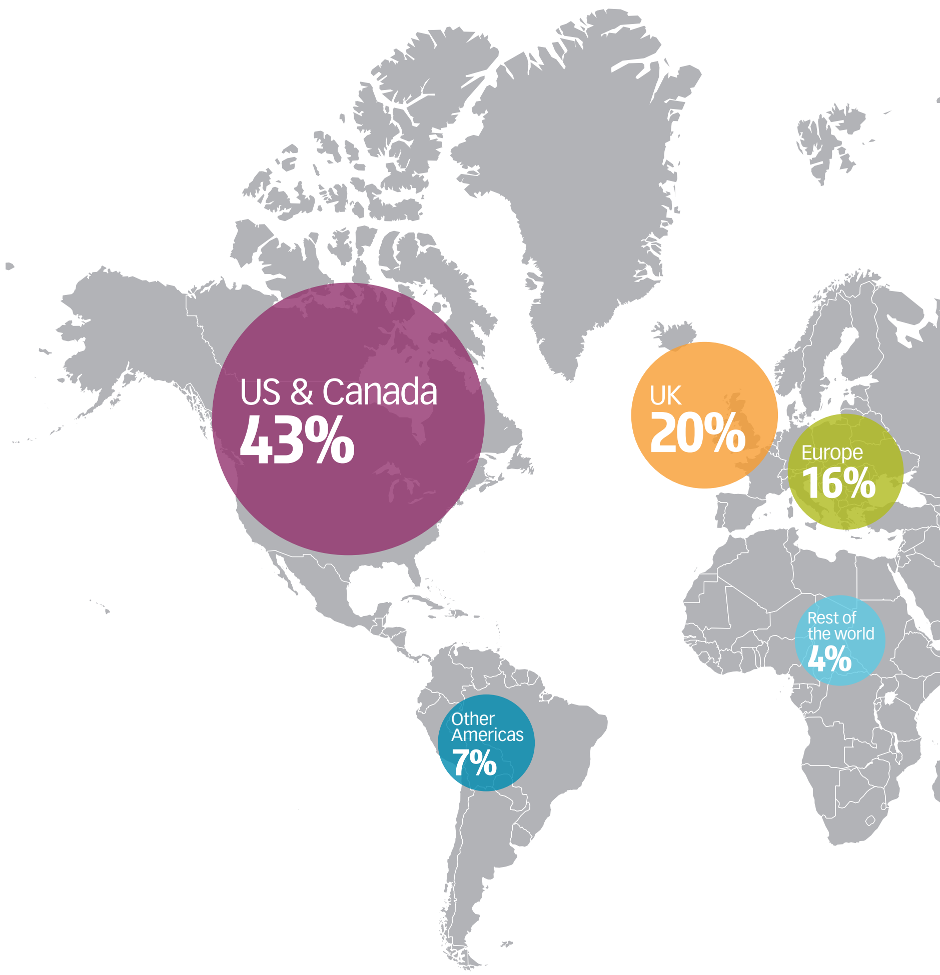
OUR BUSINESS

LLOYD'S ACCEPTS BUSINESS FROM OVER 200 COUNTRIES AND TERRITORIES WORLDWIDE

Our licences in over 75 jurisdictions, supported by a network of local offices, ensure access to insurance markets large and small.

LLOYD'S TOTAL BUSINESS BY REGION





LLOYD'S IN NUMBERS

85

SYNDICATES

of specialist underwriting experience and talent

178

BROKERS

daily creating insurance solutions in over...

200

COUNTRIES AND TERRITORIES

which covers...

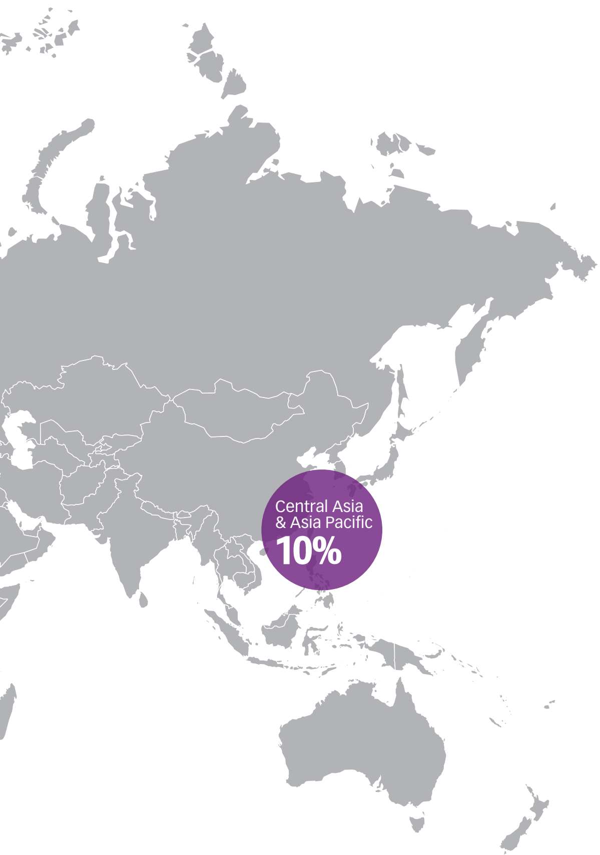
NORTH AMERICA
Lloyd's has offices in Atlanta, Chicago, Frankfort KY, Los Angeles, New York, Toronto and Montreal and is represented in the US Virgin Islands by an attorney in fact.

EUROPE
Lloyd's has full-time country managers supporting Lloyd's market development activities in Austria, Benelux, France, Germany, Iberia, Ireland, Italy, Poland, Nordic Area, Switzerland and the UK.

CENTRAL ASIA & ASIA PACIFIC
Lloyd's has offices in Australia and Hong Kong (SAR). In addition, Lloyd's has three trading platforms to access business in China, Japan and Singapore.

LATIN AMERICA
Lloyd's has an office in Brazil with co-located syndicates to access reinsurance business.

AFRICA
Lloyd's has a full-time country manager in South Africa.



LLOYD'S CLASS BREAKDOWN BY REGION

	US & Canada	Other Americas	United Kingdom	Europe	Central Asia & Asia Pacific	Rest of the world	TOTAL
REINSURANCE	30%	75%	29%	38%	46%	62%	37%
PROPERTY	31%	7%	20%	14%	14%	8%	22%
CASUALTY	20%	8%	22%	18%	28%	12%	20%
MARINE	6%	4%	5%	17%	6%	7%	7%
ENERGY	10%	4%	2%	7%	3%	3%	6%
MOTOR	1%	1%	21%	1%	1%	2%	5%
AVIATION	2%	1%	1%	5%	2%	6%	3%
ALL CLASSES	**43%**	**7%**	**20%**	**16%**	**10%**	**4%**	**100%**

94%
OF THE FTSE 100
and…

97%
OF DOW JONES
industrial average companies

all underpinned by…
323
YEARS OF UNDERWRITING EXPERIENCE

LLOYD’S VISION

TO BE THE MARKET OF CHOICE FOR INSURANCE AND REINSURANCE BUYERS AND SELLERS TO ACCESS AND TRADE SPECIALIST PROPERTY AND CASUALTY RISKS

CONTENTS

WELCOME TO LLOYD'S

FINANCIAL HIGHLIGHTS

> Lloyd's achieved a profit before tax of £2,195m (2009: £3,868m) and a combined ratio of 93.3% (2009: 86.1%). The reduction in profits reflects the increase in catastrophe related claims, particularly the Chilean earthquake in February and the prevailing low interest rate environment

> Gross premium income remained steady at £22,592m (2009: £21,973m) as Lloyd's strong ratings and licence network brought more opportunities balanced against slightly softening market conditions

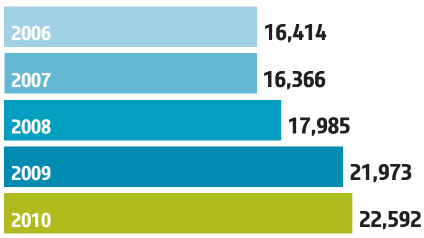
> Central assets at record level of £2,377m (2009: £2,084m) following significant recoveries from insolvent members as legacy issues are resolved

The pro forma financial statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies. The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the Society of Lloyd's financial statements.

To read more on our financial results see **page 42**.

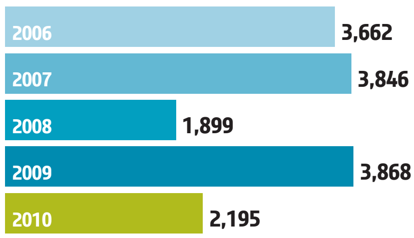
The Aggregate Accounts are reported as a separate document and can be found at **www.lloyds.com/financialreports**

GROSS WRITTEN PREMIUM
£m



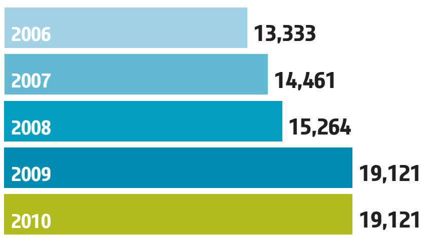
£22,592m

PROFIT BEFORE TAX
£m



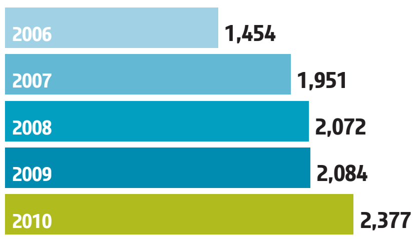
£2,195m

CAPITAL, RESERVES AND SUBORDINATED DEBT AND SECURITIES
£m



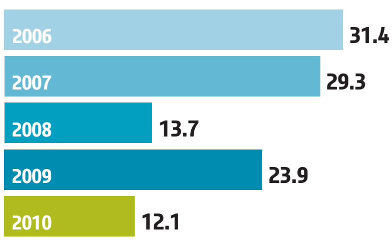
£19,121m

CENTRAL ASSETS*
£m



£2,377m

RETURN ON CAPITAL
%



12.1%

COMBINED RATIO*
%

93.3%

* See Glossary on page 141.
The basis for translating income and expenditure and assets and liabilities in foreign currency is set out on page 64.

Welcome to Lloyd's
Strategic overview
Market performance
Market results
Society report

CHAIRMAN'S STATEMENT

A LARGE PART OF THE CHALLENGE FOR THE LLOYD'S MARKET IS THAT IT MUST PREPARE FOR THE UNEXPECTED

"Financial services will be central to any recovery – in the UK and elsewhere."

In 2010, none of the Atlantic storms made landfall in the United States. However, the result for the year was significantly affected by the earthquakes in Chile and New Zealand as well as the loss of the Deepwater Horizon oil rig in the Gulf of Mexico. Despite this, Lloyd's still made a profit of £2.2bn.

These events are a reminder that the market must remain vigilant. A large part of the challenge for the Lloyd's market is that it must prepare for the unexpected.

2011 has already been a difficult year. At the time of writing, a number of Middle East and North African states were experiencing unrest. In the Pacific region, cyclones caused devastating floods in Australia, and in New Zealand, Christchurch was struck by its second major earthquake within six months.

And above all, the world has been shocked by the earthquake and subsequent tsunami which struck North East Japan in March 2011. It is still too early to predict with accuracy the financial loss of this event, but it is, of course, nothing compared to the human cost of the tragedy.

My thoughts, and I know that they are shared by the entire Lloyd's market, go to the people affected by these terrible events in the Pacific region.

The insurance industry is on the front line of many of these events, whether an earthquake, floods or political unrest – it is we who provide financial cover for much of the damage.

The loss of the Deepwater Horizon oil rig in April 2010 served as a reminder of the risks of rising energy demand across the world. The need to dig, or drill deeper and exploit sources of energy that were hitherto seen as uncommercial has changed the energy risk landscape.

In financial terms, the current high levels of capital in the industry continue to drive down rates and profitability will continue to be a challenge for the market in 2011. The critical issue for the market is to walk away from business offered at rates which are not sustainable.

That said, our capital security remains strong and we maintained A+ ratings from Fitch and Standard and Poor's and an A rating from AM Best.

Despite a low yield environment, Lloyd's posted better than expected investment returns. Although our overall result was assisted by prior year releases, we were able to benefit from a general stabilisation of the world economy, but with a note of caution, given the uncertain outlook for 2011, as governments work to cut high levels of debt.

Financial services will be central to any recovery – in the UK and elsewhere. We look to the government to help us retain our international competitiveness at this critical phase. The new European regulation, Solvency II, is designed to ensure capital security going forward. Because of this, further regulatory changes are not needed at this time and any additional burdens will threaten the market's ability to attract business and capital from overseas. Around 80% of our business comes from outside the UK, and it is important that we can compete internationally. Indeed a high point of 2010 was the decision by the Chinese authorities to award Lloyd's a direct licence to operate in the world's second largest economy.

I would like to thank the market and the staff of the Corporation for their efforts.

In particular I would like to thank Celia Denton who retired this month after six years of distinguished service on the Council of Lloyd's and invaluable assistance to the Audit Committee. I would also like to thank Dipesh Shah for his service to the Franchise Board over the last three years.

PETER LEVENE
Chairman
29 March 2011

ABOUT LLOYD'S

THE WORLD'S SPECIALIST INSURANCE MARKET

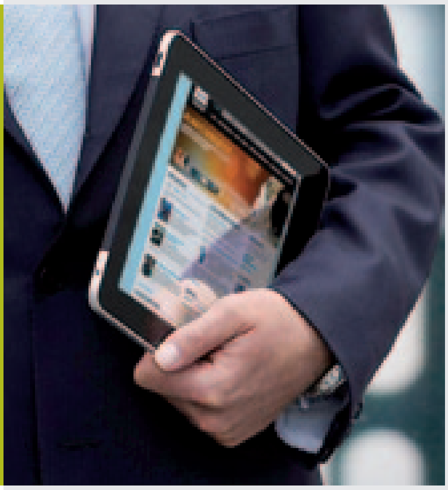
With a tradition of innovation, Lloyd's is often the first to insure new, unusual or complex risks, and conducts business in over 200 countries and territories.

Lloyd's began over 300 years ago, in Edward Lloyd's coffee house – a place where ship-owners could meet people with the capital to insure them. Since then, Lloyd's has built on its maritime heritage to become the world's leading market for specialist property and casualty insurance. Over 65% of Fortune Global 500 companies insure through the Lloyd's market.

Lloyd's remains a dynamic and innovative market, bringing together underwriters providing insurance coverage, with brokers who are seeking insurance on behalf of clients. Business at Lloyd's is still conducted face-to-face, and the bustling Underwriting Room is central to the smooth running of the subscription market, where more than one underwriting syndicate takes a share of the same risk. Lloyd's offers a range of distribution channels which allow managing agents (those responsible for managing a syndicate) to access specialist business primarily via brokers, coverholders and service companies.

Lloyd's offers a unique concentration of expertise and talent, backed by strong financial ratings and international licences. Our strength is based on the diversity of the managing agents who operate at Lloyd's, supported by capital from sources around the world.

While always changing with the times, Lloyd's remains true to its original aim of helping clients rebuild after disaster. Over the last few years much has been achieved in raising standards in underwriting and risk management and strengthening the market's capital position. We continue to pursue ways of improving efficiency and raising standards of service, to make Lloyd's an easier place in which to do business.



MAKING THE MOST OF NEW TECHNOLOGY

Real progress in electronic trading across the Exchange was made in 2010. A trial of the Apple iPad within the market, as an alternative to the paper-based slip, has shown how new technology can help save time, reduce rekeying and provide better controls.

Brokers and underwriters taking part in the trial have been provided with iPad devices, and are using them to agree the slip and confirm the placement over the Exchange. The greater efficiency means that more time is available for crucial face-to-face negotiation.

Sue Langley, Lloyd's Director of Market Operations, said: "It's good to look at how we can use technology to support the way we work. The iPad doesn't detract from the face-to-face discussions in the trading room, but just makes it easier to use the information that decisions are based on."

The response has been encouraging and Lloyd's is extending Wi-Fi coverage across the building to support the pilot.

ABOUT LLOYD'S MANAGING AGENTS

As at 31 December 2010, the Lloyd's market consisted of 52 managing agents and 85 syndicates. In addition, a further four managing agents exclusively manage syndicates in run-off. All 56 are shown below. However, more important than the sheer scale of the market is the breadth and depth of specialist broking and underwriting expertise brought together under the Lloyd's umbrella.

For information on Syndicate Gross Written Premiums see **page 139**.

HOW WE WORK
MARKET STRUCTURE

LLOYD'S OFFERS AN UNRIVALLED CONCENTRATION OF UNDERWRITING EXPERTISE AND TALENT

Lloyd's is not an insurance company. It is a market where members join together to form syndicates to insure risks. Much of Lloyd's business works by subscription, where more than one syndicate takes a share of the same risk.

HOW LLOYD'S WORKS

The majority of business written at Lloyd's is placed through brokers who facilitate the risk-transfer process between clients (policyholders) and underwriters. Clients can discuss their risk needs with a broker, a coverholder or a service company. Specialist underwriters for each syndicate price, underwrite and handle any subsequent claims in relation to the risk (see Figure 1 below).

MEMBERS

PROVIDING THE CAPITAL

The capital to support the syndicates' underwriting is provided by members of Lloyd's. These members include some of the world's major insurance groups and listed companies, as well as individuals and limited partnerships. Corporate members provide most of the capital for the Lloyd's market (see Figure 2).

Private members typically support a number of syndicates, while a corporate member usually underwrites through a single syndicate. A member is liable only for its share of the risks underwritten and is not responsible for meeting any other members' underwriting liabilities. Members' agents provide advisory and administrative services to members as required.

SYNDICATES

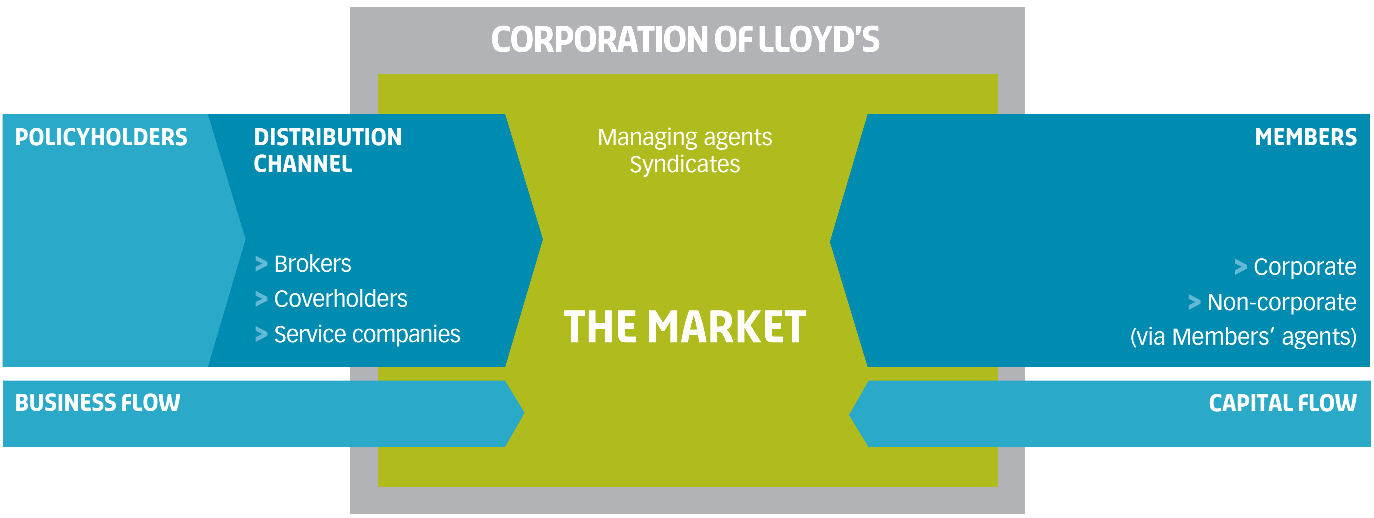
WRITING THE INSURANCE

A Lloyd's syndicate is made up of one or more members that join together as a group to accept insurance risks. At 31 December 2010, there were 85 syndicates. They operate on an ongoing basis, although they are, technically, annual ventures. Members have the right, but not an obligation, to participate in syndicates for the following year. In practice most syndicates are usually supported by the same capital providers for several years. The stability and diversity of the core capital providers mean syndicates function like permanent insurance operations, under the Lloyd's umbrella.

A large proportion of our business takes place in the Underwriting Room located in the Lloyd's Building. Most syndicates have a presence here, and it is where detailed negotiations take place regarding the risks brokers wish to place at Lloyd's on behalf of their clients.

Figure 1

HOW LLOYD'S WORKS



Some syndicates specialise in underwriting a certain class of insurance, while others write a range of classes. Most of these placements involve face-to-face negotiations. Having direct access to this concentration of underwriting skill reinforces our excellent reputation for expertise, innovation and fast decision-making.

MANAGING AGENTS

MANAGING THE SYNDICATES

A managing agent is a company set up to manage one or more syndicates on behalf of the members who provide the capital. It is responsible for overseeing the syndicate's underwriting, employing the underwriters and handling the day-to-day running of the syndicate's infrastructure and operations.

Often a single corporate group will manage and fund a syndicate, thereby aligning the management and capital provision. For other syndicates, a number of different members (which can include both private capital and corporate groups) not connected with the managing agent provide the capital (these are known as 'unaligned' syndicates). New syndicates are often established under a 'turnkey' model, where an existing managing agent establishes and manages the syndicate on behalf of a third party capital provider. After a period of time, the capital provider may seek regulatory approval to establish their own managing agent.

CORPORATION OF LLOYD'S

SUPPORTING THE MARKET

The Corporation of Lloyd's (the Corporation) oversees the market, establishing standards and providing services to support its activities. It also manages Lloyd's worldwide licences. The Corporation's Executive Team exercises the day-to-day powers and functions of the Council and the Franchise Board. The Corporation, including its subsidiaries, had 896 employees worldwide, as at 31 December 2010.

As well as providing services to aid the smooth running of the market, the Corporation strives to raise standards and improve performance. The Corporation's work is split into two main areas:

1. Overall risk and performance-management of the market. This includes:
   - Setting the level of capital Lloyd's members must provide to support their proposed underwriting.
   - Overseeing the market's business activities by setting standards and monitoring the performance of syndicates in areas such as underwriting, exposure, claims and operational risk.
   - Working with the managing agents of underperforming syndicates to improve performance, intervening directly if necessary.
   - Managing financial and regulatory reporting for the market, including the production of its results and the numerous worldwide regulatory returns.
2. Maintaining and developing the attractiveness of the market for capital providers, distributors and clients, while preserving Lloyd's diversity and London-based business model. This includes:
   - Managing and developing Lloyd's global network of licences and the Lloyd's brand.
   - Acting in the long-term interests of the market.
   - Representing Lloyd's to governments and regulators around the world.

A list of managing agents and the syndicates they manage can be found on **page 139**.

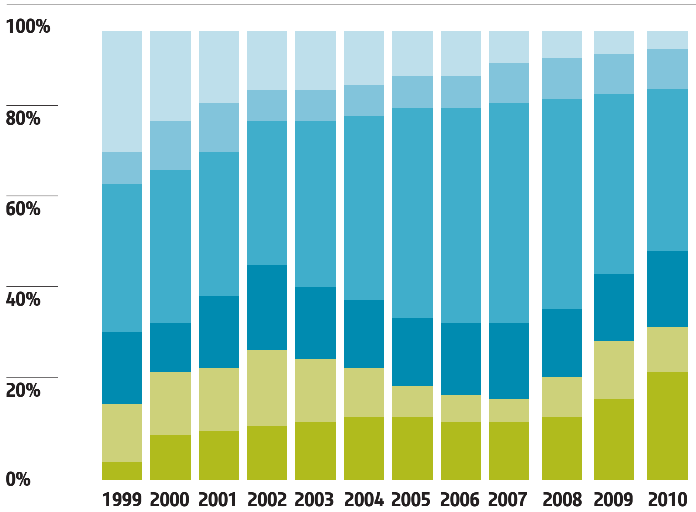
See **page 13** for more detail on the governance of Lloyd's.

More information on Corporation employees can be found in People Strategy on **page 33**.

To read more about the market structure visit **www.lloyds.com/aboutus**

Figure 2

SOURCES OF CAPITAL BY TYPE AND LOCATION



	2010
Worldwide insurance industry	24%
Bermudian insurance industry	10%
US insurance industry	17%
UK insurance industry and other corporate	36%
Individual members (limited liability)	9%
Individual members (unlimited liability)	4%

HOW WE WORK
SECURITY AND RATINGS

LLOYD'S FINANCIAL STRENGTH DERIVES FROM ITS UNIQUE CAPITAL STRUCTURE

FINANCIAL STRENGTH

THE CHAIN OF SECURITY

Lloyd's unique capital structure, often referred to as the Chain of Security, provides excellent financial security to policyholders and capital efficiency for members.

There are three links in the Chain of Security (see Figure 3):

- Syndicate level assets
- Members' funds at Lloyd's
- Central assets

The funds in the first and second links are held in trust, primarily for the benefit of policyholders whose contracts are underwritten by the relevant member. Members underwrite for their own account and are not liable for other members' losses. The third link contains mutual assets held by the Corporation which are available, subject to Council approval, to meet any member's insurance liabilities.

The Chain of Security provides the financial strength that ultimately backs insurance policies written at Lloyd's and the common security underpins the market's ratings and licence network.

The Corporation is responsible for overseeing both member and central capital levels to achieve a level of capitalisation that is robust yet allows members the potential to earn superior returns.

FIRST LINK

SYNDICATE LEVEL ASSETS

The premiums received by a particular syndicate are kept in trust and are its first resource for paying policyholder claims. They are generally held in liquid assets to ensure liabilities can be met as they fall due. Profits are not released until future liabilities are fully provided for. Each syndicate's reserves for future liabilities are subject to annual independent audit and actuarial review.

SECOND LINK

MEMBERS' FUNDS AT LLOYD'S

Each member, whether corporate or individual, must provide capital to support its underwriting at Lloyd's. In accordance with FSA regulations, each syndicate produces an Individual Capital Assessment (ICA) stating how much capital it requires to cover its underlying business risks at a 99.5% confidence level.

The Corporation reviews each syndicate's ICA to assess the adequacy of the proposed capital level. When agreed, each ICA is then 'uplifted' (by 35% for 2010) to ensure enough capital is in place to support Lloyd's ratings and financial strength. This uplifted ICA is known as the syndicate's Economic Capital Assessment and drives member capital levels. This capital is held in trust as readily realisable assets and can be used to meet any Lloyd's insurance liabilities of that member, but not the liabilities of other members.

THIRD LINK

CENTRAL ASSETS

The Corporation's central assets are the third link of security. The Central Fund is available, at the discretion of the Council of Lloyd's, to meet any valid claim that cannot be met by the resources of any member. It is funded by members' annual contributions and subordinated debt issued by the Corporation in 2004 and 2007. Central assets may also be supplemented by a call on syndicates of up to 3% of overall premium limits, known as the 'callable layer'.

The Corporation regularly undertakes detailed analysis to determine the optimum level of central assets, seeking to balance the need for financial security against members' desire for cost-effective mutuality of capital. In particular, the Corporation's sophisticated modelling tests each member's underwriting portfolio against a number of scenarios and a range of forecasts of market conditions.

The Corporation's current target for unencumbered central assets is a minimum of £1,700m. Members' contributions to the Central Fund remain at 0.5% of gross written premiums for 2011. The Council of Lloyd's periodically reviews the central assets target and the level of contributions in light of the current financial position and forecast needs, and will adjust the contribution levels as required.

Figure 3

CHAIN OF SECURITY

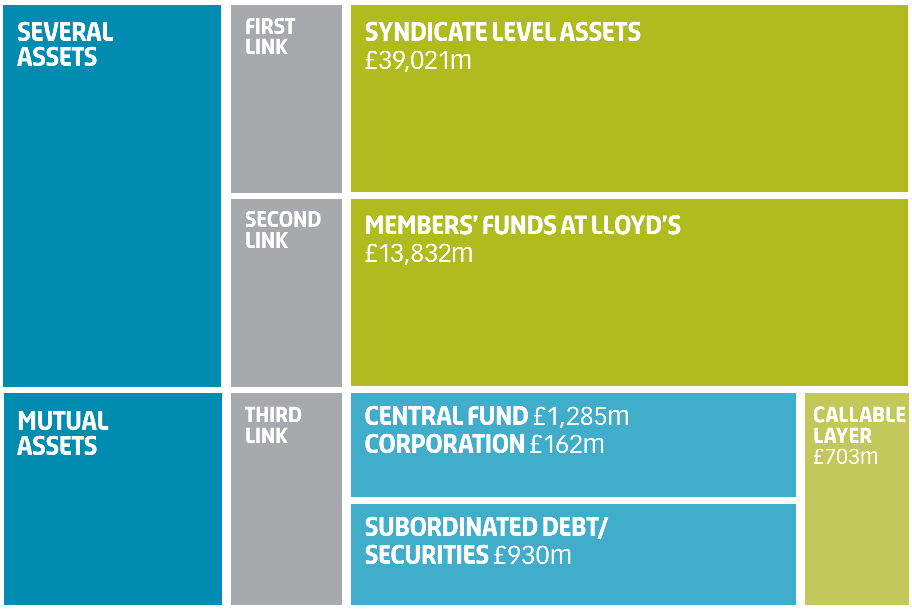
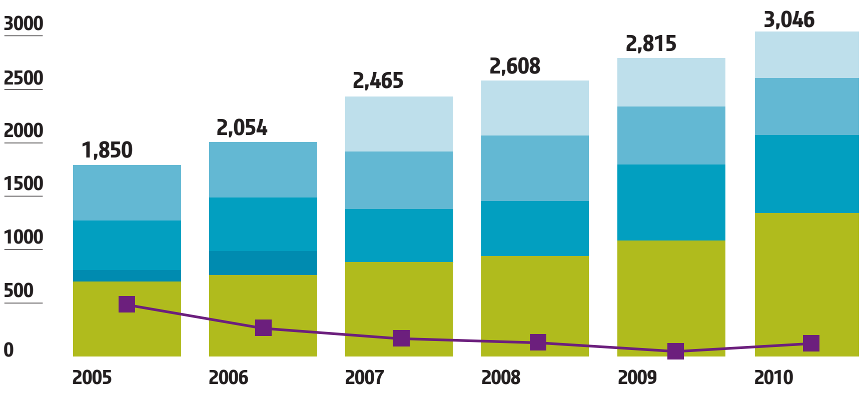


Figure 4

CORPORATION & CENTRAL FUND NET ASSETS FOR SOLVENCY†

£m



	2010
Corporation & Central Fund net assets	1,413
Syndicate loans	0
Callable layer	703
Subordinated debt issued 2004	514
Subordinated perpetual securities issued 2007	416
Solvency deficits	123

† The aggregate value of central assets of the Corporation for solvency purposes at 31 December 2010, excluding the subordinated debt liabilities, including the callable layer.

Figure 5

LLOYD'S RATINGS

STANDARD & POOR'S A+ (STRONG)
FITCH RATINGS A+ (STRONG)

A+

A.M. BEST A (EXCELLENT)

A

As at 31 December 2010.

LLOYD'S ICA AND SOLVENCY

The Corporation also prepares an ICA for Lloyd's as a whole, using the FSA's six risk categories to examine the risks not included in each syndicate's ICA, such as damage to the Lloyd's building. In addition, the Corporation calculates the statutory solvency position of the Society of Lloyd's and reports this to the FSA. At 31 December 2010, the Society had an estimated solvency surplus of £2,923m (see Figure 4).

LLOYD'S RATINGS

All Lloyd's syndicates benefit from Lloyd's central resources, including the Lloyd's brand, its network of global licences and the Central Fund. As all Lloyd's policies are ultimately backed by this common security, a single market rating can be applied. The Lloyd's financial strength ratings apply to every policy issued by every syndicate at Lloyd's since 1993.

Three of the world's leading insurance rating agencies validate Lloyd's strengths, robust capitalisation and the financial strength of the market. In 2010, all three rating agencies reaffirmed our ratings as outlined in Figure 5. In addition, Standard & Poor's has upgraded Lloyd's Enterprise Risk Management rating from 'adequate' to 'adequate with strong risk controls'. This recognises Lloyd's ongoing improvements in risk management.

"Lloyd's occupies an excellent position in the global general insurance and reinsurance markets as a specialist writer of property and casualty risks. Its competitive strength derives from its reputation for innovation and flexibility, which is supported by the pool of underwriting expertise in London."

A.M. Best, August 2010

More information on the Chain of Security can be found on **page 71**.

HOW WE WORK
MANAGING RISK

LLOYD'S USES A RANGE OF TOOLS TO CONTROL AND MANAGE INSURANCE RISK

As with all insurers, the largest risk facing Lloyd's is the inherent uncertainty of the size and timing of insurance liabilities.

Further information on changes to the risk management framework can be found on **page 30**.

MANAGING INSURANCE RISK

Each syndicate agrees its own appetite for risk, then develops a business plan, arranges its reinsurance protection and manages its exposures and claims. Through the Performance Management Directorate, the Corporation approves syndicate business plans and capital requirements and regularly reviews and provides to managing agents information relating to their syndicates' performance. The framework and processes used by syndicates and the Corporation continue to evolve in light of the changing external environment and the need to implement the new Solvency II regulatory regime. To control and monitor insurance risk within the market's overall risk appetite, the Corporation:

- Reviews and approves business plans and approves appropriate capital requirements.
- Monitors syndicates' performance.
- Establishes and monitors compliance with minimum standards, including in relation to underwriting, claims and risk management.
- Sets guidelines for catastrophe exposure and reinsurance use.
- Devises Realistic Disaster Scenarios (RDS) to help in the measurement and management of catastrophe exposures at syndicate and market level.
- Monitors and benchmarks reserve strength, and coordinates the process for Statements of Actuarial Opinion on syndicate reserves.

All managing agents are required to write in accordance with their syndicates' approved business plans, to meet Lloyd's minimum standards and to comply with Lloyd's byelaws and requirements. Failure to do so by a managing agent may result in Lloyd's taking a range of actions, which include, in appropriate circumstances, requiring the managing agent to cease underwriting on behalf of a syndicate and, ultimately, withdrawal of its approval to be a managing agent at Lloyd's.

MANAGING THE CYCLE

The Performance Management Data Return (PMDR) plays a key role in managing the overall performance of the Lloyd's market. Monthly updates enable the Performance Management Directorate to evaluate each syndicate's performance against their approved business plans, and take mitigating action where required.

Details of performance and premium income by risk category, distribution channel and method of placement, are gathered, together with a breakdown of renewed, lapsed and new business. Collecting consistent information on a regular basis and taking appropriate action where necessary helps protect the Central Fund and, in turn, protect policyholders.

For more information see **www.lloyds.com/pmdr**

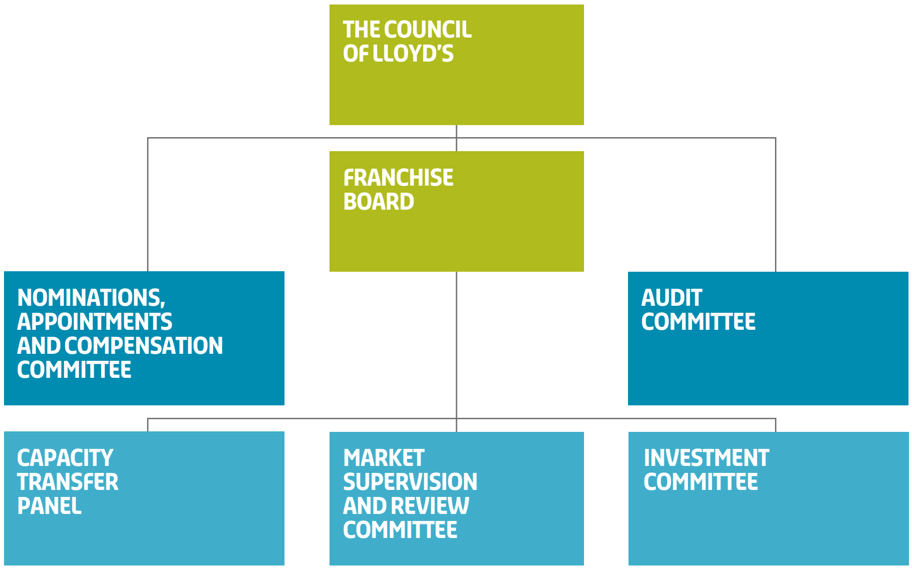
GOVERNANCE

LLOYD'S GOVERNANCE STRUCTURE PROVIDES CLARITY AND ACCOUNTABILITY

The Council of Lloyd's is responsible for supervising the market.

Figure 6

PRINCIPAL COMMITTEES OF LLOYD'S



THE COUNCIL AND FRANCHISE BOARD

The Council of Lloyd's is the governing body of the Society of Lloyd's and has ultimate responsibility for managing the market as a whole. For many of its functions, the Council now acts through the Franchise Board, whose members are appointed by the Council and drawn from both within and outside the Lloyd's market.

The day-to-day powers and functions of the Council and Franchise Board are exercised by the Corporation's Executive Team, consisting of the Chief Executive Officer and Directors of the Corporation.

Lloyd's is regulated by the FSA, which undertakes direct supervision of managing agents and monitors capital and solvency. The Corporation plays an active role in managing risk within the market to ensure that Lloyd's central assets, brand, licences and reputation are protected.

The members of the Council and Franchise Board are listed on **pages 14-17**.

For more information on corporate governance see **page 77**.

Details of the Executive Team can be found at: **www.lloyds.com/executiveteam**

GOVERNANCE
THE COUNCIL OF LLOYD'S

01	07	13
02	08	14
03	09	15
04	10	16
05	11	17
06	12	

01 LORD LEVENE OF PORTSOKEN KBE
Chairman of Lloyd's
(Working member)
Peter Levene was elected as Lloyd's Chairman in November 2002. He is also the Chairman of NBNK Investments plc and General Dynamics UK Limited. He is a member of the Board of TOTAL SA, China Construction Bank and Haymarket Group. He also chairs the Defence Reform Group of the Ministry of Defence and is a member of the House of Lords Select Committee on Economic Affairs. He is an Alderman of the City of London and served as Lord Mayor for the year 1998-99.

02 DR RICHARD WARD
Chief Executive Officer
(Nominated member)
Richard Ward joined Lloyd's as Chief Executive Officer in April 2006. Previously he worked as both CEO and Vice-Chairman at the International Petroleum Exchange (IPE), re-branded ICE Futures. Prior to this, he held a range of senior positions at BP, after pursuing a scientific career with the Science & Engineering Research Council (SERC). He is a Board member of the Geneva Association, The Transatlantic Business Dialogue and a Council Member of the Heart of the City charity.

03 PAUL JARDINE
Representative of Catlin Syndicate Limited
Deputy Chairman of Lloyd's
(External member)
Member of the NACC
Member of the Audit Committee
Paul Jardine, a qualified actuary, is Deputy Chairman of Catlin Underwriting Agencies Limited and Chief Operating Officer of Catlin Group Limited. He has over 28 years of insurance industry experience and was Chairman of the Lloyd's Market Association from 2007 to 2010.

04 DR ANDREAS PRINDL CBE*
Deputy Chairman of Lloyd's
(Nominated member)
Chairman of the NACC
Member of the Audit Committee
Andreas Prindl worked for Morgan Guaranty in New York, Frankfurt, London and as General Manager in Tokyo and then set up Nomura Bank International, which he chaired. He was appointed CBE for his contributions to financial services education in Britain and Eastern Europe.

05 GRAHAM WHITE
Deputy Chairman of Lloyd's
(Working member)
Member of the NACC
Graham White is Managing Director of Argenta Private Capital Ltd and Deputy Chairman of Argenta Syndicate Management Ltd and has worked in the Lloyd's market since 1968 as a reinsurance broker, company secretary and members' and managing agent. He is a trustee of Lloyd's Patriotic Fund.

06 LORD ASHTON OF HYDE
Representative of Faraday Capital Limited
(External member)
Henry Ashton is the Chief Executive Officer of the Faraday Group, the London market arm of General Re. He was a reinsurance broker in London and New York for ten years before joining the Lloyd's managing agent D P Mann, which was subsequently bought by General Re.

07 RUPERT ATKIN
(Working member)
Member of the NACC
Rupert Atkin is the Chief Executive of Talbot Underwriting and was the active underwriter for syndicate 1183 from 1991 until 2007. He is a director of all Talbot Group companies. He has served on various market bodies, including the Lloyd's Regulatory Board and has chaired both the Lloyd's Underwriters Association and the Joint War Risk Committee.

08 MICHAEL DEENY
(External member)
Michael Deeny is a chartered accountant. He was the Chairman of the Association of Lloyd's Members. His career has principally been in the music industry, where he has promoted U2, Bruce Springsteen, Nirvana and Luciano Pavarotti amongst others. He underwrites through a Limited Liability Partnership and is Deputy Chairman of the Equitas Trust.

09 SIR ROBERT FINCH*
(Nominated member)
Member of the NACC
Member of the Audit Committee
Sir Robert Finch qualified as a Solicitor in 1969 when he joined Linklaters, becoming Partner in 1974 and Head of Real Estate in 1997. He retired in 2005 to take the Chairmanship of Liberty International plc for three years. He became Chairman of the Royal Brompton and Harefield Hospital Foundation Trust in January 2009. In February 2009 he became the Chairman of the Aviva Mall Fund. He is a director of FF & P Russia, Governor of the College of Law, served as a Church Commissioner from 2003 to 2008 and was Lord Mayor of London for the year 2003-04.

10 MATTHEW FOSH
Representative of Novae Corporate Underwriting Limited
(External member)
Matthew Fosh is the Chief Executive Officer of Novae Group plc which he joined in 2002. He is a non-executive director of Ariscom Compagnia di Assicurazioni S.p.A. He previously worked in the capital markets, where in 1989 he co-founded a derivative trading business, which he subsequently sold in 2002 to ICAP plc.

11 EWEN GILMOUR
(Working member)
Member of the Audit Committee
Member of the NACC
Ewen Gilmour is a chartered accountant. He is the former Chief Executive of Chaucer Holdings plc and is currently a non-executive director of Antares Managing Agency Limited, Hampden Agencies Limited, Shelbourne Syndicate Services Limited and Xchanging Insurance Services Group of companies. He is also a member of the Lloyd's Market Association Market Processes Committee. Formerly a corporate financier with Charterhouse Bank, he moved to the Lloyd's market in 1993 to help facilitate the introduction of corporate capital.

12 CHRISTOPHER HARMAN
(Working member)
Christopher Harman has worked in the Lloyd's market as a reinsurance broker since 1971, specialising in reinsurances of Lloyd's syndicates and companies writing global business. He is a Partner in Jardine Lloyd Thompson Reinsurance Brokers Ltd, who bought Harman Wicks & Swayne Ltd in 2008, an independent Lloyd's broker of which he was founder and Deputy Chairman. He has been an unlimited Name since 1979 as well as writing through a Nameco.

13 DR REG HINKLEY*
(Nominated member)
Member of the Audit Committee
Dr Reg Hinkley is Bursar at Christ's College Cambridge. Until July 2007 he was Chief Executive Officer of BP's UK pension fund. He joined BP in 1981, and worked in finance, planning and risk management roles. Previously he worked at HM Treasury. He is an independent Trustee and Deputy Chairman of the Lloyd's Pension Scheme.

14 BARNABAS HURST-BANNISTER
Representative of Aprilgrange Limited
(External member)
Barnabas Hurst-Bannister, who has worked in Lloyd's since 1975, is Chairman of Aprilgrange Limited, a corporate capital provider owned wholly by The Travelers Companies, Inc. He is also the Chairman of the Lloyd's Market Association and the London Market Group. He also acts as a political risks underwriting consultant to Beazley Furlonge Limited.

15 ALAN LOVELL
(External member)
Member of the NACC
Alan Lovell has a portfolio of green energy roles and is Chief Adviser to the restructuring practice of PWC. He was earlier Chief Executive of Costain Group plc, Dunlop Slazenger, Jarvis plc and Infinis Limited. He is Chairman of the Mary Rose Trust Appeal Committee and is High Sheriff of Hampshire for 2010-11. He is a director of the Association of Lloyd's Members and of Alpha Insurance Analysts Ltd (a members' agent).

16 SIR DAVID MANNING*
(Nominated member)
Sir David Manning retired from the Diplomatic Service in 2007 after four years as British Ambassador to the United States. He is now a director of Gatehouse and a non-executive director of BG Group and of Lockheed Martin UK. He is a member of the Council of the International Institute for Strategic Studies and on the panel of Senior Advisers at the Royal Institute for International Affairs.

17 NICHOLAS MARSH
(Working member)
Nicholas Marsh is Director of Underwriting Review at Atrium Underwriters Limited and Executive Director of Atrium Underwriting Group Limited, having been Chief Executive for the Group from 2000 to 2005. His Lloyd's career started in 1973, when he joined Syndicate 570 and was Active Underwriter from 1989 to 2005.

The Council as at 29 March 2011.

* Considered to be independent members of Council.

GOVERNANCE
THE FRANCHISE BOARD

01 LORD LEVENE OF PORTSOKEN KBE
Chairman of Lloyd's
Biography on page 15.

02 DR RICHARD WARD
Chief Executive Officer
Biography on page 15.

03 TOM BOLT
Director, Performance Management
Tom Bolt joined Lloyd's in September 2009. Previously, he was Managing Director of Marlborough Managing Agency. He has extensive experience in international insurance and reinsurance across the UK, US and Europe and has held senior roles in Berkshire Hathaway's reinsurance divisions and as President of some of its insurance subsidiaries. He also assisted in the formation of Bankers Trust Insurance Derivatives business, as well as a related group of insurance and reinsurance companies.

04 NICHOLAS FURLONGE
Nicholas Furlonge is the Director of Risk Management at Beazley plc. He has worked in the Lloyd's market since 1972 and was co-founder of Beazley. He is a member of the Lloyd's Market Association Board and Chairman of the Lloyd's Community Programme Management Board.

05 CLAIRE IGHODARO CBE*
Chairman of the Audit Committee
Claire Ighodaro is Audit Committee Chair and a Board member of the British Council, the Lending Standards Board, the Open University and Lloyd's. She was an independent director at BIS and UK Trade and Investment and was President of CIMA (the Chartered Institute of Management Accountants).

06 ANDREW KENDRICK
Member of the Audit Committee
Member of the NACC
Andrew Kendrick is Chairman and Chief Executive Officer of ACE European Group. Prior to this, he served as President and Chief Executive Officer, ACE Bermuda. He has over 30 years of insurance industry experience. He is a member of the Lloyd's Market Association (LMA) Board and was Chairman of the LMA from January 2006 to June 2007.

07 DR MARTIN READ*
Martin Read is a non-executive director of Invensys, Aegis Group, the UK Government Cabinet Office Efficiency and Reform Board and is the independent Chair of the Remuneration Consultants Group. He was Chief Executive of international IT services company Logica from 1993 to 2007 and has served as a non-executive director on the boards of British Airways, Siemens Holdings, Boots and ASDA. He led a UK Government review of back office operations and IT across the public sector which reported in 2009.

08 LUKE SAVAGE
Director, Finance, Risk Management and Operations
Luke Savage, a chartered accountant, joined Lloyd's in 2004. He has over 25 years' experience in financial services across insurance and banking, including Morgan Stanley and Deutsche Bank.

09 DAVID SHIPLEY
Member of the Audit Committee
David Shipley was named underwriter for MAP Syndicate 2791 from its formation in 2000 until 2007, and is now non-executive Chairman of MAP, having worked as a Lloyd's underwriter since 1976. He has underwritten since 1984, first as a Name and subsequently with limited liability. He was a member of the Council from February 2003 to January 2009 and was appointed Chairman of Equitas in September 2009.

10 ANDRE VILLENEUVE*
Andre Villeneuve is Chairman of the City of London's International Regulatory Strategy Group. He is an Independent Director of United Technologies Corporation and TheCityUK. He served as Chairman of Euronext-LIFFE, non-executive director of Aviva, and executive director of Reuters where he worked for many years.

The Franchise Board as at 29 March 2011.

* Considered to be an independent non-executive director.

01	06
02	07
03	08
04	09
05	10










STRATEGIC OVERVIEW

BUSINESS HIGHLIGHTS

GOOD PROGRESS AGAINST 2010 OBJECTIVES AND CONTINUED SUPPORT FOR THE MARKET

- **Performance Management** – Improved risk and management information is being received from the market via the Performance Management Data Return, helping the Corporation better monitor and manage syndicate underwriting performance.
- **Solvency II** – The market and corporation continue to make good progress to be ready for 2013. Extensive lobbying was undertaken at EU and national level on Solvency II.
- **The Exchange** – All managing agents are now connected and an endorsement pilot involving direct marine classes has made good progress.
- **Claims Transformation** – The claims agreement framework pilot is underway and has resulted in average claims transaction times improving by 40% in the pilot lines of business.
- **Access to business** – Lloyd's was granted a licence to write direct business in China. This will be made operational in 2011. A new Lloyd's representative office was opened in Toronto. Improvements were made to the coverholder distribution channel, making it easier for a coverholder to do business with Lloyd's.
- **Regulation** – Lloyd's has continued to play a leading role in responding to the post-crisis political and regulatory agenda, seeking to ensure that any new insurance regulations are appropriate and that the new regulatory agencies in the EU and those proposed in the UK provide effective but proportionate oversight of the industry.
- **Market modernisation** – Lloyd's continued to support the London Market Group's programme of work to improve the London market's business processes.
- **Talent** – Lloyd's continued to improve the depth and quality of the talent working in the market via the Lloyd's graduate and leadership schemes, and the new claims talent programme.
- **Financial strength** – Lloyd's ratings were maintained at their target level.

CHIEF EXECUTIVE OFFICER'S INTRODUCTION

IN THE FACE OF ECONOMIC UNCERTAINTY, THE MARKET HAS DELIVERED A SOLID SET OF RESULTS

"Market participants will need to show their mettle in underwriting for profit, rather than top line growth."

Lloyd's CEO Richard Ward reflects on a successful 2010 and looks ahead to 2011.

Q. What are your reflections on Lloyd's in 2010?

A. Twelve months ago I said that it was highly unlikely that we would be able to match the record profits of 2009, a year marked by very few major catastrophes.

That has proved to be the case. The market continued to operate in a challenging environment – rates stayed low throughout the year, there was excess capital in the industry and the investment climate remained difficult. Despite a relatively benign Atlantic hurricane season, we saw: earthquakes in Chile, Haiti and New Zealand; the loss of the Deepwater Horizon oil platform and floods in Australia.

However, despite these events, and in the face of political, regulatory, and economic uncertainty, the Lloyd's market has delivered a solid set of financial results, albeit helped by prior year releases. So, overall, 2010 has been a successful year.

Q. What are you most concerned about for 2011?

A. 2011 has already been marked by tragedy. Severe floods in Australia were followed by a second earthquake in Christchurch, New Zealand, and the devastating 9.0 earthquake followed by a tsunami in Japan. The biggest cost of all of these events is, of course, human, but there will inevitably be a financial impact on this market. We are confident of our ability to meet this. These terrible tragedies are a reminder of why the market must work hard to remain stable and secure – because businesses stricken by disaster need these qualities in their insurer.

How do we achieve this? The market faces three central challenges in 2011. First, the need to maintain a resolute focus on underwriting discipline. At the January renewals, rates continued to soften across most classes of business. Market participants will need to show their mettle in underwriting for profit, rather than top-line growth, and the Corporation must oversee their performance closely.

Second, the industry continues to suffer from surplus capital, which also acts to drive rates down.

Third, the global insurance market is more competitive than ever, and we need to work to maintain London's position as the leading global centre for specialist insurance and reinsurance.

Q. What are the main threats to London's position as a leading insurance and reinsurance centre?

A. High taxation and over regulation continue to threaten London's position in the global league tables. We are encouraged by the Government's response to industry's concerns in this year's budget – in particular their proposal to revise down the corporation tax rate to 23% by 2014, but more needs to be done.

We all understand the difficulties faced by the Government, which is wrestling with large debts and big cuts in spending, but it is important that they balance this with ensuring the industry remains competitive globally. This is particularly important in the insurance sector, which provides hundreds of thousands of jobs across the UK.

Additional regulatory burdens also affect the competitiveness of the UK financial services sector. Insurers already face the challenge of implementing Solvency II, the largest regulatory change for a generation. It's important to keep in mind that the UK's insurance sector neither caused nor exacerbated the financial crisis. On the contrary, we have robust risk management structures and, as importantly, an ethos to help businesses and individuals get on with rebuilding after they experience a disaster.

Q. Do you believe that the Lloyd's market is more attractive now than a year ago?

A. Yes, we made real progress in 2010 towards making Lloyd's a more attractive place to do business. We saw some real improvements across all five of the Corporation's priorities.

Our performance management team worked with the market to improve the quality of the data they receive from Lloyd's syndicates. They also carried out reviews of a number of classes of business, areas as diverse as offshore energy cover in the Gulf of Mexico to bloodstock lines. One initiative means we can now see how syndicates compare against business plans and the performance of the market over a five-year period.

Solvency II remains an enormous task for both the Corporation and the market, but I have been impressed and encouraged by the efforts in 2010. We made good progress across the board, from lobbying in Brussels and in London to a successful dry run exercise. As a result, the market remains on track in terms of its preparations.

We also made strides in our efforts to modernise the market and become more efficient. We saw 100% of all managing agents connected to the Exchange as well as 80% of brokers (by capacity). The pilot on marine endorsements saw 125,000 messages sent by 37 managing agents, 19 brokers and nine International Underwriters Association carriers.

We also want Lloyd's to be recognised as an industry leader in terms of claims payment. Claims is the shop front of the insurance business and, in 2010, our Claims Transformation Programme recorded an average reduction of 40% in the time it took to pay claims for pilot lines.

We also made progress on our final priority, access to business, with a great deal of effort being made to streamline coverholder access.

We also organised a number of market visits to potentially interesting regions, such as Mexico and Russia, and a major success was the decision by the Chinese authorities to grant Lloyd's a direct licence. Our regulatory team continued to work hard to maintain Lloyd's network of licences.

Q. What will be Lloyd's strategic priorities this year?

A. The Corporation's strategy in 2011 will be to build on the work already under way in these five key areas. Maintaining market discipline remains a top priority, particularly during the soft market, and 2011 will see our performance management team complete a review of syndicates' pricing processes measured against Lloyd's published minimum standards.

Solvency II will dominate many aspects of our work in 2011, when we should get more clarity from the Commission on certain technical aspects and when our dry run exercises will move from design to delivery. We are also preparing ourselves to roll out to more classes of business on the Exchange, and our Claims Transformation Programme will also continue, including work on the new Claims Talent Programme which aims to give graduates and current market practitioners a thorough grounding in claims management.

All of these activities will be done alongside increased efforts to improve access to business, particularly through continuing the initiatives to streamline coverholder management systems.

In the short term, this strategy will help us deal with the challenging market conditions. In the longer term, it will also make us more attractive to our clients, whether that's through our security, the efficiency of our processes or the speed with which we pay claims.

The great challenge of any Lloyd's strategy is that it needs a collective effort, and we will be working in partnership with managing agents, brokers and capital providers to achieve these aims. I am confident that, along with the Corporation, they will all work hard to ensure that we remain the market of choice for insurers and reinsurers across the world.

STRATEGY

LLOYD'S VISION IS TO BE THE MARKET OF CHOICE

Lloyd's vision and key characteristics are unchanged from last year:

"To be the market of choice for insurance and reinsurance buyers and sellers to access and trade specialist property and casualty risks."

KEY CHARACTERISTICS

- Lloyd's model – a subscription market backed by a layer of mutual security – is one which positions the market well over the plan period.
- Lloyd's is a broker market – brokers continuing to access the market on behalf of their clients is critical to the market's ongoing success.
- Lloyd's is a London-based international business – a major role of the Corporation is to maintain and enhance market access and increase the flow of business into the market.
- Diversity underpins the market's attractiveness – this includes diversity in the market portfolio (product and geographic balance) and in the size and structure of market participants and capital providers.

THE ROLE OF THE CORPORATION

As a challenging business partner, the role of the Corporation is fundamentally unchanged from previous years. Given current market conditions, however, the Corporation's market oversight responsibilities will become more prominent. The role is as follows:

- To undertake the overall risk and performance management of the market.
- To maintain and develop the attractiveness of the market for capital providers, distributors and clients while preserving Lloyd's diversity and London-based business model.

As in previous years, this plan is built around the needs of Lloyd's market participants and expresses what the Corporation can do to support their business aims. The Corporation will take action where necessary in the long-term interests of the market, but in general its actions are guided by market need and demand.

CORPORATION PRIORITIES FOR 2011

- **Market oversight**
  - Maintain a resolute focus on underwriting discipline and risk management.
- **Solvency II**
  - Implement and embed Solvency II to protect and, where possible, enhance Lloyd's capital structure and efficiency.
- **The Exchange**
  - Increase adoption and use of The Exchange.
- **Claims Transformation**
  - Transform the way the Lloyd's market handles claims to enhance the experience of the customer.
- **Access to business**
  - Improve access to business, particularly through streamlining coverholder management.

For further information please read Lloyd's Strategy 2011-2013 at **www.lloyds.com/strategy**

DESPITE A CHALLENGING ECONOMIC ENVIRONMENT, OPPORTUNITIES EXIST FOR INSURERS ABLE TO BALANCE FLEXIBILITY WITH DISCIPLINE

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.

BUSINESS ENVIRONMENT
INSURANCE TRENDS CONTINUED

SUPPORT WHEN DISASTER STRIKES

Lloyd's is keenly aware that our role is to support our clients as they rebuild their lives, countries and businesses when disaster strikes. So, following the tragic Chilean earthquake in February, we were quick to send a team to the country to better understand the situation on the ground and help ensure the speedy payment of valid claims.

The team, made up of representatives from the Lloyd's market and Xchanging Claims Services (XCS), met with local loss adjusters, cedants, brokers and other interested parties to understand the challenges they faced. Shortly after that, a second group, including Lloyd's Chairman Lord Levene and Lloyd's Director Jose Ribeiro, visited the region to discuss the response to the earthquake in more detail.

The senior delegation was keen to show Lloyd's ongoing commitment to the relief effort and to thank the local Chilean insurance industry for its help. The delegation also visited the Chilean Red Cross to hand over a cheque for £25,000 from the Lloyd's Charities Trust to help the relief effort.

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.

2011 PRIORITIES

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.

For further information please read Lloyd's Strategy 2011-2013 at **www.lloyds.com/strategy**

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

INTERNATIONAL REACH

DURING 2010, SIGNIFICANT STEPS WERE TAKEN IN INTERNATIONAL MARKET DEVELOPMENT

Lloyd's has an extensive global licence network, with authority to write direct insurance in over 75 jurisdictions, and the ability to conduct reinsurance business in over 200 territories.

Lloyd's global reach is supported by 40 Lloyd's offices and representatives around the world – ranging from third-party legal representatives who maintain our licences, to larger offices with country managers who maintain our licences and play a market development role.

North America (Lloyd's America, Lloyd's Canada) accounts for around 43% of Lloyd's total business. This is followed by the UK which contributes 20%, and the rest of Europe with 16%. The remaining 21% is made up of business from Central Asia and Asia Pacific, Other Americas, and the Rest of the World.

For 2010, the major priorities internationally for Lloyd's were:

> **Market access:** maintaining the existing network of Lloyd's licences and obtaining new access rights for the Lloyd's Market.
  – Lloyd's obtained permission to write direct business in China in May 2010. The licence gives Lloyd's significant access rights in the fast growing Chinese insurance market.
  – Lloyd's reached an agreement with the Canadian regulator, the Office of the Superintendent of Financial Institutions Canada (OSFI), to ensure that Lloyd's Canadian business may continue to be treated as regulated business for the purposes of the Canadian Insurance Companies Act.
  – Lloyd's opened its first permanent office in Toronto, highlighting the importance of the city as a national centre for business and financial services. Lloyd's underwriters in Canada are among the largest providers of commercial lines coverage and are licenced to write all major commercial classes of business in all provinces and territories.

> **Market development:** supporting the business development activities of managing agents and Lloyd's brokers by providing a network of country managers, and by promoting Lloyd's internationally.
  – During 2010, Lloyd's appointed full-time country managers for the UK and Benelux.
  – Lloyd's America restructured its operations, establishing four regions – Northeast, Southeast, Central and Western – with directors in each. This will enhance the available support for managing agents, as well as improving the efficiency of Lloyd's admitted operations in Illinois and Kentucky.

MAKING IT EASIER FOR COVERHOLDERS

Coverholders are local agents with authority to write insurance on behalf of Lloyd's syndicates. They are important to Lloyd's distribution chain and provide local expertise, allowing syndicates to operate in regions or countries as if they were a local insurer.

A range of initiatives are underway focused on making it easier for coverholders to access the Lloyd's market. They include a coverholders' area on the Lloyd's website to provide guidance on working in the market, and a streamlined audit experience for coverholders. Lloyd's engaged managing agents and London brokers and held a conference for Lloyd's UK and overseas international coverholders to improve auditing standards and efficiency.

The online directory has been redesigned so agents can find their nearest coverholder easily. Atlas, an online system to assist the market in managing coverholder information, has been enhanced to allow regulatory, audit and approval information to be viewed online. Lloyd's has clarified the information coverholders need to provide and new reporting standards for claims and premiums have been introduced.

Lloyd's also focused on improving access for coverholders, including informative sessions for European coverholders and a technology forum where vendors offering systems for managing coverholder business demonstrated their products.

For further information on Atlas please visit: **www.lloyds.com/atlas**

- In November 2010, the Franchise Board approved the business case for Lloyd's to establish a representative office in Moscow which is expected to open later in 2011.

> **Distribution:** strengthening Lloyd's distribution chain by better supporting brokers and coverholders.
- For many years, Lloyd's has been holding a week-long programme for US brokers. The goal of this programme is to improve the knowledge of Lloyd's within the next generation of brokers to ensure that business continues to flow to the Lloyd's market. In 2011, the programme will be expanded to include nominees from Canada. During 2010, Lloyd's enhanced its broker relationship management programme to ensure the alignment of Lloyd's market development activities with brokers' business development strategies.
- In 2010, Lloyd's undertook initiatives to improve market access for coverholders (see case study on page 26).

In 2010, Lloyd's worked closely with the Lloyd's Market Association (LMA) to support the market and ran over 100 international events, in more than 25 countries. Highlights included:

> **Market development trips** to raise Lloyd's profile in new markets, assess opportunities and promote access to business. The Chairman led group visits to Russia with 18 market participants (13 brokers and five agents) and Mexico with 11 agents, seven brokers and members of the Corporation.

> **New office openings** in Japan and Toronto.

> **Meet the market events** in Ireland and Spain which enabled Lloyd's and the local insurance communities to come together in a recreation of the Underwriting Room to network, develop and build on business relationships. In Ireland 49 companies hosted boxes and over 800 people attended.

> **Class of business events** in Denmark, Germany, Poland and Norway which gave the Lloyd's market the opportunity to meet and network with local insurance markets whilst promoting its expertise in Energy and Liability sectors, as well as to promote the coverholder model.

> **Industry events** such as AMRAE (The French Risk Managers Association), which is the second largest event for risk managers in Europe and attended by over 1,600 people, where workshops and seminars are held for risk managers, brokers, insurers and industry professionals to network. Lloyd's hosted a hospitality suite at this event and CEO Richard Ward spoke at a Lloyd's reception.

> The Risk Insurance Management Society (RIMS) conference in Boston where more than 50 Lloyd's brokers and managing agents and Lloyd's America welcomed guests to the Lloyd's stand at the convention centre. On the eve of the conference, the Chairman hosted more than 300 risk managers, brokers, insurers and managing agents at our traditional Sunday evening reception. The annual conference was attended by more than 8,000 risk and insurance professionals.

> The annual **New York City Dinner**, hosted by Lord Levene and Richard Ward, where guests included executives from global and national brokers and insurers, the financial services industry, government and industry.

> **360 Risk Insight** programme events in London, San Francisco, Toronto and Singapore where high profile launches of independent research provided an opportunity to promote the Lloyd's brand and thought leadership in the local market.

DIRECT LICENCE IN CHINA

Lloyd's has expanded its access to the rapidly developing Chinese insurance market through the acquisition of a direct licence in May 2010. Now the second largest economy in the world, China remains a long term strategic priority for Lloyd's. Through Lloyd's platform in Shanghai, syndicates will be able to access non-life direct insurance business in the Shanghai region, as well as Marine, Aviation and Transit business with international exposures, and other large commercial risks, nationwide.

Lloyd's China, which was established in 2007, has experienced meaningful growth, writing US$46m in reinsurance premium income in underwriting year 2010. Work is now underway to become a general insurance company in preparation for the first direct Chinese policy to be issued in the second half of 2011. Lloyd's continues to offer onshore reinsurance in China and aims to develop direct insurance opportunities in the longer term.

KEY PERFORMANCE INDICATORS

MEASURING PERFORMANCE AT LLOYD'S

Key performance indicators (KPIs) are used by the management team to evaluate both the Lloyd's market and the Society's performance. Lloyd's has a range of metrics used internally for tracking and performance management. Those shown here best illustrate Lloyd's financial performance and progress against delivering our strategy in 2010.

Some of the measures may change over time as more comparative information becomes available or to reflect any substantive change in strategy. Directional trends are important, even in a market made up of independent businesses.

MARKET PERFORMANCE

Combined ratio

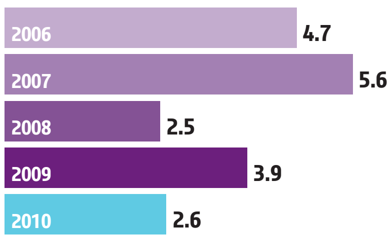
- Definition: The combined ratio is an expression of net incurred claims and expenses against net earned premium. Any figure that is less than 100% signifies a technical underwriting profit.
- Rationale: Headline financial indicator for measuring underwriting performance. Lower is better.
- Progress: A resilient performance in 2010. Large catastrophe losses have been partially offset by continued prior year releases.

Investment return

- Definition: Net investment income plus realised and unrealised return on investments as a percentage of average total investments.
- Rationale: Investment return can have a significant impact on overall profitability for insurers/reinsurers.
- Progress: A return of 2.6% reflects the current low interest rate environment and the conservative nature of the portfolio.

COMBINED RATIO
%

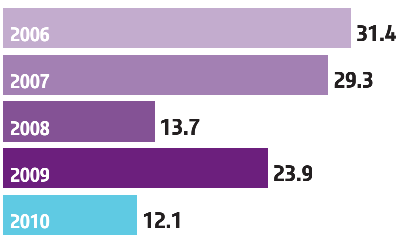
INVESTMENT RETURN
%



Pre-tax return on capital

- Definition: Profits on ordinary activities before tax as a proportion of average capital and reserves held.
- Rationale: Indicates the capital efficiency of Lloyd's. The goal of the Franchise Board and Council is to support the market in monitoring cross-cycle returns to all capital providers.
- Progress: 12.1% is a good return in a challenging year for the insurance industry.

PRE-TAX RETURN ON CAPITAL
%



STRATEGIC PERFORMANCE

Solvency deficit

- Definition: The aggregate shortfalls for all members where the member's assets are insufficient to cover its underwriting liabilities and member capital requirement.
- Rationale: Indication of success at mitigating Central Fund exposure. Lower is better.
- Progress: A small increase in the solvency deficit due to the isolated problems experienced by a small number of members does not detract from the longer term declining trend.

Cost of mutuality

- Definition: Central fund contribution rate charged to members. This includes the syndicate loans charged in 2005 and 2006, and subsequently repaid in 2007.
- Rationale: Medium-term cost indicator for the operational efficiency of mutually available assets. Lower is better.
- Progress: The 2010 contribution rate of 0.5% continues to represent a cost-effective benefit of mutuality; the rate for 2011 is set to remain at 0.5%.

SOLVENCY DEFICIT
£m

	£m
2006	253
2007	168
2008	133
2009	59
2010	123

COST OF MUTUALITY
%

	%
2006	1.75
2007	1.00
2008	0.50
2009	0.50
2010	0.50

Security and ratings

- Definition: Lloyd's financial strengths as evaluated by the world's leading insurance rating agencies, taking into account operating performance, capitalisation, global competitiveness and financial flexibility.
- Rationale: Indicates the financial robustness of Lloyd's.
- Progress: Lloyd's ratings from all three ratings agencies are at the target level and were reaffirmed in 2010.

	Actual	Target
STANDARD & POOR'S	A+	✓
FITCH RATINGS	A+	✓
A.M. BEST	A	✓

Brand strength

- Definition: Non-financial indicator – independent survey of brokers and policyholders run biennially. The brand 'health score' is a combination of scores for brand affinity (familiarity, favourability, trust and endorsement) and awareness (percentage of respondents who, unprompted, mentioned Lloyd's as one of the first insurance/reinsurance brands which came to mind). The measure is an index and tracks relative changes in perception over time.
- Rationale: A leading global brand and reputation helps managing agents win and retain preferred business.
- Progress: Lloyd's has maintained strong brand health in the insurance sector with consistently high scores across all brand measures (scoring 75 out of a possible 100 for brand affinity and with 35% unprompted awareness). In the insurance sector the Lloyd's brand continues to grow in strength, particularly in relation to favourability (scoring 83 out of 100 for brand affinity and with 39% unprompted awareness). Updated results will be available toward the end of 2011.

INSURANCE

2005	103
2007	103
2009	110

REINSURANCE

2005	104
2007	113
2009	122

Maximum brand index score: 200

Managing agent satisfaction levels

- Definition: A non-financial indicator measuring Lloyd's managing agents' overall satisfaction levels with Lloyd's service, taken from an independent survey.
- Rationale: Recognition of managing agents as customers of the Lloyd's platform and the importance of tracking their satisfaction.
- Progress: Managing agent satisfaction (measured with senior contacts) has remained broadly stable on last year with a score of 7.0 out of 10. This score is driven by the Corporation's continuing focus on the areas of communication, commerciality and consultation.

* One measure reported in previous years is no longer tracked as a KPI. The survey used to measure 'Customer Satisfaction Levels' is no longer run as it has been replaced with a more specific research programme which informs and influences Lloyd's market modernisation programme and other operational initiatives.

MANAGING AGENT SATISFACTION LEVELS*
Average score out of 10

Not at all satisfied — Completely satisfied

2007	6.9
2008	6.9
2009	7.1
2010	7.0

RISK MANAGEMENT

LLOYD'S APPROACH TO RISK MANAGEMENT HAS BEEN ENHANCED TO SHARPEN FOCUS ON KEY AREAS OF RISK

Lloyd's uses a comprehensive and unique risk management framework to enable robust oversight and management of risk at all levels.

RISK MANAGEMENT

Lloyd's uses a comprehensive and unique risk management framework that works alongside the assurance processes of Internal Audit, Compliance and Financial Control to enable robust oversight of risk at all levels.

The Risk Management Framework comprises management tools, a formal governance structure and a defined approach to assist with the identification, assessment, monitoring and management of key risks. It is going through a number of planned changes in 2011 to ensure that Lloyd's has the capability to manage its key risks in line with the Society's risk appetites and the new Solvency II regime. The framework is tailored to cope with risks arising from both the market and the Corporation. The overall risk profile is managed appropriately to ensure Lloyd's achieves its vision and business strategy.

A new risk governance structure has been developed to provide oversight of the risks facing Lloyd's based on quantitative and qualitative risk information. This new structure comprises the Executive Risk Committee (ERC) and three specialist sub-committees:

> The Syndicate Risk Committee (SRC)
> The Financial Risk Committee (FRC)
> The Corporation Risk Committee (CRC).

Each committee's operating model is tailored to ensure key risks are identified, assessed, managed and mitigated appropriately.

As the Franchise Board retains overall responsibility for risk management, the ERC provides them with assurance, via the CEO, that risks to the Society are identified and managed in accordance with approved policies and risk appetites.

RISK IDENTIFICATION

Risks are identified through a number of channels, including the:

> Risk governance structure
> Lloyd's Risk and Control Assessment (LRCA) process
> Emerging Risk team
> Executive Team and Franchise Board risk assessments.

In 2010, the annual Risk Assessment was undertaken by the Executive Team and Franchise Board in conjunction with the review of Lloyd's strategy, to identify the key risks facing Lloyd's (see page 32). These will be reviewed together with the associated controls and actions with the ERC in 2011.

Figure 7

RISK GOVERNANCE MANAGEMENT STRUCTURE

RISK ASSESSMENT

Risks are identified and assessed by the Corporation using coordinated, cross-functional processes. Key risks identified are then subject to scrutiny and challenge by the appropriate risk committee, taking into account as relevant the defined risk appetites, and using relevant and appropriate structured management information.

RISK MANAGEMENT AND MITIGATION

The risk management framework enables Lloyd's to focus on the management and mitigation of the key risks it faces, using the assessment and quantification to prioritise actions. Regular reporting to the risk committees ensures oversight is provided.

SOLVENCY II

Solvency II is an EU legislative programme to be implemented in all 27 member states including the UK, and will introduce a new, harmonised insurance regulatory regime. This comprehensive programme of regulatory requirements for insurers covers authorisation, corporate governance, supervisory reporting, public disclosure and risk assessment and management, as well as solvency and reserving. Considerable work has been undertaken to enhance capital assessment at Lloyd's in light of the new Solvency II requirements. These set out a framework that better reflects the risks that companies face.

Enhancements to the risk management framework include the improved risk governance structure, a defined risk strategy and formal risk appetite framework. The key focus for 2011 will be to develop the already strong risk culture within Lloyd's and the continued implementation of the Lloyd's Internal Model (LIM), the model by which the capital requirement of the market will be determined.

Richard Ward presents Doug Smith of the Met Office with the Lloyd's Science of Risk Prize

LLOYD'S SCIENCE OF RISK PRIZE

Lloyd's is a leader in identifying and tracking emerging risks and we work closely with external organisations and risk experts – from academic institutions to Government bodies – to share the latest information and analysis on new risks. To ensure we remain at the forefront of emerging risk management, we launched the Lloyd's Science of Risk Prize in 2010. The prize aims to further develop and strengthen our relationships with researchers and to enable us to capture the latest, cutting-edge research on emerging risks.

The competition awards prizes across five risk categories – climate change, natural hazards, biological risk, technological risk and behavioural risk, as well as an overall prize for the best individual submission. We received over 80 entries, of a consistently high standard. A panel of risk experts judged the shortlisted entries based on several criteria including relevance to the insurance industry. The overall winner was Doug Smith of the Met Office for his work on long range hurricane predictions that will help the insurance industry tackle one of the largest single causes of insured loss.

We awarded the prizes during a conference at Lloyd's in November, co-hosted by the Lighthill Risk Network and the Financial Services Knowledge Transfer Network, where the winners presented their research to a large audience of insurers, brokers, risk consultants and academics.

As a result of the breadth and depth of research submitted, we have been able to advance our knowledge and understanding of risk in a number of key areas and we will be undertaking further research and analysis on a number of these topics in the coming year. We will also build on and foster the new academic relationships we have developed as a result of the competition.

A key aim of the Science of Risk Prize was to stimulate new research into insurance-related topics and, after this year's success, we hope to receive even more entries for the 2011 prize.

For further information on Lloyd's Science of Risk Prize please visit:
www.lloyds.com/scienceofrisk

RISK MANAGEMENT
CONTINUED

KEY RISK ISSUES

RISK ISSUE	POTENTIAL IMPACT	MITIGATION
THE INSURANCE CYCLE	Lloyd's businesses suffer losses or erode their capital base through inadequate pricing and reserving or insufficiently robust management processes	> Reviewed and agreed business plans, Realistic Disaster Scenarios and Individual Capital Assessments remain fundamental controls > Continued oversight of performance by business criteria, reserving and compliance with minimum standards
UNSTABLE ECONOMIC AND FINANCIAL CLIMATE	Lloyd's suffers increased insurance liabilities, decreased asset values or capital constraints	> Ongoing detailed claims monitoring processes to identify and track losses related to the financial climate > Developing an enhanced framework for monitoring and managing financial risk across the whole chain of security
LLOYD'S INTERNAL MODEL IS NOT APPROVED UNDER THE SOLVENCY II REGIME	Lloyd's suffers reputational damage and disadvantageous capital requirements	> Comprehensive programme in place, including an independent quality assurance programme > Tracking syndicate process and taking mitigation actions where appropriate > Working closely with the FSA regarding implementation of Solvency II at Lloyd's > Continuing to lobby policymakers regarding key issues with Solvency II > Working with the LMA, and the market as a whole, to support development in areas covered by Solvency II, including detailed guidance and templates
CHANGING UK AND EU REGULATORY ENVIRONMENT	Lloyd's competitive position is weakened, and suffers regulatory sanctions and disadvantageous capital requirements	> Proactive engagement with key policymakers and regulators in the UK and internationally
MAINTENANCE AND MODERNISATION OF LLOYD'S MARKET OPERATIONS	Lloyd's is unable to maintain existing operations or retain its competitive position by delivering process improvements	> Work underway to ensure that key existing services to the market are maintained and appropriate contingency plans are in place > Lloyd's and the market continue to work together to agree, prioritise and move forward with all market initiatives

PEOPLE STRATEGY

LLOYD'S AIMS TO ATTRACT AND RETAIN THE BEST PEOPLE FOR BOTH THE MARKET AND THE CORPORATION

Attracting and retaining highly motivated staff in a competitive marketplace remains a key challenge for Lloyd's. During 2010, Lloyd's continued to work towards being recognised as an employer of choice within the insurance and wider financial services sector; it has been placed in *The Times Top 100 Graduate Employers* list for the first time and achieved a position in both The Sunday Times Best Companies to Work For 2011 and Britain's Top Employers list.

DEVELOPING LEADERSHIP AND TALENT

GRADUATE AND SUMMER INTERNSHIP PROGRAMMES

In 2010, Lloyd's earned a place for the first time in *The Times Top 100 Graduate Employers*, a directory of Britain's top graduate recruiters. The second intake of graduates successfully completed their final placement in March 2011. After gaining practical experience within the Corporation and secondments to the market, they have taken up roles within the Corporation, the market, or externally. Six graduates joined the scheme in September 2010 and recruitment for the fourth cohort, due to start in September 2011, is underway.

In 2010 the Summer Internship Programme was launched. Four students joined the Corporation for eight weeks with three going on to join the graduate programme.

CLAIMS TALENT PROGRAMME

Claims management is crucial to Lloyd's. During 2010, a talent programme for people specialising or wanting to work in claims was launched to raise standards. Two programmes starting in 2011 are offered: one for graduates, to run alongside the existing graduate programme, the second for existing claims specialists in the market.

LEADERS AT LLOYD'S

Work continued successfully in 2010 to identify and develop future leaders within the market. The sixth group of 24 candidates will attend the Leaders at Lloyd's programme at London Business School in 2011. Lloyd's accepts applications from managing agents, broker firms and Corporation employees.

MANAGEMENT DEVELOPMENT

In 2011, a new management development programme will be introduced for the Corporation's line managers, in addition to a new Leadership Framework based on a revised set of Lloyd's capabilities.

EMPLOYER OF CHOICE

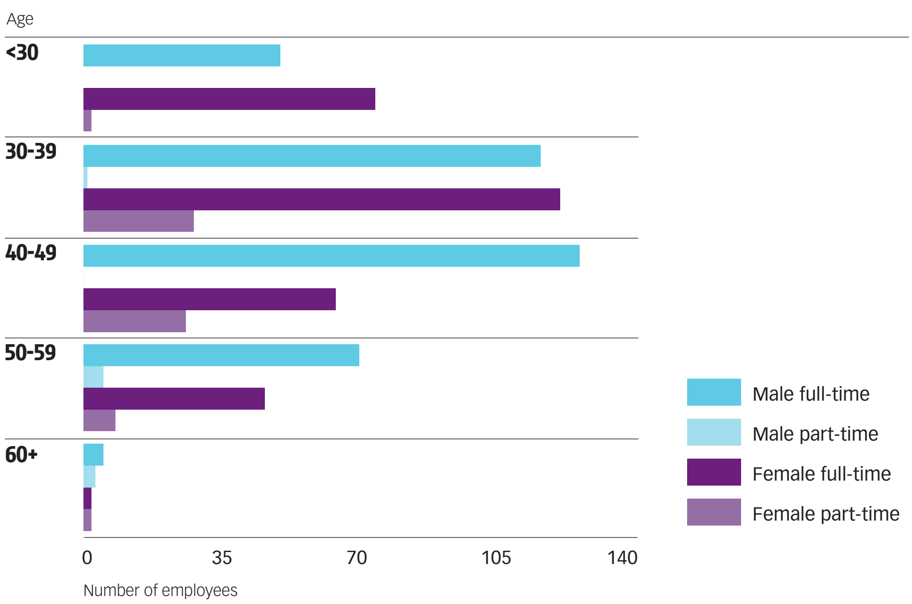
Building on the positive results seen in the annual staff Engagement Survey, in 2010, Lloyd's entered submissions to be considered for two UK high-profile employer rankings In our first year we have been successful in both and have achieved a one star accreditation in Best Companies and a position in Britain's Top Employers' list.

TEAM 2012

Team 2012 is the national fundraising campaign which helps support athletes on their journey to being selected to represent Great Britain and Northern Ireland in London 2012. Lloyd's is delighted to be donating to the appeal. CEO Richard Ward says there are many attributes that make Lloyd's a perfect donor to Team 2012 – "As an organisation we share many of the values found in a high performance team," he said. "Being an athlete requires long-term commitment and dedication, and the drive to constantly perform to the best of your ability" – all of which are strengths of the Lloyd's insurance market. "We have long played a part in managing the risks associated with major sporting events and we are pleased to be contributing to the success of Team 2012 through this."

Figure 8

UK CORPORATION EMPLOYEE PROFILE



PEOPLE STRATEGY
CONTINUED

HEALTH AND WELLBEING WEEK

The launch of Lloyd's enhanced health and wellbeing services was marked with a week-long programme of activities in London and Chatham, designed to encourage people to explore new ways of improving their health and wellbeing. Lloyd's food hall in London supported the week with themed healthy food days.

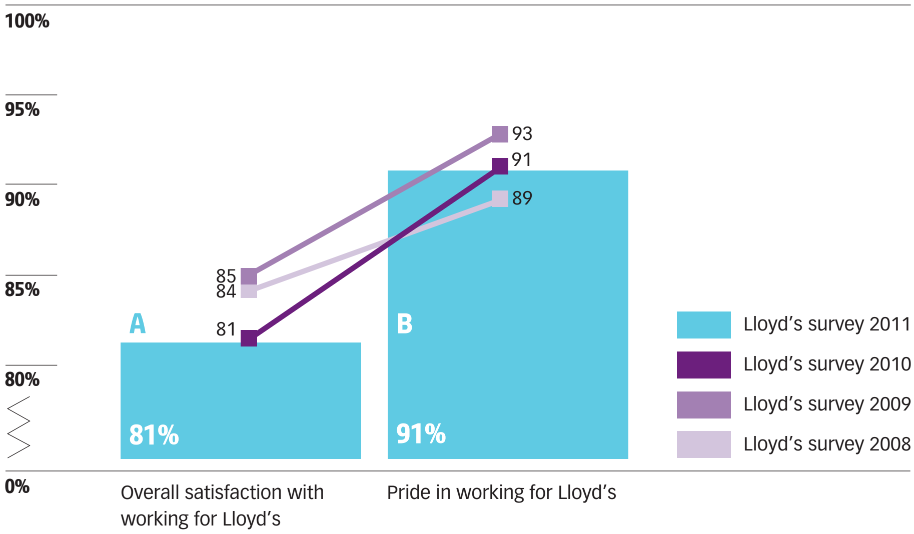
The launch coincided with the opening of a new on-site health and wellbeing centre, a new medical services partner, an employee assistance programme and Fast Track Physical Therapies service, including osteopathy, physiotherapy and massage. Representatives from health and wellbeing organisations and Lloyd's physical therapies service, Health Response UK, promoted this latter service in London and Chatham.

At the start of the week Corporation employees received information about the new employee assistance programme, EmployeeCare, which offers employees confidential independent support for stress, debt management, legal advice and other matters. Employees were also provided with a pedometer to encourage them to join the Lloyd's 10,000 Steps Challenge – aiming to get people moving and raising awareness of activity levels. Over 100 people in 15 teams took part in this four-week challenge, managing a total of over 22 million steps and enjoying some friendly competition.

Employee responses showed that people appreciated the focus on their health and wellbeing, particularly in the difficult economic environment, and are looking forward to further involvement. As part of Lloyd's continuing commitment to the health and wellbeing of our employees more events and activities are planned.

Figure 9

EMPLOYEE OPINION SURVEY
% in agreement



Levels of satisfaction are high at Lloyd's and are in the top quartile of MORI employee opinion polls

CORPORATION EMPLOYEE DEMOGRAPHICS

UK EMPLOYEE TURNOVER AND ABSENCE

	2010 number	2009 number
Employees as at 1 January 2010	**739**	719
Total joiners	**138**	131
Total voluntary leavers	**(67)**	(40)
Total involuntary leavers (redundancies, dismissals)	**(22)**	(43)
Total retirements	**(2)**	(2)
Contracts completed	**(37)**	(26)
Employees as at 31 December 2010	**749**	739

UK EMPLOYEE TURNOVER AND ABSENCE

	2010 %	2009 %
Total turnover	**17.1**	15.2
Turnover (excluding contracts completed)	**12.1**	11.7
Industry average turnover	**14.6**	16.6
Voluntary turnover	**8.9**	5.5
Industry average voluntary turnover	**7.4**	10.2
Absence	**2.4**	1.9
Industry average absence	**2.3**	3.0

TOTAL EMPLOYEES

	2010 number	2009 number
UK	**749**	739
US	**32**	34
Canada	**4**	6
Asia	**59**	57
Europe	**45**	42
Africa, Australia and South America	**7**	8
	896	886

The Corporation regularly monitors the level of staff turnover and absence against suitable industry benchmarks and corrective action is taken if required. During 2010, UK voluntary staff turnover, excluding redundancies, dismissals, retirements and contracts completed, rose above the industry average at 8.9% and the sickness absence was just above the industry average at 2.4%. The reasons for the increases are understood and not considered to be detrimental to the performance of the Corporation.

The Corporation's UK employee segmentation and profile as at 31 December 2010 is shown below:

UK employee segmentation	Executive		Head of function		Manager		Professional/ technical		Admin		Total	
Figures in numbers	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Male	**6**	7	**28**	25	**131**	137	**179**	189	**32**	27	**376**	385
Female	**1**	1	**8**	8	**72**	73	**178**	166	**114**	106	**373**	354
Total	**7**	8	**36**	33	**203**	210	**357**	355	**146**	133	**749**	739
Figures in years	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Average age	**52**	52	**48**	47	**43**	42	**39**	39	**36**	37	**44**	40
Average service	**6**	5	**9**	9	**9**	9	**8**	8	**6**	6	**8**	7

The segmentation as shown above includes nine male and 66 female part-time employees as at 31 December 2010 (the same as at 31 December 2009). The employee demographics shown above include both permanent staff and those working on a contract basis, directly employed by the Corporation.

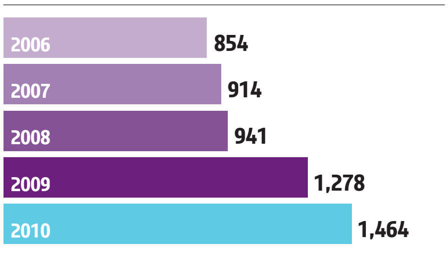
CORPORATE RESPONSIBILITY
COMMUNITY

LLOYD'S COMMUNITY PROGRAMME

Over 1,400 people from the Lloyd's market volunteered through Lloyd's Community Programme in 2010. Activities that focused on helping young people get ready for work were particularly popular.

Figure 10

LLOYD'S COMMUNITY PROGRAMME VOLUNTEER INVOLVEMENT
Number of volunteers



Building on the success of 2009, a total of 1,464 people from the Lloyd's market volunteered through Lloyd's Community Programme. Activities that focused on helping young people get ready for work were particularly popular.

DEVELOPING SKILLS FOR UNIVERSITY

The Cambridge Heath Sixth Form College (CHSFC) opened its doors for the first time in September 2009. The college was built on the foundations of three Ofsted-rated outstanding secondary schools in Tower Hamlets – Oaklands, Morpeth and Swanlea. All three are schools that Lloyd's Community Programme volunteers have worked with. Lloyd's is happy to be following the students through into their further education at such a critical stage.

In November 2010 a new mentoring scheme working with 32 Year 12 students (aged 17) was launched. Developing Skills for University is based around the Extended Project AS level which CHSFC is requiring all its students to undertake and which is designed to help them develop the independent learning and study skills required for university.

27 mentors have volunteered for the programme from Amlin, Beazley, Capita, Catlin, Lloyd's and Talbot. They meet twice per half term with their mentees, working one to one or with a small group. These sessions help develop the six learning and study skills required by the Extended Project as well as provide an insight into working life.

A new university bursary programme was also launched by Lloyd's Community Programme at the college to help students meet some of the cost of going to university. As tuition fees are set to rise sharply, this is a timely initiative which should enable talented local youngsters to follow the most suitable study options, perhaps at universities outside London where they might otherwise find the living costs insurmountable. For the academic year 2011/12, up to three students will each receive £3,000 per year as a result of this new programme, which will be supported by the charitable fund set up in memory of the renowned Lloyd's underwriter Cuthbert Heath.

Rebecca Coker-Adeleke, Director of the college, said: "This is an amazing opportunity for our students. We have pupils who are incredibly excited about the prospect of going to university, but daunted by the prospect of university fees and the added burden of living costs. We are so pleased to have been chosen to be involved in this programme."

CITY BUSINESS TRAINEESHIP

In the second year of supporting the City Business Traineeship Programme which arranges paid summer internships for promising local A-Level students, 18 placements were achieved at Lloyd's and various market companies. Simon Hepworth, Director and General Manager with Amlin Plus has been named the City Business Traineeship Project Champion 2010 award winner for his work with the programme and his support for trainee Beatrice Ezekpo.

Simon commented: "I am delighted that Beatrice found her time at Amlin so rewarding. We very much enjoyed having her work with us and were all impressed by her commitment and ability. This was not simply an exercise in giving a candidate an induction to insurance as Amlin also gained from this exercise with Beatrice producing some excellent work and tirelessly representing the company on our stand at the Hickstead Grand Prix."

TEAM CHALLENGES

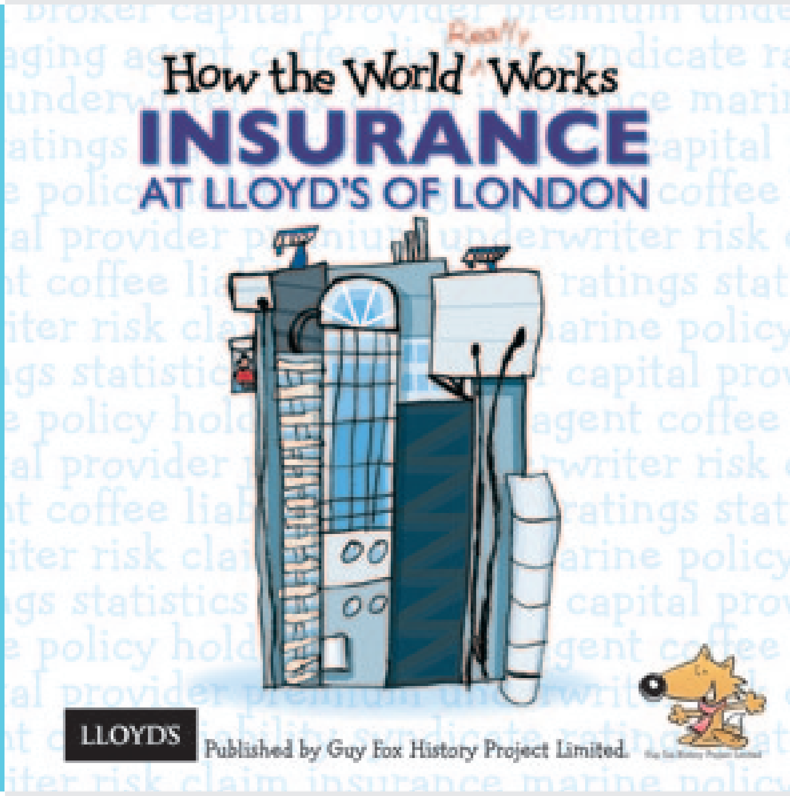
Team Challenges are one-day events that provide practical help to community organisations. They have been growing in popularity in recent years, with 13 companies and 763 volunteers taking part in 2010.

This year, a group of volunteers from member company RJ Kiln, which has participated for three years, won the Volunteer Team 2010 award from East London Business Alliance (ELBA), by creating a café area at St John At Hackney Community Space Centre. Liam Kane, CEO of ELBA said "We encourage team volunteering opportunities that share skills and work alongside community partners. RJ Kiln fits the bill perfectly for the team's work with St John's".

In 2010 Lloyd's Community Programme reached 50 member companies from the Lloyd's market, a record number of supporters. Barbican and Antares, both new managing agents, have also joined the programme for 2011.

LLOYD'S COMMUNITY PROGRAMME MEMBERS

ACE
Advent Underwriting Ltd
Amlin plc
Antares Managing Agency Limited
Aon Ltd
Argo International
Ascot Underwriting Limited
Atrium
Barbican
Barlow Lyde & Gilbert
Beazley Group plc
BMS Group Ltd
Brit Syndicate Ltd
Canopius Managing Agents Ltd
Capita Insurance Services
Catlin Underwriting
Chaucer Syndicates Ltd
Clyde & Co
Dewey & LeBoeuf
Edwards Angell Palmer & Dodge UK LLP
Ernst & Young LLP
Faraday Underwriting Ltd
Glencairn Ltd
Hampden Agencies Ltd
Hardy Underwriting Agencies Ltd
Heath Lambert Group
Hiscox plc
Ince & Co
Jardine Lloyd Thompson Group plc
Liberty Syndicates
Lloyd's
Lockton
Markel
Marketform Group
Mazars
Miller Insurance Services Ltd
Mitsui Sumitomo Insurance Limited
Munich Re Underwriting Ltd
Newline Underwriting Management Ltd
Novae
Omega Underwriting Agents Ltd
PricewaterhouseCoopers LLP
QBE European Operations
R J Kiln & Co Ltd
Reynolds Porter Chamberlain LLP
Talbot
Thompson Heath & Bond Limited
Travelers Syndicate Management Limited
Xchanging Claims Services
XL Group



HOW THE WORLD REALLY WORKS

In 2010, 28 volunteers from 11 Lloyd's market companies worked with Christchurch Primary School in Tower Hamlets to produce an illustrated children's guide to Lloyd's, as part of a creative project developed by educational charity Guy Fox History Project Limited.

Children were invited into Lloyd's to learn about insurance, and how Lloyd's operates, through drawing activities, a tour, and a question and answer session with staff members. The children helped illustrate and design Lloyd's Community Programme's first publication, a pocket-sized book called 'How the World REALLY Works – Insurance at Lloyd's of London', which was launched at a summer party in July 2010. The children attended the party as VIP guests and took part in a book signing with Lloyd's Chief Executive, Richard Ward.

The book continues to be a great success, with requests for copies coming from all over the world. Keen to build on this interest, Lloyd's Community Programme plans to use the book as part of a financial literacy programme that will run in Tower Hamlets primary schools in 2011.

The Guy Fox History Project is an educational charity working in London to bring history to life for children of all ages through design workshops and arts education.

CORPORATE RESPONSIBILITY
CHARITIES

THE LLOYD'S CHARITIES PROVIDE A COLLECTIVE RESPONSE TO ISSUES OF IMPORTANCE TO THE LLOYD'S MARKET

For over 50 years, Lloyd's Charities Trust has been providing charitable support to a wide range of local, national and international charities on behalf of the Lloyd's market.

LLOYD'S CHARITIES TRUST

Based on the findings of a donations review in 2009, Lloyd's Charities Trust changed its focus this year to concentrate on areas that reflect the market's unique character and business, and which will also maximise the charity's impact:

> **Making a great city greater:** in London, Lloyd's Charities Trust gives to tackle disadvantage and foster opportunity.

> **Preparing for the future:** Lloyd's Charities Trust provides support to give individuals and communities the resources and skills they need to meet the challenges of a rapidly changing world.

> **Responding to disasters and emergencies:** around the world, Lloyd's Charities Trust gives to relieve suffering and rebuild lives.

The initiatives described below show some of the funding given in 2010.

BRIGHTER FUTURES FOR LONDONERS

Lloyd's is proud to be one of London's great historic institutions, but while London creates opportunities for many, huge disparities still exist. In October, Brighter Futures for Londoners, a three-year partnership with Bromley by Bow Centre and the Prince's Trust was launched. The aim is to provide advice, training and support to help disadvantaged Londoners overcome the challenges they face and seize the opportunities London offers. Lloyd's Charities Trust plans to donate over £350,000 to these charities, and people working in the Lloyd's market are encouraged to take part in fundraising and volunteering activities to support the charities.

Bromley by Bow Centre in East London is a voluntary organisation that provides services to some of the most vulnerable in the city. Lloyd's donation will support the Centre's Success for Life project which will help long-term unemployed parents move into sustainable employment and improve the prospects for their families, perhaps through opportunities created by the 2012 Olympics and other local regeneration projects. Those taking part will benefit from IT courses, employability workshops, work placements, and one-to-one advice.

Support will be given to the Prince's Trust's Progression Mentoring Programme, which provides continuing support to young people who have previously completed a Prince's Trust programme – the aim being to ensure they are given the best chance of entering education, training or employment. Mentors will provide these young people with the support and level of interest that many of us take for granted.

RESPONDING TO DISASTERS AND EMERGENCIES

Lloyd's Charities Trust also continues to respond to disasters and emergencies around the world, making donations in response to situations both in countries where Lloyd's does business, and in areas where many people can't afford the protection of insurance. In 2010, these included the Disasters Emergency Committee Haiti Earthquake Appeal, the Chilean Red Cross Earthquake Appeal and the Disasters Emergency Committee Pakistan Floods Appeal.

For the Disasters Emergency Committee Pakistan Floods Appeal, Lloyd's offered to match donations made to the appeal up to a total of £20,000. Those working in the Corporation and Lloyd's market, as well as the general public, were encouraged to visit www.thebiggive.org.uk and make a donation. The total was reached within a week, raising £40,000 to support those affected by the worst floods in Pakistan's history.

LLOYD'S MARKET CHARITY AWARDS

Recognising that one of the market's key strengths is its people, Lloyd's is keen to continue to support charities important to those working in the market, who can apply for a £1,000 donation to a charity or community organisation for which they volunteer or raise funds, or which has helped them through difficult times.

Applications were received from individuals in 24 different companies in the Lloyd's market in 2010, with the total number of applications increasing by over 50%. The trustees of Lloyd's Charities Trust selected the award winners – many of whom had shown exceptional levels of commitment to their chosen charities – and made 30 donations of £1,000. These were presented at a lunchtime reception attended by the award winners and representatives from their chosen charities.

The trustees will be inviting applications for the 2011 Lloyd's Market Charity Awards from 1 August 2011, and are keen to once again recognise the fantastic work those in the Lloyd's market undertake on behalf of a wide variety of charities.

LLOYD'S PATRIOTIC FUND

During the year, Lloyd's Patriotic Fund has increased its donations to organisations supporting serving and former service men and women. A commitment from Lloyd's Council in 2010 to give £1 million to Lloyd's Patriotic Fund over a five year period enabled the fund to donate £200,000 in 2010 to a new armed forces charity, Families of the Fallen. This charity provides extra financial support to families of British servicemen and women killed in Afghanistan and Iraq.

Lloyd's Patriotic Fund also remembers those who have served in previous conflicts. In association with the Soldiers, Sailors, Airmen and Families Association (SSAFA), the charity continues to support individuals and families in urgent need of financial help – many of whom are WW2 veterans or widows. It made 125 grants during the Patriotic Fund's financial year.

The fund also donated to other charities, including: Afghan Heroes, the Battle Back Appeal, Ghurkha Welfare Trust, National Gulf Veterans and Families Association and The Royal Navy and Royal Marines Children's Fund.

LLOYD'S BENEVOLENT FUND

Founded in 1829, the Lloyd's Benevolent Fund is a registered charity which aims to help all those in need, who work or have worked, in the Lloyd's community. Dependants and others are also eligible for assistance at the discretion of the trustees. The fund offers financial assistance in the form of grants and can provide practical help for those unable to cope with everyday problems. Anyone connected to Lloyd's who finds themselves in need of support can contact Lloyd's Benevolent Fund at One Lime Street, London EC3M 7HA.

LLOYD'S TERCENTENARY FOUNDATION

Established in 1988 to mark the 300th anniversary of the market, Lloyd's Tercentenary Foundation provides funding for scientific, technical, medical and business-related research and education. The Foundation now focuses on commissioning research projects relevant to the insurance industry.

In 2010, the Foundation continued to support the Insurance Intellectual Capital Initiative, whose first research programme received matched funding from the Economic and Social Research Council. This project studied the London and Bermuda insurance markets, with findings presented at the Monte Carlo Rendezvous in September. The Foundation also supports an individual Lloyd's Research Fellow who completed his post-doctoral research work in 2010.

For further information please visit
www.lloyds.com/charities

CORPORATE RESPONSIBILITY ENVIRONMENT

LLOYD'S, AND THE WHOLE INSURANCE SECTOR, HAS A ROLE TO PLAY IN RESPONDING TO CLIMATE CHANGE

"ClimateWise's ambition is to bring together the leaders of the global insurance industry to fight the risks of climate change. Set against this ambition, the initiative has made valuable progress during the past year which has been a challenging one for all who are committed to fighting climate risk."

ClimateWise: Third year review November 2010

LLOYD'S AND CLIMATEWISE

The ClimateWise initiative encourages insurance companies worldwide to respond to the challenge of climate change as quickly and as effectively as possible. Lloyd's was a founding signatory in September 2007. Forty insurance companies are members, including 14 managing agents in the Lloyd's market. ClimateWise reviews the progress its members make towards achieving its six main principles, and in November 2010 published its third annual review. Highlights of Lloyd's progress against these six principles is set out below.

1. SUPPORT RISK ANALYSIS

Lloyd's Emerging Risks team worked with Climate Change Risk Management Ltd, using data from the Met Office, to produce a report studying rainfall in East London. The study showed there was only one day of extreme daily rainfall (exceeding 40mm) between 1915 and 1960 compared to ten between 1960 and 2006. This finding is significant in that it demonstrates that critical climate trends can be missed unless data is analysed in appropriate detail.

The impact of climate change on water will vary around the world, with some areas facing flooding and others droughts. Only 1% of water is readily available for human use and demands for this already limited resource will increase as the population grows and climate change takes more effect. The risks we all now face from water scarcity were examined in a 360 Risk Insight report produced in April 2010.

External research was also supported through sponsorship of academic research into climate-induced landscape risk, as well as research into developing more accurate computer models that will provide greater awareness of the changing nature of risks due to climate change.

2. INFORM PUBLIC POLICY MAKING

In 2010, as industry advisers to the Insurance and Private Pension Committee of the Organisation for Economic Co-operation and Development (OECD), Lloyd's contributed to a consultative document examining ways that governments can mitigate and finance catastrophe risks. We have continued to work with the London Climate Change Partnership (LCCP), which brings together different industry parties to study the impact of climate change on London. In 2010, this work is being used by the UK National Adaptation Programme, coordinated by the UK government.

3. SUPPORT CLIMATE AWARENESS

In September, Lloyd's contributed to a global insurance industry statement on adapting to climate change in developing countries. The statement encourages governments to better use the insurance industry's knowledge to implement strategies to adapt to climate change. Lloyd's understands the role the industry can play in developing and providing insurance that incentivises reducing losses, and also in providing general risk management expertise and raising awareness of climate change beyond the insurance sector.

Lloyd's has also been involved in the ClimateWise Sustainable Claims Committee, which has been looking at how to minimise the impact of insurance claims on the environment, for example rebuilding properties after a catastrophe in a sustainable way. Together with a representative from the company market, Lloyd's presented the key findings of the committee's report to the 2010 ClimateWise conference, attended by Secretary of State for Energy and Climate Change, Chris Huhne.

The report emphasised that sustainable claims practices can be cheaper than alternatives and made a number of recommendations to insurers. These include applying targets and benchmarks for reducing their carbon footprint, supporting and incentivising their supply chains to reduce their carbon footprint, and providing 'green for old' replacements or repairs.

4. INCORPORATE CLIMATE CHANGE INTO OUR INVESTMENT STRATEGIES

Lloyd's uses its power as a shareholder to persuade the companies it has invested in to respond more effectively to the impact of climate change, believing better management of environmental risks will support longer term shareholder value.

Since 2008, external specialists have been appointed to engage with the companies in which Lloyd's Central Fund invests, and voting rights have been exercised in pursuit of environmental, social and governance (ESG) issues. In 2010, on our behalf, our appointed representative voted at 80 shareholders' meetings and contacted 856 of the companies in which investments are held, leading to 283 instances of them changing their approach to ESG issues. When talking to companies about climate change, our external specialists typically ask for better measurement, monitoring and management of emissions and for the development of enhanced climate change strategies.

5. REDUCE OUR ENVIRONMENTAL IMPACT

Lloyd's Environmental Working Group meets regularly to develop and monitor the progress of an environmental action plan for the Corporation of Lloyd's. The group includes departmental representatives from Finance, Operations, Property Services, IT, Catering and Community Affairs. Its main objective is to reduce the environmental impact of Lloyd's operations and physical assets. The plan, which is created each year, focuses on energy consumption, but also covers issues such as waste, transport and procurement. The Lloyd's Building in London and Fidentia House in Chatham use renewable electricity supplies.

Lloyd's Property Services team has been working on a two-year programme of projects to improve the energy efficiency of the Lloyd's Building. A target to reduce energy consumption and related carbon emissions by 5% in 2010, compared to 2008, was set. A reduction of 8% was achieved. Projects completed in 2010 include changing the phasing of lighting in the building and refurbishing air handling units. Projects underway, and due to finish in 2011, include a major refurbishment of the famous escalators in the building to introduce energy-saving functions, as well as the installation of more energy efficient technology for cooling the building. The IT team has introduced an automatic night-time shut down of Corporation computers.

Engineering consultancy Scott Wilson helped calculate greenhouse gas emissions from Lloyd's UK operations. In 2010, the total was 14,557 tonnes (2009: 14,961), of which 1,638 tonnes (2009: 1,904) were Scope 1 emissions; 11,128 tonnes (2009: 11,338) Scope 2 and 1,790 tonnes (2009: 1,719) Scope 3.

6. REPORT AND BE ACCOUNTABLE

Director of Finance, Risk Management and Operations, Luke Savage, is responsible for ensuring Lloyd's acts on the ClimateWise principles. Details of compliance by members of the market who now report through Lloyd's are also available on our website.

To find out more about Lloyd's environmental activities please visit **www.lloyds.com/climatewise**

Further information is available at **www.lloyds.com/carbonemissions**

SUSTAINABLE ENERGY SECURITY

As part of the 360 Risk Insight programme, in June Lloyd's published a white paper: Sustainable Energy Security: Strategic Risks and Opportunities for Business. The paper highlighted the need to move towards a low carbon economy, emphasising the importance of reducing our reliance on carbon-emitting fossil fuels and that businesses can no longer rely on traditional energy sources due to supply constraints.

The paper was produced in co-operation with Chatham House, a leading UK think-tank, with industry, academic and policy experts attending a workshop in March to discuss the main energy security issues facing business and help inform the paper. The paper was then launched at an event at Chatham House on 8 June 2010, with speeches from Richard Ward, CEO of Lloyd's, and the UK Energy Minister, Charles Hendry. Both drew attention to the importance of developing global regulation to tackle the growing threat of climate change – a message highlighted in the report. An All-Party Parliamentary Group also discussed the key findings of the paper in the House of Commons on 14 September 2010.

To find out more about Lloyd's 360 Risk Insight programme please visit **www.lloyds.com/360**

REINSURANCE See page 51

PROPERTY See page 52

CASUALTY See page 53

MARINE See page 54

ENERGY See page 55

MOTOR See page 56

AVIATION See page 57

HOW THE MARKET PERFORMED IN 2010

2010 MARKET PERFORMANCE REVIEW

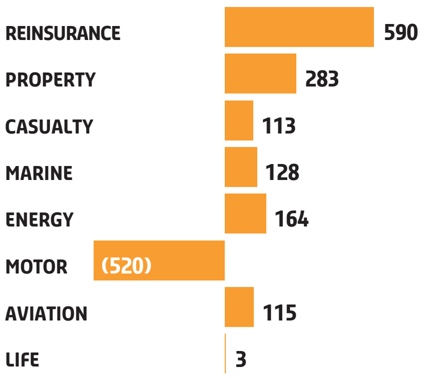
2010 HIGHLIGHTS

- 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%)

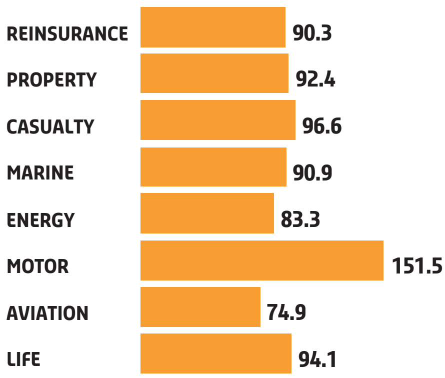
2010 COMBINED RATIO

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 67 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 own 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.

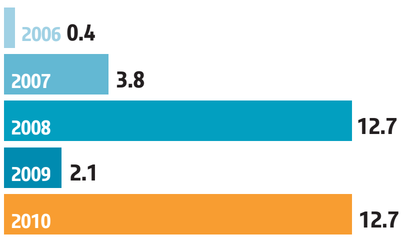
A further key factor in the market's result is the impact of the Atlantic windstorm season. The 2010 windstorm season had 19 named tropical cyclones, the third highest number in the last 100 years, behind 2005 with 28 and 1933 with 21 (Source: Munich Re). In terms of insured losses, however, the 2010 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.

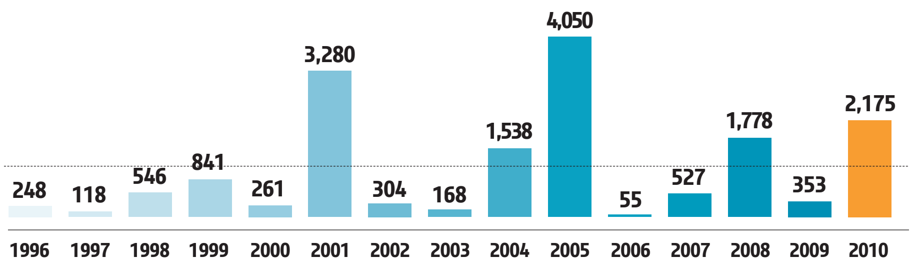
The overall level of release has been impacted in 2010 by the need for reserve strengthening for UK motor. This is a relatively small class of business for Lloyd's, but the impact of claims inflation beyond previous estimates has generated an aggregate deficit of £370m.

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 51 to 57.

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.

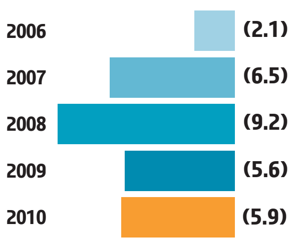
The move to lower yield levels has not been universal. Some sovereign issuers, particularly in peripheral European countries, saw yields on their securities rise dramatically as investors increasingly doubted their ability to fund large budget deficits. This caused some to question the future of the 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.

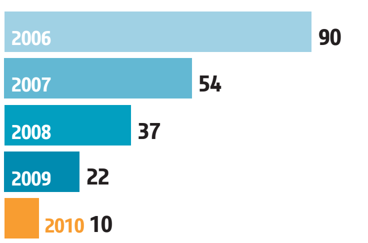
Overall, syndicate investments returned £914m, or 2.9% in 2010 (2009: £1,387m, 4.5%). Investments are valued at market prices and unrealised gains and losses are included within reported investment returns.

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 51-57**.

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. 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. The syndicate annual accounts reported an aggregate profit of £1,790m (2009: profit of £3,473m).

These results are reported in a separate document (the Aggregate Accounts) and can be viewed at **www.lloyds.com/financialreports**

RISKS AND UNCERTAINTIES

RISKS AND UNCERTAINTIES

The approach to risk adopted by the Corporation is discussed in the Strategic Overview (pages 30 to 32). 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

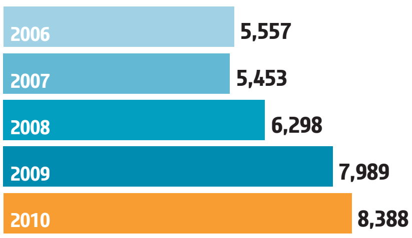
2010 HIGHLIGHTS

- 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

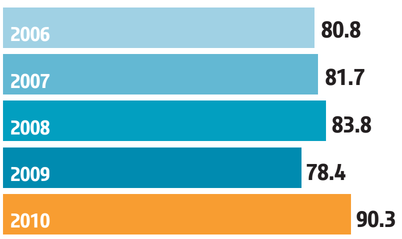
2010 COMBINED RATIO

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

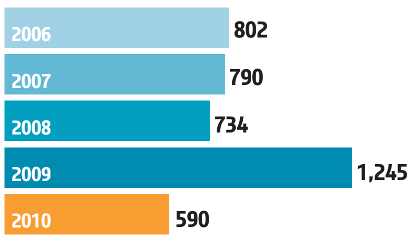
GROSS WRITTEN PREMIUM
£m



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

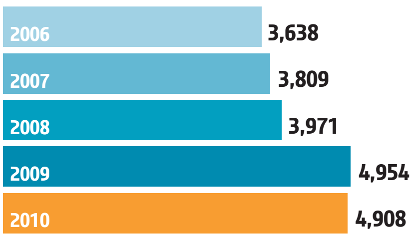
> Increasing attritional loss ratios

> Pricing levels under downward pressure

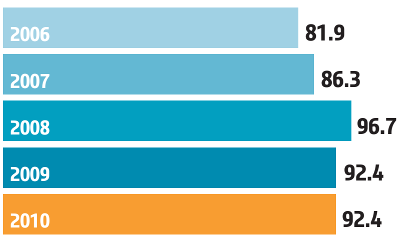
2010 COMBINED RATIO

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

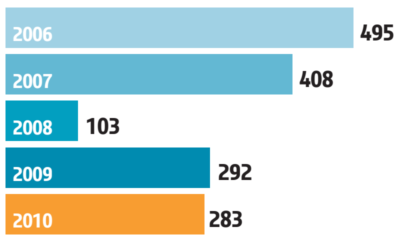
GROSS WRITTEN PREMIUM
£m



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

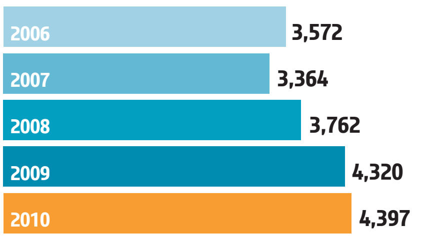
2010 HIGHLIGHTS

- 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

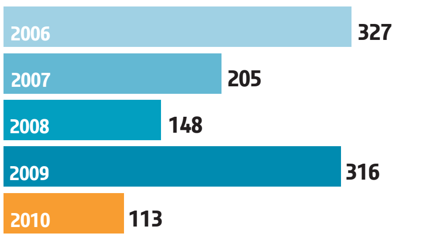
ACCIDENT YEAR	101.1%
PRIOR YEAR RESERVE MOVEMENT	(4.5)%
CALENDAR YEAR	96.6%

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

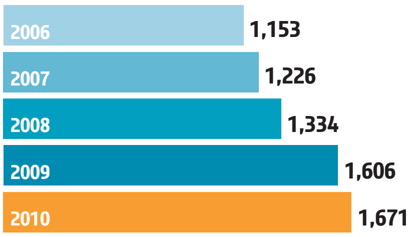
2010 HIGHLIGHTS

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

2010 COMBINED RATIO

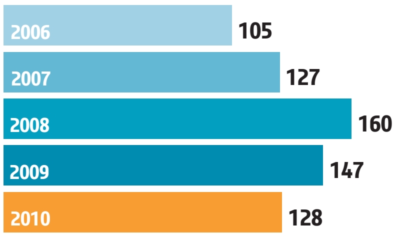
ACCIDENT YEAR	98.4%
PRIOR YEAR RESERVE MOVEMENT	(7.5)%
CALENDAR YEAR	90.9%

GROSS WRITTEN PREMIUM
£m



COMBINED RATIO
%

UNDERWRITING RESULT
£m



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

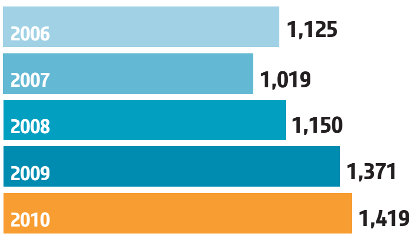
2010 HIGHLIGHTS

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

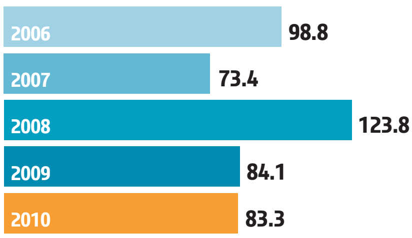
2010 COMBINED RATIO

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

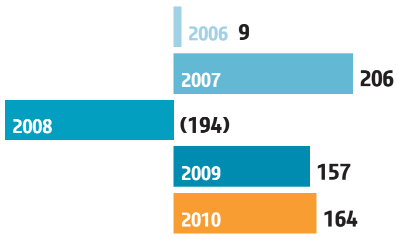
GROSS WRITTEN PREMIUM
£m



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

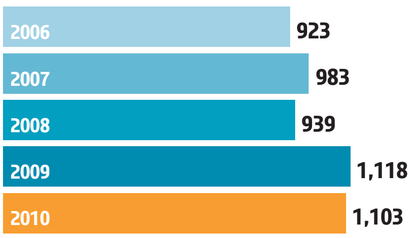
2010 HIGHLIGHTS

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

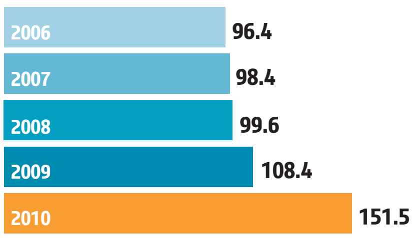
2010 COMBINED RATIO

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

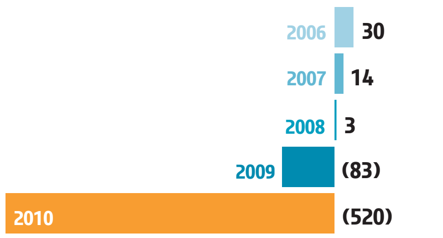
GROSS WRITTEN PREMIUM
£m



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

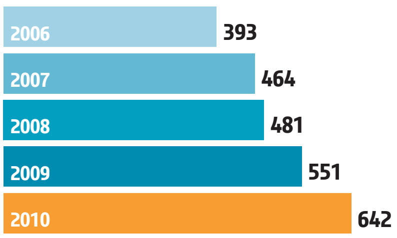
2010 HIGHLIGHTS

- High frequency of large airline losses continues
- Over-capacity further limits ability to restore rating levels

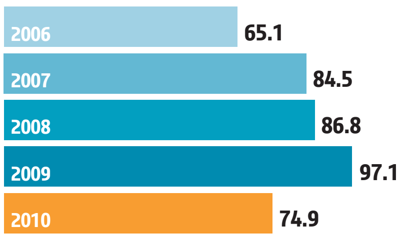
2010 COMBINED RATIO

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

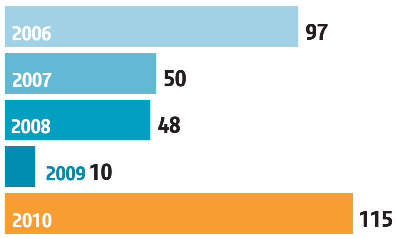
GROSS WRITTEN PREMIUM
£m



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.

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THE MARKET'S FINANCIAL RESULTS

STATEMENT OF COUNCIL'S RESPONSIBILITIES AND REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE 2010 LLOYD'S PRO FORMA FINANCIAL STATEMENTS

STATEMENT OF COUNCIL'S RESPONSIBILITIES

The pro forma financial statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies.

The Council of Lloyd's is responsible for the preparation and approval of the PFFS.

REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE 2010 PRO FORMA FINANCIAL STATEMENTS

We have examined the Lloyd's pro forma financial statements for the year ended 31 December 2010, which comprise the pro forma profit and loss account, the pro forma statement of total recognised gains and losses, the pro forma balance sheet and the pro forma cash flow statement and the related notes 1 to 18 which have been prepared on the basis set out in note 2.

This report is made solely to the Council of Lloyd's in accordance with its instructions to us. 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 Council's instructions 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

The Council of Lloyd's is responsible for the preparation and approval of the PFFS.

Our responsibility is to examine the PFFS and to report to you whether the PFFS have been properly prepared in accordance with the basis of preparation set out in note 2.

BASIS OF CONCLUSION

The PFFS have been compiled in part from an aggregation of financial information extracted from the balance sheet and profit and loss account included in syndicate annual 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 PFFS.

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 PFFS have been properly prepared in accordance with the basis of preparation note 2.

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 PFFS.

CONCLUSION

In our opinion, the PFFS for the financial year ended 31 December 2010 have been properly prepared in accordance with the basis of preparation set out in note 2.

Ernst & Young LLP, London
29 March 2011

PRO FORMA PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2010

Technical account	Note	£m	2010 £m	£m	2009 £m
Gross written premiums					
– continuing operations		22,569		21,958	
– discontinued operations	5	23		15	
	9		22,592		21,973
Outward reinsurance premiums			(4,936)		(4,755)
Premiums written, net of reinsurance			17,656		17,218
Change in the gross provision for unearned premiums		(517)		(807)	
Change in the provision for unearned premiums, reinsurers' share		(28)		314	
			(545)		(493)
Earned premiums, net of reinsurance			17,111		16,725
Allocated investment return transferred from the non-technical account			865		1,344
			17,976		18,069
Claims paid					
Gross amount		11,565		11,544	
Reinsurers' share		(2,751)		(2,469)	
			8,814		9,075
Change in provision for claims					
Gross amount		1,298		(1,280)	
Reinsurers' share		(83)		829	
			1,215		(451)
Claims incurred, net of reinsurance			10,029		8,624
Net operating expenses	11		5,939		5,781
Balance on the technical account for general business			2,008		3,664
Attributable to:					
– continuing operations		1,794		3,463	
– discontinued operations	5	214		201	
Total			2,008		3,664
Non-technical account					
Balance on the technical account for general business			2,008		3,664
Investment return on syndicate assets	12	914		1,387	
Notional investment return on funds at Lloyd's	6	211		266	
Investment return on Society assets		133		116	
		1,258		1,769	
Allocated investment return transferred to the technical account		(865)		(1,344)	
			393		425
Other income			66		64
Other expenses			(272)		(285)
Profit for the financial year before tax	8		2,195		3,868

	Note	2010 £m	2009 £m
Statement of total recognised gains and losses			
Profit for the financial year		2,195	3,868
Other recognised gains and losses		68	(34)
Total recognised gains and losses since previously reported	8	2,263	3,834

PRO FORMA BALANCE SHEET

as at 31 December 2010

Investments	Note	2010 £m	2010 £m	2009 £m	2009 £m
Financial investments	13		**39,833**		37,172
Deposits with ceding undertakings			**11**		10
Reinsurers' share of technical provisions					
Provision for unearned premiums		**1,458**		1,447	
Claims outstanding		**8,779**		8,484	
	16		**10,237**		9,931
Debtors					
Debtors arising out of direct insurance operations		**4,825**		4,560	
Debtors arising out of reinsurance operations		**3,572**		3,577	
Other debtors		**691**		437	
			9,088		8,574
Other assets					
Tangible assets		**44**		36	
Cash at bank and in hand	14	**8,650**		9,082	
Other		**33**		12	
			8,727		9,130
Prepayments and accrued income					
Accrued interest and rent		**83**		88	
Deferred acquisition costs		**2,371**		2,180	
Other prepayments and accrued income		**260**		205	
			2,714		2,473
Total assets			**70,610**		67,290
Capital and reserves					
Members' funds at Lloyd's	6	**13,832**		13,159	
Members' balances	15	**2,912**		3,878	
Members' assets (held severally)		**16,744**		17,037	
Central reserves (mutual assets)		**1,447**		1,126	
	8		**18,191**		18,163
Subordinated debt			**514**		521
Subordinated perpetual capital securities			**416**		437
Capital, reserves and subordinated debt and securities			**19,121**		19,121
Technical provisions					
Provision for unearned premiums		**10,125**		9,433	
Claims outstanding		**36,303**		34,111	
	16		**46,428**		43,544
Deposits received from reinsurers			**89**		115
Creditors					
Creditors arising out of direct insurance operations		**722**		865	
Creditors arising out of reinsurance operations		**2,820**		2,526	
Other creditors including taxation		**1,046**		774	
			4,588		4,165
Accruals and deferred income			**384**		345
Total liabilities			**70,610**		67,290

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

PRO FORMA CASH FLOW STATEMENT

for the year ended 31 December 2010

	2010 £m	2009 £m
Profit on ordinary activities before tax	**2,195**	3,868
Depreciation	**6**	4
Realised and unrealised (gains)/losses and foreign exchange	**(2,112)**	723
Net purchase of investments	**(470)**	(3,083)
Notional return on funds at Lloyd's	**(211)**	(266)
Increase/(decrease) in technical provisions	**2,559**	(2,159)
(Increase)/decrease in debtors	**(590)**	132
Increase/(decrease) in creditors	**427**	133
Cash generated from operations	**1,804**	(648)
Tax paid	**(71)**	(50)
Net cash from operating activities	**1,733**	(698)
Cash flows from financing activities		
Net profits paid to members	**(2,993)**	(2,186)
Net movement in funds at Lloyd's	**673**	2,529
Capital transferred into syndicate premium trust funds	**243**	146
Purchase of debt securities	**(20)**	(66)
Interest paid	**(68)**	(71)
Net increase/(decrease) in cash holdings	**(432)**	(346)
Cash holdings at 1 January	**9,082**	9,428
Cash holdings at 31 December	**8,650**	9,082

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS

as at 31 December 2010

1. INTRODUCTION

Lloyd's is not an insurance company. It is a Society of members which underwrite insurance (each for their own account) as members of syndicates. The pro forma financial statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies.

2. BASIS OF PREPARATION

GENERAL

The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's on pages 74 to 138.

The Aggregate Accounts do not present a consolidated view of the results of Lloyd's business taken as a single entity. In particular, each managing agent selects the accounting policies most appropriate to its managed syndicates. Where UK GAAP permits different accounting policies and managing agents have adopted various accounting treatments, these are reflected in the PFFS without making consolidation adjustments. In addition, the PFFS do not eliminate inter-syndicate reinsurances.

The Aggregate Accounts report the audited results for calendar year 2010 and the financial position at 31 December 2010 for all syndicates which transacted business during the year. They include the syndicate level assets, which represent the first link in the chain of security (see pages 71 to 72). The Aggregate Accounts are reported as a separate document and can be viewed at www.lloyds.com/financialreports. During 2010, certain syndicates changed their accounting policies in relation to foreign exchange resulting in a restatement of the comparative figures for 2010 within their annual accounts and the Aggregate Accounts have been restated accordingly. The restatements are not material and, therefore, the comparative figures within the PFFS have not been restated.

The capital provided by members is generally held centrally as FAL and represents the second link in the Chain of Security. The non-technical account of the PFFS includes a notional investment return on FAL.

The Society of Lloyd's audited financial statements report the central resources of the Society, which forms the third link in Lloyd's chain of security.

The profit and loss account in the PFFS aggregates the syndicate results, the notional investment return on members' capital and the results of the Society of Lloyd's. The balance sheet in the PFFS aggregates the assets held at syndicate level, members' assets held as FAL and the central resources of the Society.

Overall, the PFFS aggregate the results and resources of the Society and its members and reflect all the links in Lloyd's chain of security as described in detail in the 'Security underlying policies issued at Lloyd's' section on pages 71 to 73. The PFFS may, therefore, be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

TAXATION

The PFFS report the market's result before tax. Members are directly responsible for tax payable on their syndicate results and investment income on FAL. For consistency, the results of the Society are also included pre-tax in the profit and loss account. The balance sheet includes the tax provisions in the Society financial statements.

FUNDS AT LLOYD'S

FAL comprise the capital provided by members to support their underwriting, and are the equivalent of capital shown in insurance companies' accounts. The valuation of FAL has, therefore, been included in the pro forma balance sheet. FAL are available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable, may include letters of credit and bank and other guarantees, and must be at least equivalent to the aggregate of the member's economic capital assessment (ECA) requirement and certain liabilities in respect of its underwriting business. Each member's ECA to support its underwriting at Lloyd's is determined using Lloyd's Individual Capital Assessment (ICA) capital setting methodology.

A notional investment return on FAL has been calculated, which is the equivalent of insurance companies generating investment return on the capital that they hold to support their underwriting. Where Lloyd's is the investment manager for FAL, the actual return achieved has been included. For other assets the notional investment return, net of management fees, is calculated on the average value of FAL during the year, based on indices yields for each type of asset held. The typical investment return on bank deposits has been applied to FAL provided as letters of credit or bank guarantees. The actual return achieved on FAL investments will differ from the notional return due to individual stocks held, daily cash flows and transactional charges.

SOCIETY OF LLOYD'S FINANCIAL STATEMENTS

The PFFS include the results and assets reported in the consolidated financial statements of the Society of Lloyd's, comprising the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates.

TRANSACTIONS BETWEEN SYNDICATES AND THE SOCIETY

- Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate annual accounts and as income in the Society financial statements.
- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls and do not have the resources to meet those cash calls are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund other income includes recoveries from insolvent members. The syndicate annual accounts for calendar year 2010 and earlier years include those members' results and at the balance sheet date will report the outstanding liability within members' balances.
- Loans funding statutory overseas deposits are reported as assets within the syndicate annual accounts and as liabilities in the Society financial statements.

Transactions between the syndicates and the Society which have been reported within both the syndicate annual accounts and the Society financial statements have been eliminated (note 8).

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

2. BASIS OF PREPARATION CONTINUED

INTER-SYNDICATE LOANS

The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £158m (2009: £129m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the PFFS.

SUBORDINATED DEBT AND SECURITIES

In accordance with the terms of the subordinated debt and securities, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves and subordinated debt and securities' in the pro forma balance sheet. The Society financial statements on pages 102 to 106 provide additional information.

3. ACCOUNTING POLICIES NOTES

A. AGGREGATE ACCOUNTS

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. In particular, in certain circumstances, UK GAAP permits various accounting treatments for the movement in foreign exchange. The following accounting policies are, therefore, generic in nature.

Premiums written

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

Unearned premiums

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

Outwards reinsurance premiums

Outwards reinsurance premiums 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 premium 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 international 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 are normally accounted for through the statement of total recognised gains and losses.

3. ACCOUNTING POLICIES NOTES CONTINUED

For other international operations, monetary assets and liabilities are translated into pound sterling at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities at the balance sheet date, primarily deferred acquisition costs and unearned premiums, are maintained at the rate of exchange ruling when the contract was entered into (or the approximate average rate). Resulting exchange differences on translation are recorded in the profit and loss account.

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 international 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.

Syndicate investment return

Syndicate 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.

Syndicate 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.

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 international 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.

B. FUNDS AT LLOYD'S

FAL are valued in accordance with their market value at the year end, and using year end exchange rates.

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 international 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.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. Where a member takes advantage of this facility, the capital held in the premium trust fund is reported within members' balances and the investment return retained within the non-technical account.

C. SOCIETY OF LLOYD'S

The accounting policies adopted in the Society of Lloyd's financial statements are set out on pages 107 to 112.

4. VARIABILITY

Calendar year movements in reserves are based upon best estimates as at 31 December 2010 taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimate are reflected in the technical account of the year in which they occur.

5. DISCONTINUED OPERATIONS

Continuing/discontinued operations represent the analysis reported in the syndicate annual accounts between business that they are continuing to underwrite and business that they have ceased to underwrite. It is quite possible, however, that business discontinued by one syndicate continues to be written at Lloyd's by one or more other syndicates.

When a syndicate has ceased underwriting, its operations are reported as discontinued within the syndicate's annual accounts. Where the entire book of business continues to be written by another syndicate, however, an adjustment is made in the PFFS to reflect the continuing nature of this business to Lloyd's and its members as a whole.

Where business has been reported as discontinued in 2010, the results for that business have also been reported as discontinued in the 2009 comparative figures.

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

6. MEMBERS' FUNDS AT LLOYD'S

The valuation of members' FAL in the balance sheet totals £13,832m (2009: £13,159m). The notional investment return on FAL included in the non-technical profit and loss account totals £211m (2009:£266m).

The notional investment return on FAL has been calculated by applying quarterly indices yields, net of management fees, to the value of FAL at the beginning of each quarter except where Lloyd's is the investment manager for FAL, in which case the actual return achieved has been included. A significant proportion of FAL investments are US dollar denominated and, for these assets, US dollar indices yields are applied.

The following table shows the indices used and the yields applied for the full year.

Investment type	Index	Proportion of FAL December 2010 %	Investment Return 2010 %	Investment Return 2009 %
UK equities	FTSE All share	**5.0**	**13.5**	29.2
UK fixed income securities	UK Gilts 1-3 years	**13.0**	**2.4**	3.0
UK deposits managed by Lloyd's	Return achieved	**6.3**	**0.4**	0.8
UK deposits managed externally	LIBID	**25.2**	**0.3**	0.7
US equities	S&P 500 Index	**1.1**	**11.8**	26.6
US fixed income securities	US Treasuries 1-3 years	**20.2**	**2.1**	0.6
US deposits managed by Lloyd's	Return achieved	**2.1**	**0.1**	0.0
US deposits managed externally	LIBID	**27.1**	**0.0**	0.0

7. SOCIETY OF LLOYD'S

The results of the group financial statements of the Society included in the profit and loss account are a profit of £267m (2009: £235m) in the technical account and a loss of £73m (2009: £106m) in the non-technical account.

8. AGGREGATION OF RESULTS AND NET ASSETS

A reconciliation between the results, statement of realised gains and losses and net assets reported in the syndicate annual accounts, members' FAL and by Society is set out below:

Profit and loss account	2010 £m	2009 £m
Result per syndicate annual accounts	**1,790**	3,473
Result of the Society	**322**	143
Central Fund claims and provisions released in Society financial statements	**(34)**	(20)
Central Fund recoveries from insolvent members	**(215)**	(49)
Taxation charge in Society financial statements	**122**	57
Notional investment return on members' funds at Lloyd's	**211**	266
Society income not accrued in syndicate annual accounts	**(1)**	(2)
Result on ordinary activities before tax	**2,195**	3,868

Statement of total recognised gains and losses	2010 £m	2009 £m
Result for the financial year	**2,195**	3,868
Foreign currency movements in the syndicate annual accounts	**64**	(28)
Other recognised gains and losses per syndicate annual accounts	**6**	1
Other recognised gains and losses of the Society	**(2)**	(7)
Total recognised gains and losses	**2,263**	3,834

8. AGGREGATION OF RESULTS AND NET ASSETS CONTINUED

Capital and reserves	2010 £m	2009 £m
Net assets per syndicate annual accounts	**2,931**	3,859
Net assets of the Society	**1,447**	1,126
Central Fund claims and provisions	**9**	46
Members' funds at Lloyd's	**13,832**	13,159
Unpaid cash calls reanalysed from debtors to members' balances	**(15)**	(15)
Society income receivable not accrued in syndicate annual accounts	**(13)**	(12)
Total capital and reserves	**18,191**	18,163

Transactions between syndicates and the Society which have been reported within both the syndicate annual accounts and the Society financial statements have been eliminated in the PFFS as set out in note 2.

9. SEGMENTAL ANALYSIS

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

2010	Gross written premiums £m	Net earned premium £m	Under-writing 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**
Total from syndicate operations	**22,591**	**17,110**	**876**
Transactions between syndicates and the Society (notes 2 and 8) and insurance operations of the Society	**1**	**1**	**267**
Total per PFFS	**22,592**	**17,111**	**1,143**

2009	Gross written premiums £m	Net earned premium £m	Under-writing Result £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
Total from syndicate operations	21,969	16,721	2,085
Transactions between syndicates and the Society (notes 2 and 8) and insurance operations of the Society	4	4	235
Total per PFFS	21,973	16,725	2,320

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

10. LIFE BUSINESS

The PFFS 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 9).

11. NET OPERATING EXPENSES

	2010 £m	2009 £m
Acquisition costs	**4,827**	4,633
Change in deferred acquisition costs	**(135)**	(225)
Administrative expenses	**1,475**	1,304
Underlying operating expenses	**6,167**	5,712
(Profit)/loss on exchange	**(228)**	69
	5,939	5,781

12. SYNDICATE INVESTMENT RETURN

	2010 £m	2009 £m
Income from investments	**798**	881
Net realised gains on investments	**82**	185
Net unrealised gains on investments	**77**	357
Investment management expenses, including interest	**(43)**	(36)
	914	1,387

The breakdown of the Society investment return is provided in the Society's financial statements on page 118. This analysis is not appropriate for the notional investment return on funds at Lloyd's.

13. FINANCIAL INVESTMENTS

	2010 £m	2009 £m
Shares and other variable yield securities and units in unit trusts	**4,188**	3,829
Debt securities and other fixed income securities	**28,886**	26,898
Participation in investment pools	**1,652**	1,223
Loans and deposits with credit institutions	**5,086**	5,189
Other	**21**	33
	39,833	37,172

13. FINANCIAL INVESTMENTS CONTINUED

The following table provides an analysis of the credit disposition of syndicate investments.

	2010 £m	2009 £m
Government, agency and supranational	**11,790**	12,307
'AAA' rated	**5,319**	5,949
'AA' rated	**4,342**	3,305
'A' rated	**3,447**	2,842
'BBB' and lower rated	**1,156**	1,087
Equity and hedge funds	**897**	832
Cash equivalents	**3,537**	2,937
Total syndicate investments	**30,488**	29,259
FAL investments	**7,060**	5,844
Society investments	**2,285**	2,069
Total per PFFS	**39,833**	37,172

The following table provides an analysis of the average duration of syndicate fixed income securities.

	2010 %	2009 %
Less than one year	**15**	12
Between one and two years	**34**	38
Between two and three years	**30**	37
Over three years	**21**	13
Total per PFFS	**100**	100

14. CASH AT BANK AND IN HAND

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £6,772m (2009: £7,315m).

15. MEMBERS' BALANCES

	2010 £m	2009 £m
Balance at 1 January	**3,878**	2,562
Result for the year per syndicate annual accounts	**1,790**	3,473
Distribution on closure of the 2007 (2006) year of account	**(2,495)**	(1,957)
Advance distributions from open years of account	**(524)**	(293)
Movement in cash calls	**(16)**	71
Capital transferred into syndicate premium trust funds	**243**	146
Foreign currency movements	**69**	(67)
Other movements	**(33)**	(57)
Balance at 31 December	**2,912**	3,878

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 represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of 2011.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as 'capital transferred into syndicate premium trust funds'

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

16. TECHNICAL PROVISIONS

Gross	2010 £m	2009 £m
Claims reported	**19,468**	18,967
Claims incurred but not reported and unallocated loss adjustment expenses	**16,835**	15,144
Unearned premiums	**10,125**	9,433
Total technical provisions, gross	**46,428**	43,544
Recoverable from reinsurers		
Claims reported	**5,201**	5,511
Claims incurred but not reported and unallocated loss adjustment expenses	**3,578**	2,973
Unearned premiums	**1,458**	1,447
Total reinsurers' share of technical provisions	**10,237**	9,931
Net		
Claims reported	**14,267**	13,456
Claims incurred but not reported and unallocated loss adjustment expenses	**13,257**	12,171
Unearned premiums	**8,667**	7,986
Total net technical provisions	**36,191**	33,613

17. FIVE YEAR SUMMARY

Results	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Gross written premiums	**22,592**	21,973	17,985	16,366	16,414
Net written premiums	**17,656**	17,218	14,217	13,256	13,201
Net earned premiums	**17,111**	16,725	13,796	13,097	12,688
Result attributable to underwriting	**1,143**	2,320	1,198	2,099	2,142
Result for the year before tax	**2,195**	3,868	1,899	3,846	3,662
Assets employed					
Cash and investments	**48,483**	46,254	44,370	36,981	35,091
Net technical provisions	**36,191**	33,613	35,792	27,963	27,371
Other net assets	**5,899**	5,522	5,604	4,431	5,116
Capital and reserves	**18,191**	18,163	14,182	13,449	12,836
Statistics					
Combined ratio (%)	**93.3**	86.1	91.3	84.0	83.1
Return on capital (%)	**12.1**	23.9	13.7	29.3	31.4

18. 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 PFFS for the year ended 31 December 2010.

SECURITY UNDERLYING POLICIES ISSUED AT LLOYD'S

as at 31 December 2010

SUMMARY

Lloyd's is not an insurance company, it is a Society of members, both corporate and individual, which underwrite insurance in syndicates. These syndicates can comprise one single corporate member or any number of corporate members, underwriting severally for their own account.

There were 85 syndicates, (including syndicates set up to accept RITC of orphan syndicates but excluding the Special Purpose Syndicates) as at 31 December 2010, registered to conduct business at Lloyd's. Each syndicate is managed by a managing agent. Managing agents write insurance business on behalf of the member(s) of the syndicate, which receive profits or bear losses in proportion to their share in the syndicate for each underwriting year of account. The adoption of annual accounting and presentation of the syndicate annual accounts do not change the allocation of profits and losses to members.

THE LLOYD'S CHAIN OF SECURITY

The three key features of the Lloyd's Chain of Security provide strong security to all Lloyd's policyholders, reflected in the high ratings assigned by leading rating agencies.

The first two links in the Lloyd's Chain of Security each operate on a several basis: each member's resources are only available to meet their share of claims. The third link represents assets available to meet the liabilities of any member on a mutual basis. The key features of the Chain of Security are summarised below and the sections which follow describe each of these links in greater detail.

The Chain of Security supports policies written for the 1993 and subsequent years of account for non-life business and all life business written at Lloyd's. Liabilities in relation to the 1992 and prior years of account for non-life business were reinsured into Equitas as at 31 December 1995, as part of 'Reconstruction and Renewal'.

FIRST LINK – SYNDICATE LEVEL ASSETS

All premium receipts and reserves at syndicate level are held in premiums trust funds or overseas regulatory deposits. Profits are distributed only after provision for all outstanding liabilities.

SECOND LINK – MEMBERS' FUNDS AT LLOYD'S (FAL)

The capital provided by every member is assessed according to the Lloyd's Individual Capital Assessment (ICA) capital setting framework. When agreed, each ICA is then 'uplifted' (by 35% for 2010) to provide an extra buffer to support Lloyd's rating and financial strength. This uplifted ICA, which is the Economic Capital Assessment (ECA), is used to determine members' capital requirements subject to prescribed minimum levels.

The FSA oversees the annual review of syndicate ICAs by the Corporation, which reviews the historical performance, business plans and risk appetite of that syndicate in assessing the adequacy of the capital level proposed. The FSA also reviews a small sample of syndicate ICAs in order to validate the effectiveness of the reviews carried out by the Corporation.

THIRD LINK – CENTRAL ASSETS

At the discretion of the Council, the Central Fund is available to meet any proportion of any member's insurance liabilities that the member is unable to meet in full.

THE FIRST LINK

The first link in the Chain of Security is the member's premiums trust funds, and other assets held in trust at syndicate level. To protect the interests of policyholders, all premiums and other monies received or receivable in connection with the member's underwriting business are initially paid into the premiums trust funds of the syndicate concerned. Payments from these funds may only be made to meet permitted trust outgoings: claims, reinsurance premiums, underwriting expenses and the like, including funding international regulatory deposits. Profit is not distributed until provision has been made for all outstanding liabilities.

There are separate premiums trust funds for life business and non-life business. There is a further segregation in that a number of the premiums trust funds are exclusively available to support certain international underwriting of members. The Lloyd's Dollar Trust Funds (LDTF) receive premiums in respect of US dollar denominated non-life business underwritten or incepting on or after 1 August 1995. Receipts in respect of non-life US dollar denominated business originally written and incepting before that date were held in the Lloyd's American Trust Fund (LATF) of each member, in New York. During 2009 arrangements were made, in agreement with New York Insurance Department, to transfer the non-life underwriting liabilities in relation to the insurance business incepting before 1 August 1995 previously held in the LATF, into the LDTF.

The other international premiums trust funds are the Lloyd's Canadian Trust Fund (LCTF) in Canada, comprising members' receipts in respect of Canadian situs business and the Lloyd's Asia trust funds for general business written by members through service companies in Singapore.

Members must ensure that there are sufficient funds in the members' premiums trust fund for the syndicate to meet all claims, necessary expenses and outgoings in connection with the syndicate business; they are required to meet a request to make such funds available (a 'cash call'). Cash calls are met by members from their own resources or, if necessary, from their FAL or, at the Council's discretion, the New Central Fund.

Premiums trust funds are used to fund international regulatory deposits. The US situs business of each syndicate is supported by US situs syndicate level trust funds (for US situs surplus lines business, US situs reinsurance business as accredited reinsurers, and for Illinois and Kentucky licensed business respectively). In addition, separate joint asset trust funds provide joint security for members' US situs surplus lines, US situs reinsurance and Kentucky business respectively.

These deposits would be available to meet judgement debts of a member in respect of business connected with the relevant international territory in the event that the relevant premiums trust fund for the member, even after replenishment from other links in the chain of security and other free assets of the member in question, was inadequate.

Underwriters also maintain regulatory deposit trust funds in Australia and South Africa and various deposits in other countries.

The total value of all the above funds was £39,021m at 31 December 2010.

THE SECOND LINK

The second link is members' capital provided to support their underwriting. This is commonly held as FAL but from 1 July 2007 can be held by aligned corporate members within the premiums trust fund (see first link above). FAL comprise the three trust funds in which members' assets may be held: the Lloyd's deposit, the special reserve fund and the personal reserve fund. These are each available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable, this includes letters of credit and

SECURITY UNDERLYING POLICIES ISSUED AT LLOYD'S CONTINUED

as at 31 December 2010

bank and other guarantees. A member is required to have sufficient assets at least equivalent to the aggregate of the member's ECA and certain liabilities in respect of its underwriting business. The amount of FAL assets required will depend on the net open year underwriting position of the member, ie if the net open year position is a deficit then the member will be required to add additional FAL to cover this deficiency, if the net open year position is a surplus the member can use these surplus assets towards their ECA requirement thus reducing the value of their assets to be held as FAL.

Minimum capital ratios are set at 40% of overall premium limits (25% for those members writing mainly EU motor business).

Individual members underwrite with unlimited liability and thus may be required to meet their share of claims to the full extent of their wealth. A corporate member may also have assets, beyond its capital to support underwriting, which can be called upon to meet its underwriting liabilities.

At 31 December 2010, the total value of capital supporting underwriting held in trust by members amounted to £13,832m.

THE THIRD LINK

The third link is the central resources of the Society. These are the assets of the Central Fund (comprising the New Central Fund and the 'Old' Central Fund and other assets of the Society.

The New Central Fund has been established to be available, at the discretion of the Council of Lloyd's, to ensure that policyholders' claims are met in the event of members being unable to meet their underwriting liabilities relating to 1993 and post non-life business and all life business. In practice, this entails the payment of syndicate cash calls where a member is unable to do so from their FAL or their own resources.

The New Central Fund is funded by annual contributions from members.

The net assets of the Central Fund as at 31 December 2010 were £1,285m.

In 2004 and 2007, Lloyd's issued subordinated loan notes and perpetual capital securities respectively which, as at 31 December 2010, are included as a liability of £930m within the Society's financial statements. As set out in note 17 to the Society's financial statements, payments on the notes are subordinated to certain payments which may be made out of central assets, including payments made to discharge the liabilities of an insolvent member to any person (including any policyholders) arising out of or in connection with insurance business carried on at Lloyd's by that insolvent member.

Central Fund assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits in any one calendar year. These funds would be drawn from premiums trust funds (described and included in the first link).

In addition, the other assets of the Society, totalling £162m at 31 December 2010, are available to meet underwriting liabilities in the last resort.

In aggregate, the value of the central resources of the Society (excluding the subordinated debt liability and the callable layer), amounted to £2,377m at 31 December 2010.

AGGREGATE RESOURCES

The total of syndicate assets, members' capital to support underwriting (ie funds at Lloyd's and capital held in syndicate premiums trust funds) and central resources of the Society as at 31 December 2010 was £55,230m. The total of net syndicate technical provisions at the end of 2010 was £36,109m. The total net resources of the Society and its members were therefore £19,121m (excluding the subordinated debt liability) as shown in the PFFS on page 61.

The aggregated resources are based on the total of the assets and liabilities of all members and those of the Society. The aggregate declared resources of the Society do not represent a consolidated statement of the financial position of Lloyd's business taken as a single entity and, as indicated above, the first two links of the chain of security operate on a several, not mutual, basis.

SOLVENCY CONTROLS

One of the most important controls on the solvency of the members of Lloyd's is the annual solvency test.

The annual solvency process requires the managing agent of each syndicate to estimate and provide for all current and future liabilities for each year of account. These liabilities 'technical provisions for solvency' are subject to a statement of actuarial opinion. The requirement for an opinion and its required wording, that the net technical provisions for solvency are not less that the current and future liabilities, is a higher test than required in the UK company market. In the event that it is not possible for the managing agent to secure an unqualified actuarial opinion for any reason, the technical provisions for solvency would be determined by the Lloyd's Actuary, who would provide a report to the FSA. In addition, any syndicate which is not able to secure an unqualified actuarial opinion will normally be subject to a monitoring review by Lloyd's. There were no qualified actuarial opinions as at 31 December 2010.

The Lloyd's solvency test has two stages to the calculation:

First, each member's solvency position is calculated. Each member must have sufficient assets – those held in the premiums trust funds, international regulatory deposits and its capital to support underwriting – to cover its underwriting liabilities and on top of this an additional margin known as the member's capital resources requirement (MCRR). The MCRR is calculated separately for each member, determined as the greater of 16% of annual premium income or 23% of average claims incurred over a three-year period. Premiums and claims in respect of certain types of liability business have their value increased by 50%, for the purpose of this calculation. Where a member's assets are not sufficient to cover the aggregate of its underwriting liabilities and its MCRR, the member has a solvency shortfall.

The second part of the solvency test calculation requires that the net central assets of the Society must be sufficient to cover the aggregate of all members' shortfalls calculated at the solvency test date. Central assets include the value of the Central Fund and the other net assets of the Society, excluding the subordinated debt liability but including the callable layer – for this purpose, the 'effective' callable layer, ie that part of the callable layer not attributable to members with a solvency shortfall.

Lloyd's is required to maintain solvency on a continuous basis, and the solvency position of each member, and thus of Lloyd's as a whole, is monitored on a regular basis. The FSA are advised of the results of this monitoring.

RECAPITALISATION AT MEMBER LEVEL

The free funds available to a member to meet its capital requirements may fall below the required level for two reasons: first, increases to syndicate ICAs, following a material change to the risk profile of the business; or second, erosion of funds due to losses.

In either case, the timetable for recapitalisation and the intervention by Lloyd's will depend on the extent of the shortfall.

All members are subject to bi-annual (June and November) Coming into Line (CIL), where members are required to hold free funds to meet their ECA. Lloyd's has powers to require members to meet their ECA at all times, but will normally permit recapitalisation in accordance with this bi-annual timetable, provided that members' free funds remain above their ICA. Where a member's funds fall below their ICA level, Lloyd's requires members to inject additional capital outside of the normal CIL timetable.

Where there is a material exposure to the central fund and policyholder security, underwriting restrictions or other measures may be imposed to mitigate the risks until capital is lodged at Lloyd's.

In accordance with the continuous solvency regime, where a member's free funds fall below the level of regulatory solvency (underwriting losses plus MCRR), the existing powers to immediately suspend underwriting or take any other measures deemed appropriate to Lloyd's may be used.

THE LLOYD'S RETURN

Each year, Lloyd's files the Lloyd's Return with the FSA. This return is intended to ensure Lloyd's regulatory reporting requirements are in line with other UK insurers, adapted where appropriate to reflect Lloyd's unique structure. This return reports the results of the Lloyd's solvency test.

	2010 £m	2009 £m
I Syndicate level assets (several basis)	**39,021**	37,400
II Members' funds at Lloyd's (several basis)	**13,832**	13,159
III Central assets (mutual basis)		
Net Central Fund assets	**1,285**	983
Subordinated debt	**514**	521
Subordinated perpetual capital securities	**416**	437
Other net assets of the Society	**162**	143
	2,377	2,084
Total resources of the Society of Lloyd's and its members	**55,230**	52,643
Net syndicate technical provisions	**(36,109)**	(33,522)
Total net resources of the Society of Lloyd's and its members	**19,121**	19,121

Notes
1. This financial summary has been compiled by aggregating the assets and liabilities of all the underlying syndicates, members' funds at Lloyd's and other net assets of the Society of Lloyd's. The statement does not purport to disclose the solvency position of each member of Lloyd's.
2. The 'total net resources of the Society of Lloyd's and its members' represents the capital, reserves and subordinated notes and securities shown in the PFFS as set out on page 61.
3. Syndicate level assets includes capital to support underwriting held by aligned corporate members in the syndicate premiums trust funds.

CONTENTS

SOCIETY REPORT

INTRODUCTION

THIS REPORT

This Report sets out the principal activities, 2010 consolidated financial statements and governance arrangements of the Society of Lloyd's.

In order to obtain an overview of the Society's operations, however, this Report should be read in conjunction with the rest of the Annual Report that looks at the Lloyd's market as a whole.

The Lloyd's market comprises members underwriting through syndicates and members' and managing agents each supported by the Society of Lloyd's. The interests of the Society and the market are inter-related and therefore the sections above may refer to both.

The Society's 2010 consolidated financial statements are included in this Report together with a financial review. The financial results of the members of Lloyd's are not part of those financial statements but can be found within the Market results section starting on page 58.

THE SOCIETY

By Lloyd's Act 1871, the then existing association of underwriters was incorporated as the Society and Corporation of Lloyd's (the 'Society').

Its activities are governed by statute and, since 1982, have been managed by the Council of Lloyd's pursuant to Lloyd's Act 1982.

The Society is not an insurance company, although the group does include insurance company subsidiary undertakings.

Its principal activities are:

- To facilitate the carrying on of insurance business by members of Lloyd's, who join together as syndicates to insure and reinsure risks, and the protection of their interests in this context.
- To maintain the Lloyd's Central Fund where assets are held and administered at the discretion of the Council of Lloyd's, primarily as funds available for the protection of policyholders.

FINANCIAL HIGHLIGHTS

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Operating result					
Operating and other group income	**427**	254	248	262	198
Central Fund contributions	**101**	100	84	168	152
Total income	**528**	354	332	430	350
Central Fund claims and provisions released/(incurred)	**34**	19	6	18	(116)
Contribution to Equitas – Berkshire Hathaway transaction	**–**	–	–	(90)	–
Net insurance claims and provisions	**17**	(6)	(34)	(1)	2
Other group operating expenses	**(214)**	(240)	(188)	(188)	(171)
Surplus before finance, associates and tax	**365**	127	116	169	65
Net finance income and unrealised exchange differences on borrowings	**75**	70	22	57	24
Share of profits of associates	**5**	3	4	4	2
Surplus before tax	**445**	200	142	230	91
Tax charge	**(122)**	(57)	(40)	(66)	(7)
Surplus for the year	**323**	143	102	164	84
Balance sheet					
Net assets	**1,447**	1,126	990	939	957
Movement in net assets %	**28.5%**	13.7%	5.4%	(1.9)%	25.1%
Solvency*					
Central assets for solvency purposes	**3,046**	2,815	2,624	2,465	2,054
Solvency shortfalls	**(123)**	(59)	(134)	(167)	(253)
Excess of central assets over solvency shortfalls	**2,923**	2,756	2,490	2,298	1,801
Solvency ratio %	**2476%**	4771%	1958%	1476%	812%
Movement in central assets for solvency purposes %	**8.2%**	7.9%	6.5%	20.0%	11.0%

* The solvency position for 2010 is estimated and will be finalised in June 2011 for submission to the FSA.

CORPORATE GOVERNANCE

The Council of Lloyd's is committed to the principle of good corporate governance and supports the application of the principles of the UK Corporate Governance Code, as far as they can be applied to the governance of a Society of members and a market of separate competing entities.

GOVERNING BODY: THE COUNCIL OF LLOYD'S

Under Lloyd's Act 1982, the governing body of the market is the Council of Lloyd's. Under the Act, the Council has the management and superintendence of the affairs of the Society and the power to regulate and direct the business of insurance at Lloyd's. In addition, the Council has the power to make byelaws for the proper and better execution of the Lloyd's Acts and the furtherance of the objects of the Society, and for various specific purposes set out in the Act.

The Council comprises a maximum of 18 members, split between six working, six external and six nominated members. Nominated members are usually appointed for three-year terms which can be renewed. Working and external members are generally elected for terms of three years by the working and external members of the Society respectively. Other than the CEO, no member of Council may serve more than nine years in aggregate on the Council. The members of the Council as at 29 March 2011 are listed on page 15.

In accordance with Lloyd's Act 1982, the Chairman and Deputy Chairmen of Lloyd's are elected annually by special resolution of the Council from amongst its members.

The Chairman of Lloyd's commits as much time as is necessary to successfully undertake the role. The Council acknowledges that the Chairman has other commitments outside Lloyd's and is satisfied that these can be accommodated with the Chairmanship of Lloyd's.

The nominated members of the Council may be regarded, for the purposes of the Code, as independent members of the Council with the exception of the CEO who is included within their number. The presence of working and external members of the Council enables the nominated members to gain an understanding of the views of key stakeholders in the Lloyd's market. Although the concept of a senior independent director does not strictly apply to the Council, Andreas Prindl (a nominated member) was re-elected Deputy Chairman by the Council in February 2011.

In the elections for working members of the Council, voting operates on a one member, one vote basis. In the elections for external members of the Council, the voting entitlement of an external member of the Society is based on the member's allocated underwriting capacity as determined under the Constitutional Arrangements Byelaw.

The Council reports to the members at the Annual General Meeting. Voting entitlement at general meetings is generally capacity-based for both external and working members, except at general meetings called on the requisition of members under section 6(4) of the Lloyd's Act 1982 for the purpose of revoking or annulling byelaws, at which each member has one vote.

The Council met six times in 2010.

GOVERNANCE POLICIES

Amongst other matters, the Governance Policies are intended to improve the clarity around the role of the Council and to establish a more structured relationship with the Franchise Board.

The Governance Policies establish the purpose for Lloyd's: 'To maintain, in accordance with Lloyd's Acts, an organisation that will enable the long-term return from carrying out the business of insurance to be maximised for capital providers' (ie members).

The Governance Policies also establish the process by which the Council manages its own activities and affairs. There are a number of issues that only the Council can deal with under the terms of the Lloyd's Acts – for example, the making and amending of byelaws. In addition, the Council reserves to itself the ability to set the level of contributions to the New Central Fund and the amount of the annual subscription, the right to appoint members of the Franchise Board and other committees of the Council and reviewing the budget and the Franchise Board's Three-Year and Annual Plans (currently included within Lloyd's Strategy 2011-2013). The Council must approve all expenditure above a specified amount.

Under the Governance Policies, the Council is responsible for assessing the long-term strategic development of Lloyd's by reference to both the interests of capital providers and other stakeholders and through an evaluation of economic, political and social issues impacting the international insurance and reinsurance markets.

In respect of the majority of its other functions, the Council acts by the Franchise Board. The Governance Policies therefore define the accountability linkage between the Franchise Board and the Council. This includes determining the boundaries within which the Franchise Board will operate (the Franchise Board Limitations) and establishing a Monitoring and Assurance regime which, amongst other matters, requires the Chairman of the Franchise Board to report to the Council on all material issues impacting the world insurance market and Lloyd's as well as providing a summary of key performance indicators.

CORPORATE GOVERNANCE
CONTINUED

FRANCHISE BOARD

The Council established the Franchise Board as from 1 January 2003 and set it a goal: 'To create and maintain a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised'. The Franchise Board must operate within the boundaries of the Limitations established by the Council which include operating in accordance with the Franchise Principles. The latter cover three main areas: the overriding principles (relating to legal, regulatory and corporate governance); the capital principles (which emphasise equity between capital providers and prudence in capital setting); and the operating principles (including setting the market supervision framework in accordance with FSA requirements).

The members of the Franchise Board as at 29 March 2011 are listed on page 16. In 2010, the Franchise Board comprised the Chairman of Lloyd's, who was also its Chairman, the CEO, the Director, Performance Management and the Director, Finance, Risk Management and Operations. The balance of the Board was made up of three non-executives connected with the Lloyd's market and up to four independent non-executives. The presence of market-connected non-executive directors enables the independent non-executives to gain an understanding of market practitioner views and perspectives.

The Franchise Board held eleven scheduled meetings in 2010. It also met immediately before three of its scheduled meetings to discuss certain topics in more detail.

The main committees of the Franchise Board and their purpose are outlined below.

MARKET SUPERVISION AND REVIEW COMMITTEE (MSARC)

MSARC takes decisions regarding the exercise of Lloyd's enforcement powers. It also acts as a review body capable, where appropriate, of amending, modifying or withdrawing certain decisions taken by the executive affecting managing agents. It also acts as the body that determines whether certain decisions can be referred to the Lloyd's Appeal Tribunal and can also make certain business decisions. MSARC met on four occasions in 2010.

CAPACITY TRANSFER PANEL

The Capacity Transfer Panel has been established principally to exercise the Council's powers in relation to minority buyouts and mergers. The Panel met on one occasion in 2010.

INVESTMENT COMMITTEE

The Investment Committee sets the investment objectives and parameters of centrally-managed assets and is responsible for monitoring the performance of these funds. In addition, it monitors the investment operations of the Treasury department in respect of all funds under its management and approves all investment counterparties. It may also make more general recommendations concerning investment activity at Lloyd's. The Investment Committee met on four occasions in 2010.

OTHER PRINCIPAL COMMITTEES OF THE COUNCIL

AUDIT COMMITTEE

The Audit Committee's role ensures that the financial activities of Lloyd's are subject to independent review and audit. The Audit Committee reviews Lloyd's annual and interim financial statements, the aggregate syndicate results and the Lloyd's Return to the FSA. It also reviews both the external and internal audit plans and the compliance plan. The CEO, Director, Finance, Risk Management and Operations, General Counsel, senior managers and the external and internal auditors attend meetings as appropriate. Reports from the internal and external auditors on aspects of internal control and reports from the Legal and Compliance department on internal and international compliance are reviewed by the Audit Committee and appropriate action taken in response. The Audit Committee met on five occasions in 2010.

The terms of reference of the Audit Committee are available from the Secretary to the Council on request.

NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE (NACC)

The NACC is principally responsible for making recommendations to the Council on the appointment of the Chairman, CEO, new nominated Council members, Franchise Board members (including the Director, Finance, Risk Management and Operations and the Director, Performance Management), members of a number of the Council and Franchise Board committees and the Secretary to the Council. The NACC reviews the remuneration of these individuals and makes recommendations to the Council on the remuneration of the members of these bodies, including the Chairman, CEO, Director, Finance, Risk Management and Operations and Director, Performance Management. The NACC is also responsible for succession-planning arrangements for these positions. As a matter of good practice, the NACC also reviews the CEO's remuneration recommendations for the Corporation directors who are not members of the Franchise Board and puts those recommendations to Council. The NACC met on five occasions in 2010.

The terms of reference of the NACC are available from the Secretary to the Council on request as are the terms and conditions of appointment of non-executive directors and non-executive members of Council.

INDEMNITIES

The Society has given indemnities to certain of its subsidiary undertakings, and the directors thereof, in respect of any claims or actions which may be brought against them or any future operating losses incurred by them in connection with the companies' activities. The Society has also given indemnities to and has agreed to cover certain specific costs that may be incurred by members of the Council, the Franchise Board, Lloyd's Regulatory Board and Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees, the Society staff and also certain individuals and organisations who have been asked to carry out or provide services to the Society or on behalf of, or for the benefit of, its members.

PERFORMANCE ASSESSMENT

An evaluation of the performance of the Council and its principal committees in 2010 (defined for this purpose as the Franchise Board, the Audit Committee and the NACC) was undertaken during the year. The evaluation also covered the performance of the Council and committee members including the Chairman of each committee.

The assessment was conducted by the Secretary to the Council who met Council and committee members on an individual basis to seek their views on 2010 performance. As part of this process, Council and Franchise Board members' comments on the performance of the Chairman were discussed privately with him. The same process was followed with the Chairmen of the other committees subject to the performance assessment.

The principal conclusion of the assessment was that the current governance arrangements were working effectively and in accordance with the Governance Policies and that the Council and its principal committees were operating in accordance with their terms of reference.

Amongst the other major findings of the review were the need to:

- Review the delegation of authority from the Council to the Franchise Board and the executive.
- Draw out more clearly the key points in papers to be considered by the Council and Franchise Board.

These and other suggestions for improvement will be taken forward by the Council and the relevant committees.

TRAINING AND INDUCTION

As part of the induction process, new members of the Council and Franchise Board without extensive knowledge of Lloyd's are offered briefing sessions with senior executive management and others. Members of the Council and Franchise Board with pre-existing knowledge and involvement at Lloyd's are given the opportunity to receive briefings on subjects of particular interest to them.

In addition, in 2010 five briefing sessions on a range of Lloyd's related topics were made available to all members of the Council and the Franchise Board.

INDEPENDENT PROFESSIONAL ADVICE

Members of the Council and Franchise Board have access to independent professional advice, if required.

AUTHORITY TO ACT

The Franchise Board may act through the CEO, directors and employees of the Corporation save in respect of those functions and powers reserved to it, the Council and their committees. The CEO, directors and employees must act in accordance with the Franchise Board Limitations (including the Franchise Principles) and in accordance with the Franchise Goal and Principles and in accordance with the strategy, policy and principles set by the Franchise Board.

CORPORATE GOVERNANCE OF THE LLOYD'S MARKET

The corporate governance of each entity within the Lloyd's market is the responsibility of that entity. The Council provides, through the Corporation, a framework for the governance of these businesses including the assessment of capital adequacy and market supervision (including inspections, visits and audits of market entities). Managing agents' governance arrangements are also reviewed on registration and as part of risk management assessments.

CORPORATE GOVERNANCE
CONTINUED

ATTENDANCE RECORD

	Council	Franchise Board	Audit Committee	NACC[1]	MSARC[2]	CTP[3]	Investment Committee
Council and Franchise Board members							
Chairman of the Council of Lloyd's							
Lord Levene of Portsoken	[a]6/6	[a]11/11					
Executive Directors							
Richard Ward	6/6	11/11					
Tom Bolt		11/11					
Luke Savage		11/11					4/4
Non-Executive Council members							
Working members							
Rupert Atkin	5/6			5/5			
Ewen Gilmour	6/6		4/5	4/5			
Christopher Harman	6/6						
Nick Marsh	6/6						
Graham White	6/6			5/5			
External members							
Lord Ashton of Hyde	6/6						
Michael Deeny	6/6						
Matthew Fosh	6/6						
Barnabas Hurst-Bannister	6/6						
Paul Jardine	6/6			4/5			
Alan Lovell	6/6			4/5		1/1	
Nominated members							
Celia Denton	6/6		5/5		4/4		
Sir Robert Finch	5/6		5/5	5/5	[a]4/4		
Reg Hinkley	6/6		5/5				
Sir David Manning[5]	2/2						
Andreas Prindl	6/6		5/5	[a]5/5		[a]1/1	[a]4/4
Non-Executive Franchise Board members							
Nick Furlonge		9/11					
Claire Ighodaro		11/11	[a]5/5				
Andrew Kendrick		8/11	2/5				
Martin Read		10/11					
Dipesh Shah		10/11					
David Shipley		8/11	5/5				
Andre Villeneuve[6]		8/8					
Former Council members							
Philip Lader[4]	1/1			1/1			

	Council	Franchise Board	Audit Committee	NACC[1]	MSARC[2]	CTP[3]	Investment Committee
Other Committee members							
Martin Bride[7]							1/1
Margaret Chamberlain						1/1	
Christine Dandridge					4/4		
Lady Delves Broughton						1/1	4/4
David Gittings						1/1	
Mark Graham							4/4
Michael Green							4/4
Peter Grove					4/4		
Peter Haynes[8]							1/1
Ian Salter						1/1	
Paul Swain						1/1	
David Winkett							3/4

[a] Chairman.

1. Nominations, Appointments and Compensation Committee.
2. Market Supervision and Review Committee.
3. Capacity Transfer Panel.
4. Philip Lader retired as a Nominated member of Council on 2 March 2010.
5. Sir David Manning was appointed as a Nominated member of Council on 1 September 2010.
6. Andre Villeneuve officially joined the Franchise Board on 11 May 2010. He also attended the Franchise Board meeting on 30 April as an observer.
7. Martin Bride joined the Investment Committee on 1 November 2010.
8. Peter Haynes joined the Investment Committee on 4 February 2010 and resigned on 1 April 2010.

INTERNAL CONTROL STATEMENT

The Franchise Board, on behalf of the Council of Lloyd's, has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Executive Team is responsible for the implementation and maintenance of the internal control system. This incorporates an embedded, ongoing process for identifying, evaluating and managing significant business, operational, financial, compliance and other risks. The system is designed to reduce, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee monitors and reviews the effectiveness of the system of internal control of the Society and biannual reports are provided to the Franchise Board. There is an ongoing process, in accordance with the guidance of the UK Corporate Governance Code on internal control, which has been established for identifying, evaluating and managing significant risks. Other procedures such as whistle-blowing whereby any member of staff may take matters that concern them to the Head of Internal Audit, the Legal and Compliance department or, where appropriate, to the Chairman of the Audit Committee or the FSA, are clearly set out. Associate companies, Ins-sure Holdings Limited and Xchanging Claims Services Limited, are not dealt with as part of the group for the purposes of applying the UK Corporate Governance Code.

The group's key risk management processes and the system of internal control procedures include the following:

MANAGEMENT STRUCTURE

'Lloyd's Governance Arrangements: A Guide for Members of Lloyd's Committees' outlines the governance structure and committee members' duties and responsibilities, including confidentiality and conflicts and declarations of interest.

There is a clearly defined organisation structure with terms of reference agreed for the CEO and all directors which set out, inter alia, their functions and powers, authority to act and limitations on authority. Employees have role profiles agreed by their line manager which set out equivalent information.

The Society is committed to the highest standards of business conduct. Corporate policies and procedures are available to all staff and include the Compliance Manual, Health & Safety Policy, Information Security and Computer Usage Policy, HR policies and procedures, Procurement Policy, Financial Policies and authorisation limits. These policies and procedures are regularly reviewed and updated.

Lloyd's maintains an internal audit function that reports to the CEO and the Audit Committee. The Head of Internal Audit is supported by Deloitte LLP who provide resources to complete the internal audit plan.

IDENTIFICATION AND EVALUATION OF BUSINESS RISKS

The Risk Management Framework identifies, assesses and monitors the major risks affecting the Society. The framework includes a comprehensive risk and control assessment procedure which is conducted on an ongoing basis. This review re-assesses the existing risks and identifies any new risks. It evaluates controls in terms of adequacy of performance and also seeks to monitor the action plans in place to help manage risks. These processes are described in more detail in the Risk Management section on pages 30 to 32.

The Executive Risk Committee considers the different aspects of the assessment of the risk, control and regulatory environment. This includes determining and assessing the Society's inherent and residual risks, compliance and monitoring of control exceptions. Its function is to provide assurance that risks facing the Society are identified and managed in accordance with approved policy and appetite. The Executive Risk Committee is now supported by three specialist sub-committees that focus on the key areas of risk facing Lloyd's: the Syndicate Risk Committee, the Financial Risk Committee and the Corporation Risk Committee. The enhanced risk governance structure has been created to provide clear independent challenge to the risk-takers at Lloyd's and enables tailored risk management operating models, rather than a 'one size fits all' platform. The operating models will provide a more formal forward-looking assessment of risk, building capital considerations into the decision-making process and a formal risk appetite framework with defined escalation routes.

A framework of regular self-certification, with targeted independent challenge, is in place and where control failures have been reported, details of the circumstances are required together with appropriate corrective actions. A summary of these reports is reviewed by the Executive Team, Franchise Board and the Audit Committee on a regular basis.

Internal auditors also perform independent reviews of control activities as part of their annual programme as approved by the Audit Committee. The Head of Internal Audit and the Legal and Compliance department report to the Executive Team on a regular basis and to each Audit Committee meeting.

A compliance plan is in place to manage the risk associated with non-compliance with FSA regulatory processes. The Head of Internal Audit and the Legal and Compliance department provide progress reports to the Risk Committees and the Audit Committee. The Risk Committees also oversee the wider coordination of international regulatory compliance.

INFORMATION AND FINANCIAL REPORTING SYSTEMS

An annual budget for the Society is reviewed in detail by the executive and is considered and approved by the Franchise Board and Council. Monthly financial reports compare actual performance with the annual budget and management action is taken, where appropriate, when variances arise. Revised forecasts are prepared regularly.

REPORT OF THE NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE

This report is based upon best practice as set out in the UK Corporate Governance Code. This code is directed at companies listed on the London Stock Exchange, whereas Lloyd's is a market of many separate and competing trading entities; nonetheless, Council supports its principles in so far as they can be applied to the governance of the Society.

COMPOSITION OF THE NACC

The Nominations, Appointments and Compensation Committee (NACC) currently comprises seven members of Council – two nominated, two external and three working members – and one market-connected non-executive director on the Franchise Board. The NACC members for 2010 are indicated within the remuneration table on page 89.

The Committee met five times during the year. The attendance at meetings by members of the Committee is set out in the Corporate Governance report, page 80. The Committee's terms of reference are available on request from the Secretary to the Council.

NOMINATIONS AND APPOINTMENTS

The NACC is responsible for making recommendations to the Council on the appointment of the Chairman, CEO, new nominated Council members, Franchise Board members (including the Director, Finance, Risk Management and Operations and the Director, Performance Management), members of a number of the Council and Franchise Board committees and the Secretary to the Council.

Apart from the annual exercise of making recommendations with respect to the composition of Council and Franchise Board committees (together with any other necessary changes in composition during the year), the NACC made the following major recommendations to Council during 2010:

- To appoint Andre Villeneuve as an independent non-executive director on the Franchise Board. Mr Villeneuve's three-year term commenced on 11 May 2010.
- To reappoint Nick Furlonge as a market connected non-executive director on the Franchise Board and Claire Ighodaro as an independent non-executive director on the Franchise Board for further three-year terms commencing on 1 January 2011.
- To appoint Sir David Manning as a nominated member of Council for a three-year term commencing on 1 September 2010.
- To reappoint Reg Hinkley as a nominated member of Council for a further three-year term following the expiry of his current term on 28 October 2010.
- To appoint Christopher Symons QC as President of the Lloyd's Appeal Tribunal and Lord Carlile QC as a member of Lloyd's Enforcement Board (with a view to him becoming Chairman of the Enforcement Board in due course).

These recommendations were accepted by Council. Neither an external search consultant nor open advertising were used to identify Andre Villeneuve and Sir David Manning as the NACC was able to make use of its own resources and expertise.

The NACC also started the process to find a successor to Lord Levene who will be retiring as Chairman in 2011. The NACC has employed an external search consultant to assist with this work.

REMUNERATION AND COMPENSATION

The Council of Lloyd's is assisted in determining the remuneration of members of the Council, Franchise Board and their committees by the NACC. The NACC also recommends for approval by the Council, the fees, salaries, bonuses and the terms and conditions of office of the Chairman, the CEO, the Director, Finance, Risk Management and Operations and the Director, Performance Management. For a more detailed description of the NACC's responsibilities for senior executive remuneration, see page 78.

In determining their recommendations for the year, the NACC consulted with the Chairman and the CEO as well as engaging the assistance of remuneration advisers, Deloitte LLP. During the year, Deloitte LLP also provided other services to the Corporation including the co-sourced Internal Audit resource.

REMUNERATION OF COUNCIL AND FRANCHISE BOARD MEMBERS WHO ARE EMPLOYEES OF THE CORPORATION

Lloyd's remuneration policy for all current and future employees is set out in the HR Policies & Procedures as follows: 'Lloyd's operates a Total Reward approach, which is designed to meet employee and Corporation needs by providing rewards that are linked to individual performance and the delivery of Lloyd's Corporation objectives.

Lloyd's Total Reward approach is supported by the following practices:

- We look beyond base salary to the value of the total reward package in meeting the needs of employees.
- We recognise and reward superior performance.

Lloyd's policy is therefore based on providing a package of rewards (salary plus benefits) that is business driven, competitive, fair and flexible. It is also founded on the proposition that the ultimate source of value in the business is people. Combining this creates a reward offering which:

- Emanates from business strategies and priorities.
- Is based on business success (ie our ability to pay).

REPORT OF THE NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE CONTINUED

REMUNERATION OF COUNCIL AND FRANCHISE BOARD MEMBERS WHO ARE EMPLOYEES OF THE CORPORATION CONTINUED

> Provides a flexible mix of rewards, designed to attract, retain and motivate a performance driven workforce with the varied range of experience and skills the business requires.
> Is externally competitive and regularly monitored by means of benchmarking exercises.
> Rewards for performance rather than cost of living.
> Ensures employees understand the criteria by which rewards are determined and reviewed.
> Gives managers the tools to make informed decisions regarding rewarding their teams.
> Is in line with our equality and diversity policy.

REMUNERATION

The policy outlined above has been applied throughout 2010. Whilst this policy is envisaged as applying for 2011 and subsequent years, the NACC will continue to monitor its policies, particularly its arrangements for performance related pay, against evolving market practice and relevant guidelines prepared in response to the current economic climate. The NACC noted that many of the proposals under consideration in the wider financial services sector are aimed at curbing excessive risk-taking at financial institutions. The Corporation is focused on market oversight and promoting the attractiveness of Lloyd's. Risk-taking is primarily undertaken at syndicate level rather than within the Corporation.

The current remuneration package of Council and Franchise Board members who are employees of the Corporation comprises both performance and non-performance related components. For the CEO, Director, Finance, Risk Management and Operations and the Director, Performance Management, the performance-related components comprise annual bonuses as well as a Lloyd's Performance Plan award (the former is determined by reference to performance against objectives while the latter is linked to the overall performance of the Lloyd's market). The non-performance-related components comprise base salaries, benefits and pension entitlements. The Chairman does not participate in the Lloyd's Performance Plan.

The annual salaries and bonuses of the Chairman, CEO, the Director, Finance, Risk Management and Operations and the Director, Performance Management are reviewed by the NACC annually. For 2010, increases took effect from 1 February. No director plays a part in any discussion about his or her own remuneration.

The Chairman is entitled to receive private medical and life insurance. The CEO, Director, Finance, Risk Management and Operations and the Director, Performance Management are entitled to receive certain benefits including private medical and life insurance in addition to their base salary.

It is NACC policy that a significant proportion of executive remuneration should be performance-related and determined by annual performance reviews.

LLOYD'S PERFORMANCE PLAN

A new Lloyd's Performance Plan (LPP) was introduced from 1 January 2008. Subject to the transitional provisions described below, it replaced the previous long-term incentive plan (LTIP) available to the CEO, Directors and Level 1 employees.

The LPP is available to all employees and has been designed to meet strategic objectives by enabling the Corporation to offer an incentive which:

> Is directly linked to the profitability of the Lloyd's market and will therefore encourage an attitude of commercial partnership with the market and align the interests of participants with capital providers.
> Will provide a competitive reward and therefore assist Lloyd's in attracting and retaining the talented individuals required to develop and support future strategy.

The plan is operated at the discretion of the NACC and can be amended or terminated at any time.

LONG-TERM INCENTIVE PLAN (THE '2004 LTIP')

The 2004 LTIP for the CEO and other senior executives of the Corporation was established with the approval of the NACC and Council in March 2004. Details of its operation are included below because of its impact on the transitional provisions of the LPP.

OPERATION OF THE 2004 LTIP

THREE-YEAR POOLING PRINCIPLE

Payments made under the 2004 LTIP are based on the aggregate profitability of the Lloyd's market over three years, taking into account both profits and losses over that three-year period. The principle of pooling means that any losses made over the three-year period will offset profits when determining payments, thus encouraging prudential behaviour. Pooling also means that awards may be made in loss-making years. This would be the case if the aggregate profits outweighed the aggregate losses over the relevant three-year period.

The three-year profits pools are calculated each year on a rolling basis.

PROFIT/LOSS

Profit or loss is defined as the pro forma profit or loss on ordinary activities before tax as reported in the Lloyd's Annual Report, excluding notional investment returns on Funds at Lloyd's.

ELIGIBILITY

Selected senior permanent employees of the Corporation were eligible for the scheme including the CEO, directors and existing staff in role Level 1 as at 1 January each year. The NACC retained absolute and sole discretion as to who participated in the LTIP in any particular year.

LIMITS

There is an overall limit such that the total LTIP awards for all participants in any year will not exceed 0.075% of the aggregate profits and losses for the relevant three-year period.

LEAVING EMPLOYMENT

The NACC retains absolute discretion over the treatment of any and all LTIP awards (or any part thereof) on the termination of employment for any reason whatsoever of the CEO and the Director, Finance, Risk Management and Operations. Unless the NACC resolves otherwise, the CEO retains absolute discretion over the treatment of any and all LTIP awards (or any part thereof) on the termination of employment of all other participants. If a participant leaves employment due to retirement, redundancy, death, disability or ill-health prior to the end of the deferred payment period, he or she will normally receive any outstanding instalments of previous awards, which will usually be paid on the normal payment dates. Any awards partially earned in the year of departure may be paid on a pro-rated basis.

If a participant leaves employment for any other reason, any outstanding instalments due in respect of previous financial years and any LTIP award due in respect of the financial year during which employment is terminated will normally both be forfeited immediately. The NACC or the CEO, in respect of participants other than the CEO himself and the Director, Finance, Risk Management and Operations, have discretion to make payments if they consider it appropriate.

CALCULATION OF AWARD AND TIMING OF PAYMENTS

The value of the LTIP award is calculated as a percentage of the aggregate profits for the relevant three-year period for each £1m of aggregate LTIP participants' salaries. For the CEO and for each director, this percentage is 0.008%. For other participants, the percentage used is lower, at 0.004%.

The percentages have been set by reference to external market data on remuneration levels as measured against other organisations of similar complexity and size.

For the financial year 2010, the award made under the 2004 LTIP, subject to adjustment for discretionary awards, is the aggregate profits of the Lloyd's market for the financial years 2008–2010 of £7,214m x relevant % x salary of LTIP participant per £1m.

With the introduction of the LPP from 1 January 2008, transitional rules will apply for outstanding payments due under the LTIP as at 1 January 2009.

REPORT OF THE NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE CONTINUED

LLOYD'S PERFORMANCE PLAN (THE LPP) APPLICABLE FOR THE YEAR ENDED 31 DECEMBER 2010

ELIGIBILITY

All employees of the Corporation and international offices are eligible to participate in the LPP on the basis set out below.

New employees will become eligible to participate in the LPP from the first full financial year following their recruitment.

CALCULATION OF LPP AWARDS

Awards under the LPP (LPP Awards) are calculated by reference to profit on ordinary activities before tax (PBT), as reported in the pro forma financial statements in the Lloyd's Annual Report for each financial year. LPP Awards will only be triggered if PBT in excess of £100m is achieved.

The LPP Awards for each financial year will be calculated as a percentage of the participants' salaries at 31 December in that year, for each £1bn of PBT.

The LPP Awards are as follows:

Job level	Amount of LPP Award	Limits on LPP Awards ('trigger')	Limits on LPP Awards ('cap')
CEO and directors	20% salary per £1bn of PBT	LPP Awards will be triggered only on the achievement of a minimum threshold of £100m PBT. If PBT is below £100m, no LPP Awards will be made for that financial year.	100% of salary ie £5bn of PBT
Senior managers (Level 1)	10% salary per £1bn of PBT		30% of salary ie £3bn of PBT
Other employees (Level 2-4)	5%-3% salary per £1bn of PBT depending on grade		15%-9% of salary (depending on grade) ie £3bn of PBT

STRUCTURE AND TIMING OF PAYMENTS

Subject to the transitional arrangements set out below, for directors and Level 1 employees the LPP will operate as an ongoing fund, rather than as a series of annual awards. For these employees, the LPP Award for each financial year will be added to the particular employee's notional LPP fund (the 'LPP Fund') and paid out in future years as described in the table below:

Job level	Awards	Payments
CEO, directors and Level 1 employees	Any LPP Award will be notified to the employee after the PBT for the relevant year has been announced (eg the employee will be notified normally in May 2011 of any LPP Award relating to the financial year 2010). The total amount of the LPP Award will be added to the particular employee's LPP Fund.	Each October one half of the total contents of the LPP Fund will be paid to the employee.

For Level 2–4 employees, any LPP Award will be paid in full during the year in which it is notified to the employee. For example, for the financial year 2010, employees will be notified of any LPP Award normally in May 2011 (once PBT for 2010 has been announced) and the LPP Award for 2010 will be paid to these employees in full in October 2011.

LEAVING EMPLOYMENT

The NACC will retain absolute discretion over the payment of any and all LPP Awards to participants whose employment is terminated (regardless of the reason for termination). However, the general intention is as follows:

Directors and Level 1 participants

(a) If a director or Level 1 participant leaves the Corporation's employment due to retirement, redundancy, death, disability or ill-health (each as determined by the NACC acting in its absolute discretion) the provisions set out in paragraphs (b) and (c) below will apply.

(b) The director or Level 1 participant will receive a pro-rated LPP Award for each complete month of service in respect of his/her year of departure. The LPP Award will be notified to the employee and paid in accordance with the usual timescales.

(c) Any balance which remains in the LPP Fund for directors or Level 1 participants will be paid in full in the October at the same time as the final LPP Award which is due to the employee.

(d) If a director or Level 1 participant leaves the Corporation's employment due to any reason other than those listed in paragraph (a) above (as determined by the NACC acting in its absolute discretion), he/she will forfeit any and all outstanding and future LPP Awards (including, for the avoidance of any doubt, any balance of the LPP Fund) with immediate effect from the date that he/she serves or receives notice of termination.

Level 2–4 participants

If a Level 2–4 participant serves or receives notice of termination (regardless of the reason of termination), he/she will forfeit any and all outstanding and future LPP Awards with immediate effect from the date of such notice.

LLOYD'S PERFORMANCE PLAN (THE LPP) APPLICABLE FOR THE YEAR ENDED 31 DECEMBER 2010 CONTINUED

TRANSITIONAL ARRANGEMENTS

Directors and Level 1 employees

(a) Directors and Level 1 employees who were employed by the Corporation prior to 1 January 2008 and who participated in the 2004 LTIP will be subject to the transitional arrangements set out below.

(b) For the financial years 2008, 2009 and 2010, the Corporation will assess the awards potentially payable to these directors and Level 1 employees under both the 2004 LTIP and the LPP. These directors and Level 1 employees will receive the higher of the two potential awards with respect to each financial year. If, for example, the award under the LPP is higher than the award under the 2004 LTIP, the LPP Award shall apply, and the 2004 LTIP Award shall not be made. If the award under the 2004 LTIP is higher, the 2004 LTIP Award shall apply and the LPP Award shall not be made.

(c) With effect from 1 January 2011, all awards to the directors and Level 1 employees will be calculated in accordance with the LPP, and these employees shall have no further entitlements under the 2004 LTIP.

(d) With respect to the timing of any payments pursuant to these transitional arrangements, from 1 January 2009 all payments will be under the Rules of the LPP (regardless of whether the director or Level 1 employee has received awards under the 2004 LTIP or the LPP). For example, if a director or Level 1 employee receives an award under the 2004 LTIP for the financial year 2010 (on the basis that the potential award for this individual under the 2004 LTIP is greater than the potential award under the LPP), the amount of this award will be added to the individual's LPP Fund. Directors and Level 1 employees will receive half of the value of the LPP Fund in October 2011.

PENSION ARRANGEMENTS

The CEO, Director, Finance, Risk Management and Operations, and the Director, Performance Management are members of the Lloyd's Pension Scheme.

Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. The pension arrangements for the Director, Finance, Risk Management and Operations provide for a pension at normal retirement of two-thirds base annual salary after 20 years' eligible service less any entitlement from previous pension arrangements and subject to a Scheme earnings cap of £123,600 from 6 April 2010. The pension arrangements for the CEO provide for a pension on retirement based on a standard accrual rate of one sixtieth of base annual salary subject to the Scheme earnings cap, for each year of eligible service, with the facility to increase the accrual rate to one thirtieth for an additional contribution. The pension arrangements for the Director, Performance Management provide for a pension at retirement built in annual blocks based on a standard accrual rate of one eightieth of base annual salary subject to the Scheme earnings cap in each year of eligible service with the facility to increase the accrual rate to one thirtieth for an additional contribution. No other payments to the CEO, the Director, Finance, Risk Management and Operations or the Director, Performance Management are pensionable.

The CEO, Director, Finance, Risk Management and Operations, and the Director, Performance Management receive a cash allowance of 20% of their base salary to compensate for their pension benefits being based on the Scheme earnings cap rather than their base salaries.

A cash allowance of £49,440 was payable in respect of the Chairman for 2010 which equates to 40% of the Scheme earnings cap applicable during the period.

The Lloyd's Pension Scheme is contributory and the Director, Finance, Risk Management and Operations made salary sacrifices of 10% of the earnings cap in exchange for additional employer pension contributions of the same amount. The CEO made a salary sacrifice of 5% of the earnings cap in exchange for an additional employer contribution for a sixtieth accrual rate and sacrificed an extra 25.35% of the earnings cap in exchange for an additional employer contribution to increase the accrual rate to thirtieths. The Director, Performance Management, made a salary sacrifice of 5% of the earnings cap in exchange for an additional employer contribution for an eightieth accrual rate.

REPORT OF THE NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE CONTINUED

CONTRACTS OF EMPLOYMENT

Lord Levene's contract covers his services as Chairman of the Franchise Board and Chairman of Lloyd's and was renewed on 6 November 2010 and will expire on 9 December 2011 to coincide with the end of his term on Council.

The CEO, the Director, Finance, Risk Management and Operations and Director, Performance Management have rolling one-year contracts providing for a maximum of one year's notice.

Details of these contracts are summarised in the table below.

	Contract date	Unexpired term as at 31 December 2010	Notice period[1]
Lord Levene of Portsoken	See above	11 months	–
Richard Ward[2]	24/04/06	rolling 1 year	12 months
Tom Bolt[3]	01/09/09	rolling 1 year	12 months
Luke Savage[4]	20/09/04	rolling 1 year	12 months

1. Employment contracts do not contain provisions for compensation payable upon early termination.
2. Richard Ward was appointed to the Franchise Board and Council on 24 April 2006.
3. Tom Bolt was appointed to the Franchise Board on 1 January 2010.
4. Luke Savage was appointed to the Franchise Board on 30 September 2004.

REMUNERATION AND CONTRACTS OF SERVICE FOR MEMBERS OF THE COUNCIL OF LLOYD'S AND FRANCHISE BOARD WHO ARE NOT EMPLOYEES OF THE CORPORATION

Remuneration for all members of Council and Franchise Board who are not employees of the Corporation is designed to attract people of sufficient calibre and experience to govern Lloyd's affairs by providing an appropriate level of fees which reflects the demands made upon them. Reference is also made to independent surveys of fees paid to non-executive directors of similar organisations.

In 2010, fees for members of Council and Franchise Board were £35,700 and £56,100 per annum, respectively. The Deputy Chairmen were paid £45,900 per annum. Fees are also payable in respect of membership of a number of Council and Franchise Board committees, including a number of ad hoc committees established to consider specific issues requiring a significant time commitment. Non-employee members of the Council and Franchise Board are not eligible to join the Lloyd's Pension Scheme.

Individual remuneration of all members of the Council and Franchise Board can be found in the table on page 89.

External and working members are elected to Council while nominated members are appointed to Council, usually for a three-year period. Members of the Franchise Board are appointed by Council with non-executive directors' terms of office varying between one and three years. These are not contractual arrangements and compensation is not paid if a member leaves early.

INFORMATION SUBJECT TO AUDIT

BASIS OF PREPARATION

The following section provides details of the remuneration of all members of the Council of Lloyd's and the Franchise Board for the year ended 31 December 2010. This section contains the following information in the form specified in Schedule 8 Part 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008:

> Amount of each member's emoluments and compensation in the current and previous financial year.
> Details of each member's accrued benefits in the Lloyd's Pension Scheme and transfer values of those accrued benefits.
> Details of each member's interests under the LPP.

REMUNERATION OF MEMBERS OF THE COUNCIL OF LLOYD'S AND THE FRANCHISE BOARD

Individual remuneration, excluding LPP Awards, for the year to 31 December is shown in the table below. LPP Awards are shown on page 91.

	Salary/Fees		Taxable benefits[1]		Annual bonus[21]		Other[2]		Total	
	2010 £000	2009 £000	**2010 £000**	2009 £000	**2010 £000**	2009 £000	**2010 £000**	2009 £000	**2010 £000**	2009 £000
Chairman of the Council of Lloyd's										
Lord Levene of Portsoken[3,4,20]	**596**	632	**1**	1	**–**	100	**107**	83	**704**	816
Executive Directors										
Richard Ward[3,4]	**540**	518	**13**	13	**730**	663	**114**	111	**1,397**	1,305
Tom Bolt[3,5,6,22]	**473**	150	**12**	4	**450**	100	**100**	33	**1,035**	287
Luke Savage[3,5]	**436**	425	**13**	13	**325**	290	**90**	88	**864**	816
Non-Executive Council members										
Working members										
Rupert Atkin[7]	**43**	42	**–**	–	**–**	–	**–**	–	**43**	42
Ewen Gilmour[7]	**56**	61	**–**	–	**–**	–	**–**	–	**56**	61
Christopher Harman	**36**	35	**–**	–	**–**	–	**–**	–	**36**	35
Nick Marsh	**36**	35	**–**	–	**–**	–	**–**	–	**36**	35
Graham White, Deputy Chairman[7]	**53**	52	**–**	–	**–**	–	**–**	–	**53**	52
External members										
Lord Ashton of Hyde[8]	**33**	–	**–**	–	**–**	–	**–**	–	**33**	–
Michael Deeny	**36**	32	**1**	1	**–**	–	**–**	–	**37**	33
Matthew Fosh[9]	**33**	–	**–**	–	**–**	–	**–**	–	**33**	–
Barnabas Hurst-Bannister[10]	**36**	9	**–**	–	**–**	–	**–**	–	**36**	9
Paul Jardine, Deputy Chairman[7,11]	**49**	42	**–**	–	**–**	–	**–**	–	**49**	42
Alan Lovell[7]	**50**	48	**–**	–	**–**	–	**–**	–	**50**	48
Nominated members										
Celia Denton	**54**	53	**–**	–	**–**	–	**–**	–	**54**	53
Sir Robert Finch[7]	**64**	51	**–**	–	**–**	–	**–**	–	**64**	51
Reg Hinkley	**45**	43	**–**	–	**–**	–	**–**	–	**45**	43
Sir David Manning[12]	**12**	–	**–**	–	**–**	–	**–**	–	**12**	–
Andreas Prindl, Deputy Chairman[7]	**84**	91	**–**	–	**–**	–	**–**	–	**84**	91
Non-Executive Franchise Board Members										
Nick Furlonge	**56**	55	**–**	–	**–**	–	**–**	–	**56**	55
Claire Ighodaro	**71**	70	**–**	–	**–**	–	**–**	–	**71**	70
Andrew Kendrick	**65**	64	**–**	–	**–**	–	**–**	–	**65**	64
Martin Read[13]	**56**	23	**1**	–	**–**	–	**–**	–	**57**	23
Dipesh Shah	**56**	55	**–**	–	**–**	–	**–**	–	**56**	55
David Shipley	**65**	65	**–**	–	**–**	–	**–**	–	**65**	65
Andre Villeneuve[14]	**42**	–	**–**	–	**–**	–	**–**	–	**42**	–
Former Members of Council										
Martin Hudson[10]	**–**	23	**–**	–	**–**	–	**–**	–	**–**	23
Philip Lader[15]	**7**	42	**1**	2	**–**	–	**–**	–	**8**	44
Eileen McCusker[16]	**3**	18	**–**	–	**–**	–	**–**	–	**3**	18
Barbara Merry[17]	**3**	35	**–**	–	**–**	–	**–**	–	**3**	35
Peter Morgan	**–**	4	**–**	–	**–**	–	**–**	–	**–**	4
Dermot O'Donohoe[16]	**–**	13	**–**	–	**–**	–	**–**	–	**–**	13
Former Members of the Franchise Board										
Jim Stretton[18]	**–**	64	**1**	4	**–**	–	**–**	–	**1**	68
Rolf Tolle[19]	**–**	562	**–**	22	**–**	800	**–**	111	**–**	1,495

REPORT OF THE NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE CONTINUED

1. Taxable benefits include items such as benefit allowances, medical and life insurance.
2. For executive directors, other includes payments of 20% of annual base salary as their pension benefits are based on a maximum earnings cap, which from 6 April 2010 was £123,600. The amount stated in respect of the Chairman represents a cash allowance in lieu of pension contributions and the premium in respect of additional life cover.
3. Employee of the Corporation of Lloyd's.
4. Member of both Council and the Franchise Board for 2010.
5. Member of the Franchise Board only.
6. Tom Bolt commenced employment on 1 September 2009 and joined the Franchise Board on 1 January 2010.
7. Member of the Nominations, Appointments and Compensation Committee (NACC) for 2010.
8. Lord Ashton (as the representative of Faraday Capital Limited) joined Council on 1 February 2010.
9. Matthew Fosh (as the representative of Novae Corporate Underwriting Limited) joined Council on 1 February 2010.
10. Barnabas Hurst-Bannister replaced Martin Hudson as the representative of Aprilgrange Limited following Mr Hudson's resignation on 30 September 2009.
11. Representative of Catlin Syndicate Limited.
12. Sir David Manning was appointed to Council on 1 September 2010.
13. Martin Read was appointed to the Franchise Board on 14 September 2009.
14. Andre Villeneuve was appointed to the Franchise Board on 11 May 2010.
15. Philip Lader retired from the Council and the NACC on 2 March 2010.
16. Eileen McCusker, as the representative of Dornoch Limited, retired from Council on 31 January 2010. Dornoch Limited's previous representative was Dermot O'Donohoe who resigned on 18 May 2009.
17. Barbara Merry, as the representative of Hardy Underwriting Limited, retired from Council on 31 January 2010.
18. Jim Stretton retired from the Franchise Board on 31 December 2009.
19. Rolf Tolle retired as Franchise Performance Director and from the Franchise Board on 31 December 2009. While employed by the Corporation, he occupied a property leased to Lloyd's. Rolf Tolle made a salary sacrifice of £36,000 in 2009 in exchange for the provision of the property by Lloyd's. This amount is not included in the table on page 89.
20. Lord Levene is contracted to work four days per week but with effect from 1 October 2010, one of those four days has been associated with duties to NBNK Investments plc and has been paid directly by NBNK Investments plc.
21. The maximum annual bonus payable to the CEO, the Director, Performance Management and the Director, Finance, Risk Management and Operations is 150%, 100% and 75% of base salary respectively.
22. Tom Bolt is a non-executive director of Xchanging Claims Services. No fees are payable.

LLOYD'S PENSION SCHEME PROVISIONS

	Salary sacrifice in year to 31 December 2010[1] £000	Age at 31 December 2010	Increase in pension in year to 31 December 2010 – actual £000	Increase in pension in year to 31 December 2010 – net of price inflation £000	Total accrued annual pension in year to 31 December 2010 £000 pa	Normal retirement age
Richard Ward	**38**	**53**	**4**	**4**	**19**	**65**
Tom Bolt	**6**	**54**	**2**	**1**	**2**	**65**
Luke Savage	**12**	**49**	**3**	**3**	**19**	**60**

1. The Lloyd's Pension Scheme was made a contributory pension scheme with effect from 1 July 2006. The CEO, Director, Finance, Risk Management and Operations, and the Director, Performance Management have made salary sacrifices in exchange for Lloyd's making additional employer contributions.

TRANSFER VALUES OF ACCRUED PENSION BENEFITS

	Transfer value to accrued pension as at 31 December 2009 £000	Transfer value of accrued pension as at 31 December 2010 £000	Increase in transfer value over the year less amounts salary sacrificed £000
Richard Ward	167	**242**	**37**
Tom Bolt	6	**25**	**14**
Luke Savage	221	**292**	**58**

The transfer value represents a liability of the Lloyd's Pension Scheme, not a sum paid or due to the individual.

MEMBERS OF THE COUNCIL OF LLOYD'S AND FRANCHISE BOARD'S SHARE OF THE LLOYD'S PERFORMANCE PLAN

	Estimated long-term bonus			
	Total award outstanding as at 31 December 2009 £000	Change in year £000	Amount paid during the year ended 31 December 2010 £000	Total award outstanding as at 31 December 2010 £000
Richard Ward	586	**312**	**293**	**605**
Tom Bolt	–	**209**	**–**	**209**
Luke Savage	536	**252**	**268**	**520**

Andreas Prindl, CBE
Chairman, Nominations, Appointments and Compensation Committee

REPORT OF THE AUDIT COMMITTEE

This report sets out the role, remit and activities of the Audit Committee during 2010.

COMPOSITION OF THE AUDIT COMMITTEE

At the end of 2010, the Audit Committee comprised four nominated members of Council, one working member of the Council and three non-executive members of the Franchise Board. The Audit Committee met five times during the year. The members of the Audit Committee in 2010 and their attendance at meetings are shown in the Corporate Governance report on page 80.

All of the Audit Committee have extensive commercial experience. For the purposes of the UK Corporate Governance Code, Celia Denton, Ewen Gilmour and Claire Ighodaro, the Chairman of the Audit Committee, are considered by the Council to have recent and relevant financial experience.

TERMS OF REFERENCE

The Council has delegated to the Audit Committee responsibility for overseeing the financial reporting and internal controls of the Society and its subsidiaries and the Central Fund. The Audit Committee follows an agreed annual work plan. The principal responsibilities of the Audit Committee include:

- Ensuring that the financial activities of Lloyd's are subject to independent review and audit. The Audit Committee reviews Lloyd's published annual and interim financial statements including the pro forma financial statements, the Aggregate Accounts, the group financial statements of the Society of Lloyd's and Lloyd's Return to the FSA.
- Reviewing and monitoring the arrangements for ensuring the objectivity and effectiveness of the external and internal audit functions.
- Considering, on behalf of the Council, the appointment or removal of the external auditors.
- Reviewing and monitoring the effectiveness of the systems of internal control of the Society.
- Ensuring that appropriate arrangements are in place for ensuring compliance by the Society with relevant laws and regulations.
- Ensuring appropriate whistle-blowing arrangements are in place by which members of staff can, in confidence, raise concerns relating to possible improprieties.

The Audit Committee's terms of reference are available on request from the Secretary to the Council.

REPORT ON THE AUDIT COMMITTEE'S ACTIVITIES IN 2010

The principal issues addressed during 2010 were:

- The annual financial statements for 2009 including the pro forma financial statements and Aggregate Accounts, the financial statements of the Society and financial disclosures and various accounting matters raised by management and auditors.
- The interim financial statements for the six months to 30 June 2010 including the pro forma financial statements and the financial statements of the Society of Lloyd's.
- The interim management statements of the Society of Lloyd's.
- A consideration of those accounting policies which involved significant estimates and judgements.
- The 2009 Lloyd's Return to the FSA.
- The external auditors' status reports and management letters.
- The independence and objectivity of the external auditors, including a review of non-audit fees.
- The external and internal audit plans.
- The reports of the Head of Internal Audit and the Legal and Compliance department, including follow-up of internal audit findings and the annual compliance plan.
- Reports from the Risk Committee, covering key aspects of the Lloyd's Risk Management Framework and risk reporting.
- Assessment of the effectiveness of internal controls.
- Assessment of the effectiveness of the internal and external auditors.

The Audit Committee believes that the auditor's performance should be considered fully every year. Therefore, there is a standing agenda item to review the performance of the auditors in detail against the relevant criteria in the Committee's terms of reference and the auditors are not present for this. Following the 2010 effectiveness review, the Committee concluded that it was appropriate to recommend that the present auditors be reappointed. The external auditors are required to rotate the audit partner responsible for the audit every 5 years. In 2010, a new lead audit partner was appointed by Ernst & Young LLP. There are no contractual obligations restricting the company's choice of external auditor.

The Audit Committee monitors the implementation of the policy on non-audit services provided by the external auditors. The policy sets out the approach to be taken by the Society when using the services of the external auditors, including requiring that certain services provided by the external auditors are pre-approved by the Audit Committee or its Chairman. The approval of the Audit Committee is always required if a non-audit service provided by the auditors is expected to cost more than £100,000.

The Audit Committee also carried out an effectiveness review of the internal auditors and is satisfied with their performance.

The Audit Committee held a workshop training session during 2010 with a presentation made by the Chairman of the Financial Reporting Review Panel on narrative reporting.

The Audit Committee also reviewed its own performance.

SUPPORT

The CEO, Director, Finance, Risk Management and Operations, General Counsel, senior managers and the external and internal auditors attended meetings as appropriate. During the year, the Audit Committee met separately with the external and internal auditors without executive management present.

The Audit Committee has access to external independent advice, if required.

Claire Ighodaro, CBE
Chairman, Audit Committee

REPORT OF THE LLOYD'S MEMBERS' OMBUDSMAN

REPORT BY MARK HUMPHRIES, LLOYD'S MEMBERS' OMBUDSMAN

I was appointed as Lloyd's Members' Ombudsman with effect from 1 April 2010. I am pleased to present the Annual Report of the Lloyd's Members' Ombudsman to the Council of Lloyd's for the year ended 31 December 2010.

The role of the Lloyd's Members' Ombudsman is to investigate complaints by members and former members who were members at any time after 30 November 2001, who believe that they have suffered injustice in consequence of maladministration in relation to any action taken by or on behalf of the Society.

COMPLAINTS RECEIVED

During the year, one complaint was received which did not justify a finding of maladministration.

COSTS

The expenses incurred by my office amounted to £11,790*.

* This figure is £11,250 fees (pro rata minimum annual remuneration) and £540 for train fares (MH incurred same when (i) attending the Lloyd's induction day and (ii) visiting the FSA, at their invitation).

FINANCIAL REVIEW

This review should be read in conjunction with the financial statements of the Society on pages 102 to 137.

OPERATING SURPLUS

The Society of Lloyd's achieved an operating surplus for the year of £365m (2009: surplus of £127m). The operating surplus by business segment is set out below:

	Corporation of Lloyd's £m	Central Fund £m	Insurance activities £m	2010 Total £m	2009 Total £m
Total income	207	316	5	528	354
Central Fund claims and provisions released	–	34	–	34	19
Net insurance claims	–	–	17	17	(6)
Other group operating expenses	(203)	(6)	(5)	(214)	(240)
Operating surplus	4	344	17	365	127

CORPORATION OF LLOYD'S

Total income for the Corporation of Lloyd's increased by £12m to £207m (2009: £195m). The 2009 figure included a one off £5m rebate of subscriptions to assist in the funding of the Lloyd's market's share of the London Market Group's 'Finish What We've Started' programme of work. After adjusting for the rebate, the increase is mainly attributable to subscription income, which has benefited from an increase in the level of written premium, and overseas income reflecting both the steps taken in international market development and an increase in the level of services provided (and recharged directly) to specific managing agents combined with the impact of foreign exchange as discussed below. The members' subscription rate was unchanged during 2010 at 0.5% of written premium.

Other group operating expenses increased by £14m to £203m (2009: £189m). The 2010 figure includes a £3m impact of foreign exchange when presenting the cost of overseas operations in sterling, which is offset by a similar increase in our operating income. The remaining increase is in line with the 2010 budget approved by Council and reflects the continued focus on achieving the strategic plan.

CENTRAL FUND

Total income for the Central Fund increased by £167m to £316m (2009: £149m). Central Fund contributions of £101m (2009: £100m) were also boosted by the increase in the level of written premium, whilst other income of £215m (2009: £49m), which mainly represents recoveries in respect of undertakings given by the Central Fund, again benefited from a number of underwriting years in run-off declaring a profit upon closure. The Central Fund contribution rate was unchanged during 2010 at 0.5% of written premium.

Central Fund claims and provisions is a net credit for the year of £34m (2009: £19m). This includes a reassessment of provisions as at 31 December 2010 which resulted in £35m being released (2009: £30m release). Undertakings to meet the liabilities of insolvent members to policyholders are approved at the discretion of the Council and are normally based on anticipated cash flow requirements of insolvent members in the following 12 months. During 2010, payments made in respect of insolvent corporate members were £1m (2009: £35m) with additional payments made in respect of individual members of £1m (2009: £1m).

Other group operating expenses decreased by £40m to £6m (2009: £46m). The 2009 figure included a charge in relation to the introduction of the Income Assistance Scheme and a payment made in connection with a claim under the Members' Compensation Scheme.

INSURANCE ACTIVITIES

The Society has three insurance company subsidiary undertakings, Centrewrite Limited, Lloyd's Insurance Company (China) Limited (LICCL) and Lioncover Insurance Company Limited.

Total income decreased by £5m to £5m (2009: £10m). The 2009 figure included £3m in respect of the contract to reinsure the members of Syndicate 1204.

Net insurance claims is a credit for the year of £17m (2009: a charge of £6m). Within the reinsurance to close portfolio of Centrewrite a number of large losses have been settled and significant progress has been made on the claims closure acceleration programme, which, combined with the impact of syndicates closing on the Estate Protection Plan and Exeat portfolios, has enabled significant releases to be achieved whilst maintaining the same confidence level within the technical provisions as in previous years.

Other group operating expenses have increased marginally, representing the impact of foreign exchange and work in progress on the China Direct Licence.

On 10 November 2006, Equitas Limited, Equitas Holdings Limited and Equitas Management Services Limited entered into an agreement with a Berkshire Hathaway group undertaking, National Indemnity Company ('NICO'). That agreement became effective from 30 March 2007. As part of this transaction, the day-to-day running of the run-off business, including that of Lioncover, is performed by Resolute Management Services Ltd, a wholly owned subsidiary of NICO.

FINANCIAL REVIEW
CONTINUED

OPERATING SURPLUS CONTINUED
INSURANCE ACTIVITIES CONTINUED

Following court approval, Phase 2 of the transaction was completed on 30 June 2009, when the liabilities of members and former members of Lloyd's in respect of non-life business allocated to the 1992 or prior years of account were transferred to Equitas Insurance, a subsidiary of Equitas Holdings Limited, and Lioncover's reinsurance liabilities were terminated, pursuant to the provisions of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The insurance business transfer has resulted in finality for members of the PCW syndicates under the law of each state within the EEA. As a result of this transaction as at 30 June 2009, Lioncover no longer has reinsurance liabilities to any person nor any entitlement to any reinsurance recoveries.

It is the Corporation of Lloyd's intention to de-register the Company from the FSA Register and then dissolve the Company.

INVESTMENT PERFORMANCE

	2010 £m	2009 £m
Finance income	**132**	80
Finance costs	**(66)**	(69)
Unrealised exchange gains on borrowings	**8**	23
	74	34
Surplus on subordinated debt repurchase	**1**	36
	75	70

The Society's investments returned £132m, or 5.6% during the year (2009: £80m, 3.6%). Most of the Society's investments are held within the Central Fund. The low level of yields prevailing at the beginning of the period led to expectations that investment returns would be low. In the event, further falls in the yield of many fixed interest securities during 2010 generated capital gains, improving the return from such investments. Other asset classes, including global developed, emerging and property-related equity exposures all performed strongly, contributing to the robust return achieved on the Society's investments overall. A commentary on investment strategy is set out on page 98. The disposition of the Society's financial investments is set out in note 15 on pages 125 to 127.

Finance costs of £66m in 2010 (2009: £69m) predominantly relate to interest on the subordinated notes and perpetual subordinated capital securities. The decrease in the level of finance costs is mainly as a result of the reduction in the level of outstanding debt securities.

Unrealised exchange gains on borrowings reflect the impact of foreign exchange movements on the Society's outstanding debt securities. The exposure to movements in the euro is naturally hedged through euro-denominated investments held.

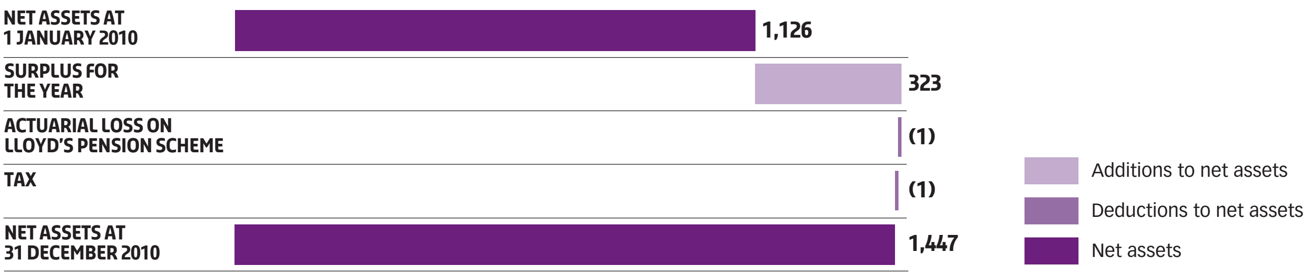
Adjusting for interest costs and foreign exchange movements results in a net investment return of £74m (2009: £34m).

During 2010, The Society of Lloyd's repurchased £21m of its outstanding debt securities. The Society purchased a principal amount of £21m of its 2007 perpetual subordinated capital securities at a cost of £20m. The Society additionally paid accrued interest on the purchased securities. The profit on the repurchase was £1m.

TAXATION

A tax charge of £122m (2009: £57m) on the surplus before tax of £445m (2009: £200m) has been recognised for the year ended 31 December 2010. Further details are set out in note 8 on pages 118 and 119.

MOVEMENT IN NET ASSETS
£m



The net assets of the Central Fund are included within the above amounts and at 31 December 2010 were £1,285m (2009: £983m).

PENSION SCHEMES

LLOYD'S PENSION SCHEME

On an IFRS valuation basis, the group pension scheme valuations at 31 December 2010 improved from a deficit of £21m to a surplus of £26m before allowance for deferred tax liability of £7m (31 December 2009: £21m deficit before allowance for a deferred tax asset of £6m).

The movement in the pension (liability)/asset during the year is summarised below:

	2010 £m
Pension deficit as at 1 January 2010	**(21)**
Pension expense recognised in the group income statement	**(1)**
Employer contributions	
– normal	**5**
– special	**45**
Actuarial loss recognised in the group statement of comprehensive income	**(2)**
Pension surplus as at 31 December 2010	**26**

The latest triennial funding valuation of the scheme was carried out as at 30 June 2010, which showed a shortfall of £70m. To eliminate the funding shortfall Lloyd's made a special contribution of £20m and agreed a recovery plan with the Trustees. An advance payment of £25m was made and, as a result, Lloyd's obligations under the recovery plan until 2014 have been met.

After taking into consideration the special contributions, the difference between the two valuations is in part due to an improvement in the market value of the scheme's assets since 30 June 2010, but also reflects the differences in the assumptions that are required to be adopted under the two different valuations.

The actuarial valuation of liabilities is particularly sensitive to changes in market conditions, which determine the discount rate, and changes to mortality assumptions. Further details are provided in note 18 on pages 129 to 132 which includes the sensitivity of the valuation to changes in these assumptions.

OVERSEAS PENSION SCHEMES

Overseas pension schemes' actuarial valuation at 31 December 2010 was £1m (2009: £1m). Further details are provided in note 18.

SOLVENCY

Total assets for solvency purposes are set out below. The 2010 position is an estimate of the amount which will be finalised in June 2011 for submission to the FSA:

	2010 £m	2009 £m
Net assets at 31 December	**1,447**	1,126
Subordinated notes and perpetual subordinated capital securities	**930**	958
Central assets	**2,377**	2,084
Callable Central Fund contributions	**703**	683
Other solvency adjustments	**(34)**	48
Central assets for solvency purposes	**3,046**	2,815
Solvency shortfalls	**(123)**	(59)
Excess of central assets over solvency shortfalls	**2,923**	2,756

Based on central assets for solvency purposes of £3.0bn (2009: £2.8bn), the estimated solvency ratio is 2476% (2009: 4771%). Whilst the solvency ratio has decreased, as a result of the small increase in the solvency deficit (see page 29), the actual excess of central assets over solvency shortfalls has increased by 6% during the year. In setting contribution levels, account is taken of the Society's ICA to ensure that Lloyd's is prudently but competitively capitalised. The current medium-term target is that the excess of central assets over solvency shortfalls should exceed £1.7bn.

CASH FLOWS AND LIQUIDITY

Cash and cash equivalents decreased during the year ended 31 December 2010 by £32m to £146m (2009: £178m). Cash balances are maintained at appropriate levels to meet the short-term operating expenses of the Society. Any surplus cash balances are invested and are included as financial investments within the group balance sheet.

FINANCIAL REVIEW
CONTINUED

CASH FLOWS AND LIQUIDITY CONTINUED
The Corporation's free cash balances are regularly monitored. Free cash represents the amounts, both at bank and on deposit, held in the UK and available to the Corporation to meet operating expenses, including those of overseas operations, excluding any client money balances held in respect of insurance and arbitration activities. Free cash balances during the year ended 31 December 2010 decreased by £25m to £75m (2009: £100m).

The liquidity of the Central Fund is monitored separately. Cash balances are managed to meet short-term operational commitments including the payment of drawdowns. Any surplus cash balances are invested in compliance with defined investment parameters approved by the Lloyd's Investment Committee.

CENTRAL FUND INVESTMENT STRATEGY
Central Fund investment strategy is considered in three parts. A prudent estimate of possible net cash flow requirements is used to determine the value of assets to be maintained for liquidity purposes. These are commingled with other liquid assets of Lloyd's group companies and invested in bank deposits and other short-term securities, with maturities of up to 12 months, with the objective to optimise current income, with low risk, whilst ensuring that all cash flow requirements are met as they arise.

A significant element of Central Fund assets is invested in fixed interest securities of high credit quality. The financial risk exposures represented by debt securities issued by the Society are also considered when determining the disposition of fixed interest investments. The aim is to optimise investment returns in the longer term whilst maintaining overall financial risk within defined limits.

A proportion of investments is maintained in more volatile asset classes. Here also, the aim is to optimise investment returns in the longer term without exceeding defined risk tolerances. These investments are diversified amongst different asset classes to help manage risk. Current exposures include global equities, high yield bonds, global property (via property-related equity securities) and hedge funds. Fixed interest assets of high credit quality are managed 'in house' by Lloyd's. Third party investment managers are retained to manage investments in other asset classes.

FINANCIAL RISK MANAGEMENT AND TREASURY POLICIES
OVERVIEW
The Society's principal financial instruments comprise cash and cash equivalents, investments, borrowings and items that arise directly from operations such as trade receivables and payables. These include assets and liabilities of the Central Fund.

The Society's treasury operations and investments are managed by reference to established policies which are reviewed regularly by the Investment Committee. Policies for managing these risks, in particular credit risk, liquidity risk and market risk, are summarised below:

CREDIT RISK
Credit risk represents the risk of financial loss to the Society if a counterparty, or the issuer of a security, fails to meet its contractual obligations.

Trade and other receivables
The Society has established procedures to minimise the risk of default by trade and other receivables, which are mainly in respect of the Lloyd's market, the main source of income. These procedures include minimum standard checks for new market entrants.

Financial investments
A list of permissible bank counterparties, for the purposes of money-market investment, is maintained and restricted to banks having strong balance sheets and credit ratings. Investment parameters exist for all investment assets, controlling overall credit quality and ensuring appropriate risk diversification. Permitted counterparties to capital market transactions are also carefully controlled. All applicable parameters are reviewed regularly by the Lloyd's Investment Committee.

Guarantees
The Society provides certain financial guarantees as security for the underwriting activities of the members of Lloyd's. Further details are provided in note 25 on page 137.

LIQUIDITY RISK
The value and term of short-term assets are carefully monitored against those of the Society's liabilities. The Society maintains sufficient liquid assets to meet liabilities as they fall due.

The liquidity of the Central Fund is monitored separately. Cash balances are managed to meet short-term operational commitments including the payment of drawdowns. Any surplus cash balances are invested in compliance with defined investment parameters approved by the Lloyd's investment Committee.

The Society had no committed borrowing facilities as at 31 December 2010 (2009: £nil).

MARKET RISK
Market risk represents the risk that movements in financial markets will affect the financial position of the Society. Market risks arising from the disposition of the Society's investments are monitored against defined parameters using Value at Risk (VAR) methodology. The position is reviewed regularly by the Lloyd's Investment Committee. As investments are actively monitored on a fair value basis, all investments are designated as fair value through profit or loss.

FINANCIAL RISK MANAGEMENT AND TREASURY POLICIES CONTINUED

FOREIGN CURRENCY RISK

The Society enters into a variety of foreign exchange transactions in response to the foreign currency requirements of Lloyd's group companies. In managing the exposures arising from such foreign exchange activity, which may involve transactions for forward settlement, the net risk arising from all such exposures is considered and the level of this risk is managed within defined parameters. Consequently, while some net foreign exchange exposures may accrue to the Society from time to time as a result of this activity, the level of such exposures is carefully monitored and is not significant in the context of its combined activities.

Foreign currency exposures arising from overseas investments are considered together with foreign currency liabilities of the Society, and net foreign currency exposures arising are managed through the use of forward foreign exchange contracts.

Separately, the Society provides a Currency Conversion Service (CCS) to participating Lloyd's syndicates, converting insurance premiums and claims between pounds sterling and other Lloyd's settlement currencies as required. Foreign exchange exposures arising from the provision of the CCS are again managed on a net basis, within defined parameters. The CCS is operated separately from other foreign exchange activity of the Society because, under the terms of the service, any profit (or loss) arising from CCS exposures is distributed to (or collected from) syndicates participating in the CCS. Currency exposures arising from CCS activity consequently do not, ultimately, represent risks to the Society.

INTEREST RATE RISK

Borrowings from the Lloyd's market for the purpose of funding statutory insurance deposits do not bear a fixed rate of interest. Instead, investment returns earned on the borrowed assets are passed on to lenders. Consequently, no interest rate risk arises on such borrowings.

Short-term assets held by the Society may be significant at certain times but such balances cannot be accurately predicted. These are invested in money market instruments of up to 12 months duration with the objective of maximising current income while meeting liquidity requirements.

Interest rate risk arising from the requirement to make fixed rate coupon payments in respect of the Lloyd's subordinated loan notes and the perpetual subordinated capital securities is considered in conjunction with the market risk arising on the Society's investments. Overall risk is managed within defined limits, specified by the Franchise Board.

CAPITAL MANAGEMENT

The Society monitors its capital to ensure that it maintains sufficient assets for both operational and solvency purposes. Further disclosures with regard to financial instruments are provided in note 21 on pages 134 to 136.

RELATED PARTY TRANSACTIONS

Except for disclosures made in note 24 (see page 137), no related party had material transactions with the Society in 2010.

GOING CONCERN STATEMENT

After making enquiries, the members of the Council of Lloyd's have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Society's financial statements.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

Having made enquiries, 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 Society Report of which the Society's 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 Society's auditors are aware of that information.

OUTLOOK

Central assets, which exclude subordinated liabilities, are expected to remain stable at £2.4bn in 2011.

On 29 March 2011, the Council of Lloyd's gave further undertakings to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. After taking account of the expiry of unutilised undertakings, the net increase in undertakings, which will be reflected as a charge in the 2011 income statement, is £15m (see note 4 on page 116).

The operating expenses for the Corporation and its subsidiaries are budgeted at £207m in 2011 (2010: actual £212m) reflecting the continuing focus on achieving the Lloyd's Strategy.

STATEMENT OF THE COUNCIL OF LLOYD'S RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The Council of Lloyd's is responsible for preparing the group financial statements in accordance with byelaws made under Lloyd's Act 1982 and International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Council of Lloyd's is required to prepare group financial statements for each financial year which present fairly the financial position of the Society and the financial performance and cash flows of the Society for that period. In preparing those group financial statements, the Council of Lloyd's is required to:

- Select suitable accounting policies and then apply them consistently.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Society's financial position and financial performance.
- State that the Society has complied with IFRS, subject to any material departures disclosed and explained in the group financial statements.

The Council of Lloyd's is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable it to ensure that the group financial statements comply with Article 4 of the IAS Regulation. As the Society's subordinated debt and perpetual subordinated capital securities are admitted to trading in a regulated market in the European Union, Council has elected to comply with Article 4, which requires group financial statements to be prepared in conformity with IFRS as adopted by the European Union. The Council of Lloyd's is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Council of Lloyd's is responsible for the maintenance and integrity of the corporate and financial information included on the Society's website (www.lloyds.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE SOCIETY OF LLOYD'S

We have audited the group financial statements of the Society of Lloyd's ('the Society') for the year ended 31 December 2010 which comprise the group income statement, group statement of comprehensive income, group statement of financial position, group statement of changes in equity, group statement of cash flows and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the members of Lloyd's, as a body, in accordance with the Council of Lloyd's byelaws made under the Lloyd's Act 1982 and our engagement letter dated 4 January 2010. Our audit work has been undertaken so that we might state to the members of Lloyd's as a body those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the members of Lloyd's as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL OF LLOYD'S AND AUDITORS

As explained more fully in the Council of Lloyd's Responsibilities Statement set out on page 100, the Council of Lloyd's is responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with Byelaws made under the Lloyd's Act 1982 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

The Society has also instructed us to:

> Report to you our opinion as to whether the Report of the Nominations, Appointments and Compensation Committee has been properly prepared in accordance with the basis described therein.
> Report if, in our opinion, the Society has not kept proper accounting records, if we have not received all the information and explanations we require for our audit.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council of Lloyd's; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the reports listed on page 74 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the group financial statements:

> Give a true and fair view, of the state of the Society's affairs as at 31 December 2010 and of its surplus for the year then ended; and
> Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
> Have been prepared in accordance with Council of Lloyd's Byelaws made under the Lloyd's Act 1982.

OPINION ON OTHER MATTER

In our opinion the part of the Report of the Nominations, Appointments and Compensation Committee Report that has been described as audited has been properly prepared in accordance with the basis of preparation as described therein;

Matters on which we are required to report by exception:
We have nothing to report in respect of the following matters where the Society has requested us to report to you if, in our opinion:

> Proper accounting records have not been kept; or
> We have not received all the information and explanations we require for our audit.

Ernst & Young LLP
Statutory Auditor, London

29 March 2011

GROUP INCOME STATEMENT

for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Operating income		**210,193**	195,043
Central Fund contributions		**100,858**	99,687
General insurance net premium income		**1,463**	6,992
Other group income		**215,822**	52,048
Total income	3b	**528,336**	353,770
Central Fund claims and provisions released	4	**34,245**	19,586
Gross insurance claims	13	**11,602**	(6,714)
Insurance claims recoverable from reinsurers	13	**4,864**	302
Other group operating expenses	5	**(214,483)**	(240,062)
Operating surplus		**364,564**	126,882
Finance costs	7	**(66,143)**	(69,345)
Finance income			
– surplus on subordinated debt repurchase	17	**1,470**	36,205
– other	7	**131,436**	79,555
Unrealised exchange gains on borrowings		**7,954**	23,003
Share of profits of associates	12A	**5,084**	3,363
Surplus before tax		**444,365**	199,663
Tax charge	8A	**(121,752)**	(56,596)
Surplus for the year		**322,613**	143,067

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Surplus for the year		**322,613**	143,067
Other comprehensive income			
Unrealised gain on revaluation of Lloyd's Collection		**–**	1,200
Actuarial (loss)/gain on pension liabilities			
– UK	18	**(1,271)**	(10,552)
– overseas		**(71)**	30
– associates	12A	**250**	(544)
Tax (charge)/credit relating to components of comprehensive income	8A	**(981)**	2,772
Net other comprehensive income for the year		**(2,073)**	(7,094)
Total comprehensive income for the year		**320,540**	135,973

GROUP STATEMENT OF FINANCIAL POSITION

as at 31 December 2010

	Note	2010 £000	2009 £000
Assets			
Intangible assets	9	**326**	59
Lloyd's Collection	12B	**12,019**	12,021
Plant and equipment	10	**32,143**	24,199
Deferred tax asset	8C	**–**	2,937
Investment in associates	12A	**6,325**	6,303
Insurance contract assets	13	**47,948**	43,361
Pension asset	18	**25,995**	–
Loans recoverable	14	**54,371**	54,614
Financial investments	15	**2,548,640**	2,141,730
Inventories		**200**	201
Trade and other receivables due within one year		**68,341**	51,532
Prepayments and accrued income		**108,677**	62,857
Forward currency contracts	21	**9,746**	24,722
Cash and cash equivalents	16	**145,570**	178,216
Total assets		**3,060,301**	2,602,752
Equity and liabilities			
Equity			
Accumulated reserve	22	**1,434,587**	1,114,045
Revaluation reserve	22	**12,019**	12,021
Total equity		**1,446,606**	1,126,066
Liabilities			
Subordinated notes and perpetual subordinated capital securities	17	**930,173**	958,075
Insurance contract liabilities	13	**81,745**	90,929
Pension liabilities	18	**858**	22,061
Deferred tax liabilities	8C	**10,977**	–
Provisions	19	**21,305**	82,172
Loans funding statutory insurance deposits		**305,805**	166,692
Trade and other payables	20	**116,079**	78,098
Accruals and deferred income		**66,314**	47,295
Tax payable		**56,269**	18,492
Forward currency contracts	21	**24,170**	12,872
Total liabilities		**1,613,695**	1,476,686
Total equity and liabilities		**3,060,301**	2,602,752

Approved and authorised 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

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

	Note	Accumulated reserve £000	Revaluation reserve £000	Total equity £000
At 1 January 2009		979,269	10,824	990,093
Total comprehensive income for the year		134,773	1,200	135,973
Transfer between reserves		3	(3)	–
At 31 December 2009		1,114,045	12,021	1,126,066
Total comprehensive income for the year		**320,540**	**–**	**320,540**
Transfer between reserves		**2**	**(2)**	**–**
At 31 December 2010	22	**1,434,587**	**12,019**	**1,446,606**

GROUP STATEMENT OF CASH FLOWS
for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Surplus before tax		**444,365**	199,663
Finance income – surplus on subordinated note repurchase	17	**(1,470)**	(36,205)
Net finance income – other	7	**(65,293)**	(10,210)
Unrealised exchange gains on borrowings		**(7,954)**	(23,003)
Share of profits of associates	12A	**(5,084)**	(3,363)
Operating surplus		**364,564**	126,882
Central Fund claims and provisions released	4	**(34,245)**	(19,586)
Operating surplus before Central Fund claims and provisions		**330,319**	107,296
Adjustments for:			
Depreciation of plant and equipment	10	**5,868**	4,346
Amortisation of intangible assets	9	**427**	95
Impairment losses	9/10	**1,006**	8
Loss on sale of fixed assets		**591**	2
Operating surplus before working capital changes and claims paid		**338,211**	111,747
Changes in pension obligations		**(48,540)**	(21,247)
Increase in receivables		**(68,743)**	(20,958)
Decrease in inventories		**1**	5
Increase/(decrease) in payables		**51,435**	(24,324)
(Decrease)/increase in provisions other than for Central Fund claims		**(23,911)**	28,769
Cash generated from operations before claims paid		**248,453**	73,992
Claims paid in respect of corporate/insolvent members	19	**(1,432)**	(35,124)
Tax and interest payments in respect of corporate/insolvent members	4	**(20)**	(27)
Claims paid in respect of individual members	4	**(905)**	(992)
Claims paid in respect of Limited Financial Assistance Agreements	19	**(352)**	(732)
Cash generated from operations		**245,744**	37,117
Tax paid		**(70,970)**	(50,250)
Net cash generated/(used) from operating activities		**174,774**	(13,133)
Cash flows from investing activities			
Purchase of plant, equipment and intangible assets		**(16,102)**	(9,560)
Proceeds from the sale of fixed assets		**1**	172
Purchase of financial investments	15A/B	**(4,237,092)**	(4,020,866)
Receipts from the sale of financial investments	15A/B	**3,897,913**	4,076,675
Decrease in short-term deposits	15B	**23,661**	372
Dividends received from associates	12A	**5,245**	3,133
Interest received		**37,747**	77,511
Dividends received	7	**3,088**	2,884
Realised gain/(loss) on settlement of forward currency contracts		**10,329**	(57,082)
Net cash (used)/generated in investing activities		**(275,210)**	73,239
Cash flows from financing activities			
Purchase of subordinated notes		**(19,518)**	(65,795)
Interest paid on subordinated notes		**(66,045)**	(70,989)
Other interest paid		**(1,841)**	(82)
Increase in borrowings for statutory insurance deposits		**156,037**	54,481
Net cash generated/(used) in financing activities		**68,633**	(82,385)
Net decrease in cash and cash equivalents		**(31,803)**	(22,279)
Effect of exchange rates on cash and cash equivalents		**(843)**	(780)
Cash and cash equivalents at 1 January	16	**178,216**	201,275
Cash and cash equivalents at 31 December	16	**145,570**	178,216

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2010

1. BASIS OF PREPARATION AND CONSOLIDATION

In 1871, by Lloyd's Act 1871, the then existing association of underwriters was incorporated as the Society and Corporation of Lloyd's (the 'Society'). Its activities are accordingly governed by statute and, since 1982, have been managed by the Council of Lloyd's (the 'Council') pursuant to Lloyd's Act 1982.

The Society's main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The group financial statements of the Society of Lloyd's comprise the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the group's interest in associates as at each reporting date. Subsidiary undertakings are consolidated from the date of their acquisition, being the date on which the Society obtains control, and continue to be consolidated until the date that such control ceases. The financial statements are prepared using consistent accounting policies. All intra-group balances and transactions are eliminated in full.

The group financial statements have been prepared in accordance with International Financial Reporting Standards (as adopted by the European Union) and on a historic cost basis, except for financial assets and liabilities at fair value through profit or loss and the Lloyd's Collection, which are measured at fair value. Loans and receivables and other financial liabilities are carried at amortised cost. The group financial statements are presented in sterling and all values are rounded to the nearest thousand (£000).

The Society is regulated by the FSA.

2. PRINCIPAL ACCOUNTING POLICIES

GENERAL

In preparing the financial statements significant estimates and judgements are made in respect of some of the items reported. The main accounting policies identified involving such assessments are considered to be:

> Central Fund claims and provisions – undertakings (see note 2Q and note 19).
> Employee benefits – defined benefit pension scheme (see note 2I and note 18).
> Insurance contracts – liabilities and reinsurance assets (see note 2G and note 13).
> Loans recoverable – hardship loans (see note 2J and note 14).

A. Plant and equipment

Plant and equipment are held at cost less accumulated depreciation and any impairment in value.

Depreciation is charged on a straight line basis on the following principal categories:

> Plant, vehicles and equipment are depreciated over 3 to 25 years according to the estimated life of the asset.
> Equipment on hire or lease is depreciated over the period of the lease.
> Land is not depreciated.

B. Software development

Costs incurred in acquiring and developing computer software are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable asset of value. Software development is held at cost less accumulated depreciation and any impairment in value. Capitalised software is amortised over three years.

C. Lloyd's collection

Lloyd's Collection represents various paintings, antiques and artefacts which are included at fair value. Any revaluation surplus or deficit is recognised in the group statement of comprehensive income and is reflected in the revaluation reserve within the group statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

D. INVESTMENT IN ASSOCIATES

An associate is an entity in which the Society has significant influence and which is not a subsidiary undertaking or joint venture. The Society's investment in associates is accounted for under the equity method of accounting.

Under the equity method, the investment in associates is carried in the group statement of financial position at cost plus post-acquisition changes in the Society's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Society determines whether it is necessary to recognise any additional impairment loss with respect to the Society's net investment in an associate. The group income statement reflects its share of the results of operations of the associates. The Society's share of associates' other comprehensive income is recognised in the group statement of comprehensive income.

E. IMPAIRMENT OF ASSETS

The Society performs annual impairment testing to assess whether there is an indication that an asset may be impaired. If any such indication exists the Society makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When the carrying amount exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount.

F. FINANCIAL INSTRUMENTS

Financial assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss and receivables. The Society determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of loans and receivables, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases) are recognised on the settlement date.

The Society's financial assets include loans recoverable, statutory insurance deposits and other investments designated at fair value through profit or loss, trade and other receivables, accrued income, cash and cash equivalents and derivative assets.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(i) Financial assets at fair value through profit or loss include derivative financial assets which are classified as held for trading, and financial assets designated upon initial recognition at fair value through profit or loss. They are carried in the group statement of financial position at fair value. Gains and losses arising from changes in their fair value are included in the group income statement in the period in which they arise. When financial assets are interest-bearing, interest calculated using the effective interest method is recognised in the group income statement.

(ii) Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They arise when the Society provides money, goods or services directly to a debtor with no intention of trading the receivable. These financial assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the group income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss and other financial liabilities. The Society determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of other financial liabilities, directly attributable transaction costs. The Society's financial liabilities include trade and other payables, accruals, subordinated loan notes and perpetual capital securities and derivative liabilities.

The subsequent measurement of financial liabilities depends on their classification as follows:

(i) Financial liabilities at fair value through profit or loss include derivative financial liabilities which are classified as held for trading. Gains or losses on liabilities held for trading are recognised in the group income statement.

(ii) Other financial liabilities, which include the subordinated loan notes and the subordinated perpetual capital securities, are carried at amortised cost using the effective interest method.

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

F. FINANCIAL INSTRUMENTS CONTINUED

Fair value of financial instruments

Financial instruments are categorised for disclosure purposes into a hierarchy consisting of three levels depending upon the source of input as required by IFRS 7 (Financial Instruments: Disclosures).

Level 1 – The fair value of financial instruments which are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. The quoted market price used for financial assets held by the Society is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price.

Level 2 – The fair value of financial instruments for which quoted market prices are not used for valuation purposes are derived both directly and indirectly from observable market conditions. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values.

Level 3 – The fair value of financial instruments for which there is no observable quoted market price is determined by a variety of methods incorporating assumptions that are based, so far as possible, on market conditions existing at each reporting date.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Society assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the asset is written down to its recoverable amount.

Derecognition of financial instruments

Other investments are derecognised when the right to receive cash flows from the asset have expired or, in the case of a financial liability, when the obligation under the liability is cancelled or discharged.

G. INSURANCE CONTRACTS (LIABILITIES AND REINSURANCE ASSETS)

In accordance with IFRS 4 (Insurance contracts), the Society applies established UK accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards. This includes the application of the Statement of Recommended Practice (SORP) on accounting for insurance business issued by the Association of British Insurers in December 2005 (amended December 2006).

Insurance contracts are defined as those containing significant insurance risk which arises if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expired.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Society may not receive all amounts due to it under the terms of the contract and this can be measured reliably. Until June 2009, reinsurance assets included amounts due from Equitas arising from the reinsurance arrangements entered into by Lioncover as described in note 13.

H. INVENTORIES

Inventories are stated at the lower of cost and net realisable value on a first in, first out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

I. EMPLOYEE BENEFITS

The Society accounts for pensions and similar benefits (principally income protection due to ill-health) under IAS 19 (Employee Benefits). The Society operates a number of defined benefit pension schemes in which obligations are measured at discounted present value using the projected unit credit method, while plan assets are recorded at fair value. The operating and financing income and costs of the scheme are recognised in the group income statement. Service costs, financing income (expected return on plan assets), and costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in full in the group statement of comprehensive income in the period in which they occur. Costs of discretionary awards in respect of past service are recognised in the group income statement when amounts are committed to be paid or there is a constructive liability to make awards to pensioners.

Payments to separately administered defined contribution schemes are charged to the group income statement as they fall due.

Short-term bonuses are accrued in the period to which they relate, long-term bonuses are recognised over their vesting period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

J. LOANS RECOVERABLE

Recoverable Central Fund loans made to hardship members are managed on a fair value basis and are designated as fair value through profit or loss.

Any gains and losses arising from changes in the fair value are included in the group income statement in the period in which they arise.

Fair values are determined by reference to an estimate of the valuation of the underlying securities at the dates at which they may be exercised and discounted back to present day values. A security can normally only be exercised on the later date of death of the member or of their spouse. This date is assessed using actuarial assumptions.

K. TAXATION

Corporation tax on the surplus or deficit for the periods presented comprises current and deferred tax. Corporation and income tax is recognised in the group income statement except to the extent that it relates to items recognised directly in the group statement of comprehensive income, in which case it is recognised in the group statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the reporting date.

L. SUBORDINATED NOTES AND PERPETUAL SUBORDINATED CAPITAL SECURITIES

Subordinated debt is initially recognised at fair value, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, the subordinated debt is subsequently recorded at amortised cost using the effective interest rate over the period to the earliest option date. Amortised cost is calculated after taking into account issue costs and issue discount.

M. CASH AND CASH EQUIVALENTS

For the purposes of the group statement of cash flows, cash comprises cash at banks and demand deposits, and cash equivalents comprise highly liquid investments, that are convertible into cash with an insignificant risk of changes in value, with original maturities of less than three months.

N. INCOME RECOGNITION

Income, which is stated net of value added tax, comprises the fair value of amounts receivable. Income is recognised as follows:

(i) Members' subscriptions, market charges and other services
Members' subscriptions, market charges and other services are recognised in the period for which the service is provided. They are recognised on a basis that reflects the timing, nature and value of the benefits provided.

(ii) Central Fund contributions
Central Fund contributions from members underwriting in the year are recognised when no significant uncertainty as to collectability exists.

(iii) Interest income
Interest receivable is recognised in the group income statement on a time apportioned basis using the effective interest method. Any unwinding of discount is recognised as interest income.

(iv) Dividend income
Dividend income from equity investments is included in the group income statement on the ex-dividend date.

(v) Other income
Other income is recognised when recoverability is agreed.

O. INSURANCE PREMIUMS

Insurance premiums represent premiums on business incepting during the year, together with adjustments for premiums written in previous accounting periods. Premium income is recognised over the period of cover. Premiums written are stated before deduction of commissions but net of taxes, duties levied on premiums and other similar deductions.

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

P. INSURANCE CLAIMS

Claims incurred in insurance related activities consist of claims and claims handling expenses paid during the year together with the movement in outstanding claims. Outstanding claims are the estimated final cost of all claims incurred but not settled at the reporting date, including claims incurred but not reported (IBNR). Outstanding claims are not discounted. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are reflected within the group financial statements of later years.

Q. CENTRAL FUND CLAIMS AND PROVISIONS

Central Fund claims and provisions (undertakings) are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council for a fixed period, normally one year, and therefore are not deemed to be constructive obligations, except for renewals of those commitments previously granted. For those corporate members in provisional liquidation, the Council provides a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation. As the supporting undertakings are legally enforceable commitments, an estimate of their value is included within provisions in the group financial statements and changes during the period are reflected in the group income statement.

Recoveries in respect of undertakings previously given are credited to the group income statement when contractually committed to be received.

R. FOREIGN CURRENCY AND DERIVATIVE INSTRUMENTS

Foreign currency translation

(i) Functional and presentation currency
The group financial statements are presented in pound sterling, which is the Society's functional and presentation currency. Items included in the financial statements of each of the Society's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(ii) Transactions and balances
Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the reporting date. Translation differences on monetary items are taken to the group income statement.

Translation differences on non-monetary items measured at fair value are reported as part of the fair value gain or loss and included in the group income statement.

The results and financial position of overseas Society operations are translated into pound sterling as follows:

> Assets and liabilities are translated at the closing rate at the date of that statement of financial position;
> Income and expenses are translated at the average exchange rate for the year;
> Any resulting exchange differences are recognised in the group statement of comprehensive income and accumulated within a separate component of equity.

The Society enters into forward currency contracts to manage exposures to fluctuation in foreign exchange rates, and to provide a service to the Lloyd's market. Where gains and losses are not expected to be refunded or recovered from the Lloyd's market, these amounts are taken to the group income statement.

The principal exchange rates were:

	2010	2009
US$	**1.57**	1.61
Can$	**1.56**	1.69
Euro	**1.17**	1.13

S. LEASES

Payments made under operating leases are charged to the group income statement on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

T. NEW STANDARDS AND INTERPRETATIONS NOT APPLIED

The International Accounting Standards Board and International Financial Reporting Interpretations Committee have issued the following standards and interpretations relevant to the Society. At the date these financial statements were approved, the following standards were in issue but not effective:

	Effective date (for accounting periods beginning on or after)
International Accounting Standards	
IFRS9 Financial Instruments	1 January 2013
IAS24 Related Party Disclosures	1 January 2011

The Council does not consider that the adoption of the above standards will have a material impact on the Society's financial statements.

3. SEGMENTAL ANALYSIS

Segment information is presented in respect of the Society's business segments. The primary business segments are based on the Society's management and internal reporting structure.

Intra-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Segment information in respect of geographical location is not presented. The Society's main source of income is from the Lloyd's market based primarily in the UK, which includes the recovery of costs in respect of overseas operations. The recovery of overseas operating costs is collected in the UK from the Lloyd's market.

The Society's primary business segments are as follows:

(i) Corporation of Lloyd's and non-insurance related subsidiary undertakings: the main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The activities of authorised insurance company subsidiary undertakings are excluded from this business segment.

(ii) Lloyd's Central Fund: these funds, comprising the New Central Fund and the 'Old' Central Fund, are assets of the Society and are held and administered at the discretion of the Council, primarily as funds available for the protection of policyholders. Unless the approval of members is obtained, the New Central Fund may not be used for the purposes of extinguishing or reducing liabilities which have been reinsured by Equitas.

(iii) Insurance activities: the Society has three insurance company subsidiary undertakings, Centrewrite Limited, Lloyd's Insurance Company (China) Limited (previously Lloyd's Reinsurance Company (China) Limited) and Lioncover Insurance Company Limited. Centrewrite provides Exeat insurance to resigned members participating only on run-off syndicates allowing an early exit from Lloyd's, and Estate Protection Plan insurance to members. Centrewrite has also reinsured the members of Syndicate 535 for outstanding claims in respect of certain years of account. On 27 February 2009, Centrewrite entered into a contract to reinsure the members of Syndicate 1204 for outstanding claims liabilities in respect of the 1997, 1998 and 1999 years of account as at 31 December 2008. During 2010, Lloyd's Insurance Company (China) Limited continued to underwrite onshore reinsurance business in China. The company's business scope has been expanded to underwrite direct insurance risks in the Shanghai municipality and it is currently preparing to write such risks. Following the completion of Phase 2 of the Equitas-Berkshire Hathaway transaction, as described in note 13, Lioncover no longer has reinsurance liabilities to any person nor any entitlement to any reinsurance recoveries.

3. SEGMENTAL ANALYSIS CONTINUED

(a) Information by business agent	Note	2010 Corporation of Lloyd's £000	2010 Lloyd's Central Fund £000	2010 Insurance activities £000	2010 Society total £000
Segment income					
Segment income (unconsolidated)		210,396	315,605	5,405	531,406
Less inter-segment income		(3,070)	–	–	(3,070)
Total income from external sources	3b	207,326	315,605	5,405	528,336
Segment operating expenses (consolidated)					
Central Fund claims and provisions released	4	–	34,245	–	34,245
Gross claims incurred		–	–	11,602	11,602
Claims recoverable from reinsurers		–	–	4,864	4,864
Other group operating expenses:					
Employment (including pension costs)	6	(89,842)	–	(2,622)	(92,464)
Premises		(42,025)	–	(730)	(42,755)
Legal and professional	5	(17,602)	(838)	(395)	(18,835)
Systems and communications		(27,485)	–	(435)	(27,920)
Other		(26,841)	(4,947)	(721)	(32,509)
Total other group operating expenses		(203,795)	(5,785)	(4,903)	(214,483)
Total segment operating expenses		(203,795)	28,460	11,563	(163,772)
Total segment operating surplus		3,531	344,065	16,968	364,564
Finance costs	7	(27)	(66,116)	–	(66,143)
Finance income					
surplus on subordinated debt repurchase	17	–	1,470	–	1,470
other	7	1,040	127,907	2,489	131,436
Unrealised exchange losses on borrowings		–	7,954	–	7,954
Share of profits of associates	12A	5,084	–	–	5,084
Segment surplus before tax		9,628	415,280	19,457	444,365
Tax charge					(121,752)
Surplus for the year					322,613
Segment assets and liabilities					
Investment in associates		6,325	–	–	6,325
Other assets		494,816	2,354,847	204,313	3,053,976
Segment assets		501,141	2,354,847	204,313	3,060,301
Tax assets					–
Total assets					3,060,301
Segment liabilities		(413,212)	(1,007,487)	(125,750)	(1,546,449)
Tax liabilities					(67,246)
Total liabilities					(1,613,695)
Other segment information					
Capital expenditure	9/10	15,247	–	855	16,102
Depreciation	10	5,489	–	379	5,868
Amortisation of intangible assets	9	223	–	204	427
Impairment of long-term assets	10	1,006	–	–	1,006
Average number of UK employees (permanent and contract)		718	–	3	721
Average number of overseas employees (permanent and contract)		123	–	24	147
Average number of total employees (permanent and contract)		841	–	27	868

Average staff numbers shown above are on a full time equivalent basis.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

3. SEGMENTAL ANALYSIS CONTINUED

(a) Information by business agent continued	Note	2009 Corporation of Lloyd's £000	2009 Lloyd's Central Fund £000	2009 Insurance activities £000	2009 Society total £000
Segment income					
Segment income (unconsolidated)		197,900	148,830	10,052	356,782
Less inter-segment income		(3,012)	–	–	(3,012)
Total income from external sources	3b	194,888	148,830	10,052	353,770
Segment operating expenses (consolidated)					
Central Fund claims and provisions released	4	–	19,586	–	19,586
Gross claims incurred		–	–	(6,714)	(6,714)
Claims recoverable from reinsurers		–	–	302	302
Other group operating expenses:					
Employment (including pension costs)	6	(89,417)	–	(2,613)	(92,030)
Premises		(38,442)	–	(614)	(39,056)
Legal and professional	5	(17,394)	(1,294)	(401)	(19,089)
Systems and communications		(21,597)	–	(339)	(21,936)
Other		(21,895)	(44,901)	(1,155)	(67,951)
Total other group operating expenses		(188,745)	(46,195)	(5,122)	(240,062)
Total segment operating expenses		(188,745)	(26,609)	(11,534)	(226,888)
Total segment operating surplus		6,143	122,221	(1,482)	126,882
Finance costs	7	(112)	(69,233)	–	(69,345)
Finance income					
surplus on subordinated debt repurchase	17	–	36,205	–	36,205
other	7	1,741	74,810	3,004	79,555
Unrealised exchange losses on borrowings		–	23,003	–	23,003
Share of profits of associates		3,363	–	–	3,363
Segment surplus before tax		11,135	187,006	1,522	199,663
Tax charge					(56,596)
Surplus for the year					143,067
Segment assets and liabilities					
Investment in associates		6,303	–	–	6,303
Other assets		345,672	2,082,451	165,389	2,593,512
Segment assets		351,975	2,082,451	165,389	2,599,815
Tax assets					2,937
Total assets					2,602,752
Segment liabilities		(273,251)	(1,080,281)	(104,662)	(1,458,194)
Tax liabilities					(18,492)
Total liabilities					(1,476,686)
Other segment information					
Capital expenditure	9/10	9,558	–	2	9,560
Depreciation	10	4,115	–	231	4,346
Amortisation of intangible assets	9	62	–	33	95
Impairment of long-term assets	9/10	8	–	–	8
Average number of UK employees (permanent and contract)		701	–	5	706
Average number of overseas employees (permanent and contract)		115	–	24	139
Average number of total employees (permanent and contract)		816	–	29	845

3. SEGMENTAL ANALYSIS CONTINUED

(b) Income	Corporation of Lloyd's 2010 £000	Corporation of Lloyd's 2009 £000	Lloyd's Central Fund 2010 £000	Lloyd's Central Fund 2009 £000	Insurance activities 2010 £000	Insurance activities 2009 £000	Society total 2010 £000	Society total 2009 £000
Market charges								
Managing agents and syndicates	**75,904**	68,785	**–**	–	**3,929**	3,047	**79,833**	71,832
Members and members' agents	**12,460**	13,062	**–**	–	**–**	–	**12,460**	13,062
Performance and risk management charge	**14,235**	13,897	**–**	–	**–**	–	**14,235**	13,897
Total market charges	**102,599**	95,744	**–**	–	**3,929**	3,047	**106,528**	98,791
Members' subscriptions	**89,017**	80,913	**–**	–	**–**	–	**89,017**	80,913
Other charges	**14,635**	15,326	**–**	–	**13**	13	**14,648**	15,339
Total operating income	**206,251**	191,983	**–**	–	**3,942**	3,060	**210,193**	195,043
Central Fund contributions	**–**	–	**100,858**	99,687	**–**	–	**100,858**	99,687
General insurance net premium income	**–**	–	**–**	–	**1,463**	6,992	**1,463**	6,992
Other group income	**1,075**	2,905	**214,747**	49,143	**–**	–	**215,822**	52,048
Total income	**207,326**	194,888	**315,605**	148,830	**5,405**	10,052	**528,336**	353,770

During the year, members paid to the Corporation of Lloyd's (members' subscriptions) and to the Central Fund (Central Fund contributions from members) at 0.5% of their syndicate forecast written premium (2009: 0.5%). Central Fund contributions in the first three years of membership are charged at 2% of syndicate forecast written premium. The ultimate amounts to be retained by the Corporation of Lloyd's and the Central Fund for 2010 will be based on actual 2010 written premiums, of members, the quantification of which will not be known until 2012. The £100.9m (Central Fund contribution from members) and £89.0m (members' subscriptions) included in the group income statement are based on the present best estimates of the ultimate amounts that will be retained by the Central Fund and the Corporation of Lloyd's respectively.

Other group income includes foreign exchange gains, market settlement recoveries which represent continuing debt recoveries from the 1996 'Reconstruction and Renewal' settlement and recoveries in respect of undertakings given by the Central Fund.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

4. CENTRAL FUND CLAIMS AND PROVISIONS

	Note	2010 £000	2009 £000
Net undertakings released	19	**34,818**	12,615
Provisions released in respect of Limited Financial Assistance Agreements	19	**352**	7,990
Claims payable in respect of individual members		**(905)**	(992)
Tax and interest payable in respect of insolvent members		**(20)**	(27)
Central Fund claims and provisions released		**34,245**	19,586

The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. Undertakings are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council principally on an annual basis and therefore are not deemed constructive obligations (see note 19). Unutilised undertakings as at 31 December 2010 were £46m. Of these amounts, £9m was paid to Kite Dedicated Limited on 25 January 2011, £2m was included in undertakings granted on 29 March 2011 and the balance of £35m (2009: £30m) has been released to the group income statement in these financial statements. During 2011 further annual undertakings of £15m (2010: £2m) will be granted and no provision has been included in these financial statements in respect of these amounts.

For those corporate members in provisional liquidation, the Council has also provided supporting commitments, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation.

As the supporting undertakings are legally enforceable commitments, an estimate of their value, if applicable, has been included within provisions in the group financial statements and changes during the year are reflected in the group income statement, as shown in the table above.

5. OTHER GROUP OPERATING EXPENSES

	Note	2010 Corporation of Lloyd's £000	2010 Lloyd's Central Fund £000	2010 Insurance activities £000	2010 Total £000
Other group operating expenses include:					
Employment costs	6	**89,842**	**–**	**2,622**	**92,464**
Operating lease rentals – Lloyd's 1986 building		**16,767**	**–**	**–**	**16,767**
Operating lease rentals – other		**7,568**	**–**	**–**	**7,568**
Professional fees, including legal fees and related costs		**16,530**	**608**	**307**	**17,445**
Audit		**361**	**230**	**91**	**682**
Other services pursuant to legislation payable to Ernst & Young LLP		**456**	**–**	**–**	**456**
Actuarial services payable to Ernst & Young LLP		**50**	**–**	**–**	**50**
Tax services payable to Ernst & Young LLP		**53**	**–**	**–**	**53**
Other services payable to Ernst & Young LLP		**149**	**–**	**–**	**149**
Total legal and professional fees		**17,599**	**838**	**398**	**18,835**
Charitable donations		**1,431**	**–**	**–**	**1,431**

	Note	2009 Corporation of Lloyd's £000	2009 Lloyd's Central Fund £000	2009 Insurance activities £000	2009 Total £000
Other group operating expenses include:					
Employment costs	6	89,417	–	2,613	92,030
Operating lease rentals – Lloyd's 1986 building		16,767	–	–	16,767
Operating lease rentals – other		6,290	–	–	6,290
Professional fees, including legal fees and related costs		16,057	1,064	313	17,434
Audit		367	230	88	685
Other services pursuant to legislation payable to Ernst & Young LLP		446	–	–	446
Actuarial services payable to Ernst & Young LLP		153	–	–	153
Tax services payable to Ernst & Young LLP		165	–	–	165
Other services payable to Ernst & Young LLP		206	–	–	206
Total legal and professional fees		17,394	1,294	401	19,089
Charitable donations		352	–	–	352

Other services pursuant to legislation payable to Ernst & Young LLP includes work undertaken on the Aggregate Accounts, Pro Forma Financial Statements and regulatory returns.

6. EMPLOYMENT

	Note	2010 £000	2009 £000
Salaries and wages (including performance-related bonus)		**59,465**	57,419
Lloyd's Performance Plan (excluding social security costs – note 19)		**4,771**	7,321
Lloyd's Pension Scheme costs	18	**4,941**	3,838
Other pension costs		**901**	822
Social security costs		**6,994**	6,686
Severance costs		**791**	1,803
Contract and agency staff		**6,033**	3,483
Other employment costs		**8,568**	10,658
		92,464	92,030

The emoluments of the Chairman, CEO, members of the Council and Franchise Board are included in the report of the Nominations, Appointments and Compensation Committee on page 89.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

7. FINANCE

	Note	2010 Corporation of Lloyd's £000	2010 Lloyd's Central Fund £000	2010 Insurance activities £000	2010 Total £000	2009 Total £000
Finance costs						
Interest payable on financial liabilities measured at amortised cost		–	(65,076)	–	(65,076)	(68,178)
Other interest payable and similar charges		(27)	–	–	(27)	(112)
Amortisation of issue costs and discount		–	(1,040)	–	(1,040)	(1,055)
Total interest payable on financial liabilities	3a	(27)	(66,116)	–	(66,143)	(69,345)
Finance income						
Bank interest received		838	712	179	1,729	5,434
Dividends received		–	3,088	–	3,088	2,884
Other returns on investments designated at fair value through profit or loss		423	158,292	2,040	160,755	(4,909)
Unrealised fair value movement of investments designated at fair value through profit or loss		(14)	(20,117)	270	(19,861)	74,558
Unrealised fair value movement of forward contracts held for trading		(207)	(14,338)	–	(14,545)	11,227
Realised fair value movement of forward contracts held for trading		–	(1,400)	–	(1,400)	(9,139)
Increase/(decrease) in valuation of loans recoverable designated at fair value through profit or loss		–	1,670	–	1,670	(500)
Total finance income	3a	1,040	127,907	2,489	131,436	79,555

8. TAXATION

A. TAX ANALYSIS OF CHARGE IN THE YEAR

	Note	2010 £000	2009 £000
Current tax:			
Corporation tax based on profits for the year at 28% (2009: 28%)		(110,456)	(51,178)
Adjustments in respect of previous years		1,914	(1,188)
Foreign tax suffered		(210)	(192)
Total current tax		(108,752)	(52,558)
Deferred tax:			
Origination and reversal of timing differences			
current year		(12,143)	(4,492)
prior year		(857)	454
Tax charge recognised in the group income statement	8B	(121,752)	(56,596)
Analysis of tax charge recognised in the group statement of comprehensive income:			
Deferred tax:			
Unrealised gain on revaluation of Lloyd's Collection		–	(335)
Tax (charge)/credit on actuarial loss on pension liabilities			
group		(914)	2,955
associates		(67)	152
Tax (charge)/credit recognised in the group statement of comprehensive income		(981)	2,772
Total tax charge		(122,733)	(53,824)

8. TAXATION CONTINUED

B. RECONCILIATION OF EFFECTIVE TAX RATE

	Note	2010 %	2010 £000	2009 %	2009 £000
Surplus on ordinary activities before tax			**444,365**		199,663
Corporation tax at 28% (2009: 28%)		**28.0%**	**(124,422)**	28.0%	(55,906)
Expenses not deductible for tax purposes		**0.4%**	**(1,760)**	0.5%	(1,062)
Utilisation of tax credits		**(0.0%)**	**61**	(0.1%)	134
Overseas tax		**0.0%**	**(210)**	0.1%	(192)
Other		**(0.4%)**	**1,845**	(0.6%)	1,164
Deferred tax adjustment relating to change in tax rate		**(0.4%)**	**1,677**	–	–
Deferred tax prior year adjustments		**0.2%**	**(857)**	(0.2%)	454
Adjustments in respect of previous years		**(0.4%)**	**1,914**	0.6%	(1,188)
Tax charge	8A	**27.4%**	**(121,752)**	28.3%	(56,596)

C. DEFERRED TAX

	2010 Balance at 1 January £000	2010 Income Statement £000	2010 Equity £000	2010 Balance at 31 December £000
Plant and equipment	**4,549**	**947**	**–**	**5,496**
Loans recoverable	**(7,228)**	**1,420**	**–**	**(5,808)**
Financial investments	**(1,812)**	**(2,372)**	**–**	**(4,184)**
Pension liabilities/(assets)	**5,962**	**(11,044)**	**(914)**	**(5,996)**
Other employee benefits	**3,428**	**(668)**	**–**	**2,760**
Other items	**(1,962)**	**(1,283)**	**–**	**(3,245)**
	2,937	**(13,000)**	**(914)**	**(10,977)**

In 2010, there were no unrecognised deductible temporary differences (2009: nil).

A gradual reduction in the UK tax rate from 28% to 24% was announced in June 2010. The Finance (No. 2) Act 2010 enacted on 27 July 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. This change was therefore substantively enacted at 31 December 2010 and has been reflected in the amounts recognised as at that date. A further 1% reduction was announced in the 2011 Budget with the effect that the corporation tax rate will decrease to 26% from 1 April 2011 and then by 1% each year down to 23% in April 2014. These reductions were not substantively enacted at 31 December 2010 and have therefore not been reflected in the amounts recognised as at that date. However, it is estimated that these future changes will reduce the net deferred tax liability by £1.9m.

	2009 Balance at 1 January £000	2009 Income Statement £000	2009 Equity £000	2009 Balance at 31 December £000
Plant and equipment	4,004	545	–	4,549
Loans recoverable	(8,432)	1,204	–	(7,228)
Financial investments	1,122	(2,934)	–	(1,812)
Pension liabilities/(assets)	8,956	(5,949)	2,955	5,962
Other employee benefits	1,730	1,698	–	3,428
Other items	(3,024)	1,397	(335)	(1,962)
	4,356	(4,039)	2,620	2,937

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

9. INTANGIBLE ASSETS – SOFTWARE DEVELOPMENT

	£000
Cost:	
At 1 January 2009	5,052
Additions	57
Disposals	(66)
At 31 December 2009	5,043
Additions	**694**
Disposals	**(1,226)**
At 31 December 2010	**4,511**
Amortisation:	
At 1 January 2009	4,955
Charge for the year	95
Impairment losses	–
Disposals	(66)
At 31 December 2009	4,984
Charge for the year	**427**
Impairment losses	**–**
Disposals	**(1,226)**
At 31 December 2010	**4,185**
Net book value at 31 December 2010	**326**
Net book value at 31 December 2009	59

IMPAIRMENT LOSSES

As part of an assessment of the carrying value of assets, nil was written off in 2010 (2009: nil). The impairment and amortisation charges are included within other group operating expenses.

10. PLANT AND EQUIPMENT

	£000
Cost:	
At 1 January 2009	49,307
Additions	9,503
Disposals	(782)
At 31 December 2009	58,028
Additions	**15,408**
Disposals	**(3,180)**
At 31 December 2010	**70,256**
Depreciation and impairment:	
At 1 January 2009	30,087
Depreciation charge for the year	4,346
Impairment losses	8
Disposals	(612)
At 31 December 2009	33,829
Depreciation charge for the year	**5,868**
Impairment losses	**1,006**
Disposals	**(2,590)**
At 31 December 2010	**38,113**
Net book value at 31 December 2010	**32,143**
Net book value at 31 December 2009	24,199

10. PLANT AND EQUIPMENT CONTINUED

IMPAIRMENT LOSSES

Impairment reviews are undertaken annually in which assets within plant and other assets have their recoverable amounts reassessed. As part of this assessment of the carrying value of assets, £1,006,000 was written off in 2010 (2009: £8,000). The charge is included within other group operating expenses.

11. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS AND ASSOCIATES

Entity	Nature of business	Proportion of equity capital held
Principal subsidiary undertakings		
Additional Securities Limited	Provision of deposits overseas on behalf of Lloyd's underwriters to comply with local insurance regulations	100%
Centrewrite Limited	Authorised UK insurance company	100%
Lioncover Insurance Company Limited	Authorised UK insurance company	100%
Lloyd's Insurance Company (China) Limited	Authorised insurance company in China (incorporated in 2007 with a share capital of Rmb 200,000,000)	100%
Associates		
Ins-sure Holdings Limited	Provision of premiums and claims accounting and settlement, policy production and ancillary insurance services principally to the London insurance market	25%
Xchanging Claims Services Limited	Provision of claims and recoveries services	50%

The issued share capital of Ins-sure Holdings Limited is £4,000. There are three classes of shares. The Society holds 1,000,000 B shares of 0.1p each that have the right to participate in 25% of any profits available for distribution.

The issued share capital of Xchanging Claims Services Limited is £4,001. There are three classes of shares. The Society holds 1,000 A shares of £1 each and 2,001 C shares of £1 each. The A and C shares have the following rights with respect to dividends:

a) The C shares carry a right to a fixed cumulative preference dividend of 5% calculated on the nominal capital and a variable participating dividend calculated by reference to trading profits.

b) The A shares participate in 50% of any profits available for distribution after taking account of the dividend rights outlined above.

12. INVESTMENTS

A. INVESTMENTS IN ASSOCIATES

	2010 Goodwill £000	2010 Share of other net assets £000	2010 Total £000	2009 Total £000
At 1 January	861	5,442	6,303	6,465
Share of operating profits	–	7,003	7,003	4,657
Share of interest income	–	66	66	29
Share of tax on profit on ordinary activities	–	(1,985)	(1,985)	(1,323)
Total share of profits of associates	–	5,084	5,084	3,363
Share of actuarial gain/(loss) on pension liability	–	250	250	(544)
Share of tax on items taken directly to equity	–	(67)	(67)	152
Dividends received	–	(5,245)	(5,245)	(3,133)
At 31 December	861	5,464	6,325	6,303

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

12. INVESTMENTS CONTINUED

A. INVESTMENTS IN ASSOCIATES CONTINUED

Summary financial information for associates – 100%:

	Assets £000	Liabilities £000	Revenues £000	Profit after tax £000
2010				
Ins-sure Holdings Limited	**30,227**	**(17,588)**	**72,320**	**10,139**
Xchanging Claims Services Limited	**18,596**	**(12,265)**	**42,617**	**5,959**
	48,823	**(29,853)**	**114,937**	**16,098**
2009				
Ins-sure Holdings Limited	34,126	(24,070)	70,179	5,060
Xchanging Claims Services Limited	18,941	(13,385)	41,359	4,488
	53,067	(37,455)	111,538	9,548

B. LLOYD'S COLLECTION

The Lloyd's Collection represents various paintings, antiques and artefacts. The collection was valued at £12.0m by Gurr Johns Limited, valuers and fine art consultants in November 2009, on the basis of open market auction value assuming all items are not sold at the same time taking into account the nature, age, condition and quality of each chattel. This resulted in a revaluation gain of £1.2m in 2009. In 2010 it has been assessed that there is no change in valuation.

13. INSURANCE ACTIVITIES

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. Outstanding claims provisions are not discounted for the time value of money.

	2010 £000	2009 £000
Insurance claims		
Gross claims:		
Claims paid	**(3,637)**	(5,704)
Change in provisions for claims	**15,239**	(1,010)
	11,602	(6,714)
Claims recoverable from reinsurers:		
Claims recovered from reinsurers	**4,650**	1,199
Change in reinsurance contract assets	**214**	(897)
	4,864	302

LIONCOVER INSURANCE COMPANY LIMITED

Lioncover Insurance Company Limited (Lioncover) is a wholly owned subsidiary undertaking of the Society of Lloyd's. Since its formation, Lioncover reinsured the liabilities of private members on syndicates formerly managed by PCW Underwriting Agencies Limited, WMD Underwriting Agencies Limited and Richard Beckett Underwriting Agencies Limited and on syndicates 2 and 49 (collectively referred to as 'the PCW syndicates'). On 18 December 1997, Lioncover entered into an unlimited reinsurance of those liabilities with Equitas Reinsurance Limited (ERL).

Notwithstanding the reinsurance of liabilities by ERL, until June 2009, Lioncover remained liable to its policyholders in respect of the business originally underwritten. Accordingly, the Society's financial statements previously reflected a provision for claims outstanding, including losses incurred but not reported (IBNR), in respect of that business and an equal amount as recoverable from ERL.

Lioncover's long-term insurance liabilities included pollution and asbestos. Lioncover does not underwrite any new policies.

13. INSURANCE ACTIVITIES CONTINUED

LIONCOVER INSURANCE COMPANY LIMITED CONTINUED

On 10 November 2006, Equitas Limited, Equitas Holdings Limited and Equitas Management Services Limited entered into an agreement with a Berkshire Hathaway group undertaking, National Indemnity (NICO). That agreement became effective from March 2007. As part of this transaction, the day to day running of the run-off business, including that of Lioncover, is performed by Resolute Management Services Ltd, a wholly owned subsidiary of NICO.

Following court approval on 25 June 2009, Phase 2 of the transaction was completed on 30 June 2009 when the liabilities of members and former members of Lloyd's in respect of non-life business allocated to 1992 and prior years of accounts were transferred to Equitas Insurance Limited, a subsidiary of Equitas Holding Limited, and Lioncover's reinsurance liabilities were terminated, pursuant to the provisions of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The insurance business transfer has resulted in finality for members of the PCW syndicates under the law of each state within the EEA. As a result of this transaction from 30 June 2009, Lioncover no longer has reinsurance liabilities to any person nor any entitlement to any reinsurance recoveries.

By a letter agreement dated 16 June 2009, Equitas Reinsurance Limited released the Company from all of its residual liabilities under the reinsurance contract dated 18 December 1997 (as regards any misrepresentation or breach of warranty arising from any dishonest misstatement or concealment by certain individuals) on the basis that Lloyd's agree to be substituted as primary obligor.

The movement in provision for insurance contract liabilities can be analysed as follows:

	2010 Insurance contract liabilities £000	2010 Reinsurer's share of liabilities £000	2010 Net £000	2009 Insurance contract liabilities £000	2009 Reinsurer's share of liabilities £000	2009 Net £000
At 1 January	–	–	–	514,137	(514,137)	–
Claims (released)/incurred	–	–	–	(514,137)	514,137	–
Claims paid (see below)	–	–	–	–	–	–
Effect of exchange rates	–	–	–	–	–	–
At 31 December	–	–	–	–	–	–

CENTREWRITE LIMITED

Centrewrite Limited's principal activities in 2010 were to underwrite the Lloyd's Members' Estate Protection Plan, to reinsure individual members of Lloyd's participations on syndicates for underwriting years of account which have not been closed and to provide reinsurance to close to syndicates with no successor syndicate.

Centrewrite has a structured approach to pricing, which is approved by the Centrewrite board in respect of the insurance contracts it underwrites. For reinsurance to close contracts, prior to the contract being quoted Centrewrite considers and does actuarial analysis upon the underlying historical data in respect of the performance of the syndicate. This data includes that in respect of claims development, major claims outstanding, exposure to further claims development, future run-off costs and reinsurance cover. The reinsurance to close contracts mainly relate to liability and energy risks written between 1993 and 2001.

Centrewrite regularly monitors the performance of its business, including that in respect of outstanding claims exposure and reinsurance recoveries through a sub-committee of the Board.

Due to the uncertainty in the timing of large claims payments, Centrewrite invests in assets that can be readily realised to meet these liabilities as they fall due. Centrewrite regularly reviews the security of its reinsurance assets and makes provision for amounts which are not considered to be recoverable, based on default rates used by the Lloyd's market.

LLOYD'S INSURANCE COMPANY (CHINA) LIMITED

Lloyd's Insurance Company (China) Limited (LICCL) is a wholly owned subsidiary undertaking of the Society of Lloyd's. The company's principal activity during 2010 was the reinsurance of non-life business in the China insurance market. Lloyd's syndicates participate in LICCL's reinsurance business by means of retrocession agreements which allow a 100% risk transfer. In 2010, LICCL retained 5% of premiums to offset operating costs.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

13. INSURANCE ACTIVITIES CONTINUED

Insurance contract liabilities in respect of Centrewrite and LICCL may be analysed as follows:

	2010 Insurance contract liabilities £000	2010 Reinsurer's share of liabilities £000	2010 Net £000	2009 Insurance contract liabilities £000	2009 Reinsurer's share of liabilities £000	2009 Net £000
Provision for claims reported	**59,087**	**(35,393)**	**23,694**	60,451	(31,868)	28,583
Provision for IBNR claims	**18,114**	**(8,237)**	**9,877**	29,288	(10,362)	18,926
	77,201	**(43,630)**	**33,571**	89,739	(42,230)	47,509
Unearned premiums	**4,544**	**(4,318)**	**226**	1,190	(1,131)	59
Insurance contract liabilities	**81,745**	**(47,948)**	**33,797**	90,929	(43,361)	47,568

The movement in provision for insurance claims in respect of Centrewrite and LICCL can be analysed as follows:

	2010 Insurance contract liabilities £000	2010 Reinsurer's share of liabilities £000	2010 Net £000	2009 Insurance contract liabilities £000	2009 Reinsurer's share of liabilities £000	2009 Net £000
At 1 January	**89,739**	**(42,230)**	**47,509**	96,174	(48,115)	48,059
Claims (released)/incurred	**(11,602)**	**(4,864)**	**(16,466)**	6,714	(302)	6,412
Claims paid (see below)	**(3,637)**	**4,650**	**1,013**	(5,704)	1,199	(4,505)
Effect of exchange rates	**2,701**	**(1,186)**	**1,515**	(7,445)	4,988	(2,457)
At 31 December	**77,201**	**(43,630)**	**33,571**	89,739	(42,230)	47,509

Claims incurred consist of claims and claims handling expenses paid during the year, together with the movement in outstanding claims. Full provision is made, on the basis of available information, for the estimated ultimate cost of claims notified but not settled as at the date of the statement of financial position, after taking into account handling costs and settlement trends. A provision for claims incurred but not notified is also established as at that date on a statistical basis. The provision also reflects claims settlement expenses and anticipated reinsurance and other recoveries. The provision for outstanding claims is based on information available at the reporting date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are dealt with in the group income statements of later years.

CLAIMS DEVELOPMENT TABLE

The table below shows the development of claims over a period of time on a gross basis. The claims development table shows the cumulative incurred claims, including both notified and IBNR claims for each successive year, together with cumulative claims at the current reporting date.

	2006 and prior £000	2007 £000	2008 £000	2009 £000	2010 £000	Total £000
At end of underwriting year	74,660	1,874	104,754	9,498	**16,032**	
One year later	73,787	1,348	93,896	8,834		
Two years later	69,851	1,229	77,074			
Three years later	69,785	930				
Four years later	63,097					
Current estimate of cumulative claims	63,097	930	77,074	8,834	**16,032**	
Cumulative payments to date	(61,415)	(643)	(21,744)	(908)	**(4,056)**	
Insurance contract liabilities	1,682	287	55,330	7,926	**11,976**	**77,201**

The incurred claims from 2008 include amounts relating to the reinsurance of members of Syndicate 535. The incurred claims from 2009 include amounts relating to the reinsurance of members of Syndicate 1204.

14. LOANS RECOVERABLE

	2010 £000	2009 £000
At 1 January	**54,614**	57,541
Recoveries during the year	**(1,913)**	(2,427)
Fair value movements recognised during the year	**1,670**	(500)
At 31 December	**54,371**	54,614

None of the change in valuation of loans recoverable during 2010 or 2009 relates to changes in credit risk. The Society's loans recoverable are categorised as fair value Level 3 for disclosure purposes. All fair value movements are recognised as finance income or finance costs in the group income statement and relate solely to the revaluation of hardship and LFAA assets.

15. FINANCIAL INVESTMENTS

	Note	2010 £000	2009 £000
Statutory insurance deposits	15A	**311,756**	175,248
Other investments	15B	**2,236,884**	1,966,482
		2,548,640	2,141,730

A. STATUTORY INSURANCE DEPOSITS

	2010 Securities £000	2010 Deposits £000	2010 Total £000	2009 Total £000
Market value at 1 January	**18,677**	**156,571**	**175,248**	154,576
Additions at cost	**281,087**	**266,148**	**547,235**	357,969
Disposal proceeds	**(163,027)**	**(267,131)**	**(430,158)**	(324,232)
Surplus on the sale and revaluation of investments	**9,679**	**9,752**	**19,431**	(13,065)
Market value at 31 December	**146,416**	**165,340**	**311,756**	175,248

Analysis of securities at year end:	2010 Cost £000	2010 Valuation £000	2009 Cost £000	2009 Valuation £000
Government	**136,468**	**144,700**	16,556	17,157
Corporate securities (see below)	**1,127**	**1,716**	1,127	1,520
Market value at 31 December	**137,595**	**146,416**	17,683	18,677
Analysis of corporate securities:				
AAA		**1,716**		1,520
AA		**–**		–
		1,716		1,520

Finance is arranged by advances from syndicates in the Lloyd's market. These advances are renewed annually. By agreement with the lenders, investment returns earned on these assets are paid, in appropriate proportions, to the lenders. In this way, the Society avoids any risk arising from a mismatch between borrowing and lending terms. Book cost is stated at historical exchange rates, market value is quoted at year end exchange rates.

The provision of funds by members in respect of the establishment and maintenance of overseas deposits is a condition of permission to underwrite insurance business at Lloyd's.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

15. FINANCIAL INVESTMENTS CONTINUED

B. OTHER INVESTMENTS

	2010 Corporation of Lloyd's £000	2010 Central Fund £000	2010 Insurance activities £000	2010 Total £000	2009 Total £000
Market value at 1 January	10,006	1,879,030	77,446	1,966,482	2,075,580
Additions at cost	–	3,308,389	381,468	3,689,857	3,662,897
Increase/(decrease) in short-term deposits	23,584	(47,300)	55	(23,661)	(372)
Disposal proceeds	–	(3,092,706)	(375,049)	(3,467,755)	(3,752,443)
Surplus/(deficit) on the sale and revaluation of investments	–	86,316	(14,355)	71,961	(19,180)
Market value at 31 December	**33,590**	**2,133,729**	**69,565**	**2,236,884**	1,966,482
Analysis of securities at period end:					
Listed securities					
Fixed interest:					
Government	–	627,117	46,541	673,658	623,467
Corporate securities	–	1,059,243	18,559	1,077,802	898,267
Emerging markets	–	30,612	–	30,612	25,444
High yield	–	40,878	–	40,878	35,249
	–	1,757,850	65,100	1,822,950	1,582,427
Equities:					
Global	–	209,060	–	209,060	171,989
Emerging markets	–	41,574	–	41,574	31,362
	–	250,634	–	250,634	203,351
Total listed securities	**–**	**2,008,484**	**65,100**	**2,073,584**	1,785,778
Unlisted securities					
Hedge funds	–	78,704	–	78,704	72,447
Short-term deposits	33,590	26,541	4,465	64,596	88,257
Security deposits (see below)	–	20,000	–	20,000	20,000
Total unlisted securities	**33,590**	**125,245**	**4,465**	**163,300**	180,704
Market value	**33,590**	**2,133,729**	**69,565**	**2,236,884**	1,966,482
Analysis of corporate securities:					
AAA	–	586,816	12,714	599,530	416,449
AA	–	320,061	4,903	324,964	217,887
A	–	149,329	942	150,271	262,092
Other	–	3,037	–	3,037	1,839
	–	**1,059,243**	**18,559**	**1,077,802**	898,267

SECURITY DEPOSITS

Tutelle Limited

In 1996 the Council set aside, under a Lloyd's special account, £20m of the 'Old' Central Fund to secure the Society's obligations under staff indemnities and certain indemnities which have been given by Lloyd's to certain individuals and advisers in respect of the 'Reconstruction and Renewal' plan. These include members of the Reserve Group, directors and officers of Equitas, members of the Council, Lloyd's Regulatory Board, Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees and Corporation staff.

Unless and until there is any default under the security documentation, interest earned on the trust fund is paid to the 'Old' Central Fund. The security was deposited for an initial period of two years and the Council exercised its discretion to renew this in June 1998. The Council further amended the period of the deposit, in November 1998, so that the security could only be released if the Council was satisfied that there was no reasonable prospect of a claim being made under these indemnities. Tutelle's position is under biennial review and, having been reviewed in July 2010, will be reviewed again in July 2012. The security may continue for a period of up to 80 years. Any of the funds remaining after this period will be repaid to the 'Old' Central Fund.

15. FINANCIAL INVESTMENTS CONTINUED

C. FAIR VALUE HIERARCHY

	Notes	2010 Level 1 £000	2010 Level 2 £000	2010 Level 3 £000	2010 Total £000
Financial investments at fair value through profit or loss					
Statutory insurance deposits	15A				
Listed securities		–	**9,831**	–	**9,831**
Unlisted securities		–	**136,585**	–	**136,585**
Deposits with credit institutions		–	**165,340**	–	**165,340**
Other investments	15B				
Listed securities		**826,589**	**996,361**	–	**1,822,950**
Equity investments		**250,634**	–	–	**250,634**
Unlisted securities		–	**78,704**	–	**78,704**
Deposits with credit institutions		**84,596**	–	–	**84,596**
Market value at 31 December		**1,161,819**	**1,386,821**	–	**2,548,640**

	Notes	2009 Level 1 £000	2009 Level 2 £000	2009 Level 3 £000	2009 Total £000
Financial investments at fair value through profit or loss					
Statutory insurance deposits	15A				
Listed securities		–	8,903	–	8,903
Unlisted securities		–	9,774	–	9,774
Deposits with credit institutions		–	156,571	–	156,571
Other investments	15B				
Listed securities		629,675	952,752	–	1,582,427
Equity investments		203,351	–	–	203,351
Unlisted securities		–	72,447	–	72,447
Deposits with credit institutions		108,257	–	–	108,257
Market value at 31 December		941,283	1,200,447	–	2,141,730

Level 1

Inputs to Level 1 fair values are quoted prices in active markets for identical assets. An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples are listed debt securities in active markets, listed equities in active markets, listed deposits held with credit institutions in active markets.

Level 2

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include; quoted prices for similar (ie not identical) assets in active markets, quoted prices for identical or similar assets in markets that are not active or in which little information is released publicly, unlisted deposits held with credit institutions in active markets, low volatility hedge funds where tradeable NAVs are published.

The fair value movements during the year are recognised as finance income or finance cost in the group income statement.

16. CASH AND CASH EQUIVALENTS

	2010 £000	2009 £000
Cash at banks	**48,588**	40,339
Short-term deposits	**96,982**	137,877
	145,570	178,216

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Society and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £145.6m (2009: £178.2m).

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CONTINUED
as at 31 December 2010

17. SUBORDINATED NOTES AND PERPETUAL SUBORDINATED CAPITAL SECURITIES

	2010 £000	2009 £000
Details of loans payable wholly or partly after more than five years:		
6.875% subordinated notes of £300m maturing 17 November 2025	**300,000**	300,000
5.625% subordinated notes of €253m maturing 17 November 2024	**216,507**	224,509
7.421% perpetual subordinated capital securities of £419m redeemable on 21 June 2017	**419,381**	440,369
	935,888	964,878
Less issue costs to be charged in future years	**(4,690)**	(5,520)
Less discount on issue to be unwound in future years	**(1,025)**	(1,283)
	930,173	958,075

SUBORDINATED DEBT ISSUED IN 2004
The Sterling Notes mature on 17 November 2025, although the Society may redeem them on 17 November 2015 and 17 November 2020. In the event that the Society does not redeem the Sterling Notes on 17 November 2015, the rate of interest payable will be the rate per annum which is the aggregate of the Gross Redemption Yield on the relevant Benchmark Gilt (a UK government security having a maturity date on or nearest to the next reset date) plus a margin of 3.07%.

The Euro Notes mature on 17 November 2024, although the Society may redeem them on 17 November 2014 or on any interest payment date thereafter.

In the event that the Society does not redeem the Euro Notes on 17 November 2014, the rate of interest payable will be three month Euribor plus a margin of 2.72%.

The Notes are subordinated obligations of the Society. Each tranche of the Notes will rank pari passu with the other in a winding-up of the Society. Upon the occurrence of any winding-up proceedings of the Society, payments on the Notes will be subordinated in right of payment to the prior payment in full of all other liabilities of the Society, except for liabilities which rank equally with or junior to the Notes. Payments on the Notes will also be subordinated to certain payments which may be made out of central assets including payments made to discharge the liabilities of an insolvent member to any person (including any policyholders) arising out of or, in connection with insurance business carried on at Lloyd's by that insolvent member and payments made in respect of the costs required by or under any insolvency procedure to which the Society or the Lloyd's market may be subject. However, in the event of a winding-up of the Society, the claims of the holders of the Notes rank senior to the distribution of any central assets to members of Lloyd's generally (other than payments made to members in their capacity as senior creditors of the Society).

SUBORDINATED DEBT ISSUED IN 2007
The perpetual subordinated capital securities ('capital securities') are perpetual securities and have no fixed redemption date. However, they are redeemable in whole on 21 June 2017 at the option of the Society or on any interest payment date thereafter provided certain conditions have been met by the Society. The capital securities bear interest at a rate of 7.421% per annum until 20 June 2017, payable annually in arrears on 21 June in each year, and thereafter at a rate per annum reset semi-annually of 2.41% per annum above the London interbank offered rate for six-month sterling deposits, payable semi-annually in arrears on the interest payment dates falling on 21 June and 21 December in each year.

The capital securities are subordinated obligations of the Society. Upon the occurrence of any winding-up proceedings of the Society, the claims of the holders of the capital securities will rank junior to all other claims of creditors of the Society (including any creditor who is the holder of any of the Sterling or Euro Notes issued by the Society in 2004) except for those creditors having claims which rank equally with or junior to the claims of the holders of the capital securities. The claims of the holders of the capital securities will also rank junior to any payments made to discharge the liabilities of a member in connection with insurance business carried on at Lloyd's by that member and also to the claims of any person in respect of whom a New Central Fund undertaking has been made. However, in the event of a winding-up of the Society, the claims of the holders of the capital securities rank senior to the distribution of any central assets to members of Lloyd's generally (other than payments made to members in their capacity as senior creditors of the Society).

Subordinated debt repurchases
On 30 April 2009, the Society of Lloyd's announced it would repurchase the local currency equivalent of £102,000,000 of its outstanding debt securities following its invitation to holders to submit offers to sell their holdings. The Society purchased a principal amount of £59,631,000 of its 2007 perpetual subordinated capital securities at a cost of £35,778,000 and a principal amount of €47,315,000 of its 2004 subordinated loan notes maturing in 2024 at a cost of €33,120,150. The Society additionally paid accrued interest on the purchased securities. The profit on the repurchase was £36,205,000.

During 2010, The Society of Lloyd's repurchased £20,988,000 of its outstanding debt securities. The Society purchased a principal amount of £20,988,000 of its 2007 perpetual subordinated capital securities at a cost of £19,518,000. The Society additionally paid accrued interest on the purchased securities. The profit on the repurchase was £1,469,800.

18. PENSION SCHEMES
The Society operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme which is a defined benefit scheme. Other schemes have been established for certain employees based overseas.

18. PENSION SCHEMES CONTINUED

These schemes are generally funded by the payment of contributions to separately administered funds.

DEFINED BENEFIT PLANS

The pension assets/(liabilities) of the schemes at 31 December 2010 are as follows:

	2010 £000	2009 £000
Lloyd's Pension Scheme	**25,913**	(21,291)
Overseas pension schemes: assets	**82**	–
	25,995	(21,291)
Overseas pension schemes: liabilities	**(858)**	(770)
Total of all schemes	**25,137**	(22,061)

The amounts charged to the group income statement and group statement of comprehensive income, in respect of defined benefit plans are as follows:

	2010 £000	2009 £000
Group income statement:		
Lloyd's Pension Scheme	**4,941**	3,838
Overseas pension schemes	**901**	822
	5,842	4,660
Group statement of comprehensive income		
Lloyd's Pension Scheme	**1,271**	10,552
Overseas pension schemes	**71**	(30)
	1,342	10,522

Lloyd's Pension Scheme

The Lloyd's Pension Scheme is a defined benefit pension scheme with assets held in a separately administered fund. For the purposes of determining the funding position of the scheme and future contributions, a formal actuarial valuation of the scheme was carried out by Towers Watson, actuaries and consultants, as at 30 June 2010 using the projected unit credit method. The principal actuarial assumptions adopted in the valuation were:

- Assumed future price inflation of 3.5% per annum.
- Pensions would increase in payment at 3.5% per annum (relating to benefits accrued between 6 April 1997 and 5 April 2005) or 2.5% per annum (benefits accrued post 5 April 2005).
- Total pensionable remuneration would increase by 4.5% per annum.
- The rate of return on investments held at the valuation date and on future contributions receivable after the valuation date was assumed to be 6.8% per annum for periods before benefits come into payment and 4.7% per annum for periods after benefits come into payment.
- Mortality assumptions were based on 110% of SAPS light tables for males/105% SAPS light tables for females, with allowance for future improvements in line with CMI 2009 core projects with a trend improvement of 1.5% per annum.
- An allowance was made for commutation at retirement, assuming 20% of member pension commuted at retirement, on terms mid-way between current actual terms and 'cost neutral' on TP basis.

The next formal actuarial valuation will be carried out as at 30 June 2013.

The total market value of the scheme's assets at the date of valuation was £418m, and the total value of accrued liabilities was £488.3m showing a shortfall of £70.3m. These figures exclude both liabilities and the related assets in respect of money purchase AVCs. To eliminate the funding shortfall, the Trustees have agreed a Recovery Plan with Lloyd's. Lloyd's paid additional contributions of £45m to the Scheme in December 2010, and will make fixed additional monthly contributions from July 2014 to June 2020 inclusive to eliminate the remaining deficit.

No allowance was made for discretionary increases to pre 6 April 1997 benefits when in payment. In 2003, the Society instructed Towers Watson not to allow for such increases in calculating the scheme's liabilities for future actuarial valuations. Such increases have always been payable at the discretion of the Society and will continue to be considered on the basis of affordability, but are not taken into account by the actuary in determining the funding level.

In recent years, in order to mitigate exposure to pension scheme liabilities several changes have been made to the Lloyd's Pension Scheme. From February 2005 the senior management section of the scheme was closed to new entrants and the normal retirement age for joiners was increased from 60 to 65. The final salary scheme was closed to new joiners at the end of June 2006. New entrants from July 2006 have been eligible to join the Lloyd's Pension Scheme but accrue benefits on an 80ths career average basis and are contracted-in to the State Second Pension.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

18. PENSION SCHEMES CONTINUED

DEFINED BENEFIT PLANS CONTINUED

Employee contributions at 5%, or 10% for members of the senior management section, of pensionable earnings up to the Scheme earnings cap where applicable, have been introduced from July 2006. Normally, instead of making an employee contribution, employees make a salary sacrifice of the appropriate percentage of their salary and Lloyd's make an additional employer contribution of the same amount. Following the 2010 actuarial valuation employer contributions as a percentage of basic salaries are 21.7% for pre-February 2005 final salary members, 12.9% for post-January 2005 entrants and 6.5% for members accruing benefits on a career average basis.

Principal actuarial assumptions in respect of IAS 19

The demographic assumptions which are the most financially significant are those relating to the longevity of retired members. The assumptions for the purposes of the IAS 19 valuation as at 31 December 2010 are as applied in the triennial actuarial valuation as at 30 June 2010.

These assumptions are equivalent to expected longevity at age 60 approximately as follows

> For pensioners currently aged 60: ranging from 28 years to 30 years (2009: 25 years to 29 years).
> For non-pensioners currently aged 45: ranging from 30 years to 32 years (2009: 27 years to 30 years).

The other major financial assumptions used by the actuary as at 31 December 2010 for the purposes of IAS 19 were:

	2010 % per annum	2009 % per annum	2008 % per annum	2007 % per annum	2006 % per annum
General salary and wage inflation	**4.50%**	4.60%	4.90%	5.20%	4.80%
Rate of increase in pensions in payment					
pre 6 April 1997 (in excess of GMP's)	**–**	–	–	–	–
6 April 1997 to 5 April 2005	**3.50%**	3.60%	3.00%	3.40%	3.00%
post 5 April 2005	**2.50%**	2.50%	2.50%	2.50%	2.50%
Increases to deferred pensions	**3.00%**	3.60%	3.00%	3.40%	3.00%
Discount rate	**5.50%**	5.70%	6.40%	5.90%	5.10%
Price inflation	**3.00%**	3.60%	3.00%	3.40%	3.00%
Expected rate of return					
Bonds	**5.00%**	5.10%	5.80%	5.20%	4.70%
Equities	**8.00%**	8.10%	8.10%	8.10%	7.80%
Cash and net current assets	**3.70%**	4.50%	3.80%	5.30%	4.90%

An allowance is made for members commuting 20% (2009: 20%) of their pension on retirement.

The expected rate of return on assets is determined based on market prices prevailing on the valuation date, applicable to the period over which the obligation is to be settled.

SENSITIVITY OF PENSION OBLIGATION TO CHANGES IN ASSUMPTIONS

The actuarial valuation of liabilities under IAS 19 is particularly sensitive to changes in market conditions, which determine the rate at which pension liabilities are discounted.

A change of 0.1% pa in the discount rate as at 31 December 2010 would result in a change to the pension liabilities at that date of around 2%, or approximately £9m.

A change in the mortality assumptions could have a significant impact on the pension liability. For instance, use of the core projection model with 2% p.a. long-term improvement for future mortality improvements could add around another 2% to the balance sheet liabilities.

Amounts for the current and previous years were:

Asset analysis of the scheme	**2010 Fair value £000**	2009 Fair value £000	2008 Fair value £000	2007 Fair value £000	2006 Fair value £000
Bonds	**161,806**	147,066	127,304	162,611	135,839
Equities	**292,533**	268,347	198,037	238,734	215,386
Property	**15,368**	–	–	–	–
Cash and net current assets	**46,249**	20,195	22,306	22,569	437
Total market value of assets	**515,956**	435,608	347,647	423,914	351,662
Actuarial value of scheme liabilities	**(490,043)**	(456,899)	(379,632)	(407,414)	(396,775)
Surplus/(deficit) in the scheme	**25,913**	(21,291)	(31,985)	16,500	(45,113)

18. PENSION SCHEMES CONTINUED

SENSITIVITY OF PENSION OBLIGATION TO CHANGES IN ASSUMPTIONS CONTINUED

Changes in the present value of the defined benefit obligations are:

	2010 £000	2009 £000
Actuarial value of scheme liabilities at 1 January	**456,899**	379,632
Interest cost on pension scheme liabilities	**25,536**	23,737
Current service cost (net of employee contributions)	**5,489**	4,117
Employee contributions	**2,346**	2,221
Benefits paid	**(18,213)**	(17,877)
Experience losses/(gains) arising in scheme liabilities	**2,249**	(3,850)
Change in assumptions underlying the present value of the scheme liabilities	**15,737**	68,919
Actuarial value of scheme liabilities at 31 December	**490,043**	456,899

Changes in fair value of plan assets were:

	2010 £000	2009 £000
Fair value of scheme assets at 1 January	**435,608**	347,647
Expected return on pension scheme assets	**29,784**	24,016
Employer contributions		
normal	**4,716**	5,084
special	**45,000**	20,000
Employee contributions	**2,346**	2,221
Benefits paid	**(17,781)**	(17,471)
Actuarial gain on scheme assets	**16,715**	54,517
Administrative expenses	**(432)**	(406)
Fair value of scheme assets at 31 December	**515,956**	435,608

A special contribution of £45.0m was made to the pension scheme in December 2010 to improve the funding position. The Society expects to contribute approximately £4.8m in normal contributions to the pension scheme in 2011.

ANALYSIS OF THE AMOUNT RECOGNISED IN THE GROUP STATEMENT OF COMPREHENSIVE INCOME

	2010 £000	2009 £000
Actual return on pension scheme assets	**46,499**	78,533
Less expected return on pension scheme assets	**(29,784)**	(24,016)
Actual return less expected return on pension scheme assets	**16,715**	54,517
Experience (losses)/gains arising on scheme liabilities	**(2,249)**	3,850
Changes in the assumptions underlying the present value of the scheme liabilities	**(15,737)**	(68,919)
Actuarial loss recognised in the group statement of comprehensive income	**(1,271)**	(10,552)

The cumulative actuarial loss recognised in the group statement of comprehensive income since 1 January 2004 is £32.3m (2009: £31.0m actuarial loss).

ANALYSIS OF THE AMOUNT CHARGED TO THE GROUP INCOME STATEMENT (RECOGNISED IN OTHER GROUP OPERATING EXPENSES)

	2010 £000	2009 £000
Current service cost	**5,489**	4,117
Past service accrual	**3,700**	–
Expected return on pension scheme assets	**(29,784)**	(24,016)
Interest on pension scheme liabilities	**25,536**	23,737
Total operating charge	**4,941**	3,838

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

18. PENSION SCHEMES CONTINUED

ANALYSIS OF THE AMOUNT CHARGED TO THE GROUP INCOME STATEMENT (RECOGNISED IN OTHER GROUP OPERATING EXPENSES) CONTINUED

The Society recognises the cost of discretionary increases to pre 6 April 1997 benefits in payment when there is a constructive liability to make such increases. In 2007 the Society provided £10.0m to meet future discretionary increases, this amount has been notionally segregated from the scheme's other assets (the 'notional fund') and its investment performance will be tracked on the assumption that it is invested in the same way as the scheme's other assets. The notional fund will be used to facilitate the award of future discretionary pension increases when the Society carries out its annual review of pensions in accordance with the Scheme's Definitive Trust Deed. As long as there is a notional fund set aside for this purpose, discretionary increases will continue to be made. As at 31 December 2010 the value of the notional fund was £11.1m.

The measurement bases set by IAS 19 are likely to give rise to significant fluctuations to the scheme's assets and liabilities. However, this may not necessarily require changes to the contribution rate, as recommended by the independent actuary, which is based on expected long-term rates of return.

HISTORY OF EXPERIENCE GAINS AND LOSSES

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Difference between the expected and actual return on scheme assets:					
Amount	**16,715**	54,517	(116,429)	5,744	7,426
Percentage of scheme assets	**3.2%**	12.5%	(33.5%)	1.4%	2.1%
Experience (losses)/gains on scheme liabilities:					
Amount	**(2,249)**	3,850	(2,170)	(12,070)	(6,509)
Percentage of the present value of the scheme liabilities	**(0.5%)**	0.8%	(0.6%)	(3.0%)	(1.6%)
Total amount recognised in the group statement of comprehensive income:					
Amount	**(1,271)**	(10,552)	(67,855)	52,452	(1,613)
Percentage of the present value of the scheme liabilities	**(0.3%)**	(2.3%)	(17.9%)	12.9%	(0.4%)

Overseas pension schemes

The Society operates a number of defined benefit plans for qualifying employees based overseas. The actuarial valuations of these pension liabilities at 31 December 2010 were £0.8m (2009: £0.8m). The total expense recognised in other operating expenses of £0.1m (2009: £0.1m) represents the related current service cost of these schemes. An actuarial loss of £0.07m has been recognised in the group statement of comprehensive income (2009: actuarial gain of £0.03m).

Defined contribution plans

The Society operates a number of defined contribution retirement benefit plans for qualifying employees based overseas. The assets of the plans are held separately from those of the Society in funds under the control of the trustees.

In some countries, employees are members of state-managed retirement benefit plans. The Society is required to contribute a specified percentage of payroll costs to fund these benefits. The only obligation of the Society with respect to the retirement benefit plan is to make the specified contributions.

The total expense recognised in the group income statement of £0.1m (2009: £0.1m) represents contributions payable to these plans by the Society at rates specified in the rules of these plans.

19. PROVISIONS

	2010 Undertakings given to insolvent members £000	2010 Limited Financial Assistance Agreements £000	2010 Income support schemes £000	2010 Lloyd's performance plan £000	2010 Total £000	2009 Total £000
Balance at 1 January	**45,310**	**683**	**26,893**	**9,286**	**82,172**	109,864
(Released)/charged in the year	**(34,818)**	**(352)**	**48**	**5,393**	**(29,729)**	14,429
Utilised in the year	**(1,432)**	**(48)**	**(22,329)**	**(7,329)**	**(31,138)**	(42,121)
Balance at 31 December	**9,060**	**283**	**4,612**	**7,350**	**21,305**	82,172

PROVISION FOR UNDERTAKINGS GIVEN TO INSOLVENT MEMBERS

The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls.

19. PROVISIONS CONTINUED

PROVISION FOR UNDERTAKINGS GIVEN TO INSOLVENT MEMBERS CONTINUED

The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. For those corporate members in provisional liquidation, the Council has also provided a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding-up commencing on the date of the provisional liquidation.

	Note	2010 £000	2010 £000	2009 £000	2009 £000
Provisions for amounts payable at 1 January			**45,310**		93,049
Undertakings released in the year	4		**(34,818)**		(12,615)
Analysis of paid undertakings by member:					
Crowe Corporate Capital Limited		**–**		(3,971)	
Crowe Dedicated Limited		**–**		(2,270)	
Duncanson & Holt Underwriters Limited		**–**		(2,073)	
Euclidian (No 6) Ltd		**–**		(632)	
Kite Dedicated Capital Limited (formerly Goshawk Dedicated (No 2) Limited)		**(355)**		(25,575)	
Margent Capital Management		**(1)**		(99)	
SCC at Lloyd's Ltd		**–**		(34)	
Standfast		**(1,010)**		–	
Winford Company Limited		**–**		(8)	
Other corporate members		**(66)**		(462)	
Paid during the year			**(1,432)**		(35,124)
Undertakings given to insolvent members at 31 December			**9,060**		45,310

The cumulative aggregate amount of all undertakings (excluding the supporting commitments) given by the Council at 31 December 2010 was £1.2bn of which £0.4bn has been recognised as recoveries by that date resulting in a net cost to the Central Fund of £0.8bn.

LIMITED FINANCIAL ASSISTANCE AGREEMENTS (LFAAs)

The first LFAAs were provided to individual members in 2005 to meet their outstanding underwriting liabilities. Further LFAAs were provided in 2010. Assistance is provided to individuals who are reliant on their Funds at Lloyd's (FAL) either because it is in the form of a bank guarantee secured on their sole residence or because they are reliant on the income generated by their FAL. All costs are funded by the New Central Fund.

INCOME SUPPORT SCHEMES

Hardship income top-up scheme

The Hardship Scheme was created in 1989 to assist individual members who had reduced means as a result of high underwriting losses. Members in the Scheme are eligible to receive ex-gratia top-up income payments from Lloyd's by virtue of having a Hardship Trust Fund (HTF) or having been awarded litigation recoveries used in 'Reconstruction and Renewal' to pay Equitas premiums. The Hardship Scheme is permanent and non-discretionary, but the granting of Hardship Income Top-up payments is at Lloyd's discretion. All costs are currently funded by the 'Old' Central Fund.

Income and Housing Support Scheme (IHSS Scheme)

The IHSS Scheme was established in 1996 to provide financial assistance to individual members who accepted the 'Reconstruction and Renewal' Settlement offer, to ensure that their housing and income requirements were maintained at a reasonable level. The payments under the scheme are discretionary and are currently funded by the 'Old' Central Fund.

Income Assistance Scheme

The Income Assistance Scheme is effective from 1 January 2010 and replaces both the Hardship Income Top-up payments and the IHSS. The Income Assistance Scheme is permanent, replacing the discretionary nature of the previous schemes, and guarantees ongoing payment other than in the event that Lloyd's faces severe financial stress. During the period 75% of individual members, in accordance with the initial terms of the Income Assistance Scheme, elected to receive a lump sum payment in lieu of future payments, which resulted in a release of £21m.

LLOYD'S PERFORMANCE PLAN (LPP)

The Society introduced a performance plan for all employees, effective from 1 January 2008 that is related to the results of the Lloyd's market. Details of the plan and the transitional arrangements for executive directors and senior employees are outlined in the report of the Nominations, Appointments and Compensation Committee on pages 83 to 91. Included within the charge for the year and provision utilised are National Insurance contributions of £0.8m (2009: £0.8m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2010

20. TRADE AND OTHER PAYABLES

	2010 £000	2009 £000
Due within one year:		
Trade and other creditors	**52,270**	26,172
Members' subscriptions and contributions repayable	**37,104**	26,007
Taxation and social security	**2,559**	1,871
Arbitration awards	**3,446**	2,380
Interest payable on subordinated loan notes	**20,700**	21,668
	116,079	78,098

21. FINANCIAL INSTRUMENTS

Explanations of the Society's financial instrument risk management objectives, policies and strategies are set out in the discussion of the Society's financial risk management and treasury policies on pages 98 and 99 of the Financial Review.

FAIR VALUES AND CREDIT RISK

The methods and assumptions used in estimating the fair value of financial instruments are detailed in note 2F on pages 108-109.

The fair value (based on the quoted offer prices) of subordinated debt is £926.0m (2009: £938.0m) against a carrying value measured at amortised cost of £930.2m (2009: £958.1m). All other financial instruments are either held at fair value or at an amount that approximates fair value.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, in the group statement of financial position. Exposures under guarantees entered into by the Society are detailed in note 25.

IMPAIRMENT LOSSES

Trade receivables

The ageing of trade receivables as at 31 December 2010 was as follows:

	2010 Gross £000	2010 Impairment £000	2010 Net £000	2009 Gross £000	2009 Impairment £000	2009 Net £000
Not past due	**17,164**	**–**	**17,164**	1,637	–	1,637
Past due 31-120 days	**1,533**	**–**	**1,533**	854	–	854
More than 120 days	**738**	**(630)**	**108**	911	(828)	83
Total	**19,435**	**(630)**	**18,805**	3,402	(828)	2,574

The Society's normal credit terms are 30 days.

Receivables of more than 120 days represent amounts due from members no longer underwriting in respect of Society charges.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2010 £000	2009 £000
Balance at 1 January	**828**	1,303
Additional allowances during the year charged to the group income statement	**136**	216
Allowances released during the year credited to the group income statement	**(54)**	(357)
Recoveries during the year	**(280)**	(334)
Balance at 31 December	**630**	828

SENSITIVITY ANALYSIS

Foreign currency exposure

Currency risk is the risk that the sterling value of the Society's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Society's exposure to the risk of changes in the foreign exchange rates relates primarily to retranslating foreign currency subordinated notes and perpetual subordinated capital securities, revaluation of loans recoverable and changes in the fair value of foreign currency denominated investments and forward contracts.

21. FINANCIAL INSTRUMENTS CONTINUED

SENSITIVITY ANALYSIS CONTINUED

Debt securities sensitivities

The value of the Society's investments in debt securities is affected by changes in the level of yields, as determined by the financial markets.

As at 31 December 2010, a consistent increase of 100 basis points in the yields applicable to all relevant securities would have reduced the surplus before tax by approximately £52m (2009: £66m). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ.

Equity price risk

Equity price risk is the risk that the market values of equity investments fall. At 31 December 2010, a 15% fall in the value of all the Society's equity investments would have reduced the surplus before tax by approximately £37m (2009: £31m). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ.

LIQUIDITY RISK

The table below summarises the maturity profile of the Society's non-derivative financial liabilities as at 31 December 2010 based on undiscounted contractual cash flows:

As at 31 December 2010	Carrying amount £000	Contractual cash flows £000	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Subordinated loan notes	513,698	(996,381)	(32,804)	(32,804)	(98,410)	(832,363)
Perpetual subordinated capital securities	416,475	(637,237)	(31,122)	(31,122)	(93,367)	(481,626)
Loans funding statutory insurance deposits	305,805	(305,805)	(305,805)	–	–	–
Trade and other payables	116,079	(116,079)	(116,079)	–	–	–
	1,352,057	(2,055,502)	(485,810)	(63,926)	(191,777)	(1,313,989)

As at 31 December 2009	Carrying amount £000	Contractual cash flows £000	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Subordinated loan notes	521,061	(1,043,939)	(33,254)	(33,254)	(99,762)	(877,669)
Perpetual subordinated capital securities	437,014	(701,807)	(32,680)	(32,680)	(98,039)	(538,408)
Loans funding statutory insurance deposits	166,692	(166,692)	(166,692)	–	–	–
Trade and other payables	78,098	(78,098)	(78,098)	–	–	–
	1,202,865	(1,990,536)	(310,724)	(65,934)	(197,801)	(1,416,077)

Forward currency contracts are settled gross; notional amounts are a close proxy for gross cash flow amounts. Further details regarding the subordinated loan notes and the perpetual subordinated capital securities can be found in note 17 on page 128. Information regarding financial guarantees, all of which could theoretically be called on within one year, can be found in note 25 on page 137.

DERIVATIVE FINANCIAL INSTRUMENTS

The Society enters into forward currency contracts to manage exposures to fluctuation of exchange rates and to provide a service to the Lloyd's market. The Society's derivative financial instruments are categorised as fair value Level 2 for disclosure purposes.

Analysis of forward currency contracts:	2010 £000	2009 £000
Outstanding forward foreign exchange gains	9,746	24,722
Outstanding forward foreign exchange losses	(24,170)	(12,872)

The fair value and notional amounts of forward currency contracts, all of which mature within one year, are analysed as follows:

	2010 Assets		2010 Liabilities	
As at 31 December 2010	Fair value £000	Notional £000	Fair value £000	Notional £000
Currency Conversion Service (CCS)	5,742	213,750	(5,622)	(213,902)
Other forward foreign exchange contracts	4,004	1,007,053	(18,548)	(1,021,596)
	9,746	1,220,803	(24,170)	(1,235,498)

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED
as at 31 December 2010

21. FINANCIAL INSTRUMENTS CONTINUED
DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

	2009 Assets		2009 Liabilities	
As at 31 December 2009	Fair value £000	Notional £000	Fair value £000	Notional £000
Currency Conversion Service (CCS)	4,115	207,310	(3,497)	(206,692)
Other forward foreign exchange contracts	20,607	920,479	(9,375)	(909,247)
	24,722	1,127,789	(12,872)	(1,115,939)

22. EQUITY
ACCUMULATED RESERVES

	2010 £000	2009 £000
Attributable to:		
Corporation of Lloyd's and non-insurance related subsidiary undertakings	**84,270**	75,135
Central Fund	**1,281,070**	983,269
Insurance related subsidiary undertakings	**62,922**	49,338
Associates	**6,325**	6,303
	1,434,587	1,114,045

REVALUATION RESERVE
The revaluation reserve is used to record increases in the fair value of the Lloyd's Collection and decreases to the extent that such decreases relate to the amount previously recognised in the group statement of comprehensive income.

23. COMMITMENTS
A. CAPITAL EXPENDITURE COMMITMENTS
Capital expenditure commitments contracted but not provided in the accounts totalled £1,132,000 (2009: £5,900,000).

B. OPERATING LEASE COMMITMENTS

	2010 £000	2009 £000
Non-cancellable operating lease rentals are payable as follows:		
Within one year	**24,595**	23,746
After one year but not more than five years	**75,416**	80,103
More than five years	**105,458**	123,774

Commitments outstanding under the terms of the lease for the Lloyd's 1986 building have been included at the current rental value (£16.8m per annum) to the first break of the lease in 2021. The lease was subject to a rent review in March 2006, the next review will be during 2011. The Lloyd's Chatham building is included at the current rental value (£0.4m per annum) to the first break in the lease in 2016. The lease will be subject to a rent review in 2011.

Subsidiary undertakings are party to a number of small operating leases mainly for property rental and small machinery. The commitments outstanding have been included at the current rental value to the first break in the lease. These arrangements do not impose any significant restrictions on the Society.

During the year ended 31 December 2010, £24.3m (2009: £23.1m) was recognised as an expense in the group income statement in respect of operating leases.

24. DISCLOSURE OF RELATED PARTY TRANSACTIONS

The group financial statements include the financial statements of the Society and all of its subsidiary undertakings, the Lloyd's Central Fund and the group's interests in its associates as listed in note 11.

Services provided to Ins-sure Holdings Limited group in the year ended 31 December 2010 included operating systems support and development, premises and other administrative services. The total value of the services provided was £274,000 (2009: £313,000). In addition, Ins-sure Holdings Limited group charged the Society £1,063,000 for services provided in the same year (2009: £1,673,000).

At 31 December 2010, there was a balance of £24,000 (2009: £4,000) owing from Ins-sure Holdings Limited group to the Society.

Services provided to Xchanging Claims Services Limited group in the year ended 31 December 2010 included premises and other administrative services.

The total value of the services provided was £76,000 (2009: £106,000).

At 31 December 2010, there was a balance of £1,000 (2009: £16,000) owing from Xchanging Claims Services Limited group to the Society. In addition, Xchanging Claims Services Limited group have charged the Society £223,000 for services provided in the same year (2009: £nil).

Transactions with associates are priced on an arm's length basis.

A member of Council, Rupert Atkin, is also a Director of Shrewsbury Underwriting Capital (Bermuda) Limited and Shrewsbury Underwriting Capital Limited. During the period the Society received other income of £188m relating to undertakings previously paid out in respect of these companies.

In the normal course of business, the Society may enter into transactions with Lloyd's market businesses in which members of Council and the Franchise Board may have an interest. Such transactions are on an arm's length basis.

25. CONTINGENT LIABILITIES

(a) General average guarantees have been given on behalf of, and secured by, Lloyd's underwriters. It is estimated that the aggregate of the liabilities attaching to these guarantees at 31 December 2010 amounted to £24.9m (31 December 2009: £26.0m).

(b) The Society has taken on the responsibilities of some individual members under hardship and other agreements.

In connection with the statutory transfer to Equitas Insurance Limited on 30 June 2009 of the non-life business underwritten at Lloyd's and allocated to 1992 or prior years of account, the Society has entered into undertakings for the benefit of certain policyholders of Equitas Insurance Limited (former policyholders of PCW syndicates or of members who at the material time still have the benefit of hardship or other agreements with the Society), under which the Society would meet any shortfall in recoveries by such policyholders from Equitas Insurance Limited on the occurrence of an 'Equitas Insolvency Event'.

The Society has also given an unlimited undertaking to its subsidiary undertaking Centrewrite Limited to meet any shortfall in its cashflow or assets (including any shortfall arising from an insufficiency of recoveries from Equitas Reinsurance Limited under its reinsurance of the obligations of Centrewrite to Equitas Insurance Limited).

(c) Uncollateralised bank guarantees and other arrangements have been entered into by the Society and its subsidiary undertaking, Additional Securities Limited, to provide security in connection with the underwriting activities of the members of Lloyd's in the countries shown:

	2010 £000	2009 £000
Guarantees provided by the Society:		
USA: US$1,500,000 (2009: US$1,500,000)	**958**	929
Guarantees provided by the Society including Additional Securities Limited:		
Cayman Islands: Letter of credit US$nil (2009: US$1,250,000)	–	774

(d) In Quebec, proceedings have been issued by Agence Nationale D'Encadrement Du Secteur Financier as the regulator of the Quebec policyholder protection fund, by 91 alleged insureds and by one intermediary, who was offering extended warranty programs to automobile dealers against the Society and other parties, arising out of the issue by a coverholder of purported 'policies of insurance' without the authority of a Lloyd's syndicate. The Society does not accept any liability in respect of this action.

In respect of all contingent liabilities disclosed as at 31 December 2010, no provision has been made in the Society financial statements as the Society does not accept any liability in respect of any of the claims.

FIVE YEAR SUMMARY

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Operating income	**210,193**	195,043	177,542	177,853	171,498
Central Fund contributions	**100,858**	99,687	84,294	168,346	152,226
General insurance net premium income	**1,463**	6,992	37,937	2,046	2,834
Other group income	**215,822**	52,048	32,397	81,478	23,477
Total income	**528,336**	353,770	332,170	429,723	350,035
Central Fund claims and provisions released/(incurred)	**34,245**	19,586	6,349	18,208	(115,735)
Contribution to Equitas – Berkshire Hathaway transaction	**–**	–	–	(90,000)	–
Gross insurance claims released/(incurred)	**11,602**	(6,714)	(77,314)	16,330	(55,461)
Insurance claims recoverable from/(payable to) reinsurers	**4,864**	302	42,806	(17,041)	56,804
Other group operating expenses:					
Employment (including pension costs)	**(92,464)**	(92,030)	(86,491)	(82,752)	(72,996)
Premises	**(42,755)**	(39,056)	(36,637)	(35,371)	(34,629)
Legal and professional	**(18,835)**	(19,089)	(16,944)	(16,580)	(18,442)
Systems and communications	**(27,920)**	(21,936)	(21,267)	(19,293)	(20,394)
Other	**(32,509)**	(67,951)	(26,364)	(33,827)	(24,334)
Total other group operating expenses	**(214,483)**	(240,062)	(187,703)	(187,823)	(170,795)
Surplus before finance, associates and tax	**364,564**	126,882	116,308	169,397	64,848
Finance costs	**(66,143)**	(69,345)	(74,405)	(53,752)	(32,921)
Finance income – surplus on subordinated debt repurchase	**1,470**	36,205	–	–	–
Finance income – other	**131,436**	79,555	165,008	128,468	52,942
Unrealised exchange gains/(losses) on borrowings	**7,954**	23,003	(69,233)	(18,059)	3,842
Share of profits of associates	**5,084**	3,363	3,930	4,395	1,867
Surplus before tax	**444,365**	199,663	141,608	230,449	90,578
Tax charge	**(121,752)**	(56,596)	(39,620)	(65,994)	(7,012)
Surplus for the year	**322,613**	143,067	101,988	164,455	83,566

MANAGING AGENTS AND SYNDICATES

The table shows the key characteristics for managing agents and syndicates active as at 31 December 2010. In 2010, Lloyd's wrote gross premiums of £22,592m.

Managing agent	Managed syndicate(s)	2010 GWP* £m	2009 GWP* £m	Owned share of syndicate(s) %
ACE Underwriting Agencies Limited	2488	**390**	400	100
Advent Underwriting Limited	0780	**186**	175	100
AEGIS Managing Agency Limited	1225	**286**	298	100
Alterra at Lloyd's Limited	1400	**118**	71	100
	2525	**37**	38	2
	2526	**38**	37	36
Amlin Underwriting Limited	2001	**1,212**	1,076	100
	6106	**43**	44	0
Antares Managing Agency Limited	1274	**189**	191	100
Arch Underwriting at Lloyd's Limited	2012	**113**	33	100
Argenta Syndicate Management Limited	1110	**28**	–	0
	1965	**32**	17	0
	2121	**179**	161	22
Argo Managing Agency Limited	1200	**308**	530	81
Ark Syndicate Management Limited	4020	**329**	310	99
	6105	**24**	31	0
Ascot Underwriting Limited	1414	**573**	602	100
Aspen Managing Agency Limited	4711	**189**	148	100
Atrium Underwriters Limited	0570	**133**	145	25
	0609	**230**	239	26
Beaufort Underwriting Agency Limited	0318	**156**	183	73
	1318	**24**	16	100
	2318	**8**	–	99
Beazley Furlonge Limited	0623	**228**	236	6
	2623	**970**	1,006	100
	3622	**11**	7	100
	3623	**124**	173	100
	6107	**11**	–	0
Brit Syndicates Limited	2987	**896**	897	100
Canopius Managing Agents Limited	0260	**52**	79	59
	4444	**582**	675	92
Capita Managing Agency Limited	2232	**16**	–	0
Cathedral Underwriting Limited	2010	**277**	282	58
	3010	**22**	23	100
Catlin Underwriting Agencies Limited	2003	**1,684**	1,604	100
	3002	**2**	1	100
Chaucer Syndicates Limited	1084	**863**	799	95
	1176	**27**	28	55
	1301	**105**	91	0
	4242	**67**	78	13
Chubb Managing Agent Limited	1882	**22**	–	100
Equity Syndicate Management Limited	0218	**528**	635	64
Faraday Underwriting Limited	0435	**222**	304	100
Flagstone Syndicate Management Limited	1861	**122**	93	100
	1969	**64**	–	0
Hardy (Underwriting Agencies) Limited	0382	**280**	238	100
HCC Underwriting Agency Limited	4040	**5**	38	0
	4141	**93**	26	100
Hiscox Syndicates Limited	0033	**872**	1,034	73
	3624	**110**	68	100
	6104	**33**	35	0

MANAGING AGENTS AND SYNDICATES CONTINUED

Managing agent	Managed syndicate(s)	2010 GWP* £m	2009 GWP* £m	Owned share of syndicate(s) %
Jubilee Managing Agency Limited	0779	**27**	33	14
	1231	**5**	49	0
	5820	**132**	98	86
Liberty Syndicate Management Limited	4472	**1,035**	1,025	100
Managing Agency Partners Limited	2791	**281**	325	21
	6103	**20**	30	0
Markel Syndicate Management Limited	3000	**316**	275	100
Marketform Managing Agency Limited	2468	**175**	149	61
Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited	3210	**272**	331	100
Montpelier Underwriting Agencies Limited	5151	**149**	109	100
Munich Re Underwriting Limited	0457	**339**	366	100
Navigators Underwriting Agency Limited	1221	**208**	201	100
Newline Underwriting Management Limited	1218	**105**	117	100
Novae Syndicates Limited	2007	**581**	356	100
Omega Underwriting Agents Limited	0958	**325**	325	39
Pembroke Managing Agency Limited	4000	**170**	113	100
QBE Underwriting Limited	0386	**458**	417	70
	2999	**1,013**	1,040	100
R. J. Kiln & Co. Limited	0308	**26**	18	50
	0510	**897**	925	53
	0557	**37**	51	0
	0807	**131**	154	50
	1880	**179**	131	100
Renaissance Re Syndicate Management Limited	1458	**43**	11	100
RITC Syndicate Management Limited	5678	**2**	0	100
Riverstone Managing Agency Ltd	2112	**0**	20	0
S.A. Meacock & Company Limited	0727	**72**	126	11
Sagicor at Lloyd's Limited	0044	**2**	3	100
	1206	**291**	219	100
Shelbourne Syndicate Services Limited	2008	**89**	37	100
Sportscover Underwriting Limited	3334	**52**	22	68
Starr Managing Agents Limited	1919	**383**	328	100
	2243	**56**	41	0
Talbot Underwriting Limited	1183	**633**	586	100
Travelers Syndicate Management Limited	5000	**365**	380	100
Whittington Capital Management Limited	1910	**101**	118	0
	1955	**201**	141	0
	1967	**54**	16	0
XL London Market Limited	1209	**340**	266	100
All Other syndicates and RITC adjustment		**(86)**	(174)	
Total		**22,592**	21,973	

As at 31 December 2010.

Name changes and managing agent changes during 2010 or after:
Cavell Managing Agency Limited changed to R&Q Managing Agency Limited
Max at Lloyd's Ltd changed to Alterra at Lloyd's Ltd
Marlborough Underwriting Agency Limited changed to Flagstone Syndicate Management Limited
Syndicate 260, previously managed by KGM Underwriting Agencies Limited, transferred to Canopius Managing Agents Limited
Syndicate 1955, previously managed by Whittington Capital Management Limited, transferred to Barbican Managing Agency Limited
Syndicates 2525 & 2526, previously managed by Alterra at Lloyd's Limited, transferred to Whittington Capital Management Limited

AS AT 1 MARCH 2011
The following syndicates commenced trading for the 2011 year of account:
R&Q Managing Agency Limited 1897
Whittington Capital Management Limited 2015
Capita Managing Agency Limited 2255

* See glossary on page 141.

GLOSSARY OF TERMS

Set out below is a guide to insurance and Lloyd's-related terms. These are not precise definitions but are included to provide assistance to readers as to the general meaning of terms commonly used in the Lloyd's market. Formal definitions are set out in the Definitions Byelaw.

ACCIDENT YEAR RATIO
The accident year ratio is calculated as expenses and incurred losses (paid and reserves) for claims occurring in the year as a proportion of net premiums earned during the year. It excludes movements during the calendar year on claims, expenses and premium estimates for previous years.

ACTIVE UNDERWRITER
A person employed by a managing agent with principal authority to accept insurance and reinsurance risks on behalf of the members of a syndicate.

BINDING AUTHORITY
An agreement between a Lloyd's managing agent and a coverholder under which the Lloyd's managing agent delegates its authority to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate.

CALENDAR YEAR RATIO
This is the combined ratio (see below) and is the sum of the accident year ratio (see above) and the prior years' reserve movements (see below).

CALLABLE LAYER
Central Fund assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds.

CAPACITY
In relation to a member, it is the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate it is the aggregate of each member's capacity allocated to that syndicate.

CENTRAL ASSETS
The net assets of the Society including the Central Fund, but excluding the subordinated debt liability and the callable layer.

CENTRAL FUND
The fund financed by (among other things) contributions from Lloyd's members and administered by the Council primarily as a fund for the protection of policyholders, and includes both the 'Old' Central Fund and the New Central Fund.

COMBINED RATIO
A measure of an insurer's underwriting profitability based on the ratio of net incurred claims plus net operating expenses to net earned premiums. A combined ratio of 100% is break even (before taking into account investment returns). A ratio less than 100% is an underwriting profit.

CORPORATE MEMBER
A company incorporated with limited liability, a Scottish limited partnership or a limited liability partnership, admitted to membership of the Society.

COUNCIL
Created by Lloyd's Act 1982, the Council has the management and superintendence of the affairs of the Society and the power to regulate and direct the business of insurance at Lloyd's.

COVERHOLDER
A firm either in the UK or overseas that is authorised by a managing agent under the terms of a binding authority to enter into contracts of insurance to be underwritten by members of a syndicate managed by the managing agent. A Lloyd's broker may act as a coverholder.

FINANCIAL SERVICES AUTHORITY (FSA)
The body that regulates the financial services industry in the UK.

FRANCHISE BOARD
The board established by the Council with responsibility for creating and maintaining a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised. This includes setting the risk management framework and profitability targets for the market.

FUNDS AT LLOYD'S (FAL)
Capital lodged and held in trust at Lloyd's as security for the policyholders and to support a member's overall underwriting business.

GROSS WRITTEN PREMIUMS (GWP)
Written insurance premiums, gross of reinsurance and acquisition costs.

INTEGRATED LLOYD'S VEHICLE (ILV)
An arrangement in which a syndicate's capital is wholly provided by corporate members that are under the same ownership and control as the syndicate's managing agent.

MANAGING AGENT
An underwriting agent responsible for managing a syndicate, or multiple syndicates.

MEMBER (OF THE SOCIETY)
A person admitted to membership of the Society.

NAME
A member of the Society who is an individual and who trades on an unlimited basis.

NEW CENTRAL FUND
The New Central Fund constituted by and governed by the New Central Fund Byelaw (No. 23 of 1996).

PREMIUMS TRUST FUNDS (PTF)
The premiums and other monies that members receive in respect of their underwriting at Lloyd's are held by their managing agents in trust for them subject to the discharge of their underwriting liabilities.

The premiums trust funds comprise a sterling fund, Lloyd's American Trust Fund, Lloyd's Dollar Trust Funds, Lloyd's Canadian Trust Fund and the Lloyd's Asia trust funds (which cover general business written through coverholders in Singapore). These premiums trust funds are available to fund overseas regulatory deposits, claims, return premiums, underwriting expenses and any profit that is payable to the member after providing for all future liabilities.

PRIOR YEARS' RESERVE MOVEMENTS
This is calculated as movements in reserves established for claims that occurred in previous accident years as a proportion of net premiums earned during the year.

REALISTIC DISASTER SCENARIOS (RDS)
A series of scenarios, both natural and man-made, which are used to assess the market's risk profile to a variety of different catastrophes to enable better risk management practices within Lloyd's.

GLOSSARY OF TERMS
CONTINUED

REINSURANCE TO CLOSE (RITC)
A reinsurance agreement under which members of a syndicate for a year of account to be closed are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.

REINSURANCE TO CLOSE (RITC) SYNDICATE
A syndicate set up solely to underwrite the Reinsurance to Close of other syndicates.

SERVICE COMPANY
A service company means an approved coverholder that (a) is associated with a managing agent by reason of it being a wholly owned subsidiary of the managing agent; or being a wholly owned subsidiary of the managing agent's holding company; or such other matters as the Franchise Board may determine in any particular case or generally; and (b) will be authorised by its associated managing agent to enter into contract(s) of insurance to be underwritten only by members of a syndicate managed by the associated managing agent or an insurance company which is a member of the same corporate group.

SPECIAL PURPOSE SYNDICATE (SPS)
A syndicate set up solely to underwrite a quota share reinsurance of another syndicate's business for a year of account.

SPREAD SYNDICATE
A syndicate whose capital is provided by a number of different members, including members that have separate ownership and control, to the syndicate's managing agent.

SPREAD VEHICLE
A corporate member underwriting on a number of different syndicates.

SYNDICATE
A member, or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.

TIER 1 CAPITAL
The core measure of an insurer's financial strength from the viewpoint of the FSA. It consists of the most reliable and liquid assets. The perpetual securities issued in 2007 qualify as tier 1 capital as the proceeds of the debt issue are fully paid and immediately available; debt holders are sub-ordinate to payment of claims.

TRADITIONAL SYNDICATE
A syndicate whose members underwrite insurance business at Lloyd's for the current year of account and which is neither an SPS syndicate or an RITC syndicate.

YEAR OF ACCOUNT
The year to which a risk is allocated and to which all premiums and claims in respect of that risk are attributed. The year of account of a risk is usually determined by the calendar year in which the risk incepts. A year of account is normally closed by reinsurance at the end of 36 months.

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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