

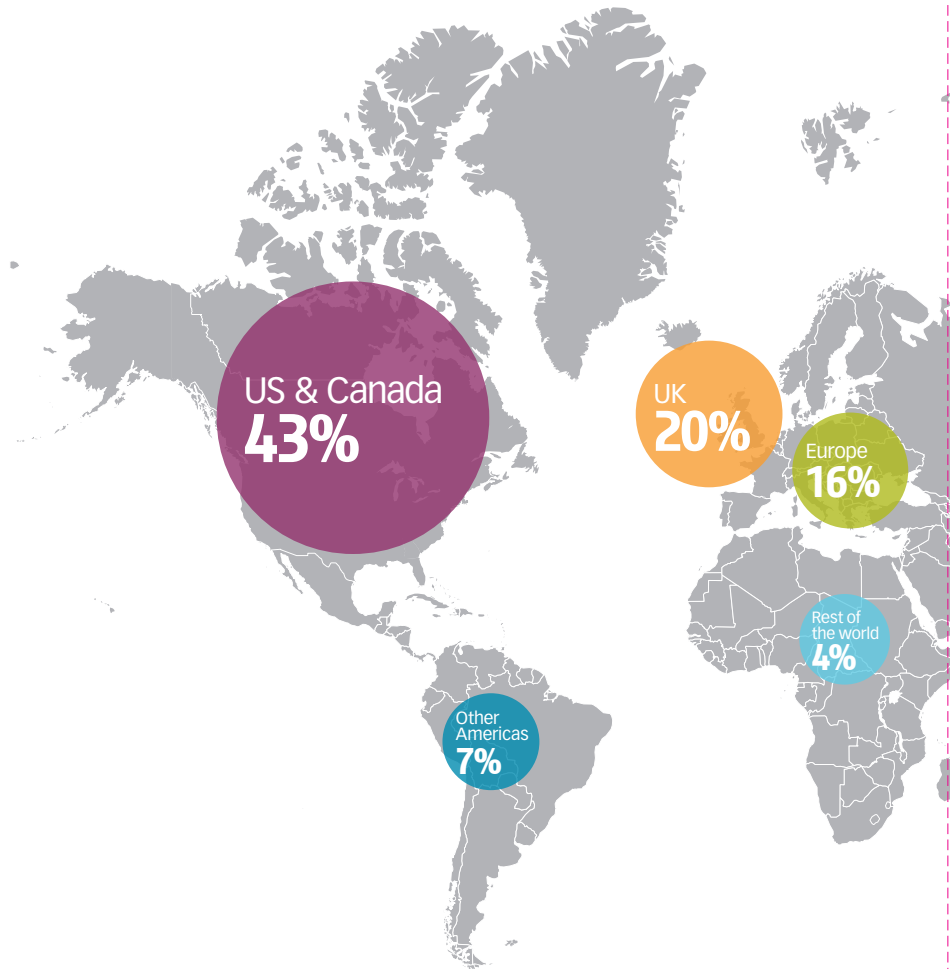
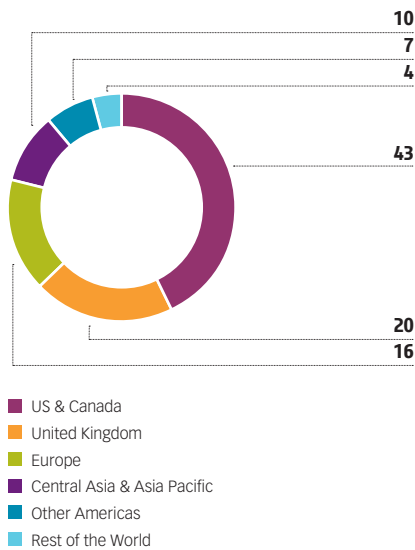
LLOYD'S
**ANNUAL
REPORT**
2010

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.

LATIN AMERICA

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

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.

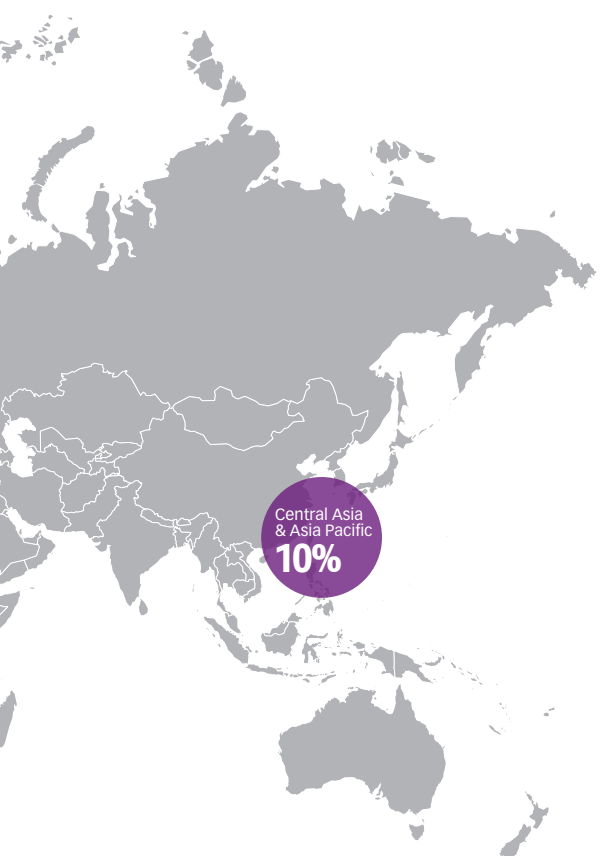
AFRICA








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

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.

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**

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Welcome to Lloyd's

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WELCOME TO LLOYD'S

FINANCIAL HIGHLIGHTS

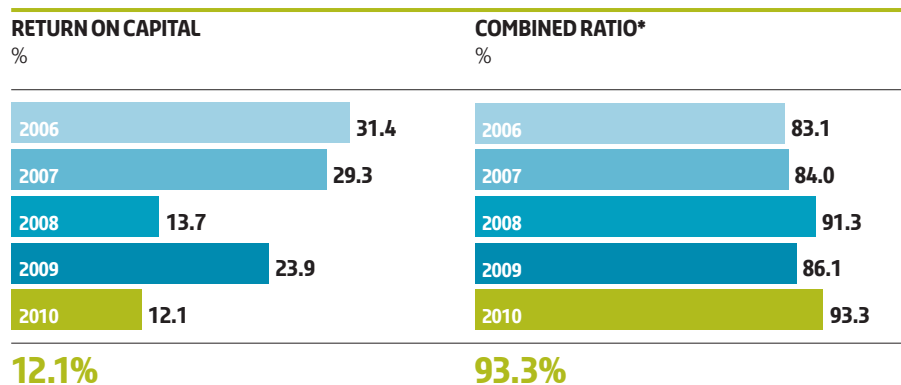
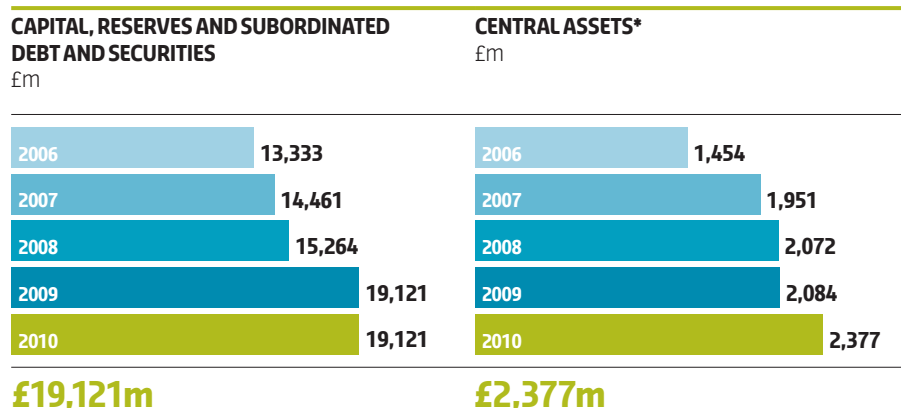
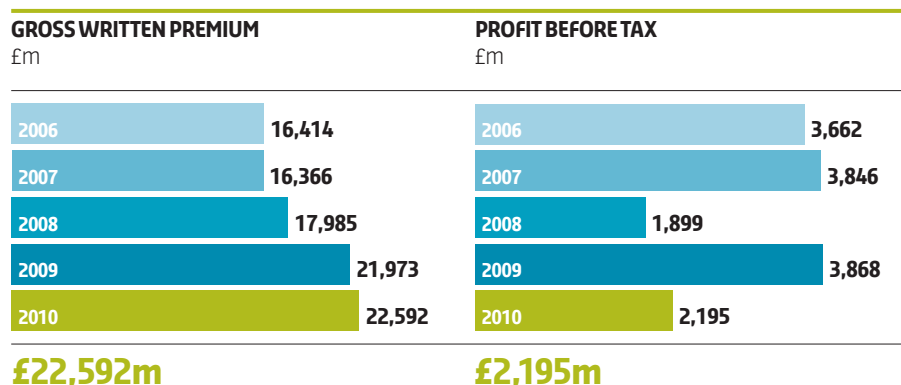
The pro forma financial statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies. The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's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

- > 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



* 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.

**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**.



Welcome to Lloyd's

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Market results

Society report

HOW WE WORK MARKET STRUCTURE

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.

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

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

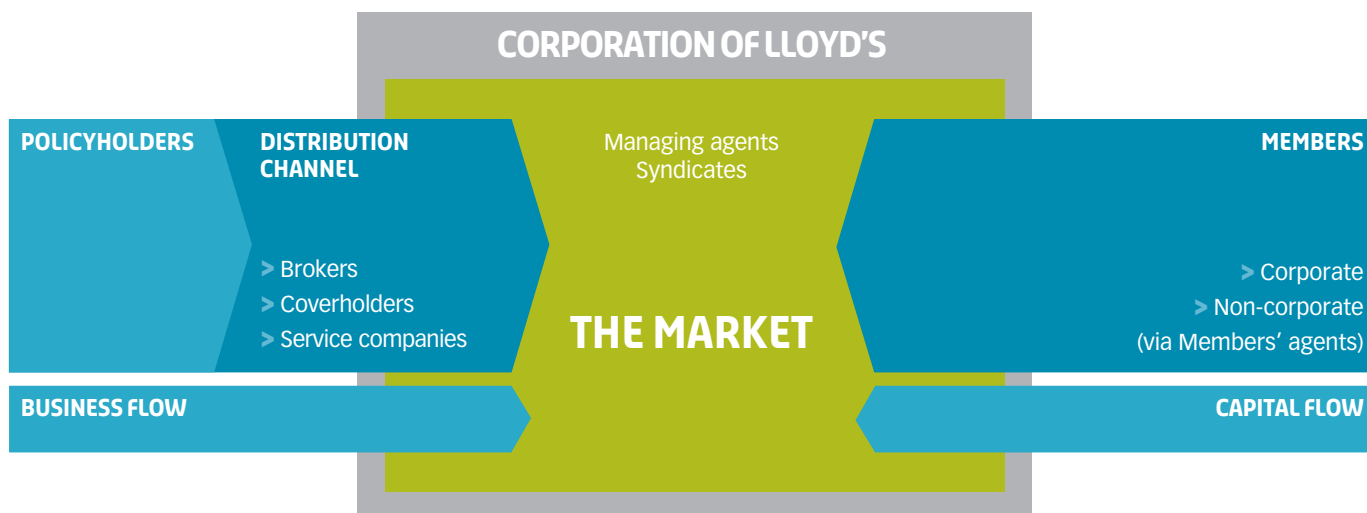
WRITING THE INSURANCE

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.

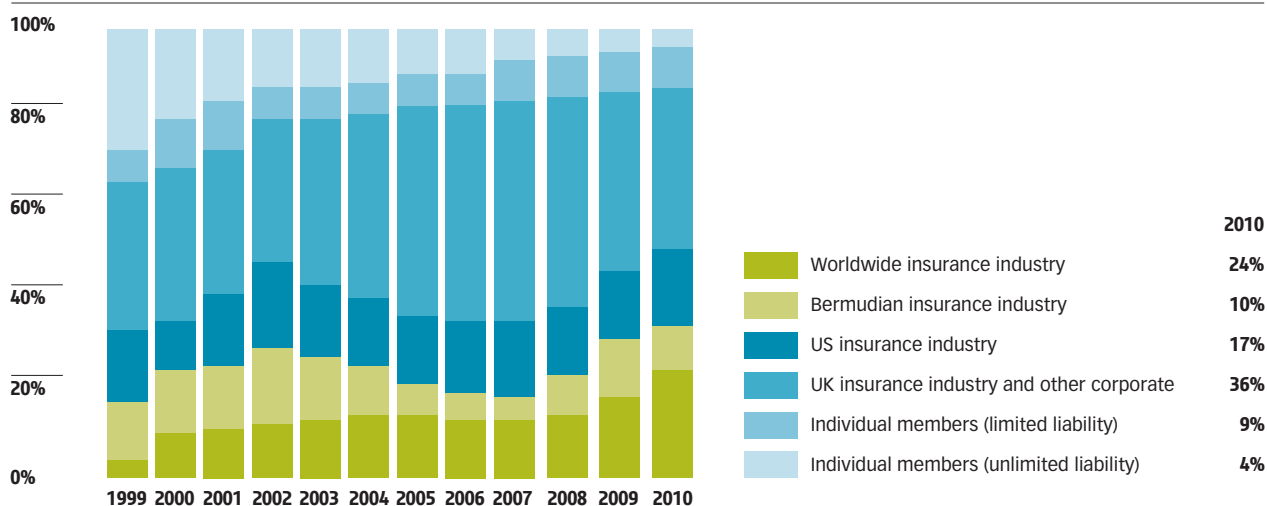
More information on Corporation employees can be found in People Strategy on **page 33**.



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

Figure 2

SOURCES OF CAPITAL BY TYPE AND LOCATION



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.

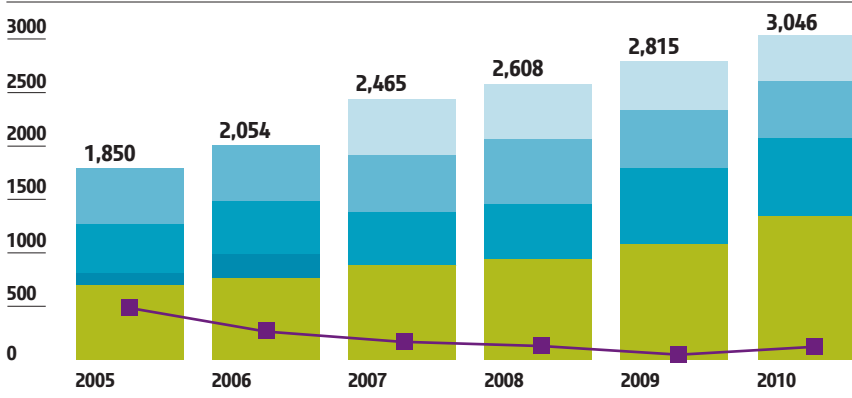
Figure 3

CHAIN OF SECURITY

| | | | |
|----------------|-------------|---|-------------------------|
| SEVERAL ASSETS | FIRST LINK | SYNDICATE LEVEL ASSETS £39,021m | |
| | SECOND LINK | MEMBERS' FUNDS AT LLOYD'S £13,832m | |
| MUTUAL ASSETS | THIRD LINK | CENTRAL FUND £1,285m CORPORATION £162m | CALLABLE LAYER £703m |
| | | SUBORDINATED DEBT/ SECURITIES £930m | |

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.

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](#).

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.

HOW WE WORK MANAGING 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**.

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

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.



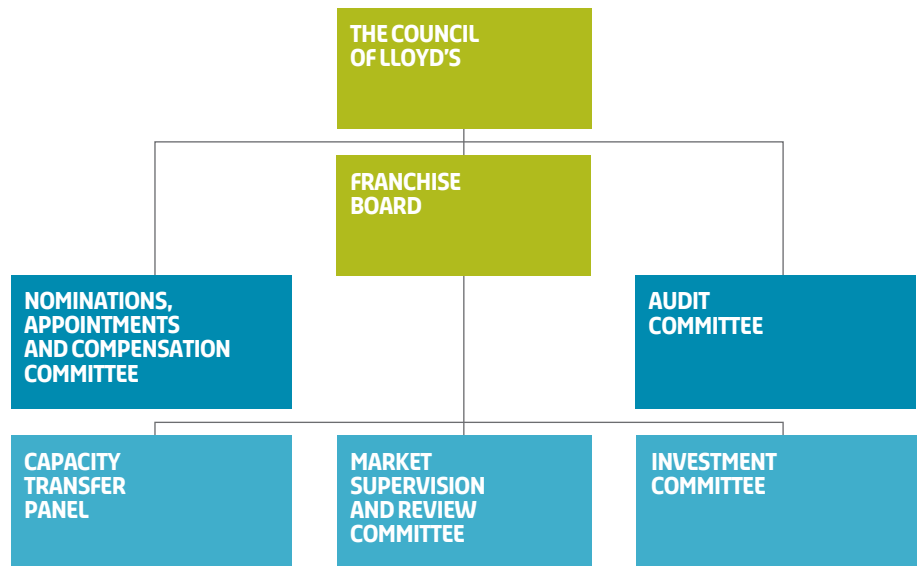
For more information see
www.lloyds.com/pmdr

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.

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| 03 | 08 |
| 04 | 09 |
| 05 | 10 |



Welcome to Lloyd's

Strategic overview

Market performance

Market results

Society report

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 <ul style="list-style-type: none"> > Challenging rating environment > Excess capital within the industry > Challenging economic conditions | <ul style="list-style-type: none"> > 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 <ul style="list-style-type: none"> > Competition to be domicile of choice – based on tax and regulatory frameworks > Choice of locations for accessing insurance business flows > Attracting and developing talent | <ul style="list-style-type: none"> > 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 <ul style="list-style-type: none"> > 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 | <ul style="list-style-type: none"> > 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 <ul style="list-style-type: none"> > 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 | <ul style="list-style-type: none"> > 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 <ul style="list-style-type: none"> > Uncertainty around international financial services regulatory reform > A new framework for insurance regulation in the UK > Operational and strategic implications of Solvency II | <ul style="list-style-type: none"> > 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

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.

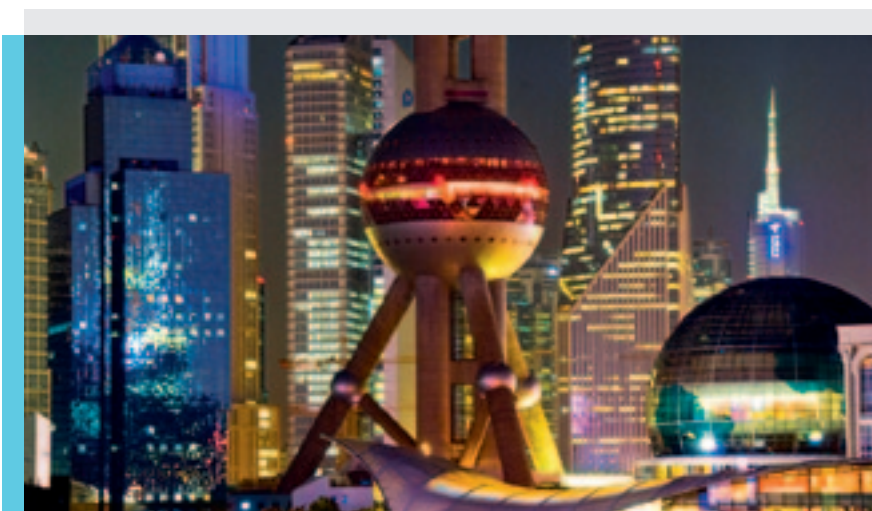
The online directory has been redesigned so agents can find their nearest coverholder easily. Atlas, an online system to assist the market in managing coverholder information, has been enhanced to allow regulatory, audit and approval information to be viewed online. Lloyd's has clarified the information 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.

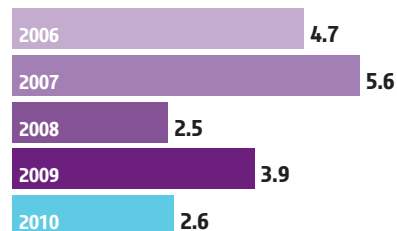
COMBINED RATIO

%



INVESTMENT RETURN

%

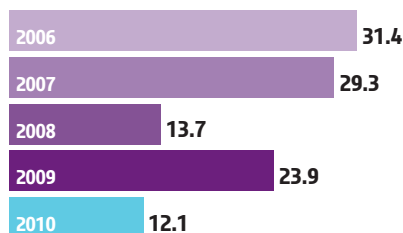


Pre-tax return on capital

- > 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

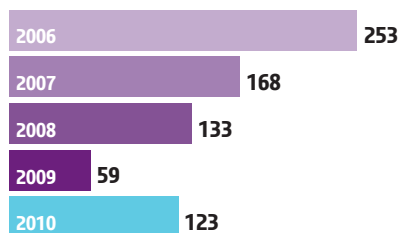
- > Definition: The aggregate shortfalls for all members where the member's assets are insufficient to cover its underwriting liabilities and member capital requirement.
- > Rationale: Indication of success at mitigating Central Fund exposure. Lower is better.
- > Progress: A small increase in the solvency 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%.

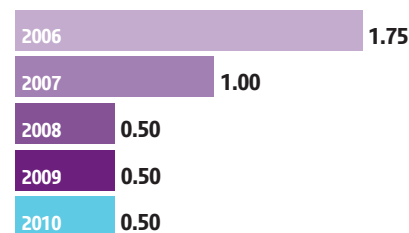
SOLVENCY DEFICIT

£m



COST OF MUTUALITY

%



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



REINSURANCE



Maximum brand index score: 200

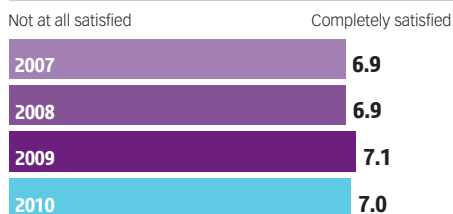
Managing agent satisfaction levels

- > 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



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 | <ul style="list-style-type: none"> > 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 | <ul style="list-style-type: none"> > 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 | <ul style="list-style-type: none"> > 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 | <ul style="list-style-type: none"> > 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 | <ul style="list-style-type: none"> > 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 |

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

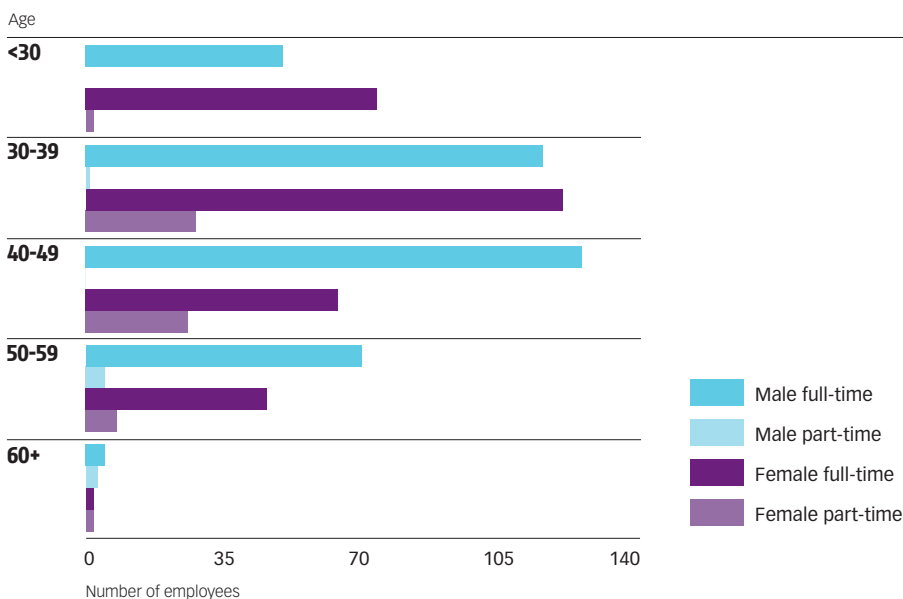
Building on the positive results seen in the annual staff Engagement Survey, in 2010, Lloyd's entered submissions to be considered for two UK high-profile employer rankings. In our first year we have been successful in both and have achieved a one star accreditation in Best Companies and a position in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

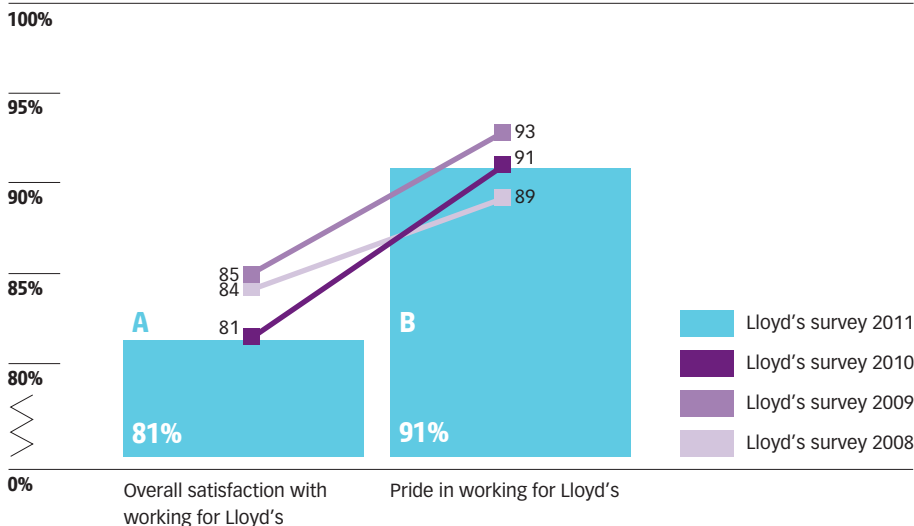
At the start of the week Corporation employees received information about the new employee assistance programme, EmployeeCare, which offers employees confidential independent support for stress, debt management, legal advice and other matters. Employees were also provided with a pedometer to encourage 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 | |
|--------------------------|-----------|------|------------------|------|---------|------|------------------------|------|-------|------|-------|------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Figures in numbers | | | | | | | | | | | | |
| 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 | | | | | | | | | | | | |
| 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.

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.

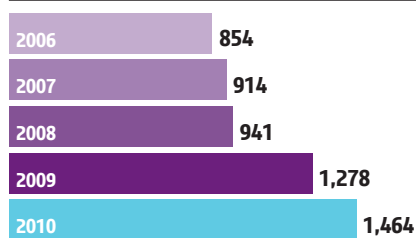
This year, a group of volunteers from member company RJ Kiln, which has participated for three years, won the Volunteer Team 2010 award from East London Business Alliance (ELBA), by creating a café area at St John At Hackney Community Space Centre. Liam Kane, CEO of ELBA said "We encourage team volunteering 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.

Figure 10

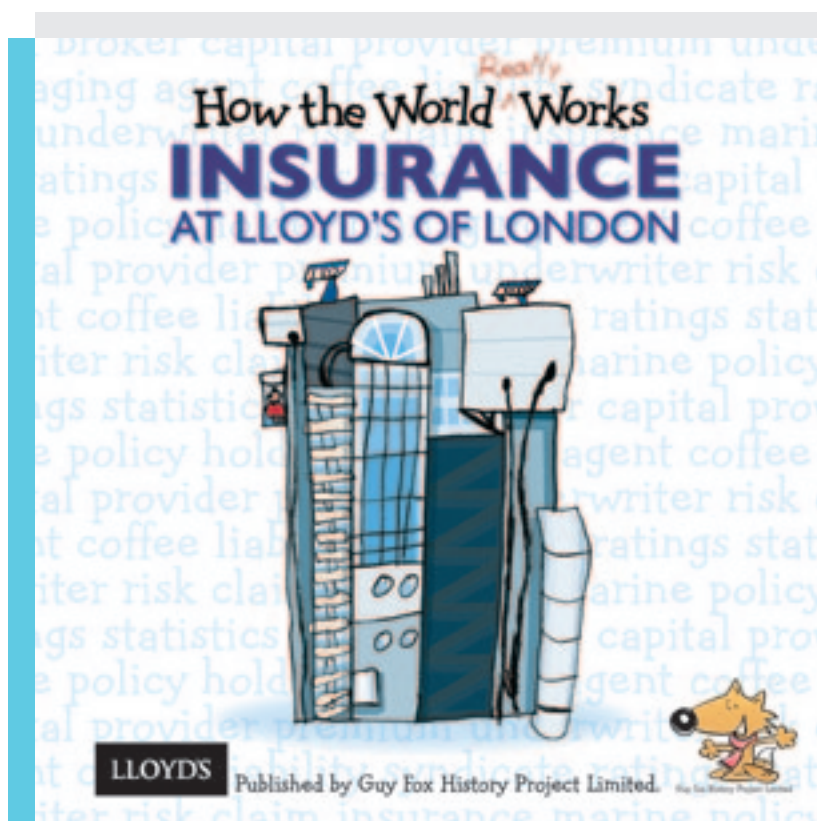
LLOYD'S COMMUNITY PROGRAMME VOLUNTEER INVOLVEMENT

Number of volunteers



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
 Canopus 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 TRICENTENARY FOUNDATION

Established in 1988 to mark the 300th anniversary of the market, Lloyd's Tricentenary 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

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

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PROPERTY

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CASUALTY

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MARINE

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ENERGY

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MOTOR

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AVIATION

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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

| | |
|-------------|-------|
| REINSURANCE | 590 |
| PROPERTY | 283 |
| CASUALTY | 113 |
| MARINE | 128 |
| ENERGY | 164 |
| MOTOR | (520) |
| AVIATION | 115 |
| LIFE | 3 |

COMBINED RATIO BY CLASS %

| | |
|-------------|-------|
| REINSURANCE | 90.3 |
| PROPERTY | 92.4 |
| CASUALTY | 96.6 |
| MARINE | 90.9 |
| ENERGY | 83.3 |
| MOTOR | 151.5 |
| AVIATION | 74.9 |
| LIFE | 94.1 |

* 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.