LLOYD'S

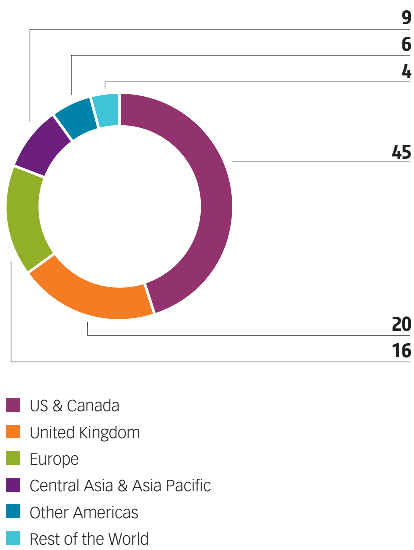
LLOYD'S ANNUAL REPORT 2009

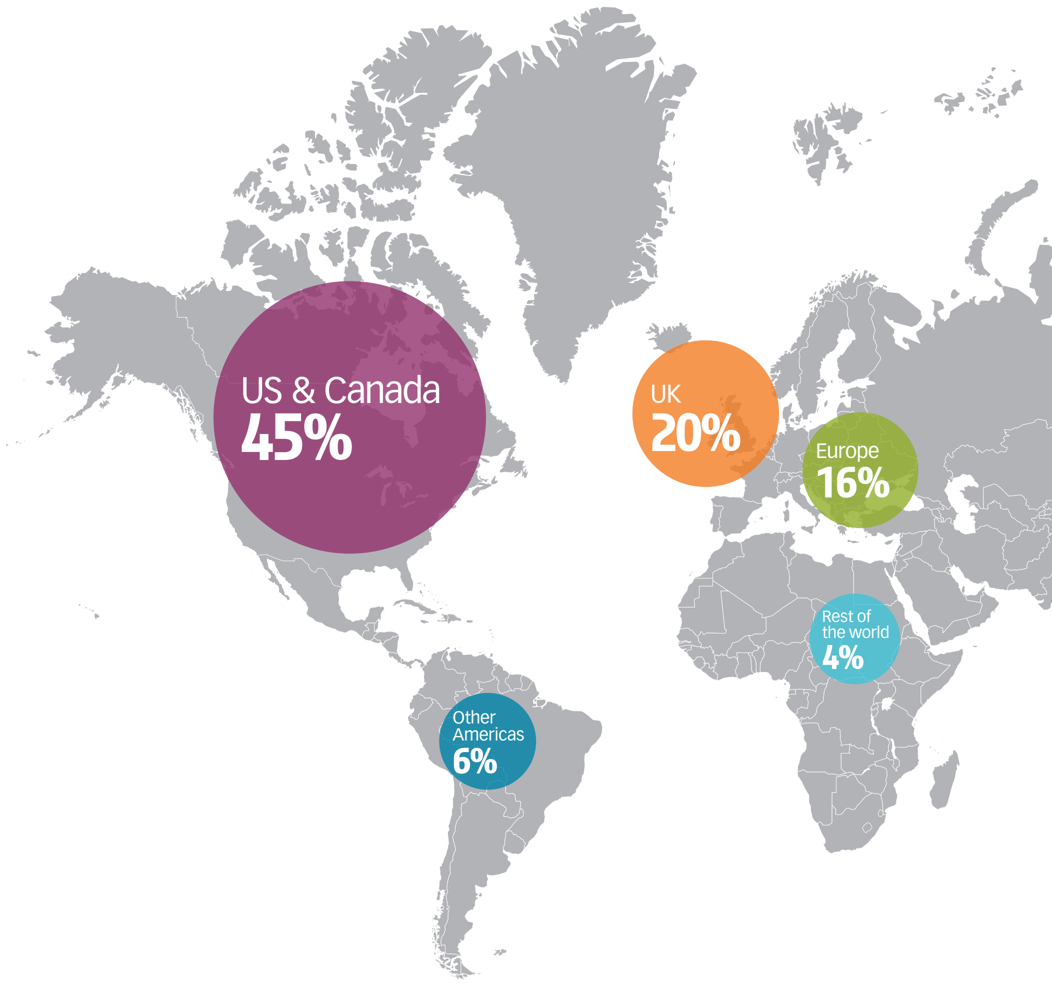
OUR BUSINESS

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

Our 80 licences, supported by a network of local offices, ensure access to insurance markets large and small.

LLOYD'S TOTAL BUSINESS BY REGION



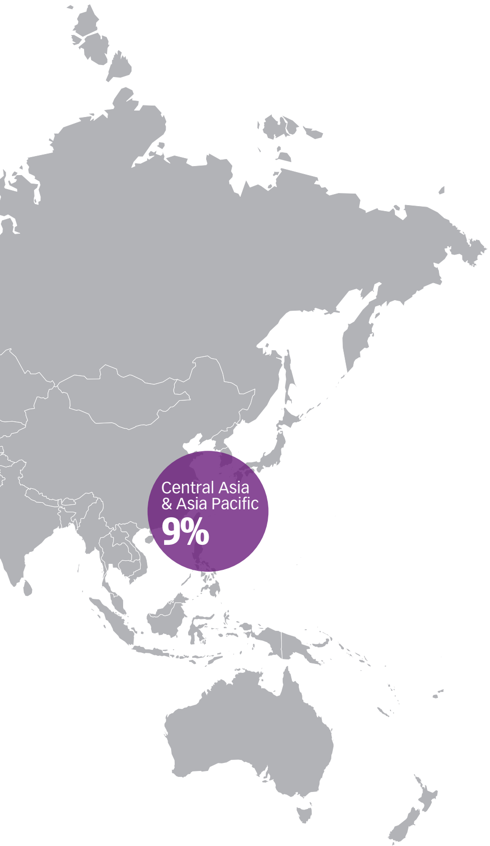


LLOYD'S IN NUMBERS

84
SYNDICATES
of specialist underwriting experience and talent

181
BROKERS
daily creating insurance solutions in over…

200
COUNTRIES AND TERRITORIES
which covers…



LLOYD'S CLASS BREAKDOWN BY REGION

	US & Canada	Other Americas	United Kingdom	Europe	Central Asia & Asia Pacific	Rest of the world	TOTAL
REINSURANCE	31%	75%	28%	36%	47%	61%	36%
PROPERTY	31%	8%	20%	16%	14%	9%	23%
CASUALTY	20%	8%	21%	20%	25%	13%	20%
MARINE	5%	4%	7%	17%	6%	8%	7%
ENERGY	10%	2%	1%	6%	4%	3%	6%
MOTOR	1%	1%	22%	1%	1%	2%	5%
AVIATION	2%	2%	1%	4%	3%	4%	3%
TOTAL	**45%**	**6%**	**20%**	**16%**	**9%**	**4%**	**100%**

96%
OF THE FTSE 100
and…

87%
OF DOW JONES
industrial average companies

all underpinned by…

322
YEARS OF UNDERWRITING EXPERIENCE

LLOYD'S VISION

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

CONTENTS

WELCOME TO LLOYD'S

FINANCIAL HIGHLIGHTS

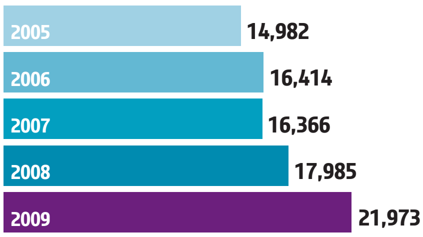
- Lloyd's achieved a record profit before tax of £3,868m (2008: £1,899m) and a combined ratio of 86.1% (2008: 91.3%). This was a strong performance during challenging economic conditions and reflects ongoing underwriting discipline, a recovery of confidence in financial markets and an absence of severe catastrophe losses
- Lloyd's remains a stable and secure subscription market for risk with record levels of premium income of £21,973m (2008: £17,985m) and capital, reserves and subordinated debt and securities of £19,121m (2008: £15,264m)
- Central assets increased for the fifth successive year to £2,084m (2008: £2,072m)

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 44.**

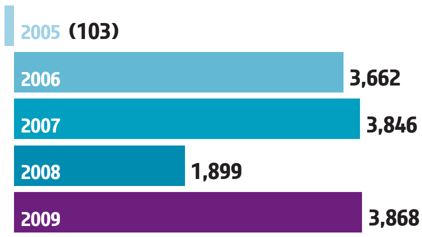
The Aggregate Accounts are reported as a separate document and can be found at **www.lloyds.com/financialreports**

GROSS WRITTEN PREMIUM
£m



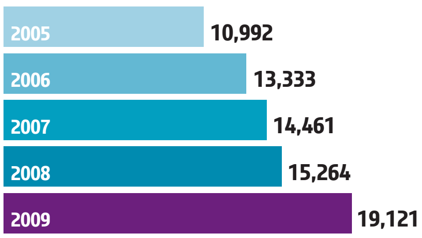
£21,973m (2008: £17,985m)

PROFIT/(LOSS) BEFORE TAX
£m



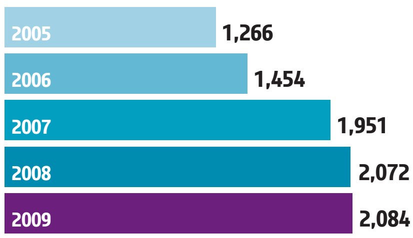
£3,868m (2008: £1,899m)

CAPITAL, RESERVES AND SUBORDINATED DEBT AND SECURITIES
£m



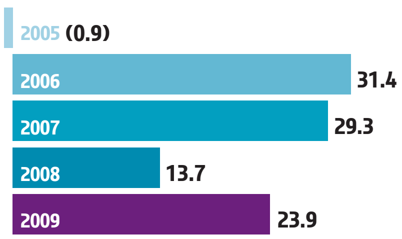
£19,121m (2008: £15,264m)

CENTRAL ASSETS*
£m



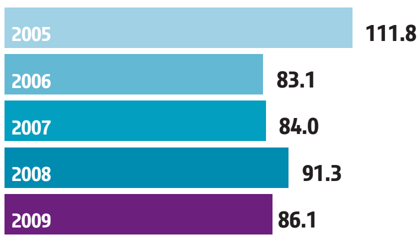
£2,084m (2008: £2,072m)

RETURN ON CAPITAL
%



23.9% (2008: 13.7%)

COMBINED RATIO*
%



86.1% (2008: 91.3%)

* See Glossary on page 143
The basis for translating income and expenditure and assets and liabilities in foreign currency is set out on page 66.

CHAIRMAN'S STATEMENT

THE MARKET CAN BE PROUD OF WHAT IT HAS ACHIEVED IN 2009.

"At Lloyd's, our resilience means that we can face the future with confidence."

In a year when many parts of the financial services sector needed government bailouts, the insurance industry in general and Lloyd's in particular have done well. Even during difficult periods in the past, Lloyd's has relied on the resources of its members and not on the public purse and, most importantly, we have demonstrated that fundamental reform can happen from within. The changes which we put into place after the World Trade Center tragedy – especially closer oversight of underwriting and management of risk – and the lessons which we learned from the US corporate collapses in the last decade have served us well over the recent period of economic uncertainty.

These results show that not all parts of the financial services sector are the same. At Lloyd's, our resilience means that we can face the future with confidence. As regulators across the world discuss and finalise plans to reform the supervision of financial services, they need to recognise that many parts of the financial sector, such as ours, were not responsible for the financial crisis. We should not be burdened with regulatory changes which might hinder us from competing internationally and contributing to the creation of jobs and tax revenue in the United Kingdom.

The hard work and very careful attention to risk in the Lloyd's market, have resulted in a profit of £3,868m, the highest that we have ever recorded. These results were achieved despite the economic turbulence that characterised most of 2009, although we were certainly helped by a low level of catastrophe related losses – particularly a benign Atlantic hurricane season. The market can be proud of what it has achieved in 2009.

80% of our business comes from markets outside the UK, and improving access to Lloyd's remains a priority. Nonetheless, we remain a London-based market and a key part of the fabric of the UK financial industry.

Lloyd's success in 2009 is a tribute to the managing agents and brokers who work in the market, and also to the ancillary services that support the UK financial industry such as the accountancy and law firms. It is this depth of expertise and talent that makes London such a successful financial centre.

The trend of insurance companies choosing to redomicile their holding company outside the UK continued in 2009, with tax increasingly cited as a factor in their decision, although those with Lloyd's interests continue to play an active role in the market and to write as much business here as before.

It is critical to maintain a business environment in London which builds on the many strengths that the City offers to global business – the depth and breadth of our financial services sector, our first class legal system and, above all, a skilled, professional and dedicated workforce. Alongside these, a competitive tax regime is important to retain existing business and attract new opportunities to London.

But we can derive confidence from our performance in 2009, a very positive year for Lloyd's, not simply because it resulted in record profits, but also because we were able to help individuals and businesses across the globe to manage their risks and provide them with security in an uncertain financial climate.

As ever, the success of Lloyd's in 2009 was only possible due to the hard work and dedication of those who work in the Corporation and across the market. I would also like to thank the members of the Council and the Franchise Board for their contribution which has helped to ensure the continued success and progress of Lloyd's.

A number of members of Council – Martin Hudson, Philip Lader, Barbara Merry, Eileen McCusker and Dermot O'Donohoe – have stepped down in the last year and our thanks are due to them for all that they have done for Lloyd's and to Jim Stretton for his distinguished service on the Franchise Board.

The results now reported are also a tribute to Rolf Tolle who retired from Lloyd's at the end of the year. Rolf's period in office will be remembered for his pioneering work in establishing the Franchise Performance Directorate, a division which is now a quintessential element of our daily working practices. Rolf was awarded the rare distinction of a Lloyd's Silver Medal for his invaluable contribution – recognition which is richly deserved.

I am grateful for the efforts of all the businesses in the Lloyd's market, which have led to these excellent results – their skill, prudence and endeavour will be seriously tested during 2010, which promises to be a challenging year for the entire industry, as rates soften.

PETER LEVENE
Chairman
23 March 2010

ABOUT LLOYD'S

WELCOME TO LLOYD'S – THE WORLD'S LEADING 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 shipowners could meet people with the capital to insure them. Since then, Lloyd's has developed from its marine heritage to become the world's leading market for specialist property and casualty insurance, offering a unique concentration of expertise and talent, backed by strong financial ratings that cover the whole market.

Like any dynamic, innovative market, it allows those with something to sell (underwriters providing insurance coverage) to make contact with those who want to buy (brokers, working on behalf of clients seeking insurance). Our strength is built upon the diversity of managing agents (underwriting agents responsible for managing a syndicate) who choose to operate at Lloyd's, supported by capital from diverse sources around the world.

Lloyd's remains a place where business is conducted face-to-face. The Underwriting Room is central to the smooth running of our subscription market, which is a key part of the Lloyd's business model as many large or specialist risks are written by more than one syndicate. We offer a range of distribution channels which allow managing agents to access specialist business primarily via brokers, coverholders and service companies.

The Central Fund remains important to Lloyd's, and is a key factor in maintaining our competitive position in the global insurance market while also underpinning our international licences and strong financial ratings.

Over the last few years, much has been achieved in embedding changes to the way Lloyd's does business – 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, making Lloyd's an easier place to do business. In early 2009, for example, we launched The Exchange, a messaging hub that simplifies connections between brokers and managing agents. Our steady international expansion continues the development of the Lloyd's market for the future.

Managing performance throughout the cycle remains a priority for the Corporation's management, helping syndicates to focus on making an underwriting profit. During 2009 the Corporation introduced a number of tools that have enhanced its ability to oversee the market's underwriting performance with access to more granular data.

Implementation of the Solvency II framework remains one of the key priorities for Lloyd's. The Corporation is devoting significant resources towards its successful implementation. There has been significant progress made to date – but there is still much to do in the build up to 2012.

For more details on The Exchange please see the case study on **page 33.**

ABOUT LLOYD'S
MANAGING AGENTS

As at 31 December 2009, the Lloyd's market was home to 52 managing agents, shown below, and 84 syndicates. However, the breadth and depth of specialist broking and underwriting expertise, brought together under one roof at Lloyd's, is much more important than the sheer scale of the market.

For information on Syndicate Gross Written Premiums see **page 141.**

ACE
ADVENT
AEGIS London
AMLIN
Arch Underwriting at Lloyd's
Argenta
ARGO INTERNATIONAL Member Argo Group
ARK
ascot
ASPEN
ATRIUM
Beaufort underwriting agency limited
beazley
Brit Insurance
CATLIN
CANOPIUS
CATHEDRAL UNDERWRITING LTD
Chaucer
equity REDSTAR
FARADAY
HARDY
HCC Underwriting Agency Ltd
HISCOX
JUBILEE managing agency limited
Kiln
KGM MOTOR INSURANCE
Liberty Syndicates
MAP underwriting at Lloyd's
MARKEL INTERNATIONAL
Marketform
MARLBOROUGH UNDERWRITING AGENCY LIMITED
Max at Lloyd's
MSIG Mitsui Sumitomo Insurance Group
MONTPELIER UNDERWRITING AGENCIES LIMITED
Navigators Insuring A World In Motion
NEWLINE UNDERWRITING MANAGEMENT LTD
Novae
OMEGA
Pembroke MANAGING AGENCY
QBE
RenaissanceRe
RITC Syndicate Management Limited
S.A Meacock & Company Limited
Sagicor AT LLOYD'S
SHELBOURNE SYNDICATE SERVICES
SPORTSCOVER UNDERWRITING LTD
STARR UNDERWRITING
TALBOT VALIDUS GROUP
TRAVELERS
Watkins Syndicate
Whittington
XL INSURANCE

HOW WE WORK
MARKET STRUCTURE

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

Lloyd's is not an insurance company. It is a partially mutualised market where members join together to form syndicates that insure risks. Much of Lloyd's business is written on a subscription basis, with more than one syndicate taking a share of the same risk.

HOW LLOYD'S WORKS

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

MEMBERS

PROVIDING THE CAPITAL

The capital to support the syndicates' underwriting is provided by members of Lloyd's. These members include some of the world's major insurance groups and listed companies, as well as individuals and limited partnerships. Corporate members provide a significant majority of the total 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

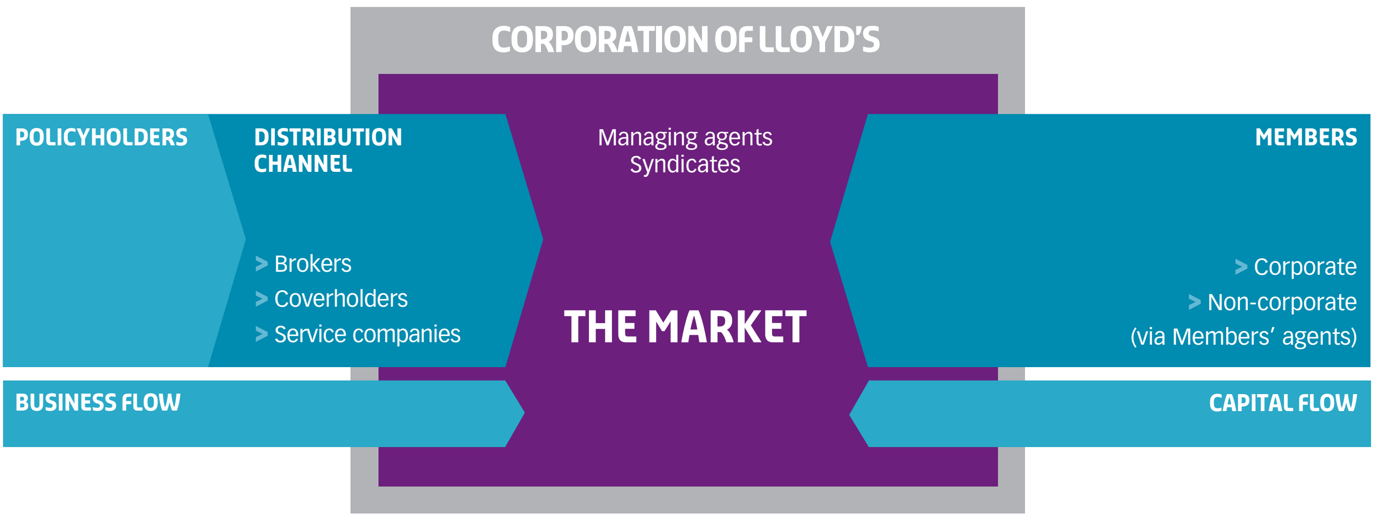
WRITING THE INSURANCE

A Lloyd's syndicate is made up of one or more members that join together as a group to accept insurance risks. As at 31 December 2009, there were 84 syndicates. They operate on an ongoing basis, although they are, technically, a series of annual ventures. Members have the right (but not an obligation) to participate in syndicates for the following year. In practice most syndicates are supported by the same capital providers for several years. The stability and diversity of the core capital base enables syndicates to function like permanent insurance operations under the Lloyd's umbrella.

A large proportion of our business is conducted in the Underwriting Room at One Lime Street, London. Most of the 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 and 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 the oversight of the syndicate's underwriting, employing the underwriters and handling the day-to-day running of the syndicate's infrastructure and operations. Many syndicates are now managed and funded by a single corporate group, thereby aligning the management and capital provision. For other syndicates, the capital is provided by a 'spread' of different members who are not connected with the managing agent ('unaligned') and may comprise both private capital and corporate groups. New syndicates are often established under a 'turnkey' model by which a 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 886 employees worldwide, as at 31 December 2009.

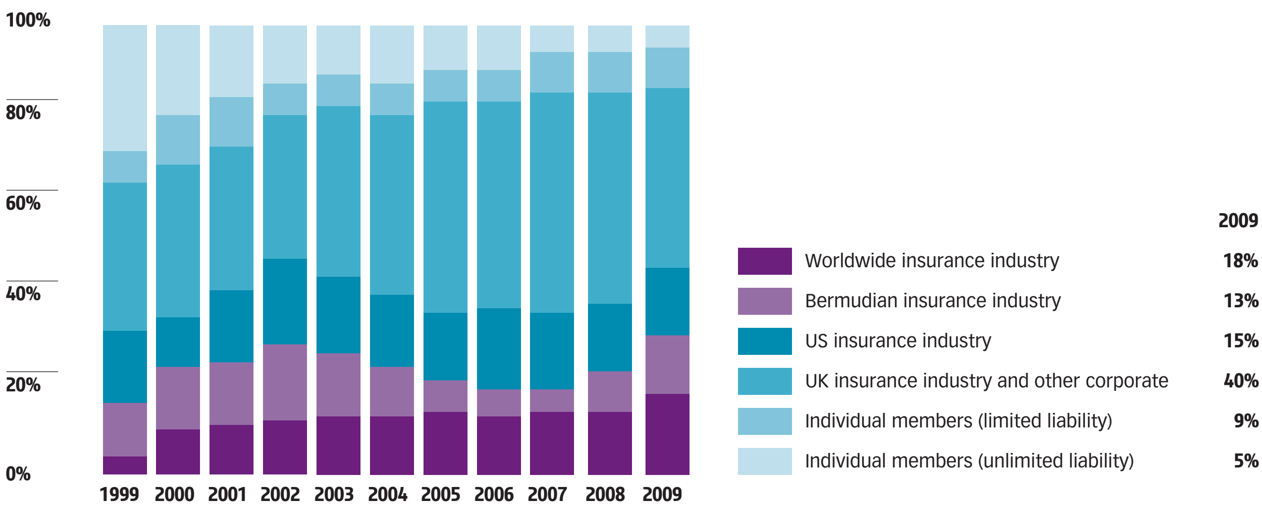
As well as providing cost-effective services to aid the smooth running of the market, the Corporation strives to raise the standards and improve the performance. The Corporation's work is split into two main areas:

1. Overall risk and performance-management of the market
   - Setting the level of capital Lloyd's members must provide to support their proposed underwriting
   - Overseeing the market's business activities by operating a minimum-standards framework and monitoring the performance of syndicates in areas such as exposure management, cycle management, claims management and operational risk management
   - Working with the managing agents of underperforming syndicates to improve performance, intervening directly if stronger action is required
   - Managing financial and regulatory reporting for the market, including the production of its results and the Financial Services Authority (FSA) return
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
   - Managing and developing Lloyd's global network of licences and the Lloyd's brand
   - Taking action in the long-term interests of the market

A list of managing agents and the syndicates they manage can be found on **page 141.**
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 34.**
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 Corporation is responsible for setting 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
All premiums received by a syndicate are held in its premium trust funds and are the first resource for paying policyholder claims from that syndicate. Funds are generally held in liquid assets to ensure that liabilities can be met as they fall due. Profits are not released until full provision has been made for future liabilities. The reserves for future liabilities of each syndicate 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 the FSA regime, each managing agent 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 2009) to ensure capital is in place to support Lloyd's ratings and financial strength. This uplifted ICA, known as the syndicate's Economic Capital Assessment, is used to determine the level of capital required by the syndicate's members to support their underwriting. 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 level 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. During 2009, we took advantage of favourable market conditions to buy back £102m of our debt securities, made possible because of our strong financial position. Central assets may also be supplemented by a 'callable layer' of up to 3% of members' overall premium limits.

The Corporation regularly undertakes detailed analysis to determine the optimum level of central assets, seeking to balance the need for robust 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 2010. The Council of Lloyd's regularly reviews the central assets target and the level of contributions in light of the current financial position and forecast needs, and will adjust the contribution levels as required.

Figure 3
CHAIN OF SECURITY

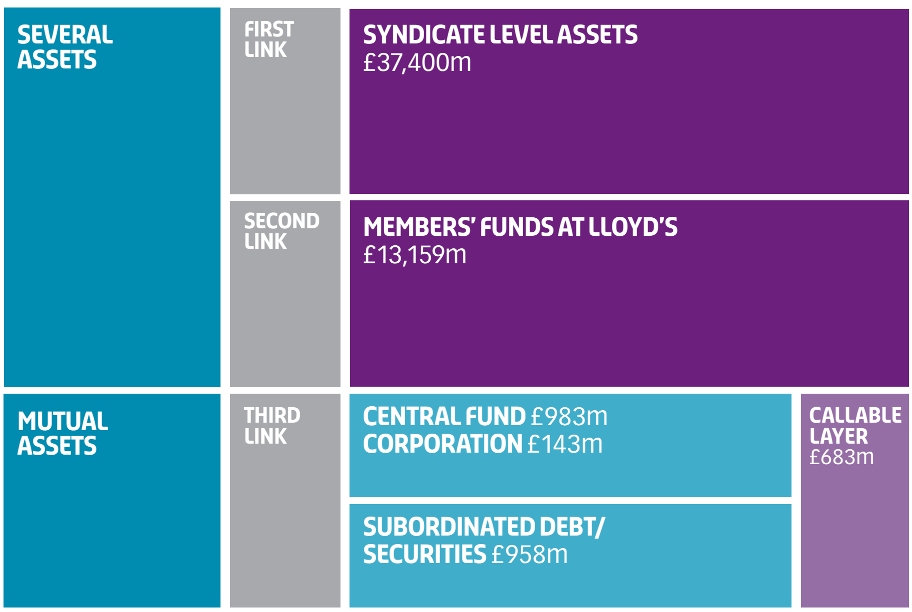
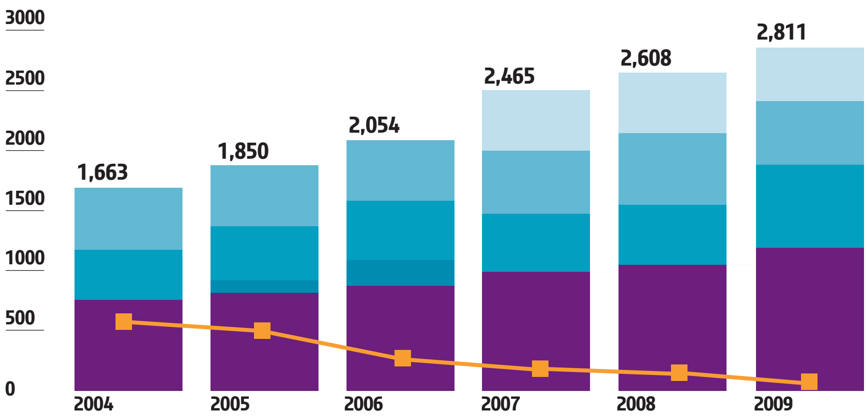


Figure 4

CORPORATION & CENTRAL FUND NET ASSETS FOR SOLVENCY†
(£m)



	2009
Corporation & Central Fund net assets	1,170
Syndicate loans	0
Callable layer	683
Subordinated debt issued 2004	521
Subordinated perpetual securities issued 2007	437
Solvency deficits	59

† The aggregate value of central assets of the Corporation for solvency purposes at 31 December 2009, excluding the subordinated debt liabilities, including the callable layer.

Figure 5

LLOYD'S RATINGS

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

A.M. BEST A (EXCELLENT)

As at 31 December 2009.

LLOYD'S ICA AND SOLVENCY

The Corporation also prepares an ICA for Lloyd's overall, using the FSA's six risk categories to examine the risks that are not captured in each syndicate's ICA, such as a global pandemic or 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. As at 31 December 2009, the Society had an estimated solvency surplus of £2,752m (see figure 4).

LLOYD'S RATINGS

Three of the world's leading insurance rating agencies recognise Lloyd's strengths and robust capitalisation and the financial strength of the market. In 2009, all three rating agencies re-affirmed our ratings as outlined in Figure 5.

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.

"Lloyd's competitive position is strong, supported by the positive attributes associated with its unique brand, attraction as the world's largest subscription market, London's continued position as a major international insurance and reinsurance market, and policyholder loyalty. In our view, the impressive level of resilience that Lloyd's has demonstrated to the events of the past 12 months further reinforces its attractiveness as an operating platform."

Standard and Poor's, October 2009

More information on the Chain of Security can be found on **page 73.**

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

HOW WE WORK
MANAGING INSURANCE RISK

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

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

MANAGING INSURANCE RISK

At Lloyd's, each managing agent sets its own risk appetite, develops a syndicate business plan, plans its reinsurance protection and manages its exposures and claims. Through the Performance Management Directorate, the Corporation regularly reviews syndicates' performance in each of these activities to ensure that the level of risk to the overall market and its mutual assets is acceptable. The Corporation uses various tools to control and monitor insurance risk, including:

> Setting guidelines for catastrophe exposure and reinsurance usage

> Devising Realistic Disaster Scenarios to help in the measurement and management of catastrophe exposures at syndicate and market level

> Reviewing business plans and determining appropriate capital requirements

> Establishing and monitoring underwriting standards, including claims and exposure management principles

> Monitoring of syndicates' performance against approved business plans

Each area of potential risk is carefully considered by expert teams within the Corporation. If a managing agent's operations pose an unacceptable risk, the Corporation will work with that agent to make appropriate changes. If the agent does not respond to this approach, the Corporation can withhold or withdraw approval of a syndicate business plan. In extreme cases it can disqualify a managing agent and its syndicate from trading in the market.

Further information on managing insurance risk can be found on **page 51**

RISK MANAGEMENT: IT'S IN OUR GENES

Farmers have engaged in selective breeding for millennia. Genetic modification has been part of medical practice since the 1970s. But the new science of synthetic biology promises a step change in our power to shape life. It is now possible to design new life on a computer, creating a blueprint for organisms with genetic code not found in the natural world. The technology is still in its infancy, of course. But we are already seeing commercial applications for it and can expect the industry to blossom over the next ten years.

Many believe synthetic biology will be one of the transformative technologies necessary to combat climate change, energy shortages, food security issues and water deficits. By rewriting genetic code, it may be possible to design plants that are disease-resistant and that can tolerate salt, heat and drought, for example. Other designs could make large-scale biofuel production more cost-effective, helping to meet feared energy shortages.

Although the potential to solve some of mankind's biggest problems represents a powerful driver for technological development, such radical innovation must be managed responsibly.

So it's appropriate that the Emerging Risks team within the Corporation of Lloyd's has published a report on this new technology. It found no consistent set of regulations around the world and that public opinion on the use of genetic engineering differs regionally. It uncovered fears that terrorists or criminals could procure segments of seemingly innocuous DNA and recombine the pieces into bio-hazardous substances. It's not just 'bioterror' – there are also concerns around 'bioerror', the accidental release of synthetically engineered organisms which could lead to environmental or health problems.

If these risks can be monitored and managed appropriately, synthetic biology is one of the most exciting technologies in development. Lloyd's will continue to track the risks as they emerge.

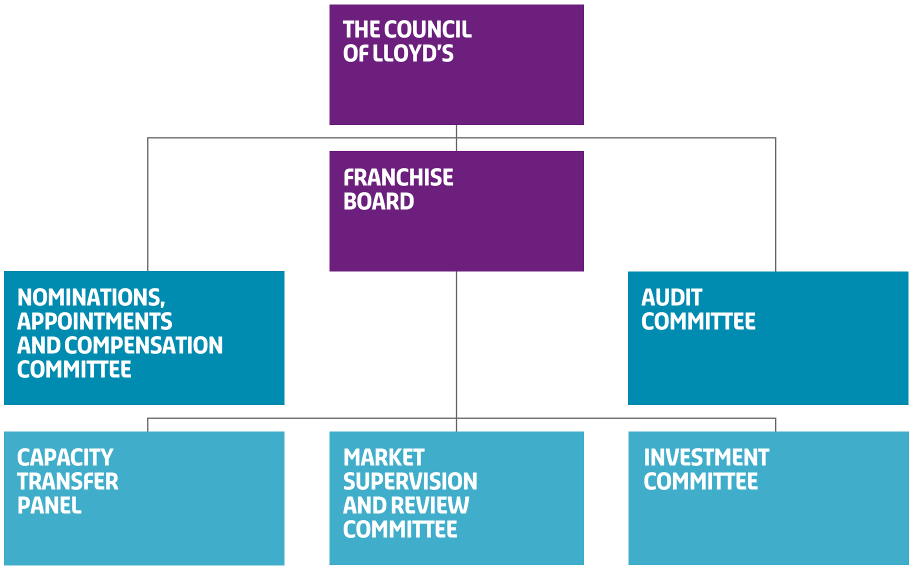
Read the report at **www.lloyds.com/emergingrisks**

LLOYD'S GOVERNANCE STRUCTURE DELIVERS CLARITY AND ACCOUNTABILITY.

The Council of Lloyd's has responsibility for the supervision of 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. It has ultimate responsibility for the management of 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 are 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 79**

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

GOVERNANCE
THE COUNCIL OF LLOYD'S

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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 the Chairman of General Dynamics UK Limited and a member of the Board of TOTAL SA, China Construction Bank and Haymarket Group. He is also the Chairman of International Financial Services London (formerly British Invisibles) 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 British Petroleum (BP), after pursuing a scientific career with the Science & Engineering Research Council (SERC). He is a Board member of the Geneva Association and a Council member of the Heart of the City charity.

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

04 DR ANDREAS PRINDL CBE*†
Deputy Chairman of Lloyd's
(Nominated member)
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)
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 current trustee and a former Chairman of Lloyd's Charities Trust.

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 10 years before joining the Lloyd's managing agent D P Mann, which was subsequently bought by General Re.

07 RUPERT ATKIN†
(Working member)
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 promoted U2, Bruce Springsteen, Nirvana and Luciano Pavarotti among others. He underwrites through a Limited Liability Partnership and is Deputy Chairman of the Equitas Trust.

09 CELIA DENTON*
(Nominated member)
Celia Denton, a chartered accountant, was a senior audit partner at Deloitte & Touche and Head of its General Insurance Practice for ten years. She was responsible for risk management in the assurance and advisory practice, prior to her retirement in 2003.

10 SIR ROBERT FINCH*†
(Nominated member)
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 Chairman of the Aviva Mall Fund. He is a director of FF&P Russia, served as a Church Commissioner from 2003 to 2008 and was Lord Mayor of London for the year 2003/04.

11 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 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.

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)
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 Travelers Syndicate Management Limited, Chairman of the London Market Group (formerly the Market Reform Group) and Deputy Chairman of the Lloyd's Market Association. He also acts as a political risks underwriting consultant to Beazley Furlonge Ltd.

15 PAUL JARDINE†
Representative of Catlin Syndicate Limited
(External member)
Paul Jardine, a qualified actuary, is Deputy Chairman of Catlin Underwriting Agencies Limited and Chief Operating Officer of Catlin Group Limited. He has over 25 years of insurance industry experience and was appointed Chairman of the Lloyd's Market Association in May 2007.

16 ALAN LOVELL†
(External member)
Alan Lovell was until recently Chief Executive of Infinis Limited, the UK's second largest producer of renewable energy and now has a portfolio of green energy roles. He was previously Chief Executive of Costain Group plc, Dunlop Slazenger and Jarvis plc. He is Chairman of the Mary Rose Trust Appeal Committee. He is a director of the Association of Lloyd's Members and of Alpha Insurance Analysts Ltd (a members' agent).

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

The Council as at 23 March 2010.

Key
* Member of the Audit Committee
† Member of NACC

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*
Claire Ighodaro is a Board member of the British Council, the Banking Code Standards Board, UK Trade & Investment (UKTI), the Learning and Skills Council and the Open University. Claire also chairs three Audit Committees and was President of the Chartered Institute of Management Accountants (CIMA).

06 ANDREW KENDRICK*
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 and Aegis Group and senior adviser to Indian technology company HCL. He has recently led a UK Government review of back-office operations and IT across the public sector and is now a member of the Conservatives' Shadow Public Services Productivity Advisory Board. 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.

08 LUKE SAVAGE
Director, Finance, Risk Management and Operations
Luke Savage, a chartered accountant, joined Lloyd's in 2004. He has over 20 years' experience in financial services, spent mostly supporting sales and trading in investment banks including Morgan Stanley and Deutsche Bank.

09 DIPESH SHAH OBE
Dipesh Shah is Chairman of ANHD International Advisory Services Ltd, a non-executive director of Thames Water and Kemble Water Group of Companies and JKX Oil and Gas plc where he is Chairman of the Remuneration Committee. He is also a Board Advisor to The Crown Estate. He is a former Chairman of Viridian Group plc and Hg Capital Renewable Power Partners LLP, a former Chief Executive officer of the UK Atomic Energy Authority and of various businesses within the BP Group, and a former non-executive director of Babcock International Group plc where he chaired the Remuneration Committee.

10 DAVID SHIPLEY*
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.

The Franchise Board as at 23 March 2010.

Key
* Member of the Audit Committee

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STRATEGIC OVERVIEW

BUSINESS HIGHLIGHTS

IN 2009 THE CORPORATION CONTINUED TO DRIVE SUCCESS AND SUPPORT THE MARKET.

- The Performance Management Data Project (PMDP) successfully delivered enhanced risk and management information with which to understand syndicate underwriting performance. This data is played back to managing agents through monthly reporting
- The Franchise Board approved the long-term vision for claims management and a pilot study for a new claims agreement framework
- The Corporation secured the FSA's agreement in principle that the current basis of supervision will be maintained as far as possible under Solvency II
- Progress on The Exchange has exceeded plans with 79% of managing agents (by capacity) connected or planned to connect and similarly 63% of brokers (by premium volume). In addition, the three largest global broking firms agreed to pilot The Exchange for endorsements using ACORD standards
- The Corporation has continued to work with the market to attract and develop talent via the Lloyd's graduate and leadership schemes
- The Equitas-Berkshire Hathaway Part VII transfer was approved by the High Court in London
- Lloyd's financial strength and ratings were maintained
- New representative offices were opened in Brazil and the Nordic region and Lloyd's secured a new licence in Portugal
- Two events on emerging risk were held in conjunction with NATO in London and New York as part of Lloyd's 360 programme
- Lloyd's retained commitment to the European Federation of Insurance Intermediaries' (BIPAR) high-level principles for the placement of risks in the subscription market
- Lloyd's carried out an in-depth strategic review, with extensive market consultation. The results have been reflected in Lloyd's most recent strategic plan (Lloyd's Strategy 2010-2012)

CHIEF EXECUTIVE OFFICER'S INTRODUCTION

LLOYD'S STRATEGY DEFINES THE KEY PRIORITIES FOR THE CORPORATION AND THE MARKET.

"Our success is built on a resolute focus on underwriting discipline and risk management."

Lloyd's Chief Executive Officer, Richard Ward, discusses Lloyd's 2009 successes and its recently published 2010-2012 plan.

Q. Why was Lloyd's so successful in 2009?

A. Our success is built on a resolute focus on underwriting discipline and risk management, coupled with a strong balance sheet and a conservative investment strategy. In essence, we have skilled underwriters and a prudent approach to managing our capital. This meant that during testing times for the financial services industry, we continued to be a stable partner for businesses seeking to manage their risks. Although, of course, the market benefited in large measure from a limited number of major catastrophes – particularly, a relatively inactive hurricane season.

Q. How was Lloyd's performance affected by the wider economic environment?

A. The stabilising of worldwide financial markets certainly benefited Lloyd's and the insurance industry as a whole. There were few, if any, significant failures among insurance businesses in the year. Insurers whose balance sheets were weakened by the financial turmoil saw their capital levels largely replenished as confidence was restored and stock market values increased. That said, our outlook for 2009 was dominated by concerns about the impact of the financial crisis and this will remain the case during 2010.

Q. How do you plan to build on the success of 2009?

A. Our model, as a subscription market backed by a layer of mutual security, is unique and it is serving us and the customer well. This will continue to be the basis for building on our success. At the start of this year, we launched Lloyd's Strategy 2010-12, which followed extensive consultation with the market and a considerable data analysis exercise. While our vision – to be the market of choice for insurance and reinsurance buyers and sellers to access and trade specialist property and casualty risks – remains unchanged, the Strategy provides clarity of direction. The market's strategic priorities for the next three years are: to maintain and develop the attractiveness of the market and a resolute focus on underwriting discipline and risk management.

Q. What are the challenges you face in 2010?

A. The market faces five strategic challenges in 2010. First, we must maintain underwriting discipline. Market rates are low in many different classes of business and we need to keep clear sight of the need to write profitable business. Second, we must maintain London's position as the leading centre for specialist insurance and reinsurance. Third, we must concentrate on how businesses can access the market in the face of a changing distribution landscape. Fourth, we need to ensure that Lloyd's stays attractive compared to other markets and, finally, we must protect our capital, licences and ratings amidst a changing regulatory landscape.

Q. How do you intend to remain the market of choice?

A. We will remain the market of choice by continuing to deliver bespoke risk-management solutions along with a better, faster service to our clients. We need to make it easier to do business with Lloyd's – ensuring information flows freely around the marketplace and helping brokers to bring business to London. In addition, we are looking at how we can work with local markets to source business. We will keep a close eye on the market's geographic reach and product diversification with the aim of improving our overall risk profile.

The Corporation will build on Lloyd's strong reputation for fair and efficient claims handling through the Claims Transformation project. This work began in 2009 and a primary aim is to improve the speed of claims processing. We are also helping more market participants make use of The Exchange, which allows them to connect with one another via a simple messaging hub that ensures that we are all using core standards. And we will continue to invest in our main asset – our people – developing skills and talent across the Lloyd's market.

Q. How is Lloyd's progressing with implementing Solvency II?

A. This is a key priority for the Corporation in 2010. Our aim is to implement it in a way that protects, and where possible, enhances Lloyd's capital structure and efficiency. We are working closely with the FSA to gain approval for Lloyd's internal model.

Q. Will Lloyd's remain a London-based international market?

A. Yes. The clustering of underwriting, claims, broking and other correlated skills makes London the pre-eminent centre for specialist insurance and reinsurance business. But we cannot be complacent and the market, both as a whole and individually, must work to protect London's competitive position.

Q. What are your priorities for 2010?

A. The Corporation will concentrate on five areas. Unsurprisingly, performance management will remain a top priority, particularly as we expect a challenging year in 2010 given softening rates. We will also drive through reforms on claims handling. We will push for a higher usage of The Exchange and work with the broker community to look at how we can ensure businesses can access the market – but without compromising key controls. And of course, we will also need to work hard on Solvency II.

The delivery of this Strategy will require a strong partnership between the Corporation, the managing agents and the brokers working in the market. Only by working together, will we maintain our position as the market of choice in helping businesses to manage their risks. Having seen the partnerships and unity of purpose across Lloyd's, I am confident that we will achieve this.

STRATEGY

LLOYD'S VISION IS TO BE THE MARKET OF CHOICE.

Lloyd's vision remains:

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

This vision reflects the strength of Lloyd's as a market. Being a market continues to be a virtue; the competition and diversity inherent in a market, whether in relation to business mix, market participants or capital make Lloyd's an attractive place for insurance investors, brokers and buyers.

Much has been achieved in the last few years in embedding changes to the way Lloyd's does business, raising standards in underwriting and risk management and building the market's capital strength. These changes helped the Lloyd's market cope well with the financial crisis. The market remains a demonstrably attractive place to do business and is well positioned to continue taking advantage of opportunities over the coming years.

Many of the defining characteristics of Lloyd's are at the core of its centuries' long heritage as an insurance market. Lloyd's is not a unitary insurance company but a subscription marketplace for specialist (re)insurance business which is owned by its members.

The existence of the Central Fund, which provides an additional layer of capital for the protection of policyholders, is unique to Lloyd's and underpins its capital strength, licences, ratings and the market's reputation for claims payment.

The individual actions within Lloyd's Strategy 2010-2012 are not in themselves a radical change in direction. However clarity has been achieved around Lloyd's key characteristics.

These are:

> 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** – it is a major role of the Corporation to maintain and enhance market access and to ease 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

Lloyd's Strategy does not fundamentally change the Corporation's role and its relationship with the market from that set out at the time of the establishment of the Franchise Board in 2003. The role of the Corporation 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 customers while preserving Lloyd's diversity and London-focused business model

Lloyd's Strategy has been developed in consultation with the market – managing agents, capital providers and brokers. It 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.

For further information please read Lloyd's Strategy 2010-2012 at **www.lloyds.com/strategy**

LLOYD'S POSITION IN THE GLOBAL ECONOMY.

HIGH LEVEL OVERVIEW OF THE CURRENT COMPETITIVE ENVIRONMENT

GLOBAL ECONOMY

The global economy appears to be beginning its nervous recovery from the recent economic downturn. However, the path of recovery is uncertain, with few commentators agreeing on its likely speed and smoothness.

It is not clear when governments and central banks will pull back from their interventions into world markets and how and when significant fiscal deficits will be addressed. The approach taken to these issues will affect the speed of recovery, the likely trajectory of inflation and the availability of investment returns over the coming years.

Generally speaking, the availability of liquidity and credit is improving. However, such options are likely to be available only to quality businesses. For others it will be constrained and the cost will undoubtedly be higher. This will make businesses with strong underlying performance and capital strength well positioned to face the uncertainty which will continue to dominate the global economy.

INSURANCE INDUSTRY

The non-life insurance industry is emerging relatively unscathed from the turmoil of the wider financial services market both in terms of financial and reputational impact. The fundamental differences between the non-life insurance and banking business models mean that the sector has been resilient and has functioned normally.

Non-life insurers are focused on managing risk and they tend to adopt prudent investment strategies. This combined with a lack of significant balance-sheet leverage, means the vast majority of businesses have withstood the market turmoil. The uncertainty around the economic recovery will, however, present non-life insurers with challenges in trying to maximise investment returns and manage the impact of inflation on the claims environment.

REGULATION

The regulatory landscape for financial services businesses is under the microscope and policymakers and governments are reviewing how to address the systemic failures in the banking sector. Insurers need to guard against being burdened with inappropriate and potentially damaging regulation primarily aimed at the banking sector.

The European insurance industry is investing heavily in preparation for the introduction of Solvency II, the most significant regulatory change for 30 years. The industry must ensure these changes do not adversely affect its ability to compete in the global insurance market. In addition, while some have questioned the economic utility of some aspects of the financial markets, the non-life insurance industry has a compelling story to tell and needs to promote actively the social value of its services.

DEMAND FOR INSURANCE

The financial crisis and the recessionary pressures which followed have led to changes in the behaviour of non-life insurance buyers. Risk managers are seeking to spread risk by diversifying business across a range of insurers and are also under pressure to reduce the cost of insurance cover, for example through increased retentions. This could result in lower demand for non-life insurance which would also feed through into lower growth or even a contraction in the reinsurance market.

BUSINESS FLOWS

As globalisation continues, greater regionalisation of both political influence and trade is occurring. The growth of the emerging economies (eg Brazil, China, new EU members) and regional insurance centres (eg specialist insurance business written in local or regional markets, such as Singapore) have the potential to disrupt the traditional flows of insurance business. In response, many major brokers are creating regional placement centres and insurers domiciled in London are taking steps to ensure their business models enable them to compete globally.

CHANGING RISKS AND PRODUCTS

The world is becoming a riskier place. Claims severity is increasing for both natural and man-made events and new risks continue to emerge. This is a challenge for the industry, but it also allows businesses to innovate and develop new products to respond to policyholders' changing needs.

Environmental concerns, and climate change in particular, will continue to grow in importance. Insurers must take climate change into account in their risk modelling and product development. The industry's own operations and business development must be undertaken in a thoughtful and sustainable manner. The industry must also continue to use its position to influence society to help reduce and address climate-related risks.

BUSINESS ENVIRONMENT INSURANCE TRENDS CONTINUED

The growth of capital market products within the insurance industry has slowed, but it would be wrong to assume an end to this trend. The value of the catastrophe bond market, while below its peak, is still substantial, with nearly $3.4bn in new issuances during 2009. We can expect innovation in this area to resume as confidence returns to the sector.

UNDERWRITING CONDITIONS

Underwriting conditions over the next three years are expected to remain challenging in the absence of a major event materially impacting the rating environment. In the main, the non-life insurance industry is currently well capitalised. This, alongside greater competition resulting from the splintering of underwriting teams at some insurers, increases the supply of capacity to the industry. Combined with the potential for falling demand discussed previously, these pressures are expected to suppress any increases in rates.

LLOYD'S POSITION

The strong performance of the Lloyd's market, against a challenging economic backdrop, is primarily due to a number of factors:

> An absence of major catastrophe events in 2009

> Underwriting discipline and expertise ensuring a focus on underwriting profit

> A conservative investment strategy

> A strong balance sheet

> Limited participation in the insurance lines most exposed to the impact of the economic downturn

The attractiveness of the Lloyd's market to insurance investors and buyers has been evidenced both in the number of businesses interested in joining the market over recent years and in the increasing importance of the subscription market to customers and brokers.

The stability and security of the Lloyd's market is very attractive to brokers and clients. This, combined with the ability to diversify risk placement through the Lloyd's and London subscription markets and Lloyd's underwriters' reputation for product innovation, has ensured that Lloyd's operating performance has been strong throughout the recent economic crisis. This positions the market well for the future.

TRANSFORMING CLAIMS

Lloyd's has a reputation for fair and efficient claims handling. This remains a true competitive advantage for the market. In order to build on these strong foundations, a Lloyd's market steering group spent the first half of 2009 developing a long-term view of how claims should be managed. In July, the group set out a vision for revolutionising claims handling by 2012. Its principles will be tested during 2010 in the Claims Transformation Pilot, which includes the following key initiatives:

> Enhancing current claims segmentation

> Introducing the option to either manage claims in-house or outsource

> Strengthening the Corporation's governance role

Pilot claims will be split into three tranches – Standard, Mid and Complex. Standard claims will be managed solely by the lead underwriter. Lead and second underwriters will administer Mid and Complex claims, and can either outsource them or manage the claims in-house. The objective is that, over time, London will become more accessible for both notification and settlement of these claims.

As part of the pilot, Lloyd's will take on an increased governance role which will provide protection for the following market. A review of the underlying technical infrastructure will proceed in parallel with the other two initiatives.

2010 PRIORITIES

UNDERSTANDING THE CHALLENGES FACING THE MARKET DETERMINES LLOYD'S PRIORITIES.

CHALLENGES FACING THE LLOYD'S MARKET

> Maintain underwriting discipline

A commitment to maintaining underwriting discipline now is necessary if the Lloyd's market is to use its strengths to exploit future opportunities

> Maintain London's position as the leading centre for specialist (re)insurance

The clustering of underwriting, claims, broking and other correlated skills makes London the pre-eminent centre for specialist (re)insurance business. That said, international competition, higher tax rates and increasing City regulation have put London's position as a global financial centre at risk. Against this backdrop, market participants need to continue to work both individually and collectively to protect London's position. This will include promoting the market internationally; lobbying government on ways to improve London's competitive position, including the UK tax regime; and continuing to improve the efficiency of business processes

> Maintain access to business in the face of a changing distribution landscape

The development of regional insurance centres may threaten the flows of some business into London. Many Lloyd's participants are keen to ensure that they have the ability to access local markets to both grow and diversify their businesses. If the Lloyd's market is not to be marginalised in the long term, it is necessary to make it as efficient as possible to attract business to London and also provide access to those regional insurance centres where there is sufficient demand from Lloyd's market participants

> Maintain the attractiveness of Lloyd's compared to other specialist insurance markets

It has become the norm for specialist global insurers to have multiple operations across a number of locations, including the US, EU, Bermuda, Switzerland and at Lloyd's (the multi-platform model), which offer complementary access to flows of (re)insurance business. Approximately 80% of participants at Lloyd's now have access to other insurance platforms outside the Lloyd's market. The Corporation must ensure that the attractions of the market are understood and continue to attract specialist insurance business

> Protect Lloyd's capital, licences, brand and ratings

In an increasingly demanding regulatory environment, Lloyd's must ensure there is no erosion of its relative capital, brand and licensing advantages, which in turn could weaken Lloyd's market ratings

THE MARKET'S STRATEGIC PRIORITIES FOR 2010-2012

Maintain and develop the attractiveness of the Lloyd's market

> London: work with other stakeholders to maintain and promote the competitiveness of London as a financial services centre

> Operating environment: continue to improve the efficiency of business flows and placement, accounting and claims handling

> Regulatory environment: continue to influence the evolving regulatory landscape to maintain Lloyd's capital and licensing advantages

Resolute focus on underwriting discipline and risk management

> Performance management framework: continued application of minimum standards and guidelines to drive ongoing performance improvements across the market

> Risk management: ensure high quality, robust risk management practices are developed and embedded at both individual market participant and aggregate market levels as part of Solvency II implementation

CORPORATION PRIORITIES FOR 2010

Performance management

> A resolute focus on underwriting discipline and risk management

Solvency II

> Implementing Solvency II at Lloyd's in a way that protects, and where possible, enhances Lloyd's capital structure and efficiency

The Exchange

> Increasing adoption and use of The Exchange

Claims Transformation

> Driving a transformation in the way the Lloyd's market handles claims to enhance the experience of the customer

Access to business

> Improving access to business through streamlining coverholder management

INTERNATIONAL REACH

DURING 2009, SIGNIFICANT STEPS WERE TAKEN TO STRENGTHEN LLOYD'S INTERNATIONAL POSITION.

Lloyd's has an extensive global licence network, with authorisation to write direct insurance in over 80 jurisdictions and the ability to conduct reinsurance business in over 200 countries and territories.

Lloyd's global reach is supported by offices around the world – ranging from third-party legal representatives who maintain our licences, to larger offices with country managers operating under licence as well as playing a key market development role.

During 2009, significant steps were taken to strengthen Lloyd's international trading position. We appointed new staff, acquired new licences and negotiated enhanced trading arrangements for Lloyd's syndicates. We also provided additional resources to support managing agents' decision-making:

Regional watch
This tool gives managing agents access to insurance market intelligence on over 70 territories worldwide. In 2009, Regional Watch was extended to include market intelligence available for brokers.

Market presentations
Lloyd's country and regional managers are now scheduled to give market presentations on the insurance environment and Lloyd's business in the territories they represent. Those presentations are advertised and given to managing agents and the brokers who have a specific interest in developing business in those territories.

International events programme
An international events calendar has been created to support the business plans of Lloyd's international offices.

NORTH AMERICA

Lloyd's has established offices in New York, Illinois, Kentucky and Montreal. In March 2010, a new permanent office will be opened in Toronto to assist in building Lloyd's profile in Canada's largest business and insurance centre. Lloyd's also maintains representative offices in Los Angeles and the US Virgin Islands.

Lloyd's is the number two surplus lines provider in the US. We are licensed to write surplus-lines insurance in 49 states and to write admitted insurance in Illinois and Kentucky. We are one of the largest providers of commercial lines coverage in Canada and licensed to write all major commercial classes of business in all provinces and territories. In 2009, we continued to work closely with the regulators in both countries to ensure that Lloyd's ability to access these markets was preserved in the face of significant changes in regulatory oversight and reporting.

LATIN AMERICA

Lloyd's was the first 'admitted' reinsurer in Brazil and in April 2009 we opened our official representative office in Rio de Janeiro. There are six managing agents with a permanent presence in Brazil, four of which are co-located within the Lloyd's office (as at 31 December 2009). Lloyd's also has representatives in Argentina, Belize and Chile.

EUROPE

Lloyd's has an extensive network covering Europe's major insurance markets, with established offices in France, Germany, Italy, Spain, Ireland, Poland and Switzerland. In 2009 Lloyd's opened its first Nordic area manager's office in Stockholm – in addition to legal representatives in Norway, Denmark and Sweden – to support the market in developing business across the whole Scandinavian region.

In 2009 Lloyd's also obtained an establishment licence in Portugal to enable business to be written locally via coverholders. Lloyd's is currently looking to set up a new office to support business in the Netherlands and Belgium.

INDIA, MIDDLE EAST AND AFRICA

Lloyd's is closely monitoring opportunities in these areas for future development. In India, for example, we are awaiting changes in the legislation that would allow foreign reinsurers to establish branches in the country.

ASIA AND PACIFIC

Lloyd's has a number of established offices in Australia, Hong Kong (SAR) and Singapore. We are exploring options to obtain new licences or improved trading positions in South Korea and Vietnam.

In mainland China, reinsurance business is accessed via Lloyd's Reinsurance Company (China) Ltd (LRCCL). There are currently five managing agents with underwriters based in China and 12 managing agents that access business from London.

Lloyd's sources significant reinsurance business from Japan and has developed a more flexible operating model to facilitate the writing of insurance business through Lloyd's Japan which is a wholly-owned subsidary of the Corporation and a Lloyd's coverholder. It is now possible for managing agents to participate in three ways – via a general binding authority; with independent binding authorities underwritten on behalf of syndicates by Lloyd's Japan; or through dedicated underwriting divisions deploying managing agents' own staff within Lloyd's Japan.

Singapore is fast becoming a hub for specialist non-life (re)insurance in the Asia Pacific region. There are currently 15 managing agents underwriting business through the service companies based there and we have been working with regulators, local brokers and managing agents to enhance the way that business is transacted.

More information on Lloyd's international reach can be found inside the fold-out front cover.

For more information on Lloyd's licenses worldwide visit:
www.lloyds.com/worldwide

For market intelligence on key territories please visit:
www.lloyds.com/marketintelligence

An exterior shot of the school in Yunnan Province in China

CEMENTING RELATIONS IN CHINA

In 2007, Lloyd's donated £50,000 to build and equip a new school and playground in Yunnan Province in China, providing educational facilities for 280 children across eight classes. It was officially opened in October 2009 in a ceremony attended by representatives of the Corporation, the Lloyd's market and officials from the Chinese Ministry of Foreign Affairs.

The project came about as a result of the ministry's scheme to raise funds for the people of remote villages of Jinping Autonomous County which were devastated by a landslide caused by flooding in July 2007. Buildings in the villages were destroyed and families forced to relocate.

"Lloyd's is delighted to be able to help build this school in conjunction with China's Ministry of Foreign Affairs and to enable these children to continue with their education," said Lord Levene, Chairman of Lloyd's. "Our market has a long association with China and I hope this school will help to forge a new relationship with a younger generation."

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 in delivering against strategic initiatives in 2009.

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

MARKET PERFORMANCE

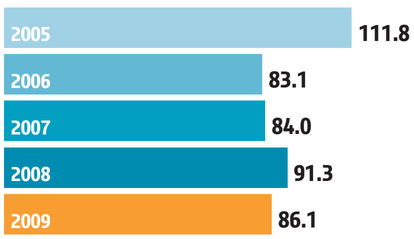
Combined ratio

- 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: Excellent performance in 2009 reflecting ongoing underwriting discipline, further prior year releases and the absence of severe catastrophes

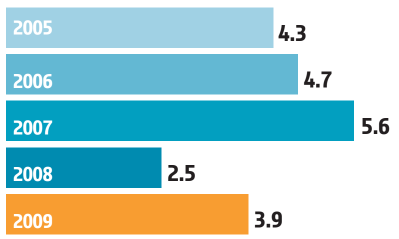
Investment return

- Definition: Realised and unrealised return on investments as a percentage of total investments
- Rationale: Investment return can have a significant impact on overall profitability for insurers/reinsurers
- Progress: Solid return of 3.9% despite the low interest rate environment as some confidence returned to the financial markets

COMBINED RATIO
%



INVESTMENT RETURN
%



STRATEGIC PERFORMANCE

PERFORMANCE FRAMEWORK

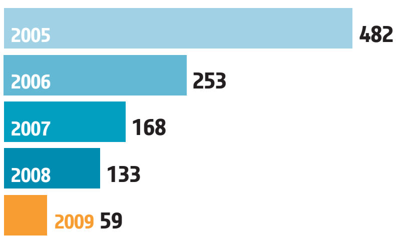
Solvency deficit

- 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: Further reduction in solvency deficits as reserve releases and investment income produced profits for run-off members supported by the Central Fund

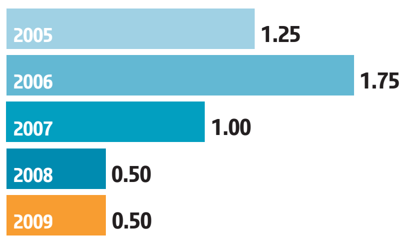
Cost of mutuality

- 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 2009 contribution rate of 0.5% represents a cost-effective benefit of mutuality to members; the rate for 2010 is set to remain at 0.5%

SOLVENCY DEFICIT
%



COST OF MUTUALITY
%

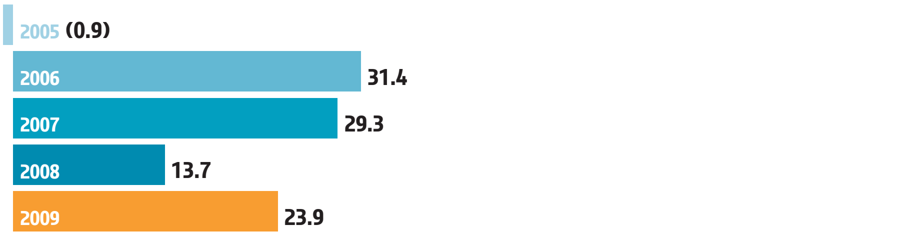


CAPITAL ADVANTAGES

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: Excellent return of 23.9% through a combination of strong underwriting results and solid investment returns

PRE-TAX RETURN ON CAPITAL
%



SECURITY & RATINGS

Financial strength rating

- 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 2009

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

MARKET ACCESS

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). Relation to favourability

INSURANCE

REINSURANCE

Maximum brand index score: 200

OPERATING ENVIRONMENT

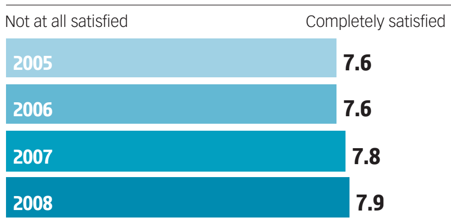
Customer satisfaction levels

- Definition: A non-financial indicator measuring satisfaction levels of brokers, coverholders and insurance and reinsurance policyholders with Lloyd's overall service, taken from an independent survey
- Rationale: Recognition of business process reform and its importance to the end customer
- Progress: This survey was not conducted in 2009

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 seen an improvement on last year with a score of 7.1 out of 10. This improvement appears to have been driven partly by the Corporation acting as a more customer focused business partner and providing more tailored communications

CUSTOMER SATISFACTION LEVELS
Average score out of 10



MANAGING AGENT SATISFACTION LEVELS
Average score out of 10

Comparative score for senior management respondents. Score shown in 2007 annual report was 7.1, based on a broader audience base.

RISK MANAGEMENT

LLOYD'S RESPONSE TO SOLVENCY II WILL FURTHER ENHANCE THE EFFECTIVENESS OF ITS 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.

Managing risk is an explicit responsibility for all employees in the Corporation and the market. For Corporation staff, these responsibilities are set out in the Lloyd's Risk Policy. To ensure they are clearly understood, all new employees receive risk management training as part of their induction. Risk management is also monitored as a key capability within the employee performance management framework and all employees are assessed against it in their annual appraisals.

The Risk Management Minimum Standards set out key principles for managing agents. They are backed by the Risk Management Toolkit, which provides practical advice and guidance to help the market meet the required high standards of risk management.

The risk management framework pulls together the risks facing the market and the Corporation so that they can be assessed on a common basis. It provides assurance to the Executive Team and Franchise Board that these key risks are being identified and managed effectively. The framework has a dual focus. Risks at the syndicate and managing agent level are monitored through the Syndicate Risk Matrix, where key issues are analysed and considered by senior Lloyd's managers. The Lloyd's Risk and Control Framework, overseen by the Lloyd's Risk Committee, addresses Corporation-specific and overall Lloyd's market-level risks.

THE SYNDICATE RISK MATRIX

The Syndicate Risk Matrix (SRM) is designed to create a wider understanding of syndicate and market-wide risk. It also helps highlight performance issues in order to improve coordinated management, decision-making and action planning.

Syndicates are assessed against key risk and performance indicators that are gathered from across the Corporation. Senior Lloyd's managers then analyse this information within the SRM in order to have structured, risk-based discussions at monthly meetings. Their focus is individual syndicates or issues of concern – as well as determining and monitoring appropriate actions.

The key areas monitored include compliance with underwriting standards; adequacy of the control environment; regulatory compliance; and capital adequacy. Issues identified at the monthly meetings are shared with the Executive Team and also with the FSA, to avoid unnecessary duplication of supervisory activities. These issues are also fed into the Lloyd's Risk and Control Assessment.

THE LLOYD'S RISK AND CONTROL FRAMEWORK

The Lloyd's Risk and Control Framework is managed by the Risk Analysis team. It is overseen by the Risk Committee, a sub committee of the Executive Team that provides it – and the Franchise Board – with assurances that Corporation and market-level risks are identified and managed in accordance with approved risk policy and appetite. Although the committee is not intended to consider risks within individual syndicates or managing agents, it will discuss any such risks that are relevant at Lloyd's market level.

The Risk Committee oversees the identification, assessment and management of risk processes as follows.

RISK IDENTIFICATION

Risks are identified through a number of information channels, including the Lloyd's Risk and Control Assessment (LRCA) process; environment scanning; the Emerging Risk team; and the Executive Team/Franchise Board risk assessments. They are documented and managed using the Lloyd's Risk Register.

The LRCA is a continuous self-assessment process embedded in the business. It is run by the Risk Analysis team and is the main channel for identifying new risks or changes to the profile of known risks.

The Risk Analysis team engages in environment scanning to look for significant issues. This includes a systematic review of the press, websites and internal communications – as well as regular liaison with internal and external stakeholders.

The Emerging Risk team forms part of the Performance Management Directorate within the Corporation. Its remit is to consider new risks (such as nanotechnology) and existing risks where new information suggests the level of risk is changing unexpectedly – for example, the impact of climate change on flood risk. The team aims to capture early warning information and ensure it is used effectively. The primary focus of the Emerging Risk team is insurance risk, the dominant category of risk that Lloyd's faces. However, where emerging risks impact other categories, the team also considers their wider implications.

The annual Executive Team and Franchise Board Risk Assessment was conducted in November. The final output was approved by the Franchise Board. The primary purpose of this exercise was to identify the key risks facing Lloyd's and to ensure that these risks (see page 33) and associated controls and actions were adequately articulated in the Risk Register. The output will also form the basis for the reporting of key risks to the Franchise Board during 2010.

Andrew Marr, Pen Hadow, Nick Mabe and David Smith discuss major risks we face today at the 360 Risk Insight event in London

LEADING THE DEBATE ON EMERGING RISK

Lloyd's has been a leader in risk analysis and management throughout its 322-year history. Our leading position in the global insurance industry is, in part, due to our ability to identify and monitor emerging risks. One of the key aims of our 360 Risk Insight programme is to generate debate on emerging risk issues by bringing together experts from different fields to discuss them and plan for how they can be tackled. The programme also aims to demonstrate the expertise of the Lloyd's market in managing emerging risks and to bring together the public and private sector and other organisations to tackle major global risk issues.

To develop wide-ranging and insightful analysis on emerging risk, we collaborate with world-leading policy and research organisations to tackle some of the major risks we face today. For this reason we started working with NATO in 2008 and in October last year co-hosted two major 360 Risk Insight conferences in London and New York. Entitled 'Managing Risk in the Twenty-First Century', the conferences examined three major potential security risks: climate change, piracy and cyber risk.

The London conference took place on 1 October and was hosted by Lloyd's Chairman Lord Levene. More than 200 leaders from the Lloyd's market, business, government, academic institutions and policy organisations heard NATO Secretary-General Anders Fogh Rasmussen deliver a keynote speech, where he explained that "[Both NATO and Lloyd's] are focused on predicting threats, taking steps to reduce their likelihood and, when necessary, managing the effects".

Richard Ward, CEO of Lloyd's, hosted the follow-up conference in New York a few weeks later. The keynote speaker was NATO's Deputy Supreme Allied Commander, Admiral Luciano Zappata. Unsurprisingly, given the calibre of the attendees, both events captured widespread media attention and generated a great deal of discussion, including potential solutions to these huge risks.

In 2010 the 360 Risk Insight programme will continue to explore the key emerging risk issues facing business and the insurance industry. Among other topics, it will explore the emerging risks facing business as a result of increasing globalisation, water scarcity, energy security and digitalisation.

For further information on Lloyd's 360 Risk Insight programme please visit:
www.lloyds.com/360

RISK MANAGEMENT
CONTINUED

RISK ASSESSMENT

All the risks identified by the processes outlined on the previous page are monitored. Each risk is allocated to an appropriate owner – supported by a network of control and action owners across the Corporation – who becomes the key contact for the management of that particular risk. Risks are assessed by their owner, then scrutinised by the Risk Committee, for their potential impact on Lloyd's and the probability that they will occur within the next 12 months.

Risk assessment and control measurement is independently verified. This ensures that the self-assessment process stands up to robust challenge, provides a coordinated view of risk and that we have an integrated approach to risk management. The key sources of verification are:

Internal Audit (IA): The IA team uses the Risk Register to plan and conduct audits throughout the year. The Risk Analysis team uses audit output to challenge risk and control self-assessments.

Compliance and Financial Control: These departments jointly conduct a monthly review to capture any internal control failures, or breaches of compliance with legislation or regulation, across the Corporation.

The Syndicate Risk Matrix (SRM): The SRM is designed to support the monitoring of risk at syndicate level, but the data it captures may be relevant at Lloyd's market level. Such data is analysed and fed into the Risk Committee reporting process to ensure consistency between the two key risk reporting channels.

RISK MANAGEMENT AND MITIGATION

Risks are assessed on a 'residual' (after controls) basis in terms of impact and probability. A risk appetite is determined for each one, which is then entered in the Risk Register as target risk score (also assessed in terms of impact and probability). Where a residual risk exceeds the target, mitigating actions are recorded in the Risk Register. The LRCA process tracks these actions by milestones to ensure the gap between residual and target risk is reduced within the desired timeframe.

The results of the formal LRCA updates are reported to, and agreed by, the Risk Committee on behalf of the Executive Team. The committee uses these results to oversee the risks and satisfy the Franchise Board that they are being managed effectively, and that internal controls are robust.

INDIVIDUAL CAPITAL ASSESSMENT

The risk management framework is also used in the calculation of the Lloyd's Individual Capital Assessment (ICA) – the level of capital resources required to withstand a one-in-200 year event over a three-year timeframe. Each element within the risk framework is assessed to ensure it is treated appropriately from a capital perspective – as part of the stochastic model (a tool for estimating the probability of outcomes by allowing for random variation in one or more inputs over time); as part of the stress and scenario testing; or through control by alternative methods.

There is extensive stochastic modelling of insurance risk – and some other factors, such as credit risk. But where they lie outside the stochastic model, the risk framework is used to identify appropriate stress and scenario tests. These tests are based on potential events where one or more of the risks in the framework could occur and they assess the potential loss from a significant event. The results are fed into the calculation of the Lloyd's ICA.

SOLVENCY II

Solvency II, a regulatory regime that will apply to all EU insurers and reinsurers, is due to come into effect in 2012. It sets out solvency requirements that better reflect the risks that companies face and will feature a supervisory system that is consistent across all member states.

In response to Solvency II, and as part of the ongoing development of Lloyd's risk management capability, we developed detailed implementation plans in late 2009. These plans focus on key areas such as risk governance, risk framework, risk appetite and risk culture and outline the developments that will take place before the new regulation comes into effect. This work will further enhance the robustness and effectiveness of risk management at Lloyd's by building on the structures and processes that are already in place.

KEY RISK ISSUES

RISK ISSUE	POTENTIAL IMPACT	MITIGATION
FAILURE TO MANAGE LLOYD'S RESPONSE TO THE INSURANCE CYCLE	Lloyd's businesses suffer operational losses and/or erode their capital base through inadequate pricing and reserving	> Implemented significant improvements to control environment, including the introduction of Performance Management Data > Reviewed and agreed business plans, Realistic Disaster Scenarios and Individual Capital Assessments > Continued oversight of performance through reviews of premiums written, rate changes, loss ratios, reserving and compliance with minimum standards
FAILURE TO MONITOR THE IMPACT OF THE UNSTABLE ECONOMIC AND FINANCIAL CLIMATE	Lloyd's suffers increased insurance liabilities, decreased asset values and capital constraints	> Established additional, more detailed claims monitoring processes to identify and track losses related to financial climate > Developing enhanced control framework for monitoring syndicate investment risk
FAILURE TO DEVELOP AND APPLY A COMPREHENSIVE, SOLVENCY II-COMPLIANT RISK APPETITE FRAMEWORK	Lloyd's suffers from poor decision-making, missed opportunities and regulatory sanctions	> Work underway to further enhance the structure of the risk appetite framework within Lloyd's under Solvency II > Development of catastrophe risk appetite to apply at syndicate and market level. This will become operational during the first half of 2010
FAILURE TO RECOGNISE AND UNDERSTAND THE POTENTIAL IMPACT OF SOLVENCY II	Lloyd's suffers regulatory sanctions, disadvantageous capital requirements and damage to reputation	> Comprehensive programme in place, including steering and working group oversight and communication > Working closely with FSA regarding implementation of Solvency II at Lloyd's > Continuing to lobby policymakers regarding key issues around 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
FAILURE OF MARKET OPERATIONS INITIATIVES	Lloyd's is unable to maintain its competitive position and deliver process improvements to create a more efficient marketplace	> Lloyd's and the market continue to work together to agree, prioritise and deliver improvement on all market initiatives > Developing a clear 'end vision' to demonstrate how market operations initiatives contribute to the overall vision
FAILURE TO ATTRACT OR RETAIN SUITABLE INDIVIDUALS TO KEY ROLES	Lloyd's oversight of the market is impaired by the lack of appropriately skilled senior management	> Robust recruitment and induction processes in place, ensuring individuals with the appropriate skill sets are recruited > Established succession plans for senior management; talent management programmes are in place > Planning to further enhance the control framework for mitigating key person risk

THE EXCHANGE

London's reputation for underwriting expertise needs to be matched by a reputation for quick, efficient and streamlined processing of information. This will only be achieved through the shared use of ACORD standards and by establishing messaging protocols in the London market. This is an area where technology has moved on, allowing for structured information to be exchanged electronically.

Electronic messaging using The Exchange will reduce market costs by removing inefficient manual processes, queries and rekeying. It will simplify and speed up the exchange of information with all market participants, reduce operational risk within businesses and ensure that a single global standard is in use.

The move to electronic messaging is a step towards modernising the market. It will deliver significant cost savings for businesses using the Lloyd's platform and improvements to the service we provide to our customers.

For further information on The Exchange please visit:
www.lloyds.com/exchange

PEOPLE STRATEGY

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

Being an Employer of Choice is the key strategic priority for Human Resources (HR) at the Corporation of Lloyd's. During 2009, HR worked hard to improve staff skills, embed a high-performance culture and motivate employees.

2009 PROGRESS

COMMUNICATION

The Chairman, Chief Executive Officer and Executive Team engaged Corporation staff on a range of topics at quarterly Staff Forums during 2009. These were strongly supported by staff in Chatham and London, and for the first time international offices joined in using a video link. The forums provided an excellent opportunity to announce the winners of Ovations – awards to recognise individuals or teams who have exceeded expectations on a specific task.

The Corporation has increased its links between UK headquarters and its international offices. In Shanghai, Tokyo, Singapore, New York, Illinois, Paris, Madrid and Milan this was through a videoconferencing system. The Corporation intranet, C-Net, also provides constant updates on activities across the organisation. These were supplemented by regular media update emails outlining key news concerning the Lloyd's market.

Smaller groups had the opportunity to discuss current issues with the CEO at monthly staff lunches. Directorates and teams continue to hold regular meetings, ranging from large 'town hall' meetings for upwards of 100 people to smaller 'work in progress' sessions.

The CEO also launched the ViewFinders project in 2009 where we sought feedback from Corporation staff on what they think is working well, notable individual achievements and areas for improvement. The aim is to give staff the opportunity to shape the future direction of the Corporation.

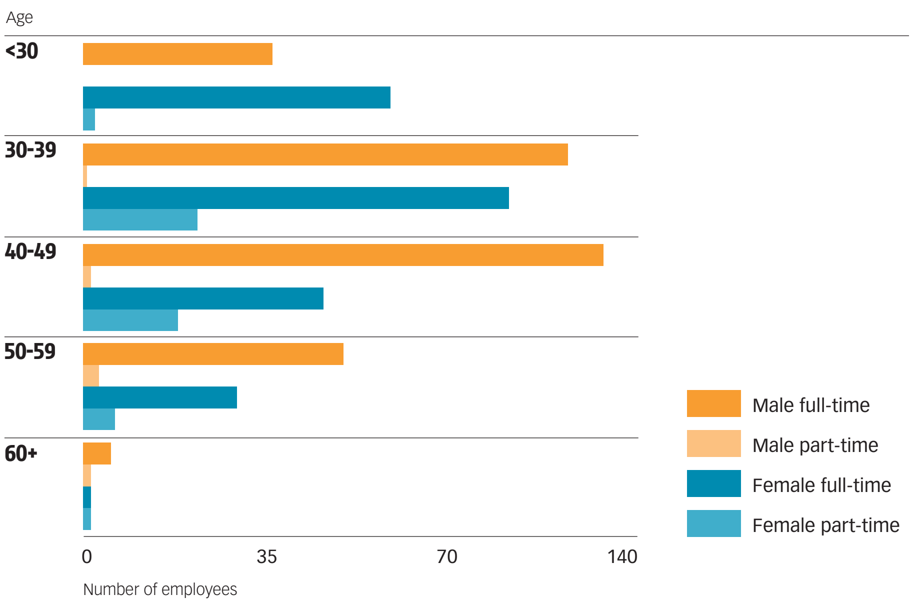
LEADERSHIP DEVELOPMENT

Lloyd's has successfully worked with the London Business School over the past three years to deliver the Developing Leaders at Lloyd's programme, which enhances leadership skills and capabilities. Four cohorts, totalling 107 delegates drawn from the Corporation and market firms, have now completed the programme.

A review conducted in December 2009 recommended enhancing the programme, including implementing a more formal alumni offering and improvements to both content and structure. These changes will ensure that Leaders at Lloyd's remains an extremely effective tool for leadership development.

Figure 7

UK CORPORATION EMPLOYEE PROFILE



A record number of applications were received for the fifth cohort which began in January 2010 – the programme attracted more than two applicants for each available place.

GRADUATE RECRUITMENT AND DEVELOPMENT

The 2008 intake of graduates successfully completed their final placement in March 2010, after secondments to the market, and have now taken up roles within the Corporation, the market or externally. Seven graduates joined the Lloyd's scheme in September 2009. Assessment centres were held from December 2009 to March 2010 for the third cohort, due to start in September 2010.

PERFORMANCE DEVELOPMENT

HR reviewed and benchmarked the Performance Development Framework in 2009 to drive the Corporation further towards a high-performance culture. The project was split into two phases, with the first simplifying the current process and the second testing new materials on pilot groups in Market Operations and Market Services. Roll-out to the Corporation is underway.

EMPLOYEE ENGAGEMENT SURVEY

The Lloyd's Corporation employee engagement survey entered its fourth year in 2009. It measures employee satisfaction and engagement through an online survey conducted by independent research firm Ipsos MORI. While providing valuable information on staff perceptions and motivation, the survey also identifies key areas requiring continued improvement and focus.

GLOBAL BENEFITS AND POLICIES

Building on the comprehensive review and audit of global benefits undertaken in 2009, we have identified priorities for implementation in Australia, Canada, China, Singapore, South Africa, Spain and US. Longer-term activities will be planned later in 2010. HR will roll out international HR policies and procedures combined with comprehensive employee handbooks in two regions, ensuring a consistent approach across international Corporation offices.

DIVERSITY

The Diversity Steering Group continued its efforts to raise awareness of diversity issues, in particular by ensuring increased coverage in internal communications. The Group is currently reviewing a range of benchmarking opportunities with a view to conducting a diversity survey in 2010. Lloyd's is a founder member of the newly established industry-wide Insurance Diversity Forum.

POLICY AND CONTRACT REVIEW

In 2009 we launched our revised employment policies. Lloyd's practices are consistent with those of the best employers – ahead of them in some cases, particularly in respect to family-friendly provisions and benefits related to health and well-being.

HR undertook an audit of UK employees' contracts in 2009 to review legal compliance and results confirmed that the Corporation has a compliant and proper contractual landscape. A similar audit of International employment contracts will take place in 2010.

2010 INITIATIVES

EMPLOYER OF CHOICE

Being an Employer of Choice helps Lloyd's attract and retain the best people for the market and the Corporation. Working within the market context, this includes the Leadership Development Programme and Graduate Programme. For the Corporation, the Employer of Choice focus will be on developing talent, embedding a performance culture and providing access to world-class training courses. Our overall objective for both areas is increasing well-motivated and high quality staff.

To remain an Employer of Choice, HR will focus on operational excellence; optimising performance; developing leadership and talent; learning and development; engagement and communication; and HR transformation.

IMPROVING HOW WE WORK

In 2008, the Corporation launched Project Jazz to determine whether to replace or upgrade the HR, payroll, pensions, recruitment and benefits solutions. Project Jazz continued into 2009, the project should be fully operational by the end of 2011.

It will allow for integrated management of the employee life-cycle and support effective approaches to talent development.

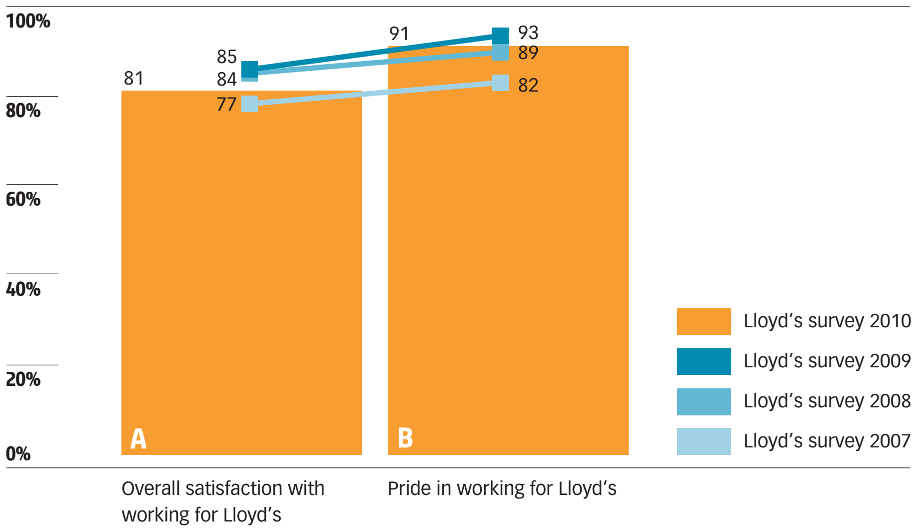
HEALTH AND WELL-BEING REVIEW

HR is developing a new health and well-being strategy – the review of the current offering will be completed and enhancements implemented during the first half of 2010. Working in partnership with health-benefit providers, HR's aim to create a high quality, visible, accessible and valued suite of benefits and will actively promote health awareness and wellness throughout the Corporation.

Figure 8

EMPLOYEE OPINION SURVEY

% in agreement



PEOPLE STRATEGY
CONTINUED

MOVING FORWARD TOGETHER

ViewFinders is a Corporation development initiative launched in 2009 by Richard Ward. The idea is to make a difference to the way the Corporation works together and for everyone to have a say about how Lloyd's can move forward. To that end, 25 employees were appointed as ViewFinders, and during a three-month period they had conversations with over 600 employees.

Each conversation is focused on the individual, their successes and strengths, and also looks to identify any obstacles that stand in the way of their continued progress. The interviewees have an opportunity to talk about what they think is working well, any individual achievements that the Corporation can learn from and any areas for improvement.

At the end of the conversation, each individual is encouraged to pass on one message that they would like the ViewFinder to take back to the Executive Team – and commits to taking one action away with them.

This feedback has enabled the Corporation to gain an understanding of how its own people aspire to move the organisation's culture forward – which in turn has helped to create future direction statements. Richard Ward and the Executive Team have used these statements to inform key priorities for 2010.

TALENT AND DEVELOPMENT

We will introduce a number of key talent and development initiatives at Lloyd's during 2010.

MANAGEMENT DEVELOPMENT

We will look to further enhance overall management capability within Lloyd's through the implementation of a management development programme. This is designed to encourage new ways of working which will help achieve organisational change and enable employees to better deal with market changes.

MENTORING

A mentoring scheme piloted during 2009 allowed individuals to seek guidance outside their reporting line – helping them to acquire knowledge, share experiences and encouraging creative thought. A formal programme will be launched in 2010 to develop high-potential employees within the mentoring programme.

INTERNS

A centralised summer internship programme will start in 2010. The aim is to raise Lloyd's profile among penultimate year undergraduates, and give students meaningful work experience within the insurance industry. The programme will also enrich the selection process and identify candidates for the graduate scheme.

LLOYD'S AND THE LONDON MARKET INTRODUCTORY TEST (LLMIT)

Lloyd's has committed to delivering an enhanced LLMIT offering in 2010. This will involve a transition from a paper-based examination to online assessment.

TALENT REVIEW

We started a talent review in 2009 with the Lloyd's Management team and this will be rolled out across all levels of the Corporation in 2010. These will be reviewed annually to identify and implement development opportunities for employees as well support succession planning.

CORPORATION EMPLOYEE DEMOGRAPHICS

UK EMPLOYEE TURNOVER AND ABSENCE

	2009 number	2008 number
Employees as at 1 January 2009	**719**	694
Total joiners	**131**	130
Total voluntary leavers	**(40)**	(47)
Total involuntary leavers (redundancies, dismissals)	**(43)**	(23)
Total retirements	**(2)**	(5)
Contracts completed	**(26)**	(30)
Employees as at 31 December 2009	**739**	719

UK EMPLOYEE TURNOVER AND ABSENCE

	2009 %	2008 %
Total turnover	**15.2**	14.6
Turnover (excluding contracts completed)	**11.7**	10.4
Industry average turnover	**16.6**	17.5
Voluntary turnover	**5.5**	6.5
Industry average voluntary turnover	**10.2**	12.5
Absence	**1.9**	2.5
Industry average absence	**3.0**	3.0

TOTAL EMPLOYEES

	2009 number	2008 number
UK	**739**	719
US	**34**	33
Canada	**6**	6
Asia	**57**	45
Europe	**42**	40
Africa, Australia and South America	**8**	8
	886	851

The Corporation regularly monitors the level of staff turnover and absence against suitable industry benchmarks and corrective action is taken if required. During 2009, UK voluntary staff turnover, excluding redundancies, dismissals, retirements and contracts completed, continued to be below the industry average at 5.5%, as did the sickness absence record at 1.9%. The Corporation considers the performance against these benchmarks in a fast-moving environment to be very positive.

The Corporation's UK employee segmentation and profile as at 31 December 2009 is shown below:

UK employee segmentation	Executive		Head of function		Manager		Professional/ technical		Admin		Total	
Figures in numbers	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Male	**7**	6	**25**	25	**137**	135	**189**	174	**27**	29	**385**	369
Female	**1**	1	**8**	8	**73**	67	**166**	163	**106**	111	**354**	350
Total	**8**	7	**33**	33	**210**	202	**355**	337	**133**	140	**739**	719
Figures in years	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Average age	**52**	51	**47**	46	**42**	42	**39**	39	**37**	38	**40**	40
Average service	**5**	5	**9**	9	**9**	9	**8**	8	**6**	6	**7**	6

The segmentation as shown above includes nine male and 66 female part-time employees as at 31 December 2009 (31 December 2008: six male; 63 female). The employee demographics shown above include both permanent staff and those working on a contract basis.

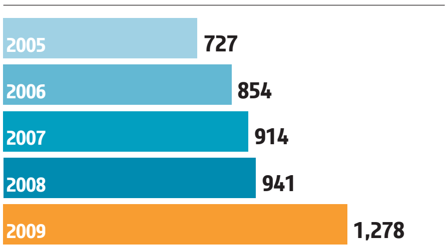
CORPORATE RESPONSIBILITY COMMUNITY

CELEBRATING 20 YEARS OF LLOYD'S COMMUNITY PROGRAMME.

In 2009 we celebrated 20 years of Lloyd's Community Programme (LCP), which encourages volunteering and acts as a catalyst for the Lloyd's market to improve the lives of our neighbouring communities.

Figure 9

LLOYD'S COMMUNITY PROGRAMME VOLUNTEER INVOLVEMENT
Number of volunteers



Despite bordering on the City and being home to Canary Wharf, East London has some of the country's highest levels of social deprivation. Since its inception, the LCP has worked to address some of the main socioeconomic challenges in our neighbouring boroughs through educational support, training and employment.

The 20-year milestone establishes the LCP as one of the longest-running community involvement schemes in the City of London. To mark the 20th anniversary, it set a goal of reaching 1,000 volunteers during 2009 – a target that would have been impossible without the increased support from companies and volunteers from the Lloyd's market.

Despite the scale of the task, the LCP was proud to announce its end-of-year figure as 1,278 volunteers, a rise of 35% on the 941 who took part in activities during 2008. This took involvement with the programme to the highest level in its history (see Figure 9).

Lloyd's Community Programme hosted its 20th Anniversary Celebration Event in July at the Lloyd's Building to acknowledge the ongoing contribution of these volunteers and the programmes they support. In his address to guests at the event, Lloyd's CEO Richard Ward highlighted their outstanding achievements and the importance of the LCP.

"Just a three-minute walk east of the Lloyd's building are some of London's poorest communities," he said. "We need to engage with this issue and this is what the Lloyd's Community Programme is all about – enabling people from across the Lloyd's market to share their time to take part in volunteering initiatives that focus on improving the opportunities and environment for those people living and working in our local community."

In recognition of the exceptional dedication of LCP volunteers and community workers, Nick Furlonge, Director of Beazley and Chairman of Lloyd's Community Programme, announced special awards to nine scheme participants for "going that extra mile."

Three of the winners were nominated by school contacts and by their fellow volunteers – Kirat Nandra (Ace) for supporting Bethnal Green Technology College in Tower Hamlets; Kerry Moore (Aon) for supporting Downsview School in Hackney; and Eva Bocci (Corporation of Lloyd's) for her work with Oaklands School in Tower Hamlets. Six further awards were presented to employees of the Lloyd's market and to local teachers who work together to facilitate the involvement of hundreds of volunteers from the Lloyd's market each week.

Both the students and the volunteers themselves benefit from the programme, explained Gill Nichols, Learning and Development Manager at Liberty Syndicates and the LCP's longest-serving volunteer. Speaking about her involvement with the Reading Partners programme, she told guests: "It's not just about reading, but communicating with your student as well – you read a little and you chat a little with your student. We learn about their lives, they learn about our lives and at the same time we're helping them improve their reading skills."

A highlight of the event was a short film featuring a special address from HRH The Prince of Wales, who formally launched Lloyd's Community Programme in 1989. Prince Charles praised the programme for going from "strength to strength" over the past 20 years, highlighting volunteers' "commitment that has touched thousands of people in these communities".

Prince Charles reminded the audience that problems in communities near the City continue to exist and that the area's young people need help as much now as they ever did – many leave school with few qualifications. "They lack self-confidence and self-worth, and feel as if they belong nowhere and to no-one. You help them fulfil useful lives in their communities," he said. His message was pertinent: recent headlines have highlighted that the number of school leavers not in education, employment or training (NEET) is now the highest on record, at over one million.

That makes one of the projects launched to celebrate the 20th anniversary of the LCP – internships for teenagers as part of the Ready for Work initiative – all the more significant. The programme works in collaboration with the City of London's City Business Traineeship programme and The Brokerage Citylink, which arranges paid internships for local inner London students following completion of their A levels. As a result, 21 local students were placed in 15 companies throughout the

Lloyd's Market during 2009. Feedback on the scheme has been very positive. A number of companies commented on the high quality of the students. "It's a fantastic opportunity to show what the insurance industry is about – and also a great way to encourage people into the profession," explained one company (see case study opposite).

Despite the ongoing need for engagement, conditions in East London have improved over the past 20 years. For example, only 30% of pupils in Tower Hamlets gained five A* to C grades including maths and English for their GCSEs in 2005; by 2009, it had risen to 45.8%, the best results the borough has ever seen. Hackney's secondary schools have made exceptional progress in the past academic year with a 10% increase in the proportion of pupils achieving five A* to C grades, taking the overall attainment to around 5% above the national average in 2009. And 80% of the borough's secondary schools individually achieved results higher than last year's national average.

LCP volunteers can take pride that their efforts have contributed towards this improvement and it is estimated that they have committed more than 13,983 hours of their time last year alone.

Education and employability is central to the LCP's aims. But we also believe that sport has an important role to play in inner-city children's lives. It encourages health and fitness, discipline – and most of all fun.

Over the years, the LCP has held various tournaments, including regular football competitions and an annual cricket tournament at the Brit Insurance Oval. In 2009, we also hosted the celebratory Lloyd's Games, the programme's largest event ever for young people. This huge sports day in Mile End Park Stadium, within sight of the Olympic Park, was supported by over 60 volunteers from the Lloyd's market working as scorers, team captains and managers or sports organisers for 500 primary school pupils. The children took part in eight sports – including track and field events, football, hockey, handball and volleyball – giving them an early taste for sports they might see at the London 2012 Olympic Games and Paralympic Games.

Nick Furlonge, Chairman of Lloyd's Community Programme (third from right) with Ilya at an award ceremony for internships

20 FOR 20

To mark 20 years of Lloyd's Community Programme, chief executives from the market made a commitment at the start of the year to provide 20 paid internships for local students in 2009. This enabled local young people to get valuable employment experience – and, for at least one intern, proved to be a greater opportunity than he originally imagined.

Antares syndicate was so impressed by intern Ilya Karpenko (pictured above, centre) that it extended his paid placement by six months. Nigel Cole, Ilya's line manager, said that although Antares took on an intern because it is "good to give back", the company had seen a real contribution from him. "The benefit of interns is that they come in and do a real job," he explained. "It was genuinely good to have an extra pair of hands in the office and in the Lloyd's box."

Ilya's role within the company was Facilities and Premises Technician. But he also enjoyed participating in each team within the company and gained particularly useful experience in the Catastrophe Modelling team.

Feedback from interns participating in the Lloyd's programme highlighted that many would now consider a career in insurance. "The work placement at Antares left me with no doubt as to my future career," said Ilya. "I definitely want to become an underwriter." Ilya's ambition is to work his way up in the industry and he intends to complete both the ACII and LLMIT qualifications to further his career.

At an award ceremony in the Old Library at Lloyd's, Ilya was recognised as a highly commended trainee and received a certificate from the Mayor of London.

LLOYD'S COMMUNITY PROGRAMME MEMBERS

Ace European Group
Advent Underwriting Ltd
Amlin plc
Aon Ltd
Ascot Underwriting Ltd
Atrium
BMS Group Ltd
Barlow Lyde & Gilbert
Beazley Group plc
Brit Insurance Holdings Ltd
Canopius Managing Agents Ltd
Capita
Catlin Underwriting Agencies Ltd
Chaucer Syndicates Ltd
Clyde & Co
Cooper Gay & Co Ltd
Dewey & LeBoeuf
Edwards Angell Palmer & Dodge UK LLP
Ernst & Young
Faraday Underwriting Ltd
Glencairn Ltd
Hampden Agencies Ltd
Hardy Underwriting Group plc
Heath Lambert Group
Hiscox plc
HSBC Insurance Brokers Ltd
Ince & Co
Jardine Lloyd Thompson Group plc
Kiln plc
Liberty Syndicates
Lloyd's
Lockton
Markel
Marketform Group
Mazars
Miller Insurance Services Ltd
Munich Re Underwriting Ltd
Newline Underwriting Management Ltd
Novae
Omega Underwriting Agency Ltd
PricewaterhouseCoopers
QBE Insurance Group
Reynolds Porter Chamberlain
Talbot Underwriting Ltd
Travelers
Xchanging Claims Services
XL London Markets Ltd

CORPORATE RESPONSIBILITY LLOYD'S CHARITIES TRUST

LLOYD'S CHARITIES TRUST HAS BEEN GIVING SUPPORT TO NATIONAL CAUSES ON BEHALF OF THE LLOYD'S MARKET SINCE 1953.

In 2009, we provided donations to three partner charities as well as charities supported by individuals working within the Lloyd's market. In 2009 the recipient of the Lloyd's Special Award was Whitechapel Homeless Mission.

LLOYD'S MARKET CHARITY AWARDS

At a time when smaller local charities, in particular, are struggling for funding, Lloyd's Market Charity Awards provide a much-needed injection of finance prompted by the personal involvement of people working in the Lloyd's market.

To date, 84 donations have been made through the Lloyd's Market Charity Awards scheme which gives people working in the Lloyd's market an opportunity to apply for an award of £1,000 for a cause they support. "These awards shine a spotlight on the great work our colleagues in the Lloyd's market undertake for charities close to their hearts," says Graham White, former Chairman of Lloyd's Charities Trust and Managing Director of Argenta Private Capital. Each year between 20 and 30 grants of £1,000 are made to the charities supported by the successful applicants.

Now in its third year, the awards scheme continues to highlight the fantastic work carried out on behalf of a wide variety of charities by those working in the Lloyd's community. Our colleagues support these organisations – many of which are smaller, local causes – through giving time, raising money or acting as trustees.

The awards also recognise charities that have helped improve the lives of the applicants or their families when illness has struck; or provided support after the loss of a loved one.

PARTNER CHARITIES

Lloyd's Charities Trust's funding for its partner charities – Coram, FARM-Africa and Samaritans – will be coming to a close in 2010 at the end of three-year partnerships that have resulted in successful projects for each of the charities. Lloyd's donated £150,000 to each of the charities over that period under the umbrella theme of helping those most at risk.

The funding enabled Coram to develop its London-based Concurrent Planning Adoption Programme, a unique adoption and fostering project working with the most vulnerable babies who are the subject of care proceedings. By placing babies with specialised foster carers, who are approved adopters and in a position to adopt the child should the courts decide the baby cannot go back to their natural parents, Coram are ensuring that babies do not drift around the care system. Working closely with the birth parents and carers, the project is able to prevent serious disruption to the lives of the babies.

As a result of Lloyd's Charities Trust's funding, FARM-Africa's Household Recovery Programme in Southern Sudan has already benefited thousands of refugees, returning to their homes following the end of the 20-year civil war in the area. These refugees are extremely poor and at risk from a number of factors including lack of access to markets and the impact of climate change. The Household Recovery Programme provides them with the capacity to reduce these risks and kick-starts poverty alleviation through access to clean water, high-yield seed, agricultural tools, livestock and 'village vet' training. The communities have witnessed the results of their hard work quickly. For example, in 2009 alone 40,800 households were expected to benefit from improved water resources thanks to the drilling of six boreholes, the repair of 28 further boreholes, the training of 31 pump mechanics, digging of 14 shallow wells and the formation of three Water Management Committees.

Samaritans used its three-year funding to pioneer a Suicide and Self Harm Response Service – a training programme to equip teachers, parents and other professionals (including GPs, social workers and nurses) to work positively with young people and reduce the contagion effect of suicide and self harm incidents in schools. Self harm is a significant and growing public health concern, with an estimated 24,000 young people admitted to hospital each year after deliberately hurting themselves. The project will also develop skills and resources in order to support schools and communities during the aftermath of an attempted or completed suicide.

FUTURE FOCUS

In 2009, the trustees of Lloyd's Charities Trust conducted a review of its charitable giving, consulting individuals from the Lloyd's market to ascertain their views on the future direction and activities of the trust. Based on the outcomes of this review, a new mission statement and revised funding priorities have been developed.

The Lloyd's Market Charity Awards scheme will continue, allowing anyone who works in the Lloyd's market to apply for a donation to a charity or community organisation with which they are actively involved. And from 2010, Lloyd's Charities Trust will maximise the impact of its charitable giving by focusing on three key areas, each reflecting an aspect of the market's unique character and business.

The first area of focus will be charitable projects in London that tackle disadvantage and foster opportunity. The Lloyd's building is based in a true world city where there are opportunities for many – but where disadvantage still exists and poverty rates are among the highest in the country. So Lloyd's Charities Trust will be looking for a London-based project to become a partner charity for the years 2010 to 2012.

Being aware that, particularly in developing countries, not every disaster or major loss is covered by insurance, Lloyd's Charities Trust will also help organisations respond to emergencies around the world. The trust is keen to support charities in their efforts to relieve suffering and help people rebuild lives when disaster strikes. Donations will be made in response to emergency and disaster situations – in countries where we do business and in those where people can't afford the safeguard of insurance.

Funding will also be directed to providing individuals and communities with the ability to meet the challenges of a rapidly changing world by equipping them with valuable, up-to-date skills, information and the resources they need to be better prepared for the future. Lloyd's Charities Trust is looking for a project within this area to become a partner charity for 2010 to 2012, while also reflecting this area of support throughout its other funding programmes.

The review also considered the funding strategy for the Cuthbert Heath Fund, established in 1959 to commemorate the centenary of the birth of one of Lloyd's most distinguished members. The trustees of Lloyd's Charities Trust are responsible for this fund, which for 50 years has been supporting bursaries at nine public schools (including Cuthbert Heath's school and others in and around London) for students who would otherwise struggle to meet the fees.

The review highlighted a desire to see the monies benefit a greater number of young people, with a particular focus on local London communities. As a result, Lloyd's Community Programme management board has been asked to consider how the funds could be used to benefit local children and young people. The Fund will continue in the spirit it began – to support education – and from 2010 it will be known as the Lloyd's Education Fund, in memory of Cuthbert Heath.

LLOYD'S PATRIOTIC FUND

With the ongoing conflict in Afghanistan, Lloyd's Patriotic Fund has responded during the year by undertaking fund raising efforts amongst companies and individuals in the market and increasing its donations to organisations supporting serving and former service men and women. Lloyd's Patriotic Fund has supported Britain's armed forces continuously ever since its foundation in 1803 and, with the help of its long-term partner the Soldiers, Sailors, Airmen and Families Association, the charity continues to identify individuals and families who are in urgent need of financial help. It made grants to 160 families during the year.

Donations were also made to Combat Stress – the leading charity specialising in the care of British Veterans who have been profoundly traumatised by harrowing experiences during their Service career, and to BLESMA – the charity helping limbless serving and ex-service men and women. Recognising the struggles that some service personnel have adjusting to life outside the armed forces, Lloyd's Patriotic Fund also made donations to organisations working with homeless veterans and ex-offenders. The Fund ended the year with a Christmas appeal for homeless veterans which resulted in 600 practical gifts being donated by people in the Lloyd's market for residents of a Veterans Aid hostel in East London.

LLOYD'S BENEVOLENT FUND

Founded in 1829, the Lloyd's Benevolent Fund is a registered charity which aims to assist all those in need who work in, or have worked within, the Lloyd's community. Dependants and others are also eligible for assistance at the discretion of the Trustees. It 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 should contact the Fund at One Lime Street.

LLOYD'S TERCENTENARY FOUNDATION

The Lloyd's Tercentenary Foundation was established by Lloyd's in 1988 to mark the 300th anniversary of the market. It is a charitable trust that provides funding for medical, scientific, technical and business-related research and education. In 2009, the Foundation supported the new Insurance Intellectual Capital Initiative, which commissioned its first research programme to study the London and Bermuda insurance markets. Although it is now focused on project-based work, Lloyd's Tercentenary Foundation also continues to support its existing Lloyd's Research Fellows to undertake their post-doctoral research until 2011.

For further information and to read case studies of past award winners, please visit **www.lloyds.com/charityawards**

Graham White (right) presents Tony Miller from Whitechapel Mission with the £50,000 donation

LLOYD'S SPECIAL AWARD FOR WHITECHAPEL MISSION

In recent years, Lloyd's Charities Trust has made an annual donation of £50,000 to a charity making a positive contribution to an issue of interest to the Lloyd's market – the Lloyd's Special Award. The 2009 beneficiary was the Whitechapel Mission, a small charity based only a mile from the Lloyd's building that was feeling the effects of the economic downturn on both its beneficiaries and its running costs.

Whitechapel Mission has worked in the East End of London for over 100 years and is dedicated to providing a lifeline to the poor and homeless people of London who struggle each day against hunger, poverty and exclusion. It opens 365 days a year, providing hot breakfasts, access to showers and clean clothes – and offering advice and training in life skills to help homeless people become self-confident, independent and successful.

The £50,000 donation from Lloyd's Charities Trust was immediately put to good use, helping Whitechapel Mission meet the costs of staying open throughout the nights when the temperature drops below freezing. The donation was also used to help fund the costs of a new life skills worker who will support clients to develop the skills necessary to make positive changes to their lives.

"We are extremely grateful for the support we're receiving from Lloyd's of London," says Tony Miller, Director of Whitechapel Mission (pictured above, left). "Thanks to this donation it will be possible to expand our Life Skills programme and seed a major expansion to our service delivery. Lloyd's has demonstrated a true commitment to supporting the homeless community – and to supporting their own staff who have already given generously of their time to support all of our core services."

CORPORATE RESPONSIBILITY ENVIRONMENT

LLOYD'S IS COMMITTED TO GOOD ENVIRONMENTAL PRACTICES ACROSS OUR BUSINESS LOCATIONS.

"There are three very good reasons why insurance companies are at the forefront of the fight against climate change. They need to identify and assess the impacts it will have across their business. They must price their products to reflect the developing awareness of the risk it poses. And they have strong vested interests in reducing that risk, by supporting the transition to a low-carbon economy. Insurance also offers an important contribution within a wider framework of adaptation, building resilience within communities by helping customers to recover after extreme weather incidents, and sharing climate research so that the risks to society can be better understood."

'ClimateWise: second year review', November 2009

For further information about the highlights of Lloyd's please visit **www.lloyds.com/climatewise**

LLOYD'S AND CLIMATEWISE

Lloyd's was a founding signatory of the ClimateWise principles for the insurance industry in September 2007. The initiative encourages insurance companies worldwide to respond to the challenge of climate change as quickly and as effectively as possible. Forty insurance companies are members, including 15 managing agents in the Lloyd's market.

In November 2009, ClimateWise produced its second annual review of the progress that member organisations are making against its six core principles. Highlights of Lloyd's progress are set out below, where we provide updates throughout the year on the work we are undertaking.

SUPPORT RISK ANALYSIS

Our 360 Risk Insight team worked with the International Institute for Strategic Studies to illustrate the impact of climate change – and other resource challenges – on security issues. The report looked into water stress, food shortage, energy security, population growth, migration and even geo-engineering.

A critical example is the recent stress to the world's food resources. In recent years the needs of a rising population have been met by the 'Green Revolution' making use of new high yielding seeds, fertilisers and non-renewable water sources. Unfortunately, these key elements have largely exhausted their potential. World grain production has been outrun by consumption in seven of the past eight years, halving world grain reserves compared to a decade ago. Anxiety about the future availability and price of food is already causing a rapid growth in deals between countries. Our report used this among other examples of how resource scarcity combined with climate change may lead to political tension around the world – unless early action in taken.

We are not alone in this view. In July, Lloyd's Chairman Lord Levene addressed a NATO Strategic Concept meeting about our concerns over the impact climate will have on security and commerce. We co-hosted two conferences with NATO later in the year, in London and New York, which included debates on the security risks of climate change.

INFORM PUBLIC POLICY MAKING

In April we helped launch "Resilient Coasts: A Blueprint for Action" – a report on the impact of natural hazards for coastal regions and suggested actions to make them more resilient. The report is a collaboration between several major insurance groups (including Lloyd's), policymakers, banks, property developers and two major think tanks. It calls for risk-based land use planning; building codes that consider future risk; flexible solutions to recognise that the pace of climate change is uncertain; strengthening ecosystems as a first line of defence; and incorporation of climate risk into due diligence and lending criteria.

Our new office in Brazil wasted no time in promoting the debate on climate change. Working with the Brazilian Foundation for Sustainable Development, we sponsored four leading Brazilian scientists to comment on the implications of climate change in the region. Their work looked at extreme weather, energy volatility, agriculture and sea level rise. The report was launched at a meeting in November attended by key stakeholders in Brazil.

We also worked with our colleagues at the Geneva Association – the leading insurance think tank – to produce a major report on the implications of climate change for the industry. This was published at a meeting in Kyoto, along with a general statement for action which was ratified by 50 CEOs from major insurance groups. The association then held a side event at the Copenhagen climate change conference in December at which Lloyd's CEO Richard Ward urged negotiators to empower insurers further to help reduce climate risk (see case study opposite).

SUPPORT CLIMATE AWARENESS

In November we published a 360 Risk Insight white paper on opportunities in the developing world, in partnership with the Microinsurance Centre. Up to three billion policies from this type of cover could be created to benefit people from developing regions, but only a small fraction are currently protected. By 2015, some 375 million people may be suffering the effects of climate change, according to Oxfam. If microinsurance products can be designed to work with existing methods of risk management in developing regions, this presents a major opportunity, both for the industry and those affected. There is still much to do to build trust among these potential customers – but in the longer term we believe the peace of mind and economic stability that insurance can bring will be a great benefit to them.

INCORPORATE CLIMATE CHANGE INTO OUR INVESTMENT STRATEGIES

At Lloyd's we believe we should use our shareholder power to influence the behaviour of the companies in which we invest – and persuade them to respond more effectively to the impact of climate change. This approach is designed to support measures that will improve the long-term performance of investee companies.

So in 2008, we appointed an overlay investment manager to engage with companies in which Lloyd's Central Fund invests, and to exercise the fund's voting rights in pursuit of environmental, social and governance (ESG) issues. Since then, the investment manager has voted 84 times on the segregated accounts managed for the fund; our investment in a pooled fund is voted by its fund manager. They engaged with 642 companies in which we are invested, including those in the pooled fund, leading to a significant number of instance where companies changed their approach to ESG issues. The investment manager typically asks for better measurement, monitoring and management of emissions and for the development of enhanced climate change strategies.

A good example is the investment manager's engagement with the independent directors and CEO of Exxon Mobil on the company's climate strategy and its unwillingness to experiment with, or invest in, renewable energies. In mid-2009 the company announced its first notable investment in renewable energy.

We have shared our assessment of the impacts of climate change with our pension fund trustees through a presentation on Lloyd's response to climate change and the action that we are taking with respect to investments.

REDUCE OUR ENVIRONMENTAL IMPACT

Lloyd's Environmental Working Group meets regularly to develop – and monitor progress against – an environmental action plan for the Corporation of Lloyd's. This group includes departmental representatives from Finance, Operations, Property Services, IT, Catering, Supplier Management and Community Affairs. Its primary objective is to reduce the environmental impact of Lloyd's operations and any physical assets under our control. The Environmental Action Plan focuses on energy consumption, but also covers issues such as waste, transport and procurement.

We buy renewable electricity for the Lloyd's Building in London and Fidentia House in Chatham – our two main offices – and we're implementing initiatives to help reduce our energy consumption at these locations. In 2009, this included the refurbishment and upgrading of air-conditioning and chilling equipment at the Lloyd's Building to improve energy efficiency, a programme due to be completed mid-2010. We have also introduced videoconferencing technology in our UK and international offices to provide an alternative to business travel.

Engineering consultancy Scott Wilson helped to calculate greenhouse gas emissions derived from our UK operations. In 2009, the total was 14,961 tonnes (2008: 14,349), of which 1,904 were Scope 1 emissions; 11,904 Scope 2 and 1,719 Scope 3. Further information is available at www.lloyds.com/carbonemissions

Each year, Lloyd's also implements the winning idea from the Green Award – an opportunity for Corporation employees to put forward their own environmental improvement ideas.

REPORT AND BE ACCOUNTABLE

www.lloyds.com/climatewise is the section of our website dedicated to ClimateWise issues. Anyone wishing to find out more about our activities in this area should click the 'our progress' button which opens up a detailed table of our work to date. Our Director of Finance, Risk Management and Operations, Luke Savage, is responsible for overseeing Lloyd's commitment to delivering action on the ClimateWise principles.

Richard Ward is interviewed at the Climate Change Summit in Copenhagen

TAKING A STAND ON CLIMATE CHANGE

The United Nations Copenhagen Climate Change Summit took place from 7-18 December 2009. As world leaders attempted to hammer out a new political agreement on climate change, the Corporation took the opportunity to raise awareness of the issues and engage with its own employees on the role they can play.

Corporation employees were greeted on the first day of the Climate Change Summit with a message from Richard Ward, encouraging them to educate themselves about the issues. Over the next fortnight, colleagues who had initiated projects to help Lloyd's make progress on climate change were profiled on the intranet, explaining their work on the issue, such as reducing energy consumption at the Lloyd's building or lobbying for legislation on sustainable claims. Employees were challenged to submit ideas about the role their team could play in helping Lloyd's make progress on the Climatewise principles. Arctic explorer Pen Hadow also spoke at a meeting packed with Corporation employees on the role of scientific exploration in understanding climate change.

In Copenhagen itself, Richard Ward spoke of how insurers are helping to contribute to a low carbon future by insuring new technology; and highlighted how insurers are coming together to tackle the shared challenge of climate change.

REINSURANCE	PROPERTY	CASUALTY	MARINE	ENERGY	MOTOR	AVIATION
See page 53	See page 54	See page 55	See page 56	See page 57	See page 58	See page 59

HOW THE MARKET PERFORMED IN 2009

2009 MARKET PERFORMANCE REVIEW

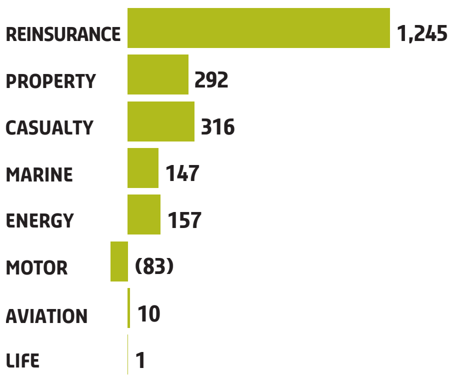
2009 HIGHLIGHTS

- Profit before tax of £3,868m (2008: £1,899m) and a combined ratio of 86.1% (2008: 91.3%)
- Combined ratio excluding foreign exchange movements on non-monetary items of 83.8% (2008: 94.0%)
- Total investment return of £1,769m (2008: £957m)
- Overall surplus on prior years of £934m (2008: £1,265m)
- Pre-tax return on capital of 23.9% (2008: 13.7%)

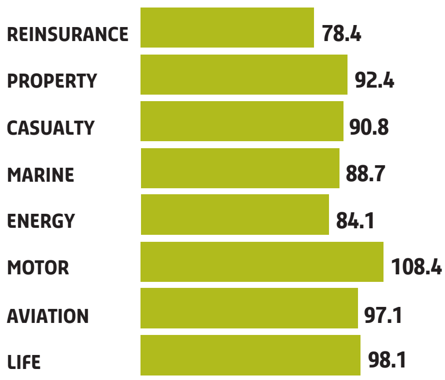
2009 COMBINED RATIO*

ACCIDENT YEAR	91.7%
PRIOR YEAR RESERVE MOVEMENT	(5.6)%
CALENDAR YEAR	86.1%

UNDERWRITING RESULTS BY CLASS
£m



COMBINED RATIO BY CLASS
%



* The combined ratio for the market and by class of business is the ratio of net incurred claims and net operating expenses to net earned premiums. The prior year reserve movement represents the ratio of the surplus/deficit arising on reserves at December 2008 to overall net earned premiums in calendar year 2009. 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 65 and 68 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 an excellent result in 2009 as some confidence returned to world-wide financial markets and the US saw a benign Atlantic hurricane season.

In 2009 there were considerable efforts by central governments around the world to re-establish confidence in the banking system and financial markets in general. The financial turmoil in 2008 had weakened some (re)insurers' balance sheets, but there were few significant failures among insurance businesses. As confidence has begun to return, stock market values have increased and capital and surplus levels have largely been replenished.

In 2009, there were just five events that incurred insured losses of US$1bn or more. Three related to severe weather in the US while the other two were storms in Europe. No single event, however, cost insurers more than US$3.5bn and in particular, Lloyd's benefited from the benign hurricane season in the Gulf of Mexico, which saw the lowest number of named storms since 1997.

There were, however, a number of significant single event insured losses, particularly in the aviation market, notably the Air France A330-200 lost over the Atlantic Ocean in June.

While the Lloyd's market did incur some claims from these events, the market's overall exposure to those was less than the potential loss through severe windstorms in the Gulf of Mexico. Thus, although worldwide insured catastrophe losses in 2009 were only slightly below the long-term average, the impact on the Lloyd's market was proportionately less.

MARKET PERFORMANCE
CONTINUED

LOOKING AHEAD

Last year, we said that the outlook for 2009 was dominated by concerns about the impact of the financial crisis and this remains the case for 2010. The beginning of the year has already seen questions being raised over the ability of a number of countries to finance their debt confirming the potential for continued financial turmoil.

With the economic downturn came an expectation that claims frequency would rise across almost all classes of business. While 2009 saw an increase in claims frequency, the cost of claims, as advised to date, has not risen as much as anticipated. This might, however, simply be a delay in notifications of firm claim figures and, given the prolonged slowdown, there is a material risk that the expected increase may become more apparent in 2010.

Insurance was one of the more successful sectors in 2009. A number of insurers reported record or near record results through a combination of improved investment returns and re-pricing of catastrophe exposed business, thereby restoring confidence amongst management and underwriters. The increase in surplus capital, together with expectations amongst clients and brokers of more generous contract conditions, is likely to have a negative impact on prices in 2010.

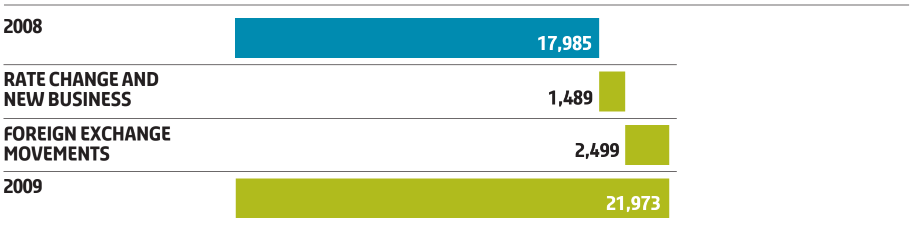
The market is, therefore, entering a softer phase of the underwriting cycle which means that it is imperative that underwriting discipline be maintained. The Corporation will continue to play an important role through oversight of the performance management framework and ensuring that managing agents maintain robust risk management systems.

2009 PERFORMANCE

Gross written premium for the year increased by 22% to £21,973m (2008: £17,985m). Most of this increase is attributable to the different average exchange rates applied to translate US dollar business into sterling in 2009 compared to 2008: US$1.57:£1 compared to US$1.85:£1 respectively. Over 65% of the market's business is denominated in US dollars so this movement in exchange rates has had a major impact on gross written premium (and other lines in the profit and loss account) when translated into sterling.

During 2009, higher pricing on catastrophe exposed business produced an overall upwards rate change on renewal business. This is offset by any reductions that prevail when business moves between risk carriers or where there is a significant change in risk profile. This business 'churn' is one area that the Corporation through its Performance Management Directorate is focusing on.

2009 PERFORMANCE
£m



Gross written premiums

ANALYSIS OF EXCHANGE GAIN/(LOSS)

£m	2009 £m	2008 £m
Impact of translating non-monetary items at average rates and monetary items at closing rates	**(9)**	408
Accident year – other	**(88)**	46
Prior years	**28**	399
(Loss)/profit on exchange	**(69)**	853
Loss within premiums/expenses through reversal of exchange gain reported in 2008	**(370)**	–
Total	**(439)**	853

ACCIDENT YEAR PERFORMANCE

For 2009 the Lloyd's market has delivered a profitable accident year combined ratio of 91.7% (2008: 100.5%).

In 2008 the Lloyd's market result benefited from an exchange gain of £853m as the US dollar and other currencies appreciated against sterling. Of this, some £408m arose through carrying non-monetary items (unearned premium reserves and deferred acquisition costs (DAC)) at initial rates of exchange and monetary items at closing rates. As the unearned premiums and DAC as at December 2008 earned through during 2009, the exchange gain arising through this accounting treatment was reversed, producing a loss of £370m. This impacts the premium and expense lines within the P&L rather than being reported as a loss on exchange. At 31 December 2009, the impact of translating non-monetary items at historic rates and monetary items at closing rates produced a loss on exchange of £9m. Overall, this accounting treatment for non-monetary items increased the combined ratio in 2009 by 2.3% (2008: decrease of 2.7%). This should be borne in mind when considering the performance by class of business.

The accident year ratio, excluding major losses, was 89.6% and a similar result to the 87.8% achieved in 2008 after taking into account the impact of non-monetary items.

A key factor in the market's result is that the 2009 Atlantic windstorm season saw below average activity with only three storms reaching hurricane strength, none of which made landfall in the US. This low level of activity is considered to be partially attributable to the El Niño phenomenon. This produces unusually warm waters in the Pacific affecting atmospheric windspeeds which in turn prevents hurricanes forming in the Atlantic.

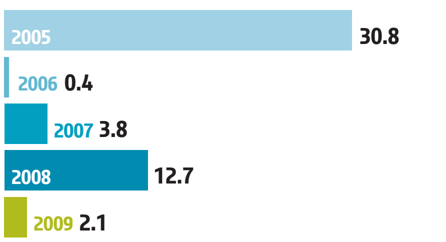
While El Niño reduces hurricanes in the Atlantic, cyclone activity is increased across the Pacific. 2009 did indeed see an increase in storm development in this region in the latter part of the year. These storms had a significant human cost, but occurred in areas where insured values are lower so that they had little impact on the market's result.

While the Atlantic windstorm season was benign, there were a number of catastrophe losses in 2009. There were 850 events reported as natural catastrophes in 2009 compared to a ten-year average of 770. European Windstorm Klaus was the largest event with estimated insured losses of US$3.3bn. The next most costly loss was also European: severe weather in Austria and Switzerland causing US$1.25bn of insured losses in July. The Lloyd's market did have exposure to these events but not to a significant level.

ACCIDENT YEAR EXCLUDING MAJOR LOSSES
%

Combined ratio

MAJOR LOSSES
%



Combined ratio

MARKET PERFORMANCE CONTINUED

There have also been few sizeable risk losses this year other than in Aviation (notably Air France) and Energy where the most recent loss, the Timor sea platform blaze/oil spill, could cost insurers around US$700m.

The worldwide recession has not yet had the full extent of the adverse impact on claims anticipated. Claims typically lag economic downturn and underlying loss activity has risen in 2009; a trend expected to continue in 2010. There have been a number of large political risk/trade credit claims arising from structured credit risk cover to Western banks and investors. Claims from 2007 and 2008 (notified throughout 2009) arose from a variety of sources including bank collapses in Eastern Europe and financial instability in the Middle East.

PRIOR YEAR MOVEMENT

Lloyd's continues to benefit from prior year reserve releases, improving the combined ratio by 5.6% (2008: 9.2%). The release is 3.4% of net claims reserves brought forward at 1 January 2009.

This was the fifth successive year of prior year surpluses, but in monetary terms the release was lower than in 2008. The strong levels of claims reserves support the releases, but future years are likely to see further reductions in the levels of release, in view of the surplus recognised in the last three years on the business originally written in 2002-2006.

Claims estimates for the 2008 US hurricanes have been stable and development on the longer-tail business written in the soft market conditions of 1997-2001 continues to be within expectations.

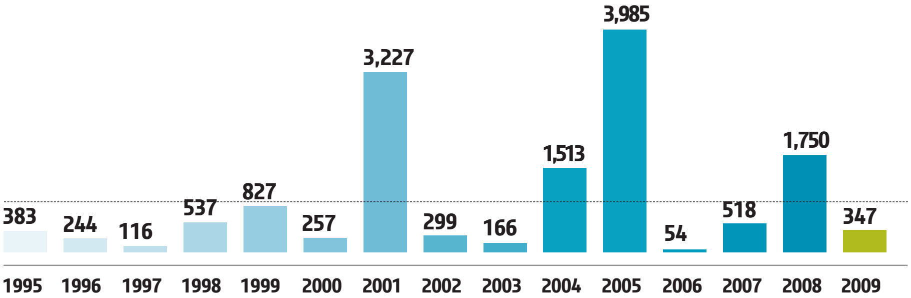
There has been little impact on prior years through exchange movements in 2009 (gain of £28m; 2008: gain of £399m).

REINSURANCE PROTECTION

While the industry has seen a number of downgrades in recent years, with few reinsurers retaining a AAA rating, the credit quality of the Lloyd's market's reinsurance cover remains extremely high with over 96% rated 'A' and above. The level of anticipated recoveries due within claims reserves has reduced as cash is received from reinsurers in respect of paid claims in relation to Hurricane Ike with no equivalent major losses in 2009 to replace them.

The insurance linked securities (ILS) market recovered during the latter part of 2009, but remains lower than the level of aggregate exposure in 2007. Innovative structures to mitigate counterparty credit risk helped to increase interest in these products. Notwithstanding this, risk carriers' appetite for traditional reinsurance risk transfer remains healthy.

LLOYD'S MAJOR LOSSES: NET ULTIMATE CLAIMS
£m



Indexed for inflation to 2009. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.
···· £929m average

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

Under Lloyd's three year accounting policy for final distribution of each underwriting year of account, the 2007 account reached closure at 31 December 2009. The 2007 calendar year saw a low level of catastrophe losses and a strong performance across all major classes of business. This helped the 2007 underwriting year of account achieve a profit of £2,773m at closure. The result includes the surpluses of £964m on the 2006 and prior reinsurance to close (RITC) received as at 31 December 2008.

In aggregate, run-off years reported an overall profit of £117m including investment income (2008: £104m) and syndicates backed by insolvent members supported by the Central Fund reported an overall surplus for the second successive year.

Lloyd's open year management team continued to work with the market to achieve the closure of syndicates with run-off years of account. By the end of 2009, a further seven syndicates with a total of 18 years of account were closed. However, three syndicates were unable to close their 2007 year of account at the year end so the net reduction in open years was 15. The aggregate net reserves on run-off years of account has now fallen to £1bn from £4.4bn at December 2005.

The results of the major classes of business are discussed in detail on **pages 53-59.**

INVESTMENT REVIEW

Following unprecedented volatility throughout 2008 and the first part of 2009, financial markets have benefited from injections of capital from central governments, both to boost the global economy and more directly to support the global financial infrastructure. As investors increasingly discounted a return to normality in the second part of the year, markets partially reversed the negative movements seen during the credit crisis. Overall in 2009, equities rallied strongly, corporate bond values recovered significantly and sovereign bonds performed poorly as investors switched back to riskier assets.

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

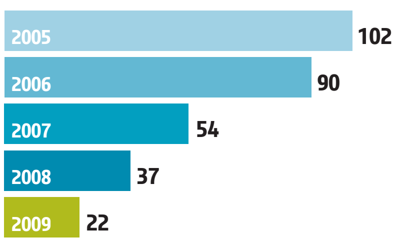
Investment returns differed significantly between syndicates in 2009. Although all achieved positive returns, those that focused investments in cash and high quality sovereign bonds achieved low returns in the period, reflecting the level of prevailing yields. However, syndicates with greater exposure to corporate bonds, enjoyed much higher returns. In the US, corporate bonds rated 'A' returned 15.9%, on average, in 2009, after losing 7.6% in 2008. Perhaps unsurprisingly, those syndicates which performed relatively poorly in 2008 were generally amongst the strongest performers in 2009.

Overall, syndicate investments returned £1,387m, or 4.5% in 2009 (2008: £521m, 1.9%). Investments are valued at market prices and unrealised gains and losses are included within quoted investment returns. Although this return is modest when compared with those achieved by some riskier asset classes in the period, it is robust in the context of low prevailing interest rates and the negative returns achieved by some sovereign bonds.

PRIOR YEAR RESERVE MOVEMENT
%

Combined ratio

YEARS OF ACCOUNT IN RUN-OFF



MARKET PERFORMANCE
CONTINUED

Members' capital is generally held centrally at Lloyd's. A proportion of this capital is maintained in investment assets and managed at members' discretion. A notional investment return on members' capital of £266m or 2.2% (2008: £271m, 2.7%) has been included in the Pro Forma Financial Statements (PFFS). This is based on the investment disposition of the relevant assets and market index returns. The investment return on Lloyd's central assets is also included in the PFFS. This was £116m or 5.2% in 2009 (2008: £165m, 7.8%). The investment performance of central assets is discussed on page 97. The total contribution from investment returns, including syndicate assets, members' capital and central assets, was £1,769m, 3.9% (2008: £957m, 2.5%).

Looking ahead, the investment environment will be difficult in 2010. Generic yield levels have been low since the end of 2008, but returns in 2009 were supported by narrowing credit spreads on corporate debt. Now that corporate spreads have returned to levels prevailing before the insolvency of Lehman Brothers, we cannot expect significant returns from the fixed interest investments typically utilised at Lloyd's. If the global economy recovers strongly then yields will rise as accommodative monetary policies around the world are unwound. However, if economic recovery falters then the ability of both sovereign and corporate issuers to service their debt may be called into question, which could also lead to higher yields. Either outcome could adversely impact bond returns and 2010 seems likely to be particularly challenging as a result.

RESULTS SUMMARY

Lloyd's achieved a profit before tax for the financial year of £3,868m (2008: £1,899m) and a combined ratio of 86.1% (2008: 91.3%). The PFFS aggregates the results of the syndicate annual accounts, notional investment return on funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. The basis of preparation of the pro forma financial statements (PFFS) is set out in note 2 on page 65. The syndicate annual accounts reported an aggregate profit of £3,473m (2008: profit of £1,523m).

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

RISK AND UNCERTAINTIES

RISKS AND UNCERTAINTIES

The approach to risk adopted by the Corporation is discussed in the Strategic Overview (pages 30 to 33). This includes oversight of the risks present in the market. In addition, managing agents are responsible for identifying the risks that they and each of their syndicates face and developing relevant policies and procedures to mitigate those risks. Different syndicates face varied risk profiles so the steps taken to mitigate those risks will differ from one managing agent to another. Whilst this section provides an overview of the main risks faced by managing agents and their syndicates the descriptions are generic in nature, based on the minimum standards Lloyd's requires of managing agents in dealing with risk.

INSURANCE RISK

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

UNDERWRITING RISK

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

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

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

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

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

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

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

RESERVING RISK

Reserving risk arises where the reserves established in the balance sheet are not adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR.

Syndicate claim reserves should make financial provision at reported loss levels without prejudice to coverage based on currently available information and factual supporting information in the claim file. Legal advisers and loss adjusters, together with underwriters' informed knowledge and judgement, are used to set the estimated level of reserves required.

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

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

CREDIT RISK (INCLUDING REINSURER COUNTERPARTY RISK)

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

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

Managing agents are expected to have a clear and comprehensive plan for the reinsurance of each syndicate managed, agreed by the board. This takes into account the managing agent's risk appetite for retained insurance risk and the potential for the accumulation of risk and multiple losses.

The managing agent should monitor and assess the security of, and exposure to reinsurers and intermediaries. A process should exist which gives consideration to the level of exposure to each reinsurer. Reinsurance credit risk is subject to quarterly review by Lloyd's.

RISK AND UNCERTAINTIES CONTINUED

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

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

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

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

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

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

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

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

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

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

REINSURANCE

STRONG RATING ENVIRONMENT BOOSTED BY FAVOURABLE CLAIMS EXPERIENCE.

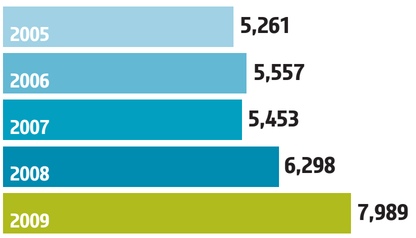
2009 HIGHLIGHTS

- Unusually benign US hurricane season
- Re-pricing of property catastrophe business
- Natural catastrophe claims contained within local markets

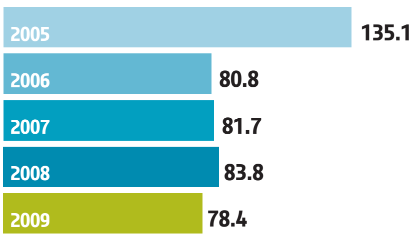
2009 COMBINED RATIO

ACCIDENT YEAR	84.2%
PRIOR YEAR RESERVE MOVEMENT	(5.8)%
CALENDAR YEAR	78.4%

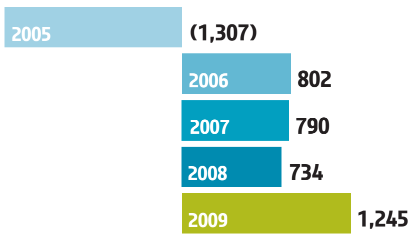
GROSS WRITTEN PREMIUM
£m



COMBINED RATIO
%



UNDERWRITING RESULT
£m



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

The predominant class is property, which has a significant exposure to the US market. This segment benefited from double-digit rate increases at the start of 2009, but these faded as the year progressed and more capacity became available.

Other reinsurance classes include accident and health, casualty, motor, general liability and professional liability, energy, marine and aviation.

PROPORTION OF REINSURANCE PREMIUMS WRITTEN BY SEGMENT

PROPERTY	60%
CASUALTY	17%
MARINE	8%
ENERGY	7%
MOTOR	4%
AVIATION	4%

2009 PERFORMANCE

Lloyd's gross written premium for 2009 was £7,989m (2008: £6,298m), an increase of 27%.

The stronger US dollar in 2009 compared to 2008 drove a significant part of the increase: over 70% of Lloyd's reinsurance premiums are written in US dollars.

ACCIDENT YEAR PERFORMANCE

The year was notable for the absence of any major land-falling hurricane or other severe catastrophe event in the US. Claims frequency was generally low due to the effect of comparatively high deductibles, the absence of large risk losses, and the market's relatively lower exposure to catastrophic losses in Europe, Asia and Australia.

The property risk book has benefited from the absence of large losses although the aviation reinsurance account was impacted by the Air France loss.

The property pro-rata treaty account experienced an increase in loss frequency partly due to the influence of the recession, whilst reassureds' original rate increases have been negligible and asset values depressed.

PRIOR YEAR MOVEMENT

The prior year reserve movement was a surplus of 5.8% (2008: 12.1%). Catastrophe risk loadings continue to be released with stable development in property claims for Hurricanes Ike and Gustav.

LOOKING AHEAD

Industry balance sheets have been restored and capacity and surplus levels have increased. Competition is expected to intensify on the back of good results in 2009, the additional market capacity and the lack of growth in asset values.

The January renewals have indicated some softening across nearly all treaty and facultative reinsurance lines, with the market returning most of the increases that were achieved in 2009. Rating pressure is expected to increase as the year develops. Additional factors include the tendency of reassureds to retain more business, reducing the premium available for reinsurers, and the recalibration of property catastrophe models which may pressurise reinsurers to reduce their risk premiums.

PROPERTY

ATTRACTIVE RATING ENVIRONMENT DRIVES STRONG PERFORMANCE.

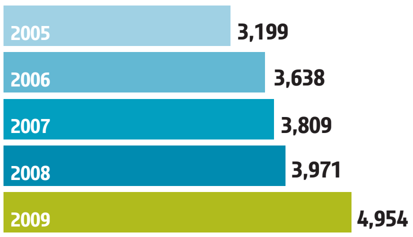
2009 HIGHLIGHTS

- > Relatively low level of large losses
- > US pricing levels remain robust

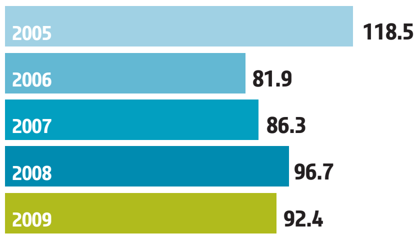
2009 COMBINED RATIO

ACCIDENT YEAR	95.8%
PRIOR YEAR RESERVE MOVEMENT	(3.4)%
CALENDAR YEAR	92.4%

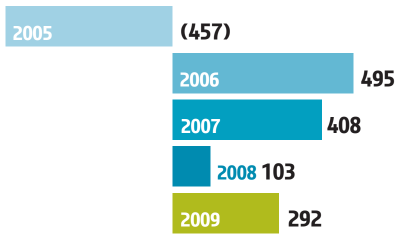
GROSS WRITTEN PREMIUM
£m



COMBINED RATIO
%



UNDERWRITING RESULT
£m



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

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

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

2009 PERFORMANCE

Gross written premium for the Lloyd's property sector in 2009 was £4,954m (2008: £3,971m), an increase of 25%.

In 2009, average rates increased in the single-digit percentages. This was driven by US catastrophe exposed business in the first few months of the year, but the rises soon tapered off, turning to some rate softening in the latter half of 2009. Outside the US catastrophe exposed zones, the market continued to be competitive, with widespread downward pressure on rates.

ACCIDENT YEAR PERFORMANCE

While 2009 was notable for the absence of large losses and major catastrophes, attritional (frequency) loss ratios were deteriorating, both as a result of weather related claims and a weakening of terms and conditions.

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

While binder business has produced a marginal underwriting result, the overall property class was profitable.

PRIOR YEAR MOVEMENT

Further surpluses were generated in 2009, as releases from reserves established in 2002 to 2006 continued and the 2005 and 2008 US hurricane losses remained stable. This improved the combined ratio by 3.4% (2008: 6.5%).

LOOKING AHEAD

2010 is expected to be competitive in all areas of property, with pressure on rates and terms and conditions, as more capacity returns to the market. Specialist classes such as terrorism and engineering have attracted increased capacity which puts pressure on rating levels. The major influence on the market's profitability will, however, continue to be the incidence and severity of catastrophe losses.

CASUALTY

RESILIENT PERFORMANCE IN THE FACE OF INCREASED CLAIMS FREQUENCY.

2009 HIGHLIGHTS

> Attritional losses not yet as significant as anticipated

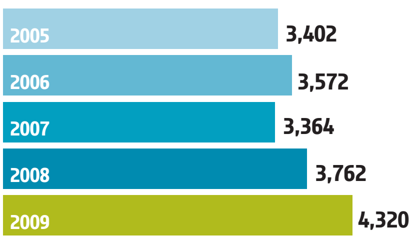
> Low impact of large losses through reduced exposure to US financial lines

> Rating pressures despite risk of claims inflation

2009 COMBINED RATIO

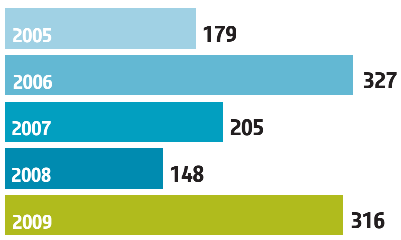
ACCIDENT YEAR	99.1%
PRIOR YEAR RESERVE MOVEMENT	(8.3)%
CALENDAR YEAR	90.8%

GROSS WRITTEN PREMIUM
£m



COMBINED RATIO
%

UNDERWRITING RESULT
£m



Lloyd's casualty market writes a diverse range of classes, including professional indemnity, directors' & officers' liability, general liability, medical malpractice and employers' liability. Casualty business is written worldwide with the most significant markets being in the US, UK/Europe, Canada and Australia. North America accounts for approximately 47% of this class.

2009 PERFORMANCE

Gross written premium for the Lloyd's casualty sector in 2009 was £4,320m (2008: £3,762m), an increase of 15%.

The overall rating environment for casualty remained broadly flat during 2009. In the US, professional and general liability business proved to be particularly resistant to rate increases due to lower than anticipated claims and surplus capacity. While rates for medium sized service, contracting and manufacturing sectors came under most pressure, financial institutions' business experienced significant rate increases as a result of credit crisis related claims.

Rate increases were difficult to achieve for non-US general and professional liability business. This was driven mainly by the lower than anticipated rise in claims during 2009. Small and Medium Enterprise (SME) business experienced particularly intense competition.

ACCIDENT YEAR PERFORMANCE

The casualty sector achieved an accident year combined ratio of 99.1% (2008: 103.9%).

For the casualty sector overall, neither attritional nor large losses materialised to the extent originally forecast in late 2008. Claims notified to date for the sub-prime/financial crisis are significantly below the amounts originally envisaged. Although Madoff related claims notifications rose steadily during 2009 the current number of firm loss values is still relatively small.

While loss values are currently low, the depth and longevity of the recession means that it may take a considerable time for the full effects of the economic downturn to be determined in this long-tail class.

PRIOR YEAR MOVEMENT

This sector is continuing to produce prior year reserve releases, improving the combined ratio by 8.3% (2008: 8.8%). While this is the fifth successive year that underlying claims development has led to a surplus, the recent trend has been for lower surpluses as a result of the increased pressures on terms and conditions in recent years.

LOOKING AHEAD

The prevailing low interest rates impact on casualty performance more than on other classes of insurance. The reduced investment returns on technical claims reserves means that casualty underwriters need to work to lower planned combined ratios to achieve the required return on capital. This pressure on margins is compounded by the potential for higher claims inflation.

While a major deterioration in claims could serve as a catalyst for improved rating levels, terms and conditions are likely to remain under pressure for the foreseeable future notwithstanding this risk. A disciplined underwriting approach will, therefore, be of paramount importance.

MARINE

STABLE PERFORMANCE ABSORBING IMPACT OF ECONOMIC DOWNTURN.

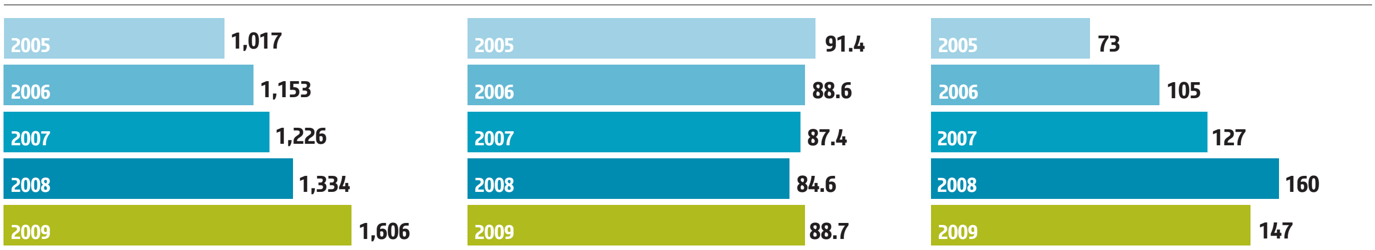
2009 HIGHLIGHTS

- Claims activity has been relatively light
- Recessionary environment adversely impacts trading conditions
- Industry over-capacity threatens ongoing profitability

2009 COMBINED RATIO

ACCIDENT YEAR	96.1%
PRIOR YEAR RESERVE MOVEMENT	(7.4)%
CALENDAR YEAR	88.7%

GROSS WRITTEN PREMIUM £m — **COMBINED RATIO** % — **UNDERWRITING RESULT** £m



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

2009 PERFORMANCE

Gross written premium for the Lloyd's marine sector in 2009 was £1,606m (2008: £1,334m), an increase of 20%.

For 2009, overall rates increased in the low single-digit percentages, driven mainly by hull and marine liability. As the year progressed, rates in most marine classes had either stabilised or had started to soften.

After a promising start to 2009, hull rates had flattened by mid year due to over-capacity. The economic climate left hull underwriters with fewer ships to insure, at reduced values and lower exposures. The decline in freight rates mostly affected the dry bulk and container sector and moral hazard continued to be a concern. As ship owners suffered in the container and dry bulk sector, more and more ships went into layup to an extent not seen since the 1970s. Outbreaks of piracy in the Gulf of Aden continued to worsen during 2009, with a number of new claims advised.

ACCIDENT YEAR PERFORMANCE

The cargo market has been affected by the global recession with reductions in trade volumes, low commodity values and companies consolidating or closing down. The increase in global cargo underwriting capacity and the perceived profitability of the sector, however, have created a very competitive market place and rates were flat.

The price of oil stayed steady at circa US$70 a barrel for the second half of the year (compared to a low of US$38 in March 2009) resulting in higher shipment and storage values as the year progressed. Overall premium levels remained relatively stable as, while shipments and sales reduced, companies were increasingly storing metals and oil as they waited for an upturn.

Moral hazard is a concern in most specie/fine art classes. At the start of 2009 rates were up overall with general specie and fine art seeing the largest rises, increases that moderated and rates were flat by the end of the year.

Driven by poor results in 2008 marine liability rates increased at the start of 2009, but these rises soon moderated and rates were flat by the end of the year.

Claims activity has been relatively light in most marine areas in 2009, although cargo was hit by a large hail loss in the UAE and large hail and windstorm losses in France, Germany and Holland. There were also several piracy hijacks and ransom payment claims which impacted the war and cargo markets. The specie market faced significant challenges due to the economic climate and losses (notably, from two large jewellery thefts).

PRIOR YEAR MOVEMENT

For the sixth year in a row the sector has produced an overall release from prior year reserves, reducing the combined ratio by 7.4% (2008: 7.8%).

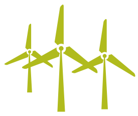
LOOKING AHEAD

In many areas commodity prices have now stabilised and there are signs of recovery in world trade.

However, over-capacity is now a feature in most marine lines (notably hull and cargo) and rates are likely to remain flat or come under increasing pressure during 2010.

The increase in the laid up fleet may also see a spate of claims being presented by ship operators who have chosen to defer them while the vessels were in full use.

ENERGY



UNDERWRITING DISCIPLINE IS CRITICAL IN THIS CATASTROPHE EXPOSED CLASS.

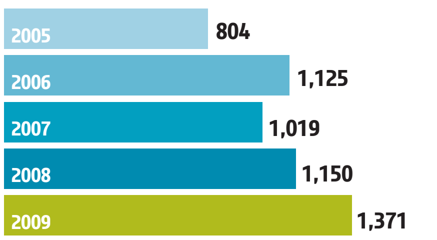
2009 HIGHLIGHTS

- No major Gulf of Mexico storms
- Large risk losses offset strong US performance

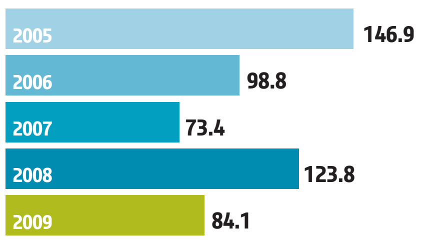
2009 COMBINED RATIO

ACCIDENT YEAR	90.3%
PRIOR YEAR RESERVE MOVEMENT	(6.2)%
CALENDAR YEAR	84.1%

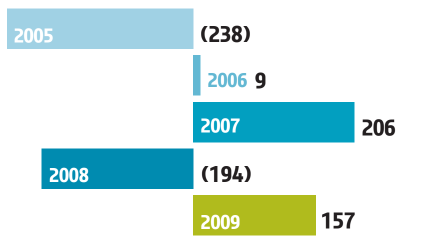
GROSS WRITTEN PREMIUM
£m



COMBINED RATIO
%



UNDERWRITING RESULT
£m



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

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

2009 PERFORMANCE

Gross written premium for the Lloyd's energy sector in 2009 was £1,371m (2008: £1,150m), an increase of 19%. This is a class where virtually all risks are transacted in US dollars and excluding the impact of foreign exchange reduces the year on year rise to 3%.

Following significant hurricane losses in 2004, 2005 and 2008, major changes in the underwriting strategy for Gulf of Mexico (GOM) wind accounts led to dramatic hardening of rates and changes in terms and conditions during 2009. While this has not materially increased overall GOM premium levels, GOM wind exposures have substantially reduced year on year. To a lesser degree, offshore energy rates elsewhere also increased at the start of 2009 but soon stabilised as capacity moved away from GOM and refocused on the rest of the world. The recession and the reduced price of oil early in the year led to fewer construction projects in 2009.

ACCIDENT YEAR PERFORMANCE

While there were no major windstorm GOM losses in 2009, the non-GOM book experienced a number of significant losses (approx. $1.9bn), including the West Atlas loss in the Timor Sea (Australia). This was a loss involving construction, control of well, pollution, loss of platform and jack up, and removal of wreck (overall a possible industry loss of $700m). Another significant loss was the Ekofisk incident in the North Sea in June which could cost the energy industry as much as $1.4bn, with possibly $250m finding its way into the commercial market.

There were no significant losses in onshore energy and power generation in 2009.

Despite poor results recently, rate increases in the onshore energy, power, mining and utilities sector proved to be short lived due to over-capacity and were largely flat in the latter half of the year.

Both onshore and offshore liability markets saw rate increases at the start of 2009 but, despite several large losses recently, these rises have gradually moderated as the year progressed due to an increasing appetite for this business.

PRIOR YEAR MOVEMENT

The reserves for Hurricane Ike were stable through 2009. The sector has therefore been able to produce a reserve release of 6.2% (2008: 8.2%).

LOOKING AHEAD

With no major hurricane activity in 2009, the industry faces competitive pressures associated with maintaining premium income and market share in a well-capitalised market in 2010.

The short period of relative market stability may well be coming to an end – particularly for business outside the Gulf of Mexico. However, the materiality of non-GOM losses in 2009 ($1.9bn) should serve to offset what is otherwise shaping up to be a highly competitive 2010 GOM renewal season.

Onshore energy and power generation are expected to come under increased rating pressure due to overcapacity.

MOTOR

SELECTIVE UNDERWRITING LIMITS LOSSES IN DIFFICULT MARKET CONDITIONS.

2009 HIGHLIGHTS

- > Continuing soft market produces negative results
- > Focus on niche markets helps contain extent of losses
- > Adverse claims development produces prior year deficit

2009 COMBINED RATIO

ACCIDENT YEAR	**104.5%**
PRIOR YEAR RESERVE MOVEMENT	**3.9%**
CALENDAR YEAR	**108.4%**

GROSS WRITTEN PREMIUM
£m

2005	895
2006	923
2007	983
2008	939
2009	1,118

COMBINED RATIO
%

2005	91.2
2006	96.4
2007	98.4
2008	99.6
2009	108.4

UNDERWRITING RESULT
£m

2005	82
2006	30
2007	14
2008	3
2009	(83)

Lloyd's motor market primarily covers UK private car and commercial/fleet business. International motor is also written and a large proportion of this is from North America and includes private auto and static risks such as Dealers Open Lot.

Although less prominent than a few years ago, UK motor continues to be a significant part of Lloyd's overall business. The private car market continued to experience strong competition from the growth of sizeable consumer facing companies and the increased popularity of aggregator sites. These factors have led to Lloyd's specialising in niche private motor risks (eg classic cars, affinity groups and high risk drivers) and commercial/fleet business. Private car now represents less than 50% of Lloyd's UK motor premium income.

2009 PERFORMANCE

Gross written premium for the Lloyd's motor sector in 2009 was £1,118m (2008: £939m), an increase of 19%.

Despite the significant competition within the industry, Lloyd's private car and commercial/fleet sectors achieved rate increases throughout 2009, albeit in the single-digits, while rates for the diverse overseas motor portfolio remained broadly flat.

ACCIDENT YEAR PERFORMANCE

Lloyd's has outperformed the UK motor industry which is likely to produce a combined ratio of around 120% for 2009. Rising claims inflation in respect of frequency and severity of personal injury awards and increasing credit hire costs has, however, eroded profitability. Personal injury claims have increased as a proportion of total claims, partly due to the wider purchase of legal expenses cover and also through an increase in the number of individual claimants for each road traffic accident.

The international motor sector performance continues to be marginal.

PRIOR YEAR MOVEMENT

Prior year reserves required strengthening producing a deterioration in the combined ratio of 3.9% (2008: release of 1.3%) as claims inflation outpaced allowances within reserves.

LOOKING AHEAD

Industry competition will continue into 2010, fuelled by the increasing popularity of comparison sites and growth of consumer facing companies. However, poor industry results (combined with depleted back year reserve margins, the continued bleak investment outlook and the prospect of further claims inflation) are likely to maintain the current momentum for gradual rating improvement during the course of 2010.

The heightened risk of an increase in fraudulent claims and broker failure, plus the scaling down of fleet accounts and fewer classic/high value cars to insure are concerns given the current economic conditions.

AVIATION

SIGNIFICANT AIRLINE LOSSES DRIVE CURRENT YEAR INTO DEFICIT.

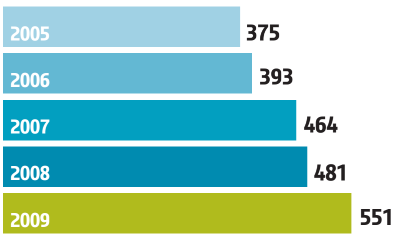
2009 HIGHLIGHTS

- Recessionary pressures on airline industry
- Over capacity further limits ability to restore rating levels

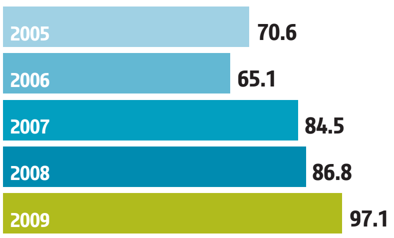
2009 COMBINED RATIO

ACCIDENT YEAR	**113.7%**
PRIOR YEAR RESERVE MOVEMENT	**(16.6)%**
CALENDAR YEAR	**97.1%**

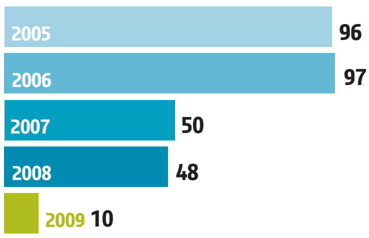
GROSS WRITTEN PREMIUM
£m



COMBINED RATIO
%



UNDERWRITING RESULT
£m



Lloyd's is an industry leader in the global aviation market and writes across all main business segments including airline, aerospace, general aviation and space business.

2009 PERFORMANCE

Aviation business is written as both direct and reinsurance acceptances, on an excess of loss, proportional or facultative basis. Direct gross written premium was £551m (2008: £481m) an increase of 15%. In 2009, Lloyd's syndicates wrote £367m (2008: £262m) of aviation business on a facultative and treaty reinsurance basis. As for other classes a significant part of the total increase in all aviation writings of 24% in gross written premium relates to movements in exchange rates.

ACCIDENT YEAR PERFORMANCE

The overall performance of aviation was affected by a high frequency of large airline losses which included Air France, Colgan Air and Yemenia Airways. These losses, combined with continued weak pricing, mean that 2009 will be the third consecutive year of unprofitable underwriting for airline insurers globally and one of the worst years on record in terms of claims. Global claims are estimated at US$2.5bn against a premium base of less than US$1.9bn. The economic downturn has had a severe impact on the airline industry, which constrains the ability for insurers to return to profitability.

While airline rates did improve during the latter part of 2009, over-capacity continued to feature across the aviation market in 2009 further increasing competitive pressure on rates in most areas.

Despite several material losses in 2009 (including three large helicopter accidents early in the year), general aviation, also covering corporate jets and light aircraft, continued to be very competitive in most areas. Although results were mixed, this continued to be a marginal class for Lloyd's overall.

Market conditions for airport liability, aviation product manufacturers' liability and satellite risks remained challenging due to favourable recent loss experience.

PRIOR YEAR MOVEMENT

Surpluses on prior years' claims reserves improved the combined ratio by 16.6% (2008: 23.7%), following a further year of benign claims development across the entire portfolio. This reflects the low incidence of loss for several years up to 2008, which has been considerably below the long-term average.

LOOKING AHEAD

World economic conditions are expected to hamper further growth, as will consolidation in the aviation industry. Airline rates are expected to continue to rise during the course of 2010 but it remains questionable whether the market will be able to raise premiums enough to return this class to sustainable profitability.

CONTENTS

THE MARKET'S FINANCIAL RESULTS

STATEMENT OF COUNCIL'S RESPONSIBILITIES AND REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE 2009 LLOYD'S PRO FORMA FINANCIAL STATEMENTS

STATEMENT OF COUNCIL'S RESPONSIBILITIES

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

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

REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE 2009 PRO FORMA FINANCIAL STATEMENTS

We have examined the Lloyd's pro forma financial statements ('PFFS') for the year ended 31 December 2009, which comprise the pro forma profit and loss account, the pro forma statement of total recognised gains and losses, the pro forma balance sheet and the pro forma cash flow statement and the related notes 1 to 17 which have been prepared on the basis set out in note 2.

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

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

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

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

BASIS OF CONCLUSION

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

Our work, which has been carried out in accordance with International Standard on Assurance Engagements, ISAE 3000, 'Assurance Engagements other than audits or reviews of Historical Financial Information', consisted principally of making enquiries of the Council of Lloyd's and applying analytical procedures to the financial information and underlying financial data. It excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions as included in the PFFS.
We have also carried out such investigations and examined such evidence, on a test basis, as we considered necessary to form an opinion as to whether the PFFS have been properly prepared in accordance with the basis of preparation note 2.

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

CONCLUSION

In our opinion, the PFFS for the financial year ended 31 December 2009 have been properly prepared in accordance with the basis of preparation set out in note 2.

Ernst & Young LLP, London
23 March 2010

PRO FORMA PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2009

Technical account	Note	£m	2009 £m	£m	2008 £m
Gross written premiums					
– continuing operations		**21,958**		17,945	
– discontinued operations	5	**15**		40	
	9		**21,973**		17,985
Outward reinsurance premiums			**(4,755)**		(3,768)
Premiums written, net of reinsurance			**17,218**		14,217
Change in the gross provision for unearned premiums		**(807)**		(558)	
Change in provision for unearned premiums, reinsurers’ share		**314**		137	
			(493)		(421)
Earned premiums, net of reinsurance			**16,725**		13,796
Allocated investment return transferred from the non-technical account			**1,344**		543
			18,069		14,339
Claims paid					
Gross amount		**11,544**		9,736	
Reinsurers’ share		**(2,469)**		(2,158)	
			9,075		7,578
Change in provision for claims					
Gross amount		**(1,280)**		1,777	
Reinsurers’ share		**829**		(891)	
			(451)		886
Claims incurred, net of reinsurance			**8,624**		8,464
Net operating expenses	11		**5,781**		4,134
Balance on the technical account for general business			**3,664**		1,741
Attributable to:					
– continuing operations		**3,463**		1,624	
– discontinued operations	5	**201**		117	
Total			**3,664**		1,741
Non-technical account					
Balance on the technical account for general business			**3,664**		1,741
Investment return on syndicate assets	12	**1,387**		521	
Notional investment return on funds at Lloyd’s	6	**266**		271	
Investment return on Society assets		**116**		165	
		1,769		957	
Allocated investment return transferred to the technical account		**(1,344)**		(543)	
			425		414
Other income			**64**		75
Other expenses			**(285)**		(331)
Profit for the financial year before tax	8		**3,868**		1,899

Statement of total recognised gains and losses	Note	2009 £m	2008 £m
Profit for the financial year		**3,868**	1,899
Other recognised gains and losses		**(34)**	619
Total recognised gains and losses since previously reported	8	**3,834**	2,518

PRO FORMA BALANCE SHEET
as at 31 December 2009

	Note	2009 £m	2009 £m	2008 £m	2008 £m
Investments					
Financial investments	13		**37,172**		34,942
Deposits with ceding undertakings			**10**		10
Reinsurers' share of technical provisions					
Provision for unearned premiums		**1,447**		1,167	
Claims outstanding		**8,484**		10,504	
	16		**9,931**		11,671
Debtors					
Debtors arising out of direct insurance operations		**4,560**		4,663	
Debtors arising out of reinsurance operations		**3,577**		3,763	
Other debtors		**437**		419	
			8,574		8,845
Other assets					
Tangible assets		**36**		30	
Cash at bank and in hand	14	**9,082**		9,428	
Other		**12**		8	
			9,130		9,466
Prepayments and accrued income					
Accrued interest and rent		**88**		125	
Deferred acquisition costs		**2,180**		2,064	
Other prepayments and accrued income		**205**		209	
			2,473		2,398
Total assets			**67,290**		67,332
Capital and reserves					
Members' funds at Lloyd's	6	**13,159**		10,630	
Members' balances	15	**3,878**		2,562	
Members' assets (held severally)		**17,037**		13,192	
Central reserves (mutual assets)		**1,126**		990	
	8		**18,163**		14,182
Subordinated debt			**521**		586
Subordinated perpetual capital securities			**437**		496
Capital, reserves and subordinated debt and securities			**19,121**		15,264
Technical provisions					
Provision for unearned premiums		**9,433**		9,043	
Claims outstanding		**34,111**		38,420	
	16		**43,544**		47,463
Deposits received from reinsurers			**115**		161
Creditors					
Creditors arising out of direct insurance operations		**865**		770	
Creditors arising out of reinsurance operations		**2,526**		2,517	
Other creditors including taxation		**774**		883	
			4,165		4,170
Accruals and deferred income			**345**		274
Total liabilities			**67,290**		67,332

Approved by the Council of Lloyd's on 23 March 2010 and signed on its behalf by

Lord Levene of Portsoken
Chairman

Richard Ward
Chief Executive Officer

PRO FORMA CASH FLOW STATEMENT

for the year ended 31 December 2009

	2009 £m	2008 £m
Profit on ordinary activities before tax	**3,868**	1,899
Depreciation	**4**	3
Realised and unrealised (gains)/losses and foreign exchange	**723**	(4,643)
Net purchase of investments	**(3,083)**	(44)
Notional return on funds at Lloyd’s	**(266)**	(271)
Increase/(decrease) in technical provisions	**(2,159)**	7,800
(Increase)/decrease in debtors	**132**	(2,656)
Increase/(decrease) in creditors	**133**	1,293
Cash generated from operations	**(648)**	3,381
Tax paid	**(50)**	(54)
Net cash from operating activities	**(698)**	3,327
Cash flows from financing activities		
Net profits paid to members	**(2,186)**	(2,201)
Net movement in funds at Lloyd’s	**2,529**	772
Capital transferred into syndicate premium trust funds	**146**	107
Purchase of debt securities	**(66)**	–
Interest paid	**(71)**	(74)
Net increase/(decrease) in cash holdings	**(346)**	1,931
Cash holdings at 1 January	**9,428**	7,497
Cash holdings at 31 December	**9,082**	9,428

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS

as at 31 December 2009

1. INTRODUCTION

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

2. BASIS OF PREPARATION

GENERAL

The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's on pages 76 to 140.

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

The aggregate of syndicate annual accounts report the audited results for calendar year 2009 and the financial position at 31 December 2009 for all syndicates which transacted business during the year. They include the syndicate level assets, which represent the first link in the chain of security (see pages 73 to 74). The Aggregate Accounts are reported as a separate document and can be viewed at www.lloyds.com/financialreports. During 2009, certain syndicates changed their accounting policies in relation to foreign exchange resulting in a restatement of the comparative figures for 2009 within their annual accounts and the Aggregate Accounts have been restated accordingly. The restatements are not material and, therefore, the comparative figures within the PFFS have not been restated.

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

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

The profit and loss account in the PFFS aggregates the syndicate results, the notional investment return on members' capital and the results of the Society of Lloyd's. The balance sheet in the PFFS aggregates the assets held at syndicate level, members' assets held as FAL and the central resources of the Society. Overall, the PFFS aggregate the results and resources of the Society and its members and reflect all the links in Lloyd's chain of security as described in detail in the 'Security underlying policies issued at Lloyd's' section on pages 73 to 75. The PFFS may, therefore, be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

TAXATION

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

FUNDS AT LLOYD'S

FAL comprise the capital provided by members to support their underwriting, and are the equivalent of capital shown in insurance companies' accounts. The valuation of FAL has, therefore, been included in the pro forma balance sheet.

FAL are available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable, may include letters of credit and bank and other guarantees, and must be at least equivalent to the aggregate of the member's economic capital assessment (ECA) requirement and certain liabilities in respect of its underwriting business. Each member's ECA to support its underwriting at Lloyd's is determined using Lloyd's Individual Capital Assessment (ICA) capital setting methodology.

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

SOCIETY OF LLOYD'S FINANCIAL STATEMENTS

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

TRANSACTIONS BETWEEN SYNDICATES AND THE SOCIETY

- Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate annual accounts and as income in the Society financial statements.
- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls and do not have the resources to meet those cash calls are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund other income includes recoveries from insolvent members. The syndicate annual accounts for calendar year 2009 and earlier years include those members' results and at the balance sheet date will report the outstanding liability within members' balances.
- Loans funding statutory overseas deposits are reported as assets within the syndicate annual accounts and as liabilities in the Society financial statements.

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

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

2. BASIS OF PREPARATION CONTINUED

INTER-SYNDICATE LOANS

The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £129m (2008: £50m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the PFFS.

SUBORDINATED DEBT AND SECURITIES

In accordance with the terms of the subordinated debt and securities, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves and subordinated debt and securities' in the pro forma balance sheet. The Society financial statements on pages 104 to 108 provide additional information.

3. ACCOUNTING POLICIES NOTES

A. AGGREGATE ACCOUNTS

General

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

Premiums written

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

Unearned premiums

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

Outwards reinsurance premiums

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

Claims provisions and related recoveries

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

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

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

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

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

Unexpired risks provision

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

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

Acquisition costs

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

Foreign currencies

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

Where the international operations for a syndicate are treated as a branch, its branch assets and liabilities are translated into pound sterling at the rates of exchange ruling at the balance sheet date. The exchange differences arising are normally accounted for through the statement of total recognised gains and losses.

3. ACCOUNTING POLICIES NOTES CONTINUED

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

Investments

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

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

Syndicate investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price.

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

Syndicate investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account where the investments generating the return relate to insurance business.

Taxation

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

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

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

Operating expenses

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

Profit commission

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

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

B. FUNDS AT LLOYD'S

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

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

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

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

C. SOCIETY OF LLOYD'S

The accounting policies adopted in the Society of Lloyd's financial statements are as set out on pages 109 to 114.

4. VARIABILITY

Calendar year movements in reserves are based upon best estimates as at 31 December 2009 taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimate are reflected in the technical account of the year in which they occur.

5. DISCONTINUED OPERATIONS

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

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

Where business has been reported as discontinued in 2009, the results for that business have also been reported as discontinued in the 2008 comparative figures.

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS CONTINUED
as at 31 December 2009

6. MEMBERS' FUNDS AT LLOYD'S
The valuation of members' FAL in the balance sheet totals £13,159m (2008: £10,630m). The notional investment return on FAL included in the non-technical profit and loss account totals £266m (2008: £271m).

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

Investment type	Index	Proportion of FAL December 2009 %	Investment Return 2009 %	Investment Return 2008 %
UK equities	FTSE All share	3.0	29.2	(30.5)
UK fixed income securities	UK Gilts 1-3 years	13.2	3.0	7.3
UK deposits managed by Lloyd's	Return achieved	7.3	0.8	4.1
UK deposits managed externally	LIBID	32.5	0.7	5.2
US equities	S&P 500 Index	1.0	26.6	(35.3)
US fixed income securities	US Treasuries 1-3 years	14.9	0.6	6.5
US deposits managed by Lloyd's	Return achieved	3.3	0.0	1.5
US deposits managed externally	LIBID	24.8	0.0	2.2

7. SOCIETY OF LLOYD'S
The results of the group financial statements of the Society included in the profit and loss account are a profit of £235m (2008: £198m) in the technical account and a loss of £106m (2008: £93m) in the non-technical account.

8. AGGREGATION OF RESULTS AND NET ASSETS
A reconciliation between the results, statement of realised gains and losses and net assets reported in the syndicate annual accounts, members' FAL and by the Society is set out below:

Profit and loss account	2009 £m	2008 £m
Result per syndicate annual accounts	3,473	1,523
Result of the Society	143	102
Central Fund claims and provisions released in Society financial statements	(20)	(6)
Central Fund recoveries from insolvent members	(49)	(21)
Taxation charge in Society financial statements	57	40
Notional investment return on members' funds at Lloyd's	266	271
Society income not accrued in syndicate annual accounts	(2)	(10)
Result on ordinary activities before tax	**3,868**	1,899

Statement of total recognised gains and losses	2009 £m	2008 £m
Result for the financial year	3,868	1,899
Foreign currency movements in the syndicate annual accounts	(28)	659
Other recognised gains and losses per syndicate annual accounts	1	11
Other recognised gains and losses of the Society	(7)	(51)
Total recognised gains and losses	**3,834**	2,518

8. AGGREGATION OF RESULTS AND NET ASSETS CONTINUED

Capital and reserves	2009 £m	2008 £m
Net assets per syndicate annual accounts	**3,859**	2,502
Net assets of the Society	**1,126**	990
Central Fund claims and provisions	**46**	102
Members' funds at Lloyd's	**13,159**	10,630
Unpaid cash calls reanalysed from debtors to members balances	**(15)**	(32)
Society income receivable not accrued in syndicate annual accounts	**(12)**	(10)
Total capital and reserves	**18,163**	14,182

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

9. SEGMENTAL ANALYSIS

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

2009	Gross written premiums £m	Net earned premium £m	Under-writing Result £m
Reinsurance	**7,989**	**5,763**	**1,245**
Property	**4,954**	**3,859**	**292**
Casualty	**4,320**	**3,430**	**316**
Marine	**1,606**	**1,303**	**147**
Energy	**1,371**	**985**	**157**
Motor	**1,118**	**984**	**(83)**
Aviation	**551**	**344**	**10**
Life	**60**	**53**	**1**
Total from syndicate operations	**21,969**	**16,721**	**2,085**
Transactions between syndicates and the Society (notes 2 and 8) and insurance operations of the Society	**4**	**4**	**235**
Total per PFFS	**21,973**	**16,725**	**2,320**

2008	Gross written premiums £m	Net earned premium £m	Under-writing Result £m
Reinsurance	6,298	4,522	734
Property	3,971	3,125	103
Casualty	3,762	3,005	148
Marine	1,334	1,041	160
Energy	1,150	814	(194)
Motor	939	897	3
Aviation	481	363	48
Life	49	28	(2)
Total from syndicate operations	17,984	13,795	1,000
Transactions between syndicates and the Society (notes 2 and 8) and insurance operations of the Society	1	1	198
Total per PFFS	17,985	13,796	1,198

10. LIFE BUSINESS

The PFFS include the results of all life and non-life syndicates transacting business during 2009. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 9).

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

11. NET OPERATING EXPENSES

	2009 £m	2008 £m
Acquisition costs	**4,633**	3,897
Change in deferred acquisition costs	**(225)**	(177)
Administrative expenses	**1,304**	1,267
Underlying operating expenses	**5,712**	4,987
Loss/(profit) on exchange	**69**	(853)
	5,781	4,134

Disclosure in relation to the remuneration receivable by the auditors of the pro forma financial statements is provided in note 5 to the Society's financial statements, other group operating expenses.

12. SYNDICATE INVESTMENT RETURN

	2009 £m	2008 £m
Income from investments	**881**	1,064
Net realised gains/(losses) on investments	**185**	(60)
Net unrealised gains/(losses) on investments	**357**	(452)
Investment management expenses, including interest	**(36)**	(31)
	1,387	521

The breakdown of the society investment return is provided in the Society's financial statements on page 120. This analysis is not appropriate for the notional investment return on funds at Lloyd's.

13. FINANCIAL INVESTMENTS

	2009 £m	2008 £m
Shares and other variable yield securities and units in unit trusts	**3,829**	3,278
Debt securities and other fixed income securities	**26,898**	25,176
Participation in investment pools	**1,223**	1,254
Loans and deposits with credit institutions	**5,189**	5,216
Other	**33**	18
	37,172	34,942

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

	2009 £m
Government, agency and supranational	**12,307**
'AAA' rated	**5,949**
'AA' rated	**3,305**
'A' rated	**2,842**
'BBB' and lower rated	**1,087**
Equity and hedge funds	**832**
Cash equivalents	**2,937**
Total syndicate investments	**29,259**
FAL investments	**5,844**
Society investments	**2,069**
Total per PFFS	**37,172**

13. FINANCIAL INVESTMENTS CONTINUED

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

	2009 £m
Less than one year	12%
Between one and two years	38%
Between two and three years	37%
Over three years	13%
	100%

14. CASH AT BANK AND IN HAND

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £7,315m (2008: £6,140m).

15. MEMBERS' BALANCES

	2009 £m	2008 £m
Balance at 1 January	2,562	2,652
Result for the year per syndicate annual accounts	3,473	1,523
Distribution on close of 2006 (2005) year of account	(1,957)	(687)
Advance distributions from open years of account	(293)	(1,626)
Movement in cash calls	71	50
Capital transferred into syndicate premium trust funds	146	107
Foreign currency movements	(67)	570
Other movements	(57)	(27)
Balance at 31 December	**3,878**	2,562

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account with reference to policies incepting in that year of account. Members' balances represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of 2009.

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

16. TECHNICAL PROVISIONS

Gross	2009 £m	2008 £m
Claims reported	18,967	21,966
Claims incurred but not reported and unallocated loss adjustment expenses	15,144	16,454
Unearned premiums	9,433	9,043
Total technical provisions, gross	**43,544**	47,463
Recoverable from reinsurers		
Claims reported	5,511	6,855
Claims incurred but not reported and unallocated loss adjustment expenses	2,973	3,649
Unearned premiums	1,447	1,167
Total reinsurers' share of technical provisions	**9,931**	11,671
Net		
Claims reported	13,456	15,111
Claims incurred but not reported and unallocated loss adjustment expenses	12,171	12,805
Unearned premiums	7,986	7,876
Total net technical provisions	**33,613**	35,792

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

17. FIVE YEAR SUMMARY

Results	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Gross written premiums	**21,973**	17,985	16,366	16,414	14,982
Net written premiums	**17,218**	14,217	13,256	13,201	11,770
Net earned premiums	**16,725**	13,796	13,097	12,688	11,785
Result attributable to underwriting	**2,320**	1,198	2,099	2,142	(1,388)
Result for the year before tax	**3,868**	1,899	3,846	3,662	(103)
Assets employed					
Cash and investments	**46,254**	44,370	36,981	35,091	35,012
Net technical provisions	**33,613**	35,792	27,963	27,371	29,402
Other net assets	**5,522**	5,604	4,431	5,116	4,881
Capital and reserves	**18,163**	14,182	13,449	12,836	10,491
Statistics					
Combined ratio (%)	**86.1**	91.3	84.0	83.1	111.8
Return on capital (%)	**23.9**	13.7	29.3	31.4	(0.9)

SECURITY UNDERLYING POLICIES ISSUED AT LLOYD'S

as at 31 December 2009

SUMMARY

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

There were 84 syndicates, (including syndicates set up to accept RITC of orphan syndicates and Special Purpose Syndicates) as at 31 December 2009, registered to conduct business at Lloyd's. Each syndicate is managed by a managing agent. Managing agents write insurance business on behalf of the member(s) of the syndicate, which receive profits or bear losses in proportion to their share in the syndicate for each underwriting year of account. The adoption of annual accounting and presentation of the syndicate annual accounts do not change the allocation of profits and losses to members.

THE LLOYD'S CHAIN OF SECURITY

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

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

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

FIRST LINK – SYNDICATE LEVEL ASSETS

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

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

The capital provided by every member is assessed according to the Lloyd's Individual Capital Assessment (ICA) capital setting framework. When agreed, each ICA is then 'uplifted' (by 35% for 2009) to provide an extra buffer to support Lloyd's rating and financial strength. This uplifted ICA, which is the Economic Capital Assessment (ECA) is used to determine members' capital requirements subject to prescribed minimum levels.

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

THIRD LINK – CENTRAL ASSETS

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

THE FIRST LINK

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

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

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

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

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

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

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

The total value of all the above funds was £37,400m at 31 December 2009.

THE SECOND LINK

The second link is members' capital provided to support their underwriting. This is commonly held as FAL but from 1 July 2007 can be held by aligned corporate members within the premiums trust fund (see first link above). FAL comprise the three trust funds in which

SECURITY UNDERLYING POLICIES ISSUED AT LLOYD'S CONTINUED

as at 31 December 2009

members' assets may be held: the Lloyd's deposit, the special reserve fund and the personal reserve fund. These are each available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable, this includes letters of credit and bank and other guarantees. A member is required to have sufficient assets at least equivalent to the aggregate of the member's ECA and certain liabilities in respect of its underwriting business. The amount of FAL assets required will depend on the net open year underwriting position of the member ie if the net open year position is a deficit then the member will be required to add additional FAL to cover this deficiency, if the net open year position is a surplus the member can use these surplus assets towards their ECA requirement thus reducing the value of their assets to be held as FAL.

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

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

As at 31 December 2009, the total value of capital supporting underwriting held in trust by members amounted to £13,159m.

THE THIRD LINK

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

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

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

The net assets of the Central Fund as at 31 December 2009 were £983m.

In 2004 and 2007, Lloyd's issued subordinated loan notes and perpetual capital securities respectively which, as at 31 December 2009, are included as a liability of £958m within the Society's financial statements. As set out in note 17 to the Society's financial statements, payments on the notes are subordinated to certain payments which may be made out of central assets, including payments made to discharge the liabilities of an insolvent member to any person (including any policyholders) arising out of or in connection with insurance business carried on at Lloyd's by that insolvent member.

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

In addition, the other assets of the Society, totalling £143m at 31 December 2009, are available to meet underwriting liabilities in the last resort.

In aggregate, the value of the central resources of the Society (excluding the subordinated debt liability and the callable layer), amounted to £2,084m at 31 December 2009.

AGGREGATE RESOURCES

The total of syndicate assets, members' capital to support underwriting (ie funds at Lloyd's and capital held in syndicate premiums trust funds) and central resources of the Society as at 31 December 2009 was £52,643m. The total of net syndicate technical provisions at the end of 2009 was £33,522m. The total net resources of the Society and its members were therefore £19,121m (excluding the subordinated debt liability) as shown in the PFFS on page 63.

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

SOLVENCY CONTROLS

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

The annual solvency process requires the managing agent of each syndicate to estimate and provide for all current and future liabilities for each year of account. These liabilities 'technical provisions for solvency' are subject to a statement of actuarial opinion. The requirement for an opinion and its required wording that the net technical provisions for solvency are not less than the current and future liabilities is a higher test than required in the UK company market. In the event that it is not possible for the managing agent to secure an unqualified actuarial opinion for any reason, the technical provisions for solvency would be determined by the Lloyd's Actuary, who would provide a report to the FSA. In addition, any syndicate which is not able to secure an unqualified actuarial opinion will normally be subject to a monitoring review by Lloyd's. There were no qualified actuarial opinions as at 31 December 2009.

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

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

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

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

RECAPITALISATION AT MEMBER LEVEL

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

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

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

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

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

THE LLOYD'S RETURN

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

	2009 £m	2008 £m
I Syndicate level assets (several basis)	**37,400**	38,306
II Members' funds at Lloyd's (several basis)	**13,159**	10,630
III Central assets (mutual basis)		
Net Central Fund assets	**983**	852
Subordinated loan notes	**521**	586
Subordinated Perpetual Capital Securities	**437**	496
Other net assets of the Society	**143**	138
	2,084	2,072
Total resources of the Society of Lloyd's and its members	**52,643**	51,008
Net syndicate technical provisions	**(33,522)**	(35,744)
Total net resources of the Society of Lloyd's and its members	**19,121**	15,264

Notes
1. This financial summary has been compiled by aggregating the assets and liabilities of all the underlying syndicates, members' funds at Lloyd's and other net assets of the Society of Lloyd's. The statement does not purport to disclose the solvency position of each member of Lloyd's.
2. The 'total net resources of the Society of Lloyd's and its members' represents the capital, reserves and subordinated notes and securities shown in the PFFS as set out on page 63.
3. Syndicate level assets includes capital to support underwriting held by aligned corporate members in the syndicate premiums trust funds.

CONTENTS

SOCIETY REPORT

INTRODUCTION

THIS REPORT

This Report sets out the principal activities, 2009 consolidated financial statements and governance arrangements of the Society of Lloyd's.

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

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

The Society's 2009 consolidated financial statements are included in this Report together with a financial review. The financial results of the members of Lloyd's are not part of those financial statements but can be found within the Market results section starting on page 60.

THE SOCIETY

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

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

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

Its principal activities are:

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

FINANCIAL HIGHLIGHTS

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Operating result					
Operating and other group income	**254**	248	262	198	184
Central Fund contributions	**100**	84	168	152	70
Total income	**354**	332	430	350	254
Central Fund claims and provisions released/(incurred)	**19**	6	18	(116)	(224)
Contribution to Equitas – Berkshire Hathaway transaction	**–**	–	(90)	–	–
Net insurance claims and provisions	**(6)**	(34)	(1)	2	–
Other group operating expenses	**(240)**	(188)	(188)	(171)	(172)
Surplus/(deficit) before finance, associates and tax	**127**	116	169	65	(142)
Net finance income and unrealised exchange differences on borrowings	**70**	22	57	24	95
Share of profits of associates	**3**	4	4	2	2
Surplus/(deficit) before tax	**200**	142	230	91	(45)
Tax (charge)/credit	**(57)**	(40)	(66)	(7)	17
Surplus/(deficit) for the year	**143**	102	164	84	(28)
Balance sheet					
Net assets	**1,126**	990	939	957	765
Movement in net assets %	**13.7%**	5.4%	(1.9)%	25.1%	10.9%
Solvency*					
Central assets for solvency purposes	**2,811**	2,608	2,465	2,054	1,850
Solvency shortfalls	**(59)**	(133)	(167)	(253)	(482)
Excess of central assets over solvency shortfalls	**2,752**	2,475	2,298	1,801	1,368
Solvency ratio %	**4764%**	1961%	1476%	812%	384%
Movement in central assets for solvency purposes %	**7.8%**	5.8%	20.0%	11.0%	11.2%

* The solvency position for 2009 is estimated and will be finalised in June 2010 for submission to the FSA.

CORPORATE GOVERNANCE

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

GOVERNING BODY: THE COUNCIL OF LLOYD'S

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

The Council comprises a maximum of 18 members, split between six working, six external and six nominated members. Nominated members are usually appointed for three-year terms which can be renewed. Working and external members are generally elected for terms of three years by the working and external members of the Society respectively. Other than the CEO, no member of Council may serve more than nine years in aggregate on the Council. The members of the Council as at 23 March 2010 are listed on page 15.

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

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

The nominated members of the Council may be regarded, for the purposes of the Combined Code, as independent members of the Council with the exception of the CEO who is included within their number. Although the concept of a senior independent director does not strictly apply to the Council, Andreas Prindl (a nominated member) was elected Deputy Chairman by the Council in February 2009 and again in February 2010.

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

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

The Council met six times in 2009.

GOVERNANCE POLICIES

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

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

The Governance Policies also establish the process by which the Council manages its own activities and affairs. There are a number of issues that only the Council can deal with under the terms of the Lloyd's Acts – for example, the making and amending of byelaws. In addition, the Council reserves to itself the ability to set the level of contributions to the New Central Fund and the amount of the annual subscription, the right to appoint members of the Franchise Board and other committees of the Council and reviewing the budget and the Franchise Board's Three-Year and Annual Plans (currently included within Lloyd's Strategy 2010-2012). The Council must approve all expenditure above a specified amount.

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

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

CORPORATE GOVERNANCE
CONTINUED

FRANCHISE BOARD

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

The members of the Franchise Board as at 23 March 2010 are listed on page 16. In 2009, the Franchise Board comprised the Chairman of Lloyd's, who was also its Chairman, the CEO, the Franchise Performance Director and the Director, Finance, Risk Management and Operations. The balance of the Board was made up of three non-executives connected with the Lloyd's market and up to four independent non-executives. Tom Bolt, Director, Performance Management attended Franchise Board meetings as an observer after joining the Corporation of Lloyd's in September 2009. He became a member of the Board as from 1 January 2010.

The Franchise Board held ten scheduled meetings in 2009. It also held one off-site and two other meetings dedicated to a review of Lloyd's strategy for 2010-2012.

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

MARKET SUPERVISION AND REVIEW COMMITTEE (MSARC)

MSARC takes decisions regarding the exercise of Lloyd's enforcement powers. It also acts as a review body capable, where appropriate, of amending, modifying or withdrawing certain decisions taken by the executive affecting managing agents. It also acts as the body that determines whether certain decisions can be referred to the Lloyd's Appeal Tribunal and can also make certain business decisions. MSARC met on six occasions in 2009, including a special meeting to determine an appeal from a member under the membership termination procedures.

CAPACITY TRANSFER PANEL

The Capacity Transfer Panel has been established principally to exercise the Council's powers in relation to minority buyouts and mergers. The Panel met on three occasions in 2009.

INVESTMENT COMMITTEE

The Investment Committee sets the investment objectives and parameters of centrally managed assets and is responsible for monitoring the performance of these funds. In addition, it monitors the investment operations of the Treasury department in respect of all funds under its management and approves all investment counterparties. It may also make more general recommendations concerning investment activity at Lloyd's. The Investment Committee met on six occasions in 2009.

OTHER PRINCIPAL COMMITTEES OF THE COUNCIL

AUDIT COMMITTEE

The Audit Committee's role ensures that the financial activities of Lloyd's are subject to independent review and audit. The Audit Committee reviews Lloyd's annual and interim financial statements, the aggregate syndicate results and the Lloyd's Return to the FSA. It also reviews both the external and internal audit plans and the compliance plan. The CEO, Director, Finance, Risk Management and Operations, General Counsel, senior managers and the external and internal auditors attend meetings as appropriate. Reports from the internal and external auditors on aspects of internal control and reports from the Legal and Compliance department on internal and international compliance are reviewed by the Audit Committee and appropriate action taken in response. The Audit Committee met on five occasions in 2009.

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

NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE (NACC)

The NACC is principally responsible for making recommendations to the Council on the appointment of the Chairman, CEO, new nominated Council members, Franchise Board members (including the Director, Finance, Risk Management and Operations and the Director, Performance Management (formerly the Franchise Performance Director)), members of a number of the Council and Franchise Board committees and the Secretary to the Council. The NACC reviews the remuneration of these individuals and makes recommendations to the Council on the remuneration of the members of these bodies, including the Chairman, CEO, Director, Finance, Risk Management and Operations, Franchise Performance Director (now retired) and Director, Performance Management. The NACC is also responsible for succession planning arrangements for these positions. The NACC met on four occasions in 2009.

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

INDEMNITIES

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

PERFORMANCE ASSESSMENT

An evaluation of the performance of the Council and its principal committees in 2009 (defined for this purpose as the Franchise Board, the Audit Committee and the NACC) was undertaken during the year. The evaluation also covered the performance of the Council and committee members including the Chairman of each committee.

The assessment was conducted by the Secretary to the Council who met all Council and committee members (except those who had only recently joined the Council or relevant committee) on an individual basis to seek their views on 2009 performance. These discussions were based around the Performance Evaluation Guidance in the Higgs report on the 'Review of the role and effectiveness of non-executive directors'. As part of this process, Council and Franchise Board members' comments on the performance of the Chairman were discussed privately with him. The same process was followed with the Chairmen of the other committees subject to the performance assessment.

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

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

> Continue to engage with both Council and Franchise Board on strategic matters, while seeking to minimise duplication between the two bodies.

> Re-examine the role played by the market connected non-executive directors on the Franchise Board with regard to managing agent and/or syndicate specific issues.

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

TRAINING AND INDUCTION

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

In 2009, four briefing sessions on a range of Lloyd's related topics were made available to all members of the Council and the Franchise Board.

INDEPENDENT PROFESSIONAL ADVICE

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

AUTHORITY TO ACT

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

CORPORATE GOVERNANCE OF THE LLOYD'S MARKET

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

CORPORATE GOVERNANCE
CONTINUED

ATTENDANCE RECORD

	Council	Franchise board	Audit committee	NACC[1]	MSARC[2]	CTP[3]	Investment Committee
Council and Franchise Board members							
Chairman of the Council of Lloyd's							
Lord Levene of Portsoken	[a]6/6	[a]10/10					
Executive Directors							
Richard Ward	6/6	10/10					
Tom Bolt[7]		4/4					
Luke Savage		9/10					4/6
Rolf Tolle		10/10					
Non-Executive Council members							
Working members							
Rupert Atkin	5/6			4/4			
Ewen Gilmour	6/6		4/5	4/4			
Christopher Harman	6/6						
Nick Marsh	5/6						
Graham White	6/6			4/4			
External members							
Michael Deeny	6/6						
Barnabas Hurst-Bannister[4]	1/1						
Paul Jardine	5/6			2/4			
Alan Lovell	6/6			3/3		2/3	
Eileen McCusker[5]	1/3						
Barbara Merry	4/6						
Nominated members							
Celia Denton	6/6		5/5		6/6		
Sir Robert Finch	5/6			2/3	[6a]5/6		
Reg Hinkley	6/6		4/5				
Philip Lader	4/6			2/4			
Andreas Prindl	6/6		4/5	[a]4/4		[a]3/3	[a]6/6
Non-Executive Franchise Board members							
Nick Furlonge		10/10					
Claire Ighodaro		10/10	[a]5/5				
Andrew Kendrick		8/10	4/5				
Martin Read[8]		4/4					
Dipesh Shah		10/10					
David Shipley		8/10	5/5				
Jim Stretton		10/10	5/5				
Former Council members							
Martin Hudson[4]	3/5						
Peter Morgan				0/1			
Dermot O'Donohoe[5]	2/2						
Other Committee members							
Ian Agnew					1/1		
Margaret Chamberlain						2/3	
Christine Dandridge					6/6		
Lady Delves Broughton						3/3	5/6
David Gittings						3/3	
Mark Graham							6/6
Michael Green							5/6
Bill Knight					[6a]6/6		
Ian Salter						3/3	
Paul Swain						3/3	
David Winkett							4/6

[a] Chairman.

1. Nominations, Appointments and Compensation Committee.
2. Market Supervision and Review Committee.
3. Capacity Transfer Panel.
4. Barnabas Hurst-Bannister replaced Martin Hudson as the representative of Aprilgrange Limited, following Mr Hudson's resignation on 30 September 2009. Mr Hurst-Bannister attended the December Council meeting as an observer, pending FSA approval (which was subsequently received).
5. Dermot O'Donohoe resigned as the representative of Dornoch Limited on 18 May 2009. Eileen McCusker replaced him as Dornoch Limited's representative.
6. Bill Knight chaired the first five MSARC meetings of 2009. Sir Robert Finch chaired the final meeting of the year.
7. Tom Bolt attended four Franchise Board meetings as an observer. He was formally appointed to the Franchise Board on 1 January 2010.
8. Martin Read was appointed to the Franchise Board on 14 September 2009.

INTERNAL CONTROL STATEMENT

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

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

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

MANAGEMENT STRUCTURE

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

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

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

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

IDENTIFICATION AND EVALUATION OF BUSINESS RISKS

The Risk Management Framework identifies, assesses and monitors the major risks affecting the Society. A comprehensive risk and control assessment procedure is conducted on an ongoing basis. This review re-assesses the existing risks and identifies any new risks. It evaluates controls in terms of adequacy of performance and also seeks to monitor the action plans in place to help manage risks. These processes are described in more detail in the Risk Management section on pages 30 to 33.

Lloyd's Risk Committee, a sub-committee of the Executive Team, considers the different aspects of the assessment of the risk, control and regulatory environment. This includes determining and assessing the Society's inherent and residual risks, compliance and monitoring of control exceptions. Its function is to provide assurance that risks facing the Society are identified and managed in accordance with approved policy and appetite.

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

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

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

INFORMATION AND FINANCIAL REPORTING SYSTEMS

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

REPORT OF THE NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE

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

COMPOSITION OF THE NACC

The Nominations, Appointments and Compensation Committee (NACC) currently comprises two nominated, two external and three working members of the Council. The NACC members for 2009 are indicated within the remuneration table on page 91.

The Committee met four times during the year. The attendance at meetings by members of the Committee is set out in the Corporate Governance report, page 82. The Committee's terms of reference are available on request from the Secretary to the Council.

NOMINATIONS AND APPOINTMENTS

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

Apart from the annual exercise of making recommendations with respect to the composition of Council and Franchise Board committees (together with any other necessary changes in composition during the year), the NACC made the following major recommendations to Council during 2009:

> To appoint Tom Bolt as Director, Performance Management following Rolf Tolle's retirement as Franchise Performance Director on 31 December 2009.

> To appoint Martin Read as an independent non-executive director on the Franchise Board. Dr Read's three year term commenced on 14 September 2009.

> To reappoint Andrew Kendrick as a market connected non-executive director on the Franchise Board for a further three year term commencing on 1 January 2010.

> To reappoint Andreas Prindl as a nominated member of Council for a further three year term following the expiry of his current term on 20 November 2009.

These recommendations were accepted by Council. The NACC employed an external search consultant to assist with the search for Rolf Tolle's successor and made use of its own resources and expertise in identifying Dr Read as a candidate for the Franchise Board.

REMUNERATION AND COMPENSATION

The Council of Lloyd's is assisted in determining the remuneration of members of the Council, Franchise Board and their committees by the NACC. The NACC also recommends for approval by the Council, the fees, salaries, bonuses and the terms and conditions of office of the Chairman, the CEO, the Director, Finance, Risk Management and Operations and the Director, Performance Management (formerly the Franchise Performance Director).

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

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

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

Our Total Reward approach is supported by the following practices:

> We look beyond base salary to the value of the total reward package in meeting the needs of employees.

> We recognise and reward superior performance.

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

> Emanates from business strategies and priorities.

> Is based on business success (ie our ability to pay).

REPORT OF THE NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE CONTINUED

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

> Provides a flexible mix of rewards, designed to attract, retain and motivate a performance driven workforce with the varied range of experience and skills the business requires.

> Is externally competitive and regularly monitored by means of benchmarking exercises.

> Rewards for performance rather than cost of living.

> Ensures employees understand the criteria by which rewards are determined and reviewed.

> Gives managers the tools to make informed decisions regarding rewarding their teams.

> Is in line with our equality and diversity policy.

REMUNERATION

The policy outlined above has been applied throughout 2009. Whilst this policy is envisaged as applying for 2010 and subsequent years, the NACC will continue to monitor its policies, particularly its arrangements for performance related pay, against evolving market practice and relevant guidelines prepared in response to the current economic climate. In this context, during 2009 it reviewed proposals from the FSA, the Financial Stability Forum (now the Financial Stability Board) and the European Commission on remuneration in the financial services sector. The NACC also received copies of the Corporation's response to the FSA proposals and to the Walker Report on Corporate Governance. The NACC noted that many of the proposals were aimed at curbing excessive risk taking at financial institutions. The Corporation is not an institution where excessive risk taking takes place. NACC therefore supported the view that the FSA's proposals should not be extended to all authorised institutions and the stance that any amendments to the Combined Code arising out of the Walker Report should clearly distinguish between financial institutions where excessive risk taking takes place and those where it does not.

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

The annual salaries of the Chairman, CEO, the Director, Finance, Risk Management and Operations and the Director, Performance Management (formerly the Franchise Performance Director) is reviewed by the NACC annually. For 2009, increases took effect from 1 April. For 2010 and future years, any salary increases take effect from 1 February. No director plays a part in any discussion about his or her own remuneration.

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

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

LLOYD'S PERFORMANCE PLAN

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

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

> Is directly linked to the profitability of the Lloyd's market and will therefore encourage an attitude of commercial partnership with the market and align the interests of participants with capital providers.

> Will provide a competitive reward and therefore assist Lloyd's in attracting and retaining the talented individuals required to develop and support future strategy.

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

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

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

OPERATION OF THE 2004 LTIP

THREE-YEAR POOLING PRINCIPLE

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

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

PROFIT/LOSS

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

ELIGIBILITY

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

LIMITS

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

LEAVING EMPLOYMENT

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

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

CALCULATION OF AWARD AND TIMING OF PAYMENTS

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

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

For the financial year 2009, the award made under the 2004 LTIP, subject to adjustment for discretionary awards, is the aggregate profits of the Lloyd's market for the financial years 2007–2009 of £8,423m x relevant % x salary of LTIP participant per £1m.

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

REPORT OF THE NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE CONTINUED

LLOYD'S PERFORMANCE PLAN (THE LPP) APPLICABLE FOR THE YEAR ENDED 31 DECEMBER 2009

ELIGIBILITY

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

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

CALCULATION OF LPP AWARDS

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

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

The LPP Awards are as follows:

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

STRUCTURE AND TIMING OF PAYMENTS

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

Job level	Awards	Payments
CEO, directors and Level 1 employees	Any LPP Award will be notified to the employee after the PBT for the relevant year has been announced (eg the employee will be notified normally in May 2010 of any LPP Award relating to the financial year 2009). The total amount of the LPP Award will be added to the particular employee's LPP Fund.	Each October one half of the total contents of the LPP Fund will be paid to the employee.

For Level 2–4 employees, any LPP Award will be paid in full during the year in which it is notified to the employee. For example, for the financial year 2009, employees will be notified of any LPP Award normally in May 2010 (once PBT for 2009 has been announced) and the LPP Award for 2009 will be paid to these employees in full in October 2010.

LEAVING EMPLOYMENT

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

Directors and Level 1 participants

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

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

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

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

Level 2–4 participants

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

LLOYD'S PERFORMANCE PLAN (THE LPP) APPLICABLE FOR THE YEAR ENDED 31 DECEMBER 2009 CONTINUED

TRANSITIONAL ARRANGEMENTS

Directors and Level 1 employees

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

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

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

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

PENSION ARRANGEMENTS

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

Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. The pension arrangements for the Director, Finance, Risk Management and Operations and the Franchise Performance Director provide for a pension at normal retirement of two-thirds base annual salary after 20 years' eligible service less any entitlement from previous pension arrangements and subject to a Scheme earnings cap of £123,600 from 6 April 2009. The pension arrangements for the CEO provide for a pension on retirement based on a standard accrual rate of one sixtieth of base annual salary subject to the Scheme earnings cap, for each year of eligible service, with the facility to increase the accrual rate to one thirtieth for an additional contribution. The pension arrangements for the Director, Performance Management provide for a pension at retirement built in annual blocks based on a standard accrual rate of one eightieth of base annual salary subject to the Scheme earnings cap in each year of eligible service with the facility to increase the accrual rate to one thirtieth for an additional contribution. No other payments to the CEO, the Director, Finance, Risk Management and Operations, the Franchise Performance Director or the Director, Performance Management are pensionable.

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

A cash allowance of £48,840 was payable in respect of the Chairman for 2009 which equates to 40% of the Scheme earnings cap applicable during the period.

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

REPORT OF THE NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE CONTINUED

CONTRACTS OF EMPLOYMENT

Lord Levene has a one year contract, subject to renewal each year. The contract covers Lord Levene's services as Chairman of the Franchise Board and Chairman of Lloyd's and was renewed for one year on 7 November 2009.

The CEO, the Director, Finance, Risk Management and Operations and Director, Performance Management have rolling one-year contracts providing for a maximum of one year's notice. Prior to his retirement on 31 December 2009, the Franchise Performance Director also had a rolling one year contract providing for a maximum of one year's notice.

Details of these contracts are summarised in the table below.

	Contract date	Unexpired term as at 31 December 2009	Notice period[1]
Lord Levene of Portsoken	See above	10 months	–
Richard Ward[2]	24/04/06	rolling 1 year	12 months
Tom Bolt[5]	01/09/09	rolling 1 year	12 months
Luke Savage[3]	20/09/04	rolling 1 year	12 months
Rolf Tolle[4]	03/03/03	Retired 31 December 2009	

1. Employment contracts do not contain provisions for compensation payable upon early termination.
2. Richard Ward was appointed to the Franchise Board and Council on 24 April 2006.
3. Luke Savage was appointed to the Franchise Board on 30 September 2004.
4. Rolf Tolle was appointed to the Franchise Board on 3 March 2003.
5. Tom Bolt was appointed to the Franchise Board on 1 January 2010.

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

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

In 2009, fees for members of Council and Franchise Board were £35,000 and £55,000 per annum, respectively. The Deputy Chairmen were paid £45,000 per annum. Fees are also payable in respect of membership of a number of Council and Franchise Board committees, including a number of ad hoc committees established to consider specific issues requiring a significant time commitment. Non-employee members of the Council and Franchise Board are not eligible to join the Lloyd's Pension Scheme.

Individual remuneration of all members of the Council and Franchise Board can be found in the table on page 91.

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

INFORMATION SUBJECT TO AUDIT

BASIS OF PREPARATION

The following section provides details of the remuneration of all members of the Council of Lloyd's and the Franchise Board for the year ended 31 December 2009. This section contains the following information in the form specified in Schedule 8 Part 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008:

> Amount of each member's emoluments and compensation in the current and previous financial year.

> Details of each member's accrued benefits in the Lloyd's Pension Scheme and transfer values of those accrued benefits.

> Details of each member's interests under the LPP.

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

Individual remuneration, excluding LPP Awards, for the year to 31 December is shown in the table below. LPP Awards are shown on page 93.

	Salary/Fees[22]		Taxable benefits[1]		Annual bonus		Other[2]		Total	
	2009 £000	2008 £000	**2009 £000**	2008 £000	**2009 £000**	2008 £000	**2009 £000**	2008 £000	**2009 £000**	2008 £000
Chairman of the Council of Lloyd's										
Lord Levene of Portsoken[3,4]	**632**	627	**1**	1	**100**	100	**83**	78	**816**	806
Executive Directors										
Richard Ward[3,4]	**518**	477	**13**	12	**663**	603	**111**	101	**1,305**	1,193
Tom Bolt[3,5,6]	**150**	–	**4**	–	**100**	–	**33**	–	**287**	–
Luke Savage[3,5]	**425**	412	**13**	12	**290**	290	**88**	86	**816**	800
Rolf Tolle[3,5,21]	**562**	543	**22**	22	**800**	800	**111**	135	**1,495**	1,500
Non-Executive Council members										
Working members										
Rupert Atkin[7]	**42**	39	–	–	–	–	–	–	**42**	39
Ewen Gilmour, Deputy Chairman[7]	**61**	57	–	–	–	–	–	–	**61**	57
Christopher Harman	**35**	32	–	–	–	–	–	–	**35**	32
Nick Marsh	**35**	29	–	–	–	–	–	–	**35**	29
Graham White, Deputy Chairman[7]	**52**	48	–	–	–	–	–	–	**52**	48
External members										
Michael Deeny[8]	**32**	–	**1**	–	–	–	–	–	**33**	–
Barnabas Hurst-Bannister[9]	**9**	–	–	–	–	–	–	–	**9**	–
Paul Jardine[7,10]	**42**	35	–	–	–	–	–	–	**42**	35
Alan Lovell[7]	**48**	39	–	–	–	–	–	–	**48**	39
Eileen McCusker[11]	**18**	–	–	–	–	–	–	–	**18**	–
Barbara Merry[12]	**35**	32	–	–	–	–	–	–	**35**	32
Nominated members										
Celia Denton	**53**	49	–	–	–	–	–	–	**53**	49
Sir Robert Finch[7]	**51**	–	–	–	–	–	–	–	**51**	–
Reg Hinkley	**43**	32	–	–	–	–	–	–	**43**	32
Philip Lader[7]	**42**	39	**2**	2	–	–	–	–	**44**	41
Andreas Prindl, Deputy Chairman[7]	**91**	66	–	–	–	–	–	–	**91**	66
Non-Executive Franchise Board Members										
Nick Furlonge[13]	**55**	46	–	–	–	–	–	–	**55**	46
Claire Ighodaro	**70**	61	–	–	–	–	–	–	**70**	61
Andrew Kendrick	**64**	57	–	–	–	–	–	–	**64**	57
Martin Read[14]	**23**	–	–	–	–	–	–	–	**23**	–
Dipesh Shah[15]	**55**	50	–	–	–	–	–	–	**55**	50
David Shipley[16]	**65**	–	–	–	–	–	–	–	**65**	–
Jim Stretton	**64**	58	**4**	5	–	–	–	–	**68**	63
Former Members of Council										
Nigel Hanbury[18]	–	3	–	–	–	–	–	–	–	3
Martin Hudson[8,9]	**23**	–	–	–	–	–	–	–	**23**	–
Bill Knight[17]	–	79	–	–	–	–	–	–	–	79
Peter Morgan[8]	**4**	39	–	1	–	–	–	–	**4**	40
Dermot O'Donohoe[11]	**13**	32	–	–	–	–	–	–	**13**	32
David Shipley[8]	–	40	–	–	–	–	–	–	–	40
Anthony Townsend[18]	–	3	–	–	–	–	–	–	–	3
Former Members of the Franchise Board										
Roy Brown[19]	–	50	–	–	–	–	–	–	–	50
Edward Creasy[19]	–	50	–	–	–	–	–	–	–	50
Stephen Hodge[20]	–	16	–	–	–	–	–	–	–	16

REPORT OF THE NOMINATIONS, APPOINTMENTS AND COMPENSATION COMMITTEE CONTINUED

1. Taxable benefits include items such as company car or car allowance, medical and life insurance.
2. For executive directors, other includes payments of 20% of annual base salary as their pension benefits are based on a maximum earnings cap, which from 6 April 2009 was £123,600. The amount stated in respect of the Chairman represents a cash allowance in lieu of pension contributions and the premium in respect of additional life cover.
3. Employee of the Corporation of Lloyd's.
4. Member of both Council and the Franchise Board for 2009.
5. Member of the Franchise Board only.
6. Tom Bolt joined the Franchise Board on 1 January 2010.
7. Member of the Nominations, Appointments and Compensation Committee (NACC) for 2009.
8. Michael Deeny and Martin Hudson (the latter the representative of Aprilgrange Limited) were elected as members of Council from 1 February 2009. Peter Morgan (the representative of AJSL9 Limited) and David Shipley (the representative of MAP Capital Limited) retired from Council on 31 January 2009.
9. Barnabas Hurst-Bannister replaced Martin Hudson as the representative of Aprilgrange Limited following Mr Hudson's resignation on 30 September 2009. Mr Hurst-Bannister attended the 11 December Council meeting as an observer, pending FSA approval (which was subsequently received).
10. Representative of Catlin Syndicate Limited.
11. Eileen McCusker replaced Dermot O'Donohoe as the representative of Dornoch Limited. Mr O'Donohoe resigned as Dornoch Limited's representative on 18 May 2009.
12. Representative of Hardy Underwriting Limited.
13. Nick Furlonge was appointed to the Franchise Board on 4 February 2008.
14. Martin Read was appointed to the Franchise Board on 14 September 2009.
15. Dipesh Shah was appointed to the Franchise Board on 3 April 2008. He also attended the first two meetings of 2008 as an observer.
16. David Shipley was appointed to the Franchise Board on 1 January 2009.
17. Bill Knight retired as a Nominated member of Council on 31 December 2008.
18. Nigel Hanbury and Anthony Townsend (the latter the representative of Brit UW Limited) retired from Council on 31 January 2008.
19. Roy Brown and Edward Creasy retired from the Franchise Board on 31 December 2008.
20. Stephen Hodge retired from the Franchise Board on 2 April 2008.
21. Rolf Tolle occupied a property leased to Lloyd's. Rolf Tolle made a salary sacrifice of £36,000 (2008: £36,000) in exchange for the provision of the property by Lloyd's. These amounts are not included in the table on page 91.
22. Salary/Fees are inclusive of compensation for time worked in excess of contractual obligations.

LLOYD'S PENSION SCHEME PROVISIONS

	Salary sacrifice in year to 31 December 2009[1] £000	Age at 31 December 2009	Increase in pension in year to 31 December 2009 – actual £000	Increase in pension in year to 31 December 2009 – net of price inflation £000	Total accrued annual pension in year to 31 December 2009 £000 pa	Normal retirement age
Richard Ward	37	52	5	5	15	65
Tom Bolt	2	53	n/a	n/a	1	65
Luke Savage	12	48	4	4	16	60
Rolf Tolle	12	62	5	5	28	60

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

TRANSFER VALUES OF ACCRUED PENSION BENEFITS

	Transfer value of accrued pension as at 31 December 2008 £000	Transfer value of accrued pension as at 31 December 2009 £000	Increase in transfer value over the year less amounts salary sacrificed £000
Richard Ward	73	167	57
Tom Bolt	n/a	6	n/a
Luke Savage	107	221	102
Rolf Tolle	436	627	179

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

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

	Estimated long-term bonus			
	Total award outstanding as at 31 December 2008 £000	Change in year £000	Amount paid during the year ended 31 December 2009 £000	Total award outstanding as at 31 December 2009 £000
Richard Ward	352	410	176	586
Luke Savage	410	331	205	536
Rolf Tolle	578	466	289	755

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

REPORT OF THE AUDIT COMMITTEE

This report sets out the role, remit and activities of the Audit Committee during 2009.

COMPOSITION OF THE AUDIT COMMITTEE

At the end of 2009, the Audit Committee comprised three nominated members of Council, one working member of the Council and four non-executive members of the Franchise Board. The Committee met five times during the year. The members of the Committee in 2009 and their attendance at meetings are shown in the Corporate Governance report on page 82.

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

TERMS OF REFERENCE

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

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

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

REPORT ON THE COMMITTEE'S ACTIVITIES IN 2009

The principal issues addressed during 2009 were:

- The annual financial statements for 2008 including the pro forma financial statements and Aggregate Accounts, the financial statements of the Society and financial disclosures and various accounting matters raised by management and auditors.
- The interim financial statements for the six months to 30 June 2009 including the pro forma financial statements and the financial statements of the Society of Lloyd's.
- The interim management statements of the Society of Lloyd's.
- A consideration of those accounting policies which involved significant estimates and judgements.
- The 2008 Lloyd's Return to the FSA.
- The external auditors' status reports and management letters.
- The independence and objectivity of the external auditors, including a review of non-audit fees.
- The external and internal audit plans.
- The reports of the Head of Internal Audit and the Legal and Compliance department, including follow-up of internal audit findings and the annual compliance plan.
- Reports from the Risk Committee, covering the Syndicate Risk Matrix and the Lloyd's Risk Management Framework, including the Strategic Risk Report.
- Assessment of the effectiveness of internal controls.
- Assessment of the effectiveness of the internal and external auditors.

The Committee has reviewed the work carried out by the external auditors in the year under review. On the basis of the level of service provided and confirmation of the auditors' independence, the Committee recommended the continuing appointment of the external auditor.

The Head of Internal Audit is supported by resources from an accountancy firm, formerly KPMG LLP, in completing the internal audit plan. During the year, two members of the Committee supported the tender selection panel for reviewing internal audit resource providers. As a result of this process, Deloitte LLP was selected as the new resource provider.

The Committee held a workshop training session during 2009 with presentations made by Society personnel on the implications of implementing Solvency II at Lloyd's and by Ernst & Young, who provided an industry progress overview on implementing the Directive.

The Committee also reviewed its own performance.

SUPPORT

The CEO, Director, Finance, Risk Management and Operations, General Counsel, Head of Internal Audit and a member of the Legal and Compliance department, Financial Controller, Head of Market Finance and the external and internal auditors attended meetings as appropriate. During the year, the Committee met separately with the external and internal auditors without executive management present.

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

Claire Ighodaro, CBE
Chairman, Audit Committee

REPORT OF THE LLOYD'S MEMBERS' OMBUDSMAN

REPORT BY SIR ROBIN MOUNTFIELD, LLOYD'S MEMBERS' OMBUDSMAN

I am pleased to present the Annual Report of the Lloyd's Members' Ombudsman to the Council of Lloyd's for the year ended 31 December 2009.

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

COMPLAINTS RECEIVED

In August 2008 I received a complaint from a very substantial number of Names about what they regarded as maladministration in the handling of their claim under the Members' Compensation Scheme. After lengthy investigation of a very complex case, in which I was assisted by advice from Leading Counsel, I reported in July 2009, finding in favour of the complainants in respect of some, but not all, aspects of their complaint. As a result of my findings I understand a resolution has now been agreed between Lloyd's and the complainants.

During 2009, three new complaints were received. Two did not result in a finding of maladministration as one fell outside my jurisdiction as Ombudsman and in the other the complaint was not upheld. A third complaint was only received at the end of December and is still being considered.

COSTS

The expenses incurred by my office amounted to £72,599.

FINANCIAL REVIEW

This review should be read in conjunction with the financial statements of the Society on pages 104 to 139.

OPERATING SURPLUS

The Society of Lloyd's achieved an operating surplus for the year of £127m (2008: surplus of £116m). The operating surplus by business segment is set out below:

	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Insurance activities £m	2009 Total £m	2008 Total £m
Total income	**195**	**149**	**10**	**354**	332
Central Fund claims and provisions released	**–**	**19**	**–**	**19**	6
Net insurance claims	**–**	**–**	**(6)**	**(6)**	(34)
Other group operating expenses	**(189)**	**(46)**	**(5)**	**(240)**	(188)
Operating surplus	**6**	**122**	**(1)**	**127**	116

CORPORATION OF LLOYD'S

Total income for the Corporation of Lloyd's increased by £17m to £195m (2008: £178m), driven by the increase in subscription income which has benefited from an increase in the level of written premium, partially offset by a one off £5m rebate of subscriptions to assist in the funding of the Lloyd's market's share of the London Market Group's Finish 'What We've Started' programme of work. The members' subscription rate remained unchanged during 2009 at 0.5% of written premium.

Other group operating expenses increased by £9m to £189m (2008: £180m). The 2009 figure includes a £4m impact of foreign exchange when presenting the cost of overseas operations in sterling, which is offset by a similar increase in our operating income. The remaining increase is in line with the 2009 budget approved by Council and reflects the continued focus on achieving the strategic plan.

CENTRAL FUND

Total income for the Central Fund increased by £40m to £149m (2008: £109m). Central Fund contributions of £100m (2008: £84m) were also boosted by the increase in the level of written premium, whilst other income of £49m (2008: £25m), which mainly represents recoveries in respect of undertakings given by the Central Fund, again benefited from a number of underwriting years in run-off declaring a profit upon closure. The Central Fund contribution rate remained unchanged during 2009 at 0.5% of written premium.

Central Fund claims and provisions is a net credit for the year of £20m (2008: £6m). This includes a reassessment of provisions as at 31 December 2009 which resulted in £30m being released (2008: £27m release). Undertakings to meet the liabilities of insolvent members to policyholders are approved at the discretion of the Council and are normally based on anticipated cash flow requirements of insolvent members in the following 12 months. During 2009, payments made in respect of insolvent corporate members were £35m (2008: £16m) with additional payments made in respect of individual members of £1m (2008: £3m).

Other group operating expenses increased by £43m to £46m (2008: £3m). The increase is mainly attributable to the Income Assistance Scheme, a payment in connection with a claim under the Members' Compensation Scheme and increases in regulatory fees and provisions.

The Income Assistance Scheme replaces the Hardship Income Top-up Scheme and the Income and Housing Support Scheme. The previous schemes were discretionary in nature which meant that Names who were members of the schemes faced the risk that the income support provided by Lloyd's might be removed. The new scheme is permanent in nature and as such provides certainty to Names that are eligible. The removal of the discretionary element has resulted in the recognition of a liability and the acceleration of the annual payments into the income statement. Further detail is provided in note 19.

INSURANCE ACTIVITIES

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

Total income decreased by £35m to £10m (2008: £45m). The 2008 figure included £33m in respect of the contract to reinsure the members of Syndicate 535 while the 2009 figure includes £3m as a result of the contract to reinsure the members of Syndicate 1204. However, these amounts have been offset by the respective associated claims arising from the portfolio transfer.

Other group operating expenses have increased marginally mainly as a result of the impact of foreign exchange when presenting the cost of LRCCL in sterling.

FINANCIAL REVIEW CONTINUED

OPERATING SURPLUS CONTINUED

INSURANCE ACTIVITIES CONTINUED

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

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

NET FINANCE INCOME

Finance costs of £69m in 2009 (2008: £74m) predominantly relate to interest on the subordinated notes and perpetual subordinated capital securities. The decrease in the level of finance costs is as a result of the decrease in the level of outstanding debt securities.

In May 2009 Lloyd's repurchased the local currency equivalent of £102m of its outstanding debt securities, following an invitation to holders to submit offers to sell their holdings. Lloyd's repurchased a principal amount of £60m of its Perpetual Subordinated Capital Securities at a cost of £36m and a principal amount of €47m of its Subordinated Notes maturing 2024 at a cost of €33m. The repurchase of the securities, which were subsequently cancelled, generated a profit, after paying accrued interest due, of £36m.

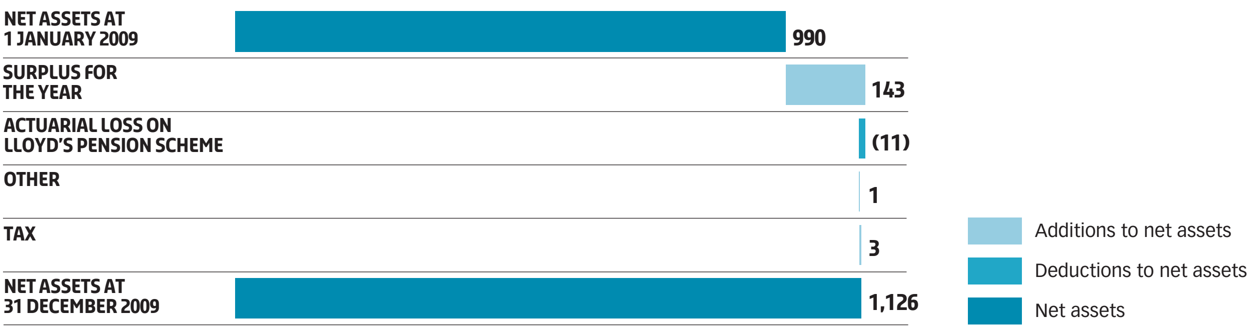
The Society's investment return for the year, excluding the profit of £36m arising on the repurchase and cancellation of debt securities was a profit of £80m (3.6%) (2008: £165m, 7.2%). Adjusting for interest costs and foreign exchange movements on the Society's outstanding debt securities (the exposure to movements in the euro is naturally hedged through euro denominated investments held) results in a net investment profit of £33m (2008: £21m). A commentary on investment strategy and investment performance is set out on page 100. The disposition of the Society's financial investments is set out in note 15 on pages 127 to 129.

TAXATION

A tax charge of £57m (2008: £40m) on the surplus before tax of £200m (2008: £142m) has been recognised for the year ended 31 December 2009. Further details are set out in note 8 on pages 120 and 121.

MOVEMENT IN NET ASSETS

£m



The net assets of the Central Fund are included within the above amounts and at 31 December 2009 were £983m (2008: £852m).

PENSION SCHEMES

LLOYD'S PENSION SCHEME

On an IFRS valuation basis, the group pension scheme valuations at 31 December 2009 improved from a deficit of £32m to a deficit of £21m before allowance for deferred tax asset of £6m (31 December 2008: £32m deficit before allowance for a deferred tax liability of £9m). The movement in the pension liability during the year is summarised below:

	2009 £m
Pension deficit as at 1 January 2009	(32)
Pension expense recognised in the group income statement	(4)
Employer contributions	
– normal	5
– special	20
Actuarial loss recognised in the group statement of recognised income and expense	(10)
Pension deficit as at 31 December 2009	**(21)**

A special payment of £20m was made to the pension scheme in December 2009 to improve the funding position (2008: £15m). The Society is committed to a fully funded scheme and will contribute further on the basis of affordability.

The actuarial valuation of liabilities is particularly sensitive to changes in market conditions, which determine the discount rate, and changes to mortality assumptions. Further details are provided in note 18 on pages 130 to 134 which includes the sensitivity of the valuation to changes in these assumptions.

OVERSEAS PENSION SCHEMES

Overseas pension schemes' actuarial valuation at 31 December 2009 was £1m (2008: £1m). Further details are provided in note 18.

SOLVENCY

Total assets for solvency purposes are set out below. The 2009 position is an estimate of the amount which will be finalised in June 2010 for submission to the FSA:

	2009 £m	2008 £m
Net assets at 31 December	1,126	990
Subordinated notes and perpetual subordinated capital securities	958	1,082
Central assets	2,084	2,072
Callable Central Fund contributions	683	495
Other solvency adjustments	44	41
Central assets for solvency purposes	2,811	2,608
Solvency shortfalls	(59)	(133)
Excess of central assets over solvency shortfalls	2,752	2,475

Based on central assets for solvency purposes of £2.8bn (2008: £2.6bn), the estimated solvency ratio is 4764% (2008: 1961%). In setting contribution levels, account is taken of the Society's ICA to ensure that Lloyd's is prudently but competitively capitalised. The current medium-term target is that the excess of central assets over solvency shortfalls should exceed £1.7bn.

CASH FLOWS AND LIQUIDITY

Cash and cash equivalents decreased during the year ended 31 December 2009 by £23m to £178m (2008: £201m). Cash balances are maintained at appropriate levels to meet the short-term operating expenses of the Society. Any surplus cash balances are invested and are included as financial investments within the group balance sheet.

The Corporation's free cash balances are regularly monitored. Free cash represents the amounts, both at bank and on deposit, held in the UK and available to the Corporation to meet operating expenses, including those of overseas operations, excluding any client money balances held in respect of insurance and arbitration activities. Such free cash balances during the year ended 31 December 2009 increased by £27m to £100m (2008: £73m).

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

FINANCIAL REVIEW
CONTINUED

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

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

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

INVESTMENT PERFORMANCE
During the year ended 31 December 2009, the Society reported a 3.6% gross investment return (2008: 7.2%). This excludes the profit of £36m arising on the repurchase and cancellation of debt securities. Most of the Society's investments are held within the Central Fund. Losses experienced by many riskier asset classes during 2008 were partly reversed in 2009 as investor confidence returned to financial markets. Central Fund exposures to global equities produced strong returns during the period. Corporate debt securities also performed well as credit spreads declined throughout the year. The Central Fund started the year with low exposure to corporate debt (this proved very beneficial in 2008). However, such exposures were increased steadily through the year and contributed to overall returns. The total investment return was held back by poor performance from many government bond investments and by foreign exchange losses arising from net investment exposures to the euro, which are maintained to match similar currency exposures arising on the Society's liabilities.

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

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

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

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

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

Guarantees
The Society provides certain financial guarantees as security for the underwriting activities of the members of Lloyd's. Further details are provided in note 25 on page 139.

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

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

The Society has no committed borrowing facilities as at 31 December 2009 (2008: £nil).

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

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

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

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

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

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

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

CAPITAL MANAGEMENT
The Society monitors its capital to ensure that it maintains sufficient assets for both operational and solvency purposes. Further disclosures with regard to financial instruments are provided in note 21 on pages 136 to 138.

RELATED PARTY TRANSACTIONS
Except for disclosures made in note 24 (see page 139), no related party had material transactions with the Society in 2009.

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS
Having made enquiries, the Council of Lloyd's confirms that:

> To the best of each Council member's knowledge and belief there is no information relevant to the preparation of the Society Report of which the Society's auditors are unaware.

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

OUTLOOK
Central assets, which exclude subordinated liabilities, are expected to remain stable at £2.1bn in 2010.

On 23 March 2010, the Council of Lloyd's gave further undertakings to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. After taking account of the expiry of unutilised undertakings, the net increase in undertakings, which will be reflected as a charge in the 2010 income statement is £2m (see note 4 on page 118).

The operating expenses for the Corporation and its subsidiaries are budgeted to increase to £202m in 2010 (2009: actual £194m) reflecting the continuing focus on achieving the Lloyd's Strategy.

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

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

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

> Select suitable accounting policies and then apply them consistently.

> Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

> Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Society's financial position and financial performance.

> State that the Society has complied with IFRS, subject to any material departures disclosed and explained in the group financial statements.

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

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

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

We have audited the group financial statements of the Society of Lloyd's (the Society) for the year ended 31 December 2009 which comprise the group income statement, group statement of comprehensive income and expense, group statement of financial position, group statement of cash flows and the related notes 1 to 25. These group financial statements have been prepared under the accounting policies set out therein.

We have also audited the information in the Report of the Nominations, Appointments and Compensation Committee that is described as having been audited.

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

RESPECTIVE RESPONSIBILITIES DIRECTORS AND AUDITORS

The Council of Lloyd's is responsible for the preparation of the group financial statements in accordance with byelaws made under Lloyd's Act 1982 and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of the Council of Lloyd's Responsibilities. The Council of Lloyd's is also responsible for the preparation of Report of the Nominations, Appointments and Compensation Committee, which they have chosen to prepare.

Our responsibility is to audit the Society's financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with Council of Lloyd's Byelaws made under the Lloyd's Act 1982.

In addition we report to you if, in our opinion, the Society has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding member's remuneration and other transactions is not disclosed.

The Society has also instructed us to audit whether the Report of the Nominations, Appointments and Compensation Committee reflects the requirements of the Companies Act 2006, which for a listed UK incorporated company, are specified for audit by the company's auditor by the Companies Act 2006 and we report to you our opinion as to whether the Report of the Nominations, Appointments and Compensation Committee has been properly prepared in accordance with the basis described therein.

We read other information contained in the Society Report and consider whether it is consistent with the audited group financial statements. This other information comprises the reports listed on page 76. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

> The Society financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Society's affairs as at 31 December 2009 and of its surplus for the year then ended; and

> The Society financial statements have been properly prepared in accordance with Council of Lloyd's Byelaws made under the Lloyd's Act 1982; and

> The part of the Nominations, Appointments and Compensation Committee to be audited, has been properly prepared in accordance with the basis described therein.

Ernst & Young LLP
Registered Auditor, London

23 March 2010

GROUP INCOME STATEMENT

for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Operating income		**195,043**	177,542
Central Fund contributions		**99,687**	84,294
General insurance net premium income		**6,992**	37,937
Other group income		**52,048**	32,397
Total income	3B	**353,770**	332,170
Central Fund claims and provisions released	4	**19,586**	6,349
Gross insurance claims	13	**(6,714)**	(77,314)
Insurance claims recoverable from reinsurers	13	**302**	42,806
Other group operating expenses	5	**(240,062)**	(187,703)
Operating surplus		**126,882**	116,308
Finance costs	7	**(69,345)**	(74,405)
Finance income			
– surplus on subordinated debt repurchase	17	**36,205**	–
– other	7	**79,555**	165,008
Unrealised exchange gains/(losses) on borrowings		**23,003**	(69,233)
Share of profits of associates	12A	**3,363**	3,930
Surplus before tax		**199,663**	141,608
Tax charge	8A	**(56,596)**	(39,620)
Surplus for the year		**143,067**	101,988

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Surplus for the year		**143,067**	101,988
Other comprehensive income			
Unrealised gain on revaluation of Lloyd's Collection		**1,200**	–
Actuarial (loss)/gain on pension liabilities			
– UK	18	**(10,552)**	(67,855)
– overseas		**30**	(245)
– associates	12A	**(544)**	(1,954)
Tax credit relating to components of comprehensive income		**2,772**	19,585
Net other comprehensive income for the year		**(7,094)**	(50,469)
Total comprehensive income for the year		**135,973**	51,519

GROUP STATEMENT OF FINANCIAL POSITION
as at 31 December 2009

	Note	2009 £000	2008 £000
Assets			
Intangible assets	9	**59**	97
Lloyd's Collection	12B	**12,021**	10,824
Property, plant and equipment	10	**24,199**	19,220
Deferred tax asset	8C	**2,937**	4,356
Investment in associates	12A	**6,303**	6,465
Insurance contract assets			
– Lioncover Insurance Company Limited	13	**–**	514,137
– other insurance activities	13	**43,361**	48,901
Loans recoverable	14	**54,614**	57,541
Financial investments	15	**2,141,730**	2,230,156
Inventories		**201**	206
Trade and other receivables due within one year		**51,532**	69,639
Prepayments and accrued income		**62,857**	21,327
Forward currency contracts	21	**24,722**	32,646
Cash and cash equivalents	16	**178,216**	201,275
Total assets		**2,602,752**	3,216,790
Equity and liabilities			
Equity			
Accumulated reserve	22	**1,114,045**	979,269
Revaluation reserve	22	**12,021**	10,824
Total equity		**1,126,066**	990,093
Liabilities			
Subordinated notes and perpetual subordinated capital securities	17	**958,075**	1,082,023
Insurance contract liabilities			
– Lioncover Insurance Company Limited	13	**–**	514,137
– other insurance activities	13	**90,929**	97,002
Pension liabilities	18	**22,061**	32,786
Provisions	19	**82,172**	109,864
Loans funding statutory insurance deposits		**166,692**	148,310
Trade and other payables	20	**78,098**	100,466
Accruals and deferred income		**47,295**	45,961
Tax payable		**18,492**	16,182
Forward currency contracts	21	**12,872**	79,966
Total liabilities		**1,476,686**	2,226,697
Total equity and liabilities		**2,602,752**	3,216,790

Approved and authorised by the Council of Lloyd's on 23 March 2010 and signed on its behalf by

Lord Levene of Portsoken
Chairman

Richard Ward
Chief Executive Officer

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Note	Accumulated reserve £000	Revaluation reserve £000	Total equity £000
At 1 January 2008		927,726	10,848	938,574
Total comprehensive income for the year		51,519	–	51,519
Transfer between reserves		24	(24)	–
At 31 December 2008		979,269	10,824	990,093
Total comprehensive income for the year		134,773	1,200	135,973
Transfer between reserves		3	(3)	–
At 31 December 2009	22	**1,114,045**	**12,021**	**1,126,066**

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Surplus before tax		**199,663**	141,608
Finance income – surplus on subordinated note repurchase	17	**(36,205)**	–
Net finance income – other	7	**(10,210)**	(90,603)
Unrealised exchange (gains)/loss on borrowings		**(23,003)**	69,233
Share of profits of associates	12A	**(3,363)**	(3,930)
Operating surplus		**126,882**	116,308
Central Fund claims and provisions released		**(19,586)**	(6,349)
Operating surplus before Central Fund claims and provisions		**107,296**	109,959
Adjustments for:			
Depreciation of property, plant and equipment	10	**4,346**	3,246
Amortisation of intangible assets	9	**95**	131
Impairment losses	9/10	**8**	152
Profit on sale of fixed assets		**2**	(22)
Operating surplus before working capital changes and claims paid		**111,747**	113,466
Pension deficit movement		**(21,247)**	(19,370)
Increase in receivables		**(20,958)**	(17,513)
Decrease/(increase) in inventories		**5**	(9)
(Decrease)/increase in payables		**(24,324)**	93,783
Increase in provisions other than for Central Fund claims		**28,769**	4,102
Cash generated from operations before claims paid		**73,992**	174,459
Claims paid in respect of corporate/insolvent members	19	**(35,124)**	(15,551)
Tax and interest payments in respect of corporate/insolvent members	4	**(27)**	(25)
Claims paid in respect of individual members	4	**(992)**	(2,764)
Claims paid in respect of Limited Financial Assistance Agreements	19	**(732)**	(1,775)
Cash (used)/generated from operations		**37,117**	154,344
Tax paid		**(50,250)**	(54,238)
Net cash from operating activities		**(13,133)**	100,106
Cash flows from investing activities			
Purchase of plant, equipment and intangible assets	9/10	**(9,560)**	(7,432)
Proceeds from the sale of equipment		**172**	340
Purchase of financial investments	15A/B	**(4,020,866)**	(1,578,376)
Receipts from the sale of financial investments	15A/B	**4,076,675**	1,435,679
Decrease in short-term deposits	15B	**372**	170,875
Dividends received from associates	12A	**3,133**	3,602
Interest received		**77,511**	74,550
Dividends received	7	**2,884**	6,444
Realised loss on settlement of forward currency contracts		**(57,082)**	(128,429)
Net cash used in investing activities		**73,239**	(22,747)
Cash flows from financing activities			
Purchase of subordinated notes		**(65,795)**	–
Interest paid on subordinated notes		**(70,989)**	(72,147)
Other interest paid		**(82)**	(1,356)
Increase in borrowings for statutory insurance deposits		**54,481**	15,019
Net proceeds from financing activities		**(82,385)**	(58,484)
Net increase in cash and cash equivalents		**(22,279)**	18,875
Effect of exchange rates on cash and cash equivalents		**(780)**	711
Cash and cash equivalents at 1 January		**201,275**	181,689
Cash and cash equivalents at 31 December	16	**178,216**	201,275

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2009

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

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

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

The Society has adopted the revisions to IAS 1 (Presentation of Financial Statements). This has resulted in both presentational and terminology adjustments to the primary statements. The standard introduces the 'statement of comprehensive income', presenting all recognised income and expense in either one statement or two linked statements. The Society has elected to present two statements. This standard also requires a 'statement of changes in equity' which shows equity movements during the year.

The Society has adopted IFRS 8 (Operating Segments). The Society has also adopted the amendments to IFRS 7 (Financial Instruments: Disclosures). There has been no material impact on the financial statements as a result of adopting this standard and amendment.

The Society is regulated by the FSA.

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

> Central Fund claims and provisions – undertakings (see note 2Q and note 19).

> Employee benefits – defined benefit pension scheme (see note 2I and note 18).

> Insurance contracts – liabilities and reinsurance assets (see note 2G and note 13).

> Loans recoverable – hardship loans (see note 2J and note 14).

A. PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment are held at cost less accumulated depreciation and any impairment in value.

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

> Freehold buildings are depreciated over 60 years.

> Plant, vehicles and equipment are depreciated over 3 to 25 years according to the estimated life of the asset.

> Equipment on hire or lease is depreciated over the period of the lease.

> Land is not depreciated.

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

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

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED
as at 31 December 2009

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED
D. INVESTMENT IN ASSOCIATES
An associate is an entity in which the Society has significant influence and which is not a subsidiary undertaking or joint venture. The Society's investment in associates is accounted for under the equity method of accounting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

F. FINANCIAL INSTRUMENTS CONTINUED

Fair value of financial instruments

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

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

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

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

Amortised cost of financial instruments

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

Impairment of financial assets

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

Derecognition of financial instruments

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

G. INSURANCE CONTRACTS (LIABILITIES AND REINSURANCE ASSETS)

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

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

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

H. INVENTORIES

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

I. EMPLOYEE BENEFITS

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

I. EMPLOYEE BENEFITS CONTINUED

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

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

J. LOANS RECOVERABLE

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

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

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

K. TAXATION

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

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

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

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

L. SUBORDINATED NOTES AND PERPETUAL SUBORDINATED CAPITAL SECURITIES

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

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

M. CASH AND CASH EQUIVALENTS

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

N. INCOME RECOGNITION

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

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

O. INSURANCE PREMIUMS

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

P. INSURANCE CLAIMS

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

Q. CENTRAL FUND CLAIMS AND PROVISIONS

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

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

R. FOREIGN CURRENCY AND DERIVATIVE INSTRUMENTS

Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

> Assets and liabilities are translated at the closing rate at the date of that statement of financial position;

> Income and expenses are translated at the average exchange rate for the year;

> Any resulting exchange differences are recognised in the group statement of comprehensive income and accumulated within a separate component of equity.

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

The principal exchange rates were:

	2009 £m	2008 £m
US$	**1.61**	1.44
Can$	**1.69**	1.77
Euro	**1.13**	1.03

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

S. LEASES

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

T. NEW STANDARDS AND INTERPRETATIONS NOT APPLIED

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

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

The Council does not consider that the adoption of IAS24R will have a material impact on the Society's financial statements in the period of initial application; the impact of IFRS9 is still being evaluated.

3. SEGMENTAL ANALYSIS

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

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

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

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

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

The Society's primary business segments are as follows:

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

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

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

3. SEGMENTAL ANALYSIS CONTINUED

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

3. SEGMENTAL ANALYSIS CONTINUED

(a) Information by business segment continued	Note	2008 Corporation of Lloyd's £000	2008 Lloyd's Central Fund £000	2008 Insurance activities £000	2008 Society total £000
Segment income					
Segment income (unconsolidated)		182,106	108,896	44,831	335,833
Less inter-segment income		(3,663)	–	–	(3,663)
Total income from external sources	3B	178,443	108,896	44,831	332,170
Segment operating expenses (consolidated)					
Central Fund claims and provisions released	4	–	6,349	–	6,349
Gross claims released		–	–	(77,314)	(77,314)
Claims payable to reinsurers		–	–	42,806	42,806
Other group operating expenses:					
Employment (including pension costs)	6	(84,540)	–	(1,951)	(86,491)
Premises		(35,888)	–	(749)	(36,637)
Legal and professional	5	(16,043)	(182)	(719)	(16,944)
Systems and communications		(20,565)	–	(702)	(21,267)
Other		(22,662)	(3,092)	(610)	(26,364)
Total other group operating expenses		(179,698)	(3,274)	(4,731)	(187,703)
Total segment operating expenses		(179,698)	3,075	(39,239)	(215,862)
Total segment operating surplus		(1,255)	111,971	5,592	116,308
Finance costs	7	(373)	(73,868)	(164)	(74,405)
Finance income	7	7,795	146,400	10,813	165,008
Unrealised exchange losses on borrowings		–	(69,233)	–	(69,233)
Share of profits of associates		3,930	–	–	3,930
Segment surplus before tax		10,097	115,270	16,241	141,608
Tax charge					(39,620)
Surplus for the year					101,988
Segment assets and liabilities					
Investment in associates		6,465	–	–	6,465
Other assets		362,539	2,159,673	683,757	3,205,969
Segment assets		369,004	2,159,673	683,757	3,212,434
Tax assets					4,356
Total assets					3,216,790
Segment liabilities		(294,561)	(1,295,386)	(620,568)	(2,210,515)
Tax liabilities					(16,182)
Total liabilities					(2,226,697)
Other segment information					
Capital expenditure	9/10	7,402	–	30	7,432
Depreciation	10	2,988	–	258	3,246
Amortisation of intangible assets	9	46	–	85	131
Impairment of long-term assets	10	108	–	44	152
Average number of UK employees (permanent and contract)		689	–	4	693
Average number of overseas employees (permanent and contract)		101	–	12	113
Average number of total employees (permanent and contract)		790	–	16	806

3. SEGMENTAL ANALYSIS CONTINUED

(b) Income	Corporation of Lloyd's 2009 £000	Corporation of Lloyd's 2008 £000	Lloyd's Central Fund 2009 £000	Lloyd's Central Fund 2008 £000	Insurance activities 2009 £000	Insurance activities 2008 £000	Society total 2009 £000	Society total 2008 £000
Market charges								
Managing agents and syndicates	**68,785**	65,708	**–**	–	**3,047**	3,007	**71,832**	68,715
Members and members' agents	**13,062**	12,585	**–**	–	**–**	–	**13,062**	12,585
Franchise performance and risk management charge	**13,897**	13,260	**–**	–	**–**	–	**13,897**	13,260
Total market charges	**95,744**	91,553	**–**	–	**3,047**	3,007	**98,791**	94,560
Members' subscriptions	**80,913**	71,535	**–**	–	**–**	–	**80,913**	71,535
Other charges	**15,326**	11,447		–	**13**	–	**15,339**	11,447
Total operating income	**191,983**	174,535	**–**	–	**3,060**	3,007	**195,043**	177,542
Central Fund contributions	**–**	–	**99,687**	84,294	**–**	–	**99,687**	84,294
General insurance net premium income	**–**	–	**–**	–	**6,992**	37,937	**6,992**	37,937
Other group income	**2,905**	3,908	**49,143**	24,602	**–**	3,887	**52,048**	32,397
Total income	**194,888**	178,443	**148,830**	108,896	**10,052**	44,831	**353,770**	332,170

During the year members paid to the Corporation of Lloyd's (members' subscriptions) and to the Central Fund (Central Fund contributions from members) at 0.5% of their syndicate forecast written premium (2008: 0.5%). Central Fund contributions in the first three years of membership are charged at 2% of syndicate forecast written premium. The ultimate amounts to be retained by the Corporation of Lloyd's and the Central Fund for 2009 will be based on actual 2009 written premiums, of members, the quantification of which will not be known until 2011. The £99.7m (Central Fund contribution from members) and £80.9m (members' subscriptions) included in the group income statement are based on the present best estimates of the ultimate amounts that will be retained by the Central Fund and the Corporation of Lloyd's respectively.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

4. CENTRAL FUND CLAIMS AND PROVISIONS

	Note	2009 £000	2008 £000
Net undertakings released	19	**12,615**	14,586
Release/(charge) in respect of Limited Financial Assistance Agreements	19	**7,990**	(5,448)
Claims payable in respect of individual members		**(992)**	(2,764)
Tax and interest payable in respect of insolvent members		**(27)**	(25)
		19,586	6,349

The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. Undertakings are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council principally on an annual basis and therefore are not deemed constructive obligations (see note 19). Unutilised undertakings as at 31 December 2009 were £75m. Of these amounts, £45m were included in undertakings granted on 23 March 2010 and the balance of £30m (2008: £27m) has been released to the group income statement in these financial statements. During 2010 further annual undertakings of £2m (2009: £19m) will be granted and no provision has been included in these financial statements in respect of these amounts.

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

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

5. OTHER GROUP OPERATING EXPENSES

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

	Note	2008 Corporation of Lloyd's £000	2008 Lloyd's Central Fund £000	2008 Insurance activities £000	2008 Total £000
Other group operating expenses include:					
Employment costs	6	84,540	–	1,951	86,491
Operating lease rentals – Lloyd's 1986 building		16,767	–	–	16,767
Operating lease rentals – other		3,043	–	–	3,043
Professional fees, including legal fees and related costs		14,487	126	622	15,235
Audit		560	56	97	713
Other services pursuant to legislation payable to Ernst & Young LLP		492	–	–	492
Actuarial services payable to Ernst & Young LLP		89	–	–	89
Tax services payable to Ernst & Young LLP		133	–	–	133
Other services payable to Ernst & Young LLP		282	–	–	282
Total legal and professional fees		16,043	182	719	16,944
Charitable donations		327	–	–	327

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

6. EMPLOYMENT

	Note	2009 £000	2008 £000
Salaries and wages (including performance-related bonus)		**57,419**	52,617
Lloyd's Performance Plan (excluding social security costs – note 19)		**7,321**	5,896
Lloyd's Pension Scheme costs	18	**3,838**	6,601
Other pension costs		**822**	807
Social security costs		**6,686**	6,386
Severance costs		**1,803**	1,574
Contract and agency staff		**3,483**	3,658
Other employment costs		**10,658**	8,952
		92,030	86,491

The emoluments of the Chairman, CEO, members of the Council and Franchise Board are included in the report of the Nominations, Appointments and Compensation Committee on page 91.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED
as at 31 December 2009

7. FINANCE

	2009 Corporation of Lloyd's £000	2009 Lloyd's Central Fund £000	2009 Insurance activities £000	2009 Total £000	2008 Total £000
Finance costs					
Interest payable on financial liabilities measured at amortised cost	–	**(68,178)**	–	**(68,178)**	(72,833)
Other interest payable and similar charges	**(112)**	–	–	**(112)**	(537)
Amortisation of issue costs and discount	–	**(1,055)**	–	**(1,055)**	(1,035)
Total interest payable on financial liabilities	**(112)**	**(69,233)**	–	**(69,345)**	(74,405)
Finance income					
Bank interest received	**3,402**	**1,665**	**367**	**5,434**	20,911
Dividends received	–	**2,884**	–	**2,884**	6,444
Other returns on investments designated at fair value through profit or loss	**(1,167)**	**(7,639)**	**3,897**	**(4,909)**	314,497
Unrealised fair value movement of investments designated at fair value through profit or loss	**(183)**	**76,001**	**(1,260)**	**74,558**	(8,891)
Unrealised fair value movement of forward contracts held for trading	**(311)**	**11,538**	–	**11,227**	(48,972)
Realised fair value movement of forward contracts held for trading	–	**(9,139)**	–	**(9,139)**	(115,457)
Increase in valuation of loans recoverable designated at fair value through profit or loss	–	**(500)**	–	**(500)**	(3,524)
Total finance income	**1,741**	**74,810**	**3,004**	**79,555**	165,008

8. TAXATION
A. TAX ANALYSIS OF CHARGE IN THE YEAR

	Note	2009 £000	2008 £000
Current tax:			
Corporation tax based on profits for the year at 28% (2008: 28.5%)		**(51,178)**	(38,333)
Adjustments in respect of previous years		**(1,188)**	161
Foreign tax suffered		**(192)**	(458)
Total current tax		**(52,558)**	(38,630)
Deferred tax:			
Origination and reversal of timing differences			
– current year		**(4,492)**	(1,332)
– prior year		**454**	342
Tax charge recognised in the group income statement	8B	**(56,596)**	(39,620)
Analysis of tax change recognised in the group statement of comprehensive income			
Deferred tax:			
Unrealised gain on revaluation of Lloyd's Collection		**(335)**	–
Tax credit on actuarial loss on pension liabilities			
– group		**2,955**	18,998
– associates		**152**	587
Tax credit recognised in the group statement of comprehensive income		**2,772**	19,585
Total tax charge		**(53,824)**	(20,035)

8. TAXATION CONTINUED

B. RECONCILIATION OF EFFECTIVE TAX RATE

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Surplus on ordinary activities before tax			**199,663**		141,608
Corporation tax at 28% (2008: 28.5%)		**28.0%**	**(55,906)**	28.5%	(40,358)
Expenses not deductible for tax purposes		**0.5%**	**(1,062)**	0.6%	(901)
Utilisation of tax credits		**(0.1%)**	**134**	(0.4%)	498
Overseas tax		**0.1%**	**(192)**	0.3%	(458)
Other		**(0.6%)**	**1,164**	(0.8%)	1,096
Deferred tax prior year adjustments		**(0.2%)**	**454**	(0.2%)	342
Adjustments in respect of previous years		**0.6%**	**(1,188)**	(0.1%)	161
Tax charge	8A	**28.3%**	**(56,596)**	28.0%	(39,620)

C. DEFERRED TAX

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

In 2009, there were no unrecognised deductible temporary differences (2008: nil).

	2008 Balance at 1 January £000	2008 Income Statement £000	2008 Equity £000	2008 Balance at 31 December £000
Property, plant and equipment	4,199	(195)	–	4,004
Loans recoverable	(9,658)	1,226	–	(8,432)
Financial investments	(1,172)	2,294	–	1,122
Pension liabilities/(assets)	(4,620)	(5,424)	19,000	8,956
Other employee benefits	628	1,102	–	1,730
Other items	(3,031)	7	–	(3,024)
	(13,654)	(990)	19,000	4,356

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

9. INTANGIBLE ASSETS – SOFTWARE DEVELOPMENT

	Total £000
Cost:	
At 1 January 2008	5,161
Additions	29
Disposals	(138)
At 31 December 2008	5,052
Additions	**57**
Disposals	**(66)**
At 31 December 2009	**5,043**
Amortisation:	
At 1 January 2008	4,723
Charge for the year	131
Impairment losses	110
Disposals	(9)
At 31 December 2008	4,955
Charge for the year	**95**
Impairment losses	**–**
Disposals	**(66)**
At 31 December 2009	**4,984**
Net book value at 31 December 2009	**59**
Net book value at 31 December 2008	97

IMPAIRMENT LOSSES

As part of an assessment of the carrying value of assets, nil was written off in 2009 (2008: £110,000). The impairment and amortisation charges are included within other group operating expenses.

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land buildings £000	Plant and equipment £000	Total £000
Cost:			
At 1 January 2008	69	44,086	44,155
Additions	–	7,403	7,403
Disposals	(69)	(2,182)	(2,251)
At 31 December 2008	–	49,307	49,307
Additions	**–**	**9,503**	**9,503**
Disposals	**–**	**(782)**	**(782)**
At 31 December 2009	**–**	**58,028**	**58,028**
Depreciation and impairment:			
At 1 January 2008	69	28,623	28,692
Depreciation charge for the year	–	3,246	3,246
Impairment losses	–	42	42
Disposals	(69)	(1,824)	(1,893)
At 31 December 2008	–	30,087	30,087
Depreciation charge for the year	**–**	**4,346**	**4,346**
Impairment losses	**–**	**8**	**8**
Disposals	**–**	**(612)**	**(612)**
At 31 December 2009	**–**	**33,829**	**33,829**
Net book value at 31 December 2009	**–**	**24,199**	**24,199**
Net book value at 31 December 2008	–	19,220	19,220

10. PROPERTY, PLANT AND EQUIPMENT CONTINUED

IMPAIRMENT LOSSES

Impairment reviews are undertaken annually in which assets within plant and other assets have their recoverable amounts reassessed. As part of this assessment of the carrying value of assets, £8,000 was written off in 2009 (2008: £42,000). The charge is included within other group operating expenses.

11. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS AND ASSOCIATES

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

The issued share capital of Ins-sure Holdings Limited is £4,000. There are three classes of shares. The Society holds 1,000,000 B shares of 0.1p each that have the right to participate in 25% of any profits available for distribution.

The issued share capital of Xchanging Claims Services Limited is £4,001. There are three classes of shares. The Society holds 1,000 A shares of £1 each and 2,001 C shares of £1 each. The A and C shares have the following rights with respect to dividends:

a) The C shares carry a right to a fixed cumulative preference dividend of 5% calculated on the nominal capital and a variable participating dividend calculated by reference to trading profits.

b) The A shares participate in 50% of any profits available for distribution after taking account of the dividend rights outlined above.

12. INVESTMENTS

A. INVESTMENTS IN ASSOCIATES

	2009 Goodwill £000	2009 Share of other net assets £000	2009 Total £000	2008 Total £000
At 1 January	**861**	**5,604**	**6,465**	7,504
Share of operating profits	**–**	**4,657**	**4,657**	5,119
Share of interest income	**–**	**29**	**29**	429
Share of tax on profit on ordinary activities	**–**	**(1,323)**	**(1,323)**	(1,618)
Total share of profits of associates	**–**	**3,363**	**3,363**	3,930
Share of actuarial loss on pension liability	**–**	**(544)**	**(544)**	(1,954)
Share of tax on items taken directly to equity	**–**	**152**	**152**	587
Dividends received	**–**	**(3,133)**	**(3,133)**	(3,602)
At 31 December	**861**	**5,442**	**6,303**	6,465

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

12. INVESTMENTS CONTINUED

A. INVESTMENT IN ASSOCIATES CONTINUED

Summary financial information for associates – 100%:

	Assets £000	Liabilities £000	Revenues £000	Profit after tax £000
2009				
Ins-sure Holdings Limited	**34,126**	**(24,070)**	**70,179**	**5,060**
Xchanging Claims Services Limited	**18,941**	**(13,385)**	**41,359**	**4,488**
	53,067	**(37,455)**	**111,538**	**9,548**
2008				
Ins-sure Holdings Limited	34,200	(19,782)	60,356	7,145
Xchanging Claims Services Limited	19,042	(12,810)	40,521	5,047
	53,242	(32,592)	100,877	12,192

B. LLOYD'S COLLECTION

The Lloyd's Collection represents various paintings, antiques and artefacts. The collection was valued at £12.0m by Gurr Johns Limited, valuers and fine art consultants in November 2009, on the basis of open market auction value assuming all items are not sold at the same time taking into account the nature, age, condition and quality of each chattel. This resulted in a revaluation gain of £1.2m.

13. INSURANCE ACTIVITIES

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. Outstanding claims provisions are not discounted for the time value of money.

	2009 Lioncover Insurance Company Ltd £000	2009 Other Insurance activities £000	2009 Total £000	2008 Total £000
Insurance claims				
Gross claims:				
Claims paid	–	**(5,704)**	**(5,704)**	(35,418)
Change in provisions for claims	–	**(1,010)**	**(1,010)**	(41,896)
	–	**(6,714)**	**(6,714)**	(77,314)
Claims recoverable from reinsurers:				
Claims recovered from reinsurers	–	**1,199**	**1,199**	28,036
Change in reinsurance contract assets	–	**(897)**	**(897)**	14,770
	–	**302**	**302**	42,806

LIONCOVER INSURANCE COMPANY LIMITED

Lioncover Insurance Company Limited (Lioncover) is a wholly owned subsidiary undertaking of the Society of Lloyd's. Since its formation, Lioncover reinsured the liabilities of private members on syndicates formerly managed by PCW Underwriting Agencies Limited, WMD Underwriting Agencies Limited and Richard Beckett Underwriting Agencies Limited and on syndicates 2 and 49 (collectively referred to as 'the PCW syndicates'). On 18 December 1997, Lioncover entered into an unlimited reinsurance of those liabilities with Equitas Reinsurance Limited (ERL).

Notwithstanding the reinsurance of liabilities by ERL, until June 2009, Lioncover remained liable to its policyholders in respect of the business originally underwritten. Accordingly, the Society's financial statements previously reflected a provision for claims outstanding, including losses incurred but not reported (IBNR), in respect of that business and an equal amount as recoverable from ERL.

Lioncover's long-term insurance liabilities included pollution and asbestos. Lioncover does not underwrite any new policies.

13. INSURANCE ACTIVITIES CONTINUED

LIONCOVER INSURANCE COMPANY LIMITED CONTINUED

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

Following court approval on 25 June 2009, Phase 2 of the transaction was completed on 30 June 2009 when the liabilities of members and former members of Lloyd's in respect of non-life business allocated to 1992 or prior years of accounts were transferred to Equitas Insurance Limited, a subsidiary of Equitas Holding Limited, and Lioncover's reinsurance liabilities were terminated, pursuant to the provisions of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The insurance business transfer has resulted in finality for members of the PCW syndicates under the law of each state within the EEA. As a result of this transaction from 30 June 2009, Lioncover no longer has reinsurance liabilities to any person nor any entitlement to any reinsurance recoveries.

Insurance contract liabilities may be analysed as follows:

	2009 Insurance contract liabilities £000	2009 Reinsurer's share of liabilities £000	2009 Net £000	2008 Insurance contract liabilities £000	2008 Reinsurer's share of liabilities £000	2008 Net £000
Provision for claims reported	–	–	–	212,131	(212,131)	–
Provision for IBNR claims	–	–	–	302,006	(302,006)	–
Insurance contract liabilities	–	–	–	514,137	(514,137)	–

The movement in provision for insurance contract liabilities can be analysed as follows:

	2009 Insurance contract liabilities £000	2009 Reinsurer's share of liabilities £000	2009 Net £000	2008 Insurance contract liabilities £000	2008 Reinsurer's share of liabilities £000	2008 Net £000
At 1 January	**514,137**	**(514,137)**	–	387,440	(387,440)	–
Claims (released)/incurred	**(514,137)**	**514,137**	–	(5,055)	5,055	–
Claims paid (see below)	–	–	–	(17,713)	17,713	–
Effect of exchange rates	–	–	–	149,465	(149,465)	–
At 31 December	–	–	–	514,137	(514,137)	–

OTHER INSURANCE ACTIVITIES

Other insurance activities represent those of Centrewrite Limited and Lloyd's Reinsurance Company (China) Limited. Centrewrite Limited's principal activities in 2009 were to underwrite the Lloyd's Members' Estate Protection Plan, to reinsure individual members of Lloyd's participations on syndicates for underwriting years of account which have not been closed and to provide reinsurance to close to syndicates with no successor syndicate.

Centrewrite has a structured approach to pricing, which is approved by the Centrewrite board in respect of the insurance contracts it underwrites. For reinsurance to close contracts, prior to the contract being quoted Centrewrite considers and does actuarial analysis upon the underlying historical data in respect of the performance of the syndicate. This data includes that in respect of claims development, major claims outstanding, exposure to further claims development, future run-off costs and reinsurance cover. The reinsurance to close contracts mainly relate to liability and energy risks written between 1993 and 2001.

Centrewrite regularly monitors the performance of its business, including that in respect of outstanding claims exposure and reinsurance recoveries through a sub-committee of the Board.

Due to the uncertainty in the timing of large claims payments, Centrewrite invests in assets that can be readily realised to meet these liabilities as they fall due. Centrewrite regularly reviews the security of its reinsurance assets and makes provision for amounts which are not considered to be recoverable, based on default rates used by the Lloyd's market.

Lloyd's Reinsurance Company (China) Limited (LRCCL) is a wholly owned subsidiary undertaking of the Society of Lloyd's. The company's principal activity is the reinsurance of non-life business in the China insurance market. Lloyd's syndicates participate in LRCCL by means of retrocession agreements which allow a 100% risk transfer. LRCCL retains 5% of premiums to offset operating costs.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

13. INSURANCE ACTIVITIES CONTINUED

OTHER INSURANCE ACTIVITIES CONTINUED

Insurance contract liabilities may be analysed as follows:

	2009 Insurance contract liabilities £000	2009 Reinsurer's share of liabilities £000	2009 Net £000	2008 Insurance contract liabilities £000	2008 Reinsurer's share of liabilities £000	2008 Net £000
Provision for claims reported	**61,641**	**(32,999)**	**28,642**	57,627	(34,244)	23,383
Provision for IBNR claims	**29,288**	**(10,362)**	**18,926**	39,375	(14,657)	24,718
Insurance contract liabilities	**90,929**	**(43,361)**	**47,568**	97,002	(48,901)	48,101

The movement in provision for insurance contract liabilities can be analysed as follows:

	2009 Insurance contract liabilities £000	2009 Reinsurer's share of liabilities £000	2009 Net £000	2008 Insurance contract liabilities £000	2008 Reinsurer's share of liabilities £000	2008 Net £000
At 1 January	**97,002**	**(48,901)**	**48,101**	14,319	(381)	13,938
Claims incurred	**6,714**	**(302)**	**6,412**	82,369	(47,861)	34,508
Claims paid	**(5,704)**	**1,199**	**(4,505)**	(17,705)	10,323	(7,382)
Effect of exchange rates	**(7,083)**	**4,643**	**(2,440)**	18,019	(10,982)	7,037
At 31 December	**90,929**	**(43,361)**	**47,568**	97,002	(48,901)	48,101

Claims incurred consist of claims and claims handling expenses paid during the year, together with the movement in outstanding claims. Full provision is made, on the basis of available information, for the estimated ultimate cost of claims notified but not settled as at the date of the statement of financial position, after taking into account handling costs and settlement trends. A provision for claims incurred but not notified is also established as at that date on a statistical basis. The provision also reflects claims settlement expenses and anticipated reinsurance and other recoveries. The provision for outstanding claims is based on information available at the reporting date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are dealt with in the group income statements of later years.

CLAIMS DEVELOPMENT TRIANGLES

The table below shows the development of claims over a period of time on a gross basis.

The table shows the cumulative incurred claims, including both notified and IBNR claims for each successive year, together with cumulative claims at the current reporting date.

OTHER INSURANCE ACTIVITIES

	2005 and prior £000	2006 £000	2007 £000	2008 £000	2009 £000	Total £000
At end of underwriting year	75,579	2,677	1,874	105,582	**10,689**	
One year later	72,014	2,377	1,348	93,896		
Two years later	71,451	1,302	1,223			
Three years later	68,549	1,102				
Four years later	69,632					
Current estimate of cumulative claims	69,632	1,102	1,223	93,896	**10,689**	
Cumulative payments to date	(63,420)	(672)	(701)	(20,307)	**(513)**	
Insurance contract liabilities	6,212	430	522	73,589	**10,176**	**90,929**

The incurred claims from 2008 include amounts relating to the reinsurance of members of Syndicate 535. The incurred claims from 2009 include amounts relating to the reinsurance of members of Syndicate 1204.

14. LOANS RECOVERABLE

	2009 £000	2008 £000
At 1 January	**57,541**	61,826
Recoveries during the year	**(2,427)**	(761)
Fair value movements recognised during the year	**(500)**	(3,524)
At 31 December	**54,614**	57,541

None of the change in valuation of loans recoverable during 2009 or 2008 relates to changes in credit risk. The Society's loans recoverable are categorised as fair value Level 3 for disclosure purposes. All fair value movements are recognised as finance income or finance costs in the group income statement and relate solely to the revaluation of hardship and LFAA assets.

15. FINANCIAL INVESTMENTS

	Note	2009 £000	2008 £000
Statutory insurance deposits	15A	**175,248**	154,576
Other investments	15B	**1,966,482**	2,075,580
		2,141,730	2,230,156

A. STATUTORY INSURANCE DEPOSITS

	2009 Securities £000	2009 Deposits £000	2009 Total £000	2008 Total £000
Market value at 1 January	**48,177**	**106,399**	**154,576**	108,615
Additions at cost	**48,468**	**309,501**	**357,969**	301,134
Disposal proceeds	**(73,355)**	**(250,877)**	**(324,232)**	(300,559)
Surplus on the sale and revaluation of investments	**(4,613)**	**(8,452)**	**(13,065)**	45,386
Market value at 31 December	**18,677**	**156,571**	**175,248**	154,576

Analysis of securities at year end:	2009 Cost £000	2009 Valuation £000	2008 Cost £000	2008 Valuation £000
Government	**16,556**	**17,157**	21,885	28,599
Corporate securities (see below)	**1,127**	**1,520**	13,439	19,578
Market value at 31 December	**17,683**	**18,677**	35,324	48,177
Analysis of corporate securities:				
AAA		**1,520**		17,052
AA		**–**		2,526
		1,520		19,578

Finance is arranged by advances from syndicates in the Lloyd's market. These advances are renewed annually. By agreement with the lenders, investment returns earned on these assets are paid, in appropriate proportions, to the lenders. In this way, the Society avoids any risk arising from a mismatch between borrowing and lending terms. Book cost is stated at historical exchange rates, market value is quoted at year end exchange rates.

The provision of funds by members in respect of the establishment and maintenance of overseas deposits is a condition of permission to underwrite insurance business at Lloyd's.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
as at 31 December 2009

15. FINANCIAL INVESTMENTS CONTINUED
B. OTHER INVESTMENTS

	2009 Corporation of Lloyd's £000	2009 Central Fund £000	2009 Insurance activities £000	2009 Total £000	2008 Total £000
Market value at 1 January	–	1,987,809	87,771	2,075,580	1,872,861
Additions at cost	–	3,462,772	200,125	3,662,897	1,277,242
Increase/(decrease) in short-term deposits	10,006	(9,748)	(630)	(372)	(170,875)
Disposal proceeds	–	(3,543,238)	(209,205)	(3,752,443)	(1,135,120)
(Deficit)/surplus on the sale and revaluation of investments	–	(18,565)	(615)	(19,180)	231,472
Market value at 31 December	**10,006**	**1,879,030**	**77,446**	**1,966,482**	2,075,580
Analysis of securities at year end:					
Listed securities					
Fixed interest:					
Government	–	575,309	48,158	623,467	1,334,961
Corporate securities (see below)	–	873,389	24,878	898,267	349,551
Emerging markets	–	25,444	–	25,444	22,487
High yield	–	35,249	–	35,249	24,916
	–	1,509,391	73,036	1,582,427	1,731,915
Equities:					
Global	–	171,989	–	171,989	136,578
Emerging markets	–	31,362	–	31,362	19,994
	–	203,351	–	203,351	156,572
Total listed securities	–	**1,712,742**	**73,036**	**1,785,778**	1,888,487
Unlisted securities					
Hedge funds	–	72,447	–	72,447	78,464
Short-term deposits	10,006	73,841	4,410	88,257	87,629
Security deposits (see below)	–	20,000	–	20,000	21,000
Total unlisted securities	**10,006**	**166,288**	**4,410**	**180,704**	187,093
Market value at 31 December	**10,006**	**1,879,030**	**77,446**	**1,966,482**	2,075,580
Analysis of corporate securities:					
AAA	–	402,854	13,595	416,449	243,119
AA	–	210,697	7,190	217,887	26,280
A	–	257,999	4,093	262,092	78,634
Other	–	1,839	–	1,839	1,518
	–	873,389	24,878	898,267	349,551

SECURITY DEPOSITS

Tutelle Limited

In 1996 the Council set aside, under a Lloyd's special account, £20m of the 'Old' Central Fund to secure the Society's obligations under staff indemnities and certain indemnities which have been given by Lloyd's to certain individuals and advisers in respect of the 'Reconstruction and Renewal' plan. These include members of the Reserve Group, directors and officers of Equitas, members of the Council, Lloyd's Regulatory Board, Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees and Corporation staff.

Unless and until there is any default under the security documentation, interest earned on the trust fund is paid to the 'Old' Central Fund. The security was deposited for an initial period of two years and the Council exercised its discretion to renew this in June 1998. The Council further amended the period of the deposit, in November 1998, so that the security could only be released if the Council was satisfied that there was no reasonable prospect of a claim being made under these indemnities. Tutelle's position is under biennial review and, having been reviewed in June 2008, will be reviewed again in June 2010. The security may continue for a period of up to 80 years. Any of the funds remaining after this period will be repaid to the 'Old' Central Fund.

15. FINANCIAL INVESTMENTS CONTINUED

C. FAIR VALUE HIERARCHY

	Note	2009 Level 1 £000	2009 Level 2 £000	2009 Level 3 £000	2009 Total £000
Financial investments at fair value through profit or loss					
Statutory insurance deposits	15A				
Listed securities		–	8,903	–	8,903
Unlisted securities		–	9,774	–	9,774
Deposits with credit institutions		–	156,571	–	156,571
Other investments	15B				
Listed securities		629,675	952,752	–	1,582,427
Equity investments		203,351	–	–	203,351
Unlisted securities		–	72,447	–	72,447
Deposits with credit institutions		108,257	–	–	108,257
Market value at 31 December		941,283	1,200,447	–	2,141,730

Level 1

Inputs to Level 1 fair values are quoted prices in active markets for identical assets. An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples are listed debt securities in active markets, listed equities in active markets, listed deposits held with credit institutions in active markets.

Level 2

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include; quoted prices for similar (ie not identical) assets in active markets, quoted prices for identical or similar assets in markets that are not active or in which little information is released publicly, unlisted deposits held with credit institutions in active markets, low volatility hedge funds where tradeable NAVs are published.

The fair value movements during the year are recognised as finance income or finance cost in the group income statement.

16. CASH AND CASH EQUIVALENTS

	2009 £000	2008 £000
Cash at banks	40,339	102,133
Short-term deposits	137,877	99,142
	178,216	201,275

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Society and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £178.2m (2008: £201.3m).

17. SUBORDINATED NOTES AND PERPETUAL SUBORDINATED CAPITAL SECURITIES

	2009 £000	2008 £000
Details of loans payable wholly or partly after more than five years:		
6.875% subordinated notes of £300m maturing 17 November 2025	300,000	300,000
5.625% subordinated notes of €253m maturing 17 November 2024	224,509	290,023
7.421% perpetual subordinated capital securities of £440m redeemable on 21 June 2017	440,369	500,000
	964,878	1,090,023
Less issue costs to be charged in future years	(5,520)	(6,409)
Less discount on issue to be unwound in future years	(1,283)	(1,591)
	958,075	1,082,023

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
as at 31 December 2009

17. SUBORDINATED NOTES AND PERPETUAL SUBORDINATED CAPITAL SECURITIES CONTINUED

SUBORDINATED DEBT ISSUED IN 2004

The Sterling Notes mature on 17 November 2025, although the Society may redeem them on 17 November 2015 and 17 November 2020. In the event that the Society does not redeem the Sterling Notes on 17 November 2015, the rate of interest payable will be the rate per annum which is the aggregate of the Gross Redemption Yield on the relevant Benchmark Gilt (a UK government security having a maturity date on or nearest to the next reset date) plus a margin of 3.07%.

The Euro Notes mature on 17 November 2024, although the Society may redeem them on 17 November 2014 or on any interest payment date thereafter.

In the event that the Society does not redeem the Euro Notes on 17 November 2014, the rate of interest payable will be three month Euribor plus a margin of 2.72%.

The Notes are subordinated obligations of the Society. Each tranche of the Notes will rank pari passu with the other in a winding-up of the Society. Upon the occurrence of any winding-up proceedings of the Society, payments on the Notes will be subordinated in right of payment to the prior payment in full of all other liabilities of the Society, except for liabilities which rank equally with or junior to the Notes. Payments on the Notes will also be subordinated to certain payments which may be made out of central assets including payments made to discharge the liabilities of an insolvent member to any person (including any policyholders) arising out of or, in connection with insurance business carried on at Lloyd's by that insolvent member and payments made in respect of the costs required by or under any insolvency procedure to which the Society or the Lloyd's market may be subject. However, in the event of a winding-up of the Society, the claims of the holders of the Notes rank senior to the distribution of any central assets to members of Lloyd's generally (other than payments made to members in their capacity as senior creditors of the Society).

SUBORDINATED DEBT ISSUED IN 2007

The perpetual subordinated capital securities ('capital securities') are perpetual securities and have no fixed redemption date. However, they are redeemable in whole on 21 June 2017 at the option of the Society or on any interest payment date thereafter provided certain conditions have been met by the Society. The capital securities bear interest at a rate of 7.421% per annum until 20 June 2017, payable annually in arrears on 21 June in each year, and thereafter at a rate per annum reset semi-annually of 2.41% per annum above the London interbank offered rate for six-month sterling deposits, payable semi-annually in arrears on the interest payment dates falling on 21 June and 21 December in each year.

The capital securities are subordinated obligations of the Society. Upon the occurrence of any winding-up proceedings of the Society, the claims of the holders of the capital securities will rank junior to all other claims of creditors of the Society (including any creditor who is the holder of any of the Sterling or Euro Notes issued by the Society in 2004) except for those creditors having claims which rank equally with or junior to the claims of the holders of the capital securities. The claims of the holders of the capital securities will also rank junior to any payments made to discharge the liabilities of a member in connection with insurance business carried on at Lloyd's by that member and also to the claims of any person in respect of whom a New Central Fund undertaking has been made. However, in the event of a winding-up of the Society, the claims of the holders of the capital securities rank senior to the distribution of any central assets to members of Lloyd's generally (other than payments made to members in their capacity as senior creditors of the Society).

Subordinated debt repurchases

On 30 April 2009, the Society of Lloyd's announced it would repurchase the local currency equivalent of £102,000,000 of its outstanding debt securities following its invitation to holders to submit offers to sell their holdings. The Society purchased a principal amount of £59,631,000 of its 2007 perpetual subordinated capital securities at a cost of £35,778,000 and a principal amount of €47,315,000 of its 2004 subordinated loan notes maturing in 2024 at a cost of €33,120,150. The Society additionally paid accrued interest on the purchased securities. The profit on the repurchase was £36,205,000.

18. PENSION SCHEMES

The Society operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme which is a defined benefit scheme. Other schemes have been established for certain employees based overseas. These schemes are generally funded by the payment of contributions to separately administered funds.

DEFINED BENEFIT PLANS

The pension (liabilities)/assets of the schemes at 31 December 2009 are as follows:

	2009 £000	2008 £000
Lloyd's Pension Scheme	**(21,291)**	(31,985)
Overseas pension schemes	**(770)**	(801)
Total of all schemes	**(22,061)**	(32,786)

18. PENSION SCHEMES CONTINUED

DEFINED BENEFIT PLANS CONTINUED

The amounts charged to the group income statement and group statement of comprehensive income, in respect of defined benefit plans are as follows:

	2009 £000	2008 £000
Group income statement:		
Lloyd's Pension Scheme	**3,838**	6,601
Overseas pension schemes	**822**	807
	4,660	7,408
Group statement of comprehensive income		
Lloyd's Pension Scheme	**10,552**	67,855
Overseas pension schemes	**(30)**	245
	10,522	68,100

Lloyd's Pension Scheme

The Lloyd's Pension Scheme is a defined benefit pension scheme with assets held in a separately administered fund. For the purposes of determining the funding position of the scheme and future contributions, a formal actuarial valuation of the scheme was carried out by Towers Watson, actuaries and consultants, as at 30 June 2007 using the projected unit credit method. The principal actuarial assumptions adopted in the valuation were:

> Assumed future price inflation of 3.4% per annum.

> Pensions would increase in payment at 3.4% per annum (relating to benefits accrued between 6 April 1997 and 5 April 2005) or 2.5% per annum (benefits accrued post 5 April 2005).

> Total pensionable remuneration would increase by 5.2% per annum.

> The rate of return on investments held at the valuation date and on future contributions receivable after the valuation date was assumed to be 6.8% per annum for periods before benefits come into payment and 5.4% per annum for periods after benefits come into payment.

> Mortality assumptions were based on the '00' series of tables published by the actuarial profession with improvements projected to 2007. From 2007, medium cohort improvements are assumed, subject to a minimum improvement of 1.0% per annum.

The next formal actuarial valuation will be carried out as at 30 June 2010.

The total market value of the scheme's assets at the date of valuation was £391m, which equated to 100% of the value placed on the benefits that had accrued to members, after allowing for assumed future increases in pensionable remuneration. These figures exclude both liabilities and the related assets in respect of money purchase AVCs.

No allowance was made for discretionary increases to pre 6 April 1997 benefits when in payment. In 2003, the Society instructed Towers Watson not to allow for such increases in calculating the scheme's liabilities for future actuarial valuations. Such increases have always been payable at the discretion of the Society and will continue to be considered on the basis of affordability, but are not taken into account by the actuary in determining the funding level.

In recent years, in order to mitigate exposure to pension scheme liabilities several changes have been made to the Lloyd's Pension Scheme. From February 2005 the senior management section of the scheme was closed to new entrants and the normal retirement age for joiners was increased from 60 to 65. The final salary scheme was closed to new joiners at the end of June 2006. New entrants from July 2006 have been eligible to join the Lloyd's Pension Scheme but accrue benefits on an 80ths career average basis and are contracted-in to the State Second Pension. Employee contributions at 5%, or 10% for members of the senior management section, of pensionable earnings up to the Scheme earnings cap where applicable, have been introduced from July 2006. Normally, instead of making an employee contribution, employees make a salary sacrifice of the appropriate percentage of their salary and Lloyd's make an additional employer contribution of the same amount. Following the 2007 actuarial valuation employer contributions as a percentage of basic salaries are 21.8% for pre-February 2005 final salary members, 12% for post-January 2005 entrants and 6.2% for members accruing benefits on a career average basis.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

18. PENSION SCHEMES CONTINUED

PRINCIPAL ACTUARIAL ASSUMPTIONS IN RESPECT OF IAS 19

The demographic assumptions which are the most financially significant are those relating to the longevity of retired members. The assumptions for the purposes of the IAS 19 valuation as at 31 December 2009 are as applied in the triennial actuarial valuation as at 30 June 2007.

These assumptions are equivalent to expected longevity at age 60 approximately as follows:

> For pensioners currently aged 60: ranging from 25 years to 29 years (2008: 25 years to 29 years).

> For non-pensioners currently aged 45: ranging from 27 years to 30 years (2008: 27 years to 30 years).

The other major financial assumptions used by the actuary as at 31 December 2009 for the purposes of IAS 19 were:

	2009 % per annum	2008 % per annum	2007 % per annum	2006 % per annum	2005 % per annum
General salary and wage inflation	**4.60%**	4.90%	5.20%	4.80%	4.60%
Rate of increase in pensions in payment					
– pre 6 April 1997 (in excess of GMP's)	**–**	–	–	–	–
– 6 April 1997 to 5 April 2005	**3.60%**	3.00%	3.40%	3.00%	2.80%
– post 5 April 2005	**2.50%**	2.50%	2.50%	2.50%	2.80%
Increases to deferred pensions	**3.60%**	3.00%	3.40%	3.00%	2.80%
Discount rate	**5.70%**	6.40%	5.90%	5.10%	4.80%
Price inflation	**3.60%**	3.00%	3.40%	3.00%	2.80%
Expected rate of return					
– Bonds	**5.10%**	5.80%	5.20%	4.70%	4.40%
– Equities	**8.10%**	8.10%	8.10%	7.80%	7.90%
– Cash and net current assets	**4.50%**	3.80%	5.30%	4.90%	3.80%

An allowance is made for members commuting 20% (2008: 20%) of their pension on retirement.

The expected rate of return on assets is determined based on market prices prevailing on the valuation date, applicable to the period over which the obligation is to be settled.

SENSITIVITY OF PENSION OBLIGATION TO CHANGES IN ASSUMPTIONS

The actuarial valuation of liabilities under IAS 19 is particularly sensitive to changes in market conditions, which determine the rate at which pension liabilities are discounted.

A change of 0.1% pa in the discount rate as at 31 December 2009 would result in a change to the pension liabilities at that date of around 2%, or approximately £9m.

A change in the mortality assumptions could have a significant impact on the pension liability. For instance, if the allowance for future improvements were amended to incorporate the 'long cohort', this would add up to another two years to expected future longevity (in addition to that based on the medium cohort). This could increase the pension liabilities by a further 4%.

Amounts for the current and previous years were:

Asset analysis of the scheme	**2009 Fair value £000**	2008 Fair value £000	2007 Fair value £000	2006 Fair value £000	2005 Fair value £000
Bonds	**147,066**	127,304	162,611	135,839	126,363
Equities	**268,347**	198,037	238,734	215,386	193,226
Cash and net current assets	**20,195**	22,306	22,569	437	203
Total market value of assets	**435,608**	347,647	423,914	351,662	319,792
Actuarial value of scheme liabilities	**(456,899)**	(379,632)	(407,414)	(396,775)	(372,001)
(Deficit)/surplus in the scheme	**(21,291)**	(31,985)	16,500	(45,113)	(52,209)

18. PENSION SCHEMES CONTINUED

Changes in the present value of the defined benefit obligations are:

	2009 £000	2008 £000
Actuarial value of scheme liabilities at 1 January	**379,632**	407,414
Interest cost on pension scheme liabilities	**23,737**	23,553
Current service cost (net of employee contributions)	**4,117**	6,173
Past service cost	**–**	5,400
Employee contributions	**2,221**	2,092
Benefits paid	**(17,877)**	(16,426)
Experience (gains)/losses arising in scheme liabilities	**(3,850)**	2,170
Change in assumptions underlying the present value of the scheme liabilities	**68,919**	(50,744)
Actuarial value of scheme liabilities at 31 December	**456,899**	379,632

Changes in fair value of plan assets were:

	2009 £000	2008 £000
Fair value of scheme assets at 1 January	**347,647**	423,914
Expected return on pension scheme assets	**24,016**	28,525
Employer contributions		
– normal	**5,084**	5,571
– special	**20,000**	20,400
Employee contributions	**2,221**	2,092
Benefits paid	**(17,471)**	(15,943)
Actuarial gain/(loss) on scheme assets	**54,517**	(116,429)
Administrative expenses	**(406)**	(483)
Fair value of scheme assets at 31 December	**435,608**	347,647

A special contribution of £20.0m was made to the pension scheme in December 2009 to improve the funding position. The Society expects to contribute approximately £5.5m in normal contributions to the pension scheme in 2010.

ANALYSIS OF THE AMOUNT RECOGNISED IN THE GROUP STATEMENT OF COMPREHENSIVE INCOME

	2009 £000	2008 £000
Actual return on pension scheme assets	**78,533**	(87,904)
Less expected return on pension scheme assets	**(24,016)**	(28,525)
Actual return less expected return on pension scheme assets	**54,517**	(116,429)
Experience gains/(losses) arising on scheme liabilities	**3,850**	(2,170)
Changes in the assumptions underlying the present value of the scheme liabilities	**(68,919)**	50,744
Actuarial loss recognised in the group statement of comprehensive income	**(10,552)**	(67,855)

The cumulative actuarial loss recognised in the group statement of comprehensive income since 1 January 2004 is £31.1m (2008: £20.5m actuarial loss).

ANALYSIS OF THE AMOUNT CHARGED TO THE GROUP INCOME STATEMENT (RECOGNISED IN OTHER GROUP OPERATING EXPENSES)

	2009 £000	2008 £000
Current service cost	**4,117**	6,173
Past service cost	**–**	5,400
Expected return on pension scheme assets	**(24,016)**	(28,525)
Interest on pension scheme liabilities	**23,737**	23,553
Settlement/curtailment	**–**	–
Total operating charge	**3,838**	6,601

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

18. PENSION SCHEMES CONTINUED

The Society recognises the cost of discretionary increases to pre 6 April 1997 benefits in payment when there is a constructive liability to make such increases. In 2007 the society provided £10.0m to meet future discretionary increases, this amount has been notionally segregated from the scheme's other assets (the 'notional fund') and its investment performance will be tracked on the assumption that it is invested in the same way as the scheme's other assets. The notional fund will be used to facilitate the award of future discretionary pension increases when the Society carries out its annual review of pensions in accordance with the Scheme's Definitive Trust Deed. As long as there is a notional fund set aside for this purpose, discretionary increases will continue to be made. As at 31 December 2009 the value of the notional fund was £10.0m.

The measurement bases set by IAS 19 are likely to give rise to significant fluctuations to the scheme's assets and liabilities. However, this may not necessarily require changes to the contribution rate, as recommended by the independent actuary, which is based on expected long-term rates of return.

HISTORY OF EXPERIENCE GAINS AND LOSSES

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Difference between the expected and actual return on scheme assets:					
Amount	**54,517**	(116,429)	5,744	7,426	31,904
Percentage of scheme assets	**12.5%**	(33.5%)	1.4%	2.1%	10.0%
Experience gains/(losses) on scheme liabilities:					
Amount	**3,850**	(2,170)	(12,070)	(6,509)	606
Percentage of the present value of the scheme liabilities	**0.8%**	(0.6%)	(3.0%)	(1.6%)	0.2%
Total amount recognised in the group statement of comprehensive income:					
Amount	**(10,552)**	(67,855)	52,452	(1,613)	(2,354)
Percentage of the present value of the scheme liabilities	**(2.3%)**	(17.9%)	12.9%	(0.4%)	(0.6%)

Overseas pension schemes

The Society operates a number of defined benefit plans for qualifying employees based overseas. The actuarial valuations of these pension liabilities at 31 December 2009 were £0.8m (2008: £0.8m). The total expense recognised in other operating expenses of £0.8m (2008: £0.8m) represents the related current service cost of these schemes. An actuarial gain of £0.03m has been recognised in the group statement of comprehensive income (2008: actuarial loss of £0.2m).

Defined contribution plans

The Society operates a number of defined contribution retirement benefit plans for qualifying employees based overseas. The assets of the plans are held separately from those of the Society in funds under the control of the trustees.

In some countries, employees are members of state-managed retirement benefit plans. The Society is required to contribute a specified percentage of payroll costs to fund these benefits. The only obligation of the Society with respect to the retirement benefit plan is to make the specified contributions.

The total expense recognised in the group income statement of £0.1m (2008: £0.5m) represents contributions payable to these plans by the Society at rates specified in the rules of these plans.

19. PROVISIONS

	2009 Undertakings given to insolvent members £000	2009 Limited Financial Assistance Agreements £000	2009 Income support schemes £000	2009 Lloyd's performance plan £000	2009 Total £000	2008 Total £000
Balance at 1 January	**93,049**	**9,405**	**1,762**	**5,648**	**109,864**	132,226
(Released)/charged in the year	**(12,615)**	**(7,990)**	**26,775**	**8,259**	**14,429**	(1,153)
Utilised in the year	**(35,124)**	**(732)**	**(1,644)**	**(4,621)**	**(42,121)**	(21,209)
Balance at 31 December	**45,310**	**683**	**26,893**	**9,286**	**82,172**	109,864

19. PROVISIONS CONTINUED

PROVISION FOR UNDERTAKINGS GIVEN TO INSOLVENT MEMBERS

The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. For those corporate members in provisional liquidation, the Council has also provided a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding-up commencing on the date of the provisional liquidation.

	2009 £000	2009 £000	2008 £000	2008 £000
Provisions for amounts payable at 1 January		**93,049**		123,186
Undertakings released in the year (note 4)		**(12,615)**		(14,586)
Analysis of paid undertakings by member:				
Crowe Corporate Capital Limited	**(3,971)**		(2,520)	
Crowe Dedicated Limited	**(2,270)**		(921)	
Dreason Underwriting Limited	**–**		(80)	
Duncanson & Holt Underwriters Limited	**(2,073)**		–	
Euclidian (No 6) Ltd	**(632)**		(9,012)	
Grenville Underwriting I/II/III Limited	**–**		(644)	
Kite Dedicated Capital Limited (formerly Goshawk Dedicated (No 2) Limited)	**(25,575)**		–	
Margent Capital Management	**(99)**		(117)	
SOC Corporate Member No.1 Limited	**–**		(910)	
SOC Corporate Member No.3 Limited	**–**		(456)	
SCC at Lloyd's Ltd	**(34)**		(146)	
Winford Company Limited	**(8)**		(57)	
Other corporate members	**(462)**		(688)	
Paid during the year		**(35,124)**		(15,551)
Undertakings given to insolvent members at 31 December		**45,310**		93,049

The aggregate amount of all undertakings (excluding the supporting commitments) given by the Council at 31 December 2009 was £1.3bn of which £1.3bn had been paid by that date.

LIMITED FINANCIAL ASSISTANCE AGREEMENTS (LFAAs)

The first LFAA were provided to individual members in 2005 to meet their outstanding underwriting liabilities. Further LFAAs were provided in 2009. Assistance is provided to individuals who are reliant on their Funds at Lloyd's (FAL) either because it is in the form of a bank guarantee secured on their sole residence or because they are reliant on the income generated by their FAL. All costs are funded by the New Central Fund.

INCOME SUPPORT SCHEMES

Hardship income top-up scheme

The Hardship Scheme was created in 1989 to assist individual members who had reduced means as a result of high underwriting losses. Members in the Scheme are eligible to receive ex-gratia top-up income payments from Lloyd's by virtue of having a Hardship Trust Fund (HTF) or having been awarded litigation recoveries used in 'Reconstruction and Renewal' to pay Equitas premiums. The Hardship Scheme is permanent and non-discretionary, but the granting of Hardship Income Top-up payments is at Lloyd's discretion. All costs are currently funded by the 'Old' Central Fund.

Income and Housing Support Scheme (IHSS Scheme)

The IHSS Scheme was established in 1996 to provide financial assistance to individual members who accepted the 'Reconstruction and Renewal' Settlement offer, to ensure that their housing and income requirements were maintained at a reasonable level. The payments under the scheme are discretionary and are currently funded by the 'Old' Central Fund.

Income Assistance Scheme

The Income Assistance Scheme is effective from 1 January 2010 and replaces both the Hardship Income Top-up payments and the IHSS. The Income Assistance Scheme is permanent, replacing the discretionary nature of the previous schemes, and guarantees ongoing payment other than in the event that Lloyd's faces severe financial stress.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

19. PROVISIONS CONTINUED

LLOYD'S PERFORMANCE PLAN (LPP)

The Society introduced a performance plan for all employees, effective from 1 January 2008 that is related to the results of the Lloyd's market. Details of the plan and the transitional arrangements for executive directors and senior employees are outlined in the report of the Nominations, Appointments and Compensation Committee on pages 85 to 93. Included within the charge for the year and provision utilised are National Insurance contributions of £0.8m (2008: £0.7m).

20. TRADE AND OTHER PAYABLES

	2009 £000	2008 £000
Due within one year:		
Trade and other creditors	**26,172**	32,804
Members' subscriptions and contributions repayable	**26,007**	19,565
Taxation and social security	**1,871**	2,198
Arbitration awards	**2,380**	3,420
Contribution to Equitas – Berkshire Hathaway transaction	**–**	18,000
Interest payable on subordinated loan notes	**21,668**	24,479
	78,098	100,466

21. FINANCIAL INSTRUMENTS

Explanation of the Society's financial instrument risk management objectives, policies and strategies are set out in the discussion of the Society's financial risk management and treasury policies on pages 100 and 101 of the Financial Review.

FAIR VALUES AND CREDIT RISK

The methods and assumptions used in estimating the fair value of financial instruments are detailed in note 2F on pages 110-111.

The fair value (based on the quoted offer prices) of subordinated debt is £938m (2008: £743.8m) against a carrying value measured at amortised cost of £958.1m (2008: £1,082.0m). All other financial instruments are either held at fair value or at an amount that approximates fair value.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, in the group statement of financial position. Exposures under guarantees entered into by the Society are detailed in note 25.

IMPAIRMENT LOSSES

Trade receivables

The ageing of trade receivables as at 31 December 2009 was as follows:

	2009 Gross £000	2009 Impairment £000	2009 Net £000	2008 Gross £000	2008 Impairment £000	2008 Net £000
Not past due	**1,637**	**–**	**1,637**	15,639	–	15,639
Past due 31-120 days	**854**	**–**	**854**	415	(10)	405
More than 120 days	**911**	**(828)**	**83**	1,350	(1,293)	57
Total	**3,402**	**(828)**	**2,574**	17,404	(1,303)	16,101

The Society's normal credit terms are 30 days.

Receivables of more than 120 days represent amounts due from members no longer underwriting in respect of Society charges.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2009 £000	2008 £000
Balance at 1 January	**1,303**	1,585
Additional allowances during the year charged to the group income statement	**216**	257
Allowances released during the year credited to the group income statement	**(357)**	(520)
Recoveries during the year	**(334)**	(19)
Balance at 31 December	**828**	1,303

21. FINANCIAL INSTRUMENTS CONTINUED

SENSITIVITY ANALYSIS

Foreign currency exposure

Currency risk is the risk that the sterling value of the Society's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Society's exposure to the risk of changes in the foreign exchange rates relates primarily to retranslating foreign currency subordinated notes and perpetual subordinated capital securities, revaluation of loans recoverable and changes in the fair value of foreign currency denominated investments and forward contracts.

Debt securities sensitivities

The value of the Society's investments in debt securities is affected by changes in the level of yields, as determined by the financial markets. As at 31 December 2009, a consistent increase of 100 basis points in the yields applicable to all relevant securities would have reduced the surplus before tax by approximately £66m (2008: £99m). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ.

Equity price risk

Equity price risk is the risk that the market values of equity investments fall. At 31 December 2009, a 15% fall in the value of all the Society's equity investments would have reduced the surplus before tax by approximately £31m (2008: £23m). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ.

LIQUIDITY RISK

The table below summarises the maturity profile of the Society's non-derivative financial liabilities as at 31 December 2009 based on undiscounted contractual cash flows:

As at 31 December 2009	Carrying amount £000	Contractual cash flows £000	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Subordinated loan notes	**521,061**	**(1,043,939)**	**(33,254)**	**(33,254)**	**(99,762)**	**(877,669)**
Perpetual subordinated capital securities	**437,014**	**(701,807)**	**(32,680)**	**(32,680)**	**(98,039)**	**(538,408)**
Loans funding statutory insurance deposits	**166,692**	**(166,692)**	**(166,692)**	**–**	**–**	**–**
Trade and other payables	**78,101**	**(78,101)**	**(78,101)**	**–**	**–**	**–**
	1,202,868	**(1,990,539)**	**(310,727)**	**(65,934)**	**(197,801)**	**(1,416,077)**

As at 31 December 2008	Carrying amount £000	Contractual cash flows £000	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Subordinated loan notes	585,828	(1,201,669)	(36,939)	(36,939)	(110,817)	(1,016,974)
Perpetual subordinated capital securities	496,195	(833,945)	(37,105)	(37,105)	(111,315)	(648,420)
Loans funding statutory insurance deposits	148,310	(148,310)	(148,310)	–	–	–
Trade and other payables	100,466	(100,466)	(100,466)	–	–	–
	1,330,799	(2,284,390)	(322,820)	(74,044)	(222,132)	(1,665,394)

Forward currency contracts are settled gross; notional amounts are a close proxy for gross cash flow amounts. Further details regarding the subordinated loan notes and the perpetual subordinated capital securities can be found in note 17 on page 129-130. Information regarding financial guarantees, all of which could theoretically be called on within one year, can be found in note 25 on page 139.

DERIVATIVE FINANCIAL INSTRUMENTS

The Society enters into forward currency contracts to manage exposures to fluctuation of exchange rates and to provide a service to the Lloyd's market. The Society's derivative financial instruments are categorised as fair value Level 2 for disclosure purposes.

Analysis of forward currency contracts:	**2009 £000**	2008 £000
Outstanding forward foreign exchange gains	**24,722**	32,646
Outstanding forward foreign exchange losses	**(12,872)**	(79,966)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

21. FINANCIAL INSTRUMENTS CONTINUED

DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

The fair value and notional amounts of forward currency contracts, all of which mature within one year, are analysed as follows:

	2009	2009	2009	2009
	Assets		Liabilities	
As at 31 December 2009	Fair value £000	Notional £000	Fair value £000	Notional £000
Currency Conversion Service (CCS)	**4,115**	**207,310**	**(3,497)**	**(206,692)**
Other forward foreign exchange contracts	**20,607**	**920,479**	**(9,375)**	**(909,247)**
	24,722	**1,127,789**	**(12,872)**	**(1,115,939)**

	2008	2008	2008	2008
	Assets		Liabilities	
As at 31 December 2008	Fair value £000	Notional £000	Fair value £000	Notional £000
Currency Conversion Service (CCS)	10,312	182,394	(9,974)	(182,056)
Other forward foreign exchange contracts	22,334	835,836	(69,992)	(883,494)
	32,646	1,018,230	(79,966)	(1,065,550)

22. EQUITY

ACCUMULATED RESERVES

	2009 £000	2008 £000
Attributable to:		
Corporation of Lloyd's and non-insurance related subsidiary undertakings	**75,135**	72,442
Central Fund	**983,269**	852,384
Insurance related subsidiary undertakings	**49,338**	47,978
Associates	**6,303**	6,465
	1,114,045	979,269

REVALUATION RESERVE

The revaluation reserve is used to record increases in the fair value of the Lloyd's Collection and decreases to the extent that such decreases relate to the amount previously recognised in the group statement of comprehensive income.

23. COMMITMENTS

A. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure commitments contracted but not provided in the accounts totalled £5,900,000 (2008: £640,000).

B. OPERATING LEASE COMMITMENTS

	2009 £000	2008 £000
Non-cancellable operating lease rentals are payable as follows:		
Within one year	**23,746**	23,272
After one year but not more than five years	**80,103**	80,125
More than five years	**123,774**	136,403

Commitments outstanding under the terms of the lease for the Lloyd's 1986 building have been included at the current rental value (£16.8m per annum) to the first break of the lease in 2021. The lease was subject to a rent review in March 2006, the next review will be during 2011. The new Lloyd's Chatham building is included at the current rental value (£0.4m per annum) to the first break in the lease in 2016. The lease will be subject to a rent review in 2011.

Subsidiary undertakings are party to a number of small operating leases mainly for property rental and small machinery. The commitments outstanding have been included at the current rental value to the first break in the lease. These arrangements do not impose any significant restrictions on the Society.

During the year ended 31 December 2009, £23.1m (2008: £19.8m) was recognised as an expense in the group income statement in respect of operating leases.

24. DISCLOSURE OF RELATED PARTY TRANSACTIONS

The group financial statements include the financial statements of the Society and all of its subsidiary undertakings, the Lloyd's Central Fund and the group's interests in its associates as listed in note 11.

Services provided to Ins-sure Holdings Limited group in the year ended 31 December 2009 included operating systems support and development, premises and other administrative services. The total value of the services provided was £313,000 (2008: £631,000). In addition, Ins-sure Holdings Limited group charged the Society £1,673,000 for services provided in the same year (2008: £2,069,000).

At 31 December 2009, there was a balance of £4,000 (2008: £90,000) owing from Ins-sure Holdings Limited group to the Society.

Services provided to Xchanging Claims Services Limited group in the year ended 31 December 2009 included premises and other administrative services.

The total value of the services provided was £117,000 (2008: £113,000).

At 31 December 2009, there was a balance of £16,000 (2008: £8,000) owing from Xchanging Claims Services Limited group to the Society.

Transactions with associates are priced on an arm's length basis.

A member of Council, Rupert Atkin, is also a Director of Shrewsbury Underwriting Capital (Bermuda) Limited and Shrewsbury Underwriting Capital Limited. These companies benefited from undertakings given by the Council in 2008 to meet unpaid cash calls. No amounts were paid under these undertakings, which were released by the Council in March 2009.

In the normal course of business, the Society may enter into transactions with Lloyd's market businesses in which members of Council and the Franchise Board may have an interest. Such transactions are on an arm's length basis.

25. CONTINGENT LIABILITIES

(a) General average guarantees have been given on behalf of, and secured by, Lloyd's underwriters. It is estimated that the aggregate of the liabilities attaching to these guarantees at 31 December 2009 amounted to £26.0m (31 December 2008: £22.6m).

(b) The Society has taken on the responsibilities of some individual members under hardship and other agreements.

In connection with the statutory transfer to Equitas Insurance Limited on 30 June 2009 of the non-life business underwritten at Lloyd's and allocated to 1992 or prior years of account, the Society has entered into undertakings for the benefit of certain policyholders of Equitas Insurance Limited (former policyholders of PCW syndicates or of members who at the material time still have the benefit of hardship or other agreements with the Society), under which the Society would meet any shortfall in recoveries by such policyholders from Equitas Insurance Limited on the occurrence of an 'Equitas Insolvency Event'.

The Society has also given an unlimited undertaking to its subsidiary undertaking Centrewrite Limited to meet any shortfall in its cashflow or assets (including any shortfall arising from an insufficiency of recoveries from Equitas Reinsurance Limited under its reinsurance of the obligations of Centrewrite to Equitas Insurance Limited).

(c) Uncollateralised bank guarantees and other arrangements have been entered into by the Society and its subsidiary undertaking, Additional Securities Limited, to provide security in connection with the underwriting activities of the members of Lloyd's in the countries shown:

	2009 £000	2008 £000
Guarantees provided by the Society:		
USA: US$1,500,000 (2008: US$1,500,000)	**929**	1,043
Guarantees provided by the Society including Additional Securities Limited:		
Cayman Islands: Letter of credit US$1,250,000 (2008: US$1,250,000)	**774**	869

(d) In Quebec, proceedings have been issued by Agence Nationale D'Encadrement Du Secteur Financier as the regulator of the Quebec policyholder protection fund, by 91 alleged insureds and by one intermediary who was offering extended warranty programs to automobile dealers against the Society and other parties arising out of the issue by a coverholder of purported 'policies of insurance' without the authority of a Lloyd's syndicate. The Society does not accept any liability in respect of this action.

In respect of all contingent liabilities disclosed as at 31 December 2009, no provision has been made in the Society financial statements as the Society does not accept any liability in respect of any of the claims.

FIVE YEAR SUMMARY

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Operating income	**195,043**	177,542	177,853	171,498	162,353
Central Fund contributions	**99,687**	84,294	168,346	152,226	70,077
General insurance net premium income	**6,992**	37,937	2,046	2,834	2,769
Other group income	**52,048**	32,397	81,478	23,477	18,637
Total income	**353,770**	332,170	429,723	350,035	253,836
Central Fund claims and provisions released/(incurred)	**19,586**	6,349	18,208	(115,735)	(223,889)
Contribution to Equitas – Berkshire Hathaway transaction	**–**	–	(90,000)	–	–
Gross insurance claims (incurred)/released	**(6,714)**	(77,314)	16,330	(55,461)	(30,039)
Insurance claims recoverable from/(payable to) reinsurers	**302**	42,806	(17,041)	56,804	29,844
Other group operating expenses:					
Employment (including pension costs)	**(92,030)**	(86,491)	(82,752)	(72,996)	(72,201)
Premises	**(39,056)**	(36,637)	(35,371)	(34,629)	(32,074)
Legal and professional	**(19,089)**	(16,944)	(16,580)	(18,442)	(21,596)
System and communications	**(21,936)**	(21,267)	(19,293)	(20,394)	(23,608)
Other	**(67,951)**	(26,364)	(33,827)	(24,334)	(22,618)
Total other group operating expenses	**(240,062)**	(187,703)	(187,823)	(170,795)	(172,097)
Surplus/(deficit) before finance, associates and tax	**126,882**	116,308	169,397	64,848	(142,345)
Finance costs	**(69,345)**	(74,405)	(53,752)	(32,921)	(39,951)
Finance income – surplus on subordinated debt repurchase	**36,205**	–	–	–	–
Finance income	**79,555**	165,008	128,468	52,942	129,033
Unrealised exchange gains/(losses) on borrowings	**23,003**	(69,233)	(18,059)	3,842	6,298
Share of profits of associates	**3,363**	3,930	4,395	1,867	2,006
Surplus/(deficit) before tax	**199,663**	141,608	230,449	90,578	(44,959)
Tax (charge)/credit	**(56,596)**	(39,620)	(65,994)	(7,012)	17,343
Surplus/(deficit) for the year	**143,067**	101,988	164,455	83,566	(27,616)

MANAGING AGENTS AND SYNDICATES

The table shows the key characteristics for managing agents and syndicates active as at 31 December 2009. In 2009, Lloyd's wrote gross premiums of £21,973m.

Managing agent	Managed syndicate(s)	2009 GWP* £m	2008 GWP* £m	Owned share of syndicate(s) %
ACE Underwriting Agencies Limited	2488	**400**	437	100
Advent Underwriting Limited	0780	**175**	163	100
AEGIS Managing Agency Limited	1225	**298**	246	100
Amlin Underwriting Limited	2001	**1,076**	842	100
	6106	**44**	–	0
Arch Underwriting at Lloyd's Ltd	2012	**33**	–	100
Argenta Syndicate Management Limited	1965	**17**	12	0
	2121	**161**	132	27
Argo Managing Agency Limited	1200	**530**	409	84
Ark Syndicate Management Limited	4020	**310**	226	99
	6105	**31**	23	0
Ascot Underwriting Limited	1414	**602**	506	100
Aspen Managing Agency Limited	4711	**148**	78	100
Atrium Underwriters Limited	0570	**145**	133	25
	0609	**239**	194	26
Beaufort Underwriting Agency Limited	0318	**183**	159	72
	1318	**16**	–	100
Beazley Furlonge Limited	0623	**236**	197	6
	2623	**1,006**	837	100
	Life 3622	**7**	–	100
	3623	**173**	0	100
Brit Syndicates Limited	2987	**897**	714	100
Canopius Managing Agents Limited	4444	**675**	484	93
Cathedral Underwriting Limited	2010	**282**	229	58
	3010	**23**	16	100
Catlin Underwriting Agencies Limited	2003	**1,604**	1,318	100
	Life 3002	**1**	–	100
Chaucer Syndicates Limited	1084	**799**	642	95
	1176	**28**	26	55
	1274	**191**	150	0
	1301	**91**	78	0
	4242	**78**	64	14
Equity Syndicate Management Limited	0218	**635**	555	64
Faraday Underwriting Limited	0435	**304**	258	100
Hardy (Underwriting Agencies) Limited	0382	**238**	116	100
HCC Underwriting Agency Ltd	4040	**38**	47	87
	4141	**26**	19	100
Hiscox Syndicates Limited	0033	**1,034**	885	73
	3624	**68**	–	100
	6104	**35**	23	0
Jubilee Managing Agency Limited	Life 0779	**33**	34	14
	1231	**49**	47	100
	5820	**98**	56	100
KGM Underwriting Agencies Limited	0260	**79**	63	57
Liberty Syndicate Management Limited	4472	**1,025**	951	100
Managing Agency Partners Limited	2791	**325**	282	36
	6103	**30**	16	0
Markel Syndicate Management Limited	3000	**275**	238	100
Marketform Managing Agency Limited	2468	**149**	122	61
Marlborough Underwriting Agency Limited	1861	**93**	80	100

MANAGING AGENTS AND SYNDICATES CONTINUED

Managing agent	Managed syndicate(s)	2009 GWP* £m	2008 GWP* £m	Owned share of syndicate(s) %
Max at Lloyd's Ltd	1400	**71**	48	100
	2525	**38**	43	2
	2526	**37**	30	36
Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited	3210	**331**	353	100
Montpelier Underwriting Agencies Limited	5151	**109**	62	100
Munich Re Underwriting Limited	0457	**366**	333	100
Navigators Underwriting Agency Limited	1221	**201**	174	100
Newline Underwriting Management Limited	1218	**117**	104	100
Novae Syndicates Limited	2007	**356**	315	94
Omega Underwriting Agents Limited	0958	**325**	329	16
Pembroke Managing Agency Limited	4000	**113**	66	100
QBE Underwriting Limited	0386	**417**	412	70
	2999	**1,040**	852	100
R.J. Kiln & Co. Limited	Life 0308	**18**	15	50
	0510	**925**	757	53
	0557	**51**	38	0
	0807	**154**	126	51
	1880	**131**	–	100
Renaissance Re Syndicate Management Ltd	1458	**11**	–	100
	2112	**20**	14	0
RITC Syndicate Management Limited	5678	**0**	1	100
S.A. Meacock & Company Limited	0727	**126**	68	10
Sagicor at Lloyd's Limited	Life 0044	**3**	1	100
	1206	**219**	127	100
Shelbourne Syndicate Services Limited	2008	**37**	221	100
Sportscover Underwriting Limited	3334	**22**	15	68
Starr Managing Agents Limited	1919	**328**	233	100
	2243	**41**	32	0
Talbot Underwriting Ltd	1183	**586**	383	100
Travelers Syndicate Management Limited	5000	**380**	320	100
Whittington Capital Management Ltd	1910	**118**	90	0
	1955	**141**	66	0
	1967	**16**	–	0
XL London Market Ltd	1209	**266**	265	100
All other syndicates and RITC adjustment		**(174)**	(15)	
Total		**21,973**	17,985	

As at 31 December 2009.

Name changes and managing agent changes during 2009 or after:
Spectrum Syndicate Management Limited changed to Renaissance Re Syndicate Management Ltd
Syndicate 1274, previously managed by Chaucer Syndicates Limited, transferred to Antares Managing Agency Ltd

AS AT 1 MARCH 2009

The following syndicates commenced trading for the 2010 year of account:
Argenta Syndicate Management Limited 1110
Beaufort Underwriting Agency Limited 2318
Beazley Furlonge Limited 6107
Marlborough Underwriting Agency Limited 1969

The following syndicates ceased trading at 31 December 2009:
Renaissance Re Syndicate Management Ltd 2112

GLOSSARY OF TERMS

Set out below is a guide to insurance and Lloyd's-related terms. These are not precise definitions but are included to provide assistance to readers as to the general meaning of terms commonly used in the Lloyd's market. Formal definitions are set out in the Definitions Byelaw.

ACCIDENT YEAR RATIO
The accident year ratio is calculated as expenses and incurred losses (paid and reserves) for claims occurring in the year as a proportion of net premiums earned during the year. It excludes movements during the calendar year on claims, expenses and premium estimates for previous years.

ACTIVE UNDERWRITER
A person employed by a managing agent with principal authority to accept insurance and reinsurance risks on behalf of the members of a syndicate.

BINDING AUTHORITY
An agreement between a Lloyd's managing agent and a coverholder under which the Lloyd's managing agent delegates its authority to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate.

CALENDAR YEAR RATIO
This is the combined ratio (see below) and is the sum of the accident year ratio (see above) and the prior years' reserve movements (see below).

CALLABLE LAYER
Central Fund assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds.

CAPACITY
In relation to a member, it is the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate it is the aggregate of each member's capacity allocated to that syndicate.

CENTRAL ASSETS
The net assets of the Society including the Central Fund, but excluding the subordinated debt liability and the callable layer.

CENTRAL FUND
The fund financed by (among other things) contributions from Lloyd's members and administered by the Council primarily as a fund for the protection of policyholders and includes both the 'Old' Central Fund and the New Central Fund.

COMBINED RATIO
A measure of an insurer's underwriting profitability based on the ratio of net incurred claims plus net operating expenses to net earned premiums. A combined ratio of 100% is break even (before taking into account investment returns). A ratio less than 100% is an underwriting profit.

CORPORATE MEMBER
A company incorporated with limited liability, a Scottish limited partnership or a limited liability partnership, admitted to membership of the Society.

COUNCIL
Created by Lloyd's Act 1982, the Council has the management and superintendence of the affairs of the Society and the power to regulate and direct the business of insurance at Lloyd's.

COVERHOLDER
A firm either in the UK or overseas that is authorised by a managing agent under the terms of a binding authority to enter into contracts of insurance to be underwritten by members of a syndicate managed by the managing agent. A Lloyd's broker may act as a coverholder.

FINANCIAL SERVICES AUTHORITY (FSA)
The body that regulates the financial services industry in the UK.

FRANCHISE BOARD
The board established by the Council with responsibility for creating and maintaining a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised. This includes setting the risk management framework and profitability targets for the market.

FUNDS AT LLOYD'S (FAL)
Capital lodged and held in trust at Lloyd's as security for the policyholders and to support a member's overall underwriting business.

GROSS WRITTEN PREMIUMS (GWP)
Written insurance premiums, gross of reinsurance and acquisition costs.

INTEGRATED LLOYD'S VEHICLE (ILV)
An arrangement in which a syndicate's capital is wholly provided by corporate members that are under the same ownership and control as the syndicate's managing agent.

MANAGING AGENT
An underwriting agent responsible for managing a syndicate, or multiple syndicates.

MEMBER (OF THE SOCIETY)
A person admitted to membership of the Society.

NAME
A member of the Society who is an individual and who trades on an unlimited basis.

NEW CENTRAL FUND
The New Central Fund constituted by and governed by the New Central Fund Byelaw (No. 23 of 1996).

PREMIUMS TRUST FUNDS (PTF)
The premiums and other monies that members receive in respect of their underwriting at Lloyd's are held by their managing agents in trust for them subject to the discharge of their underwriting liabilities.

The premiums trust funds comprise a sterling fund, Lloyd's American Trust Fund, Lloyd's Dollar Trust Funds, Lloyd's Canadian Trust Fund and the Lloyd's Asia trust funds (which cover general business written through coverholders in Singapore). These premiums trust funds are available to fund overseas regulatory deposits, claims, return premiums, underwriting expenses and any profit that is payable to the member after providing for all future liabilities.

PRIOR YEARS' RESERVE MOVEMENTS
This is calculated as movements in reserves established for claims that occurred in previous accident years as a proportion of net premiums earned during the year.

REALISTIC DISASTER SCENARIOS (RDS)
A series of scenarios, both natural and man-made, which are used to assess the market's risk profile to a variety of different catastrophes to enable better risk management practices within Lloyd's.

GLOSSARY OF TERMS CONTINUED

REINSURANCE TO CLOSE (RITC)
A reinsurance agreement under which members of a syndicate for a year of account to be closed are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.

REINSURANCE TO CLOSE (RITC) SYNDICATE
A syndicate set up solely to underwrite the Reinsurance to Close of other syndicates.

SERVICE COMPANY
A service company means an approved coverholder that (a) is associated with a managing agent by reason of it being a wholly owned subsidary of the managing agent; or being a wholly owned subsidary of the managing agent's holding company; or such other matters as the Franchise Board may determine in any particular case or generally; and (b) will be authorised by its associated managing agent to enter into contract(s) of insurance to be underwritten only by members of a syndicate managed by the associated managing agent or an insurance company which is a member of the same corporate group.

SPECIAL PURPOSE SYNDICATE (SPS)
A syndicate set up solely to underwrite a quota share reinsurance of another syndicate's business for a year of account.

SPREAD SYNDICATE
A syndicate whose capital is provided by a number of different members, including members that have separate ownership and control to the syndicate's managing agent.

SPREAD VEHICLE
A corporate member underwriting on a number of different syndicates.

SYNDICATE
A member, or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.

TIER 1 CAPITAL
The core measure of an insurer's financial strength from the viewpoint of the FSA. It consists of the most reliable and liquid assets. The perpetual securities issued in 2007 qualify as tier 1 capital as the proceeds of the debt issue are fully paid and immediately available; debt holders are sub-ordinate to payment of claims.

TRADITIONAL SYNDICATE
A syndicate whose members underwrite insurance business at Lloyd's for the current year of account and which is neither an SPS syndicate or an RITC syndicate.

YEAR OF ACCOUNT
The year to which a risk is allocated and to which all premiums and claims in respect of that risk are attributed. The year of account of a risk is usually determined by the calendar year in which the risk incepts. A year of account is normally closed by reinsurance at the end of 36 months.

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

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