

REINSURANCE

 See page 53

PROPERTY

 See page 54

CASUALTY

 See page 55

MARINE

 See page 56

ENERGY

 See page 57

MOTOR

 See page 58

AVIATION

 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

REINSURANCE	1,245
PROPERTY	292
CASUALTY	316
MARINE	147
ENERGY	157
MOTOR	(83)
AVIATION	10
LIFE	1

COMBINED RATIO BY CLASS

%

REINSURANCE	78.4
PROPERTY	92.4
CASUALTY	90.8
MARINE	88.7
ENERGY	84.1
MOTOR	108.4
AVIATION	97.1
LIFE	98.1

* The combined ratio for the market and by class of business is the ratio of net incurred claims and net operating expenses to net earned premiums. The prior year reserve movement represents the ratio of the surplus/deficit arising on reserves at December 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

2008	17,985
RATE CHANGE AND NEW BUSINESS	1,489
FOREIGN EXCHANGE MOVEMENTS	2,499
2009	21,973

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.

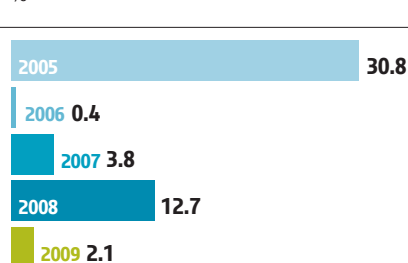
While the Atlantic windstorm season was benign, there were a number of catastrophe losses in 2009. There were 850 events reported as natural catastrophes in 2009 compared to a ten-year average of 770. European Windstorm Klaus was the largest event with estimated insured losses of US\$3.3bn. The next 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).

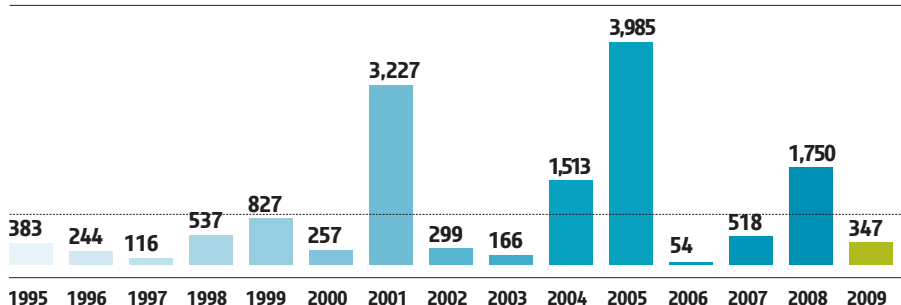
REINSURANCE PROTECTION

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.

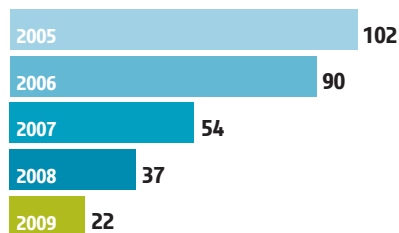
PRIOR YEAR RESERVE MOVEMENT

%



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

2005	5,261
2006	5,557
2007	5,453
2008	6,298
2009	7,989

COMBINED RATIO %

2005	135.1
2006	80.8
2007	81.7
2008	83.8
2009	78.4

UNDERWRITING RESULT £m

2005	(1,307)
2006	802
2007	790
2008	734
2009	1,245

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

2005	3,199
2006	3,638
2007	3,809
2008	3,971
2009	4,954

COMBINED RATIO

%

2005	118.5
2006	81.9
2007	86.3
2008	96.7
2009	92.4

UNDERWRITING RESULT

£m

2005	(457)
2006	495
2007	408
2008	103
2009	292

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

2005	3,402
2006	3,572
2007	3,364
2008	3,762
2009	4,320

COMBINED RATIO

%

2005	93.9
2006	89.0
2007	92.7
2008	95.1
2009	90.8

UNDERWRITING RESULT

£m

2005	179
2006	327
2007	205
2008	148
2009	316

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

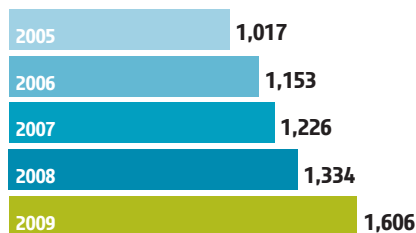
- > Claims activity has been relatively light
- > Recessionary environment adversely impacts trading conditions
- > Industry over-capacity threatens ongoing profitability

2009 COMBINED RATIO

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

GROSS WRITTEN PREMIUM

£m



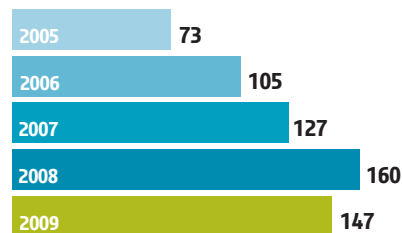
COMBINED RATIO

%



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

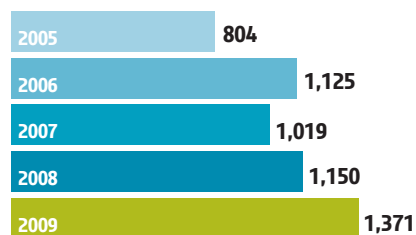
- > No major Gulf of Mexico storms
- > Large risk losses offset strong US performance

2009 COMBINED RATIO

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

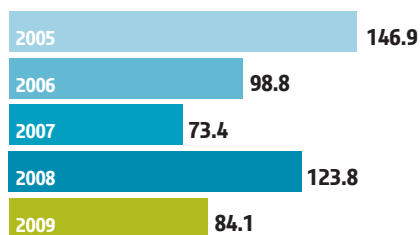
GROSS WRITTEN PREMIUM

£m



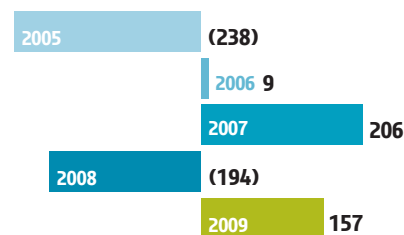
COMBINED RATIO

%



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

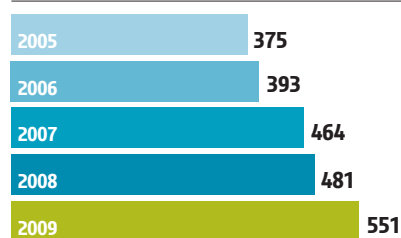
- > Recessionary pressures on airline industry
- > Over capacity further limits ability to restore rating levels

2009 COMBINED RATIO

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

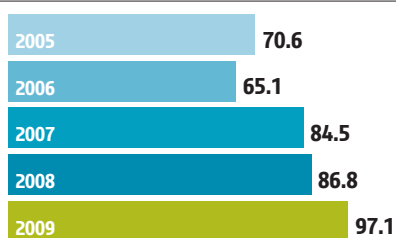
GROSS WRITTEN PREMIUM

£m



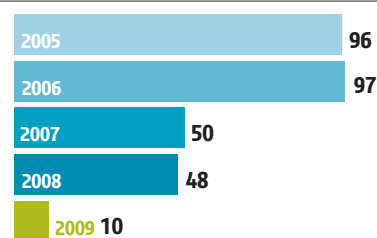
COMBINED RATIO

%



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.