MARKET PERFORMANCE

2014 Highlights

- Profit before tax of £3,161m (2013: £3,205m) and a combined ratio of 88.1% (2013: 86.8%).
- Total investment return of £1,045m (2013: £839m).
- Overall surplus on prior years of £1,571m (2013: £1,575m).
- Pre-tax return on capital of 14.7% (2013: 16.2%).

Underwriting result by class

£m	
Reinsurance	1,250
Property	577
Casualty	81
Marine	85
Energy	189
Motor	(69)
Aviation	(8)
Life	5

Combined ratio by class*

%	
Reinsurance	81.3
Property	87.4
Casualty	97.9
Marine	95.2
Energy	82.7
Motor	106.4
Aviation	102.1
Life	93.2

* 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 set at December 2013 to overall net earned premiums in calendar year 2014. 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 61 and 65)

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 underwriting results and combined ratio tables include the results of all life and non-life syndicates transacting business during 2014. 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 have been reported in the segmental analysis, note 9 on page 66.

The Lloyd's market achieved a pre-tax profit of £3,161m in 2014 (2013: £3,205m) and a combined ratio of 88.1% (2013: 86.8%), which represents a return on capital of 14.7% (2013:16.2%).

2014 witnessed some sizeable risk losses, notably the tragic events impacting the aviation sector, yet in aggregate major claims and insured catastrophe events fell below the long-term average. The underwriting result also benefited from prior year releases which accounted for £1,571m (2013: £1,575m), reducing the combined ratio by 8.0% (2013: 8.0%). This level of release was achieved by actual claims development across all prior years remaining below projected levels, supported by the strong level of claims reserves. Investment return remained low at 2.0%, but marked an improvement on the return of 1.6% achieved in 2013.

On an accident year basis, underwriting performance reflected challenging market conditions with a combined ratio greater than 100% reported in some of Lloyd's core classes.

The year saw widespread softening across the market. Competition intensified on the reinsurance side with more capital attracted to the industry, including from alternative markets. Aside from the rating environment, profitable growth opportunities were also constrained by weaknesses in the global economy.

Looking ahead

Overall, 2014 performed better than expected but it was a far from 'normal' year in terms of catastrophe losses. Had aggregate catastrophe claims been more in line with the longer-term average, Lloyd's accident year result could have moved into overall loss. With the global (re)insurance market also performing well, there continued to be a surplus of industry capital. The impact of this has already surfaced in the January 2015 renewals which again saw large reductions in several core lines of business. This trend is likely to continue as 2015 progresses with the potential for alternative capital to increase and widen beyond property catastrophe reinsurance. The capital markets see insurance, particularly the incidence of natural catastrophes, as a diversifying asset class with relatively attractive returns. This will drive further downward pressure on rates, terms and conditions, and coverage.

The global economy is likely to remain fragile, particularly in the Eurozone, and this is expected to prolong the low interest rate environment. The political landscape remains in a state of heightened uncertainty with tensions continuing to build in Russia/Ukraine and the threat of the Islamic State escalating and expanding in the Middle East and beyond. The social and economic impact of the Ebola outbreak in West Africa and the threat of systemic cyber attacks also rank high on the list of potential concerns.

In the prevailing marketplace, syndicates will need to be increasingly nimble and innovative with a willingness to embrace transformational change, not least in distribution and new market business development. Of paramount importance is the need for syndicates to maintain underwriting discipline and constantly to review and re-underwrite their books as required.

2014 performance

Gross written premium for the year reduced to £25,283m compared with £25,615m in 2013. US dollar denominated business accounts for the largest share of business at Lloyd's. The average exchange rate in 2014 was US$1.65:£1 compared with US$1.56:£1 in 2013. Adjusting for the impact of exchange rate movements shows an increase in gross written premium of 2.1%

The year-on-year growth in premium income in underlying currency was less than originally planned by the syndicates. This reflected the softer than expected rating environment in the aggregate risk-adjusted rate which saw a 3.3% decrease on renewal business. With industry capital growth continuing to outstrip growth in global insurance demand, the general competitive environment intensified in most lines. Aside from rate reductions, some weakening in other terms and conditions, and the widening of coverage was also evident.

During the year, there continued to be growth in casualty classes and other speciality lines in the Lloyd's market. Meanwhile contraction was evident in some catastrophe classes, notably property treaty, as a result of growing competitive pressure. Fuelled by the influx of capacity from alternative capital providers, and a period of relatively benign loss activity, property catastrophe reinsurance continued to record the most noticeable downward movement in rates. Even in classes impacted by large losses, such as aviation, the ready supply of capacity only dampened the momentum for a sustained improvement as the market moved swiftly to access any possible opportunities. These reductions should be taken in context, since rating levels are relatively high in a number of classes by historic standards. In addition, syndicates benefit from this movement when purchasing their own outward reinsurance.

The underlying accident year ratio, excluding major claims, was 92.7% (2013: 90.4%) which is the highest level since 2002. Excluding the classes where catastrophe experience is a key driver of the results for any one year, marginal results and in some cases losses, were reported in 2014 reflecting the challenging market conditions.

Major claims

For the Lloyd's market, major claims were £670m in 2014 (2013: £873m), net of reinsurance and including reinstatements payable and receivable. This total includes severe 'man-made' major claims, including aviation. In terms of natural catastrophe events giving rise to large insurance claims, 2014 was below the long-term average.

This was particularly evident in the Gulf of Mexico where hurricane activity was again muted.

Analysis of exchange gain/(loss)

	2014 £m	2013 £m
Impact of translating non-monetary items at average rates and monetary items at closing rates	82	(120)
Accident year – Other	(13)	48
Prior years	(64)	(150)
Gain/(loss) on exchange reported in P&L	5	(222)
Gain/(loss) within premiums/expenses through reversal of exchange movement reported in previous year	120	37
Total	125	(185)

The largest insured natural catastrophe was Hurricane Odile, which swept across the Baja California peninsula in Mexico in September, impacting a number of mainly property-related treaty and facultative accounts. Other natural catastrophe events included the severe hail and tornado losses in Nebraska in June and the snowstorms in Japan in February and December.

Man-made loss activity was mostly within the aviation market which experienced a series of large, unusual and high profile claims. These included the tragic loss of two Malaysia Airlines passenger jets (Flight MH370 and Flight MH17) in separate and uncommon circumstances and substantial claims arising from the fighting at Libya's Tripoli Airport, which began in July 2014 and destroyed or severely damaged multiple aircraft over the course of the following months. The aggregate net claims to Lloyd's for these events totalled £310m, net of reinsurance.

Prior year movement

The combined ratio has been reduced by 8.0% (2013: 8.0%) through material prior year reserve releases. The release represents 5.5% (2013: 5.3%) of net claims reserves brought forward at 1 January.

This was the tenth successive year of prior year surpluses. Reserving is directly influenced by market conditions and actual experience. The strong level of claims reserves continues to support the releases that have been seen. Actual claims development for prior years remains significantly below projected levels and Lloyd's reserve monitoring has not identified any new specific areas of concern.

The development of business written in the soft market conditions of 1997-2001 continues to be within expectations and to contribute to the surplus generated, as do all the older years of account (2006 and prior).

In aggregate the estimates for major catastrophe events from recent years, such as Superstorm Sandy, have proved to be adequate.

Although Lloyd's continues to hold material reserves for older years, the potential for further surpluses to materialise is now more dependent on the robustness of reserves for more recent years. In support of these stable reserves, a number of managing agents have adopted a prudent initial reserving policy which has resulted in surpluses arising in later years. This approach is transparent within Lloyd's oversight regime, as underlying best estimate reserves are captured both within independent statements of actuarial opinion and the work being undertaken in preparation for Solvency II.

Prior to year end, the PRA wrote to all UK general insurers in respect of reserving. A specific concern was on how firms are maintaining reserve strength in the wake of falling rates and large reserve releases. Lloyd's reserve monitoring continues to focus on these very topics to ensure reserve strength is not jeopardised through continued releases, which they have not been. Lloyd's has seen an increasing trend in the ratio of IBNR to incurred loss ratios which confirms that the market aims to maintain reserve discipline in challenging conditions and reacts by posting higher nominal reserves.

The prudent reserving, seen within the market gives confidence that the trend for prior year releases will continue, especially when coupled with favourable experience. For the absolute level of reserve releases to continue at the amounts experienced recently, this will depend on actual claims development falling below projections. Reserve setting is a complex and challenging area and claims estimates are inherently uncertain, particularly in the lines of business written by Lloyd's.

Consequently, oversight of this area remains a focus for Lloyd's and future results may vary considerably from the significant surplus observed in 2014.

Major claims

% of NEP	
2010	12.7
2011	25.5
2012	9.7
2013	4.4
2014	3.4

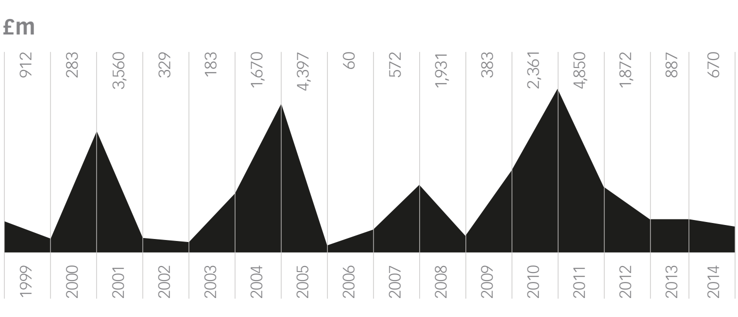
Five-year average 10.9
Ten-year average 11.3

Accident year excl. major claims

% of NEP	
2010	86.5
2011	87.8
2012	88.6
2013	90.4
2014	92.7

Five-year average 88.6
Ten-year average 86.3

Lloyd's major losses: net ultimate claims



Indexed for inflation to 2014. Claims in foreign currency translated at the exchange rates prevailing at the date of loss

£1,319m 20-year average
£1,617m 15-year average

Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remains extremely high with 95%+ of all recoveries and reinsurance premium ceded being with reinsurers rated 'A-' and above, or supported by collateral. While the Reinsurance Asset is a material consideration for Lloyd's (equivalent to 37% of GWP) it has remained stable and consistent with the scale of risk transfer and recent loss experience. No negative settlement trends have been witnessed. Lloyd's outward reinsurance spend has remained stable (22% of GWP). While reducing margins on Lloyd's inward reinsurance book have been witnessed, this has also resulted in reduced outward reinsurance costs.

Result for the closed year and run-off years of account

Under Lloyd's three-year accounting policy for final distribution of each underwriting year of account, the 2012 account reached closure at 31 December 2014. The major insurance event in 2012 was Superstorm Sandy which struck the Caribbean, the US eastern seaboard and eastern Canada. It cost the Lloyd's market £1.4bn, net of reinsurance, making it the second most costly catastrophe since Hurricane Katrina in 2005. Despite this major claims event the 2012 pure year of account was still able to report an underwriting profit which was further enhanced by the investment return. This 2012 pure year profit was boosted by the addition of releases from prior years totalling £1,119m on the 2011 and prior reinsurance to close (RITC) (2010 and prior £911m), which meant the year closed with an overall profit of £2,860m. Of the six years of account that were in run-off at the beginning of 2014, three, all from one syndicate, were closed at the end of the year. However, one syndicate was unable to close its 2012 year of account at the year end and, therefore, there was a net decrease in open years of two.

In aggregate, run-off years reported a profit of £18m including investment income (2013: profit of £3m). This increased profit is principally the result of the closure of the one syndicate's three years of account while recognising the prudence in the held reserves.

The results of the major classes of business are discussed in detail on pages 49-55.

Investment review

The first nine months of 2014 represented a period of relative calm and stability for investments as global economic growth looked to be gradually improving. Conditions were favourable as central banks maintained their commitment to keep interest rates low for an extended period of time and geopolitical risks seemed not to affect markets.

The fourth quarter saw a rapid change of course as underlying tensions came to the surface causing a surge in volatility. Increasing divergence in growth among major economies emerged: solid growth in the US was contrasted by disappointing growth in Europe and China. The plummeting oil price became a major source of concern for financial markets as attention was focused on the downside implications for oil producing companies and countries rather than the broader scale benefits for many consumers and businesses.

Performance among developed equity markets was mixed: US equities achieved quite strong returns while UK equity returns were only modestly positive. Emerging markets suffered amid the oil price collapse as did most other risk assets but returns were positive, albeit modestly so, over the year. Commodities were a clear exception with significant losses generated over the year.

Bond performance in major global markets was stronger than expected over the year as government yield curves flattened, leading to mark to market capital appreciation, particularly for longer dated bonds.

Although earlier in the year the general trend in corporate bond credit spreads had been a gradual narrowing, they were not immune to the heightened volatility in the fourth quarter and some widening of credit spreads took place. Overall, corporate bonds outperformed their 'risk-free' sovereign counterparts due to their higher ongoing level of yield.

Syndicate premium assets form the largest element of investment assets at Lloyd's. Managing agents are responsible for the investment of these funds, which are used to meet insurance claims as they become payable. Traditionally, syndicates adopt conservative investment policies, utilising cash and high quality fixed interest securities of relatively short duration. Some syndicates' investments include elements of more volatile asset classes, such as equities, hedge funds and lower rated debt securities. At the margin, the proportion of riskier assets has increased in recent years; however, high quality, short dated, fixed interest securities and cash continue to dominate syndicate portfolios, notwithstanding the low yields currently offered by such instruments.

Prior year reserve movement

% of NEP	
2010	(5.9)
2011	(6.5)
2012	(7.2)
2013	(8.0)
2014	(8.0)

Combined ratio

Years of account in run-off

2010	10
2011	7
2012	8
2013	6
2014	4

Overall, syndicate investments returned £749m, or 2.2% in 2014 (2013: £379m, 1.1%). Investments are valued at market prices and unrealised gains and losses are included within reported investment returns. Investment returns have proved to be better than expected, given the large exposure to conservative, but lower yielding, bonds. The capital gains arising from a further drop in yields was a key driver. US-based equity investments have also enhanced return.

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 £202m, or 1.3% (2013: £400m, 2.5%) 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 return is constrained by the low level of interest available on the high proportion of cash and equivalent investments held within members' capital. However, performance was marginally improved by the better than expected returns achieved on bond investments.

The investment return on Lloyd's central assets is also included in the PFFS. This was £94m or 3.6% in 2014 (2013: £60m, 2.4%). The investment performance of central assets is discussed on page 117.

Results summary

Lloyd's reported a profit before tax for the financial year of £3,161m (2013: £3,205m) and a combined ratio of 88.1% (2013: 86.8%). 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 PFFS is set out in note 2 on page 61. The syndicate annual accounts reported an aggregate profit of £2,861m (2013: £2,716m).

Class of business

Reinsurance – Property
Property catastrophe excess of loss represents almost three quarters of Lloyd's property reinsurance premiums. Other key sectors are property risk excess, property pro rata and agriculture and hail.

2014 performance
Lloyd's gross written premium for 2014 was £4,477m (2013: £4,930m), a decrease of 9.2%. The Lloyd's reinsurance property sector reported an accident year combined ratio of 88.7% (2013: 88.2%).

For property catastrophe there have been no major catastrophes affecting the Lloyd's market during 2014 and the results reflect the reduced incidence of large losses. Hurricane Odile in Mexico mainly affected the facultative account. However, there was some attritional activity and syndicates have been exposed to a number of smaller losses including winter snowstorms in Japan, a tornado event in Nebraska, a wind/hail event in France and Belgium (Windstorm Ela), cyclone and flood events in India and a hailstorm in Brisbane.

Property catastrophe premium levels in Lloyd's have reduced largely in reaction to the downturn in rates. Trading conditions remain under pressure with double digit reductions in almost all markets.

There has been a weakening of contractual exclusions and some radical changes to event definitions have been proposed. Perhaps the most notable and well documented is the increase in the duration period and aggregate extensions applying to the traditional Hours Clauses, the eventual impact of which may take time to materialise.

Prior year movement
The prior year reserve movement was a surplus of 12.2% (2013: 11.4%). While there continues to be further deterioration in loss estimates relating to the New Zealand earthquakes, estimates for other historical catastrophes have remained stable or reduced. This has been further mitigated by the release of catastrophe loads held within the reserves.

Looking ahead
The pressure on rates and contractual terms is likely to persist through 2015. There is unlikely to be any significant change in the market until there is a reduction in the availability of surplus capital currently dedicated to this sector which, aside from a significant catastrophe event, and/or a seismic change in global interest rates, appears unlikely.

The property catastrophe market remains under pressure. This is evidenced in weaker pricing and wider terms and conditions. Some syndicates have decided to withdraw their capacity as further weakening appears inevitable.

Reinsurance – Casualty
The largest sectors of the casualty treaty market at Lloyd's are non-marine liability excess of loss and motor excess of loss.

2014 performance
Lloyd's gross written premium for 2014 was £1,781m (2013: £1,698m), an increase of 4.9%. The Lloyd's casualty sector reported an accident year combined ratio of 96.6% (2013: 100.5%).

2014 saw an improvement in recent year loss ratios. Overcapacity, combined with higher cedant retentions, led to accelerated rate softening in most lines throughout the year.

Prior year movement
The prior year reserve movement was a surplus of 9.5% (2013: 12.2%). There will always be inherent uncertainty in casualty reserves, and especially in challenging market conditions.

This class contains motor excess of loss, where large bodily injury claims can be settled using Periodical Payment Orders (PPOs). There remains an increased risk for this element due to uncertainties in discount rates used to determine large awards in bodily injury claims; long term inflation and mortality trends will also impact the ultimate claims outcomes. A key metric is the real rate of return which measures the relationship between investment returns and rates of inflation given these items have opposing impacts on PPO related results.

Lloyd's monitoring continues to indicate adequate reserving over all prior years.

Looking ahead
The pricing and reserving of UK Motor excess of loss business remains a concern however, the appetite of syndicates to write this business is falling and looks set to reduce further into 2015 with some key players cutting back.

Aside from UK Motor excess of loss, rates are under pressure in other casualty treaty sectors (e.g. US WCA Catastrophe) as demand for reinsurance declines among the larger buyers and they retain more risk in-house, consolidating their outward reinsurance programmes into group or whole account structures. This is causing overall demand to fall while capacity to write this class increases as insurers look to diversify both in the US and internationally.

Reinsurance – Specialty
Marine reinsurance is the largest sector of the remainder of Lloyd's specialty reinsurance business, followed by energy and aviation.

2014 performance
Gross written premium by sector was: Marine £991m (2013: £1,098m), Energy £795m (2013: £786m) and Aviation £445m (2013: £453m).

Lloyd's reinsurance – specialty reported an accident year combined ratio of 97.7% (2013: 91.5%).

Aviation excess of loss reinsurance performance was affected by the frequency of large airline and aviation war claims in 2014 (see commentary on direct aviation on page 53).

Prior year movement
The prior year reserve movement was a surplus of 11.7% (2013: 9.7%).

This class continues to generate surpluses on prior years with benign attritional experience across all major lines.

Although there has been deterioration in the Costa Concordia claim, this has been mitigated through reinsurance and more than offset by better experience elsewhere.

Looking ahead
Similar to other reinsurance sectors, most specialty classes are likely to face further, perhaps more intense, downward pressure, with the potential for softening in other terms and conditions in some areas. Classes affected by recent large losses (e.g. aviation) may be more stable.

Property
The property sector consists of a broad range of risks written worldwide. It is made up of predominantly 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.

2014 performance
Lloyd's gross written premium for 2014 was £6,281m (2013: £6,103m), an increase of 2.9%. The Lloyd's property sector reported an accident year combined ratio of 94.8% (2013: 93.4%).

The market came under continued pressure to reduce rates in 2014 due to surplus capacity and aggressive competition from domestic markets. US Surplus and Excess Lines and binder business grew meaningfully, but growth in other lines was subdued. Competition was largely confined to rates, with wordings remaining largely unchanged.

Results were positive in most property segments due to the low level of catastrophe activity, with only one significant event in the international segment: Hurricane Odile in Baja, California.
In addition, attritional losses continued to trend upward and there were some sizeable power and engineering losses.

Prior year movement
The prior year reserve movement was a surplus of 7.4% (2013: 8.4%). Loss estimates for the historical catastrophes remain stable or have reduced. This is further supported by no adverse development in any of the major lines.

Looking ahead
In the absence of significant catastrophe events, meaningful reductions in available capacity and domestic market appetites, downward rating pressure is expected to continue during 2015 and for the foreseeable future for both direct and reinsurance business with binder business holding up better than open market. It is anticipated that an increase in minimum line size requirements available from syndicates will put further pressure on the market together with an increasing demand for broker binding facilities. A number of syndicates are expected to expand into new areas to supplement premium and growth targets.

The renewal and restructuring of TRIA and Pool Re, and the introduction of Flood Re in the UK, will have consequences for certain segments of the property market, and underwriters will need to factor this into their underwriting plans for future years.

Casualty
The casualty market at Lloyd's comprises a broad range of classes. The most significant are general liability, professional liability and medical malpractice. Although shorter-tail in nature than most casualty lines, accident and health business is also included within this sector. The US market is the largest single market for Lloyd's casualty

business followed by the UK/Europe, Canada and Australia.

2014 performance
Lloyd's gross written premium for 2014 was £4,963m (2013: £4,850m), an increase of 2.3%. The Lloyd's casualty sector reported an accident year combined ratio of 99.8% (2013: 101.2%).

The casualty market in 2014 was similar to that of 2013. Surplus capacity continues to suppress rate increases, keeping them below widely agreed upon claims inflation assumptions. Profitability remains marginal with little sign of correction.

Some of the growth within casualty lines has been influenced by the green shoots of economic recovery experienced in certain jurisdictions. Increased turnover, wage rolls and fee income is helping to grow the top line despite rates decreasing across most classes.

Given the long-tail nature of many of the lines written and the depth and longevity of the recession, it may take a considerable time for the full effects of the downturn to be determined particularly in financial lines.

Prior year movement
The prior year reserve movement was a surplus of 1.9% (2013: 2.4%). Although the casualty sector continues to generate surpluses on prior years in aggregate, this class has historically seen significant reserve deteriorations and this year witnessed some adverse experience at a more micro level, for example, in some financial institutions, general liability and professional indemnity lines. These are restricted to individual segments, years or territories and therefore do not cause concern. There will always be inherent uncertainty in casualty reserves, and especially in challenging market conditions, and Lloyd's monitoring continues to indicate robust reserving over all prior years.

Looking ahead
The casualty market is particularly vulnerable to an increasingly litigious global environment. Many jurisdictions now allow 'collective actions' with third party litigation funding often fuelling the trend, leading to the increased frequency and severity of claims.

More tenacious regulators pursuing corporate wrongdoing with increased scrutiny, often via official investigations, translates into defence costs making up larger portions of losses.

The cyber market at Lloyd's continues to expand in response to greater demand-driven by high profile losses and the constantly evolving legislation to govern and dictate behaviour and liability. Governments and regulators are increasingly looking to insurers to drive up cyber security standards. There is also greater recognition of the impact of cyber exposures upon other lines of business with specific products covering property damage caused by cyber events now available.

The speed of the economic recovery will continue to influence the class over the next few years. This, coupled with an increased appetite for casualty business, means that the class is expected to continue to grow. The market remains highly competitive, with most market participants eager to expand their books frequently via Delegated Underwriting arrangements.

With no lack of appetite for insurers to enter the casualty market, the rating environment is expected to weaken further in 2015.

Marine
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), political risks and war.

2014 performance
Lloyd's gross written premium for 2014 was £2,142m (2013: £2,195m), a decrease of 2.4%. The Lloyd's marine sector reported an accident year combined ratio of 103.7% (2013: 102.8%).

Borderline performance continued in Hull and Cargo, Lloyd's largest marine class. All classes remained highly competitive due to abundant capacity. With rates already at relatively low points in the cycle, the downward rating pressure was accompanied by increasing limits and/or broadening conditions.

Prior year movement
The prior year reserve movement was a surplus of 8.5% (2013: 7.4%). Overall, there has been a release of reserves in all marine classes.

The expected costs associated with Costa Concordia have increased during the year but these have been mitigated by reinsurance. Otherwise, the observed experience elsewhere has been good.

2014 combined ratio

	Accident year	Prior year reserve movement	Calendar year
Reinsurance	92.8%	(11.5)%	81.3%
Property	94.8%	(7.4)%	87.4%
Casualty	99.8%	(1.9)%	97.9%
Marine	103.7%	(8.5)%	95.2%
Energy	94.0%	(11.3)%	82.7%
Motor	106.9%	(0.5)%	106.4%
Aviation	132.6%	(30.5)%	102.1%
Life	93.2%	0.0%	93.2%

Looking ahead
Positive developments in the global economy should, over time, bolster both trade volumes and insured values, which in turn should lead to an increase in premium volumes. While the macroeconomic picture appears to be improving, market conditions present many headwinds for the marine class. With abundant capacity in all lines, rates in most classes will face further pressure. Aside from the challenging market conditions, key industry issues remain. Static hull deductibles are producing larger attritional losses. With ships and cargo loads expanding in size, successful salvage is becoming an increasing challenge. This also poses challenges for the marine liability sector. Costa Concordia has highlighted the difficulties that wreck removal of large vessels can present, especially doing so in an environmentally sensitive manner.

Energy
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.

2014 performance
Gross written premium for the Lloyd's energy sector in 2014 was £1,533m (2013: £1,668m), a decrease of 8.1%. Most business in this sector, no matter its country of origin, is denominated in US dollars and therefore the ROE movement is most clearly shown in this sector. The Lloyd's energy sector reported an accident year combined ratio of 94.0% (2012: 94.3%).

Performance was driven by offshore energy which benefited from another year without a significant windstorm in the Gulf of Mexico and few notable risk losses.

Fuelled by favourable results and abundant capacity, competition intensified in the offshore energy sector during the course of the year with significant rate reductions, albeit from a high level, reported throughout the year. Overall premium volumes stayed broadly in line with 2013 as the rate reductions were largely offset by increases in exposure.

The onshore energy sector remains overcapitalised and the pressure to compete for premium income and market share has intensified despite marginal performance. Energy liability is one of the few areas where capacity remains at a premium, due primarily to existing underwriters reducing individual commitments per risk to manage their aggregations.

Prior year movement
The prior year reserve movement was a surplus of 11.3% (2013: 11.3%). The sector was able to generate significant reserve releases despite some deterioration in a number of claims.

Looking ahead
The low oil price has had a dramatic impact on future investment in the energy sector, any investments that can be, have been postponed. This will dramatically reduce the offshore and indeed onshore construction premium. In addition, some working wells will be capped early and equipment withdrawn. This will further reduce the premium base in the offshore sector and possibly increase claims activity as damages are discovered and repaired while units are in lay-up.

The lack of recent windstorm activity in the Gulf of Mexico should be treated with caution as this region will continue to be prone to extreme weather events.

The offshore energy sector will remain highly competitive in 2015 as underwriters compete to write a diminishing number of active units and few new projects. Market conditions for onshore energy and liability classes are also expected to weaken in 2015 as underwriters compete to maintain premium income due to potential contagion in competition from the offshore energy sector.

With the offshore energy property sector making up a significant portion of the energy class, the difficult market environment will have an impact on 2015 gross written premium.

Underwriting discipline will be particularly important in 2015, even if this leads to declining business that is not adequately priced. As ever, the focus will also need to be on close control of wordings.

Motor
Lloyd's motor market primarily covers UK private car and commercial/fleet business. Private car represents around 45% of Lloyd's UK motor premium and includes niche motor risks. Lloyd's commercial/fleet business is very diverse, ranging from light commercial vehicles and taxis to buses and heavy haulage.

International motor is also written and a large proportion of this is from North America, including private auto and static risks such as dealer's open lot.

2014 performance
Gross written premium in 2014 was £1,213m (2013: £1,184m), an increase of 2.4%. The Lloyd's motor sector reported an accident year combined ratio of 106.9% (2013: 104.4%).

The UK Motor market remains challenging with legal reforms introduced in 2013 only now starting to take real effect. Legal costs per claim are reducing, but this has been offset by an increase in general damages which formed part of the Legal Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO) reforms.

Private car rates fell during the first half of 2014 but subsequently stabilised towards the end of the year as discounts given for the LASPO reforms soon expired. The rating environment in the commercial motor sector was slightly more positive with above inflation increases achieved throughout the year. However, claims frequency remains high even with the legal reforms now firmly embedded and claims inflation appears to be on the rise again. Fraudulent claims activity is still an issue and performance concerns remain in both areas.

Prior year movement
The motor sector saw a modest release from prior year reserves of 0.5% of motor net earned premium (2013: reserve strengthening 4.2%).

While stability in motor reserves is encouraging, there does remain a risk that any possible alteration to the discount rate used to determine large awards in bodily injury claims, in addition to high claims inflation levels, could affect current claims reserves in the future or the incident of claims settled as Periodical Payment Orders (PPOs). There were also many new legal reforms introduced recently, including increasing the limits of payments under the Ministry of Justice (MOJ) Road Traffic Accident (RTA) Portal and the LASPO reforms. The overall impact of these reforms remains highly uncertain.

Looking ahead
The UK Motor insurance market continues to be very competitive, but the rating environment for both private car and commercial vehicles seems to be turning with some rate rises recorded towards the end of 2014. This trend is expected to continue throughout 2015.

LASPO meant an overall drop in legal fees for personal injury claims, which will reduce insurers' costs, but the MOJ whiplash reforms that came into force in October 2014 will take time to filter through.

The UK Competition and Markets Authority report in September 2014 did not recommend the banning of referral fees related to the provision of temporary replacement vehicles (credit hire) and credit hire fraudulent claims are still an area that needs attention.

Aviation
Lloyd's writes across all main business segments including airline, aerospace, general aviation and space.

Airline (hull and liability) is the largest segment but Lloyd's aviation is also actively involved in the underwriting of general aviation (for example, privately owned light aircraft, helicopters and large private corporate jets), airport liability, aviation product manufacturers' liability, aviation war/terrorism and satellite launch/in-orbit risks.

2014 performance
Gross written premium was £582m (2013: £562m), an increase of 3.6%. The Lloyd's aviation sector reported an accident year combined ratio of 132.6% (2013: 105.1%).

Although aviation safety continued to improve with accident rates in 2014 among the best ever, this result was driven by a series of large airline and aviation war claims which inundated the fragile premium bases in these classes.

These claims included Malaysia Airlines which suffered the losses of two passenger jets. Malaysia Airlines Flight MH370 disappeared in March while flying from Kuala Lumpur to Beijing with the loss of 239 passengers and crew. Despite extensive and continuing search and rescue efforts, it is still unclear what happened to the jet and its whereabouts. In July, Malaysia Airlines Flight MH17 was allegedly shot down over eastern Ukraine with the loss of 298 lives.

Lloyd's airline and war markets remain at the forefront regarding the speedy adjustment of claims.

Aviation underwriters were also impacted by a number of other airline disasters including the loss of Air Algerie, TransAsia and AirAsia. Aside from Malaysia Airlines, the aviation hull war market experienced a frequency of other large claims, most notably arising from the prolonged period of fighting at Tripoli Airport which resulted in the severe damage or destruction of multiple aircraft.

Space insurers also had a difficult year with the loss of the Antares 130 rocket, the ABS-2 satellite, the Express AM4R spacecraft and the Amazonas 4A telecommunications satellite.

With underwriting capacity exceeding insurance demand, in some classes by several multiples, market conditions continued to weaken quite materially across the aviation and space sectors. Only in the final quarter of 2014, when most of the world's major airlines and war risks renew, was there evidence of a change in this trend. However, with capacity still increasing in these classes, the momentum for rate increases at the start of the quarter proved short lived, with some softening again evident in the last few weeks of the year.

Despite the continued increase in aviation exposures around the world, Lloyd's premium was only slightly above 2013 levels and significantly below business plan targets. This was largely a function of the soft rating environment and the inherent miss-factor which led to a mixture of underwriting perspectives and responses following the claims.

Prior year movement
The prior year reserve movement was a surplus of 30.5% (2013: 23.7%). The prior years continue to develop very favourably. Large reserve releases are common in aviation and this continues to occur with no signs of adverse development in the back years at all.

Looking ahead
Notwithstanding the negative result in 2014, without a significant withdrawal of global underwriting capacity, the aviation market is likely to remain extremely competitive with the potential for further softening in rates, terms and conditions. With industry exposures continuing to rise sharply in terms of fleet values and passenger numbers, the accumulation potential and a more punitive legal environment are expected to lead to an increase in potential volatility and rising attritional claims.

Reinsurance

Property

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	4,761	2010	92.0	2010	279
2011	5,209	2011	158.8	2011	(2,180)
2012	5,463	2012	89.8	2012	393
2013	4,930	2013	76.8	2013	846
2014	4,477	2014	76.5	2014	820

Casualty

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	1,656	2010	90.2	2010	133
2011	1,480	2011	90.2	2011	124
2012	1,612	2012	94.5	2012	70
2013	1,698	2013	88.3	2013	165
2014	1,781	2014	87.1	2014	195

Specialty

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	1,804	2010	86.1	2010	178
2011	1,984	2011	92.1	2011	111
2012	2,360	2012	91.1	2012	142
2013	2,349	2013	81.8	2013	310
2014	2,239	2014	86.0	2014	235

Direct

Property

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	4,908	2010	92.4	2010	283
2011	4,965	2011	100.3	2011	(10)
2012	5,476	2012	94.4	2012	221
2013	6,103	2013	85.0	2013	681
2014	6,281	2014	87.4	2014	577

Casualty

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	4,397	2010	96.6	2010	113
2011	4,245	2011	96.6	2011	117
2012	4,543	2012	95.6	2012	152
2013	4,850	2013	98.8	2013	47
2014	4,963	2014	97.9	2014	81

Direct continued

Marine

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	1,671	2010	90.9	2010	128
2011	1,968	2011	94.5	2011	89
2012	2,090	2012	99.9	2012	2
2013	2,195	2013	95.4	2013	84
2014	2,142	2014	95.2	2014	85

Energy

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	1,419	2010	83.3	2010	164
2011	1,523	2011	87.9	2011	130
2012	1,727	2012	76.0	2012	275
2013	1,668	2013	83.0	2013	201
2014	1,533	2014	82.7	2014	189

Motor

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	1,103	2010	151.5	2010	(520)
2011	1,187	2011	107.4	2011	(82)
2012	1,155	2012	104.0	2012	(42)
2013	1,184	2013	108.6	2013	(87)
2014	1,213	2014	106.4	2014	(69)

Aviation

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	642	2010	74.9	2010	115
2011	708	2011	64.9	2011	196
2012	669	2012	67.7	2012	170
2013	562	2013	81.4	2013	90
2014	582	2014	102.1	2014	(8)