# 3

## Market Results

The Lloyd's market experienced an exceptionally difficult year in 2017, driven by challenging market conditions and a significant impact from natural catastrophes. It is in these moments that Lloyd's proves its value and strength, being able to more than meet its substantial commitments without any significant impact on its total resources.

Lloyd's has lived up to its centuries old promise and purpose – to be there when it matters most, providing the financial support to enable businesses, governments and most importantly people, to recover and rebuild their lives as quickly as possible.

# 2017 Highlights

## Financial highlights

- Lloyd's reported a loss of £2,001m (2016: a profit of £2,107m)
- Combined ratio of 114.0% (2016: 97.9%)
- Gross written premium of £33,591m (2016: £29,862m)
- Capital, reserves and subordinated loan notes stand at £27,560m (2016: £28,597m)

### Gross written premium (£m)

| | |
|---|---|
| 2013 | 25,615 |
| 2014 | 25,259 |
| 2015 | 26,690 |
| 2016 | 29,862 |
| **2017** | **33,591** |

### Result before tax (£m)

| | |
|---|---|
| 2013 | 3,205 |
| 2014 | 3,016 |
| 2015 | 2,122 |
| 2016 | 2,107 |
| **2017** | **(2,001)** |

### Capital, reserves and subordinated debt and securities (£m)

| | |
|---|---|
| 2013 | 21,107 |
| 2014 | 23,413 |
| 2015 | 25,098 |
| 2016 | 28,597 |
| **2017** | **27,560** |

### Central assets (£m)

| | |
|---|---|
| 2013 | 2,384 |
| 2014 | 2,578 |
| 2015 | 2,645 |
| 2016 | 2,879 |
| **2017** | **2,981** |

### Return on capital* (%)

| | |
|---|---|
| 2013 | 16.2 |
| 2014 | 14.1 |
| 2015 | 9.1 |
| 2016 | 8.1 |
| **2017** | **(7.3)** |

### Combined ratio* (%)

| | |
|---|---|
| 2013 | 86.8 |
| 2014 | 88.4 |
| 2015 | 90.0 |
| 2016 | 97.9 |
| **2017** | **114.0** |

The Pro Forma Financial Statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared as closely as possible with general insurance companies. The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. Further information concerning the basis of preparation of the PFFS is included on page 46.

*The return on capital and the combined ratio are metrics that are consistently used to analyse financial performance in the Lloyd's market results and/or in the Society Report. These metrics (wherever used in this Annual Report) are Alternative Performance Measures (APMs), with further information available on page 174.

The Lloyd's market reported a pre-tax loss of £2,001m in 2017 (2016: a profit of £2,107m) and a combined ratio of 114.0% (2016: 97.9%). The deterioration in the result is primarily driven by the major claims activity in 2017, specifically the natural catastrophe events which occurred in the third and fourth quarters. The market continued to benefit from favourable investment return, increasing to £1,800m (2016: £1,345m) in 2017. Investment return was 2.7% (2016: 2.2%), the improvement being driven by the strong performance from high quality fixed interest assets.

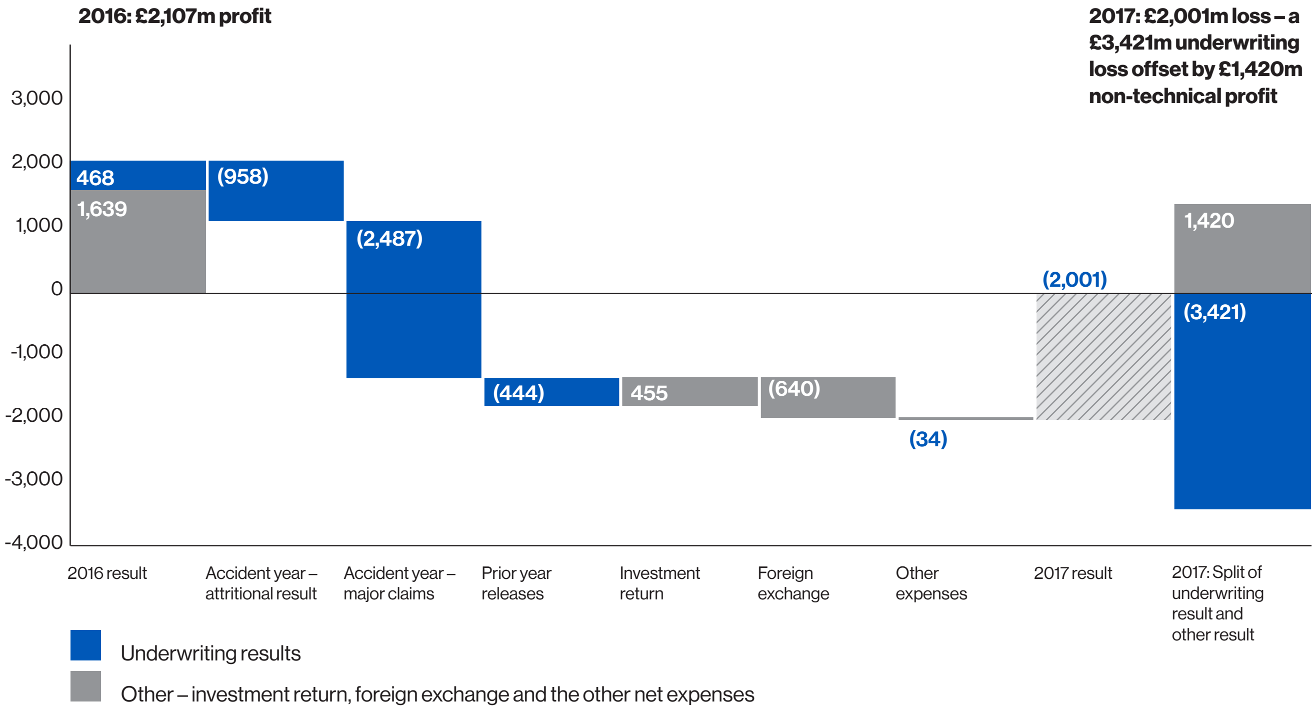
Market conditions remained challenging in 2017, with all lines of business reporting accident year losses for 2017; four lines of business had prior year releases, however only one line of business, energy, reported an overall profit.

The underwriting result continued to benefit from prior year releases, albeit at a lower level than in recent years. Prior year releases amounted to £706m (2016: £1,150m) improving the combined ratio by 2.9% (2016: 5.1%). The reserving methodology for setting initial loss estimates varies between syndicates. There are a significant number that reserve especially prudently, which contributes to the observed trend of relatively high accident year ratios, which reduce over time as they book releases from reserves.

Continued downward pressure on pricing was again experienced across the market in 2017, albeit within planning assumptions, driven by the availability of capital and the relatively benign catastrophe experience over the past few years. However, overall pricing levels stabilised in the second half of the year, driven by property and casualty insurance lines. Notwithstanding the significant catastrophe losses in 2017, capacity remains abundant. Profitable growth opportunities continued to be difficult, driven by the challenging market conditions.

There has been a slow down in the rate at which expenses have been increasing relative to growth in premium, resulting in a small improvement in the expense ratio. However, the Lloyd's market's expenses continue to be higher, as a proportion of net earned premium, than those of our competitor group, particularly in relation to acquisition costs, reflecting Lloyd's more extensive distribution chain. This will continue to be an area of focus in 2018 with plans to realise some of the benefits of the London Market Target Operating Model (LM TOM), and pilot initiatives to make it cheaper and easier to write business at Lloyd's (see pages 20 to 21).

**Drivers of market result – change from 2016 to 2017 (£m)**



# 2017 Highlights

A foreign exchange loss has been reported in 2017 as sterling has marginally strengthened against the US dollar throughout 2017, reversing the significant foreign exchange gain reported in 2016, when sterling weakened significantly post the referendum result. Approximately 66% of the business written across the market is denominated in US dollars.

## Looking ahead

Following a costly year in terms of natural catastrophes (with latest industry insured loss estimates as high as US$140bn), there continues to be attention on pricing levels in those lines affected. In other lines unaffected by these catastrophic events, there are signs that pricing may be turning.

The continuing supply of risk-taking capital globally is likely to act as a constraint on the scale of price increases in 2018. It is estimated that reinsurance capacity at year end 2017 is actually slightly up on 2016 (ie this did not reduce post the catastrophe events in the second half of 2017), and some of this increase is due to additional capital from non-traditional providers.

Despite some improvement in pricing levels post Hurricanes Harvey, Irma and Maria, it is crucial that this does not mask the need to close the performance gap in many other lines, particularly those sensitive to attrition, and to correct pricing for exposures assumed.

The macroeconomic environment shows no signs yet of becoming less challenging. The parlous state of world politics and fragile global economics require careful monitoring and a nimble, and pro-active, underwriting response. Aside from the conundrum posed by Brexit, the recent US tax changes, increasing global protectionism and continued violent extremism remain key topics to watch.

## 2017 performance

Gross written premium for the year increased to £33,591m compared with £29,862m in 2016. US dollar denominated business continues to account for the largest share of business at Lloyd's. The average exchange rate in 2017 was US$1.29: £1 compared with US$1.35: £1 in 2016. The US dollar and other currency movements have increased premiums as reported in converted sterling by 6%. Adjusting for the impact of exchange rate movements, the increase in gross written premium was 6%.

The overall price change (taking into account terms and conditions) on renewal business was a decrease of 2%. This was slightly lower than planning assumptions. Aside from pricing reductions, which slowed/stabilised in the second half of the year, some weakening in other terms and conditions and the widening of coverage was evident. During the year, there continued to be growth in most lines, although the rate of growth slowed throughout the year. The main exceptions being aviation and energy, where further contraction was evident.

The underlying accident year ratio, excluding major claims, was 98.4% (2016: 93.9%) with underlying claims inflation, deductible erosion and the general weakening of pricing and other terms and conditions largely contributing to the year on year increase.

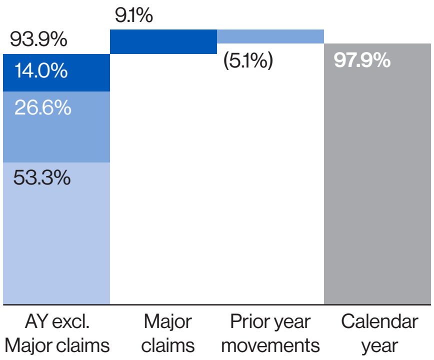
| Major claims | % of net earned premium |
|---|---|
| 2013 | 4.4 |
| 2014 | 3.4 |
| 2015 | 3.5 |
| 2016 | 9.1 |
| **2017** | **18.5** |
| Five year average[1] | 8.3 |
| Ten year average[1] | 10.2 |

1 Weighted by net earned premium.

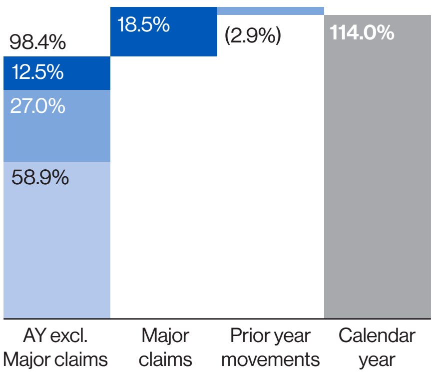
| Accident year ratio excl. major claims | % |
|---|---|
| 2013 | 90.4 |
| 2014 | 93.1 |
| 2015 | 94.4 |
| 2016 | 93.9 |
| **2017** | **98.4** |
| Five year average[1] | 96.1 |
| Ten year average[1] | 91.5 |

### Contributors to combined ratio

**2016 Combined ratio %**




**2017 Combined ratio %**




Attritional loss ratio | Acquisition expense ratio | Admin expense ratio

## Major claims

For the Lloyd's market, major claims were £4,539m in 2017 (2016: £2,052m), net of reinsurance and including reinstatements payable and receivable. Total insured losses for the catastrophe events of 2017 are estimated to be US$135.6bn.

After a long period of relatively benign major loss activity, the cost of major claims to the Lloyd's market in 2017 is the third highest since 2003, in today's terms.

The largest insured natural catastrophe event was Hurricane Irma. This event, which devastated large parts of the Caribbean and US Gulf states, notably Florida, was the second of three major Atlantic hurricanes to hit the industry in the third quarter. The others being Hurricane Harvey, which caused significant wind and flood damage in Texas, and Hurricane Maria which, again, caused widespread damage in the Caribbean.

The market also incurred significant claims from the wildfires in northern California in October and in southern California in December. Other notable catastrophe events included the Mexican earthquakes, Cyclone Debbie, which caused damage and flooding in Australia, wildfires in Chile and a frequency of severe convective storm events in the US.

## Prior year movement

The combined ratio has been improved by 2.9% (2016: 5.1%) through prior year releases. The release represents 1.9% (2016: 3.8%) of net claims reserves brought forward at 1 January.

This was the 13th successive year of prior year releases. In each of these years, the level of release has been significantly influenced by actual experience. In 2017, aggregate attritional claims emergence was below projected levels. This favourable development was experienced across a number of lines of business and years of account. However, some instances of reserve strengthening have been experienced, particularly on property business, due to increased estimates for large claims.

Although the contribution of prior year movement to the overall result remains significant, it does represent a reduction in release compared with recent years. The level of release is influenced by both claims experience and the reserving approach of the market.

With regard to the reserving approach, a number of managing agents adopt prudent initial held reserves. In the absence of poor claims experience these would be expected to result in future releases.

Estimates for major catastrophe events from recent years have also proved to be adequate. However, while still favourable compared with expectation, experience has been closer to projections than in recent years, and this will drive a reduction in the level of release.

Lloyd's continues to engage with managing agents writing material casualty business in order to test reserving assumptions in further detail. In 2018, Lloyd's will continue to monitor reserves closely and act to ensure that adequate market discipline is being maintained in current challenging market conditions, particularly on the longer-tailed lines.

The actual level of claims payments ultimately made compared with the provisions held is an area of inherent uncertainty. Oversight of this area is a key focus for Lloyd's to ensure that the processes underlying these estimates are robust, provisions are adequate and any release of provision is appropriate.

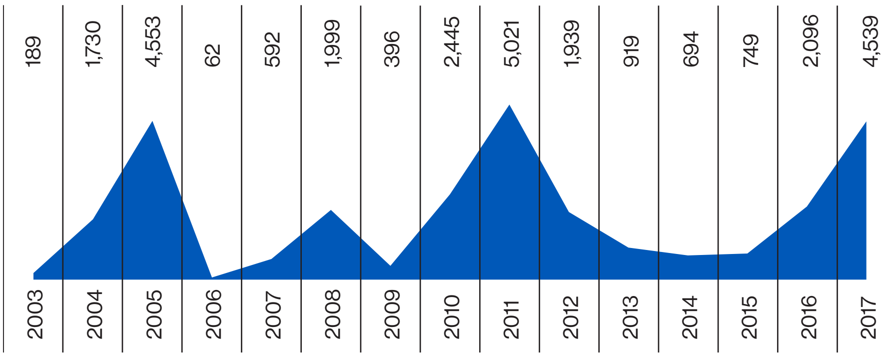
### Prior year reserve movement

| % of net earned premium | |
|---|---|
| 2013 | (8.0) |
| 2014 | (8.1) |
| 2015 | (7.9) |
| 2016 | (5.1) |
| **2017** | **(2.9)** |

### Years of account in run-off

| Number of years | |
|---|---|
| 2013 | 6 |
| 2014 | 4 |
| 2015 | 4 |
| 2016 | 6 |
| **2017** | **6** |

### Lloyd's major losses: net ultimate claims (£m)




Five year average: £1,799m; 15 year average: £1,862m. Indexed for inflation to 2017.
Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

## Reinsurance Protection

The credit quality of the Lloyd's market's reinsurance protections remain extremely high, with more than 98% of all recoveries and reinsurance premium ceded being with reinsurers rated 'A-' and above, or supported by high quality collateral assets. Reinsurers' share of claims outstanding remains a material consideration for Lloyd's (equivalent to 50% of gross written premium/68% of members' assets). There has been a material year on year growth in the scale of overall reinsurance recoverables due to the North American natural catastrophe losses experienced in the second half of 2017. This increase reflects the reinsurance risk transfer strategy of the Lloyd's market and the nature of these recent loss events. No negative settlement trends have been witnessed to date. Lloyd's will be monitoring

# 2017 Highlights

this closely in 2018 as part of our normal market oversight procedures. Lloyd's outward reinsurance premium spend for 2017 is 26% of gross written premium, which reflects a modest year on year increase in the scale of reinsurance purchased. This level of reinsurance transfer remains within risk appetite.

## 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 2015 account reached closure at 31 December 2017. 2015 witnessed some sizeable risk losses, notably in the aviation sector. However, aggregate major claims and insured catastrophe losses were below the long term average. As a result, the 2015 pure year of account was able to report a good underwriting profit. The 2015 pure year profit was also boosted by the addition of releases from prior years totalling £919m on the 2014 and prior reinsurance to close (RITC) (2013 and prior: £1,031m), which meant the year closed with an overall profit of £1,620m (2014 pure year profit: £2,856m).

Six years of account were in run-off at the beginning of 2017. Three of these were closed at the end of 2017. However, three syndicates were unable to close their 2015 year of account at the year end and, therefore, the number of open years remains at six.

In aggregate, run-off years reported a surplus of £8m including investment return (2016: deficit of £35m).

The results of the major lines of business are discussed in detail on pages 34 to 38.

## Investment review

Equity and other risk assets delivered another year of strong investment return in 2017. Financial market stability was supported by an increasingly positive economic environment and particularly low levels of volatility.

Developed market monetary policy continued to be tightened with central banks in the US, Canada and UK raising interest rates. Credit spreads on corporate bond investments tightened in line with the general risk-on sentiment whilst returns on sovereign bonds were weaker as expectation of higher interest rates led to some increase in yields.

The market's investments generated a return of £1,800m (2016: £1,345m), or 2.7%, showing improvement on the previous year and also above the five year average. Primary drivers included an allocation, albeit conservative, to equity and risk assets as well as a large allocation to investment grade corporate bonds.

Syndicate premium trust fund assets form the largest element of investment assets at Lloyd's. Managing agents have responsibility for the investment of these assets, which are used to meet insurance claims as they become payable. The aggregate asset disposition reflects the balanced but conservative investment policy pursued by agents. Cash and high quality, shorter duration, fixed interest investments constitute a majority core share whilst return seeking equity and growth assets account for a moderate allocation at around 15%.

Overall, syndicate investments returned £907m, or 2.2% in 2017 (2016: £810m, 2.0%). Investment return was moderately higher this year driven by solid corporate bond returns as well as strong performance in equity and growth assets. Investments are valued at mark to market prices and unrealised gains and losses are included within reported investment returns.

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 £722m, or 3.1% (2016: £363m, 1.8%) 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. Return on this pool of assets was strong by comparison with previous years, driven by its allocation to equity and growth assets.

The investment return on Lloyd's central assets is also included in the PFFS. This was £171m or 5.0% in 2017 (2016: £172m, 5.6%). The investment performance of central assets is discussed on pages 107 to 108.

## Results summary

Lloyd's reported a loss before tax for the financial year of £2,001m (2016: a profit of £2,107m) and a combined ratio of 114.0% (2016: 97.9%). 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 pages 46 to 47. The syndicate annual accounts reported an aggregate loss of £2,908m (2016: a profit of £1,353m).

## Line of business: Reinsurance-Property

Property catastrophe excess of loss represents the largest sector in this line. Other key sectors are property facultative, property risk excess, property pro rata and agriculture and hail.

### 2017 performance

Lloyd's gross written premium for 2017 was £5,991m (2016: £5,022m), an increase of 19.3%. This growth was largely due to reinstatement premiums on property treaty business following Hurricanes Harvey, Irma and Maria, and US dollar exchange rate movements. The Lloyd's reinsurance property line reported an accident year ratio of 134.3% (2016: 101.2%).

2017 was a year when natural catastrophe losses were in the headlines. Not forgetting the human impact in terms of fatalities, disruption and loss of homes and properties, these losses inevitably had an impact on the insurance market.

The pricing levels for property treaty and facultative placements improved immediately following Hurricanes Harvey, Irma and Maria and other losses in 2017.

### Prior year movement

The prior year movement was a release of 4.0% (2016: 9.4%). Case reserves and specific provisions for known catastrophes have remained stable, with a release of catastrophe loads within previous held reserves.

### Looking ahead

The catastrophic events of 2017 have led to an increase in pricing levels. However, there remains a surplus of capacity in the market and it is possible that we have seen a dampening of the reinsurance cycle. This will inevitably have an impact on the market's ability to grow premium volumes in the sector beyond price increases.

## Reinsurance – Casualty

The largest sectors of the casualty treaty market at Lloyd's are non-marine liability excess of loss and US workers' compensation.

### 2017 performance

Lloyd's gross written premium for 2017 was £2,223m (2016: £2,096m), an increase of 6.1%. The Lloyd's reinsurance casualty line reported an accident year ratio of 103.9% (2016: 105.2%).

Treaty performance has been affected by the impact of the Ogden discount rate decision, particularly on underlying motor portfolios. As most treaty business renews at the start of the calendar year, the quantum of the change in discount rate announced in February 2017 was not anticipated and factored into the pricing levels at renewal.

### Prior year movement

The prior year movement was a release of 1.8% (2016: 7.1%). There is particular reserving uncertainty on casualty lines. Lloyd's monitoring of these lines continues to indicate adequate provisions remain over all prior years.

This line contains motor excess of loss where there has been continued deterioration due to the Ogden discount rate announced in February 2017. In addition the non-marine casualty treaty line has been impacted by a number of large losses, such as the Grenfell Tower fire.

### Looking ahead

Understanding any further changes to the framework for calculating the Ogden discount rate applicable for personal injury claims will be the key performance driver for the line, absent any other extraneous factors.

## Reinsurance – Specialty

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

### 2017 performance

Gross written premium by sector was: Marine £1,166m (2016: £1,127m), Energy £749m (2016: £689m), Aviation £415m (2016: £454m) and Life £16m (2016: £20m). The Lloyd's reinsurance specialty line reported an accident year ratio of 110.3% (2016: 101.9%).

There continues to be a frequency of large facultative reinsurance losses in most specialty sectors. On the treaty side, marine excess of loss reinsurers were impacted by cargo and yacht losses following Hurricanes Harvey, Irma and Maria.

Capacity remained more than ample in most sectors, and this led to further downward pressure on pricing until the final quarter renewals.

### Prior year movement

The prior year movement was a release of 8.5% (2016: 14.2%). This line is exposed to individual large losses though specific provisions are held to cover the emergence of these on more recent years of account. Releases emerge where the full quantum of these specific provisions is not required.

### Looking ahead

With the improvement currently being seen in property treaty pricing levels, it is possible that some capacity will be redeployed away from specialty reinsurance.

### 2017 combined ratio by line of business

| | Accident year | Prior year reserve movement | Calendar year |
|---|---|---|---|
| Reinsurance | 121.7% | (4.5%) | 117.2% |
| Property | 131.5% | (3.9%) | 127.6% |
| Casualty | 103.7% | (0.6%) | 103.1% |
| Marine | 121.8% | 0.6% | 122.4% |
| Energy | 107.7% | (21.1%) | 86.6% |
| Motor | 114.4% | 7.9% | 122.3% |
| Aviation | 100.6% | 1.6% | 102.2% |
| Life | 132.4% | 1.4% | 133.8% |

# 2017 Highlights

## Property

The property line consists of a broad range of risks written worldwide. It is made up of predominantly excess and surplus lines business with a weighting in favour of the industrial and commercial sectors, binding authority business comprising mainly non-standard commercial and residential risks and specialist sectors, including terrorism, power (electricity) generation, engineering and nuclear risks.

Business is written through the broker network with a significant proportion using the framework of coverholders (or managing general agencies) and other similar delegated authority arrangements.

### 2017 performance

Lloyd's gross written premium for 2017 was £8,965m (2016: £7,988m), an increase of 12.2%, with movements in US dollar exchange rates contributing towards this growth. The Lloyd's property line reported an accident year ratio of 131.5% (2016: 106.6%).

Excess global capacity together with broadening of risk appetites from domestic markets continued to drive pricing reductions throughout the first part of 2017 although at a reducing level compared with more recent years. As a result of significant loss activity during the second half of the year, positive price changes were observed during the last few months of the year.

The growth in overall premium income was driven primarily by US and non-US binding authority business with some contraction noted in open market business. Other lines were largely flat or saw some contraction in premium levels. Terrorism, the main exception, continued to see premium growth as additional opportunities were presented to Lloyd's, a leading market in this class, despite a continued reduction in pricing levels and a number of loss events.

Pressure continued through the year on terms and conditions with coverage for losses arising out of cyber, in particular increasingly under property contracts. As pricing reductions slowed, pressure on coverage sub-limits, deductibles and coverage in general continued. However, going into 2018, these appear to have now seen some reversal as some underwriters seek to tighten coverage levels.

Results for 2017 had already been under pressure ahead of the second half, driven mainly by attritional activity. The catastrophe activity in 2017 further stressed the property result. Moreover, these losses have highlighted the extent to which lack of catastrophe losses and reserve releases have been otherwise subsidising attritional and large loss elements, and in many cases pricing inadequacies in more recent years' results for many.

### Prior year movement

The prior year movement was a release of 3.9% (2016: 3.2%). In line with other recent years for this short-tailed business, there has been generally stable development in relation to estimates for known losses. Loss experience has been slightly unfavourable due to greater attrition and large loss developments.

### Looking ahead

Following the significant natural catastrophe losses in 2017 and a marginal year for many in 2016, corrective action on pricing levels and some tightening of terms and conditions is now being seen. While this is expected to continue through 2018, such increases may fall below the necessary levels to address pricing adequacy concerns.

With the availability of global reinsurance capacity largely intact despite the events of 2017, early signs are that the scale of price increases have been more constrained than some syndicates anticipated. Underwriters will need to maintain a proactive approach to managing the performance gap and this will involve some difficult decisions regarding existing accounts or indeed the appropriateness of some new accounts. Expense and acquisition pressures will continue to be a challenge.

## Casualty

The casualty market at Lloyd's comprises a broad range of sectors.

The most significant are general liability and professional liability. 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 followed by the United Kingdom, Canada and Australia.

### 2017 performance

Lloyd's gross written premium for 2017 was £8,464m (2016: £7,131m), an increase of 18.7%. This increase was largely due to US dollar exchange rate movements and further growth in cyber and warranty and indemnity business. The Lloyd's casualty line reported an accident year ratio of 103.7% (2016: 102.9%).

The wider casualty market in 2017 remained replete with capacity. This suppressed price increases, keeping them below widely agreed-upon claims inflation assumptions. This continuing trend is disappointing given that accident year results are loss making.

The year on year growth was significantly driven by the dollar-sterling exchange rate, however, there was additionally some organic growth in certain lines, particularly cyber products, which are expected to continue to develop, addressing rapidly evolving exposures with many insureds being first-time buyers leading to further predicted growth. There was some organic premium growth in other traditional lines driven by insureds experiencing higher turnover, wage rolls and fee income, reflecting a slowly improving economic environment. Elsewhere in certain other casualty lines some market participants have recently cut back or exited, causing the overall growth in casualty business to slow.

### Prior year movement

The prior year movement was a release of 0.6% (2016: a release of 0.2%).

Casualty has been a particular focus for reserve oversight in 2017 and will continue to be closely monitored over the year ahead. This focus arose as a result of concerns around reserve strength of more recent years, though these are confined to particular underlying segments within the line.

Accident and Health has suffered particularly poor experience with a number of large losses impacting the 2016 year. This is in addition to the relatively high level of inherent uncertainty of casualty reserves in this long-tailed line, particularly under challenging market conditions.

### Looking ahead

The casualty market's performance is highly correlated with both economic and legal conditions. Despite the economic climate having improved since the late 2000s there remains certain sectors within financial and professional lines that are more exposed to the global fragile recovery with the potential to cause volatility in results.

Whilst the legal and regulatory environment varies across territories and jurisdictions, there is a general trend of increasing regulation and litigiousness in many regions of the world and in some territories fuelled by third-party litigation funding, which may lead to an increase in the frequency and severity of claims. Additionally, increases in inflation will put more pressure on attritional loss ratios for open claims as well as future years of account.

The global cyber insurance market continues to expand, with high profile breaches and evolving legislation, driving increased demand. A significant proportion of the business written is US domiciled, however growth rates in Europe are expected to increase with the adoption of the General Data Protection Regulation in May 2018. Lloyd's writes approximately a third of the global market share and pioneered many of the original products in this line and remains at the leading edge of product development by providing innovative, bespoke and risk transfer solutions in both standalone products or with coverage embedded or blended with traditional product lines. Risk aggregation and monitoring tools were introduced to understand and manage the exposures to cyber risk across the Lloyd's market; these will be enhanced further in 2018.

Generally, the market in all casualty lines remains highly competitive, with many participants seeking to expand their books, often through delegated underwriting arrangements. With no lack of appetite among insurers for casualty business, pricing levels have been challenging, but now show some signs of stabilization which is expected to continue further in 2018.

## Marine

A diverse mix of marine business is placed at Lloyd's who are regarded as industry leaders in the line. Principal lines of business include cargo, hull, marine liability, specie and fine art.

### 2017 performance

Lloyd's gross written premium for 2017 was £2,506m (2016: £2,470m), an increase of 1.5%. The Lloyd's marine line reported an accident year ratio of 121.8% (2016: 108.4%).

A competitive environment persisted in marine lines of business where capacity, despite some withdrawals, remained high. This was reflected in the pricing environment which saw similar reductions to the prior year in most lines. This trend was somewhat reversed following the three major hurricanes of the third quarter especially in the lines more severely affected by losses.

Income was broadly similar to 2016 levels with increases in some lines offset by reduction in others. Performance for 2017 was already under stress across the major lines of business in the first half of the year, mainly driven by attritional losses. The effects of Hurricanes Harvey, Irma and Maria added severely to margin pressure, especially in the cargo and yacht lines.

### Prior year movement

The prior year movement was a strengthening of 0.6% (2016: a release of 2.2%).

2017 experience in this line has been less favourable than in recent years and was at the level expected for exposures of this type.

### Looking ahead

Anecdotally there are suggestions the hurricane activity has acted as the catalyst for underlying price improvement, however, it remains to be seen whether the price firming seen towards the back end of 2017 into 2018 is sustained throughout 2018.

Despite less than favourable performance in the major sectors over successive years, driven largely by compounded price erosion, capacity remains high and syndicates resolve looks as though it will be tested.

## Energy

The Lloyd's energy line includes a variety of onshore and offshore property and liability sectors, ranging from construction to exploration, production, refining and distribution.

### 2017 performance

Gross written premium for the Lloyd's energy line in 2017 was £1,253m (2016: £1,110m), an increase of 12.9%. The Lloyd's energy line reported an accident year ratio of 107.7% (2016: 106.4%).

The growth in premium was impacted by a strengthening US dollar exchange rate in the first half of the year, compared with the period prior to the UK referendum result in 2016, when a substantial proportion of energy business incepts.

While there was further price erosion, the reductions in major upstream and downstream property lines were marginally less than in the prior year. The oil price continued to recover but was not yet at a level to encourage a largescale increase in offshore exploration and production. For both offshore and onshore, record levels of capacity were maintained meaning competition remained intense in those lines. There were signs of a price reduction slowdown as the year entered the final quarter, notably in onshore property.

# 2017 Highlights

Current year performance was affected by onshore property, which saw high loss activity levels, similar to 2016, underscored by the explosion at the ADNOC facility in Abu Dhabi. Power generation also suffered from the effects of Hurricanes Harvey, Irma and Maria. However, offshore property benefited from another relatively benign year of loss activity and this combined with the effects of favourable prior year loss movements produced an overall satisfactory performance in energy lines.

### Prior year movement

The prior year movement was a release of 21.1% (2016: 13.8%). This line continues to generate reserve releases across both the property and liability sectors. The level of reserve releases is supported by favourable development on known claims.

### Looking ahead

For upstream energy the oil price needs to recover further if income levels are to stabilise in the line.

With no contraction in available capacity for either offshore or onshore property competition is expect to remain. However, with prior year loss deterioration for offshore property and high loss activity in 2017 and 2016 for onshore property, conditions may exist for a hardening pricing environment in the short to medium term.

## Motor

Lloyd's motor market primarily covers UK private car, commercial and fleet business. Private car represents around 35% of Lloyd's UK motor premium and includes niche motor risks. Lloyd's commercial and fleet business is very diverse, ranging from light commercial vehicles and taxis to buses and heavy haulage.

International motor is also written; a large proportion emanating from North America, including private auto and static risks such as dealers open lot.

### 2017 performance

Gross written premium in 2017 was £1,057m (2016: £1,047m), an increase of 1.0%. The Lloyd's motor line reported an accident year ratio of 114.4% (2016: 108.9%).

Underwriting conditions in the UK motor market continue to be challenging. While the market has seen pricing levels increase in 2017 following the Ogden discount rate change in February 2017, this has not been sufficient to correct performance which continues to be disappointing. International motor also continues to perform poorly.

### Prior year movement

The motor line saw prior year strengthening of 7.9% of net earned premium (2016: strengthening of 2.6%).

There is uncertainty on the level of reserves for the UK motor insurance market being materially impacted by any change in the Ogden discount rate, which has led to some deterioration over the year. The previous Lord Chancellor has announced that there may be a further change in the Ogden discount rate to between 0% and +1%, however to date this has not materialised. This is following the reduction to the discount rate to -0.75% announced in February 2017, which increased the expected value of claims on prior years. The continued review of the process for setting the rate increases the uncertainty associated with future claims values. The incidence of claims settled as periodic payment orders (PPOs) also affects the level of uncertainty within this line, and this may be expected to vary as a result of the Ogden discount rate change.

### Looking ahead

The Ogden discount rate is currently subject to review by the Justice Secretary but any potential changes are not expected to be announced soon. Premiums will continue to be inflated to cater for the -0.75% rate for the near future and the consequent increase of reinsurance costs.

Future whiplash reforms should improve attritional loss experience when they are introduced in 2018 but the market could see a short term increase in claim volumes from claimant solicitors keen to take advantage of the existing regime. Further, the rising cost of repair, driven by continued advancements in vehicle technology will remain a challenge for insurers in all territories.

## Aviation

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

Airline (hull and liability) is the largest sector but Lloyd's 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 and in-orbit risks.

### 2017 performance

Gross written premium was £687m (2016: £627m), an increase of 9.6%. The Lloyd's aviation line reported an accident year ratio of 100.6% (2016: 106.9%).

2017 was an exceptionally light year for major loss activity with the airline sector having one of the safest years on record in terms of fatalities despite rising exposures. Notwithstanding this sustained and improving safety trend, it was still not a good year for insurers as rising attrition and price reductions continued to thwart profitability.

While overall pricing declined again in 2017, market conditions were more stable in the second half of the year with some evidence of an upturn in pricing in the final quarter, a key renewal period for many of the world's major airlines.

### Prior year movement

The prior year movement was a strengthening of 1.6% (2016: a release of 22.2%).

The experience for this class has been broadly in line with expected over 2017, reflected in the small strengthening over the year.

### Looking ahead

Improving safety and two years of relatively benign major loss activity have done little to curb the continuation of disappointing results. Exposure growth looks set to continue for the next few years, driven particularly by the emerging economies. Combined with more advanced technology and costs of repair, this will continue to drive higher levels of attrition, absent an increase in deductibles.

While market conditions in all aviation lines are more stable, with capacity readily available and little sign yet of a marked withdrawal, they are likely to remain challenging for insurers in 2018. Strict adherence to underwriting discipline and rigorous application to actively managing the insurance portfolio are required in order to generate positive returns.

## Reinsurance

| Property | Gross written premium | £m | Combined ratio | % | Underwriting result | £m |
|---|---|---|---|---|---|---|
| | 2013 | 4,930 | 2013 | 76.8 | 2013 | 846 |
| | 2014 | 4,472 | 2014 | 77.0 | 2014 | 801 |
| | 2015 | 4,627 | 2015 | 76.3 | 2015 | 794 |
| | 2016 | 5,022 | 2016 | 91.8 | 2016 | 299 |
| | 2017 | 5,991 | 2017 | 130.3 | 2017 | (1,260) |

| Casualty | Gross written premium | £m | Combined ratio | % | Underwriting result | £m |
|---|---|---|---|---|---|---|
| | 2013 | 1,698 | 2013 | 88.3 | 2013 | 165 |
| | 2014 | 1,779 | 2014 | 87.6 | 2014 | 187 |
| | 2015 | 1,797 | 2015 | 100.0 | 2015 | 0 |
| | 2016 | 2,096 | 2016 | 98.1 | 2016 | 33 |
| | 2017 | 2,223 | 2017 | 102.1 | 2017 | (39) |

| Specialty | Gross written premium | £m | Combined ratio | % | Underwriting result | £m |
|---|---|---|---|---|---|---|
| | 2013 | 2,349 | 2013 | 81.8 | 2013 | 310 |
| | 2014 | 2,237 | 2014 | 86.5 | 2014 | 225 |
| | 2015 | 2,169 | 2015 | 93.3 | 2015 | 110 |
| | 2016 | 2,290 | 2016 | 87.7 | 2016 | 216 |
| | 2017 | 2,346 | 2017 | 101.8 | 2017 | (31) |

# 2017 Highlights

## Insurance

| Property | Gross written premium | £m | Combined ratio | % | Underwriting result | £m |
|---|---|---|---|---|---|---|
| | 2013 | 6,103 | 2013 | 85.0 | 2013 | 681 |
| | 2014 | 6,274 | 2014 | 87.7 | 2014 | 558 |
| | 2015 | 6,893 | 2015 | 90.1 | 2015 | 501 |
| | 2016 | 7,988 | 2016 | 103.4 | 2016 | (202) |
| | 2017 | 8,965 | 2017 | 127.6 | 2017 | (1,757) |

| Casualty | Gross written premium | £m | Combined ratio | % | Underwriting result | £m |
|---|---|---|---|---|---|---|
| | 2013 | 4,850 | 2013 | 98.8 | 2013 | 47 |
| | 2014 | 4,959 | 2014 | 98.1 | 2014 | 74 |
| | 2015 | 5,764 | 2015 | 100.1 | 2015 | (5) |
| | 2016 | 7,131 | 2016 | 102.7 | 2016 | (146) |
| | 2017 | 8,464 | 2017 | 103.1 | 2017 | (189) |

| Marine | Gross written premium | £m | Combined ratio | % | Underwriting result | £m |
|---|---|---|---|---|---|---|
| | 2013 | 2,195 | 2013 | 95.4 | 2013 | 84 |
| | 2014 | 2,140 | 2014 | 95.2 | 2014 | 84 |
| | 2015 | 2,245 | 2015 | 94.2 | 2015 | 108 |
| | 2016 | 2,470 | 2016 | 106.2 | 2016 | (129) |
| | 2017 | 2,506 | 2017 | 122.4 | 2017 | (469) |

| Energy | Gross written premium | £m | Combined ratio | % | Underwriting result | £m |
|---|---|---|---|---|---|---|
| | 2013 | 1,668 | 2013 | 83.0 | 2013 | 201 |
| | 2014 | 1,532 | 2014 | 83.4 | 2014 | 181 |
| | 2015 | 1,414 | 2015 | 76.0 | 2015 | 247 |
| | 2016 | 1,110 | 2016 | 92.6 | 2016 | 59 |
| | 2017 | 1,253 | 2017 | 86.6 | 2017 | 105 |

| Motor | Gross written premium | £m | Combined ratio | % | Underwriting result | £m |
|---|---|---|---|---|---|---|
| | 2013 | 1,184 | 2013 | 108.6 | 2013 | (87) |
| | 2014 | 1,213 | 2014 | 106.6 | 2014 | (71) |
| | 2015 | 1,120 | 2015 | 102.0 | 2015 | (17) |
| | 2016 | 1,047 | 2016 | 111.5 | 2016 | (103) |
| | 2017 | 1,057 | 2017 | 122.3 | 2017 | (188) |

| Aviation | Gross written premium | £m | Combined ratio | % | Underwriting result | £m |
|---|---|---|---|---|---|---|
| | 2013 | 562 | 2013 | 81.4 | 2013 | 90 |
| | 2014 | 581 | 2014 | 102.7 | 2014 | (10) |
| | 2015 | 587 | 2015 | 95.7 | 2015 | 19 |
| | 2016 | 627 | 2016 | 84.7 | 2016 | 71 |
| | 2017 | 687 | 2017 | 102.2 | 2017 | (11) |

# Statement of Council's Responsibilities and Report of PricewaterhouseCoopers LLP to the Council on the 2017 Pro Forma Financial Statements

## Statement of Council's responsibilities

The Pro Forma Financial Statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared as closely as possible with general insurance companies.

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

The maintenance and integrity of the Lloyd's website is the responsibility of the Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council

### Report on the preparation of the 2017 Lloyd's Pro Forma Financial Statements

#### Conclusion

In our opinion the Council has prepared the Lloyd's Pro Forma Financial Statements (the "PFFS") for the financial year ended 31 December 2017, defined below, in all material respects in accordance with the basis of preparation set out in note 2.

This opinion is to be read in the context of what we say in the remainder of this report.

#### What we have assured

The PFFS, which are prepared by the Council of Lloyd's, comprise: a pro forma profit and loss account, a pro forma statement of other comprehensive income, a pro forma balance sheet, a pro forma statement of cash flows, and notes 1 to 24.

The financial reporting framework that has been applied in their preparation is the basis of preparation set out in note 2.

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Lloyd's Annual Report within which the PFFS for the year ended 31 December 2017 are included.

#### What a reasonable assurance engagement involves

We performed a reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information', issued by the International Auditing and Assurance Board.

We applied the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. We apply International Standard on Quality Control (UK) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The PFFS have been compiled in part from an aggregation of financial information extracted from the balance sheet and profit and loss account included in syndicate annual accounts by the managing agent of each syndicate, which has been submitted to the Council and on which the auditors of each syndicate have reported. Our work did not involve assessing the quality of those audits or performing any audit procedures over the financial information of the syndicates.

Our examination of the preparation of the PFFS consisted principally of:

- obtaining an understanding of how the Council has compiled the PFFS from the audited syndicate annual returns and accounts, the audited Society of Lloyd's Group Financial Statements and members' funds at Lloyd's;
- checking (on a sample basis) that the financial information included in the PFFS was correctly extracted from the syndicate annual accounts and the Society of Lloyd's Financial Statements;
- evaluating evidence to support the existence and valuation of members' funds at Lloyd's; and
- evaluating the evidence supporting the adjustments made in the preparation of the PFFS and obtaining evidence that the PFFS have been prepared in accordance with the basis of preparation set out in the PFFS notes.

The engagement also involves evaluating the overall presentation of the PFFS. We do not consider the appropriateness of the basis of preparation of the PFFS.

### Responsibilities for the PFFS and the reasonable assurance engagement

#### Our responsibilities and those of the Council

The Council is responsible for the preparation and approval of the PFFS in accordance with the basis of preparation set out in note 2. The purpose of the PFFS is to allow the financial results of Lloyd's and its members and their net assets taken together to be compared as closely as possible with the financial reports of general insurance companies.

Our responsibility is to express an opinion about whether the preparation of the PFFS has been performed by the Council on the basis set out in note 2.

This report including our conclusions has been prepared solely to the Council in accordance with our engagement letter dated 7 December 2017 (the "instructions"). Our examination has been undertaken so that we might state to the Council those matters which we are required to state in this report in accordance with the instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**PricewaterhouseCoopers LLP**
London
20 March 2018

# Pro Forma Profit and Loss Account

(For the year ended 31 December 2017)

| Technical account | Note | 2017 £m | 2017 £m | 2016 £m | 2016 £m |
|---|---|---|---|---|---|
| Gross written premiums | 9 | | 33,591 | | 29,862 |
| Outward reinsurance premiums | | | (8,722) | | (6,796) |
| Premiums written, net of reinsurance | | | 24,869 | | 23,066 |
| Change in the gross provision for unearned premiums | | (847) | | (723) | |
| Change in the provision for unearned premiums, reinsurers' share | | 476 | | 317 | |
| | | | (371) | | (406) |
| **Earned premiums, net of reinsurance** | | | 24,498 | | 22,660 |
| **Allocated investment return transferred from the non-technical account** | | | 732 | | 713 |
| | | | 25,230 | | 23,373 |
| **Claims paid** | | | | | |
| Gross amount | | 18,292 | | 13,913 | |
| Reinsurers' share | | (3,634) | | (2,431) | |
| | | | 14,658 | | 11,482 |
| **Change in provision for claims** | | | | | |
| Gross amount | | 9,768 | | 2,861 | |
| Reinsurers' share | | (6,176) | | (1,356) | |
| | | | 3,592 | | 1,505 |
| Claims incurred, net of reinsurance | | | 18,250 | | 12,987 |
| Net operating expenses | 11 | | 9,669 | | 9,205 |
| **Balance on the technical account for general business** | | | (2,689) | | 1,181 |
| | | | | | |
| **Non-technical account** | | | | | |
| **Balance on the technical account for general business** | | | (2,689) | | 1,181 |
| Investment return on syndicate assets | | 907 | | 810 | |
| Notional investment return on members' funds at Lloyd's | 6 | 722 | | 363 | |
| Investment return on Society assets | | 171 | | 172 | |
| | 12 | 1,800 | | 1,345 | |
| Allocated investment return transferred to the technical account | | (732) | | (713) | |
| | | | 1,068 | | 632 |
| (Loss)/profit on exchange | | | (62) | | 578 |
| Other income | | | 42 | | 77 |
| Other expenses | | | (360) | | (361) |
| **Result for the financial year before tax** | 8 | | **(2,001)** | | **2,107** |

All operations relate to continuing activities.

# Pro Forma Statement of Comprehensive Income

(For the year ended 31 December 2017)

| Statement of other comprehensive income | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| Result for the year | | (2,001) | 2,107 |
| Currency translation differences | | (69) | 389 |
| Other comprehensive losses in the syndicate annual accounts | | (2) | – |
| Remeasurement gains/(losses) on pension assets/liabilities in the Society accounts | | 41 | (111) |
| **Total comprehensive (loss)/income for the year** | 8 | **(2,031)** | **2,385** |

# Pro Forma Balance Sheet

(As at 31 December 2017)

| **Investments** | Note | **2017 £m** | **2017 £m** | 2016 £m | 2016 £m |
|---|---|---|---|---|---|
| Financial investments | 13 | | 55,765 | | 55,354 |
| Deposits with ceding undertakings | | | 18 | | 20 |
| **Reinsurers' share of technical provisions** | | | | | |
| Provision for unearned premiums | 18 | 3,372 | | 3,110 | |
| Claims outstanding | 18 | 16,811 | | 11,310 | |
| | | | 20,183 | | 14,420 |
| **Debtors** | | | | | |
| Debtors arising out of direct insurance operations | 14 | 8,882 | | 8,881 | |
| Debtors arising out of reinsurance operations | 15 | 5,921 | | 5,043 | |
| Other debtors | | 734 | | 926 | |
| | | | 15,537 | | 14,850 |
| **Other assets** | | | | | |
| Tangible assets | | 31 | | 31 | |
| Cash at bank and in hand | 16, 22 | 12,137 | | 12,292 | |
| Other | | 72 | | 81 | |
| | | | 12,240 | | 12,404 |
| **Prepayments and accrued income** | | | | | |
| Accrued interest and rent | | 104 | | 106 | |
| Deferred acquisition costs | 18 | 4,304 | | 4,278 | |
| Other prepayments and accrued income | | 245 | | 170 | |
| | | | 4,653 | | 4,554 |
| **Total assets** | | | **108,396** | | **101,602** |
| **Capital, reserves, subordinated debt and securities** | | | | | |
| Members' funds at Lloyd's | 6 | 24,579 | | 21,703 | |
| Members' balances | 17 | – | | 4,015 | |
| Members' assets (held severally) | | 24,579 | | 25,718 | |
| Central reserves (mutual assets) | | 2,188 | | 1,996 | |
| | 8 | | 26,767 | | 27,714 |
| Subordinated debt | 2 | | 793 | | 495 |
| Subordinated perpetual capital securities | 2 | | – | | 388 |
| **Total capital, reserves, subordinated debt and securities** | | | **27,560** | | **28,597** |
| **Technical provisions** | | | | | |
| Provision for unearned premiums | 18 | 16,377 | | 16,548 | |
| Claims outstanding | 18 | 54,893 | | 47,747 | |
| | | | 71,270 | | 64,295 |
| **Deposits received from reinsurers** | | | 111 | | 109 |
| **Creditors** | | | | | |
| Creditors arising out of direct insurance operations | 20 | 955 | | 772 | |
| Creditors arising out of reinsurance operations | 21 | 5,929 | | 4,670 | |
| Other creditors including taxation | | 1,781 | | 2,415 | |
| | | | 8,665 | | 7,857 |
| **Accruals and deferred income** | | | 790 | | 744 |
| **Total liabilities** | | | **108,396** | | **101,602** |

Approved by the Council on 20 March 2018 and signed on its behalf by

**Bruce Carnegie-Brown** Chairman **Inga Beale** Chief Executive Officer

# Pro Forma Statement of Cash Flows

(For the year ended 31 December 2017)

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| Result for the financial year before tax | | (2,001) | 2,107 |
| Increase/(decrease) in gross technical provisions | | 7,714 | 10,737 |
| (Increase)/decrease in reinsurers' share of gross technical provisions | | (5,930) | (3,231) |
| (Increase)/decrease in debtors | | (1,920) | (3,538) |
| Increase/(decrease) in creditors | | 1,596 | 2,540 |
| Movement in other assets/liabilities | | 66 | (645) |
| Investment return | | (1,800) | (1,345) |
| Depreciation | | 8 | 10 |
| Tax paid | | (51) | (48) |
| Foreign exchange | | 1,057 | (3,563) |
| Other | | (6) | 2 |
| **Net cash flows from operating activities** | | **(1,267)** | **3,026** |
| **Investing activities** | | | |
| Purchase of equity and debt instruments | | (38,462) | (41,931) |
| Sale of equity and debt instruments | | 39,631 | 41,594 |
| Purchase of derivatives | | (69) | (41) |
| Sale of derivatives | | 28 | 25 |
| Investment income received | | 801 | 779 |
| Other | | 171 | (116) |
| **Net cash flows from investing activities** | | **2,100** | **310** |
| **Financing activities** | | | |
| Net profits paid to members | | (1,711) | (2,217) |
| Net capital transferred into/(out of) syndicate premium trust funds | | 774 | (138) |
| Sale of debt securities | | 298 | – |
| Redemption of subordinated notes | | (392) | – |
| Interest paid on subordinated notes | | (53) | (53) |
| Net movement in members' funds at Lloyd's | | (123) | 827 |
| Other | | 21 | (30) |
| **Net cash flows from financing activities** | | **(1,186)** | **(1,611)** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(353)** | **1,725** |
| Cash and cash equivalents at 1 January | | 14,631 | 12,566 |
| Exchange differences on cash and cash equivalents | | (165) | 340 |
| **Cash and cash equivalents at 31 December** | 22 | **14,113** | **14,631** |

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 1. The Pro Forma Financial Statements

The Pro Forma Financial Statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared as closely as possible with general insurance companies.

## 2. Basis of preparation

### General

The PFFS have been prepared by aggregating audited financial information reported in syndicate returns and annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's on pages 120 to 169. Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the PFFS; the going concern and viability statement of the Society is included within the Society Report on pages 112 to 113.

The Aggregate Accounts report the audited results for calendar year 2017 and the financial position at 31 December 2017 for all life and non-life syndicates that transacted business during the year. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 9). The Aggregate Accounts are reported as a separate document and can be viewed at lloyds.com/financialresults. In order to provide more meaningful information in the Aggregate Accounts and PFFS, the Society has required syndicates to report certain disclosures presented on a consistent basis, which may vary from presentation included in the individual syndicates' annual accounts.

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

The PFFS have, where practicable, been prepared in accordance with United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice (UK GAAP)), including Financial Reporting Standard 102 (FRS 102) and the applicable Accounting Standard on insurance contracts Financial Reporting Standard 103 (FRS 103). In preparing the PFFS, note disclosures have been included for those areas the Council consider material to enable the PFFS to depict a comprehensive view of the financial results and position of the Lloyd's market and to enable comparison with general insurance companies, with the exception of the following items:

- Use of the aggregation basis to prepare the PFFS;
- Notional investment return on members' funds at Lloyd's;
- The statement of changes in equity;
- Taxation; and
- Related party transactions.

### (a) Aggregation

The PFFS have not been prepared in accordance with full consolidation principles and do not present a consolidated view of the results of the Lloyd's business taken as a single entity for the reasons detailed further below. However, the PFFS may be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

The syndicates' financial information included in the PFFS has been prepared in accordance with the recognition and measurement requirements of UK GAAP by reference to the accounting policies that are deemed most appropriate by the managing agents. Where different accounting policies have been selected by managing agents in preparing syndicate annual accounts, no adjustments are made to align the bases of recognition and measurement in the PFFS. In addition, no adjustments are made to eliminate inter-syndicate transactions and balances except for those relating to inter-syndicate loans and Special Purpose Arrangements (SPA). Transactions between syndicates and the Society of Lloyd's are eliminated in the PFFS. These adjustments are described below:

#### Inter-syndicate loans

The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £122m (2016: £135m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the PFFS (note 8).

#### Special Purpose Arrangements (SPA)

The Aggregate Accounts include the results and assets of the SPA (see Glossary on inside back cover). Due to the nature of the SPA, the quota share of the host syndicate's business is reported as gross written premiums in both the host syndicate and the SPA annual accounts. This leads to an overstatement of the original premiums written by the whole Lloyd's market. To provide users of the PFFS with a more meaningful presentation of the market's figures, all the transactions arising from the insurance contracts between the SPA and host syndicates have been eliminated. The key impact of this elimination is that gross written premium is reduced by £589m (2016: £552m). The elimination does not affect the PFFS result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

#### Transactions between syndicates and the Society

- Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate annual accounts and as income in the Society financial statements.

- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls, and do not have the resources to meet those cash calls, are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate annual accounts for calendar year 2017 and earlier years include those members' results and at the balance sheet date will report the outstanding liability within members' balances.
- Loans funding statutory overseas deposits are reported as assets within the syndicate annual accounts and as liabilities in the Society financial statements.

### (b) Notional investment return on members' funds at Lloyd's (FAL)

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

Due to the estimation of the notional investment return, movements in FAL recorded within the financing section of the statement of cash flows is comprised of both cash and non-cash activity.

### (c) Statement of changes in equity

Where Lloyd's is not the investment manager for FAL, actual changes are not available and therefore a statement of changes in equity has not been included. However, a statement of changes in members' balances has been included in note 17, which, along with the Society's Group statement of changes in equity (on page 123), represents the changes in equity of the other components of the PFFS.

### (d) Taxation

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

### (e) Related party transactions

Individual syndicates or their members do not disclose details of insurance and/or reinsurance transactions with other (non-related) syndicates or members within the market. Therefore, analysis and/or disclosure of these transactions within the Lloyd's market in the PFFS is not possible. Other than the disclosures made in note 24, a more detailed related party transaction note is therefore not included within the PFFS. The annual accounts of each syndicate or member provide, where appropriate, the required disclosures on related parties. The related party transactions of the Society are disclosed in note 26 on page 168 of the Society Report.

### Members' funds at Lloyd's (FAL)

FAL comprise the capital provided by members, which is generally held centrally, to support their underwriting, and are the equivalent of capital shown in insurance companies' accounts. The valuation of FAL has, therefore, been included in the pro forma balance sheet. FAL is available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable and may include letters of credit and bank and other guarantees.

The total resources, including FAL, for members writing ongoing insurance must be at least equivalent to the aggregate of the member's Economic Capital Assessment (ECA) requirement and certain liabilities in respect of its underwriting business. Each member's ECA to support its underwriting at Lloyd's is determined using Lloyd's Solvency Capital Requirement to ultimate capital setting methodology.

### Subordinated debt and securities

In accordance with the terms of the Society's subordinated debt and securities, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves and subordinated debt and securities' in the pro forma balance sheet. Note 21 to the Society financial statements on page 164 provides additional information.

### Society of Lloyd's financial statements

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

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 3. Accounting policies notes

### Sources of significant accounting judgements and estimation uncertainty

The PFFS aggregates judgements, estimates and assumptions made by managing agents in respect of syndicate balances, and the Council, in respect of the Society of Lloyd's and Funds at Lloyd's balances. These judgements, estimates and assumptions affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the PFFS are described in the following accounting policies:

- Claims provisions and related recoveries (including provision for outstanding claims) (see note 3(a) and note 18);
- Premiums written (estimates for premiums written under delegated authority agreements) (see note 3(a) and note 9);
- Investments (valuations based on models and unobservable inputs) (see note 3(a) and note 13); and
- Notional investment return on FAL (estimate based on yields from indices for each type of asset held) (see note 2(b), note 3(b) and note 6).

The most critical accounting estimate included within the balance sheet is the estimate for outstanding claims. The total estimate, net of reinsurers' share, as at 31 December 2017 is £38,082m (2016: £36,437m) and is included within the pro forma balance sheet.

### (a) Aggregate accounts

#### General

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, managing agents must prepare syndicate annual accounts under UK GAAP. However, where UK GAAP permits different accounting treatments, each managing agent is able to adopt the accounting policies it considers most appropriate to its syndicate. The following accounting policies are, therefore, an overview of the policies generally adopted by syndicates.

#### Premiums written

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

#### Unearned premiums

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

#### Outward reinsurance premiums

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

#### Claims provisions and related recoveries

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

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

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

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the line of business, the claims experience for the year and the current security rating of the reinsurers involved. Statistical techniques are used to assist in making these estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The Directors of each syndicate's managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them.

However, the ultimate liability will vary as a result of subsequent information and events, which may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Additional information on insurance risk is disclosed in note 4.

### Discounted claims provisions

Due to the long delay between the inception date of the policy and the final settlement of the claim, the outstanding claims provisions are discounted to take account of the expected investment income receivable between inception and settlement on the assets held to cover the provisions. This is only applicable to the syndicates that discount their claims provisions.

### Unexpired risks provision

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

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

### Acquisition costs

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

### Foreign currencies

The Council considers that the functional currency and the presentational currency of the PFFS and Aggregate Accounts is sterling. Notwithstanding this, a number of syndicates are now using US dollar functional currency for their reporting. In the context of the PFFS and Aggregate Accounts the Council views this to be the equivalent of a group which has different operating units with a mix of functional currencies.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the average rate may be used when this is a reasonable approximation.

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of non-monetary assets and liabilities denominated in foreign currencies are recognised in other comprehensive income for those items where the gain or loss is required to be recognised within other comprehensive income, and in the non-technical account where the gain or loss is required to be recognised within profit or loss.

### Investments

Investments are stated at fair value at the balance sheet date. For this purpose, listed investments are stated at their bid price market value, and deposits with credit institutions and international deposits are stated at cost, less any provision for impairment.

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

### Syndicate investment return

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

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

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

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

### Taxation

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

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

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 3. Accounting policies notes continued

### Operating expenses

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

### Profit commission

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

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

### Cash at bank and in hand

Cash at bank and in hand includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

### Comparative disclosures

Certain comparative balances have been reclassified to be consistent with current year presentation.

### (b) Member's funds at Lloyd's (FAL)

FAL is valued in accordance with their market value at the year end, and using year end exchange rates. Investments are stated at fair value at the balance sheet date. For this purpose, listed investments are stated at their bid price market value, and deposits with credit institutions and international deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date. Letters of credit are stated at the amount guaranteed by the issuing credit institution.

As disclosed in the basis of preparation a notional investment return on FAL is estimated, which is recognised in the non-technical account.

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

### (c) Society of Lloyd's

The accounting policies adopted in the Society of Lloyd's financial statements are set out on pages 120 to 169. No adjustments have been made to the information incorporated into the PFFS as the Council do not consider there to be any material accounting policy differences between the existing IFRS accounting policies and the recognition and measurement requirements of UK GAAP.

## 4. Risk management

### Governance framework

The following governance structure relates to the Society of Lloyd's as a whole, as the preparer of the PFFS. Individual syndicates will report in their syndicate annual accounts the governance structure applied to them by their managing agents.

An Act of Parliament, the Lloyd's Act 1982, defines the governance structure and rules under which Lloyd's operates. Under the Act, the Council is responsible for the management and supervision of the market. Lloyd's is regulated by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000.

The Council normally has six working, six external and six nominated members. The working and external members are elected by Lloyd's members. The Chairman and Deputy Chairmen are elected annually by the Council from among its members. All members are approved by the PRA.

The Council can discharge some of its functions directly by making decisions and issuing resolutions, requirements, rules and byelaws. Other decisions are delegated to the Board and associated committees.

The Board is responsible for the day to day management of the Lloyd's market. It lays down guidelines for all syndicates and operates a business planning and monitoring process to safeguard high standards of underwriting and risk management, thereby improving sustainable profitability and enhancing the financial strength of the market.

The principal committees of the Council are the Nominations and Governance Committee and the Remuneration Committee.

The principal committees of the Board are the Audit Committee, the Risk Committee, the Market Supervision and Review Committee, the Capacity Transfer Panel and the Investment Committee.

### Capital management objectives, policies and approach

#### Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000. Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirements in respect of individual syndicates are not disclosed in these financial statements.

### Lloyd’s capital setting process

In order to meet Lloyd’s requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR ‘to ultimate’). The SCRs of each syndicate are subject to review by Lloyd’s and approval by the Lloyd’s Capital and Planning Group.

A syndicate may be comprised of one or more underwriting member of Lloyd’s. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members’ shares. Accordingly, the capital requirement that Lloyd’s sets for each member operates on a several basis. Each member’s SCR shall thus be determined by the sum of the member’s share of the syndicate SCR ‘to ultimate’. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR that reflects the capital requirement to cover a 1 in 200 year loss ‘to ultimate’ for that member. Over and above this, Lloyd’s applies a capital uplift to the member’s capital requirement to determine the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd’s not a Solvency II requirement, is to meet Lloyd’s financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% of the member’s SCR ‘to ultimate’.

### Solvency Capital Requirement (Solvency II basis)

The SCR represents the amount of capital required to withstand a 1 in 200 year loss event over a 12 month horizon. Given Lloyd’s unique structure there are two SCRs that are monitored under the Solvency II regime:

The Lloyd’s market wide SCR (MWSCR) is calculated to cover all of the risks of ‘the association of underwriters known as Lloyd’s’, ie those arising on syndicate activity, members’ capital provided at Lloyd’s and the Society taken together, at a 99.5% confidence level over a one year time horizon as provided for in Solvency II legislation. All of the capital of the component parts of the market taken together are available to meet the MWSCR.

The Lloyd’s central SCR (CSCR) is calculated in respect of only the risks facing the Society and the Central Fund at the same confidence level and time horizon used to calculate the MWSCR.

The material risk is that members do not have sufficient funds to meet their underwriting losses even having complied with Lloyd’s rigorous capital setting rules.

Individual syndicates are also required to calculate a SCR, at a 99.5% confidence level over a one year horizon, for each underwriting year; this drives the determination of member level SCRs. Each member’s SCR is derived as the sum of the member’s share of the syndicate’s one year SCR. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk.

The MWSCR and CSCR are derived from the Lloyd’s Internal Model (LIM), which has been approved by the PRA. Individual syndicates also derive SCRs from their own internal models that are subject to approval by the Lloyd’s Capital and Planning Group. The appropriateness of each syndicate’s internal model, including changes thereto and the reasonableness of the key assumptions are assessed as part of Lloyd’s oversight of the Lloyd’s market.

### The Lloyd’s Internal Model

The LIM is a purpose-built model designed to calculate the MWSCR and CSCR as required under Solvency II. It covers all risk types and all material risks for the aggregation of syndicates as well as for the Corporation, allowing for the unique capital structure of Lloyd’s. The LIM consists of three main components: the Lloyd’s Investment Risk Model (LIRM), which simulates economic variables and total assets returns; the Lloyd’s Catastrophe Model (LCM), which models catastrophe risk using syndicates’ views of risk; and the Capital Calculation Kernel (CCK), which is the main element of the LIM where all other risks are simulated and all risks are combined.

Syndicates calculate their own SCR, however, the market wide and central capital requirements are derived from Lloyd’s parameterisation at a whole market level to build a view of total market capital requirements from the ground up using market level assumptions. The LIM uses a methodology whereby losses from insurance and other risks are simulated by line of business, allocated to syndicates and through to members to assess the level of capital required by the market and centrally to meet 1 in 200 year losses over the one year time horizon.

Syndicates are the source of the majority of risks. They source all of the insurance business; manage the bulk of the asset portfolios; hold the majority of the counterparty exposures; and conduct most of the day to day operational activity. The syndicate risks include: Insurance risk (underwriting, reserving and catastrophe risk); Market risk on central assets; Market risk on syndicate assets (including credit risk on Premiums Trust Funds (PTF)); Reinsurance and other credit risk; and Syndicate operational risk. At the Central level, additional risks arise from central operational risk and pension fund risk.

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 4. Risk management continued

Details of the major risk components are set out below.

### Insurance risk

The dominant category of risk faced by Lloyd's syndicates is insurance risk. This is 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:

(i) underwriting risk;
(ii) reserving risk;
(iii credit risk; and
(iv) catastrophe 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 that is submitted to the Corporation for approval each year. Approval of business plans – and setting the capital requirements needed to support these plans – is the key control the Corporation uses to manage underwriting risk.

The Corporation reviews each syndicate business plan to ensure it meets Lloyd's standards and is consistent with the capabilities of the managing agent. Once a plan is agreed, 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.

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

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

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

### 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 across lines of business but can arise from inadequate reserves for known or Incurred But Not Reported Claims (IBNR). These shortfalls can arise from inadequate reserving processes or from the naturally uncertain progress of insurance events.

Lloyd's current level of aggregate market reserves remains robust and the continued level of overall reserve releases are supported by underlying claims experience being more favourable than expected. This will not necessarily translate to all syndicates. There are currently few specific reserving issues and the main perceived risks relate to macro influences such as inflation or changes in legislation, or prescribed levels of payout. Lloyd's analyses reserve developments at line of business and syndicate levels quarterly; and briefs the market on issues it considers need to be taken into account.

Case-specific claim reserves should make financial provision at reported loss levels, without prejudice to coverage.

Legal advisers', underwriters' and loss adjusters' judgement are used to set the estimated case reserves.

Reserving processes use a variety of statistical analyses such as projections of historical loss development patterns, with results adjusted for expert judgement. Lloyd's syndicates have significant exposure to volatile lines of business that carry material inherent risk that the ultimate claims settlement will vary from previous assessments of reserves.

Syndicates' reserves are annually subject to a formal independent actuarial opinion and are monitored by the Corporation. The actuarial opinions are covered by a combination of formal Actuarial Professional Standards and specific Lloyd's guidance and rules.

### Credit risk

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 reinsurer is unable to settle its liabilities. Managing agents are expected to have a clear and comprehensive plan for the reinsurance of each syndicate. This takes into account risk appetite for retained insurance risk and the potential for the accumulation of risk.

The managing agent should monitor and assess the security of, and exposure to, each reinsurer and intermediary. Reinsurance credit risk is subject to quarterly review by Lloyd's.

### Catastrophe risk

Catastrophe risk is the risk of loss occurring across all lines of business from worldwide natural catastrophe events. Managing agents may use catastrophe modelling software, where appropriate, to monitor aggregate exposure to catastrophe losses. The Corporation has developed a suite of Realistic Disaster Scenarios to measure syndicate level and aggregate market exposure to both natural catastrophes and man-made losses. These are monitored frequently and syndicates supply projected probabilistic exceedance forecasts for Lloyd's key exposures with their capital and business plans. Further enhancements to the monitoring and oversight of aggregate market catastrophe risk exposure have been implemented within the approved internal model under Solvency II.

## Lloyd's MWSCR

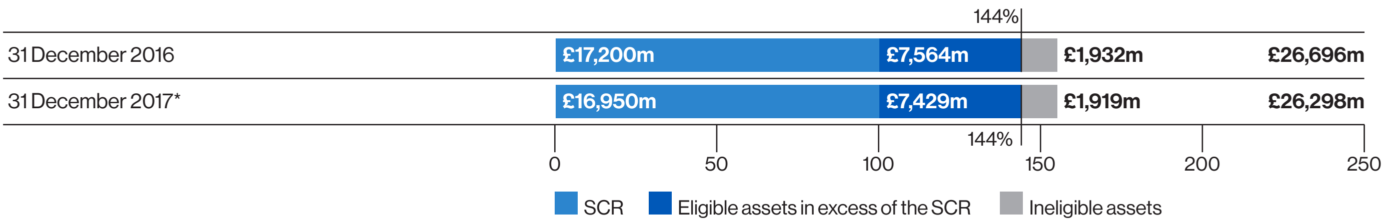
The MWSCR is broken down into the various risk components as shown below.

| | **31 December 2017* SCR £m** | 31 December 2016 SCR £m |
|---|---|---|
| Reserving risk | 6,183 | 3,421 |
| All other (attritional) underwriting risk | 5,733 | 6,008 |
| Catastrophe risk | 3,923 | 5,129 |
| Market risk | 181 | 293 |
| Reinsurance credit risk | 523 | 885 |
| Operational risk | 728 | 645 |
| Pension risk | 14 | 23 |
| **MWSCR before adjustments** | **17,285** | **16,404** |
| Foreign exchange adjustment for movement in H2 2017 (H2 2016) | (335) | 796 |
| **MWSCR** | **16,950** | **17,200** |

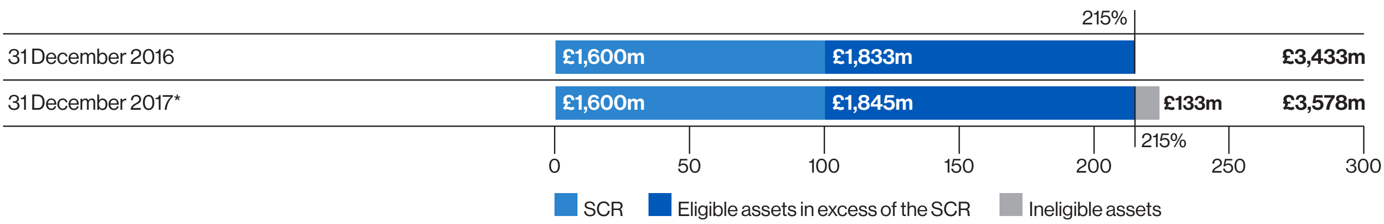
## Solvency Capital Requirement coverage

Coverage of the MWSCR and CSCR is an ongoing and continuous requirement and Lloyd's reports the results of its solvency test – ie the amount of the MWSCR, eligible assets to cover it and the solvency ratio – on a quarterly basis to the PRA. Lloyd's solvency coverage for both MWSCR and CSCR are set out below.

### Lloyd's MWSCR




### Lloyd's CSCR




* Represents the position based on the unaudited solvency returns, which may differ from the final audited 2017 submissions.

In addition to the quarterly reporting to the PRA, internal risk appetites have been set to monitor the coverage of the MWSCR and CSCR as part of the risk management framework in place at Lloyd's. During 2017, the solvency coverage ratios for both the MWSCR and the CSCR were in excess of internal risk appetites and regulatory requirements.

- MWSCR: The Society aims to hold capital sufficient to provide financial security to policyholders and capital efficiency to investors (or 'members'). Members are required to put up funds to meet their ECA, which is set as their SCR (on an ultimate view of risk) plus an uplift of 35%. Lloyd's does not require excess capital to be held above this level and considers that the risk appetite of 125% of SCR gives an appropriate buffer following diversification benefits. In the event that the capital put up by a member falls below their ECA through losses incurred or an increase in their risk profile, additional funds must be deposited. If members do not recapitalise, their authority to continue to trade is restricted to the level of their available capital or ultimately fully withdrawn and they cease trading. Such action would then reduce their risk and the aggregate MWSCR.
- CSCR: All policies written at Lloyd's are supported by central assets, which underpin the financial strength ratings of the Lloyd's market and its international licence network. Accordingly, the risk appetite for 200% CSCR coverage reflects the prudent approach to maintaining adequate central assets to meet a 1 in 200 year event and be in position to continue to write new business.

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 4. Risk management continued

| Solvency cover ratios | MWSCR coverage | CSCR coverage |
|---|---|---|
| 31 December 2017* | 144% | 215% |
| 31 December 2016 | 144% | 215% |
| Risk appetite for solvency cover ratio | 125% | 200% |

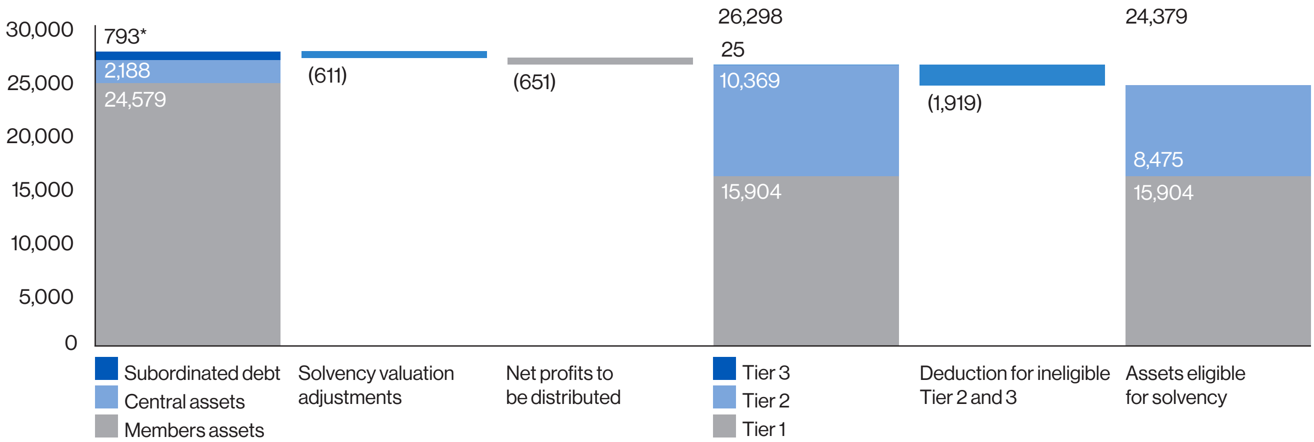
* Based on the unaudited solvency returns.

### Assets eligible for solvency

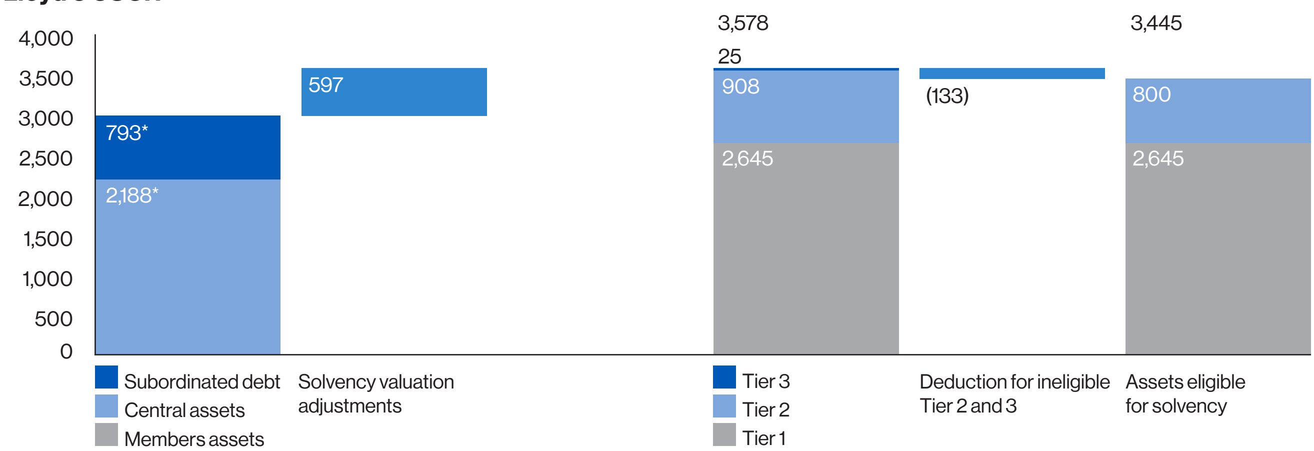
The assets of the syndicates, members' FAL and the Society of Lloyd's all contribute towards coverage of the MWSCR, after adjustments to value items in accordance with Solvency II valuation principles. The Society of Lloyd's assets and callable layer, in the chain of security, are available to cover the central SCR.

The eligibility of assets to cover the SCR under Solvency II is determined by a tiering test. Tier 1 assets are fully available to cover the SCR while Tier 2 and Tier 3 assets in aggregate can cover up to 50% of the SCR. The majority of the assets available to cover the MWSCR are Tier 1, however, a proportion of members' FAL is provided in the form of Letters of Credit (LOCs) which are classed as Tier 2 assets, restricting their ability to cover the MWSCR and resulting in a lower solvency cover ratio. These LOCs are callable on demand and when called, the proceeds, namely cash, would qualify as Tier 1 assets. Under these circumstances, the amounts previously restricted would become fully eligible.

**Lloyd's MWSCR**




**Lloyd's CSCR**




* Per 31 December 2017 balance sheet. Other amounts represent the position based on the unaudited solvency returns, which may differ from the final audited 2017 submissions.

## Claims development table

The tables below illustrate the development of the estimates of earned ultimate cumulative claims for syndicates in aggregate after the end of the underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non-sterling balances have been converted using 2017 year end exchange rates to aid comparability. As these tables are on an underwriting year basis there is an apparent jump from figures for the end of the underwriting year to one year later as a large proportion of premiums are earned in the year of account's second year of development.

Advantage has been taken of the transitional rules of FRS 103 that permit the stepped increase in disclosure of claims development information. The claims development information disclosed will be increased from seven years to ten years over the period 2018-2020.

Gross

| Underwriting year | 2010 and prior years £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 £m | **2017 £m** | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| At end of underwriting year | | 9,791 | 8,936 | 7,619 | 7,806 | 7,503 | 8,649 | **16,707** | |
| One year later | | 16,271 | 14,395 | 14,313 | 14,949 | 15,744 | 19,459 | | |
| Two years later | | 16,469 | 14,875 | 14,709 | 15,974 | 16,629 | | | |
| Three years later | | 16,499 | 14,652 | 14,408 | 15,866 | | | | |
| Four years later | | 16,467 | 14,654 | 14,170 | | | | | |
| Five years later | | 16,315 | 14,501 | | | | | | |
| Six years later | | 16,204 | | | | | | | |
| Cumulative payments | | (14,326) | (11,782) | (10,706) | (10,557) | (8,885) | (6,752) | **(2,829)** | |
| **Estimated balance to pay** | 7,194 | 1,878 | 2,719 | 3,464 | 5,309 | 7,744 | 12,707 | **13,878** | **54,893** |

Net

| Underwriting year | 2010 and prior years £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 £m | **2017 £m** | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| At end of underwriting year | | 7,941 | 6,891 | 6,331 | 6,388 | 6,389 | 7,134 | **9,747** | |
| One year later | | 12,989 | 11,672 | 11,978 | 12,195 | 13,107 | 14,934 | | |
| Two years later | | 13,018 | 11,970 | 12,140 | 12,870 | 13,720 | | | |
| Three years later | | 13,041 | 11,827 | 11,866 | 12,801 | | | | |
| Four years later | | 13,071 | 11,644 | 11,677 | | | | | |
| Five years later | | 12,763 | 11,546 | | | | | | |
| Six years later | | 12,532 | | | | | | | |
| Cumulative payments | | (11,117) | (9,421) | (8,943) | (8,862) | (7,653) | (5,727) | **(2,212)** | |
| **Estimated balance to pay** | 5,060 | 1,415 | 2,125 | 2,734 | 3,939 | 6,067 | 9,207 | **7,535** | **38,082** |

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 4. Risk management continued

### Financial risk

#### Credit risk

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

As discussed on page 52, the market's principal credit risk is that the reinsurance purchased to protect the syndicate's gross losses does not respond as expected. Syndicates are also exposed to credit risk in their premium debtors. Credit risk in respect of premium debt is controlled through broker approval and regular monitoring of premium settlement performance. Syndicates and members are exposed to credit risks in their investment portfolios. PRA and Lloyd's investment guidelines are designed to mitigate credit risk by ensuring diversification of holdings.

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure.

The tables below show the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

| **2017** | **Neither past due nor impaired £m** | **Past due £m** | **Impaired £m** | **Total £m** |
|---|---|---|---|---|
| Debt securities | 37,193 | – | 4 | **37,197** |
| Participation in investment pools | 2,118 | – | – | **2,118** |
| Loans with credit institutions | 1,050 | – | – | **1,050** |
| Deposits with credit institutions | 5,791 | – | – | **5,791** |
| Derivative assets | 75 | – | – | **75** |
| Other investments | 60 | – | – | **60** |
| Reinsurers' share of claims outstanding | 16,811 | – | – | **16,811** |
| Cash at bank and in hand, including letters of credit and bank guarantees | 12,137 | – | – | **12,137** |
| **Total** | **75,235** | **–** | **4** | **75,239** |

| 2016 | Neither past due nor impaired £m | Past due £m | Impaired £m | Total £m |
|---|---|---|---|---|
| Debt securities | 38,213 | – | 3 | **38,216** |
| Participation in investment pools | 1,863 | – | – | **1,863** |
| Loans with credit institutions | 904 | – | – | **904** |
| Deposits with credit institutions | 5,115 | – | – | **5,115** |
| Derivative assets | 56 | – | – | **56** |
| Other investments | 67 | – | – | **67** |
| Reinsurers' share of claims outstanding | 11,289 | 21 | – | **11,310** |
| Cash at bank and in hand, including letters of credit and bank guarantees | 12,292 | – | – | **12,292** |
| **Total** | **69,799** | **21** | **3** | **69,823** |

In aggregate there are no financial assets that would be past due or impaired whose terms have been renegotiated held by syndicates, the Society or within FAL.

In aggregate there were no material debt and fixed income assets held that were past due or impaired beyond their reported fair values, either for the current period under review or on a cumulative basis. For the current period and prior period, in aggregate there were no material defaults on debt securities.

Assets held as collateral comprise cash and debt securities received as collateral against reinsurance assets transferred from syndicates' reinsurers.

The table below provides information regarding the credit risk exposure at 31 December 2017 by classifying assets according to the credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as other. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated. This table is the sum of assets neither past due nor impaired.

| **2017** | **Rated AAA £m** | **Rated AA £m** | **Rated A £m** | **Rated BBB £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|---|---|
| Debt securities | 9,379 | 10,143 | 9,514 | 4,827 | 3,330 | **37,193** |
| Participation in investment pools | 187 | 66 | 130 | 8 | 1,727 | **2,118** |
| Loans with credit institutions | 473 | 76 | 126 | 54 | 321 | **1,050** |
| Deposits with credit institutions | 1,592 | 554 | 508 | 257 | 2,880 | **5,791** |
| Derivative assets | – | 1 | 5 | 5 | 64 | **75** |
| Other investments | 33 | 5 | – | – | 22 | **60** |
| Reinsurers' share of claims outstanding | 278 | 3,868 | 10,781 | 40 | 1,844 | **16,811** |
| Cash at bank and in hand | 176 | 2,207 | 8,811 | 478 | 465 | **12,137** |
| **Total credit risk** | **12,118** | **16,920** | **29,875** | **5,669** | **10,653** | **75,235** |

| 2016 | Rated AAA £m | Rated AA £m | Rated A £m | Rated BBB £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| Debt securities | 10,168 | 11,473 | 9,377 | 4,352 | 2,843 | **38,213** |
| Participation in investment pools | 360 | 127 | 108 | 6 | 1,262 | **1,863** |
| Loans with credit institutions | 164 | 209 | 102 | 18 | 411 | **904** |
| Deposits with credit institutions | 1,462 | 644 | 394 | 221 | 2,394 | **5,115** |
| Derivative assets | – | 5 | 12 | 1 | 38 | **56** |
| Other investments | 6 | 11 | 29 | – | 21 | **67** |
| Reinsurers' share of claims outstanding | 126 | 3,185 | 7,032 | 60 | 886 | **11,289** |
| Cash at bank and in hand | 152 | 1,775 | 9,333 | 654 | 378 | **12,292** |
| **Total credit risk** | **12,438** | **17,429** | **26,387** | **5,312** | **8,233** | **69,799** |

## Liquidity risk

Liquidity risk arises where there are insufficient funds to meet 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, and conducts stress tests to monitor the impact on liquidity of significant claims events.

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 4. Risk management continued

The table below summarises the maturity profile of financial liabilities for the market.

| 2017 | No stated maturity £m | 0-1 yr £m | 1-3yr £m | 3-5yr £m | >5 yr £m | Total £m |
|---|---|---|---|---|---|---|
| Claims outstanding | 1 | 18,410 | 19,890 | 8,328 | 8,264 | **54,893** |
| Derivatives | – | 20 | – | – | – | **20** |
| Deposits received from reinsurers | 31 | 61 | 12 | 7 | – | **111** |
| Provisions for other risks and charges | 1 | – | – | – | – | **1** |
| Creditors | 757 | 6,805 | 792 | 153 | 930 | **9,437** |
| Other creditors | 6 | 33 | – | – | – | **39** |
| **Total** | **796** | **25,329** | **20,694** | **8,488** | **9,194** | **64,501** |

| 2016 | No stated maturity £m | 0-1 yr £m | 1-3yr £m | 3-5yr £m | >5 yr £m | Total £m |
|---|---|---|---|---|---|---|
| Claims outstanding | 31 | 15,192 | 16,704 | 7,638 | 8,182 | **47,747** |
| Derivatives | – | 69 | 4 | – | 3 | **76** |
| Deposits received from reinsurers | 64 | 31 | 13 | 1 | – | **109** |
| Provisions for other risks and charges | 1 | – | – | – | – | **1** |
| Creditors | 1,418 | 5,682 | 609 | 160 | 794 | **8,663** |
| Other creditors | – | 16 | – | – | – | **16** |
| **Total** | **1,514** | **20,990** | **17,330** | **7,799** | **8,979** | **56,612** |

### Market risk – overview

Market risk is the risk that the value of financial instruments will fluctuate because of movements in foreign currency, interest rates or asset values. Syndicate assets are held in premium trust funds and are subject to the asset rules contained in the PRA's handbook. Managing agents manage asset risk through their investment strategy.

There is greater oversight of market risk in light of the volatile economic climate, which includes the monitoring of Investment Management Minimum Standards. Lloyd's Financial Risk Committee monitors assets across the full chain of security to ensure the asset disposition of the market and Corporation remains appropriate, closely monitoring global economic and market trends.

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

Market risk comprises three types of risk:

(a) currency risk;
(b) interest rate risk; and
(c) equity price risk.

## 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. In addition, many members seek to match their capital disposition by currency against their peak exposures. At 31 December 2017, 67% (2016: 69%) of all capital deployed at Lloyd's was provided in US dollars.

The profile of the aggregate of the Lloyd's market assets and liabilities, categorised by currency at their translated carrying amounts was as follows:

| 2017 | Sterling £m | US dollar £m | Euro £m | Canadian $ £m | Australian $ £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|
| Financial investments | 10,257 | 35,675 | 2,890 | 4,804 | 1,595 | 544 | **55,765** |
| Reinsurers' share of technical provisions | 3,443 | 14,977 | 876 | 611 | 225 | 51 | **20,183** |
| Insurance and reinsurance receivables | 2,547 | 10,598 | 774 | 453 | 228 | 203 | **14,803** |
| Cash at bank and in hand | 4,511 | 6,107 | 765 | 237 | 221 | 296 | **12,137** |
| Other assets | 1,238 | 3,704 | 472 | 258 | 84 | (248) | **5,508** |
| **Total assets** | **21,996** | **71,061** | **5,777** | **6,363** | **2,353** | **846** | **108,396** |
| Technical provisions | 13,942 | 46,286 | 5,089 | 3,785 | 1,506 | 662 | **71,270** |
| Insurance and reinsurance payables | 1,011 | 5,078 | 363 | 302 | 68 | 62 | **6,884** |
| Other liabilities | 1,770 | 1,846 | (1) | 21 | 10 | (171) | **3,475** |
| **Total liabilities** | **16,723** | **53,210** | **5,451** | **4,108** | **1,584** | **553** | **81,629** |
| **Total capital and reserves** | **5,273** | **17,851** | **326** | **2,255** | **769** | **293** | **26,767** |

| 2016 | Sterling £m | US dollar £m | Euro £m | Canadian $ £m | Australian $ £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|
| Financial investments | 9,509 | 36,373 | 2,656 | 4,717 | 1,508 | 591 | **55,354** |
| Reinsurers' share of technical provisions | 3,108 | 9,585 | 755 | 654 | 209 | 109 | **14,420** |
| Insurance and reinsurance receivables | 2,424 | 9,958 | 739 | 451 | 199 | 153 | **13,924** |
| Cash at bank and in hand | 4,399 | 6,369 | 826 | 190 | 194 | 314 | **12,292** |
| Other assets | 1,663 | 3,250 | 540 | 246 | 78 | (165) | **5,612** |
| **Total assets** | **21,103** | **65,535** | **5,516** | **6,258** | **2,188** | **1,002** | **101,602** |
| Technical provisions | 12,922 | 40,578 | 4,854 | 3,627 | 1,508 | 806 | **64,295** |
| Insurance and reinsurance payables | 1,029 | 3,769 | 274 | 250 | 65 | 55 | **5,442** |
| Other liabilities | 2,038 | 2,060 | (16) | 135 | 18 | (84) | **4,151** |
| **Total liabilities** | **15,989** | **46,407** | **5,112** | **4,012** | **1,591** | **777** | **73,888** |
| **Total capital and reserves** | **5,114** | **19,128** | **404** | **2,246** | **597** | **225** | **27,714** |

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 4. Risk management continued

### Sensitivity analysis

A 10% strengthening or weakening of the pound sterling against the following currencies at 31 December would have increased/(decreased) result before tax and members' balances for the financial year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| 2017 | Impact on result before tax £m | Impact on members' balances £m |
|---|---|---|
| Strengthening of US dollar | 257 | 811 |
| Weakening of US dollar | (211) | (663) |
| Strengthening of euro | (18) | 21 |
| Weakening of euro | 15 | (17) |

| 2016 | Impact on result before tax £m | Impact on members' balances £m |
|---|---|---|
| Strengthening of US dollar | 342 | 1,922 |
| Weakening of US dollar | (280) | (1,572) |
| Strengthening of euro | (15) | 49 |
| Weakening of euro | 13 | (40) |

The impact on result before tax is different to the impact on members' balance as the calculation of the notional return on members' funds at Lloyd's is not affected by currency movements.

### 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 operates a generally conservative investment strategy with material cash and short dated bonds portfolios, which reduces the interest rate risk exposure.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on result before tax and equity of the effects of changes in interest rates.

| 2017 | Impact on result before tax £m | Impact on members' balances £m |
|---|---|---|
| + 50 basis points | (351) | (445) |
| – 50 basis points | 347 | 440 |

| 2016 | Impact on result before tax £m | Impact on members' balances £m |
|---|---|---|
| + 50 basis points | (406) | (502) |
| – 50 basis points | 408 | 504 |

### Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

Such risks are managed by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each sector and market.

In aggregate there is no significant concentration of equity price risk.

The analysis below is performed for reasonably possible movements in market indices on financial instruments with all other variables held constant, showing the impact on result before tax due to changes in fair value of financial assets and liabilities (whose fair values are recorded in the profit and loss account) and members' balances (that reflects adjustments to result before tax and changes in fair value of available for sale financial assets that are equity instruments).

| **2017** | **Impact on result before tax £m** | **Impact on members' balances £m** |
|---|---|---|
| 5% increase in equity markets | 107 | 280 |
| 5% decrease in equity markets | (107) | (280) |

| 2016 | Impact on result before tax £m | Impact on members' balances £m |
|---|---|---|
| 5% increase in equity markets | 106 | 251 |
| 5% decrease in equity markets | (106) | (251) |

## Concentration risk

Lloyd's closely monitors concentrations of risk across the market and tests risk exposure against clearly defined risk appetites as established by the Board. Specialist supervisory teams across Lloyd's monitor concentrations across the following areas: region perils, line of business, geographical location, method of distribution in insurance and investment counterparties, among others.

While syndicates define the type of business that they write, at the market level Lloyd's seek to avoid an inappropriate concentration of premium sources, monitoring concentration of business in poorly performing lines, material sources of premium by method of placement as well as coverholder concentration, which feature in metrics reported quarterly to the Board. Managing agents controlling more than 10% of overall market gross written premium are also subject to Board review. Any reported metrics outside of appetite are reported to and discussed by the Risk Committee and the Board. Specific and targeted actions can then be agreed, which will be discussed with specific managing agents or the market as a whole, as appropriate. These actions can vary considerably depending on the nature of the risk or the line of business impacted, with different levels of the requirements placed on syndicates, which forms part of Lloyd's oversight role of the market.

Within the 2017 Annual Report, further analysis of premiums, claims, expenses and underwriting result by line of business is included within note 9 of the PFFS, with commentary on the performance of each line of business included on pages 34 to 41. Analysis of premium by geographical region is included both within note 9 of the PFFS (which details where contracts were concluded) as well as within the Lloyd's line of business breakdown by region analysis in the '2017 At a Glance' section at the beginning of the Annual Report. Analysis of capital providers by source and location is also included in the '2017 At a Glance' section of the Annual Report. Analysis of investments held within the market is disclosed in note 13 of the PFFS.

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 4. Risk management continued

### Regulatory risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. Managing agents monitor regulatory development to ensure ongoing compliance and any impact on claims reserves. Additionally, given current developments in the global regulatory landscape, the Corporation closely monitors changes that may adversely impact the global licence network. Lloyd's is actively working with the market to assist and adapt to the changes in the UK regulatory architecture, in particular the increased focus on conduct risk by the Financial Conduct Authority; managing agents are now expected to comply with the Lloyd's Conduct Minimum Standards. Similarly, Lloyd's monitors global political trends and is taking action at both a Corporation and market level in response to a growing geopolitical risk facing companies operating around the world.

### 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.

### Group risk

Group risk is the risk of loss resulting from risk events arising within a related entity. While Lloyd's is not a group, the Corporation monitors potential risks that could impact Lloyd's, for example arising from the activities of a parent company of a syndicate or managing agent. While, by its nature, group risk is difficult to control, the Corporation mitigates the potential impact of group risk through the implementation of controls, including Lloyd's minimum standards, mitigating any material impairment to Lloyd's brand, reputation or strategic priorities.

## 5. Variability

Calendar year movements in reserves are based upon best estimates as at 31 December 2017, taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimate are reflected in the technical account of the year in which they occur. The aggregate of the prior year surpluses/deficiencies is a surplus of £706m (2016: £1,150m). The surplus arises across the reinsurance, property, casualty and energy lines of business, reflecting favourable claims development compared with projections. There were deficiencies in the marine, motor, aviation and life lines of business.

## 6. Members' funds at Lloyd's (FAL)

The valuation of members' FAL in the balance sheet totals £24,579m (2016: £21,703m). The notional investment return on FAL included in the non-technical profit and loss account totals £722m (2016: £363m).

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

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

| | | Proportion of FAL | | Investment return | |
|---|---|---|---|---|---|
| Investment type | Index | **December 2017 %** | December 2016 % | **2017 %** | 2016 % |
| UK equities | FTSE All share | **4.9** | 4.4 | **12.0** | 15.2 |
| UK government bonds | UK Gilts 1-3 years | **2.1** | 2.6 | **(0.6)** | 1.2 |
| UK corporate bonds | UK Corporate 1-3 years | **5.0** | 4.9 | **(0.4)** | 1.5 |
| UK deposits managed by Lloyd's | Return achieved | **3.8** | 2.9 | **0.5** | 1.6 |
| UK deposits managed externally including letters of credit | GBP LIBID 1 month | **18.5** | 19.9 | **0.0** | 0.2 |
| US equities | S&P 500 Index | **9.9** | 8.9 | **19.7** | 9.5 |
| US government bonds | US Treasuries 1-5 years | **12.8** | 12.4 | **0.5** | 0.6 |
| US corporate bonds | US Corporate 1-5 years | **17.8** | 14.6 | **1.9** | 1.6 |
| US deposits managed by Lloyd's | Return achieved | **5.1** | 5.2 | **3.7** | 1.5 |
| US deposits managed externally including letters of credit | USD LIBID 1 month | **20.1** | 24.2 | **0.8** | 0.2 |

## 7. Society of Lloyd's

The results of the Group financial statements of the Society included in the profit and loss account are a profit of £442m (2016: £378m) in the technical account and a loss of £257m (2016: a profit of £26m) in the non-technical account.

## 8. Aggregation of results and net assets

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

| **Profit and loss account** | **2017 £m** | 2016 £m |
|---|---|---|
| Result per syndicate annual accounts | (2,908) | 1,353 |
| Result of the Society | 156 | 330 |
| Central Fund claims and provisions incurred in Society financial statements | – | 8 |
| Syndicate prior year adjustment treated as current year in PFFS | – | (13) |
| Taxation charge in Society financial statements | 31 | 75 |
| Notional investment return on members' funds at Lloyd's | 722 | 363 |
| Movement in Society income not accrued in syndicate annual accounts | (2) | (9) |
| **Result for the financial year before tax** | **(2,001)** | **2,107** |

| **Other comprehensive income** | **2017 £m** | 2016 £m |
|---|---|---|
| Result for the financial year | (2,001) | 2,107 |
| Foreign currency movements | (69) | 389 |
| Other comprehensive losses per syndicate annual accounts | (2) | – |
| Other comprehensive income/(losses) of the Society | 41 | (111) |
| **Total comprehensive (loss)/income for the year** | **(2,031)** | **2,385** |

| **Capital and reserves** | **2017 £m** | 2016 £m |
|---|---|---|
| Net assets per syndicate annual accounts | (1) | 4,011 |
| Net assets of the Society | 2,188 | 1,996 |
| Central Fund claims and provisions | – | 1 |
| Members' funds at Lloyd's | 24,579 | 21,703 |
| Unpaid cash calls reanalysed from debtors to members' balances | 30 | 30 |
| Society income receivable not accrued in syndicate annual accounts | (29) | (27) |
| **Total capital and reserves** | **26,767** | **27,714** |

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

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 9. Segmental analysis

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

| **2017** | **Gross written premiums £m** | **Net earned premium £m** | **Net incurred claims £m** | **Net operating expenses £m** | **Under-writing result £m** |
|---|---|---|---|---|---|
| Reinsurance | 10,560 | 7,751 | (6,498) | (2,583) | **(1,330)** |
| Property | 8,965 | 6,367 | (5,137) | (2,987) | **(1,757)** |
| Casualty | 8,464 | 6,082 | (3,558) | (2,713) | **(189)** |
| Marine | 2,506 | 2,092 | (1,674) | (887) | **(469)** |
| Energy | 1,253 | 783 | (277) | (401) | **105** |
| Motor | 1,057 | 843 | (723) | (308) | **(188)** |
| Aviation | 687 | 509 | (320) | (200) | **(11)** |
| Life | 99 | 71 | (63) | (32) | **(24)** |
| **Total from syndicate operations** | **33,591** | **24,498** | **(18,250)** | **(10,111)** | **(3,863)** |
| Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society | | | | 442 | **442** |
| **PFFS premiums and underwriting result** | **33,591** | **24,498** | **(18,250)** | **(9,669)** | **(3,421)** |
| Allocated investment return transferred from the non-technical account | | | | | **732** |
| **Balance on the technical account for general business** | | | | | **(2,689)** |

| 2016 | Gross written premiums £m | Net earned premium £m | Net incurred claims £m | Net operating expenses £m | Under-writing result £m |
|---|---|---|---|---|---|
| Reinsurance | 9,408 | 7,154 | (3,805) | (2,801) | **548** |
| Property | 7,988 | 5,859 | (3,431) | (2,630) | **(202)** |
| Casualty | 7,131 | 5,343 | (3,139) | (2,350) | **(146)** |
| Marine | 2,470 | 2,075 | (1,317) | (887) | **(129)** |
| Energy | 1,110 | 795 | (371) | (365) | **59** |
| Motor | 1,047 | 893 | (666) | (330) | **(103)** |
| Aviation | 627 | 464 | (209) | (184) | **71** |
| Life | 81 | 77 | (49) | (36) | **(8)** |
| **Total from syndicate operations** | **29,862** | **22,660** | **(12,987)** | **(9,583)** | **90** |
| Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society | | | | 378 | **378** |
| **PFFS premiums and underwriting result** | **29,862** | **22,660** | **(12,987)** | **(9,205)** | **468** |
| Allocated investment return transferred from the non-technical account | | | | | **713** |
| **Balance on the technical account for general business** | | | | | **1,181** |

The geographical analysis of direct insurance premiums by location where contracts were concluded is as follows:

| | **2017 £m** | 2016 £m |
|---|---|---|
| United Kingdom | **22,651** | 20,128 |
| Other EU member states | **29** | 31 |
| Rest of the World | **351** | 295 |
| | **23,031** | **20,454** |

## 10. Life business

The PFFS include the results of all life and non-life syndicates transacting business during 2017. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 9).

## 11. Net operating expenses

| | **2017 £m** | 2016 £m |
|---|---|---|
| Acquisition costs | 8,645 | 7,539 |
| Change in deferred acquisition costs | (239) | (196) |
| Administrative expenses | 2,307 | 2,464 |
| Reinsurance commissions and profit participation | (1,044) | (602) |
| | **9,669** | **9,205** |

Total commissions on direct insurance business accounted for in the year amounted to £5,773m (2016: £4,968m).

## 12. Investment return

| **Interest and similar income** | **2017 £m** | 2016 £m |
|---|---|---|
| From financial instruments designated as at fair value through profit or loss | 1,356 | 961 |
| From available for sale investments | 35 | 22 |
| From financial instruments designated as held to maturity | 1 | 1 |
| Dividend income | 37 | 49 |
| Interest on cash at bank | 23 | 16 |
| Other interest and similar income | 35 | 32 |
| Investment expenses | (72) | (54) |
| **Total** | **1,415** | **1,027** |

| **Other income from investments designated as at fair value through profit or loss** | **2017 £m** | 2016 £m |
|---|---|---|
| Realised gains/(losses) | 261 | 7 |
| Unrealised gains/(losses) | 89 | 265 |
| Other relevant income/(losses) | 35 | 46 |
| **Total** | **385** | **318** |

| | | |
|---|---|---|
| **Total investment return** | **1,800** | **1,345** |

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 13. Financial investments

| | 2017 £m | 2016 £m |
|---|---|---|
| Shares and other variable yield securities and units in unit trusts | 9,474 | 9,133 |
| Debt securities and other fixed income securities | 37,197 | 38,216 |
| Participation in investment pools | 2,118 | 1,863 |
| Loans and deposits with credit institutions | 6,841 | 6,019 |
| Other | 135 | 123 |
| | **55,765** | **55,354** |

### Disclosures of fair values in accordance with the fair value hierarchy

Fair value measurements have been classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy includes the following classifications:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide readily and regularly available quoted prices;
- Level 2 – Inputs to a valuation model other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (derived from prices); and
- Level 3 – Inputs to a valuation model for the asset that are not based on observable market data (unobservable inputs) and are significant to the overall fair value measurement. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions it is considered that market participants would use in pricing the asset.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. The significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset.

| 2017 | Level 1 £m | Level 2 £m | Level 3 £m | Sub-total fair value £m | Assets held at amortised cost £m | Total £m |
|---|---|---|---|---|---|---|
| Shares and other variable yield securities | 3,797 | 4,865 | 811 | 9,473 | 1 | 9,474 |
| Debt and other fixed income securities | 12,094 | 25,022 | 81 | 37,197 | – | 37,197 |
| Participation in investment pools | 1,875 | 211 | 32 | 2,118 | – | 2,118 |
| Loans and deposits with credit institutions | 3,325 | 3,333 | 181 | 6,839 | 2 | 6,841 |
| Other investments | 6 | 100 | 29 | 135 | – | 135 |
| **Total investments** | **21,097** | **33,531** | **1,134** | **55,762** | **3** | **55,765** |
| Loans recoverable | – | – | 43 | 43 | – | 43 |
| **Total assets** | **21,097** | **33,531** | **1,177** | **55,805** | **3** | **55,808** |
| Borrowings | (11) | – | – | (11) | – | (11) |
| Derivative liabilities | (1) | (19) | – | (20) | – | (20) |
| **Total liabilities** | **(12)** | **(19)** | **–** | **(31)** | **–** | **(31)** |

Loans recoverable represent loans made to hardship members by the Central Fund, with further details disclosed in the Society Report (note 2(j) and note 15).

| 2016 | Level 1 £m | Level 2 £m | Level 3 £m | Sub-total fair value £m | Assets held at amortised cost £m | Total £m |
|---|---|---|---|---|---|---|
| Shares and other variable yield securities | 4,938 | 3,636 | 559 | 9,133 | – | 9,133 |
| Debt and other fixed income securities | 11,813 | 26,304 | 84 | 38,201 | 15 | 38,216 |
| Participation in investment pools | 1,628 | 196 | 39 | 1,863 | – | 1,863 |
| Loans and deposits with credit institutions | 3,215 | 2,652 | 150 | 6,017 | 2 | 6,019 |
| Other investments | 16 | 103 | 4 | 123 | – | 123 |
| **Total investments** | **21,610** | **32,891** | **836** | **55,337** | **17** | **55,354** |
| Loans recoverable | – | – | 43 | 43 | – | 43 |
| **Total assets** | **21,610** | **32,891** | **879** | **55,380** | **17** | **55,397** |
| Borrowings | (15) | – | – | (15) | – | (15) |
| Derivative liabilities | (15) | (59) | (2) | (76) | – | (76) |
| **Total liabilities** | **(30)** | **(59)** | **(2)** | **(91)** | **–** | **(91)** |

## 14. Debtors arising out of direct operations

| | **2017 £m** | 2016 £m |
|---|---|---|
| Due within one year | | |
| — Policyholders | 1 | 10 |
| — Intermediaries | 8,781 | 8,759 |
| Due after one year | | |
| — Policyholders | – | – |
| — Intermediaries | 100 | 112 |
| **Total** | **8,882** | 8,881 |

## 15. Debtors arising out of reinsurance operations

| | **2017 £m** | 2016 £m |
|---|---|---|
| Due within one year | 5,245 | 4,705 |
| Due after one year | 676 | 338 |
| **Total** | **5,921** | 5,043 |

## 16. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £9,463m (2016: £9,586m).

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 17. Members' balances

| | 2017 £m | 2016 £m |
|---|---|---|
| Balance at 1 January | 4,015 | 4,613 |
| Result for the year per syndicate annual accounts | (2,908) | 1,353 |
| Distribution on closure of the 2014 (2013) year of account | (2,670) | (2,061) |
| Advance distributions from open years of account | (60) | (163) |
| Movement in cash calls | 1,019 | 7 |
| Net movement on Funds in Syndicate (see note below) | 774 | (138) |
| Exchange (losses)/gains | (116) | 439 |
| Other | (54) | (35) |
| **Balance at 31 December** | – | 4,015 |

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account with reference to policies incepting in that year of account. Members' balances represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of 2018.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. These funds are known as funds in syndicate (FIS). At 31 December 2017 there was £4,076m (2016: £3,315m) of FIS within members' balances. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as 'net movement on funds in syndicate'.

## 18. Technical provisions

### (a) Provisions for unearned premiums

| 2017 | Gross £m | Reinsurers' share £m | Net £m |
|---|---|---|---|
| At 1 January | 16,548 | 3,110 | 13,438 |
| Premiums written in the year | 33,591 | 8,722 | 24,869 |
| Premiums earned in the year | (32,744) | (8,246) | (24,498) |
| Exchange movements | (1,018) | (214) | (804) |
| **At 31 December** | **16,377** | **3,372** | **13,005** |

| 2016 | Gross £m | Reinsurers' share £m | Net £m |
|---|---|---|---|
| At 1 January | 13,723 | 2,368 | 11,355 |
| Premiums written in the year | 29,862 | 6,796 | 23,066 |
| Premiums earned in the year | (29,139) | (6,479) | (22,660) |
| Exchange movements | 2,102 | 425 | 1,677 |
| **At 31 December** | **16,548** | **3,110** | **13,438** |

### (b) Deferred acquisition costs

| | 2017 £m | 2016 £m |
|---|---|---|
| At 1 January | 4,278 | 3,585 |
| Change in deferred acquisition costs | 239 | 196 |
| Exchange movements | (232) | 437 |
| Other | 19 | 60 |
| **At 31 December** | 4,304 | **4,278** |

### (c) Claims outstanding

| 2017 | Gross £m | Reinsurers' share £m | Net £m |
|---|---|---|---|
| At 1 January | 47,747 | 11,310 | 36,437 |
| Claims paid during the year | (18,292) | (3,634) | (14,658) |
| Claims incurred during the year | 28,060 | 9,810 | 18,250 |
| Exchange/other movements | (2,622) | (675) | (1,947) |
| **At 31 December** | **54,893** | **16,811** | **38,082** |

| 2016 | Gross £m | Reinsurers' share £m | Net £m |
|---|---|---|---|
| At 1 January | 38,833 | 8,610 | 30,223 |
| Claims paid during the year | (13,913) | (2,431) | (11,482) |
| Claims incurred during the year | 16,774 | 3,787 | 12,987 |
| Exchange/other movements | 6,053 | 1,344 | 4,709 |
| **At 31 December** | **47,747** | **11,310** | **36,437** |

## 19. Discounted claims

Discounting may be applied to claims provisions where there are individual claims with structured settlements that have annuity-like characteristics or for books of business with mean term payment greater than four years. Certain syndicates have elected to discount their claims provisions.

The claims have been discounted as follows:

| | Average discounted rates | | Average mean term of liabilities | |
|---|---|---|---|---|
| **Line of business** | **2017 %** | 2016 % | **2017 years** | 2016 years |
| Motor (third party liability) | 2.46 | 2.90 | 24.55 | 12.19 |
| Motor (other classes) | 3.00 | – | 2.60 | – |
| Third party liability | 2.32 | 3.55 | 22.96 | 22.40 |

The period that will elapse before claims are settled is determined using impaired mortality rates.

The claims provisions before discounting are as follows:

| | Before discounting | | Effect of discounting | | Discounted provision | |
|---|---|---|---|---|---|---|
| | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m |
| Total claims provisions | 1,649 | 1,757 | (430) | (455) | 1,219 | 1,302 |
| Reinsurers' share of total claims | 549 | 449 | (78) | (51) | 471 | 398 |

# Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

## 20. Creditors arising out of direct insurance operations

| | 2017 £m | 2016 £m |
|---|---|---|
| Due within one year | 953 | 758 |
| Due after one year | 2 | 14 |
| | **955** | **772** |

## 21. Creditors arising out of reinsurance operations

| | 2017 £m | 2016 £m |
|---|---|---|
| Due within one year | 5.332 | 4,407 |
| Due after one year | 597 | 263 |
| | **5,929** | **4,670** |

## 22. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

| | 2017 £m | 2016 £m |
|---|---|---|
| Cash at bank and in hand | 12,137 | 12,292 |
| Short term deposits with credit institutions | 2,146 | 2,517 |
| Overdrafts | (170) | (178) |
| | **14,113** | **14,631** |

Of the cash and cash equivalents, £548m (2016: £428m) is held in regulated bank accounts in overseas jurisdictions.

## 23. Five year summary

| **Results** | 2017 £m | 2016 £m | 2015 £m | 2014 £m | 2013 £m |
|---|---|---|---|---|---|
| Gross written premiums | **33,591** | 29,862 | 26,690 | 25,259 | 25,615 |
| Net written premiums | **24,869** | 23,066 | 21,023 | 20,006 | 20,231 |
| Net earned premiums | **24,498** | 22,660 | 20,565 | 19,499 | 19,725 |
| Result attributable to underwriting | **(3,421)** | 468 | 2,047 | 2,253 | 2,605 |
| Result for the year before tax | **(2,001)** | 2,107 | 2,122 | 3,016 | 3,205 |
| **Assets employed** | | | | | |
| Cash and investments | **67,902** | 67,646 | 56,900 | 54,889 | 51,494 |
| Net technical provisions | **51,087** | 49,875 | 41,578 | 40,025 | 38,355 |
| Other net assets | **9,952** | 9,943 | 8,894 | 7,664 | 7,247 |
| **Capital and reserves** | **26,767** | **27,714** | **24,216** | **22,528** | **20,386** |
| **Statistics** | | | | | |
| Combined ratio (%) | **114.0** | 97.9 | 90.0 | 88.4 | 86.8 |
| Return on capital (%) | **(7.3)** | 8.1 | 9.1 | 14.1 | 16.2 |

## 24. Related party transactions

The annual accounts of each syndicate provide, where appropriate, the required disclosures on related parties. Syndicate level disclosures are specific to that syndicate and its managing agent. For 2017, there were no material related party transactions conducted outside normal market conditions reported in the syndicate annual accounts requiring disclosure. The related party transactions of the Society are disclosed in note 26 on page 168 of the Society Report.

# Managing Agents and Syndicates

| Managing Agent | Managed Syndicate(s) | **2017 GWP* £m** | 2016 GWP* £m | Percentage of capacity owned by group |
|---|---|---|---|---|
| Advent Underwriting Limited | 780 | 210 | 190 | 100% |
| AEGIS Managing Agency Limited | 1225 | 462 | 377 | 100% |
| Allied World Managing Agency Ltd | 2232 | 204 | 164 | 100% |
| AmTrust Syndicates Limited | 44 | 18 | 14 | 100% |
| | 1206 | 212 | 238 | 100% |
| | 1861 | 284 | 259 | 100% |
| | 5820 | 231 | 251 | 100% |
| Antares Managing Agency Limited | 1274 | 418 | 338 | 100% |
| Apollo Syndicate Management Limited | 1969 | 234 | 215 | 57% |
| Arch Underwriting at Lloyd's Ltd | 2012 | 200 | 179 | 100% |
| Argenta Syndicate Management Limited | 2121 | 346 | 281 | 52% |
| Argo Managing Agency Limited | 1200 | 553 | 514 | 93% |
| | 1910 | 341 | 200 | 100% |
| | 6117 | 101 | 46 | 0% |
| Ark Syndicate Management Limited | 3902 | 76 | – | 100% |
| | 4020 | 278 | 312 | 100% |
| Ascot Underwriting Limited | 1414 | 681 | 573 | 100% |
| Aspen Managing Agency Limited | 4711 | 397 | 404 | 100% |
| Asta Managing Agency Limited | 1729 | 98 | 87 | 100% |
| | 1897 | 138 | 113 | 100% |
| | 2357 | 266 | 128 | 100% |
| | 2525 | 55 | 50 | 0% |
| | 2689 | 60 | – | 100% |
| | 2786 | 114 | 59 | 100% |
| | 4242 | 157 | 137 | 100% |
| | 5886 | 100 | – | 66% |
| | 6123 | 14 | 14 | 0% |
| | 6126 | 42 | 28 | 0% |
| Atrium Underwriters Limited | 609 | 467 | 413 | 26% |
| AXIS Managing Agency Limited | 1686 | 308 | 216 | 100% |
| | 2007 | 989 | 901 | 100% |
| | 6129 | 63 | 40 | 0% |
| Barbican Managing Agency Limited | 1856 | 91 | 85 | 100% |
| | 1955 | 444 | 313 | 100% |
| | 6118 | 133 | 78 | 0% |
| Beaufort Underwriting Agency Limited | 318 | 157 | 137 | 91% |
| Beazley Furlonge Limited | 623 | 338 | 293 | 9% |
| | 2623 | 1,538 | 1,333 | 100% |
| | 3622 | 18 | 17 | 100% |
| | 3623 | 219 | 195 | 100% |
| | 6050 | 16 | 15 | 0% |
| | 6107 | 47 | 36 | 0% |
| Brit Syndicates Limited | 2987 | 1,596 | 1,412 | 100% |
| | 2988 | 60 | – | 100% |
| Canopius Managing Agents Limited | 4444 | 1,138 | 1,064 | 85% |
| Capita Managing Agency Limited | 1492 | 88 | 43 | 100% |
| Cathedral Underwriting Limited | 2010 | 211 | 191 | 58% |
| | 3010 | 42 | 41 | 100% |

# Managing Agents and Syndicates

| Managing Agent | Managed Syndicate(s) | **2017 GWP* £m** | 2016 GWP* £m | Percentage of capacity owned by group |
|---|---|---|---|---|
| Catlin Underwriting Agencies Limited | 2003 | 2,365 | 2,070 | 100% |
| | 2088 | 155 | 99 | 100% |
| | 3002 | 34 | 19 | 100% |
| | 6111 | 54 | 142 | 0% |
| Charles Taylor Managing Agency Limited | 1884 | 89 | 76 | 2% |
| Chaucer Syndicates Limited | 1084 | 950 | 781 | 100% |
| | 1176 | 31 | 28 | 57% |
| | 6130 | 20 | 7 | 0% |
| Chubb Underwriting Agencies Limited | 2488 | 460 | 408 | 100% |
| Coverys Managing Agency Limited | 1110 | 23 | 245 | 100% |
| | 1991 | 125 | 103 | 0% |
| Endurance at Lloyd's Limited | 5151 | 319 | 236 | 100% |
| ERS Syndicate Management Limited | 218 | 376 | 406 | 67% |
| Faraday Underwriting Limited | 435 | 378 | 275 | 100% |
| Hamilton Underwriting Limited | 3334 | 109 | 62 | 100% |
| Hardy (Underwriting Agencies) Limited | 382 | 320 | 286 | 100% |
| HCC Underwriting Agency Ltd | 4141 | 140 | 118 | 100% |
| Hiscox Syndicates Limited | 33 | 1,156 | 1,057 | 73% |
| | 3624 | 409 | 533 | 100% |
| | 6104 | 42 | 30 | 0% |
| Liberty Syndicate Management Limited | 4472 | 1,657 | 1,364 | 100% |
| Managing Agency Partners Limited | 2791 | 179 | 171 | 17% |
| | 6103 | 5 | 5 | 0% |
| Markel Syndicate Management Limited | 3000 | 565 | 486 | 100% |
| MS Amlin Underwriting Limited | 2001 | 2,082 | 1,831 | 100% |
| Munich Re Syndicate Limited | 457 | 423 | 356 | 100% |
| Navigators Underwriting Agency Limited | 1221 | 367 | 340 | 100% |
| Neon Underwriting Limited | 2468 | 226 | 160 | 100% |
| Newline Underwriting Management Limited | 1218 | 136 | 100 | 100% |
| Pembroke Managing Agency Limited | 2014 | 186 | 145 | 0% |
| | 4000 | 414 | 365 | 100% |
| | 6125 | 17 | 12 | 0% |
| QBE Underwriting Limited | 386 | 357 | 328 | 70% |
| | 2999 | 1,169 | 1,073 | 100% |
| Renaissance Re Syndicate Management Limited | 1458 | 495 | 335 | 100% |
| S.A. Meacock & Company Limited | 727 | 63 | 60 | 16% |
| Sirius International Managing Agency Ltd | 1945 | 111 | 115 | 100% |
| Starr Managing Agents Limited | 1919 | 284 | 276 | 100% |
| StarStone Underwriting Limited | 1301 | 236 | 209 | 100% |
| Talbot Underwriting Ltd | 1183 | 715 | 719 | 100% |
| The Channel Managing Agency Ltd | 2015 | 262 | 241 | 100% |
| Tokio Marine Kiln Syndicates Limited | 308 | 39 | 32 | 52% |
| | 510 | 1,417 | 1,297 | 56% |
| | 557 | 18 | 17 | 0% |
| | 1880 | 246 | 230 | 100% |

| Managing Agent | Managed Syndicate(s) | 2017 GWP* £m | 2016 GWP* £m | Percentage of capacity owned by group |
|---|---|---|---|---|
| Travelers Syndicate Management Limited | 5000 | 362 | 300 | 100% |
| Vibe Syndicate Management Limited | 5678 | 127 | 54 | 100% |
| W R Berkley Syndicate Management Limited | 1967 | 173 | 169 | 100% |
| **All other syndicates (including syndicates that closed in 2017), SPA and RITC adjustments** | | (548) | 97 | |
| **Total** | | 33,591 | 29,862 | |

* See Glossary.

The following syndicates ceased trading at 31 December 2017:

Tokio Marine Kiln Syndicates Limited 308
Coverys Managing Agency Limited 1110
AmTrust Syndicates Limited 1206
AmTrust Syndicates Limited 5820
Beazley Furlonge Limited 6050
Asta Managing Agency Limited 6126

As at 20 March 2018 the following syndicates commenced trading for the 2018 year of account:

Pembroke Managing Agency Limited 1947
Coverys Managing Agency Limited 1975
Asta Managing Agency Limited 1980
Asta Managing Agency Limited 3268
Beazley Furlonge Limited 5623
Asta Managing Agency Limited 6131
Barbican Managing Agency Limited 6132
Apollo Syndicate Management Limited 6133