LLOYD'S

Aggregate Accounts 2017

The challenge for Lloyd's is, as ever, to respond to change calmly, but with determination – applying the knowledge and expertise acquired over 330 years to the environment in which we find ourselves in today, and providing our customers with what they need to help them navigate their way through it.

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The global economy

The world economy in 2017

Demand for insurance tends to follow global gross domestic product growth trends, and the global economy continued to strengthen in 2017 with emerging markets leading the way. Developed economies also showed signs of improvement, with growth estimates for both the US and the Euro area rising to 2.3%, while the growth estimate for the UK is 1.7%. This trend has positive implications for insurance demand.

World inflationary pressure remained relatively stable as oil price rises in 2016 were not repeated through most of 2017. The UK bucked this trend as the pound depreciated following the 2016 Brexit vote, resulting in higher consumer prices. World interest rates remained low, perpetuating the low investment returns we have come to expect, and the drive to decrease operating costs.

An uncertain world

We are in an era of heightened geopolitical risk and uncertainty, with growing trends towards re-examining the benefits of globalisation. This has resulted in democratic shocks, military tensions and social unrest. These trends may increase the likelihood of conflicts and civil disorder and there are signs of increasing awareness and demand for political risk coverage.

Following the financial crisis, many voters in Europe and the US blamed free trade and the global economy for falling living standards, leading to more protectionist policies. Some aspects of US tax reform may be viewed as an example of this, with the US government introducing policies to protect home industries from foreign competition.

Protectionism will ultimately slow global growth, impacting all countries, although developing economies will be the most vulnerable. Lloyd's is not immune from this and the recent US tax reform could make reinsuring US risks more expensive for some carriers.

The UK's Brexit vote left many businesses with a decision to make about how they will do business outside the single market after March 2019. At Lloyd's we took the decision to act early and transparently to ensure that our market had certainty, announcing our intention to establish our Lloyd's Brussels subsidiary. Since then we have been actively negotiating the practicalities that this entails for a market of independent businesses.

Environment

Industrialisation combined with a growing population has resulted in rising levels of CO_2 and other greenhouse gas emissions that cause global warming. Global risks are changing and the potential consequences are severe. Increased frequency and severity of major weather events mean that climate change has increased the risks and costs of insurance.

Climate change leads to increases in precipitation variability, giving rise to more extreme cycles of flooding and drought in semi-arid and arid regions. Many of the world's large cities are located on coasts, and sea level rises threaten a significant proportion of the world's population. Water scarcity and related food insecurity are already a major global geopolitical risk aggravated by climate change and could lead to further instability.

In the second half of 2017 hurricanes Harvey, Irma and Maria, along with other catastrophes, caused tragic destruction and loss of life. Lloyd's is proud to have already paid insured losses in the region of $3.5bn and expects to pay more to help alleviate some of this devastation. As a result, 2017 was above the Lloyd's long term average for claims from major losses. While this has affected profitability, the market is well prepared for such losses and there is no indication that they have affected our solvency. As at year end the market was capitalised at 144% of its solvency capital requirement, which was well within risk appetite.

Technology

Consumer behaviours and the ways in which businesses operate are changing rapidly. In other industries businesses are delivering their products and services through online platforms. We need to keep pace with these changes. While the most complex risks will continue to benefit from face-to-face negotiation, simpler risks can already be written digitally.

Regulation

The regulatory landscape continues to evolve rapidly as a result of national, regional and global debates. The UK regulatory authorities propose the application of the Senior Managers and Certification Regime to insurance firms by the end of this year. EU legislation, in the forms of the General Data Protection Regulation and the Insurance Distribution Directive, are also both due to enter into force in 2018, and will necessitate significant operational changes. The EU's 2018 review of the Solvency II regime, in which the industry has been very active during the last two years, will likely result in European Commission proposals to reform

The global economy

aspects of the regime, including reforms to component parts of the standard formula for the calculation of the Solvency Capital Requirement.

At global level, the International Association of Insurance Supervisors continues to take forward its work on a Common Framework for Internationally Active Groups, on a global insurance capital standard and on how insurance risks to the global financial system should be identified and countered. Meantime, individual countries continue to effect changes to their own prudential and conduct regimes. Lloyd's follows all relevant debates that can materially impact the Lloyd's market and contributes its views.

2017 saw the introduction in the UK of a new regulatory and tax framework for insurance linked securities (ILS). This includes the ability to establish protected cell company structures, enabling a streamlined approach for the arrangement of multiple ILS deals, allowing the UK insurance industry to compete more effectively with other jurisdictions that offer this capability. ILS is already an established form of risk transfer. We welcome the Government's efforts to make the UK more competitive in issuing ILS and look forward to helping it develop at Lloyd's.

Outlook for 2018

The new UK ILS regulation will, if anything, increase the already abundant supply of insurance capital. This is likely to mean that prices remain low for many risks, so we need to remain vigilant to ensure that the prices charged for them are proportionate to the risk.

We expect this price pressure to result in a continued effort to cut costs. The current environment creates an impetus to evolve and do things differently that is not always there during profitable periods.

We have already begun implementing changes to help the market grow more efficiently through the London Market Target Operating Model, which should see a reduction in the cost of writing business at Lloyd's. That said there are challenges – and the risk for us in 2018 is in adoption of the new technology by the market.

Intangible assets have never been more highly valued. Reputation and brand can result in huge profit margins, but in an age of instant communication they can very quickly be damaged. We expect to see more products seeking to protect these risks. At Lloyd's, our range of cyber insurance products is one example of cover for such risks as reputational harm arising from a cyber incident.

The way firms conduct their business, and ultimately how they protect their policyholders, will come under increased scrutiny as customer and social expectations evolve. Lloyd's sets standards for conduct and monitors the market to ensure policyholders are treated fairly at all times. This will need to be a continued focus.

2017 Highlights

Loss before tax

(£2,908m)

(2016: profit of £1,322m)

Overall surplus on prior years

£706m

(2016: £1,150m)

Combined ratio*

115.8%

(2016: 99.6%)

Total investment return

£907m

(2016: £810m)

*The combined ratio for the market and by line of business is the ratio of net incurred claims and net operating expenses to net earned premiums. The prior year reserve movement represents the ratio of the surplus/deficit arising on reserves set at December 2016 to overall net earned premiums in calendar year 2017.

The underwriting results and combined ratio tables 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 have been reported in the segmental analysis table on page 40.

Underwriting result by line of business*	£m
Reinsurance	(1,330)
Property	(1,757)
Casualty	(189)
Marine	(469)
Energy	105
Motor	(188)
Aviation	(11)
Life	(24)

Combined ratio by line of business*	%
Reinsurance	117.2
Property	127.6
Casualty	103.1
Marine	122.4
Energy	86.6
Motor	122.3
Aviation	102.2
Life	133.8

Market Performance

At the syndicate level the Lloyd's market reported a pre-tax loss of £2,908m in 2017 (2016: a profit of £1,322m) and a combined ratio of 115.8% (2016: 99.6%). 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 £907m (2016: £810m) in 2017. Investment return was 2.2% (2016: 2.0%), 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: 5.0%). 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 some initiatives to make it cheaper and easier to write business at Lloyd's.

Foreign exchange losses improved the syndicate level result only marginally in 2017, in comparison to 2016, when there had been significant weakening of sterling following the UK 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.

Market Performance

2017 performance

Gross written premium for the year increased to £34,180m compared with £30,533m 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 100.2% (2016: 95.6%) 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 NEP	Accident year ratio excl. major claims	%
2013	4.4	2013	91.8
2014	3.4	2014	94.2
2015	3.5	2015	95.8
2016	9.0	2016	95.6
2017	**18.5**	**2017**	**100.2**
Five year average[1]	9.1	Five year average[1]	96.6
Ten year average[1]	10.2	Ten year average[1]	93.2

1 Weighted by net earned premium

Major claims

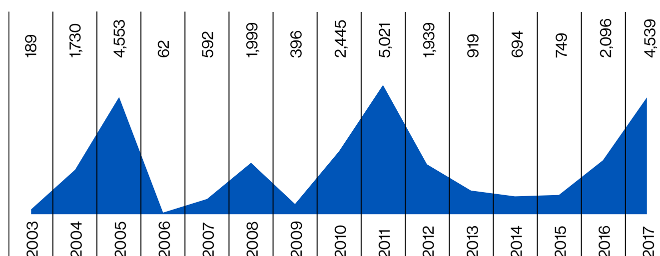
For the Lloyd's market, major claims were £4,539m in 2017 (2016: £2,052m), net of reinsurance and including reinstatements payable and receivable. Total insured losses for catastrophes and non-catastrophe events of 2017 are estimated to be US$135.6bn.

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.

Lloyd's major losses: net ultimate claims



5 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.

Market Performance

Prior year movement

The combined ratio has been improved by 2.9% (2016: 5.0%) 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	(8.0)
2015	(7.7)
2016	(5.0)
2017	**(2.9)**

Years of account in run-off	Number of years
2013	6
2014	4
2015	4
2016	6
2017	**6**

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 52% of gross written premium). 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 this closely in 2018 as part of our normal market oversight procedures. Lloyd's outward reinsurance premium spend for 2017 is 27% 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).

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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.

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.

Results summary

At the syndicate level, Lloyd's reported a loss before tax for the financial year of £2,908m (2016: a profit of £1,322m) and a combined ratio of 115.8% (2016: 99.6%).

2017 combined ratio

	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%

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 casualty line reported an accident year ratio of 103.9% (2016: 105.2%).

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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: a release of 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). Lloyd's reinsurance - Specialty reported an accident year ratio of 110.3% (2016: 101.9%).

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

Capacity remained more than ample in most speciality 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: a release of 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.

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

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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: a release of 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, which continued to see material growth. Cyber products 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

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remains at the leading edge of product development by providing innovative, bespoke, 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 stabilisation 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 dollar in the first half of the year, compared with the period prior to the 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 the onshore property line.

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.

Market Performance

Prior year movement

The prior year movement was a release of 21.1% (2016: a release of 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, 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 in 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.

Market Performance

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.

Market Performance

Reinsurance

Property

Property	Gross written premium £m
2013	4,930
2014	4,472
2015	4,627
2016	5,022
2017	**5,991**

	Combined ratio %
2013	76.8
2014	77.0
2015	76.3
2016	91.8
2017	**130.3**

	Underwriting result £m
2013	846
2014	801
2015	794
2016	299
2017	**(1,260)**

Casualty

Casualty	Gross written premium £m
2013	1,698
2014	1,779
2015	1,797
2016	2,096
2017	**2,223**

	Combined ratio %
2013	88.3
2014	87.6
2015	100.0
2016	98.1
2017	**102.1**

	Underwriting result £m
2013	165
2014	187
2015	0
2016	33
2017	**(39)**

Specialty

Specialty	Gross written premium £m
2013	2,349
2014	2,237
2015	2,169
2016	2,290
2017	**2,346**

	Combined ratio %
2013	81.8
2014	86.5
2015	93.3
2016	87.7
2017	**101.8**

	Underwriting result £m
2013	310
2014	225
2015	110
2016	216
2017	**(31)**

Insurance

Property

Property	Gross written premium £m
2013	6,103
2014	6,274
2015	6,893
2016	7,988
2017	**8,965**

	Combined ratio %
2013	85.0
2014	87.7
2015	90.1
2016	103.4
2017	**127.6**

	Underwriting result £m
2013	681
2014	558
2015	501
2016	(202)
2017	**(1,757)**

Market Performance

Insurance continued

Casualty

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

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

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

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

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)**

Council

The following were members of the Council of Lloyd's during 2017:

Bruce Carnegie-Brown (Appointed 15 June 2017)	**Hiscox Dedicated Corporate Member Limited** (represented by Robert Childs)
John Nelson (Term expired 31 May 2017)	**Lawrence Holder** (Term expired 31 January 2017)
Inga Beale	**Dr Fred Hu** (Term expired 7 May 2017)
Simon Beale	**Julian James**
Andrew Brooks (Appointed 1 February 2017)	**Neil Maidment**
Catlin Syndicate Limited (represented by Paul Jardine) (Term expired on 31 January 2017)	**Sir David Manning**
Dominic Christian	**Munich Re Capital Limited** (represented by Dominic k Hoare) (Appointed 19 April 2017)
Flectat Limited (represented by Michael Watson)	**Nameco (No 1249) Limited** (represented by Jeffery Barratt) (Appointed 1 February 2017)
Gregory Fleming (Appointed 30 March 2017 and term expired on 27 September 2017)	**Nomina No 115 LLP** (represented by Philip Swatman)
Karen Green	**Novae Corporate Underwriting Limited** (represented by Matthew Fosh)
Andy Haste	

Statement as to disclosure of information to auditors

Having made enquiries of fellow Council members and of the Society's auditors, the Council of Lloyd's confirms that:

To the best of each Council member's knowledge and belief there is no information relevant to the preparation of the Aggregate Accounts of which the auditors are unaware;

Each Council member has taken all the steps a Council member might reasonably be expected to have taken to be aware of relevant audit information and to establish that the auditors are aware of that information.

Statement of Council's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 ('the Regulations') require the Council of Lloyd's to prepare Aggregate Accounts in respect of the financial year by totalling all the syndicate annual accounts prepared in accordance with Part 3 of the Regulations.

The Regulations also require the Council to prepare an Annual Report on the insurance business carried on by the members of Lloyd's during the financial year. The Annual Report is set out in the external environment, market performance and governance sections on pages 1 to 17.

The maintenance and integrity of the Lloyd's website is the responsibility of the Council of Lloyd's; 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.

Annual Report

The Annual Report required 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, comprising the strategic review, market performance and governance sections on pages 1 to 17, was approved by the Council of Lloyd's on 20 March 2018.

Bruce Carnegie-Brown
Chairman

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's

Report on the preparation of the 2017 Lloyd's Aggregate Accounts

Conclusion

In our opinion:

- the Aggregate Accounts for the financial year ended 31 December 2017 have, in all material respects, been properly prepared in accordance with the requirements of the Regulations, and have been correctly aggregated; and
- the Annual Report of the Council of Lloyd's for the financial year ended 31 December 2017 is, in all material respects, consistent with the Aggregate Accounts for the same financial year and has been prepared in accordance with the requirements of the Regulations.

In addition, in light of the knowledge and understanding of the syndicates and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Annual Report of the Council of Lloyd's prior to the date of this auditor's report. We have nothing to report in this respect.

These conclusions are to be read in the context of what we say in the remainder of this report.

What we have assured

The Aggregate Accounts, which are prepared by the Council of Lloyd's, comprise: an aggregate profit and loss account, an aggregate statement of other comprehensive income, an aggregate statement of changes in members' balances, an aggregate balance sheet, an aggregate statement of cash flows; and notes 1 to 19 to the Aggregate Accounts

The financial reporting framework that has been applied in their preparation is The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the 'Regulations') and the basis set out in note 1.

Our assurance does not extend to information in respect of earlier periods.

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 Standards 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 Aggregate Accounts have been compiled from an aggregate of financial information extracted from the balance sheet and profit and loss account included in the syndicate annual accounts by the managing agent of each syndicate which has been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported. 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 Aggregate Accounts consisted principally of:

- obtaining an understanding of how the Council of Lloyd's has compiled the Aggregate Accounts from the audited syndicate annual returns and accounts;
- checking on a sample basis that the financial information included in the Aggregate Accounts was correctly extracted from the syndicate annual returns and accounts and evaluating the evidence supporting the adjustments made;
- obtaining evidence as to how the Council of Lloyd's has ensured that the Aggregate Accounts have been prepared in accordance with the requirements of the Regulations; and
- reading the Annual report for consistency with the Aggregate Accounts.

In addition we obtained an understanding of how the Council of Lloyd's ensured that the Annual Report and the Aggregate Accounts are prepared in accordance with the Regulations, how they ensured the consistency of the Annual Report with the Aggregate Accounts, and read the Annual Report to assess that consistency.

Independent Reasonable Assurance Report to the Council of Lloyd's

Responsibilities for the Aggregate Accounts and the reasonable assurance engagement

Our responsibilities and those of the Council of Lloyd's

As described in the Statement of Council's Responsibilities, the Council of Lloyd's is responsible for the preparation and approval of the Aggregate Accounts and the Annual Report in accordance with the Regulations and for ensuring that the Annual Report is consistent with the Aggregate Accounts for the same financial year.

Our responsibility is to examine the preparation of the Aggregate Accounts and to report whether the Aggregate Accounts have been properly prepared and correctly aggregated in accordance with the Regulations. We also report to you if the Aggregate Accounts are not consistent with the syndicate information which has been aggregated to prepare the Aggregate Accounts, if the Annual Report is not consistent with the Aggregate Accounts or if we have not received all the information and explanations we require for the purposes of our work.

We read the Annual Report and consider whether it is consistent with the Aggregate Accounts. We consider the implications for our report if we become aware of any misstatements or material inconsistencies with the Aggregate Accounts.

This report is made solely to the Council of Lloyd's in accordance with the Regulations and our letter of engagement dated 7 December 2017. Our work has been undertaken so that we might state to the Council those matters which we are required to state in this report in accordance with the Regulations and for no other purpose. To the fullest extent permitted by law we do not, in giving our opinion, accept or assume 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.

Mark Bolton
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
London

20 March 2018

Aggregate Profit and Loss Account

For the year ended 31 December 2017

	Note	2017 £m	2017 £m	Restated 2016 £m	Restated 2016 £m
Technical account					
Gross written premiums	4		**34,180**		30,533
Outward reinsurance premiums			**(9,311)**		(7,358)
Written premiums, net of reinsurance			**24,869**		23,175
Change in the provision for unearned premiums					
Gross amount		**(813)**		(693)	
Reinsurers' share		**442**		293	
Change in the net provision for unearned premiums			**(371)**		(400)
Earned premiums, net of reinsurance			**24,498**		22,775
Allocated investment return transferred from the non-technical account			**732**		713
Other technical income, net of reinsurance			**17**		13
			25,247		23,501
Claims paid					
Gross amount		**18,572**		14,311	
Reinsurers' share		**(3,914)**		(2,708)	
			14,658		11,603
Change in provision for claims					
Gross amount		**10,130**		2,971	
Reinsurers' share		**(6,538)**		(1,478)	
			3,592		1,493
Claims incurred, net of reinsurance			**18,250**		13,096
Net operating expenses	7		**10,128**		9,587
Balance on the technical account for general business			**(3,131)**		818
Non-technical account					
Balance on the technical account for general business			**(3,131)**		818
Investment return	8	**907**		810	
Allocated investment return transferred to the technical account		**(732)**		(713)	
Investment return retained in non-technical account		**175**		97	
Foreign exchange gains/(losses)		**47**		403	
Other net income		**1**		4	
Balance on the non-technical account			**223**		504
Result for the financial year before tax			**(2,908)**		**1,322**

All operations relate to continuing activities

Aggregate Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 £m	Restated 2016 £m
Other comprehensive income		
Result for the financial year before tax	**(2,908)**	1,322
Exchange differences on translating foreign operations	**(64)**	–
Other recognised (losses) / gains per syndicate annual accounts	**(3)**	391
Total comprehensive (loss)/income for the year	**(2,975)**	**1,713**

Aggregate Statement of Changes in Members' Balances

For the year ended 31 December 2017

	2017 £m	Restated 2016 £m
Members' balances brought forward at 1 January	**3,962**	4,556
Result for the financial year	**(2,908)**	1,322
Net payment of profits to members' personal reserve	**(1,711)**	(2,462)
Capital transferred into / (out of) syndicate premium trust funds	**774**	107
Exchange (losses)/ gains	**(118)**	439
Members' balances carried forward at 31 December	**(1)**	**3,962**

Aggregate Balance Sheet

As at 31 December 2017

	Note	£m	2017 £m	£m	Restated 2016 £m
Financial investments	9		**35,114**		37,588
Deposits with ceding undertakings			**18**		20
Reinsurers' share of technical provisions					
Unearned premiums	12	**3,596**		3,403	
Claims outstanding	12	**17,795**		12,121	
			21,391		15,524
Debtors					
Debtors arising out of direct insurance operations	10	**8,882**		8,858	
Debtors arising out of reinsurance operations	11	**6,727**		5,948	
Other debtors		**1,103**		1,302	
			16,712		16,108
Other assets					
Cash at bank and in hand	16	**2,177**		2,296	
Other		**2,654**		2,489	
			4,831		4,785
Prepayments and accrued income					
Accrued interest and rent		**104**		108	
Deferred acquisition costs	12	**4,304**		4,277	
Other prepayments and accrued income		**251**		180	
			4,659		4,565
Total assets			**82,725**		**78,590**
Capital and reserves					
Members' balances			**(1)**		3,962
Technical provisions					
Provision for unearned premiums	12	**16,601**		16,832	
Claims outstanding	12	**55,877**		48,534	
			72,478		65,366
Deposits received from reinsurers			**111**		168
Creditors					
Creditors arising out of direct insurance operations	14	**955**		771	
Creditors arising out of reinsurance operations	15	**6,735**		5,507	
Other creditors		**1,724**		2,109	
			9,414		8,387
Accruals and deferred income			**723**		707
Total liabilities			**82,725**		**78,590**

Approved by the Council of Lloyd's on 20 March 2018 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

Inga Beale
Chief Executive Officer

Aggregate Statement of Cash Flows

For the year ended 31 December 2017

	Note	**2017 £m**	Restated 2016 £m
Result for the financial year before tax		(2,908)	1,322
Increase/(decrease) in gross technical provisions		7,822	10,842
(Increase)/decrease in reinsurers' share of technical provisions		(6,039)	(3,357)
(Increase)/decrease in debtors		(816)	(3,182)
Increase/(decrease) in creditors		1,120	2,188
Movement in other assets/liabilities		80	(961)
Foreign exchange		1,056	(3,409)
Investment return		(907)	(810)
Net cash flows from operating activities		**(592)**	**2,633**
Investing activities			
Purchase of equity and debt instruments		(36,761)	(39,507)
Sale of equity and debt instruments		37,879	39,255
Purchase of derivatives		(69)	(41)
Sale of derivatives		28	25
Investment income received		756	731
Other		18	120
Net cash inflow/(outflow) from investing activities		**1,851**	**583**
Financing activities			
Net profits paid to members		(1,711)	(2,462)
Net capital transferred into/(out of) syndicate premium trust funds		774	(141)
Other		3	(8)
Net cash outflow from financing activities		**(934)**	**(2,611)**
Increase in cash and cash equivalents		**325**	**605**
Cash and cash equivalents at 1 January		3,975	3,056
Exchange differences on opening cash and cash equivalents		(147)	314
Cash and cash equivalents at 31 December	16	**4,153**	**3,975**

Notes to the Aggregate Accounts

As at 31 December 2017

1. Basis of preparation

Basis of reporting

The Aggregate Accounts as at 31 December 2017 have been prepared by totalling the annual accounts of the 112 syndicates reporting as at 31 December 2017. This includes reporting of 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 4).

Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the Aggregate Accounts.

The Aggregate Accounts have been prepared in compliance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by the Statutory Auditors and Third Country Auditors Regulations 2017, and where practicable in accordance with United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice (UK GAAP)), including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103), except for the following items:

- Aggregation;
- Taxation; and
- Related party transactions.

a. Aggregation

The Aggregate Accounts 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, due to some of the reasons outlined further below.

The syndicates' financial information included in the Aggregate Accounts 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 Aggregate Accounts.

b. Taxation

The Aggregate Accounts report the combined syndicates' result before tax. Members are directly responsible for tax payable on their syndicate results.

c. 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 Aggregate Accounts is not possible. The annual accounts of each syndicate or member provide, where appropriate, the required disclosures on related parties.

d. Restatement of prior year

During 2017 several syndicates changed their accounting policies, principally around foreign exchange and the treatment of deferred acquisition costs, resulting in restatements of the comparative figures for 2016 within the syndicates' annual accounts and the Aggregate Accounts have been restated accordingly. The restatements reduced the original reported profit of £1,353m by £31m and the original members' balances of £4,011m by £49m.

2. Accounting policies

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 the syndicate annual accounts under UK GAAP. However, where UK GAAP permits different accounting treatments, each managing agent is able to adopt the accounting policies it considers most appropriate to its syndicate. The following are, therefore, an overview of the sources of significant accounting judgements and estimation uncertainty and other accounting policies of all syndicates.

Sources of significant accounting judgements and estimation uncertainty

The preparation of the individual annual accounts of the syndicates requires managing agents to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Notes to the Aggregate Accounts

As at 31 December 2017

2. Accounting policies continued

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 Aggregate Accounts are described in the following accounting policies:

- premiums written (estimates for premiums written under delegated authority agreements) (see below and note 4);
- claims provisions and related recoveries (including provision for outstanding claims) (see below and note 12);
- investments (valuations based on models and unobservable inputs) (see below and note 9).

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: £36,413m) and is included within the aggregate balance sheet.

Premiums written

Written premiums represent premiums on business incepting during the year, including estimates of pipeline premiums written under delegated authority agreements, together with adjustments for premiums written in previous accounting periods. Written premiums 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 premiums 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 reinsurance companies involved. Statistical techniques are used to assist in making these estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

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

Additional information on insurance risk is included in note 3.

Notes to the Aggregate Accounts

As at 31 December 2017

2. Accounting policies continued

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 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 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 spot 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 overseas 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.

Investment return

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.

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.

Notes to the Aggregate Accounts

As at 31 December 2017

2. Accounting policies continued

Taxation

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

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

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

Operating expenses

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

Profit commission

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

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

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.

3. Risk management

Governance framework

The following governance structure relates to the Society of Lloyd's as a whole, as the preparer of the Aggregate Accounts. 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 of Lloyd's is responsible for the management and supervision of the market. Lloyd's is regulated by the Prudential Regulation Authority (PRA) and the 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.

Notes to the Aggregate Accounts

As at 31 December 2017

3. Risk management continued

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 members 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', i.e. 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.

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 is 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 the Lloyd's oversight of the Lloyd's market.

Notes to the Aggregate Accounts

As at 31 December 2017

3. Risk management continued

The Lloyd's Internal Model

The LIM is a purpose-built model designed to calculate the MWSCR for Solvency 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 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 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 syndicate assets (including credit risk on Premiums Trust Funds (PTF)); Market risk on cental assets, Reinsurance and credit risk; and Syndicate operational risk.

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
(iii) 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 from line to line 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. 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.

Notes to the Aggregate Accounts

As at 31 December 2017

3. Risk management continued

Reserving risk continued

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 model under Solvency II.

Solvency Capital Requirement coverage

Coverage of the MWSCR is an ongoing and continuous requirement and Lloyd's reports the results of its solvency test – i.e. the amount of the MWSCR, eligible assets to cover it and the solvency ratio – on a quarterly basis to the PRA. In addition to the quarterly reporting to the PRA, internal risk appetites have been set to monitor the coverage of the MWSCR as part of the risk management framework in place at the Corporation of Lloyd's. During 2017, the solvency coverage ratio was in excess of the internal risk appetite of 125% and regulatory requirements.

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.

Assets eligible for solvency

The assets of the syndicates contribute towards coverage of the MWSCR, after adjustments to value items in accordance with Solvency II valuation principles.

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.

Notes to the Aggregate Accounts

As at 31 December 2017

3. Risk management continued

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		9,842	9,037	7,699	7,887	8,019	8,863	17,163	
One year later		16,322	14,509	14,423	15,078	16,406	19,853		
Two years later		16,518	14,983	14,815	16,107	17,265			
Three years later		16,545	14,762	14,512	16,008				
Four years later		16,512	14,763	14,279					
Five years later		16,359	14,611						
Six years later		16,246							
Cumulative payments		(14,369)	(11,891)	(10,813)	(10,699)	(9,193)	(6,833)	(2,952)	
Estimated balance to pay	7,202	1,877	2,720	3,466	5,309	8,072	13,020	14,211	55,877

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

Financial risk – credit risk

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

As discussed on page 30, 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.

Notes to the Aggregate Accounts

As at 31 December 2017

3. Risk management continued

Financial risk – credit risk continued

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	26,351	–	4	26,355
Participation in investment pools	566	–	–	566
Loans with credit institutions	708	–	–	708
Deposits with credit institutions	959	–	–	959
Derivative assets	59	–	–	59
Other investments	60	–	–	60
Deposits with ceding undertakings	18	–	–	18
Reinsurers' share of claims outstanding	17,795	–	–	17,795
Cash at bank and in hand	2,177	–	–	2,177
Total	**48,693**	**–**	**4**	**48,697**

2016	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Debt securities	28,949	–	3	28,952
Participation in investment pools	667	–	–	667
Loans with credit institutions	562	–	–	562
Deposits with credit institutions	1,003	–	–	1,003
Derivative assets	40	–	–	40
Other investments	67	–	–	67
Deposits with ceding undertakings	20	–	–	20
Reinsurers' share of claims outstanding	12,100	21	–	12,121
Cash at bank and in hand	2,296	–	–	2,296
Total	**45,704**	**21**	**3**	**45,728**

Assets that are past due but not impaired have been in arrears for less than six months (2016: less than six months).

In aggregate, syndicates have no financial assets that would be past due or impaired whose terms have been renegotiated.

In aggregate, syndicates held no material debt and fixed income assets 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, syndicates, in aggregate, did not experience any material defaults on debt securities.

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

Notes to the Aggregate Accounts

As at 31 December 2017

3. Risk management continued

Financial risk – credit risk continued

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	7,454	8,063	7,036	2,953	845	**26,351**
Participation in investment pools	187	66	130	8	175	**566**
Loans with credit institutions	406	34	–	47	221	**708**
Deposits with credit institutions	256	107	190	72	334	**959**
Derivative assets	–	1	5	5	48	**59**
Other investments	33	5	–	–	22	**60**
Deposits with ceding undertakings	–	–	–	–	18	**18**
Reinsurers' share of claims outstanding	286	3,896	11,716	40	1,857	**17,795**
Cash at bank and in hand	103	180	1,336	263	295	**2,177**
Total credit risk	**8,725**	**12,352**	**20,413**	**3,388**	**3,815**	**48,693**

2016	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	8,113	9,573	7,372	3,139	752	**28,949**
Participation in investment pools	370	127	108	6	56	**667**
Loans with credit institutions	84	161	2	9	306	**562**
Deposits with credit institutions	271	178	121	46	387	**1,003**
Derivative assets	–	5	12	1	22	**40**
Other investments	6	11	29	–	21	**67**
Deposits with ceding undertakings	–	–	–	–	20	**20**
Reinsurers' share of claims outstanding	129	3,209	7,806	68	888	**12,100**
Cash at bank and in hand	44	289	1,413	274	276	**2,296**
Total credit risk	**9,017**	**13,553**	**16,863**	**3,543**	**2,728**	**45,704**

Notes to the Aggregate Accounts

As at 31 December 2017

3. Risk management continued

Financial risk – liquidity risk

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

Lloyd's centrally monitors syndicate liquidity, both in terms of asset mix and future funding needs, and conducts stress tests to monitor the impact on liquidity of significant claims events.

2017	**No stated maturity £m**	**0-1yr £m**	**1-3yr £m**	**3-5yr £m**	**>5yrs £m**	**Total £m**
Claims outstanding	12	18,751	20,365	8,422	8,327	**55,877**
Derivatives	–	10	–	–	–	**10**
Deposits received from reinsurers	31	61	12	7	–	**111**
Provisions for other risks and charges	1	–	–	–	–	**1**
Creditors	900	7,107	1225	157	14	**9,403**
Other creditors	6	33	–	–	–	**39**
Total	**950**	**25,962**	**21,602**	**8,586**	**8,341**	**65,441**

2016	No stated maturity £m	0-1yr £m	1-3yr £m	3-5yr £m	>5yrs £m	Total £m
Claims outstanding	31	15,474	17,057	7,709	8,263	**48,534**
Derivatives	–	57	–	–	–	**57**
Deposits received from reinsurers	123	31	13	1	–	**168**
Provisions for other risks and charges	1	–	–	–	–	**1**
Creditors	1,297	5,654	1,162	161	55	**8,329**
Other creditors	–	16	–	–	–	**16**
Total	**1,452**	**21,232**	**18,232**	**7,871**	**8,318**	**57,105**

Financial risk – 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.

Notes to the Aggregate Accounts

As at 31 December 2017

3. Risk management continued

Financial 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, 66% (2016: 65%) of all assets deployed at Lloyd's was provided in US dollars. The profile of the aggregate of syndicate 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	4,810	22,944	2,647	4,143	425	145	**35,114**
Reinsurers' share of technical provisions	3,754	15,816	917	625	227	52	**21,391**
Insurance and reinsurance receivables	2,655	11,187	833	491	237	206	**15,609**
Cash at bank and in hand	501	937	402	88	122	127	**2,177**
Other assets	1,584	4,086	475	846	1,245	198	**8,434**
Total assets	**13,304**	**54,970**	**5,274**	**6,193**	**2,256**	**728**	**82,725**
Technical provisions	14,253	47,124	5,130	3,799	1,509	663	**72,478**
Insurance and reinsurance payables	1,107	5,746	388	317	70	62	**7,690**
Other creditors	670	1,842	(2)	21	9	18	**2,558**
Total liabilities	**16,030**	**54,712**	**5,516**	**4,137**	**1,588**	**743**	**82,726**
Total capital and reserves	**(2,726)**	**258**	**(242)**	**2,056**	**668**	**(15)**	**(1)**

2016	Sterling £m	US dollar £m	Euro £m	Canadian $ £m	Australian $ £m	Other £m	Total £m
Financial investments	4,934	25,615	2,345	4,046	494	154	**37,588**
Reinsurers' share of technical provisions	3,469	10,235	820	678	212	110	**15,524**
Insurance and reinsurance receivables	2,528	10,625	796	492	207	158	**14,806**
Cash at bank and in hand	566	985	482	38	95	130	**2,296**
Other assets	2,092	3,686	552	807	1,043	196	**8,376**
Total assets	**13,589**	**51,146**	**4,995**	**6,061**	**2,051**	**748**	**78,590**
Technical provisions	13,283	41,195	4,919	3,651	1,511	807	**65,366**
Insurance and reinsurance payables	973	4,602	306	275	67	55	**6,278**
Other creditors	1,036	1,797	(18)	133	16	20	**2,984**
Total liabilities	**15,292**	**47,594**	**5,207**	**4,059**	**1,594**	**882**	**74,628**
Total capital and reserves	**(1,703)**	**3,552**	**(212)**	**2,002**	**457**	**(134)**	**3,962**

Notes to the Aggregate Accounts

As at 31 December 2017

3. 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	108	108
Weakening of US dollar	(88)	(88)
Strengthening of euro	(27)	(27)
Weakening of euro	22	22

2016	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	202	202
Weakening of US dollar	(166)	(166)
Strengthening of euro	(24)	(24)
Weakening of euro	19	19

Financial risk – interest rate risk

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

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	(333)	(333)
– 50 basis points	329	329

2016	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(385)	(385)
– 50 basis points	386	386

Notes to the Aggregate Accounts

As at 31 December 2017

3. Risk management continued

Financial risk – 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.

Syndicates' 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.

Syndicates manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market.

For syndicates, 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	77	77
5% decrease in equity markets	(77)	(77)

2016	Impact on result before tax £m	Impact on members' balances £m
5% increase in equity markets	78	78
5% decrease in equity markets	(78)	(78)

Notes to the Aggregate Accounts

As at 31 December 2017

3. Risk management continued

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 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 Aggregate Accounts, further analysis of premiums, claims, expenses and underwriting result by line of business is included within note 4, with commentary on the performance of each line of business included on pages 6 to 14. Analysis of premium by geographical region is included both within note 4 (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 Lloyd's Annual Report 2017. Analysis of capital providers by source and location is also included in the '2017 At a Glance' section of the Lloyd's Annual Report 2017. Analysis of investments held at the syndicate level is disclosed in note 9.

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.

Notes to the Aggregate Accounts

As at 31 December 2017

4. Segmental analysis

The following segmental analysis is derived from the equivalent notes in the syndicate annual accounts. The syndicate annual accounts report the material direct lines of business and aggregate the balance as 'other'. Consequently, aggregation of those figures is not meaningful. Syndicates have provided returns to Lloyd's, including segmental analysis and syndicate auditors have given review opinions confirming that those returns have been prepared in accordance with instructions issued by Lloyd's and that they are consistent with the syndicate annual accounts. Those figures have been aggregated to provide the following tables:

2017	Gross written premiums £m	Gross premiums earned £m	Gross claims incurred £m	Operating expenses £m	Reinsurance balance £m	Result £m
Accident and health	1,138	1,126	(640)	(449)	(69)	**(32)**
Motor (third party liability)	140	131	(119)	(37)	(12)	**(37)**
Motor (other lines)	917	914	(794)	(274)	4	**(150)**
Marine, aviation and transport	4,004	4,203	(3,002)	(1,366)	(158)	**(323)**
Fire and other damage to property	7,739	7,666	(7,959)	(2,550)	1,058	**(1,785)**
Third party liability	7,326	6,819	(4,388)	(2,264)	(325)	**(158)**
Pecuniary loss	1,655	1,550	(852)	(554)	(172)	**(28)**
Life	99	92	(71)	(33)	(12)	**(24)**
Other	13	14	(5)	(4)	(1)	**4**
Total direct Insurance	**23,031**	**22,515**	**(17,830)**	**(7,531)**	**313**	**(2,533)**
Reinsurance acceptances	11,149	10,852	(10,872)	(2,580)	1,270	**(1,330)**
Balance on the technical account for general business	**34,180**	**33,367**	**(28,702)**	**(10,111)**	**1,583**	**(3,863)**

2016	Gross written premiums £m	Gross premiums earned £m	Gross claims incurred £m	Operating expenses £m	Reinsurance balance £m	Result £m
Accident and health	1,039	1,025	(568)	(438)	(62)	**(43)**
Motor (third party liability)	146	155	(106)	(53)	–	**(4)**
Motor (other lines)	901	884	(847)	(276)	140	**(99)**
Marine, aviation and transport	3,831	3,944	(2,380)	(1,336)	(193)	**35**
Fire and other damage to property	6,862	6,627	(3,612)	(2,260)	(853)	**(98)**
Third party liability	6,092	5,603	(3,547)	(1,913)	(247)	**(104)**
Pecuniary loss	1,361	1,194	(839)	(465)	(23)	**(133)**
Life	81	83	(50)	(36)	(5)	**(8)**
Other	141	144	(163)	(5)	20	**(4)**
Total direct Insurance	**20,454**	**19,659**	**(12,112)**	**(6,782)**	**(1,223)**	**(458)**
Reinsurance acceptances	10,079	10,181	(5,170)	(2,792)	(1,656)	**563**
Balance on the technical account for general business	**30,533**	**29,840**	**(17,282)**	**(9,574)**	**(2,879)**	**105**

Notes to the Aggregate Accounts

As at 31 December 2017

4. Segmental analysis continued

The geographical analysis of gross direct insurance premiums by location of 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
Total	**23,031**	**20,454**

The syndicate returns to Lloyd's provided additional information to derive the following table in respect of the lines of business reviewed in the 2017 Annual Report. This is disclosed to reconcile the balance on the technical account for general business to the additional analysis and market commentary included on pages 9 to 16 of the Aggregate Accounts.

2017	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Underwriting 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)**
Allocated investment return transferred from the non-technical account					**732**
Adjustments in the Annual Report not made in the Aggregate Accounts				442	**442**
Balance on the technical account for general business	**33,591**	**24,498**	**(18,250)**	**(9,669)**	**(2,689)**

2016	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Underwriting 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**
Allocated investment return transferred from the non-technical account					713
Adjustments in the Annual Report not made in the Aggregate Accounts					35
Balance on the technical account for general business					**838**

Notes to the Aggregate Accounts

As at 31 December 2017

5. Life business

The Aggregate Accounts 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 4).

6. Claims outstanding

The aggregate of the prior year surpluses/deficiencies is a surplus of £706m (2016: £1,150m). The surplus arises across all reinsurance, property, casualty and energy lines of business, reflecting favourable claims development compared with projections. The marine, motor, aviation and life lines of business reported deficiencies.

7. Net operating expenses

	2017 £m	2016 £m
Acquisition costs	8,743	7,618
Change in deferred acquisition costs	(239)	(196)
Administrative expenses	2,749	2,872
Reinsurance commissions and profit participations	(1,125)	(707)
	10,128	**9,587**

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

Schedule 2 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by the Statutory Auditors and Third Country Auditors Regulations 2017 requires the disclosure of the remuneration receivable by the auditor of the Aggregate Accounts. This remuneration is not reflected in the profit and loss account of these Aggregate Accounts, all these amounts are borne by the Society of Lloyd's and its subsidiaries and are reported in the Society's accounts.

The proportion of remuneration payable by the Society to its auditors in respect of the audit of the Aggregate Accounts is set out below:

	2017 £000	2016 £000
Services pursuant to legislation in respect of the Aggregate Accounts	110	46
Total	**110**	**46**

Notes to the Aggregate Accounts

As at 31 December 2017

8. Investment return

Interest and similar income	2017 £m	2016 £m
From financial instruments designated as at fair value through profit or loss	634	598
From available for sale investments	35	22
From financial instruments designated as held to maturity	1	1
Dividend income	30	42
Interest on cash at bank	23	16
Other interest and similar income	26	24
Investment expenses	(72)	(54)
Total	**677**	**649**

Other income from investments designated as at fair value through profit or loss	2017 £m	2016 £m
Realised gains/(losses)	145	(6)
Unrealised gains / (losses)	87	169
Other relevant income/(losses)	(2)	(2)
Total	**230**	**161**

Total investment return	**907**	**810**

9. Financial Investments

	2017 £m	2016 £m
Shares and other variable yield securities and units in unit trusts	6,407	6,297
Debt securities and other fixed income securities	26,355	28,952
Participation in investment pools	566	667
Loans and deposits with credit institutions	1,667	1,565
Other	119	107
	35,114	**37,588**

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

Notes to the Aggregate Accounts

As at 31 December 2017

9. Financial Investments continued

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

- 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	1,114	4,481	811	**6,406**	1	**6,407**
Debt and other fixed income securities	6,727	19,547	81	**26,355**	–	**26,355**
Participation in investment pools	323	211	32	**566**	–	**566**
Loans and deposits with credit institutions	437	1,065	163	**1,665**	2	**1,667**
Other investments	6	84	29	**119**	–	**119**
Total investments	**8,607**	**25,388**	**1,116**	**35,111**	**3**	**35,114**
Borrowings	(11)	–	–	**(11)**	–	**(11)**
Derivative liabilities	(1)	(8)	–	**(9)**	–	**(9)**
Total liabilities	**(12)**	**(8)**	**–**	**(20)**	**–**	**(20)**

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	2,512	3,226	559	**6,297**	–	**6,297**
Debt and other fixed income securities	6,982	21,871	84	**28,937**	15	**28,952**
Participation in investment pools	432	196	39	**667**	–	**667**
Loans and deposits with credit institutions	554	877	132	**1,563**	2	**1,565**
Other investments	14	89	4	**107**	–	**107**
Total investments	**10,494**	**26,259**	**818**	**37,571**	**17**	**37,588**
Borrowings	(15)	–	–	**(15)**	–	**(15)**
Derivative liabilities	(12)	(43)	(2)	**(57)**	–	**(57)**
Total liabilities	**(27)**	**(43)**	**(2)**	**(72)**	**–**	**(72)**

Notes to the Aggregate Accounts

As at 31 December 2017

10. Debtors arising out of direct insurance operations

	2017 £m	2016 £m
Due within one year		
– policyholders	1	10
– intermediaries	8,781	8,736
Due after one year		
– policyholders	–	–
– intermediaries	100	112
	8,882	**8,858**

11. Debtors arising out of reinsurance operations

	2017 £m	2016 £m
Due within one year	5,545	5,010
Due after one year	1,182	938
	6,727	**5,948**

12. Insurance liabilities and reinsurance assets

(a) Provisions for unearned premiums

2017	Gross £m	Reinsurers' share £m	Net £m
At 1 January	16,832	3,403	**13,429**
Premiums written in the year	34,180	9,311	**24,869**
Premiums earned in the year	(33,367)	(8,869)	**(24,498)**
Exchange/other movements	(1,044)	(249)	**(795)**
At 31 December	**16,601**	**3,596**	**13,005**

2016	Gross £m	Reinsurers' share £m	Net £m
At 1 January	14,001	2,659	**11,342**
Premiums written in the year	30,533	7,358	**23,175**
Premiums earned in the year	(29,840)	(7,065)	**(22,775)**
Exchange/other movements	2,138	451	**1,687**
At 31 December	**16,832**	**3,403**	**13,429**

(b) Deferred acquisition costs

	2017 £m	2016 £m
At 1 January	4,276	3,564
Change in deferred acquisition costs	239	196
Exchange movements	(232)	437
Other	21	79
At 31 December	**4,304**	**4,276**

Notes to the Aggregate Accounts

As at 31 December 2017

12. Insurance liabilities and reinsurance assets continued

(c) Claims outstanding

2017	Gross £m	Reinsurers' share £m	Net £m
At 1 January	48,534	12,121	**36,413**
Claims paid during the year	(18,572)	(3,914)	**(14,658)**
Claims incurred during the year	28,702	10,452	**18,250**
Exchange movements	(2,673)	(877)	**(1,796)**
Other	(114)	13	**(127)**
At 31 December	**55,877**	**17,795**	**38,082**

2016	Gross £m	Reinsurers' share £m	Net £m
At 1 January	39,525	9,307	**30,218**
Claims paid during the year	(14,311)	(2,708)	**(11,603)**
Claims incurred during the year	17,282	4,186	**13,096**
Exchange movements	6,031	1,334	**4,697**
Other	7	2	**5**
At 31 December	**48,534**	**12,121**	**36,413**

13. 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		Mean term of liabilities	
Line of business	**2017 %**	2016 %	**2017 years**	2016 years
Motor (third party liability)	**2.47**	2.89	**24.37**	13.17
Motor (other classes)	**3.00**	–	**2.60**	–
Third party liability	**2.35**	3.56	**22.94**	22.29

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	**1,664**	1,883	**(436)**	(533)	**1,228**	1,350
Reinsurers' share of total claims	**552**	457	**(79)**	(55)	**473**	402

Notes to the Aggregate Accounts

As at 31 December 2017

14. Creditors arising out of direct insurance operations

	2017 £m	2016 £m
Due within one year	953	757
Due after one year	2	14
	955	**771**

15. Creditors arising out of reinsurance operations

	2017 £m	2016 £m
Due within one year	5,557	4,544
Due after one year	1,178	963
	6,735	**5,507**

16. Note to the statement of cash flows

	2017 £m	2016 £m
Cash at bank and in hand	2,177	2,296
Short term deposits with credit institutions	2,146	1,857
Overdrafts	(170)	(178)
	4,153	**3,975**

Of the cash and cash equivalents, £548m (2016: £102m) is held in regulated bank accounts in overseas jurisdictions and is not available for immediate use other than to pay claims in those jurisdictions.

17. 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 in the Aggregate Accounts.

18. Off-balance sheet arrangements

Schedule 3 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by the Statutory Auditors and Third Country Auditors Regulations 2017 requires the disclosure of off-balance sheet arrangements where they have been disclosed in the syndicate annual accounts and where the information is necessary for enabling the financial position of the Lloyd's market to be assessed. No such off-balance sheet arrangements were reported in the 2017 syndicate annual accounts.

19. Members' funds at Lloyd's

Every member is required to hold capital at Lloyd's to support their underwriting, which until mid 2007 was all held in trust as members' funds at Lloyd's (FAL). In 2007 a rule change permitted any members that only participate on one syndicate to 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. Capital held in the syndicate premium trust funds is not reported as FAL.

The level of FAL/capital which Lloyd's requires a member to maintain is determined in accordance with Lloyd's capital setting framework. FAL are not dedicated to any specific syndicate year of account participation for any member and are not therefore reported in the Aggregate Accounts.