LLOYD'S

Aggregate Accounts 2018

Sharing risk to create a braver world

Aggregate Accounts 2018

Contents

External Environment

The world economy in 2018

2018 GDP growth of 3.7% suggests that while the world continues to recover from the 2008 global financial crisis, we are still living with the consequences. Growth has still not reached pre-2008 levels and it is forecast to slow down. US GDP growth improved in 2018 to 2.9% while the EU28 area showed a reduction to 1.9%.

The slow recovery has had a number of implications for the wider economy and the insurance industry in particular. As a marketplace of competing and collaborating businesses, the Lloyd's market has different opportunities to respond collectively.

Geopolitical trends

Slower global growth can often result in trends of nationalism and protectionism. Across the globe, geopolitical tensions have been increasing. Trade tensions between the US and China may increase trade tariffs in 2019 with the danger that in an extreme scenario it could have a dampening effect on world GDP and on global insurance premiums.

Politics among western democracies is becoming more polarised on the back of the growth in populism. From the impending exit of the United Kingdom from the EU, unilateral actions taken by the US, to instability in the Middle East – the impacts of this instability are affecting people and businesses around the world.

Sustainability

At the same time there is growing recognition that businesses must do more to promote a sustainable future. The threats posed by climate change, unclean air, water scarcity and related food insecurity are already well documented. For example, disruptions to the production and delivery of goods and services due to environmental disasters are up by 29% since 2012.

Business leaders have a responsibility to align their commercial interests with these challenges. Evidence suggests that more than two-thirds of economic losses from natural disasters remain uninsured. More needs to be done to close this protection gap and mitigate the wider damage caused by climate-related disasters. The Corporation is proud to take a lead role in addressing wider social and environmental issues, and has signed up to the United Nations Global Compact. In so doing, the Corporation agrees to align strategy, culture and day to day operations with universal principles on human rights, labour, the environment and anti-corruption, and to take actions that advance societal goals.

Insurance industry

Responses to the global financial crisis have led to a period of quantitative easing and low interest rates, with only moderate inflationary pressure so far. This pressure is expected to increase as some economies show signs of overheating. The US Federal Reserve increased interest rates on four occasions in 2018, although the prospect of further rises is uncertain.

This has led to a search for returns from the capital markets, including from insurance risk which has enjoyed historically attractive returns to capital. This in turn has driven down the price of risk transfer with what seems to be a less volatile supply of insurance capital. While this has resulted in good outcomes for policyholders in terms of the price and capacity of insurance coverage, it has challenged insurers' and reinsurers' profitability.

The relatively benign claims environment before 2017 masked some of these issues, but they have increasingly come to the fore as the incidence of major claims in the last two years has increased. Despite the increased claims, price increases have been modest, and it remains uncertain whether this trend will be sustained.

Many insurers and reinsurers have responded in a similar fashion by getting closer to the customer, making better use of data and analytics to ensure the price more closely reflects the risk and seeking operating and cost efficiencies – including through acquisition.

We have seen similar developments within the London and Specialty markets – notable transactions included AXA's takeover of XL Group, Marsh's purchase of JLT, Markel's acquisition of Nephila – the industry's largest ILS fund manager – and Hanover Insurance Group's sale of the Chaucer Group to China Re.

While these activities are affecting individual market participants, what sets the Lloyd's market apart is its ability to act collectively as a marketplace. This has been most notable recently in the market's growing adoption of the London Market Target Operating Model initiatives that will deliver efficiencies. These continue to be a focus for the market in 2019 and this year, through its oversight role, the Corporation has a heightened focus on expense management in the market.

External Environment *continued*

Technology and innovation

As the pace of technological change has increased in past decades, it has changed the way we live and the risks to which we are exposed. The development of new insurance solutions has often lagged behind the emergence of risks, even more so as the pace of change has increased. Lloyd's was a pioneer of cyber insurance which started to appear in the late 1990s. Lloyd's continues to foster product development to address the unique, dynamic exposures and the market currently writes approximately a quarter of cyber premium. Nevertheless, most cyber risks are still uninsured – and more are emerging all the time. It will likely remain a growth area for years to come.

The Corporation carried out a thematic review of cyber security in 2018 with a report provided to the market highlighting good practice. Further guidance will be provided in 2019.

The advent of the Internet of Things has the potential to increase complexity and amplify risk, but it could also enable more innovation throughout the insurance industry, including the way claims are settled in future. It has been estimated that by 2020, some 25 billion devices will be connected to the internet.

Interconnectivity will create new business models where more is known about insureds, policies are generated in real time and are bespoke, and fraudulent claims are recognised quicker. The ability to create personalised policies will also enable insurers to more accurately predict and mitigate risks.

New types of threats will emerge, which will increase the need for insurers to develop new products and services that better serve their customers' risk profile. The scale and variability of the type of disruption that could occur will affect multiple sectors and lines of business. Businesses are moving away from concentration in tangible assets towards intangible assets such as networks, data and client relationships and intellectual property. These assets lead to new types of exposures like earnings and cash flow losses, business interruption absent property damage, cyber and product recall risks. Successful insurers will be alive to the challenge and embrace these new risks with innovative products.

As the world changes, Lloyd's reputation for being at the forefront of insuring progress remains firm. But we are not complacent, and we will build on our reputation to ensure that the Lloyd's market continues to be the place which is unafraid to take on new risks.

Regulatory environment

The insurance industry is operating in an increasingly complex global regulatory environment. As well as the ongoing cost of complying with regulation there remains uncertainty in some emerging areas, with significant implications for insurers.

The withdrawal of the US from the nuclear agreement with Iran in May 2018 has caused a divergence in foreign policy in relation to Iran, between the EU and the US. Insurers are now caught between directly conflicting regulations and lawful business from the EU will now be potentially exposed to US secondary sanctions.

The Insurance Distribution Directive (IDD) became mandatory in October 2018. The IDD is a new EU-wide directive aimed at ensuring minimum harmonisation of insurance distribution regulation across the EU, creating a 'level playing field' for insurance intermediaries and insurance distribution, regardless of the channel customers use to purchase their products. The aim is to ensure consistent prudential standards for intermediaries as well as significantly raising conduct standards, improving consumer protection and effective competition. The Corporation will continue to assess the impact of IDD and identify best practice to ensure managing agents are meeting the new requirements.

The tax environment is becoming increasingly difficult. The US has introduced an anti-abuse rule that significantly limits non-US insurance groups' ability to efficiently consolidate and manage their group risk in a single location. The OECD, European Commission, UK and others are actively looking at the challenges of appropriately taxing the digital economy which, while not specifically aimed at the insurance industry, is a concern as the line between digital businesses and business that operates on a digital platform is not an easy one to draw.

The first review of the Solvency II framework took place and focused on the standard formula used to calculate the Solvency Capital Requirement. A second review is scheduled for 2020 and is expected to allow for more fundamental change.

The impact of European regulatory developments on the UK will be affected by any form of withdrawal from the EU. Following a UK departure from the EU, UK insurers' and reinsurers' continued access to the EU single market will depend on the extent to which the UK maintains regulatory alignment. The establishment of an insurance subsidiary in Brussels ensures that Lloyd's will continue to have access to European markets.

In the UK, the Senior Managers and Certification Regime (SM&CR) came into effect for insurers in December. The SM&CR aims to strengthen the regulatory regime to ensure that there is an effective governance system with a clear allocation of responsibilities within firms and to raise standards of conduct.

Outlook

The prevailing conditions give rise to risks and challenges that shape our strategy. The most critical risks are highlighted for focus through Lloyd's risk framework.

2018 Highlights

(£1,373m)
Loss before tax
(2017: loss of £2,914m)

£976m
Overall surplus on prior years
(2017: £706m)

106.1%
Combined ratio*
(2017: 115.9%)

£333m
Total investment return
(2017: £907m)

Combined ratio by line of business*	%
Reinsurance	106.0
Property	110.4
Casualty	102.9
Marine	116.0
Energy	87.4
Motor	98.7
Aviation	112.0
Life	77.8

Underwriting result by line of business*	£m
Reinsurance	(456)
Property	(700)
Casualty	(183)
Marine	(343)
Energy	113
Motor	12
Aviation	(49)
Life	16

* 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 2017 to overall net earned premiums in calendar year 2018.

The underwriting results and combined ratio tables include the results of all life and non-life syndicates transacting business during 2018. 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 37.

Market Performance

At the syndicate level, the Lloyd's market reported a pre-tax loss of £1,373m in 2018 (2017: a loss of £2,914m) and a combined ratio of 106.1% (2017: 115.9%). This result is driven by the losses arising from a number of catastrophic events which impacted the insurance industry in the second half of 2018, notably Hurricanes Florence and Michael and the wildfires in California. 2018 was the second successive year of significant catastrophic losses for the insurance industry and so too for the Lloyd's market. Insured losses arising from catastrophic events cost the Lloyd's market £2.9bn net of reinsurance in 2018 (2017: £4.6bn) and added 11.1% to the combined ratio (2017: 18.5%). The impact of these major events on the Lloyd's market result was offset to some extent by prior year releases of £976m (2017: £706m), representing a 3.7% (2017: 2.8%) improvement to the combined ratio.

During 2018 stable or increased pricing levels became more widespread as the year progressed after many years of decline; favourable price movements were seen across all lines of business and more notably in those which had the greatest exposures to the major catastrophic events in 2017. The Lloyd's market experienced a weighted average increase in prices on renewal business slightly over 3% in 2018. In addition, several syndicates exited or severely curbed their risk appetites in poor-performing lines, as Lloyd's began to ramp up its activity to support the market in closing the performance gap.

There has been a small reduction in the operating expense ratio in 2018 reflecting the initial effects of actions being taken by Lloyd's and the market to reduce the cost of doing business; the operating expense ratio is 39.4%, down from 41.3% in 2017. Reducing the Lloyd's market expenses will continue to be an area of focus in 2019.

Investment return was £333m (2017: £907m), a return of 0.8% (2017: 2.2%), reflecting the challenging year in the financial markets, with most risk assets generating negative returns as equity markets in particular suffered in the fourth quarter.

Foreign exchange had a negligible impact on the result with a small loss reported in 2018. This reflected the impact of most major currencies strengthening against sterling in 2018.

Looking ahead

The 2019 planning cycle was the most challenging, so far, for the Lloyd's market with the significant level of effort placed on remediation activities against poor-performing lines of business and syndicates as part of the drive to close the performance gap. There are already some encouraging signs in 2019 that the remedial action being taken is gaining traction; there is a greater level of focus on underwriting controls, the correct pricing of attritional, large and catastrophe exposures and acquisition and administrative expenses.

While industry capital remains stable at an all-time high, with plenty more still potentially available, this is likely to continue acting as a constraint to the scale of improvement that is necessary. Notwithstanding another costly year in terms of natural catastrophes (with latest industry insured loss estimates as high as US$79bn), market conditions look set to remain broadly stable. Increased prices are likely to be confined to specific risks and regions impacted by losses from these events.

The macroeconomic environment remains challenging with the parlous state of world politics and fragile global economic climate requiring careful monitoring and a nimble, and pro-active, underwriting response. Aside from the conundrum posed by Brexit, increasing global protectionism and continued violent extremism remain key topics to watch.

2018 performance

Gross written premium for the year increased to £37,223m compared with £34,180m in 2017. US dollar denominated business continues to account for the largest share of business at Lloyd's. The average exchange rate in 2018 was US$1.34: £1 compared with US$1.29: £1 in 2017. The US dollar and other currency movements have decreased premiums as reported in converted sterling by 4%. Adjusting for the impact of exchange rate movements, the increase in gross written premium was 10%.

The overall price change (taking into account terms and conditions) on renewal business was an increase of approximately 3%, which was slightly above planning assumptions for the year. This increase was largely driven by catastrophe impacted lines. During the year, there continued to be growth in most lines, although the rate of growth slowed throughout the year. The main exception was aviation where further contraction was evident.

The underlying accident year ratio, excluding major claims, was 98.7% (2017: 100.2%) which reflects the small improvement in risk adjusted pricing since 2017. However underlying claims inflation, deductible erosion and current pricing, terms and conditions continue to contribute to high attritional loss levels.

Major claims	% of net earned premium
2014	3.4
2015	3.5
2016	9.0
2017	18.5
2018	**11.1**
Five year average[1]	8.2
Ten year average[1]	10.2

Accident year ratio excl. major claims	%
2014	94.2
2015	95.8
2016	95.6
2017	100.2
2018	**98.7**
Five year average[1]	97.1
Ten year average[1]	94.2

1. Weighted by net earned premium.

Market Performance *continued*

Major claims

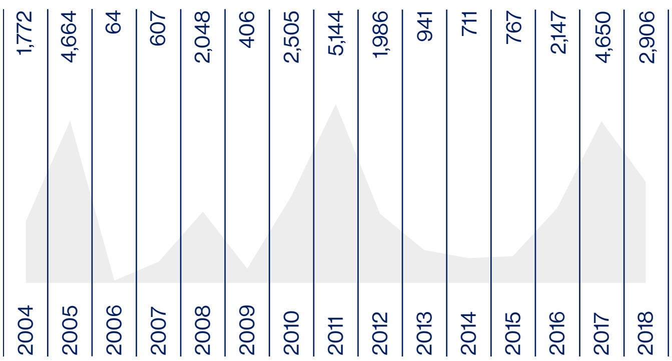
For the Lloyd's market, major claims were £2,906m in 2018 (2017: £4,539m), net of reinsurance and including reinstatements payable and receivable. Total industry insured losses for the catastrophe events of 2018 are estimated to be US$79bn.

After a long period of relatively benign major loss activity pre-2017, the cost of major claims to the Lloyd's market in 2018 is the fourth highest since 2003, in today's terms. This continued period of high losses follows on from 2017, which was the third highest year for losses in that period.

The largest insured natural catastrophe event was Hurricane Michael. This event, which devastated large parts of Florida, was the second of two large hurricanes to hit the US in the second half of 2018. The other large hurricane was Hurricane Florence, which caused significant wind and flood damage in North and South Carolina.

The market once again incurred significant claims from wildfires in California in November. Other notable events included a volcanic eruption in Hawaii in May, Typhoons Jebi and Mangkhut striking Asia in August and September, and losses resulting from a fire at the Lürssen shipyard in Germany in September.

Lloyd's major losses: net ultimate claims



5 year average: £1,843m; 15 year average: £1,907m. Indexed for inflation to 2018. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

Prior year movement

The combined ratio has been improved by 3.7% (2017: 2.9%) through prior year releases. The release represents 2.6% (2017: 1.9%) of net claims reserves brought forward at 1 January.

This was the 14th successive year of prior year releases. In each of these years, the level of release has been significantly influenced by actual experience. In 2018, aggregate attritional claims emergence was broadly in line with projected levels at a strict best estimate with releases from initial prudent claims estimates. 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, with only small movements in estimates seen during 2018.

In 2019, 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, such as casualty where there has been continued focus in recent years.

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
2014	(8.0)
2015	(7.7)
2016	(5.0)
2017	(2.9)
2018	**(3.7)**

Years of account in run-off	Number of years
2014	4
2015	4
2016	6
2017	5
2018	**0**

Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remains extremely high, with 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 55% of gross written premium). There has been an increase in the overall reinsurance recoverables due to the catastrophe losses experienced in the second half of 2018. This increase reflects the reinsurance risk transfer strategy of the Lloyd's market and the nature of loss events experienced during 2017 and 2018. No negative settlement trends have been witnessed to date. Lloyd's will be monitoring this closely in 2019 as part of our normal market oversight procedures.

Lloyd's outward reinsurance premium spend for 2018 was 28% (2017: 26%) of gross written premium, which reflects a small increase in the scale of reinsurance purchased. This level of reinsurance transfer remains within risk appetite.

Market Performance *continued*

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 2016 account reached closure at 31 December 2018. 2016 witnessed some above average risk losses, notably in the property sector. Hurricane Matthew was the first category five hurricane since 2007 and impacted the Caribbean and the US. The Fort McMurray wildfire also devastated parts of Alberta, Canada. As a result, the 2016 pure year of account reported an underwriting loss. The 2016 pure year loss was offset partially by the addition of releases from prior years totalling £896m on the 2015 and prior reinsurance to close (RITC) (2014 and prior: £919m), which meant the year closed with an overall loss of £855m (2015 pure year profit: £1,620m).

Five years of account were in run-off at the beginning of 2018. All of these run-off years have now closed at the end of 2018, which represents a first for Lloyd's in recent years to have no open run-off years in existence.

In aggregate, run-off years reported a surplus of £7m including investment return (2017: surplus of £8m).

Investment review

Equity and other risk assets endured a difficult year after a strong investment return in 2017. In 2018, financial markets suffered a volatile risk-off move in the last quarter of the year brought on by trade disputes, fears of a global slowdown, geopolitical risks and less accommodative financial conditions.

Developed market monetary policy continued to be tightened with central banks in the US, Canada and UK raising interest rates. However, core government bonds outperformed over the risk-off move in the fourth quarter. Credit spreads on corporate bond investments widened in line with the general risk-off sentiment.

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 while return seeking equity and growth assets account for a moderate allocation at less than 10%.

Overall, syndicate investments returned £333m, or 0.8% in 2018 (2017: £907m, 2.2%). Investment return was materially lower this year driven by disappointing corporate bond returns as well as negative 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.

The following line of business analysis and commentary is as disclosed in the 2018 Annual Report.

2018 combined ratio line of business:

	Accident year	Prior year reserve movement	Calendar year
Reinsurance	111.8%	(5.8%)	106.0%
Property	114.0%	(3.6%)	110.4%
Casualty	103.9%	(1.0%)	102.9%
Marine	115.6%	0.4%	116.0%
Energy	105.6%	(18.2%)	87.4%
Motor	101.8%	(3.1%)	98.7%
Aviation	119.8%	(7.8%)	112.0%
Life	98.6%	(20.8%)	77.8%

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.

2018 performance

Lloyd's gross written premium for 2018 was £6,440m (2017: £5,991m), an increase of 7.5%. Growth was driven by improved pricing adequacy on property treaty and facultative contracts, albeit moderated by whether they were significantly loss impacted or not from 2017 events. The Lloyd's reinsurance property line reported an accident year ratio of 121.1% (2017: 134.3%).

2018 was another year in which globally, natural disasters at times dominated the headlines. Many of these events resulted in meaningful losses to the insurance market and while in aggregate not to the same scale of 2017, they remain above the long-term averages.

Prior year movement

The prior year movement was a release of 4.9% (2017: 4.0%). This line of business has seen releases across several prior years during 2018. In particular, there has been a large release on the 2016 year of account driven by reductions on the US property catastrophe losses compared to the estimates at the end of 2017, mainly due to the 2016 and 2017 US windstorm events. Movements are expected for historical catastrophe events, as there is greater certainty as claims are paid out.

Market Performance *continued*

Looking ahead
Despite a second year globally of above average natural catastrophe losses in 2018, there remains a surplus of capacity in the market. Anecdotal evidence suggests that pricing levels at January 2019 were generally below those expected by the market, but again this was dependent on region and whether or not the business was loss affected. Pricing adequacy may improve as 2019 progresses, with more loss impacted business renewing.

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

2018 performance
Lloyd's gross written premium for 2018 was £2,541m (2017: £2,223m), an increase of 14.3%. The Lloyd's reinsurance casualty line reported an accident year ratio of 99.7% (2017: 103.9%).

While the wider casualty treaty market has remained competitive, with an abundance of capacity, the underlying motor portfolios have seen sizeable rate strengthening in response to the change in Ogden discount rate in February 2017. As most treaty business renews at the start of the calendar year, syndicates were not able to react until 2018 renewals. In addition, prior to the Motor Insurers' Bureau announcing changes to how terrorism would be dealt with within motor policies, there has been considerable uncertainty within the UK motor treaty market with participants cutting back and restructuring of attachments and limits.

Prior year movement
The prior year movement was a release of 3.6% (2017: 1.8%). 2018 has been a year of relatively benign prior year claims experience for this line, leading to an overall reserve release. There has been deterioration seen for the US casualty treaty business, however overall experience for the class has been favourable. Lloyd's continues to monitor these lines, as per the casualty class of business, to ensure adequate provisions remain over all prior years.

Looking ahead
Following the increasing severity of claim awards in the US, Canada and Australia in particular, there are signs that the market is starting to tighten capacity and there is likely to be further rate strengthening across all lines. Currently, these increases are unlikely to be sufficient to keep up with claims inflation, but it appears that greater scrutiny is being undertaken during renewal negotiations.

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

2018 performance
Gross written premium overall was £2,089m (2017: £2,346m), a reduction of 11.0%. Gross written premium by sector within this specialty business was: Marine £1,090m (2017: £1,166m), Energy £624m (2017: £749m), Aviation £361m (2017: £415m) and Life £14m (2017: £16m). The Lloyd's reinsurance specialty line reported an accident year ratio of 101.9% (2017: 110.3%).

Marine excess of loss reinsurers were enjoying a relatively benign year with Hurricane Michael and Typhoon Jebi being less impactful than may have been expected. This changed following the Lürssen shipyard loss, which had substantial reinsurance coverage, having significant impact on the line.

While the year started off with positive pricing movements, this tailed off somewhat towards the end of the year, reflective of the high level of capacity available in the market.

Prior year movement
The prior year movement was a release of 11.0% (2017: 8.5%). The claims experience for this line has been favourable compared to expectations over the 2018 year. This line is predominantly marine, aviation and motor business, written on an excess of loss basis. Given that claims experience is largely driven by isolated claim events, prudent reserves tend to be held and released in years with less claims activity. In addition to the general release of prudence over time, the marine line is also impacted by the 2016 and 2017 US windstorm events, which have seen a reduction in the anticipated losses when compared to the estimates set at the end of 2017.

Looking ahead
There is some anecdotal evidence of price strengthening in the sector in 2019 following the effects of late 2018, which further compounded the hurricane-affected 2017 result. There may also be additional impetus following Lloyd's performance improvement planning – the effects of which may be felt beyond the classes immediately included in that review.

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.

2018 performance
Lloyd's gross written premium for 2018 was £9,687m (2017: £8,965m), an increase of 8.1%. The Lloyd's property line reported an accident year ratio of 114.0% (2017: 131.5%).

Despite significant 2017 losses and further losses in 2018, there has remained an abundance of global capacity available. This has continued to constrain the extent of increases to pricing levels needed to reflect the inherent underlying levels of risk being underwritten. Overall pricing has increased, although there are wide variations across the book.

2018 income growth was again primarily driven by US binding authority business and to a lesser extent US and non-US open market business. Non-US binding authority business showed a slight contraction as did engineering, reflecting reduced appetite in the lines by some syndicates due to deteriorating loss experience. Terrorism also continued to see downward pricing pressure.

Market Performance *continued*

Prior year movement

The prior year movement was a release of 3.6% (2017: 3.9%). Recent years of account have seen elevated levels of catastrophe losses, particularly losses arising within the US windstorm season. These losses mainly impacted the direct and facultative property insurance lines on the 2016 and 2017 years of account. At the end of 2017 a number of these losses had only just occurred, making it more difficult to determine the level of reserves required. The 2018 calendar year has seen a release of prior year reserves for these 2017 windstorm losses and other prior year major losses.

Looking ahead

2018 saw considerable change within the market place against a backdrop of challenging conditions. This has been driven in part by another year of above average natural catastrophe losses and excess global capacity. Significant remedial action is being taken and the successful execution and delivery of plans will be critical for 2019. Difficult decisions regarding existing accounts, or indeed the appropriateness of new accounts, will continue to have to be made during 2019.

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 UK, Canada and Australia.

2018 performance

Lloyd's gross written premium for 2018 was £9,094m (2017: £8,464m), an increase of 7.4%. This increase was largely driven by further growth in cyber, warranty and indemnity business, and US general liability business. The Lloyd's casualty line reported an accident year ratio of 103.9% (2017: 103.7%).

The wider casualty market in 2018 remained replete with capacity. This suppressed price increases, often keeping them below widely agreed-upon claims inflation assumptions.

The growth in cyber insurance products is a continuing trend, illustrating how the market is responding to rapidly evolving exposures, with many customers being first-time buyers. This growth is expected to continue. 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. In other lines, some market participants have recently cut back or exited, causing some price strengthening and the overall growth in casualty business to slow. Niche and heavy industry areas, in particular, have seen greater focus on underwriting, not just in terms of pricing but also in relation to reviews of programme structure and policy terms.

Prior year movement

The prior year movement was a release of 1.0% (2017: 0.6%).

Casualty lines have been subject to increased market oversight throughout 2018 given their uncertain, long-term nature. As a result of this additional oversight, a number of casualty classes have seen increases in their reserves in 2018. Given the fairly stable experience for this line of business in 2018, this strengthening of reserves has acted to reduce the reserve releases across the market compared to previous years. The continued release of reserves on prior years of account is, however, still in line with our expectations. Reserve releases would generally still be expected for this line given the tendency for some managing agents to hold high initial reserves for a number of years, where claims are expected to emerge over a long period of time. This longer emergence period leads to greater uncertainty for these lines when compared to property lines, which have shorter periods of exposure.

Going forward into 2019, the Corporation will continue to monitor the adequacy of market-wide casualty reserves, ensuring that we engage with managing agents writing material casualty business. This increased level of oversight is warranted given the current tough market conditions and the fact that it will take many years to confirm whether any adjustments to these reserves are sufficient.

Looking ahead

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

While 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.

Market Performance *continued*

The global cyber insurance market continues to expand, with high profile breaches and evolving legislation driving increased product demand. A significant proportion of the business written is US-domiciled, however growth in other territories has been witnessed, particularly in Europe where the introduction of the General Data Protection Regulations in May 2018 encouraged new buyers to the market. Lloyd's writes approximately a quarter of the global market share and pioneered many of the original products in this line and remains at the leading edge of product development by providing innovative, bespoke and risk transfer solutions in both standalone products or with coverage embedded or blended with traditional product lines. Risk aggregation and monitoring tools, introduced to understand and manage the exposures to cyber risk across the Lloyd's market, remain under scrutiny and will continue to be enhanced further in 2019.

Generally, the market in all casualty lines remains historically competitive, with many participants having grown in recent years, often through delegated underwriting arrangements. However, there now appears to be some signs of stabilisation and additionally certain casualty lines of business, typically ones which have experienced deterioration in recent back years, have begun to come under some increased pressure on terms, conditions and pricing in an attempt to return them to profitability.

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.

2018 performance

Lloyd's gross written premium for 2018 was £2,603m (2017: £2,506m), an increase of 3.9%. The Lloyd's marine line reported an accident year ratio of 115.6% (2017: 121.8%).

While a competitive environment persisted across the marine lines, reflective of available capacity, the pricing environment was generally positive reversing the trend of prior years. This was particularly apparent across the three main lines of cargo, hull and yacht in the final quarter of the year.

Political and credit risks, which continue to perform well, experienced some growth. Overall performance, however, remained marginal as a series of large losses affected the cargo and hull classes, most notably the major Lürssen shipyard loss in September.

Prior year movement

The prior year movement was a strengthening of 0.4% (2017: 0.6%).

The marine line has performed broadly in line with expectations across a number of years of account during 2018. There has been some favourable movement in large isolated events, such as the Tianjin port explosion that impacted the 2015 year of account. Despite this favourable experience, there is a tendency on this line for the view of claims to be held for a number of years to allow for any uncertainty. In addition, there have been late notifications of claims and some syndicates have reviewed their methodology to derive the reserves, which in aggregate has led to an overall slight strengthening of prior year reserves in 2018.

Looking ahead

It was hoped that the effects of the hurricane-led losses in 2017 would act as a catalyst for price improvement in 2018 but the early positive movement seen in the final quarter of 2017 lost momentum in the first half of 2018.

Following a difficult 2019 planning season for marine business, which resulted in restriction in capacity for some of the major lines, conditions may now exist for further market stabilisation as syndicates continue to seek a return to profit.

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.

2018 performance

Gross written premium for the Lloyd's energy line in 2018 was £1,404m (2017: £1,253m), an increase of 12.1%. The Lloyd's energy line reported an accident year ratio of 105.6% (2017: 107.7%).

The positive pricing environment across all sub-lines contributed to the overall growth in premium. Pricing increases were particularly evident in the offshore and onshore property lines, materially reversing the prior year trend.

The accident year performance in energy was impacted by several substantial current year onshore property losses, balanced somewhat by benign loss activity for offshore property.

Prior year movement

The prior year movement was a release of 18.2% (2017: 21.1%). The energy line of business has seen continued prior year reserve releases over 2018. This line contains a mix of contracts that give rise to claims that are settled on both a short-term and long-term time horizon. Of the short-term contracts, energy offshore property has performed most favourably against expectations. Likewise, the offshore liability line has performed well over 2018, with prior year releases being made across a number of older years of account. Given that the energy line is exposed to isolated large losses, a reduction in the view of claims for these large losses also drives reserve releases.

Looking ahead

In previous years, a downswing in the oil price heralded a negative pricing environment for offshore property and it will be interesting to see whether the current discipline in the line is maintained by the upstream market, should the current oil price trend continue for any length of time.

For onshore property, there is anecdotal evidence to suggest market resolve exists to improve terms and conditions in light of another year of substantial loss activity.

Market Performance *continued*

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 emanates from North America, including private auto and static risks such as dealers open lot.

2018 performance

Gross written premium in 2018 was £1,037m (2017: £1,057m), a decrease of 1.9%. The Lloyd's motor line reported an accident year ratio of 101.8% (2017: 114.4%).

Underwriting conditions in the UK motor market continue to be challenging. However, the market saw far more robust price strengthening during 2018 following the Ogden discount rate change in February 2017.

International motor continues to perform poorly. While the beginning of the year saw very little in terms of rate strengthening, it appears that there have been some positive signs towards the end of the year and going into 2019 as some market participants reviewed their appetite and capacity in this line.

Prior year movement

The prior year movement was a release of 3.1% of net earned premium (2017: strengthening of 7.9%). This is driven by favourable claims experience for both UK and overseas motor.

Looking ahead

At the end of 2018, the Civil Liability Bill received royal assent. While this Bill specifically deals with the Ogden discount rate, the proposed amendment to the current rate will not be known until the middle of 2019. This Bill also introduces reforms which are aimed at reducing fraudulent whiplash claims. These reforms will not be introduced until 2020 so it unlikely to have any material impact on loss ratios for some time.

Starting in 2019, the Motor Insurers' Bureau has also agreed to mutualise risks for terrorism claims. This will be good news to UK motor insurers. It is unclear what impact these changes will have on premiums, but it should create more certainty for motor reinsurers.

2019 is likely to see further restrictions on capacity for international motor, although other market participants may see this as an opportunity to write new business at higher rates.

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 (e.g. 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.

2018 performance

Gross written premium was £549m (2017: £687m), a decrease of 20.1%. The Lloyd's aviation line reported an accident year ratio of 119.8% (2017: 100.6%).

There were a few large losses in 2018 but overall major loss activity remained relatively benign. Following the trend of recent years, results have continued to be impacted by the frequency and cost of attritional claims eroding premium and deductible levels. Airline and general aviation continued to be the main lines contributing to the negative result, alongside space which experienced some large loss estimates. Consolidation and market withdrawals, driven by sustained poor performance, have led to a gradual decline in industry capacity levels. This has stimulated the extent of price increases as the year progressed.

Prior year movement

The prior year movement was a release of 7.8% (2017: strengthening of 1.6%). The aviation line of business has seen prior year reserve releases over 2018. Reserving prudence for this class is generally held for large isolated losses, for which the losses estimates during 2018 have remained stable. Despite seeing above average attritional claims experience, release of reserves held for large losses has offset this adverse experience. The adverse attritional experience is mostly driven by space losses on the 2016 and 2017 years of account.

Looking ahead

The steady growth in industry exposures shows no sign of abating over the next few years. While safety is likely to continue to improve, higher aircraft repair costs and the increasing values of engines and airframes will continue to drive higher levels of attrition, absent a commensurate increase in deductibles.

Notwithstanding the rise in general pricing levels in 2018, industry claims are still likely to materially exceed premiums in a normal loss year. Strict adherence to underwriting discipline regarding risk selection, exposure management controls (e.g. cyber, war accumulations) and rigorous portfolio management remain essential in order to generate positive returns.

Market Performance *continued*

Reinsurance

Property	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2014	4,472	2014	77.0	2014	801
	2015	4,627	2015	76.3	2015	794
	2016	5,022	2016	91.8	2016	299
	2017	5,991	2017	130.3	2017	(1,260)
	2018	**6,440**	**2018**	**116.2**	**2018**	**(672)**

Casualty	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2014	1,779	2014	87.6	2014	187
	2015	1,797	2015	100.0	2015	0
	2016	2,096	2016	98.1	2016	33
	2017	2,223	2017	102.1	2017	(39)
	2018	**2,541**	**2018**	**96.1**	**2018**	**78**

Specialty	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2014	2,237	2014	86.5	2014	225
	2015	2,169	2015	93.3	2015	110
	2016	2,290	2016	87.7	2016	216
	2017	2,346	2017	101.8	2017	(31)
	2018	**2,089**	**2018**	**90.9**	**2018**	**138**

Insurance

Property	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2014	6,274	2014	87.7	2014	558
	2015	6,893	2015	90.1	2015	501
	2016	7,988	2016	103.4	2016	(202)
	2017	8,965	2017	127.6	2017	(1,757)
	2018	**9,687**	**2018**	**110.4**	**2018**	**(700)**

Market Performance *continued*

Insurance *continued*

Casualty →	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	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)
	2018	**9,094**	**2018**	**102.9**	**2018**	**(183)**

Marine →	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	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)
	2018	**2,603**	**2018**	**116.0**	**2018**	**(343)**

Energy →	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	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
	2018	**1,404**	**2018**	**87.4**	**2018**	**113**

Motor →	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	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)
	2018	**1,037**	**2018**	**98.7**	**2018**	**12**

Aviation →	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	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)
	2018	**549**	**2018**	**112.0**	**2018**	**(49)**

Council

The following were members of the Council of Lloyd's during 2018:

Bruce Carnegie-Brown	**Hiscox Dedicated Corporate Member Limited** (represented by Robert Childs)
John Neal (Appointed 15 October 2018)	**Julian James**
Inga Beale (Term expired on 13 October 2018)	**Neil Maidment**
Simon Beale	**Sir David Manning**
Andrew Brooks	**Munich Re Capital Limited** (represented by Dominick Hoare)
Dominic Christian	**Nameco (No 1249) Limited** (represented by Jeffery Barratt)
Flectat Limited (represented by Michael Watson)	**Nomina No 115 LLP** (represented by Philip Swatman)
Karen Green	**Novae Corporate Underwriting Limited** (represented by Matthew Fosh)
Andy Haste	**Christian Noyer** (Appointed 2 November 2018)

Council *continued*

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 26 March 2019.

Bruce Carnegie-Brown
Chairman

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

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2018 Lloyd's Aggregate Accounts

Conclusion

In our opinion:

— the Aggregate Accounts for the financial year ended 31 December 2018 have, in all material respects, been properly prepared in accordance with the requirements of the Regulations (as defined below), and have been correctly aggregated; and

— the Annual Report of the Council of Lloyd's for the financial year ended 31 December 2018 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 (as defined below).

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 complied with 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) 1 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 of PricewaterhouseCoopers LLP to the Council of Lloyd's *continued*

The responsibilities of the Council of Lloyd's and our responsibilities

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 6 December 2018. Our work has been undertaken so that we might state to the Council of Lloyd's 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

26 March 2019

Aggregate Profit and Loss Account

For the year ended 31 December 2018

	Note	£m	2018 £m	£m	2017 £m
Technical account					
Gross written premiums	4		**37,223**		34,180
Outward reinsurance premiums			**(10,489)**		(9,310)
Written premiums, net of reinsurance			**26,734**		24,870
Change in the provision for unearned premiums					
Gross amount		**(842)**		(813)	
Reinsurers' share		**325**		433	
Change in the net provision for unearned premiums			**(517)**		(380)
Earned premiums, net of reinsurance			**26,217**		24,490
Allocated investment return transferred from the non-technical account			**367**		732
Other technical income, net of reinsurance			**16**		17
			26,600		25,239
Claims paid					
Gross amount		**21,531**		18,577	
Reinsurers' share		**(6,504)**		(3,914)	
			15,027		14,663
Change in provision for claims					
Gross amount		**5,096**		10,125	
Reinsurers' share		**(2,642)**		(6,538)	
			2,454		3,587
Claims incurred, net of reinsurance			**17,481**		18,250
Net operating expenses	7		**10,342**		10,126
Balance on the technical account for general business			**(1,223)**		(3,137)
Non-technical account					
Balance on the technical account for general business			**(1,223)**		(3,137)
Investment return	8	**333**		907	
Allocated investment return transferred to the technical account		**(367)**		(732)	
Investment return retained in non-technical account		**(34)**		175	
Foreign exchange gains/(losses)		**(108)**		47	
Other income/(expenses)		**(8)**		1	
Balance on the non-technical account			**(150)**		223
Result for the financial year before tax			**(1,373)**		(2,914)

All operations relate to continuing activities.

Aggregate Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 £m	2017 £m
Other comprehensive income		
Result for the financial year before tax	**(1,373)**	(2,914)
Exchange differences on translating foreign operations	**(72)**	(64)
Other recognised (losses)/gains per syndicate annual accounts	**(3)**	(3)
Total comprehensive (loss)/income for the year	**(1,448)**	(2,981)

Aggregate Statement of Changes in Members' Balances

For the year ended 31 December 2018

	2018 £m	2017 £m
Members' balances brought forward at 1 January	**(6)**	3,962
Result for the financial year	**(1,373)**	(2,914)
Net payment of profits to members' personal reserve	**(851)**	(1,689)
Capital transferred into/(out of) syndicate premium trust funds	**825**	774
Exchange (losses)/gains	**(50)**	(117)
Other movements	**(20)**	(22)
Members' balances carried forward at 31 December	**(1,475)**	(6)

Aggregate Balance Sheet

As at 31 December 2018

	Note	2018 £m	2018 £m	2017 £m	2017 £m
Financial investments	9		**35,818**		35,114
Deposits with ceding undertakings			**35**		18
Reinsurers' share of technical provisions					
Unearned premiums	12	**4,104**		3,599	
Claims outstanding	12	**20,592**		17,795	
			24,696		21,394
Debtors					
Debtors arising out of direct insurance operations	10	**9,673**		8,886	
Debtors arising out of reinsurance operations	11	**8,324**		6,727	
Other debtors		**1,087**		1,103	
			19,084		16,716
Other assets					
Cash at bank and in hand	16	**2,264**		2,177	
Other		**2,886**		2,654	
			5,150		4,831
Prepayments and accrued income					
Accrued interest and rent		**117**		104	
Deferred acquisition costs	12	**4,680**		4,304	
Other prepayments and accrued income		**224**		251	
			5,021		4,659
Total assets			**89,804**		82,732
Capital and reserves					
Members' balances			**(1,475)**		(6)
Technical provisions					
Provision for unearned premiums	12	**18,119**		16,601	
Claims outstanding	12	**61,501**		55,877	
			79,620		72,478
Deposits received from reinsurers			**169**		111
Creditors					
Creditors arising out of direct insurance operations	14	**1,325**		955	
Creditors arising out of reinsurance operations	15	**7,398**		6,748	
Other creditors		**1,899**		1,723	
			10,622		9,426
Accruals and deferred income			**868**		723
Total liabilities			**89,804**		82,732

Approved by the Council of Lloyd's on 26 March 2019 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Aggregate Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Result for the financial year before tax		(1,373)	(2,914)
Increase/(decrease) in gross technical provisions		6,207	7,822
(Increase)/decrease in reinsurers' share of technical provisions		(3,012)	(6,029)
(Increase)/decrease in debtors		(2,186)	(840)
Increase/(decrease) in creditors		980	1,117
Movement in other assets/liabilities		(433)	80
Foreign exchange		(852)	1,057
Investment return		(333)	(907)
Net cash flows from operating activities		**(1,002)**	(616)
Investing activities			
Purchase of equity and debt instruments		(38,662)	(36,782)
Proceeds from sale of equity and debt instruments		39,082	37,879
Purchase of derivatives		(3,078)	(69)
Proceeds from sale of derivatives		3,070	28
Investment income received		607	756
Other		(362)	18
Net cash inflow/(outflow) from investing activities		**657**	1,830
Financing activities			
Net profits paid to members		(851)	(1,689)
Net capital transferred into/(out of) syndicate premium trust funds		825	774
Other		(8)	5
Net cash outflow from financing activities		**(34)**	(910)
Increase in cash and cash equivalents		**(379)**	304
Cash and cash equivalents at 1 January		4,110	3,953
Exchange differences on opening cash and cash equivalents		51	(147)
Cash and cash equivalents at 31 December	16	**3,782**	4,110

Notes to the Aggregate Accounts

For the year ended 31 December 2018

1. Basis of preparation

Basis of reporting

The Aggregate Accounts as at 31 December 2018 have been prepared by totalling the annual accounts of the 115 syndicates reporting as at 31 December 2018. This includes reporting of the audited results for calendar year 2018 and the financial position at 31 December 2018 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 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 2018, several syndicates made restatements to the comparative figures for 2017 within their annual accounts and the Aggregate Accounts have been restated accordingly. The restatements reduced the original reported loss of £2,908m by £6m and reduced the original members' balances of (£1m) by a further £5m.

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.

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).

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

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 2018 is £40,909m (2017: £38,082m) 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.

Discounted claims provisions

Due to the long delay between the date of an incurred claim and the final settlement of the claim, the outstanding claims provisions are discounted to take account of the expected investment income receivable between claim event and settlement dates 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.

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

2. Accounting policies *continued*

Foreign currencies

The Council considers that the functional currency and the presentational currency of the Aggregate Accounts is sterling. 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.

Taxation

The Aggregate Accounts report the market's result before tax because it is the members rather than the syndicates that are responsible for tax payable on their syndicate results. No provision has therefore been made in the Aggregate Accounts for income tax payable by members. Any payments on account of members' tax liabilities made on their behalf by a syndicate during the year are included in the balance sheet within other debtors or other creditors including taxation.

Operating expenses

Operating expenses have been charged to the syndicates in accordance with the policies adopted by the managing agents.

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

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 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.

Capital management objectives, policies and approach

Capital framework at Lloyd's

The Society 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, The Corporation applies capital requirements at member level and centrally to ensure that the Lloyd's market 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 an overall and member level only, not at a 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 the Corporation 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, the Corporation 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 2018 was 35% of the member's SCR 'to ultimate'.

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

3. Risk management *continued*

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 one year 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 Corporation'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 Society's oversight of the Lloyd's market.

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 Society, 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 the Corporation'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 central 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

(iv) catastrophe risk.

Underwriting risk

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

Underwriting strategy is agreed by the Board of each managing agent and set out in the syndicate business plan that is submitted to the Corporation for approval each year. Approval of business plans – and setting the capital requirements needed to support these plans – is the key control the Corporation uses to manage underwriting risk.

The Corporation reviews each syndicate business plan to ensure it meets Lloyd's standards and is consistent with the capabilities of the managing agent. Once a plan is agreed, the Corporation uses performance management data to identify whether each syndicate's business performance is progressing in line with the business plan or that variations are understood and accepted.

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

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

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

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

3. Risk management *continued*

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 (IBNR) claims. 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. The Corporation analyses reserve developments at line of business and syndicate levels quarterly; and briefs the market on issues it considers need to be taken into account.

Case-specific claim reserves should make financial provision at reported loss levels, without prejudice to coverage. Legal advisers', underwriters' and loss adjusters' judgement are used to set the estimated case reserves.

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

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

Credit risk

The market's principal credit risk is that the reinsurance purchased to protect the syndicate's gross losses does not respond as expected. This can occur because the reinsurer is unable to settle its liabilities. Managing agents are expected to have a clear and comprehensive plan for the reinsurance of each syndicate. This takes into account risk appetite for retained insurance risk and the potential for the accumulation of risk.

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

Catastrophe risk

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

Solvency Capital Requirement coverage

Coverage of the MWSCR is an ongoing and continuous requirement and the Corporation 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 2018, the solvency coverage ratio was in excess of the internal risk appetite of 125% and regulatory requirements.

The Society aims to hold market 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%. The Society 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 *continued*

For the year ended 31 December 2018

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 2018 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 eight years to ten years over the period 2019–2020.

Gross

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	**2018 £m**	Total £m
At end of underwriting year		9,675	8,993	7,605	7,808	7,551	9,700	17,775	**14,578**	
One year later		16,086	14,446	14,364	14,852	15,569	20,872	28,644		
Two years later		16,195	14,779	14,567	15,758	16,518	22,518			
Three years later		16,271	14,555	14,217	15,658	17,311				
Four years later		16,237	14,520	14,016	16,605					
Five years later		16,066	14,364	14,357						
Six years later		15,944	14,787							
Seven years later		16,482								
Cumulative payments		(15,000)	(12,688)	(11,713)	(12,146)	(11,306)	(12,500)	(11,987)	**(2,279)**	
Estimated balance to pay	5,838	1,482	2,099	2,644	4,459	6,005	10,018	16,657	12,299	61,501

Net

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	**2018 £m**	Total £m
At end of underwriting year		7,754	6,786	6,222	6,292	5,950	7,473	10,139	**9,438**	
One year later		12,726	11,445	11,735	11,893	12,373	15,680	17,868		
Two years later		12,746	11,668	11,811	12,476	12,987	16,610			
Three years later		12,724	11,512	11,512	12,424	13,646				
Four years later		12,736	11,319	11,363	12,991					
Five years later		12,308	11,248	11,630						
Six years later		12,215	11,558							
Seven years later		12,648								
Cumulative payments		(11,531)	(9,919)	(9,568)	(9,738)	(9,136)	(9,869)	(7,962)	**(1,856)**	
Estimated balance to pay	4,099	1,117	1,639	2,062	3,253	4,510	6,741	9,906	7,582	40,909

Financial risk – credit risk

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

As discussed on page 27, 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 *continued*

For the year ended 31 December 2018

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.

2018	**Neither past due nor impaired £m**	**Past due £m**	**Impaired £m**	**Total £m**
Debt securities	**27,528**	–	–	**27,528**
Participation in investment pools	**538**	–	–	**538**
Loans with credit institutions	**707**	–	–	**707**
Deposits with credit institutions	**1,045**	–	–	**1,045**
Derivative assets	**26**	–	–	**26**
Other investments	**43**	–	–	**43**
Deposits with ceding undertakings	**35**	–	–	**35**
Reinsurers' share of claims outstanding	**20,600**	–	(8)	**20,592**
Cash at bank and in hand	**2,264**	–	–	**2,264**
Total	**52,786**	–	(8)	**52,778**

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

Assets that are past due but not impaired have been in arrears for less than six months (2017: 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 *continued*

For the year ended 31 December 2018

3. Risk management *continued*

Financial risk – credit risk *continued*

The table below provides information regarding the credit risk exposure at 31 December 2018 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.

2018	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	8,729	7,571	7,327	3,109	792	**27,528**
Participation in investment pools	128	131	36	7	236	**538**
Loans with credit institutions	462	39	1	51	154	**707**
Deposits with credit institutions	312	117	188	64	364	**1,045**
Derivative assets	–	–	8	–	18	**26**
Other investments	9	1	–	–	33	**43**
Deposits with ceding undertakings	–	–	2	–	33	**35**
Reinsurers' share of claims outstanding	616	3,829	13,722	107	2,326	**20,600**
Cash at bank and in hand	110	105	1,678	254	117	**2,264**
Total credit risk	**10,366**	**11,793**	**22,962**	**3,592**	**4,073**	**52,786**

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

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

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.

The Corporation 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.

2018	No stated maturity £m	0-1yr £m	1-3yrs £m	3-5yrs £m	>5yrs £m	Total £m
Claims outstanding	2	20,045	22,605	9,517	9,332	**61,501**
Derivatives	–	21	–	–	–	**21**
Deposits received from reinsurers	26	104	30	7	2	**169**
Creditors	968	7,950	1,477	146	60	**10,601**
Other liabilities	1	36	3	1	–	**41**
Total	**997**	**28,156**	**24,115**	**9,671**	**9,394**	**72,333**

2017	No stated maturity £m	0-1yr £m	1-3yrs £m	3-5yrs £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
Creditors	901	7,119	1225	157	14	9,416
Other liabilities	6	33	–	–	–	39
Total	950	25,974	21,602	8,586	8,341	65,453

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 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 the Corporation 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 *continued*

For the year ended 31 December 2018

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. The Corporation 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 2018, 67% (2017: 66%) of all assets deployed at the market level were 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:

2018	**Sterling £m**	**US dollar £m**	**Euro £m**	**Canadian $ £m**	**Australian $ £m**	**Other £m**	**Total £m**
Financial investments	4,665	23,931	2,296	4,367	364	195	**35,818**
Reinsurers' share of technical provisions	3,994	18,225	1,385	695	238	159	**24,696**
Insurance and reinsurance receivables	2,948	13,053	997	452	282	265	**17,997**
Cash at bank and in hand	439	983	482	88	133	139	**2,264**
Other assets	1,843	4,184	603	880	1,254	265	**9,029**
Total assets	**13,889**	**60,376**	**5,763**	**6,482**	**2,271**	**1,023**	**89,804**
Technical provisions	15,260	51,618	6,311	3,836	1,593	1,002	**79,620**
Insurance and reinsurance payables	1,262	6,390	592	294	113	72	**8,723**
Other creditors	985	1,873	(148)	154	40	32	**2,936**
Total liabilities	**17,507**	**59,881**	**6,755**	**4,284**	**1,746**	**1,106**	**91,279**
Total capital and reserves	**(3,618)**	**495**	**(992)**	**2,198**	**525**	**(83)**	**(1,475)**

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	3,745	15,828	917	625	227	52	21,394
Insurance and reinsurance receivables	2,659	11,187	833	491	237	206	15,613
Cash at bank and in hand	496	937	402	88	122	132	2,177
Other assets	1,582	4,086	475	846	1,245	200	8,434
Total assets	13,292	54,982	5,274	6,193	2,256	735	82,732
Technical provisions	14,253	47,124	5,130	3,799	1,509	663	72,478
Insurance and reinsurance payables	1,107	5,759	388	317	70	62	7,703
Other creditors	670	1,841	(2)	21	9	18	2,557
Total liabilities	16,030	54,724	5,516	4,137	1,588	743	82,738
Total capital and reserves	(2,738)	258	(242)	2,056	668	(8)	(6)

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

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) the 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.

2018	**Impact on result before tax £m**	**Impact on members' balances £m**
Strengthening of US dollar	**246**	**246**
Weakening of US dollar	**(201)**	**(201)**
Strengthening of euro	**(110)**	**(110)**
Weakening of euro	**90**	**90**

2017	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	109	109
Weakening of US dollar	(89)	(89)
Strengthening of euro	(27)	(27)
Weakening of euro	22	22

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 the result before tax and equity of the effects of changes in interest rates.

2018	**Impact on result before tax £m**	**Impact on members' balances £m**
+ 50 basis points	**(328)**	(328)
– 50 basis points	**323**	323

2017	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(333)	(333)
– 50 basis points	329	329

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

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 the 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 the result before tax and changes in fair value of available for sale financial assets that are equity instruments).

2018	**Impact on result before tax £m**	**Impact on members' balances £m**
5% increase in equity markets	**85**	**85**
5% decrease in equity markets	**(85)**	**(85)**

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)

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

3. Risk management *continued*

Concentration risk

The Corporation 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 the Corporation 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 the Corporation seeks 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 the Corporation's oversight role of the market.

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 7 to 13. 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 '2018 At a Glance' section at the beginning of the Lloyd's Annual Report 2018. Analysis of capital providers by source and location is also included in the '2018 At a Glance' section of the Lloyd's Annual Report 2018. 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, the Corporation monitors global political trends and is taking action at both a Society 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. The Corporation 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 *continued*

For the year ended 31 December 2018

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:

2018	**Gross written premiums £m**	**Gross premiums earned £m**	**Gross claims incurred £m**	**Operating expenses £m**	**Reinsurance balance £m**	**Result £m**
Accident and health	1,211	1,162	(675)	(463)	(62)	**(38)**
Motor (third party liability)	158	147	(108)	(44)	(4)	**(9)**
Motor (other lines)	879	878	(452)	(280)	(125)	**21**
Marine, aviation and transport	4,047	4,252	(2,642)	(1,351)	(428)	**(169)**
Fire and other damage to property	8,474	8,214	(6,185)	(2,659)	(306)	**(936)**
Third party liability	7,883	7,411	(5,051)	(2,388)	(118)	**(146)**
Pecuniary loss	1,706	1,589	(757)	(528)	(173)	**131**
Life	83	92	(45)	(28)	(2)	**17**
Other	985	948	(1,260)	(7)	314	**(5)**
Total direct insurance	**25,426**	**24,693**	**(17,175)**	**(7,748)**	**(904)**	**(1,134)**
Reinsurance acceptances	11,797	11,688	(9,452)	(2,578)	(114)	**(456)**
Balance on the technical account for general business	**37,223**	**36,381**	**(26,627)**	**(10,326)**	**(1,018)**	**(1,590)**

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)	(2,578)	1,262	(1,336)
Balance on the technical account for general business	34,180	33,367	(28,702)	(10,109)	1,575	(3,869)

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

4. Segmental analysis *continued*

The syndicate returns to the Corporation provide additional information to derive the following table in respect of the lines of business reviewed in the 2018 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 7 to 13 of the Aggregate Accounts.

2018	**Gross written premiums £m**	**Net earned premium £m**	**Net incurred claims £m**	**Net operating expenses £m**	**Underwriting result £m**
Reinsurance	11,070	7,650	(5,524)	(2,582)	**(456)**
Property	9,687	6,692	(4,319)	(3,073)	**(700)**
Casualty	9,094	6,363	(3,696)	(2,850)	**(183)**
Marine	2,603	2,154	(1,580)	(917)	**(343)**
Energy	1,404	897	(392)	(392)	**113**
Motor	1,037	940	(607)	(321)	**12**
Aviation	549	410	(292)	(167)	**(49)**
Life	83	72	(28)	(28)	**16**
Total from syndicate operations	**35,527**	**25,178**	**(16,438)**	**(10,330)**	**(1,590)**
Allocated investment return transferred from the non-technical account					**367**
Adjustments in the Annual Report not made in the Aggregate Accounts				460	**460**
Balance on the technical account for general business	**35,527**	**25,178**	**(16,438)**	**(9,870)**	**(763)**

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)

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

	2018 £m	2017 £m
United Kingdom	24,063	22,651
Other EU member states	38	29
Rest of the World	356	351
Total	**24,457**	23,031

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

5. Life business

The Aggregate Accounts include the results of all life and non-life syndicates transacting business during 2018. 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 £976m (2017: £706m). The surplus arises across all lines of business except for the marine line of business, reflecting favourable claims development compared with projections in these classes.

7. Net operating expenses

	2018 £m	2017 £m
Acquisition costs	**9,123**	8,741
Change in deferred acquisition costs	**(171)**	(239)
Administrative expenses	**2,730**	2,749
Reinsurance commissions and profit participations	**(1,340)**	(1,125)
	10,342	10,126

Total commissions for direct insurance accounted for in the year amounted to £6,100m (2017: £5,773m).

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:

	2018 £000	2017 £000
Services pursuant to legislation in respect of the Aggregate Accounts	**114**	110
Total	**114**	110

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

8. Investment return

Interest and similar income	2018 £m	2017 £m
From financial instruments designated as at fair value through profit or loss	658	634
From available for sale investments	39	35
From financial instruments designated as held to maturity	–	1
Dividend income	43	30
Interest on cash at bank	50	23
Other interest and similar income	19	26
Investment expenses	(45)	(72)
Total	764	677

Other income from investments designated as at fair value through profit or loss	2018 £m	2017 £m
Realised gains/(losses)	(133)	145
Unrealised gains/(losses)	(290)	87
Other relevant income/(losses)	(8)	(2)
Total	(431)	230

Total investment return	333	907

9. Financial investments

	2018 £m	2017 £m
Shares and other variable yield securities	5,931	6,407
Debt securities and other fixed income securities	27,528	26,355
Participation in investment pools	538	566
Loans and deposits with credit institutions	1,752	1,667
Other investments	69	119
	35,818	35,114

Disclosures of fair values in accordance with the fair value hierarchy

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

The fair value hierarchy includes the following classifications:

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

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

9. Financial investments *continued*

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

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.

2018	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	1,511	3,645	774	**5,930**	1	**5,931**
Debt and other fixed income securities	7,646	19,862	20	**27,528**	–	**27,528**
Participation in investment pools	299	220	19	**538**	–	**538**
Loans and deposits with credit institutions	472	1,112	168	**1,752**	–	**1,752**
Other investments	9	35	25	**69**	–	**69**
Total investments	**9,937**	**24,874**	**1,006**	**35,817**	**1**	**35,818**
Borrowings	(4)	–	(14)	**(18)**	–	**(18)**
Derivative liabilities	(10)	(10)	(1)	**(21)**	–	**(21)**
Total liabilities	**(14)**	**(10)**	**(15)**	**(39)**	**–**	**(39)**

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	1,197	4,398	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	8,690	25,305	1,116	35,111	3	35,114
Borrowings	(11)	–	–	(11)	–	(11)
Derivative liabilities	(1)	(8)	–	(9)	–	(9)
Total liabilities	(12)	(8)	–	(20)	–	(20)

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

10. Debtors arising out of direct insurance operations

	2018 £m	2017 £m
Due within one year		
– policyholders	1	1
– intermediaries	9,570	8,785
Due after one year		
– policyholders	–	–
– intermediaries	102	100
	9,673	8,886

11. Debtors arising out of reinsurance operations

	2018 £m	2017 £m
Due within one year	6,978	5,545
Due after one year	1,346	1,182
	8,324	6,727

12. Insurance liabilities and reinsurance assets

(a) Provisions for unearned premiums

2018	Gross £m	Reinsurers' share £m	Net £m
At 1 January	16,601	3,599	13,002
Premiums written in the year	37,223	10,489	26,734
Premiums earned in the year	(36,381)	(10,164)	(26,217)
Exchange/other movements	676	180	496
At 31 December	18,119	4,104	14,015

2017	Gross £m	Reinsurers' share £m	Net £m
At 1 January	16,832	3,406	13,426
Premiums written in the year	34,180	9,310	24,870
Premiums earned in the year	(33,367)	(8,877)	(24,490)
Exchange/other movements	(1,044)	(240)	(804)
At 31 December	16,601	3,599	13,002

(b) Deferred acquisition costs

	2018 £m	2017 £m
At 1 January	4,304	4,276
Change in deferred acquisition costs	171	239
Exchange movements	173	(232)
Other	32	21
At 31 December	4,680	4,304

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

12. Insurance liabilities and reinsurance assets *continued*

(c) Claims outstanding

2018	**Gross £m**	**Reinsurers' share £m**	**Net £m**
At 1 January	**55,877**	**17,795**	**38,082**
Claims paid during the year	**(21,531)**	**(6,504)**	**(15,027)**
Claims incurred during the year	**26,627**	**9,146**	**17,481**
Exchange movements	**1,909**	**546**	**1,363**
Other	**(1,381)**	**(391)**	**(990)**
At 31 December	**61,501**	**20,592**	**40,909**

2017	Gross £m	Reinsurers' share £m	Net £m
At 1 January	48,534	12,121	36,413
Claims paid during the year	(18,577)	(3,914)	(14,663)
Claims incurred during the year	28,702	10,452	18,250
Exchange movements	(2,673)	(877)	(1,796)
Other	(109)	13	(122)
At 31 December	55,877	17,795	38,082

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:

Line of business	**2018 %**	2017 %	**2018 years**	2017 years
Motor (third party liability)	**2.41**	2.47	**26.12**	24.37
Motor (other classes)	**2.98**	3.00	**2.29**	2.60
Third party liability	**2.59**	2.35	**22.42**	22.94

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

The claims provisions before discounting are as follows:

	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Total claims provisions	**1,438**	1,664	**(337)**	(436)	**1,101**	1,228
Reinsurers' share of total claims	**398**	552	**(63)**	(79)	**335**	473

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2018

14. Creditors arising out of direct insurance operations

	2018 £m	2017 £m
Due within one year	1,322	953
Due after one year	3	2
	1,325	955

15. Creditors arising out of reinsurance operations

	2018 £m	2017 £m
Due within one year	6,133	5,570
Due after one year	1,265	1,178
	7,398	6,748

16. Note to the statement of cash flows

	2018 £m	2017 £m
Cash at bank and in hand	2,264	2,177
Short term deposits with credit institutions	1,731	2,103
Overdrafts	(213)	(170)
	3,782	4,110

Of the cash and cash equivalents, £326m (2017: £548m) 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 2018, 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 2018 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 2018 there was £5,053m (2017: £4,076m) 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.