

Financial Condition Report - Switzerland

31 December 2018

Lloyd's Financial Condition Report, 31 December 2018

Overview

Lloyd's Financial Condition Report (FCR) per 31 December 2018 has been prepared in accordance with FINMA Circular 2016/2 "Disclosure - insurers".

The FCR is prepared in respect of the Swiss branch of 'the Association of Underwriters known as Lloyd's ('Lloyd's Swiss branch'). Further information on the structure of Lloyd's and the basis of preparation of the FCR is set out in the Summary.

This Lloyd's Swiss FCR contains the narrative disclosures necessary to comply with marginal notes 12 to 34 incl. of FINMA Circular 2016/2 in particular, marginal note 17, which sets out those provisions which do not apply to insurers domiciled outside Switzerland.

Further information

Additional information regarding Lloyd's may be found within the Lloyd's Annual Report 2018 which may be viewed or downloaded from www.lloyds.com:
<https://www.lloyds.com/investor-relations/financial-performance/financial-results/annual-report-2018>

The Lloyd's Annual Report includes the Pro Forma Financial Statements (PFFS), which are prepared so that the financial results of Lloyd's and its members taken together, and their net assets can be compared as closely as possible with general insurance companies. The Lloyd's Annual Report also includes the financial statements of the Society of Lloyd's, comprising the financial position and performance of the Corporation of Lloyd's and Central Fund.

The Aggregate Accounts set out an aggregation of all audited syndicate annual accounts including the audited results for calendar year 2018 and the financial position as at 31 December 2018 of all syndicates which transacted business during 2018.

Where relevant, reference to these documents is made in this Lloyd's Swiss FCR.

Additional information on Lloyd's may be found in the 2018 Solvency and Financial Condition Report for Lloyd's as a whole:
<https://www.lloyds.com/investor-relations/financial-performance/financial-results>

General Representative's statement in respect of the FCR

In accordance with the terms of FINMA Circular 2016/2 "Disclosure - insurers", marginal note 105 and in my capacity as Lloyd's Underwriters' General Representative for Switzerland, I acknowledge my responsibility for the Financial Condition Report (FCR) of Lloyd's Swiss branch as at 31 December 2018 and for signing off its disclosure.



Graham West
Lloyd's General Representative for Switzerland
Seefeldstrasse 7
8008 Zurich

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Management summary

What is Lloyd's?

Lloyd's Swiss branch is the authorised branch of 'the Association of Underwriters known as Lloyd's. Lloyd's is the world's specialist insurance and reinsurance market.

The business written at Lloyd's is brought to specialist syndicates who price and underwrite risk brought to them by brokers and coverholders (independent underwriting agents).

Under its globally recognised name, the Society of Lloyd's acts both as the market's custodian and promoter and is backed by diverse global resources and a capital structure designed to ensure financial security. Lloyd's works with an international distribution network to increase the use of insurance, building the resilience of local communities and supporting global economic growth.

Led by expert brokers and underwriters operating in more than 200 territories, the Lloyd's market develops and distributes complex and critical insurance to help underwrite human progress.

Lloyd's is an influential force in the insurance industry. Our vision is for Lloyd's to remain the market for specialist insurance and reinsurance. Lloyd's writes a wide range of classes of business in a variety of geographical areas, including Switzerland. Lloyd's Swiss branch does not actively underwrite business. This and other functions, such as the preparation of policy documentation and the management of claims, are performed by managing agents which manage Lloyd's syndicates, as well as their local delegated appointees.

Lloyd's Market Structure

Members - providing the capital

The capital to underwrite policies is provided by members of Lloyd's. This capital is backed by many of the world's major insurance groups, listed companies, individuals and limited partnerships, with corporate groups providing the majority of the capital for the Lloyd's market.

Syndicates - writing the insurance

A Lloyd's syndicate is formed by one or more members joining together to provide capital and accept insurance risks. Most syndicates write a range of classes of business, but many will have areas of specific expertise. Syndicates are, technically, set up on an annual basis. In practice, they usually operate from year to year with members having the right, but not the obligation, to participate in syndicates the following year. This continuity of capital backing the syndicates means they function like permanent insurance operations. Each syndicate sets its own appetite for risk, develops a business plan, arranges its reinsurance programmes and manages its exposures and claims. At 31 December 2018 there were 99 active syndicates at Lloyd's.

Managing agents - managing the syndicates

A managing agent is a company set up to manage one or more syndicates on behalf of the members. Managing agents have responsibility for employing underwriters, overseeing their underwriting and managing the infrastructure and day-to-day operations. At 31 December 2018 there were 55 managing agents at Lloyd's.

Policyholders - transferring risk

Policyholders include businesses, organisations, other insurers and individuals from around the world who seek to mitigate the impact of potential risks. Policyholders may access the Lloyd's market via a broker, coverholder or service company.

Brokers - distributing business

Lloyd's is a broker market in which strong relationships, backed by deep expertise, play a crucial part. Brokers facilitate the risk transfer process between policyholders and underwriters. Much of this business involves face-to-face negotiations between brokers and underwriters. In addition, local Swiss intermediaries are accredited by Lloyd's and by Lloyd's Swiss branch.

Coverholders - offering local access to Lloyd's

A managing agent may also authorise third parties to accept insurance risks directly on behalf of its syndicates. These businesses, known as coverholders, form a vital distribution channel offering a local route to Lloyd's in many territories around the world. In addition, local Swiss coverholders are accredited by Lloyd's and by Lloyd's Swiss branch.

Service companies

A service company operates like a coverholder but is a wholly owned subsidiary of either a managing agent or of a managing agent's holding company and which is authorised to enter into contracts of insurance for members of its associated syndicate and/or associated insurance companies.

Members' agents - supporting the members

Members' agents provide advice and administrative services to members, including assisting with syndicate selection.

Corporation of Lloyd's – supporting the market

The Corporation oversees the Lloyd's market. It provides the market's infrastructure, including services to support its efficient running, and protects and maintains its reputation.

The Corporation's role includes:

- managing and protecting Lloyd's network of international licences;

- agreeing syndicates' business plans and evaluating performance against those plans. Syndicates are required to underwrite only in accordance with their agreed business plans. If they fail to do so, Lloyd's can take a range of actions including, as a last resort, stopping a syndicate underwriting;
- monitoring syndicates' compliance with Lloyd's minimum standards and
- continuing to raise standards and improve performance across two main areas:
 - overall risk and performance management of the market and
 - maintaining and developing the market's attractiveness to capital providers, distributors and clients, while preserving its diversity.

The Corporation's Executive Committee exercises the day-to-day powers and functions of the Council of Lloyd's and the Franchise Board ('the Board').

At 31 December 2018 the Corporation and its subsidiaries had 1,044 staff, including 4 members of staff working for Lloyd's Swiss branch.

Lloyd's risk profile

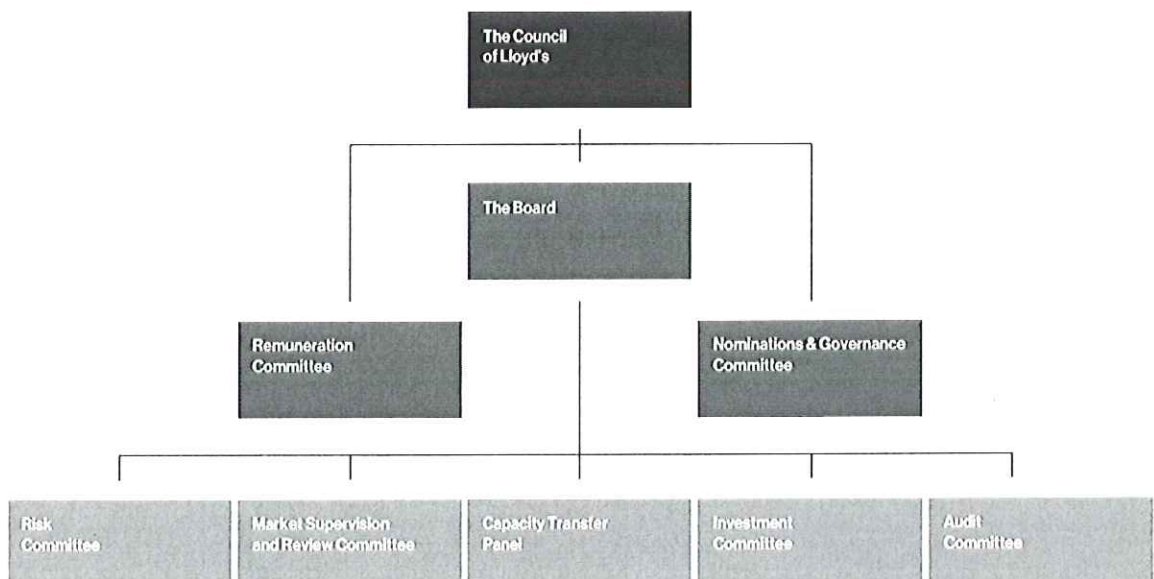
At Lloyd's, the risk profile originates from both syndicates and at central level.

Syndicates are the source of the majority of risks. They source all of the insurance business, manage the bulk of the asset portfolios, hold the majority of the counterparty exposures and conduct most of the day-to-day operational activity. The syndicate risks include: insurance risk (underwriting, reserving and catastrophe risk); market risk on central assets; market risk on syndicate assets (including credit risk on Premiums Trust Funds, PTFs); reinsurance and other credit risk; and syndicate operational risk.

At the central level, additional risks arise from central operational risk and pension fund risk.

Lloyd's governance structure

The structure of the principal governing bodies of Lloyd's is summarised in the chart below:



The Council of Lloyd's

Under Lloyd's Act 1982, the Council of Lloyd's undertakes the management and superintendence of the affairs of the Society and has the power to regulate and direct the business of insurance at Lloyd's.

The Board

The Council established the Board as from 1 January 2003. The Board develops strategies to meet the Corporation Purpose of creating and maintaining a competitive, innovative and secure market. The Board is responsible for the day-to-day oversight of Lloyd's.

Lloyd-s Switzerland branch: Result 2018

A loss of CHF 33 mn. is reported for the 2018 exercise, compared with a prior year profit of CHF 61 mn. This result and its causes are commented on at greater length in Section B.1 "Underwriting performance", however the most material reasons are:

- Gross premium income: in 2017, a single gross premium was recorded for a 36-month policy period for a major corporate client. This was a significant non-recurring item in 2018.
- Claims experience: paid claims rose significantly from CHF 69.8 mn. CHF 121.1 mn. in 2018 across all classes. Losses rose particularly markedly in the branches Transport of Goods, Miscellaneous Financial Loss, and Professional Liability and Credit.
- Actuarial judgment: a revised methodology was applied to calculate the unearned premium reserve (UPR) and the earned portion of the IBNR. A decision was taken to move from "signed" to estimated "earned" premiums.
- Accounting amendment: an amendment to the 2017 financial statements was deemed necessary, resulting in a significant adjustment to the 2018 income statement and the reported gross premiums.
- The difficult investment environment and a conservative strategy meant that a negative financial result, this time of CHF 2.673 mn. was booked.

A Business activities

Name and legal form of undertaking

Lloyd's Swiss branch is a branch of the Corporation of Lloyd's, as entered in the Trade Register of the Canton of Zurich. Its principal place of business is Seefeldstrasse 7, 8008 Zurich, Switzerland.

Supervisory authority responsible for financial supervision

The supervisory authority of Lloyd's Swiss branch is the Swiss Financial Market Supervisory Authority, FINMA. The registered office of FINMA is as follows:

Swiss Financial Market Supervisory Authority FINMA
Laupenstrasse 27
3003 – Berne

External auditor of the undertaking

The independent auditors of Lloyd's Swiss branch are:

PricewaterhouseCoopers AG
Birchstrasse 150
Postfach
8050 Zurich

Significant unusual events

No such events were recorded during the reporting period.

Strategy, objectives and key business segments

The purpose and strategy of Lloyd's Swiss branch are fully aligned with those of Lloyd's. Its overriding priority is to remain the top choice for commercial and specialty insurance. As the world's leading insurance and reinsurance marketplace, the Lloyd's market provides leadership and insight to anticipate and understand risk and to develop relevant, new and innovative forms of insurance for customers.

The Lloyd's market offers the efficiencies of shared resources and services in a market place that covers and shares risks from a wide range of clients and industries at any scale. It promises a trusted, enduring partnership built on the confidence that Lloyd's protects what matters most i.e. to help people, businesses and communities to recover in times of need.

Lloyd's seeks to enhance the value which it provides to its many stakeholders including not only its customers but also to the distributors which bring business to the Lloyd's market, to managing agents which carry out the business of underwriting and of paying claims and to capital providers which bear the risk written at Lloyd's.

Lloyd's has a globally recognised brand and a reputation for paying all valid claims in a timely and efficient manner. Lloyd's Corporation seeks to improve performance in the market and to maintain its reputation for the benefit of all stakeholders. It carries out this responsibility through a proportionate and robust market oversight regime consistent with an entrepreneurial and innovative culture.

Lloyd's Swiss branch does not and has never concluded contracts of insurance nor administered claims nor does it intermediate insurance between clients and the market. These activities are the preserve of the underwriting and broking businesses in the Lloyd's market and their appointed representatives.

The Lloyd's Swiss portfolio and the reported annual results are therefore unlike that of a single corporate entity based on a single underwriting strategy. They represent, instead, the aggregation of the underwriting objectives and performance of those businesses in the Lloyd's market which underwrite Swiss business.

Whilst Lloyd's managing agents must submit the annual business plans of syndicates to Lloyd's Performance Management Directorate, those plans do not provide granular, territory-by-territory data which allow an aggregate view of Lloyd's plan data for Switzerland or a single strategy. This is a strength of the Lloyd's market in Switzerland and elsewhere: market underwriting businesses and intermediaries are able to offer not only a wide range of products and services but competition between such businesses allows for competitive pricing and customer choice.

The most significant client segments serviced by Lloyd's in Switzerland include high net worth individuals. In this segment, Lloyd's underwriters' expertise and product offering in high value homes, private motor cars and water-borne craft, as well as fine art, jewellery and other valuables is applied.

Of great importance are corporate clients and national and multinational organisations (including some of the many NGOs domiciled in Switzerland). Typical insurances offered cover Directors and Officers (D&O) insurance, as well as political risks and marine transportation insurances for such corporate entities trading from Switzerland.

Lloyd's underwriters are authorised to underwrite all classes of non-life insurance business in Switzerland, with the exceptions of B2 (Sickness) and B17 (Legal Expenses). The most important classes of business by premium volume were Miscellaneous Property Damage, Miscellaneous Financial Loss, Credit, Professional Liability, General Liability and Group Accident. Reference is made to section B.1 "Underwriting performance" and to the FCR quantitative templates.

As a market, Lloyd's works principally with independent insurance intermediaries; it is therefore an objective of Lloyd's Swiss branch to build Lloyd's Swiss intermediary network by seeking new relationships with professional Swiss broking firms with the potential to bring profitable quality business to the Lloyd's market.

B Performance

B.1 Underwriting performance

The Lloyd's Swiss branch result for 2018 is reported to FINMA in the latter's FIRST reporting tool. The financial statements of the branch (balance sheet, income statement and management report) were audited and filed with FINMA.

The overall underwriting result is summarised below:

	2018	2017
	CHF '000	CHF '000
Gross written premiums	160'464	320'860
Net earned premiums	113'218	219'363
Net claims incurred	(117'258)	(94'117)
Acquisition and other operating expenses	(24'130)	(60'121)
Underwriting result	(28'189)	65'125
Investment return	(3'329)	(3'178)
Profit/(loss) on exchange	0	0
Other income	43	95
Expenses other than operating expenses	(1'635)	(1'480)
Result	(33'110)	60'562

Material changes in the reporting period

Accounting policies

With regard to the reported gross premiums data as shown in the annual report, Lloyd's was made aware by the independent auditor of a necessary correction concerning the 2017 accounts i.e. that the intermediary commissions were incorrectly twice accounted for on so-called "future premiums".

When the 2018 accounts were prepared, Lloyd's was of the view that, given that prior year data could not be re-stated, a corresponding correction could be made to the position "Head Office Liaison Account". However, the auditor's view was that this correction must be made by means of an amendment to the gross premiums figure in the income statement, which are shown as CHF 160.5 mn. The actuarially calculated gross premiums ("estimated written premiums") were CHF 203.9 mn.

Actuarial principles

Written and earned premiums

Ultimate Premiums are determined by applying standard actuarial projection methods to signed premium data as at 31st December 2018.

The written premium to date is calculated at a reserving class of business level by applying an assumed written premium pattern to the ultimate premiums. The assumed written premium patterns capture the percentage of the ultimate premium that is written at each development year. The written premium patterns for each class of business are derived using output from the most recent Lloyd's annual Central Reserving Exercise.

The unearned premium reserve, i.e. the unearned element of the premium written to date, is calculated at a reserving class of business level by applying an assumed earnings pattern to the written premium to date. The assumed earnings patterns capture the percentage of the written premium that is earned at each development year. The earned premium patterns for each class of business are derived using output from the most recent Lloyd's annual Central Reserving Exercise.

IBNR

The earned IBNR is calculated by subtracting the unearned IBNR from the total IBNR. Under the previous methodology, the unearned IBNR is set equal to 100% of the UPR. The revised methodology calculates the unearned IBNR as the estimated claims reserve associated with the Unearned Premium Reserve (UPR). This is determined by multiplying the estimated ultimate loss ratio for the latest Year of Account by the estimated UPR.

The application of this methodology results in a decrease in the unearned IBNR. This is because the methodology used previously assumed that the loss ratio experience on the unearned premium would be 100% whereas in practice the loss ratios on the Swiss portfolio are much lower and this is reflected in the methodology applied from 2018. This approach implicitly assumes that the loss ratio experience on the unearned premium will be 100%; whereas in practice the loss ratios on the Swiss book are much lower.

The unearned IBNR is now set equal to the estimated claims reserve associated with the UPR. This is determined by multiplying the Initial Expected Ultimate Loss Ratio (IEULR) for the latest Year of Account by the estimate UPR. The IEULR is determined by adding together the attritional IEULR used in the application of the Bornhuetter Ferguson method and the implied Large Loss IEULR from the 2018 year-end reserve review.

Material lines of business

Lloyd's underwriters source a wide range of classes of business from Switzerland. This is highlighted in the table below, which provides a class breakdown of gross written premium in the reporting year 2018:

Accident	14.4%
Illness	0.0%
Motor vehicle	3.1%
Transport	11.9%
Fire and Property	22.5%
Liability	16.3%
Other branches	31.8%

Total gross written premiums were calculated by the described actuarial method as CHF 203.9 mn., however the significant adjustment to that figure, taken through the income statement, resulted in a reported reduction to CHF 160.4 mn. These two significant developments render a like-for-like comparison difficult, however, as the 2017 reported "future premiums" total required to be adjusted. A year-on-year comparison would need to take account of a single, significant, non-recurring three-year premium payment recorded for a major corporate client in 2017.

The broad categorisations of the FCR quantitative template conceal movements within the FINMA reporting types 1-24. The most significant change affected the General Liability account (FINMA Type 16), which reflected the impact of the stated non-recurring large premium item from 2017. Professional Liability as a Type was far less significantly affected by this and the other stated reporting changes.

Credit insurance and Marine Hull experienced significant reductions in income, owing to competitive pressures in the export credit and political risks insurance markets. It is generally true of Lloyd's portfolio that corporate client business continues to demonstrate a high level of volatility year-on-year, commensurate with the fundamental nature of businesses such as commodity traders. In general, premium income from private client business, which is mostly underwritten by Swiss coverholders, has remained stable and profitable. This is true, for instance, for Miscellaneous Property insurances and for the portfolio of Motor business lines.

UVG premium writing declined commensurate with the placing of the portfolio into run-off per end-2018. Lloyd's, together with the relevant Lloyd's underwriters, decided in 2017 to withdraw from statutory accident insurance ("UVG"). The relevant discussions were held and agreements made with FINMA and with the Federal Ministry of Health ("BAG") to this end. No such new or renewal business has been or will be underwritten from 1 January 2019. All remaining in-force UVG contracts have expired by end-2018 at the latest. Lloyd's underwriters will continue to service all continuing obligations from this class of business.

Syndicates underwriting Swiss business continue to be reliant upon continued interest from new intermediary co-operations. There remains a steady flow of such interest from Swiss broking companies seeking access to the Lloyd's market, notably for special products not offered by the local market as well as from Lloyd's brokers seeking to service clients' international programmes to include operations in Switzerland.

Ceded reinsurance

Lloyd's managing agents arrange their own reinsurance protections for their portfolios; thus the Lloyd's Switzerland portfolio is not protected as a single, homogeneous account. Lloyd's takes a conservative view of the level of reinsurance ceded by managing agents on their Swiss business. For 2018 this was estimated as 18.9% across the account. This took account of potential impairments to the documented reinsurance security, as well as, significantly, excluding any Lloyd's market proxy values deriving from Lloyd's catastrophe business, in which recoveries are higher. Lloyd's continues to monitor policy in this area.

Claims payments

Paid claims rose significantly from CHF 69.8 mn (2017) to CHF 121.1 mn. (2018) in total. Losses rose particularly markedly in the branches Transport of Goods, Miscellaneous Financial Loss, and Professional Liability and Credit.

In 2018 there was a preponderance of large claim payments not only in the Financial Lines and General Liability branches; however these are concentrated in the underwriting years 2016 and 2017 (CHF 51.2 mn. and CHF 25.5 mn. respectively). There is also a great concentration of the largest paid claims (the "Top 20" account for 61.3% of all paid claims recorded), which is consistent with the (well known) very top-heavy structure of the total Lloyd's Swiss portfolio.

In Credit insurance (FINMA Type 23), a small number of large claims payments were made, including one of CHF 16.1 mn. from the 2016 underwriting year, whereas the market was able to make significant claims recoveries in 2017. Significant claims payments were also made to clients in the financial, pharmaceutical and commodity trading industries and international organisations.

Claims payments made on the 2018 underwriting year business amounted to only CHF 7.5 mn. with one third of that figure accounted for by Group Accident insurance business (FINMA Type 6).

Reserves

The combined estimated ultimate premium for the Financial Loss, Fire and Property Damage and General Liability classes make up 68.1% of the total estimated ultimate premium (excluding the UVG Types) as at 31st December 2018 across all years of account. However, the combined estimated ultimate claims and estimated reserves for these classes make up 71.4% and 81.9% of the total ultimate claims and reserve estimates respectively as at 31st December 2018 across all years of account. The relative contributions made by these classes to the ultimate premiums and ultimate claims and reserve estimates reflect the longer term and volatile nature of the liabilities associated with the Financial Loss and General Liability classes, as well as the exposure of these classes of business to large claims.

The gross unearned premium reserve increased from CHF 123.9 mn. at year-end 2017 to CHF 134.8 mn. (year-end 2018). The most significant increases were recorded in FINMA Types 19 and 23 (Miscellaneous Financial Loss and Credit respectively). For General Liability (Type 22) a reduction of in excess of CHF 25 mn. was recorded, owing largely to the to the previously noted one-off recording of a single large premium in 2017.

Following the settlement of significant Credit insurance (FINMA Type 23) claims from earlier underwriting years, case reserves in this class of business were negligible at year-end 2018. Case reserves held for Miscellaneous Financial Loss (FINMA Type 16) fell for the same reason. However, several new large claims were reported in the course of 2018 in respect of the Professional Liability class (FINMA Type 21).

Case reserves in UVG insurance (FINMA Types 2 and 7) declined as significant progress was made in closing short-tail claims cases. The annuity capital for UVG pensions remained stable and will be reviewed in the light of the reduction in the technical interest rate per 2020.

The security and volatility reserve was CHF 60.17 mn. This is within the bounds prescribed for it and set out in Form "D" to Lloyd's business plan; no additional bound assets were consequently required in adjustment.

The equalisation reserve in the Credit insurance branch rose by the end of 2018 by a further CHF 0.8 mn. to reach CHF 29.1 mn, albeit that gross earned written premiums booked in the reporting year itself declined from CHF 34.1 mn. to CHF 27.7 mn.

Lloyd's reserves were subject to and fulfilled the reserve adequacy test within the sense of FINMA circular letter 2008/42 "Reserves Non-Life Insurance" marginal note 9 with the book value of the total technical reserves yielding a surplus of CHF 75 mn. compared to the minimum reserve requirement.

Significant events during the reporting period

The Lloyd's market as a whole experienced another exceptionally difficult year in 2018, driven by challenging market conditions and a significant impact from natural catastrophes. These factors mean that Lloyd's reported a loss before taxation (the aggregated 2018 market result) of GBP 1.0 bn. The result reflects the market facing another of the costliest years for natural catastrophes in the past decade.

Lloyd's underwriters' licensing position and operations in Switzerland have not been affected by the referendum decision on Brexit nor by the establishment by Lloyd's of a Brussels-based insurance company to provide access for EEA-based clients and intermediaries following the United Kingdom's withdrawal from the European Union (EU). Lloyd's welcomes the signing on 24 January 2019 by the U.K. and Swiss governments of an Agreement on direct non-life insurance. The Agreement aims to replicate the existing EU-Swiss Agreement on direct non-life insurance. That came into effect in October 1989 and was updated by a Decision of the EU-Switzerland Joint Committee on 3 July 2018, to take account of recent developments in prudential insurance regulation. The new U.K.-Swiss Agreement will come into force once the EU-Swiss agreement no longer applies to the UK.

B.2 Financial Performance

Lloyd's Swiss branch is required to maintain Bound Assets in Switzerland to collateralise its liabilities from its Swiss insurance business. This is performed in accordance with Swiss insurance supervisory law, including FINMA Circular 2016/5 "Investment Guidelines - insurers".

As at 31 December 2018, Lloyd's bound assets held in Switzerland in accordance with Swiss insurance supervisory law amounted to CHF 566'429'873. Those assets provide all Swiss insurance policyholders with a further layer of protection in addition to those assets of the Society held elsewhere.

Lloyd's investment policy is conservative and seeks to provide the greatest security for Swiss policyholders. The investment environment remained difficult in the course of 2018, with only negative interest rates on offer in those asset classes in which Lloyd's bound assets are principally invested i.e. short-term instruments, fixed deposits of short maturity and cash deposits.

One bond fund held with a major Swiss bank generated interest income of CHF 0.764 mn. Money market deposits in all Swiss banks generated negative results, such that a total investment loss of CHF 2.673 mn. was booked (2017: CHF - 3.178 mn.).

No investments were made in equities, derivative instruments or any other asset classes permissible under the relevant statutes, hence no further commentary is provided.

As at 31 December 2018 the bound assets were spread among four Swiss banks with high or the highest credit ratings. The general supervisory principles concerning the security of the assets and their retention were observed at all times.

The Lloyd's market has been able to meet its commitments without any significant impact on its total resources, which remain strong.

As at 31 December 2018, the net total resources of the Society of Lloyd's (capital, reserves and subordinated loan notes) amounted to GBP 28.2 bn. (31 December 2017: GBP 27.6 bn.). Lloyd's ratings remain at A+ (Strong) with Standard and Poor's, AA- (Very Strong) with Fitch Ratings, and A (Excellent) with A.M. Best.

B.3 Other material income and expenses

Lloyd's Swiss branch office provides services exclusively for Lloyd's, London, i.e. the Corporation of Lloyd's and Lloyd's market entities. All such market entities benefit from those services aimed at maintaining Lloyd's licensed status in Switzerland, so are not invoiced individually. One exception to this practice relates to the performance of certain services in connection with the local administration of statutory accident (UVG) business, for which a recovery of expenses of CHF 43'000 was made in 2018 (2017: CHF 95'000).

Costs of maintenance of the Swiss branch office rose to CHF 1.635 mn. (2017: CHF 1.480 mn.), largely as a result of the continued increasing burden of regulation and the consequent greater requirement for legal and actuarial support services.

There is no other material information to report.

B.4 Other information

There is no other material information to report.

*Lloyd's, London,
Zweigniederlassung Zürich
Zurich*

*Report of the
independent auditor to the
General Manager
on the financial statements
2018*





Report of the independent auditor to the General Manager of Lloyd's, London, Zweigniederlassung Zürich

Report on the audit of the financial statements

As a federally-supervised audit firm, we have audited the accompanying financial statements of the Zurich branch office of Lloyd's, London, which comprise the balance sheet as at December 31, 2018, and the income statement and notes for the year then ended, in line with Article 28 para. 2 of the Insurance Supervision Act (ISA) and with reference to the FINMA guidelines "Preparation and audit of the financial statements of branch offices of foreign insurance companies (WNL)".

The financial statements have been prepared by the General Manager on the basis of the financial reporting provisions of the Swiss Code of Obligations and the requirements of the supervisory law.

General Manager's Responsibility for the Financial Statements

The General Manager is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of the Swiss Code of Obligations and the requirements of the supervisory law – in particular the Financial Market Supervision Act (FINMASA), the Insurance Supervision Act (ISA), the Insurance Supervision Ordinance (ISO) and the FINMA Insurance Supervision Ordinance (ISO-FINMA) as well as with the FINMA guidelines "Preparation and audit of the financial statements of branch offices of foreign insurance companies (WNL)" –, and for such internal controls as the General Manager determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the regulatory requirements set out in Article 28 para. 2 ISA, the WNL and Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the branch office's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the branch office's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the General Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of the Zurich branch office of Lloyd's, London, as of and for the year ended December 31, 2018 are prepared, in all material respects, in accordance with the financial reporting provisions of the Swiss Code of Obligations, the requirements of supervision law (in particular FINMASA, ISA, ISO and ISO-FINMA) and with the WNL.

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Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch*

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Basis of Accounting

Without modifying our opinion, we note that the financial statements of the Zurich branch office of Lloyd's, London, are prepared on the basis of the accounting principles specified above. The financial statements are prepared to comply with the requirements of Article 25 para. 4 ISA. As a result, the financial statements may not be suitable for another purpose.

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to read 'P. Kirkpatrick', with a small circular stamp to its right.

Philip Kirkpatrick
Audit expert
Auditor in charge

A handwritten signature in black ink, appearing to read 'Ireen Ranneberg', with a small circular stamp to its right.

Ireen Ranneberg
Audit Expert

Zürich, 29 April 2019

Enclosures:

- Financial statements (balance sheet, income statement and notes)

Financial Statements
Lloyd's, London,
Zweigniederlassung Zürich
(Lloyd's Switzerland)

Year ended 31 December 2018



Graham West
Lloyd's Underwriters' General Representative for Switzerland

Zürich, 29 April 2019

Lloyd's London, Zweigniederlassung Zürich (Lloyd's Switzerland)

INCOME STATEMENT

In Swiss Franc's 000's

	Notes	2018	2017
Gross Written Premiums		160,464	320,860
Reinsurers' share of written premiums		(31,047)	(79,912)
Net Written Premiums		129,417	240,948
Gross Change in Unearned Premium Reserves		(10,937)	(28,477)
Reinsurers' share of Change in Unearned Premium Reserves		(5,262)	6,892
Net earned premiums		113,218	219,363
Gross claims paid		121,140	69,772
Reinsurers' share of claims paid		(22,897)	(18,305)
Gross change in claims and equalisation reserves		(7,819)	55,419
Reinsurers' share of change in claims		26,834	(12,769)
Net claims Incurred		117,258	94,117
Acquisition costs	4f	(24,130)	(60,120)
Other capital investments expenses		(19)	(1)
Operating result		(28,189)	65,125
Other Income		43	95
Administrative expenses		(1,635)	(1,480)
Other financial expenses		(3,329)	(3,178)
Result		(33,110)	60,562

Lloyd's London, Zweigniederlassung Zürich (Lloyd's Switzerland)

BALANCE SHEET

In Swiss Franc's 000's

	Notes	2018	2017
ASSETS			
Other capital investments		159,345	30,000
Cash and cash equivalents		307,487	326,029
Reinsurers' share of technical reserves	4b	101,475	133,570
Fixed assets	4c	-	1
Deferred acquisition costs		23,825	37,445
Receivables from insurance business	4a	68,531	123,025
Other receivables		268	0
Accrued income and prepaid expenses		41	162
Total Assets		660,972	650,232
LIABILITIES			
Gross technical reserves	4b	545,765	542,647
Reinsurance balance payable		13,697	30,511
Payables from insurance business	4d	1,163	1,289
Accrued expenses		322	254
Total Liabilities		560,947	574,701
Liaison account to head office	4e	100,025	75,531
Total liabilities and liaison account to head office		660,972	650,232

1 Nature of operations

Lloyd's London, Zweigniederlassung Zürich ("Lloyd's Switzerland") is not an insurance company. It is the office of the local representative of Lloyd's underwriters, a partially mutualized market where members join together to form syndicates that insure risks.

Lloyd's is incorporated in the United Kingdom and its headquarters are at 1 Lime Street, London, EC3M 7HA.

Lloyd's Switzerland is headquartered at, Seefeldstrasse 7, 8008 Zürich.

Lloyd's Switzerland has 4 full-time positions (previous year: 4 full-time positions).

Much of Lloyd's business is written on a subscription basis, with more than one syndicate taking a share of the same risk. Lloyd's is licensed by FINMA to provide insurance coverage for clients in Switzerland for direct non-life business.

Business is written through approved brokers that have been given authority to accept insurance contracts and settle claims or to place business on an open market basis. Brokers facilitate the risk transfer process between policyholders and underwriters. Clients can discuss their risk needs with a broker, a coverholder or a service company.

When placing a risk on the open market, a Swiss broker approaches the Lloyd's market, either by utilizing a Lloyd's broker, or directly if it is a Lloyd's broker itself. The broker is then able to work directly with the specialist underwriters for each syndicate who price, underwrite and handle any subsequent claims in relation to the risk. Alternatively, Lloyd's syndicates delegate underwriting authority to an appropriate third party – either a coverholder or service company.

A coverholder is a local intermediary who is given a Delegated Authority Contract (binder) to bind risks on Lloyd's behalf, within the parameters set out in the binder. The specific terms vary from binder to binder but cover matters such as the amount of premium and risk aggregate that can be bound, the nature of the risks to be bound, the terms and conditions for the risks, the pricing structure to be used and the authority to vary that pricing, the process to refer non-standard risks to the syndicate, and any claims handling or claims paying ability. A coverholder may hold more than one binder, which may be from more than one syndicate or company.

Members delegate all responsibility for management of the underwriting business of a syndicate to the managing agent. Managing agents may manage more than one syndicate. A service company is an approved coverholder that is wholly owned by the managing agent. It only holds binders with syndicates of the relevant managing agent however it is also able to sub-delegate underwriting authority to other coverholders (coverholders are not permitted to sub-delegate).

Lloyd's utilizes third party providers for the accounting and settlement processes to facilitate efficient processing of subscription business. Ins-sure Services Ltd and Xchanging Claims Services Ltd (collectively known as "Xchanging") service premiums and claims for Lloyd's and for insurance companies.

As well as providing accounting and settlement services to the Lloyd's syndicates, Xchanging provides services to the Corporation of Lloyd's (the "Corporation"), which provides infrastructure and governance for Lloyd's, and which undertakes as part of this service provision, centralized regulatory and tax reporting. Xchanging undertakes certain compliance checking services on behalf of Lloyd's and the Corporation, and applies coding to transactions to facilitate regulatory and tax reporting around the world. The Corporation, on behalf of Lloyd's, uses Xchanging data for these purposes as it provides a consistent approach to processing and coding, under a control framework subject to ISAE 3402 Type II Controls Assurance Report independent annual audit. The majority of Lloyd's regulatory reporting in Switzerland is based mainly on either (a) premiums reported by a Swiss intermediary or (b) where there is no such intermediary, premiums signed or reported through Xchanging. The majority of the claims and premiums are reported via Xchanging, while a small proportion is reported by local Swiss brokers and an even smaller proportion reported directly by managing agents.

2 Basis of presentation

Key Accounting and Valuation Principles

The annual accounts for Lloyd's Switzerland have been prepared in accordance with Swiss law and Swiss regulations. The main accounting and valuation principles used, which are not already specified by the Code of Obligations, are described below.

The Financial Information was authorized for issue by the Lloyd's General Representative for Switzerland on 29 April 2019.

Basis of preparation

The Financial Information is expressed in Swiss Francs, which is also the functional currency of the Business. The amounts presented in these Financial Statements are rounded to the nearest thousand, unless otherwise stated. The Financial Information is prepared on a going concern basis, under the Historical Cost Convention, except for investments that are accounted for at fair value. The Financial Information is an aggregation of the bound asset balances, premium and insurance liabilities estimates for those Lloyd's syndicates underwriting business regulated in Switzerland, together with the income, expenses, assets and liabilities of the representative's office.

The Lloyd's Switzerland financial statements have been prepared on an aggregated basis. To the extent there are transactions and balances between syndicates or between syndicates and Lloyd's Switzerland, these have not been eliminated in preparing these financial statements.

Significant Judgments, estimates and assumptions

Preparation of the Financial Information requires management to make judgments, estimates and assumptions, which are described in the significant accounting policies below. These judgments, estimates and assumptions are based on the best knowledge that management possesses of relevant facts and circumstances, considering its past experience, and on measures that the Business may undertake in the future. Actual results may differ from these judgments, estimates and assumptions.

The judgments, estimates and assumptions having a significant impact on the amounts presented in the Financial Information are:

- Premium estimates
- Insurance liabilities estimates

Income taxes

Net income is distributed to Lloyd's Underwriting Members in proportion to their participation and is subject to taxation in the hands of each Member. Therefore, no provision for income taxes is included in the Financial Information.

3 Significant accounting policies

a) Premiums

Premium written

Premiums are recorded gross of commissions and premium taxes.

The branch is reporting on behalf of a subscription market and written premium data is not available centrally. Therefore, as a proxy for such data, premium data is included (i) when it has been processed/recorded by Xchanging or directly by managing agents; or (ii) when cash for premiums reported by Swiss intermediaries to Lloyd's Switzerland has actually been received.

The written premium to date is calculated at a reserving class of business level by applying an assumed written premium pattern to the ultimate premiums. The assumed written premium patterns capture the percentage of the ultimate premium that is written at each development year.

Estimated future premiums

Future premium is the written premium less the premium signed to date. Future premium reflects business that has been written but may still be subject to timing and other adjustments. This is used as an exposure measure for actuarial reserve projections, which are on a full underwriting year basis.

The basis of estimating future premiums was refined in 2018 to one which better reflects written premium patterns for each class of business. This change has been applied from 1 January 2018 and as a result the impact of this change has been recognised in the income statement for the current year.

b) Acquisition costs

Brokerage and commission costs are reported on the same basis as written premiums, namely (i) when they have been processed/recorded by Xchanging or directly by managing agents; or (ii) when cash has been received for reported by Swiss intermediaries. These costs are earned using the same assumptions as for the earning of gross premiums.

c) Financial instruments

Investments

Purchases or sales of investments that require delivery of assets within a timeframe established by regulation or convention in the market place (regular way purchases) are recognised on the settlement date.

Interest-bearing investments are measured at amortised cost. Interest is calculated using the effective interest method and recognised in the branch statement of income.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with original maturities of three months or less.

d) Recoverable from reinsurance – Reinsurance ceded

Because of the nature of Lloyd's operations, each syndicate year of account manages its own reinsurance which is specific to its risk profile. As syndicates tend to write an amalgamation of business with different levels of exposure, the reinsurance programmes are usually applied globally rather than at country specific levels. Therefore, no

centralized information is available for reinsurance ceded pertaining specifically to the Swiss operations, however credit for reinsurance on claims liabilities are based on Lloyd's global reinsurance credit. This is a fixed reinsurance credit, (as per audited historic gross and reinsurance results), prior to being reduced for non-admissible reinsurers in line with FINMA's guidelines. This reinsurance credit is applied to all elements of the technical reserves excluding ULAE and the credit equalisation reserve and with the exception of UVG business that was written prior to 1993, and which is 100% reinsured into Equitas (now Resolute Syndicate Management Limited). The earning of reinsurance is assumed to be consistent with the gross.

e) Other Assets

Fixed assets are shown at original cost less accumulated depreciation, estimated to write them off evenly across their economic life.

f) Insurance liabilities

Insurance liabilities include case reserves, IBNR, unearned premiums, security and volatility reserves and ULAE.

Case Reserves

The case reserves undergo actuarial review as at 31 December each year. The details of the work carried out as part of this review and the results are set out in the responsible actuary's report to management. In addition, there is a quarterly review of the notified case reserves, changes in IBNR specifically for large losses and UPR. There is also a monthly review of the notified case reserves. Each of these reviews provides an indication of the adequacy of the bound assets and hence any subsequent action that may be required.

The classes of business considered are as follows:

- Accident (excluding UVG)
- Financial Loss (including Bail, Credit and Miscellaneous Financial Losses)
- Fire and Property Damage
- Liability
- Marine Aviation and Transport
- Motor (including Miscellaneous Motor and Motor Third Party Liability)
- Tourist Assistance

IBNR

The total gross premium, paid claims and outstanding claim data for each class is triangulated on an underwriting year basis and standard actuarial techniques are used to project the future developments on the years of account which have not yet fully run off.

The selected gross ultimate claims from these methods are then used to produce an estimate of the IBNR for each class of business by subtracting the incurred claims. This IBNR includes an estimate of the future claims anticipated from the unexpired portion of incepted risks and is compared against the UPR. Any IBNR in excess of the UPR is subsequently booked in addition to the UPR. In the event of the UPR exceeding the IBNR, the UPR will be booked. This is in accordance with the Annexe to Form D

Any changes in IBNR during the quarterly review relate specifically to large losses and this information is provided by syndicates upon request. UPR are also reviewed quarterly.

An estimate included for ULAE reserves on the claims liabilities described above is also included.

Finally, there is an allowance for capital in respect of UVG (pensions) business.

Unearned Premiums

In addition to this calculation, the Unearned Premium Reserve ("UPR") is calculated by applying at a reserving class of business level by applying an assumed written premium pattern to the written premiums to date. The assumed patterns capture the percentage of ultimate premiums that is written at each development year.

As described above, UPR forms a part of the total liabilities which are calculated quarterly and are used to establish the Bound Assets reserving requirement and therefore the adequacy of the Bound Assets. The larger of the UPR and IBNR is used in the calculation as per the approach agreed with FINMA.

UPR within the Income Statement is shown gross of deferred acquisition costs (DAC), with the movement in DAC being shown in 4(h) in the accompanying notes. The provision for UPR within the balance sheet is also gross of DAC.

Security and Volatility Reserves

In accordance with the FINMA requirements Lloyd's Switzerland is also required to hold security and volatility reserves. There are two components to this the fluctuation reserve and the credit equalisation reserve. The minimum and maximum boundaries of the fluctuation reserve are set by Lloyd's and are subject to annual review by Lloyd's. The credit equalisation reserve is set in accordance with the requirements of FINMA. The reinsurance described above is applied to the fluctuation reserve but not to the credit equalisation reserve.

g) Foreign currency translation

Monetary assets and liabilities are translated into Swiss Francs at the rates in effect at the schedule of assets and liabilities date. Revenues and expenses are translated at the average exchange rates prevailing during the year.

4 Information relating to items on the balance sheet and Income statement

a) Receivables from insurance business

	2018	2017
	CHF 000's	CHF 000's
Due from brokers	733	961
Future premiums (net of B&C, Gross of Reinsurance)	67,785	122,043
Recoverable expenses (professional fees re UVG)	13	21
Total receivables from insurance business	68,531	123,025

b) Reinsurers' share of technical reserves

	2018	2018	2018
	CHF 000's	CHF 000's	CHF 000's
	Gross	Reinsurers' share	Net
Unearned Premiums	134,842	(25,487)	109,355
Outstanding Claims Reserves – Gross	307,595	(61,965)	245,630
Credit and Fluctuation Reserves – Gross	103,328	(14,023)	89,305
Total technical reserves	545,765	(101,475)	444,290

	2017	2017	2017
	CHF 000's	CHF 000's	CHF 000's
	Gross	Reinsurers' share	Net
Unearned Premiums	123,905	(30,749)	93,156
Outstanding Claims Reserves – Gross	288,994	(77,657)	211,337
Credit and Fluctuation Reserves – Gross	129,748	(25,164)	104,584
Total technical reserves	542,647	(133,570)	409,077

c) Fixed assets

	2018	2017
	CHF 000's	CHF 000's
Cost of Fixed Assets	30	30
Accumulated Depreciation	(30)	(29)
Total other assets	-	1

d) Payables from insurance business

	2018	2017
	CHF 000's	CHF 000's
Fire brigade charges	94	110
Stamp duty (net)	1,069	1,144
Balance due to other insurers	-	35
Total other payables from insurance business	1,163	1,289

e) Liaison account

	2018	2017
	CHF 000's	CHF 000's
Opening valuation	75,531	32,478
Net capital inflow/(outflow) from headquarters	57,604	(17,509)
Annual results	(33,110)	60,562
Closing valuation	<u>100,025</u>	<u>75,531</u>

f) Acquisition costs

	2018	2017
	CHF 000's	CHF 000's
Contract conclusion expenses	18,684	79,985
Movement on deferred acquisition costs	10,236	(19,865)
Reinsurance commissions and profit participation	(4,790)	-
Total acquisition costs	<u>24,130</u>	<u>60,120</u>

5 Events after the reporting date

There are no material events after the balance sheet date. Subsequent events for the current reporting period have been evaluated up to 29 April 2019. This is the date on which the financial statements were approved by the Lloyd's General Representative for Switzerland.

6 Contingent liabilities

Lloyd's Switzerland has no contingent liabilities.

7 Liabilities to pension schemes

Lloyd's Switzerland has no liabilities to pension schemes.

8 Other required disclosures

Lloyd's Switzerland does not have any further disclosures under the Swiss Code of Obligations.

Management Report 2018

In compliance with the

Swiss Code of Obligations Art. 961c

Preamble

This document presents the business performance and economic position of Lloyd's, London, Zurich branch (hereafter "LLZH") at the end of financial year 2018, from perspectives not covered in the annual accounts.

Staffing

LLZH employed four full-time staff locally for the whole of calendar year 2018. Full-time equivalent (FTE) headcount remained constant at 3.6. Support functions were provided by Lloyd's staff in London and specialist actuarial, legal and other technical advice was sourced locally from professional firms.

Conduct of risk assessment

LLZH complies with those risk assessment requirements both in local law and as agreed between Lloyd's in London and its home state regulators, the Prudential Regulation Authority, PRA, and the Financial Conduct Authority, FCA (and which extend to Lloyd's overseas branches and subsidiaries). There are a number of instruments used by LLZH to identify and assess both the likelihood and the potential severity of risk arising from its operations and to report findings to the Corporation Risk Committee. These include the Risk Incident Reporting ("RIR") mechanism and the Overseas Risk Assessment ("ORA") tool, the latter completed quarterly. Those instruments cover potential risk from wide-ranging sources e.g. financial risk, reputational risk and business continuity risk. Feedback is received from the Corporation Risk Committee; suitable correctives are applied by LLZH and their effectiveness is monitored.

Orders and assignments

LLZH is not a conventional insurer or insurance branch office in the sense that it does not underwrite insurance business on behalf of Lloyd's syndicates in London; that is the responsibility of the underwriting members of Lloyd's and as delegated to accredited Lloyd's intermediaries in Switzerland and in the United Kingdom. Instead, LLZH's role is largely one of compliance and reporting. This management report cannot therefore comment on "pipeline" business intermediated by those entities, but which will be subsequently be reported to LLZH in the framework of its regulatory responsibilities.

Research and development activities

Research into and the creation of new insurance products for the Swiss market is not the responsibility of LLZH; those activities are the remit of Lloyd's syndicates and their respective managing agents, working with insurance intermediaries and professional advisers.

Extraordinary events

The core responsibility of LLZH is to ensure compliance by Lloyd's market participants with Swiss legal, regulatory and similar norms. To ensure this duty, LLZH continues to make incremental improvements to its systems and processes, principally Secure Store. This seeks to ensure the timely, accurate and complete reporting of Lloyd's Swiss insurance intermediaries of their business data as well as providing a regular and timely feed of data on Lloyd's UK broker data, as processed by Xchanging, XIS.

Future prospects

No comment is made in this management report on the prospective production and profitability of Swiss insurance business; that is the province of the individual managing agents and of the syndicates which they manage and which together make up the Lloyd's market. The Lloyd's market as a whole does not produce a territory-specific business plan for Switzerland.

Planning and implementation has already been initiated of projects to further enhance the quality of regulatory data and the efficiency with which this is delivered. One example is enhancements to internal control system (ICS) of the branch and its documentation, in response to the corresponding FINMA audit. A review has been commenced of the potential for further operating efficiencies in the IT reporting environment. This is necessary to address the continuing enhanced regulatory requirements of the Swiss authorities, as well as responding to the risk management and control responsibilities of Lloyd's in London. In the longer term, questions as to capacity of the Zurich branch office to preserve documents and data (as requested by FINMA in accordance with Article 19 of the Insurance Supervision Ordinance ("AVO"/"ISO") will need to be addressed.



Graham West
Lloyd's Underwriters' General Representative for Switzerland

Zurich, 29 April 2019