

LLOYD'S

THE SOCIETY OF LLOYD'S

(a statutory corporation incorporated by Lloyd's Act 1871)

£500,000,000 Fixed Rate Subordinated Notes due 2024

Issue Price 99.227 per cent.

The £500,000,000 Fixed Rate Subordinated Notes due 2024 (the "Notes") will be issued by the Society of Lloyd's (the "Issuer") on 30 October 2014 (the "Issue Date"). The Notes will bear interest from (and including) the Issue Date at a fixed rate of 4.75 per cent. per annum, payable annually in arrear on 30 October in each year, as described in "Terms and Conditions of the Notes — Interest". The Notes will constitute subordinated obligations of the Issuer. Payments of interest on the Notes must be deferred by the Issuer (i) on each Mandatory Interest Deferral Date (as defined in the Terms and Conditions of the Notes (the "Conditions")) or (ii) if such payment could not be made in compliance with Condition 3.2(a), as more particularly described in the Conditions. Any interest which is deferred will, for so long as it remains unpaid, constitute "Arrears of Interest". Arrears of Interest will not themselves bear interest, and will be payable as provided in Condition 5.4. Payments in respect of the Notes will be made without withholding or deduction for, or on account of, taxes of the United Kingdom, unless such withholding or deduction is required by law. If any such withholding or deduction is made, additional amounts may be payable by the Issuer, subject to certain exceptions as are more fully provided for in "Terms and Conditions of the Notes — Taxation".

The Notes will (unless previously redeemed or purchased and cancelled) mature on 30 October 2024 (the "Maturity Date"), and may be redeemed prior to such date, subject to certain conditions described below, (i) in the event of certain circumstances affecting the tax treatment applicable to the Notes or payments thereunder or (ii) following the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Capital Disqualification Event or a Ratings Methodology Event; provided that (a) in the case of a Ratings Methodology Event, the Notes will not be redeemed prior to the fifth anniversary of the Issue Date and (b) in the case of any redemption prior to the fifth anniversary of the Issue Date, the approval of the Prudential Regulation Authority (or any successor authority, the "PRA") is required and the Notes are replaced with capital of the same or higher quality (unless Solvency II (as defined in the Conditions) is implemented without such requirements). The redemption of the Notes on the Maturity Date or any other date set for redemption of the Notes shall be deferred if (a) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing on such date, or would occur if the Notes were to be redeemed or (b) the Notes could not be redeemed in compliance with Condition 3.2(a). The Issuer may, alternatively, following the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Capital Disqualification Event or a Ratings Methodology Event or in the event of certain circumstances affecting the tax treatment applicable to the Notes or payments thereunder, vary or substitute the Notes in the circumstances described in Condition 7. Any substitution or variation of the Notes, and any redemption or purchase of the Notes prior to the Maturity Date, will be subject to satisfaction of the Regulatory Clearance Condition and continued compliance with applicable Regulatory Capital Requirements as published by the PRA, all as more particularly provided for in Condition 7.7.

Application has been made to the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 ("FSMA") (the "UK Listing Authority") for the Notes to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's regulated market (the "Market"). References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

An investment in the Notes involves certain risks. For a discussion of these risks see "Risk Factors" below.

The Notes have been rated A- by Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"), a- by A.M. Best Europe – Rating Services Limited. ("A.M. Best") and are expected to be assigned a rating of A- by Fitch Ratings Limited ("Fitch") (each a "Rating Agency"). Each Rating Agency is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "CRA Regulation"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

JOINT LEAD MANAGERS

Barclays

Citigroup

The Royal Bank of Scotland

(Structuring Advisor)

28 October 2014

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC, as amended, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the “**Prospectus Directive**”) and for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all the documents which are incorporated herein by reference (see “*Documents Incorporated by Reference*”).

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Joint Lead Managers (as defined in “*Subscription and Sale*” below) to subscribe or purchase, any of the Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Notes and distribution of this Prospectus, see “*Subscription and Sale*”.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer or the Joint Lead Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Issuer or the issue and offering of the Notes. Each Joint Lead Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

None of the Issuer or the Joint Lead Managers is providing any advice or recommendation in this Prospectus on the merits of the purchase, subscription for, or investment in, the Notes or the exercise of any rights conferred by the Notes.

The Notes are securities which, because of their nature, are normally bought and traded by a limited number of investors who are particularly knowledgeable in investment matters. This Prospectus has been prepared on the basis that any purchaser of Notes is a person or entity having sufficient knowledge and experience of financial matters as to be capable of evaluating the merits and risks of the purchase. Before making any investment decision with respect to the Notes, prospective investors should consult their own counsel, accountants or other advisers and carefully review and consider their investment decision in the light of the foregoing. An investment in the Notes is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may result therefrom.

In connection with the issue of the Notes, Citigroup Global Markets Limited (the “Stabilising Manager(s)”) (or any person acting on behalf of any Stabilising Manager(s)) may over-allot Securities or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “£”, “**pounds sterling**”, “**pounds**” or “**pence**” are to the lawful currency of the United Kingdom and references to “**U.S.\$**” or “**U.S. dollars**” are to United States dollars.

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OVERVIEW

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference herein. Capitalised terms which are defined in “Terms and Conditions of the Notes” have the same meaning when used in this overview.

Issuer	The Society of Lloyd’s
Notes	£500,000,000 Fixed Rate Subordinated Notes due 2024.
Issue Date	30 October 2014.
Issue Price	99.227 per cent.
Status and Subordination	<p>The Notes constitute direct, unsecured and subordinated obligations of the Issuer, and will at all times rank <i>pari passu</i> without any preference among themselves. The rights and claims of the holders of Notes (“Noteholders”) against the Issuer are subordinated in a winding-up of the Issuer as provided for in Condition 3.2.</p> <p>In addition, other than in the circumstances set out in Condition 3.2(b) and without prejudice to Condition 10.1 all payments under or arising from the Notes and the Trust Deed shall be mandatorily deferred unless the Issuer is Solvent at the time for payment by the Issuer, and unless and until such time as the Issuer could make such payment and still be Solvent immediately thereafter.</p>
Interest	The Notes will bear interest from (and including) the Issue Date at a fixed rate of 4.75 per cent. per annum payable (subject as provided under “ <i>Deferral of interest</i> ” below) annually in arrear on 30 October in each year, commencing on 30 October 2015.
Deferral of Interest	The Issuer is required to defer any payment of interest on the Notes on each Mandatory Interest Deferral Date (being an Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date).
Arrears of Interest	Any interest which is deferred by the Issuer pursuant to Conditions 3.2(a) or 5.1 will, for so long as it remains unpaid, constitute Arrears of Interest. Arrears of Interest will not themselves bear interest, and will be payable by the Issuer as provided in Condition 5.4.
Redemption at maturity	Unless previously redeemed or purchased and cancelled, the Issuer will (subject as provided under “ <i>Deferral of redemption</i> ” below) redeem the Notes on 30 October 2024.
Redemption, substitution or variation upon a relevant tax event	<p>If:</p> <p>(a) (i) as a result of a change or proposed change in, or amendment to, certain tax laws or regulations or the official interpretation thereof, on the next Interest Payment Date, the Issuer would be required to pay additional amounts on the Notes as provided in Condition 8 or the Issuer would otherwise suffer adverse tax</p>

consequences; or (ii) in respect of the Issuer's obligation to make any payment of interest on the next following Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; and

(b) in each case, the effect of the foregoing cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may, in accordance with Condition 7.4, upon notice to Noteholders either:

(A) redeem all (but not some only) of the Notes at any time at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption (subject as provided under "*Deferral of redemption*" below); or

(B) substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain, Qualifying Tier 2 Securities,

all as more particularly described in Condition 7.4.

Redemption, substitution or variation upon a Capital Disqualification Event or a Ratings Methodology Event.....

If a Capital Disqualification Event or a Ratings Methodology Event has occurred and is continuing, or the Issuer satisfies the Trustee that, as a result of any change in, or amendment to, or any change in the application or official interpretation of, any applicable law, regulation, ratings methodology or other official publication, the same will occur within a period of six months, the Issuer may upon notice to Noteholders either:

(a) redeem all (but not some only) of the Notes at any time (in the case of a Capital Disqualification Event) or at any time on or after the fifth anniversary of the Issue Date (in the case of a Ratings Methodology Event) at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption (subject as provided under "*Deferral of redemption*" below); or

(b) substitute all (but not some only) of the Notes at any time for, or vary the terms of the Notes so that they become or remain, Qualifying Tier 2 Securities (in the case of a Capital Disqualification Event) or Rating Agency Compliant Securities (in the case of a Ratings Methodology Event),

all as more particularly described in Condition 7.5.

Deferral of redemption

No Notes shall be redeemed by the Issuer on the Maturity Date or on any other date set for redemption pursuant to Conditions 7.1, 7.4 or 7.5 if (i) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were to be redeemed, or (ii) such redemption could not be made in compliance with Condition 3.2(a) or (iii) the Regulatory Clearance Condition is not satisfied on such date.

If redemption of the Notes is deferred, the Issuer will redeem

Preconditions to redemption, variation, substitution or purchase	<p>the Notes as provided in Condition 7.2.</p> <p>Prior to publishing any notice (a) that the Issuer intends to redeem the Notes before the Maturity Date or (b) of any proposed substitution, variation or purchase of the Notes, the Issuer will be required to have complied with the Regulatory Clearance Condition with respect to such redemption, variation, substitution or purchase and be in continued compliance with Regulatory Capital Requirements as published by the PRA.</p> <p>In addition, in the case of any redemption prior to the fifth anniversary of the Issue Date, such redemption will only be made on the condition that the Notes are exchanged for, or redeemed out of the proceeds of a new issue of, capital of the same or higher quality (unless such requirement is no longer needed under Solvency II).</p>
Withholding tax and additional amounts	<p>All payments in respect of the Notes by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any Taxes imposed by a Relevant Jurisdiction, unless the withholding or deduction is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net payment received by each Noteholder in respect of the Notes, after withholding or deduction will equal the amount which would have been received in the absence of any such withholding or deduction, subject to customary exceptions as set out in Condition 8.</p>
Events of Default	<p>If default is made by the Issuer for a period of 14 days or more in the payment of any interest (including Arrears of Interest) or principal or premium due in respect of the Notes or any of them, the Trustee on behalf of the Noteholders may (and, subject to certain conditions, if so directed by the requisite majority of Noteholders shall) institute proceedings for the winding-up of the Issuer in England and Wales (but not elsewhere), and/or prove in the winding-up of the Issuer (whether in England or elsewhere) and/or claim in the liquidation of the Issuer but may take no further action to enforce, prove or claim for any payment by the Issuer in respect of the Notes or the Trust Deed.</p> <p>Upon the occurrence of a winding-up of the Issuer, the Trustee may (and, subject to certain conditions, if so directed by the requisite majority of the Noteholders shall) give notice to the Issuer that the Notes are, and they shall accordingly become, immediately due and payable by the Issuer at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest and/or prove in the winding-up of the Issuer.</p>
Form	<p>The Notes will be issued in registered form and represented upon issue by a registered global certificate (the “Global Certificate”) which will be registered in the name of a nominee for a common depositary (the “Common Depositary”) for Clearstream Banking, <i>société anonyme</i> (“Clearstream, Luxembourg”) and Euroclear Bank S.A./N.V. (“Euroclear”)</p>

on or about the Issue Date.

Save in limited circumstances, Notes in definitive form will not be issued in exchange for interests in the Global Certificate.

Denomination	The Notes will be issued in denominations of £100,000 each and integral multiples of £1,000 in excess thereof up to (and including) £199,000.
Listing	Admission to listing on the UK Listing Authority's Official List and to trading on the regulated market of the London Stock Exchange.
Ratings	<p>The Notes have been rated A- by Standard & Poor's, a- by A.M. Best and are expected to be assigned ratings of A- by Fitch.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p>
Governing law	The Notes and the Trust Deed, and any non-contractual obligations arising out of or in connection with the Notes or the Trust Deed, will be governed by, and construed in accordance with, English law.
Trustee	HSBC Corporate Trustee Company (UK) Limited
Principal Paying Agent and Registrar	HSBC Bank plc
Selling restrictions	Customary selling restrictions in the U.S. and UK.
Use of Proceeds	The net proceeds of the issue of the Notes will be used to redeem the €300,000,000 5.625 per cent. Fixed/Floating Rate Subordinated Notes due 2024 (of which €213,807,000 principal amount remains outstanding) which the Issuer has called for redemption and to allow for the potential refinancing of the £300,000,000 6.875 per cent. Subordinated Notes due 2025 (of which £153,241,000 principal amount remains outstanding). The remaining net proceeds will be applied for additional financial flexibility under Solvency II and to support strategic initiatives.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons. The Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Capitalised terms which are defined in “Terms and Conditions of the Notes” have the same meaning when used herein.

Factors that may affect the Issuer’s ability to fulfil its obligations under the Notes

The Issuer is indirectly exposed to a range of insurance risks assumed by its members

The Issuer does not itself underwrite insurance and its principal activities include authorising and monitoring market participants (including members of Lloyd’s and managing agents) and agreeing syndicate business plans and monitoring syndicate level systems and controls. The Issuer does not have liability for the risks underwritten by its members, although it may, at its discretion, make its assets (in particular, the Central Fund) available to meet the underwriting liabilities of certain Lloyd’s members where those members are unable to meet these liabilities in full. See “*The Society of Lloyd’s – Resources within the Lloyd’s market and Protection of Policyholders*”.

As a result, the Issuer is indirectly exposed to insurance risk, which includes the risks arising from the underwriting, reinsurance, claims and reserving activities of the Lloyd’s market. This covers the inherent uncertainties about the occurrence, amount and timing of insurance liabilities and premiums and also includes the risk of loss arising from prospective underwriting and the claims development in respect of the reserves established for previous events. These risks are each described in more detail below.

The assessment of reinsurance as part of insurance risk relates to the potential for exhaustion of cover as well as risk of reinsurer dispute or default.

In the event that any one or more members of the Lloyd’s market are materially adversely affected by insurance risk, including each of the separate aspects of insurance risk described below, this could reduce the Issuer’s assets through making available the Central Fund, damage the Issuer’s reputation or lead to a rating downgrade, all of which could result in the loss of existing members or deter potential new members and so reduce the Issuer’s income and the capacity of the Lloyd’s market.

Lloyd’s members maintain reserves for their insurance business which are estimates of the expected future cost of the ultimate settlement of claims and any insufficiency in reserves could adversely affect their income and profitability

Lloyd’s members maintain reserves for their insurance business to cover their estimated ultimate liability for claims and claim adjustment expenses for reported and unreported claims incurred as at the end of each accounting period. Reserving risk arises where the reserves established are not adequate to meet eventual claims arising. The level of uncertainty varies significantly among different classes of insurance business but can arise from inadequate case estimates for reported claims or inadequate provisions for incurred but not reported claims. These shortfalls can arise from inadequate reserving processes or from the naturally uncertain progress of insurance events, including the impact of legislative changes or adverse court decisions.

The Issuer's oversight of reserves at class and syndicate levels includes regular reviews and analyses such as a relative reserve benchmarking exercise. The Issuer actively engages with managing agents to identify exposure. Where the Issuer perceives that a syndicate may have an inadequate reserving process or practice, then it may impose additional requirements on the managing agent of the syndicate, for example explicit capital loadings or more stringent reporting. The Issuer also briefs the Lloyd's market on issues it believes need to be considered, including risks relating to macro influences such as inflation or the general economic environment which are currently considered to be the main risks. In the reserving process, managing agents use a variety of statistical analyses including projections of historical loss development patterns, with results adjusted for expert judgement. There are limits to the effectiveness of these tools, including, in particular, the fact that analysis based on historical trends is unlikely to prove accurate when historically anomalous conditions occur. Lloyd's syndicates have significant exposure to volatile classes of business which carry material inherent risk that the ultimate claims settlement will vary from previous assessments of reserves.

Although the Lloyd's market is currently experiencing only limited specific reserving issues, there is no certainty that this will remain the case.

Lloyd's members are exposed to underwriting risk which could result in their incurring significant losses

Underwriting risk relates to future periods of cover and includes the risk that a policy will be written for too low a premium, provide inappropriate cover or that the frequency or severity of the events insured against will be higher than expected. Underwriting risk includes the risk of catastrophes covered separately below.

Underwriting strategy is agreed by the board of each managing agent and set out in the syndicate business plan which is submitted to the Issuer each year. Approval of business plans and setting capital requirements needed to support those plans are the key controls the Issuer uses to manage underwriting risk. In addition, the Issuer uses a number of other mechanisms for controlling and monitoring insurance risk. These include:

- (i) the use of a risk management framework to manage key risk issues at both Issuer and syndicate level;
- (ii) setting underwriting managements guidelines which cover, inter alia, business planning, underwriting controls and catastrophe exposure;
- (iii) establishing and monitoring underwriting standards, including claims and exposure management principles; and
- (iv) determining appropriate capital requirements for members.

For further detail on these controls, see "*The Society of Lloyd's – Managing the Lloyd's market*".

However, these controls may not be sufficient to ensure all risks are adequately covered. The controls seek to manage risk partly through the use of observed historical market behaviour and statistics based on historical models. These methods may not fully predict future risk exposures, which may be significantly greater than the historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other available information. This information may not always be accurate, complete, up-to-date or properly evaluated. In addition, certain risks could be greater than the available empirical data would otherwise indicate.

Lloyd's members could be exposed to unexpectedly large losses as a result of catastrophic occurrences

Lloyd's members are subject to losses from unpredictable events that may affect multiple covered risks and give rise to unexpected losses which have a material adverse effect on their financial condition, results of operations and cash flows. These events include both natural and man-made events, such as, but not limited to, earthquakes, windstorms, coastal inundation, floods, severe hail, severe winter weather, severe prolonged dry weather, other weather-related events, pandemics, large-scale fires, industrial explosions and other man-made disasters such as civil unrest and terrorist attacks.

The extent of a Lloyd's member's losses from such catastrophic events is a function of their frequency, the severity of each individual event and the reinsurance arrangements the Lloyd's market has in place. Some catastrophes, such as explosions, occur in small geographic areas, while others, including windstorms and floods, may produce significant damage to large, heavily populated and/or widespread areas.

The Issuer and Lloyd's managing agents typically use catastrophe modelling software, where appropriate, to monitor aggregate exposure to catastrophe losses and to estimate exceedance probabilities. Such models are based on generally accepted scientific and engineering theories. The Issuer has also developed a suite of Realistic Disaster Scenarios ("RDSs") to measure syndicate level and aggregate market exposure to both natural catastrophes and man-made losses. See generally "*The Society of Lloyd's - Managing the Lloyd's market*".

However, Lloyd's members' efforts to reduce their exposure to, or appropriately price, or set appropriate underwriting terms for, catastrophic exposure still result in some events producing claims that significantly exceed the reserves held. The frequency and severity of catastrophes are inherently unpredictable and subject to long term external influences, such as climate change, and a single catastrophe or multiple catastrophes in any period could have a material adverse effect on the business, results of operations and financial position of one or more Lloyd's members.

Lloyd's members obtain reinsurance against certain risks and are exposed to any reduced availability of reinsurance and failure by their reinsurers to perform their obligations

Lloyd's members systematically transfer their exposure to certain risks to third parties through reinsurance arrangements which may include inter-syndicate reinsurances. Under these arrangements, other insurers (including members of other Lloyd's syndicates) assume a portion of the relevant member's losses and expenses associated with reported and unreported losses in exchange for a portion of policy premiums.

The availability, amount and cost of reinsurance depend on general market conditions and may vary significantly from time to time. Any increase in a Lloyd's member's reinsurance costs may reduce its net underwriting result if it is unable to pass the increased costs on to its customers and any decrease in the amount of its ceded reinsurance, whether as a result of non-availability of cover or a high cost of cover, will increase its risk of losses. When it obtains reinsurance, a Lloyd's member could still be liable for those transferred risks, in particular if the relevant reinsurance policy is poorly worded, there is a mismatch with the gross loss or the reinsurer is unwilling and/or unable to meet its obligations. Accordingly, Lloyd's members bear risk with respect to their reinsurers and could be faced with a reinsurer's inability or unwillingness to meet its financial obligations when falling due. The Issuer monitors the level of reinsurance risk transfer (and also specifically intra-Lloyd's market reinsurance risk transfer) at market level and has set risk appetite metrics to ensure that the Issuer is able to consider whether it needs to engage with managing agents about any specific issues or concerns.

Lloyd's members are also exposed to credit risk in their investment portfolio (see "*The Issuer and Lloyd's members are exposed to a range of investment risks including market and credit related risks*") and their premium debtors.

The cyclical nature of the general insurance industry may cause fluctuations in the Issuer's results

Historically, the general insurance industry has been subject to cyclical patterns, particularly since demand for property and casualty insurance is usually price-sensitive because of the limited degree of product differentiation inherent in the industry. In the past, this has caused significant cyclical fluctuations and volatility in the results of operations of the general insurance industry. Many of the factors contributing to these cyclical patterns are beyond the direct control of any insurer and therefore unpredictable as to timing and consequence, such as: changes in the macroeconomic environment (including economic downturns) as well as conditions in the credit and other capital markets, which can affect the Issuer's returns on its investments; the timing and/or severity of weather-related or other catastrophic events, which can affect the Lloyd's market's claims and/or losses; changes in the levels of insurance and reinsurance underwriting capacity; and changes in the level and effect of competition.

Current soft market conditions are driven by a number of factors including extremely high levels of insurance capital, the challenging global macro-economic environment (including low interest rates and investment income) and a low level of major insured catastrophes. These conditions affect insurance rates and cause weakening terms and conditions as well as increase the level of competition which the Lloyd's market faces in key markets and as such could affect the Lloyd's market's overall profitability.

The Issuer is facing increased regulation, both within the United Kingdom and overseas

The Issuer is subject to regulation by the PRA and the FCA (see "*The Society of Lloyd's – External Regulation of the Lloyd's market*").

The PRA and the FCA have adopted a more intrusive and direct style of regulation, which means that PRA and/or FCA authorised firms, including the Issuer, are facing increasing supervisory scrutiny. The PRA and the FCA have the power to take a range of investigative, disciplinary and enforcement actions, penalties for which can include public censure, restitution, fines and sanctions. The regulators may also make enquiries of the firms which they regulate and require the provision of particular information or documents. The regulators may take such action or make such enquiries in relation to aspects of the Issuer's business and operations, including its systems and controls, IT systems, capital requirements, capital adequacy and permitted investments. Regulatory action may be specific to the Issuer or part of more general action in respect of firms that operate in the Issuer's sector.

As a result of the authorisations which the Lloyd's market has worldwide, there is also a risk of regulatory action from overseas regulators in the event that the Lloyd's market does not comply with international regulatory requirements. In addition, fundamental changes to prudential regulatory frameworks internationally may affect how the Issuer and the Lloyd's market is supervised as well as affecting the level of assets required to be held locally. There is an increasing regulatory trend to require insurers to hold local capital which may result in increased overseas funding requirements for the Issuer and the Lloyd's market in places where the market is already licenced or as part of negotiating and agreeing new licence arrangements with local regulators as the Issuer implements its strategic plans for increasing the market's share of insurance business in developing markets.

In addition to financial and insurance regulation, the Issuer and the Lloyd's market must comply with anti-money laundering, anti-bribery and corruption and sanctions laws and regulations. The Issuer is committed to working with international organisations, governments, law enforcement agencies, regulators and its industry peers to assist the Lloyd's market with identifying and addressing money laundering, bribery and corruption and sanctions issues. In addition to implementing its own policies and controls, the Issuer also requires managing agents to implement appropriate policies and procedures to ensure compliance with anti-money laundering, anti-bribery and corruption and sanctions laws. Regulatory investigations and/or enforcement actions against the Issuer or the Lloyd's market in relation to anti-money laundering, anti-bribery and corruption and sanctions laws or regulations could result in fines, immediate reputational and regulatory risks, and materially adversely impact the Lloyd's market's business, operations and financial position.

Whilst the Issuer believes that its systems, policies, controls and operations are compliant with applicable laws and regulations, there is a risk that one or more authorities could find that the Issuer has failed to fully comply with all relevant legal and regulatory requirements, or has not undertaken any corrective action as required.

Any regulatory action could have a negative impact upon the Issuer. Regulatory action against the Issuer could result in adverse publicity for, or negative perceptions regarding, the Issuer, or could have an adverse effect on the business of the Issuer, its results of operations or its financial condition. It is not possible to predict the significance of any proceedings that may be brought against, or any investigations that may be conducted into, the Issuer nor is it possible to predict the financial impact of a successful claim, fine or penalty to which the Issuer may become subject.

The Issuer's activities and strategies are based upon prevailing legislation and regulation. Changes in legislation, and differing interpretation and application of regulation, may have a detrimental effect on the Issuer's strategy and profitability.

Any failure by the Issuer to comply with competition legislation could have a material adverse effect on its reputation and prospects

The Issuer is subject to competition legislation and any failure to comply with this legislation could result in the imposition of fines or sanctions or a requirement to make significant changes to the Issuer's business model. The Issuer is required to comply with competition laws and regulations enforced by the Office of Fair Trading (OFT), the UK Competition and Markets Authority and the European Competition Commission. The competition laws and regulations applicable to the Issuer relate to matters such as price fixing, collusion and other forms of anti-competitive behaviour. The FCA also has amongst its objectives the promotion of competition in the UK.

A determination that the Issuer has failed to comply with any applicable laws and/or regulations relating to matters of competition or consumer protection, or any regulatory action in respect thereof could result in fines and losses as well as adverse publicity for the Issuer. This could have a material impact on the Issuer's reputation and its business, financial condition and future prospects.

Capital Adequacy Requirements

The Issuer and its members are required by the PRA to maintain a minimum level of assets in excess of their liabilities (referred to as regulatory capital) (see "*The Society of Lloyd's – Managing the Lloyd's market*"). The Issuer and its members satisfy all of their current regulatory requirements in this regard and as at 30 June 2014, the Issuer had a solvency surplus (i.e. surplus of central assets over liabilities) of £3,215 million. The Issuer and its members' future capital requirements depend on many factors, including their operational results, capital market developments, the volume of newly generated business and regulatory changes to capital requirements or other regulatory developments. The Issuer may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies.

Any inability on the part of the Issuer to meet its regulatory capital requirements in the future would be likely to lead to intervention by the PRA, which could be expected to require the Issuer to take steps to restore the level of regulatory capital held to acceptable levels. Such capital may not be available on commercially favourable terms, or at all. Moreover, should the Issuer's capital fall close to regulatory minimum levels or the Issuer's own internal minimum levels, the Issuer may need to adjust its business practices to preserve its capital. If the Issuer is unable to maintain satisfactory capital adequacy ratios, its credit ratings may also be lowered which could materially adversely affect its business.

Solvency II Implementation

A new solvency regime applicable to the EU insurance sector, known as Solvency II, has been developed with the aim of codifying and harmonising prudential regulation for insurers and applying more consistent risk sensitive standards to insurers' capital requirements. This new framework covers areas such as regulatory capital, the valuation of assets and liabilities, calculating technical provisions and regulatory reporting. The Solvency II Directive will take effect from January 2016. Solvency II was amended by Directive 2014/51/EU ("**Omnibus II**"), which is designed to reflect the revised EU financial services supervisory framework.

The new regime for insurers and reinsurers under Solvency II will be such that these entities may be permitted to make use of internal economic capital models when calculating their capital requirements, provided the prior approval of the relevant regulator has been obtained. The Issuer is seeking the approval of the PRA to enable it to make use of an internal capital model. Were this not to be approved, it is likely that the capital requirements of the Issuer would increase, potentially substantially.

The implementation of Solvency II may lead to increases in the Issuer's capital requirements. In addition, following the implementation of Solvency II, regulators may continue to issue guidance and other interpretations of applicable requirements, which could require further adjustments by the Issuer in the future.

A failure by the Issuer to implement the measures required by Solvency II in a timely manner could also lead to regulatory action and have a material adverse effect on the Issuer's business, results of operations and financial condition.

There is also a risk that the Notes and any capital instruments issued by the Issuer will cease to qualify as regulatory capital (see "*Factors which are material for the purpose of assessing the market risks associated with the Notes - Early redemption*" below). This could require the Issuer to raise additional capital in order to meet its regulatory capital requirements under Solvency II and failure to do so could have a significant impact on the Issuer's business, results of operations and financial condition.

Central Fund

The Issuer holds the Central Fund as mutualised assets available for the protection of policyholders and for complying with regulatory capital requirements.

Application of the Central Fund to meet the underwriting liabilities of members (including the funding of overseas trust funds where required) is at the discretion of the Council of Lloyd's. In the event of a significant failure or failures on the part of members to meet their underwriting liabilities, it is possible that the level of assets in the Central Fund (and therefore the assets available to satisfy policyholder claims) would be substantially reduced and that the level of Lloyd's members' liabilities could exceed the resources available to them.

Equitas was established in 1995 as part of the Reconstruction and Renewal process described in "*The Society of Lloyd's – Reconstruction and Renewal and Equitas*". Equitas is not owned by the Issuer and is independent of the Issuer in its management, operation and structure and it is separately regulated by the PRA. Nevertheless, in the event that Equitas is unable to meet its liabilities in full, this may result in certain Lloyd's members and/or the Issuer becoming financially exposed. In such circumstances the Issuer may decide or be required to apply the Central Fund to cover any resulting financial exposure.

See "*The Society of Lloyd's – Reconstruction and Renewal and Equitas*" for further information.

The Issuer and Lloyd's members are exposed to a range of investment risks including market and credit related risks

Market risk is the risk that the value of financial instruments will fluctuate because of movements in interest rates, foreign currency and asset values; it also captures the risk of investment default and liquidity risk where, although solvent, the obligations of the Issuer or members cannot be met as they fall due.

These risks apply to the Issuer and Lloyd's members and are addressed individually below. As noted in the *Central Fund* section above, where members' liabilities exceed the assets available to meet them, the Central Fund could be substantially reduced.

The Issuer has substantial holdings of fixed income securities and equity securities in the Central Fund (see "*The Society of Lloyd's – Resources within the Lloyd's market and the Protection of Policyholders*"). Fluctuations in the value of such fixed income securities and equity securities, whether as a result of changes in interest rates, currency exchange rates or other factors such as the credit quality of the issuer of a fixed income security or the performance of the issuer of an equity security, will directly or indirectly affect the reported financial results and capital requirements of the business. A significant reduction in the market values of the Issuer's investments may also adversely affect the Issuer's regulatory solvency position.

The Issuer has an Investment Committee which is a committee of the Franchise Board responsible for setting the investment objectives and parameters of centrally managed assets. This committee also monitors the Issuer's investment operations in respect of funds under management and approves all investment counterparties.

Lloyd's members provide capital to support underwriting at Lloyd's, which is held in trust for the benefit of policyholders that are specific to that member only. Premiums received by syndicates are held in premium trust funds and are the first resource for paying policyholder claims. Both member capital and premium trust

funds are subject to the asset rules set out in the PRA's Handbook. Typically, member capital and premium trust funds are invested in money-market and short to medium dated fixed-interest securities of high credit quality. As a result, the value of these assets is also affected by fluctuations in interest rates and currency exchange rates, as well as other factors such as changes in the credit quality of those underlying issuers.

The Issuer has a Financial Risk Committee which is responsible for the oversight of investments and related risks generated by all market participants, including the Central Fund, member capital and premium trust fund. Oversight is supported through the implementation and monitoring of minimum standards for investment governance (for more information on these standards see "*The Society of Lloyd's - Managing the Lloyd's market*").

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. Changes in prevailing capital market interest rates (including changes in the difference between the levels of prevailing short and long-term rates) may adversely affect the Issuer's results and the results of individual Lloyd's members. Movements in both short and long-term interest rates may affect the level and timing of recognition of gains and losses on the debt securities held in the Issuer's investment portfolio or in premium trust funds. An increase in interest rates could substantially decrease the value of the Issuer's fixed-income portfolio and adversely affect the Issuer's investment income and could have a similar effect on premium trust funds. A prolonged decline in interest rates could also adversely affect the Issuer's interest income, or the income derived from premium trust funds, as existing instruments mature and are replaced by lower yielding debt securities. In addition, where corporate bonds are held in an investment portfolio, a credit spread widening, in particular as a result of a credit downgrade, will decrease the market value of the corporate bonds.

Exchange rate risk is the risk of fluctuations in the value of assets and the investment income deriving from them due to changes in foreign exchange rates.

The Issuer seeks to hedge its exposure to changes in foreign exchange rates, but there can be no assurance that such hedging will be effective in protecting the Issuer from such risk.

Managing agents must also identify the main currencies in which each syndicate transacts its business and holds assets in each of those currencies to match the relevant liabilities. The Issuer also reviews the matching of assets to liabilities at the syndicate level as well as at the market level. However, asset and liability matching is an imperfect tool and may not be effective in all circumstances. At 31 December 2013, approximately half of all capital deployed at Lloyd's was provided in U.S. dollars.

Liquidity risk is the risk that the Issuer or its members, though solvent, either do not have sufficient financial resources available to enable them to meet their obligations as they fall due, or can secure them only at excessive cost.

The value and term of short term assets are carefully monitored against the Issuer's liabilities in order to ascertain its likely cash requirements at any given time. The Issuer aims to maintain sufficient liquid assets to meet liabilities as they fall due. In addition, the Issuer maintains committed bank facilities to accommodate unforeseen cash requirements.

However, even a perception among market participants that a financial institution is experiencing greater liquidity risk can cause significant damage to the institution. The Issuer's ability to sell assets at a commercially desirable price or at all may be impaired if other market participants are seeking to sell similar assets at the same time or are not in a position to finance themselves, or when the market value of assets is difficult to ascertain, as occurred at certain times during and since the global financial crisis.

The availability to the Issuer of any additional financing it may need will depend on a variety of factors, such as market conditions, the availability of credit generally, the Issuer's financial condition, its credit ratings and credit capacity, as well as the possibility that lenders could develop a negative perception of the Issuer's financial prospects if, for example, the Issuer or the Lloyd's market incurs large losses, experiences a significant loss of members or if the level of insurance activity decreases materially due to a market

downturn. In particular, the Issuer's access to funds may be impaired if regulatory authorities or rating agencies impose additional regulatory capital requirements or downgrade the Issuer's credit ratings. The Issuer's internal sources of liquidity may prove to be insufficient and, in such case, the Issuer may not be able to successfully obtain additional financing on favourable terms or at all. Any of these developments may limit the Issuer's ability to raise additional capital to support business growth or to counterbalance the consequence of losses or increased regulatory capital requirements, and could have a material adverse effect on the Issuer's business, financial condition, results of operations, liquidity and prospects.

Liquidity risk also 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. Managing agents can request that members of syndicates make funds available to enable them to meet their underwriting liabilities. Members meet these cash call requests from their own resources or from their funds at Lloyd's or, at the Council's discretion, the Central Fund (see "*The Society of Lloyd's – Managing Agents*" and "*The Society of Lloyd's - Resources within the Lloyd's market and the Protection of Policyholders*").

The Issuer 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. However, no assurance is provided that these measures will be effective in all circumstances and Lloyd's members have in the past and are expected in the future to continue to experience liquidity shortfalls.

Credit risk is the risk of exposure to loss if another party fails to perform its financial obligations to the Issuer, particularly where proceeds from its investments are not available as expected.

As at 30 June 2014, the Issuer's cash and cash equivalent with banks amounted to £325m. Although the Issuer has risk management controls in place which are designed to ensure that its counterparties are credit worthy and its assets are appropriately diversified, these controls may not always prove to be effective in practice. As a result, the Issuer could experience losses, which could be significant, in the event of a default by one or more of its counterparties on their obligations due to bankruptcy, lack of liquidity, downturns in the economy, operational failure or other reasons, or even in the event of rumours about potential defaults by one or more of these counterparties or regarding the financial services industry. These losses could include actual losses from defaults, market value losses due to credit deterioration or other reasons and impairment losses.

The Issuer centrally monitors the quality of syndicate assets. However, no assurance is provided that these measures will be effective in all circumstances and Lloyd's members have in the past and are expected in the future to continue to experience losses as a result of credit deterioration, impairment or default from their financial investment counterparties.

The Issuer's internal controls may not be sufficient in certain circumstances to adequately monitor the size and type of operations carried out by the Issuer

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures, natural disasters or the failure of external systems (for example, those of the Issuer's counterparties or vendors). Key risks include the potential for major operational disruption to impact the Issuer, damage to the Lloyd's building, risks associated with human resources, information systems, supplier management and the provision of adequate processing functions to the Lloyd's market. The Issuer has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks the Issuer faces. Losses from the failure of the Issuer's system of internal controls could have a material adverse effect on its business, financial condition, results of operations and prospects and could materially adversely affect its reputation.

The failure of any of the Issuer's or Lloyd's market's key outsource providers could lead to significant business disruption for the Lloyd's market and lead to the market being unable to maintain operations and services to policyholders

Managing agents outsource premium and claims processing services to Xchanging Ins-sure Services ("XIS"). The Issuer also has contracts with XIS in relation to the provision of information to support the Issuer's tax and regulatory processes. A sustained failure of XIS or major disruption of those services, for example as a result of an outage of key IT systems, could lead to significant business disruption for the Lloyd's market (for example, managing agents' ability to submit and process premiums and claims) and lead to the market being unable to maintain operations and services to policyholders.

The Lloyd's market faces strong competition which could adversely impact its profitability

In line with other participants in the global insurance industry, the Lloyd's market faces strong competition in all of its main areas of business. Its continuing profitability depends upon an adequate response to such competition. The Lloyd's market's ability to generate an appropriate return depends upon its capacity to anticipate and respond appropriately to these competitive pressures, and a failure to do so may have a material adverse effect on the market's business, results of operations and financial condition.

The Lloyd's market is exposed to unstable economic, financial and political developments

Like other general insurers, the Lloyd's market is affected by changes in the economic, financial and political climate. For example, the Lloyd's market is exposed to a general economic downturn in its major markets which could result in an increase in reported claims, policy lapses and policy withdrawals. In addition, in times of adverse economic conditions, the Lloyd's market is exposed to an increase in fraudulent claims by customers, all of which could increase claims costs and reduce premium income. This could cause the Lloyd's market's results to deteriorate and could affect the Issuer's financial condition and ability to meet its solvency requirements in the event that the Issuer applies the Central Fund to meet members' underwriting liabilities.

Growth and expansion into developing markets are a core part of the Issuer's Vision 2025, see "*The Society of Lloyd's – Managing the Lloyd's market*". In addition to continuing to access cross-border reinsurance from London, the Issuer is considering how it may increase the Lloyd's market's share of insurance business in developing markets. However, political and economic instability is increasing across some of the issuer's target developing economies and this may pose a threat to the Issuer as it looks for alternative areas for market growth.

The Issuer may not be successful in pursuing its strategy

The Issuer has developed a vision, Vision 2025, which sets out the strategic direction for the Lloyd's market in the context of long-term industry trends and the challenges which the Lloyd's market faces in the current global economy. The Issuer's strategic plan identifies the steps that are being taken to deliver Vision 2025 and identifies six major priorities which are market oversight, international growth, distribution, capital and convergence, market operations and market talent. However, in pursuing this strategy the Issuer faces risks arising from changes in evolving market conditions, particularly distribution and non-traditional capital. In relation to the former, to access the widest range of potential business, the breadth of distribution options available to the Lloyd's market needs to increase through growth in all existing channels (brokers; coverholders; service companies and Lloyd's local underwriting offices) as well as managing agents giving consideration to new options (such as joint ventures with local reinsurers). In relation to the latter, the growth of non-traditional products and capital and continued concentration in the broker market are now established features of the reinsurance industry and the Lloyd's market will need to understand the risks and opportunities this represents and react appropriately. The Issuer's business model could be impacted if it fails to respond to these changing market conditions, in particular business being transacted differently or not reaching the Lloyd's market.

Changes in the Issuer's insurer financial strength credit ratings may adversely affect Lloyd's members

Credit ratings are an important factor in the Issuer's competitive position. Rating organisations assign ratings based upon a variety of factors according to published criteria, while most of the factors relate to the rated entity including the level of capital, diversity of insurance risk and mix of insurance assets, some of the factors relate to general economic conditions and other circumstances outside the rated entity's control.

Currently, the Issuer's insurer financial strength ratings are A+ (Strong) with a stable outlook from Standard & Poor's, AA- (Very Strong) with a stable outlook from Fitch and a (Excellent) with a positive outlook from A.M. Best (see "*The Society of Lloyd's*"). These ratings reflect the current opinions of the rating agencies and remain subject to change. There can be no assurance that the Issuer will be able to maintain its current credit ratings.

A downgrade of any of the Issuer's insurer financial strength ratings could lead brokers to stop recommending the Lloyd's market to their clients and lead to the loss of other customers whose confidence in the Issuer may be affected or whose policies require insurance with a certain rating.

A downgrade could also impact the terms and availability of financing and access to the debt capital markets.

A downgrade of any of the Issuer's financial strength credit ratings, and the related consequences described above, could have a material adverse effect on the Issuer's business, prospects, financial condition and results of operations.

Loss of business reputation or negative publicity could negatively impact the Issuer's business and results of operations

The Issuer's success is dependent on the strength and reputation of the Issuer and its brand. The Issuer is vulnerable to adverse market perception because it operates in an industry where integrity and customer trust and confidence are paramount. The Issuer is exposed to the risk that litigation, employee misconduct, operational failures, regulatory or other investigations or actions, press speculation and negative publicity, whether or not well founded, could damage its brand or reputation. The Issuer's reputation may also be adversely affected by negative publicity associated with those that it insures and by the actions of members of the Lloyd's market.

Any damage to the Issuer's brand or reputation could cause existing customers, partners or intermediaries to withdraw their business from the Issuer or the Lloyd's market and potential customers, partners or intermediaries to elect not to do business with the Issuer or the Lloyd's market and could also make it more difficult for the Issuer to attract and retain qualified employees. Such damage to the Issuer's brand or reputation could cause disproportionate damage to the Issuer's business, even if the negative publicity is factually inaccurate or unfounded.

Factors which are material for the purpose of assessing the market risks associated with the Notes

Risks related to the structure of the Notes

The Issuer's obligations under the Notes are subordinated

The Issuer's obligations under the Notes will constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. In the event of a winding-up of the Issuer the payment obligations of the Issuer under the Notes will be subordinated to the claims of all Senior Creditors of the Issuer but will rank at least *pari passu* with all other subordinated obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 2 Capital (issued on or after Solvency II Implementation) and will rank in priority to the claims of holders of all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Upper Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 1 Capital and the distribution of any Central Assets to members of Lloyd's generally.

Although the Notes may pay a higher rate of interest than comparable notes which are not subordinated, there is a significant risk that an investor in the Notes will lose all or some of its investment should the Issuer become insolvent.

Holders of the Notes are advised that unsubordinated liabilities of the Issuer may also arise out of events that are not reflected on the balance sheet of the Issuer including, without limitation, the issuance of guarantees on an unsubordinated basis. Claims made under such guarantees will become unsubordinated liabilities of the Issuer that in a winding-up of the Issuer will need to be paid in full before the obligations under the Notes may be satisfied.

Payments by the Issuer are conditional upon satisfaction of solvency requirements

Other than in the circumstances set out in Condition 3.2(b) and without prejudice to Condition 10.1(b), all payments by the Issuer under or arising from the Notes and the Trust Deed shall be conditional upon the Issuer being Solvent at the time for payment by the Issuer, and no amount shall be payable under or arising from the Notes and the Trust Deed unless and until such time as the Issuer could make such payment and still be Solvent immediately thereafter. For these purposes, the Issuer will be Solvent if (i) it is able to pay its debts owed to Senior Creditors and Pari Passu Creditors of the Issuer as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons who are not Senior Creditors). If any payment of interest, Arrears of Interest and/or principal cannot be made by the Issuer in compliance with Condition 3.2(a), payment of such amounts will be deferred, and such deferral will not constitute a default under the Notes for any purpose.

Interest payments under the Notes must be deferred under certain circumstances

Payment of interest on the Notes by the Issuer will be mandatorily deferred on any Mandatory Interest Deferral Date, being an Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date. In addition, the Issuer is required to defer any payment of interest on the Notes in the event that it cannot make such payment in compliance with Condition 3.2(a).

The deferral of interest as described above does not constitute a default under the Notes for any purpose. Any interest so deferred shall, for so long as the same remains unpaid, constitute Arrears of Interest. Arrears of Interest do not themselves bear interest. Arrears of Interest may, subject to certain conditions, be paid by the Issuer at any time upon notice to Noteholders, but in any event shall be payable, subject to Condition 3.2(a) and satisfaction of the Regulatory Clearance Condition, on the earliest to occur of (a) the next Interest Payment Date which is not a Mandatory Interest Deferral Date on which payment of interest in respect of the Notes is made or is required to be made (other than a voluntary payment by the Issuer of any Arrears of Interest), (b) the date on which a winding-up occurs or (c) any redemption of the Notes pursuant to Condition 7 (subject to any deferral of such redemption date pursuant to Condition 7.2) or Condition 10.

Any actual or anticipated deferral of interest payments will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest deferral provision of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such deferral and may be more sensitive generally to adverse changes in the Issuer's financial condition.

Redemption payments under the Notes must be deferred, under certain circumstances

Notwithstanding the expected maturity of the Notes on the Maturity Date, the Issuer must defer redemption of the Notes on the Maturity Date or on any other date set for redemption of the Notes pursuant to Conditions 7.4 and 7.5(i) in the event that it cannot make the redemption payments in compliance with Condition 3.2(a) or (ii) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed by the Issuer on such date or (iii) in the event that it cannot make the redemption payments in compliance with the Regulatory Clearance Condition.

The deferral of redemption of the Notes does not constitute a default under the Notes for any purpose. Where redemption of the Notes is deferred, subject to certain conditions, the Notes will be redeemed by the Issuer on

the earliest of (A)(i) the date falling 10 Business Days following the day that the Issuer is Solvent and the redemption of the Notes will not result in the Issuer ceasing to be Solvent, or (ii) the date falling 10 Business Days (x) following cessation of the Regulatory Deficiency Redemption Deferral Event, or (y) after the PRA has agreed to the repayment or redemption of the Notes or (iii) the date falling 10 Business Days following the day on which the Regulatory Clearance Condition is satisfied and (B) the date on which a winding-up of the Issuer occurs.

Any actual or anticipated deferral of redemption of the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the redemption deferral provision of the Notes, including with respect to deferring redemption on the scheduled Maturity Date, the market price of the Notes may be more volatile than the market prices of other debt securities without such deferral feature, including dated securities where redemption on the scheduled maturity date cannot be deferred, and the Notes may accordingly be more sensitive generally to adverse changes in the Issuer's financial condition.

Early redemption

The Notes may, subject as provided in Condition 7 (including the PRA's prior consent), at the option of the Issuer, be redeemed at their principal amount, together with any Arrears of Interest and any other accrued but unpaid interest to (but excluding) the date of redemption, before the Maturity Date (i) in the event of certain circumstances affecting the tax treatment of the Notes or payments thereunder or (ii) following the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Capital Disqualification Event or a Ratings Methodology Event; provided that, (a) in the case of a Ratings Methodology Event, the Notes will not be redeemed prior to the fifth anniversary of the Issue Date and (b) in the case of any redemption prior to the fifth anniversary of the Issue Date, the Relevant Rules are complied with and the Notes are exchanged for, or redeemed out of the proceeds of a new issue of, capital of the same or higher quality (unless Solvency II is implemented without such requirement).

A Capital Disqualification Event will occur if, as a result of any replacement of or change to (or change to the interpretation by any court or authority entitled to do so of) Solvency II or the Relevant Rules or following the implementation of Solvency II, the Notes cease to qualify in full for recognition in the capital resources of the Issuer. As discussed in greater detail in the section of this Prospectus entitled "*The Society of Lloyd's - Managing the Lloyd's market*", the Solvency II framework for insurance companies will take effect from 1 January 2016. This will, amongst other things, set out features which any instruments (including subordinated notes) must have in order to qualify as regulatory capital. These features may be different and/or more onerous than those currently applicable to insurance companies in the United Kingdom and contained in the Notes. The finalised details of these features are not expected to be known until the Level 2 delegated acts, which are expected to take the form of an EU Regulation, are presented to and approved by the European Parliament and the Council (it is currently expected that these will be published later this year, and that they will be approved by the end of 2014). Accordingly, there is a risk that after the issue of the Notes, a Capital Disqualification Event may occur which would entitle the Issuer, with the consent (or non-objection) of the PRA if then required by the PRA, to redeem the Notes early at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest.

An investor may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Variation or substitution of the Notes without Noteholder consent

Subject as provided in Condition 7, the Issuer may, at its option and without the consent or approval of the Noteholders, elect to substitute the Notes for, or vary the terms of the Notes so that they become or remain, Qualifying Tier 2 Securities or Rating Agency Compliant Securities (as the case may be) at any time in the event of certain circumstances affecting the tax treatment of the Notes or payments thereunder due to a change in applicable law or regulation or the official interpretation thereof, or following the occurrence of (or

if the Issuer satisfies the Trustee that there will occur within six months) a Capital Disqualification Event or a Ratings Methodology Event.

Restricted remedy for non-payment when due

The sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Conditions) any Noteholder for recovery of amounts which have become due in respect of the Notes will be the institution of proceedings for the winding-up in England (but not elsewhere) of the Issuer and/or proving in any winding-up of the Issuer and/or claiming in the liquidation of the Issuer.

Modification and waivers

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Conditions also provide that the Trustee may, without the consent of Noteholders, agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed in the circumstances described in Condition 13.2.

No limitation on issuing senior or pari passu securities

There is no restriction on the amount of securities which the Issuer may issue, which securities rank senior to, or *pari passu* with, the Notes. The issue of any such securities may reduce the amount recoverable by Noteholders on a winding-up of the Issuer and/or may increase the likelihood of a deferral of interest and/or redemption payments under the Notes. Accordingly, in the winding-up of the Issuer and after payment of the claims of their respective senior ranking creditors, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders.

Change of law

The Conditions are based on English law in effect as at the date of issue of the Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the Notes.

Risks related to the market generally

Absence of public markets for the Notes

The Notes constitute a new issue of securities by the Issuer. Prior to this issue, there will have been no public market for the Notes. Although application has been made for the Notes to be admitted to the Official List and to trading on the Market, there can be no assurance that an active public market for the Notes will develop and, if such a market were to develop, the Joint Lead Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Notes can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and other factors that generally influence the market prices of securities.

Exchange rate risks and exchange controls

Payments of principal and interest on the Notes will be made in sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to sterling would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

The Notes bear interest at a fixed rate. An investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Payments on the Notes may be subject to FATCA Withholding

Certain provisions of U.S. law, commonly known as “**FATCA**”, impose a new reporting and withholding regime with respect to (i) certain U.S. source payments, (ii) gross proceeds from the disposition of property that can produce U.S. source interest and dividends and (iii) certain payments made by, and financial accounts held with, entities that are classified as foreign financial institutions for purposes of FATCA. Whilst the Notes are in global form and held within Euroclear or Clearstream, Luxembourg (together, the “**ICSDs**”), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs (see “*Taxation – FATCA*”). However, FATCA may affect payments made to custodians or intermediaries (including any clearing system other than the ICSDs) in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payments to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives a payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA, including any legislation implementing an intergovernmental agreement entered into pursuant to FATCA, if applicable) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer’s obligations under the Notes are discharged once it has paid the Common Depositary for the ICSDs and therefore the Issuer does not have any responsibility for any amount thereafter transmitted through hands of the ICSDs and custodians or intermediaries.

A holder may be subject to the provisions of the EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”), each EU Member State is required to provide to the tax authorities of other EU Member States details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for the benefit of, an individual resident or certain limited types of entity established in another EU Member State; however, for a transitional period, Austria and Luxembourg will instead apply a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise.

Luxembourg has announced its intention to elect out of the withholding tax system as from 1 January 2015 in favour of an automatic exchange of information.

A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The Council of the European Union formally adopted a Council Directive amending the Savings Directive on 24 March 2014 (the “**Amending Directive**”). The Amending Directive, when implemented, will amend and broaden the scope of the requirements of the Savings Directive described in this risk factor above. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with the Amending Directive by 1 January 2016, which legislation must apply from 1 January 2017. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any

third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Furthermore, once the Amending Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

The Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any law implementing or complying with, or introduced in order to conform to such Directive.

Investors who are in any doubt as to their position should consult their professional advisers.

Credit ratings may not reflect all risks

The credit ratings assigned to the Notes may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. In addition, credit rating methodologies for rating subordinated debt, in particular, may change in the future. Any such change in methodology may lead to a reduction in the rating assigned to the Notes or an increase in the rating assigned to unsubordinated debt instruments by comparison. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Investors must rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer

The Notes will be represented by the Global Certificate upon issue. The Global Certificate will be registered in the name of a nominee for the Common Depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg and will receive and provide any notices only through Euroclear or Clearstream, Luxembourg.

While the Notes are represented by the Global Certificate, the Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the registered holder as nominee for the Common Depository for Euroclear or Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with:

- (a) the annual financial statements of the Issuer's group for the financial year ended 31 December 2012 audited by Ernst & Young LLP, together with the audit report thereon (which appear at pages 91 to 129 (inclusive) of the Issuer's Annual Report 2012);
- (b) the annual financial statements of the Issuer's group for the financial year ended 31 December 2013 audited by PricewaterhouseCoopers LLP, together with the audit report thereon (which appear at pages 98 to 144 (inclusive) of the Issuer's Annual Report 2013);
- (c) the pro forma financial statements of the Lloyd's market for the financial year ended 31 December 2012, together with the report of Ernst & Young LLP thereon carried out in accordance with the International Standard on Assurance Engagements, ISAE 3000 (which appear at pages 43 to 54 (inclusive) of the Issuer's Annual Report 2012);
- (d) the pro forma financial statements of the Lloyd's market for the financial year ended 31 December 2013, together with the report of PricewaterhouseCoopers LLP thereon carried out in accordance with the International Standard on Assurance Engagements, ISAE 3000 (which appear at pages 45 to 56 (inclusive) of the Issuer's Annual Report 2013);
- (e) the interim financial statements of the Issuer's group for the six months ended 30 June 2014 (which appear at pages 17 to 41 (inclusive) of the Issuer's interim report for the six months ended 30 June 2014);
- (f) the pro forma financial statements of the Lloyd's market for the six months ended 30 June 2014 (which appear at pages 6 to 13 (inclusive) of the Issuer's interim report for the six months ended 30 June 2014);

which have been previously published or are published simultaneously with this Prospectus and which have been approved by the FCA or filed with it. Such documents shall be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Those parts of the documents incorporated by reference in this Prospectus which are not specifically incorporated by reference in this Prospectus are either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the website of the Regulatory News Service operated by the London Stock Exchange at: <http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html>.

TERMS AND CONDITIONS OF THE NOTES

The following is the text (save for paragraphs in italics) of the Terms and Conditions of the Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Notes:

The issue of the £500,000,000 Fixed Rate Subordinated Notes due 2024 (the “**Notes**”, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 15 and forming a single series with the Notes) of the Society of Lloyd’s (the “**Issuer**”) was authorised by a resolution of the Council of Lloyd’s passed on 24 September 2014. The Notes are constituted by a Trust Deed dated 30 October 2014 (the “**Trust Deed**”) made between the Issuer and HSBC Corporate Trustee Company (UK) Limited (the “**Trustee**”, which expression shall include its successor(s)) as trustee for the holders of the Notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 30 October 2014 (the “**Agency Agreement**”) made between the Issuer, HSBC Bank plc (the “**Registrar**”, which expression shall include its successor(s)) as registrar, HSBC Bank plc (the “**Principal Paying Agent**”, which expression shall include its successor(s)) as principal paying agent and agent bank, the other Agents, HSBC Bank plc (the “**Transfer Agent**”, which expression shall include its successor(s)) as transfer agent and the Trustee are available for inspection during normal business hours by the Noteholders at the registered office for the time being of the Trustee (being, as at the Issue Date, at 8 Canada Square, London E14 5HQ) and at the specified office of each of the Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

The owners shown in the records of each of Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme of book-entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1 Form, Denomination and Title

1.1 Form and Denomination

The Notes are issued in registered form in amounts of £100,000 and higher integral multiples of £1,000 (referred to as the “**principal amount**” of a Note, and references in these Conditions to “**principal**” in relation to a Note shall be construed accordingly). A note certificate (each a “**Certificate**”) will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar (the “**Register**”).

1.2 Title

Title to the Notes passes only by registration in the Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, “**Noteholder**” and (in relation to a Note) “**holder**” means the person in whose name a Note is registered in the Register.

2 Transfers of Notes and Issue of Certificates

2.1 Transfers

A Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or the Transfer Agent.

2.2 Delivery of new Certificates

Each new Certificate to be issued upon a transfer of Notes will, within five Business Days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer.

Except in the limited circumstances described in this Prospectus (see “The Global Certificate—Transfers and Exchange”), owners of interests in the Notes will not be entitled to receive physical delivery of Certificates.

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the balance of Notes not so transferred will, within five Business Days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of any Notes will be effected without charge by or on behalf of the Issuer or any Agent but upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal, interest or Arrears of Interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

3 Status of the Notes

3.1 Status

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders are subordinated as described in Condition 3.2.

3.2 Solvency and Subordination

- (a) Other than in the circumstances set out in Condition 3.2(b) and without prejudice to Condition 10.1, payments of all amounts by the Issuer under or arising from the Notes and the Trust Deed (other than payments made to the Trustee acting on its own account under the Trust Deed) shall be mandatorily deferred unless the Issuer is Solvent at the time for payment by the Issuer and unless and until such time as the Issuer could make such payment and still be Solvent immediately thereafter.

A certificate as to solvency of the Issuer signed by two Authorised Signatories of the Issuer or, if there is a winding-up or administration of the Issuer, by two authorised signatories of the liquidator of the Issuer shall be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof, shall be binding on all such persons and the Trustee shall be entitled to rely on such certificate without liability to any person.

- (b) The claims of the Noteholders will, in the event of the winding-up of the Issuer, rank junior to the claims of all Senior Creditors, in the manner provided in the Trust Deed and thus will rank:
- (i) junior to (A) any payment (other than an Excluded Payment) made for the purpose of extinguishing or reducing any liability of a member of Lloyd's arising out of or in connection with insurance business carried on at Lloyd's by that member of Lloyd's or (B) any payment made to a member of Lloyd's in its capacity as a Senior Creditor or (C) any other Senior Creditors;
 - (ii) at least *pari passu* with all claims of holders of all other subordinated obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital (issued prior to Solvency II Implementation, and as of the Issue Date includes the LT2 Subordinated Notes) or Tier 2 Capital (issued on or after Solvency II Implementation) and all obligations which rank, or are expressed to rank, *pari passu* therewith ("**Pari Passu Securities**"); and
 - (iii) in priority to (A) the claims of holders of all obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Upper Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 1 Capital (including, without limitation, by virtue of the operation of any applicable grandfathering provisions under Solvency II or the Relevant Rules, as appropriate, and as of the Issue Date includes the T1 Notes) and all obligations which rank, or are expressed to rank, *pari passu* therewith; and (B) the distribution of any Central Assets to members of Lloyd's generally.

In the event of the winding-up of the Issuer, the amount in respect of a Note that a holder will receive will be less than the principal amount of such Note, together with any accrued and unpaid interest and additional amounts, unless the Issuer has Assets remaining after payment of and/or provision for the claims of all Senior Creditors in full and such Assets are sufficient to pay and/or provide for any claims ranking pari passu with the claims of the Noteholders and the payments required to be made in respect of the Notes, in each case in full.

Nothing in this Condition 3.2 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

3.3 Set-off

Subject to applicable law, no Noteholder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Notes whether prior to or in a bankruptcy or winding-up and each Noteholder and the Trustee, on behalf of each Noteholder, shall, by virtue of his holding of any Notes, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Noteholder by the Issuer in respect of, or arising from, the Notes is discharged by set-off, counterclaim, compensation or retention, such set-off, counterclaim, compensation or retention will be deemed not to have taken place and such Noteholder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, if appropriate, the liquidator in the Issuer's winding-up).

4 Interest

4.1 Interest Rate

Each Note bears interest on its principal amount at the rate of 4.75 per cent. per annum from (and including) the Issue Date in accordance with provisions of this Condition 4.

Subject to Conditions 3.2(a) and 5, interest shall be payable on the Notes annually in arrear on each Interest Payment Date, in each case as provided in this Condition 4.

4.2 Interest Accrual

Interest shall cease to accrue on each Note on the due date for redemption (which due date shall, in the case of deferral of a redemption date in accordance with Condition 7.2, be the latest date to which redemption of the Notes is so deferred) unless payment is improperly withheld or refused, in which event interest shall continue to accrue (in each case, both before and after judgment) as provided in the Trust Deed.

4.3 Calculation of Interest

Where it is necessary to compute an amount of interest in respect of any Note during an Interest Period, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next (or first) scheduled Interest Payment Date.

Interest shall be calculated per £1,000 in principal amount of the Notes (the “**Calculation Amount**”) by applying the rate of interest to such Calculation Amount, multiplying the resulting figure by the day count fraction described in the immediately preceding paragraph and rounding the resultant figure to two decimal places (with 0.005 being rounded up).

4.4 Principal Paying Agent

So long as any of the Notes remain outstanding, the Issuer will maintain a Principal Paying Agent. The Issuer may, with the prior written approval of the Trustee, from time to time replace the Principal Paying Agent with another leading financial institution in London. If the Principal Paying Agent is unable or unwilling to continue to act as the Principal Paying Agent, the Issuer shall forthwith appoint another leading financial institution in London approved in writing by the Trustee to act as such in its place.

5 Deferral of Interest

5.1 Mandatory Deferral of Interest

Payment of interest on the Notes by the Issuer will be mandatorily deferred on each Mandatory Interest Deferral Date. The Issuer shall notify the Noteholders, the Trustee and the Principal Paying Agent of any Mandatory Interest Deferral Date as provided in Condition 5.5 (provided that failure to make such notification shall not oblige the Issuer to make payment of such interest, or cause the same to become due and payable, on such date).

A certificate signed by two Authorised Signatories confirming that (a) a Regulatory Deficiency Interest Deferral Event has occurred and is continuing, or would occur if payment of interest on the Notes were to be made on the relevant Interest Payment Date or (b) a Regulatory Deficiency Interest Deferral Event has ceased to occur and/or payment of interest on the Notes on the relevant Interest Payment Date would not result in a Regulatory Deficiency Interest Deferral Event occurring, shall be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof, shall be binding on all such persons and the Trustee shall be entitled to rely on such certificate without liability to any person.

5.2 No default

Notwithstanding any other provision in these Conditions or the Trust Deed, any payment which for the time being is not made by virtue of Condition 3.2(a) or Condition 5.1 shall not constitute a default for any purpose (including, but without limitation, Condition 10.1) on the part of the Issuer and will not give the Noteholders or the Trustee any right to accelerate the Notes.

5.3 Arrears of Interest

Any interest on the Notes not paid on an Interest Payment Date as a result of the obligation of the Issuer to defer such payment of interest pursuant to Condition 5.1 or the inability of the Issuer to make such payment of interest pursuant to Condition 3.2(a) shall (without double-counting), together with any other interest not paid on any earlier Interest Payment Dates, to the extent and so long as the same remains unpaid, constitute “**Arrears of Interest**”. Arrears of Interest shall not themselves bear interest.

5.4 Payment of Arrears of Interest

Any Arrears of Interest may (subject to Condition 3.2(a) and to satisfaction of the Regulatory Clearance Condition) be paid by the Issuer in whole or in part at any time upon the expiry of not less than 14 days’ notice to such effect given by the Issuer to the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 12 and in any event will become due and payable by the Issuer (subject, in the case of (a) and (c) below, to Condition 3.2(a) and to satisfaction of the Regulatory Clearance Condition) in whole (and not in part) upon the earliest of the following dates:

- (a) the next Interest Payment Date which is not a Mandatory Interest Deferral Date on which payment of interest in respect of the Notes is made or is required to be made pursuant to these Conditions (other than a voluntary payment by the Issuer of any Arrears of Interest); or
- (b) the date on which an order is made by any competent court or a resolution is passed for the winding-up of the Issuer; or
- (c) the date fixed for any redemption or purchase of Notes pursuant to Condition 7 (subject to any deferral of such redemption date pursuant to Condition 7.2) or Condition 10.

5.5 Notice of Deferral

The Issuer shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 12 not less than five Business Days prior to an Interest Payment Date:

- (i) if that Interest Payment Date is a Mandatory Interest Deferral Date and specifying that interest will not be paid because a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date, provided that if a Regulatory Deficiency Interest Deferral Event occurs less than five Business Days prior to an Interest Payment Date, the Issuer shall promptly give notice of the interest deferral in accordance with Condition 12 following the occurrence of such event; or
- (ii) if payment of interest is to be deferred on that Interest Payment Date only as a result of the non-satisfaction of Condition 3.2(a) and specifying the same, provided that if the Issuer becomes aware of such non-satisfaction of Condition 3.2(a) less than five Business Days prior to an Interest Payment Date, the Issuer shall promptly give notice of the interest deferral in accordance with Condition 12 following it becoming so aware.

6 Payments

6.1 Payments in respect of Notes

Payment of principal and interest (including Arrears of Interest) will be made by transfer to the registered account of the relevant Noteholder. Payments of principal, and payments of interest and Arrears of Interest due at the time of redemption of the Notes, will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Save as provided in the previous

sentence, interest and Arrears of Interest due for payment on the Notes will be paid to the holder shown on the Register at the close of business on the date (the “**record date**”) being the second day before the due date for the relevant payment.

For the purposes of this Condition 6, a Noteholder’s registered account means the sterling account maintained by or on behalf of it with a bank that processes payments in sterling, details of which appear on the Register at the close of business, in the case of principal, and of interest and Arrears of Interest due at the time of redemption of the Notes, on the second Business Day before the due date for payment and, in the case of any other payment of interest and Arrears of Interest, on the relevant record date.

6.2 Payments subject to applicable laws

Save as provided in Condition 8, payments will be subject in all cases to (i) any other applicable fiscal or other laws and regulations in the place of payment or other laws and regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 to 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

6.3 No commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition 6.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated on the Business Day preceding the due date for payment or, in the case of a payment of principal, or of a payment of interest or Arrears of Interest due at the time of redemption of the Notes, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day or if the Noteholder is late in surrendering its Certificate (in circumstances where it is required to do so).

6.5 Partial payments

If the amount of principal or interest (including Arrears of Interest) which is due on the Notes is not paid in full, the Registrar will annotate the Register with a record of the amount of principal or interest in fact paid.

6.6 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents, provided that the Issuer will at all times maintain:

- (a) a Principal Paying Agent;
- (b) an Agent (which may be the Principal Paying Agent) having a specified office in a European city;
- (c) a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;

- (d) a Registrar; and
- (e) a Transfer Agent.

Notice of any termination or appointment and of any changes in specified offices of any of the Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

7 Redemption, Substitution, Variation and Purchase

7.1 Redemption at Maturity

Subject to Condition 7.2 and Condition 7.7 and to satisfaction of the Regulatory Clearance Condition, unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 30 October 2024 (the “**Maturity Date**”) together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the Maturity Date.

7.2 Deferral of redemption date

Deferral due to the occurrence of a Regulatory Deficiency Redemption Deferral Event

- (a) No Notes shall be redeemed on the Maturity Date pursuant to Condition 7.1 or prior to the Maturity Date pursuant to Conditions 7.4 or 7.5 if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption was made pursuant to Condition 7 and redemption shall instead be deferred in accordance with the provisions of this Condition 7.2.
- (b) The Issuer shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 12 no later than five Business Days prior to any date set for redemption of the Notes if such redemption is to be deferred in accordance with Condition 7.2(a) above, provided that if a Regulatory Deficiency Redemption Deferral Event occurs less than five Business Days prior to the date set for redemption, the Issuer shall promptly give notice of such deferral in accordance with Condition 12 following the occurrence of such event.
- (c) If redemption of the Notes does not occur on the Maturity Date or, as applicable, the date specified in the notice of redemption by the Issuer under Condition 7.4 or 7.5 as a result of Condition 7.2(a) above, the Issuer shall (subject, in the case of (i) and (ii) below only, to Condition 3.2(a) and to satisfaction of the Regulatory Clearance Condition) redeem such Notes at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest, upon the earliest of:
 - (i) the date falling 10 Business Days after the date the Regulatory Deficiency Redemption Deferral Event has ceased (unless on such 10th Business Day a further Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or redemption of the Notes on such date would result in a Regulatory Deficiency Redemption Deferral Event occurring, in which case the provisions of Condition 7.2(a) and this Condition 7.2(c) will apply *mutatis mutandis* to determine the due date for redemption of the Notes); or
 - (ii) the date falling 10 Business Days after the PRA has agreed to the repayment or redemption of the Notes; or
 - (iii) the date on which an order is made by any competent court or a resolution is passed for the winding-up of the Issuer.

The Issuer shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 12 no later than five Business Days prior to any such date set for redemption pursuant to (i) or (ii) above.

Deferral due to non-satisfaction of Condition 3.2(a)

If, on any date scheduled for redemption of the Notes pursuant to these Conditions, the Issuer is not required to defer redemption of the Notes by virtue of a Regulatory Deficiency Redemption Deferral Event but is required to defer redemption of the Notes as a result of the non-satisfaction of Condition 3.2(a) at such time, then:

- (i) the Issuer shall promptly notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 12 after it becomes aware that Condition 3.2(a) will not be, or is not, satisfied on the scheduled redemption date and that, accordingly, such redemption of the Notes will be, or has been, deferred; and
- (ii) the Issuer shall (subject in the case of (A) below only, to Condition 3.2(a) and satisfaction of the Regulatory Clearance Condition) redeem the Notes at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest, upon the earliest of:
 - (A) the date falling 10 Business Days immediately following the day that (x) the Issuer is Solvent and (y) the redemption of the Notes would not result in the Issuer ceasing to be Solvent (provided that if on such 10th Business Day a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if the Notes were to be redeemed, then the Notes shall not be redeemed on such date and Conditions 3.2(a) and 7.2(c) shall apply *mutatis mutandis* to determine the due date for redemption of the Notes); and
 - (B) the date on which an order is made by any competent court or a resolution is passed for the winding-up of the Issuer.

The Issuer shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 12 no later than five Business Days prior to any such date set for redemption pursuant to (A) above.

Deferral of redemption due to non-satisfaction of the Regulatory Clearance Condition

If, on the Maturity Date or any other date scheduled for redemption of the Notes, the Issuer is required to defer redemption only due to the Regulatory Clearance Condition not being satisfied, redemption of the Notes shall be deferred and the Issuer shall redeem the Notes at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest, upon the earliest of (A) the date falling 10 Business Days immediately following the day on which the Regulatory Clearance Condition is satisfied (but subject always to the foregoing provisions of this Condition 7.2) and (B) the date on which an order is made by any competent court or a resolution is passed for the winding-up of the Issuer. The Issuer will promptly notify the Trustee, the Principal Paying Agent and the Noteholders, in accordance with Condition 12, (i) upon it becoming aware that redemption of the Notes will be deferred due to the Regulatory Clearance Condition not being satisfied and (ii) upon the subsequent satisfaction of the Regulatory Clearance Condition (the latter notice to specify the deferred redemption date).

Certifications regarding a Regulatory Deficiency Redemption Deferral Event and Regulatory Clearance Condition

A certificate signed by two Authorised Signatories confirming that :

- (i) (A) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if redemption of the Notes were to be made or (B) a Regulatory Deficiency Redemption Deferral Event has ceased to occur and/or redemption of the Notes would not result in a Regulatory Deficiency Redemption Deferral Event occurring; or
- (ii) the Regulatory Clearance Condition is not satisfied on the Maturity Date or any other date scheduled for redemption of the Notes,

shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof, shall be binding on all such persons and the Trustee shall be entitled to rely on such certificate without liability to any person.

7.3 Deferral of redemption not a default

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of redemption of the Notes in accordance with Condition 3.2(a) or 7.2 will not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate the Notes or take any enforcement action under the Notes or the Trust Deed.

7.4 Redemption, variation or substitution for taxation reasons

Subject to Conditions 7.2(a) and 7.7, if the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

- (a) as a result of any Tax Law Change, the Issuer has, or will on the next Interest Payment Date, become obliged to pay additional amounts as provided or referred to in Condition 8 or the Issuer would otherwise suffer adverse tax consequences; or
- (b) in respect of the Issuer's obligation to make any payment of interest on the next following Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced,

and

- (c) in each case, the effect of the foregoing cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 12, the Noteholders (which notice shall be irrevocable) either:

- (A) redeem all the Notes, but not some only, at any time at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which (i) with respect to (a) above, the Issuer would be obliged to pay such additional amounts; or (ii) with respect to (b) above, the Issuer would not be entitled to claim such deduction in respect of computing its taxation liabilities in the United Kingdom, in each case were a payment in respect of the Notes then due; or
- (B) substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain, Qualifying Tier 2 Securities, and the Trustee shall (subject as provided in Condition 7.7 and to the receipt by it of the certificates of the Authorised Signatories referred to in Condition 7.8 below and in the definition of Qualifying Tier 2 Securities) agree to such substitution or variation,

Any such substitution or variation shall not be permitted if such substitution or variation would itself give the Issuer the right to redeem, substitute or vary the terms pursuant to this Condition 7.4 in relation to the Qualifying Tier 2 Securities.

7.5 Redemption, substitution or variation at the option of the Issuer due to a Capital Disqualification Event or Ratings Methodology Event

- (a) Subject to Conditions 7.2(a) and 7.7, if a Capital Disqualification Event or a Ratings Methodology Event has occurred and is continuing, or the Issuer satisfies the Trustee that, as a result of any change in, or amendment to, or any change in the application or official

interpretation of, any applicable law, regulation, ratings methodology or other official publication, the same will occur within a period of six months, then the Issuer may, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12, the Trustee and the Principal Paying Agent, which notice must be given during the Notice Period and shall be irrevocable, either:

- (i) at any time (in the case of a Capital Disqualification Event) or at any time on or after the fifth anniversary of the Issue Date (in the case of a Ratings Methodology Event) redeem all (but not some only) of the Notes at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption; or
 - (ii) at any time substitute all (and not some only) of the Notes for, or vary the terms of the Notes so that they become or remain (A) in the case of a substitution or variation in connection with a Capital Disqualification Event, Qualifying Tier 2 Securities, or (B) in the case of a substitution or variation in connection with a Ratings Methodology Event, Rating Agency Compliant Securities, and in either case the Trustee shall (subject as provided in Condition 7.6 and to the receipt by it of the certificates of the Authorised Signatories referred to in Condition 7.7 below, in the definition of 'Qualifying Tier 2 Securities' and, in the case of a substitution or variation in connection with a Ratings Methodology Event, in the definition of 'Rating Agency Compliant Securities') agree to such substitution or variation.
- (b) For the purposes of this Condition 7.5, "**Notice Period**" means the period commencing on the date on which the relevant Capital Disqualification Event or relevant Ratings Methodology Event (as the case may be) first occurs (or, as applicable, the date on which the Issuer satisfies the Trustee that the same will occur within a period of six months) and ending on the thirtieth calendar day following satisfaction of the Regulatory Clearance Condition in respect of the redemption, substitution or variation which is the subject of the notice to which the Notice Period relates.
- (c) For the purposes of (a)(i) above, if a Ratings Methodology Event occurs at any time before the fifth anniversary of the Issue Date and the Issuer does not, at that time, elect to substitute or vary the terms of the Notes in accordance with (a)(ii)(B) above, such Ratings Methodology Event shall, for the purposes of determining the Notice Period for exercising the Issuer's option to redeem the Notes following a Ratings Methodology Event under (a)(i) above, be deemed to have first occurred on the date falling 30 days prior to the fifth anniversary of the Issue Date.
- (d) Any such substitution or variation shall not be permitted if such substitution or variation would itself give rise to a Capital Disqualification Event or Ratings Methodology Event in relation to the Qualifying Tier 2 Securities or Rating Agency Compliant Securities, respectively.

7.6 Trustee role on redemption, variation or substitution; Trustee not obliged to monitor

The Trustee shall (at the expense of the Issuer) use its reasonable endeavours to co-operate with the Issuer (including, but not limited to, entering into such documents or deeds as may be necessary) to give effect to substitution or variation of the Notes for or into Qualifying Tier 2 Securities pursuant to Condition 7.4 or Qualifying Tier 2 Securities or Rating Agency Compliant Securities (as the case may be) pursuant to Condition 7.5 above provided that the Trustee shall not be obliged to co-operate in or agree to any such substitution or variation of the terms if the securities into which the Notes are to be substituted or are to be varied or the co-operation in such substitution or variation imposes, in the Trustee's opinion, more onerous obligations upon it or exposes it to liabilities or reduces its protections. If the Trustee does not so co-operate or agree as provided above, the Issuer may, subject as provided above, redeem the Notes as provided above.

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists for the purposes of this Condition 7 and will not be responsible to Noteholders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 7, it shall be entitled to assume that no such event or circumstance exists.

7.7 Preconditions to redemption, variation, substitution and purchases

- (a) Prior to the publication of any notice of redemption, variation or substitution pursuant to Condition 7.4 or 7.5, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories stating that, as the case may be:
- (i) the requirement referred to in Condition 7.4(a) or loss of a benefit referred to in Condition 7.4(b) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it; or
 - (ii) a Capital Disqualification Event or a Ratings Methodology Event has occurred and is continuing as at the date of the certificate or, as the case may be, will occur within a period of six months; and
 - (iii) in the case of notice of a redemption before the fifth anniversary of the Issue Date, it would have been reasonable for the Issuer to conclude, judged at the Issue Date, that the circumstance entitling the Issuer to exercise the right of redemption was unlikely to occur,

and the Trustee shall accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders (it being declared that the Trustee may rely absolutely on such certification without liability to any person).

- (b) In addition, prior to the publication of any notice of redemption before the Maturity Date or any substitution, variation or purchase of the Notes, the Issuer will be required to have complied with the Regulatory Clearance Condition and be in continued compliance with Regulatory Capital Requirements. A certificate from any two Authorised Signatories to the Trustee confirming such compliance shall be conclusive evidence of such compliance for the purposes of these Conditions (it being declared that the Trustee may rely absolutely on such certification without liability to any person).
- (c) The Issuer shall not redeem any Notes or purchase any Notes unless at the time of such redemption, payment or purchase it is, and will immediately thereafter remain (i) in compliance with Condition 3.2(a) and (ii) in compliance with all Regulatory Capital Requirements applicable to it. A certificate from any two Authorised Signatories to the Trustee confirming such compliance shall be conclusive evidence of such compliance (it being declared that the Trustee may rely absolutely on such certification without liability to any person).
- (d) If a redemption of the Notes in accordance with Condition 7.4 or Condition 7.5 is to occur within five years of the Issue Date of the Notes, any such redemption will only be made (i) in compliance with the Relevant Rules and (ii) on the condition that the Notes are exchanged for, or redeemed out of the proceeds of a new issue of, capital of the same or higher quality, provided that this sub-Condition (d)(ii) shall not apply if, on or after Solvency II Implementation, Solvency II does not require such redemption to be so funded (on the basis that the Notes are intended to qualify as Tier 2 Capital without the operation of any grandfathering provisions). A certificate from any two Authorised Signatories to the Trustee confirming such compliance shall be conclusive evidence of such compliance and the Trustee may rely absolutely on such certification without liability to any person.

7.8 Compliance with stock exchange rules

In connection with any substitution or variation of the Notes in accordance with Condition 7.4 or Condition 7.5, the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading, and (for so long as the Notes are listed on the Official List of the FCA in its capacity as competent authority under the FSMA and admitted to trading on the London Stock Exchange's regulated market) shall publish a supplement in connection therewith if the Issuer is required to do so in order to comply with Section 87G of the FSMA.

7.9 Purchases

Subject to Condition 7.7, the Issuer may at any time purchase Notes in any manner and at any price. All Notes purchased by or on behalf of the Issuer may be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation to the Principal Paying Agent.

7.10 Cancellations

All Notes redeemed or substituted by the Issuer pursuant to this Condition 7, and all Notes purchased and surrendered for cancellation pursuant to Condition 7.9, will forthwith be cancelled. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7.11 Notices Final

Subject and without prejudice to Conditions 3.2(a), 7.2 and 7.7, any notice of redemption, substitution or variation as is referred to in Conditions 7.4 or 7.5 above shall be irrevocable and upon expiry of such notice, the Issuer shall be bound to redeem, or as the case may be, vary or substitute, the Notes in accordance with the terms of the relevant Condition.

8 Taxation

8.1 Payment without withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction unless the withholding or deduction of the Taxes is required by law. In any such event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been received in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

- (a) the holder of which is liable to the Taxes in respect of the Note by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note; or
- (b) in circumstances where such withholding or deduction would not be required if the holder or any person acting on his behalf had obtained and/or presented any form or certificate or had made a declaration of non-residence or similar claim for exemption to the relevant tax authority upon the making of which the holder would have been able to avoid such withholding or deduction; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) surrendered for payment (where surrender is required) by or on behalf of a holder who would have been able to avoid such withholding or deduction by surrendering the relevant Note to another Paying Agent in a Member State of the European Union; or

- (e) surrendered for payment (where surrender is required) more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on surrendering the same for payment on the last day of the period of 30 days assuming (whether or not such is in fact the case) that day to have been a Business Day.

8.2 Additional Amounts

Any reference in these Conditions to any amounts payable in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

9 Prescription

Claims in respect of principal and interest (including Arrears of Interest) will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date.

10 Events of Default

10.1 Rights to institute and/or prove in a winding-up of the Issuer

The right to institute winding-up proceedings in respect of the Issuer is limited to circumstances where a payment of principal, interest or other amount in respect of the Notes by the Issuer under the Notes or the Trust Deed has become due and is not duly paid. For the avoidance of doubt (without prejudice to Condition 10.1(b) below), no amount shall be due from the Issuer in circumstances where payment of such amount could not be made in compliance with Condition 3.2(a) or is deferred by the Issuer in accordance with Conditions 5.1 or 7.2.

- (a) If default is made in the payment of any principal or premium in respect of the Notes for a period of 14 days or more after the due date for the same, or in the payment of any interest (including Arrears of Interest) for a period of 14 days or more after an Interest Payment Date (save to the extent and for so long as payment has been deferred in accordance with Condition 5.1) or any other date on which any payment of interest is due (each an “**Event of Default**”) and the Event of Default is continuing, the Trustee may, subject as provided in Condition 10.3, at its discretion and without further notice, institute proceedings for the winding-up of the Issuer in England and Wales (but not elsewhere) and/or prove in any winding-up of the Issuer (whether in England or elsewhere), but may take no other action in respect of such default.
- (b) In the event of the commencement of the winding-up of the Issuer (other than in accordance with Condition 10.1(a) above) (also an “**Event of Default**”), the Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding (as defined in the Trust Deed) or so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders shall, (subject to it first being indemnified and/or secured and/or prefunded to its satisfaction), (i) give notice to the Issuer that the Notes are immediately due and repayable (and the Notes shall thereby become so due and repayable) at their principal amount together with accrued interest as provided in the Trust Deed, together with all Arrears of Interest, if any and/or (ii) prove in the winding-up of the Issuer.

The Issuer has undertaken in the Trust Deed forthwith to give notice in writing to the Trustee of the occurrence of any Event of Default referred to in (a) or (b) above.

10.2 Enforcement

Without prejudice to Condition 10.1, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including any damages awarded for breach of any obligations

thereunder) but in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it. Nothing in this Condition 10.2 shall, however, prevent the Trustee, subject to Condition 10.1, instituting proceedings for the winding-up of the Issuer in England and Wales and/or proving in any winding-up of the Issuer (whether in England and Wales or elsewhere) and/or claiming in any liquidation of the Issuer in respect of any payment obligation of the Issuer (whether in England and Wales or elsewhere) where such payment obligation arises from the Notes or the Trust Deed (including, without limitation, payment of any principal, interest or Arrears of Interest in respect of the Notes or any damages awarded for breach of any obligations under the Notes or the Trust Deed).

The restriction in this Condition 10.2 on the payment of damages has the effect of limiting the remedies available to the Trustee and the Noteholders in the event of a breach of certain covenants (other than payment covenants) by the Issuer.

10.3 Entitlement of Trustee

The Trustee shall not be bound to take any of the actions referred to in Condition 10.1 or 10.2 above against the Issuer to enforce the terms of the Trust Deed, the Notes or any other action under or pursuant to the Trust Deed unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

10.4 Right of Noteholders

No Noteholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or claim in the liquidation of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

10.5 Extent of Noteholders' remedy

No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Trustee or the Noteholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

11 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 Notices

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the Register maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

13 Meetings of Noteholders, Modification, Waiver and Authorisation

13.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Trustee or Noteholders holding not less than 10 per cent., in principal amount of the Notes for the time being outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent., in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

The Trust Deed also provides that (i) a written resolution executed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes for the time being outstanding or (ii) consent given by way of electronic consent through the relevant clearing system(s) (in form satisfactory to the Trustee) by or on behalf of holders of not less than 90 per cent., in principal amount of the Notes for the time being outstanding shall, in each case, take effect as if it were an Extraordinary Resolution.

The agreement or approval of the Noteholders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in connection with the substitution or variation of the Notes pursuant to Conditions 7.4 or 7.5.

13.2 Modification, waiver, authorisation and determination

The Trustee may agree, without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed (provided that, in any such case (save as otherwise provided in the Trust Deed), it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

Except as provided herein, any modification to these Conditions or any provisions of the Trust Deed will be subject to satisfaction of the Regulatory Clearance Condition.

13.3 Trustee to have regard to interests of Noteholders as a class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution of obligor), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

13.4 Notification to the Noteholders

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

14 Indemnification of the Trustee and its contracting with the Issuer

14.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

14.2 Trustee contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

14.3 Regulatory Clearance Condition

Wherever in these Conditions and/or the Trust Deed there is a requirement for the Regulatory Clearance Condition to be satisfied, the Trustee shall be entitled to assume without enquiry that such condition has been satisfied unless notified in writing to the contrary by the Issuer.

15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding Notes. Any further notes which are to form a single series with the outstanding Notes may (subject to the terms of the Trust Deed and with the consent of the Trustee) be constituted by a deed supplemental to the Trust Deed.

16 Governing Law

The Trust Deed and the Notes, and any non-contractual obligations arising out of or in connection with the Trust Deed and/or the Notes are governed by, and shall be construed in accordance with, English law.

17 Rights of Third Parties

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18 Defined Terms

In these Conditions:

“**Agency Agreement**” has the meaning given in the preamble to these Conditions;

“**Agents**” means the Registrar, the Principal Paying Agent and the other Paying Agents appointed from time to time under the Agency Agreement;

“**Arrears of Interest**” has the meaning given in Condition 5.3;

“**Assets**” means the unconsolidated gross assets of the Issuer as of the date of the latest published audited financial statements of the Issuer, but adjusted for subsequent events in such manner as the Council of Lloyd’s or, if the Issuer is in a winding-up, its liquidator may determine;

“**Authorised Signatories**” has the meaning given to it in the Trust Deed;

“**Business Day**” means (i) except for the purposes of Condition 2 and 6.4, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for general business in London, (ii) for the purposes of Condition 2, a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located and (iii) for the purpose of Condition 6.4, a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in London and, in the case of surrender of a Certificate, in the place in which the Certificate is surrendered;

a “**Capital Disqualification Event**” is deemed to have occurred if, as a result of any replacement of or change to (or change to the interpretation by any court or authority entitled to do so of) Solvency II or the Relevant Rules or following the implementation of Solvency II:

- (a) the entire principal amount of the Notes is fully excluded from counting; or
- (b) in the circumstances where such capability derives only from transitional or grandfathering provisions under Solvency II or the Relevant Rules, as appropriate, less than 100 per cent. of the principal amount of the Notes outstanding at such time is capable of counting,

as Tier 2 Capital (however such terms might be described in Solvency II or the Relevant Rules) for the purposes of the Issuer, except where such non-qualification is only as a result of any applicable limitation on the amount of such capital (other than the limitation deriving from transitional or grandfathering provisions under Solvency II or the Relevant Rules, as appropriate);

“**Central Assets**” means the Issuer’s own assets, including the assets generated from the issuance of the Notes, any loans made by members from time to time and any other subordinated debt obligations, that are available at its discretion to meet a member’s liabilities in respect of insurance business, including the Issuer’s consolidated reserves, but without taking any account of liabilities to repay subordinated debt obligations, all as shown in or determined by reference to the latest Financial Statements;

“**Central Assets Priority Payment**” means:

- (i) any payment (whether or not such payment is required by applicable law or regulation to be authorised by a specified person or persons or by an order of the court or otherwise) which, in a winding-up of the Issuer is permitted to be made out of Central Assets by the Issuer, or by any other person who under applicable law or regulation has the authority, power or discretion to make payments, or require payments to be made, out of Central Assets after the commencement of a proceeding in respect of a winding-up of the Issuer, and which is or would be made for a Permitted Purpose; and/or
- (ii) any payment which in a winding-up of the Issuer is required to be made out of Central Assets by any applicable law or regulation or by any order the court (whether such order is made pursuant to an application of the Issuer or otherwise) for any purposes in priority to payment of the claims of the Noteholders;

“**Central Fund**” means the fund financed by (among other things) contributions from Lloyd’s members and administered by the Council of Lloyd’s primarily as a fund for the protection of policyholders and includes the fund constituted and governed by the Central Fund Byelaw (No. 4 of 1986) made by the Council of Lloyd’s as amended from time to time, the fund (the “New Central Fund”) constituted and governed by the New Central Fund Byelaw (No. 23 of 1996) made by the Council of Lloyd’s as amended from time to time, and any fund constituted and governed by any successor byelaw or byelaws made by the Council of Lloyd’s;

“**Central Fund Undertaking**” means any undertaking which has been duly authorised, prior to the date on which the Issuer is wound-up, by the Council of Lloyd’s in accordance with the relevant byelaws of the Issuer

to make a payment other than an Excluded Payment out of Central Assets for the purpose of directly or indirectly extinguishing any liability of an Insolvent Member to any person (including without limitation to a policyholder under a contract of insurance or reinsurance or to any regulatory authority in respect of any levy imposed by that authority on the Insolvent Member) arising out of or in connection with insurance business carried on at Lloyd's by that Insolvent Member;

“**Certificate**” has the meaning given in Condition 1.1;

“**Companies Act**” means the Companies Act 2006 (as amended or re-enacted from time to time);

“**Council of Lloyd's**” means the Council of Lloyd's constituted by Lloyd's Act 1982 and such persons who are for the time being authorised by the Council of Lloyd's to exercise any discretion, power or authority conferred on it;

“**Equitas reinsurance contract**” means a reinsurance contract entered into pursuant to paragraph 4(1) of the Reconstruction and Renewal Byelaw (No. 22 of 1995) made by the Council of Lloyd's;

“**Event of Default**” has the meaning given in Condition 10.1;

“**Excluded Payment**” means any application of the New Central Fund directly for the purpose of extinguishing or reducing any liability of a member in respect of which Equitas Insurance Limited has, under an Equitas reinsurance contract, undertaken to reinsure and indemnify that member other than a payment made by the Issuer to discharge any legally binding obligation of the Issuer arising under a contract entered into or other instrument executed at or before the time at which the New Central Fund Byelaw came into force;

“**Extraordinary Resolution**” has the meaning given in the Trust Deed;

“**Financial Conduct Authority**” or “**FCA**” means the UK Financial Conduct Authority or its successor;

“**Financial Statements**” means, for financial years ending on or prior to 31 December 2013, the reviewed and unaudited pro forma accounting statement included in the annual report and accounts of Lloyd's and, for financial years ending after 31 December 2013, means the audited or, if not audited, the reviewed and reported upon financial statements of Lloyd's comprising the Lloyd's market aggregate accounts and the accounts of the Issuer and the Central Fund;

“**FSMA**” means the Financial Services and Markets Act 2000 (as amended or re-enacted from time to time);

“**holder**” has the meaning given in Condition 1.2;

“**Insolvent Member**” means any member of Lloyd's who or which is determined by the Issuer, or by such other person who under applicable law or regulation has the authority, power or discretion to make payments out of Central Assets in a winding-up of the Issuer, to be unable to pay its liabilities in full arising out of or in connection with its insurance business at Lloyd's;

“**Interest Payment Date**” means 30 October in each year, commencing 30 October 2015;

“**Interest Period**” means the period from (and including) one Interest Payment Date (or in the case of the first Interest Period, from the Issue Date) to (but excluding) the next (or in the case of the first Interest Period, the first) Interest Payment Date;

“**Issue Date**” means 30 October 2014;

“**Issuer**” or “**Lloyd's**” means the Society of Lloyd's;

“**Liabilities**” means the unconsolidated gross liabilities of the Issuer as of the date of the latest published audited financial statements of the Issuer, but adjusted for contingent liabilities and for subsequent events in such manner as the Council of Lloyd's or, if the Issuer is in a winding-up, its liquidator may determine;

“**Lloyd's market**” means the “association of underwriters known as Lloyd's”, as such term is used in Article 8 of Directive 72/239/EEC and Article 8 of Directive 79/267/EEC;

“**London Stock Exchange**” means the London Stock Exchange plc;

“**Lower Tier 2 Capital**” has the meaning given by the PRA from time to time in relation to the Issuer;

“**LT2 Subordinated Notes**” means the outstanding 5.625 per cent. Fixed/Floating Rate Subordinated Notes due 2024 issued by the Issuer on 17 November 2004 and the outstanding 6.875 per cent. Subordinated Notes due 2025 issued by the Issuer on 17 November 2004;

“**Mandatory Interest Deferral Date**” means each Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date;

“**Maturity Date**” means 30 October 2024;

“**member of Lloyd’s**” or “**member**” means any current or former member of Lloyd’s or the estate of any deceased member of Lloyd’s;

“**Member State**” means a member of the European Economic Area;

“**Minimum Capital Requirement**” means the Minimum Capital Requirement applicable to the Issuer referred to in, or any other minimum capital requirement howsoever described in, Solvency II or the Relevant Rules;

“**New Central Fund**” has the meaning given in the definition of Central Fund;

“**New Central Fund Byelaw**” means the New Central Fund Byelaw (No. 23 of 1996) made by the Council of Lloyd’s, as amended or superseded from time to time;

“**Noteholder**” has the meaning given in Condition 1.2;

“**Notes**” has the meaning given in the preamble to these Conditions;

“**Official List**” means the official list of the UK Listing Authority;

“**Paying Agents**” means the Principal Paying Agent and the Registrar (and such term shall include any successor, replacement or additional paying agents appointed under the Agency Agreement);

“**Pari Passu Creditors**” means creditors of the Issuer whose claims rank, or are expressed to rank, *pari passu* with the claims of the Noteholders including holders of Pari Passu Securities;

“**Pari Passu Securities**” has the meaning given in Condition 3.2(b);

“**Permitted Purpose**” means, in relation to a Central Asset Priority Payment, a payment other than an Excluded Payment which is made for the purpose of:

- (i) directly or indirectly extinguishing or reducing any liability of an Insolvent Member to any person (including without limitation to a policyholder under a contract of insurance or reinsurance or to any regulatory authority in respect of any levy imposed by that authority on the Insolvent Member) arising out of or in connection with insurance business carried on at Lloyd’s by that Insolvent Member; or
- (ii) paying the costs or expenses attributable to any insolvency procedure involving the Issuer, the Lloyd’s market or members of Lloyd’s;

“**Principal Paying Agent**” has the meaning given in the preamble to these Conditions;

“**Prudential Regulation Authority**” or “**PRA**” means the UK Prudential Regulation Authority or such successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Issuer;

“**Qualifying Tier 2 Securities**” means securities issued directly or indirectly by the Issuer that:

- (a) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer, and provided that a certification to such effect signed by two Authorised

Signatories shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without liability to any person) prior to the issue of the relevant securities) provided that they shall (1) contain terms which comply with the then current requirements of the PRA in relation to Tier 2 Capital (or, at any time prior to Solvency II Implementation, Lower Tier 2 Capital); (2) bear at least the same rate of interest from time to time applying to the Notes and preserve the Interest Payment Dates; (3) contain terms providing for mandatory deferral of payments of interest and/or principal only if such terms are not materially less favourable to an investor than the mandatory deferral provisions, respectively, contained in the terms of the Notes; (4) rank senior to, or *pari passu* with, the ranking of the Notes; (5) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption; (6) not contain terms providing for, requiring or entitling the Issuer to effect loss absorption through principal write-down; and (7) preserve any existing rights under these Conditions to any accrued interest, any Arrears of Interest and any other amounts payable under the Notes which, in each case, has accrued to Noteholders and not been paid; and

- (b) are listed or admitted to trading on the London Stock Exchange's regulated market (for the purposes of Directive 2004/39/EC, as amended), the Luxembourg Stock Exchange's regulated market (for the purposes of Directive 2004/39/EC, as amended) or such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

“**Rating Agency**” means Fitch Ratings Limited or any successor thereof;

“**Rating Agency Compliant Securities**” means securities issued directly or indirectly by the Issuer that are:

- (a) Qualifying Tier 2 Securities; and
- (b) assigned by the Rating Agency substantially the same equity content or, at the absolute discretion of the Issuer, a lower equity content (provided such equity content is still higher than the equity content assigned to the Notes after the occurrence of the Ratings Methodology Event) as that which was assigned by the Rating Agency to the Notes on or around the Issue Date and provided that a certification to such effect of two Authorised Signatories shall have been delivered to the Trustee prior to the issue of the relevant securities (upon which the Trustee shall be entitled to rely without liability to any person);

“**Ratings Methodology Event**” will be deemed to occur upon a change in, or clarification to, the methodology of the Rating Agency (or in the interpretation of such methodology) as a result of which the equity content assigned by the Rating Agency to the Notes is, as notified by the Rating Agency to the Issuer or as published by the Rating Agency, reduced when compared to the equity content assigned by the Rating Agency to the Notes on or around the Issue Date;

“**Recognised Stock Exchange**” means a recognised stock exchange as defined in section 1005 of the Income Tax Act 2007 as amended or re-enacted from time to time, and any provision, statute or statutory instrument replacing the same from time to time;

“**Register**” has the meaning given in Condition 1.1;

“**Registrar**” has the meaning given in the preamble to these Conditions;

“**Regulatory Capital Requirements**” means any applicable capital resources requirement or applicable overall financial adequacy rule required by the PRA, as such requirements or rule are in force from time to time;

“**Regulatory Clearance Condition**” means, in respect of any proposed act on the part of the Issuer, the PRA having approved or consented to, or having been given due notification of and having not within any applicable time-frame objected to, such act (in any case only if and to the extent required by the Relevant Rules, the PRA or any applicable rules of the PRA at the relevant time);

“**Regulatory Deficiency Interest Deferral Event**” means any event which, including, without limitation, causes the Solvency Capital Requirement or the Minimum Capital Requirement to be breached and such breach is an

event which under Solvency II and/or under the Relevant Rules would require the Issuer to defer payment of interest in respect of the Notes (on the basis that the Notes are intended to qualify as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions);

“**Regulatory Deficiency Redemption Deferral Event**” means any event which, including, without limitation, causes the Solvency Capital Requirement or the Minimum Capital Requirement to be breached and such breach is an event which under Solvency II and/or under the Relevant Rules would require the Issuer to defer or suspend repayment or redemption of the Notes (on the basis that the Notes are intended to qualify as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions);

“**Relevant Date**” means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by an Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 12;

“**Relevant Jurisdiction**” means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest (including Arrears of Interest) on the Notes;

“**Relevant Rules**” means any legislation, rules or regulations (whether having the force of law or otherwise) applying to the Issuer from time to time relating to the characteristics, features or criteria of own funds or capital resources and, for the avoidance of doubt and without limitation to the foregoing, includes any legislation, rules or regulations relating to such matters which are supplementary or extraneous to the obligations imposed on Member States by Solvency I or the Solvency II Directive;

“**Senior Creditors**” means at any time

- (a) all creditors of the Issuer (including prospective creditors and contingent creditors and, without limitation, any persons to whom the costs or expenses attributable to any insolvency procedure involving the Issuer, the Lloyd’s market or any participants within the Lloyd’s market are payable), other than
 - (i) creditors (if any) whose claims rank or are expressed to rank *pari passu* (whether only in the event of a winding-up of the Issuer or otherwise) with the claims of Noteholders;
 - (ii) creditors (if any) with or to whose claims the Notes rank or are expressed to rank *pari passu* or senior (whether only in the event of the winding-up of the Issuer or otherwise); and
 - (iii) creditors, including pursuant to any loans made by members after the Issue Date, whose claims rank or are expressed to rank junior (whether only in the event of the winding-up of the Issuer or otherwise) to the claims of the Noteholders; and
- (b) all persons in respect of whom a Central Fund Undertaking has been made and all persons who in a winding-up of the Issuer may receive or are entitled to receive a Central Assets Priority Payment;

“**Solvency I**” means the directives adopted by the Parliament and Council of the European Union relating to the taking-up and pursuit of insurance business within the European Union (excluding the Solvency II Directive) and including, without limitation, Directive 73/239/EEC of the European Union (as amended) and Directive 98/78/EC of the European Union (as amended) on the supplementary supervision of insurance undertakings in an insurance group;

“**Solvency II**” means the Solvency II Directive and any implementing measures adopted pursuant to the Solvency II Directive (for the avoidance of doubt, whether implemented by way of regulation or by further directives or otherwise);

“**Solvency II Directive**” means Directive 2009/138/EC of the European Union (as amended) on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) and which must be transposed by Member States pursuant to Article 309 of Directive 2009/138/EC;

“**Solvency II Implementation**” means the implementation by the PRA, or other direct application to the Issuer and/or the Lloyd’s market, of Solvency II (or, if later, the coming into effect of the same with respect to the Issuer and/or the Lloyd’s market);

“**Solvency Capital Requirement**” means the Solvency Capital Requirement referred to in, or any other capital requirement howsoever described in, Solvency II or the Relevant Rules in relation to (i) the Lloyd’s market as a whole (but not individual syndicates or Members) or (ii) to the Central Assets of the Issuer;

“**Solvent**” means that the Issuer: (a) is able to pay its debts owed to its Senior Creditors and Pari Passu Creditors as they fall due; and (b) has Assets exceeding its Liabilities (other than Liabilities to persons who are not Senior Creditors);

“**sterling**” or “**pence**” or “**£**” means the lawful currency of the United Kingdom;

“**T1 Notes**” means the outstanding 7.421 per cent. Perpetual Subordinated Capital Securities issued by the Issuer on 21 June 2007;

“**Tax Law Change**” means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written statements made by a tax authority regarding the anticipated tax treatment of the Notes or any payment made under these Conditions, which change or amendment becomes, or would become, effective on or after the Issue Date;

“**Taxes**” has the meaning given in Condition 8;

“**Tier 1 Capital**” has the meaning given by the PRA from time to time in relation to the Issuer;

“**Tier 2 Capital**” has the meaning given by the PRA from time to time in relation to the Issuer;

“**Trust Deed**” has the meaning given in the preamble to these Conditions;

“**Trustee**” has the meaning given in the preamble to these Conditions;

“**UK Listing Authority**” means the FCA in its capacity as competent authority under the Financial Services and Markets Act 2000; and

“**Upper Tier 2 Capital**” has the meaning given by the PRA from time to time in relation to the Issuer.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Certificates

The Global Certificate will be registered in the name of a nominee (the “**Registered Holder**”) for the Common Depositary for Euroclear and Clearstream, Luxembourg and may be delivered on or prior to the original issue date of the Notes.

Upon the registration of the Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”) as the holder of a Note represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer (as the case may be) to the Registered Holder and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the Registered Holder in respect of each amount so paid.

Transfer and Exchange

No beneficial owner of an interest in a Global Certificate will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for definitive Certificates without interest coupons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default has occurred and is continuing or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so. The Issuer will promptly give notice to Noteholders in accordance with Condition 12 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Global Certificate) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any Alternative Clearing System.

Amendment to Conditions

The Global Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the Conditions set out in this Prospectus. The following is a summary of certain of those provisions:

Payments

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

Notices

So long as all the Notes are represented by the Global Certificate and it is held on behalf of Euroclear, Clearstream, Luxembourg and/or an Alternative Clearing System, notices to Noteholders shall be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg and/or the Alternative Clearing System (as the case may be) for communication by it to entitled accountholders in substitution for notification as required by the Conditions, provided that, so long as the Notes are admitted to the official list maintained by the Financial Conduct Authority in its capacity as the UK Listing Authority (the **UKLA**) and admitted to trading on the London Stock Exchange plc's regulated market, all requirements of the UKLA have been complied with. Any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to Euroclear, Clearstream, Luxembourg and/or the Alternative Clearing System (as the case may be) as aforesaid.

Meetings

For the purposes of any meeting of Noteholders, the holder of the Notes represented by the Global Certificate shall be treated as being entitled to one vote in respect of each £1,000 in principal amount of the Notes.

Trustee's Powers

In considering the interests of Noteholders while the Global Certificate is held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by the Global Certificate.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used to redeem the €300,000,000 5.625 per cent. Fixed/Floating Rate Subordinated Notes due 2024 (of which €213,807,000 principal amount remains outstanding) which the Issuer has called for redemption and to allow for the potential refinancing of the £300,000,000 6.875 per cent. Subordinated Notes due 2025 (of which £153,241,000 principal amount remains outstanding). The remaining net proceeds will be applied for additional financial flexibility under Solvency II and to support strategic initiatives.

THE SOCIETY OF LLOYD'S

History

The Lloyd's market originated in a coffee house in the City of London in the late 17th century. For over 300 years, it has been a market place at which businesses underwrite insurance business for their own account.

In 1871, pursuant to Lloyd's Act 1871, the then existing association of underwriters was incorporated as the Society and Corporation of Lloyd's (the "**Society**"). The activities of the Society are accordingly governed by statute and, since 1982, have been managed by the Council of Lloyd's (the "**Council**") pursuant to Lloyd's Act 1982. The Society's main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context.

Lloyd's market

General

References are made below to the Society's pro forma financial statements (the "**Pro Forma Financial Statements**" or "**PFFS**"). The Pro Forma Financial Statements provide financial information in relation to the Lloyd's market (also taking account of the Society's own assets). Investors should have regard to the Society's audited accounts for information on the Society's own financial position. The Pro Forma Financial Statements and the Society's 2012 and 2013 financial statements and the Pro Forma Financial Statements and the Society's financial statements for the six month period ending 30 June 2014 are available on www.lloyds.com.

The underwriting members of Lloyd's (referred to collectively as the "**Lloyd's market**") write business through syndicates and together form one of the world's largest specialist commercial insurers and reinsurers, reporting gross written premiums of £26.1 billion in the financial year ending 31 December 2013 (based on the Society's Pro Forma Financial Statements for 2013) (the "**2013 PFFS**"). In the same year the capital and reserves supporting the Lloyd's market (including the net resources of the Society after accounting for the existing €300,000,000 5.625 per cent. Fixed/Floating Rate Subordinated Notes due 2024 of which €213,807,000 principal amount remains outstanding and £300,000,000 6.875 per cent. Subordinated Notes due 2025 of which £153,241,000 principal amount remains outstanding (together, the "**2004 Notes**") and the £500,000,000 7.421 per cent. Perpetual Subordinated Capital Securities of which £392,013,000 principal amount remains outstanding (the "**2007 Notes**")) increased to £20.4 billion (based on the 2013 PFFS). Profit before tax reported for the Lloyd's market for the financial year ended 31 December 2013 was £3.2 billion (based on the 2013 PFFS).

Gross written premiums were £14.9 billion (based on the Society's Pro Forma Financial Statements for the six month period ended 30 June 2014) (the "**interim 2014 PFFS**"). In the same period, the capital and reserves supporting the Lloyd's market (including the net resources of the Society after accounting for the existing subordinated debt and subordinated perpetual capital securities) were £20.0 billion (based on the interim 2014 PFFS). Profit before tax reported for the Lloyd's market for the same period was £1.7 billion (based on the interim 2014 PFFS).

The Lloyd's market combined ratio improved from 91.1% in 2012 to 86.8% in 2013, reflecting the increased overall profitability of the Lloyd's market and the lower level of major catastrophe claims. The combined ratio as at 30 June 2014 was 88.2% (based on the interim 2014 PFFS).

Standard and Poor's current insurer financial strength rating of the Lloyd's market is A+ (Strong) with a stable outlook. Fitch upgraded its insurer financial strength rating of the Lloyd's market to AA- (Very Strong) in June 2014, reflecting Fitch's expectation that Lloyd's cross-cycle underwriting performance will be more favourable than that achieved by the market historically, both in absolute terms and compared with competitors. The upgrade was also supported by Lloyd's strong financial profile, low financial leverage, and a significant market position in both insurance and reinsurance classes. A.M. Best affirmed its insurer financial

strength rating and positive outlook of the Lloyd's market of a (Excellent) in July 2014. The positive outlook reflects Lloyd's strong operating performance in recent years, in spite of the exceptional record of natural catastrophes in 2010 and 2011 as well as A.M. Best's assessment of the robust oversight of the market by Lloyd's Performance Management Directorate and its demonstrable success in reducing earnings volatility. The Lloyd's market ratings apply to all policies issued at Lloyd's since 1993.

The Lloyd's market writes a broad portfolio of general insurance and reinsurance business and is authorised to underwrite business in over 75 jurisdictions, giving syndicates access to insurance markets all over the world. Lloyd's also benefits from its position at the heart of the London insurance market. The proximity of major broking houses to Lloyd's and the concentration of underwriting expertise ensures a strong business flow.

Categories of business

The business carried on by the Lloyd's market falls into a number of categories, as indicated in the table below. The table sets out the gross written premiums (prior to the deduction of reinsurance premium and brokerage) by business class during the financial year ended 31 December 2013, based on the 2013 PFFS.

Gross written premiums (£million)

<i>Category of Insurance</i>	<i>2013</i>	<i>2012</i>
Reinsurance	9,468	9,763
Property	6,103	5,476
Casualty ⁽¹⁾	4,850	4,543
Marine	2,195	2,090
Energy	1,668	1,727
Motor	1,184	1,155
Aviation	562	669
Life	76	77
TOTAL	26,106	25,500

⁽¹⁾ This covers professional indemnity, directors' and officers' liability, medical malpractice, employers' liability/workers' compensation, accident and health and other general liability business.

Geographical split

The geographical split in terms of premium income by the Lloyd's market for the financial year ended 31 December 2013 was as follows:

Premium income %

2013

Region

United States & Canada	43%
United Kingdom	18%
Continental Europe	15%
Central Asia and Asia Pacific	12%
Other Americas	8%
Rest of the World	4%

Profitability of different sectors

The 2013 PFFS reported profit before tax for the Lloyd's market of £3.2 billion and the table below illustrates the profitability of the main business sectors for the financial year ended 31 December 2013. The "combined ratio" is a measure of an insurer's profitability based on the ratio of net incurred claims plus net operating expenses to net earned premiums. A combined ratio of 100% is a break even result from underwriting activities (before taking into account investment income). A ratio of over 100% is an underwriting loss. The

Lloyd's market overall combined ratio for 2013 calendar year was 86.8% (this includes central adjustments made in the 2013 PFFS for certain transactions between syndicates and the Society which are disclosed in the notes to the 2013 PFFS). As indicated by the table, the combined ratios for individual classes of business (which do not include central adjustments) show that all business sectors except Motor were profitable in 2013. All other classes were profitable based on strong underlying performance and the comparatively low major catastrophe experience in 2013. During 2013, in aggregate claims, development in respect of reserves established at December 2012 has been better than projected, leading to an improvement within the above mentioned 86.8% combined ratio of (8.0%). Improving prospects for global economic growth in 2013 as well as the prevailing low interest rate environment had varying impacts on different asset classes. In aggregate, for 2013 syndicate investment returns were 1.1%, returns on members' capital held centrally by the Society were 2.5% and the return on the Society's central assets was 2.3%.

Combined Ratio

Category of insurance

	2013	2012
	(%)	(%)
Reinsurance	80.5	91.0
Property	85.0	94.4
Casualty	98.8	95.6
Marine	95.4	99.9
Energy	83.0	76.0
Motor	108.6	104.0
Aviation	81.4	67.7

Comparative profitability

The performance of the Lloyd's market compares favourably with that of its primary competitor group. The table below compares the combined ratios for the Lloyd's market in the 2013 calendar year (derived from the 2013 PFFS) and for the six months ended 30 June 2014 (derived from the interim 2014 PFFS) against those of its primary competitor group.

	Combined Ratio	Combined Ratio
	2013	June 2014
	(%)	(%)
Lloyd's market	87	88
Primary competitor group	93	92

(i) This competitor group is derived from the ratings agencies' own Lloyd's competitor groups and comprises of: Arch, AIG, Ace, Everest Re, Munich Re, Partner Re, Hannover Re, SCOR, Swiss Re, Mapfre and XL.

(ii) The competitor group's results are derived from the weighted average published results of these companies for the period ending 31 December 2013.

Lloyd's market profile

The Lloyd's market wrote £26.1bn gross written premiums in 2013. This has increased over the years and compares with gross written premiums of £16.4bn in 2006 and £22.6bn in 2010.

Membership profile

Insurance is underwritten at Lloyd's by members of Lloyd's (comprising corporate members and individual members). No new individual members have been permitted to join Lloyd's since 2003.

Accordingly, individuals who wish to begin underwriting at Lloyd's must now do so by participating through corporate members (which include Scottish limited partnerships, limited liability partnerships and bodies corporate).

Prior to 1994, all Lloyd's members were individuals. Corporate membership was introduced in 1994. The number of individual members has reduced steadily since this time whilst the number of corporate members has increased. 88% of capacity in 2014 is supported by trade and other corporate capital.

A significant proportion of the Lloyd's market corporate member capacity comes from the major global insurance centres of the UK, US and Bermuda. International insurance and reinsurance companies have operations at Lloyd's representing approximately 61% of the market's capacity.

Structure of Lloyd's market

Syndicates and members of Lloyd's

Members underwrite insurance business through syndicates. A syndicate is managed by a managing agent (see "*Managing Agents*" below). A syndicate may have a number of members who may be individual and/or corporate members. A syndicate does not have any legal status and is not a partnership.

Between the early 1990's and mid 2000's, the number of active syndicates reduced but generally grew in size and increasingly transformed from single-line to multi-line businesses. Since 2004, participation by external, non-traditional capital providers has resulted in an increase in the number of syndicates. As at 25 September 2014, there were 94 syndicates writing live business at Lloyd's.

Where a corporate member participating in, and a managing agent of, a syndicate are owned by the same company or are part of the same corporate group, the corporate member is said to be "aligned". Some corporate members and individual members have no ownership links with managing agents and are therefore "unaligned".

Each syndicate is an annual venture through which members participate for a specific "year of account". However, the annual venture concept is more relevant for syndicates whose composition changes from year to year than it is for the syndicates which are aligned.

A member does not have joint liability with any other member of a syndicate for risks underwritten through that syndicate, but is severally liable in respect of the proportion of each risk underwritten on its behalf as a member of the syndicate. Members do not have liability for business underwritten by the same syndicate in previous years of account unless they were members in those years or unless they have reinsured the members of that syndicate for the previous years. It is usual for the liabilities of the members of a syndicate to be reinsured in full with effect from the end of the third year of account of that syndicate through reinsurance to close (see "*Reinsurance to Close*" below).

Managing Agents

As at 25 September 2014, there were 57 managing agents permitted to operate at Lloyd's and manage live syndicates for the 2014 year of account. The role of the managing agent includes determination of the underwriting strategy of any syndicate it manages, the acceptance of underwriting risks on behalf of the syndicate, determination of the syndicate's reinsurance programme, management of the syndicate's investments and the determination of the premium for reinsurance to close (see "*Reinsurance to Close*" below). The business of each managing agent and of the syndicates which they manage is subject to oversight by the Society. In particular, all managing agents must seek the Society's agreement for the proposed business plan for each syndicate that the agent manages and the capital required to support that business plan (see "*Business Planning*"). Managing agents are regulated by the PRA and the FCA.

Members are required to enter into a managing agent's agreement with their managing agent, certain terms of which are prescribed by the Society. In the agreement the member gives the managing agent absolute discretion as to the risks which may be underwritten on behalf of the member and authority to conduct the business of the syndicate.

Under the managing agent's agreement, managing agents have the power to request that members of the syndicate make funds available, where necessary, to enable them to pay all claims and all necessary and reasonable expenses and outgoings incurred or made in connection with the members' underwriting as members of the syndicates. These are known as cash calls.

Managing agents are also responsible for the maintenance of accounting records and statistical data for the syndicate and for preparing and obtaining the audit of syndicate accounts. Also, pursuant to the Society's accounting requirements, managing agents are required to prepare syndicate returns in respect of each syndicate they manage. The returns must be prepared at the end of each calendar year and must include details of assets held in accordance with eligible asset rules and estimated future liabilities in accordance with valuation of liabilities rules set by the Society.

The Society requires annual actuarial sign-off of syndicate reserves for solvency purposes and this process is overseen by an actuary employed by the Society. Managing agents are responsible for assessing the estimated future liabilities (reserves) for the syndicate. The majority of managing agents have an actuarial department, headed by a chief actuary, and carry out claims reserving in-house. Despite this the majority of managing agents obtain their actuarial sign-off externally from an actuarial consultancy firm to provide additional assurance and independence on the appropriate levels of technical reserves.

In both cases, a formal certificate and report are required on an annual basis. These must be signed by a qualified actuary possessing a current practising certificate for this role issued by the Institute and Faculty of Actuaries (a "**signing actuary**"). The signing actuary must review the reserves (both gross and net of reinsurance) of each open year (including years that have been reinsured to close) and provide an opinion confirming that the reserves for each open year which form the technical provisions for solvency are at least equal to their best estimate of the amounts required.

Brokers, Underwriting & Claims

Insurance business is generally brought to managing agents of syndicates through Lloyd's brokers – insurance broking firms registered by the Society, to broke their clients' insurance business at Lloyd's. In order to be registered as a Lloyd's broker, brokers need to meet certain entry criteria set by the Society. In particular, the Society requires all Lloyd's brokers to be authorised by the FCA or registered with a competent authority elsewhere in the EU. Non-EU based Lloyd's brokers will need to comply with equivalent standards. In addition, they also need to show that they have the ability to transact and process Lloyd's market business. As at 1 September 2014 there were 211 Lloyd's brokers. Managing agents may also accept business from brokers who are not registered Lloyd's brokers. Lloyd's has prescribed requirements to ensure that managing agents apply the same prudential standards that are required of Lloyd's brokers to any non-Lloyd's brokers with whom they directly deal.

Risks placed at Lloyd's will be allocated, and all premiums and claims attributed, to the year of account corresponding to the calendar year in which the relevant insurance contract or binding authority incepts.

A risk is sometimes placed with a number of syndicates, with the managing agent of one syndicate acting as the lead underwriter and generally having responsibility for setting the premium rate, approving the policy wording and usually underwriting the largest "line" (percentage) of the risk. Generally, the lead underwriter will accept or reject a claim on behalf of its own syndicate; in respect of the syndicates which have agreed to accept a proportion of the risk on the same terms as the lead underwriter (known as following syndicates), in the case of standard claims, the lead underwriter will act on behalf of the following syndicates to accept or reject claims. In the case of complex claims, the underwriter for the lead syndicate, together with the underwriter for the second following syndicate, will act jointly on behalf of the following syndicates to accept or reject claims.

Coverholders

A coverholder is a business authorised by a managing agent to accept insurance risks on behalf of a syndicate. The managing agent enters into a contract known as a binding authority with a coverholder under which the

Lloyd's managing agent delegates its authority to enter into contracts of insurance to be underwritten by the members of a syndicate. Coverholders are a key distribution channel, offering a local route to the Lloyd's market in many insurance markets around the world. There are currently approximately 3000 coverholders.

A service company operates like a coverholder but is a wholly owned subsidiary of a managing agent or its group. There are currently 310 service companies, the majority of which are based in the UK, the US and Singapore.

Reinsurance to Close

Normally each syndicate year of account is kept open for three years, at the end of which it is closed by reinsurance into the next year of account of the syndicate ("**Reinsurance to close**" or "**RITC**"). This later year takes over all liabilities and related claims handling costs of the closing year of account in return for a premium. Occasionally, a year of account may be reinsured by a different syndicate. The premium for the reinsurance to close is determined by reference to the estimated outstanding liabilities (including claims incurred but not reported), net of estimated collectible reinsurance recoveries and also includes a provision for claims handling costs relating to the closed year of account and all previous years of account.

It may not be possible for a managing agent to close a year of account by RITC due to uncertainty as to the estimated underwriting liabilities and a consequent inability to fix an equitable premium for RITC or because there is no successor year of account to accept the RITC. In these circumstances, closure of the year of account may be delayed. In such circumstance, the Issuer increases its oversight of the managing agent of the syndicate and the managing agent continues to be required to comply with requirements for the preparation of syndicate accounts. At 2013 year-end there were only six syndicate year of accounts where no RITC premium could be determined. These relate to business underwritten from 2007 to 2011. This compares to 102 syndicate open years of account at the end of 2005.

Annual Accounting

In accordance with the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004, managing agents must prepare syndicate annual accounts under UK GAAP. The Council is required to prepare Aggregate Accounts by totalling all of the syndicate annual accounts prepared under the Regulations. The adoption of annual accounting under UK GAAP does not affect the allocation of profits / losses to members. Members continue to participate on syndicates by reference to years of account and results, assets and liabilities are assessed according to policies incepting in each syndicate year of account for that member's share of each syndicate year of account.

The financial statements of the Society are prepared in accordance with International Financial Reporting Standards (as adopted by the European Union) and on a historic cost basis, except for financial assets and liabilities at fair value through profit and loss, which are measured at fair value. Loans and receivables and other financial liabilities are carried at amortised cost. The Lloyd's collection and loans recoverable are stated at fair value.

The Society, The Council and The Franchise Board

The Society

The Society is a statutory corporation, not a company incorporated under the Companies Act 1985, and it does not have a registered office. Its head office is located at One Lime Street, London, EC3M 7HA, United Kingdom, telephone number: +44(0) 207 327 1000.

The Society's governing body is the Council, which was established by Lloyd's Act 1982. Under this Act, the Council has the power to manage and supervise the affairs of the Society, to regulate and direct the business of insurance at Lloyd's and to exercise all of the powers of the Society. The Council has power to make such byelaws as it thinks fit to further the objects of the Society.

The Society does not itself underwrite and is not authorised by the PRA to carry on insurance business, however, it is authorised to carry on the regulated activities of: (i) arranging deals in contracts of insurance

written at Lloyd's; (ii) arranging deals in participation in Lloyd's syndicates; and (iii) any activities carried on in connection with, or for the purposes of, the activities in (i) and (ii). The external regulation of Lloyd's is described below (see "*External Regulation of the Lloyd's market*"). The principal activities of the Society include authorising and monitoring market participants (including members of Lloyd's and managing agents) and agreeing syndicate business plans, setting capital requirements and monitoring syndicate level systems and controls.

The Society does not have liability for the risks underwritten by its members, although, it may at its discretion make its assets (in particular, the Central Fund) available to meet the underwriting liabilities of Lloyd's members where members are unable to meet these liabilities in full. See "*The third link: central resources*" for details of how the Central Fund is operated and applied.

The Society is funded by levying an annual subscription on members and imposing certain other charges on members. The funding arrangements for the Central Fund are discussed below (see "*Funding of the Central Fund*").

The Council

The members of the Council exercise many functions which are equivalent to those performed by directors of a Companies Act company.

The membership of the Council is divided between "working members", "nominated members" and "external members". The Council is required to have a maximum of 18 members comprising six members falling into each category. Members are generally appointed for three year terms.

Working members of the Council are persons who are: (a) working members of the Society; and (b) elected as Council members by the working members of the Society. The working members of the Society comprise those members who are or were, immediately before retirement, principally occupied with the conduct of business at Lloyd's, by a Lloyd's broker or underwriting agent.

External members of the Council are persons who are: (a) external members of the Society; and (b) elected as Council members by the external members of the Society. External members of the Society are all members of the Society who are not working members.

Nominated members are appointed by the Council.

All Council members must be approved by the PRA and the FCA.

The current Council members, each of whose service address is One Lime Street, London EC3M 7HA, United Kingdom, their functions within the Lloyd's market and their principal outside activities of significance are as follows:

Working members

Rupert Atkin, Deputy Chairman of Lloyd's, Chief Executive of Talbot Underwriting and a director of all Talbot Group companies. Chairman of the Lloyd's Market Association.

Simon Beale, the Group Chief Underwriting Officer of Amlin plc, an Executive Director of the Amlin plc board and Non-Executive Director of Amlin Underwriting Limited.

Dominic Christian, Executive Chairman of Aon Benfield International and the Chief Executive Officer of Aon UK Limited. He sits on Aon Group's Executive Committee.

Christopher Harman, a Partner in JLT Towers Reinsurance Brokers Ltd.

Lawrence Holder, Managing Director of Cathedral Underwriting Limited.

Graham White, Chairman of Argenta Private Capital Limited and Deputy Chairman of Argenta Syndicate Management Limited Chairman of Marine Aviation and General (London) Limited and a Non-Executive Director of the Newton Follis Partnership Limited.

External members

Catlin Syndicate Limited, represented by Paul Jardine. Deputy Chairman of Lloyd's, Deputy Chairman of Catlin Underwriting Agencies Limited and Chief Operating Officer of Catlin Group Limited.

Flectat Limited, represented by Michael Watson. Chairman and Chief Executive of Canopus Group Limited.

Hiscox Dedicated Corporate Member Limited, represented by Robert Childs. Non-Executive Chairman of Hiscox plc.

Novae Corporate Underwriting Limited, represented by Matthew Fosh. Chief Executive Officer of Novae Group plc and Non-Executive Director of Ariscom Compagnia di Assicurazioni S.p.A.

Palace House International (Two) LLP, represented by Alan Lovell. Chairman of Tamar Energy, an anaerobic digestion business and Chief Adviser to the restructuring practice of PwC. Chairman of the Association of Lloyd's Members and Senior Independent Director of Sweett Group plc.

The Michael Deeny LLP, represented by Michael Deeny. Non-Executive Director of the Association of Lloyd's Members and Randall & Quilter Underwriting Management Holdings Limited. Chairman of the Equitas Trust.

Nominated members

John Nelson, Chairman of Lloyd's.

Inga Beale, Chief Executive Officer of Lloyd's.

Andy Haste, Senior Independent Deputy Chairman of Lloyd's, Senior Independent Director of ITV plc, Chairman of Wonga Group Limited.

Dr Fred Hu, Chairman of Primavera Capital Group.

Sir David Manning GCMG-CVO, Director of Gatehouse and a Non-Executive Director of the BG Group and of Lockheed Martin UK, Chair of 'IDEAS' at the London School of Economics and on the panel of Senior Advisers at the Royal Institute for International Affairs.

Henrique Meirelles, Chairman of Lazard Americas, of J&F (holding company of JBS) and of Brazil's Olympic Public Committee, Non-Executive Director of Azul Linhas Aéreas Brasileiras and a Senior Adviser to Kohlberg Kravis Roberts.

Potential conflicts of interest between duties to the Issuer and private interests of Council members

Members of the Council frequently have an involvement in the Lloyd's market and may also come from a particular constituency of the market. Provided that members of Council do not allow an allegiance to any particular constituency of the market to override their duties to act in the best interests of the Society, they will not be precluded from discussing or voting on a matter simply because it affects the interests of the member's particular constituency. This is subject to compliance with the Society's governance arrangements and requirements on declarations of interest below.

The Society's governance arrangements for members of the Council include provisions on conflicts of interest and declarations of interests. Members of the Council are required to complete an annual declaration of interests. In addition, at any meeting of the Council when the Council is going to discuss a matter in which the member has an interest (whether or not disclosed in the annual declaration), the member must also make a declaration of interest prior to the discussion of that matter. The Chairman of the Council will then consider whether the member should be precluded from being present during the relevant discussion. The same arrangements are in place for members of the Franchise Board.

Other than as disclosed above, there are no potential conflicts of interest between any duties of members of the Council and their private interests or other duties.

The Franchise Board

The Council established the Franchise Board in 2003 and set it a goal “to create and maintain a commercial environment at Lloyd’s in which the long-term return to all capital providers is maximised”. The Council has delegated certain of its powers to the Lloyd’s Franchise Board which must operate within the limitations set by the Council which include operating in accordance with the overriding principles (legal, regulatory and corporate governance), capital principles and operating principles (which include setting a market supervision framework in accordance with PRA and/or FCA requirements).

The Franchise Board is chaired by the Chairman of Lloyd’s and has three executive members: the Chief Executive Officer, Director, Performance Management and Chief Risk Officer & General Counsel. It also has three non-executive directors connected with the Lloyd’s market and five independent non-executive directors.

The current members of the Franchise Board and their principal business activities are as follows:

Non-Executive

John Nelson, Chairman of Lloyd’s.

Sir Andrew Cahn KCMG, Vice Chairman of Nomura International plc, Chair of the Advisory Board of Huawei Technologies (UK), Chair of the International Trade and Investment Group, Trustee of TheCityUK Non-Executive Director of General Dynamics (UK) and Non-Executive Director of The Start Up Loans Company.

Charles Franks, Group Chief Executive Officer of Tokio Marine Kiln Group and of its Lloyd’s managing agency, R J Kiln & Co. Executive Officer of Tokio Marine Holdings.

Nicholas Furlonge, Non-Executive Director of Beazley Furlonge Ltd.

Joy Griffiths, Global Managing Director, Decision Analytics and Chairman, Asia Pacific region, Experian

Claire Ighodaro CBE, Non-Executive Director and Governance Committee Chair of Merrill Lynch International and Independent Director and Audit Committee Chair of Shell (Nig) Pension Fund.

Andrew Kendrick, President of ACE European Group Limited.

Dr Martin Read CBE, Chairman of Laird plc, Chairman of the Low Carbon Contracts Company and the Electricity Settlements Company, the Independent Chairman of the Remuneration Consultants Group and a Non-Executive Director of the UK Government Efficiency and Reform Board.

Bruce Van Saun, Chairman and Chief Executive Officer of RBS Citizens Financial Group, Inc..

Executive

Inga Beale, Chief Executive Officer of Lloyd’s.

Tom Bolt, Director, Performance Management.

Sean McGovern, Chief Risk Officer & General Counsel.

Managing the Lloyd’s market

Operating at Lloyd’s provides managing agents and members with immediate benefits including: the Lloyd’s brand, the Lloyd’s market ratings, the mutual security of the Central Fund and access to the Lloyd’s market licences to conduct business in various jurisdictions around the world. These benefits are central to Vision 2025 which sets out the strategic direction for Lloyd’s in the context of long term industry trends and the challenges which Lloyd’s faces in the current global economy. Lloyd’s strategic plan identifies the steps that are being taken to deliver Vision 2025 and identifies Lloyd’s six major priorities which are market oversight, international growth, distribution, capital and convergence, market operations and market talent.

- Market Oversight**

Market oversight is a priority, especially as market conditions remain challenging. The industry is facing an oversupply of capital, softening of rates and margins and an uncertain economic and regulatory environment. Given this backdrop, sustainable growth must be measured and profitable. The Society's priority is to ensure that its market oversight regime operates in such a way that it supports the Lloyd's market's reputation for innovation and increases the market's geographic footprint.
- International Growth**

Growth and expansion into developing markets are a core part of Vision 2025. In addition to continuing to access cross-border reinsurance from London, the Society will consider how it may increase the Lloyd's market share of insurance business in developing markets, subject to prevailing market conditions.
- Distribution**

The role of brokers in London and in local markets is key to the Lloyd's market retaining business as well as accessing new business in both developed and developing economies. To access the widest range of potential business, the breadth of distribution options available to the market needs to increase through growth in all existing channels (brokers; coverholders; service companies and Lloyd's local underwriting offices) as well as managing agents giving consideration to new options (such as joint ventures with local reinsurers).
- Capital and Convergence**

Diversity of capital underpins Lloyd's current and future strength; encompassing private, trade and institutional capital providers. Encouraging diversity of capital, by both type and geography, is important, ensuring that Lloyd's is alert to trends in capital provision and the growth of the (re)insurance sector in developing economies. This growth may arise as the underlying market becomes more developed and/or insurance penetration increases.
- Market Operations**

Placing and processing business in the Lloyd's market needs to be easier and more efficient. This will make the market more attractive to existing and new business in London and in local markets. Work in this area requires significant effort given the diversity of market participants and the often complex nature of business at Lloyd's. Key stakeholders must continue to work together to deliver required improvements, including the removal of London-specific back office processes which currently hinder the processing of business at Lloyd's.
- Market Talent**

Attracting and retaining the best people is core to Lloyd's future success. The market needs to work together to attract, retain and develop the best talent from the widest possible talent pool and to provide accelerated career paths for high achievers.

Performance Management

Business Planning

Each managing agent is required to submit a business plan to the Society for each syndicate it manages. The agreement of the Society is required for each syndicate's business plan.

In preparing a business plan the managing agent must have regard to the underwriting guidelines issued by the Society (the "**Guidelines**"). Underwriting guidelines were first issued by the Society in 2002. The Guidelines represent sensible parameters within which each syndicate should operate. They are based on sound underwriting and business practices and are aimed at assisting managing agents to optimise and, where necessary, improve the performance of the syndicates they manage. If a managing agent wishes to operate outside the Guidelines, it will generally require the agreement of the Society through the business plan process. Some of the key Guidelines are as follows:

- *Profitability by business line* – There should be a reasonable expectation of making a gross underwriting profit on each line of business. The cyclical nature of insurance means constant profit is not a realistic expectation every year but unless a line of business can be written profitably over the insurance cycle there can be few reasons for writing it;
- *Catastrophe exposure* – The Lloyd’s market has suffered significant losses in the past due to catastrophic events. The Franchise Board seeks to limit the exposure of each syndicate and the market as a whole to such catastrophes by requiring syndicates to analyse and monitor their exposures using tools and methods approved by the Society. With effect from 1 January 2013 the Franchise Guideline in respect of maximum RDSs exposures has been changed to the following:

The maximum gross and final net exposures to a single Lloyd’s specified RDS event (see “*Risk Management*” below) for a syndicate are subject to the following thresholds:

(1) up to 80% and 30% of syndicate gross premium (net of brokerage and commissions) respectively; and

(2) up to 80% and 30% of syndicate Economic Capital Assessment (“**ECA**”) respectively.

The capital guideline (2) above is new: both tests must be met simultaneously.
- *Gross line size* – The maximum gross line that a syndicate should write on an individual risk is 10% of its capacity. This is to ensure that syndicates use their capacity across a relatively large set of uncorrelated risks.

The Society reviews and agrees syndicate business plans. In addition to applying the Guidelines as a framework for this review the Society also examines the syndicate’s business strategy, the lines of business the syndicate intends to underwrite, the syndicate’s reinsurance strategy and its forecast financial performance. Following discussions with the managing agent the Society will, where appropriate, seek modifications to the business plan following which the plan can be agreed.

Performance Monitoring

The Society requires a managing agent to report quarterly on the performance of each syndicate it manages. Through analysis and performance modelling the Society seeks to produce forecast results for each syndicate and each line of business. This produces a modelled development pattern against which the reported quarterly performance of each syndicate can be tracked.

The Society also tracks a variety of other performance measurements at syndicate and market level including the development of syndicate reserves for prior years of account, expenses, accuracy of each syndicate’s results forecasting, investment performance and historic and current premium income levels.

The analysis of this information enables the Society to track actual syndicate performance against a number of benchmarks. The aim is to seek to identify underperforming syndicates and/or lines of business at an early stage to ensure appropriate action can be taken. Where appropriate the Society provides the results of its analysis on a particular syndicate to the managing agent of that syndicate.

In addition, managing agents’ performance against a set of minimum standards is also reviewed. The original Lloyd’s minimum standards were developed in 2005 and covered fundamental elements such as underwriting, governance and risk management (the “**Lloyd’s Minimum Standards**”). Over time, additional minimum standards have been developed to support broader activity in other areas and multiple sources of requirements existed which managing agents needed to comply with. Accordingly, the Society published a new set of Minimum Standards on 1 July 2014 which provide a clear and complete framework within which all managing agents are required to operate. The Minimum Standards align clearly with the requirements of Solvency II and cover the following areas –

- The underwriting management standards cover underwriting strategy, underwriting controls, delegated underwriting, pricing and rate monitoring, exposure management and assessment, reinsurance and data quality.
- The claims management standards cover claims philosophy, resources, skills management and controls, claims processes, documentation, claims reserving, management of external service providers and performance measurement.
- The governance standards cover systems of governance, internal controls, organisational structure, allocation and segregation of responsibilities, documentation of key policies, board effectiveness, collective suitability of the board, management of outsourcing arrangements and requirements relating to certain required functions (compliance, internal audit, risk management & actuarial).
- Risk management standards cover risk management systems, strategy and processes (identification, assessment, control and mitigation, monitoring and reporting) and requirements relating to the Own Risk and Solvency Assessment (the “**ORSA**”).
- The standards relating to internal models cover model design and implementation, model scope, model change, use and validation of the internal model.
- The investment management standards cover investment strategy and governance.
- The reserving standards cover board responsibility for setting reserves, the Statement of Actuarial Opinion, the actuarial function, board information and the reserving procedure.
- The regulatory standards cover relationships with regulators in the UK and overseas, conducting business in accordance with applicable UK and international regulatory requirements (including but not limited to applicable financial crime and international sanctions requirements).
- The standards for operating at Lloyd’s cover operational requirements relating to IT and infrastructure, HR and finance and the protection of Lloyd’s reputation and brand.
- The conduct standards cover how managing agents should assess, control and oversee conduct risk arising from their underwriting business at Lloyd’s.

Where a managing agent of a syndicate is underperforming or does not meet any part of Lloyd’s Minimum Standards, the Society will provide the managing agent with information and guidance to enable it to raise its standard of performance. If a managing agent does not respond to this facilitative approach, the Society will consider what action may be appropriate to manage the risks posed by that syndicate to Lloyd’s. This will usually involve the imposition of suitable conditions, including conditions on the amount, duration and risk profile of business that the syndicate can underwrite. Continued underperformance may result in withdrawal of the Society’s agreement to the syndicate’s business plan and/or withdrawal of the managing agent’s permission to operate in Lloyd’s.

Risk Management

The Franchise Board views the development of leading risk management practices as critical in maximising the performance of the market. The Society has a dedicated risk management function to identify and ensure that all the key risks affecting the Lloyd’s market as a whole and individual managing agents and the syndicates which they manage are managed.

The Franchise Board defines its risk appetite (the risk it deems to be acceptable across the Lloyd’s market as a whole and the Society) and has put in place risk appetite statements which provide details of the appropriate levels of risk. These statements are supported by a set of metrics for monitoring which are regularly reviewed and escalated where appropriate through the Society’s governance structure. The metrics are set at levels at which they are intended to be triggered to ensure that sufficient remedial actions are put in place.

Effective risk management is fundamental to the operation of Lloyd's and a core responsibility of the Society. A risk management framework has been established that identifies the key risks that the Society and the Lloyd's market faces, and enables an assessment of these risks on a common basis. This framework is led by the Society's Risk Committee, chaired by the Chief Executive Officer, which is responsible for overseeing the risks to the Society and providing assurance that the risks are managed in accordance with approved policies and risk appetites. The Risk Committee reports to the Franchise Board and Council to ensure appropriate oversight and challenge on key risk issues and to provide assurance that risk is being identified and managed effectively. The current principal risks identified by the Risk Committee and the Franchise Board are (i) the insurance cycle (ii) unstable economic and financial climate (iii) significant regulatory change (iv) catastrophic exposure (v) strategic threats (vi) outsourcing (vii) failure to deliver the international growth objectives set out in Vision 2025 and (viii) the Society fails to obtain internal model approval under Solvency II. Information about these risks is covered in "Risk Factors" above.

As part of the Society's framework, each managing agent is expected to have in place its own comprehensive risk management framework to manage the risks facing their businesses and must set its own risk appetite that is appropriate for its individual business model and strategy. The Society continuously reviews managing agents' capabilities and track records to ensure they meet the minimum standards set for operating within the Lloyd's market (details of these standards are outlined in the Performance Monitoring section above).

Each managing agent must have set its own risk appetite which is appropriate for its individual business model and strategy. In addition, the Lloyd's Franchise Board defines its own risk appetite – the level of risk it deems acceptable across the whole Lloyd's market and the Society. Risk appetite statements (a clear description detailing the appropriate level of risk) have been produced for each material area. Each of these statements is supported by a set of metrics for detailed monitoring which are regularly reviewed and escalated where appropriate through the governance structure.

Exposure Management

The Society uses a variety of methods to assess catastrophe exposures within the Lloyd's market. The primary method is to collect probabilistic risk assessments, on a gross and net of reinsurance basis, from the syndicates which are aggregated into a whole market exceedance probability curve. Data for US Hurricane and Earthquake, European Windstorm and Japanese Hurricane and Earthquake risks are collected quarterly - risks in other regions are collected annually. The syndicate data is created by the managing agents primarily using exposure based generally accepted catastrophe models, though some also use internally developed models. The models use statistically validated assumptions and are generally based on scientific and engineering analysis coupled with past claims experience.

In addition to probabilistic modelling the Society continues to collect deterministic RDSs via an annual process that has been in operation since the mid-1990s. These are a collection of hypothetical scenarios based on plausible yet challenging assumptions. There are currently 21 scenarios representing a range of manmade and natural catastrophes. Managing agents are required to report losses on a compulsory basis for 14 of the scenarios which include: (i) a single Florida hurricane leading to insurance industry property losses of USD 125bn, (ii) Two major hurricane landfalls in one year hitting South Carolina (USD 36bn) and North East USD 78bn, and (iii) Californian Earthquakes leading to industry insured losses of USD 78bn. Other compulsory scenarios include: Two bespoke syndicate scenarios, New Madrid earthquake, European Windstorm, Japanese Typhoon and Earthquake, Terrorism and UK flood. There are additional scenarios for marine, aviation, liability, satellites and political risks and these are reported subject to materiality criteria.

The Society remains of the view that Atlantic hurricane risks are elevated above long term average rates due in part to warmer sea surface temperatures than in the past, possibly exacerbated by climate change. The Society requires that the market take a forward view of risk to take this into account.

RDSs and probabilistic estimates are collected through the annual business plan forecasting process; forecasted losses in the regions described above are subject to Franchise Board risk appetites. Should any syndicate wish to exceed the appetite thresholds a dispensation must be provided by Lloyd's. In addition to

the financial risk data Lloyd's also has a suite of minimum standards covering exposure management processes. Managing agents are required to self-assess compliance with the standards and this is reviewed periodically by skilled personnel within the Society. The standards include a requirement of data completeness, communication of uncertainty and identification and management of emerging risks.

Capital Requirements

Each member, either corporate or individual, must provide capital to support its underwriting at Lloyd's. In accordance with the PRA regulatory capital regime, each managing agent produces its own capital assessment in respect of each managed syndicate stating how much capital it considers is needed to cover its underlying business risks with a 99.5% confidence level. The Society carries out an annual review of syndicate capital and the PRA reviews a sample of syndicates in order to validate the effectiveness of the reviews carried out by the Society.

The Society reviews each syndicate's capital, using all the information submitted and held regarding the historical performance, business plans and risk appetite of that syndicate in assessing the adequacy of the capital level proposed. When agreed each syndicate's capital is then 'uplifted' by 35% to ensure extra capital is in place to support Lloyd's ratings and financial strength. This uplifted capital (known as the Economic Capital Assessment) for the syndicate is used to determine the funds at Lloyd's that the syndicate's members must provide to support their underwriting. Members' funds at Lloyd's are held in trust by the Society, as readily realisable assets (such as cash, securities, letters of credit and bank and insurance company guarantees). If required, these assets can be used to meet any Lloyd's insurance liabilities of that member but not the liabilities of other members.

Lloyd's ICA and Solvency

The Society also prepares a capital assessment for Lloyd's overall, using the PRA's defined risk categories and 99.5% confidence level. This examines the risks that are not captured in each member's capital assessment including, for example, investment risk on assets held centrally or damage to the Lloyd's building itself. In addition the Society's capital considers the risk that members' funds at Lloyd's will be insufficient to meet the risks arising from members' underwriting activities.

In addition, the Society calculates and reports on the statutory solvency position of the Society to the PRA. As at 30 June 2014, the Society reported a solvency surplus of £3,215m. See "*Resources within the Lloyd's market and the Protection of Policyholders*" for further information on the Society's capital resources and structure.

The Solvency II directive will introduce a new regulatory capital setting regime in 2016. This is considered further in "*Solvency II*" below.

Other activities of the Society

These include: obtaining and maintaining the Lloyd's members' authorisations to conduct business in other jurisdictions, identifying and taking action in respect of breaches of its requirements by market participants, operating a central settlements system for the market, and providing other services, such as treasury services, to market participants.

Subsidiaries of the Society

The Society has four principal subsidiaries: Additional Securities Limited, Centrewrite Limited ("**Centrewrite**"), Lioncover Insurance Company Limited ("**Lioncover**") and Lloyd's Insurance Company (China) Limited.

Additional Securities Limited is funded by members and provides deposits overseas on behalf of Lloyd's members in order to comply with local insurance regulations.

Centrewrite and Lioncover are authorised UK insurance companies. Centrewrite's principal business is to offer reinsurance protection to members of Lloyd's who participate in syndicates which are unable to close

their accounts through RITC. Lioncover was formed in 1987 to reinsure the liabilities of members in certain syndicates.

Following implementation of Reconstruction and Renewal (see “*Reconstruction and Renewal and Equitas*”), the liabilities of Lioncover and the pre-1992 liabilities of Centrewrite were reinsured into Equitas. The Society has given an indemnity bond to both Lioncover and Centrewrite against any shortfall of their assets or cashflow (including any shortfall arising from an insufficiency of recoveries from Equitas Reinsurance Limited under its reinsurance of the obligations of Centrewrite to Equitas Insurance Limited). The Council has determined that any losses resulting from such indemnities will be met by the Central Fund. Accordingly, if Equitas were unable to discharge in full the Lioncover and Centrewrite liabilities which it has reinsured, any resulting shortfall would be met out of the Central Fund under the terms of the indemnity bonds. However, the transfer of Equitas’ reinsurance obligations to National Indemnity Company in 2006 makes the contingent liabilities under these bonds considerably less likely to crystallise (see “*Reconstruction and Renewal and Equitas*” for further information on the retrocession of Equitas’ reinsurance obligations). Following the completion of the second phase of this project in 2009, Lioncover no longer had any reinsurance liabilities to any person or was entitled to any reinsurance recoveries and an application to voluntary strike off Lioncover from the Companies Register was submitted to Companies House on 26 June 2014.

In March 2007 Lloyd’s received regulatory approval for Lloyd’s Reinsurance Company (China) Limited to commence underwriting reinsurance business. In May 2010, the China Insurance Regulatory Commission (“CIRC”) extended Lloyd’s Reinsurance Company (China) Limited’s licence to include non-life direct insurance in the Shanghai region. In line with this expanded licence and in accordance with the regulations of CIRC, the company name changed from Lloyd’s Reinsurance Company (China) Limited to Lloyd’s Insurance Company (China) Limited (“LICCL”) in October 2010. The extended licence became operational in September 2011. Reinsurance forms the majority of business written by LICCL but the extended licence allows the Lloyd’s market greater access to Chinese business and is an important long term development for Lloyd’s presence in China.

Lloyd’s syndicates participate in LICCL’s business by means of retrocession agreements which allow a 100% risk transfer. LICCL’s capital is provided centrally by Lloyd’s. A new risk-oriented solvency regime (C-ROSS) is expected to be finalised by the Chinese regulators by the end of 2014 and apply from 2015 with a transitional period during 2015. LICCL does not currently meet the C-ROSS solvency requirements. A minimum solvency ratio of 200% will be required for LICCL to be considered as a reinsurer by cedants. In view of this, Lloyd’s decided in July 2014 to take steps to ensure that an increased level of capital was put in place by the end of 2014. Accordingly, the Council of Lloyd’s resolved to use the New Central Fund to increase LICCL’s capital from RMB 220m to RMB 1bn.

Resources within the Lloyd’s market and the Protection of Policyholders

The “Chain of Security”

The resources held within the Lloyd’s market to support members’ underwriting liabilities are derived from three separate sources which together make up what has been described in the Lloyd’s market as the Lloyd’s “chain of security” (although the term “security” is not used in a technical sense).

Investors should note that assets that are described below as falling within the first and second links of the chain of security are held by or on behalf of members to support their own insurance liabilities only and would not therefore be directly available to meet the Society’s obligations to repay the Notes (although such assets may become available to meet the Society’s obligations to the extent they are transferred to the Society as a result of the Society making calls on members for contributions or imposing levies on members). Furthermore, assets falling within the third link of the chain of security (central resources) would, in accordance with the terms and conditions of the Notes, be used to discharge the claims of Senior Creditors (as defined in the terms and conditions of the Notes) of the Society in priority to claims of the holders of the Notes in the event of a winding-up of the Society.

The first link: syndicate level assets

The first link in the chain of security is the members' Premiums Trust Funds ("PTF"), and other assets held in trust at syndicate level. To protect the interests of policyholders, all premiums and monies received or receivable in connection with the members' underwriting business are initially paid into the PTFs, managed by the managing agent of the syndicate concerned. Payments from these funds may only be made to meet permitted trust outgoings which include claims, reinsurance premiums and underwriting expenses, including funding overseas regulatory deposits. Investment of the assets of the syndicate level PTFs is at the discretion of managing agents. These funds are required to retain high levels of liquidity. Typically, the funds are invested in money-market and short to medium dated fixed-interest securities of high credit quality. Average portfolio durations are typically between one and three years. Volatility arising from yield movements is consequently low.

A member's PTF is held at two levels – syndicate level and personal reserve level. Assets held at syndicate level of the PTF form part of the first link of the chain of security whereas assets held at the personal reserve level of the PTF fall within the second link. Premiums and other amounts received in respect of a member's insurance business are initially held in a member's PTF at syndicate level.

Outgoings are met from the syndicate level PTF applied at the direction of the managing agent. Profit is distributed from syndicate level to personal reserve level in the PTF. Amounts are distributed from personal reserve level of the PTF to a member only once the Society is satisfied that all of a member's outstanding underwriting liabilities have been met or adequately provided for. There are separate PTFs for life business and non-life general business. There is a further segregation in that a number of the PTFs are exclusively available to support certain overseas underwriting of members.

The Lloyd's Dollar Trust Funds (the "LDTF") receive premiums in respect of U.S. dollar denominated non-life business underwritten or incepting on or after 1 August 1995.

The other overseas PTFs are the Lloyd's Canadian Dollar Trust Fund (the "LCTF") in Canada, comprising members' underwriting receipts in respect of Canadian situs business and the Lloyd's Asia trust funds for general business written through service companies in Singapore.

Members must ensure that there are sufficient funds in the members' premiums trust fund for the syndicate to meet all claims, necessary expenses and outgoings in connection with the syndicate business; they are required to meet cash call requests by managing agents to make such funds available. Cash calls are met by members from their own resources or, if necessary, from their funds at Lloyd's or, at the Council's discretion, the Central Fund.

PTFs are used to fund overseas regulatory deposits. The US situs business of each syndicate is supported by US situs syndicate level trust funds (for US surplus lines business, US situs reinsurance as accredited reinsurers, and for Illinois and Kentucky business respectively). In addition, separate joint asset trust funds provide joint security for members' US situs surplus lines, US situs reinsurance and Kentucky business respectively.

These deposits would be available to meet judgment debts of a member in respect of business connected with the relevant overseas territory in the event that the relevant premiums trust fund of the member, even after replenishment from other links in the chain of security and other free assets of the member in question, was inadequate. Underwriters also maintain regulatory deposit trust funds in Australia and South Africa and various deposits in other countries. The total value of all the above funds was £42,584m in aggregate, at 30 June 2014.

The second link: members' funds at Lloyd's ("FAL")

The second link is members' FAL. FAL comprise the three trust funds in which members' assets may be held: the Lloyd's deposit, the special reserve fund and the personal reserve fund held under the terms of the premiums trust deed. These are each available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be at least equivalent to the aggregate of the member's net FAL

requirement and certain liabilities in respect of its underwriting business. From 1 July 2007, capital deposits by aligned corporate members can be held in premium trust funds (see first link above). FAL will include assets lodged by members to cover deficits declared by syndicates. Where syndicates report such losses on open years that do not immediately trigger a cash call requirement at syndicate level, members are required to deposit additional assets centrally to cover these deficits, so that their FAL are sufficient to meet both open year losses and their ECA. Minimum capital ratios are set at 40% of overall premium limits (25% for those members writing mainly EU motor business). Individual members underwrite with unlimited liability and thus may be required to meet their share of claims to the full extent of their wealth. A corporate member may also have assets, beyond its FAL, which can be called upon to meet its underwriting liabilities. As at 30 June 2014, the total value of FAL held in trust by members amounted to £14,814m in the aggregate.

The third link: central resources

The third link is the central resources of the Society. These are the assets of the Central Fund (comprising the New Central Fund and the ‘Old’ Central Fund) and other assets of the Society.

The New Central Fund has been established with the purpose of being available, at the discretion of the Council, to ensure that policyholders’ claims are met in the event of members being unable to meet their underwriting liabilities relating to 1993 and post non-life business and all life business and for complying with the Society’s regulatory capital requirements. In practice, this entails the payment of syndicate cash calls where a member is unable to do so from their FAL or their own resources. A member or former member of the Society does not have any right to the repayment of any contribution that member or former member has made other than in a winding up of the Society.

The New Central Fund is funded by annual contributions from members. These amounts are treated as equity in the Society’s financial statements. The equity of the Central Fund as at 30 June 2014 was £1,604m.

In addition to the Central Fund, the other equity of the Society, which totalled £159m at 30 June 2014, is available to meet underwriting liabilities in the last resort, resulting in total equity of the Society at 30 June 2014, of £1,763m.

The Society also has the right to make a call on members of up to 3% of members’ premium limits (“**callable contributions**”). The callable contributions can be drawn from members’ premiums trust funds without the members’ consent.

In 2004 the Society issued the 2004 Notes and in 2007 the Society issued the 2007 Notes which, as at 30 June 2014, are included as a liability of £712m within the Society’s financial statements. Payments on the 2004 Notes and 2007 Notes are subordinated to certain payments which may be made out of Central Assets, including payments made to discharge the liabilities of an insolvent member to any person (including any policyholders) arising out of or in connection with insurance business carried on at Lloyd’s by that insolvent member. On 17 November 2014 and 17 November 2015, the Society is entitled to redeem the outstanding principal amount of each series of the 2004 Notes. The Society has exercised its option to redeem the euro series of the 2004 Notes on 17 November 2014.

The table below shows a breakdown of the central resources of the Society.

	30 June 2014	31 December 2013	31 December 2012
	£m	£m	£m
Society Equity	1,763	1,663	1,592
Subordinated Loan Note Liabilities Issued in 2004	324	330	503
Capital Security Liabilities Issued in 2007	388	391	390
Central Assets	2,475	2,384	2,485

Application of Central Assets

The New Central Fund is held and owned by the Society and at the discretion of the Council can be applied to discharge any liabilities of Lloyd’s members that they are unable to meet in full and also for such other

purposes as may appear to the Council to further any of the objects of the Society. The New Central Fund may be used to meet directly 1992 or prior year non-life insurance business claims of members only if the members of Lloyd's resolve in a general meeting to make the New Central Fund available for this purpose. The Central Fund may however be applied to meet liabilities to which members of Lloyd's or the Society could be exposed in the event of a failure of Equitas (see "*Reconstruction and Renewal and Equitas*").

When a corporate member is unable to meet its liabilities, the Society would under normal circumstances give an annual undertaking to that member by which the Society agrees to use the New Central Fund to meet cash calls made on the member. The undertaking would have a duration of 12 months and would be subject to a financial limit. The undertaking is limited to monies or other assets from time to time forming part of the New Central Fund. For corporate members in provisional liquidation, the Society will also provide a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation. A supporting undertaking is legally enforceable. Whilst the Society is solvent, the likelihood of the supporting undertaking being called in is extremely remote.

When assessing the need for further annual undertakings, the Society reviews the most recent audited solvency returns prepared by managing agents of syndicates on which the corporate member participates.

These returns will be supported by an actuarial opinion on the adequacy of the syndicate reserves. This enables the Society to form a view on both the level of future cash calls that may be made on the relevant member during the next 12 month period and to assess the total level of the member's underwriting liabilities.

As noted above, the Central Fund equity as at 30 June 2014 was £1,604m. This is stated after making provision for all undertakings given by the Council up to that date. The aggregate outstanding amounts of all undertakings given by the Council were £11m.

The requirement to give undertakings reflects the likelihood that cash calls on insolvent corporate members will need to be funded by the Central Fund over the following 12 months in order to ensure that the insurance liabilities (including policyholder claims) of insolvent corporate members may be paid in full as and when they are due.

Regulatory solvency and the role of the Central Fund

One of the most important controls on the solvency of the members of Lloyd's is the annual solvency test.

The annual solvency process requires the managing agent of each syndicate to estimate and provide for all current and future liabilities for each year of account. These liabilities (i.e., solvency reserves or 'technical provisions for solvency') must be made in accordance with the Society's valuation of liabilities rules and are subject to a statement of actuarial opinion (the "SAO"). The SAO must confirm that the technical provisions for solvency are not less than the actuary's best estimate of future liabilities. In the event that it is not possible for the managing agent to secure an unqualified actuarial opinion for any reason, the solvency reserves would be determined by the Lloyd's Actuary, who would provide a report to the PRA. In addition, any syndicate which is not able to secure an unqualified actuarial opinion will normally be subject to a monitoring review by the Society. There were no qualified actuarial opinions at 31 December 2013.

Insurance provides protection against uncertain future events. The inherent uncertainty in insurance is reflected in financial statements principally in respect of the solvency reserves established for future events and the eventual outcome of claims that have occurred but have not yet been settled. Accordingly, although the directors of each syndicate's managing agent consider that the estimate of solvency reserves are fairly stated on the basis of the information currently available to them and the solvency reserves are subject to actuarial opinion that the reserves are at least equal to the actuary's best estimate of the amounts required, the ultimate liability will vary as a result of subsequent information or events, which may result in significant adjustments to the amounts provided.

The Lloyd's solvency test has two stages to the calculation:

First, each member’s solvency position is calculated. Each member must have sufficient assets – those held in the PTFs, overseas regulatory deposits and its FAL – to cover both its underwriting liabilities and an additional solvency margin known as the Member’s Capital Resources Requirement (the “**MCRR**”). This solvency margin is calculated separately for each member, determined essentially as the greater of 16% of total annual premium income and 23% of average claims incurred over a three-year period. Premiums and claims in respect of certain types of liability business have their value increased by 50% for the purpose of this calculation. The solvency margin calculation is made on the same basis as applies to any UK insurer. Where a member’s assets are not sufficient to cover the aggregate of its underwriting liabilities and its solvency margin, the member has a solvency shortfall.

Second, the solvency test calculation requires that the net central assets of the Society must be sufficient to cover the aggregate of all members’ shortfalls calculated at the solvency test date. Central assets include the value of the Central Fund and the other net assets of the Society, excluding the subordinated debt liability but including the callable layer – for this purpose, the ‘effective’ callable layer, i.e. that part of the callable layer not attributed to members with a solvency shortfall.

The Society is required to maintain solvency on a continuous basis, and the solvency position of each member – and thus of Lloyd’s as a whole – is monitored on a regular basis.

The PRA are advised of the results of this monitoring.

The solvency test sets out the assets required to be held in trust by members to meet underwriting liabilities and solvency margin. This is the minimum capital requirement for all members.

The Society will take action where the member has insufficient assets to meet their ECA, which will include requiring the member to cease underwriting unless new funds are provided. The ECA is the capital that members must hold in order to continue to underwrite and is significantly higher than the regulatory minimum.

Each year, the Society files a return – the Lloyd’s Return – with the PRA. This return is intended to ensure the Society’s regulatory reporting requirements are in line with other UK insurers, adapted where appropriate to reflect Lloyd’s unique structure. This return reports the results of Lloyd’s solvency test.

The Society’s solvency surpluses for 2013 and as at 30 June 2014 are set out below. The 2013 amount is reported in the 2013 Lloyd’s Returns which the Society filed with the PRA at the end of June 2014. This includes both life and non-life assets.

	30 June 2014	31 December 2013	31 December 2012
	£m	£m	£m
Central assets	2,475	2,384	2,485
Callable contributions	778	788	745
Other solvency adjustments	(19)	(17)	(15)
Central assets for solvency purposes	3,234	3,155	3,215
Solvency shortfalls	(19)	(34)	(94)
Excess of central assets over shortfalls	3,215	3,121	3,121

As explained in the “The third link: central resources” above, the Society also has the right to make callable contributions. The callable contributions can be drawn from members’ premiums trust funds without the members’ consent and are estimated at £778m at 30 June 2014.

As part of calculating the Lloyd’s market’s solvency test, the Society is required to calculate the total solvency shortfalls of members (which includes taking account of estimated unpaid cash calls for the following 12 months and a solvency margin). As at 30 June 2014, the total solvency shortfalls were estimated at £19m. Solvency shortfalls will normally be reduced when a payment is made by the Central Fund under the undertaking to meet an unpaid cash call.

The solvency surplus for 2013 indicates that the Society's central assets were more than adequate to meet members' solvency shortfalls as at 31 December 2013.

Aggregate Resources supporting the Lloyd's market

The table below shows the total resources within the Lloyd's market.

	30 June	31 December	31 December
	2014	2013	2012
	£m	£m	£m
I Syndicate level assets (several basis)	42,584	41,990	41,126
II Members' funds at Lloyds' (several basis)	14,814	15,088	15,660
III Central assets (mutual basis)			
Net Central Fund assets	1,604	1,513	1,459
Subordinated debt	324	330	503
Subordinated perpetual capital securities	388	391	390
Other net assets of the Society	159	150	133
	2,475	2,384	2,485
Total resources of the Society of Lloyds' and its members	59,873	59,462	59,271
Net syndicate technical provisions	(39,154)	(38,355)	(39,078)
Total net resources of the Society of Lloyds' and its members	20,719	21,107	20,193

Funding of the Central Fund

The New Central Fund is funded by an annual contribution from members which is required by the New Central Fund Byelaw.

The Society also has the right to make a call on members for callable contributions of up to 3% of members' capacity. The callable contributions can be drawn directly from members' premiums trust funds without seeking the consent of members.

The Society must announce the level of New Central Fund contributions (including callable contributions) for the forthcoming calendar year by 30 September in the year preceding that calendar year. Payment of any of these contributions by members of Lloyd's is a condition of their continuing to underwrite at Lloyd's.

The Society is empowered under the New Central Fund Byelaw to impose on members such further special contributions as the Council may by special resolution prescribe if it appears requisite or expedient to do so provided that the Society obtains the consent of members.

For the 2014 year of account, the required annual contribution has been set at 0.5% of members' written premium for that year (new corporate members underwriting in 2014 on new syndicates are required to pay increased contributions of 2% of written premiums for each of their first three years of operation at Lloyd's). The Society recognised £99m in respect of contributions in 2014.

The annual contribution for the 2015 year of account will be maintained at the same level as for 2014.

In addition to member contributions, the Society also has the power to borrow money for the purposes of funding the New Central Fund.

Lloyd's continuously reviews the capitalisation of the market and the balance of member capital (held severally) and central capital (held mutually). The Society aims to secure a capital framework in which the benefits of mutuality demonstrably outweigh the costs and which cannot be readily duplicated outside Lloyd's. In particular, the Society reviews the size of the Central Fund and the different elements which finance central assets.

In this context, the Council of Lloyd's most recently considered the current level of central assets in September 2014. Taking into account the level of central assets, the recent low level of drawdowns from the Central Fund in respect of insolvent members and sound investment returns on the assets, the Council decided

that it would be appropriate to exercise its discretion to return £48m of the Central Fund contributions received from members in respect of the 2012 year of account. This rebate of Central Fund contributions benefits members and has no material impact on the Society's capital adequacy. The Society intends to consider the discretionary rebate of contributions as part of the annual re-assessment of central capital.

Investment of assets in the Central Fund

The assets available for investment within the Central Fund totalled £2,212m at 30 June 2014. A significant element of the Central Fund assets is invested in cash and fixed interest securities of high credit quality (65%) with the balance held in more volatile asset classes. As at 30 June 2014 exposures include global equities, high yield bonds, global property (via property-related equity securities), senior secured loans and hedge funds. The full disposition as at 30 June 2014 is shown below.

Central Fund Disposition as at 30 June 2014	% Central Fund assets	Value £m
Deposits	8%	169
Government bonds	25%	556
Investment grade corporate bonds	32%	712
Equities ¹	21%	459
Hedge funds	6%	125
Emerging market & high yield bonds	5%	120
Senior secured loans	3%	71
Total	100%	2,212
¹ Includes developed, emerging and property equities		

Central assets form part of the overall investment fund for the Lloyd's market where the aggregate of syndicate level assets, members' funds at Lloyd's and central assets totalled £50,154m. The aggregate of equities held within Lloyd's market investments is £3,303m at 30 June 2014, or less than 7% of the total fund.

The Central Fund is generally utilised only if relevant syndicate and members' assets prove insufficient to meet claims and, therefore, the likelihood of significant cash out flows from the Central Fund is deemed to be low. Consequently, the Central Fund has a longer investment horizon than many other investment assets at Lloyd's.

The investment strategy of the Central Fund is to maximise investment returns, net of relevant liabilities, whilst operating within a defined risk budget and ensuring appropriate liquidity. Investment strategy is overseen by the Lloyd's Investment Committee. The risk budget is reviewed regularly. Value at Risk ("VAR") methodology is used to measure portfolio risk.

Financial liabilities of the Central Fund include obligations to redeem outstanding capital market debt. The effect of capital market movements on the present value of these liabilities is taken into account when calculating net investment risk. Consequently, the risk budget relates to changes in the net value of the Central Fund, after taking account of movements in liability values.

Financial Services Compensation Scheme

In October 2003 the FSA extended the application of the Financial Services Compensation Scheme (the "FSCS") to Lloyd's with effect from 1 January 2004. The FSCS provides compensation for consumers where a financial services firm fails. It covers the banking, investment and insurance sectors. In the insurance context, it provides protection to policyholders of UK insurance firms if their insurer cannot meet the claims arising from policies they have issued. The extension of the FSCS to Lloyd's policyholders provides them with further protection in addition to that provided by the Lloyd's chain of security. This extension of the FSCS to Lloyd's does not provide protection to members of Lloyd's in the event of the failure of the Society.

The Council has however agreed that for 2014 it will meet the first £10 million of any such charges.

Since being subject to the FSCS no levies have been charged to the Lloyd's market by the FSA or FCA in respect of the FSCS. The Council reviews annually whether or not to use central assets to contribute towards FSCS charges and, if so, at what level.

External Regulation of the Lloyd's market

General

The Society is subject to the UK regulatory framework established under the Financial Services and Markets Act (the "FSMA"). Prior to 1 April 2013 the Society was regulated by the Financial Services Authority (the "FSA") and from 1 April 2013 the Society has been regulated by both the Prudential Regulation Authority (the "PRA") (as regards prudential and organisational requirements) and the Financial Conduct Authority (the "FCA") (as regards conduct of business requirements).

The PRA is a subsidiary of the Bank of England, and is responsible for the micro-prudential regulation of insurance companies, banks and certain large investment firms. The PRA's primary purpose and objective is to promote financial stability. It also has a specific "insurance objective" of contributing to the securing of an appropriate degree of protection for those who are or may become policyholders of PRA-authorized insurers.

The FCA regulates the conduct of every authorised firm. Its "operational objectives" are to protect and enhance confidence in the UK financial system by protecting consumers, enhancing the integrity of financial markets and promoting effective competition in the interests of consumers. The FCA also has a "strategic objective" of ensuring that relevant markets function well.

This section describes the current regulatory framework administered by the PRA and the FCA.

PRA/FCA Regulation: overview

Since FSMA came into force in 2001, the FSA and, from 1 April 2013, the PRA and the FCA have regulated the Society. Members of Lloyd's are not required to be authorised by the PRA or the FCA to carry on insurance business, and accordingly, neither the PRA nor the FCA regulate them directly, although they have the power under FSMA to bring members within their jurisdiction by making a direction requiring that they be authorised (either generally or for specific purposes). Managing agents are regulated by both the PRA and the FCA and members' agents and Lloyd's brokers are regulated by the FCA alone.

PRA/FCA Regulation: the Society

The Society is regulated as an authorised person pursuant to article 14 of the Financial Services Act 2012 (Transitional Provisions) (Permission and Approval) Order 2013. This gives the Society permission to carry on the regulated activities of: (i) arranging deals in contracts of insurance written at Lloyd's; (ii) arranging deals in participation in Lloyd's syndicates; and (iii) any activities carried on in connection with, or for the purposes of, the activities specified in (i) and (ii) above. For regulatory purposes, the Society's role is to provide the market infrastructure which enables participants in the Lloyd's market to engage in insurance business; it does not arrange any contracts of insurance or participation in Lloyd's syndicates.

The Society nevertheless requires permission from the PRA for the activities referred to above because "arranging" has a broad meaning for UK regulatory purposes.

For the purpose of article 14, "arranging deals" is defined by FSMA as making or offering or agreeing to make: (a) arrangements with a view to another person buying, selling, subscribing for or underwriting a particular investment; or (b) arrangements with a view to a person who participates in the arrangements for buying, selling, subscribing for or underwriting investments.

Each regulator is required under FSMA to keep itself informed of: (a) the way in which the Council supervises and regulates the Lloyd's market; and (b) the way in which regulated activities are carried on in the market.

Either regulator has power under FSMA to direct the Society to exercise one or more of its powers (this may be with a view to achieving a specified objective). Generally, they must consult publicly before making a

direction of this kind, but need not do so if it considers that the delay involved would be prejudicial to the interests of consumers. This power could be used by the PRA or the FCA to direct the way in which members of Lloyd's are regulated by the Council.

The Society is required by the PRA to meet various prudential requirements including the following:

- (i) that it manages its affairs with due regard to the interests of policyholders;
- (ii) that it ensures that the Lloyd's market is soundly and prudently managed; and
- (iii) that it ensures that its assets and its members' assets are adequate to meet the liabilities assumed by members in their insurance business at Lloyd's (and for this purpose, to maintain a risk based capital system).

The Society is also required to conduct a specific solvency test under PRA rules. Details of this requirement are given above (see "*Regulatory solvency and the role of the Central Fund*"). The Society is required to report to the PRA within 6 months of the end of each financial year on its financial situation and solvency and on the whole of the insurance business carried on by members. The report must include the Lloyd's Return (comprising a completed set of detailed forms which are set out in the PRA Handbook). The Lloyd's Return must be examined and reported on by auditors appointed by the Society. The report must also include a copy of the syndicate accounts for each syndicate for which a managing agent is required by Council to prepare accounts for the financial year.

The Society is also required by PRA rules (among other things) to make quarterly reports to the PRA on the Central Fund and its application.

PRA/FCA regulation: managing agents

Managing agents are required to be authorised by the PRA and the FCA for the key activities which include managing the underwriting capacity of a Lloyd's syndicate and the buying and selling of general insurance as agent. As authorised persons under FSMA, they are subject to relevant requirements of the PRA and FCA Handbook of Rules and Guidance including applicable conduct of business rules, and they must at all times meet the PRA and FCA's threshold conditions that apply to them, which require (among other things) authorised persons to be fit and proper. Managing agents must also comply with the PRA and FCA's high level Principles for Businesses (which include (among other things) requirements that an authorised firm conduct its business with integrity and with due skill, care and diligence).

Overseas Regulators

The Lloyd's market is authorised to underwrite insurance business in over 75 jurisdictions worldwide and, as a result of those authorisations, the Lloyd's market is subject to a range of overseas regulatory requirements. The Society maintains relationships with the overseas regulators in each of the jurisdictions where the Lloyd's market is licensed and also has systems and controls in place to ensure that all international regulatory requirements are met on behalf of the Lloyd's market. These requirements include providing overseas regulators with regulatory returns and audits and maintaining local financial deposits and trust funds requirements. The Society also closely monitors the overseas regulatory environment to ensure that it can effectively manage the impact of any changes in regulatory requirements overseas.

Solvency II

The EU has for a number of years been developing proposals for the revision of the EU solvency framework applicable to insurers. The intention of the reform is to codify and harmonise prudential regulation for insurers, and apply more consistent risk sensitive standards to insurers' capital requirements. This new framework, as set out in Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance ("**Solvency II**") will, with effect from 1 January 2016, replace the current EU regulatory framework for the prudential supervision of insurance and reinsurance companies.

Solvency II adopts a three pillar approach to prudential regulation:

- (i) Pillar 1 covers technical provisions, the Solvency Capital Requirement (“**SCR**”) and Minimum Capital Requirement (“**MCR**”), rules on market consistent valuation, investment of assets and the use of internal models to calculate the SCR;
- (ii) Pillar 2 covers risk management, governance requirements, supervisory review and the Own Risk and Solvency Assessment of an insurer (“**ORSA**”); and
- (iii) Pillar 3 covers public and supervisory reporting and disclosure.

A key aspect of Solvency II is the focus on a supervisory review at the level of the individual legal entity. Insurance companies will be encouraged to improve their risk management processes and will be allowed to make use of internal economic capital models to calculate capital requirements, subject to regulatory approval. In addition, Solvency II will require firms to develop and embed an effective risk management system as a fundamental part of running the firm.

The new regime will require firms to disclose a considerably greater level of qualitative and quantitative information than under current rules, both to their own supervisor through Regular Supervisory Reporting (“**RSR**”) and to the market through the publication of a Solvency and Financial Condition Report (“**SFCR**”). This is intended to increase transparency, allowing easier comparison across the industry and enabling supervisors to identify sooner if firms are heading for financial difficulty. In turn, increased transparency is intended to drive market discipline, arising from the reaction of ratings agencies and the capital markets to firms’ performance.

The Solvency II Directive was formally adopted by the European Council in November 2009, setting out a framework which will be supplemented by further and more detailed technical implementing measures drafted by the European Commission. Member States are required to implement Solvency II by 31 March 2015 and firms must comply with the new regime from 1 January 2016.

Solvency II was amended by Omnibus II, which introduced a number of changes to Solvency II, designed to reflect the revised EU financial services supervisory framework (in particular, the replacement of the Committee of European Insurance and Occupational Pensions Supervisors with EIOPA from 1 January 2011) and align it with the legislative process introduced by the Lisbon Treaty. Omnibus II defines the scope of EIOPA’s powers in the context of the Solvency II regime, including its powers to resolve disagreements between national supervisors and to act as a coordinator in “emergency situations”. The amendments also define the areas in which EIOPA may issue binding technical standards and set out an expanded role for EIOPA in monitoring compliance by Member States.

The Solvency II “Level 1” Directive will be accompanied by “Level 2” measures, including delegated acts and binding technical standards, and “Level 3” guidance, including non-binding supervisory standards, recommendations and guidelines. The European Commission adopted the delegated acts on 10 October 2014, which have been sent to the European Parliament and the Council of the EU for their endorsement. Further, EIOPA has published its first sets of draft implementing technical standards and draft Level 3 guidelines for consultation, and has published a timeline indicating that it intends to consult on and finalise the regulatory and implementing technical standards and guidelines required under Solvency II throughout the remainder of 2014 and the first half of 2015.

Application of Solvency II to the Lloyd’s market

The Solvency II Directive applies to Lloyd’s as a single supervised undertaking: the ‘association of underwriters known as Lloyd’s’ (Annex III of the Directive). This is consistent with the current basis of supervision of Lloyd’s by the PRA.

In this context, the Society is seeking approval of the Lloyd’s Internal Model (the “**LIM**”) from the PRA. The LIM will, among other things, be used to calculate the Lloyd’s SCR, which will be the regulatory capital requirement of the ‘association of underwriters known as Lloyd’s’.

Critical to the operation of the LIM is the input of data from each syndicate's internal model. Accordingly the Society requires each managing agent to meet the full Solvency II tests and standards, consistent with those needed to be met to secure internal model approval.

The Society shall continue to set minimum levels of member capital based on syndicate SCR calculations. These are uplifted by a flat rate percentage (currently 35%) to help support Lloyd's financial strength and ratings objectives. An adjustment is made at member level to reflect diversification between syndicate participations.

The Society and the Lloyd's market has treated the implementation of Solvency II as a priority since 2009. The Society has committed substantial time and resources, amounting to over £300m in respect of the market as a whole, to a programme of activity intended to meet the implementation requirements and significant progress has been made to date. This has resulted in: an enhanced risk management framework providing greater insight into risk; a more robust capital model which enables a holistic assessment across risk types; demonstrable embedding of risk management with capital setting; and engagement and raised standards across the Lloyd's market.

The Society is now approaching the conclusion of its implementation programme and intends to submit its application to secure the PRA's approval of the LIM in April 2015. Although much has been achieved, there is a significant amount of work still to be carried out, both within the Society and the Lloyd's market. The Society has refined its planning and strengthened its resourcing in order to ensure that it is ready for submission of the application for approval in 2015. There can be no assurance that the Society will not need to further strengthen its solvency capital position in the event that the Society does not receive model approval from the PRA.

Reconstruction and Renewal and Equitas

A flood of asbestosis and other long-tail claims in the early 1990's meant that certain syndicates were exposed to large losses. The problems caused by such claims (and others) were addressed by the 1996 Lloyd's Reconstruction and Renewal plan. As part of the plan, Equitas Reinsurance Limited, an independent special purpose reinsurer, was established to reinsure without limitation in time or amount all of the general business liabilities of open syndicates for the 1992 and prior years of account (including all business reinsured to close into those years of account). The reinsured amount totalled approximately £14.7 billion. In return for this reinsurance, all members were required to pay a premium to Equitas calculated in accordance with their estimated liabilities. In addition to the premiums received from members for the reinsurance provided, Equitas was funded by taking an assignment of the rights of syndicates to the proceeds from reinsurance contracts that they had taken out for their protection in respect of their 1992 and prior business. Equitas retroceded all of its reinsurance obligations to its subsidiary Equitas Limited ("EL").

Retrocession of Equitas Limited's reinsurance obligations to National Indemnity Company (NICO)

In 2006 EL entered into a retrocession and run-off contract with NICO, becoming effective on 27 March 2007, by which NICO provided to EL retrocession cover up to a limit of US\$14.4bn less adjustments for claims payments between 1 April 2006 and 27 March 2007. The premium for that retrocession was all of EL's existing assets less £172m plus a contribution of £72m from Lloyd's. This first phase of the transaction provided substantial additional retrocession cover for Equitas and for the Society's subsidiaries, Lioncover and Centrewrite.

The second phase of the transaction involved the transfer of Equitas-reinsured members' 1992 and prior non-life business to a specially authorised new insurance company, Equitas Insurance Limited ("EIL"), a subsidiary of Equitas Holdings Limited. This transfer of business was sanctioned by the High Court under Part VII of the Financial Services and Markets Act 2000 on 25 June 2009 and the transfer became effective on 30 June 2009. As part of the second phase, a further contribution of £18m was made by the Society and EL also exercised an option to purchase US\$1.3bn of additional reinsurance from NICO at a cost of £40m which resulted in policyholders benefitting from a total of US\$7bn reinsurance cover from NICO over and above EL's net undiscounted claims reserves as at 31 March 2006.

The transfer also relieved the members and former members concerned from the transferred liabilities under English law and the law of every other state within the European Economic Area. Recognition of the Part VII has not been sought in the US.

Remaining Contingent Liabilities

Following the completion of the second phase, the Society continues to have contingent liabilities arising from entering into undertakings for the benefit of certain policyholders of EIL (former policyholders of PCW syndicates or of members who at the relevant time still have the benefit of hardship or other agreements with the Society), under which the Society would meet any shortfall in recoveries by such policyholders from EIL on the occurrence of an insolvency event relating to Equitas Reinsurance Limited or EIL.

Following implementation of Reconstruction and Renewal, the liabilities of Centrewrite were also reinsured into Equitas (see “*Subsidiaries of the Society*”). The Society has given an indemnity bond to Centrewrite against any shortfall of its assets and the Council has determined that any losses resulting from this indemnity will be met by the Central Fund. Accordingly, if Equitas were unable to discharge in full the Centrewrite liabilities which it has reinsured, any resulting shortfall would be met out of the Central Fund under the terms of the indemnity bond.

The Lloyd’s market has established two Joint Asset Trust Funds (“**JATFs**”) in the United States to support surplus lines policies and to support reinsurance policies. The Lloyd’s market is required to maintain at least US \$100 million in the reinsurance JATF and at least US\$100 million in the surplus lines JATF. As at 30 June 2014, the value of the reinsurance JATF and the surplus lines JATF were each approximately US\$108 million. The Society is responsible for the investment management of the assets in the JATFs and adopts a low risk management policy with a view to minimising the risk of the value of each of the JATFs falling below their respective minimum amounts.

In the event that Equitas were unable to make payments in full on a claim by a US surplus lines or reinsurance policy allocated to a 1992 or a prior year of account, payment of any shortfall could be realised from the respective JATF. If the balance in such JATF were as a result to fall below their respective minimum amounts the Lloyd’s market would be required to replenish the funds in such JATF if it wished to continue to write such lines of business in the US. In such circumstances the Central Fund may be applied for this purpose.

The financial strength ratings of the Lloyd’s market assigned by Standard & Poor’s, Fitch Ratings and A.M. Best (see “*Lloyd’s market – General*”) take account of both phases described above and also the exposure of the Society and the Lloyd’s market to the failure of Equitas.

Reorganisation and Winding Up Directive

The European Council Directive on the reorganisation and winding-up of insurance undertakings (2001/17/EC) (the “**Directive**”) was implemented in the UK in relation to the insurance company market in 2003 and in relation to the Lloyd’s market in 2005, by means of the Insurers (Reorganisation and Winding Up) (Lloyd’s) Regulations 2005.

The objective of the Directive is to establish co-ordinated rules for reorganisation and winding-up of insurance undertakings throughout the EU. The basic framework of the Directive is that only an insurer’s home Member State is entitled to take a decision in relation to the reorganisation or winding-up of the insurer. This decision must be recognised and given effect in all other Member States. The law of the home Member State will (subject to certain exceptions) govern the insolvency procedure. The Directive is therefore primarily concerned with mutual recognition of insolvency measures and conflict of laws.

In the case of Lloyd’s, the insurance undertaking to which the Directive applies is “the association of underwriters known as Lloyd’s”. The Directive therefore applies to the persons who carry on insurance business as members of Lloyd’s, taken collectively.

Members of Lloyd's can be subject to insolvency processes individually (the particular procedures which apply will depend on the precise legal status of the member). The Society is capable of being wound up by the court but cannot be the subject of an administration order.

Because the Directive engages at the "association" level it and the implementing regulations become relevant only when there is a risk of possible or actual breach of the Lloyd's regulatory solvency test, in relation to the liabilities and assets of all of the members taken together. In such an event the following steps under the Insurers (Reorganisation and Winding Up) (Lloyd's) Regulations 2005 are envisaged:

- The Society or the PRA may apply to the court to make a "Lloyd's market reorganisation order" which would involve the appointment of a "reorganisation controller". The making of that order would not constitute winding-up proceedings. The objectives of the order would be:
 - to preserve or restore the financial situation of, or market confidence in, the association of underwriters known as Lloyd's in order to facilitate the carrying on of insurance market activities by members of Lloyd's;
 - to assist in achieving an outcome that was in the interests of creditors of members, and insurance creditors in particular;
- a moratorium would be put in place for all entities in the market to allow the reorganisation to take place. However, it would not prevent payments of insurance liabilities by solvent members where appropriate;
- the reorganisation controller's role would be to prepare a market reorganisation plan for achieving the objectives of the order. The reorganisation controller would assess the level of difficulty and advise the court whether in the case of particular members there was likely to be a failure to satisfy that member's insurance creditors by applying the usual market arrangements (including the New Central Fund). He/she would need to have regard to the existence of viable parts of the market and the desirability of avoiding a situation where solvent members were unable to carry on business as usual;
- the reorganisation controller would seek to ensure that solvent members could continue normal trading and remove them from the scope of the moratorium as soon as possible; and
- normal insolvency procedures would apply to insolvent members. Whether or not the Central Fund is applied to meet the liabilities (in whole or in part) of such members is a matter for the Council. If insufficient assets were available the particular insolvent member would be treated individually as an insurance undertaking for the purpose of the requirements of the Directive.

The Central Fund is not an asset of the members who together constitute the undertaking to which the Directive applies, but rather of the Society itself. Under the implementing regulations once a Lloyd's market reorganisation order has been made then unless otherwise agreed in writing (as to any class of payments) between the Society, the PRA and the reorganisation controller, the Society would have to notify the reorganisation controller of any payments proposed to be made out of the Central Fund, and the reorganisation controller could object to particular payments. The Society would then be unable to make those payments without the permission of the court. The purpose of this provision is to ensure that the Society retains sufficient funds to maintain the infrastructure necessary to achieve the purposes of the reorganisation order, including the due payment of insurance claims.

In the event that a Lloyd's market reorganisation order was made the holders of the Notes would be affected by the moratorium. Given the subordinated nature of the Notes it is unlikely that the reorganisation controller would permit repayment of the Notes unless he was satisfied that prior senior creditor claims could be paid in full and that the Society retained sufficient funds to enable it to continue to perform functions essential for the fulfilment of the objectives of the order.

In the event of a winding-up of the Society the assets would be distributed in the following order of priority:

- (i) Preferential creditors (employees, etc).
- (ii) Senior creditors, i.e.
 - All creditors of the Society (including costs and expenses of winding-up) other than creditors ranking pari passu with or junior to the Notes.
 - Payments in respect of other legal obligations of the Society including the Hardship scheme and payments under Lioncover and Centrewrite bonds.
 - Payments under Central Fund Undertakings.
 - Discretionary applications out of New Central Fund to meet insurance liabilities of members unable to meet such liabilities other than an Excluded Payment.¹
- (iii) Holders of the 2004 Notes and the Notes.
- (iv) Repayment of Members' Loans (other than any Members' Loans which rank pari passu with the 2007 Notes).
- (v) Holders of the 2007 Notes.
- (vi) Return of surplus to members.

¹ Excluded Payments are not permitted to be made under the terms of the New Central Fund.

GLOSSARY OF TERMS

Set out below is a guide to Lloyd's-related terms which are used in this Prospectus. These are not precise definitions but are included to provide assistance to readers as to the general meaning of terms most commonly used in the Lloyd's market.

callable layer means Central Fund assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds.

capacity means in relation to a member, it is the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate it is the aggregate of each member's capacity allocated to that syndicate.

Central assets has the meaning given in Condition 18.

Central Fund has the meaning given in Condition 18.

closed year means a year of account to which no further adjustments are to be made and final accounts can be prepared. This can be done only after providing for all outstanding claims by way of reinsurance to close. At Lloyd's a year of account cannot be closed earlier than the third year of account.

combined ratio means a measure of an insurer's underwriting profitability based on the ratio of net incurred claims plus net operating expenses to net earned premiums. A combined ratio of 100% is break even (before taking into account investment returns). A ratio of over 100% is a loss.

corporate member means a company incorporated with limited liability, a limited liability partnership or a Scottish limited partnership, admitted to membership of the Society.

Council of Lloyd's has the meaning given in Condition 18.

Equitas means Equitas Limited and, where the context so requires, any subsidiary or holding company of Equitas Limited, or any other subsidiary of such holding company.

franchise means the arrangements that permit franchisees to conduct business in the Lloyd's market, and maximise the benefits from the Lloyd's brand, a common rating, mutual security and licences to conduct business around the world.

Franchise Board means the board established by the Council with responsibility for creating and maintaining a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised. This includes setting the Risk Management Framework and profitability targets for the market.

funds at Lloyd's (FAL) means funds lodged and held in trust at Lloyd's as security for the policyholders and to support a member's overall underwriting activities. The minimum amount is determined by reference to a member's capacity, in accordance with ratios laid down by the Council.

Gross Written Premiums (GWP) means written insurance premiums, gross of reinsurance and acquisition costs.

individual member means a member of Lloyd's who is an individual.

Managing agent means an underwriting agent responsible for managing a syndicate, or multiple syndicates.

Member means a person admitted to membership of the Society.

Members' Loans means loans made by Members to the Society pursuant to Syndicate Loan Requirements made by the Council on 2 March 2005 and also known as 'syndicate loans'.

New Central Fund has the meaning given in Condition 18.

open year means a year of account of a syndicate which has not been closed by reinsurance to close (which will usually occur at the end of the third year). A year of account can be left open beyond the third year if the extent of the liabilities cannot be accurately quantified or where there is no successor year of account to accept the RITC.

premiums trust funds (PTF) means trust funds into which all premiums received by a managing agent on behalf of a member must be placed and out of which reinsurance premiums, claims and syndicate expenses are met.

Realistic Disaster Scenarios (RDSs) means a series of scenarios, both natural and man-made, which are used to model the market's exposure to a variety of different catastrophes and to enable better risk management practices within Lloyd's.

Reinsurance to close (RITC) means a reinsurance agreement under which members of a syndicate for a year of account to be closed are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.

Society means the Society and Corporation incorporated by Lloyd's Act 1871 by the name of Lloyd's.

syndicate means a member, or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.

year of account means the year to which a risk is allocated and to which all premiums and claims in respect of that risk are attributed. The year of account of a risk is usually determined by the calendar year in which the risk incepts. A year of account is normally closed by reinsurance at the end of 36 months.

TAXATION

General

The comments below are of a general nature and are not intended to be exhaustive. They assume that there will be no substitution of the Issuer and do not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the Conditions). Any Noteholders who are in doubt as to their own tax position should consult their professional advisers.

United Kingdom Taxation

The comments in this part are based on current United Kingdom tax law as applied in England and Wales and published HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) relating only to United Kingdom withholding tax treatment of payments of principal and interest in respect of Notes. They do not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who hold their Notes as investments (regardless of whether the holder also carries on a trade, profession or vocation through a permanent establishment, branch or agency to which the Notes are attributable) and are the absolute beneficial owners thereof. Certain classes of persons such as dealers, certain professional investors, or persons connected with the Issuer may be subject to special rules and this summary does not apply to such Noteholders.

References in this part to “interest” shall mean amounts that are treated as interest for the purposes of United Kingdom taxation.

1. Interest on the Notes

While the Notes are and continue to be listed on a recognised stock exchange, within the meaning of Section 1005 Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange.

If the Notes cease to be listed, interest that has a United Kingdom source will generally be paid by the Issuer under deduction of United Kingdom income tax at the basic rate unless: (i) another relief applies; or (ii) the Issuer has received a direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

If interest were paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

2. Information Reporting

Information relating to securities, including in relation to issues of and other transactions in the Notes, interest, payments treated as interest and other payments derived from the Notes, may be required to be provided to HM Revenue & Customs in certain circumstances. This may include the value of the Notes, details of the holders or beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by, amongst others, the holders of the Notes, persons by (or via) whom payments derived from the Notes are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HM Revenue & Customs may be provided to tax authorities in other countries.

EU Directive on the Taxation of Savings Income

Under the Savings Directive, each EU Member State is required to provide to the tax authorities of other EU Member States details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for the benefit of, an individual resident or certain limited types of entity established in another EU Member State; however, for a transitional period, Austria and Luxembourg will instead apply a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise.

Luxembourg has announced its intention to elect out of the withholding tax system as from 1 January 2015 in favour of an automatic exchange of information.

A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The Council of the European Union formally adopted a Council Directive amending the Savings Directive on 24 March 2014 (the “**Amending Directive**”). The Amending Directive, when implemented, will amend and broaden the scope of the requirements of the Savings Directive described in the first paragraph of this section. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with the Amending Directive by 1 January 2016, which legislation must apply from 1 January 2017. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended.

Investors who are in any doubt as to their position should consult their professional advisers.

The proposed financial transactions tax (“FTT”)

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The Commission’s Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

FATCA

Certain provisions of U.S. law, commonly known as “**FATCA**”, impose a new reporting and withholding regime with respect to (i) certain U.S. source payments, (ii) gross proceeds from the disposition of property that can produce U.S. source interest and dividends and (iii) certain payments made by, and financial accounts held with, entities that are classified as foreign financial institutions for purposes of FATCA. In order to avoid becoming subject to a 30 per cent. withholding tax under FATCA, non-U.S. financial institutions must enter into agreements with the U.S. Internal Revenue Service (“**IRS Agreements**”) (as described below) or otherwise be exempt from the requirements of FATCA. Non-U.S. financial institutions that enter into IRS Agreements or become subject to provisions of local law (“**IGA legislation**”) intended to implement an intergovernmental agreement entered into pursuant to FATCA (“**IGAs**”), may be required to identify “financial accounts” held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime. In addition, in order (a) to obtain an exemption from FATCA withholding on payments it receives and/or (b) to comply with any applicable IGA legislation, a financial institution that enters into an IRS Agreement or is subject to IGA legislation may be required to (i) report certain information on its U.S. account holders to the government of the United States or another relevant jurisdiction and (ii) withhold 30 per cent. from all, or a portion of, certain payments made to persons that fail to provide the financial institution with information, consents and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding.

Under FATCA, withholding is required with respect to payments to persons that are not compliant with FATCA or that do not provide the necessary information, consents or documentation made on or after (i) 1 July 2014 in respect of certain U.S. source payments, (ii) 1 January 2017, in respect of payments of gross proceeds (including principal repayments) on certain assets that produce U.S. source interest or dividends and (iii) 1 January 2017 (at the earliest) in respect of “foreign passthru payments” and then, for “obligations” that are not treated as equity for U.S. federal income tax purposes, only on such obligations that are issued or materially modified on or after the date that is six months after the date on which the final regulations applicable to “foreign passthru payments” are filed in the Federal Register.

On 12 September 2012, the United Kingdom and the United States entered into the Intergovernmental Agreement to Improve International Tax Compliance and to Implement FATCA (the “**UK IGA**”) and the United States agreed to amendments proposed by the United Kingdom on 7 June 2013. Section 222 of the Finance Act 2013 empowers Her Majesty’s Treasury to make regulations giving effect to the UK IGA, which were issued, initially coming into force 1 September 2013, and have been the subject of periodic revisions. The UK IGA provides, *inter alia*, that the governments of the United States and the United Kingdom are committed to work together to develop a practical and effective alternative approach to achieve the policy objectives of “foreign passthru payment” and gross proceeds withholding. It is not yet certain how the United States and the United Kingdom will address withholding on “foreign passthru payments”, whether such withholding will be required at all or whether payments on instruments such as the Notes will constitute “foreign passthru payments”.

Whilst the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the Common Depositary, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive Notes will only be printed in remote circumstances.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE NOTES AND THE NOTEHOLDERS IS UNCERTAIN AT THIS TIME. EACH NOTEHOLDER SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW THIS LEGISLATION MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.

SUBSCRIPTION AND SALE

Barclays Bank PLC, Citigroup Global Markets Limited and The Royal Bank of Scotland plc (together, the “**Joint Lead Managers**”) have, pursuant to a Subscription Agreement dated 28 October 2014, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe (or procure the subscription) for the Notes at 99.227 per cent. of their principal amount. The Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The initial yield of the Notes is 4.849 per cent. on an annual basis. The yield is calculated as at the Issue Date on the basis of the issue price of the Notes. It is not an indication of future yield.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Joint Lead Manager has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement) within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells the Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

General

None of the Issuer or any Joint Lead Manager has made any representation that any action will be taken in any jurisdiction by the Joint Lead Managers, the Issuer that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has agreed that it will not, directly or indirectly, offer or sell any Notes or have in its possession distribute or publish offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms. No Joint Lead Manager has been authorised to make any representation or use any information in connection with the issue, subscription and sale of the Notes other than as contained in this Prospectus or any amendment or supplement to it.

GENERAL INFORMATION

1. The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Market will be granted on or before 31 October 2014, subject only to the issue of the Global Certificate. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction. The total expenses related to the admission to trading are estimated to be £7,200.
2. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes was authorised pursuant to a resolution of the Council of Lloyd's dated 24 September 2014 and a resolution of the Committee of the Council of the Society passed on 7 October 2014.
3. There has been no significant change in the financial or trading position of the Issuer and its consolidated subsidiaries taken as a whole (the “**Group**”) since 30 June 2014. There has been no material adverse change in the financial position or prospects of the Group since 31 December 2013.
4. The Issuer is not or has not been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have, or have in such period had, a significant effect on the financial position or profitability of the Issuer.
5. The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code is 113091355 and the International Securities Identification Number (ISIN) is XS1130913558.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

6. The financial statements of the Issuer's group for the year ended 31 December 2012 have been audited by Ernst & Young LLP, Chartered Accountants (members of the Institute of Chartered Accountants in England and Wales) and Registered Auditors (authorised and regulated by the FCA for designated investment business), in each case in accordance with Auditing Standards issued by the Auditing Practices Board, and have been reported upon without qualification. The business address of Ernst & Young LLP is 1 More London Place, London SE1 2AF.
7. The financial statements of the Issuer's group for the year ended 31 December 2013 have been audited by PricewaterhouseCoopers LLP, Chartered Accountants (members of the Institute of Chartered Accountants in England and Wales) and Registered Auditors (authorised and regulated by the FCA for designated investment business), in each case in accordance with Auditing Standards issued by the Auditing Practices Board, and have been reported upon without qualification. The business address of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH.
8. Copies of the following documents will be available, during usual business hours on any weekday (public holidays excepted), for inspection at the office of the Principal Paying Agent from the date of this Prospectus:
 - (a) the Lloyd's Acts and Byelaws;
 - (b) the documents incorporated by reference in this Prospectus;
 - (c) the Trust Deed;
 - (d) the Agency Agreement; and
 - (e) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

9. The Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and/or its affiliates in the ordinary course of business.

REGISTERED OFFICE OF THE ISSUER

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