LLOYD'S

Solvency and Financial Condition Report

31 December 2022

Lloyd’s Solvency and Financial Condition Report – 31 December 2022

Overview

Lloyd’s Solvency and Financial Condition Report (SFCR) as at 31 December 2022 has been prepared in accordance with Article 51 of the Solvency II Directive (2009/138/EC), Articles 290 to 298 of the Commission Delegated Regulation (EU) 2015/35, and Section 3 of the PRA Rulebook Solvency II Firms: Reporting Instrument 2015.

This SFCR is prepared in respect of ‘the association of underwriters known as Lloyd’s (‘Lloyd’s’), the supervised undertaking as referred to in Annex III of Directive 2009/138/EC. Further information on the structure of Lloyd’s, and the basis of preparation of the SFCR, is described in the Summary.

Lloyd’s SFCR contains the quantitative templates as specified by the Commission Delegated Regulation (EU) 2015/2452.

Throughout this document, unless otherwise stated, references to Lloyd’s relate to the Lloyd’s market; references to the Society and Corporation are in respect of the Society of Lloyd’s.

Further information

Additional information regarding Lloyd’s may be found within Lloyd's Annual Report 2022 and Aggregate Accounts 2022. These reports are available from Lloyd’s website: https://www.lloyds.com/about-lloyds/investor-relations/financial-performance/financial-results/full-year-results-2022/downloads

The Lloyd’s Annual Report includes the Pro Forma Financial Statements (PFFS), which are prepared so that the financial results of Lloyd’s and its members taken together and their net assets can be compared as closely as possible with general insurance companies. The PFFS have been prepared by aggregating audited financial information reported in syndicate returns and annual accounts (Aggregate Accounts), members’ funds at Lloyd’s (FAL), any central adjustments and the financial statements of the Society of Lloyd’s (the Society). The Annual Report also includes the financial statements of the Society of Lloyd’s, comprising the financial position and performance of the Corporation of Lloyd’s and the Central Fund.

The Aggregate Accounts set out an aggregation of all audited syndicate annual accounts including the audited results for calendar year 2022 and the financial position as at 31 December 2022 of all syndicates which transacted business during 2022.

Where relevant, references to these documents are made in the SFCR.

Governing body's statement in respect of the SFCR

We, the Council, acknowledge our responsibility for preparing the SFCR of Lloyd's as at 31 December 2022 in all material respects in accordance with the PRA Rules and Solvency II Regulations as applicable to Lloyd's.

We are satisfied that:

a) throughout the financial year in question, Lloyd's has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to Lloyd's; and

b) it is reasonable to believe that Lloyd's has continued so to comply and will continue so to comply in future.

For and on behalf of the Council

________________________ Bruce Carnegie-Brown, Chairman

________________________ Burkhard Keese, Chief Financial Officer

6 April 2023

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Summary

What Lloyd's is
Lloyd's is the world's leading insurance and reinsurance marketplace. Through the collective intelligence and risk-sharing expertise of the market's underwriters and brokers, Lloyd's helps to create a braver world.

The Lloyd's market provides the leadership and insight to anticipate and understand risk, and the knowledge to develop relevant, new and innovative forms of insurance for customers globally.

It offers the efficiencies of shared resources and services in a marketplace that covers and shares risks from more than 200 territories, in any industry, at any scale.

And it promises a trusted, enduring partnership built on the confidence that Lloyd's protects what matters most: helping people, businesses and communities to recover in times of need.

Lloyd's began with a few courageous entrepreneurs in a coffee shop. Three centuries later, the Lloyd's market continues that proud tradition, sharing risk in order to protect, build resilience and inspire courage everywhere.

Lloyd's Market Structure

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

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

At 31 December 2022, there were 77 active (i.e. participating on the 2022 year of account) (2021: 75) syndicates at Lloyd's including 7 (2021: 3) syndicates in a box writing innovative new business.

Managing agents – managing the syndicates
A managing agent is a company set up to manage one or more syndicates on behalf of the members. Managing agents have responsibility for employing underwriters, overseeing their underwriting and managing the infrastructure and day-to-day operations.

At 31 December 2022, there were 52 (2021: 50) managing agents at Lloyd's.

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

Brokers – distributing business
Lloyd's is a broker market in which strong relationships, backed by deep expertise, play a crucial part. Brokers facilitate the risk transfer process between policyholders and underwriters. Much of this business involves face to face negotiations between brokers and underwriters.

At 31 December 2022, there were 384 (2021: 388) broking firms introducing business to Lloyd's.

Coverholders – offering local access to Lloyd's
A managing agent may also authorise third parties to accept insurance risks directly on behalf of its syndicates. These businesses, known as coverholders, form a vital distribution channel, offering a local route to Lloyd's in many territories around the world.

At 31 December 2022, there were 3,464 (2021: 4,054) approved coverholder office locations.

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

At 31 December 2022, there were 402 (2021: 413) service companies at Lloyd's, with the majority in the UK and the US.

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

At 31 December 2022, there were 3 (2021: 3) members' agents at Lloyd's.

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

The Society's role includes:

- managing and protecting Lloyd's network of international licences;
- agreeing syndicates' business plans and evaluating performance against those plans. Syndicates are required to underwrite only in accordance with their agreed business plans. If they fail to do so, Lloyd's can take a range of actions including, as a last resort, stopping a syndicate underwriting;
- monitoring syndicates' compliance with Lloyd's Principles for Doing Business; and
- continuing to raise standards and improve performance across two main areas:
    - overall risk and performance management of the market; and

- maintaining and developing the market's attractiveness to capital providers, distributors and clients, while preserving its diversity.

The Society's Executive Committee exercises the day-to-day powers and functions of the Council of Lloyd's.

At 31 December 2022, the Society and its subsidiaries had 1,320 (2021:1,356) staff.

Basis of preparation of the SFCR

The basis of preparation of the Lloyd's SFCR has been selected so that the financial position of Lloyd's is presented on a basis to most appropriately reflect the structure of Lloyd's.

The Society of Lloyd's as a standalone entity (as distinct from members of the market) is not defined in Solvency II regulation, which refers solely to "the association of underwriters known as Lloyd's". However, the PRA Rulebook on Solvency II firms with respect to Lloyd's, rule 10.1, stipulates the following: "In complying with requirements imposed on it in the Solvency II Firms Sector of the PRA Rulebook, the Society must ensure that any relevant provision of the Solvency II Regulations is applied in order to achieve the same effect as that provision of the Solvency II Regulations would have (that is, conforming with the requirements of the relevant provision) when applied to a UK Solvency II firm". As a result, the Society is designated as an insurer subject to Solvency II. Given the unique nature and capital structure of Lloyd's, as described above, it must present two separate views of its solvency – a Central Solvency view (treated as a solo undertaking), and a Market Wide Solvency view (treated similar to a group undertaking), as agreed with the PRA.

The QRTs submitted are all on a Lloyd's market wide basis but the Society is required to report one national specific template (NS.13), as agreed with the PRA. As a result, the majority of the SFCR document deals with market wide solvency, but central solvency is referenced where appropriate, and it is clarified in the document when central solvency is being referenced. Otherwise, it should be assumed that the commentary in the SFCR is referring to market wide solvency.

The market wide solvency position presented in the SFCR includes the aggregate of returns submitted from syndicates (the relevant 'Lloyd's templates' as referred to in the PRA Rulebook Solvency II Firms: Reporting Instrument 2015' (PRA 2015/23)), members' Funds at Lloyd's (FAL) and the Society (Corporation and Central Fund).

The Lloyd's templates report the Pillar 3 information for calendar year 2022 and the financial position at 31 December 2022 for all syndicates which transacted business during the year. The data therein which contributes to the section of the SFCR subject to reasonable assurance engagement by PwC is the subject of an audit opinion by the auditor of each syndicate.

The capital provided by members is generally held centrally as FAL. The data included within the SFCR in relation to FAL is provided by the Corporation. The data therein which contributes to the SFCR is the subject of a reasonable assurance engagement by PwC as the auditor of Lloyd's.

Data in respect of the Society of Lloyd's is also provided by the Corporation. Again, the data therein which contributes to the SFCR is the subject of a reasonable assurance engagement by PwC.

The balance sheet (S.02.01) and summary of own funds (S.23.01) in the SFCR aggregate the assets held at syndicate level, members' assets held as FAL and the central resources of the Society. Overall, the SFCR aggregates the results and resources of the Society and its members. The SFCR may, therefore, be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis as if it were a group applying Solvency II (i.e. it is similar to a group Solvency II calculation) and that is as closely as possible comparable with general insurance companies.

Sections/items indicated with an asterisk (*) are not subject to reasonable assurance.

Solvency Capital Requirement* (Solvency II basis)

The Solvency Capital Requirement (SCR) represents the amount of capital required to withstand up to 1 in 200-year losses over a one-year time horizon. Given Lloyd's unique structure there are two SCRs which are monitored under the Solvency II regime:

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

- The Lloyd's central SCR (CSCR) is calculated in respect of only the risks facing the Corporation and the Central Fund at the same confidence level and time horizon used to calculate the MWSCR. The material risk is that members do not have sufficient funds to meet their underwriting losses even having complied with Lloyd's rigorous capital setting rules.

Individual syndicates are also required to calculate a SCR, at a 99.5% confidence level over both a one-year and an ultimate horizon, for each underwriting year. The ultimate basis drives the determination of member level capital and each member's SCR is derived as the sum of the member's share of the syndicate's ultimate SCR. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk. The MWSCR and CSCR are derived from the Lloyd's Internal Model which has been approved by the PRA.

Individual syndicates also derive SCRs from their own internal models which are subject to approval by the Lloyd's Capital and Planning Group. The appropriateness of each syndicate's internal model, including changes thereto and the reasonableness of the key assumptions are assessed as part of the Society's oversight of the Lloyd's market.

Financial highlights for the Lloyd's market - 2022

The Lloyd's market reported an overall loss of £769m before tax in 2022 (2021: profit of £2,277m), with a combined ratio of 91.9% (2021: 93.5%). The underwriting result is a profit of £2,641m (2021: profit of £1,741m), reflecting improved managing agent underwriting discipline and the benefit of the favourable pricing environment. The favourable underwriting result was dampened by the valuation losses on investments of £3,128m (2021: net investment income of £948m). Other expenses, net of other income and foreign exchange, were £282m (2021: £412m).

	2022	2021
	£m	£m
Underwriting result	2,641	1,741
Investment return	(3,128)	948
Gain on exchange	158	66
Other income	75	91
Expenses (other than technical account operating expenses)	(515)	(569)
Total	**(769)**	**2,277**

The underwriting result rose 51.7% year-on-year to £2,641m driven by the continued realisation of benefits from the market's strong underwriting action and positive rating environment. The market continued to see risk adjusted rate increases on renewal business across most classes, with the 20th consecutive quarter of positive rate movement being reported in the fourth quarter of 2022. Risk adjusted rate change accounted for 7.7% of premium growth. As in previous years, syndicates which have a proven track record of producing sustainable profit are given greater business plan flexibility, including to grow their business. New business volume accounted for 3.6% of premium growth. The remaining top line growth was driven by the impact of foreign exchange.

The combined ratio of 91.9% represents a 1.6% improvement when compared with prior year. Prior year releases benefited the combined ratio by 3.6% (2021: 2.1%), with releases reported across all lines of business other than speciality reinsurance and casualty. The underwriting result includes the impact of major claims which represented 12.7% of the combined ratio. Hurricane Ian was the costliest weather event of the year and one of the key drivers of major claims alongside the conflict in Ukraine. Improvement to the underlying combined ratio was driven by reductions to the attritional loss and expense ratios of 0.5% and 1.1% respectively. The attritional loss ratio of 48.4% reflects the market's continued action to drive sustainable profitable performance as well as the benefit of risk adjusted rate increases across most lines. The improvement in the expense ratio, which has reduced to 34.4%, was driven by a 0.6 percentage point improvement in the acquisition cost ratio and a 0.5 percentage point improvement in the admin expense ratio. The improvement in the operating expense ratio was largely driven by foreign exchange gains favourably affecting premiums

Gross written premiums have increased by 19.1% to £46,705m (2021: £39,216m). Casualty and property were the largest drivers of premium growth in the market, growing £2,627m and £2,458m respectively. All lines experienced growth during 2022. US dollar denominated business continues to account for the majority of business written in the Lloyd's market. Strengthening of US dollar to sterling average rates of exchange has led to comparative increases in premiums year-on-year.

The market reported net investment losses of £3,128m in 2022, representing an investment loss of 3.5% (2021: £948m, return of 1.2%). 2022 was an exceptionally turbulent year for risk assets, driven by rising interest rates, as Central Banks have taken action to contain the increasing levels of inflation caused by supply chain disruption, the war in Ukraine and political uncertainty. The pace of rate increases caused a major re-pricing across all asset classes. Assets from investment grade fixed income bonds to equity markets generated significant negative total returns, with long-duration assets the most affected. Despite a turbulent 2022 the higher interest rate environment has created significant opportunities for the Lloyd's market looking forward to 2023 given the majority of the market portfolio is invested in short-duration government bonds, high-quality corporate bonds and cash that are expected to generate a higher return.

The Lloyd's market continues to be strongly capitalised with total capital, reserves and subordinated loan notes of £40,205m at 31 December 2022, a 10% increase from the £36,553m reported at 31 December 2021. The Lloyd's market solvency ratios – both central and market wide solvency ratios – have strengthened since 31 December 2021. The central solvency ratio has increased to 412% from 388% at 31 December 2021 and the market wide solvency ratio has increased to 181% from 177% at 31 December 2021. These increases reflect higher eligible assets partially offset by an increase in SCR.

<u>Post-balance sheet events</u>

Following the recent banking events, the current conditions of the banking sector and impact on the assets of the market and the Society have been considered.

At 31 December 2022, the total Lloyd's market portfolio is not materially exposed to US regional banks and has very limited exposure to AT1 loans. The exposure to the wider banking sector is diversified and includes globally systemically important banks. The Central Fund has no exposure to US regional banks and AT1 loans. Management will continue to monitor the situation.

<u>Lloyd's risk profile</u>

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

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

At the Society level, additional risks arise from central operational risk, pension fund risk; market risk on central assets; and the risk of member default.

<u>Lloyd's Internal Model*</u>

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

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

A material change to the LIM Change Policy was made during the year, resulting in a qualitative Major Model Change Application. This was submitted to the PRA in August 2022 and approved in November 2022.

Lloyd's solvency ratios and capital

Lloyd's solvency position is summarised below:

	Dec 2022	Dec 2021
	£m	£m
Market wide solvency		
Lloyd's MWSCR*	23,500	19,900
Eligible capital	42,500	35,203
Lloyd's solvency ratio	181%	177%
Central solvency		
Central SCR*	1,350	1,250
Eligible central capital	5,564	4,855
Lloyd's central solvency ratio	412%	388%

The market wide solvency ratio at 31 December 2022 is 181% (2021: 177%). The solvency ratio has improved in 2022 as a result of additional Funds at Lloyd's from the 2023 business planning process and increases in syndicate assets. The market wide SCR has increased by £3,600m to £23,500m, driven by exposure growth assumptions, partially offset by a benefit from increases in interest rates.

The central solvency ratio at 31 December 2022 is 412% (2021: 388%). The improvement is driven by the higher callable layer, increase in the pension fund valuation due to the changes in discount rates, which was partially offset by the increase in SCR. The redemption of subordinated debt and reduction in deferred tax has reduced the ineligible own funds to £nil (2021: £347m). The central SCR has increased by £100m to £1,350m, driven by exposure growth and inflation assumptions, partially offset by a benefit from increases in interest rates.

A summary of Lloyd’s market wide capital (‘own funds’) by tier is set out below.

31 December 2022	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
Syndicate assets	5,050			5,050
Members’ Funds at Lloyd’s (FAL)	26,495	7,658		34,153
Society assets:				
Subordinated debt		581		581
Deferred tax			7	7
Balance of net assets	2,709			2,709
Total own funds available to meet the SCR	**34,254**	**8,239**	**7**	**42,500**
Lloyd’s SCR*				**23,500**
‘Excess’ own funds not eligible to meet SCR	-	-	-	-
Total market wide own funds eligible to meet the SCR	**34,254**	**8,239**	**7**	**42,500**
Lloyd’s market wide solvency ratio				**181%**

31 December 2021	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
Syndicate assets	704			704
Members’ Funds at Lloyd’s (FAL)	24,491	6,789		31,280
Society assets:				
Subordinated debt		871		871
Deferred tax			101	101
Balance of net assets	2,247			2,247
Total own funds available to meet the SCR	**27,442**	**7,660**	**101**	**35,203**
Lloyd’s SCR*				**19,900**
‘Excess’ own funds not eligible to meet SCR	-	-	-	-
Total market wide own funds eligible to meet the SCR	**27,442**	**7,660**	**101**	**35,203**
Lloyd’s market wide solvency ratio				**177%**

The eligibility of assets to count towards the solvency coverage is subject to tiering restrictions. All Tier 1 assets count fully towards the solvency coverage assessment. However, Tier 2 and Tier 3 assets are only eligible up to a maximum of 50% of the SCR. A significant portion of the members’ FAL are in the form of letters of credit (LOCs), which are classified as Tier 2 assets under Solvency II. At 31 December 2022, the amount of ineligible Tier 2 and Tier 3 capital was £nil (2021: £nil).

These LOCs are callable on demand and when called, the proceeds, namely cash, would qualify as Tier 1 assets. Under these circumstances, any amounts previously restricted would become fully eligible.

The central own funds available to cover the central SCR are summarised below:

31 December 2022	Tier 1	Restricted Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m	£m
Society assets:					
Subordinated debt			581		581
Deferred tax				7	7
Balance of net assets	2,694	385			3,079
Callable layer*	1,897				1,897
Total central own funds available to meet the SCR	**4,591**	**385**	**581**	**7**	**5,564**
Central SCR*					**1,350**
‘Excess’ central own funds not eligible to meet central SCR	-	-	-	-	-
Total central own funds eligible to meet the SCR	**4,591**	**385**	**581**	**7**	**5,564**
Central solvency ratio					**412%**

31 December 2021	Tier 1	Restricted Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m	£m
Society assets:					
Subordinated debt			871		871
Deferred tax				101	101
Balance of net assets	2,240	385			2,625
Callable layer*	1,605				1,605
Total central own funds available to meet the SCR	**3,845**	**385**	**871**	**101**	**5,202**
Central SCR*					**1,250**
‘Excess’ central own funds not eligible to meet central SCR			(246)	(101)	(347)
Total central own funds eligible to meet the SCR	**3,845**	**385**	**625**	**-**	**4,855**
Central solvency ratio					**388%**

Callable layer*

The Society has the right to make a call on members of up to 5% of members’ premium limits (“callable contributions”). The callable contributions can be drawn from members’ premiums trust funds without the members’ consent. This would result in the transfer of Tier 1 capital from syndicate funds to central resources. The value assigned to the callable layer has been reduced to reflect that part of the callable layer which would not be available in a stressed situation at the central SCR level of confidence. The callable layer was increased to 5% from 3% for the 2022 and subsequent years of account.

Syndicate loans to the Central Fund

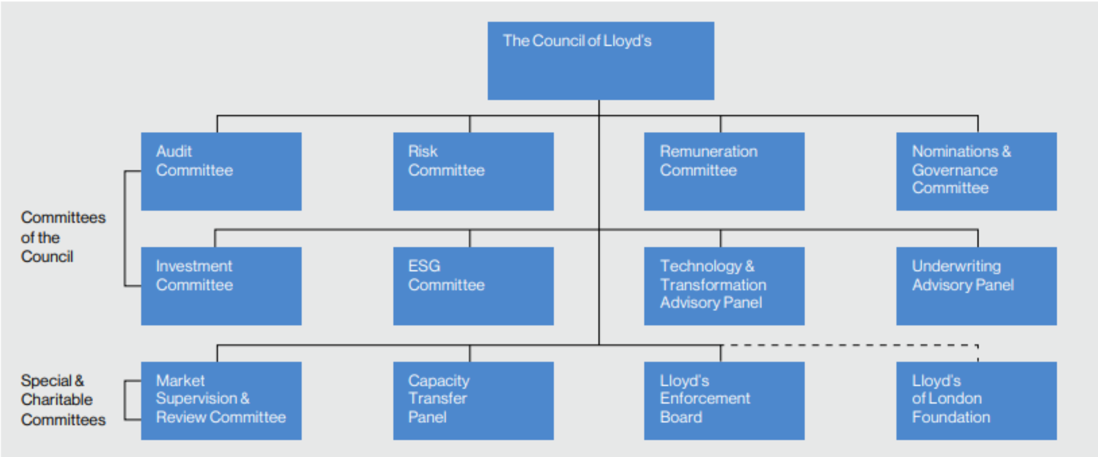
During 2019 and 2020 the Society issued capital in the form of syndicate loans to the Central Fund ("syndicate loans") from members participating on the 2019 and 2020 years of account. This gives rise to total restricted Tier 1 capital of £385m as at 31 December 2022 (2021: £385m).

Coverage of the central SCR with eligible central own funds

The capital tiering rules also apply to the coverage of the central SCR. The inclusion of the subordinated debt and deferred tax increase Lloyd's Tier 2 and 3 central capital by £588m. At 31 December 2022, the amount of ineligible Tier 2 and Tier 3 capital was £nil (2021: 347m).

Lloyd's governance structure

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



The Council of Lloyd's

Under Lloyd's Act 1982, the Council of Lloyd's undertakes the management and superintendence of the affairs of the Society and has the power to regulate and direct the business of insurance at Lloyd's. The Council is responsible for the day-to-day oversight of Lloyd's and thus constitutes Lloyd's Administrative, Management or Supervisory Body (AMSB).

A. Business and Performance

A.1 Business

Name and legal form of undertaking
Lloyd's is a society incorporated by the Lloyd's Act 1871, whose principal place of business is at One Lime Street, London EC3M 7HA.

The 'association of underwriters known as Lloyd's' is the legal form of the undertaking as defined in Annex III of the Solvency II Directive (2009/138/EC).

Supervisory authority responsible for financial supervision
The supervisory authority of Lloyd's is the Prudential Regulation Authority (PRA), which was created as part of the Bank of England by the Financial Services Act (2012). The registered office of the PRA is as follows:

Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

External auditor of the undertaking
The independent auditors of Lloyd's are:

PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London
SE1 2RT

Holders of qualifying holdings of the undertaking
There are no qualifying holdings applicable to Lloyd's.

Legal structure of group
Lloyd's does not belong to a group.

Material lines of business and geographical areas
Lloyd's writes a wide range of classes of business in a variety of geographical areas.

Significant events during the reporting period
Major claims for the market were £4,114m in 2022 (2021: £2,989m), net of reinsurance and including reinstatements payable and receivable.

Major claims for 2022 include natural catastrophe losses such as Hurricane Ian, Hurricane Fiona and Australian Floods, as well as non-natural catastrophe losses such as those arising from the conflict in Ukraine.

A.2 Underwriting performance

The Lloyd's market result for 2022 is described and analysed in detail in pages 21 to 30 '2022 Highlights' of Lloyd's Annual Report 2022. This provides a qualitative and quantitative description of the result at an aggregate level and by material line of business.

The overall underwriting result is summarised below:

	2022	2021
	£m	£m
Net premiums earned	32,458	26,657
Net claims incurred	(18,655)	(15,440)
Net operating expenses	(11,162)	(9,476)
Total	**2,641**	**1,741**
Combined ratio	91.9%	93.5%

The underwriting result by material line of business is summarised below:

	2022	2021
	£m	£m
Reinsurance	636	489
Property	538	336
Casualty	536	(17)
Marine, aviation & transport	280	388
Energy	97	71
Motor	62	35
Life	(1)	13
Sub-total	**2,148**	**1,315**
Transactions between syndicates and the Society	493	426
Total	**2,641**	**1,741**

A.3 Investment Performance

The investment performance for Lloyd's for 2022 is summarised below:

	2022	2021
	£m	£m
Interest and similar income:		
From financial investments designated as at fair value though profit or loss	(542)	1,444
From available for sale investments	62	30
Dividend income	20	27
Interest on cash at bank	97	26
Other interest and similar income	4	(8)
Investment expenses	(61)	(53)
Total	**(420)**	**1,466**
Other income from investments designated as at fair value through profit or loss:		
Net realised (losses)	(415)	(102)

Net unrealised (losses)	(2,284)	(411)
Other relevant expenses	(9)	(5)
Total	**(2,708)**	**(518)**
Total investment return	**(3,128)**	**948**

The market reported net investment losses of £3,128m in 2022, representing an investment loss of 3.5% (2021: £948m, return of 1.2%).

2022 was an exceptionally turbulent year for risk assets, driven by rising interest rates, as Central Banks have taken action to contain the increasing levels of inflation caused by supply chain disruption, the war in Ukraine and political uncertainty. Assets from investment grade fixed income bonds to equity markets generated significant negative total returns, with long-duration assets the most affected.

Net losses on investments of £46m (2021: loss of £14m) were recognised directly in equity.

Lloyd’s has limited exposure to securitised assets and other asset backed securities throughout the Chain of Security. As at 31 December 2022, exposure to these assets totalled £5,717m (2021: £5,205m).

A.4 Performance of other activities

Other items contributing to the overall loss of £769m (2021: profit of £2,277m) were gains on exchange of £158m (2021: gains of £66m) and other income of £75m (2021: £91m), less other expenses of £515m (2021: £569m). Other income related primarily to Society income, largely market charges and charges to members. The other expenses were primarily in respect of Society operating expenses.

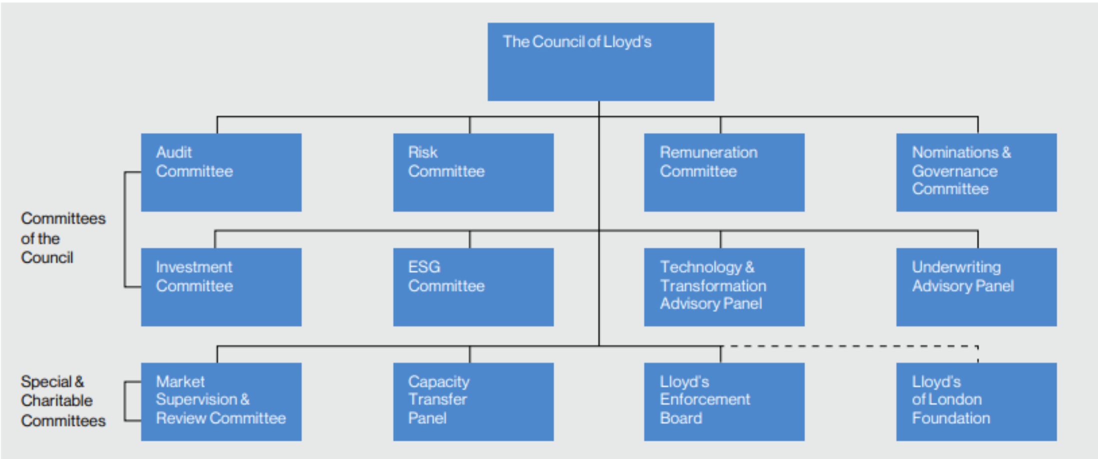
A.5 Any other information

There is no other material information to disclose.

B System of Governance

B.1 General information on the system of governance

<u>Structure, roles and responsibilities</u>
The structure of the principal governing bodies of Lloyd's is summarised in the chart below:



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

The Council comprises a maximum of 15 members, split between three working, three external, six independent nominated members and three executive nominated members (the CEO, CFO and Chief of Markets together "the Executive Directors of the Council"). The current Council membership comprises of 15 members.

The Chairman and Deputy Chairs are elected annually by the Council from among its members.

Certain functions are reserved to the Council including:

- Setting Lloyd's strategy;
- The making, amendment or revocation of byelaws (which are available at http://www.lloyds.com/conducting-business/market-oversight/acts-and-byelaws/lloyds-byelaws);
- The setting of the Corporation budget;
- The setting of Central Fund contribution rates;
- Appointing the Chairman and Deputy Chairs of Council;
- Approving Lloyd's risk appetites;
- Permitting a company to act as a managing agent; and
- Setting Society level capital requirements.

Beyond the reserved functions, the Council can delegate its powers or functions to any person, committee or employee of the Society.

The Council has responsibility for the day-to-day management of the market. The Council has delegated authority to carry out specified functions to committees, including the Remuneration and Nominations & Governance Committees and the Executive, as summarised below.

Main Committees of the Council

Nominations & Governance Committee
The Nominations & Governance Committee is responsible for keeping under review the governance arrangements and leadership needs of the Society and its subsidiaries. Its functions include making recommendations to the Council on the appointment of the Chairman, Chief Executive Officer, new nominated Council members, key members of the Executive, members of Council committees and the Secretary to the Council. The Committee is also responsible for succession planning arrangements for these positions. The Committee seeks to ensure that the Council and its committees have a combination of skills, experience and knowledge. For further information on the skills, experience and knowledge of the Council members, please see https://www.lloyds.com/about-lloyds/governance-andmanagement/council-of-lloyds.

The Committee is chaired by the Chairman of Lloyd's and its remaining members are drawn from the Council. No Executive Director of the Council is eligible to be a member of the Committee.

The Nominations & Governance Committee reports to the Council on its proceedings after each meeting on all matters relating to its duties and powers. A written report is submitted to the Council annually.

Remuneration Committee
The Remuneration Committee is responsible for setting remuneration arrangements for the Chairman, Chief Executive Officer, the Executive Directors and any other direct reports of the Chief Executive Officer and any such other members of the executive management or other persons as it is designated to consider.

Non-Executive remuneration is decided by the Council, on recommendation from the Chairman and Chief Executive Officer, who may consult the Remuneration Committee as part of that process. The levels of remuneration for each position reflects the time commitment and responsibilities of each role.

The Committee is chaired by Fiona Luck, an independent nominated member of the Council. The Chairman is a member of the Committee, and its remaining members are drawn from the non-executive members of the Council. No Executive Director of the Council is eligible to be a member of the Committee.

The Remuneration Committee reports to the Council on its proceedings after each meeting, and on all matters relating to its duties and powers and makes recommendations to the Council on any area within its remit where action or improvement is needed.

The Remuneration Committee submits a written report to the Council annually.

Technology & Transformation Advisory Panel (TTA)

The Technology & Transformation Committee was dissolved with effect from 23 March 2022. The TTA was established as a Committee of the Council on the same date. The TTA assists the Council by sharing insights, expert advice and assessments of developments in the delivery, communication and adoption of the Future at Lloyd's, the Joint Venture, and PPL and their interrelated governance structures, identifying issues for consideration, focus and review by the Council.

The TTA was chaired by the CEO of Lloyd's until 9 February 2023. Richard Dudley has chaired the TTA since that date. The TTA is comprised of senior market practitioners drawn from both the underwriting and broking communities to enable the sharing of market insights into developments in the delivery of the programme and Joint Venture. The Chief Operations Officer attends each TTA meeting.

Future at Lloyd's updates are provided to the Council at each meeting by the Chair of the TTA and/or the Chief Operations Officer. The Chairman, CEO, the Deputy Chairs (which includes the Senior Independent Deputy Chairman) and Mr. Brooks, a working member of the Council, have delegated authority to approve operational matters relating to the delivery of Blueprint Two where a decision is required outside of the Council with any approvals reported back to the Council at the following Council meeting. The TTA submits a written report to the Council annually confirming the number of meetings and associated attendance records of its meetings in the preceding year. The TTA Is required to promptly inform the Council of any matters of material concern.

Audit Committee

The Audit Committee's role is to assist the Council in discharging its responsibilities for monitoring the integrity of the Society's financial reporting, assessing the effectiveness of the systems of internal control of the Society and monitoring the effectiveness, independence and objectivity of the internal and external auditors. The Committee's functions in 2022 included reviewing the Society Report (which includes the group financial statements of the Society), the annual and interim pro forma financial statements, the Aggregate Accounts and the Lloyd's Solvency and Financial Condition Report to the PRA.

The Audit Committee is chaired by Angela Crawford-Ingle, an independent nominated member of the Council. The other members of the Committee are drawn from the Council. No Executive Director of the Council is eligible to be a member of the Committee. The Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, the Head of Internal Audit, senior managers, and the external auditor attend the meetings as appropriate. The Chairman also attends meetings by invitation.

Reports from the internal and external auditors on aspects of internal control are reviewed by the Audit Committee and appropriate action is taken in response.

The Audit Committee submits an annual report to the Council. It also reports to the Council on its proceedings after each meeting. Additional reports are submitted to the Council on matters of material interest as and when necessary.

Risk Committee

The Risk Committee's role is to assist the Council in its oversight of the identification and control of risks to the objectives of Lloyd's. In carrying out the role, the Committee takes into account the relevant work of the Investment Committee and the

Audit Committee. The Risk Committee is chaired by Neil Maidment, an independent nominated member of the Council. The other members of the Committee are drawn from the Council. The Chief Executive Officer, Chief Risk Officer, Chief of Markets and Chief Financial Officer are regular attendees, with others invited to attend all or part of any meeting as and when deemed appropriate.

The Committee submits an annual report to the Council. It also reports to the Council on its proceedings after each meeting.

Market Supervision and Review Committee

The Market Supervision and Review Committee (MSARC) takes decisions regarding the exercise of the Society's enforcement powers. It also acts as a review body capable, where appropriate, of amending, modifying or withdrawing certain decisions taken by the executive affecting managing agents. It also acts as the body that determines whether certain decisions can be referred to the Lloyd's Appeal Tribunal and can also make certain business decisions.

MSARC submits a written report to the Council annually and may submit additional reports where appropriate. The members of MSARC are appointed by the Council and are neither Council members, nor employees of the Society. MSARC is chaired by a qualified lawyer.

Capacity Transfer Panel (the Panel)

The Panel was established principally to exercise the Council's powers in relation to syndicate minority buyouts and mergers. The Panel submits a written report to the Council annually and may submit additional reports on matters of material concern as and when necessary.

The members of the Panel are appointed by the Council. The Panel is chaired by Neil Maidment, an independent nominated member of Council. Other members of the Panel are neither Council members, nor employees of the Society.

Investment Committee

The Investment Committee recommends to the Council the investment objectives and parameters of centrally managed assets and is responsible for reviewing performance against these. In addition, it monitors the investment operations of the Treasury and Investment Management department in respect of all funds under its management and approves all investment counterparties. It may also make more general recommendations concerning investment activity at Lloyd's. In relation to the Lloyd's Investment Platform, the Investment Committee has certain monitoring and oversight responsibilities in respect of the operating model and the Platform investment adviser and Platform Operator.

The Investment Committee submits a written report to the Council annually and submit reports on its proceedings after each meeting (and may submit additional reports on matters of material concern, as and when necessary). The Committee is required to obtain the approval of the Council before making any decisions which may materially affect the financial risks applying to the Society or Lloyd's market entities.

The members of the Committee are appointed by the Council. The Committee is chaired by Karen Green, an elected external member of the Council. The Chief Executive Officer, the Chief Investment Officer and Chief Financial Officer are members of the Committee. The remaining members are external subject matter experts who are neither Council members nor employees of the Society.

The Environmental, Social & Governance Committee (‘ESG’)

The ESG Committee are leading advocates for the Lloyd's Sustainability and Culture strategies, strengthening the brand and raising awareness within the Lloyd's market and beyond. The Committee is responsible for reviewing, challenging and approving submissions in respect of the Lloyd’s Sustainability and Culture Strategies.

The ESG Committee is chaired by Lord Mark Sedwill, an independent nominated member of Council and the Senior Independent Deputy Chairman of Lloyd's. The remaining members are drawn from the Council, representative from the market, subject matter experts and executive members.

Material changes in the system of governance that have taken place over the reporting period

During 2022:

- Michael Watson ceased as a member of the Council, with effect from 31 January 2022, due to the completion of his nine year term on the Council. Munich Re Capital Limited, represented by Mr Dominick Hoare, was elected as a member of the Council, with effect from 1 February 2022;
- Dominic Christian ceased as a member of the Council, with effect from 31 January 2023, due to the completion of his nine year term on the Council. Richard Dudley was elected as a member of the Council, with effect from 1 February 2023;
- The Chairman was re-appointed for a third term as Chairman of Lloyd’s, effective June 2022, running to June 2025.
- The Council took the decision to close the TTC and start the TTA with effect from 23 March 2022 (please see above for further detail).

Information on the remuneration policy

Principles of the remuneration policy

Lloyd’s operates a Total Reward approach to remuneration, which is designed to meet employee and Society needs by providing rewards that are linked to individual performance and the delivery of the Society’s objectives.

Lloyd’s Total Reward approach is supported by the following practices:

- The approach looks beyond base salary to the value of the total reward package in meeting the needs of employees;
- Lloyd’s recognises and rewards superior performance; and
- Lloyd’s remuneration practices are designed to promote and reward sound and effective risk management.

The Society operates a balanced approach to performance measurement. The annual performance bonus is linked to Lloyd’s key strategic objectives and KPIs are set each year which support the delivery of Lloyd’s long-term vision. Lloyd’s Market Award Bonus is directly linked to the profitability of the Lloyd’s market to encourage an attitude of commercial partnership with the market and align the interests of participants with capital providers.

The Society's executive remuneration policy
The structure of total compensation for the CEO and executive directors is designed to support the strategic priorities and reflect the market oversight role of the Society.

Lloyd's reward policy is designed to facilitate the future success of the Society by ensuring that the executive package may be sufficient to attract executive directors of the calibre required to deliver the Society's strategic priorities. It seeks to ensure that no more than is necessary is paid on recruitment, while taking into account a highly competitive and global market for talent.

All of Lloyd's executive remuneration practices are designed to protect the brand and reputation of Lloyd's and to promote sound and effective risk management. Incentives (annual performance bonus, market award and for 2021 and 2022 a Transformation Incentive Plan) are subject to a potential downward adjustment if risk management practices and standards are not considered to have been sufficiently met.

To ensure the long-term sustainability of the Lloyd's brand and reputation, the Society operates malus and clawback provisions on all incentives to ensure that senior executives act responsibly and in the long-term interests of the Society.

Summary of executive remuneration policy for 2022
Salary - Salaries are set to appropriately recognise responsibilities and be broadly market competitive. For 2022, salaries are set as follows: CEO: £700,000; Chief Operating & Chief Financial Officer: £550,000; and Chief of Markets: £510,000.

Lloyd's Incentive Plan comprises of individual performance and market elements. In addition, for 2022 and 2023, a Transformation Incentive Plan also operates for a group of key roles who are critical to the successful execution of the ambitious Blueprint Two programme.

Lloyd's Individual Performance Bonus - The discretionary annual bonus links reward to specific and measurable targets aligned with Lloyd's strategy. For 2022, annual bonus maximums (as a % of salary) for the CEO, Chief Operating & Chief Financial Officer and Chief of Markets are 100%. Annual bonus awards are subject to a 'risk underpin'. The Remuneration Committee will assess performance against risk and compliance metrics and may apply a downward adjustment where appropriate.

Lloyd's market award bonus - this offers an incentive which is directly linked to the profitability of the Lloyd's market. In order to provide a balanced approach to performance measurement and reflect the focus of the Society and its drive for improved efficiencies and transformation in the Lloyd's market, Profit Before Tax (PBT) and Combined Operating Ratio (COR) are key metrics used to measure market performance. For the CEO and executive directors, a maximum cap of 50% of salary applies and awards are subject to a 'risk underpin'. The Remuneration Committee will assess performance against risk and compliance metrics and may apply a downward adjustment where appropriate.

A portion of the combined total award is deferred for three years, to meet the PRA guidance to defer at least 40% of total variable pay.

Transformation Incentive Plan – awards are made to a group of key roles who have a material impact on the development and execution of the Future at Lloyd's strategy. Performance metrics are directly aligned to the success of the Blueprint Two programme. Lead indicators are underpinned by profitability and financial strength of the Lloyd's marketplace. Vesting may be deferred by 12 months and the underpin tests reapplied in the following year, in the event that performance underpins are not met.

Current individual maximum awards are 100% of salary for Executive Directors. Awards will be made in 2023 and 2024, and will be performance tested and vest following 31 December 2022 and 31 December 2023 respectively. Payment of any vested awards will be made in three tranches in the three years following the end of the performance period, subject to employment at the time of vesting; and awards will be subject to Lloyd's malus and clawback provisions, and the risk underpin adjustment applicable to the Lloyd's Incentive Plan.

Pension - The CEO, COO & CFO and Chief of Markets are eligible to be members of the Group Personal Pension (GPP) Plan (or equivalent), which is a defined contribution plan. All executive directors receive a cash allowance of 15% of base salary which is in line with the pension available to the wider workforce.

<u>Variable components of remuneration for all Society employees</u>
Lloyd's variable component of remuneration consists of the following elements within one bonus framework:
- individual performance bonus
- market performance award bonus

<u>Individual performance bonus</u>
The annual bonus is a discretionary annual bonus plan which links reward to specific and measurable targets aligned with Lloyd's strategy. All Society employees are eligible for a discretionary annual bonus, based on performance against objectives and individual key performance indicators for the year.

Any employee who performs below role expectations will not receive an individual performance bonus.

<u>Market performance bonus</u>
The market element bonus is available to all employees and has been designed to meet strategic objectives by enabling the Society to offer an incentive which is directly linked to the profitability of the Lloyd's market and will therefore encourage an attitude of commercial partnership with the market and align the interests of participants with capital providers; and will provide a competitive reward and therefore assist Lloyd's in attracting and retaining the talented individuals required to develop and support future strategy.

Awards are calculated by reference to profit on ordinary activities before tax (PBT), as reported in the pro forma financial statements in the Lloyd's Annual Report for each financial year, and Combined Operating Ratio (weighted equally) for each financial year subject to minimum threshold levels.

Deferred pay components are included within the remuneration provision under the market award bonus as an additional incentive to encourage employee recruitment and retention.

No market award bonus will be paid to individuals rated as 'inconsistent performers' or those who are underperforming.

In addition in 2022 and 2023 the Transformation Incentive Plan applies to a group of key roles who are critical to the successful execution of the Blueprint Two programme.

<u>Remuneration for the Chairman and members of the Council of Lloyd's and Board who are not employees of the Society</u>
The current Lloyd's Chairman was appointed effective 15 June 2017 and his fee was £600,000 per annum. The Chairman was re-appointed for a third term from June 2022 until June 2025. With effect from 1 June 2022, the Chairman's fee was increased to £665,000 per annum. Council members were paid £62,500 per annum. From 1 January 2023, Council members are paid £65,625 per annum. Fees are also payable in respect of membership of a number of Council committees. Additional fees are payable for the Senior Independent Deputy Chairman and Deputy Chair positions.

Further information on Lloyd's remuneration policy is set out in pages 86 to 97 of Lloyd's Annual Report 2022.

<u>Material transactions during the reporting period with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body</u>

There were no relevant material transactions during the reporting period.

B.2 Fit and proper requirements

<u>Requirements for skills, knowledge and expertise</u>
Lloyd's has a regulatory obligation to ensure that all relevant persons remain fit and proper at all times, in accordance with the requirements of the Senior Managers and Certification Regime ("SM&CR").

The Lloyd's Consolidated Compliance Policy sets out the requirement to assess an individual's fitness and propriety against the following considerations:

- honesty, integrity and reputation;
- competence and capability;
- financial soundness; and
- personal characteristics.

Where disciplinary action has been taken against a person within scope of SM&CR, the policy considers the impact on the assessment of the person's fitness and propriety. The requirement to notify the PRA and FCA when disciplinary action has been taken against a person for a Conduct Rule breach is outlined in the policy.

The following individuals are within scope of the Fit and Proper requirements detailed in the Consolidated Compliance Policy:

- all persons carrying out a Senior Manager Function;
- all persons carrying out a Certified Function;
- notified Non-Executive-Directors;
- any other Key Function Holder ("KFH"); or
- anyone carrying out an activity which has the potential to cause significant harm.

In relation to the Council, the Nominations & Governance Committee is responsible for recommending appointments for nominated members of the Council.

Given that 6 of the 15 members of Council are required by Lloyd's Act 1982 to be elected by members of the Society it is not possible or appropriate for the Nominations & Governance Committee to have specific obligations in respect of the balance of expertise and experience represented on Council. However, the Committee conducts an at least annual review of the structure, size and composition (including skills, knowledge & experience) of the Council. Before making any recommendation regarding candidates for appointment the Nominations & Governance Committee uses its best endeavours to evaluate the balance of skills, knowledge, experience and diversity on the Council and, in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

In relation to Society employees, candidates are recruited through Lloyd's recruitment process which comprises competency-based interviews to enable Lloyd's to assess whether a candidate has the appropriate skills, knowledge and experience for the particular role in question.

Process for assessing fitness and propriety

The process for assessing the fitness and propriety of the persons who effectively run the Society or have other key functions is described in the SM&CR Procedure which sets out how Lloyd's performs the necessary fitness and propriety checks prior to appointment and periodically thereafter for the various categories of roles to which the policy applies.

The Chairman maintains an ongoing dialogue with the non-executive members of Council and meets with each of them individually at least once a year to appraise their performance. In addition, each non-executive member of the Council meets individually with the General Counsel and Company Secretary at least once a year.

The Senior Independent Deputy Chairman leads meetings of the other non-executive Council members without the Chairman present, at least annually, to appraise the Chairman's performance (and the Executive), and on any other occasions as necessary.

The Remuneration Committee reviews the performance of the Chairman, Chief Executive Officer and members of the Executive Committee. The Chief Financial Officer is responsible for reviewing the performance of the Lloyd's Chief Actuary through Lloyd's Performance Appraisal Process. The Audit Committee is responsible for annually reviewing the performance of the Head of Internal Audit and the results of this review are shared with the CEO who agrees remuneration. Other employees who are within the scope of SM&CR are assessed through Lloyd's performance appraisal process. In addition all SMFs and Certified Staff are required to annually confirm their fitness and propriety via an attestation which takes into account the PRA and FCA requirements.

B.3 Risk management system including the own risk and solvency assessment

Risk management system

The Lloyd's Risk Management and Internal Control Policy describes its overall framework and approach for the management of risk, including the roles and responsibilities, internal governance arrangements, tools, processes and reporting procedures.

The Lloyd's Risk Management Framework ('the framework') ensures that the identification, assessment, monitoring and management of all material risks affecting the Society takes place on an ongoing basis. The framework includes a number of risk assessment techniques, which are tailored to specific risk areas.

Lloyd's Risk Management Framework

The management of all risks is, first and foremost, the responsibility of each employee and department at Lloyd's and decisions taken across the business have the potential to impact the risk profile of Lloyd's to a greater or lesser degree.

The Risk Management Function is responsible for establishing an effective risk framework and providing a secondary check and balance to ensure the range of risks taken by Lloyd's are well understood, effectively managed and in line with Lloyd's overall strategy and risk appetite. This objective is achieved through operation of the risk management framework.

The risk governance structure comprises the Executive Risk Committee and the Risk Committee. These provide clear independent challenge to the risk takers at Lloyd's. The risk committees oversee, challenge and where appropriate escalate issues using appropriate management information sourced from the risk management and internal control frameworks, such as the various risk and control assessments, details of the operating and regulatory environment and capital management reports.

A key objective of the Lloyd's risk governance structure is to provide assurance to the Council that risks facing the Society are identified and managed in accordance with approved policy and risk appetite.

Risk Appetite Framework

The Risk Appetite Framework articulates the level of risk believed to be acceptable and desirable for Lloyd's through a series of risk appetite statements and metrics. The framework seeks to translate stakeholder expectations into clear boundaries within which the business should operate. The boundaries set by the risk appetite framework are hard limits; if a breach of appetite occurs action must be taken to bring the risk back within appetite. These metrics are monitored on an ongoing basis by both the business areas responsible for each risk area and the risk committees.

Risk and control self-assessment (RCSA)

Lloyd's adopts a consistent approach in managing its risks through a risk and control self-assessment process, which is conducted on an ongoing basis, supported by a formal a bi-annual attestation process through which risk owners attest to the effective management of risks and controls. This process re-assesses the existing risks and identifies any new risks. It evaluates the performance of key controls and also seeks to monitor the action plans in place to help manage risks.

ORSA process

The ORSA process is a key element of the risk management framework of Lloyd's. It incorporates a series of processes which ensure an appropriate level and quality of capital is maintained to support the risks taken within Lloyd's on a current and future basis in light of the Lloyd's strategy set by the Council. The key focus of the ORSA is to continually assess Lloyd's own view of the risks faced and associated economic capital needs to meet its strategic goals.

The ORSA draws on existing ongoing oversight activities used to manage market and Society risk (including the risk and control assessment process, business plan and capital approval), the member capital setting processes and the determination of a central capital requirement.

ORSA frequency, review and approval

'Business as usual' basis

The ORSA is an ongoing, continuous process which aligns to the Lloyd's business cycle. As such, the activities of the ORSA are performed through the course of the year. The risk profile is assessed on an annual basis. The risk profile is presented to the Council annually in the annual ORSA report.

Ad-hoc basis

Following the occurrence of a significant event, the activities within the ORSA may be revisited to ensure that they are still valid and to assess any potential impact on the level of economic capital and the own funds necessary to meet solvency requirements. Certain trigger events may require all activities within the ORSA process to be revisited, however, less material events may only trigger the review of some ORSA components.

Governance

The Council has overall responsibility for the review and approval of the ORSA process and report.

The Council will make key decisions and review and approve key outputs through the ORSA report but shall sub-delegate the day-to-day oversight and operation of the ORSA process to the relevant committee and function teams as detailed in the Lloyd's ORSA Policy.

Determination of own solvency needs and interaction of capital management activities with the risk management system

The outcome of the ORSA process is formally documented within the ORSA report. The ORSA report details how Lloyd's has completed its own solvency assessment given its risk profile. Furthermore, it is used to present the results of the various, inter-linked ORSA processes, illustrating the dependencies between strategy, risk, capital and solvency. It provides all the key information which has been assessed and the conclusions reached as part of the ORSA process to provide management with a suitable platform for appropriate oversight and for future strategy setting.

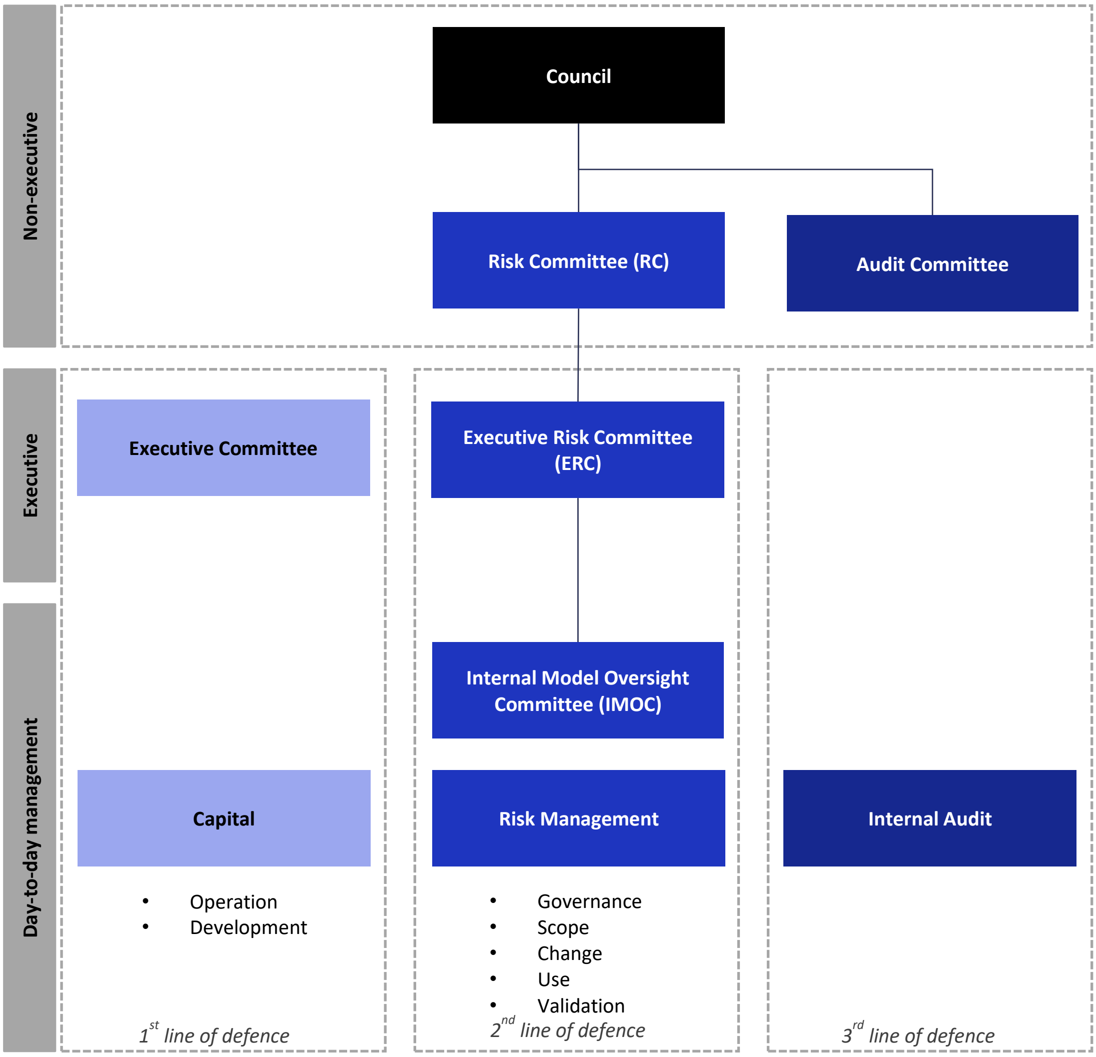
Governance over the Lloyd's Internal Model (LIM)

The Lloyd's Internal Model (LIM) is a regulatory-approved internal model used to set the Lloyd's regulatory capital requirement and support decision making across the Corporation.

The LIM is owned by the Council, which relies on the outputs for key decision-making activities. The Council delegates Executive responsibility to the CFO and CRO, with the Internal Model Oversight Committee established to carry out oversight of day-to-day duties. The Council delegates to the Risk Committee to provide oversight and challenge of the design, operation and validation of the LIM.

Lloyd's has embedded the structure set out below to ensure effective governance and oversight of the LIM and to ensure that the internal model continues to appropriately reflect the risk profile of the Society.

The Governance framework highlighted below identifies those ultimately responsible for ensuring effective governance of the LIM and satisfying themselves that the operation, change and validation activities are performed in alignment with their respective policies.



Internal model validation

Validation is a key regulatory requirement and seeks to ensure that the LIM is both fit for purpose and that its outputs can be relied upon to make key strategic decisions across the Society. A successful validation is one of the key requirements for maintaining internal model approval.

The validation policy is set out in the Lloyd's Internal Model Policy. This includes the validation activities, owned by Risk Management, covering all the risk categories and associated processes of the LIM, both on a quantitative and qualitative basis.

Quantitative Validation	**Qualitative Validation**[3]
Attritional claims covering premiums risk and reserve risk for claims other than those considered under catastrophe risk	Internal Model Scope / Risk Coverage
Catastrophe risk (including natural catastrophe risk modelled in the Lloyd's Catastrophe Model	Use

(“LCM”), and the integration of the LCM outputs into the calculation kernel (**“**CCK**”**))	
Reinsurance credit risk	Governance (including change)
Operational risk (Society and Syndicate)	Documentation
Additional Central Fund (“ACF”)	Systems & IT
Market risk (including investment risk modelled in the Lloyd’s Investment Risk Model (“LIRM”), and the integration of the LIRM outputs into the CCK)	Qualitative elements of Society operational risk
Pension risk	Data Quality Standards (covered by a separate policy)
Overall SCR, including dependencies between risks	

[3]Validation of data quality (not listed above) is performed by Internal Audit on a period basis.

The validation process is performed over a three-year cycle. The purpose of the three-year cycle is to:

- Ensure validation activity is spread throughout the year;
- Allow a risk-based validation approach with majority of activity focused on the material risk areas;
- Ensure validation activity is directed at the areas which have been subject to change, e.g. methodology changes to ensure continuous model development or parameter updates to reflect changes to risk profile; and
- Allow targeted, in-depth validation activity into thematic areas.

The three-year validation cycle is implemented through four categories of tests:

1. **Core tests**: these are validation tests which are run annually, regardless of any risk profile or model changes. The suite of core tests covers all areas of the model but is focused on the material areas;
2. **Extended tests**: these are considered as extensions of the core tests, which are only necessary to run once within a validation cycle, assuming it has not been subject to either model or risk profile changes;
3. **Additional tests**: additional testing carried out in response to breaches of certain triggers or where further investigation is necessary; and
4. **Deep dives**: targeted, thematic validation reviews.

Validation at Lloyd’s is a continuous and iterative process. A validation plan detailing the timings of the process is considered and agreed prior to each three-year validation cycle and reviewed and updated annually. Any validation actions agreed throughout the cycle are fed back into the design, operation and development of the internal model and reflected in the validation plan.

The activities on the validation plan are carried out through a combination of primary validation, performed by LIM component leads, and independent validation performed by the Validation team in Risk Management. The Validation team may be supported with external validation to enhance the level of independence and robustness of validation where necessary to inform on the reliability of the model and appropriateness of the model results.

Issues raised by the Validation team are assigned a materiality rating as defined in the Validation Policy and reported to the Internal Model Oversight Committee. Validation issues are also shared with the Executive Risk Committee and the Risk Committee (or Council where required) when reviewing the Solvency Capital Requirements. Progress on management’s response to the issues raised are then reported quarterly to the Internal Model Oversight Committee. This process ensures there is clear and transparent recording of validation findings to inform the development of the internal model, thereby providing assurance on the effectiveness of the validation process.

B.4 Internal control system

Internal control system

An effective system of internal control is a critical component of a successful business: it provides the foundation for the safe and sound operation of a business, ensuring compliance with relevant laws and regulations and the safeguarding of assets.

Internal control at Lloyd's comprises a set of continually operating processes involving the Council, as Lloyd's AMSB, senior management and all levels of personnel who by acting together ensure that the specific goals and objectives of Lloyd's are met and that a strong control culture is prevalent across the business.

An effective internal control system is key to embedding responsibility for risk management across the business and supporting the attainment of overall business strategy. The internal control system is designed to reduce, rather than eliminate, and identify ways to mitigate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Council has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Audit Committee monitors and reviews the effectiveness of the system of internal control, providing an annual internal control report and biannual reports on the key financial reporting controls to the Council. The Executive Committee is responsible for the implementation and maintenance of the internal control system and for instilling a strong internal control environment across the Society and market.

Lloyd's internal control system provides the foundation for the safe and sound operation of the business, ensuring compliance with relevant laws and regulations and the safeguarding of assets.

The Internal Control Policy describes the way in which the key components of the Lloyd's internal control system act together to ensure assurance processes are operationalised and risk oversight is applied. This policy describes key processes such that Lloyd's can consistently demonstrate:

- Effectiveness and efficiency of operations;
- Compliance with applicable laws, regulations and administrative provisions; and
- Availability and reliability of financial and non-financial information.

Implementation of the Financial Crime and Compliance function

Financial Crime and Compliance, part of the Risk & Regulatory function, focuses on:

- Managing regulatory engagement with the PRA and FCA;
- Overseeing the Policy Governance Framework of the Society;
- Owning and operating the Consolidated Compliance Policy, which includes Conflicts of Interest, SMCR, Gifts and Hospitality, the Mandatory Training Framework and Whistleblowing;
- Owning the Financial Crime Policy;
- Financial Crime and Compliance Monitoring and reporting on the Society's regulatory and financial crime control compliance;
- Advising the Society on financial crime risk management;

- Advising the Market on financial crime matters and monitoring the Market's financial crime compliance programs as a contributory element to the RIO oversight program;
- Acting as part of the Second Line of Defence, as part of the Risk Management function and interacting with Internal Audit as the Third Line of Defence.

Financial Crime and Compliance reports periodically, including on progress against Financial Crime and Compliance Plan, to the Executive Risk Committee and the Risk Committee.

B.5 Internal audit function

Implementation of the internal audit function
The Purpose, Authority and Responsibility of the Internal Audit function is defined within the Internal Audit Charter. Internal Audit's mission is to provide reliable independent and objective assurance to the Audit Committee and Executive Committee on the adequacy, effectiveness and sustainability of the system of internal control.

The primary scope of Internal Audit's activities is the examination and evaluation of the adequacy and effectiveness of the systems of risk management, internal control and governance processes for the Society of Lloyd's and its subsidiaries. In addition to this, Internal Audit's scope includes review of:

- compliance with policies, procedures, laws and regulations;
- reliability and integrity of information;
- means of safeguarding, verifying and accounting for assets;
- economic and efficient use of resources; and
- the accomplishment of strategic objectives.

To ensure adequate audit coverage of the Company's systems and controls an "audit universe" and risk based annual plan is prepared by Internal Audit. The audit universe and annual Plan are developed independently by Internal Audit with full reference to:

- the Executive Committee's and senior management views of the key risks facing the business;
- expectations and issues raised by the regulator;
- the Risk Management team, to ensure all relevant risks are addressed in a plan that forms part of a value adding assurance framework; and
- Internal Audit's discussions with the external auditor.

The Plan is submitted to the Executive Committee for discussion and input prior to being presented to the Audit Committee for review and approval.

Independence of the internal audit function
The Internal Audit Charter and Internal Audit Manual establish the framework in which the internal audit function operates. This includes affirming the independence of the internal audit function, stating that internal audit must be independent from management at all times to be effective in executing its work freely and objectively, including:

- The Head of Internal Audit has a direct reporting line, with direct and unlimited access, to the Chair of the Audit Committee and a secondary reporting line to the Chief Executive Officer;
- The Audit Committee is responsible for the approval of Internal Audit's annual Plan and the overall budget;
- Internal Audit is authorised to review all areas of Lloyd's and has full, free, and unrestricted access to all activities, records, property, and personnel necessary to complete their work including correspondence with regulators and Council and Committees meeting minutes;
- Internal Audit is authorised to allocate resources, set frequencies, select areas, determine audit scopes and apply audit tools and techniques, and to obtain the necessary assistance and specialised services within or outside Lloyd's to accomplish its objectives;
- Internal Audit reports with significant findings are reported in full to the Audit Committee;
- Internal Audit has the right to be informed by management, on a timely basis, of any significant control failures identified by management or the external auditor; and
- The Head of Internal Audit has the right to attend and observe all or part of Executive Committee meetings and any other key management decision making forums where they would have the appropriate standing, access and authority to challenge the Executive.

Internal Auditors have no direct responsibility or authority over any operating activities reviewed and should not relieve others of their responsibilities. Internal Audit are specifically prohibited from performing management activities, including:

- performing operational duties, including operation of policies and procedures;
- initiating or approving accounting transactions; and
- undertaking consulting engagements, specifically, those engagements where the primary aim includes process improvement, implementation of systems, or advising on operating practices (e.g. benchmarking).

In addition to Lloyd's in-house internal auditors, additional resource and specialist subject-matter experts are provided as required using a flexible co-source agreement. These additional resources report directly to the Head of Internal Audit. The Audit Committee keeps under review the relationship with co-source providers and the procedures to ensure appropriate independence of the internal audit function is maintained.

B.6 Actuarial function

The Actuarial Function is a mandatory key function introduced by the Solvency II legislation. The Lloyd's Actuarial Function (LAF) carries out a number of activities during each year, both qualitative and quantitative. Lloyd's unique structure means that any requirements in respect of the Actuarial Function apply at both syndicate level and at the overall Society level. Syndicates are therefore required to have their own Syndicate Actuarial Functions (SAFs) and part of the role of the LAF is to oversee that these individual SAFs maintain the required standards.

The accountabilities and governance of the LAF are outlined in its Terms of Reference. The LAF and SAFs have a defined set of tasks which must be performed to adhere to the regulations as set out in the Solvency II Directive. These are to:

- Coordinate the calculation of technical provisions including:

    - Ensuring the use of appropriate methods and assumptions;
    - Ensuring sufficiency and quality of data; and
    - Comparing best estimates against experience;
- Express an opinion on the overall underwriting policy;
- Express an opinion on the adequacy of reinsurance arrangements;
- Contribute to the effective implementation of the risk management system with particular regard to risk modelling and ORSA; and
- Report at least annually to the Board on the results of this work; identify deficiencies where they exist; and make recommendations to address these.

The LAF meets the requirements by:

- Providing an appropriate framework (e.g. issuing guidance, standards and requirements) for Syndicates to operate:
- Requiring submissions of SAF reports and other documentation which demonstrates Syndicate compliance;
- Monitoring compliance against this framework;
- Performing top-down and bottom-up market oversight on reserving;
- Complying centrally through its own activities used to monitor the market; and
- Reporting to the Lloyd's Council at least annually on the work of the LAF, including compliance of the SAFs, and making recommendations to address any identified deficiencies.

The LAF is primarily resourced by the Market Reserving and Capital team. The work of the LAF is continuous over the course of the year. The requirements relating to technical provisions are met through the central calculation exercise undertaken by the LAF on market data to estimate a LAF view of technical provisions and oversight of SAF technical provisions. The SAF oversight involves a completeness check for requirements as set out in the Actuarial Function guidance. This includes the requirement for a sign-off from the head of the SAF where they attest to Solvency II compliance in respect of requirements relating to the SAF. Where syndicates self-attest to partial or not complete for specific requirements; these are queried and an appropriate action plan is required by the syndicate to remediate.

The requirement to provide actuarial function (as detailed above) opinions on reinsurance and underwriting is satisfied at individual Syndicate and Society level. At the Society level this involves collaboration with other areas of the Society with primary oversight responsibility for underwriting and reinsurance.

Contribution to the risk management process and the ORSA includes the LAF work with respect to the Lloyd's Internal Model. Evidence of similar contribution is also required from SAFs.

The LAF provides a written report to the Council, on an annual basis, documenting all the tasks that it has undertaken, results, identifying any deficiencies and giving recommendations as to how such deficiencies should be remedied. The LAF also receives reports from all SAFs on an annual basis, covering the areas outlined above.

B.7 Outsourcing

Description of outsourcing policy
Lloyd's has established an Outsourcing Policy to provide a clear overview of the processes, controls and reporting procedures in place to ensure that the outsourcing of its functions or activities does not adversely affect Lloyd's or the Market's risk profile, or Lloyd's ability to meet regulatory responsibilities.

Lloyd's performs many activities necessary for the operation of its business, including providing services required in support of the efficient running of the Lloyd's market. In some instances, it may be considered more cost effective to utilise the services of an external supplier with the necessary expertise. In these circumstances, Lloyd's may enter into an outsourcing arrangement with a third-party supplier.

Outsourcing arrangements result in a shift from direct to indirect operational control of the activity and have the potential to increase the exposure of Lloyd's to operational risk. The Council, as Lloyd's AMSB, remains fully responsible for any activity or function outsourced and must ensure that Lloyd's does not outsource any activity which will unduly raise its exposure to operational risk. Prescribed responsibility under the Senior Managers & Certification Regime resides with the Chief Operations Officer as SMF24.

Strong governance and management oversight over the outsourcing process, combined with assurance provided by regular management information, are essential controls for managing outsourcing risk and understanding the impact of outsourcing on Lloyd's business.

Outsourcing of critical or important operational functions or activities
The Society of Lloyd's is currently utilising several suppliers to undertake critical activities on its behalf. Details of the activities they provide and the jurisdictions they operate in are shown in the table below:

Services Provided	Jurisdiction
Swift Services	United Kingdom
Market Data Capture (MDC) platform	United Kingdom
Infrastructure & Platform services	United Kingdom
Banking platform for the Central Accounting process	United Kingdom
Cloud Service for BACS	United Kingdom
Digital portals and custody platform	United Kingdom
Bid processing and matching services	United Kingdom
Central Accounting Settlement	United Kingdom
Complaints management	United Kingdom
Authentication Service	United Kingdom
Investment Consultancy	United Kingdom

B.8 Any other information

Assessment of adequacy of the system of governance
In accordance with the UK Corporate Governance Code, an external and independent evaluation of the performance of the Council, Audit, Remuneration and Nominations & Governance Committees is undertaken every three years. The last external evaluation was undertaken by YSC Consulting ('YSC') and took place in 2021. YSC's report was presented to the Council in May 2021 and a summary was presented to members at the May 2021 AGM. An internal evaluation was undertaken in December 2022 with the results presented to the Council and relevant Committees in Q1 2023.

Any other material information
There is no other material information to report.

C Risk profile

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

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

At the central level, additional risks arise from central operational risk, pension fund risk; market risk on central assets; and the risk of member default.

Solvency Capital Requirement* (Solvency II basis)
The Solvency Capital Requirement (SCR) represents the amount of capital required to withstand up to a 1 in 200-year loss event over a 12-month time horizon. Given Lloyd's unique structure there are two SCRs which are monitored under the Solvency II regime:

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

- The Lloyd's central SCR (CSCR) is calculated in respect of only the risks facing the Corporation and the Central Fund at the same confidence level and time horizon used to calculate the MWSCR. The material risk is that members do not have sufficient funds to meet their underwriting losses even having complied with Lloyd's rigorous capital setting rules.

Individual syndicates are also required to calculate a SCR, at a 99.5% confidence level over an ultimate time horizon, for each underwriting year; this drives the determination of member level SCRs. Each member's SCR is derived as the sum of the member's share of the syndicate's SCR. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk. The MWSCR and CSCR are derived from the Lloyd's Internal Model which has been approved by the PRA. The appropriateness of each syndicate's internal model, including changes thereto and the reasonableness of the key assumptions are assessed as part of the Society's oversight of the Lloyd's market.

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

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

<u>Lloyd's MWSCR*</u>
The MWSCR is broken down into the various risk components at 31 December 2022 as shown below.

	2022	2021
	£m	£m
Reserving risk[1]	7,285	7,550
All other (attritional) underwriting risk[1]	7,811	7,822
Catastrophe risk	447	802
Market risk[1]	6,582	2,304
Reinsurance credit risk	706	728
Operational risk	561	431
Pension risk	7	35
MWSCR before adjustments	**23,399**	**19,672**
Foreign exchange adjustment	101	228
MWSCR*	**23,500**	**19,900**

[1]The reporting at risk category level for 2022 year-end only has been refined to improve the reporting of profit associated with each risk category. This change impacts only market risk, reserving risk and "All other (attritional) underwriting risk" and overall SCR numbers remain unaffected by this change. Note that insurance risk categories have expected discounting throughout.

Increase in the overall market wide SCR is driven by growth, increased economic inflation uncertainty, a weakening of the pound against the dollar over 2022; these changes are partially offset by an increase in interest rates and increased profitability of business. The change in inflation uncertainty is captured within market risk, which as can be seen has increased significantly since 2021 year-end.

<u>Lloyd's central SCR*</u>
The central SCR at 31 December 2022 is £1,350m (2021: £1,250m).

C.1 Insurance Risk (including underwriting risk)

The dominant category of risk faced by Lloyd's syndicates is insurance risk. This is the risk arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. In practice, insurance risk can be subdivided into:
(i) underwriting risk;
(ii) reserving risk; and
(iii) catastrophe risk.

<u>Underwriting risk (including catastrophe risk)</u>
This includes the risk that a policy will be written for too low a premium, provide inappropriate cover, or that the frequency or severity of insured events will be higher than expected.

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

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

The managing agents' underwriting controls should ensure that underwriting is aligned with their strategy, agreed business plan and underwriting policy. Managing agents are expected to have controls in place to ensure that regulatory requirements and the scope of Lloyd's market licences are clearly understood and that risks are written within those requirements.

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

The Society does not seek to eradicate the inherent risks of insurance risk from the market but to ensure that they are managed within a commercial and prudent underwriting environment. The key processes that provide assurance to the Council include:

- Reviewing and agreeing syndicate business plans and capital;
- Quarterly performance monitoring;
- Adherence to the Lloyd's Principles for Doing Business;
- New entrant approval;
- Risk governance; and
- Risk appetite monitoring.

Reserving risk

Reserving risk arises where the reserves established in the balance sheet are not adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate reserves for known or Incurred but Not Reported claims (IBNR claims). These shortfalls can arise from inadequate reserving processes or from the naturally uncertain progress of insurance events. Lloyd's current level of aggregate market reserves remains robust and the continued level of overall reserve releases are supported by underlying claims experience being more favourable than expected.

Syndicates set reserves and obtain an annual Statement of Actuarial Opinion ("SAO"). The SAO is produced under the guidance and valuation of liability rules set by Lloyd's. Additionally, the requirements for individuals to provide opinion is set by the UK Actuarial Profession; the Lloyd's Chief Actuary has close access to the relevant committees in the UK professional body and is able to ensure that the guidance is kept in line with Lloyd's objectives.

Additional reserve monitoring exercises undertaken by Lloyd's include:

- Market-level reserving exercise to highlight potential areas of concern on reserving by class of business and year of account;

- Allocation of the IBNR from this reserving exercise to syndicate by class of business and year of account to highlight syndicates with potential areas of concern on reserving;
- Relative reserve analysis, comparing reserve strength between syndicates;
- Large loss monitoring; and
- Meeting Lloyd's Reserving Principles for Doing Business.

These reserve monitoring exercises feed into Lloyd's syndicate reserving oversight framework as a series of risk metrics to assist in categorising syndicates to determine reserving oversight activities for the forthcoming calendar year.

C.2 Market risk

Market risk is the risk that the values of financial instruments will fluctuate because of movements in foreign currency, interest rates or asset values. Syndicate assets are held in premium trust funds (PTFs) and are subject to the asset rules contained in the PRA's handbook. Market risk can arise in respect of the investments held by syndicates and centrally in respect of capital provided by members and assets held by the Society including the Central Fund.

Market risk represents the risk that movements in financial markets will affect the financial position of the Society. Market risks arising from the disposition of the Society's investments are monitored against defined parameters using Value at Risk (VAR) methodology. The position is reviewed regularly by the Investment Committee. Investments are actively monitored on a fair value basis. Investments are designated as fair value through profit or loss or amortised cost.

Managing agents manage asset risk through their investment strategy. There is greater oversight of market risk in light of the volatile economic climate, which includes the monitoring of Lloyd's Principles for Doing Business. Assets are monitored across the full Lloyd's Chain of Security to ensure the asset disposition of the market and Society remains appropriate, closely monitoring global economic and market trends.

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

Market risk comprises of the following key types of risk:
(a) inflation risk;
(b) currency risk;
(c) interest rate risk;
(d) equity risk; and
(e) credit risk (covered in C.3).

<u>Inflation risk</u>
All insurance liabilities are linked to some form of inflation which captures increases in claims costs and expenses from one year to the next. Economic inflation risk (which is proxied as Consumer Price Index - CPI) captures the risk of increases in costs beyond what is already priced and reserved at expected levels. As US dollar is the largest exposure, uncertainty in US inflation is a key driver of market risk.

<u>Currency risk</u>
Managing agents must identify the main currencies in which each syndicate transacts its business. For the market overall, the US dollar is the largest currency exposure.

Assets are then held in each of those currencies to broadly match the relevant liabilities. Managing agents must ensure that assets in syndicates match liabilities and take corrective action or fund additional capital where a mismatch arises. Lloyd's also reviews the matching of assets to liabilities at the syndicate level as well as at the market level.

Interest rate risk
Interest rate risk is the risk that the value and future cash flows of a financial instrument will fluctuate because of changes in interest rates. In general, Lloyd's operates a generally conservative investment strategy with material cash and short dated bonds portfolios, which gives rise to low levels of interest rate risk exposure. Liability cashflow duration is generally longer than asset cashflow duration.

Equity price risk
Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). Those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Financial assets and liabilities may be exposed to equity price risk. Such risks are managed by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each sector and market. These are set by managing agents on behalf of syndicates, by members for Funds at Lloyd's, and by the Society on the Central Fund. In aggregate there is no significant concentration of equity price risk.

C.3 Credit risk

Credit risk represents the risk of financial loss if a counterparty, or the issuer of a security, fails to meet its contractual obligations. The assets of syndicates, members' capital and Society assets are exposed to credit risk.

The market's principal credit risk is that the reinsurance purchased to mitigate gross losses does not respond as expected. This can occur because reinsurers are unable to settle their liabilities. Managing agents are expected to have a clear and comprehensive plan for the reinsurance of each syndicate. This takes into account risk appetite for retained insurance risk and the potential for the accumulation of risk. Managing agents are expected to regularly monitor and assess the security of, and exposure to, each reinsurer, intermediary and any collateral arrangements that support their reinsurance protections. Reinsurance credit risk is subject to quarterly review by Lloyd's.

Syndicates are also exposed to credit risk in their premium debtors. Credit risk in respect of premium debt is controlled through broker approval and regular monitoring of premium settlement performance.

The market has credit risk to financial counterparties via Letters of Credit which are issued by banks to support member allocations. This risk is managed through detailed review of all counterparties and limits by counterparty and rating level.

Society assets are also exposed to credit risk. With regard to credit investments, Lloyd's performs further credit analysis and does not solely rely on external credit ratings as an indicator of investment eligibility. This includes a top-down approach (macroeconomic environment and cyclical outlook) and a bottom-up approach (business fundamentals, issuer analysis and security analysis).

C.4 Liquidity risk

Liquidity risk arises where there are insufficient funds to meet liabilities as they fall due. This is considered for assets held by syndicates provided as members' capital, and held by the Society.

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 have an asset liability matching (ALM) policy which describes how they manage any duration risk arising from a mismatch between syndicate investments and policyholder liabilities. Generally, syndicates have a high concentration of liquid assets, namely cash and government securities.

The value and term of short-term assets are carefully monitored against those of the Society's liabilities. The Society maintains sufficient liquid assets to meet liabilities as they fall due. The liquidity of the Central Fund is monitored separately.

Lloyd's centrally monitors syndicate liquidity both in terms of asset mix and future funding needs and syndicate stress tests were conducted in 2022 to monitor the impact on liquidity of significant claims events.

C.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is modelled using a scenario analysis approach, generating operational loss scenarios in conjunction with business teams. This may arise at syndicate level and centrally.

Managing agents manage these risks through internal compliance monitoring and the use of detailed procedure manuals. Lloyd's sets Principles for Doing Business to be applied by agents and monitors to ensure these are met.

Syndicate SCRs calculated with internal models are also required to include a capital requirement in respect of operational risks. The methodology used will be different for each syndicate (as operations are different) but all syndicates are obliged to include their operational risk exposures within their internal model.

In addition, elements of operational risk which arise as a result of syndicate operations but are not felt to be adequately captured in their internal models are modelled centrally. This is known as Additional Central Fund (ACF) risk.

C.6 Other material risks

Regulatory risk

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

Group risk

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

Concentration risk

Lloyd's closely monitors concentrations of risk across the market and tests risk exposure against clearly defined risk appetites as established by the Council. Lloyd's also has a concentration risk framework which sets out the identification, monitoring and management of key sources of potential concentration risk. Specialist supervisory teams across Lloyd's monitor concentrations across the following areas: region-perils, class of business, geographical location, and method of distribution in insurance and investment counterparties, amongst others. Whilst syndicates define the type of business that they write, at the market level Lloyd's seeks to avoid inappropriate concentration of premium sources, monitoring concentration of business in poorly performing classes, and material sources of premium by method of placement as well as coverholder concentration. Managing agents controlling more than 10% of overall market gross written premium are also subject to Council review. Any reported metrics outside of appetite are reported to and discussed by the Risk Committee and the Council. Specific and targeted actions can then be agreed, which will be discussed with specific managing agents or the market as a whole, as appropriate. These actions can vary considerably depending on the nature of the risk or the class of business impacted, with different levels of the requirements placed on syndicates, which forms part of Lloyd's oversight role of the market.

Climate change risks

Climate change is unique, not only in the challenge it poses to the world, but also in its potential to create significant risks (and opportunities) across the entire risk profile of financial service sector companies (risks that may crystallise over short, medium and long time horizons).

Climate change risks are now embedded into the Lloyd's risk framework. While climate risk isn't considered to be a risk category in itself, it may increase the frequency and severity of losses within the existing risk categories described in C.1 – 5. Participation in the Bank of England's Climate Biennial Exploratory Scenario (CBES) during 2021, as well as ongoing new research from Lloyd's Futureset, has significantly improved Lloyd's understanding of how climate change risks may impact the risk profile and this continues to be an area of focus.

The work on climate change comes under the wider Sustainability strategy. As part of Lloyd's oversight process, each managing agent submit an ESG strategy through their annual business planning. The ESG strategies were submitted as a way for managing agents to evidence how sustainability was embedded across their business, in areas such as operations, underwriting, investments and governance. The reviewing process had a qualitative element against Lloyd's 'Principles for doing business' as well as a quantitative element, collecting data around the number of managing agents with an sustainable underwriting product, if sustainability considerations are factored into underwriting and investments and whether or not managing agents had developed climate KRIs and several others.

Prudent person principle
In accordance with Article 132 of Directive 2009/138/EC, all assets at Lloyd's are invested in accordance with the prudent person principle.

Syndicate level assets
Managing agents, as trustees, are responsible for the investment of their own syndicate PTFs. The members of the syndicate are the primary bearers of financial risk. Managing agents identify planned investment risk within the SCR and members are required to provide sufficient capital to support this risk. PTF investments must be managed in accordance with PRA requirements under the Prudent Person Principle. PTF investments must also comply with the Membership & Underwriting Requirements (M&URs) issued by Lloyd's. Syndicates must submit information on investment returns and dispositions to Lloyd's quarterly.

Lloyd's oversight of syndicates' investment activities is carried out in line with the wider holistic oversight framework. Syndicates are assessed by Lloyd's quarterly using a mixture of qualitative and quantitative measures. Where Lloyd's deem a syndicate to be underperforming against expectations, Lloyd's may implement a series of interventions such as requiring investment dispositions to be amended, or more typically that additional capital be provided by members, as appropriate.

Lloyd's also considers periodically whether any additional rules should be adopted for prudential reasons beyond the PRA requirements of the Prudent Person Principle.

If Lloyd's identifies that in aggregate, syndicates are exposed to inappropriate levels of investment risk, it may constrain the investment dispositions of all syndicates and amend the M&URs.

Member level capital (FAL)
Each member of Lloyd's is responsible for the investment of their own FAL and is the primary bearer of the resulting financial risk. Lloyd's acts as trustee and custodian of FAL assets and reviews all transactions in advance of approving them for settlement. All FAL investments must comply with the PRA requirements under the Prudent Person Principle; additionally, they must also comply with the Lloyd's M&URs.

The M&URs include a Standard Strategic Asset Allocation (SSAA), which members must comply with at an aggregate capital level. The SSAA imposes limits on risk assets and issuer exposure to better manage FAL investment risk and to encourage diversification. Asset dispositions are analysed quarterly by Lloyd's and a capital charge test is applied annually should a member's aggregate capital position be outside of this SSAA.

Where concerns are identified, Lloyd's may engage with members to understand risk strategies and may require that investment dispositions be amended. Where members do not comply with such requirements Lloyd's, in its capacity as trustee, may intervene to amend investment dispositions. Lloyd's may also require a member to maintain additional assets within their FAL if that member's FAL investments exceed defined risk limits.

If Lloyd's identifies risks which are unacceptable when considering all FAL assets, or all FAL and PTF assets together, it may, in extremis, adjust permitted investments for all participants by amending the M&URs.

Lloyd's also considers periodically whether any additional rules should be adopted for prudential reasons beyond the PRA requirements of the Prudent Person Principle.

Central resources

Lloyd’s complies with the Prudent Person Principle in respect of central resources by ensuring that:

- Lloyd’s primarily does not invest in investments that are not admitted to trading on a regulated financial market or in complex products which are difficult to value. Neither does it invest in investments which are not traded or traded on a non-regular basis. Lloyd’s has robust processes for selecting risk assets and/or illiquid assets as well as robust and thorough liquidity assessments. Selection of illiquid assets must comply with the illiquidity risk appetite process.
- Derivatives are only permitted to facilitate risk management and not speculation. Lloyd’s use of derivatives is currently limited to forward foreign exchange contracts, equity futures and interest rate swaps. Effective risk transfer is obtained by transacting both these derivatives under Master International Swaps and Derivatives Association (ISDA) agreements with the derivative counterparties. Considerations of how the quality, security, liquidity and profitability of the Central Fund portfolio is improved without significant impairment of any of these features is made by the Lloyd’s Investment Committee. Approved procedures have been implemented in line with this risk policy to monitor the performance of these derivatives and against defined risk limits.
- Before investing in securitised assets, the Society ensures that Lloyd’s interests and the interests of the originator or sponsor concerning securitised assets are well understood and aligned. All securitised assets must meet Solvency II eligibility criteria.

Stress testing

Lloyd’s seeks to continuously identify and examine Stress and Scenario Tests (SSTs) which may have an adverse impact on the business model to ensure potential risks are clearly understood, monitored effectively and adequate controls are in place.

The outcomes/conclusions of the SSTs form an integral part of the overall risk management system and act as a prompt to senior management to take action across a range of areas such as: implementing changes to the LIM, re-evaluating risk appetites, reviewing the application of Franchise Guidelines, business plan decisions for syndicates and capital management decisions (e.g. setting Economic Capital). The results of these, as reflected in the ORSA process, inform Lloyd’s management in terms of making decisions with regard to member level and central capital strategy over the medium term.

Lloyd’s also includes business plan stress tests into the suite of SSTs whereby the assumptions underlying the aggregate business plan are subjected to a number of stresses. The results of this are considered as part of assessment of capital adequacy and also inform areas of focus for the following year CPG review.

C.7 Any other information

As reported on R0790 of template S.23.01 as shown in Appendix 1, the total of Expected Profit In Future Premiums (EPIFP) as at 31 December 2022 amounted to £6,480m (2021: £5,105m).

Additional information on risk management at Lloyd’s may be found at note 4 of the market results (pages 42 to 54) and note 5 of the Society Report (pages 135 to 138) within the Lloyd's Annual Report 2022.

D **Valuation for Solvency Purposes**

Sections/items indicated with an asterisk (*) are not subject to reasonable assurance. As referenced in the basis of preparation, the numbers presented below represent a Lloyd's market wide position of solvency.

The Society of Lloyd's transitioned its basis of preparation of financial statements from International Financial Reporting Standards (IFRS) to UK Generally Accepted Accounting Practice (UK GAAP) with effect from 1 January 2022. The Council considers that this brings the basis of reporting in line with the market reporting in the PFFS. There were no adjustments recognised as a result of this transition to UK GAAP impacting the result on capital and reserves.

The PFFS in the prior year included the Society's IFRS numbers converted to UK GAAP. As such, the Society's transition to UK GAAP does not impact the valuation methodology for the relevant assets and liabilities in Section D.

The changes in comparatives are summarised below:

31 December 2021	UK GAAP	Change	UK GAAP (restated)[2]
Assets	£m	£m	£m
Investments	72,977	64	73,041
Insurance and reinsurance receivables	19,345	(54)	19,291
Receivables (trade, not insurance)	970	(193)	777
Any other assets	69	183	252
Net change		-	

[2]Comparative balances have been restated to reflect changes to presentation in the current year.

A comparison of Lloyd's UK GAAP and Solvency II balance sheets is summarised in the following table:

31 December 2022	UK GAAP	Change	Solvency II
Assets	£m	£m	£m
Deferred tax assets	12	(5)	7
Intangible assets	54	(54)	-
Pension benefit surplus	54	-	54
Investments	83,388	1,164	84,552
Loans and mortgages	195	(26)	169
Property, plant & equipment held for own use	8	112	120
Reinsurers' share of technical provisions	34,255	(16,124)	18,131
Deferred acquisition costs	5,387	(5,387)	-
Deposits to cedants	899	110	1,009
Insurance and reinsurance receivables	23,580	(12,181)	11,399
Receivables (trade, not insurance)	887	403	1,290
Cash and cash equivalents	12,289	(8,513)	3,776
Any other assets	522	(67)	455
Total assets	**161,530**	**(40,568)**	**120,962**

Liabilities			
Technical provisions	104,133	(104,133)	-
- Best estimate	-	67,420	67,420
- Risk margin*	-	4,375	4,375
Provisions other than technical provisions	64	69	133
Deposits from reinsurers	1,545	(134)	1,411
Derivatives	41	26	67
Debts owed to credit institutions	630	(80)	550
Insurance and reinsurance payables	11,270	(4,874)	6,396
Payables (trade, not insurance)	2,705	(238)	2,467
Subordinated liabilities	603	(22)	581
Any other liabilities	334	1,422	1,756
Total liabilities	**121,325**	**(36,169)**	**85,156**
Net excess of assets over liabilities	**40,205**	**(4,399)**	**35,806**

31 December 2021	UK GAAP (restated)	Change	Solvency II (restated)
Assets	£m	£m	£m
Deferred tax assets	57	44	101
Intangible assets	58	(58)	-
Investments	73,041	868	73,909
Loans and mortgages	180	-	180
Property, plant & equipment held for own use	10	125	135
Reinsurers' share of technical provisions	28,284	(11,482)	16,802
Deferred acquisition costs	4,528	(4,528)	-
Deposits to cedants	720	287	1,007
Insurance and reinsurance receivables	19,291	(10,855)	8,436
Receivables (trade, not insurance)	777	216	993
Cash and cash equivalents	10,957	(7,727)	3,230
Any other assets	252	311	563
Total assets	**138,155**	**(32,799)**	**105,356**
Liabilities			
Technical provisions	86,874	(86,874)	-
- Best estimate	-	61,944	61,944
- Risk margin*	-	4,104	4,104
Provisions other than technical provisions	53	61	114
Pension benefit obligations	106	-	106
Deposits from reinsurers	1,734	(30)	1,704
Derivatives	41	23	64
Debts owed to credit institutions	575	15	590
Insurance and reinsurance payables	8,986	(5,047)	3,939
Payables (trade, not insurance)	2,538	(269)	2,269
Subordinated liabilities	796	75	871

Any other liabilities	(101)	1,281	1,180
Total liabilities	**101,602**	**(24,717)**	**76,885**
Net excess of assets over liabilities	**36,553**	**(8,082)**	**28,471**

A qualitative description of the reasons for differences between UK GAAP and Solvency II is set out at section D.1 (assets), D.2 (technical provisions) and D.3 (liabilities other than technical provisions).

D.1 Assets

Valuation of assets including differences between Solvency II and UK GAAP

Overview
Lloyd's requires each syndicate to prepare a Solvency II balance sheet in accordance with Solvency II valuation rules.

Members' FAL are valued at fair value and thus comply with Solvency II valuation principles.

Solvency II requires that all liabilities should be measured at fair value. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the difference in valuation is not material.

Recognition
Assets are recognised only when economic benefits are expected to be received in future.

Under Solvency II, future cash flows relating to insurance and reinsurance contracts are included in the measurement of technical provisions. However, overdue cash flows are treated as insurance receivables in the balance sheet. This is the same principle that Lloyd's has applied in the recognition of insurance receivables. Lloyd's has applied similar principles as those applied for insurance receivables in assessing recognition of reinsurance receivables. Amounts recoverable from reinsurers relating to claims paid have been included in the balance sheet as reinsurance receivables.

Derecognition
Assets are derecognised once they have been transferred to a third party i.e. substantially all risks and rewards are transferred.

Deferred tax assets
Deferred tax assets relate solely to the Society of Lloyd's. This is because syndicates account for their results gross of tax. Tax is assessed at member level and is outside of the scope of the Lloyd's financial statements. Deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised. Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the reporting date.

Pension benefit surplus
Lloyd’s operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd’s Pension Scheme which is a defined benefit scheme. Other schemes have been established for certain employees based overseas. These have been valued in accordance with FRS102 section 28 ‘Employee Benefits’. There is no difference in the valuation for Solvency II purposes.

Additional information in respect of pension scheme obligations may be found in note 21 ‘Pension schemes’ in the Society accounts, on pages 154 to 159 of Lloyd's Annual Report 2022.

Investments
Most of Lloyd’s investments i.e. premium trust funds, FAL and Central Fund assets are fixed income investments. These are mainly government bonds and corporate bonds. In addition, significant amounts of equities are held, particularly within members’ FAL and the Central Fund. Solvency II requires investments to be valued at their fair value.

Information of the valuation of investments for the purposes of the financial statements may be found on pages 57 to 58 of the Lloyd's Annual Report 2022. There are no material differences in the valuation of investments for Solvency II and UK GAAP. However, the allocation of accrued interest has been included within the relevant investment assets rather than in ‘Any other assets’.

Government bonds
These are valued at market value i.e. based on quoted prices. These bonds are regularly traded and hence their prices are easily obtained. These prices are obtained from the custodians. However, where these are not considered current, a tradable quote from a broker is sought.

Corporate bonds
Most of the corporate bonds are of very high quality i.e. BBB rating and above. These bonds are regularly traded and hence their prices are easily obtained. Similar to the government bonds, these are valued at market value, based on the quoted prices provided by the custodians. Similar to government bonds, where prices from custodians are deemed not to be fresh, a tradable quote from a broker is sought.

Equity and investment funds
Equity investments held by Lloyd’s are mainly listed and hence their prices are readily available. These are valued at market value based on the quoted prices provided by custodians.

Loans and mortgages
These consist of the following:

- Loans and mortgages to individuals – relating to recoverable Central Fund loans made to hardship members; and
- Other loans and mortgages – relating to syndicate investment assets classified as loans and mortgages other than ‘Loans and mortgages to individuals’ and ‘Loans on policies’.

These are initially recognised in the financial statements at amortised cost. There are no material differences in the valuation of the ‘loans and mortgages’ held by Lloyd’s for Solvency II compared with UK GAAP.

Property, Plant and equipment held for own use
Right of use assets in respect of the Society's operating leases are recognised on the Society's Solvency II balance sheet. Right of use assets are not recognised on the PFFS UK GAAP balance sheet.

Deposits to cedants
These are deposits relating to reinsurance accepted business. The UK GAAP value is reported in the Solvency II balance sheet as the impact of discounting is not material, because the balances are either due within 1 year or the amounts due in greater than 1 year are not material.

Insurance and reinsurance receivables
These are valued at fair value by discounting expected cash flows using a risk-free rate. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material.

While determining the valuation amount, Lloyd's has considered the recoverability of these balances; hence the amount recognised in the balance sheet is net of expected losses as a result of default.

Under Solvency II, future cash flows relating to insurance and reinsurance contracts are included in the measurement of technical provisions, excluding overdue cash flows which remain as insurance receivables in the balance sheet and there are no material differences in the valuation of the overdue amounts for Solvency II and UK GAAP.

Receivables (trade, not insurance)
Receivables are recognised at their book value using UK GAAP where these assets crystallise within one year; in this case no discounting is applied as this would be immaterial.

Cash and cash equivalents
'Cash and cash equivalents' comprise of cash in hand and demand deposits, together with short term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of change in value. These are short term investments with a maturity period of three months or less from the date of issuance.

Cash in hand and demand deposits are valued at the amount held at the end of the year plus accrued interest at the end of the year, where applicable.

The value of letters of credit, guarantees and life policies provided within FAL, which represent ancillary own funds (see section E.1 below), and which are included in 'cash and cash equivalents' in the table in section D are excluded from the Solvency II balance sheet but are recognised at their Solvency II valuation as ancillary own funds in the own funds template.

Any other assets
These include items such as prepayments and other assets. Book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material. Consequently, the UK GAAP value is reported in the Solvency II balance sheet.

D.2 Technical provisions

Solvency II technical provisions by material line of business
The tables below summarise the Solvency II technical provisions for the market by high-level class of business:

31 December 2022

Class	Gross best estimate	Net best estimate	Risk margin*	Total net technical provisions including risk margin*
	£bn	£bn	£bn	£bn
Accident & Health	2.37	1.66	0.12	1.78
Aviation	2.97	1.68	0.13	1.81
Casualty Financial & Professional Lines	14.87	10.45	0.61	11.06
Casualty Other	13.92	9.90	0.58	10.48
Casualty Treaty	4.14	3.04	0.22	3.26
Energy	3.61	2.57	0.30	2.87
Marine	6.23	5.52	0.66	6.18
Property (Direct & Facultative)	8.88	6.63	0.48	7.11
Property Treaty	6.52	5.11	1.15	6.26
Specialty Other	3.91	2.73	0.13	2.86
Total	**67.42**	**49.29**	**4.38**	**53.67**

31 December 2021

Class	Gross best estimate	Net best estimate	Risk margin*	Total net technical provisions including risk margin*
	£bn	£bn	£bn	£bn
Accident & Health	2.48	1.81	(0.16)	1.65
Aviation	1.70	1.10	0.08	1.18
Casualty Financial & Professional Lines	14.42	10.08	0.71	10.79
Casualty Other	12.68	10.68	0.64	11.32
Casualty Treaty	4.30	3.16	0.21	3.37
Energy	5.64	4.70	0.37	5.07
Marine	5.36	4.41	0.58	4.99
Property (Direct & Facultative)	7.07	3.62	0.38	4.00
Property Treaty	5.99	4.98	1.21	6.19
Specialty Other	2.33	0.60	0.09	0.69
Total	**61.97**	**45.14**	**4.11**	**49.25**

A summary of technical provisions by Solvency II line of business is provided in Appendix 1 on templates S.12.01 and S.17.01.

Calculation of technical provisions

The technical provisions are calculated in line with the prescribed Solvency II requirements as per Articles 76 to 86 of Directive 2009/138/EC. In particular, the value of technical provisions corresponds to the current amount insurance and reinsurance undertakings would have to pay if they were to transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking. The calculation of technical provisions makes use of and is consistent with information provided by the financial markets and generally available data on underwriting risks (market consistency).

The technical provisions are calculated by syndicates in accordance with Lloyd's Technical Provisions Guidance November 2019. The calculations are undertaken by individual syndicates with the calculation basis and assumptions made at this level. Across the market the following bases, methods and assumptions are most relevant:

- Provisions for future claims are the most material element of the technical provisions;
- Provisions for future claims are based on standard actuarial techniques for estimation of non-life insurance liabilities;
- Assumptions relating to run-off patterns and loss ratios are material to the calculation of future claims provisions;
- In discounting technical provisions, the risk free yield curves published by the PRA are used. The rates used should be the basic risk-free rate curves with no volatility adjustment. For currencies for which the PRA does not publish technical information/discount rates, it is a firm’s responsibility to propose discount rates that complies with Solvency II requirements and justify its approach to its supervisor;
- With regard to contract boundaries all contracts to which the syndicate is legally obliged are included and each existing contract, including reinsurance, is considered in its own right; and
- Reinsurance recoveries are calculated based on consideration of the inwards exposures and the reinsurance in place, including the impact of any claims experience to date.

The calculations are undertaken by individual syndicates with the calculation basis and assumptions made at this level. This includes the consideration of homogenous risk groupings used for the valuation, which will vary between syndicates based on the consideration of the specific syndicate risk profile.

Level of uncertainty associated with the value of technical provisions*

Provisions for future claims are the most material and uncertain element of the technical provisions. The associated uncertainty of these provisions is assessed by all syndicates and also by the Society, using both quantitative techniques and qualitative commentary on sources of uncertainty. Consideration of the uncertainty is undertaken for each syndicate as part of their reserving processes. This will focus on the areas of particular uncertainty specific to each syndicate and involves statistical reserving techniques, sensitivity and scenario testing and consideration of large reserves associated with individual losses. This information is received and reviewed by Lloyd’s as part of Statement of Actuarial Opinion (SAO) and Actuarial Function reporting. Centrally the Lloyd’s Actuarial Function assesses the uncertainty in aggregate market provisions via the same methodologies. Further assessment of quantitative uncertainty in the technical provisions is made as part of internal modelling at syndicate and Society level.

In addition to the quantification provided in the LIM, Lloyd’s also monitors sources of uncertainty using the process. Each syndicate is required to provide an opinion, given by an actuary with an appropriate Practising Certificate, on reserve sufficiency. As part of this opinion any key sources of uncertainty are required to be highlighted and quantified. These uncertainties are highlighted in the solvency opinions by wordings; the wordings are comprised of an ascending order scale from 1 to 4 with respect to reserve uncertainty. The large loss uncertainty wordings for 2022 year-end arose primarily from three major events, as follows:

1. Combination of current economic circumstances leading to increased claims inflation;
2. Conflict between Russia and Ukraine; and
3. Hurricane Ian.

<u>Valuation differences of technical provisions by material line of business between Solvency II and UK GAAP</u>

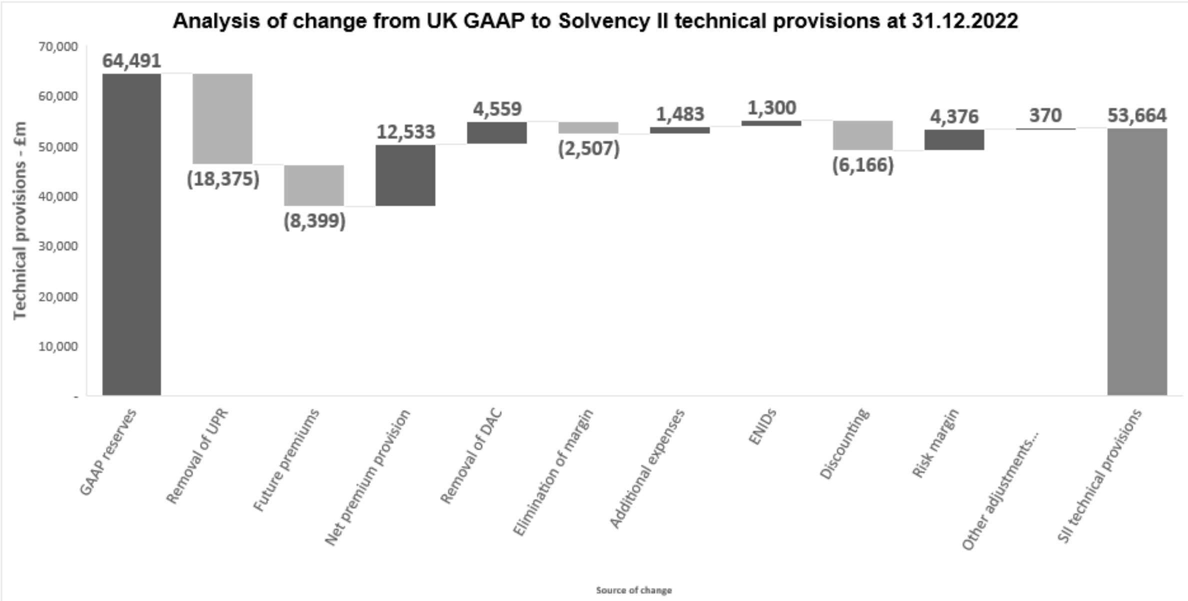
The technical provisions on a Solvency II basis are calculated in line with Solvency II requirements. There are a number of significant differences between this calculation basis and the UK GAAP basis underlying the financial statements.

The material differences in the bases are summarised below:

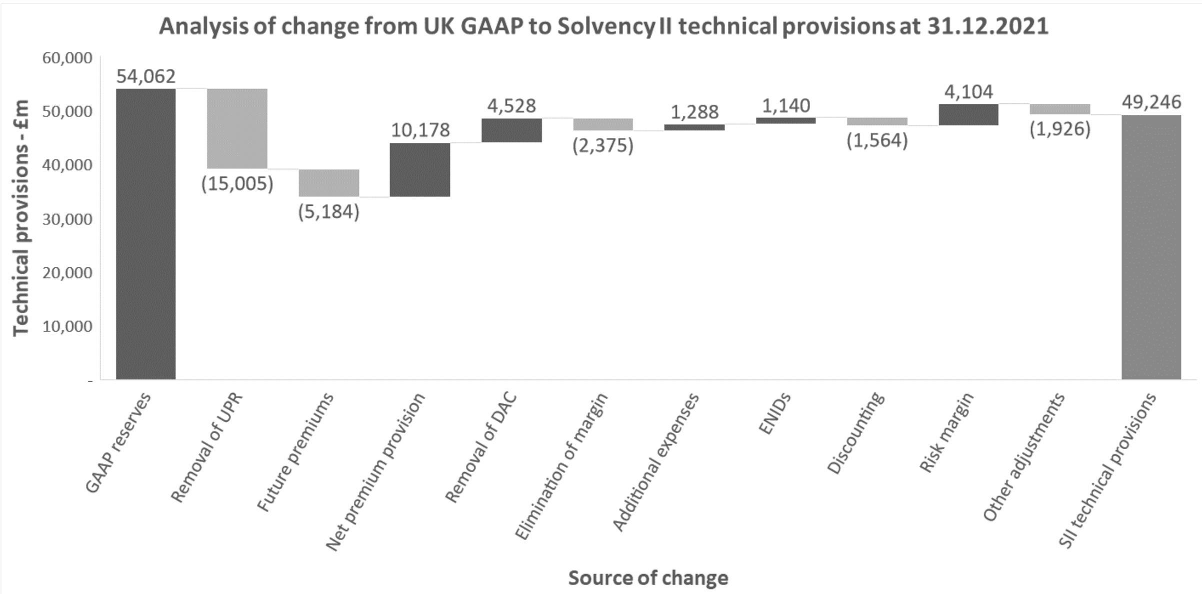
- Removal of the requirements to hold an unearned premium reserve (UPR) and to allow for other non-monetary items;
- Movement to a cashflow basis for valuation of both gross business and outwards reinsurance. This means that future premium income from contracts that are contractually bound at 31 December is introduced into the technical provisions;
- The claims associated with the unearned business must also now be included, in place of the UPR provision;
- Removal of any implicit or explicit margins within technical provisions to give a “true best estimate” for solvency purposes, defined as the mean of the full range of all possible future outcomes;
- Inclusion of all expenses incurred in running-off the existing business, rather than only those relating to cost of claims administration;
- Introduction of the valuation of very low probability extreme events including latent claims, referred to as “Events not in Data” (ENIDs);
- Introduction of discounting of all reserves at risk-free rates, rather than discounting being related to expected investment income and only being allowable on particular claim types; and
- Inclusion of a risk margin sufficient to cover the expected cost of transfer of the obligations.

The impacts of the above changes are summarised in the charts below:

31 December 2022



31 December 2021



The UK GAAP and Solvency II net technical provisions by material line of business are summarised below:

31 December 2022

Class	UK GAAP net technical provisions	Solvency II net technical provisions including risk margin*
	£bn	£bn
Accident & Health	2.34	1.78
Aviation	2.27	1.81
Casualty Financial & Professional Lines	12.55	11.06
Casualty Other	11.59	10.48
Casualty Treaty	4.09	3.26
Energy	4.51	2.87
Marine	6.89	6.18
Property (Direct & Facultative)	9.00	7.11
Property Treaty	6.39	6.26
Specialty Other	4.86	2.86
Total	**64.49**	**53.67**

31 December 2021

Class	UK GAAP net technical provisions	Solvency II net technical provisions including risk margin*
	£bn	£bn
Accident & Health	2.36	1.65
Aviation	1.42	1.18
Casualty Financial & Professional Lines	11.39	10.79
Casualty Other	11.03	11.32
Casualty Treaty	3.67	3.37
Energy	3.16	5.07
Marine	5.37	4.99
Property (Direct & Facultative)	7.08	4.00
Property Treaty	5.10	6.19
Specialty Other	3.48	0.69
Total	**54.06**	**49.25**

Matching adjustment (per Article 77b of Directive 2009/138/EC)
Lloyd’s does not permit the use of the matching adjustment by syndicates in the setting of technical provisions.

Volatility adjustment (per Article 77d of Directive 2009/138/EC)
Lloyd’s does not permit the use of the volatility adjustment by syndicates in the setting of technical provisions.

Transitional risk-free interest rate-term structure (per Article 308c of Directive 2009/138/EC)
Lloyd’s does not permit the use of the transitional risk-free interest rate-term structure by syndicates in the setting of technical provisions.

Transitional deduction (per Article 308d of Directive 2009/138/EC)
Lloyd’s does not permit the use of the transitional deduction by syndicates in the setting of technical provisions.

Recoverables from reinsurance contracts and special purpose vehicles
The technical provisions are calculated gross, with reinsurance calculated separately under the same Solvency II principles. All existing and planned future reinsurance purchasing related to the gross provisions is included in the technical provision calculation and associated recoveries resulting from consideration of the expected value of all possible future outcomes is considered. As part of consideration of reinsurance recoveries an allowance for non-payment is also required.

Any material changes in assumptions for calculating technical provisions
There have been material changes in claims inflation assumptions and the risk-free yield curves used for discounting, in line with the current economic environment.

D.3 Liabilities other than technical provisions

Valuation of other liabilities including differences between Solvency II and UK GAAP
A quantitative summary by major class is provided at the start of section D above. Solvency II requires that all liabilities should be measured at fair value. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the difference in valuation is not material.

Provisions other than technical provisions
These are liabilities of uncertain timing or amount (excluding liabilities reported under ‘Pension benefit obligations’).

There are no material differences in the valuation of ‘provisions other than technical provisions’ for Solvency II and UK GAAP.

Pension benefit obligations
Lloyd’s operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd’s Pension Scheme which is a defined benefit scheme. Other schemes have been established for certain employees based overseas. These have been valued in accordance with FRS102 section 28 ‘Employee Benefits’. There is no difference in the valuation for Solvency II purposes.

Additional information in respect of pension scheme obligations may be found in note 21 ‘Pension schemes’ in the Society accounts, on pages 154 to 159 of Lloyd's Annual Report 2022.

Deposits from reinsurers
These are syndicate related amounts received from reinsurers or deducted by the reinsurer according to the reinsurance contract.

These are valued at fair value by discounting expected cash flows using a risk-free rate. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material.

Financial liabilities, other than debts owed to credit institutions
Solvency II requires that lease liabilities arising from operating leases are recognised on the Solvency II balance sheet, consistent with the treatment under IFRS 16 - Leases. These liabilities are not recognised on the UK GAAP balance sheet.

Payments made under operating leases are charged to the Society income statement on a straight-line basis over the period of the lease. Contractual capital expenditure is provided for over the term of the underlying lease agreement. The lease cost provision is an accounting estimate which arises due to the fact the Society has entered into a number of fully repairing leases.

Additional information on lease cost provisions and operating lease commitments for the Society is set out in notes 26 and 30 of the Society accounts at pages 161 to 163 of Lloyd's Annual Report 2022 respectively.

Deferred tax liabilities
Deferred tax liabilities relate solely to the Society of Lloyd’s. This is because syndicates account for their results gross of tax. Tax is assessed at member level and is outside of the scope of the Lloyd’s financial statements. Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the reporting date.

Derivatives
Derivatives have been valued at fair value for Solvency II purposes, which is consistent with UK GAAP.

Debts owed to credit institutions
This includes the Society’s senior debt as well as syndicate level debts.

The Society’s senior debt is restated to the fair value in accordance with Solvency II valuation principles. In the UK GAAP balance sheet the debt is carried at amortised cost.

Syndicate related debts include mortgages, loans, and bank overdrafts owed to credit institutions (excluding bonds held by credit institutions).

Solvency II requires that all such liabilities should be measured at fair value. Hence, these are valued at fair value by discounting expected cash flows using a risk-free rate. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material.

Insurance & reinsurance payables
These are valued at fair value by discounting expected cash flows using a risk-free rate. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material

because the balances are payable within one year or amounts payable in more than one year are not material.

Payables (trade, not insurance)
Book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material.

Subordinated liabilities
As at 31 December 2022, Lloyd's had two subordinated debt issues in place. During the year, a partial redemption was made on the Sterling 2014 Notes with approval from the PRA. Please refer to section E.1 for more details.

For Solvency II purposes, the debt is shown at fair value within Tier 2 capital.

Any other liabilities
Book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material.

D.4 Alternative methods for valuation

As described in section D.1 above, Lloyd's uses market value i.e. based on quoted prices from custodians to value investments such as government and corporate bonds. However, where these are not considered current, a tradable quote from a broker is sought.

D.5 Any other information

There is no other material information to disclose.

E Capital Management

Sections/items indicated with an asterisk (*) are not subject to reasonable assurance.

E.1 Own funds

Lloyd’s market wide SCR* and central SCR*
The Society and the Lloyd’s market are regulated by the PRA in accordance with the requirements of the Solvency II regime as ‘the association of underwriters known as Lloyd’s’.

Lloyd’s must calculate and cover two SCRs, given the unique structure of Lloyd’s: the Lloyd’s market wide SCR and the central SCR. Under the Solvency II regime, it must then ensure that each SCR is covered by eligible capital.

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

The Lloyd’s central SCR (“central SCR”) is calculated in respect of only the risks facing the Corporation and the Central Fund at the same confidence level and time horizon used to calculate the MWSCR. The material risk is that members do not have sufficient funds to meet their underwriting losses even having complied with Lloyd’s rigorous capital setting rules. In such an event, assets from the Central Fund can, at the discretion of the Council, be made available to ensure that policyholders’ claims are met. Only eligible capital held by the Society may be used to cover the central SCR.

The MWSCR and central SCR are both calculated in accordance with the Lloyd’s Internal Model (LIM), which was last approved by the PRA in November 2022.

The quantitative reporting templates presented in appendix 1 reflect the market wide balance sheet and solvency position.

Objectives, policies and processes for managing own funds
Lloyd’s sets medium and long term financial objectives in accordance with among other things, its business objectives, the underwriting environment, broader economic conditions as well as the UK and global regulatory environment and future developments. As part of this work, Lloyd’s sets risk appetites in terms of coverage of market wide and central regulatory solvency and economic capital requirements. The calibration of these is reviewed regularly by senior management. This is articulated through Lloyd’s risk management strategy and appetite and, in particular, the Medium-Term Capital Management Plan (MTCMP) and ORSA report. Lloyd’s Capital Management Policy has been designed to ensure that these objectives, once set, can be complied with through capital management. The coverage of the regulatory and economic target capital requirements is assessed on at least a quarterly basis.

The MTCMP is prepared to assist Lloyd’s management in ensuring that it has sufficient capital centrally and across the Lloyd’s market, in terms of both quantity and quality (tiering) to be able to meet its current and projected regulatory and economic capital requirements in the medium term (over a three-year horizon). From the 2022 year of account Lloyd’s has revised its Membership & Underwriting

Conditions and Requirements such that members are only required to formally come into line once per year, rather than twice per year as has been the case historically. In addition, Lloyd’s has introduced a quarterly corridor test to ensure members remain adequately capitalised through the remainder of the year. The quarterly corridor test requires members to provide additional capital where they are below the minimum level of the corridor and only allows capital to be withdrawn to the extent a member’s surplus is above the maximum level of the corridor. There have been no other material changes to Lloyd’s processes for managing own funds during 2022.

<u>Ensuring minimum Tier 1 levels to cover the Lloyd’s SCR</u>
Under Solvency II, the SCR must be covered by at least 50% Tier 1 capital. As agreed with the PRA, this test applies to the Lloyd’s SCR, which covers the 1 in 200-year loss to the ‘association of underwriters known as Lloyd’s’ (as calculated using the LIM ‘capital burn’ test), as well applying a similar test to the central SCR which addresses the central capital requirement of the Society.

Most own funds at Lloyd’s are Tier 1 but as described below letters of credit (LOCs), guarantees and life policies provided as members’ FAL, and the dated subordinated debt issued in 2014 and 2017, constitute Tier 2 assets. The deferred tax asset is classified as Tier 3.

Lloyd’s has implemented a policy whereby each member’s capital requirement must be covered by at least 50% Tier 1 capital in order to align members’ capital requirements with Solvency II regulations. Lloyd’s monitors the composition of its capital in terms of amount and quality on an ongoing basis. If coverage of this test becomes marginal, then Lloyd’s has in place procedures to require members which make the greatest use of Tier 2 capital within their FAL to substitute part of this with Tier 1 capital.

The coverage of the SCR by Tier 1 capital (as reported on template S.23.01 in Appendix 1) is summarised below:

	Dec 2022	Dec 2021
	£m	£m
Lloyd’s SCR*	23,500	19,900
Tier 1 capital	34,254	27,442
Tier 1 capital %	146%	138%

The tiering test also applies to the central SCR. Lloyd’s applies similar procedures to monitor the quality of central capital in this respect.

Own funds classified by tier

A summary of Lloyd's own funds is set out below. The total market wide own funds available to meet the Lloyd's SCR agrees to template S.23.01 R0500:

31 December 2022	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
Syndicate assets	5,050			5,050
Members' funds at Lloyd's (FAL)	26,495	7,658		34,153
Society assets:				
Subordinated debt		581		581
Deferred tax			7	7
Balance of net assets	2,709			2,709
Total own funds available to meet the SCR	**34,254**	**8,239**	**7**	**42,500**
Lloyd's SCR*				**23,500**
'Excess' own funds not eligible to meet SCR	-	-	-	-
Total market wide own funds eligible to meet the SCR	**34,254**	**8,239**	**7**	**42,500**
Lloyd's market wide solvency ratio				**181%**

31 December 2021	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
Syndicate assets	704			704
Members' funds at Lloyd's (FAL)	24,491	6,789		31,280
Society assets:				
Subordinated debt		871		871
Deferred tax			101	101
Balance of net assets	2,247			2,247
Total own funds available to meet the SCR	**27,442**	**7,660**	**101**	**35,203**
Lloyd's SCR*				**19,900**
'Excess' own funds not eligible to meet SCR	-	-	-	-
Total market wide own funds eligible to meet the SCR	**27,442**	**7,660**	**101**	**35,203**
Lloyd's market wide solvency ratio				**177%**

Total **available** own funds as at 31 December 2022 compared with 31 December 2021 are summarised below:

	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
31 December 2022	34,254	8,239	7	42,500
31 December 2021	27,442	7,660	101	35,203

The increase in total own funds from 31 December 2021 to 31 December 2022 were driven by the additional Funds at Lloyd's from the 2023 business planning process and increases in syndicate assets.

Syndicate assets
Syndicate assets are the aggregated own funds of all syndicates, net of anticipated profit releases and ring-fenced funds. All syndicate assets are held in the form of on balance sheet items and meet the criteria of Tier 1 basic own funds.

Members' FAL
FAL provided in the form of cash and investments constitute on balance sheet items and meet the criteria of Tier 1 basic own funds.

A significant proportion of FAL is provided in ancillary own funds, in particular 'letters of credit and guarantees which are held in trust for the benefit of insurance creditors by an independent trustee and provided by credit institutions authorised in accordance with Directive 2006/48/EC' which are classified as Tier 2 ancillary own funds in accordance with Article 96 (2) of the Solvency II Directive.

Whilst letters of credit are considered Tier 2 own funds for solvency purposes and are subject to restriction on coverage of the solvency capital requirement, when called upon they are fully converted into cash which is Tier 1 own funds. In addition, prior to Lloyd's accepting a letter of credit into FAL, a robust assessment of the creditworthiness of the respective financial institution is performed, considering both qualitative and quantitative factors.

As described below, these ancillary own funds are subject to prior approval by the PRA and are reported as Tier 2 ancillary own funds in accordance with the valuation rules provided by the PRA's approval.

Society assets
As at 31 December 2022, Lloyd's had two subordinated debt issues in place:

- The Sterling 2014 Notes issued in October 2014 – classified as Tier 2 basic own funds under Solvency II.
- The Sterling 2017 Notes issued in February 2017 – also classified as Tier 2 basic own funds under Solvency II.
- On 13 December 2022, a partial redemption amounting to £193.9m book value was made on the Sterling 2014 Notes.

All other Society assets are classified as Tier 1 basic own funds, with the exception of deferred tax assets which are Tier 3 basic own funds.

Reconciliation reserve
The amount of the reconciliation reserve reported at R0760 of template S.23.01 (Appendix 1) is £4,285m (2021: £(846)m). This is comprised of:

	Dec 2022		Dec 2021	
	£m	£m	£m	£m
Syndicate balances per PFFS[1] before adjusting:	2,961		2,208	
- Solvency II valuation adjustments	3,633		(576)	
- Members' funds in syndicate (within R0730)	(3,473)		(3,797)	
- Foreseeable distributions (R0720)	(567)		(435)	
- Ring-fenced funds (within R0740)*	(978)		(493)	
		1,576		(3,093)
FAL per PFFS[1] before adjusting:	34,139		31,272	
- Solvency II valuation adjustments	14		8	
- Ancillary own funds at UK GAAP valuation	(7,658)		(6,789)	

- Other FAL (within R0730)	(26,495)		(24,491)	
		-		-
Society net resources per PFFS[1] before adjusting:	3,105		3,073	
- Solvency II valuation adjustments	192		146	
- Subordinated debt (at fair value)	(581)		(871)	
- Deferred tax asset (within R0730)	(7)		(101)	
		2,709		2,247
Total		**4,285**		**(846)**

[1] Pro Forma Financial Statements, page 35 of Lloyd's Annual Report 2022

<u>Coverage of the Lloyd's SCR with eligible own funds</u>
In accordance with Solvency II rules, the SCR must be covered with at least 50% Tier 1 own funds. Accordingly, the amount of available Tier 2 and Tier 3 own funds which exceeds 50% of the SCR is not eligible to cover the SCR and cannot be calculated as such in the solvency calculation.

This has the potential to impact the Lloyd's solvency ratio calculation as a large part of Lloyd's capital is provided by ancillary own funds which are treated as Tier 2 capital for Solvency II purposes. However, these are assets callable on demand. When called, the proceeds, namely cash, would qualify as Tier 1 capital. Under these circumstances, any amount of Tier 2 capital represented by these assets ineligible to meet the SCR (since they exceed the 50% tiering limit for Tier 2 and Tier 3 Capital set by Solvency II) would then become fully eligible. As at 31 December 2022 the amount of ineligible Tier 2 and Tier 3 capital was £nil (2021: £347m).

<u>Own funds available to meet the Central SCR</u>

31 December 2022	Tier 1	Restricted Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m	£m
Society assets:					
Subordinated debt			581		581
Deferred tax				7	7
Balance of net assets	2,694	385			3,079
Callable layer*	1,897				1,897
Total central own funds available to meet the SCR	**4,591**	**385**	**581**	**7**	**5,564**
Central SCR*					**1,350**
'Excess' central own funds not eligible to meet central SCR	-	-	-	-	-
Total central own funds eligible to meet the SCR	**4,591**	**385**	**581**	**7**	**5,564**
Central solvency ratio					**412%**

31 December 2021	Tier 1	Restricted Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m	£m
Society assets: Subordinated debt Deferred tax Balance of net assets Callable layer*	 2,240 1,605	 385	 871	 101	 871 101 2,625 1,605
Total central own funds available to meet the SCR	**3,845**	**385**	**871**	**101**	**5,202**
Central SCR*					**1,250**
'Excess' central own funds not eligible to meet central SCR	-	-	(246)	(101)	(347)
Total central own funds eligible to meet the SCR	**3,845**	**385**	**625**	**-**	**4,855**
Central solvency ratio					**388%**

Callable layer*
The Society has the right to make a call on members of up to 5% (2021: 3%) of members' premium limits ("callable contributions"). The callable contributions can be drawn from members' premiums trust funds without the members' consent. This would result in the transfer of Tier 1 capital from syndicate funds to central resources. The value assigned to the callable layer has been reduced by an erosion factor to reflect that part of the callable layer which would not be available in a stressed situation at the central SCR level of confidence.

Coverage of the central SCR with eligible central own funds
The capital tiering rules also apply to the coverage of the central SCR. The inclusion of the Tier 2 subordinated debt increases Lloyd's Tier 2 and 3 central capital by £588m. At 31 December 2022, the amount of ineligible Tier 2 and Tier 3 capital was £nil (2021: £347m).

Eligible amount of basic own funds to cover Minimum Capital Requirement, classified by tiers

The table below sets out Lloyd's eligible basic own funds to meet the MCR. The total agrees to template S.23.01 R0550:

31 December 2022	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
Syndicate assets	5,050			5,050
Members' funds at Lloyd's	26,495			26,495
Society assets: Subordinated debt Balance of net assets excluding deferred tax	 2,709	 581		 581 2,709
Total basic own funds eligible to meet the MCR	**34,254**	**581**		**34,835**

31 December 2021	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
Syndicate assets	704			704
Members’ funds at Lloyd’s	24,491			24,491
Society assets: Subordinated debt Balance of net assets excluding deferred tax	 2,247	 871		 871 2,247
Total basic own funds eligible to meet the MCR	**27,442**	**871**		**28,313**

<u>Differences between equity as shown in the financial statements and the excess of assets over liabilities for solvency purposes</u>

31 December 2022	Synds	FAL	Soc[1]	Total
	£m	£m	£m	£m
Capital, reserves and subordinated debt Per PFFS balance sheet (UK GAAP basis)[2]	2,961	34,139	3,105	40,205
<u>Solvency II adjustments:</u> Syndicate and FAL valuation adjustments	3,634	14		3,648
FAL valuation adjustments re ancillary own funds		(7,658)		(7,658)
Society valuation adjustments			192	192
Subordinated debt at fair value			(581)	(581)
Solvency II excess of assets over liabilities (S.02.01.02 R1000)	**6,595**	**26,495**	**2,716**	**35,806**

31 December 2021	Synds	FAL	Soc[1]	Total
	£m	£m	£m	£m
Capital, reserves and subordinated debt Per PFFS balance sheet (UK GAAP basis)[2]	2,208	31,272	3,073	36,553
<u>Solvency II adjustments:</u> Syndicate and FAL valuation adjustments	(576)	8		(568)
FAL valuation adjustments re ancillary own funds		(6,789)		(6,789)
Society valuation adjustments			146	146
Subordinated debt at fair value			(871)	(871)
Solvency II excess of assets over liabilities (S.02.01.02 R1000)	**1,632**	**24,491**	**2,348**	**28,471**

[1] Society: Corporation and Central Fund (including subordinated debt)
[2] Lloyd’s Pro Forma Financial Statements, page 35 of Lloyd’s Annual Report 2022

Syndicate valuation adjustments
A key difference from the valuation basis for the financial statements (i.e. UK GAAP basis) compared to Solvency II is the valuation of technical provisions. This involves moving from the ‘prudent undiscounted best estimate’ basis of valuation used in UK GAAP to a market consistent basis of valuation based on a probability weighted best estimate (therefore stripping out surplus reserves held in syndicate accounts) less discounting for the time value of money, with a risk margin applied on top. In addition, there are differences arising due to the recognition of contract boundaries and reinsurance costs.

Other valuation differences may arise in respect of investments (measured at fair value rather than amortised cost) and recognising the fair value of debtors and creditors due after one year (by discounting them where material for the time value of money).

In addition, the managing agent profit commission must be recalculated as if it was charged on the Solvency II result.

As at 31 December 2022, the net valuation differences in this respect amounted to a an adjustment of £3,634m (2021: £(576)m).

FAL valuation adjustments regarding ancillary own funds (AOF)
FAL treated as ancillary own funds does not appear on the Solvency II balance sheet but instead the eligible amount in line with the valuation rules applied by the PRA is reflected in the own funds template S.23.02.

Accordingly, £7,658m (2021: £6,789m) (in accordance with their UK GAAP valuations) has been derecognised on the Solvency II balance sheet:

AOF item	Dec 2022	Dec 2021
	£m	£m
Letters of credit and guarantees in accordance with Article 96 (2) of Directive 2009/138/EC	7,641	6,770
Life policies	17	19
Total	**7,658**	**6,789**

Society valuation adjustments
The (decrease)/increase in Society assets for solvency purposes is summarised below:

Item	Dec 2022	Dec 2021
	£m	£m
Lloyd’s investments (Nelson collection) (due to uncertainty over fair value)	(15)	(15)
Plant & machinery (as not valued on a ‘fair value’ basis)	(11)	(10)
Intangible assets (not eligible under Solvency II)	(54)	(58)
Provision for Centrewrite MCR (as Centrewrite’s assets are included in the aggregate Society accounts)	(3)	(3)
Senior debt valuation difference	80	(15)

IFRS 16 adjustment	(3)	(8)
Valuation of investment in subsidiaries	(64)	(55)
Deferred tax effect of Solvency II valuation differences	(5)	43
Central adjustment	267	267
Total	**192**	**146**

Subordinated debt

The subordinated debt is comprised of the Sterling 2014 Notes and Sterling 2017 Notes.

The notes are subordinated obligations of the Society. Each tranche of the notes will rank pari-passu with the other in a winding-up of the Society. Upon the occurrence of any winding-up proceedings of the Society, payments on the notes will be subordinated in right of payment to the prior payment in full of all other liabilities of the Society, except for liabilities which rank equally with or junior to the notes. Payments on the notes will also be 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 and payments made in respect of the costs required by or under any insolvency procedure to which the Society or the Lloyd's market may be subject. However, in the event of a winding-up of the Society, the claims of the holders of the Notes rank senior to the distribution of any central assets to members of Lloyd's generally (other than payments made to members in their capacity as senior creditors of the Society).

The Sterling 2014 Notes issued on 30 October 2014 mature on 30 October 2024 and bear interest at a rate of 4.75% per annum, payable annually in arrears on 30 October in each year.

The Sterling 2017 Notes issued on 7 February 2017 mature on 7 February 2047 and bear interest at a rate of 4.875% per annum, payable annually in arrears on 7 February in each year.

On 13 December 2022, a partial redemption amounting to £193.9m book value or £148m at fair value was made on the Sterling 2014 Notes.

The subordinated debt is shown as a liability at book value in the Pro Forma Financial Statements. For Solvency II purposes, it is shown at fair value within Tier 2 capital.

Basic own fund items subject to transitional arrangements referred to in Articles 308b(9) and 308b(10) of Directive 2009/138/EC
As at 31 December 2021 Lloyd's does not have any own fund items subject to transitional arrangements.

Ancillary own funds – amount, method and counterparty details for items referred to in points (a), (b) and (c) of Article 89(1) of Directive 2009/138/EC
A significant proportion of Lloyd's own funds are provided in the form of ancillary own funds (AOF) provided within members' FAL.

AOF are subject to prior supervisory approval before they may be treated as available capital under Solvency II. Consistent with this, Lloyd’s submitted an application to the PRA for approval of AOF in November 2022. The PRA subsequently granted approval of this application on 15 December 2022, amounting in total to £7,989m. The approval, including the conditions of subsequent valuations of AOF, was published in the PRA’s written notice 00005743. The approval applies until 31 December 2026. This approval replaces a previous approval in this respect granted by the PRA in November 2021.

As set out in the written notice, the PRA provided approval in respect of 986 letters of credit, bank guarantees and insurance company guarantees (‘guarantee items’), and 76 life policy items. Details of each counterparty are not disclosed in the written notice or the SFCR as they represent confidential arrangements between the member concerned and the counterparty providing the AOF instrument.

If any of the AOF items are called they would be converted into cash, a Tier 1 basic own funds item.

The table below summarises Lloyd’s AOF and the valuation of these as at 31 December 2022 consistent with the valuation rules contained within the PRA’s most recent approval of these. These amounts appear on template S.23.01 provided in Appendix 1.

Tier 2	Dec 2022	Dec 2021
	£m	£m
Letters of credit and guarantees in accordance with Article 96 (2) of Directive 2009/138/EC	7,641	6,770
Life policies	17	19
Total ancillary own funds	**7,658**	**6,789**

<u>Letters of credit and guarantees in accordance with Article 96 (2) of Directive 2009/138/EC</u>
Certain members provide capital in the form of letters of credit and guarantees held in trust by Lloyd’s to support FAL. This form of capital is consistent with ‘letters of credit and guarantees which are held in trust for the benefit of insurance creditors by an independent trustee and provided by credit institutions authorised in accordance with Directive 2006/48/EC’ (which is treated as Tier 2 capital per Article 96 (2) of the Directive).

<u>Letters of Credit (LOCs)</u>
LOCs provided as FAL are in a Lloyd’s standard form, and constitute a clean, irrevocable and unconditional standby credit which can be drawn down on demand. No substantive alterations to the form of the LOC can be made without consultation and notification to the PRA/FCA. Lloyd’s has made conditions and requirements which must be met in order for a LOC to be admissible for FAL.
The parties to the LOC are Lloyd’s (as beneficiary) and the approved credit institution. If the LOC has been confirmed by a UK credit institution (which would be the case if the issuing bank is outside of the UK) then Lloyd’s contractual relationship will be with the confirming bank; if the LOC is not confirmed (because the issuing bank is in the UK), then Lloyd’s contractual relationship will be with the issuing bank. Either way, both parties to the LOC will be in the UK. Moreover, all LOCs must be governed by English law and subject to the jurisdiction of the English court, as per the M&URs and the wording of the standard form LOC itself.

Some LOCs are provided on a syndicated basis, in which case Lloyd's would call on the agent bank. The contractual relationship is as described above.

Guarantees

Guarantees provided as FAL are in a Lloyd's prescribed form, which cannot be changed without consultation with and notification to the PRA/FCA. Lloyd's has made conditions and requirements which must be met in order for a guarantee to be admissible for FAL. The process for drawing on a guarantee is slightly different to that for a LOC – the wording of the guarantee states that a demand can be made any time after the Principal (i.e. the member) is in default under the Security and Trust Deed under which the guarantee is held. The Principal would be in default if a demand for payment under the Trust Deed has been made and not met in accordance with its terms.

The parties to the guarantee are Lloyd's (as beneficiary) and the issuing entity.

In order to issue a guarantee an entity must be approved by Lloyd's – the criteria for approval include (inter alia) that a guarantee must be issued or confirmed out of London (although elsewhere in the UK (e.g. Manchester) has also been accepted). As with LOCs, this is a Lloyd's requirement and the wording of the guarantee itself states that the guarantee is subject to English law and the exclusive jurisdiction of the English court.

Sometimes a joint guarantee is provided in which case Lloyd's would call on the agent bank. The contractual relationship is as described above.

Life policies

Certain members provide FAL in the form of life policies. Lloyd's sets out conditions for these to be eligible as FAL. These include that the policy is assigned to Lloyd's, which is achieved through the execution by the member of a Deed of Assignment in favour of Lloyd's. Notice of the assignment is then given by Lloyd's to the life company which issued the policy, and acknowledgement of the same requested from the life company.

As a result of the assignment, the owner of the policy – as far as the life company is concerned – is Lloyd's. The relevant parties to the arrangement are therefore Lloyd's and the life company.

The life policies will be subject to the law of the jurisdiction in which they were issued, which in most cases will therefore be English law. In each case, Lloyd's requires the life company to advise which local jurisdiction the company is governed to transact life assurance business, and also to confirm that it is authorised to transact such business in the UK. The deed of assignment by which the policies are transferred to Lloyd's ownership are governed by English law and jurisdiction, and the assignment will have been acknowledged by the life company, and as such there are no concerns as to whether Lloyd's has properly acquired the benefit of them.

Syndicate loans to the Central Fund

The Society has issued three tranches of syndicate loans to the Central Fund ("syndicate loans"). Such capital items are subject to prior supervisory approval before they may be treated as available capital under Solvency II. The PRA has granted Lloyd's approval to classify the syndicate loans as restricted Tier 1 capital as set out in the following table.

Tranche	Amount of rT1 capital approved collected	Net amount included in Central own funds	PRA written notice reference number
29 March 2019	£110m	£83m	5082589
26 June 2020	£120m	£90m	5508334
6 November 2020	£284m	£212m	00001850
Total	**£514m**	**£385m**	

Other than on the winding-up of the Society, it has no obligation to repay any syndicate loan at any time. The Society may, at the discretion of the Council, only once a period of at least five years has elapsed after the date of collection of the syndicate loan for any year of account, or at any later point in time, repay the whole or any part of any syndicate loan in respect of that year of account at such time or times as the Council thinks fit provided its market wide and central SCRs are exceeded by an appropriate margin and subject to the approval of the PRA.

Interest is payable on the syndicate loans at the discretion of the Council. Where an interest payment is cancelled by the Council the Society has no obligation to pay that interest.

The syndicate loans are subordinated to:

- all other obligations of the Society except those which are expressed to rank equally with or in subordination to syndicate loans; and
- the payment of any underwriting liabilities of members (or former members of Lloyd's or the estates of deceased members of Lloyd's) for which the Central Fund or other assets of the Society may at any time, in the discretion of the Council, be applied;
- but rank in priority to the distribution of any remaining assets of the Society to members of the Society in their capacity as members of the Society.

The Society has no liability to repay any syndicate loan or to pay any interest on an syndicate loan, including any repayment or payment of interest previously promised by the Society, where there is non-compliance with the Society's market wide or central SCR, or where redemption or payment of interest would lead to such non-compliance.

<u>Items deducted from own funds and significant restrictions affecting availability and transferability of own funds</u>

<u>Foreseeable distributions</u>
The amount of £567m (2021: £435m) reported on R0720 'Foreseeable dividends, distributions and charges' on template S.23.01 represents the net amount available to be distributed to inactive Lloyd's members in the capital tests. The capital test calculates the amount of funds that each member needs to hold at Lloyd's to cover its capital requirement and any underwriting liabilities. Only any excess over this amount is available for distribution to the member.

<u>Ring-fenced funds*</u>
Ring-fenced funds arise where an asset is not considered to be freely available to meet all liabilities and thus must be deducted from available own funds.

Lloyd's has conducted a review of syndicate overseas trust funds to assess whether any constitute a ring-fenced fund. Where this conclusion has been reached, they are excluded from available own funds to meet the Lloyd's SCR. The amount in total in this respect is £978m (2021: £493m) as reported on R0740 at template S.23.01 in Appendix 1.

Restriction to availability of Syndicate loan capital
The syndicate loans are deemed to be hybrid capital instruments which generate a tax charge on write down. In accordance with Supervisory Statement 3/15, the maximum tax charge generated on write-down must be deducted in calculating central own funds to reflect the reduced loss absorbency of the loans. At 31 December 2022 the substantially enacted rate of tax was 25% and the deduction amounted to £129m (2021: £129m). Therefore, the net contribution to central own funds at 31 December 2022 from the syndicate loans amounted to £385m (2021: £385m).

E.2 Solvency Capital Requirement* and Minimum Capital Requirement

Amount of Solvency Capital Requirement* and Minimum Capital Requirement
The table below shows the total SCR and MCR as at 31 December 2022.

	Dec 2022	Dec 2021
	£m	£m
Lloyd's MWSCR*	23,500	19,900
Lloyd's MCR	10,308	8,955
Central SCR*	1,350	1,250

The final amounts of the Lloyd's MWSCR and central SCR are subject to supervisory assessment.

Solvency Capital Requirement split by risk categories*
The table below shows the risk categories that make up the Lloyd's MWSCR:

Component description	Dec 2022	Dec 2021
	£m	£m
Reserving risk[1]	7,285	7,550
All other (attritional) underwriting risk[1]	7,811	7,822
Catastrophe risk	447	802
Market risk[1]	6,582	2,304
Reinsurance credit risk	706	728
Operational risk	561	431
Pension risk	7	35
MWSCR before adjustments	**23,399**	**19,672**
Foreign exchange adjustment	101	228
MWSCR*	**23,500**	**19,900**

[1] *The reporting at risk category level for 2022 year-end only has been refined to improve the reporting of profit associated with each risk category. This change impacts only market risk, reserving risk and "All other (attritional) underwriting risk" and overall SCR numbers remain unaffected by this change. Note that insurance risk categories have expected discounting throughout.*

Increase in the overall market wide SCR is driven by growth, increased economic inflation uncertainty, a weakening of the pound against the dollar over 2022; these changes are partially offset by an increase in interest rates and increased profitability of business. The change in inflation uncertainty is captured within market risk, which as can be seen has increased significantly since 2021 year-end.

An analysis of the Lloyd's SCR by component as agreed with the PRA is provided at template S.25.03 (see Appendix 1).

Simplified calculations used in standard formula

Lloyd's SCR is calculated using an internal model thus this is not applicable to Lloyd's.

Undertaking specific parameters used in standard formula

Lloyd's SCR is calculated using an internal model thus this is not applicable to Lloyd's.

Option provided for in third subparagraph of Article 51(2) of Directive 2009/138/EC

Lloyd's SCR is calculated using an internal model thus this is not applicable to Lloyd's.

Impact of undertaking specific parameters required in accordance with Article 110 of Directive 2009/138/EC

Lloyd's SCR is calculated using an internal model thus this is not applicable to Lloyd's.

Inputs to calculate the Minimum Capital Requirement

The Lloyd's Minimum Capital Requirement has been calculated in accordance with the input elements as specified on template S.28.02 (see Appendix 1).

Changes to the SCR* and MCR during the reporting period

The MWSCR*, central SCR* and MCR as at 31 December 2022 and 31 December 2021 are summarised below:

	Dec 2022	Dec 2021
	£m	£m
MWSCR*	23,500	19,900
Central SCR*	1,350	1,250
MCR	10,308	8,955

The large increase in MWSCR since the previous year end is driven by increased expected net written premiums, an increase in technical provisions, foreign exchange rate movements and increased economic inflation uncertainty. This is offset by increased interest rates leading to additional investment income and lower insurance risk due to higher discounting of stressed liabilities.

The increase in Central SCR since the previous year end is driven by the same factors as the MWSCR but with different impacts. The Central SCR is more sensitive than the MWSCR to interest rate movements. The reduction in capital from the increased interest rates partially offsets the upwards drivers.

The MCR is calculated formulaically based on premiums and technical provisions. The MCR has increased over 2022 as a result of the increase in net technical provisions during 2022.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement*

Lloyd’s has not used this in the calculation of the SCR.

E.4 Differences between the standard formula and any internal model used*

Uses of Lloyd’s Internal Model (LIM)

To ensure the LIM is widely used and embedded at the appropriate levels within Lloyd’s, supports decision making and the Risk Management Framework, as well as encourages the consideration of risk and capital in day-to-day operations, it can be used for the following purposes:

- Uses relating to Lloyd’s (central) financial management:
  - Regulatory capital requirements
  - Capital management
  - Reinsurance risk management
  - Investment risk management
  - Liquidity risk management
  - Operational risk management
  - Concentration risk management
- Uses relating to oversight of managing agent activities:
  - Regulatory capital requirements
  - Capital management
  - Reserve risk management
  - Reinsurance risk management
  - Investment risk management
  - Liquidity risk management

Scope of internal model in terms of business units and risk categories

The scope of Lloyd’s internal model can be categorised into three areas:

- Syndicate risks;
- Member risks; and
- Society risks.

Syndicate risks

Syndicates are the source of the majority of risks. They are the source of all the insurance business; manage the bulk of the asset portfolios; hold the majority of the counterparty exposures; and conduct most of the day-to-day operational activity.

The syndicate risks include:

- Insurance risk;
  - Reserve risk;
  - Natural catastrophe risk (“catastrophe risk”);
  - All other (“attritional”) underwriting risk;
- Market risk;
  - On syndicate assets (including credit risk on Premiums Trust Funds);
  - On syndicate liabilities;
- Credit risk;
- Syndicate operational risk; and
- Liquidity risk.

Member risks
Members provide capital (FAL), in a variety of forms to support syndicates' risks; and present asset related risks which are dependent on characteristics of assets used to meet their FAL. Members are exposed to market risk (including credit risk) on FAL.

Society risks
Central level risks include:

- Member deficits – arising from syndicate risks including Additional Central Fund risk (ACF);
- Central operational risk;
- Market risk (including credit risk) on central assets; and
- Pension fund risk resulting in deficit requiring funding from central assets.

Integration of the techniques to integrate any partial internal model with the standard formula
The LIM is a full internal model so this is not applicable.

Methods used for the calculation of the probability distribution forecast and the Solvency Capital Requirement*
The LIM includes components and processes that are material to the risk and capital calculation within Lloyd's. It consists of three main component models:

- Capital Calculation Kernel (CCK);
- Lloyd's Catastrophe Model (LCM); and
- Lloyd's Investment Risk Model (LIRM).

The main element of the LIM is the Capital Calculation Kernel (CCK) which drives the capital calculation. It is a fully integrated Monte-Carlo simulation based stochastic model. The model is run with 4,000,000 simulations to ensure stability of results. This is an increase from December 2021 when 1,000,000 simulations were used.

The CCK represents the entire Lloyd's marketplace and models all material quantifiable risk types that the market is exposed to. These risks are modelled using Monte-Carlo simulation methods and are drawn together using the structure of the Lloyd's market. This allows the impacts of these risks to be quantified for different entities in the market place, namely syndicates, members and Central Fund.

The CCK builds a specific representation of each syndicate from the ground up using a generic structure, within a framework of dependency which determines how much diversification there is within and between syndicates. The generic structure calculates stochastic technical provisions, P&L, and balance sheet for the end of the 12-month period 'on risk'. The CCK then models how risk flows through the "chain of security", i.e. from syndicates to members to the Central Fund.

Insurance risk is modelled separately for attritional risk and natural catastrophe risk. For attritional risks, insurance losses are simulated by class of business and allocated to insurance risk for each syndicate after allowing for syndicate level volatility (SLV). SLV is an additional simulated factor applied to allow for diversification between syndicates and the syndicates' class of business experience which will be more volatile compared to the market as a whole. As a result, syndicates will have different results and higher volatility than the market.

The catastrophe risk is defined by simulated losses imported from the LCM. SLV is not applied to natural catastrophe losses as the LCM captures syndicate variability and differences between syndicates directly. The LCM's core purpose is to take syndicate Exceedance Probability (EP) curves and produce an aggregated Lloyd's view of natural catastrophe risk. The LCM aggregates losses across scenarios and applies loadings to ensure complete coverage of risks (e.g. uplifts for European windstorm clustering, secondary uncertainty and non-modelled risks) to produce the aggregated Lloyd's market view. For each simulation in the CCK, a scenario is picked at random for each of the five major perils, plus Rest of the World ("RoW") risks.

The LIRM models market risks as part of the LIM and consists of three core sub-components:

- Economic Scenario Generator (ESG) - an external model provided by Willis Towers Watson, which produces consistent stochastic scenarios of economic and financial variables;
- Asset Model - defines assets to be modelled, re-investment rules of the assets and calculates the distribution of total return for defined assets; and
- Portfolio Model - defines asset portfolios by combining modelled assets.

Once all loss types are aggregated in the LIM, if syndicate losses exceed Premiums Trust Funds (PTF) then the excess is allocated to members. If member losses exceed their FAL then the excess becomes a loss to the Central Fund, to which the Central Fund insurance cover is then applied. Risks relating to the Central Fund which are not considered at syndicate level are also added (operational, market risk on central assets and pension risk) to produce a central capital requirement.

Differences between standard formula and internal model

The LIM is a fully-integrated stochastic model. This method of calculating capital requirements is fundamentally different to the standard formula approach of deterministically combining stresses.

The LIM considers the unique nature and structure of the Lloyd's Market and the detailed risks to which it is exposed, which the standard formula is not able to do. This includes:

- Insurance Risk - Profit in plan: The standard formula makes no allowance for any expected profits in business plans (which can be significant);
- Catastrophe Risk: Allowance for catastrophe risk uses a combination of shocks and scenarios in the standard formula which is significantly less sophisticated than the LIM (and syndicate internal models);
- Market risk: The LIM (and most syndicates) use Economic Scenario Generators (ESGs) to determine their market risk compared to the shocks applied to assets and own funds in the standard formula;
- Diversification: the standard formula gives credit for diversification within each syndicate only (across class, geographical area and risk component). The LIM models the diversification across the market both within and between syndicates which have different exposures; and
- Structure: The Standard Formula does not capture the unique capital structure of Lloyd's and cannot provide a Central Fund capital requirement.

Risk measure and time-period used in the internal model

As set out in Article 101(3) of Directive 2009/138/EC, the SCR calculated using the internal model corresponds to the 99.5th Value-at-Risk over a one-year period.

Nature and appropriateness of data used in the internal model

The LIM uses various sources of data; this data is both internal (based on analyses performed by Lloyd's) and external. Data used within the internal model is subject to the Lloyd's Data Quality Management Policy which requires checks and controls to be applied to the data. The purpose of this policy is to allow data owners to attest that it is accurate, appropriate and complete.

Data is subject to an annual internal audit of all controls and any associated risks arising from its use.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement*

Lloyd’s has met the Lloyd’s SCR, central SCR and MCR throughout the reporting period.

E.6 Any other information

There is no other material information to disclose.

Appendix 1

S.02.01.02

Balance sheet

All figures shown in GBP '000

		Solvency II value
		C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	-
Deferred tax assets	R0040	7,460
Pension benefit surplus	R0050	54,085
Property, plant & equipment held for own use	R0060	119,627
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	84,551,792
Property (other than for own use)	R0080	-
Holdings in related undertakings, including participations	R0090	42,092
Equities	R0100	2,203,524
Equities - listed	R0110	2,105,298
Equities - unlisted	R0120	98,226
Bonds	R0130	66,915,734
Government Bonds	R0140	33,857,168
Corporate Bonds	R0150	27,360,603
Structured notes	R0160	4,536
Collateralised securities	R0170	5,693,427
Collective Investments Undertakings	R0180	13,513,145
Derivatives	R0190	136,639
Deposits other than cash equivalents	R0200	1,735,600
Other investments	R0210	5,059
Assets held for index-linked and unit-linked contracts	R0220	-
Loans and mortgages	R0230	169,427
Loans on policies	R0240	-
Loans and mortgages to individuals	R0250	113,164
Other loans and mortgages	R0260	56,263
Reinsurance recoverables from:	R0270	18,130,926
Non-life and health similar to non-life	R0280	17,738,999
Non-life excluding health	R0290	17,421,440
Health similar to non-life	R0300	317,558
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	391,927
Health similar to life	R0320	153,289
Life excluding health and index-linked and unit-linked	R0330	238,637
Life index-linked and unit-linked	R0340	-
Deposits to cedants	R0350	1,008,557
Insurance and intermediaries receivables	R0360	7,604,458
Reinsurance receivables	R0370	3,794,676
Receivables (trade, not insurance)	R0380	1,290,450
Own shares (held directly)	R0390	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	-
Cash and cash equivalents	R0410	3,775,636
Any other assets, not elsewhere shown	R0420	454,953
Total assets	**R0500**	120,962,047

Liabilities		-
Technical provisions – non-life	R0510	71,114,879
Technical provisions – non-life (excluding health)	R0520	68,900,334
Technical provisions calculated as a whole	R0530	-
Best Estimate	R0540	64,732,636
Risk margin	R0550	4,167,697
Technical provisions - health (similar to non-life)	R0560	2,214,546
Technical provisions calculated as a whole	R0570	-
Best Estimate	R0580	2,066,830
Risk margin	R0590	147,715
Technical provisions - life (excluding index-linked and unit-linked)	R0600	680,843
Technical provisions - health (similar to life)	R0610	166,807
Technical provisions calculated as a whole	R0620	-
Best Estimate	R0630	164,952
Risk margin	R0640	1,855
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	514,036
Technical provisions calculated as a whole	R0660	-
Best Estimate	R0670	455,546
Risk margin	R0680	58,490
Technical provisions – index-linked and unit-linked	R0690	-
Technical provisions calculated as a whole	R0700	-
Best Estimate	R0710	-
Risk margin	R0720	-
Other technical provisions	R0730	-
Contingent liabilities	R0740	-
Provisions other than technical provisions	R0750	132,885
Pension benefit obligations	R0760	-
Deposits from reinsurers	R0770	1,411,255
Deferred tax liabilities	R0780	-
Derivatives	R0790	67,499
Debts owed to credit institutions	R0800	549,881
Financial liabilities other than debts owed to credit institutions	R0810	122,971
Insurance & intermediaries payables	R0820	1,159,276
Reinsurance payables	R0830	5,237,077
Payables (trade, not insurance)	R0840	2,467,188
Subordinated liabilities	R0850	580,757
Subordinated liabilities not in Basic Own Funds	R0860	-
Subordinated liabilities in Basic Own Funds	R0870	580,757
Any other liabilities, not elsewhere shown	R0880	1,630,471
Total liabilities	**R0900**	85,154,983
Excess of assets over liabilities	**R1000**	35,807,064

S.05.01.02

Premiums, claims and expenses by line of business

S.05.01.02.01

Z Axis:
VG/Statutory accounts
DI/Year to Date

Gross Claims Paid (non-cumulative) - Current year, sum of years (cumulative).
Total Non-Life Business

Non-Life (direct business/accepted proportional reinsurance and accepted non-proportional reinsurance)
All figures shown in GBP '000

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
Premiums written																		
Gross - Direct Business	R0110	283,328	592,581	120,417	501,874	525,152	4,315,197	10,708,820	12,508,165	617,619	36,348	4,149	310,407	-	-	-	-	30,524,057
Gross - Proportional reinsurance accepted	R0120	55,485	176,240	33,546	198,108	30,231	1,706,695	2,692,490	2,609,965	351,702	6,514	1,772	112,550	-	-	-	-	7,975,298
Gross - Non-proportional reinsurance accepted	R0130	-	-	-	-	-	-	-	-	-	-	-	-	367,470	1,834,050	1,488,917	6,123,692	9,814,129
Reinsurers' share	R0140	44,573	90,656	82,100	150,857	125,200	1,225,404	3,428,291	4,431,433	324,936	3,646	-	77,912	78,931	604,702	425,000	2,041,184	13,134,825
Net	R0200	294,240	678,165	71,863	549,125	430,183	4,796,488	9,973,019	10,686,697	644,385	39,216	5,921	345,045	288,539	1,229,348	1,063,917	4,082,508	35,178,659
Premiums earned		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Direct Business	R0210	259,254	587,029	125,752	468,166	493,922	4,018,339	10,038,620	11,655,543	549,179	31,858	3,883	276,023	-	-	-	-	28,507,568
Gross - Proportional reinsurance accepted	R0220	57,529	182,222	32,812	192,680	30,518	1,624,254	2,655,989	2,385,363	340,752	4,819	1,563	92,076	-	-	-	-	7,600,577
Gross - Non-proportional reinsurance accepted	R0230	-	-	-	-	-	-	-	-	-	-	-	-	362,890	1,863,507	1,427,013	6,046,955	9,700,365
Reinsurers' share	R0240	44,684	100,929	82,653	152,750	125,553	1,199,164	3,321,488	4,006,617	303,590	4,867	-	86,335	82,040	656,815	441,906	2,118,075	12,727,466
Net	R0300	272,099	668,322	75,911	508,096	398,887	4,443,429	9,373,121	10,034,289	586,341	31,810	5,446	281,764	280,850	1,206,692	985,107	3,928,880	33,081,044
Claims incurred		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Direct Business	R0310	125,095	246,621	90,150	246,026	233,606	2,608,180	6,178,987	7,549,949	384,260	6,507	2,524	109,596	-	-	-	-	17,781,501
Gross - Proportional reinsurance accepted	R0320	37,571	84,097	35,696	122,579	15,559	1,103,324	2,001,091	1,551,193	222,534	4,823	- 735	87,735	-	-	-	-	5,265,467
Gross - Non-proportional reinsurance accepted	R0330	-	-	-	-	-	-	-	-	-	-	-	-	112,553	1,385,862	1,355,126	4,144,404	6,997,945
Reinsurers' share	R0340	24,769	53,678	42,363	81,466	41,705	1,462,772	2,855,919	3,395,423	345,727	- 6,168	159	59,235	34,453	588,664	617,820	1,430,632	11,028,617
Net	R0400	137,897	277,040	83,483	287,139	207,460	2,248,732	5,324,159	5,705,719	261,067	17,498	1,630	138,096	78,100	797,198	737,306	2,713,772	19,016,296
Changes in other technical provisions																		
Gross - Direct Business	R0410	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Proportional reinsurance accepted	R0420	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non- proportional reinsurance accepted	R0430	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurers' share	R0440	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	R0500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses incurred	R0550	116,400	277,244	34,530	180,295	168,264	1,607,694	3,517,793	3,663,962	235,356	10,986	2,347	108,917	83,897	372,936	319,990	1,238,638	11,939,249
Other expenses	R1200																	92,796
Total expenses	R1300																	12,032,045

S.05.01.02.02

Z Axis:
VG/Statutory accounts
DI/Year to Date

Life
All figures shown in GBP '000

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life-reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	-	-	-	54,976	-	-	-	5,295	60,271
Reinsurers' share	R1420	-	-	-	8,554	-	-	-	3	8,557
Net	R1500	-	-	-	46,422	-	-	-	5,292	51,714
Premiums earned		-	-	-	-	-	-	-	-	-
Gross	R1510	-	-	-	52,589	-	1,774	-	5,238	59,601
Reinsurers' share	R1520	-	-	-	8,407	-	-	-	53	8,460
Net	R1600	-	-	-	44,182	-	1,774	-	5,185	51,141
Claims incurred		-	-	-	-	-	-	-	-	-
Gross	R1610	-	-	-	36,569	6,899	96,857	-	1,992	142,317
Reinsurers' share	R1620	-	-	-	6,077	5,431	93,324	-	- 32	104,800
Net	R1700	-	-	-	30,492	1,468	3,533	-	2,024	37,517
Changes in other technical provisions										
Gross	R1710	-	-	-	-	-	-	-	-	-
Reinsurers' share	R1720	-	-	-	-	-	-	-	-	-
Net	R1800	-	-	-	-	-	-	-	-	-
Expenses incurred	R1900	-	-	-	14,115	193	1,709	-	2,965	18,982
Other expenses	R2500									-
Total expenses	R2600									18,982

S.05.02.01
Premiums, claims and expenses by country

S.05.02.01.01 — **Home Country - non-life obligations**
S.05.02.01.02 — **Top 6 countries (by amount of gross premiums written) - non-life obligations**
S.05.02.01.03 — **Total Top 6 and home country - non-life obligations**

All figures shown in GBP '000

		Home country - United Kingdom	USA	Belgium	Canada	Australia	Bermuda	Japan	Total Top 6 and home country
		C0080	C0090	C0091	C0092	C0093	C0094	C0094	C0140
Premiums written									
Gross - Direct Business	R0110	13,062,881	10,859,205	1,777,740	981,372	163,060	105,366	62,875	27,012,499
Gross - Proportional reinsurance accepted	R0120	2,225,338	1,662,944	91,092	112,190	2,306,652	305,117	99,893	6,803,226
Gross - Non-proportional reinsurance accepted	R0130	2,083,396	4,170,287	171,241	254,689	174,105	733,950	189,742	7,777,410
Reinsurers' share	R0140	5,157,531	4,470,260	453,128	328,791	684,724	180,579	92,783	11,367,796
Net	R0200	12,214,085	12,222,176	1,586,945	1,019,460	1,959,092	963,853	259,727	30,225,338
Premiums earned									
Gross - Direct Business	R0210	12,277,281	10,094,185	1,658,533	900,392	163,897	105,943	62,391	25,262,622
Gross - Proportional reinsurance accepted	R0220	2,149,949	1,599,141	87,857	98,741	2,104,092	325,928	105,513	6,471,221
Gross - Non-proportional reinsurance accepted	R0230	2,122,054	4,141,081	167,961	221,997	176,443	684,723	191,201	7,705,460
Reinsurers' share	R0240	4,982,129	4,316,618	438,797	309,473	640,305	177,806	89,635	10,954,763
Net	R0300	11,567,156	11,517,788	1,475,554	911,657	1,804,127	938,788	269,470	28,484,540
Claims incurred		-	-	-	-	-	-	-	
Gross - Direct Business	R0310	8,389,698	6,069,626	789,505	487,364	96,583	88,052	145,517	16,066,345
Gross - Proportional reinsurance accepted	R0320	1,750,921	1,252,804	38,070	117,445	1,224,144	232,462	64,928	4,680,774
Gross - Non-proportional reinsurance accepted	R0330	1,622,957	3,007,223	93,684	238,271	144,461	568,033	32,865	5,707,494
Reinsurers' share	R0340	4,754,674	3,800,687	227,774	257,429	501,125	221,019	51,259	9,813,967
Net	R0400	7,008,901	6,528,967	693,484	585,651	964,063	667,528	192,051	16,640,645
Changes in other technical provisions									
Gross - Direct Business	R0410								-
Gross - Proportional reinsurance accepted	R0420								-
Gross - Non-proportional reinsurance accepted	R0430								-
Reinsurers' share	R0440								-
Net	R0500								-
Expenses incurred	R0550	4,038,752	4,310,510	549,143	334,658	656,240	194,103	77,889	10,161,295
Other expenses	R1200								84,871
Total expenses	R1300								10,246,166

S.05.02.01.04 — **Home Country - life obligations**
S.05.02.01.05 — **Top 5 countries (by amount of gross premiums written) - life obligations**
S.05.02.01.06 — **Total Top 5 and home country - life obligations**

All figures shown in GBP '000

		Home country - United Kingdom	USA	Norway	Italy	Mexico	Switzerland	Total Top 5 and home country
		C0220	C0230	C0231	C0232	C0233	C0234	C0280
Premiums written								
Gross	R1410	44,207	15,906	4	-	-	32	60,149
Reinsurers' share	R1420	6,783	1,748	-	-	-	32	8,563
Net	R1500	37,424	14,158	4	-	-	-	51,586
Premiums earned			-	-	-	-	-	
Gross	R1510	44,243	15,189	-	-	-	32	59,464
Reinsurers' share	R1520	7,004	1,403	-	-	-	32	8,439
Net	R1600	37,239	13,786	-	-	-	-	51,025
Claims incurred		-	-	-	-	-	-	
Gross	R1610	137,154	5,206	(150)	(11)	-	60	142,259
Reinsurers' share	R1620	103,426	1,530	(48)	(3)	-	(36)	104,869
Net	R1700	33,728	3,676	(102)	(8)	-	96	37,390
Changes in other technical provisions			-	-	-	-	-	
Gross	R1710		-	-	-	-	-	-
Reinsurers' share	R1720		-	-	-	-	-	-
Net	R1800		-	-	-	-	-	-
Expenses incurred	R1900	15,064	3,741	11	8	-	51	18,875
Other expenses	R2500							-
Total expenses	R2600							18,875

S.12.01.02
Life and Health SLT Technical Provisions
All figures shown in GBP '000

Gross Claims Paid (non-cumulative) - Current year, sum of years (cumulative).
Total Non-Life Business

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance	Accepted reinsurance	**Total (Life other than health insurance, incl. Unit-Linked)**	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010	-	-			-			-	-	-	-			-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020	-	-			-			-	-	-	-			-	-	-
Best Estimate																	
Gross Best Estimate	R0030	-		-	-		31,125	0	345,786	71,136	448,047		-	-	164,952	-	164,952
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	-		-	-		(4,486)	0	222,756	20,367	238,637		-	-	153,289	-	153,289
Best estimate minus recoverables from reinsurance/SPV and Finite Re -	R0090	-		-	-		35,611	-	123,030	50,769	209,410		-	-	11,663	-	11,663
Risk Margin	R0100	-	-			3,372			22,447	32,671	58,490	-			1,855	-	1,855
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	R0110	-	-			-			-	-	-	-			-	-	-
Best estimate	R0120	-		-	-		-	-	-	-	-		-	-	-	-	-
Risk margin	R0130	-	-			-			-	-	-	-			-	-	-
Technical provisions - total	R0200	-	-			34,497			368,233	103,807	506,537	-			166,807	-	166,807

S.17.01.02
Non-Life Technical Provisions
All figures shown in GBP '000

Gross Claims Paid (non-cumulative) - Current year, sum of years (cumulative).

		Direct business and accepted proportional reinsurance												Total Non-Life Business				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	**Total Non-Life obligation**
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Technical provisions calculated as a sum of BE and RM																		
Premium provisions																		
Gross	R0060	4,285	(8,336)	2,825	79,279	111,780	(42,079)	687,581	644,552	90,281	1,083	1,302	(40,359)	(53,829)	(74,730)	(75,001)	(470,116)	858,518
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	(3,703)	(39,123)	(10,384)	(7,553)	3,058	(430,655)	(977,477)	(586,459)	(38,676)	(304)	65	(22,513)	(21,112)	(34,512)	(156,293)	(752,267)	(3,077,908)
Net Best Estimate of Premium Provisions	R0150	7,988	30,787	13,209	86,832	108,722	388,576	1,665,058	1,231,011	128,957	1,387	1,237	(17,846)	(32,717)	(40,218)	81,292	282,151	3,936,426
Claims provisions																		
Gross	R0160	118,476	737,283	637,819	957,296	265,203	7,490,133	11,823,154	26,534,661	1,171,483	49,860	(35)	611,489	628,307	5,064,018	2,894,983	6,956,819	65,940,949
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	(7,073)	102,579	177,560	227,857	43,038	2,289,264	3,882,373	8,268,655	432,711	12,117	24	155,245	118,815	1,496,933	1,159,889	2,456,922	20,816,909
Net Best Estimate of Claims Provisions	R0250	125,549	634,704	460,259	729,439	222,165	5,200,869	7,940,781	18,266,006	738,772	37,743	(59)	456,244	509,492	3,567,085	1,735,094	4,499,897	45,124,040
Total Best estimate - gross	R0260	122,761	728,947	640,644	1,036,575	376,983	7,448,054	12,510,735	27,179,213	1,261,764	50,943	1,267	571,130	574,478	4,989,288	2,819,982	6,486,703	66,799,467
Total Best estimate - net	R0270	133,537	665,491	473,468	816,271	330,887	5,589,445	9,605,839	19,497,017	867,729	39,130	1,178	438,398	476,775	3,526,867	1,816,386	4,782,048	49,060,466
Risk margin	R0280	12,252	51,752	41,635	73,464	37,807	470,446	729,268	1,708,390	93,525	3,951	92	31,939	42,076	404,708	158,413	455,694	4,315,412
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	R0290																	-
Best estimate	R0300																	-
Risk margin	R0310																	-
Technical provisions - total																		
Technical provisions - total	R0320	135,013	780,699	682,279	1,110,039	414,790	7,918,500	13,240,003	28,887,603	1,355,289	54,894	1,359	603,069	616,554	5,393,996	2,978,395	6,942,397	71,114,879
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	(10,776)	63,456	167,176	220,304	46,096	1,858,609	2,904,896	7,682,196	394,035	11,813	89	132,732	97,703	1,462,421	1,003,596	1,704,653	17,738,999
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	145,789	717,243	515,103	889,735	368,694	6,059,891	10,335,107	21,205,407	961,254	43,081	1,270	470,337	518,851	3,931,575	1,974,799	5,237,744	53,375,880

Non-life insurance claims
All figures shown in GBP '000

S.19.01.21.01
Gross Claims Paid (non-cumulative) - Development year (absolute amount)

		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											763,280
N-9	R0160	1,532,307	4,016,763	3,170,510	1,536,349	935,908	763,750	492,114	364,794	296,641	200,303	
N-8	R0170	1,098,001	4,021,501	3,164,556	2,092,772	1,218,442	1,333,194	643,790	385,268	378,521		
N-7	R0180	909,855	4,295,012	3,565,202	1,978,532	1,422,373	1,087,262	859,022	694,298			
N-6	R0190	1,354,629	5,429,628	4,825,401	2,698,422	1,856,582	1,125,025	1,269,403				
N-5	R0200	3,066,144	8,761,353	6,101,383	3,537,391	2,139,147	1,689,376					
N-4	R0210	2,101,454	8,306,722	5,282,874	3,058,520	2,273,456						
N-3	R0220	1,223,317	5,829,087	5,018,731	2,876,222							
N-2	R0230	2,124,577	5,626,045	4,009,776								
N-1	R0240	1,968,196	5,403,473									
N	R0250	1,641,262										

S.19.01.21.02
Gross Claims Paid (non-cumulative) - Current year, sum of years (cumulative). Total Non-Life Business

		In Current year	Sum of years (cumulative)
		C0170	C0180
Prior	R0100	763,280	763,280
N-9	R0160	200,303	13,309,438
N-8	R0170	378,521	14,336,044
N-7	R0180	694,298	14,811,557
N-6	R0190	1,269,403	18,559,089
N-5	R0200	1,689,376	25,294,795
N-4	R0210	2,273,456	21,023,026
N-3	R0220	2,876,222	14,947,356
N-2	R0230	4,009,776	11,760,398
N-1	R0240	5,403,473	7,371,669
N	R0250	1,641,262	1,641,262
Total	R0260	21,199,370	143,817,914

S.19.01.21.03
Gross undiscounted Best Estimate Claims Provisions - Development year (absolute amount)

		0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0350
Prior	R0100											5,337,018
N-9	R0160	0	357,196	316,025	4,136,255	3,358,162	2,555,256	1,951,336	1,563,020	1,118,701	859,254	
N-8	R0170	262,578	552,263	6,770,603	4,779,854	4,422,526	2,872,119	2,438,709	1,902,807	1,492,139		
N-7	R0180	362,146	9,000,230	7,185,249	5,748,986	4,585,863	4,013,507	2,804,888	2,182,748			
N-6	R0190	5,863,830	11,997,725	8,737,975	6,954,310	5,818,675	4,568,307	3,420,825				
N-5	R0200	12,083,916	15,264,086	11,748,488	8,973,840	6,525,647	5,157,222					
N-4	R0210	9,323,177	14,083,233	12,278,139	9,169,090	7,457,919						
N-3	R0220	6,797,783	15,295,420	11,437,569	8,636,310							
N-2	R0230	8,200,498	13,604,956	11,107,556								
N-1	R0240	9,378,827	17,735,107									
N	R0250	10,818,950										

S.19.01.21.04
Gross discounted Best Estimate Claims Provisions - Current year, sum of years (cumulative). Total Non-Life Business

		Year end (discounted data)
		C0360
Prior	R0100	4,715,609
N-9	R0160	751,947
N-8	R0170	1,321,164
N-7	R0180	1,938,634
N-6	R0190	3,038,204
N-5	R0200	4,591,406
N-4	R0210	6,663,143
N-3	R0220	7,738,352
N-2	R0230	9,913,979
N-1	R0240	15,845,221
N	R0250	9,495,337
Total	R0260	66,012,996

S.23.01.01
Own funds
All figures shown in GBP '000

S.23.01.01.01

Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010					
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	29,968,189	29,968,189			
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	4,286,488	4,286,488			
Subordinated liabilities	R0140	580,757			580,757	
An amount equal to the value of net deferred tax assets	R0160	7,460				7,460
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	-	-	-	-	-
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	-				
Deductions						
Deductions for participations in financial and credit institutions	R0230	-	-	-	-	-
Total basic own funds after deductions	R0290	34,842,893	34,254,677	-	580,757	7,460
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	-			-	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	-			-	
Unpaid and uncalled preference shares callable on demand	R0320	-			-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	-			-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	7,640,909	-	-	7,640,909	-
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	-			-	-
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	-			-	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	-			-	-
Other ancillary own funds	R0390	16,552	-	-	16,552	-
Total ancillary own funds	R0400	7,657,461	-	-	7,657,461	-
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	42,500,354	34,254,677	-	8,238,218	7,460
Total available own funds to meet the MCR	R0510	34,835,433	34,254,677	-	580,757	-
Total eligible own funds to meet the SCR	R0540	42,500,354	34,254,677	-	8,238,218	7,460
Total eligible own funds to meet the MCR	R0550	34,835,433	34,254,677	-	580,757	-
SCR	R0580	23,500,000	-	-	-	-
MCR	R0600	10,307,757	-	-	-	-
Ratio of Eligible own funds to SCR	R0620	1.81				
Ratio of Eligible own funds to MCR	R0640	3.38				

S.23.01.01.02

Reconciliation reserve

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	35,807,064
Own shares (held directly and indirectly)	R0710	-
Foreseeable dividends, distributions and charges	R0720	566,927
Other basic own fund items	R0730	29,975,649
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	978,000
Reconciliation reserve	R0760	4,286,488
Expected profits		-
Expected profits included in future premiums (EPIFP) - Life business	R0770	10,785
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	6,469,406
Total Expected profits included in future premiums (EPIFP)	R0790	6,480,191

S.25.03.21
Solvency Capital Requirement - for undertakings on Full Internal Models
All figures shown in GBP '000

S.25.03.01.01

Component-specific information

Unique number of component	Components Description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
10300I	Other interest rate risk	-2,257,354
10400I	Equity risk	8,583,450
10700I	Spread risk	6,895,672
10900I	Currency risk	8,801,648
11000I	Other market risk	12,963,630
19900I	Diversification within market risk	-23,959,354
20100I	Type 1 counterparty risk (reinsurance credit risk)	1,240,610
20310I	Other counterparty risk (asset default on cash and LoCs only)	1,404,034
29900I	Diversification within counterparty risk	-891,617
30000I	Total life underwriting risk (sum of syndicate's life SCRs)	
40800I	Health NSLT medical expenses	184,554
40900I	Health NSLT income protection	494,259
41000I	Health NSLT worker's compensation	230,857
41100I	Health NSLT non-proportional reinsurance	318,679
49900I	Diversification within health underwriting risk	-248,928
50150I	Premium risk	8,804,723
50210I	Reserve risk	17,745,687
50300I	Non-life catastrophe risk : natural (i.e. meteorological and geological)	8,618,163
59900I	Diversification within non-life underwriting risk	-13,391,122
70100I	Operational risk	923,750
80100I	Other risks including pension risk, ACF, FX adjustment, CFI and bottom-line adjustment to Q4 2021 interest rates	-1,405,306

S.25.03.01.02

Calculation of Solvency Capital Requirement

		C0100
Total undiversified components	R0110	35,056,035
Diversification	R0060	-13,956,035
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)	R0160	
Solvency capital requirement excluding capital add-on	R0200	21,100,000
Capital add-ons already set	R0210	2,400,000
Solvency capital requirement	R0220	23,500,000
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	23,500,000
Total amount of Notional Solvency Capital Requirement for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

S.28.02.01
Minimum Capital Requirement - Both life and non-life insurance activity
All figures shown in GBP '000
S.28.02.01.01

MCR components

		MCR components	
		Non-life activities	Life activities
		$MCR_{(NL, NL)}$ Result	$MCR_{(NL, L)}$ Result
		C0010	C0020
Linear formula component for non-life insurance and reinsurance obligations	R0010	10,290,322	

S.28.02.01.02
Z Axis:
VG/Solvency II

Background information

		Background information			
		Non-life activities		Life activities	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
Medical expense insurance and proportional reinsurance	R0020	134,346	316,880		
Income protection insurance and proportional reinsurance	R0030	668,006	649,855		
Workers' compensation insurance and proportional reinsurance	R0040	473,566	154,966		
Motor vehicle liability insurance and proportional reinsurance	R0050	819,199	541,537		
Other motor insurance and proportional reinsurance	R0060	330,988	515,309		
Marine, aviation and transport insurance and proportional reinsurance	R0070	5,604,651	4,699,532		
Fire and other damage to property insurance and proportional reinsurance	R0080	9,671,400	10,322,809		
General liability insurance and proportional reinsurance	R0090	19,550,325	10,951,305		
Credit and suretyship insurance and proportional reinsurance	R0100	924,220	727,566		
Legal expenses insurance and proportional reinsurance	R0110	43,239	56,744		
Assistance and proportional reinsurance	R0120	1,215	5,845		
Miscellaneous financial loss insurance and proportional reinsurance	R0130	447,395	300,259		
Non-proportional health reinsurance	R0140	479,972	298,843		
Non-proportional casualty reinsurance	R0150	3,529,120	1,406,136		
Non-proportional marine, aviation and transport reinsurance	R0160	1,817,748	1,079,166		
Non-proportional property reinsurance	R0170	4,828,209	4,488,701		

S.28.02.01.03

Linear formula component for life insurance and reinsurance obligations

		Non-life activities	Life activities	
		$MCR_{(L, NL)}$ Result	$MCR_{(L, L)}$ Result	
		C0070	C0080	
Linear formula component for life insurance and reinsurance obligations	R0200		17,435	VG/Solvency II
		LE/Non-life activity	LE/Life activity	

S.28.02.01.04
Z Axis:
VG/Solvency II

Total capital at risk for all life (re)insurance obligations

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0090	C0100	C0110	C0120
Obligations with profit participation - guaranteed benefits	R0210				
Obligations with profit participation - future discretionary benefits	R0220				
Index-linked and unit-linked insurance obligations	R0230				
Other life (re)insurance and health (re)insurance obligations	R0240			228,571	
Total capital at risk for all life (re)insurance obligations	R0250				18,049,930

S.28.02.01.05
Z Axis:
VG/Solvency II

Overall MCR calculation

		C0130
Linear MCR	R0300	10,307,757
SCR	R0310	23,500,000
MCR cap	R0320	10,575,000
MCR floor	R0330	5,875,000
Combined MCR	R0340	10,307,757
Absolute floor of the MCR	R0350	3,445
Minimum Capital Requirement	R0400	10,307,757

S.28.02.01.06
Z Axis:
VG/Solvency II

Notional non-life and life MCR calculation

		Non-life activities	Life activities
		C0140	C0150
Notional linear MCR	R0500	10,290,322	17,435
Notional SCR excluding add-on (annual or latest calculation)	R0510		
Notional MCR cap	R0520	10,290,322	17,435
Notional MCR floor	R0530		
Notional Combined MCR	R0540	10,290,322	17,435
Absolute floor of the notional MCR	R0550		
Notional MCR	R0560	10,290,322	17,435

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of Relevant elements of the Solvency and Financial Condition Report under Pillar 3 of Solvency II for the association of underwriters known as Lloyd's as at 31 December 2022

Opinion

In our opinion, the Council of Lloyd's has prepared the information subject to assurance in the Relevant elements of the Solvency and Financial Condition Report ("SFCR") (as defined below) under Pillar 3 of Solvency II for the association of underwriters known as Lloyd's ('Lloyd's') as at 31 December 2022, in all material respects, in accordance with the Basis of preparation of the SFCR (the 'Lloyd's basis of preparation').

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

What we have assured

Except as noted in Appendix A, we have assured the 'Relevant elements of the Solvency and Financial Condition Report', which is prepared by the Council of Lloyd's and comprises:

- The 'Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Lloyd's as at 31 December 2022 ('the Narrative Disclosures subject to reasonable assurance'), which include both Market Wide and Central Solvency disclosures; and

- Lloyd's templates S.02.01.02, S.12.01.02, S.17.01.02, S.23.01.01 and S.28.02.01 ('the Templates subject to reasonable assurance'), which include Market Wide Solvency disclosures only.

The Relevant elements of the Solvency and Financial Condition Report specific to the Market Wide Solvency disclosures have been compiled by aggregating:

i. financial information extracted from the corresponding Solvency II information included in syndicates' Annual Solvency Returns by the managing agent of each syndicate, which have been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported;

ii. Society of Lloyd's financial information extracted from the Society of Lloyd's UK GAAP financial statements and adjusted for any valuation, presentation and classification differences between UK GAAP and Solvency II, in line with the Lloyd's basis of preparation; and

iii. Funds at Lloyd's financial information extracted from the Lloyd's Pro Forma Financial Statements and adjusted for any valuation, presentation and classification differences between the basis of preparation of the PFFS and Solvency II, in line with the Lloyd's basis of preparation.

Our work in respect of the Annual Solvency Returns did not involve assessing the quality of the syndicate audits or performing any audit procedures over the financial or other information of the syndicates or provided by the managing agents of the syndicates.

The Relevant elements of the Solvency and Financial Condition Report specific to the Central Solvency disclosures have been compiled from the financial records of the Society of Lloyd's.

Professional standards applied and level of assurance

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

Our examination in respect of the Central Solvency disclosures has consisted principally of:

- obtaining an understanding of the process used by the Council of Lloyd's to compile the Relevant elements of the Solvency and Financial Condition Report from the financial records of the Society of Lloyd's; and

- checking (on a sample basis) that the financial information included in the Relevant elements of the Solvency and Financial Condition Report for the Society of Lloyd's was correctly extracted from the Society of Lloyd's UK GAAP financial statements, and that adjustments were made by Lloyd's for any valuation, presentation and classification differences between UK GAAP and Solvency II, in line with the Lloyd's basis of preparation.

Our examination in respect of the Market Wide Solvency disclosures has consisted principally of:

- obtaining an understanding of the process used by the Council of Lloyd's to compile the Relevant elements of the Solvency and Financial Condition Report relating to Funds at Lloyd's, the financial records of the Society of Lloyd's and from the audited syndicate Annual Solvency Returns, prepared by the managing agent of each syndicate;

- checking (on a sample basis) that the financial information included in the Relevant elements of the Solvency and Financial Condition Report for syndicates was correctly extracted from the audited syndicate Annual Solvency Return;

- checking (on a sample basis) that the financial information included in the Relevant elements of the Solvency and Financial Condition Report for the Society of Lloyd's was correctly extracted from the Society of Lloyd's UK GAAP financial statements, and that adjustments were made by Lloyd's for any valuation, presentation and classification differences between UK GAAP and Solvency II, in line with the Lloyd's basis of preparation;

- checking (on a sample basis) that the financial information included in the Relevant elements of the Solvency and Financial Condition Report relating to Funds at Lloyd's was correctly extracted from the Lloyd's Pro Forma Financial Statements (the 'PFFS'), and that adjustments were made by Lloyd's for any valuation, presentation and classification differences between the basis of preparation of the PFFS and Solvency II, in line with the Lloyd's basis of preparation; and

- evaluating evidence (on a sample basis) to support the completeness and accuracy of management's reconciliation of the Ancillary Own Funds in the Relevant elements of the Solvency and Financial Condition Report to the amounts approved by the PRA in its letter to Lloyd's dated 15 December 2022.

Other Information

We are not required to assure, and as a consequence, do not express an opinion on the 'Other Information' which comprises:

- Information contained within the Relevant elements of the Solvency and Financial Condition Report relating to, or derived from, the Market Wide Solvency Capital Requirement and Central Solvency Capital Requirement, as identified in Appendix A to this report;

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Lloyd's templates S.05.01.02, S.05.02.01, S.19.01.21 and S.25.03.21; and

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (the 'Governing body's statement in respect of the SFCR').

To the extent the information subject to assurance in the Relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.
Lloyd's has authority to calculate its Market Wide Solvency Capital Requirement and Central Solvency Capital Requirement using an internal model ('the Model') approved by the Prudential Regulation Authority (the 'PRA') in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to assure the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Our assurance procedures do not extend to information in respect of earlier periods or to any other information included in the Lloyd's Solvency and Financial Condition Report within which the Relevant elements of the Solvency and Financial Condition Report as at 31 December 2022 are included.

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms, we are required to read the Other Information (as defined above) and consider whether it is materially inconsistent with the Relevant elements of the Solvency and Financial Condition Report and our knowledge obtained in:

- the reasonable assurance engagements over the Lloyd's 2022 Solvency and Financial Condition Report and the Lloyd's 2022 Pro Forma Financial Statements (Market Wide Solvency disclosures); and

- the reasonable assurance engagement over the Lloyd's 2022 Solvency and Financial Condition Report and the 2022 audit of the Society of Lloyd's Financial Statements (Central Solvency disclosures).

If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Our Independence and Quality Control

In carrying out our work, we complied with the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, that are at least as demanding as the applicable provisions of the IESBA Code of Ethics. We also apply International Standard on Quality Control (UK) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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

The purpose of the Solvency and Financial Condition Report is to allow the Council of Lloyd's to report the solvency position of the association of underwriters known as Lloyd's in accordance with the requirements of Solvency II.

The Council of Lloyd's is responsible for the preparation of the Solvency and Financial Condition Report, including its basis of preparation, in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Approval of items of ancillary own funds (Market Wide Solvency disclosures only);

- Approval to classify syndicate loans to the Central Fund as restricted Tier 1 capital (Central Solvency disclosures only);

- Approval to use a full internal model (Market Wide and Central Solvency disclosures); and

- Modification of External Audit rule 4.1 for Lloyd's to obtain a reasonable assurance opinion in accordance with ISAE 3000 (Revised) (Market Wide and Central Solvency disclosures).

The Council of Lloyd's is also responsible for designing and implementing an appropriate basis of preparation for this purpose and for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion about whether the preparation of the Relevant elements of the Solvency and Financial Condition Report has been performed by the Council of Lloyd's on the basis set out in Lloyd's basis of preparation.

Intended users and purpose

This report including our opinion has been prepared solely for the Council of Lloyd's in accordance with our engagement letter dated 6 September 2022 to assist the Council of Lloyd's to comply with its obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 April 2023

Appendix A – Relevant elements of the Solvency and Financial Condition Report that are not subject to reasonable assurance

The Relevant elements of the Solvency and Financial Condition Report that are not subject to reasonable assurance comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

- The following elements of template S.12.01.02:
  - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
  -

- The following elements of template S.17.01.02:
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0290 to R0310 – Amount of the transitional on Technical Provisions

- The following elements of template S.23.01.01:
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

- The following elements of Company template S.28.02.01:
  - Row R0310: SCR

- Elements identified as ‘not subject to reasonable assurance’.