LLOYD'S

Preliminary Results

2020

Contents

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. Lloyd's protects what matters most: helping to recover in times of need by sharing risk to protect, build resilience and inspire courage everywhere.

At a Glance

Lloyd's reports an overall loss of £0.9bn, driven by £3.4bn of major claims related to the COVID-19 pandemic. Underlying underwriting performance has shown significant improvement through strong rate increases across all classes and continued focus on underwriting discipline.

Operating highlights

The Lloyd's market paid out £21.4bn of gross claims in 2020 and has been able to meet these substantial commitments without impacting on our total resources, which remain strong at £33.9bn.

Investment income made a positive contribution to the result with an investment return* of 2.9% (2019: 4.8%).

Gross written premium

£35,466m

(2019: £35,905m)

Loss before tax

(£887m)

(2019: profit of £2,532m)

Combined ratio*

110.3%

(2019: 102.1%)

Combined ratio (exc COVID-19)

97.0%

(2019: 102.1%)

Underwriting profit (exc COVID-19)

£757m

(2019: loss of £538m)

Investment income

£2,268m

(2019: £3,537m)

Pre-tax return on capital*

(2.8)%

(2019: 8.8%)

Net resources

£33,941m

(2019: £30,638m)

Central solvency coverage ratio

209%

(2019: 238%)

Market-wide solvency coverage ratio

147%

(2019: 156%)

Lloyd's line of business breakdown by region

- US & Canada **53%**
- Other Americas **6%**
- UK **12%**
- Rest of Europe **15%**
- Central Asia & Asia Pacific **10%**
- Rest of the World **4%**

	US and Canada	Other America	UK	Rest of Europe	Central Asia & Asia Pacific	Rest of World	Total
Reinsurance	23%	70%	34%	50%	40%	62%	35%
Property	35%	9%	22%	13%	19%	10%	26%
Casualty	27%	12%	28%	22%	31%	14%	25%
Marine, Aviation & Transport	8%	7%	6%	13%	7%	10%	8%
Energy	5%	1%	2%	2%	2%	2%	4%
Motor	2%	1%	8%	–	1%	2%	2%

Lloyd's capital providers by source and location (%)

- US Insurance industry **17.3%**
- Bermudian Insurance industry **14.9%**
- UK Insurance industry **14.6%**
- Rest of world insurance industry **10.5%**
- Japan insurance industry **10.2%**
- European insurance industry **9.6%**
- Private capital—limited & unlimited **9.2%**
- Worldwide non-insurance **8.3%**
- Middle/Far East insurance industry **5.4%**

The combined ratio is the ratio of net incurred claims and net operating expenses to net earned premiums. The overall combined ratio includes central adjustments in the technical account in respect of transactions between syndicates and the Society as described in notes 2 and 8 to the PFFS (pages 51, 52 and 69). The combined ratios and results for individual lines of business (pages 38 – 44) do not include these adjustments as the market commentary for each line of business reflects trading conditions at syndicate level as reported in syndicate annual accounts. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business have been reported in the segmental analysis, note 9 on page 70.

* The combined ratio, the expense ratio, the return on capital and Solvency coverage ratio are metrics that are consistently used to analyse financial performance in the Lloyd's market results. These metrics are Alternative Performance Measures (APMs), with further information available on page 78.

Chairman's Statement

Lloyd's has shown it can withstand the effects of an unexpected and unprecedented disaster.

Bruce Carnegie-Brown
Chairman, Lloyd's

2020 has been a year like no other, with the impacts of COVID-19 having devastating consequences for businesses, communities and the global economy. Despite the challenges that the pandemic has presented, Lloyd's has shown that it can withstand the effects of an unexpected and unprecedented disaster, whilst working with governments and organisations around the world to identify how we can learn from the past year to reduce the impact of potential future systemic risks.

Operationally, we were able to adapt quickly to change, made possible by the work underway as part of our Future at Lloyd's strategy. Despite having to close the Underwriting Room for much of the year – the first time in Lloyd's history – we were able to continue to underwrite business effectively and pay claims promptly due to our emergency protocol procedures and our work to move many of our systems online. We launched the Virtual Room in September, successfully enabling brokers and underwriters to connect online, and we now have over 50 organisations signed up; and thanks to the hard work and dedication of our technical teams to implement new systems and processes, Society employees were able to work successfully from home and deliver against all of our priorities.

Our robust financial strength means we have been able to pay £21.4bn in gross claims to support our customers. Whilst COVID-19 accounted for the majority of our major claims, natural catastrophe events also had a significant impact. In 2020, Lloyd's net resources increased by 10.8% to £33.9bn, reflecting our strong balance sheet and a central solvency ratio of 209%.

In a challenging year for the market, Lloyd's significantly improved its underlying performance, with the combined ratio improving to 97.0% in 2020, excluding COVID-19 claims, as a result of sustained improvement in the attritional loss ratio. This progress is attributable to the market's commitment to better underwriting discipline, supported by increases in pricing across all classes of business.

Alongside our performance progress, Lloyd's made significant progress in driving culture change across our market, including setting publicly accountable gender targets, as well as committing to a series of actions to improve the experience of Black, Asian and Minority Ethnic colleagues and to build a more inclusive environment for those working in the market.

However, we can and will do more. The events of 2020 have accelerated critical conversations, commitments and actions across businesses, economies and society to tackle some of the most challenging and urgent issues we collectively face. As the world slowly emerges from the impacts of the COVID-19 pandemic, it does so with an enormous opportunity to take positive action to build back better.

In December, we published our first market-wide Environmental, Social and Governance (ESG) report, with an ambition to integrate sustainability into all of Lloyd's business activities; from playing our part in the global transition to net zero through the risks we share and the investments we make, to the way in which we support societal progress more broadly. This report sets out how Lloyd's will build on the critical role we play, in alignment with the United Nations Sustainable Development Goals and in support of the principles set out in the Paris Agreement. Importantly, for the first time we have set targets for responsible underwriting and investment to help accelerate society's transition from fossil fuel dependency towards renewable energy sources.

As the world continues to digitalise rapidly and economies begin to rebuild in the aftermath of the COVID-19 pandemic, innovation to deliver better products and services for our customers has never been more important. To that end, the Lloyd's Lab went from strength to strength, working with InsurTechs to provide some of the capabilities needed to protect us in the future. This included exploring the application of an epidemic tracker to better evaluate and underwrite pandemic risk and solutions to help close the insurance gap for systemic risks. Alongside this, our Product Innovation Facility focused on developing products to respond to an accelerated shift towards intangible-driven business models during the pandemic.

In July, we approved and supported the launch of our first public-private syndicate set up to insure the storage and transportation of a COVID-19 vaccine to emerging economies, as well as the launch of Lloyd's Global Health Risk Facility (GHRF) which is intended to make billions of dollars of insurance coverage available, together with risk mitigation services to help protect and support the global distribution of COVID-19 vaccines as well as critical health commodities.

Crucial to all of this is the digitalisation of the market. During the past year we have been able to develop the thinking behind the ambition of Blueprint One and lay the foundations to support the next phase of transformation, which was published in November in Blueprint Two. Blueprint Two outlines the delivery plan to build the most advanced insurance marketplace in the world and sets out tangible solutions that will radically shift the market to a digital ecosystem, powered by data and technology – ultimately delivering greater efficiency and better value for our customers.

We completed the merger of the Council and Franchise Board in June, allowing us to combine robust and accountable governance with the ability to make swift decisions when necessary; the importance of which has been highlighted throughout the COVID-19 pandemic. During the year several people left both Board and Council, mainly as a result of the merger. Albert Benchimol, Robert Childs, Dominick Hoare and Christian Noyer left the Council and Mike Bracken, Mark Cloutier, Charles Franks, Jon Hancock, Nigel Hinshelwood, Patricia Jackson and Richard Keers left the Franchise Board. I would like to thank them all for their service to Lloyd's over many years. We welcomed Angela Crawford-Ingle to the Franchise Board in January, and she is now a member of Council.

I would also like to thank all members of the Society staff and all members of the market for their hard work and flexibility throughout the year, to ensure that the market remained open for business to support our customers during this exceptional time.

One of the positive things that has come out of 2020 has been to reinforce the value of what we do. Our role in helping businesses and communities get back on their feet following a disaster and build resilience to the challenges the future will bring has never been more vital. That is why we are committed to making further progress against our four priorities of culture transformation, the digitalisation of our market, the return to long-term sustainable performance, and delivering on our purpose of sharing risk to create a braver world.

Bruce Carnegie-Brown
Chairman, Lloyds

Chief Executive's Statement

Lloyd's can be proud of the strength and resilience it has demonstrated in the face of the COVID-19 pandemic.

John Neal
Chief Executive Officer

As the world begins to recover from one of the most challenging periods in living memory, Lloyd's can be proud of the strength and resilience it has demonstrated in the face of the COVID-19 pandemic, as well as the unwavering commitment to our people, our customers, and the communities in which we serve.

Throughout 2020 Lloyd's has provided critical financial support to our customers, who have trusted us to be there in their time of need – and we have done so at pace, with gross COVID-19 claims paid expected to reach £6.2bn. Alongside our customers we have taken care of our people as they have navigated their way through the many challenges of remote working, in addition the market adapting to digital trading and ways of working almost overnight. We were delighted to provide almost 200 charitable organisations with a £15m package of support to ensure they were able to deliver vital services to those in need.

While 2020 will forever be remembered as the 'year of COVID-19', the market has suffered threats from two other fronts: the first has been the uncertainty and turmoil driven by Brexit; the second being a significant increase in the number of natural catastrophe events. 2020 was the fifth largest catastrophe year on record, with twenty-eight insured events costing more than £1bn each. By way of comparison, in 2017 (the year of Hurricanes Harvey, Irma and Maria), there were eighteen of these insured events.

Notwithstanding these challenges we have made strong progress against our three strategic priorities of performance, digitalisation and culture. Notably, the market has proven its ability to take action to improve performance and we can see the impacts of those efforts through the significant turnaround in our underlying underwriting performance. With the publication of Blueprint Two, our two-year digitalisation programme to deliver the Future at Lloyd's, we have already reached a number of key milestones in our ambition to become the world's most advanced insurance marketplace. We have also made encouraging strides in our commitment to transform our shared culture, with this year's survey results demonstrating positive, action-led change.

Returning to long-term sustainable profitability

Having embarked on a three-year journey to improve underwriting performance, Lloyd's 2020 results demonstrate solid year-on-year progress. Our strong underlying underwriting performance is a testament to the performance management and underwriting action taken by both the Society and the market over the past three years, and we are really starting to see the impact of that action flow through the Lloyd's portfolio.

While Lloyd's has reported an aggregated loss of £0.9bn, this was driven by incurred COVID-19 losses of £3.4bn, adding 13.3% to the market's combined operating ratio of 110.3%. Alongside COVID-19, the busy natural catastrophe season amounted to an additional £2.5bn of major claims. Despite those challenges, the market's combined ratio has shown substantial improvement over the past three years, dropping to 97.0% in 2020, excluding COVID-19 claims. This represents a 5.1 percentage point improvement on 2019 (102.1%) and a 7.5 percentage point improvement on 2018 (104.5%). We are further encouraged by a 5.4 percentage point improvement in the attritional loss ratio when compared with 2019, which has dropped to 51.9%.

Gross written premiums of £35.5bn represent a 1.2% reduction over the same period in 2019. Favourable market conditions, driven by accelerated positive rate throughout 2020, saw the market achieve an average risk adjusted rate increase of 10.8%. This was offset by a 12.0% reduction in business volumes across the market, reflecting the market's continued focus on the quality of the business it underwrites.

The 2020 expense ratio saw a 1.5% improvement dropping to 37.2% (2019: 38.7%), and will remain a key area of focus, with the Blueprint Two programme central to tackling operating expenses across the market.

In 2020, the market's net resources increased by 10.8% to £33.9bn as at 30 December 2020 (2019: £30.6bn), reinforcing the exceptional strength of Lloyd's balance sheet with a central solvency ratio of 209%. Our exceptional financial strength prompted Fitch Ratings to reaffirm its AA- (Very Strong) rating and remove the negative watch. This sits alongside our A+ (Strong) rating with Standard & Poor's, and A (Excellent) with A.M. Best.

Delivering on our commitments and ambitions

The pandemic highlighted the importance of our ambition to digitalise the marketplace, and 2020 saw substantial progress made on the next phase of our Future at Lloyd's journey with the publication of Blueprint Two in November. Despite scaling back some activities and re-focusing our key priorities due to COVID-19, we delivered a substantial number of improvements for the market. This included: streamlining the claims process to support customers; automating lower value claims transactions; establishing the virtual Underwriting Room; and launching our new Funds at Lloyd's portal. The comprehensive programme detailed in Blueprint Two intends to deliver revolutionary change for the market, ensuring it is digital from start to finish, with data at the core.

It is imperative that we evolve the culture of the Lloyd's market and in 2020 we fulfilled all of our 2019 culture commitments; from launching the Lloyd's Culture Dashboard and publishing the market culture toolkit, to setting gender targets and running our annual culture survey for a second time. The results of the survey demonstrate notable progress in the experience of women working in the Lloyd's market over the past 18 months following targeted action to drive change at pace. We also saw improvements across the four priority areas that we originally identified as foundational to driving cultural change: gender balance, speaking up, wellbeing and leadership. That said, we must take action to improve the experience of Black, Asian and Minority Ethnic colleagues and ensure that we attract and nurture talent from every community. Culture change is hard, but we've made good progress in our collective efforts to drive gender parity and have shown that by working together we can accelerate the cultural transformation of the Lloyd's market.

Building back braver

Looking ahead to 2021, it is clear that our purpose of sharing risk to create a braver world has never been more important. That is why we are placing 'purpose' as our fourth strategic pillar alongside performance, digitalisation and culture. Fundamentally, it means ensuring our market is set up for long term sustainability, that we continue to innovate new products and services, and that we continue to build the trust of our customers.

As the world shifts from the tangible to the intangible, amid rapid digitalisation and economies rebuilding in the aftermath of the pandemic, we must build back not only better, but braver, with sustainability at the core of our decisions and actions. In December 2020, we published Lloyd's first Environmental, Social and Governance (ESG) Report, setting out our plan to transition to a more sustainable (re)insurance marketplace. The report builds on Lloyd's existing ESG work with a comprehensive market-wide strategy that aligns with the United Nations Sustainable Development Goals and supports the principles set out in the Paris Agreement. Importantly, we have made a number of underwriting and investment commitments to support the global transition to net zero.

While we work towards a much greener future, Lloyd's has a unique position and opportunity to bring together communities, businesses, insurers and governments. In 2020 we committed £15m in seed capital investment to build and launch Futureset, our new global platform dedicated to driving greater societal and economic resilience in the face of an increasingly uncertain future. Throughout 2021, Futureset will focus on the landscape of systemic risk, as well as examining the growing global risks brought about by climate change – and most importantly, driving the delivery of sustainable solutions.

Finally, I would like to thank our people for their hard work and dedication during an extremely challenging period. I am proud of the way they have adapted to their changing circumstances while continuing to deliver progress against our three strategic priorities.

As we look back on 2020, we can be proud of the way Lloyd's has stood up and demonstrated its resilience through an incredibly difficult period. We are in a strong position to weather the ongoing impact of the pandemic and we must continue to understand how we can take positive action to help society get back on its feet, and to ensure our market remains sustainable for the long-term.

John Neal
Chief Executive Officer

Strategic Report

Contents

Our Purpose

Sharing risk to create a braver world

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.

How we deliver on our purpose

Everything Lloyd's does is underpinned by one unifying purpose: sharing risk to create a braver world. This purpose speaks to the impact and aspiration of the market and is as true today as it was in Edward Lloyd's coffee shop in 1688.

The Lloyd's market has been at the forefront of its industry for more than 300 years, pioneering new forms of protection for a rapidly changing world. Collectively, the Lloyd's market enables innovative ideas, shares insight and creates lasting partnerships to make a tangible difference for our customers, helping to create a braver, more resilient world.

From start-ups to small and medium-sized enterprises, national governments and multinational corporations, our customers are the people driving the global economy; and they rely on the specialism, strength and security of the Lloyd's market to help them protect what matters most. The Lloyd's market has helped customers around the world withstand shock, recover and rebuild, and we are proud to continue that essential service today.

Our business model

Our unique market has an unrivalled concentration of specialist insurance expertise, and every day 50 leading insurance companies, 350 registered Lloyd's brokers and a global network of more than 4,000 local coverholders operate in and bring business to the Lloyd's market.

The business written at Lloyd's is brought by brokers and coverholders to specialist syndicates, operated by managing agents, who price and underwrite risks. Much of the (re)insurance capacity available at Lloyd's is provided on a subscription basis – where syndicates of Lloyd's underwriters join together to underwrite risks and programmes. Combined with the choice, flexibility and financial certainty of the market, this makes Lloyd's the world's leading insurance platform.

But in an unpredictable global climate, Lloyd's underwriters must also rely on their experience and industry knowledge to cast light into the darkness ahead. Behind the Lloyd's market is the Society of Lloyd's, not itself an insurer but an independent organisation and regulator that acts to protect and maintain the market's reputation and provides services and original research, reports and analysis to the industry's knowledge base.

Under one globally trusted name, the Lloyd's market and the Society of Lloyd's share risk to protect our stakeholders' interests, promote economic growth and create a braver world.

Our impact on society

Lloyd's has a long track record in contributing to the communities in which we operate and, crucially, helping them to recover from disaster. We are proud of the enduring role we play in protecting society from some of the greatest threats, and in doing so supporting economic growth and societal prosperity. Over the past decade the Lloyd's market has paid £145bn of claims to our customers in their time of need, as well as the insurance and reinsurance critical to propelling the advancement of people, businesses and communities around the world.

Lloyd's is also a significant engine for the UK's economy. The London (re)insurance market, of which Lloyd's represents two thirds of business written in London, employs 47,000 people and makes up 1.7% of the UK's gross domestic product.

Business flow

Customers

- Global commercial organisations, such as FTSE 250 and Fortune 500 companies
- Small and medium-sized enterprises
- Individuals
- Other insurance groups

Distribution channels

- 350 brokers: distributing business
- 427 service company locations
- 4,030 coverholder locations: offering local access to Lloyd's

The market

- 50 managing agents: managing syndicates
- 76 syndicates: writing insurance and reinsurance
- 12 special purpose arrangements: set up solely to write a quota share of another syndicate
- 2 syndicates in a box: writing innovative, new business

Gross written premiums:	
2020	£35.5bn
2019	£35.9bn
2018	£35.5bn

Capital and reserves:	
2020	£33.9bn
2019	£30.6bn
2018	£28.2bn

Capital flow

Capital providers (members)

- Trade capital: insurance companies from around the world
- Institutional capital: such as pension funds and private equity
- Private capital (via members' agents): such as small companies and individuals

The Society – supporting the market

Note: All figures are as at 31 December 2020. Capital and reserves of £33.9bn comprised members' assets held severally of £30.6bn, mutual assets of £2.5bn and subordinated debt of £0.8bn. For further information on the Lloyd's market visit: lloyds.com/about-lloyds

How we create value for our stakeholders

A market fuelled by possibility

Lloyd's is the world's largest specialist insurance market and global distribution network, competing to share risk whatever the size, location, industry or complexity in order to provide outstanding service for our customers. Built for an interconnected economy, Lloyd's insures people, businesses and communities in more than 200 countries and territories through a unique flow of business, and can develop tailor-made policies for customers in every sector, covering more than 60 lines of insurance and reinsurance.

Protection you can rely on

We take pride in doing what's right, paying all valid claims. For more than three centuries the security of Lloyd's has protected what matters most to people, businesses and communities and helped them recover in times of need. We are committed to being an inclusive global market that treats our people and customers with dignity and respect.

Our unique capital structure provides the financial strength that backs all insurance policies written at Lloyd's and the common security that underpins the market's strong ratings and global licence network. Lloyd's central assets, which include the Central Fund, are available, at the discretion of the Council, to meet any policyholder's valid claim that cannot be met from the resources of any member. With more than £33.9bn net resources backing Lloyd's policies and competitive financial strength ratings, our stakeholders have confidence that we will be there to meet all valid claims.

Solutions from the best minds in the market

A Lloyd's policy benefits from the combined expertise of an entire market, not just a single company. Our market combines the specialist knowledge and resources of 90 underwriting operations and 350 brokers and uses this collective expertise, professionalism and judgement to protect stakeholders' interests.

With this unrivalled depth and breadth of insurance expertise, Lloyd's is the leading marketplace for protecting against new and emerging risks. Together our underwriters and brokers create innovative, responsive solutions to the most unique challenges. We embrace new challenges, create new products and champion new solutions – no matter how specialist or complex the risk.

A partner for the long term

The trusted relationships which underpin our marketplace are one of our greatest strengths. Our community of experts working to best serve our customers, enable us to share risk. The long-term relationships between customers, brokers and underwriters, built on mutual trust, create the collaborative spirit which enables our market to create innovative solutions and work together in the best interests of our stakeholders.

Insight and leadership to build resilience

Lloyd's has always been an intelligence network and we continue to convene and lead the global (re)insurance industry. Our insight, experience and judgement inform decision making, enable innovation and ensure our stakeholders stay resilient and ahead. Lloyd's latest research and reports provide insights into emerging risk issues and innovations to help our underwriters, brokers and customers understand and better manage risk.

An ecosystem of opportunity

As a marketplace, Lloyd's provides access to economies of scale through consistent standards, single regulatory interface and shared business services. The global risk landscape is changing at pace and our customers operate in a complex and fast-changing world. Lloyd's is building the world's most technologically advanced insurance marketplace, offering our stakeholders the widest range of risk solutions and services to help them face these new risks with confidence. Our competitive environment, central oversight and capital efficiencies improve performance, unlock new opportunities and enable the best possible outcomes for our stakeholders.

Our strategy: how we preserve value

Lloyd's strategy is to maintain and enhance the value we offer to our many stakeholders:

- **Customers**, ensuring we provide them with the products and services they need, and being there when claims arise;
- **Distributors,** offering the capacity to place specialist risks on behalf of their clients;
- **Managing agents,** providing access to attractive insurance risk from around the world;
- **Capital providers,** giving the opportunity to sustainably invest in different types of insurance risk; and
- **People,** creating a culture in which every employee can fulfil their full potential.

We are creating a market which attracts new risks, new customers and new forms of capital, and which will provide a superior experience while operating at materially lower costs. When we achieve this, the market will be bigger and more relevant, through:

- Offering even better solutions for our customers' risks;
- Simplifying the process of accessing products and services at Lloyd's;
- Reducing the cost of doing business at Lloyd's; and
- Continuing to build an inclusive and innovative culture that attracts the most talented people to Lloyd's.

By delivering against our four strategic pillars and effectively managing our Tier 1 risks, we will realise these aims, enhance the value we offer our stakeholders and ensure that this is sustained over the long term. Our strategic pillars are:

- **Performance:** continuing our work to deliver first-class underwriting;
- **Digitalisation:** our Future at Lloyd's strategy to build the world's most advanced insurance marketplace and deliver the widest range of products and services to our customers;
- **Culture:** building a diverse, inclusive and high-performing culture in the Society and the market in which everyone feels safe, valued and respected, and that reflects the global markets we work in; and
- **Purpose:** strengthening the market's performance, capital and financial credibility, putting sustainability at the heart of our operations and embedding trust and the reputation of Lloyd's around the world through thought and action leadership.

Further details on our delivery against these pillars in 2020, and our priorities for 2021, can be found on pages 15 to 17.

Our Purpose continued

Non-financial information statement

The Society aims to comply with the requirements contained in sections 414CA and 414CB of the Companies Act 2006 and related guidance on the Strategic Report issued by The Financial Reporting Council Limited.

Reporting requirement	Page reference to our approach
Key risks	26-27
Environmental and social matters	18-21
Anti-corruption and anti-bribery matters	19
Human rights	19
Employees	20
Non-financial KPIs	22-23

External Environment

A year like no other
2020 brought more changes than many could have imagined: from the global public health crisis and its heavy toll on communities, businesses and mental health, to the increasing imperative to address climate change and a defining moment in social justice. For the insurance industry, supporting our colleagues, clients and communities to rebuild our economies and businesses and get back to growth was a key area of focus. The challenges of 2020 prove that helping to create a fairer, more resilient society is more important than ever.

The world economy
COVID-19 has resulted in the sharpest and deepest contraction in economic activity since the Great Depression of the 1930s. National lockdowns, travel and sanitary restrictions have led to entire sectors of the economy being forced to close. Global GDP is estimated to have declined by around 3.5% in 2020, a significantly larger contraction than the global financial crisis in 2009. It is notable that, with the exception of China, emerging economies have been impacted harder than developed economies – underscoring the impact of the pandemic on the poorest.

Although global growth is showing signs of recovery, it is very dependent on minimising potential future pandemic outbreaks. The IMF predicts global growth of 5.5% in 2021. Any forecast is bound to be uncertain: delays in vaccine roll-outs, new viral strains and renewed lockdowns are significant risks. However, faster than expected vaccination programmes and/or improved treatments would allow economies to recover much more quickly.

Fiscal and monetary policies around the world have been deployed to cushion the effects of the pandemic and will continue to adjust to reflect its impact on economies. Global fiscal stimulus resulted in government debt increasing by $12tn in 2020 to over 100% of GDP, the highest since World War II.

Geopolitical trends
Geopolitics will remain a key feature impacting the overall business environment and growth. Under the Biden presidency, the United States is likely to be more interventionist, including in health and climate change. Upcoming elections in 2021 and 2022, particularly in Germany and France, could have far-reaching consequences for the future of Europe post-Brexit.

Diversity and equality
The pandemic has notably caused most economic hardship to the poorest in society and has had a particular impact on the wellbeing and mental health of people. There is increasing concern that people from Black, Asian and Minority Ethnic backgrounds are being disproportionately impacted by COVID-19. Alongside this, the killings of George Floyd, Breonna Taylor, Ahmaud Arbery and others gave rise to social unrest across the United States and led to communities around the world rallying for social and racial justice. This resulted in government, industry and public figures taking fresh steps to respond to these concerns and create an environment free from injustice.

The global insurance industry has been actively pursuing policies to promote diversity and inclusion, but more work is still needed.

Climate
The challenges of climate change were brought into sharp focus in 2020. The average temperature was 1.02 degrees Celsius above the 1951-1980 baseline, the joint warmest on record.

COVID-19 has resulted in the postponement of the 26th session of the Conference of the Parties (COP26) to the United Nations Framework Convention on Climate Change until November 2021, when leaders from around the world will be reporting back on progress since the 2015 Paris Agreement – with an aspiration that new decisions will be taken on how to deliver lower carbon emissions.

The global insurance industry recognises its key role in the climate challenge and facilitating the carbon transition through the phasing out of fossil fuels, more rapid adoption of renewables and moving to clean transport – as well as through its investment in green energy and clean industries.

Accelerating digital transformation
Digitalisation, the use of data, and data-driven insights have played a key role in driving the modernisation of the industry and reducing administration costs. COVID-19 presented significant challenges to insurer operations, prompting an overnight shift to remote working and virtual customer engagement. The sudden imperative was to accelerate digitalisation and enhance virtual operations, delivering transformation in one year that originally might have taken three to five years. These changes, which required digital connectivity and ease of remote access, have generated new exposures for the industry and our policyholders, particularly in terms of cyber risk and business interruption.

Changing customer needs
COVID-19 has shifted customers' perceptions and demand for insurance. Research carried out by Lloyd's in 2020 showed that some customer attitudes towards insurance had deteriorated, with the perception that some business interruption policies have not performed as expected during the pandemic. This has been highlighted by legal challenges seen in a number of countries.

Customers expressed short-term priorities around ensuring clarity of insurance cover and business resilience to future waves of the pandemic and safeguarding their employees and customers. In the long term, customers want more flexible insurance, greater protection for their global supply chains and rising cyber risk exposures, and advice on how to mitigate and protect against future systemic risks. Some larger companies said they were increasingly self-insuring through captives.

In 2021, it will be important for insurers to rebuild customers' trust in insurance through simplification of products. Customers will also be looking for assurances that the new risks they face are considered by insurers.

External Environment continued

The insurance industry response to COVID-19

Following COVID-19 the global insurance industry has been undergoing a process of adjustment and modernisation, driven by the overriding need for sustainable and profitable growth.

Pricing in the London market continues to harden in response to changes in risk exposures and increased casualty losses. Despite this, there are a number of important challenges including the uncertainty over the ultimate costs of COVID-19 related claims, the pandemic's recessionary impact on the sector, and low investment yields.

We estimate that the global insurance industry will pay around US$203bn in claims and due to a reduction in asset values as a result of COVID-19. Although this is a significant figure, providing cover for systemic risks such as pandemics, global cyber-attacks or destructive solar storm ultimately requires financial resources far in excess of the global non-life (re)insurance industry's US$2tn asset pool. Insurers will therefore need to find solutions in partnership with governments to ensure that customers and society are better protected against future systemic shocks.

Our Strategy

We started 2020 with three strategic pillars: to continue our progress on returning to sustainable, profitable, market-leading underwriting performance; to implement our Future at Lloyd's digitalisation strategy for the long-term success of the market; and to build a diverse and inclusive culture.

These overarching priorities of performance, digitalisation, culture, together with a new 'purpose' pillar, remain paramount and drive everything we do across Lloyd's.

Performance

Progress during 2020

2020 was a difficult year, but the market made good progress and improved underlying performance, notably in reducing attritional losses.

While 2021 planning presented unique challenges for all those involved, we managed to make this year's process more effective than the last. Our improved underlying performance demonstrates the progress we've made in getting back to delivering sustainable profitability over the long term.

These foundations have given Lloyd's a great platform for 2021 and we must continue to manage the market's performance on a sustainable basis. Refer to the 2020 Highlights section of the Market Results for further detail on performance.

Priorities for 2021

Soon to be overseen by Patrick Tiernan, our incoming Chief of Markets, market performance remains a key priority in 2021, with continued focus on sound business planning, underwriting discipline and strong portfolio management to enable a return to a sustainable profitable market. At the end of a year where COVID-19 presented us with new and unique challenges, it will come as no surprise that much of our planned oversight during 2021 is in response to the current uncertain environment.

During 2021 we will adopt a more dynamic approach to our core oversight activities across a number of areas including underwriting, outward reinsurance, capital, reserving, investments and conduct. Our oversight will need to be flexible to respond to the emerging COVID-19 environment, and data received through regular performance returns will identify trends and areas for increased or additional oversight.

Our differentiated approach to oversight will continue to play a key role in providing the best performing syndicates the space to grow, while at the same time reducing unsustainable business across the poorest performing classes and syndicates. We expect syndicates to meet their calendar year plans, and their ability to do so will form part of the overall assessment of syndicate performance.

It is also important that we don't lose sight of the areas of non-financial risk. Our oversight work in 2021 will focus on a number of key non-financial areas including financial crime, cyber resilience, conduct, Environmental, Social and Governance (ESG), and culture.

Digitalisation

Progress during 2020

In September 2019, we published our vision for the Future at Lloyd's in Blueprint One. The world is now a very different place and despite great adversity, the market has responded well and has proven its resilience in remarkable ways. The pandemic has demonstrated that we can adapt and do things differently and has increased our ambition for what the market can achieve. With that in mind, we have pushed ahead with the same underlying concepts to digitalise the Lloyd's market and maintained the ambition laid out in Blueprint One, while also refocusing and adapting our approach, informed by extensive research, consultation and feedback.

Despite the challenges that 2020 presented, we delivered a huge number of improvements for the market, including streamlining the claims process to help customers during COVID-19, launching a catastrophe reporting portal to save reporting effort, and launching a new pilot for the automation of lower value transactions for settlement which is providing insight on behaviours, risk appetite and design for the claims digital solution.

We worked closely with the market to deliver the Virtual Room, a digital platform that allows market participants to maintain their connection to the Lloyd's community from wherever they are following the temporary closure of the Underwriting Room in 2020. Extensive research was used to shape the proposition through more than 100 customer interviews with market participants to deeply understand their pain points and challenges with the initial remote working period. The Virtual Room was launched to coincide with the re-opening of the physical Lloyd's underwriting room on 1 September 2020 and was delivered within six weeks.

We also: removed the need for rekeying data by building new application programming interfaces (APIs) that enable data to flow to and from brokers' and carriers' placement systems; worked extensively with the Lloyd's Market Association (LMA) and managing agents on potential new Lead Follow standards; and agreed and finalised Lloyd's stake in the London market's electronic placing platform (PPL).

We developed syndicate in a box from a concept encouraging new, accretive and innovative business in Blueprint One to a full operating model, and have now fully approved three syndicates in a box: Carbon syndicate 4747 and Munich Re innovation syndicate 1840, which both launched in 2020, and Ascot Parsyl syndicate 1796 launching in 2021. Syndicates Jet 2019 and Victor 2288 started underwriting in 2020. Ki, a fully digital algorithmically-driven 'follow only' syndicate developed by Brit and Google Cloud was approved In 2020, and commenced underwriting from January 2021.

We revisited all our plans around our capital work in light of market feedback and the COVID-19 pandemic. It was agreed this work should be paused to allow the programme and the market to focus on the areas where it could provide the most benefit in the immediate future. We have since launched our new digital portal for members, members' agents and investment managers which provides quick and easy access to Funds at Lloyd's data, and have simplified the rules around managing Funds at Lloyd's.

In January 2021, we received regulatory approval for our new multi insurance special purpose vehicle (ISPV), London Bridge Risk PCC Ltd. This will make it easier for investors to access the Lloyd's market and provides a new platform to improve the ease and transparency of managing capital.

Priorities for 2021

In November 2020, we published our second Future at Lloyd's blueprint, setting out the delivery plan for the next phase of our strategy[1].

Blueprint Two is the foundation for our market's digital transformation and it sets out a two-year plan to deliver a set of tangible solutions that will radically shift the market to a digital ecosystem, powered by data and technology – ultimately delivering

1. For more information on Blueprint Two and to read the full blueprint, please visit: futureat.lloyds.com

better value at a lower cost for our customers. This will include complete and accurate data, a modern digital architecture providing data orchestration and a unified experience for the participants of the market, and a set of services that link the lifecycle of transactions from placement through accounting, payment, endorsements, claims, renewals and reporting.

2021 will therefore be a year of execution. We will strive to deliver the services outlined in Blueprint Two for priority lines of business and processes over the course of the year and into 2022.

In 2021, our focus will be on taking an open market risk from a single line of business to the point of bind and through the new Digital Gateway, ready for digital processing. Additionally, we will be testing post-bind digital processing capabilities, digitalising the management of open market claims from first notification to payment, and rolling out the delegated authority solution from support and onboarding through to placement and data capture.

The focus of 2022 will be on enhancing the products built in 2021 and rolling this out across additional classes, markets and geographies. There will be a specific focus on the sequencing of the roll-out which will be flexed based on market research and feedback, as per our 'test and learn' approach.

It is essential that the solutions set out in Blueprint Two work for the whole of the market, so from the outset we will work in close consultation and collaboration with all segments of the market and our chosen service providers who will support the development and running of the technology components.

The Future at Lloyd's will be digital from start to finish, providing a highly intuitive user experience with data at its core. Capturing complete and accurate data at the point insurance transactions are entered into will unlock a myriad of benefits for policyholders, brokers and insurers. The improvements outlined in Blueprint Two are a product of extensive market research, feedback and collaboration. They aim to deliver significant operational efficiencies, making it simpler and more efficient for market participants to trade, with an estimated aggregate reduction of £800m in operating costs for brokers, underwriters and business partners. This total is based on research carried out with a sample of managing agents and brokers, looking at their current processes and costs and working out how much these reduce if they adopt all the Future at Lloyd's solutions. By eliminating non-value add administrative activity, these efficiencies will enable the market to give more focus to value adding activities, such as product development, innovation and risk mitigation to improve customer outcomes.

Culture

Progress during 2020

Transforming Lloyd's culture is a strategic imperative for the future success of our marketplace – one which is powered by the intellect of its people, who together create our shared culture and our shared future. To get there, we need to be brave in our actions to accelerate change and be transparent in how we measure our progress and hold ourselves to account.

In 2019, we launched a comprehensive programme of actions to drive long-term culture change in the Lloyd's market. This included forming the Lloyd's Culture Advisory Group and launching a Speaking Up campaign, as well as setting business conduct standards that we expect everyone who works in Lloyd's market to adhere to.

In 2020, we fulfilled all of our 2019 commitments by setting gender targets and publishing the Lloyd's Culture Dashboard[2], which benchmarks the market's starting point and is intended to transparently track Lloyd's collective progress towards a much more inclusive environment. We also launched a Culture Toolkit[3] providing practical tools, techniques and advice to support the market in its efforts to move towards a more inclusive, diverse and high-performing culture.

To improve the gender balance in leadership roles across the market, the Society has set a short-term target of 35% female representation in leadership positions and 20% in Executive and Board positions across the market by the end of 2023. This sits alongside a medium-term ambition for parity over the next decade. Importantly, in the Society we have achieved parity during 2020, with 47% of our leadership roles being filled by women. In October 2020, we set a diversity policy for Lloyd's Council stating that a minimum of 33% of the Council should be female and/or from a Black, Asian or Minority Ethnic background by the end of 2023.

At Lloyd's we believe in creating a healthy working environment and culture that enables positive wellbeing across the market. The impact of lockdown measures and an extended period working from home, together with concerns about COVID-19, will be impacting all of our people in many different ways. During 2020, we have placed an increased focus on our people's wellbeing and put new policies and practices in place to support them as they adapted to the new environment. This included an additional five days' leave for those working around caring responsibilities, adapting our focus on flexible working, increasing the time available for volunteering, organising webinars focusing on mental health and wellbeing, developing a new information hub and providing financial support for employees to purchase the equipment they need to work at home effectively and safely.

As part of our commitment to improve market data and measure progress, we ran our annual market culture survey for the second time in October. Following a challenging year, the results of the survey demonstrate that the actions being taken by Lloyd's are delivering positive and measurable change, with improvements across all four of our priority areas: gender balance, speaking up, wellbeing and leadership. In particular, the second culture survey highlights notable progress in the experience of women working in the Lloyd's market over the past 18 months, following targeted action to drive change at pace, including the setting of gender targets.

However, the survey has also highlighted areas for ongoing and concentrated focus, including continued focus on wellbeing across the market and improving the experience of Black, Asian and Minority Ethnic talent as a top priority.

Priorities for 2021

Our actions to date have placed culture firmly on the agenda for the Lloyd's market and form the foundation of our ongoing initiatives and commitment to build a more inclusive environment. While we have put in place a series of actions to accelerate change, it is abundantly clear that we have much work to do and we must be impatient in our resolve to get there.

We will continue to accelerate our approach in leading the market on all aspects of inclusion and diversity. Alongside these measures, and against the backdrop of the current and future working environment, we will maintain a strong focus on wellbeing and transparently measure progress against all our priority areas through the Culture Dashboard.

2. Lloyd's Culture Dashboard is available at: lloyds.com/about-lloyds/future-culture-at-lloyds/culture-dashboard
3. The Culture Toolkit can be accessed at: lloyds.com/about-lloyds/future-culture-at-lloyds/toolkit

We are committed to improving the experience of Black, Asian and Minority Ethnic talent in our market, by taking meaningful and measurable action to level the playing field and increasing the representation of Black, Asian and Minority Ethnic colleagues, particularly across leadership roles. To support this, we will focus on improving the collection of ethnicity data and other characteristics to enable the market to fully understand its starting point and set a market target for ethnicity from Q2 2021. This follows our five initial actions to help improve the experience of Black, Asian and Minority Ethnic talent across the market, published in June 2020.

There is a long way to go, but we are determined that we can, and will, create a culture in the Lloyd's market in which everybody can flourish.

Purpose

We are defined by our purpose and now is the time to act. That purpose is sharing risk to create a braver world. It is our reason for existing, a guidepost for our strategy, and an articulation of why what we do matters and the value we bring to customers and to society. So, reflecting on the events of recent years, we intend to highlight this as a fourth strategic pillar and in doing so ensure that our purpose is central to everything we do.

Progress during 2020

For individuals, businesses and communities the impact of COVID-19 has been significant and many are now navigating the process of recovery.

While our primary duty as an industry and as a market is to pay our customers' claims, these are unprecedented times that call for a more concerted market response. To support our customers through this process we asked what they need to help protect them from risks over the short, medium and long term. Based on this feedback, and together with our Global and London Advisory Committees, which include a number of the world's largest insurers, we proposed new solutions and insurance structures in our report *Supporting global recovery and resilience for customers and economies: the insurance response to COVID-19*. We are now developing these solutions in partnership with the global insurance industry, regulators and governments.

In addition, we committed a £15m package of support for charitable organisations responding to the pandemic and set aside a further £15m in seed capital to build resource and capability to better understand, model and create products that better protect customers against future systemic risks, including pandemics. In 2020, the Lloyd's Innovation Lab began working with insurtechs that can provide some of these capabilities, including exploring the application of an epidemic tracker to better evaluate and underwrite pandemic risk and solutions to help close the insurance gap for systemic risks. Alongside this, our Product Innovation Facility is focusing on innovating products to respond to an accelerated shift towards intangible-driven business models in response to COVID-19.

In July, we approved and supported the launch of our first public-private syndicate set up to insure the storage and transportation of a COVID-19 vaccine to emerging economies and well as the launch of Lloyd's Global Health Risk Facility (GHRF), which will make billions of dollars of insurance coverage available, together with risk mitigation services to help protect and support the global distribution of COVID-19 vaccines as well as critical health commodities.

In September, we launched our report *Building simpler insurance products to better protect customers*, addressing the urgency with which the global insurance industry must invest and focus on clarifying and simplifying its products.

We finished 2020 with the publication of our first Environmental, Social and Governance (ESG) strategy. The report details our ambitions to fully integrate sustainability into all our business activities and represents an important milestone on the journey towards building a more sustainable future. Further detail on our ESG strategy is available on page 18.

Priorities for 2021

Our new strategic pillar will encompass three important strands of activity.

The first is our long-term value proposition, with a focus on: delivering sustainable, profitable growth; strengthening the market's performance, capital and financial credibility; enhancing our value proposition to customers and global stakeholders; creating an inclusive and high-performing culture; and building the most advanced insurance marketplace in the world.

The second strand of activity is innovation – something that Lloyd's has always been renowned for, but for which we must continue to nurture, develop and promote. In 2021, we will continue to enhance our innovation capabilities through the launch of Futureset, a global platform and community, working alongside Lloyd's Lab and Product Innovation Facility to create and share risk insight, intelligence and expertise, build understanding and act as a catalyst for industry, government and societal action to develop greater resilience.

This will also encapsulate Lloyd's ESG strategy, which places sustainability at the heart of everything we do, as well as our broader approach to climate change. In 2021 we will explore how we can work with the UK Government to support their ten-point plan for a Green Industrial Revolution and the lead up to the 26th UN Climate Change Conference of the Parties (COP26) in November 2021. COP26 is going to be an important moment in 2021, and Lloyd's plans to be a proactive contributor to the debate.

The third strand is our global brand and reputation. Lloyd's has a leading position and brand in the global insurance market and our fourth pillar will renew our focus on communicating and living our purpose. The action we've taken on responding to COVID-19, changing culture and developing ESG goals over the past two years has embedded the trust and reputation of Lloyd's around the world, and with this enhanced focus we can do more, including strengthening our cooperation with governments, banks and other bodies globally.

Responsible Business

We want to be known as a responsible business leader, operating in a way that makes those who work for us and with us feel proud of what we do and how we do it. We have been working on our Environmental, Social and Governance (ESG) strategy throughout 2020 and outlined our ambition to integrate sustainability into all of Lloyd's business activities in our first ESG report, which was published in December 2020[4].

Our ESG commitments

In our first ESG report, we committed to engaging widely with stakeholders across the Lloyd's market to further develop and operationalise our ESG strategy, policies and processes. We will develop a framework to help insurance businesses in our market integrate ESG principles into their business activities over the next 18 months. Below is a summary of our ambition statements.

Sustainable insurance

To encourage product innovation we have introduced a new allowance of 2% of gross written premiums for new innovative and sustainable products in addition to syndicates' business-as-usual plans. Lloyd's managing agents will be asked to provide no new insurance cover in respect of thermal coal-fired power plants, thermal coal mines, oil sands or new Arctic energy exploration activities from 1 January 2022 and not to renew insurance coverages after 1 January 2030. This also applies to companies with business models that derive at least 30% of their revenues from these activities from 1 January 2030.

Responsible investment

The Society will allocate 5% of the Central Fund to impact investments by 2022. We will phase out new investments in thermal coal-fired power plants, thermal coal mines, oil sands and new Arctic energy exploration activities by the Lloyd's market and the Society by 1 January 2022 and existing investments by the end of 2025. This includes phasing out existing investments in respect of companies with business models that derive at least 30% of their revenues from these activities by the end of 2025.

Responsible operations

We will ensure that the Society is net zero carbon emissions for our operations by 2025 and publish a roadmap to support that ambition. The Society will work with the Lloyd's market in 2021 to support their own implementation of net zero carbon emission plans and will explore the potential to develop a Lloyd's market-wide carbon offset project.

Customers

We will set up a customer working group to explore how we can make our insurance contracts simpler and easier to understand. We will continue to explore how our open source frameworks could be leveraged and applied globally to offer customers greater protection against future systemic risks. We will improve our customer satisfaction monitoring and continue to regularly review how we can improve our customers' experiences through product oversight and governance and through promoting best practice.

People and culture

We will work to achieve our phase one target of 35% female representation in leadership positions across the Lloyd's market by 31 December 2023. We will set a target for Black, Asian and Minority Ethnic representation in leadership positions in the Lloyd's market in Q2 2021. We will continue to reduce the Society's gender pay gap, and work to ensure that Lloyd's market Boards and Executive Committees combined will have at least 20% female representation by 31 December 2023.

Sustainable Development Goals (SDGs)

Our ESG commitments have been developed in line with the United Nations Sustainable Development Goals (SDGs) and in support of the principles set out in the Paris Agreement. While all 17 SDGs are relevant to our business, we are prioritising six that align best to our core business activities, priorities and purpose. These are:

We are committed to gender equality and equal opportunities for employees at all levels, in terms of employment throughout the market and through our investments.

We have invested significantly to support clean and affordable energy, including modelling climate change risk and insuring customers in the renewable energy sector.

We provide insurance that supports inclusive and sustainable economic growth, and we are committed to protecting human rights within our market, supply chains and business partners.

We have a proud history of innovation, with highlights including the first motor policy through to the sharing economy and low carbon technology. We provide critical insurance to support the success of industries around the world, as well as resilient and green infrastructure.

We are experts in helping businesses and communities, and therefore the cities they live and work in, reduce their risks and become more resilient.

Improving society's understanding of climate change and its impacts is one of our key priorities. We are a founding member of ClimateWise.

Community

We will continue to work with all businesses in our market to engage them with our community work and support our network of more than 200 community champions. We will strengthen our relationships with charity partners to help them raise more funds, provide business support and increase their risk management skills.

4. Our full ESG report can be accessed at: lloyds.com/about-lloyds/responsible-business/esg-report

Our COVID-19 response

In 2020, we focused on helping charities respond to the immediate and long-term needs of communities dealing with the impacts of COVID-19 by committing £15m to charitable organisations and funds. This included:

- £5m to the Association of British Insurers' COVID-19 Support Fund, which is providing £100m to the National Emergencies Trust in the UK;
- £3m fund for charities nominated by Society staff globally;
- £2m to support new and existing charity partners in the UK best placed to respond to the pandemic;
- £2m for local organisations supported by the Society's global offices; and
- £1m to Lloyd's Charities Trust's Market Charity Awards that recognise and celebrate the voluntary and fundraising work of individuals from across the Lloyd's market.

We have held the remaining funds in reserve to support future needs relating to the pandemic. So far, our COVID-19 response fund has helped 197 charities and their beneficiaries. We also worked with our existing partners to develop virtual volunteering activities and supported them with unrestricted donations to help them adapt during COVID-19, and donated £282,000 worth of food and masks to support community groups in London during the pandemic.

Community

Community involvement is at the heart of our values at Lloyd's. Over the next five years, our ambition is to create measurable positive outcomes by running one of the leading community engagement programmes in the insurance industry. To achieve this, we use our global network of some 200 countries and territories worldwide to build resilient communities, manage risk and promote innovation and empower individuals to reach their potential.

As part of our community work, we manage three independent charities and a volunteer programme. These charities are the Lloyd's Charities Trust, Lloyd's Patriotic Fund and Lloyd's Tercentenary Research Foundation. We also work with the Lloyd's Benevolent Fund, established in 1829, which provides financial assistance to individuals working in the market who have faced exceptional circumstances. All charities have their own trustees made up from professionals across the Lloyd's market, external experts or from academia.

In 2020, through the Society, Lloyd's charities and our COVID-19 response fund, we donated £13.9m, supporting 313 organisations globally. In addition, 700 volunteers from the market and Society gave their time and support more than 1,800 people in our local communities in London through our formal programmes.

Lloyd's Charities Trust continued its partnership with Habitat for Humanity Great Britain with the aim of helping those most vulnerable in society become more resilient to disasters, particularly in Malawi. Lloyd's Patriotic Fund launched its new partnership with Combat Stress and RFEA (the Forces' Employment Charity) in March 2020 and over the next three years will help military families adjust to civilian life. We also extended some of the training and development available to insurance businesses in our market to our charity partners meaning seven organisations received free support on how to put in place inclusive hiring practices.

Our approach to building sustainable communities: Edutainment in Africa

Those most affected by climate change are often the most vulnerable. As part of our work to build more resilient communities, Lloyd's Africa partnered with global humanitarian and development organisation Mercy Corps to raise awareness of the benefits of insurance for smallholder farmers in East Africa.

Taking an edutainment approach (education delivered in an engaging way), key messages about the value of insuring crops and livestock were delivered through the farm makeover TV show *Shamba Shape Up*. The show is popular with smallholder farmers and their families, with each episode reaching 2.5m households in Kenya alone, with 60% of the viewers female. The show also aired in Tanzania, increasing the initiative's outreach.

People and culture

Human rights and modern slavery

We fully support the principles set out in the United Nations Universal Declaration of Human Rights and the International Labour Organization core labour standards. We respect the dignity and rights of each individual who works for us and with us.

As a global business, we recognise that respect for human rights is fundamental. We are committed to ensuring that there is no modern slavery or human trafficking taking place in our supply chains or in any part of our business. We continue to implement appropriate policies to support our commitment to act ethically and with integrity in all our business relationships.

We continued our approach in 2020 to include a supplier performance and risk management framework and spot-check audits on some of our critical suppliers to ascertain their compliance with the modern slavery legislation.

Financial crime

The Society is committed to ensuring the market it oversees, any associated parties and the Society itself has robust systems, policies and controls in place to minimise the risk of any acts of financial crime. The Society's Financial Crime policy ensures that the Society, including all jurisdictions in which it operates, is aware of the '6 Pillars' of financial crime risk, namely money laundering/terrorist financing, sanctions, bribery and corruption, tax evasion facilitation, fraud and market abuse/insider dealing. Through its oversight of the market, the Society lays down financial crime-related minimum standards, which it expects the market to implement accordingly. The Society also supports the market in its compliance with financial crime prevention requirements and tests the effectiveness of both the Society and the market's management of financial crime risks.

Whistleblowing

The Society has undertaken extensive work to strengthen its whistleblowing arrangements. Multiple channels are available for all employees to raise any concerns, and investigations are handled by specially designated individuals in the Financial Crime and Compliance team. The Annual Whistleblowing report was prepared and delivered to the Audit Committee in November 2020, and preparations are under way for the first attestation further to the Voluntary Notice of Requirement published by the PRA in December 2019.

Employee policies

The Society has a number of policies, standards and practices to ensure we treat all colleagues with fairness, respect and consistency, and provide them with the necessary support to be the best they can be at work. We have a code of conduct, human rights policy and speaking up policy, which are available to employees.

The Society is proud of its market-leading family care policies that are designed to provide employees with the support they need to enjoy happy and healthy working and home lives, whatever that looks like for them. In response to COVID-19 we have placed an increased focus on our people's wellbeing and put new policies and practices in place, including an additional five days' leave for those working around caring responsibilities and providing financial support for employees to purchase the equipment they need to work at home effectively and safely.

Our Diversity and Inclusion policy is designed to ensure that all employees understand the importance of equality and diversity. A Reasonable Adjustment policy sets out the general principles and procedures for all employees to follow and discuss reasonable adjustments, so that employees with disabilities are not disadvantaged compared with people who are not disabled.

Living Wage employer

As part of our commitment to being a responsible business, the Society is part of the Living Wage campaign. Our commitment to the initiative means that all Society employees, including those working for our sub-contractors, are guaranteed a fair wage that accurately reflects the cost of living.

Diversity and inclusion

To embrace diversity in gender, gender identity, race, ethnicity, sexual orientation, age, ability or disability, background and religion, the Society and the market work in partnership through the Inclusion@Lloyd's steering group and other diversity and inclusion networks. In 2020, we launched our Ethnicity in the Workplace guide, highlighting the experience of Black, Asian and Minority Ethnic colleagues using personal stories and data collected more than 900 employees market-wide. 2020 was our sixth year of sponsoring the Dive In Festival for diversity and inclusion in insurance. Spread across three days, events took place in 35 countries and attracted more than 30,000 participants. This year, the festival concentrated on the importance of the collaborative action of local voices to create a global impact on inclusion. The theme of authenticity and perspective encourages participants to think about the aspects of diversity and inclusion that enable us to bring our whole selves and our unique experiences to bear on our shared challenges.

Gender pay gap

The Society reported a gender pay gap of 20.3% (mean) in its 2020 Gender Pay Gap Report, a decrease from 23.6% in 2019. This gap represents the difference between the average pay for a man in the Society, compared with the average pay for a woman. The gender pay gap is different to equal pay, which is men and women being paid the same for the same work or work of equal value, and which we review on an annual basis as part of our compensation review process. The Society does not believe it has an equal pay issue.

Like many financial services firms, we employ broadly equal numbers of men and women at entry levels, but this representation does not extend to senior levels. Addressing the gender pay gap requires commitment at both the senior levels and investment in our future generation of leaders. To help redress the balance, in addition to expanding our family care policies, our Lloyd's Advance development programme for women aims to develop future women leaders through targeted development, mentoring, sponsorship and networking. In 2020, we saw two cohorts of women successfully complete the Advance programme, with additional cohorts announced for 2021. Our commitment is to an enhanced gender balanced plan to meaningfully close the gender pay gap.

Ethnicity pay gap

As part of our commitment to improving the experience for Black, Asian and Minority Ethnic colleagues, this year we have voluntarily reported our overall ethnicity pay gap for 2020. The Society reported an ethnicity pay gap of 12.1% mean and 5.1% median. In addition, the Society has also opted to further report our pay gaps for Black (24.9% mean; 17.9% median), Asian (8.0% mean; 4.0% median) and Mixed/Multiple Ethnic background (4.7% mean; -0.7% median) colleagues.

In June 2020, the Society apologised for the role played by Lloyd's in the 18th and 19th century slave trade. In acknowledging our own history, we committed to focusing on the following actions to improve the experience of Black, Asian and Minority Ethnic colleagues:

1. Invest in programmes to attract, retain and develop Black, Asian and Minority Ethnic talent in the Lloyd's market, including launching our 'Accelerate' Programme – a modular programme to develop Ethnic Minority Future Leaders across the market.
2. Review our employee and partner policies, as well as our organisational artefacts, to ensure that they are explicitly non-racist.
3. Commit to education and research. We will educate our colleagues and continue our research into the experiences of Black, Asian and Minority Ethnic professionals working in insurance, and share what we learn with the market.
4. Provide financial support to charities and organisations promoting opportunity and inclusion for Black, Asian and Minority Ethnic groups.
5. Develop a long-term action plan in collaboration with our Culture Advisory Group, Black, Asian and Minority Ethnic colleagues and white allies who will inform our journey and hold us to account.

2020 Society employee segmentation figures

UK	**1,040**
Non-UK	**265**

	Executive Team	Head of Function	Manager	Professional/Technician	Administrative	Total
Female	3	21	171	232	243	670
Male	4	38	258	231	103	634
Non-binary	0	0	1	0	0	1
Total	**7**	**59**	**430**	**463**	**346**	**1,305**

Responsible operations

Procurement

The Society's mission is to deliver an effective and sustainable approach to all third-party sourcing and supplier management, while achieving maximum value, minimising risk and driving efficiencies to invest in the future.

We are committed to the highest professional standards and ethics, and we expect the same high standards from the suppliers and any third-party sub-contractors that we work with. Our aim is to work collaboratively with our supply chain partners towards a responsible business approach. As part of our tender vetting process, suppliers are asked questions to assess their position on all responsible business activities outlined in our ESG commitment. Suppliers are also asked to sign up to Lloyd's Supplier Code of Conduct.

Environment

In 2020, we set a target for the Society to be net zero carbon emissions by 2025 and we will work with the Lloyd's market to support their own pathways to achieving net zero. We have identified a carbon management plan to decarbonise Lloyd's operations to meet our net zero ambitions. We are exploring developing a Lloyd's market-wide carbon offset project as part of our 2025 net zero ambitions.

We have continued the focus on reducing our energy consumption and associated carbon emissions from our London headquarters, given the majority of our emissions are from the UK. We have:

- Reduced our office space through our refurbishment;
- Fully installing LED lights and recycling 98% of the office waste removed through the refurbishment;
- Upgraded the boiler and chiller controls;
- Completed a sustainability assessment of all new office space acquired;
- Implemented the environmental management system ISO 14001; and
- Engaged our staff in a biodiversity campaign as part of World Environment Day.

In 2020, we continued to reduce our emissions on a total global basis from 8,363 tonnes of carbon dioxide equivalent (tCO_2e) in 2019 to 6,104 tCO_2e in 2020 – a reduction of 27%. We have reduced our total global emissions per full time employee (FTE) by 24% from 7.3 tCO_2e/FTE in 2019 to 5.6 tCO_2e /FTE in 2020. COVID-19 has impacted our carbon emissions due to significantly reduced flights, business travel and staff commute (falling by an average of 80% across all three categories), reduced use of Lloyd's office space (reducing our electricity usage at One Lime Street by 24%) and a reduction in demand for electricity through our data centres (emissions reducing by 14%). Estimations of the carbon emissions of employees working from home as a result of COVID-19 have not been included. During 2021 and beyond, we will review this if the trend of increased homeworking continues. We will also minimise the impact of our air travel emissions by offsetting them to fund community projects that remove greenhouse gas emissions.

Lloyd's energy and carbon disclosures for reporting year 1 January – 31 December 2020

		Total scope 1	Total scope 2 (location based)	Total scope 2 (market based)	Total scope 1 + 2 (location based)	Total scope 3	Grand total scope 1, 2, 3 (location based)	Grand total scope 1, 2, 3 (market based)	Carbon intensity location based (tCO_2e/ FTE)	Total energy usage (kWh)
2020 (tCO_2e)	**UK emissions**	**1,300**	**3,493**	**–**	**4,792**	**841**	**5,633**	**2,141**	**6.6**	**22,847,153**
	Global emissions (ex. UK)	**11**	**409**	**432**	**420**	**50**	**470**	**493**	**1.9**	**932,695**
2019 (tCO_2e)	UK emissions	1,312	4,578	–	5,890	1,739	7,629	3,051	8.4	26,248,211
	Global emissions (ex. UK)	–	642	670	642	92	734	762	3.0	1,511,863

We are aware of the reporting obligations under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. We have also for the second year measured and published our upgraded energy and carbon reporting to comply with the Streamlined Energy and Carbon Reporting guidance March 2019. We report on all material global emissions in scope 1 and 2, plus selected scope 3 emissions, using an operational control approach. The methodology used to compile our Greenhouse Gas (GHG) emissions inventory is in accordance with the requirements of the following standards: the WRI GHG Protocol Corporate Standard (revised version) and Defra's Environmental Reporting Guidelines: including Streamlined Energy and Carbon Reporting requirements (March 2019). 2020 performance refers to reported location-based totals, which are the summation of the UK emissions and Global emissions (ex UK) displayed. Scope 1 emissions includes natural gas, company cars, other fuels, refrigerants; Scope 2 includes electricity; Scope 3 includes employee cars, flights, public transport, commute, paper, waste, water, data centres, and transmission and distribution. Energy reporting includes kWh from scope 1, scope 2 and scope 3 employee cars only. This work is partially based on the country-specific CO_2 emission factors developed by the International Energy Agency, © OECD/IEA 2020 but the resulting work has been prepared by Lloyd's and does not necessarily reflect the views of the International Energy Agency. A more detailed statement on Lloyd's GHG emissions is available at: lloyds.com/ghgemissions

Key Performance Indicators

The Council uses a number of metrics, financial and non-financial, to measure the performance of the Lloyd's market as indicators of sustainability and progress against our strategy. Some of these measures are used on a recurring basis while some are specific to activities undertaken in that year. This year we have introduced a new Key Performance Indicator (KPI) to support our purpose strategic pillar.

Performance

Achievement in 2020

The Lloyd's market reported a pre-tax loss of £887m in 2020 (2019: a profit of £2,532m) and a combined ratio of 110.3% (2019: 102.1%). We made good progress and improved underlying performance in both our combined ratio and expense ratio. Despite the significant insured losses booked due to the COVID-19 pandemic, our capital position has strengthened since 31 December 2019. During the second quarter of 2020 Lloyd's members injected additional capital to ensure the estimated losses arising from the COVID-19 pandemic were adequately covered.

Result before tax Includes an aggregation of syndicate results, the result of the Society and notional investment return on members' funds at Lloyd's.	**2020: (£0.9bn)** 2019: £2.5bn 2018: (£1.0bn)	
Combined ratio[1] Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	**2020: 110.3%** 2019: 102.1% 2018: 104.5%	
Expense ratio[1] The ratio of net operating expenses to earned premiums net of reinsurance. Reducing the cost of doing business at Lloyd's is one of our strategic aims.	**2020: 37.2%** 2019: 38.7% 2018: 39.2%	
Return on capital[1] The ratio is used to measure the overall profitability and value creating potential of the Lloyd's market.	**2020: (2.8%)** 2019: 8.8% 2018: (3.7%)	
Solvency coverage ratio (MWSCR and CSCR)[1, 2] Under the Solvency II regime Lloyd's monitors the amount of eligible assets available to cover its market-wide SCR (MWSCR) and central SCR (CSCR). These amounts are expressed as a percentage of the requirements.	**MWSCR** **2020: 147%** 2019: 156% 2018: 149%	**CSCR** **2020: 209%** 2019: 238% 2018: 249%

1. The combined ratio, the expense ratio, the return on capital and Solvency coverage ratio are metrics that are consistently used to analyse financial performance in the Lloyd's market results. These metrics are Alternative Performance Measures (APMs), with further information available on page 78.
2. Please see note 4 of the market results on pages 56 to 60 for further details regarding Lloyd's solvency position.

Digitalisation

Achievement in 2020

Based on feedback from the market and in light of the economic and operational challenges posed by COVID-19, we sharpened our focus for Future at Lloyd's during 2020, significantly scaling back our activities to focus on key market delivery priorities. We prioritised three areas that would deliver the most impact and value to market participants. this included: improving electronic placement, enhancing Delegated Authority services and claims process improvements. We also made progress building out the data and technology requirements needed to support these focus areas. In November 2020, we published Blueprint Two, setting out the delivery plan for the next phase of our strategy

Future at Lloyd's Execution and market adoption of Future at Lloyd's deliverables.	**2021: Delivery of year one Blueprint Two solutions** – First release of the data and placement standards – Launch of next generation placement platform – Release of initial placement support services – Roll-out of delegated authority solutions – First release of the Digital Spine and the Digital Gateway – First release of the Data Store and supporting governance – Test new claims solution for open market claims and deliver delegated authority claims process improvements

Culture

Achievement in 2020

In 2019, we launched a comprehensive programme of actions to drive long-term culture change in the Lloyd's market. These included forming the Lloyd's Culture Advisory Group and launching a Speaking Up campaign, as well as setting business conduct standards that we expect everyone who works in Lloyd's market to adhere to. During 2020, we fulfilled all of our 2019 commitments and achieved gender parity for leadership positions in the Society.

Deliver on our plan to improve the culture of the Lloyd's market

Build on the existing inclusion activity and oversight responsibilities, introduce a robust action plan addressing the key themes from the Lloyd's culture survey and measure and monitor progress through clear and robust metrics.

2021: Build on culture improvements in the Society and across the market

– Develop high-performance leadership in the Society
– Progress against market gender targets
– Implement ethnicity target for the market
– Increase market adoption of Lloyd's Culture Toolkit

Purpose

Achievement in 2020

In 2020, we established a reputation and satisfaction pulse study as a regular check of Lloyd's brand health and stakeholder experience. This reported a net promoter score of +8 and a satisfaction score of +6.5 out of 10. Having benchmarked our performance against stakeholders' expectations in 2020, we will continue to monitor these measures in 2021. In 2020, we set a target for the Society to be net zero carbon emissions by 2025 and we will work with the Lloyd's market to support their own pathways to achieving net zero. In 2020, we continued to reduce our emissions on a total global basis.

Deliver our purpose through all our business activities

Enhanced focus on sustainability, innovation, and our global brand and reputation to ensure Lloyd's continually delivers on our purpose, sharing risk to create a braver world.

2021: Establish Purpose as our fourth strategic pillar

– Promote the global insurance industry's role in supporting customers' decarbonisation pathway, in the lead up to COP26
– Delivery of the 2021 commitments as outlined in our ESG strategy
– Continue to enhance our innovation capabilities, through the launch of Futureset
– Enhance Lloyd's global brand and reputation through our collaboration with governments, banks and communities around the world
– Improvement against net promoter score and satisfaction benchmarks

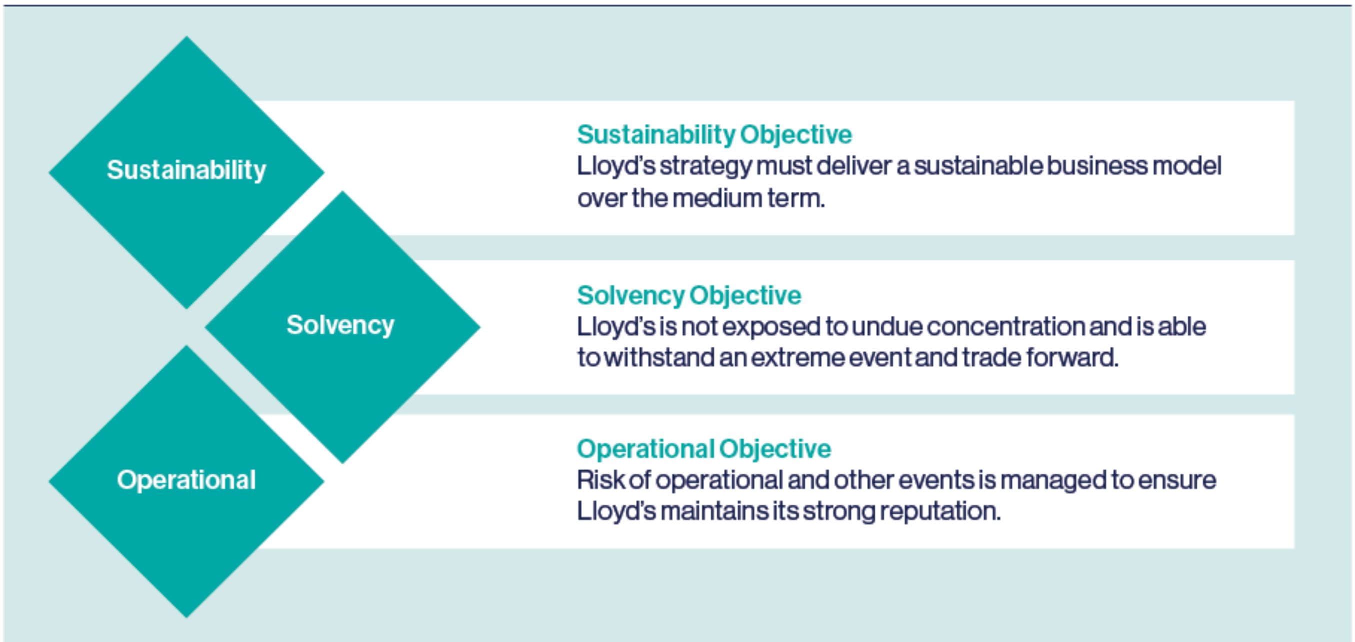
Risk Management

Our risk framework
The Lloyd's Risk Management Framework ensures that the identification, assessment, monitoring and management of all material risks affecting the Society takes place on an ongoing basis.

Risk appetite
The Council manages exposure to these risks by setting and monitoring a risk appetite framework – how much risk is acceptable and what actions should be taken when appetites are exceeded.

The framework starts with Lloyd's purpose: Sharing risk to create a braver world. To deliver on this purpose, the Society sets three risk objectives to be continuously met: a sustainability objective, a solvency objective and an operational objective. These risk objectives reflect the Council's view of the acceptable risk faced by Lloyd's and provides the three pillars of the risk appetite framework.

Within each pillar, there are a number of risk categories with metrics that define the amount of risk that the Council is willing to take. These metrics represent the key elements that could result in the risk objectives not being achieved for the pillar. The metrics are monitored on an ongoing basis and reported to the Council each quarter alongside any get to green actions if a threshold has been breached.



Risk and control self-assessments
Alongside the risk appetite framework, Lloyd's adopts a consistent approach in managing its risks through a process known as the risk and control self-assessment process, which is conducted on a bi-annual basis. This process reassesses 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. The process also enables Lloyd's to undertake a more forward-looking assessment of risk.

Own Risk and Solvency Assessment (ORSA)
The ORSA process is a key element of the risk management framework of Lloyd's and is performed at least annually. 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 risks (including risk appetites, the risk and control assessment process, business plan and capital approval).

Framework enhancements
Lloyd's continued to strengthen its risk framework during 2020. Recent investment in resource and technical expertise is enabling our second line oversight functions to be more proactive, performing deep dives into areas of heightened risk and forming an independent view.

We have made enhancements to several of our risk processes and tools, including:

- Risk and control assessment process: an improved process designed to drive accountability and reduce incidents;
- Technology: the implementation of a new Governance, Risk and Compliance system;
- Financial crime: an enhancement to Lloyd's assessment of its exposure to financial crime;
- Reserving: end to end validation of the Reserving team's projection of reserves and technical provisions by the second line Risk function; and
- Further embedding the Risk function's role in business plan and capital setting: providing independent analysis to test the effectiveness of the process and ensure delivery of outcomes aligned with risk appetite.

These improvements are expected to continue into 2021. Progress is already being made on the following areas:

- Market oversight: a continued shift to a more risk-based and differentiated approach to supervision of the market. An Oversight Design Authority (ODA), chaired by the Head of Risk Management, has been constituted to oversee the redesign of the market oversight operating model and monitor its effectiveness;
- Market oversight: development of a simpler and principles-based approach to minimum standards;
- Operational resilience: the implementation and maintenance of the operational resilience framework;
- Cyber resilience: roll out of the Cyber Improvement Programme within the Society and enhancement to the Lloyd's Minimum Standards to further strengthen cyber resilience across the market;
- Liquidity: improvements to the liquidity management framework to ensure Lloyd's meets enhanced regulatory requirements;
- Risk culture: ensuring that an overarching culture of risk awareness and accountability continues to be embedded across the business globally; and
- Climate risk: ensuring that the financial risks from climate change are understood and being monitored within the risk framework.

These enhancements leave the Society well prepared to manage the risks from COVID-19 or any other risk events in the near future.

Key risk areas

The impact of COVID-19 has been unprecedented. As a risk event, it has caused global economic uncertainty and social restrictions that continue into 2021. While recent progress in the development and roll out of vaccines provides hope for transition and recovery, the ongoing risks are not being underestimated and 2021 may be even more challenging as the economic and social impacts continue.

Although it has dominated the headlines, COVID-19 is not the only risk to Lloyd's. There has been significant focus during 2020 on ensuring that progress is made on Lloyd's strategic priorities (Performance, Digitalisation, Culture and Purpose), noting that each present both an opportunity and a risk to our objectives.

Risk	Mitigation
COVID-19 The Society and the market responded well to the immediate impacts of COVID-19. During the 'first wave' of the pandemic in April 2020, an out-of-cycle (or 'ad-hoc') own risk and solvency assessment (ORSA) was carried out to ensure that risks from COVID-19 were adequately considered and decisions were taken to manage the impact. This included the development of a COVID-19 risk dashboard for ongoing monitoring of key risk impacts such as on underwriting profitability, investments and capital, as well as operational impacts including increased cyber and conduct risks. While noting that COVID-19 has been the first truly global loss event experienced by the market, with impacts across the risk profile and both sides of the balance sheet, there was a positive response to immediate impacts of the crisis – core activities continue to operate effectively as business continuity plans were successfully implemented across both the Society and the market. Thanks to steps taken at the beginning of the crisis, which included a controlled de-risking of the Central Fund portfolio and establishment of an accelerated coming into line process for the market, Lloyd's has also remained well capitalised.	While the pandemic's impact on all areas of the risk profile continues to be monitored through the risk appetite framework and Lloyd's remains within all risk appetites, there is considerable uncertainty over what the eventual outcomes from COVID-19 may be. A number of steps have been taken, and continue to be taken, to actively monitor and manage the key areas of uncertainty, including: – Careful scrutiny of syndicate capital plans to ensure appropriate allowance for the risk environment; – Engaging with syndicates whose reserves are most likely to be impacted by direct and indirect impacts of COVID-19 and with the highest exposure to key lines of business; – Discussions with the market to drive consistency and clarity in how they are allowing for potential recessionary impacts; – Additional data collection from the market to allow 2021 business plans to be reassessed in light of full year 2020 results, alongside further top-down scenario testing to stress the 2021 business plan; – Assessing a range of COVID-19 stress scenarios in order to test the financial resilience of the market; and – Further consideration of the arrangements to transition back to a new normal working environment through 2021, including people, infrastructure and technology aspects.
Performance Market performance will remain a key risk area in 2021. The benefits of the remediation action taken over recent years has begun to more substantially materialise; improvements in underlying performance in Lloyd's interim results led to successful removal of negative watch from Fitch. The rating momentum has continued over 2020 and is expected to continue into 2021. While rate improvements are welcome, ensuring rate adequacy is critical to market performance. Not least because of the impact COVID-19 and the ensuring economic uncertainty will have on performance for the current and prior years of account.	Following completion of the pilot in 2021, our Best Practice Pricing Framework will be rolled-out to the market to address the gap in price adequacy and promote best practice in pricing and portfolio management. The Risk function continues to critically challenge oversight, including business plan and capital approval, to ensure decisions are in line with the Council's risk appetite. This includes more proactively monitoring the extent to which the market is delivering to plan and ensuring that the business is taking appropriate action to drive remediation where required. Looking forward, the Society is rethinking its market oversight operating model, ensuring alignment with its future ambitions and benefiting its members and the market as a whole by making it easier and more cost-effective to operate in the market. A review of the existing oversight model was undertaken in 2020, with phase one recommendations already implemented.

Risk	Mitigation
Digitalisation The publication of Blueprint Two in November 2020 follows on the foundations set by Blueprint One and provides a more tangible, detailed and targeted view of the programme's priorities over the next two years. The scope and detail of our second Blueprint allowed for a significantly more focused assessment of the risks and challenges. While implementing the Future at Lloyd's will mitigate strategic threats and improve the overall risk profile, the execution risk of delivering the programme remains inherently a key area of focus.	Risk management has worked closely with a number of senior stakeholders to identify key execution, transition and end-state risks which could potentially impact the programme. Risks are regularly reviewed at all levels of governance, with an appropriate degree of independent challenge from the Risk Management function. Delivering Blueprint Two represents a complex challenge, with many streams of work and cross-functional dependencies; high-quality risk management will therefore be an essential prerequisite to a successful delivery.
Culture Creating an inclusive culture is a strategic imperative for the Lloyd's market. Failing to do so will stifle the innovation we need and prevent Lloyd's from attracting the most talented people in the world. Alongside progress towards a more inclusive environment, it is critical that an overarching culture of risk awareness and accountability continues to be embedded across the business globally. This will lead to increased clarity of ownership and accountability for monitoring, managing and reporting risks. The Society made significant progress during 2020, with the launch of the Lloyd's Culture Dashboard, the publication of the Culture Toolkit and setting gender targets for senior leadership roles for the first time. This is all being done with guidance and leadership from the independent Culture Advisory Group, set up in 2020 and chaired by a Non-Executive Director, to ensure Lloyd's is taking the right actions to effect sustainable and measurable progress	From the outset, a risk assessment, facilitated by the Risk function and presented to the Risk Committee in February 2020, identified three areas of risk: execution, behaviour and data. Across each of these risk areas, a number of current and additional controls were identified (for example, this included activity such as developing the annual market-wide culture survey and the introduction of the Culture Advisory Group). Where refinement or additional development of controls was required, this was incorporated into project delivery. The risk assessment reflected the fact that many controls and activities are driving culture change which will take some time and requires continuous, long-term focus. The results of our most recent culture survey showed a number of key improvements, with women in particular having a better experience than in the previous year's survey. There is still a long way to go; 2020 brought recognition to the inequality that Black, Asian and Minority Ethnic groups have experienced over many years. Our culture survey results have highlighted the urgency with which change is required for to improve opportunities and experiences Black, Asian and Minority Ethnic colleagues at Lloyd's, and we are in the process of setting ethnicity targets to accelerate that change.
Purpose A fourth priority area on Purpose has been established for 2021 and Lloyd's will ensure that the risks to making progress in this area are a focus within the risk framework. As the Council sets out its ambitions for the future, whether it be around climate change or diversity targets, risks to the delivery of those ambitions will be monitored and managed.	Lloyd's published its first ESG Report in December 2020, containing a number of ambition statements for how the Society and the market will contribute to a sustainable future. Lloyd's is working closely with the market to develop further guidance to support the commitments in the report. These initiatives are expected to protect and improve the strength of the Lloyd's brand, and the Risk Committee is now able to monitor this via a Net Promoter Score metric that has been incorporated into the risk appetite framework.

Council Statement

Statement by the members of the Council in relation to paragraph 3.2 of the Constitutional Arrangements Byelaw, equivalent to s.172(1) of the Companies Act 2006 (the Act)

While not subject to the Act, the Council seeks to comply with best practice with regard to Lloyd's Annual Report. Accordingly, the Council has elected to include a statement in this Strategic Report describing how the Council has had regard to the matters set out in paragraph 3.2 of the Constitutional Arrangements Byelaw, which is the Lloyd's counterpart of section 172(1) of the Act.

The Council has a duty to act in the interests of the Society's members. All decisions have been taken in the clear and certain knowledge that the Council must take material action to ensure the long-term interests of the Society's members are protected. Our governance is therefore designed to ensure that we take into account the views of members and broader stakeholders. In November 2019, to enable more efficient and swifter decision-making, we announced our decision to merge the Council and the Franchise Board (the 'Board') effective from 1 June 2020, following consultation with, and widespread support from, members of the Society and the market. The Council's external and working members are elected by the market, meaning six of the 15 members of the new Council directly represent the views of members.

In addition to members, Lloyd's key stakeholders are our people, customers, managing agents, brokers, suppliers, global governments and regulators, and the communities in which we operate. The products and services available from the Lloyd's market support the world's economic growth, and help nations, businesses and communities improve their resilience to, and recover faster from, disasters. Lloyd's purpose and strategy therefore supports broader society by helping customers protect themselves from the emerging risks facing the world, including from technological and environmental change.

Throughout 2020, the Council focused on four areas that will have a long-term impact on the Lloyd's market and linked with our 2020 priorities. These were:

1. Continuing our activity to deliver first-class underwriting;
2. Delivering our strategy for digitalisation through the Future at Lloyd's;
3. Continuing to enhance the market's culture, ESG and sustainable business model; and
4. Managing Lloyd's response to COVID-19.

The Council aspires to world-class underwriting performance and strong performance management, and will maintain the highest standards to protect customers and the market's reputation. During 2020, we continued to take action through our robust oversight regime to improve underwriting performance. Further details of our oversight approach are set out on page 15. It is gratifying to see that these efforts continue to improve the market's underlying performance, and this work is continuing through 2021, which will be in the long-term interest of our members.

In September 2019, we set our vision for the Future at Lloyd's – our strategy to digitalise the Lloyd's market – in Blueprint One. Despite the challenges that COVID-19 has presented, the Future at Lloyd's has made significant progress over 2020, culminating in the publication of Blueprint Two, which outlines the details and our plan to deliver the second phase of the Future at Lloyd's. This work will be funded by the debt we raised in early 2020.

Blueprint Two helps our market participants, people and suppliers understand what needs to be done over the next two years in terms of change management to ensure they realise the full benefits of the next phase of Future at Lloyd's developments. Its success will be dependent on the input, feedback and continuing support of these stakeholders. We are therefore working with them closely to ensure we are building the right solutions in the first place and sharing our progress on a regular basis. The Future at Lloyd's now has 18 market engagement groups representing the view of more than 400 market participants and has established a research pool to help develop our new solutions through short, sharp, focused research sessions.

The Council is confident that the solutions that are being delivered in 2021 and 2022 will provide a more attractive future for market firms and employees, enable new investment opportunities for members and provide customers and wider society with a greater choice of insurance products and services that meet their risk needs. Further details on the Future at Lloyd's can be found on pages 15 and 16.

Building the most advanced insurance marketplace in the world will require new skills and ways of working to be successful, and the employees working in the Lloyd's market and Society are its most important asset. It is therefore vital that they are able to operate in a safe, secure and inclusive environment that attracts the best talent and allows it to develop and contribute.

Last year, we announced an action plan developed in collaboration with the managing agent and broker associations, the Lloyd's Market Association (LMA) and the London and International Brokers' Association (LIIBA), to ensure a safe and inclusive working environment in the marketplace. We are pleased to say that in 2020 we delivered on the commitments that we made and continued to respond to feedback from our people, including setting gender targets, launching a Culture Dashboard to provide transparency and an honest marker of our collective progress and enhancing the Society's family care policies. These form the foundation of our ongoing initiatives and commitment to build a more inclusive environment. Further details on the actions taken can be found on pages 16 and 17. The Council continues to advocate for our desired culture. Throughout 2020, culture has been a standing agenda item at Council meetings and in October we introduced a Council Diversity Policy setting out Lloyd's approach to achieving a diverse and inclusive governance body. Elected Council members are also personally subject to the culture initiatives as they are themselves working members of the Lloyd's market.

For 2021, the Council has introduced a fourth strategic pillar, aimed at embedding Lloyd's purpose across the Society and market's activities. This refinement to Lloyd's strategy was the product of an outward engagement programme conducted by the Chairman and Chief Executive from September to December 2020. The aim of this engagement was to understand stakeholders' perspectives on changes to market conditions as a result of COVID-19, as well as Lloyd's progress against our strategic pillars.

Lloyd's purpose and leadership has been highlighted through our response to COVID-19. Lloyd's has focused first on helping our customers cope with the immediate aftermath of the crisis by paying claims, donating funds, and offering flexible terms and conditions. We focused on helping charities respond to the immediate and long-term needs of communities dealing with the impacts of COVID-19 by committing £15m to charitable organisations and funds.

However, the pandemic has exposed the limitations of existing insurance solutions for systemic risks of this scale and dented the reputation of the insurance industry as a whole. In response, the Council launched a series of initiatives to help our customers and wider society to recover from the devastating impacts of COVID-19, and to help the insurance industry adapt to unparalleled new challenges brought about by the pandemic. As a marketplace which brings together many different stakeholders, Lloyd's is uniquely placed to convene the industry and lead the global dialogue to help rebuild trust around the insurance industry's response. Lloyd's consulted extensively with customers and its Global and London Advisory Committees, which include a number of the world's largest insurers and brokers, and engaged governments, regulators, industry bodies in 25 countries to develop and leverage these initiatives around the world. Lloyd's also engaged with industry and customer bodies to develop a series of recommendations for the industry to simplify insurance product design and delivery, for the benefit of its customers, which will be implemented at Lloyd's during 2021.

Council decisions and their impact on stakeholders

We place great importance on considering the needs of all our stakeholders in our decision making. The following table sets out a number of decisions taken by the Council during 2020 and how the views of our stakeholders were taken into account.

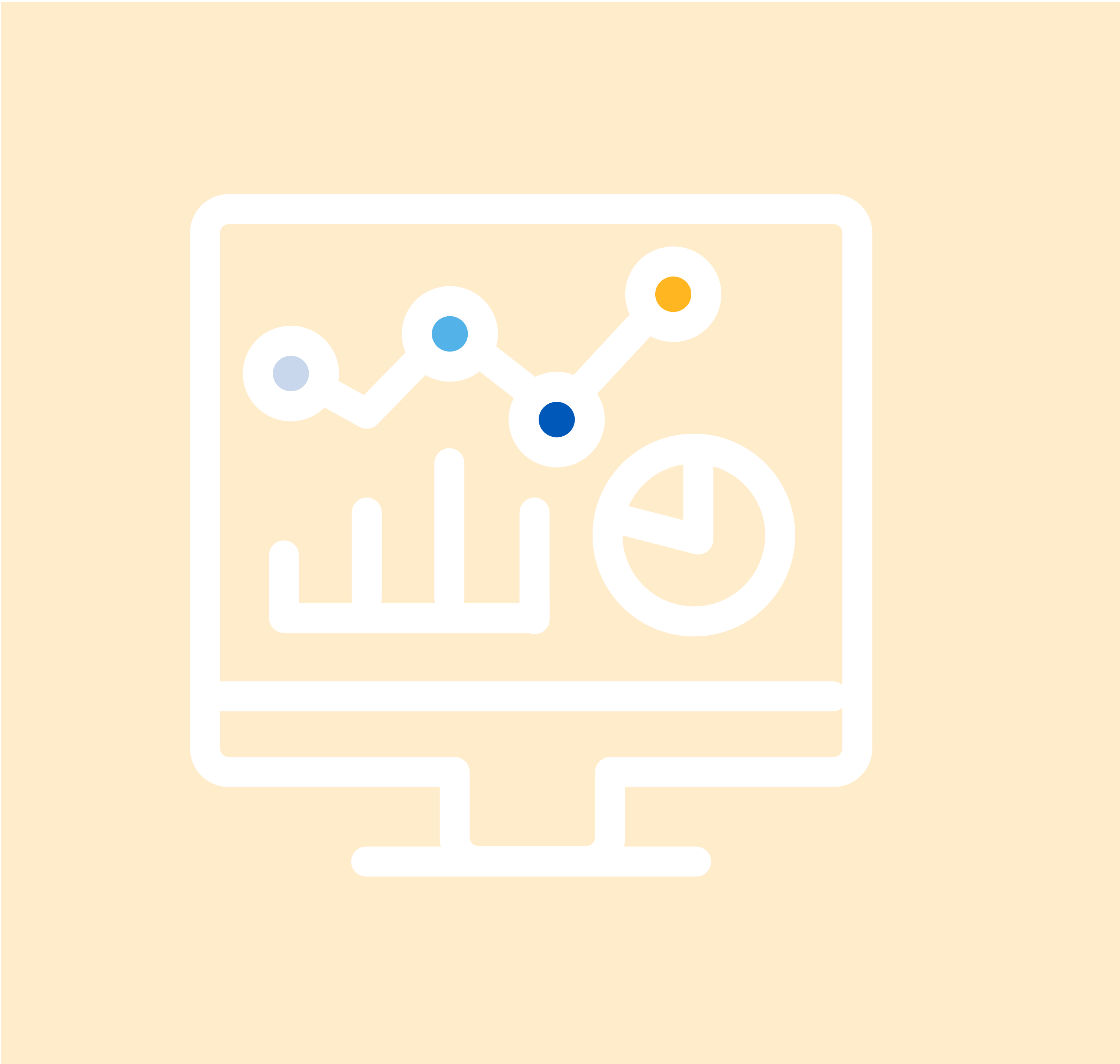
Decision	How we took stakeholders into account	Long-term implications
Future culture at Lloyd's	The Council established an independent Culture Advisory Group (CAG) as part of a comprehensive action plan to drive long-term culture change in the Lloyd's market. Chaired by Fiona Luck, Lloyd's Council member and Non-Executive Director responsible for talent and culture, the group will provide guidance and thought leadership to support the programme of actions to address the four key themes that emerged from Lloyd's 2019 culture survey findings namely: gender balance, speaking up, wellbeing and leadership. The Group subsequently added an additional area of focus: improving the experience and representation of Black, Asian and Minority Ethnic talent in the market. The CAG membership includes leading experts with experience of successful culture transformation and market representatives including the Chief Executive Officers (CEOs) of the LMA, LIIBA, the London Market Group (LMG), the International Underwriting Association (IUA), and the Chair of Inclusion@Lloyd's. The Group's inaugural meeting took place in January 2020, with meetings held on a quarterly basis. The CAG commissioned a second market-wide culture survey, which ran during November 2020, to help understand the working cultures that exist across the Lloyd's market, including standards of behaviour and conduct, and to inform further action.	Transforming Lloyd's culture is a strategic imperative for the future success of our marketplace – one which is powered by the intellect of its people, who together create our shared culture and future. The action plan supported by the CAG is aimed at making the most of the world-renowned talent we have in the market and also bringing in new, world-leading talent and skills.

Council Statement continued

Decision	How we took stakeholders into account	Long-term implications
The Future at Lloyd's	The Council has established a Technology & Transformation Committee (TTC), chaired by Andy Haste, Council member and Senior Independent Deputy Chairman, and overseen by Lloyd's Council, to ensure the necessary in-depth oversight of the Future at Lloyd's programme. Success in delivering Blueprint Two will only be possible if our market's managing agents, brokers and coverholders continue to work collaboratively with Lloyd's and influence the development of solutions over time. The TTC has therefore established for each area within the Future at Lloyd's: – An advisory group: consisting of senior market representatives and Lloyd's collaborating on the direction and priorities of activities and managing the plans and budgets; – Working groups: consisting of market practitioners who understand the current technology, process and issues to help shape the design and implementation of future technology and ways of working; and – Research panels: consisting of senior and practitioner level market individuals providing insight and direction. In addition, in order to promote engagement with the market the TTC has established a COO Advisory Board made up of managing agent and broker Chief Operating Officers, and the CEOs of the LMA, LIIBA and the IUA. The Future at Lloyd's will also continue to engage with market firms on a one-to-one basis, to help firms understand the specific impacts on them and what they can do to prepare for change.	The Future at Lloyd's solutions will offer market participants the opportunity to innovate in the way they serve their customers, and operate more efficiently, at a lower cost base – better, faster, cheaper. Collaboration with market participants, using an iterative test and learn approach to the development process will ensure that new services and transition plans to be developed can progress in the optimal way for market participants. By considering future adoption at every stage of the process, we can make the right decisions based around the cost and long-term benefit for our stakeholders.
Enhancing our proposition for members and capital providers	In 2020, the Council has overseen a series of initiatives improve the ease and transparency of managing capital at Lloyd's, including: – Development of a new digital portal for members, agents and investment managers: early sight of the portals was given to members' agents and large corporate members in late Spring prior to the design being approved. A pre-letter went to all members and the market in the summer with a video showing the screens and functionality. Further correspondence with members and a video to launch the new service were also provided at end of October. A number of demonstrations of the portal were given to members' agents and Direct Corporate members during the summer of 2020. – Simplifying the rules around managing Funds at Lloyd's: A pre-consultation was held with members' agents and the LMA to take initial feedback prior to the launch of a formal consultation on the proposals. The proposed formal consultation period was also lengthened as a result of these discussions. The formal consultation, which concluded in January 2021, was a dynamic process with members and their representatives, with changes suggested and adopted throughout to take into account feedback on issues which would otherwise have arisen for our members. This communication strategy will be adopted for the rest of the roll-out of new functionalities and services. – The launch of Lloyd's multi Insurance Special Purpose Vehicle (ISPV): A series of interviews was undertaken with investors, managing agents, members' agents, brokers and investment houses, as well as the LMA and Association of Lloyd's Members (ALM), before Lloyd's pre-application discussions with the PRA and FCA. Based on the feedback received through stakeholder engagement, standardised documentation and processes have been developed, designed to make the process quicker, more tax transparent and to streamline the approach to regulatory approval for investors. Throughout 2020, we continued to keep key stakeholders updated through direct engagement and this is a process that has been repeated following the announcement of the approval.	The provision of new digital portals will remove manual intervention, improve service and reduce costs, making investing at Lloyd's more attractive. Members will be able to use Lloyd's new ISPV to manage their capital requirements by attracting new classes of investors such as pension funds, whilst benefiting from reduced set-up times and lower transactional costs. The dynamic consultation process we have followed in developing these elements of our proposition mean that the final proposals are agreeable to the vast majority of members as well as to their long-term benefit.

Decision	How we took stakeholders into account	Long-term implications
ESG strategy	Following feedback from, and in consultation with, our market, Lloyd's has committed to phasing out insurance coverage for thermal coal-fired power plants and, thermal coal mines, oil sands and new Arctic energy exploration activities from 1 January 2022, as well as the cessation of renewals for these types of businesses from 2030 onwards. The announcement of these targets follows feedback from and in-depth discussion with our stakeholders including the LMA, the IUA, LIIBA, and the Chartered Insurance Institute (CII). Throughout the process of devising our ESG strategy, we have regularly met with senior stakeholders, the insurance associations. To reflect the priority of this work, the Council have set up a new ESG Advisory Group, led by the Chairman of Lloyd's and reporting into the Council. It is made up of representatives from our market and external specialists. Together they provide expert advice and practical guidance, as well as ensuring that we achieve our targets.	Lloyd's ESG strategy is aimed at ensuring everything we do is rooted in supporting better long-term outcomes for all of our stakeholders; from the types of risks underwritten by the market and where we invest our capital through to how we care for the wellbeing of our employees and contribute to the communities and countries in which we operate. The 2030 deadline is to support policyholders as they make the phased transition away from these energy sources. We believe these deadlines reflect our commitment to phasing out insurance provision for unsustainable energy risks over the coming years. We will engage widely with stakeholders across the Lloyd's market in 2021 and beyond to further develop and operationalise our ESG strategy, policies and processes, including responsible underwriting and investment.

Market Results



Contents

2020 Highlights

Financial highlights

Lloyd's reported a loss of £887m
(2019: a profit of £2,532m)

Combined ratio of 110.3%
(2019: 102.1%)

Gross written premium of £35,466m
(2019: £35,905m)

Capital, reserves and subordinated loan notes stand at £33,941m
(2019: £30,638m)

Gross written premium
(£m)

2016	29,862
2017	33,591
2018	35,527
2019	35,905
2020	**35,466**

Result before tax
(£m)

2016	2,107
2017	(2,001)
2018	(1,001)
2019	2,532
2020	**(887)**

Capital, reserves and subordinated loan notes (£m)

2016	28,597
2017	27,560
2018	28,222
2019	30,638
2020	**33,941**

Central assets
(£m)

2016	2,879
2017	2,981
2018	3,211
2019	3,285
2020	**3,308**

Return on capital*
(%)

2016	8.1
2017	(7.3)
2018	(3.7)
2019	8.8
2020	**(2.8)**

Combined ratio*
(%)

2016	97.9
2017	114.0
2018	104.5
2019	102.1
2020	**110.3**

The Pro Forma Financial Statements (PFFS) 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 include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. Further information concerning the basis of preparation of the PFFS is set out on pages 51-52.

* The combined ratio, the expense ratio, the return on capital and Solvency coverage ratio are metrics that are consistently used to analyse financial performance in the Lloyd's market results. These metrics are Alternative Performance Measures (APMs), with further information available on page 78.

Market results

The Lloyd's market reported an overall loss of £887m in 2020 (2019: profit of £2,532m). The result is comprised of net investment income of £2,268m and underwriting losses of £2,676m, which has been driven by £3,433m of claims arising from the COVID-19 pandemic. The reported combined ratio is 110.3%, however, excluding losses from the COVID-19 pandemic the combined ratio is 97.0%, which is an improvement on 2019 – 102.1%.

Underwriting result

While the Lloyd's market has reported underwriting losses for 2020, the impact of COVID-19 overshadows the improvement in underlying performance.

Major claims have contributed 23.0% to the combined ratio (2019: 7.0%), with COVID-19 related claims accounting for a significant portion at 13.3%. The Lloyd's market also continued its trend of prior year releases, contributing positively to the combined ratio with a benefit of 1.8% (2019: 0.9%). There have been prior year releases across all lines of business, except the casualty line, which reported strengthening.

Adjusting the combined ratio for the contributions from major claims, the Lloyd's market reported an underlying accident year ratio of 87.3%; an improvement on the 95.1% for the 2019 financial year. The 2020 accident year ratio is now in line with the target for the Lloyd's market.

The main contributor to the improvement in the underlying accident year ratio is the reduction in the attritional loss ratio which stands at 51.9%, representing a 5.4 percentage point reduction from the ratio reported for 2019. The improvement in the attritional loss ratio is the result of sustained risk adjusted rate increases on renewal business and the market's actions to drive sustainable profitable performance. There has also been an improvement in the market's expense ratio, which has reduced to 37.2% from 38.7% in 2019.

The Lloyd's market gross written premiums have decreased 1.2% when compared with 2019. While the Market has seen a period of sustained risk adjusted rate increases on renewal business – which stood at 10.8% for 2020 – volume reductions in the period of 12.0% have offset this benefit. Volume reductions reflect the continued focus on driving sustainable profitable performance which has resulted in several syndicates exiting or re-underwriting certain lines of business and curbing risk appetites in poor performing lines. Risk adjusted rate increases on renewal business have been experienced across all major lines and geographies.

Investment review

The market's investments generated income of £2,268m (2019: £3,537m), equivalent to a return of 2.9% on invested assets (2019: 4.8%).

2020 was an overall positive year for investments despite the losses incurred in the first quarter. Most equity markets generated a strong level of return for the calendar year, with large gains coming over the last three quarters of the year. In fixed interest markets, the aggressive easing of monetary policy drove a reduction in risk-free yields resulting in capital gains for government bonds. Corporate bonds, along with risk markets, suffered large losses early in the year but ended 2020 with above average returns.

The market's investment income is comprised of returns on syndicate premium trust funds and the Society's investment portfolio and a notional investment return on members' Funds at Lloyd's.

Syndicate premium trust funds account for the majority of the market's investment income. Overall, syndicate investments generated income of £1,231m, a return of 2.8% (2019: £1,667m, 4.0%). The return was driven by the strong performance on corporate bonds and equity and growth assets. The notional investment return on members' funds at Lloyd's, derived from the investment disposition of members' funds at Lloyd's and the returns on relevant market indices, was £949m or 3.2% on the related assets (2019: £1,657m, 5.9%). Government and corporate bonds accounted for the majority of the return, with equities having a lesser impact. The Society's investment portfolio generated income of £88m, a return of 2.2% (2019: £213m, 5.6%).

Balance sheet strength

The Lloyd's market continues to be strongly capitalised with total capital, reserves and subordinated loan notes of £33,941m at 31 December 2020, an increase from the £30,638m reported at 31 December 2019.

The Lloyd's market's solvency ratios – the market-wide and the central solvency ratios – continue to be above risk appetite and regulatory requirements. The market-wide solvency ratio was 147% and the central solvency ratio was 209% at 31 December 2020. These reflect increases in members' assets, including their Funds at Lloyd's – as members injected additional capital to cover their funding shortfalls and losses arising from COVID-19 – and increases in the net assets of the Society of Lloyd's, offset by increases in capital requirements driven by responses to COVID-19 across all key risk drivers.

2020 Highlights continued

2020 Performance

Premium

Gross written premium for the year was £35,466m, compared with £35,905m in 2019.

The overall price change (taking into account terms and conditions) on renewal business was an increase of approximately 10.8%, which was above planning assumptions for the year and better than 2019. Positive price movements have been experienced for the past 13 consecutive quarters and across the majority of lines of business.

Despite the pricing momentum, the market experienced volume reductions following some syndicates exiting certain lines of business, or curbing risk appetites in poor performing lines of business and portfolios heavily impacted by COVID-19. These volume reductions have led to an overall decrease in premium of 1.2%, compared with 2019.

US dollar denominated business continues to account for the majority of business written in the Lloyd's market. However, a stable US$ to GBP average rate of exchange has led to minimal impact of foreign exchange on the change in reported premiums.

Accident year ratio

The accident year ratio* has continued to improve, reducing to 87.3% (2019: 95.1%). Within this there has been a significant improvement in the attritional loss ratio, coupled with an improvement in the expense ratio. Prior year movements have had a more beneficial impact on the results than in 2019.

Attritional loss ratio: the attritional loss ratio continued to improve in 2020, reducing to 51.9% (2019: 57.3%). The sustained period of rate increases on renewal business and continued focus on strengthening underwriting discipline across the market have been the key drivers of this continued improvement. While lower claims frequencies have been evident across certain lines as a result of the COVID-19 pandemic, this has not had a material impact on the business written in the Lloyd's market.

Prior year development: this was the 16th consecutive year of prior year releases. The current year result has seen greater benefit from prior year releases at 1.8% of net earned premium (2019: 0.9%). There have been releases against all lines of business other than casualty, which saw a strengthening of £0.3bn.

Within the net prior year release there has been some strengthening against estimates for previous years' catastrophe events: Hurricane Irma, the 2019 Typhoons Hagibis and Faxai and Typhoon Jebi.

In 2021, Lloyd's will continue to monitor reserves closely and act to ensure that adequate market discipline is being maintained in current challenging market conditions. Particularly on the longer-tailed lines, such as casualty, where there has been continued focus in recent years exacerbated by growing concerns over areas such as social inflation.

Expense ratio*: total operating expenses have reduced both in sterling amounts and as a percentage of net earned premium, to 37.2% (2019: 38.7%). Acquisition costs have accounted for the majority of the decrease, reducing to 26.1% of net earned premium from 27.5% in 2019; this is attributed to changes in business mix. Administrative expenses, while reporting a slight increase in sterling, has remained stable as a percentage of net earned premium. The extended period of lockdown due to the ongoing COVID-19 pandemic has led to savings across a number of expense lines, however, these have been offset by a number of one-off items in the year, including the costs of preparing offices for reoccupation.

Major claims

Major claims for the market were £5,967m in 2020 (2019: £1,806m), net of reinsurance and including reinstatements payable and receivable.

COVID-19 losses of £3,433m accounted for nearly 60% of the major claims, with the remainder mostly attributed to losses from catastrophe events in 2020.

COVID-19 related losses have impacted a number of lines of business across the market. The majority of the losses are concentrated in four lines of business – contingency, property (D&F), property treaty and political risk, credit & financial guarantee – and originate from the US, which accounts for approximately 44% of the estimate by geographical location. The COVID-19 loss estimate includes amounts which are directly attributable to individual contracts as well as allowances for the impact of the wider economic conditions which have been caused by the pandemic. The incurred losses reported in 2020 are approximately 94% of the current estimates of the total expected losses to the Lloyd's market from the pandemic.

Catastrophe losses accounted for the majority of £2,534m in other major claims. 2020 saw an increase in the frequency of catastrophe loss activity with the Lloyd's market suffering insured losses from more than 40 events. The largest losses related to Hurricanes Laura, Sally, Zeta, Delta and Isaias; Iowa derecho; the tornadoes in Tennessee; the explosion in the Port of Beirut; and the worldwide protests against racial injustice.

Major claims	% of net earned premium
2016	9.1
2017	18.5
2018	11.6
2019	7.0
2020	**23.0**
Five year average[1]	10.1
Ten year average[1]	10.5

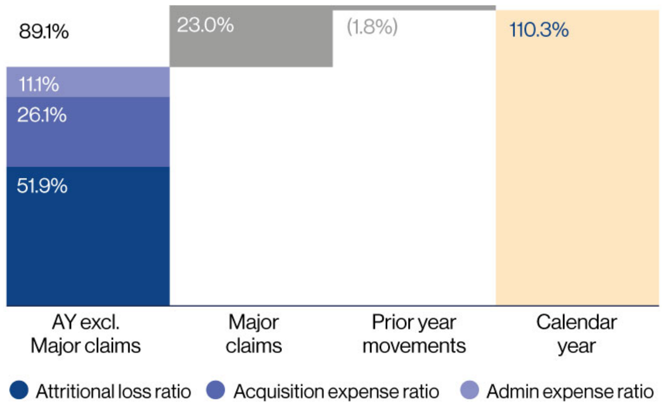
Accident year ratio excl. prior year releases	%
2016	93.9
2017	98.4
2018	96.8
2019	96.0
2020	**89.1**
Five year average[1]	94.8
Ten year average[1]	93.1

1. Weighted by net earned premium.

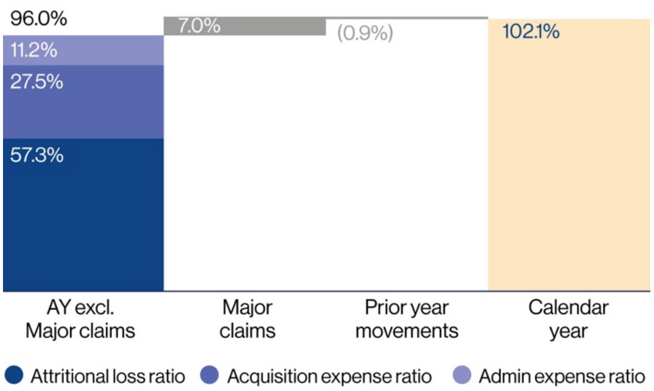
* The accident year ratio and expense ratio are metrics that are consistently used to analyse financial performance in the Lloyd's market results. These metrics are Alternative Performance Measures (APMs), with further information available on page 78.

Contributors to combined ratio

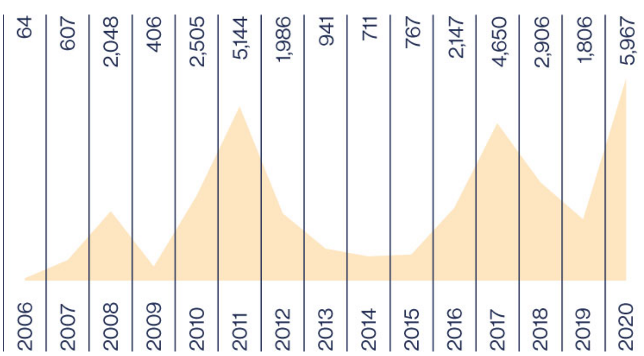
2020 Combined ratio %



2019 Combined ratio %



Lloyd's major losses: net ultimate claims (£m)



Five year average: £2,514m; 15 year average: £2,142m. Indexed for inflation to 2020. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

Prior year reserve movement	% of net earned premium
2016	(5.1)
2017	(2.9)
2018	(3.9)
2019	(0.9)
2020	**(1.8)**

Years of account in run-off	Number of years
2016	6
2017	5
2018	0
2019	3
2020	**9**

Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remains extremely high, with 98% of all recoveries and reinsurance premium ceded being with reinsurers rated 'A-' and above or supported by high-quality collateral assets.

Reinsurers' share of claims outstanding remains a material consideration for Lloyd's, equivalent to 60.6% of gross written premium or 70.1% of members' assets (2019: 55.4% of gross written premium or 72.7% of members' assets). There has been an increase in the overall reinsurance recoverables due to the catastrophe and COVID-19 losses experienced during 2020 and due to the continued use of retrospective reinsurance protections. This increase reflects the reinsurance risk transfer strategy of the Lloyd's market, the nature of loss events experienced during 2020 and risk mitigation actions being taken to assist in the management of legacy exposures. No negative settlement trends have been witnessed to date.

Lloyd's outward reinsurance premium spend for both the 2020 financial and underwriting year of account was 27.2% (2019: 28.5%) of gross written premium, which reflects a relatively stable overall position in regard to the scale of reinsurance purchased. This level of reinsurance transfer remains within risk appetite.

Result for the closed year and run-off years of account

Under Lloyd's three-year accounting policy for final distribution of each underwriting year of account, the 2018 underwriting year of account reached closure at 31 December 2020. The 2018 pure underwriting year suffered losses from a number of catastrophic events, including Hurricanes Florence and Michael; California wildfires and Typhoon Jebi.

The 2018 pure underwriting year of account reported an underwriting loss that was partially offset by releases from 2017 and prior years, which were reinsured to close at the end of 2019. These releases amounted to £311m. Investment return on the 2018 underwriting year meant the total result was an overall loss of £1,914m (2017 underwriting year loss: £2,414m).

At the beginning of 2020, there were three syndicates whose 2017 underwriting years remained open. These run-off years reported an aggregate loss of £2m, including investment return, in 2020 (2019: no run-off years). There were six syndicates whose 2018 underwriting years remained open post 31 December 2020 taking the total number of open underwriting years at 1 January 2021 to nine.

The results of the major lines of business are discussed in detail on pages 38-44.

Line of business:

Reinsurance – Property

Property catastrophe excess of loss represents the largest sector in this line. Other key sectors are property facultative, property risk excess, property pro rata and agriculture and hail.

2020 performance

Lloyd's gross written premium for 2020 was £6,627m (2019: £6,405m), an increase of 3.5%. Syndicates have shown greater focus on client selection and aggregate deployment, given higher frequency and severity of loss activity in recent years. The Lloyd's reinsurance property line reported an accident year ratio of 112.8% (2019: 106.5%).

2020 was a record-breaking year for natural disasters, with more storms in the North Atlantic than ever before, as well as many other catastrophic events occurring globally. While individually the insured losses from 2020 natural disasters were less severe than some experienced in prior years, reinsurers have still accrued meaningful losses. Additionally, COVID-19 losses are expected to impact this line of business, although there are several primary policy and reinsurance treaty wording issues to be resolved.

Prior year movement

The prior year movement was a release of 2.8% (2019: 0.3%). Releases are generally expected for more recent years as claims estimates for losses become more certain. This occurs when margin being held for potential catastrophes is not utilised and as claims estimates for losses become more certain. Experience on prior years has been favourable overall, partially offset by deteriorations on some historical catastrophe events. Hurricane Irma (2017), Typhoon Jebi (2018), Hurricane Michael (2018), Storm Dorian (2019), Typhoon Faxai (2019) and Typhoon Hagibis (2019) have all been subject to deteriorations in ultimate losses during 2020. However, some syndicates have seen favourable movements on these losses and the market has made releases for the 2017 Californian wildfires.

Looking ahead

Despite the numerous catastrophe losses in the past four years, there remains a surplus of capacity in the reinsurance market. Initial indications suggest that pricing levels at January 2021 were generally below market expectations, but loss affected business pricing was at or above expected levels. Pricing adequacy may improve as 2021 progresses, with a large proportion of loss affected business still to renew, but it seems unlikely that any pricing changes related to COVID-19 will be fully incorporated for some time in this sector.

Cyber clauses and Communicable Disease clauses have been widely adopted by the market during the second half of 2020, providing enhanced clarity. This trend is expected to continue into 2021.

Reinsurance – Casualty

The largest sectors of the casualty treaty market at Lloyd's are non-marine liability excess of loss and US Workers' Compensation.

2020 performance

Lloyd's gross written premium for 2020 was £3,321m (2019: £2,960m), an increase of 12.2%. The Lloyd's reinsurance casualty line reported an accident year ratio of 113.0% (2019: 102.4%).

The casualty treaty market in 2020 saw an acceleration of the trends of the previous year as the market experienced reducing capacity, tightening policy coverage and significant price strengthening in distressed and high exposure accounts across most lines of business. While US Workers' Compensation remained competitive, concerns are emerging over the COVID-19 impact and in particular presumption laws being brought in some states of the US.

Motor excess of loss business continues to perform below expectations and the sought after relief from a winding back of the Ogden rate to -0.25% in 2019, which was maintained in 2020 (from the previous level of -0.75%), has not had as significant an impact as hoped.

Prior year movement

The prior year movement was a release 2.3% (2019: strengthening of 1.7%). Despite 2020 being a year of relatively benign prior year claims experience for casualty reinsurance business, emerging trends such as social inflation are driving increased uncertainty on this line. The US casualty treaty business has performed slightly better than expected, whereas non-US casualty has been in line with expectations. Personal accident excess of loss has also been broadly in line with expectations.

Lloyd's continues to monitor casualty lines to ensure adequate provisions remain over all prior years. There is an increased level of oversight and the additional work being done by the market to monitor the robustness of reserves for this line. Given the high level of margin held to cover the uncertain, long-term nature of the underlying policies, we would generally expect some releases to come through on the older years.

Looking ahead

As we look ahead to 2021 Lloyd's will be specifically and closely monitoring social inflation to develop better market understanding of the trend to ensure adequate and robust pricing and reserving in the market. A tranche of that work will explore how the trend might develop in future years and whether social inflationary trends can be anticipated.

While new capacity coming to the market during 2020 has been observed, the expectation is that positive pricing will continue and that the availability of capital for poorer or more exposed accounts will remain constrained. Overall concerns with pricing maintaining parity with claims inflation will likely persist, and prudent risk selection and terms setting will remain fundamental to profitability in the coming year.

Reinsurance – Specialty

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

2020 performance

Gross written premium overall was £2,211m (2019: £2,053m), an increase of 7.7%. Gross written premium by sector within this specialty business was: Marine, Aviation and Transport £1,506m (2019: £1,414m), Energy £702m (2019: £633m), Life £3m (2019: £6m). The Lloyd's reinsurance specialty line reported an accident year ratio of 101.1% (2019: 108.6%).

Despite general hardening of the marine market, the pricing increase has been more modest in marine reinsurance. Anecdotal evidence suggests that there is an expectation that larger increases were attained during the end of year reinsurance renewal season. However, the capacity remained relatively unchanged, therefore, price increases might be less than expected.

Prior year movement

The prior year movement was a release of 6.0% (2019: release of 2.8%). The claims experience for this line has performed broadly in line with expectations over 2020. This line is predominantly marine, aviation and motor business, written on an excess of loss basis. Given that claims experience is largely driven by isolated claim events, prudent reserves tend to be held and released in years with less claims activity.

Marine reinsurance has seen mixed experience on prior years, with favourable movements within this line of business for Hurricane Irma (2017), Hurricane Sandy (2011) and World Trade Centre (2001) offset by deteriorations on Typhoon Jebi on the 2018 year and Storm Dorian on the 2019 year. Likewise, aviation has seen increased large loss activity on more recent years over 2020 with major losses arising from the grounding of the Boeing 737 MAX fleet and within the space account, thereby impacting the reinsurance market. Motor reinsurance has generally performed favourably against expectations, although there have been increases in losses on the 2019 Storm Dorian event, impacting motor excess of loss lines.

Looking ahead

There are signs of price strengthening in the sector in 2021, following a challenging 2020 result, which further compounded the losses made in the catastrophe impacted 2018 and 2019 results. There may also be additional impetus following Lloyd's performance improvement planning – the effects of which may fall beyond the lines immediately included in that review.

Catastrophic incidents involving the Boeing 737 MAX, which led to the worldwide grounding of the fleet, experienced a material increase in reserve late in 2020 and that has further reinforced the Aviation XL pricing environment for 2021.

Property

The property line consists of a broad range of risks written worldwide. It is made up of predominantly excess and surplus lines business with a weighting in favour of the industrial and commercial sectors, binding authority business comprising non-standard commercial and residential risks and specialist sectors, including terrorism, power (electricity) generation, engineering and nuclear risks.

Business is written through the broker network with a significant proportion using the framework of coverholders (or managing general agencies) and other similar delegated authority arrangements.

2020 performance

Lloyd's gross written premium for 2020 was £9,227m (2019: £9,586m), a decrease of 3.7%. The Lloyd's property line reported an accident year ratio of 135.4% (2019: 101.5%).

2020 has been characterised by the impact of COVID-19 on business interruption covers. In addition, we have seen an abnormally high frequency of natural weather catastrophe events. Hurricanes Laura, Delta, Sally and Zeta particularly impacting the various lines. Beyond these, we have also seen significant severe storm activity, hailstorms and US wildfire events to further challenge overall performance.

Additionally, social unrest observed within the USA during 2020 has globally impacted some syndicates results more than others. This has caused some underwriters to review their appetite and approach to writing such perils going forward.

Despite the high frequency of events, individual losses often meant reinsurance recoveries fell below expected levels. Such losses largely falling within syndicates' own retentions and impacting overall performance.

More positively, early signs suggest underwriting actions in tackling attritional losses in recent years are starting to deliver material benefits. These improvements are expected to continue in 2021.

Deal flow remained strong in 2020 despite the challenges brought about by COVID-19 from an operational perspective.

Prior year movement

The prior year movement was a release of 3.5% (2019: release of 1.7%). Recent years of account have seen elevated levels of catastrophe losses worldwide, with most impact seen for the direct and facultative lines of business. As a result of COVID-19, business interruption cover losses have impacted prior years with 2020 calendar year exposure on property direct and facultative open market and binder business, in both US and non-US lines.

There has been further deterioration on prior year catastrophe events during 2020. In particular, Hurricane Irma (2017), Hurricane Michael (2018) and Storm Dorian (2019) have been subject to adverse movements, partially offset by favourable movements on Californian Wildfire events in the 2017 year. In contrast to the increased catastrophe losses, attritional and large loss experience on property accounts have generally performed better than expected. This is particularly evident on direct and facultative US binder business and also, but to a lesser extent, on non-US binder and open market business. Difference in conditions and power generation lines are also performing favourably to expectations.

Terrorism business continues to be prudently reserved across the market, with favourable experience on most prior years and particularly on 2018 and 2019 underwriting years.

Looking ahead
Pricing levels for 2021 are expected to show further material movement and continue to build on actions taken during 2020 and prior by the market. Higher reinsurance costs in 2021 are also likely to further support continued momentum in pricing levels. Movement in terms and conditions are also anticipated to be a feature of 2021, as underwriters continue to remediate poorer performing accounts or as part of pricing negotiations. Underwriting discipline remains critical for syndicates to successfully execute and deliver upon their approved 2021 plans, given the anticipated levels of available business in 2021.

Casualty
Lloyd's casualty market encompasses a number of lines of business. Principally general liability and professional lines. In addition, shorter tail lines such as cyber and accident & health represent a significant component of the total casualty book. The US remains the largest single market for Lloyd's casualty business followed by the UK, Canada and Australia.

2020 performance
Lloyd's gross written premium for 2020 was £9,067m (2019: £9,459m), a decrease of 4.1%. This was despite significant pricing change in almost all lines of business, particularly Directors' and Officers' liability. Lloyd's casualty line reported an accident year ratio of 105.2% (2019: 103.8%).

During 2020, the market began to accelerate prior years hardening while capacity remained stable overall. There has been a pronounced shift away from certain lines, exposures and occupations. In particular D&O saw significant repricing, with capacity also becoming more restricted for certain sectors. Across most lines there has also been a marked decrease in average line sizes across most segments as carriers have sought to reduce volatility. While the market correction is significant, with some lines seeing double-digit pricing increases, the prevailing sentiment is that pricing adequacy remains in question, as the protracted soft market cycle has meant price changes starting from a low base and having to make up substantial ground on claims inflation during that period.

The growth in cyber insurance products continued into 2020 with the market outside the US expanding and also representing an increasing share of the overall market. Across other lines there was premium growth during the year as a result of price hardening towards the end of the year, particularly in some of the professional lines.

As anticipated, due to the impact of COVID-19, contingency has suffered unprecedented losses because of subsequent event cancellations. It is expected that losses will continue to be incurred as the pandemic continues.

Prior year movement
The prior year movement was a strengthening of 5.1% (2019: a strengthening of 1.9%).

During 2020, Lloyd's have shared market level insights and views of casualty lines with the market. In response, syndicates appear to have shifted their views in line with this by strengthening their casualty reserves. Despite the market strengthening, at an aggregate level, casualty loss experience has been favourable to Lloyd's expectations. However, a number of lines have performed adverse to expectations driven by large losses including on directors' and officers' non-US, non-US financial institutions and professional indemnity US business. US medical malpractice continues to perform adversely, further compounded by increases in losses with regard to medical beneficiaries.

In addition to the above lines, cyber has also seen a rise in claims on recent years. In particular, the 2019 year of account has been materially adverse against expectations. The key area of concern for this line of business is the emergence of ransomware claims impacting cyber writers in the market, the prediction of which is hampered by the lack of experience for those accounts. This will continue to be a key focus for Lloyd's given the limited experience available for this line.

Given the long-term nature of the underlying policies and macro view on concerns such as social inflation, we would generally expect a greater level of uncertainty in this line being factored the reserves.

Looking ahead
As with casualty reinsurance, there has been a growing focus on social inflation. While a lot of the focus has been in the US, other territories such as Australia and Canada are starting to see similar trends across all casualty lines. These territories and jurisdictions have all seen trends of increasingly active regulation and litigation. This has been accompanied by increased capacity for litigation funding driven to a large extent by persistent low interest rates. A general public desensitisation to litigation and jury awards has also led to ever increasing severity of claims. While the primary market has already started to see restrictions in appetite and demand for increased deductibles, in 2021 there is likely to be an increased focus on the structure and pricing of excess placements.

Marine, Aviation and Transport
Marine business encompasses a wide variety of sub-lines where Lloyd's continues to be regarded as an industry leader, including, hull, various marine war perils, marine liabilities, and specie and fine art; with cargo being the largest individual lines. Further, more niche products are also written including satellite pre-launch risks and construction related cargo perils including delay in start-up.

In aviation, Lloyd's writes across all main business sectors including airline, aerospace, general aviation, space and war. Airline (hull and liability) is the largest sector but Lloyd's is also actively involved in the underwriting of general aviation (eg privately owned light aircraft, helicopters and large private corporate jets), airport liability, aviation product manufacturers' liability, aviation, war/terrorism and satellite launch and in-orbit risks.

2020 performance
Lloyd's gross written premium for 2020 was £2,976m (2019: £2,802m), an increase of 6.3%. The Lloyd's marine, aviation and transport line reported an accident year ratio of 98.2% (2019: 113.3%).

Following long-term sub-optimal performance, marine continues to go through an extensive remediation process, which has included several significant market participants reducing book sizes, and others choosing to withdraw completely, yacht, for example, has reduced in terms of gross written premium by over 50% since 2018. Through these measures and the resulting contraction in capacity, a significant pricing improvement has been seen across the portfolio, but most notably in the two largest lines of cargo and hull.

Attritional claims in hull have reduced, but it is yet to be seen if this is due to a hardening market, a decrease in voyages owing to COVID-19, or a combination of the two factors.

War breach premiums have meaningfully increased due to increased tensions in the Middle East, however, annual war premium remains one of the most competitive sub-lines within the marine portfolio. With a new US regime, it remains to be seen how international sanctions will evolve and the subsequent effects this may have on war breach premiums.

Aviation experienced a year outside of expectation given the impact of the global pandemic on travel and tourism. Reduced activity in airline and general aviation, with a bulk of aircraft fleets grounded for extended periods, led to significantly less loss activity in comparison to prior years.

Unprofitable prior year performance drove a corrective pricing environment across all aviation product lines throughout 2020. Business placed and renewed in the second half of 2020 saw reduced exposure compared with previous years, given the limited air travel and reduced passenger footfall.

In order to lessen the impact of this reduced exposure, in the face of unaltered policy limits, the market in many cases installed minimum premiums in 2020 placements.

Prior year movement
The prior year movement was a release of 8.5% (2019: release of 4.8%).

On marine lines, there is a tendency for the view of claims to be held for a number of years to allow for any uncertainty and so releases are common. Overall, these lines of business have performed favourably against expectations over 2020, despite heightened large loss activity impacting both property damage and liability within this line. Recent years have seen higher than average catastrophe losses, which are known to drive property damage claims. However, some of the historical catastrophe losses have improved over 2020. In particular there has been reductions on overall losses due to Hurricanes Harvey, Irma and Maria (2017), especially with respect to cargo business. In contrast, Storm Dorian (2019) losses have increased, particularly impacting marine hull. Favourable experience has been evident on marine cargo and hull, with many carriers reporting benign claims experience on prior years.

On aviation lines, recent history has seen heavier large loss experience, arising mostly from losses relating to the grounding of the Boeing 737 MAX fleet and increased space losses in 2019 year of account. The Boeing loss has increased over 2020, impacting general aviation and aviation products/airport liabilities. Given the heightened uncertainty on recent years, larger margins are generally being held and reserving estimates increased to cover these emerging claims.

Looking ahead
Marine underwriters are not reporting any expectation of the hardening market to slow. There has been a substantial shift away from lineslip and binder driven portfolios in the marine market, which has led to greater underwriting oversight. This trend looks set to continue throughout 2021.

The immediate future is rather unsettled in the aviation sector in light of the ongoing pandemic and financial impact on the client base. A return to pre-pandemic levels of activity and exposure is not expected in 2021.

Lloyd's aviation underwriters endeavour to support Lloyd's policyholders throughout this difficult period while maintaining strict underwriting discipline, corrective pricing and improved risk selection in an attempt to drive profitable underwriting results.

Regarding the client base and inherent exposures, increased consolidation is anticipated given financial pressures on airlines, which could lead to greater concentration of client exposures.

Energy
The Lloyd's energy line includes a variety of onshore and offshore property and liability products; ranging from construction to exploration, production, refining and distribution. This incorporates both the oil and gas industry and the growing energy renewables sector.

2020 performance
Gross written premium for the Lloyd's energy line in 2020 was £1,265m (2019: £1,500m), a decrease of 15.7%. The Lloyd's energy line reported an accident year ratio of 99.2% (2019: 107.5%).

The direction of travel in the pricing environment across all energy lines has been positive throughout 2020. Downstream product lines continue to benefit the most, fuelled by the high frequency of large loss activity globally in the downstream lines in prior years. This has been further reinforced by industry losses in Asia in 2020. From a whole account perspective this has been balanced somewhat by continued benign large and catastrophic loss activity in upstream lines. Upstream being the largest part of the overall energy account in terms of risk count, written premium and exposure.

Prior year movement
The prior year movement was a release of 8.2% (2019: 10.2%). The energy line of business has seen continued prior year reserve releases over 2020. This line contains a mix of contracts that give rise to claims that are settled on both a short-term and long-term time horizon. Both the short-term and long-term lines have performed broadly in line with expectations, with the short-term lines benefiting from releases on older catastrophe losses, such as on Hurricanes Harvey, Irma and Maria (2017). However, some historical catastrophe losses have deteriorated since year-end 2019, with large adverse movements on the Transocean Deepwater Horizon (2010) and Petrobras (2001) explosion events. There have also been a number of releases due to reductions in other large losses or lower claims activity than expected. Given that the energy line is also exposed to isolated large losses, large margins for

uncertainty tend to be held and released in benign years. For long-term contracts, these margins can be held for a number of years. Reductions in claims estimates for these large losses and the release of unused margin is expected to drive releases at a market level.

Looking ahead

In downstream energy, both property and liability, it is expected that the market in 2021 will continue to build upon the underwriting discipline and price increases implemented in 2019 and 2020.

Upstream energy remains in a state of relative stability in terms of pricing, conditions and underwriting appetite. This is driven by the continued absence of large operational losses, coupled with a benign wind season in areas of high energy asset exposure accumulations, such as in the Gulf of Mexico, despite the significant increase in named windstorms experienced in 2020.

Given the pandemic impact on the oil and gas sector client retentions are increasing and business interruption values (based on production estimates annually) are down on prior years. Thereby decreasing the exposures and premium in the product lines.

Energy renewables, predominantly offshore wind, experienced an increase in submissions at Lloyd's through 2020 and given the global energy transition this trend is expected to continue in 2021, with the support of the Corporation, as outlined in our ESG report.

Motor

Lloyd's motor market primarily covers international motor with a large proportion written in North America and with an increasing focus on property damage over liability risks.

Lloyd's commercial and fleet business is diverse, ranging from light commercial vehicles and taxis to buses and heavy haulage.

2020 performance

Gross written premium in 2020 was £720m (2019: £1,053m), a decrease of 31.6%. The Lloyd's motor line reported an accident year ratio of 95.5% (2019: 100.6%).

Following a number of years of competitive pricing, international motor has continued to see positive trends with more price strengthening during 2020, as well as a focus on increased deductibles and tightening of terms and conditions.

In the UK, it remains unclear whether pricing levels achieved during 2020 will be sufficient to address challenging underwriting conditions brought about by the change in the Ogden discount rate during 2019.

However, during 2020 the impact of COVID-19 has resulted in a significant shift in exposure, particularly for standard comprehensive motor policies, where the number of vehicles on the road has decreased during the various lockdown measures both in the UK, but also in other territories where standard third-party liability cover is provided.

Prior year movement

The prior year movement was a release of 2.2% of net earned premium (2019: 1.8%). This is driven by favourable claims experience against expectation for both UK and overseas motor.

Looking ahead

While current indications have shown recent improvements in the performance of international motor, there remains uncertainty as to whether current pricing levels are sufficient and whether enough consideration has been given to further development of longer tail risks. While there has been a general shift away from liability risks towards property damage only, particularly in North America, there is still some exposure which could cause further deterioration.

In the UK, the reforms relating to whiplash claims, as outlined in the Civil Liability Act 2018, have been delayed further from 2020 until May 2021 so any impact this will have on loss ratios will not be understood for some time.

COVID-19 has significantly reduced claims numbers, although this has fluctuated within the various lockdowns. How this aligns with the reduction in income (following policy cancellations and rebates on premium etc) remains to be seen.

Reinsurance

Property

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	5,022	101.2	(9.4)	91.8	299
2017	5,991	134.3	(4.0)	130.3	(1,260)
2018	6,440	121.1	(4.9)	116.2	(672)
2019	6,405	106.5	(0.3)	106.2	(258)
2020	**6,627**	**112.8**	**(2.8)**	**110.0**	**(441)**

Casualty

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	2,096	105.2	(7.1)	98.1	33
2017	2,223	103.9	(1.8)	102.1	(39)
2018	2,541	99.7	(3.6)	96.1	78
2019	2,960	102.4	1.7	104.1	(94)
2020	**3,321**	**113.0**	**(2.3)**	**110.7**	**(288)**

Specialty

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	2,290	101.9	(14.2)	87.7	216
2017	2,346	110.3	(8.5)	101.8	(31)
2018	2,089	101.9	(11.0)	90.9	138
2019	2,053	108.6	(2.8)	105.8	(82)
2020	**2,211**	**101.1**	**(6.0)**	**95.1**	**73**

2020 Highlights continued

Insurance

Property

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	7,988	106.6	(3.2)	103.4	(202)
2017	8,965	131.5	(3.9)	127.6	(1,757)
2018	9,687	114.0	(3.6)	110.4	(700)
2019	9,586	101.5	(1.7)	99.8	12
2020	**9,227**	**135.4**	**(3.5)**	**131.9**	**(2,104)**

Casualty

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	7,131	102.9	(0.2)	102.7	(146)
2017	8,464	103.7	(0.6)	103.1	(189)
2018	9,094	103.9	(1.0)	102.9	(183)
2019	9,459	103.8	1.9	105.7	(390)
2020	**9,067**	**105.2**	**5.1**	**110.3**	**(688)**

Marine, Aviation and Transport

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	3,097	108.2	(5.9)	102.3	(58)
2017	3,193	117.7	0.8	118.5	(480)
2018	3,152	116.2	(0.9)	115.3	(392)
2019	2,802	113.3	(4.8)	108.5	(199)
2020	**2,976**	**98.2**	**(8.5)**	**89.7**	**239**

Energy

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	1,110	106.4	(13.8)	92.6	59
2017	1,253	107.7	(21.1)	86.6	105
2018	1,404	105.6	(18.2)	87.4	113
2019	1,500	107.5	(10.2)	97.3	27
2020	**1,265**	**99.2**	**(8.2)**	**91.0**	**79**

Motor

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	1,047	108.8	2.6	111.5	(103)
2017	1,057	114.4	7.9	122.3	(188)
2018	1,037	101.8	(3.1)	98.7	12
2019	1,053	100.6	(1.8)	98.8	11
2020	**720**	**95.5**	**(2.2)**	**93.3**	**48**

Statement of Council's Responsibilities

Statement of Council's responsibilities in respect of the Pro Forma Financial Statements

The Pro Forma Financial Statements (PFFS) are prepared so that the financial results of the Society of Lloyd's ('the Society') and its members taken together, and their net assets, can be compared as closely as possible with general insurance companies.

The Council of Lloyd's is responsible for the preparation and approval of the PFFS in accordance with the basis of preparation set out in note 2.

The maintenance and integrity of the Lloyd's website is the responsibility of the Council of Lloyd's; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation of financial statements may differ from legislation in other jurisdictions.

Pro Forma Financial Statements

The PFFS include the results of the syndicates as reported in the syndicate annual returns, members' funds at Lloyd's (FAL) and the Society of Lloyd's Group financial statements.

Report of PricewaterhouseCoopers LLP to the Council on the 2020 Pro Forma Financial Statements

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2020 Lloyd's Pro Forma Financial Statements

Opinion

In our opinion the Council of Lloyd's has prepared the Lloyd's Pro Forma Financial Statements (the "PFFS") for the financial year ended 31 December 2020, defined below, in all material respects in accordance with the basis of preparation set out in note 2.

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

What we have assured

The PFFS, which are prepared by the Council of Lloyd's, comprise: the pro forma balance sheet as at 31 December 2020, the pro forma profit and loss account, the pro forma statement of other comprehensive income, and the pro forma statement of cash flows for the year then ended, and notes to the financial statements.

The financial reporting framework that has been applied in the preparation of the PFFS is set out in note 2, 'the basis of preparation'.

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Lloyd's Annual Report within which the PFFS for the year ended 31 December 2020 are included.

What a reasonable assurance engagement involves

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

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

The PFFS have been compiled by aggregating financial information reported in syndicate returns and annual accounts, which have been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported, members' funds at Lloyd's (FAL) and the books and records of the Society of Lloyd's (the Society). Our work in respect of the syndicate returns and annual accounts 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.

Our examination of the preparation of the PFFS consisted principally of:

– obtaining an understanding of how the Council of Lloyd's has compiled the PFFS from the audited syndicate annual returns and accounts, the Society of Lloyd's books and records and Members' Funds at Lloyd's;

– checking (on a sample basis) that the financial information included in the PFFS was correctly extracted from the syndicate annual accounts and the Society of Lloyd's books and records;

– evaluating evidence to support the existence and valuation of Members' Funds at Lloyd's; and

– evaluating the evidence supporting the adjustments made in the preparation of the PFFS and obtaining evidence that the PFFS have been prepared in accordance with the basis of preparation set out in the PFFS notes.

The engagement also involves evaluating the overall presentation of the PFFS. We do not independently assess and do not opine on the appropriateness of the basis of preparation of the PFFS.

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

The Council of Lloyd's is responsible for establishing and selecting suitable criteria (the basis for preparing the PFFS) and the preparation and approval of the PFFS in accordance with the basis of preparation set out in note 2. According to the Statement of Council's Responsibilities, the PFFS are prepared so that the financial results of the Society of Lloyd's and its members taken together, and their net assets, can be compared as closely as possible with general insurance companies.

Our responsibility is to express an opinion about whether the preparation of the PFFS has been performed by the Council of Lloyd's on the basis set out in note 2.

This report including our conclusions has been prepared solely for the Council of Lloyd's in accordance with our engagement letter dated 4 September 2020 (the "instructions"). Our examination has been undertaken so that we might state to the Council of Lloyd's those matters which we are required to state in this report in accordance with the instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
London
30 March 2021

Pro Forma Profit and Loss Account

(For the year ended 31 December 2020)

Technical account	Note	£m	2020 £m	£m	2019 £m
Gross written premiums	9		35,466		35,905
Outward reinsurance premiums			(9,640)		(10,246)
Premiums written, net of reinsurance			25,826		25,659
Change in the gross provision for unearned premiums		78		186	
Change in the provision for unearned premiums, reinsurers' share		(28)		(24)	
			50		162
Earned premiums, net of reinsurance	9		25,876		25,821
Allocated investment return transferred from the non-technical account			1,042		1,371
			26,918		27,192
Claims paid					
Gross amount		21,422		22,991	
Reinsurers' share		(6,506)		(7,133)	
			14,916		15,858
Change in provision for claims					
Gross amount		6,075		1,083	
Reinsurers' share		(2,062)		(580)	
			4,013		503
Claims incurred, net of reinsurance	9		18,929		16,361
Net operating expenses	9, 11		9,623		9,998
Balance on the technical account for general business			(1,634)		833
Non-technical account					
Balance on the technical account for general business			(1,634)		833
Investment return on syndicate assets		1,231		1,667	
Notional investment return on members' funds at Lloyd's	6	949		1,657	
Investment return on Society assets		88		213	
Total investment return	12	2,268		3,537	
Allocated investment return transferred to the technical account		(1,042)		(1,371)	
			1,226		2,166
Loss on exchange			(105)		(54)
Other income	7		92		59
Other expenses	7		(466)		(472)
Result for the financial year before tax	8		**(887)**		2,532

All operations relate to continuing activities.

Pro Forma Statement of Comprehensive Income

(For the year ended 31 December 2020)

Statement of other comprehensive income		2020 £m	2019 £m
Result for the year	8	(887)	2,532
Currency translation differences		49	31
Other comprehensive gains in the syndicate annual accounts		12	14
Remeasurement loss on pension liabilities in the Society accounts		(40)	(49)
Total comprehensive (loss)/income for the year		**(866)**	2,528

Pro Forma Balance Sheet

(As at 31 December 2020)

Investments	Note	2020 £m	2020 £m	2019 £m	2019 £m
Financial investments	13		69,478		63,562
Deposits with ceding undertakings			71		38
Reinsurers' share of technical provisions					
Provision for unearned premiums	18	3,588		3,700	
Claims outstanding	18	21,485		19,897	
			25,073		23,597
Debtors					
Debtors arising out of direct insurance operations	14	8,796		9,014	
Debtors arising out of reinsurance operations	15	8,730		8,256	
Other debtors		1,162		929	
			18,688		18,199
Other assets					
Tangible assets		28		28	
Cash at bank and in hand	16, 22	10,473		9,631	
Other		79		140	
			10,580		9,799
Prepayments and accrued income					
Accrued interest and rent		98		110	
Deferred acquisition costs	18	4,148		4,404	
Other prepayments and accrued income		168		169	
			4,414		4,683
Total assets			**128,304**		119,878
Capital, reserves and subordinated loan notes					
Members' funds at Lloyd's	6	30,959		27,595	
Members' balances	17	(326)		(242)	
Members' assets (held severally)		30,633		27,353	
Central reserves (mutual assets)		2,513		2,491	
Total capital and reserves	8		**33,146**		29,844
Subordinated loan notes	2		795		794
Total capital, reserves and subordinated loan notes			**33,941**		30,638
Technical provisions					
Provision for unearned premiums	18	16,743		17,143	
Claims outstanding	18	64,364		59,655	
			81,107		76,798
Deposits received from reinsurers			727		880
Creditors					
Creditors arising out of direct insurance operations	20	1,423		1,402	
Creditors arising out of reinsurance operations	21	6,834		6,751	
Other creditors including taxation		2,886		2,378	
Senior debt	2	299		–	
			11,442		10,531
Accruals and deferred income			1,087		1,031
Total capital, reserves and liabilities			**128,304**		119,878

Approved by the Council on 30 March 2021 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Pro Forma Statement of Cash Flows

(For the year ended 31 December 2020)

	Note	2020 £m	2019 (restated) £m
Result for the financial year before tax		(887)	2,532
Increase/(decrease) in gross technical provisions		4,797	(869)
Increase in reinsurers' share of gross technical provisions		(1,602)	(410)
Increase in debtors		(343)	(192)
Increase in creditors		287	402
Movement in other assets/liabilities		(180)	618
Investment return		(2,268)	(3,537)
Depreciation		33	6
Tax paid		(33)	(69)
Foreign exchange		129	576
Other		133	110
Net cash flows from operating activities		66	(833)
Investing activities			
Purchase of equity and debt instruments		(32,110)	(37,871)
Sale of equity and debt instruments		31,304	36,856
Purchase of derivatives		(621)	(721)
Sale of derivatives		608	736
Investment income received		887	1,060
Other		(378)	30
Net cash flows from investing activities		(310)	90
Financing activities			
Net profits or losses paid to members		1,461	963
Net capital transferred into/(out of) syndicate premium trust funds		333	(405)
Interest paid on subordinated and senior loan notes		(42)	(38)
Senior debt issuance	2	299	–
Net movement in members' funds at Lloyd's		(270)	(1,156)
Other		61	174
Net cash flows from financing activities		1,842	(462)
Net increase/(decrease) in cash and cash equivalents		1,598	(1,205)
Cash and cash equivalents at 1 January		11,128	12,395
Exchange differences on cash and cash equivalents		8	(62)
Cash and cash equivalents at 31 December	22	**12,734**	11,128

Note: Refer to note 3(a) for details of the restatement of the 2019 comparative amounts.

Notes to the Pro Forma Financial Statements

1. The Pro Forma Financial Statements

The Pro Forma Financial Statements (PFFS) 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.

2. Basis of preparation

General

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) and the financial statements of the Society of Lloyd's (the Society). Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the PFFS.

The Aggregate Accounts report the audited results for calendar year 2020 and the financial position at 31 December 2020 for all life and non-life syndicates that transacted business during the year. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 9). In order to provide more meaningful information in the Aggregate Accounts and PFFS, the Society has required syndicates to report certain disclosures presented on a consistent basis, which may vary from presentation included in the individual syndicates' annual accounts.

The profit and loss account in the PFFS aggregates the syndicate results, the notional investment return on members' capital and the results of the Society. The balance sheet in the PFFS aggregates the assets and liabilities held at syndicate level, members' assets held as FAL and the central resources of the Society.

The PFFS have, where practicable, been prepared in accordance with United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice (UK GAAP)), including Financial Reporting Standard 102 (FRS 102) and the applicable Accounting Standard on insurance contracts Financial Reporting Standard 103 (FRS 103). In preparing the PFFS, note disclosures have been included for those areas the Council consider material to enable the PFFS to depict a comprehensive view of the financial results and position of the Lloyd's market and to enable comparison with general insurance companies. Application of UK GAAP is not practicable for the following items; the approach taken in preparing the PFFS is outlined in a) to e) below:

– Use of the aggregation basis to prepare the PFFS;
– Notional investment return on members' funds at Lloyd's;
– The statement of changes in equity;
– Taxation; and
– Related party transactions.

(a) Aggregation

The PFFS have not been prepared in accordance with full consolidation principles and do not present a consolidated view of the results of the Lloyd's business taken as a single entity for the reasons detailed further below. However, the PFFS may be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

The syndicates' financial information included in the PFFS has been prepared in accordance with the recognition and measurement requirements of UK GAAP by reference to the accounting policies that are deemed most appropriate by the managing agents. Where different accounting policies have been selected by managing agents in preparing syndicate annual accounts, no adjustments are made to align the bases of recognition and measurement in the PFFS. In addition, no adjustments are made to eliminate inter-syndicate transactions and balances except for those relating to inter-syndicate loans and Special Purpose Arrangements (SPA). Transactions between syndicates and the Society are also eliminated in the PFFS. These adjustments are described below:

Inter-syndicate loans

The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £212m (2019: £127m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the PFFS (note 8).

Special Purpose Arrangements (SPA)

The Aggregate Accounts include the results and assets of the SPA (see Glossary on page 79). Due to the nature of the SPA, the quota share of the host syndicates' business is reported as gross written premiums in both the host syndicate and the SPA annual accounts. This leads to an overstatement of the original premiums written by the whole Lloyd's market. To provide users of the PFFS with a more meaningful presentation of the market's figures, all the transactions arising from the insurance contracts between the SPA and host syndicates have been eliminated. The key impact of this elimination is that gross written premium is reduced by £659m (2019: £568m). The elimination does not affect the PFFS result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

Transactions between syndicates and the Society

– Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate returns and as income in the Society financial statements.
– Syndicate loans to the Central Fund are reported as assets in the syndicate returns and as equity in the Society financial statements.
– Technical insurance-related transactions and balances existing between the syndicates and the subsidiaries of the Society are reported in both the syndicate returns and in the Society financial statements.

- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls, and do not have the resources to meet those cash calls, are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate returns include those members' results and at the balance sheet date will report the outstanding liability within members' balances.
- Loans funding statutory overseas deposits are reported as assets within the syndicate returns and as liabilities in the Society financial statements.

(b) Notional investment return on members' funds at Lloyd's (FAL)

A notional investment return on FAL has been estimated, which is the equivalent of insurance companies generating investment return on the capital that they hold to support their underwriting. Where Lloyd's is the investment manager for FAL, the actual return achieved has been included. For other assets the notional investment return, net of management fees, is estimated on the average value of FAL during the year, based on yields from indices for each type of asset held. The typical investment return on bank deposits has been applied to FAL, provided as letters of credit or bank guarantees. The actual return achieved on FAL investments will differ from the notional return due to individual stocks held, daily cash flows and transactional charges. Notional investment return on FAL is reported in the non-technical account.

Due to the estimation of the notional investment return, movements in FAL recorded within the financing section of the statement of cash flows is comprised of both cash and non-cash activity.

(c) Statement of changes in equity

Where Lloyd's is not the investment manager for FAL, actual changes are not available and therefore a statement of changes in equity has not been included. However, a statement of changes in members' balances has been included in note 17.

(d) Taxation

The PFFS report the market's result before tax. Members are responsible for tax payable on their syndicate results and investment income on FAL. For consistency, the results of the Society are also included pre-tax in the profit and loss account. The statement of financial position in the Society financial statements includes the Society's own tax provision balances.

(e) Related party transactions

Individual syndicates or their members do not disclose details of insurance and/or reinsurance transactions with other (non-related) syndicates or members within the market. Therefore, analysis and/or disclosure of these transactions within the Lloyd's market in the PFFS is not possible. Other than the disclosures made in note 24, a more detailed related party transaction note is therefore not included within the PFFS. The annual accounts of each syndicate or member provide, where appropriate, the required disclosures on related parties.

Members' funds at Lloyd's (FAL)

FAL comprise the capital provided by members, which is generally held centrally, to support their underwriting, and are the equivalent of capital shown in insurance companies' accounts. The valuation of FAL has, therefore, been included in the pro forma balance sheet. FAL is available to meet cash calls made on the member in respect of a syndicate liability. The assets in FAL must be readily realisable and may include letters of credit and bank and other guarantees.

The total resources, including FAL, for members writing ongoing insurance must be at least equivalent to the aggregate of the member's Economic Capital Assessment (ECA) requirement and certain liabilities in respect of its underwriting business. Each member's ECA to support its underwriting at Lloyd's is determined using Lloyd's Solvency Capital Requirement to ultimate capital setting methodology.

Subordinated loan notes

In accordance with the terms of the Society's subordinated loan notes, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves and subordinated loan notes' in the pro forma balance sheet.

Senior debt

Unsecured senior debt of £300m was issued by the Society on 21 January 2020, increasing liabilities. The debt has been issued to finance the investment in the Future at Lloyd's strategy.

Society financial statements

The PFFS include the results and net assets reported in the financial statements of the Society of Lloyd's (after appropriate adjustments to convert to UK GAAP), comprising the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates.

Part VII transfer of EEA Lloyd's market business

On 30 December 2020, Lloyd's Insurance Company S.A (Lloyd's Brussels) assumed the EEA non-life insurance business written in Lloyd's market between 1993 and 2020 which were transferred pursuant to Part VII of the Financial Services and Markets Act 2000 (Part VII). The value of the liabilities transferred was £3,381m. Lloyd's Brussels received a cash consideration of the same amount from the syndicates.

These liabilities were subsequently reinsured by 100% quota share to syndicates on the same day. The reinsurance premium paid was of the same amount of £3,381m. Consequently, there was no gain or loss arising on the transaction.

The technical insurance-related transactions and balances arising from the transaction have been eliminated in the PFFS and therefore there is no impact on the PFFS, including the segmental analysis by line of business presented in note 9.

3. Accounting policies notes

Sources of significant accounting judgements and estimation uncertainty

The PFFS aggregates judgements, estimates and assumptions made by managing agents in respect of syndicate balances, and the Council, in respect of the Society of Lloyd's and FAL balances. These judgements, estimates and assumptions affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the PFFS are described in the following accounting policies:

- Claims provisions and related recoveries are the most significant accounting estimate in preparing the PFFS, in particular for losses incurred but not reported. Variances between the estimated and actual cost of settling claims impacts claims incurred, net of reinsurance and the balance on the technical account for general insurance (see note 3(a) and note 18);
- Estimated premium income, in particular estimates for premiums written under delegated authority agreements, is a significant estimate. Variances between the estimated premium income and actual received impact gross written premiums and provisions for unearned premium (see note 3(a) and note 9);
- Valuation of investments requires a degree of estimation, in particular for valuations based on models and inputs other than those observable in the market ('level 3' of the fair value hierarchy). The estimation uncertainty impacts the carrying value of financial investments, which is the largest PFFS asset class, however, a relatively small proportion is valued at 'level 3' of the fair value hierarchy (see note 3(a) and note 13); and
- Notional investment return on FAL is an estimate based on yields from indices for each type of asset held. The estimation uncertainty affects the notional investment return presented separately in the profit and loss account and the carrying value of member's funds at Lloyd's on the balance sheet (see note 2(b), note 3(b) and note 6).

The most critical accounting estimate included within the balance sheet is the estimate for outstanding claims. The total estimate, on a gross basis, as at 31 December 2020 is £64,364m (2019: £59,655m). The total estimate, net of reinsurers' share, as at 31 December 2020 is £42,879 m (2019: £39,758m) and is included within the pro forma balance sheet.

(a) Aggregate accounts

General

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, managing agents must prepare syndicate annual accounts under UK GAAP. However, where UK GAAP permits different accounting treatments, each managing agent is able to adopt the accounting policies it considers most appropriate to its syndicate. The following accounting policies are, therefore, an overview of the policies generally adopted by syndicates.

Premiums written

Premiums written represent premiums on business incepting during the year, together with adjustments for premiums written in previous accounting periods. Premiums written are stated before deduction of commissions but net of taxes, duties levied on premiums and other deductions.

Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportioned as appropriate.

Outward reinsurance premiums

Outward reinsurance premiums comprise the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premiums represents that part of reinsurance premium ceded that is estimated to be earned in following financial years.

Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the line of business, the claims experience for the year and the current security rating of the reinsurers involved. Statistical techniques are used to assist in making these estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The directors of each syndicate's managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them.

3. Accounting policies notes continued

However, the ultimate liability will vary as a result of subsequent information and events, which may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Additional information on insurance risk is disclosed in note 4.

Discounted claims provisions

Due to the long delay between the date of an incurred claim and the final settlement of the claim, the outstanding claims provisions are discounted to take account of the expected investment income receivable between claim event and settlement dates on the assets held to cover the provisions. This is only applicable to the syndicates that discount their claims provisions. Additional detail is disclosed in note 19 of the PFFS.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated at syndicate level by reference to lines of business that are managed together, and may take into account relevant investment return.

Acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Foreign currencies

The Council considers that the functional currency and the presentational currency of the PFFS and Aggregate Accounts is sterling. In the context of the PFFS and Aggregate Accounts the Council views this to be the equivalent of a group which has different operating units with a mix of functional currencies.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the average rate may be used when this is a reasonable approximation.

At each period end foreign currency monetary items are translated using the closing rate. For this purpose, all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of non-monetary assets and liabilities denominated in foreign currencies are recognised in other comprehensive income for those items where the gain or loss is required to be recognised within other comprehensive income, and in the non-technical account where the gain or loss is required to be recognised within profit or loss.

Investments

Investments are stated at fair value at the balance sheet date. For this purpose, listed investments are stated at their bid price market value, and deposits with credit institutions and international deposits are stated at cost, less any provision for impairment.

Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

Syndicate investment return

Syndicate investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price.

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and the valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Syndicate investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account where the investments generating the return relate to insurance business.

Tangible assets

Tangible assets relate to plant and equipment and the Lloyd's Collection.

Taxation

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

Operating expenses

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

Profit commission

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

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

Cash at bank and in hand

Cash at bank and in hand includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Comparative disclosures

Certain comparative balances have been reclassified to be consistent with current year presentation.

Prior year restatement

The Pro Forma Cash Flow Statement 2019 comparative amounts have been restated for changes in presentation and correction of presentational errors. The effect of the adjustments have no net impact on the net decrease in cash and cash equivalents or the cash and cash equivalents balance in the Pro Forma Balance Sheet.

Cash flows for derivative purchase or sale transactions have been restated to be presented on a net basis to reflect the actual cash flows. This results in a decrease in cash outflows/inflows from the purchase/sale of derivatives of £4,000m. The net impact on net cash flows from investing activities is £nil.

Cash inflows from investment income received of £890m has been restated to correct for a misclassification within foreign exchange losses. Foreign exchange losses of £62m have also been reclassified from other cash flows from operations, resulting in a net decrease in foreign exchange losses of £828m. Net cash flows generated from operating activities decrease and net cash flows from investing activities increase by £890m as a result.

Increases in debtors and creditors have been restated to eliminate balances between the Society and syndicates. Increases in insurance contract assets and liabilities of £1,531m and insurance payables to syndicates and premium receivables of £1,054m have been eliminated. The result is a reduction in the increase in debtors and creditors of £2,585m respectively. The impact on net cash flows from operating activities is £nil.

	2019 £m	Adjustment £m	2019 (restated) £m
Increase in debtors	(2,777)	2,585	(192)
Increase in creditors	2,987	(2,585)	402
Foreign exchange	1,404	(828)	576
Other	172	(62)	110
Net cash flows from operating activities	57	(890)	(833)
Investment income received	170	890	1,060
Purchase of derivatives	(4,721)	4,000	(721)
Sale of derivatives	4,736	(4,000)	736
Net cash flows from investing activities	(800)	890	90

(b) Member's funds at Lloyd's (FAL)

FAL is valued in accordance with its market value at the year end, and using year end exchange rates. Investments are stated at fair value at the balance sheet date. For this purpose, listed investments are stated at their bid price market value, and deposits with credit institutions and international deposits are stated at cost.

Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date. Letters of credit are stated at the amount guaranteed by the issuing credit institution.

As disclosed in the basis of preparation a notional investment return on FAL is estimated, which is recognised in the non-technical account.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. Where a member takes advantage of this facility, the capital held in the premium trust fund is reported within members' balances and the investment return retained within the non-technical account.

(c) Society of Lloyd's (the Society)

Adjustments have been made to the information incorporated into the PFFS where the Council have considered there to be material accounting policy differences between the existing international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union accounting policies and the recognition and measurement requirements of UK GAAP.

4. Risk management

Governance framework

The following governance structure relates to the Society as a whole, as the preparer of the PFFS. Individual syndicates will report, in their syndicate annual accounts, the governance structure applied to them by their managing agents.

An Act of Parliament, the Lloyd's Act 1982, defines the governance structure and rules under which Lloyd's operates. Under the Act, the Council is responsible for the management and supervision of the market. Lloyd's is regulated by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000.

The Council currently has three working, three external and eight nominated members. The working and external members are elected by Lloyd's members. The Chairman and Deputy Chairmen are elected annually by the Council from among its members. All members are approved by the PRA.

The Council can discharge some of its functions directly by making decisions and issuing resolutions, requirements, rules and byelaws. Other decisions are delegated to associated committees.

The Council is responsible for the day-to-day management of the Lloyd's market. It lays down guidelines for all syndicates and operates a business planning and monitoring process to safeguard high standards of underwriting and risk management, thereby improving sustainable profitability and enhancing the financial strength of the market.

The principal committees of the Council are the Nominations and Governance Committee, the Remuneration Committee, the Audit Committee, the Risk Committee, the Market Supervision and Review Committee, the Innovation Investment Committee, the Capacity Transfer Panel, the Investment Committee and the Technology & Transformation Committee.

Capital management objectives, policies and approach

Capital framework at Lloyd's

The Society is a regulated undertaking and subject to the supervision of the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000. Within this supervisory framework, the Society applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at an overall and member level only, not at a syndicate level. Accordingly, the capital requirements in respect of individual syndicates are not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The SCRs of each syndicate are subject to review by the Society and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a several basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR that reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, the Society applies a capital uplift to the member's capital requirement to determine the ECA. The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2020 was 35% (2019: 35%) of the member's SCR 'to ultimate'.

Solvency Capital Requirement (Solvency II basis)

The SCR represents the amount of capital required to withstand a 1 in 200 year loss event over a one year horizon. Given Lloyd's unique structure there are two SCRs that are monitored under the Solvency II regime:

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

Individual syndicates are also required to calculate a SCR, at a 99.5% confidence level over a one year horizon, for each underwriting year; this drives the determination of member level SCRs. Each member's SCR is derived as the sum of the member's share of the syndicate's one year SCR. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk.

The MWSCR and CSCR are derived from the Lloyd's Internal Model (LIM), which has been approved by the PRA. Individual syndicates also derive SCRs from their own internal models that are subject to approval by the Society's Capital and Planning Group. The appropriateness of each syndicate's internal model, including changes thereto and the reasonableness of the key assumptions are assessed as part of the Society's oversight of the Lloyd's market.

The Lloyd's Internal Model

The LIM is a purpose-built model designed to calculate the MWSCR 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 the Society's parameterisation at a whole market level to build a view of total market capital requirements from the ground up using market level assumptions. The LIM uses a methodology whereby losses from insurance and other risks are simulated by line of business, allocated to syndicates and through to members to assess the level of capital required by the market and centrally to meet 1 in 200 year losses over the one year time horizon.

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

Details of the major risk components are set out below.

Insurance risk

The dominant category of risk faced by Lloyd's syndicates is insurance risk. This is the risk arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. In practice, insurance risk can be subdivided into:

(i) underwriting risk;
(ii) reserving risk;
(iii) credit risk; and
(iv) catastrophe risk.

Underwriting risk

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

Underwriting strategy is agreed by the Board of each managing agent and set out in the syndicate business plan that is submitted to the 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 standards 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.

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 across lines of business but can arise from inadequate reserves for known or incurred but not reported (IBNR) claims. These shortfalls can arise from inadequate reserving processes or from the naturally uncertain progress of insurance events.

4. Risk management continued

Lloyd's current level of aggregate market reserves remains robust and the continued level of overall reserve releases are supported by underlying claims experience being more favourable than expected. This will not necessarily translate to all syndicates. There are currently few specific reserving issues and the main perceived risks relate to macro influences such as inflation or changes in legislation, or prescribed levels of payout. The Society analyses reserve developments at line of business and syndicate levels quarterly; and briefs the market on issues it considers need to be taken into account.

Case-specific claim reserves should make financial provision at reported loss levels, without prejudice to coverage.

Legal advisers', underwriters' and loss adjusters' judgement are used to set the estimated case reserves.

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

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

Credit risk

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

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

Catastrophe risk

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

Lloyd's MWSCR

The MWSCR is broken down into the various risk components as shown below.

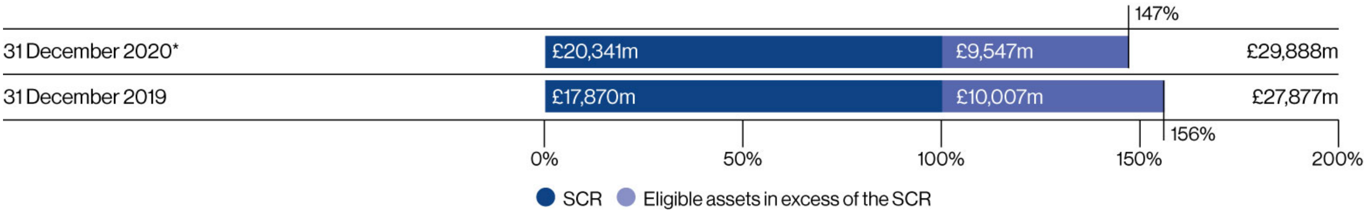
	31 December 2020* SCR £m	31 December 2019 SCR £m
Reserving risk	7,790	7,392
All other (attritional) underwriting risk	8,248	7,422
Catastrophe risk	1,357	1,476
Market risk	2,389	507
Reinsurance credit risk	836	659
Operational risk	893	780
Pension risk	40	10
MWSCR before adjustments	21,553	18,246
Foreign exchange adjustment for movement in H2 2020 (H2 2019)	(1,212)	(376)
MWSCR	20,341	17,870

* SCR is not subject to audit.

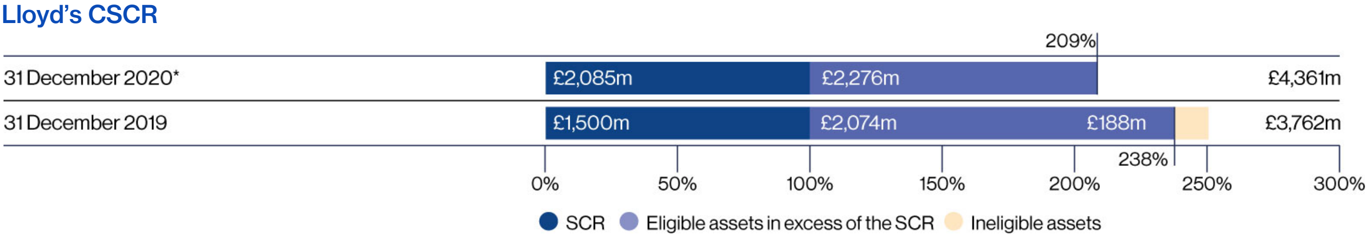
Solvency Capital Requirement coverage

Coverage of the MWSCR and CSCR is an ongoing and continuous requirement and the Society reports the results of its solvency test – ie the amount of the MWSCR, eligible assets to cover it and the solvency ratio – on a quarterly basis to the PRA. Lloyd's solvency coverage for both MWSCR and CSCR are set out below.

Lloyd's MWSCR



Lloyd's CSCR



* Represents the position based on the unaudited solvency returns, which may differ from the final audited 2020 submissions.

In addition to the quarterly reporting to the PRA, internal risk appetites have been set to monitor the coverage of the MWSCR and CSCR as part of the risk management framework in place at Lloyd's. During 2020, the solvency coverage ratios for both the MWSCR and the CSCR were in excess of internal risk appetites and regulatory requirements.

- MWSCR: The Society aims to hold market capital sufficient to provide financial security to policyholders and capital efficiency to members. Members are required to put up funds to meet their ECA, which is set as their SCR (on an ultimate view of risk) plus an uplift of 35%. The Society does not require excess capital to be held above this level and considers that the risk appetite of 125% of SCR gives an appropriate buffer following diversification benefits. In the event that the capital put up by a member falls below their ECA through losses incurred or an increase in their risk profile, additional funds must be deposited. If members do not recapitalise, their authority to continue to trade is restricted to the level of their available capital or ultimately fully withdrawn and they cease trading. Such action would then reduce their risk and the aggregate MWSCR; and
- CSCR: All policies written at Lloyd's are supported by central assets managed by the Society, which underpin the financial strength ratings of the Lloyd's market and its international licence network. Accordingly, the risk appetite for 200% CSCR coverage reflects the prudent approach to maintaining adequate central assets to meet a 1 in 200 year event and be in position to continue to write new business.

4. Risk management continued

Solvency cover ratios	MWSCR coverage	CSCR coverage
31 December 2020	147%	209%
31 December 2019	156%	238%
Risk appetite for solvency cover ratio	125%	200%

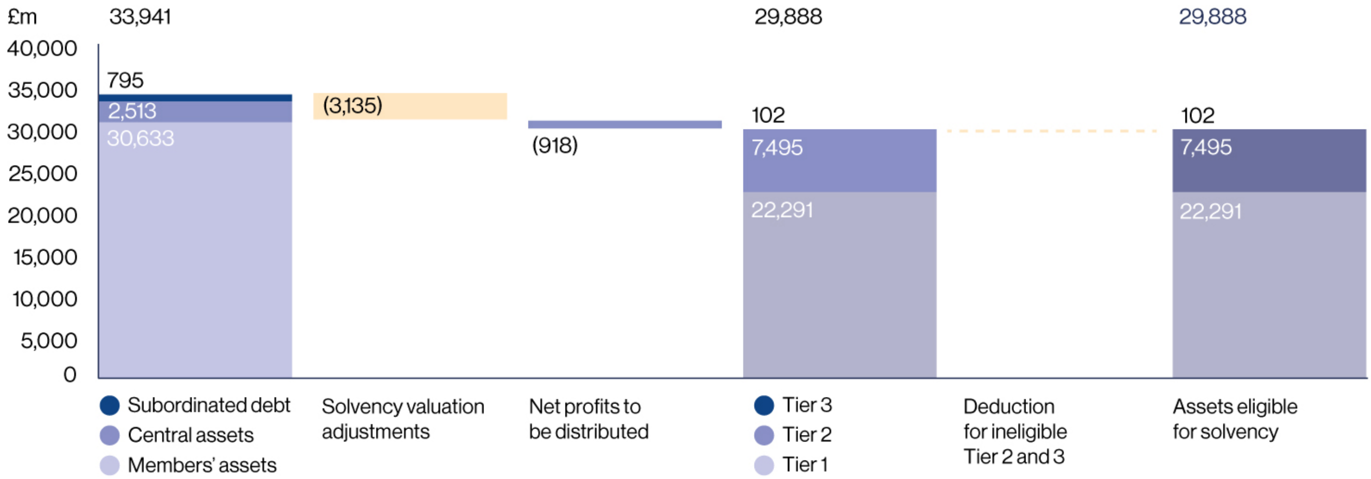
* Based on the unaudited solvency returns.

Assets eligible for solvency

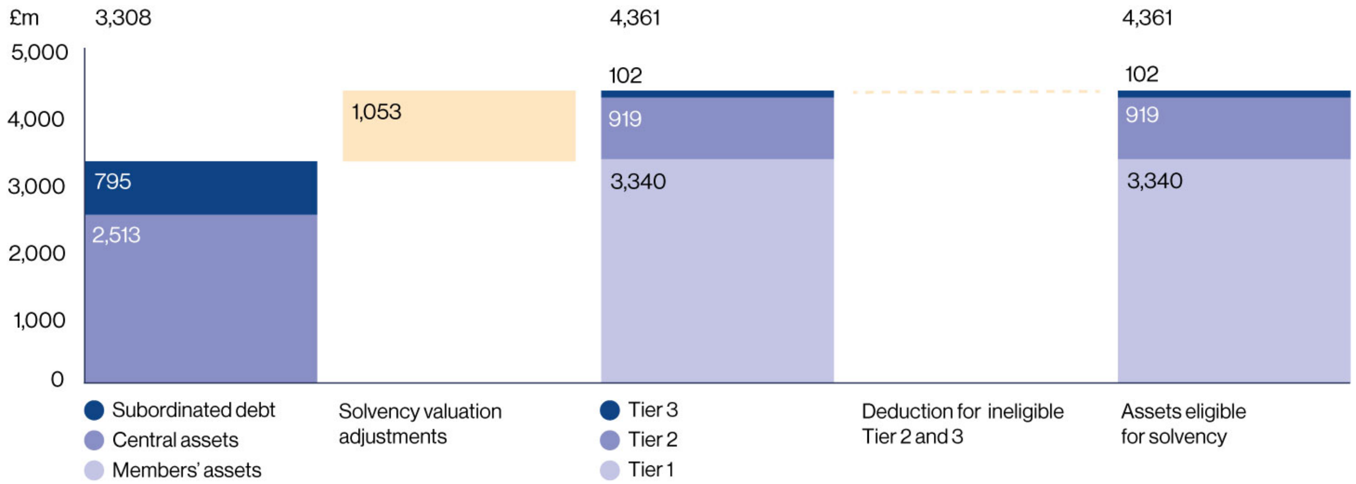
The assets of the syndicates, members' FAL and the Society all contribute towards coverage of the MWSCR, after adjustments to value items in accordance with Solvency II valuation principles. Members' assets are however not fungible. The Society assets and callable layer, in the chain of security, are available to cover the CSCR.

The eligibility of assets to cover the SCR under Solvency II is determined by a tiering test. Tier 1 assets are fully available to cover the SCR while Tier 2 and Tier 3 assets in aggregate can cover up to 50% of the SCR. The majority of the assets available to cover the MWSCR are Tier 1. A proportion of members' FAL is provided in the form of letters of credit which are classes as Tier 2 assets, restricting their ability to cover the MWSCR. However, given the total value of these instruments at 31 December 2020 is less than 50% of the SCR, there are no unrestricted assets. These letters of credit are callable on demand and when called, the proceeds, namely cash, would qualify as Tier 1 assets.

Lloyd's MWSCR (£m) – reconciliation of assets from a UK GAAP basis to a Solvency II basis



Lloyd's CSCR (£m) – reconciliation of assets from a UK GAAP basis to a Solvency II basis



* Per 31 December 2020 balance sheet. Other amounts represent the position based on the unaudited solvency returns, which may differ from the final audited 2020 submissions.

Claims development table

The tables below illustrate the development of the estimates of earned ultimate cumulative claims for syndicates in aggregate after the end of the underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non-sterling balances have been converted using 2020 year end exchange rates to aid comparability. As these tables are on an underwriting year basis there is an apparent jump from figures for the end of the underwriting year to one year later as a large proportion of premiums are earned in the year of account's second year of development.

The claims development information disclosed has increased from nine years to ten years in 2020.

Gross

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	**2020 £m**	Total £m
At end of underwriting year		9,131	8,206	7,055	7,225	6,980	8,592	16,288	13,404	10,129	11,400	
One year later		14,917	13,358	13,308	13,753	14,447	18,765	26,298	24,519	22,337		
Two years later		15,027	13,591	13,494	14,609	15,291	20,276	28,157	26,879			
Three years later		14,998	13,415	13,182	14,476	16,026	21,000	28,608				
Four years later		15,066	13,381	12,972	15,362	16,427	21,201					
Five years later		14,920	13,227	13,277	15,536	16,633						
Six years later		14,825	13,622	13,469	15,540							
Seven years later		15,312	13,879	13,419								
Eight years later		15,722	13,841									
Nine years later		15,695										
Cumulative payments		14,722	12,596	11,960	13,340	13,111	15,913	20,115	14,871	6,800	1,714	
Estimated balance to pay	3,953	973	1,245	1,459	2,200	3,522	5,288	8,493	12,008	15,537	**9,686**	64,364

Net

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	**2020 £m**	Total £m
At end of underwriting year		7,369	6,245	5,859	5,854	5,722	6,663	9,418	9,015	7,497	8,187	
One year later		11,915	10,652	10,946	11,042	11,494	14,063	16,520	16,813	16,132		
Two years later		11,931	10,791	10,968	11,615	12,017	14,928	17,821	18,324			
Three years later		11,841	10,637	10,707	11,497	12,395	15,339	18,153				
Four years later		11,869	10,465	10,524	11,793	12,403	15,238					
Five years later		11,485	10,360	10,609	11,722	12,437						
Six years later		11,416	10,510	10,592	11,709							
Seven years later		11,619	10,543	10,532								
Eight years later		11,741	10,487									
Nine years later		11,718										
Cumulative payments		10,999	9,575	9,499	10,190	10,116	11,926	12,734	10,864	5,500	1,233	
Estimated balance to pay	2,598	719	912	1,033	1,519	2,321	3,312	5,419	7,460	10,632	**6,954**	42,879

4. Risk management continued
Financial risk
Credit risk
Credit risk is the exposure to loss if a counterparty fails to perform its contractual obligations.

As discussed on page 58, the market's principal credit risk is that the reinsurance purchased to protect the syndicates' gross losses does not respond as expected. Syndicates are also exposed to credit risk in their premium debtors. Credit risk in respect of premium debt is controlled through broker approval and regular monitoring of premium settlement performance. Syndicates and members are exposed to credit risks in their investment portfolios. PRA and Lloyd's investment guidelines are designed to mitigate credit risk by ensuring diversification of holdings.

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure.

The tables below show the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

2020	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Debt securities	47,764	–	–	47,764
Participation in investment pools	2,799	–	–	2,799
Loans with credit institutions	5,503	–	–	5,503
Deposits with credit institutions	4,185	–	–	4,185
Derivative assets	116	–	–	116
Other investments	113	–	–	113
Reinsurers' share of claims outstanding	21,492	–	(7)	21,485
Cash at bank and in hand, including letters of credit and bank guarantees	10,473	–	–	10,473
Total	**92,445**	**–**	**(7)**	**92,438**

2019	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Debt securities	44,208	–	–	44,208
Participation in investment pools	2,484	–	–	2,484
Loans with credit institutions	3,780	–	–	3,780
Deposits with credit institutions	3,855	–	–	3,855
Derivative assets	95	–	–	95
Other investments	85	–	–	85
Reinsurers' share of claims outstanding	19,903	–	(6)	19,897
Cash at bank and in hand, including letters of credit and bank guarantees	9,631	–	–	9,631
Total	84,041	–	(6)	84,035

In aggregate there were no financial assets that would be past due, or impaired whose terms have been renegotiated, held by syndicates, the Society or within FAL in the current or prior period.

In aggregate there were no material debt and fixed income assets held that were past due or impaired beyond their reported fair values, either for the current or prior periods under review or on a cumulative basis. For the current period and prior period, in aggregate there were no material defaults on debt securities.

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

The table below provides information regarding the credit risk exposure at 31 December 2020 by classifying assets according to the credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as other. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated. This table is the sum of assets neither past due nor impaired.

2020	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	12,882	11,031	12,696	6,214	4,941	47,764
Participation in investment pools	104	98	63	10	2,524	2,799
Loans with credit institutions	31	43	630	19	4,780	5,503
Deposits with credit institutions	1,823	578	735	290	759	4,185
Derivative assets	–	1	3	–	112	116
Other investments	5	2	–	–	106	113
Reinsurers' share of claims outstanding	415	4,797	13,782	288	2,210	21,492
Cash at bank and in hand	902	633	8,713	70	155	10,473
Total credit risk	**16,162**	**17,183**	**36,622**	**6,891**	**15,587**	**92,445**

2019	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	12,196	11,154	10,946	5,956	3,956	44,208
Participation in investment pools	89	93	35	6	2,261	2,484
Loans with credit institutions	151	142	152	133	3,202	3,780
Deposits with credit institutions	1,740	487	521	251	856	3,855
Derivative assets	–	2	2	–	91	95
Other investments	7	6	–	–	72	85
Reinsurers' share of claims outstanding	521	4,251	12,828	228	2,075	19,903
Cash at bank and in hand	216	1,403	7,388	193	431	9,631
Total credit risk	14,920	17,538	31,872	6,767	12,944	84,041

Liquidity risk

Liquidity risk arises where there are insufficient funds to meet liabilities, particularly claims. Managing agents are expected to manage the cash needs of their syndicates on an ongoing basis and to avoid becoming forced sellers of assets. Generally, syndicates have a high concentration of liquid assets, namely cash and government securities.

The Society centrally monitors syndicate liquidity and conducts stress tests to monitor the impact on liquidity of significant claims events.

4. Risk management continued

The table below summarises the maturity profile of financial liabilities for the market.

2020	No stated maturity £m	0-1 yrs £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Claims outstanding	–	21,947	22,617	10,135	9,665	64,364
Derivatives	–	43	2	7	1	53
Deposits received from reinsurers	560	119	36	8	4	727
Creditors	1,449	8,827	612	40	162	11,090
Other liabilities	15	98	1	–	–	114
Subordinated loan notes	–	–	–	497	298	795
Senior debt	–	–	–	–	299	299
Total	**2,024**	**31,034**	**23,268**	**10,687**	**10,429**	**77,442**

2019	No stated maturity £m	0-1 yrs £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Claims outstanding	1	19,640	21,026	9,656	9,332	59,655
Derivatives	8	15	4	1	–	28
Deposits received from reinsurers	641	177	47	10	5	880
Creditors	699	8,908	697	55	144	10,503
Other liabilities	13	71	–	–	–	84
Subordinated loan notes	–	–	–	496	298	794
Senior debt	–	–	–	–	–	–
Total	1,362	28,811	21,774	10,218	9,779	71,944

Market risk – overview

Market risk is the risk of loss, or of adverse change in financial situation resulting from fluctuations in the level of the market prices of assets and liabilities arising from exposure to economic variables and market forces such as inflation, interest rates and rates of foreign exchange.

Syndicate assets are held in premium trust funds and are subject to the asset rules contained in the PRA's handbook and must comply with Lloyd's Membership & Underwriting Requirements. Managing agents manage asset risk through their investment strategy.

Oversight of market risk includes the monitoring of Investment Management Minimum Standards. The Society monitors assets across the full 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 the Society on a quarterly basis, including credit rating analysis of fixed income portfolios.

Market risk comprises three types of risk:

(a) currency risk;
(b) interest rate risk; and
(c) equity price risk.

Currency risk

Managing agents must identify the main currencies in which each syndicate transacts its business. For the market overall, the US dollar is the largest currency exposure. Assets are then held in each of those currencies to match the relevant liabilities. Managing agents must ensure that assets match liabilities and take corrective action where a mismatch arises. The Society also reviews the matching of assets to liabilities at the syndicate level as well as at the market level. In addition, many members seek to match their capital disposition by currency against their peak exposures.

The profile of the aggregate of the Lloyd's market assets and liabilities, categorised by currency at their translated carrying amounts was as follows:

2020	Sterling £m	US dollar £m	Euro £m	Canadian $ £m	Australian $ £m	Other £m	Total £m
Financial investments	10,816	46,197	2,741	6,036	1,753	1,935	69,478
Reinsurers' share of technical provisions	4,085	18,134	1,338	949	484	83	25,073
Insurance and reinsurance receivables	2,667	12,884	912	540	395	128	17,526
Cash at bank and in hand	2,627	6,023	737	358	398	330	10,473
Other assets	903	3,981	486	205	127	52	5,754
Total assets	21,098	87,219	6,214	8,088	3,157	2,528	128,304
Technical provisions	15,034	52,601	5,614	4,673	2,229	956	81,107
Insurance and reinsurance payables	1,033	6,172	434	309	179	130	8,257
Other liabilities	3,329	2,147	182	207	54	(125)	5,794
Total liabilities	19,396	60,920	6,230	5,189	2,462	961	95,158
Total capital and reserves	**1,702**	**26,299**	**(16)**	**2,899**	**695**	**1,567**	**33,146**

2019	Sterling £m	US dollar £m	Euro £m	Canadian $ £m	Australian $ £m	Other £m	Total £m
Financial investments	10,273	42,435	2,687	5,144	1,721	1,302	63,562
Reinsurers' share of technical provisions	4,089	16,942	1,278	842	334	112	23,597
Insurance and reinsurance receivables	2,813	12,784	754	435	343	141	17,270
Cash at bank and in hand	2,958	5,191	558	333	317	274	9,631
Other assets	847	4,052	481	264	147	27	5,818
Total assets	20,980	81,404	5,758	7,018	2,862	1,856	119,878
Technical provisions	14,871	49,040	5,542	4,251	1,838	1,256	76,798
Insurance and reinsurance payables	1,403	5,836	360	337	131	86	8,153
Other liabilities	2,711	2,039	(1)	226	56	52	5,083
Total liabilities	18,985	56,915	5,901	4,814	2,025	1,394	90,034
Total capital and reserves	1,995	24,489	(143)	2,204	837	462	29,844

4. Risk management continued

Sensitivity analysis

A 10% strengthening or weakening of the pound sterling against the following currencies at 31 December would have increased/(decreased) the result before tax and members' balances for the financial year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

2020	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	462	3,092
Weakening of US dollar	(378)	(2,530)
Strengthening of euro	(42)	2
Weakening of euro	34	(2)

2019	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	616	2,886
Weakening of US dollar	(504)	(2,361)
Strengthening of euro	(47)	(13)
Weakening of euro	38	11

The impact on the result before tax is different to the impact on members' balance as the calculation of the notional return on members' funds at Lloyd's is not affected by currency movements.

Interest rate risk

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

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on the result before tax and equity of the effects of changes in interest rates.

2020	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(427)	(614)
- 50 basis points	410	597

2019	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(359)	(542)
- 50 basis points	344	527

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

Such risks are managed by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each sector and market.

In aggregate there is no significant concentration of equity price risk.

The analysis below is performed for reasonably possible movements in market indices on financial instruments with all other variables held constant, showing the impact on the result before tax due to changes in fair value of financial assets and liabilities (whose fair values are recorded in the profit and loss account) and members' balances (that reflects adjustments to the result before tax and changes in fair value of available for sale financial assets that are equity instruments).

2020	**Impact on result before tax £m**	**Impact on members' balances £m**
5% increase in equity markets	99	263
5% decrease in equity markets	(99)	(263)

2019	Impact on result before tax £m	Impact on members' balances £m
5% increase in equity markets	98	285
5% decrease in equity markets	(98)	(285)

Concentration risk

The Society closely monitors concentrations of risk across the market and tests risk exposure against clearly defined risk appetites as established by the Council. Specialist supervisory teams across the Society monitor concentrations across the following areas: region perils, line of business, geographical location, method of distribution in insurance and investment counterparties, among others.

While syndicates define the type of business that they write, at the market level the Society seeks to avoid an inappropriate concentration of premium sources, monitoring concentration of business in poorly performing lines, material sources of premium by method of placement as well as coverholder concentration, which feature in metrics reported quarterly to the Council. 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 line of business impacted, with different levels of the requirements placed on syndicates, which forms part of the Society's oversight role of the market.

Further analysis of premiums, claims, expenses and underwriting result by line of business is included within note 9 of the PFFS, with commentary on the performance of each line of business included on pages 38 – 44. Analysis of premium by geographical region is included both within note 9 of the PFFS (which details where contracts were concluded) as well as within the Lloyd's line of business breakdown by region analysis in the '2020 At a Glance' section. Analysis of capital providers by source and location is also included in the '2020 At a Glance' section. Analysis of investments held within the market is disclosed in note 13 of the PFFS.

4. Risk management continued

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 that may adversely impact the global licence network. The Society 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 Conduct Minimum Standards. Similarly, the Society monitors global political trends and is taking action at both a market and Society level in response to a growing geopolitical risk facing companies operating around the world.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Managing agents manage these risks through internal compliance monitoring and the use of detailed procedure manuals. The Society sets minimum standards to be applied by agents and monitors to ensure these are met.

Group risk

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

5. Variability

Movements in reserves are based upon best estimates as at 31 December 2020 taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimate are reflected in the technical account of the year in which they occur. The aggregate of the prior year surpluses/deficiencies is a net surplus of £461m (2019: surplus of £232m). Surpluses have been reported across all classes of business except casualty reflecting favourable claims development compared to projections.

6. Members' funds at Lloyd's (FAL)

The valuation of members' FAL in the balance sheet totals £30,959m (2019: £27,595m). The notional investment return on FAL included in the non-technical profit and loss account totals £949m (2019: £1,657m).

The notional investment return on FAL has been calculated by applying quarterly yields from indices, net of management fees, to the value of FAL at the beginning of each quarter except where the Society is the investment manager for FAL, in which case the actual return achieved has been included. A significant proportion of FAL investments are US dollar denominated and, for these assets, US dollar yields from indices are applied.

The following table shows the indices used and the return applied for the full year.

		Proportion of FAL		Investment return	
Investment type	Index	**2020 %**	2019 %	**2020 %**	2019 %
UK equities	FTSE All share	4.0	4.4	(8.4)	17.4
UK government bonds	UK Gilts 1-3 years	5.0	2.9	0.8	0.6
UK corporate bonds	UK Corporate 1-3 years	3.7	4.7	1.3	1.0
UK deposits managed by Lloyd's	Return achieved	5.2	4.3	0.3	0.8
UK deposits managed externally including letters of credit	GBP LIBID 1 month	7.1	10.1	0.0	0.5
US equities	S&P 500 Index	8.0	8.7	16.8	27.9
US government bonds	US Treasuries 1-5 years	17.0	16.8	3.9	3.8
US corporate bonds	US Corporate 1-5 years	25.3	26.4	5.3	5.9
US deposits managed by Lloyd's	Return achieved	9.7	7.1	0.7	2.3
US deposits managed externally including letters of credit	USD LIBID 1 month	15.0	14.6	0.4	2.1

7. Society of Lloyd's (the Society)

The results of the Group financial statements of the Society included in the profit and loss account are a profit of £413m (2019: a profit of £434m) in the technical account and a loss of £373m (2019: a loss of £249m) in the non-technical account.

Other income of £92m (2019: £59m) contains £99m of Society income, offset by £7m of other charges reported by the market. Whilst other expenses £466m (2019: £472m) is entirely driven by Society results.

8. Aggregation of results and net assets

A reconciliation between the results, statement of other comprehensive income and net assets reported in the syndicate annual accounts, members' FAL and by the Society is set out below:

Profit and loss account	**2020 £m**	2019 £m
Result per syndicate annual accounts	(1,876)	690
Result of the Society	50	137
Taxation charge in the Society financial statements	10	33
Notional investment return on members' funds at Lloyd's	949	1,657
Movement in Society income not accrued in syndicate annual accounts	(20)	15
Result for the financial year before tax	**(887)**	2,532

Capital and reserves	**2020 £m**	2019 £m
Net assets per syndicate annual accounts	(276)	(209)
Net assets of the Society	3,027	2,601
Elimination of syndicate loans	(514)	(110)
Members' funds at Lloyd's	30,959	27,595
Unpaid cash calls reanalysed from debtors to members' balances	(12)	(11)
Society income receivable not accrued in syndicate annual accounts	(38)	(22)
Total capital and reserves	**33,146**	29,844

Transactions between syndicates and the Society which have been reported within both the syndicate annual accounts and the Society financial statements have been eliminated in the PFFS as set out in note 2.

9. Segmental analysis

The syndicate returns to the Society provided additional information to derive the following table in respect of the lines of business reviewed in the financial highlights.

2020	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Underwriting result £m
Reinsurance	12,159	8,616	(6,352)	(2,920)	(656)
Property	9,227	6,605	(5,893)	(2,816)	(2,104)
Casualty	9,067	6,688	(4,615)	(2,761)	(688)
Marine, Aviation and Transport	2,976	2,322	(1,172)	(911)	239
Energy	1,265	877	(451)	(347)	79
Motor	720	719	(410)	(261)	48
Life	52	49	(36)	(20)	(7)
Total from syndicate operations	35,466	25,876	(18,929)	(10,036)	(3,089)
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society				413	413
PFFS premiums and underwriting result	**35,466**	**25,876**	**(18,929)**	**(9,623)**	**(2,676)**
Allocated investment return transferred from the non-technical account					1,042
Balance on the technical account for general business					**(1,634)**

2019	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Underwriting result £m
Reinsurance	11,418	7,841	(5,566)	(2,709)	(434)
Property	9,586	6,815	(3,817)	(2,986)	12
Casualty	9,459	6,793	(4,177)	(3,006)	(390)
Marine, Aviation and Transport	2,802	2,343	(1,567)	(975)	(199)
Energy	1,500	1,008	(580)	(401)	27
Motor	1,053	955	(613)	(331)	11
Life	87	66	(41)	(24)	1
Total from syndicate operations	35,905	25,821	(16,361)	(10,432)	(972)
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society				434	434
PFFS premiums and underwriting result	35,905	25,821	(16,361)	(9,998)	(538)
Allocated investment return transferred from the non-technical account					1,371
Balance on the technical account for general business					833

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

	2020 £m	2019 £m
United Kingdom	22,983	25,043
EU member states	2	26
Rest of the World	426	380
Total	**23,411**	25,449

10. Life business

The PFFS include the results of all life and non-life syndicates transacting business during 2020. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 9).

11. Net operating expenses

	2020 £m	2019 £m
Acquisition costs	8,439	8,977
Change in deferred acquisition costs	234	138
Administrative expenses	2,177	2,155
Reinsurance commissions and profit participation	(1,227)	(1,272)
Total	**9,623**	9,998

Total commissions on direct insurance business accounted for in the year amounted to £5,508m (2019: £6,057m).

12. Investment return

Interest and similar income	2020 £m	2019 £m
From financial instruments designated as at fair value through profit or loss	1,608	2,433
From available for sale investments	32	36
Dividend income	22	30
Interest on cash at bank	29	52
Other interest and similar income	21	39
Investment expenses	(52)	(58)
Total	**1,660**	2,532
Other income from investments designated as at fair value through profit or loss		
Realised gains	188	251
Unrealised gains	394	723
Other relevant income	26	31
Total	**608**	1,005
Total investment return	**2,268**	3,537

13. Financial investments

	2020 £m	2019 £m
Shares and other variable yield securities	8,998	9,055
Debt securities and other fixed income securities	47,764	44,208
Participation in investment pools	2,799	2,484
Loans and deposits with credit institutions	9,688	7,635
Other investments	229	180
Total financial investments	**69,478**	63,562

Disclosures of fair values in accordance with the fair value hierarchy

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

The fair value hierarchy includes the following classifications:

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. The significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset.

2020	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Assets held at amortised cost £m	Total £m
Shares and other variable yield securities	4,436	3,775	785	8,996	2	8,998
Debt and other fixed income securities	16,447	31,309	8	47,764	–	47,764
Participation in investment pools	2,500	297	2	2,799	–	2,799
Loans and deposits with credit institutions	6,051	2,979	30	9,060	628	9,688
Other investments	21	99	109	229	–	229
Total assets	**29,455**	**38,459**	**934**	**68,848**	**630**	**69,478**
Derivative liabilities	(8)	(44)	(1)	(53)	(15)	(68)
Total liabilities	**(8)**	**(44)**	**(1)**	**(53)**	**(15)**	**(68)**

2019	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Assets held at amortised cost £m	Total £m
Shares and other variable yield securities	4,493	3,836	723	9,052	3	9,055
Debt and other fixed income securities	14,971	29,225	12	44,208	–	44,208
Participation in investment pools	2,297	180	7	2,484	–	2,484
Loans and deposits with credit institutions	4,374	2,745	26	7,145	490	7,635
Other investments	14	92	74	180	–	180
Total assets	26,149	36,078	842	63,069	493	63,562
Derivative liabilities	(3)	(23)	(1)	(27)	–	(27)
Total liabilities	(3)	(23)	(1)	(27)	–	(27)

14. Debtors arising out of direct insurance operations

	2020 £m	2019 £m
Due within one year	8,718	8,938
Due after one year	78	76
Total	**8,796**	9,014

15. Debtors arising out of reinsurance operations

	2020 £m	2019 £m
Due within one year	8,373	7,625
Due after one year	357	631
Total	**8,730**	8,256

16. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £6,586m (2019: £6,856m).

17. Members' balances

	2020 £m	2019 £m
Balance at 1 January	(242)	(1,472)
Result for the year per syndicate annual accounts	(1,876)	690
Losses collected in relation to distribution on closure of the 2017 (2016) underwriting year	967	83
Advance distributions from open underwriting years	(16)	(40)
Cash calls requested (but not yet paid)	510	920
Net movement on funds in syndicate (see note below)	333	(405)
Exchange gains	(1)	36
Other	(1)	(54)
Balance at 31 December	**(326)**	(242)

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account with reference to policies incepting in that year of account. Members' balances represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and members' funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of 2021.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. These funds are known as funds in syndicate (FIS). At 31 December 2020 there was £5,005m (2019: £4,616m) of FIS within members' balances. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as 'net movement on funds in syndicate'.

18. Technical provisions

(a) Provisions for unearned premiums

2020	**Gross £m**	**Reinsurers' share £m**	**Net £m**
At 1 January	17,143	3,700	13,443
Premiums written in the year	35,466	9,640	25,826
Premiums earned in the year	(35,544)	(9,668)	(25,876)
Exchange movements	(322)	(84)	(238)
At 31 December	**16,743**	**3,588**	**13,155**

2019	Gross £m	Reinsurers' share £m	Net £m
At 1 January	17,868	3,853	14,015
Premiums written in the year	35,905	10,246	25,659
Premiums earned in the year	(36,091)	(10,270)	(25,821)
Exchange movements	(539)	(129)	(410)
At 31 December	17,143	3,700	13,443

(b) Deferred acquisition costs

	2020 £m	2019 £m
At 1 January	4,404	4,680
Change in deferred acquisition costs	(234)	(138)
Exchange movements	(63)	(129)
Other	41	(9)
At 31 December	**4,148**	4,404

(c) Claims outstanding

2020	Gross £m	Reinsurers' share £m	Net £m
At 1 January	59,655	19,897	39,758
Claims paid during the year	(21,422)	(6,506)	(14,916)
Claims incurred during the year	27,497	8,568	18,929
Exchange/other movements	(1,366)	(474)	(892)
At 31 December	**64,364**	**21,485**	**42,879**

2019	Gross £m	Reinsurers' share £m	Net £m
At 1 January	60,450	19,541	40,909
Claims paid during the year	(22,991)	(7,133)	(15,858)
Claims incurred during the year	24,074	7,713	16,361
Exchange/other movements	(1,878)	(224)	(1,654)
At 31 December	59,655	19,897	39,758

19. Discounted claims

Discounting may be applied to claims provisions where there are individual claims with structured settlements that have annuity-like characteristics or for books of business with mean term payment greater than four years. Certain syndicates have elected to discount their claims provisions.

The claims have been discounted as follows:

	Average discounted rates		Average mean term of liabilities	
Line of business	**2020 %**	2019 %	**2020 years**	2019 years
Motor (third party liability)	1.84	1.80	30.14	28.52
Motor (other lines)	3.00	2.98	5.59	5.84
Third party liability	3.44	2.74	21.74	22.66

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

The claims provisions before discounting are as follows:

	Before discounting		Effect of discounting		Discounted provision	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Total claims provisions	1,293	1,353	(309)	(338)	984	1,015
Reinsurers' share of total claims	433	422	(66)	(68)	367	354

20. Creditors arising out of direct insurance operations

	2020 £m	2019 £m
Due within one year	1,410	1,345
Due after one year	13	57
Total	**1,423**	1,402

21. Creditors arising out of reinsurance operations

	2020 £m	2019 £m
Due within one year	6,573	6,392
Due after one year	261	359
Total	**6,834**	6,751

22. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	2020 £m	2019 £m
Cash at bank and in hand	10,473	9,631
Short term deposits with credit institutions	2,513	1,798
Overdrafts	(252)	(301)
Total	**12,734**	11,128

Of the cash and cash equivalents, £720m (2019: £320m) is held in regulated bank accounts in overseas jurisdictions.

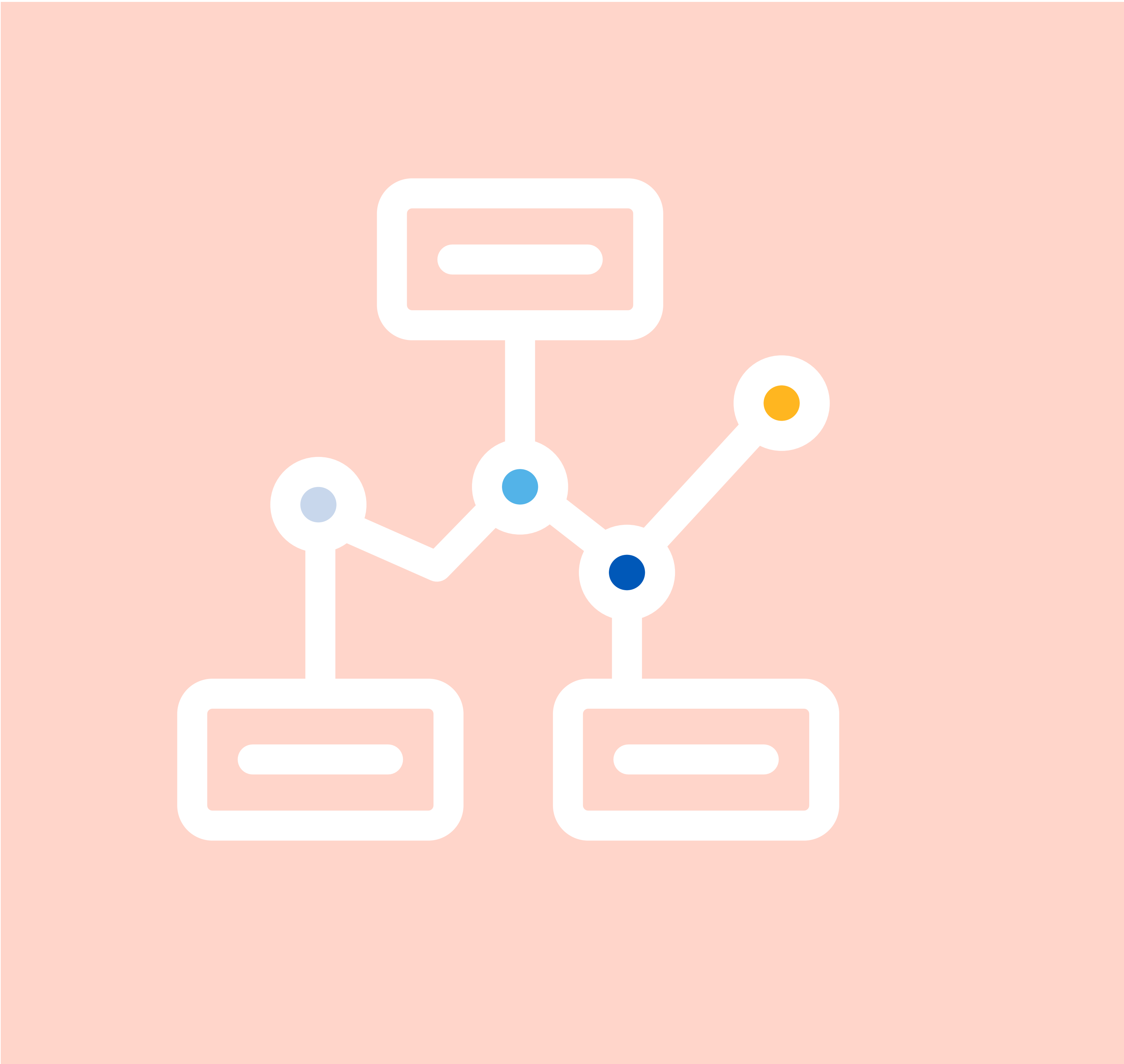
23. Five year summary

Results	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Gross written premiums	35,466	35,905	35,527	33,591	29,862
Net written premiums	25,826	25,659	25,681	24,869	23,066
Net earned premiums	25,876	25,821	25,178	24,498	22,660
Result attributable to underwriting	(2,676)	(538)	(1,130)	(3,421)	468
Result for the year before tax	(887)	2,532	(1,001)	(2,001)	2,107
Assets employed					
Cash and investments	79,951	73,193	71,240	67,902	67,646
Net technical provisions	56,034	53,201	54,924	51,087	49,875
Other net assets	9,229	9,852	11,112	9,952	9,943
Capital and reserves	**33,146**	29,844	27,428	26,767	27,714
Statistics					
Combined ratio (%)	110.3	102.1	104.5	114.0	97.9
Return on capital (%)	(2.8)	8.8	(3.7)	(7.3)	8.1

24. Related party transactions

The annual accounts of each syndicate provide, where appropriate, the required disclosures on related parties. Syndicate level disclosures are specific to that syndicate and its managing agent. For 2020, there were no material related party transactions conducted outside normal market conditions reported in the syndicate annual accounts requiring disclosure.

Other Information



Contents

Alternative Performance Measures (APMs)

The following metrics, which are consistently used to analyse financial performance in the Lloyd's market results, are considered to be Alternative Performance Measures (APMs) as defined in the European Securities and Markets Authority Guidelines (ESMA Guidelines) on Alternative Performance Measures.

Metric	Applicable part of the Annual Report	Definition	Reason for use
Combined ratio	Market Results	Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	Combined ratio is used to measure the profitability of the underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Expense ratio	Market Results	Expense ratio is a measure of the level of expenses associated with underwriting activity. It is the ratio of net operating expenses to earned premiums net of reinsurance.	Expense ratio is used to measure the level of expenses associated with underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market expenses to its peers.
Underwriting result	Market Results	Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.	Underwriting result is used to measure the profitability of the underwriting activity across the Lloyd's market.
Accident year ratio	Market Results	Accident year ratio is a measure of the profitability of the underwriting activity attributable to the current financial year. It is the ratio of net operating expenses plus claims incurred net of reinsurance and prior year releases to earned premium net of reinsurance.	Accident year ratio is used to measure the profitability of the underwriting activity of the Lloyd's market attributable to the current financial year.
Return on capital	Market Results	Return on capital is a measure of overall profitability. It is the ratio of result for the year before tax to the average of opening and closing total capital and reserves.	Return on capital ratio is used to measure the overall profitability and value creating potential of the Lloyd's market.
Investment return	Market Results	Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average of opening and closing financial investments and cash at bank and in hand.	Investment return ratio is used to measure the performance of the portfolio of investments and cash balances held across the Lloyd's market.
Solvency coverage ratio	Market Results	Under the Solvency II regime Lloyd's monitors the amount of eligible capital available to cover its market-wide SCR (MWSCR) and central SCR (CSCR). This is calculated as total eligible capital as a percentage of the respective solvency capital requirements.	Solvency coverage ratios are used to ensure that the society and its members hold sufficient capital to meet Lloyd's regulatory capital requirements, as well as to ensure Lloyd's solvency risk appetites are satisfied.

Glossary of Terms and Useful Links

Set out below is a guide to insurance and Lloyd's-related terms. These are not precise definitions but are included to provide assistance to readers as to the general meaning of terms commonly used in the Lloyd's market. Formal definitions are set out in the Definitions Byelaw.

Accident year ratio A measure of the profitability of the underwriting activity attributable to the current financial year. The accident year ratio is calculated as net operating expenses and net incurred losses (paid and reserves) for claims occurring in the year as a proportion of net premiums earned during the year. It excludes movements during the calendar year on claims, expenses and premium estimates for previous years.

Active underwriter A person employed by a managing agent with principal authority to accept insurance and reinsurance risks on behalf of the members of a syndicate.

Binding authority An agreement between a Lloyd's managing agent and a coverholder under which the Lloyd's managing agent delegates its authority to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate.

Budgeted operating expenses Operating expenses are budgeted on an annual basis as part of a Corporation-wide exercise. These are calculated on an IFRS basis using a bottom up approach, consolidating figures across the different countries and departments within the Corporation.

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

Central assets The net assets of the Society including the Central Fund, but excluding the subordinated debt liability and the callable layer.

Central Fund The fund financed by (among other things) contributions from Lloyd's members and administered by the Council primarily as a fund for the protection of policyholders, and includes both the Old Central Fund and the New Central Fund.

Central SCR The Lloyd's Central Solvency Capital Ratio is calculated to cover all of the risks facing the Society and the Central Fund at a 99.5% confidence level over a one year time horizon.

Combined ratio A measure of an insurer's underwriting profitability based on the ratio of net incurred claims plus net operating expenses to net earned premiums. A combined ratio of 100% is breakeven (before taking into account investment returns). A ratio less than 100% is an underwriting profit.

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

Corporation The Corporation of Lloyd's provides the licences and other facilities that enable business to be underwritten on a worldwide basis by managing agents acting on behalf of members.

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

Coverholder A firm either in the UK or overseas that is authorised by a managing agent under the terms of a binding authority to enter into contracts of insurance to be underwritten by members of a syndicate managed by the managing agent. A Lloyd's broker may act as a coverholder.

Economic Capital Assessment The level of capital required to meet Lloyd's financial strength, licence and rating objectives.

Financial Conduct Authority (FCA) The FCA supervises the conduct of the UK financial services industry. Lloyd's, managing agents, members' agents and Lloyd's brokers are regulated by the FCA.

Free cash balances Free cash represents the amounts, both at bank and on deposit, held in the UK and overseas, excluding any balances held in respect of insurance and arbitration activities.

Funds at Lloyd's (FAL) Capital lodged and held in trust at Lloyd's as security for the policyholders and to support a member's overall underwriting business.

Integrated Lloyd's Vehicle (ILV) An arrangement in which a syndicate's capital is wholly provided by corporate members that are under the same ownership and control as the syndicate's managing agent.

Investment return Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average financial investments and cash at bank and in hand.

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

Market-wide SCR The Market-Wide Solvency Capital Ratio is calculated to cover all of the risks arising on the 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.

Member (of the Society) A person admitted to the membership of the Society.

Members' agent An underwriting agent appointed by a member to provide services and perform duties including advising the member on which syndicates he should participate.

Name A member of the Society who is an individual and who trades on an unlimited basis.

New Central Fund The New Central Fund constituted by and governed by the New Central Fund Byelaw (No. 23 of 1996).

Non-technical account Under UK GAAP the profit and loss account must be divided between the technical account and the non-technical account. Reported in the latter is all investment return, although an element will be reanalysed to the technical account, and any income and expenses that do not arise directly from the entity's underwriting activity.

Operating surplus The operating surplus is calculated as income from members (including subscriptions, central fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.

Glossary of Terms and Useful Links continued

Premiums trust funds (PTF) The premiums and other monies that members receive in respect of their underwriting at Lloyd's are held by their managing agents in trust for them subject to the discharge of their underwriting liabilities.

The premiums trust funds comprise a sterling fund, Lloyd's American Trust Fund, Lloyd's Dollar Trust Funds, Lloyd's Canadian Trust Fund and the Lloyd's Asia trust funds (which cover general business written through coverholders in Singapore). These premiums trust funds are available to fund overseas regulatory deposits, claims, return premiums, underwriting expenses and any profit that is payable to the member after providing for all future liabilities.

Prior years' reserve movements This is calculated as movements in reserves established for claims that occurred in previous accident years.

Prudential Regulation Authority (PRA) The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. Lloyd's and managing agents are regulated by the PRA.

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

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

Reinsurance to close (RITC) syndicate A syndicate set up solely to underwrite the Reinsurance to Close of other syndicates.

Return on capital Return on capital is a measure of overall profitability. It is the ratio of results for the year before tax to the average of opening and closing total capital and reserves.

Service company 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.

Solvency ratio The measure of an insurer's solvency based on the ratio by which the net assets for solvency purposes exceed the solvency requirement.

Special Purpose Arrangement (SPA) A syndicate set up solely to underwrite a quota share reinsurance of another syndicate's business for a year of account.

Spread syndicate A syndicate whose capital is provided by a number of different members, including those that have separate ownership and control, to the syndicate's managing agent.

Spread vehicle A corporate member underwriting on a number of different syndicates.

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

Syndicate allocated capacity In relation to a syndicate the aggregate of the member's syndicated premium limits of all the members for the time being of the syndicate.

Technical account Under UK GAAP the profit and loss account must be divided between the technical account and the non-technical account. The technical account reports the results of the underwriting activity, premiums less claims, less expenses and also includes an element of the investment return reanalysed from the non-technical account.

Traditional syndicate A syndicate whose members underwrite insurance business at Lloyd's for the current year of account and which is neither a SPA syndicate nor an RITC syndicate.

Underwriting result Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.

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

Useful Links

To find out more information on Lloyd's, visit:

– What is Lloyd's	lloyds.com/whatislloyds
– Lloyd's market structure	lloyds.com/thelloydsmarket
– Lloyd's Corporation	lloyds.com/corporation
– Lloyd's capital structure and chain of security	lloyds.com/capitalstructure
– Lloyd's market governance	lloyds.com/governance
– Full glossary of terms	lloyds.com/glossary

Sharing risk
to create a
braver world

www.lloyds.com/annualresults2020