LLOYD'S

Annual Report
2014

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2014 was an outstanding year for the Lloyd's market with profits of £3.2bn, combined ratio was 88.1% and return on capital was 14.7%. Lloyd's capital position was further strengthened with net assets of £23.5bn. Lloyd's ratings were reaffirmed at A+ with Standard & Poor's, A with A.M. Best and upgraded to AA- with Fitch Ratings.

Lloyd's accepts business from over 200 countries and territories worldwide. Licences in over 75 jurisdictions, supported by a network of local offices and coverholders across the world, ensure access to insurance markets large and small.

Lloyd's in numbers

94

Syndicates

219

Brokers

3872

Coverholders

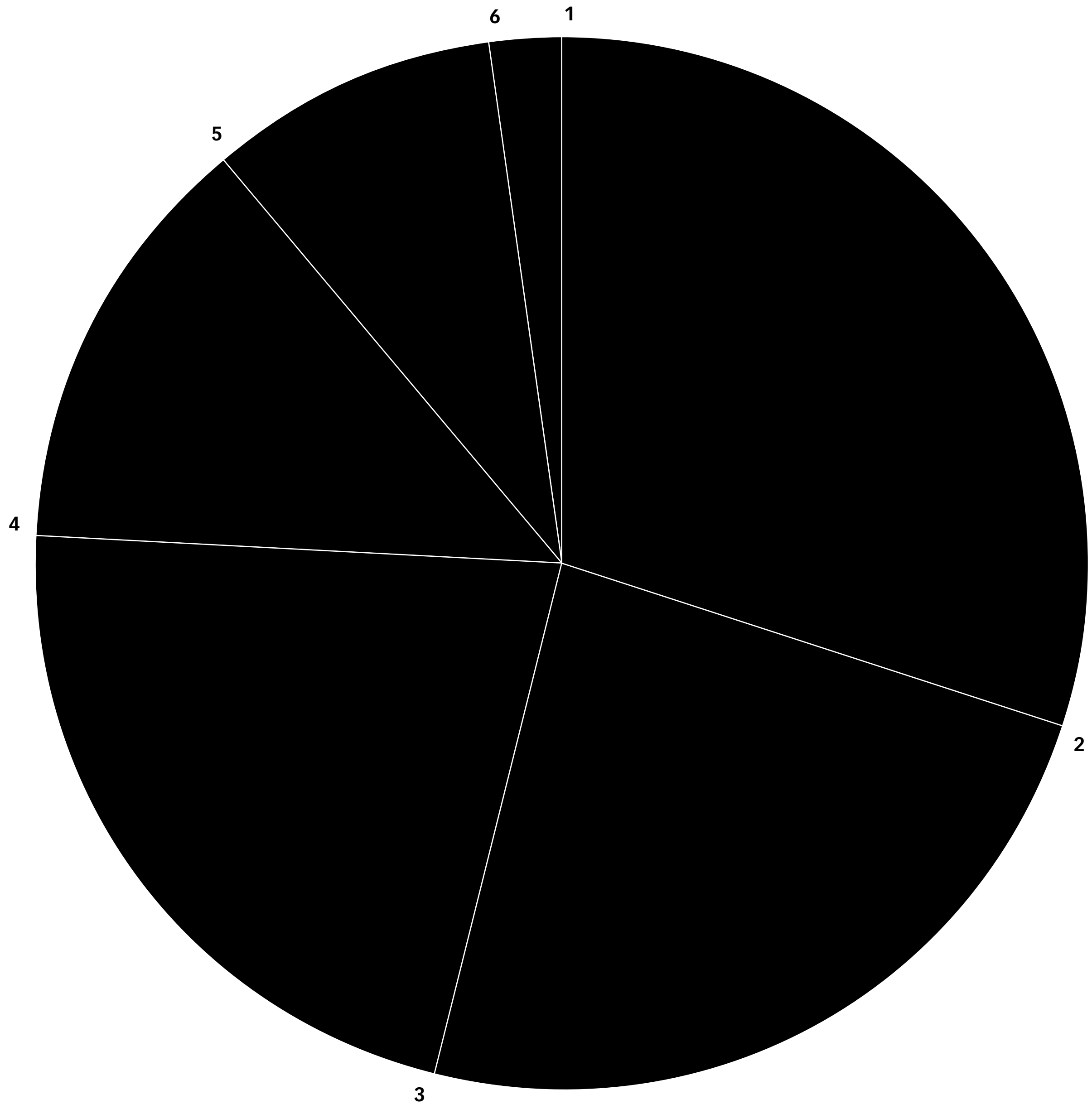
327

Years of underwriting experience

Lloyd's class breakdown by region

	US and Canada	Other Americas	United Kingdom	Rest of Europe	Central Asia & Asia Pacific	Rest of the World	Total for all Regions
Reinsurance	24%	74%	26%	34%	45%	62%	34%
Property	35%	6%	23%	17%	16%	9%	25%
Casualty	21%	8%	21%	19%	25%	10%	20%
Marine	7%	5%	6%	18%	8%	8%	8%
Energy	9%	5%	3%	6%	3%	3%	6%
Motor	2%	1%	20%	2%	1%	3%	5%
Aviation	2%	1%	1%	4%	2%	5%	2%
Total GWP	44%	8%	18%	15%	11%	4%	100%

Lloyd's capacity by source and location



1 30% UK listed and other corporate
2 24% Worldwide insurance industry
3 22% US insurance industry
4 13% Bermudian insurance industry
5 9% Individual members (limited liability)
6 2% Individual members (unlimited liability)

2014
At a Glance

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.

To read more on the financial results see **page 45**

The Aggregate Accounts are reported as a separate document and can be found at: **lloyds.com/annualresults**

Financial Highlights

- Lloyd's made a profit of £3,161m (2013: £3,205m).
- Combined ratio of 88.1% (2013: 86.8%).
- Gross written premium of £25,283m (2013: £25,615m).
- Capital, reserves and subordinated loan notes stand at £23,471m (2013: £21,107m).

Gross written premium*

£m	
2010	22,425
2011	23,337
2012	25,173
2013	25,615
2014	25,283

Result before tax

£m	
2010	2,195
2011	(516)
2012	2,771
2013	3,205
2014	3,161

Capital, reserves and subordinated debt and securities

£m	
2010	19,121
2011	19,114
2012	20,193
2013	21,107
2014	23,471

Central assets*

£m	
2010	2,377
2011	2,388
2012	2,485
2013	2,384
2014	2,578

Return on capital

%	
2010	12.1
2011	(2.8)
2012	14.8
2013	16.2
2014	14.7

Combined ratio

%	
2010	93.3
2011	106.8
2012	91.1
2013	86.8
2014	88.1

* See Glossary on pages 175-176

Chairman's Statement *I am very pleased to be able to report that 2014 was another outstanding year for the Lloyd's market. Profits were £3.2bn, the combined ratio was 88.1% and the return on capital was 14.7%.*

John Nelson
Chairman

These excellent results were achieved against the backdrop of continuing extremely low interest rates and softening premium rates, counter balanced by a second consecutive year of few major claims on the Lloyd's market. Lloyd's financial position remains strong. Our rating strength with Fitch is AA-, Standard & Poor's A+, and A with A.M. Best.

As you will read in this annual report, while Lloyd's has some great opportunities it is also facing a number of challenges. First, is the challenge of excess capital, partly caused by low interest rates, coming into the industry – lowering premium rates and in part changing the way in which business is being structured, particularly in reinsurance. Maintaining underwriting discipline in these conditions is important and is something which the Franchise Board and the Council are focused upon.

Second, in order to retain and strengthen its global competitiveness, we must ensure that the Lloyd's platform becomes more efficient and user friendly. We are now making good progress in modernising our platform. I feel we have real momentum with excellent collaboration across the market, both with managing agents and brokers.

Third, the current global economic picture is mixed. While we are seeing strengthening levels of economic growth in the US and in the UK, in continental Europe the picture is subdued. Insurance penetration in the developing markets remains low; volumes are growing at lower rates than previously but are still higher than the developed economies.

Lloyd's makes great efforts to communicate the economic and social benefits of increasing insurance penetration to the governments of these countries. We particularly emphasise the value of international diversification of their insurance markets leading to greater and sustainable economic growth.

Part of Vision 2025, our long-term strategy, is improving global access. We are making excellent progress. We obtained a branch licence in Beijing and permission to open our platform in Dubai and a representative office in Mexico City. We are also working hard on opening up new markets particularly in India (where legislation has recently been passed to enable Lloyd's to operate) and Turkey, and to expand Lloyd's trading rights in Malaysia and Colombia. The continued development of business in our established markets of North America, Europe and Australasia remains of fundamental importance.

2014 brought a considerable increase in workload for the Franchise Board, driven by changing market conditions, the development and implementation of our strategy, and regulation - not least Solvency II. I want to thank the Board members for the effort and commitment they have made.

John Parry succeeded Luke Savage as Director of Finance during the course of the year. I warmly welcome him into this role and thank Luke for ten years of Lloyd's service. Dominic Christian, Karen Green and Fred Hu joined the Council, and we said goodbye to Graham White (previously Deputy Chairman) and Nick Marsh. I want to pay a particular tribute to Graham for his tremendous support to Lloyd's over many years; he has been a loyal figure at Lloyd's and has always given wise counsel. Andrew Kendrick will retire from the Franchise Board at the end of this month; I thank him and Nick Marsh for their support and commitment. Joy Griffiths, Sean McGovern and John Parry joined the Franchise Board in 2014.

I would also like to commend our Chief Executive, Inga Beale, and her team for the work they are doing on behalf of the market. The managing agents and brokers continue to demonstrate their extraordinary support and enthusiasm for the Lloyd's market. For this I am truly grateful.

Finally, we had the great honour of a visit by Her Majesty The Queen, accompanied by the Duke of Edinburgh, to the Lloyd's building in March 2014. It was an uplifting day, which all of us will remember for a long time.

Chief Executive's Statement *The Lloyd's partnership – the bond between the market and Corporation – is imperative and lies at the heart of our tradition, identity and success.*

Inga Beale
Chief Executive

In the past 12 months we have seen a renewed spirit of collaboration between the market and the Corporation. This partnership has been most evident in the work on new conduct standards and our modernisation agenda. It has also been plain to see in preparations for the new Solvency II regulations which are due to come into force on 1 January 2016. We have been working on Solvency II for the past eight years; our efforts intensified during 2014 and will continue throughout 2015. Securing approval for our internal model in support of these new capital requirements is a key objective.

In 2014, three new syndicates joined Lloyd's, each one bringing particular benefits. The market also welcomed three new special purpose syndicates. These are proving a popular way for existing and new capital providers, particularly from developing markets, to participate in Lloyd's.

In the wider industry, a persistent imbalance between capital and risk is triggering increased competition, making organic growth difficult. In this context it is unsurprising that there has been a spike in M&A activity; the same happened in the mid to late 1990s. We expect this trend to continue through 2015 and accept the gauntlet that this consolidation throws down – to protect and promote the diversity of the Lloyd's market. It is for the Corporation and the market to ensure Lloyd's remains the best place for writing specialty insurance and reinsurance business, and that existing and new customers around the world know that.

During 2014 we set out eight strategic priorities that we believe to be critical to our future success as a business: Market Oversight, Ease of Doing Business, Market Access, Capital, Innovation, Talent, Brand and Global Corporate Social Responsibility. You will find a commentary and update on progress against these priorities in the later pages of this report. They are our lodestars, not for putting up on a dusty shelf but to be used every day.

Taking an example, if we look at Ease of Doing Business, we are refreshing the central services which the market relies upon. During 2014, we completed the Claims Transformation Programme; this has brought down the average time taken by Lloyd's to agree a claims transaction to 11 days. The publication in November 2014 of *London Matters*, a report commissioned by the London Market Group, helped us further scrutinise the competitive advantages of the London market. We are committed to playing our role as part of a flourishing insurance sector and a thriving UK economy. Our own Vision 2025 plan precisely addresses these challenges and opportunities.

North America remains the largest market for Lloyd's and we saw growth again here in 2014.

Our global story finds voice in our talent strategy. We are determined that Lloyd's should reflect the world in which we operate, that we continue to attract the brightest and best to the market and that the background and perspectives of our people match those of our customers and the geographies in which we transact. The 2014 launch of our diversity agenda, Inclusion@Lloyd's, was a rallying cry for the market and so far 90% of managing agents have signed up to its charter.

We will continue our engagement with brokers and underwriters around the world to ensure Lloyd's remains at the forefront of innovation in the sector – whether that's developing new products such as cyber or improving process efficiency.

Innovation is the natural response to new challenges. All that Lloyd's has seen, all that it has lived through during the past 327 years, only serves to remind us that in this world, change is the only certainty.

2014
Key Events

January—Inga Beale joined Lloyd's as Chief Executive Officer 27/01/ *March*—2013 result of £3.2bn profit announced 26/03/ HM The Queen visited Lloyd's 27/03/ *May*—Lloyd's secured new trading rights in Poland, Denmark, Sweden and Colombia 14/05/ *June*—Fitch upgraded Lloyd's financial strength rating to AA- 10/06/ *July*—Shirine Khoury-Haq joined Lloyd's as Director, Operations 07/07/ Legislation passed granting Lloyd's surplus lines eligibility in Kentucky 15/07/ *September*—The Chinese government awarded Lloyd's a licence to establish a

branch office in Beijing 15/09 /
£1.7bn profit for six months of 2014 announced 25/09 / *October* — Lloyd's Limited Dubai was granted a commercial licence and certificate of incorporation 13/10 / Society of Lloyd's issued £500m subordinated bond 27/10 / Standard & Poor's affirmed Lloyd's financial strength rating at A+ with outlook revised from positive to stable 14/10 / *November* — Lloyd's received approval to open a representative office in Mexico 24/11 /
December — John Parry appointed as Director, Finance 11/12 /

STRATEGIC REPORT

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The following pages present the Corporation's strategic report in relation to the Lloyd's market. The Lloyd's market comprises members underwriting through syndicates supported by the Society of Lloyd's, including the Central Fund. The interests of the Lloyd's market and the Society are interlinked and therefore this report refers to both.

How Lloyd's Works
The Lloyd's Market

ACE
ADVENT
AEGIS London

ALLIED WORLD
amlin
AmTrust at Lloyd's
An AmTrust Financial Company

antares
ANV
Arch
Underwriting at Lloyd's

Argenta
ARGO INTERNATIONAL
Member Argo Group
ARK

ascot
ASPEN
asta

ATRIUM
Barbican
Beaufort Underwriting Agency Limited

beazley
BRIT
CANOPIUS

CAPITA
CATHEDRAL
UNDERWRITING LTD
CATLIN
Insurance

Chaucer
CHUBB
1882
ERS

FARADAY
HARDY
HCC

As at 31 December 2014, the Lloyd's market consisted of 94 syndicates managed by 59 managing agents. The scope of specialist broking and underwriting expertise found together under the Lloyd's umbrella is unique.

HISCOX

MARKEL

MSIG

Novae

R&Q

S A Meacock & Company Limited

SPORTSCOVER UNDERWRITING LTD

The Channel Managing Agency

TRAVELERS

Watkins Syndicate

Liberty Specialty Markets

Marketform

Navigators Insuring A World In Motion

Pembroke MANAGING AGENCY

RenaissanceRe

SHELBOURNE SYNDICATE SERVICES

STARR COMPANIES GLOBAL INSURANCE & INVESTMENTS

TOKIO MARINE KILN

VIBE SYNDICATE MANAGEMENT

XL Group Insurance Reinsurance

MAP underwriting at Lloyd's

MONTPELIER AT LLOYD'S

NEWLINE GROUP

QBE

RIVERSTONE A FAIRFAX Company

Sirius International

TALBOT VALIDUS GROUP

torus

W. R. Berkley Syndicate Management Limited a W. R. Berkley Company

How Lloyd's Works

Market Structure

The structure of Lloyd's creates a market based on trusted relationships and expertise.

Market structure

Most of the business written at Lloyd's is brought by brokers to specialist underwriters who price and underwrite these risks. Policyholders across the world may access the Lloyd's market via a broker, coverholder or a service company.

Members – Providing the capital

The capital, which enables the syndicates' underwriting, is provided by members of Lloyd's. This capital is backed by many of the world's major insurance groups, listed companies, individuals and limited partnerships, with corporate groups providing the majority of the capital for the Lloyd's market. Members' agents provide advice and administrative services to members as needed.

Syndicates – Writing the insurance

A Lloyd's syndicate is formed by one or more members joining together to accept insurance risks. Most syndicates write a range of classes of business but many will have areas of specific expertise. Much of this business involves face-to-face negotiations between brokers and underwriters in the underwriting room of the Lloyd's building in London, where most syndicates trade. Syndicates are, technically, set up on an annual basis. In practice, they usually operate from year to year with members having the right, but not the obligation, to participate in syndicates the following year. These ongoing operations allow for a strong level of continuity in the capital which backs syndicates, meaning they function like permanent insurance operations under the Lloyd's umbrella.

Managing agents – Managing the syndicates

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

Distribution

Brokers

Lloyd's is a broker market, with brokers involved in all distribution channels. The majority of business written at Lloyd's is placed through brokers who facilitate the risk-transfer process between clients (policyholders) and underwriters. Lloyd's has strong relationships with both large and smaller specialist brokers.

Coverholders – Offering local access to Lloyd's

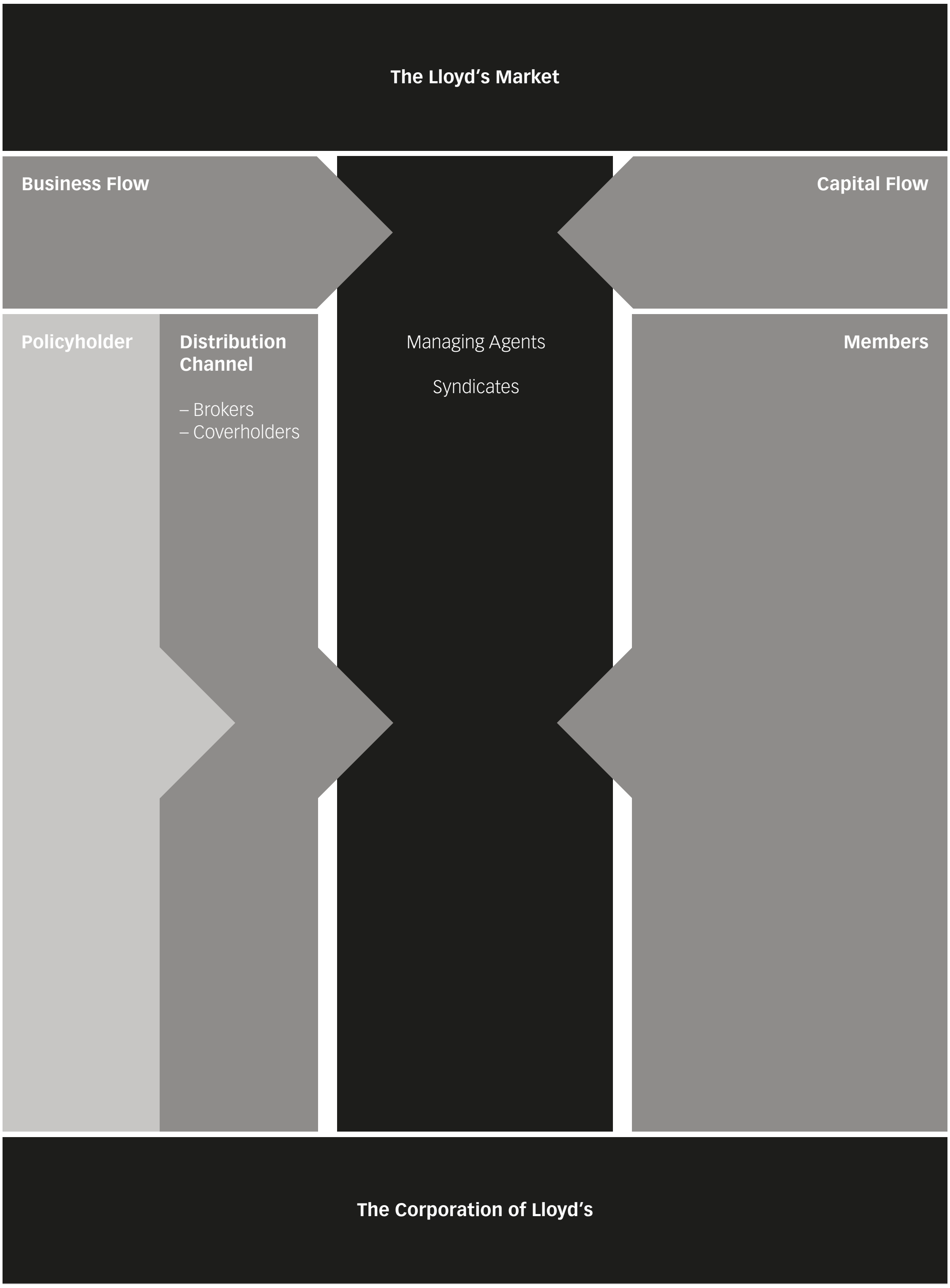
A coverholder is a business authorised by a managing agent to accept insurance risks on behalf of a syndicate. They are a vital distribution channel, offering a local route to Lloyd's in many insurance markets around the world. In 2014, Lloyd's had 3,872 coverholders. Its largest coverholder markets are currently the US, Canada, Europe and Australia, but Lloyd's coverholders can be found as far afield as Chile, Tahiti and South Africa.

A service company operates like a coverholder but is a wholly owned subsidiary of a managing agent or its group. Unlike a coverholder, a service company is able to sub-delegate underwriting authority to other coverholders. There are 321 service companies, with the majority in the UK and the US.

Policyholders

Businesses, organisations, other insurers and individuals from around the world want to protect themselves against potential risks. In larger businesses and organisations, risk managers are responsible for managing business risks. They manage the relationship with a broker and organise the purchase of insurance, which is one way of mitigating potential risks. Those wishing to purchase insurance may access the Lloyd's market via a broker, coverholder or service company.

How the market works (Figure 1)



How Lloyd's Works

Market Structure continued

Corporation of Lloyd's

Supporting the market

The Corporation of Lloyd's (the Corporation) oversees the market, provides processing services and promotes the Lloyd's brand. This includes the management of Lloyd's network of international licences. The Corporation's Executive Team exercises the day-to-day powers and functions of the Council of Lloyd's (the Council) and the Franchise Board. At the end of 2014, the Corporation and its subsidiaries had 949 staff.

As well as providing services to support the efficient running of the market, the Corporation works to continue to raise standards and improve performance across two main areas:

- Overall risk and performance management of the market.
- Maintaining and developing the market's attractiveness to capital providers, distributors and clients, while preserving its diversity and London-based model.

Managing insurance risk

Each syndicate sets its own appetite for risk, develops a business plan, arranges its reinsurance protection and manages its exposures and claims. The Corporation reviews and agrees business plans, monitors compliance against Lloyd's minimum standards and evaluates syndicates' performance against their plans. Syndicates can only underwrite in accordance with their agreed business plans. If they fail to do so, Lloyd's can take a range of actions including, as a last resort, stopping a syndicate underwriting.

Lloyd's capacity by source and location (Figure 2)

2014

Individual members (unlimited liability)	2%	US insurance industry	22%
Individual members (limited liability)	9%	Bermudian insurance industry	13%
UK listed and other corporate	30%	Worldwide insurance industry	24%

How Lloyd's Works
Chain of Security

The Chain of Security

Lloyd's capital structure, often referred to as the Chain of Security, provides excellent financial security to policyholders and capital efficiency for members. The Chain of Security provides the financial strength that ultimately backs insurance policies written at Lloyd's and the common security that underpins the market's ratings and licence network. Lloyd's Chain of Security has three links:

Link one – Syndicate assets

All premiums received by syndicates are held in trust as the first resource for paying policyholders' claims. Until all liabilities have been provided for, no profits can be released. Every year, each syndicate's reserves for future liabilities are independently audited and receive an actuarial review.

Link two – Members' funds at Lloyd's

Each member, whether corporate or individual, must provide sufficient capital to support their underwriting at Lloyd's. Each syndicate produces an Individual Capital Assessment (ICA) stating how much capital it requires to cover its underlying business risks at a 99.5% confidence level. The Corporation reviews each syndicate's ICA to assess the adequacy of the proposed capital level. When agreed, each ICA is then 'uplifted' to ensure there is sufficient capital to support Lloyd's ratings and financial strength. This uplifted ICA is known as the syndicate's Economic Capital Assessment and drives members' capital levels. Each member's capital is held in trust for the benefit of policyholders, but is not available for the liabilities of other members.

Link three – Lloyd's central assets

The central assets are available, at the discretion of the Council of Lloyd's, to meet any valid claim that cannot be met from the resources of any member further up the chain.

Should the first link need additional funds, the second link ensures members have additional resources available. In the rare event that these two links are insufficient, the third link, available at the discretion of the Council, provides further back-up to members to ensure valid claims are paid.

Lloyd's ratings

All Lloyd's syndicates benefit from Lloyd's central resources, including the Lloyd's brand, its global licences and the Central Fund. As all Lloyd's policies are backed by this common security, a single market rating can be applied. Lloyd's financial strength ratings apply to all policies issued by Lloyd's syndicates since 1993.

Three of the world's leading insurance rating agencies – Standard & Poor's, Fitch Ratings and A.M. Best – validate Lloyd's robust capitalisation and the market's financial strength.

Benefits of Lloyd’s to market participants (Figure 3)

Market access

Access to major insurance markets and an expanding licensing network.

Security and ratings

Excellent financial security underpinned by Lloyd’s Chain of Security and strong ratings capable of attracting specialist insurance business.

Capital advantages

Capital efficient framework driven by the benefits of mutuality.

Central processes and services

Infrastructure supporting the subscription market and the provision of tax and regulatory reporting. Other central services (lobbying) and the ability to benefit from a Solvency II ready environment.

Product offering

Access to a wide range of specialist and bespoke (re)insurance solutions.

Claims payment

A reputation for paying all valid claims in a timely and efficient manner.

Underwriting expertise

Access to specialist underwriting expertise and innovation.

Market oversight

A proportionate but robust market oversight regime consistent with an innovative and entrepreneurial culture.

Brand strength and reputation

The benefits of Lloyd’s are underpinned by Lloyd’s leading global brand and reputation.

Performance
Operating Environment

2014: The macro picture

2014 was a year defined by sharp headlines and geopolitical uncertainty. The rise of Islamic State and tensions in Ukraine were front of mind. The social and economic impacts of the Ebola outbreak in West Africa moved to the centre of the global agenda while a stream of cyber attacks brought issues of privacy and security centre stage.

The world economy grew in 2014 but in a piecemeal way; widespread fragility continued to foster a low interest rate environment. Central bank policy diverged as the US Federal Reserve brought an end to quantitative easing (QE) while the Bank of Japan expanded its QE programme.

Concern about the strength of the Eurozone persisted; in early-2015 the European Central Bank kept its promise and kicked off its own QE programme, seeking to avoid a third recession in seven years.

The US recovery during 2014 provided a fillip to global confidence with an annual growth rate of 3% during the previous 18 months and over 2.5 million new jobs created, the highest number for eight years. The UK recorded its strongest year of growth since before the financial crisis though growth slowed slightly during the fourth quarter.

Growth rates in developing economies fell during 2014 though were still forecast to grow an average of three percentage points faster than the developed economies. Emerging Asia continued to be the fastest growing region globally albeit with slowing growth in the Chinese economy. Any downturn in China promises to have a profound impact on the developing economies yet Chinese consumption data remains compelling – the country has used more cement in the last three and a half years than the US did in the last 100 years.

Commodities faced a torrid time in 2014; the most extreme sign of this was the plunging price of oil in the final quarter of the year after nearly five years of stability.

What this meant for insurance

A low interest rate environment and flat levels of government expenditure globally continued to drive down the number of new insurable assets. Meanwhile, a number of governments imposed protectionist measures, impeding cross border trade flows.

Competition within the insurance industry intensified with capital, including from alternative sources such as hedge funds and institutional investors, gravitating to insurance in the search for elusive returns. Greater consolidation is expected during 2015 with a rise in M&A activity across the industry.

Prices in most classes remained under pressure, challenging profitability in an environment of reduced investment income. While the past two years have seen relatively benign insured catastrophe experience, the long term trend is for an increasing frequency and severity of catastrophe claims and rising underwriting exposures.

In order to generate appropriate returns for shareholders, the consensus is that prices need to rise to reflect increased exposures and risks in the market and the pressures on investment income. However, excess capital and intense competition make broad based price increases unlikely.

The prevailing environment means managing agents must be nimble and flexible, showing a willingness to innovate in terms of distribution and new markets while maintaining underwriting discipline.

Lloyd's ratings as at 31 December 2014 (Figure 4)

A Standard & Poor's: A+ (Strong)
B Fitch Ratings: AA– (Very Strong)
C A.M. Best: A (Excellent)

A

A+

B

AA-

C

A

Performance

Operating Environment continued

Claims

There were an unusually high number of aviation disasters in 2014. This included the tragic loss of Malaysia Airlines MH17, Malaysia Airlines MH370, Air Algerie AH5017, TransAsia GE222 and, in the closing days of 2014, AirAsia QZ8501. The fighting which raged at Tripoli Airport from 13 July 2014 also led to significant damage to aircraft and property. Lloyd's continues to respond to these claims.

There was an absence of natural catastrophes during the year and a strikingly quiet hurricane season in the North Atlantic. The tropical cyclone season in the eastern Pacific included a high number of storms though most failed to make landfall. An exception was Hurricane Odile in September which was the strongest tropical cyclone to strike Mexico's Baja California peninsula since modern record-keeping began. Wind speeds reached 125mph and passed directly through the popular tourist resorts of Cabo San Lucas, San Jose Del Cabo and La Paz. For the Lloyd's market, Hurricane Odile generated claims predominantly related to facultative reinsurance coverage.

Premiums

From 2010 to 2013, global non-life premium grew by 4% on average, compared with average GDP growth of 3%. Growth in non-life premium should continue to rise in line with GDP growth which is forecast to average 3.4% per year from 2014 to 2019 fuelled by developing market growth and a gradual increase in rates.

The importance of developing markets increased between 2007 and 2013, with the share of global non-life premium from Europe, US and Canada, and the UK decreasing from 81% to 74% over the period, while the developing markets' share increased from 19% to 26%.

Between 2007 and 2013, UK premium shrank by 6%. This decline may be attributed to the fall in 2008 due to the industry's exposure to the economic downturn. A more positive economic outlook for the UK economy is likely to stimulate growth in the short term.

Reserve releases continue to benefit insurers' combined ratios, but with future releases expected to be lower than in the past and the soft underwriting environment, insurers will need to focus on delivering positive underwriting results on an accident year basis to capture positive net outcome.

Regulation and capital strength

From a regulatory standpoint, 2014 was dominated by ongoing preparations for Solvency II (See An update on Solvency II on page 19). There has also been a growing trend for conduct supervision in the insurance sector focusing on securing good outcomes for policyholders. During 2014, Lloyd's worked closely with the London Market Association (LMA) to produce a set of conduct risk standards tailored to the operation of the Lloyd's market. The FCA welcomed the effort to promote conduct standards and enhance consumer protection within the Lloyd's market.

In 2014, Standard & Poor's and A.M. Best reaffirmed their rating for Lloyd's, while Fitch Ratings raised its rating to AA-.

One advantage of the macro environment has been the relatively low price charged by the capital markets to lend to insurers. This inspired Lloyd's to further enhance its capital strength through the successful issue of a £500m ten-year subordinated bond in October 2014. The new bond counts as Tier 2 capital and is being used to refinance two existing bonds. The issue allows Lloyd's to create a stable form of capital which provides additional flexibility under Solvency II capital requirements and in support of strategic initiatives.

Expanding the market

In response to demand from managing agents, the Corporation worked hard to establish a presence in Dubai during 2014. Nine Lloyd's managing agents have so far signed up to participate on the platform, which opened in March 2015.

Elsewhere, Lloyd's was granted a licence to open a branch in Beijing in September, and in November received approval from the Mexican authorities to open a representative office in Mexico City. New life insurance licences in Denmark, Poland and Sweden, in addition to a Maritime, Aviation and Transport insurance licence in Colombia were also secured. In July 2014, legislation was passed granting Lloyd's surplus lines eligibility in Kentucky, completing Lloyd's footprint across all 50 US states.

During the year, Lloyd's welcomed three new syndicates. The first, AXIS Capital, is an existing insurance company with a limited international operation that was attracted to Lloyd's by the promise of market access, international licence network and capital efficiency. The second, Dale Underwriting Partners , is a start-up operation headed by a respected and experienced Lloyd's underwriter backed by private capital and a specialist insurer. The third syndicate, Acappella, is an existing business which was incubated in the Lloyd's market as a special purpose syndicate.

Lloyd's in London

London is the largest global hub for commercial and specialty risk. The London market employs 34,000 people and represents a £60bn premium market contributing £30bn to UK GDP which is 8% of the contribution for London as a whole and 21% of the contribution of the City. In November 2014, the London Market Group (LMG) and the Boston Consulting Group (BCG) published *London Matters: The Competitive Position of the London Insurance Market,* the result of over 300 interviews with customers and market participants around the globe. The report examined the current status and future prospects of the market, revealing that London's position as the undisputed global hub for commercial insurance is under threat.

Concerns stated in the report included the fact that while Gross Written Premium (GWP) for the London market grew at 5% per annum in commercial insurance, this was only sufficient to retain global share at 10%. In reinsurance, the share of GWP fell from 15% to 13%. Much of Lloyd's business still comes from its traditional markets in the UK, Europe and North America. Lloyd's share of high growth markets in Asia, Latin America and Africa fell from 3.2% in 2010 to 2.5% in 2013.

Market modernisation

Modernisation efforts designed to tackle some of the industry-wide inefficiencies cited in the *London Matters* report as well as processes specific to the Lloyd's market continued in 2014. Important projects included:

- The Central Services Refresh Programme (CSRP) which is designed to make it more efficient and easier for brokers to do business at Lloyd's. To modernise the shared services provided to the market and, in the first phase, to eliminate a point of friction around accounting and settlement, while removing two thirds of London market inefficiencies as identified by the Lloyd's broker community.
- The four year Claims Transformation Programme, designed to improve and accelerate the way the market handles claims, came to an end in December 2014. Since the programme began there has been a 58% improvement in the speed at which the relevant parties agree a claim transaction, bringing the average time down from 25 days to 11. Efforts will now be made to further improve this figure under the ongoing market modernisation agenda.

An update on Solvency II

Visible on the horizon for many years, Solvency II is due to come into force on 1 January 2016. This EU legislative programme is designed to harmonise insurance regulatory regimes across all 28 EU member states, replacing the current system of 13 EU insurance directives.

Lloyd's has been preparing for Solvency II since the late 2000s and further progress was achieved in 2014. At the heart of this work is the need to secure approval from the Prudential Regulation Authority (PRA) for the Lloyd's Internal Model to set its regulatory solvency capital requirement. Both the Corporation and the market need to meet Solvency II standards for this to be achieved. Failure to secure approval could, in a worst-case scenario, mean a significant and immediate increase in regulatory capital requirements with negative implications for capital efficiency and the reputation of Lloyd's.

The Corporation liaised closely with the PRA during 2014 and there was also strong cooperation with each managing agent. The expectation is that the vast majority of agents will have met Solvency II requirements by the time Lloyd's makes its approval application to the PRA.

Given the importance of securing the approval, Lloyd's advised agents in July 2014 that it intended to impose prudential measures in the form of capital loadings where progress is inadequate. These have subsequently been applied for the 2015 capital setting process.

As the 2016 deadline approaches, preparations are also being made to meet supervisory reporting and disclosure requirements. In particular, Lloyd's and other large insurers must make interim disclosure submissions to their supervisor by the end of June 2015. To prepare for this, Lloyd's conducted a market dry run in the autumn of 2014.

Under Solvency II legislation, the decision to approve an application must be made within six months of submission. Lloyd's will continue to work closely with the PRA once the formal review process begins, addressing queries and providing further clarification as needed.

Contingency plans are in place should they be necessary but it is hoped that the hard work of both the Corporation and each managing agent will help ensure Lloyd's Internal Model approval.

Performance

Operating Environment continued

During 2014 the Corporation also worked with the market to coordinate coverholder audits. Coverholders with multiple Lloyd's leads found they were being subjected to multiple audits each year. A pilot process managed to secure agreement from underwriters to appoint one auditor. By the end of the year, 981 coordinated coverholder audits had been arranged covering 2,391 individual relationships. This pilot has been well received and all managing agents have been asked to join the coordination drive for 2015.

Responding to the greater degree of focus now required on managing conduct risk, during 2014 Lloyd's changed its oversight regime for UK coverholders writing predominantly retail business. They are now subject to increased levels of oversight, specifically aimed at ensuring the fair treatment of customers. These substantial changes which included an update to the intermediaries bylaw were achieved with extensive market consultation and, despite the additional compliance work required, have been well accepted.

Lloyd's continued through 2014 to encourage managing agents to embrace straight through processing, where data can populate the broker and syndicate systems from their coverholders with limited manual intervention – this increases efficiencies and limits the scope for error. Lloyd's role is to identify and support this straight through processing, through continual communication with all software providers, keeping stakeholders abreast of potential solutions. In a further bid to reduce the amount of paper used to transact business at Lloyd's, work was undertaken on The Exchange, a messaging hub designed to reduce paper and speed up processes by moving data around the marketplace. The work of the Singapore Shared Service Centre which opened in late 2013 is also indicative of efforts to operate more efficiently across the market.

Also to be noted is progress by Placing Platform Limited (PPL). PPL was created to identify and enable a common agreement with potential suppliers of electronic placing platform services. The three participant organisations of PPL - the International Underwriting Association, the London and International Insurance Brokers' Association, and the Lloyd's Market Association, requested PPL to recommend a preferred supplier with a view to purchasing a software license and associated services to deliver electronic placing to the market. During 2014, the PPL completed a formal tender exercise across the two potential solutions currently in live use in the London market. PPL is now in the process of reporting the findings of the tender to the three Market Associations along with a recommendation for the preferred supplier.

Innovation

The risk landscape is continually changing, and this brings the need for insurance products to respond to new and emerging risks. 250 years ago almost everything insured at Lloyd's was marine; now cover for classes of business such as cyber, supply chain and reputation are in growing demand in all economies and countries around the world.

The Lloyd's market is working hard to create new products to cover these risks. Modelling new, intangible threats can be difficult but Lloyd's is able to provide underwriting in the context of high growth economies and the digital revolution, just as it did during the UK's industrial revolution.

A prime example in 2014 was in the area of cyber threats. As high profile incidents of hacking and breaches of data emerged, Lloyd's underwriters and brokers worked on identifying effective ways to cover cyber breaches. This included ongoing collaboration with the UK government via a special committee and steering group. This is undoubtedly a highly challenging area, the threats are intangible and Lloyd's is working at the limits of a constantly evolving technological frontier. Challenges such as cyber cover will continue to test Lloyd's commitment to innovation; the importance of this area is reflected in the adoption of Innovation as a key pillar in the delivery of Vision 2025.

Performance

Key Performance Indicators — Corporation

Measuring performance at Lloyd's

Key performance indicators (KPIs) are used by the management team to evaluate both the Lloyd's market and the Society's performance. Lloyd's has a range of metrics used internally for tracking and managing performance. The KPIs shown here illustrate Lloyd's financial performance and progress against delivery of the strategy in 2014.

Security and ratings

Definition

Lloyd's financial strength as evaluated by the world's leading insurance rating agencies, taking into account operating performance, capitalisation, global competitiveness and financial flexibility.

Rationale

Indicates the financial robustness of Lloyd's.

Progress

Lloyd's financial strength rating was upgraded by Fitch Ratings to AA- in 2014, representing Lloyd's strongest rating to date. A.M. Best and Standard & Poor's ratings were both reaffirmed.

Lloyd's is on positive outlook with A.M. Best and on stable outlook with Standard & Poor's and Fitch.

Standard & Poor's	A+
Fitch Ratings	AA-
A.M. Best	A

Brand strength

Definition

Non-financial indicator – Independent brand tracking survey of brokers, coverholders and policyholders run biennially. The brand health score is a combination of scores for brand affinity, usage, and awareness. The measure is an index that tracks relative changes in perception over time.

Rationale

A leading global brand and reputation helps managing agents win and retain preferred business.

Progress

Lloyd's has maintained solid brand health in the insurance sector overall, with consistently high scores across brand measures (favourability scored a mean of 7.6 out of ten and renewal likelihood 8.9 out of ten), however a dip in unprompted insurance awareness has been noted which has contributed to the overall insurance score dip. The reinsurance results remain strong with an overall two point increase. The next survey will take place in 2015 and will be reported in the 2015 Annual Report.

The 2013 survey included responses from three new countries, as a consequence, there were two sets of results for brand health in 2013. 2013 (a) illustrates the results of all 16 countries surveyed. 2013 (b) represents the overall scores of the 13 countries included in both the 2013 and 2011 surveys.

Index scores

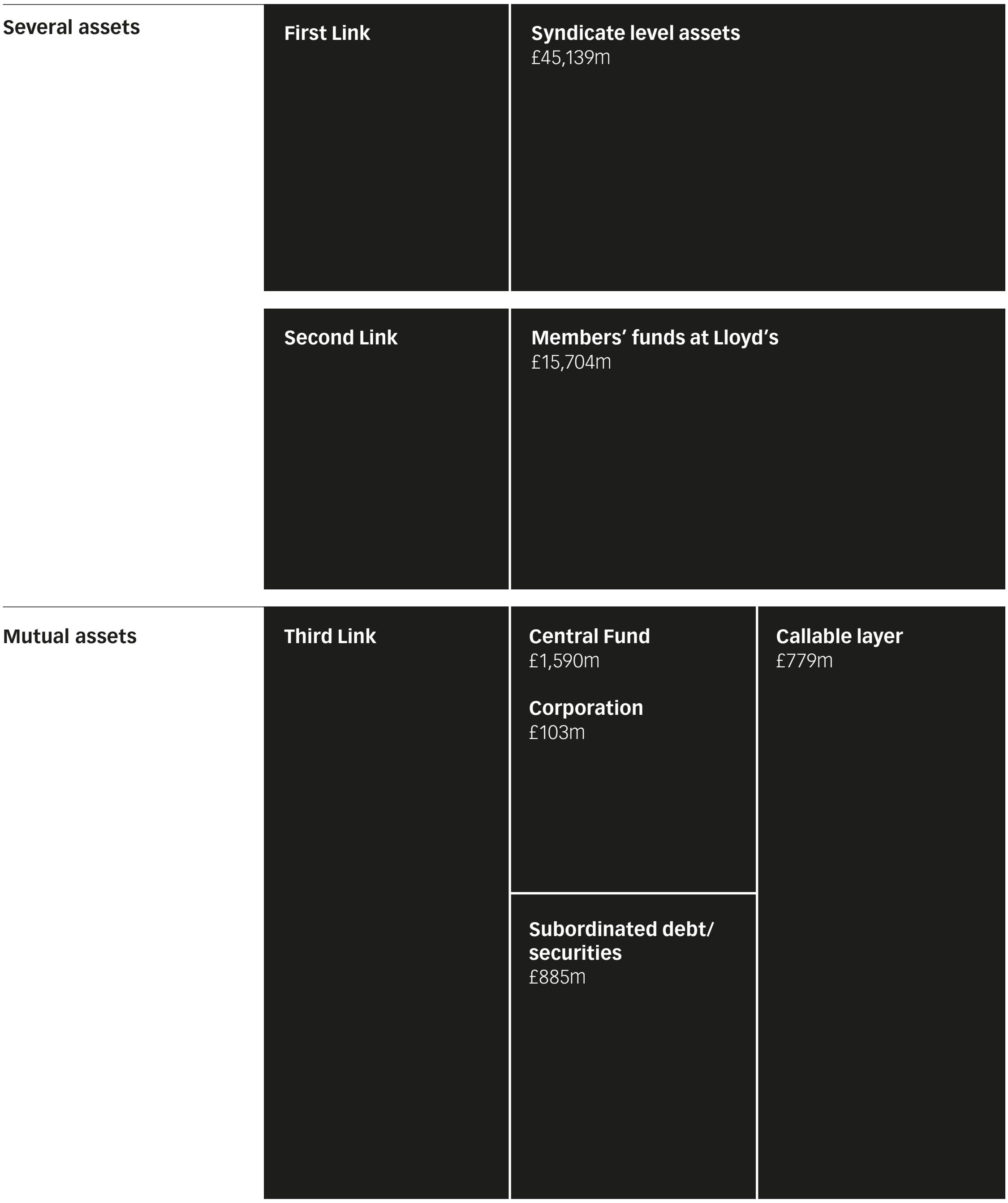
2013b †	Reinsurance	66
	Insurance	60
2013a	Reinsurance	68
	Insurance	61
2011	Reinsurance	66
	Insurance	70

† Exc. India, Mexico and Turkey

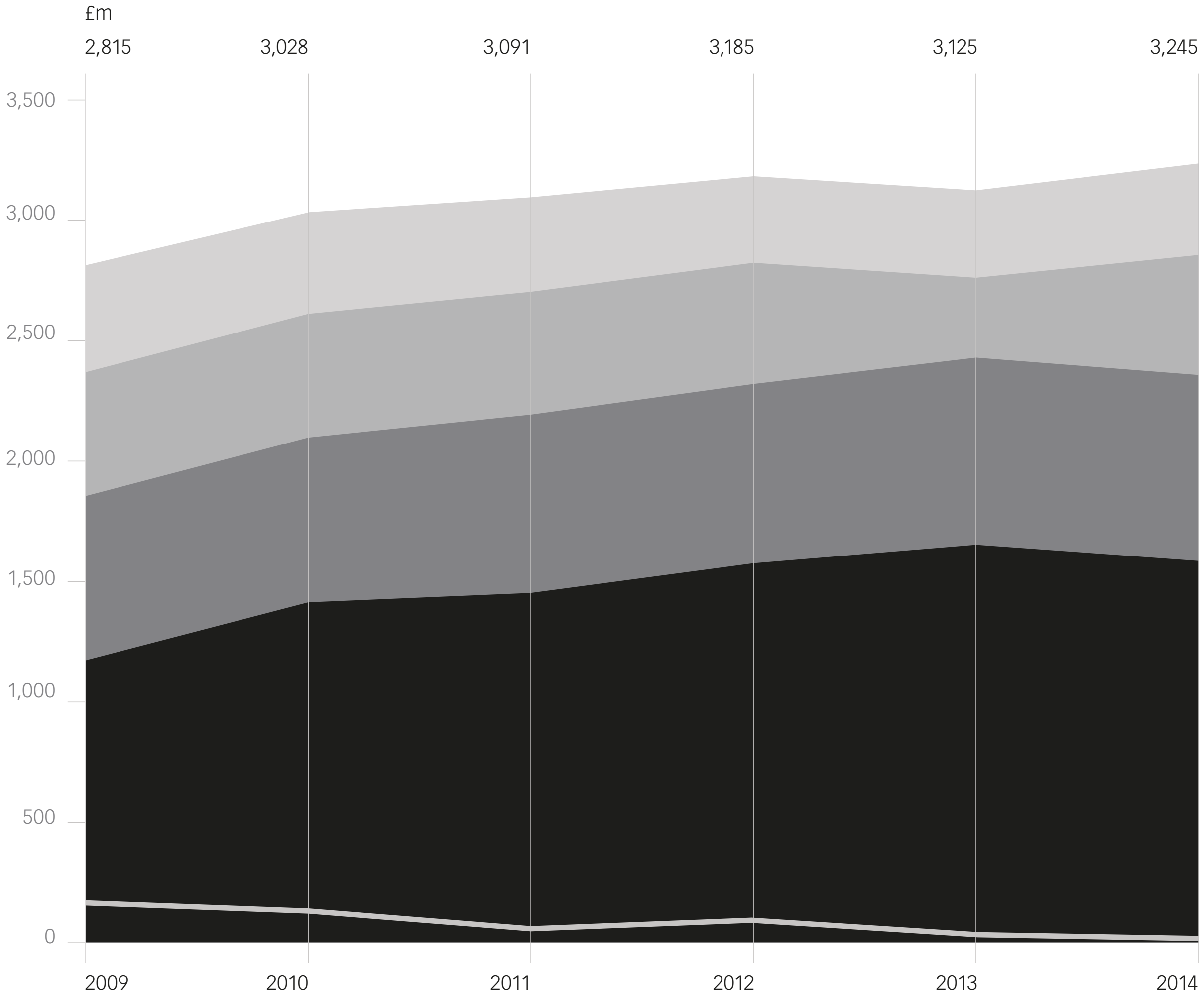
Performance

Key Performance Indicators — Capital Security

Lloyd's Chain of Security (Figure 5)



Analysis of mutual net assets for solvency (Figure 6)



	2012	2013	2014
Corporation and Central Fund net assets	1,547	1,616	1,581
Callable layer	745	788	779
Subordinated debt issued 2004 and 2014	503	330	497
Subordinated perpetual securities issued 2007	390	391	388
Solvency deficit	94	34	19

Performance

Key Performance Indicators — Capital Security continued

Strategic performance

Solvency deficit

- Definition: The aggregate shortfalls for all members where the member's assets are insufficient to cover its underwriting liabilities and member capital requirement.
- Rationale: Indication of success at mitigating Central Fund exposure. Lower is better.
- Progress: Solvency deficits decreased further in the year with no new exposures to the Central Fund.

£m	
2010	123
2011	115
2012	94
2013	34
2014	19

Cost of mutuality

- Definition: Central Fund contribution rate charged to members.
- Rationale: Medium-term cost indicator for the operational efficiency of mutually available assets. Lower is better.
- Progress: The 2014 contribution rate of 0.5% of GWP continues to represent a cost-effective benefit of mutuality: the rate for 2015 remains at 0.5%.

%	
2010	0.5
2011	0.5
2012	0.5
2013	0.5
2014	0.5

Market performance

Combined ratio

- Definition: The combined ratio is an expression of net incurred claims and expenses against net earned premium. Any figure that is less than 100% signifies a technical underwriting profit.
- Rationale: Headline financial indicator for measuring underwriting performance. Lower is better.
- Progress: 2014 saw another benign natural catastrophe year and sustained robust reserve releases.

%	
2010	93.3
2011	106.8
2012	91.1
2013	86.8
2014	88.1

Investment return

- Definition: Net investment income plus realised and unrealised return on investments as a percentage of average total investments.
- Rationale: Investment return can have a significant impact on overall profitability for (re)insurers.
- Progress: The return of 2.0% reflects the continued low interest rate environment but assisted by capital gains arising from a further drop in yields.

%	
2010	2.6
2011	1.9
2012	2.6
2013	1.6
2014	2.0

Pre-tax return on capital

- Definition: Profits on ordinary activities before tax as a proportion of average capital and reserves held.
- Rationale: Indicates the capital efficiency of Lloyd's. The goal of the Franchise Board and Council is to support the market in monitoring cross-cycle returns to all capital providers.
- Progress: An excellent return, though higher capital requirements reflect the increasingly challenging market conditions.

%	
2010	12.1
2011	(2.8)
2012	14.8
2013	16.2
2014	14.7

Performance
Viewpoints

Five members of the Lloyd's Executive Team cast their minds back over 2014, and look forward to 2015 to explore prevailing issues for Lloyd's, and for the insurance industry.

Keeping a Weather Eye Tom Bolt, Director, Performance Management / *The Time is Now* Shirine Khoury-Haq, Director, Operations / *A Question of Trust* Sean McGovern, Chief Risk Officer and General Counsel / *The Right Mix* John Parry, Director, Finance / *A Global Imperative* Vincent Vandendael, Director, Global Markets

Tom Bolt

Director, Performance Management

Keeping a Weather Eye

While 2014 was a good year because the earth didn't shake and the wind didn't blow, you still have to run a business pretty well to let the good luck flow through.

Our positive experience in recent years has made it possible to focus on experience versus exposure. With portions of the world economy on the rebound, market members will ignore increasing exposures at their peril. Market Oversight is one of the eight objectives of our Vision 2025 plan. It means acting with discipline as we pursue our performance management, risk management and capital setting activities; it means balancing realism with optimism.

Pressures mounted in 2014. An extraordinary amount of capital continued to flow into global markets and low investment rates persisted with virtually no investment income. We saw increasing concentration in our distribution channels and difficulties within broker business models that had a knock-on effect on the Corporation's relationships. We are absolutely committed to working with brokers to identify better ways of helping them service their business without overburdening underwriters on cost.

We kept an eye on opportunities for thoughtful innovation and investigated opportunities in emerging risk as well as in emerging territories. An example of this has been the increasing involvement of Lloyd's in cyber insurance. With all great opportunities come great threats. The importance of maintaining our understanding of aggregate exposures in this risk class cannot be overstated.

As the world continues to shift and change we hope that by staying ahead of and involved in new risk categories Lloyd's will retain its role as the market-leading solutions provider, as has been the case for so many hundreds of years.

One of the most courageous things we can do in this current macro environment is to find the freedom to say 'no' where appropriate. To examine a risk and turn it down in a competitive market takes some grit. In the final third of 2014 the difficulty of navigating a softening market increased with growing pressure on underwriters to pick their spots. This meant fully appreciating and understanding the concessions being given and having the guts to walk away if necessary. Many syndicates are doing this, but the market's perseverance in sensibly addressing these pressures will be key to achieving a good result in 2015.

We will keep looking at ways to make the market more effective. During 2014 we stepped up our focus on wordings. The Lloyd's market issues over 177,000 contracts a year. We need to be confident of the implications and meanings of the wordings used. Together with the Lloyd's Market Association, the Corporation has begun to take a number of steps to improve the quality of wordings.

Lloyd's has weathered soft markets and difficult times before. The maintenance of a disciplined approach, making commercial concessions only where sensible, will separate the winners from the losers as we go forward.

Shirine Khoury-Haq

Director, Operations

The Time is Now

One of the key challenges to market modernisation is a tendency towards complacency.

It makes me think of frogs sitting comfortably in what they suppose is a warm bath, but is actually a pot on top of a hot stove, slowly coming to the boil. By the time we realise there is a problem it could be too late. By then the best we can expect is consolidation and the worst, an irreversible decline of market share.

There is clear value in clusters of market specialism delivering benefits greater than the sum of their parts as noted by the recent London Market Group *London Matters* report. If we can be clear about what drives individual competitive advantage in our market, and if we can be equally clear about what will bring value to the cluster but not the individual organisation, we can demonstrate the benefits of market modernisation and shared global services.

What has not been done effectively to date is to demonstrate these benefits to the market. If we are to be successful, we must articulate an operational vision at a level of detail that CEOs and boards can clearly understand. We must define the changes to be made by the market and individual firms, and by when. Only then can plans be effectively implemented and the transformations we require take place.

We are currently in the process of building this vision for the London Market and for Lloyd's global operations in time for organisations to include required actions in their plans for 2016 and beyond.

In 2015, our focus will be on the implementation of the market modernisation vision and plan. This will include:

- Delivering and testing the base process and technology functionality for the Central Services Refresh Programme in preparation for roll out in 2016.
- Working with the market to implement electronic placement.
- Beginning to build data management capability for our global markets.
- Agreeing and starting to create global shared service capability as required by our managing agents.
- Reviewing and addressing key areas of process efficiency within the Corporation.
- Delivering the information technology and property requirements for the market in London and globally.

This modernisation programme is imperative for the next 300 years of Lloyd's success. We cannot wait for a burning platform that forces us to act – for a disruptor to come in and show us how it should be done. We need to work together now to change the way we operate.

Sean McGovern
Chief Risk Officer
and General Counsel

A Question of Trust

The regulatory affairs team at Lloyd's seeks to maintain competitiveness by protecting existing licences and negotiating access to new markets around the world.

This task has been made increasingly difficult by the regulatory environment that has developed post the global financial crisis.

Like it or not a break-down in trust between the financial services industry and its regulators has caused the regulatory pendulum to swing too far, heralding a significant rebasing of regulatory expectations. There are also signs of a growing lack of trust between regulators, notwithstanding international initiatives aimed at harmonisation. Just as the insurance and reinsurance industry becomes more global and more integrated, regulatory frameworks are edging further towards the regional and the local. Inevitably, this creates duplication of effort, friction and cost.

This trend is an increasing challenge for the global reinsurance industry where, for example, regulatory measures to balkanise capital risk hampering the role of global reinsurers to absorb catastrophic losses and in turn to de-risk national economies.

Continued on page 28

Lloyd's presents a unique value proposition to its global client base - a specialist, subscription market with the capacity and expertise to underwrite the world's most complex risks. Our structure is a key source of strength but it presents our regulators with the challenge of how to accommodate our business model.

Our philosophy is clear. Access to markets is a key benefit of writing business through the Lloyd's platform. That access can only be obtained and maintained by investing time with governments and regulators to explain Lloyd's structure and operating model and to be open and transparent in all our dealings. We seek to build trust so that regulators place reliance on the work we do in supervising the Lloyd's market, and we absorb this work centrally, leaving managing agents to focus on underwriting discipline and claims management.

For the past dozen years Lloyd's has held an annual regulators' programme in London to engage with regulators from around the world. More recently we have hosted regional regulator programmes in Singapore, China and the US. These events help build relationships between Lloyd's and the regulators, but also between regulators themselves. For the industry to be supervised efficiently, regulators must rely on each other whether through formal mechanisms such as Solvency II equivalence which we support, or with more informal relationship building and information sharing.

As we seek to expand international market access our work with international regulators and policymakers will only increase in importance. We are busy laying foundations in target markets around the world, building the case for Lloyd's market entry and its accommodation into national law and regulation. In so doing we do not lose sight of the importance of continued competitive access to our existing markets and lose no opportunity to remind governments and regulators of the value of Lloyd's participation in their markets.

John Parry
Director, Finance

The Right Mix

Lloyd's seeks a capital base of the right amount and the right quality in the right place.

Drawn from member-backed syndicates supported by diverse capital providers and the Lloyd's Central Fund we constantly work to balance and improve our capital mix. We pursue this objective from a position of strength but never underestimate the inherent uncertainty in estimating future claims, changing market conditions, and our catastrophe exposure.

In 2014, as part of the Corporation's market oversight role, we signed off the capital requirements for the syndicates trading at Lloyd's. The market recognises this review as an important exercise and we were heartened by the strong sense of collective purpose. We started early with comments on interim submissions and when it came to agreeing final amounts, the trend for managing agents to take our feedback on board and build that into their own models continued.

Every year the Corporation collects an annual subscription from the syndicates to pay into the Central Fund based on how much premium they write – in 2014 we did this at the continuing rate of just 0.5% of premium. In addition, the Council recognised the recent good experience of the market and the low level of insolvent member calls on the Central Fund and returned half the amount we collected in 2012. This repayment was signalled at the time as not setting a precedent.

The Central Fund is the critical part of our capital supporting our global licences and our financial ratings. We invest the fund to earn investment income. We also borrow from the capital markets, but here we only pay interest to the lenders (and pay back their principal) if Lloyd's passes our regulatory capital test. This means that Lloyd's can count the debt proceeds as capital since the bondholders are subordinate to claims on the Central Fund.

The price charged by the capital markets to lend to insurers was low by historic standards in 2014 so we decided to pursue a new debt issue to provide additional flexibility under Solvency II capital requirements and to support expansion into new countries.

We successfully borrowed the full £500m with the final pricing at UK government ten-year Gilts plus 268 basis points and coupled that with a successful tender offer for the majority of our existing Tier II subordinated debt issue. There remain wide concerns regarding the global economy, so it's testament to the strength of the Lloyd's brand and financial position that we were able to complete the transaction - and with strong support from blue chip investors.

The final part of our work during 2014 was to continue diversifying our capital base, particularly by attracting non-traditional sources of capital. The growth of alternative products and capital is well established in the reinsurance industry and we are determined to harness this trend in the years to come. We know that maintaining the attractiveness of Lloyd's to a range of capital providers is fundamental to the future success of the market.

Vincent Vandendael
Director, Global Markets

A Global Imperative

Market Access is, in its simplest form, a right to trade.

Unsurprisingly, we consider our trading rights and licences to be one of our most important assets.

My goal is for managing agents, backed by capital from all over the world to tell us that they choose to do business on the Lloyd's platform because we provide the optimal trading rights, we supply the most effective infrastructure, and because we give them access to write the business that they want to write in an effective, efficient and cost-competitive way.

By 2025, Asia and Latin America are expected to account for half of global GDP output, yet currently they make up only one fifth of Lloyd's premiums. Our competitors are offering increasing regional capacity in situ, the big brokers are creating more local networks, broker consolidation and local placement trends continue. Meanwhile, abundant capital floods into reinsurance and retention rates are rising.

In response to this global transition the Market Access team focuses on five themes:

1) Do we understand the managing agents' market access needs?
2) Do we grasp how the brokers can help and what is in it for them?
3) Do we understand what the customer wants and the potential growth of each market?
4) Do we have the knowledge and experience to acquire new licences and protect the ones we have?
5) Is our operating model compelling and competitive?

In 2014, we spent considerable time working to attract capital providers from developing markets and broadening our licence network. We found that lead times in these markets are longer than first anticipated but we made good progress in building these new relationships. I am confident that there are strong capital partnerships which should see daylight during 2015.

It was difficult to recognise at the time, but looking back I think 2014 witnessed a sea change in the partnership between the market and the Corporation on market access. We clarified our thinking when it came to communications; we challenged ourselves to share the rigour and reason and logic behind our market access plans, creating a shared sense of ownership.

As mentioned elsewhere in this report, we have made good progress in expanding our global footprint during the past 12 months. We acquired a branch licence in Beijing, opened a representative office in Mexico City, and launched a platform in Dubai. We are heartened by the good progress we are making in India and will continue to work on increasing trading rights in Malaysia and Turkey.

During 2014 we built two working groups with membership from across the market, intent on making this a dialogue not a broadcast. During 2015 we will continue working together to assess opportunities and threats, and that can only strengthen our chance of success.

Strategic Review
Vision 2025

Vision 2025 was launched in May 2012. It sets out a strategy designed to enable Lloyd's to face future challenges head on while grasping the opportunities of a fast-changing world.

The stated aim of Vision 2025 is for Lloyd's to be the global centre for specialist insurance and reinsurance. The plan for the delivery of this aim naturally shifts with changing market and business circumstances and its successful delivery requires a partnership between the Corporation, and managing agents and brokers.

The five-year goals detailed on the next page were set in 2014 so each has four years remaining.
More detail on each of the eight strategic priorities is available on the Lloyd's website at **lloyds.com/strategy**

Global market access Lloyd's must develop new trading rights in developing markets, supported by effective operational infrastructure, to reflect long-term shifts in the global economy and the dispersal of insurance capacity. This may require a shift away from Lloyd's historic preferred model in some territories. Efforts to increase Lloyd's presence in developing economies will not come at the expense of Lloyd's position in established insurance markets or imperil its existing relationships with distribution partners, clients and regulators.

Five year goal

— Lloyd's premium from developing economies will increase, with greater growth in those territories in which Lloyd's is investing in enhanced market access.
— Lloyd's position in developed economies will be maintained.
— The breadth of Lloyd's distribution and market access will improve with an increased number of distribution relationships in each distribution channel.

Ease of doing business The modernisation of operations and processes remains a high priority. By building a leading industry service proposition covering the London market, international operations and delegated authorities, Lloyd's seeks to make the market more attractive to existing and new business in London and local markets alike.

Five year goal

— Doing business in the Lloyd's market will be more efficient and more attractive. It will be as easy to deal with Lloyd's as other insurance markets.

Market oversight The unique nature of Lloyd's, as a market of independent businesses backed by a mutual Central Fund, requires the Corporation to play a supervisory role. This role covers performance management, capital setting and risk management. In addition to these supervisory activities, it is important that Lloyd's market oversight is supportive of sustainable profitable growth, innovation and is valued by all stakeholders.

Five year goal

— Lloyd's average combined ratio should be favourable to Lloyd's peer group over a five-year period and losses to the Central Fund should be within the market's risk appetite.

Capital Maintaining the attractiveness of Lloyd's to a range of capital providers will underpin the market's future success. Further increasing the diversity of the market's capital base, both by type and by geography, is an important objective.

Five year goal

— Lloyd's will retain its unrivalled diversity of capital, through growth in all types of capital participating at Lloyd's (private, trade, institutional and other).
— The geographic diversity of the Lloyd's capital base will significantly increase, subject to this capital bringing new business and people.

Innovation Lloyd's has cultivated a reputation for innovation and will build on this in the coming years with a focus on product innovation, thought leadership, and alternative capital and alternative products. The existing strengths and expertise of the market, combined with developments in analytics and technology, provide a strong basis from which to develop this capacity for innovation into a competitive advantage.

Five year goal

— Lloyd's reputation for innovation will be demonstrably enhanced, in part through embracing 'alternative' capital and products.

Talent Everyone within Lloyd's is termed as 'talent' – each individual brings their skills, knowledge and experience to their work every day. This is the basis on which the talent programme is being developed. It takes into account those already in place and identifies gaps from a skill set perspective not only in the organisation as it exists now but for where it needs to be in the future.

Five year goal

— The market's workforce will be significantly more diverse and inclusive, and have a higher proportion of professionally qualified staff.

Brand Lloyd's 327-year old brand is globally recognised and highly valued both within the insurance industry, and broader society. The positive role Lloyd's plays in times of crisis, is well documented and the current strength and buoyancy of the marketplace is held in high regard. Nonetheless, as globalisation gathers pace and competition intensifies a programme of work intended to protect the Lloyd's brand and ensure its future power and relevance is underway with the full support of the market.

Five year goal

— Lloyd's brand is globally admired and is attractive to customers, market participants and other stakeholders who make decisions that are relevant to the market's success.

Global corporate social responsibility (CSR) Lloyd's is a responsible global corporate citizen through its ethical principles and practices and sharing of knowledge and expertise. Lloyd's is already highly regarded for the CSR activities it undertakes in its local community, as the market grows and diversifies, so will this activity.

Five year goal

— Lloyd's is a responsible global corporate citizen through its ethical principles and practices, and sharing of knowledge and expertise.

Franchise Goal *To create and maintain a commercial environment at Lloyd's in which the long term return to all capital providers is maximised.* Vision 2025 *To be the global centre for specialist insurance and reinsurance.*

Market oversight Lloyd's market oversight will be supportive of sustainable profitable growth and will be valued by all stakeholders.	*Ease of doing business* Lloyd's will have a leading industry service proposition, built on excellence in processes, technology and data.
Global market access Lloyd's international growth will be enabled by offering optimal trading rights and effective operational infrastructure.	*Capital* Lloyd's optimal capital strength and attractiveness will be designed and demonstrated.

Innovation
Lloyd's will build on its leading edge capability and reputation for innovation in the global insurance industry.

Talent
Lloyd's market and Corporation will continue to attract and retain the best talent through a high performance culture, best practices and inspirational leadership.

Brand
Lloyd's brand will remain admired and attractive to customers and market participants.

Global CSR
Lloyd's will remain a responsible global corporate citizen through its ethical principles and practices, and sharing of knowledge and expertise.

Risk Management

Risk framework tailored to Lloyd's unique structure

The unique structure of Lloyd's requires a tailored framework to manage risks facing the market and the Corporation.

All managing agents are expected to have in place a comprehensive risk framework to manage the risks facing their businesses. The Corporation continuously reviews the capabilities of managing agents and their track record to ensure they meet the minimum standards set for operating within the Lloyd's market.

Lloyd's risk framework provides an additional layer of review, oversight and challenge to ensure the aggregate risk profile for Lloyd's is at an acceptable level and that the Corporation manages its own risks effectively.

Defined risk appetites for the market and Corporation

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

Risk appetite metrics are set at levels at which they are intended to be triggered, this ensures that sufficient remedial actions are put in place to ensure Lloyd's responds early to emerging threats. Risk appetites are reviewed annually to ensure that Lloyd's retains full coverage over its risks. For example, to reflect an increased focus on conduct risk in 2014, conduct risk appetites were developed.

Risk management owned by the Franchise Board

Effective risk management is fundamental to the operation of Lloyd's and a core responsibility of the Corporation.

2014 saw the appointment of Lloyd's first Chief Risk Officer, Sean McGovern. This appointment was made to ensure that the Franchise Board included a member with overall responsibility for the risk management framework.

The risk governance structure is led by the Risk Committee, chaired by the CEO. This committee is responsible for the effective management of the risks facing Lloyd's. The Risk Committee meets on a monthly basis and reports on a quarterly basis to the Franchise Board and Council to ensure appropriate transparency, challenge and oversight on key risk issues.

Continuous enhancements to the risk framework

Lloyd's is continually seeking ways to improve its framework to ensure the effective identification, management and monitoring of risk. Lloyd's aims to raise standards across the market and during 2014 completed a review of Lloyd's minimum standards to update them and to incorporate the requirements of Solvency II. Lloyd's continues to monitor its stress and scenario testing approach to ensure the business model can withstand adverse events and the appropriate controls, contingency plans and capital remain in place.

Current areas of focus

The Corporation continuously monitors the full set of risks to which both the market and Corporation are exposed. The risk framework ensures the most critical risks are highlighted for senior management focus. The current key areas of focus for the Risk Committee and Franchise Board are described on page 35 and 36, alongside a brief description of their potential impact and mitigating actions put in place to ensure risk exposures are at a suitable level.

Report of the Risk Committee

This section sets out the role, remit and activities of the Risk Committee during 2014.

Composition and support of the Risk Committee

The Risk Committee comprises four members of the Lloyd's Executive Team. At the end of 2014, this consisted of Inga Beale (Chair), Tom Bolt, Sean McGovern and John Parry.

The Committee is supported by senior managers and relevant technical experts as required and Committee meetings are routinely attended by the Head of Risk Management, the Lloyd's Actuary and the Head of Internal Audit.

The Chairs of each of the three risk sub-committees – the Syndicate Risk Committee (SRC), Financial Risk Committee (FRC) and Corporation Risk Committee (CRC) – attend the Risk Committee at least quarterly and as required in order to report and be challenged on the operation of their respective risk areas.

Key risks (Figure 7)

Risk issue	Potential impact	Mitigation
Failure to obtain Solvency II internal model approval	Should Lloyd's fail to meet Solvency II test and standards in full (both at level of managing agents in the market and centrally) Lloyd's regulatory capital could, in the extreme, be set using the European-wide standard formula which would result in a significant increase in regulatory capital levels.	— While Lloyd's remains confident that it will secure model approval, contingency plans have been put in place to mitigate the impact of a failure to do so. — There is continuous oversight of Solvency II compliance in the market, offering clear feedback on any gaps and the subsequent consequences of failing to address these identified issues. — Increased interaction at senior levels with the regulator. — Enhanced central project management resource.
Failure to implement Lloyd's international growth strategy	In the short term, the potential impact of this risk is predominantly reputational. In the longer term, inability to gain cost effective access to insurance business in target markets risks impacting the attractiveness of the Lloyd's platform.	— There continues to be an increased focus on territories which recognise the market model while further investigating more challenging territories. — A detailed strategy and enhanced project management resource has been established.
The Insurance Cycle	Lloyd's businesses suffer losses or erode their capital base due to inappropriate underwriting or failure in management controls.	— Syndicate business plan and capital approval processes enable consistent and robust challenge to premium growth and ensure loss ratios are realistic given the market underwriting conditions and managing agents' capabilities. — Close monitoring of syndicates' performance against approved business plans ensure they do not materially deviate from the approved plan or, where they do, that the changes are acceptable. — Increased review activity to test compliance with Minimum Underwriting Standards. — Ongoing reviews into specific classes of business.

Key risks (Figure 7 continued)

Risk issue	Potential impact	Mitigation
Catastrophe risk	Lloyd's businesses suffer losses or erode their capital base through material aggregations of risks and insufficient monitoring processes.	— Continue to closely monitor and respond to the market risk appetite measures. — Managing agents constantly monitor exposures around the world in accordance with Lloyd's minimum standards. — Development of the analysis and consideration of non-modelled risks. — Monitoring and identification of emerging risks.
Significant regulatory change across multiple jurisdictions	Lloyd's sees its competitive position weakened, suffers regulatory penalties or disadvantageous capital position.	— Continue to lobby to influence the evolution of UK, European and global regulatory frameworks to maintain the competitive position of the market. — Implemented a specific assurance programme for the new conduct risk minimum standard.
Unstable economic, financial and political climate	Lloyd's suffers increased insurance liabilities, decreased asset values or restricted access to capital.	— Ongoing monitoring and oversight of asset dispositions and asset risk concentrations. — Relevant scenario testing, including Eurozone and interest rate increases.
Strategic threats	Changes in the distribution landscape and/or the increasing competitive threat from non-traditional capital reduces the volume or quality of business shown to the Lloyd's market.	— Work continues to be carried out into, among other issues, the potential impact of both the evolving strategies and actions of brokers and the influx of additional non-traditional capital entering the market. The strategic plan outlines Lloyd's response to these issues and identifies specific actions.
Outsourcing	Lloyd's is unable to maintain operations and services to policyholders due to the failure of key outsource providers.	— Assurance review of Lloyd's oversight of key outsource providers. — Further analysis undertaken to establish the impact of a key outsourcer's failure to the market. — Contingency plans for the failure of key outsource providers developed to ensure a recovery of services or workaround processes (e.g. emergency trading protocols) at the Corporation and in the market.

Risk Committee activities 2014 (Figure 8)

Q1	Q2
— Quarterly Own Risk and Solvency Assessment ORSA) report — Risk sub-committee reports — Conduct risk — Risk culture — Use test	— Annual ORSA report — Risk sub-committee reports — Solvency II contingency planning — Minimum standards — Cyber risk — Model validation report — Business planning and capital setting
Q3	**Q4**
— Quarterly ORSA report — Risk sub-committee reports — Unstable economic climate risk — Market oversight framework — Risk appetite annual review	— Quarterly ORSA report — Risk sub-committee reports — Catastrophe risk — Conduct risk — Stress and scenario testing

Risk Committee activities 2014
continued

Attendance

Risk Committee Member	Attendance
Inga Beale	11/11
Sean McGovern	11/11
Tom Bolt	09/11
John Parry (Luke Savage)*	4/5 (5/6)
Vincent Vandendael*	6/7

Terms of reference

The Franchise Board has delegated to the Risk Committee responsibility for overseeing the risks to the Society and providing assurance that risks are managed in accordance with approved policies and risk appetites.

The principal responsibilities of the Risk Committee include:

- Ensuring that suitable, appropriate and proportionate oversight is provided in respect of each financial, non-financial and other risk at member, syndicate and Corporation level.
- Monitoring the aggregation of risks and concentrations of risk and in particular, ensuring any potential material risks are identified (at member, managing agent or Corporation level).
- Identifying and considering emerging risks that may require the development of suitable mitigating actions and strategies.
- Ensuring that consideration of risk and solvency is appropriately embedded within decision-making within the Corporation.
- Monitoring the current and prospective risk profile of the Society against the risk appetite and proposing appropriate remedial action or plans where necessary.
- Considering the appropriateness of stress tests, scenario analysis and reverse stress tests to consider results and to propose appropriate remedial action where necessary.
- Ensuring the Society maintains a sufficient and appropriate level of capital to support the business strategy and risks faced.
- Considering the appropriateness of the design and methodologies associated with the Lloyd's Internal Model and ensuring the outputs of the Lloyd's Internal Model are appropriately embedded within and used to support decision-making associated with risk within the Corporation.
- Receiving and critically considering reports from each of its sub-committees which shall include reports regarding their oversight of any key or material risks.

Performance of the Risk Committee

During 2014, the Risk Committee met 11 times. It received a report from the Syndicate Risk Committee at every meeting and quarterly reports from both the Financial Risk Committee and the Corporation Risk Committee. In April, the Risk Committee received and discussed Lloyd's Own Risk and Solvency Assessment (ORSA) – a summary of the key current and future risks facing the Society and the overall capital and solvency position. The Lloyd's ORSA is an ongoing process, reviewed annually by Internal Audit, with reporting produced quarterly for the Risk Committee and Franchise Board. The Risk Committee received and challenged reports relating to conduct risk and the Lloyd's Internal Model in order to gain assurance that the risk exposure in these areas is suitable and within appetite.

In addition, the Risk Committee was presented with thematic risk reviews on a variety of risk and capital topics including:

Oversight of market

- Market oversight framework and supervisory plan.
- Business plan and capital.
- Minimum standards – review of the minimum standards to which Lloyd's managing agents are required to adhere.
- Monitoring of High Touch/Watch List managing agents.

Emerging risks

- Cyber risk thematic review.
- Conduct risk thematic review.

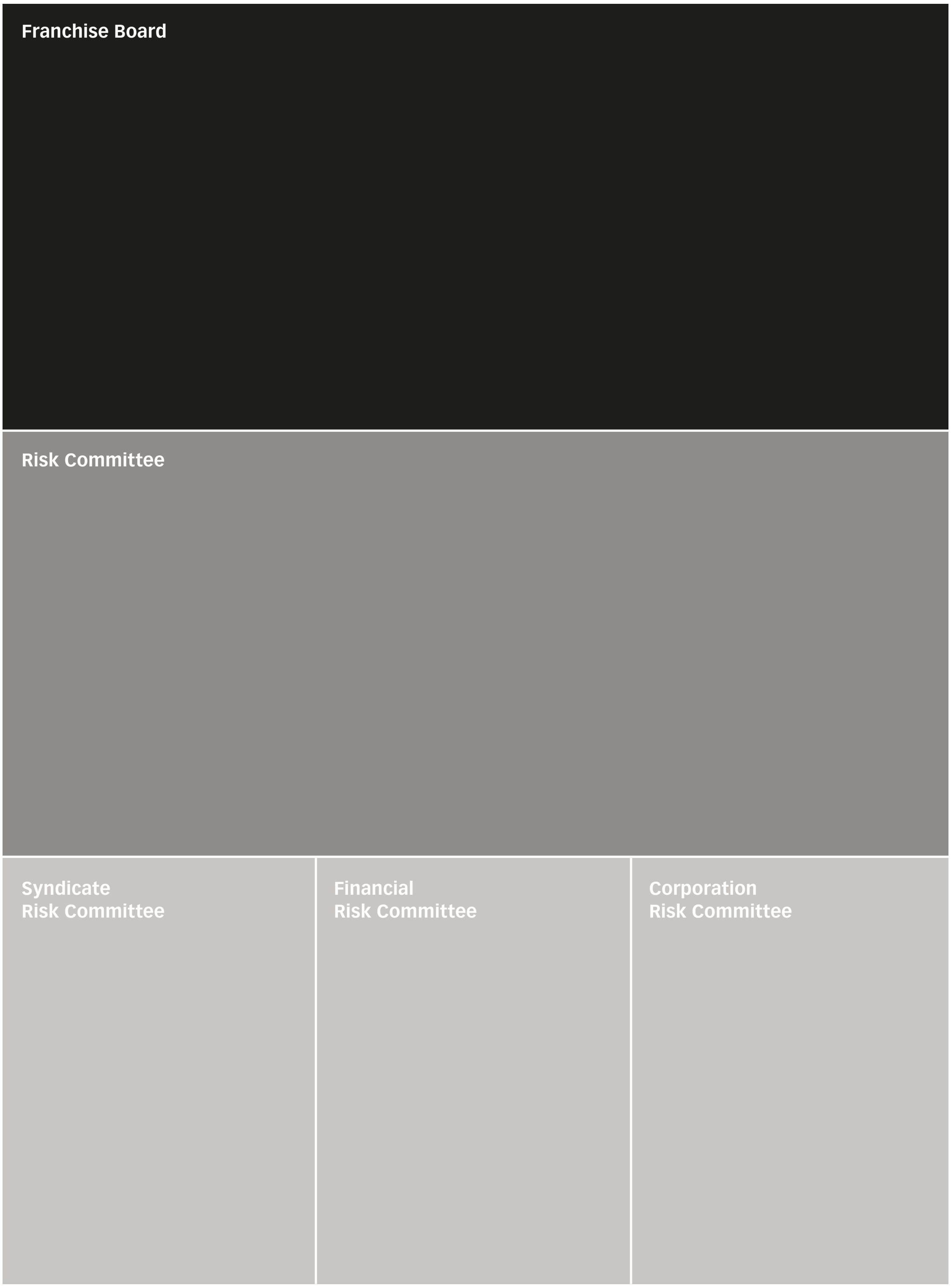
Prudential issues

- Stress and scenario testing – approval of the list of stress and scenario tests that are being analysed. These scenarios were derived from building on last year's scenarios and linking the scenarios to the key risks.
- The Lloyd's Internal Capital Model – review and approval of the capital required, review of the Model Validation report and use test.

Furthermore, the Risk Committee received 'deep dive' reports on any risks they requested throughout the course of the year, presented by the designated risk owner. This process allowed the Risk Committee critically to review and challenge the risk exposure, controls and actions in place to manage each key risk.

* These members were either appointed or left the Risk Committee during the year.

Risk governance structure (Figure 9)



Global Corporate Social Responsibility

Our CSR programme spans the specific to the global; from close to home – volunteer reading in primary schools located a stone's throw from the Lloyd's building – to programmes tackling some of the world's most thorny issues including climate change and disaster readiness.

Vicky Mirfin
Senior Manager, Corporate Social Responsibility

Since the earliest days of Lloyd's incorporation, there has been a strong tradition of charitable endeavour. During 2014 the ambition and breadth of the Corporation's Corporate Social Responsibility (CSR) programme expanded further and Global CSR was prioritised as one of the Corporation's strategic priorities.

Lloyd's CSR activities address a number of areas, including the following:

- Ethics - Working with the market to maintain high standards of integrity and conduct.
- Global engagement - Making a positive social contribution to the countries in which Lloyd's operates or seeks to operate.
- Talent diversity - Supporting a culture where a talented, diverse workforce is valued and proactively encouraged.
- Industry leadership - Using Lloyd's position and voice to inform and encourage action on global social and environmental issues of relevance to insurance.

Ready to respond

Building social and urban resilience in the face of disaster is naturally of interest to the Corporation and the market. In April 2014, disaster relief charity RedR received its second annual donation of £100,000 to support Ready to Respond, a three-year programme addressing the particular technical challenges of responding to natural disasters in an urban environment. Clean water is often the first resource to be affected by a natural catastrophe and is vital to human survival. This led to the development during 2014 of an urban water and sanitation training course – Urban WASH. 25 specialists from humanitarian organisations and British engineering and construction firms were selected and trained in the complex requirements of urban WASH. Those trained are now part of a roster of urban experts for deployment to future urban disaster zones.

In December 2014, Lloyd's Charities Trust made an additional grant to expand the urban WASH training course to representatives from Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Albania, Montenegro, FYR Macedonia, Bulgaria, Romania and Turkey.

Lloyd's also supported the training by RedR of 679 aid workers living and working in 49 countries. This is part of a longer-term project that will see over 1,000 NGO staff trained in all aspects of disaster response. In London in May 2014, over 120 people, including 78 from the Lloyd's market, abseiled down the Lloyd's building, raising £53,000 for RedR's work.

A global programme

A commitment to education and social welfare plays out across Lloyd's international offices and 2014 saw multiple CSR initiatives take place from Canada to China, Singapore to South Africa. In the US, Lloyd's continued to work closely with the Insurance Industry Charitable Foundation, an industry sponsored not-for-profit organisation that brings the collective strength of 100+ brokers and insurers together to provide grants and volunteer services to local communities.

In November 2014, a delegation from Lloyd's Shanghai, including representatives from Catlin and Navigators, set out on a two-day journey to visit a primary school in Yunnan funded by Lloyd's in 2007 following mudslides which destroyed local villages. The visitors helped out in the classroom and donated laptops, school bags and sporting equipment before making the journey home.

A key focus for the CSR team during 2015 will be the further integration of Lloyd's CSR programme globally.

New talent

2014 marked the 25th anniversary of Lloyd's Community Programme, which is supported by 50 companies in the market and involved over 2,000 volunteers from the Lloyd's market during the year. The programme helps young people living in east London to succeed in their education and includes activities as broad as working with ten-year-olds on their literacy and numeracy, right up to the awarding of university bursaries.

During the year, Lloyd's Community Programme Management Board resolved to do more to help local inner London sixth form students and first year undergraduates to develop their professional skills and prepare them for the competitive job market. This resolution inspired the launch of the IntoWork programme in July 2014 which, as well as offering advice on job applications and interview skills as part of a one-day conference, offers a mentoring programme supported by recent graduates in the Lloyd's market. The inaugural IntoWork summer conference in August gathered nearly 100 young people to attend workshops and hear first-hand from senior leaders across the market.

Lloyd's greenhouse gas (GHG) emissions 2014 (Figure 10)

	Scope 1 (tonnes CO_2e)	Scope 2 (tonnes CO_2e)	Scope 3 (tonnes CO_2e)	Out of scopes (tonnes CO_2e)	Total GHG emissions (tonnes CO_2e)
UK	1,060	9,975	2,643	Under 1	13,678
International offices	19	999	424	–	1,442
Lloyd's of London 2014 total reported GHG emissions					15,120

Lloyd's CO_2e emissions have increased by 5% compared to 2013. The increase was driven primarily by changes to the UK conversion factor for electricity to CO_2e emissions, set by Defra. Lloyd's actual electricity consumption decreased by 2% in the UK. Increased air travel also contributed to the rise in CO_2e emissions. Lloyd's continues to offset its air travel emissions by buying carbon credits for carbon offset projects through the Carbon Neutral Company. The methodology used to compile the greenhouse gas emissions inventory is in accordance with the requirements of the World Resources Institute's Greenhouse Gas Protocol, ISO 14064-part I and Defra's Environmental Reporting Guidelines.

Lloyd's Community Programme volunteer involvement (Figure 11)

Number of volunteers	
2010	1,464
2011	1,514
2012	1,883
2013	1,716
2014	2,087

Talent

Talent always has been and always will be the lifeblood of Lloyd's. 2014 was characterised by the shared commitment of the Corporation and the market to attract, retain and develop the best talent, and to put in place programmes to develop our people.

Annette Andrews
Human Resources Director

Talent sourcing

Research by the London Market Group revealed that for many students insurance lacks the high octane appeal of, for example, investment banking or private equity. Many are surprised that a career in insurance can be challenging, commercial and creative. To address this, the market and the Corporation have been working to raise awareness of the sector with individuals who might not otherwise have been attracted to insurance. This 'emerging talent' as it is called, comes to Lloyd's from schools, colleges, universities and other routes.

2014 saw successful participation in Lloyd's popular apprentice programme, an 18-month scheme aimed at young people entering the world of work straight from school. A new accelerated version of the programme, shortened to one year, was developed in 2014 and will launch in September 2015. 500 applicants have already applied for the eight places.

For those with a university degree Lloyd's continued to run its graduate programme. In 2014, 93% of participants were employed in the market on completion of their placements. Looking ahead, the programme will become more structured with four six-month terms in broking, underwriting, claims, and at the Corporation.

Lloyd's global expansion makes it important for the market to welcome talented people who possess international experience and speak other languages. It is also important to build bridges with insurance professionals around the world who may be unfamiliar with the Lloyd's market in London. The Lloyd's Global Development Centre was launched in 2014 to facilitate this. The Corporation is also encouraging international secondments for high potential people already working at Lloyd's.

Talent development

During 2014 the inaugural Lloyd's Mentoring Programme matched 21 individuals from across the market to work with more junior colleagues, distilling their experience for those at the very start of their careers. The technical training curriculum was also combined with modules on softer skills, including coaching skills for managers.

Separately, the highly regarded Developing Leaders Programme (run in partnership with London Business School), invited 22 senior leaders from across the sector and the Corporation to participate in a demanding 12-month programme.

Alongside these formal programmes over 400 colleagues in the Corporation, including representatives from many of Lloyd's international offices, participated in a variety of learning opportunities; subjects included forensic interviewing and project management. A highlight of the development year was the annual 'Learning Week', a five-day programme for Corporation staff consisting of short open workshops. 650 places were taken up on the 39 workshops, with a positive rating from attendees of over 95%.

Talent management

As of 31 December 2014 there were 949 employees in the Corporation of whom 162 worked in international offices. 243 professionals joined the Corporation in 2014 and staff retention remains high with a turnover rate of 8%. The Corporation undertakes programmes to ensure Lloyd's remains an attractive environment for talent at every point of their career, providing ongoing management and development opportunities.

In 2014, the Lloyd's market showed its commitment to diversity with the launch of Inclusion@Lloyd's, a cross-market initiative to promote an open and inclusive culture. By making a strong business case, the LMA and leaders from across the industry led by Dominic Christian, Executive Chairman of Aon Benfield International and CEO of Aon UK Limited, set ambitious objectives to enhance diversity and inclusion across the market. The efforts of Inclusion@Lloyd's have been amplified by growing membership of popular grass roots networking groups set up by employees during 2014.

Lloyd's flexible working policy was reviewed and relaunched across the Corporation in response to feedback and interest from staff. Regular feedback is an important means of ensuring policies and processes are serving all parties. The 2015 employee survey received a positive response rate of 84%. Satisfaction with working for Lloyd's is high at 91% while 96% of employees agree they are proud to work for Lloyd's. Overall engagement is strong at 84%.

Talent recognition

Retaining talented people in both the Corporation and in the market continues to be an imperative. The Corporation's benefits and compensation market data were reviewed in 2014 to ensure they are competitive and there was a focus on the provision of attractive policies and benefits globally.

More attention was also given to celebrating individual and team wins, and to helping individuals understand the total value of their remuneration, their benefits and other allowances.

Employee segmentation figures (Figure 12)

	Executive	Head of Function	Manager	Professional/ Technical	Administrative	Total
Female	3	6	90	228	167	494
Male	5	28	169	177	76	455
Total	8	34	259	405	243	949

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MARKET PERFORMANCE

2014 Highlights

- Profit before tax of £3,161m (2013: £3,205m) and a combined ratio of 88.1% (2013: 86.8%).
- Total investment return of £1,045m (2013: £839m).
- Overall surplus on prior years of £1,571m (2013: £1,575m).
- Pre-tax return on capital of 14.7% (2013: 16.2%).

Underwriting result by class

£m	
Reinsurance	1,250
Property	577
Casualty	81
Marine	85
Energy	189
Motor	(69)
Aviation	(8)
Life	5

Combined ratio by class*

%	
Reinsurance	81.3
Property	87.4
Casualty	97.9
Marine	95.2
Energy	82.7
Motor	106.4
Aviation	102.1
Life	93.2

* The combined ratio for the market and by class of business is the ratio of net incurred claims and net operating expenses to net earned premiums. The prior year reserve movement represents the ratio of the surplus/deficit arising on reserves set at December 2013 to overall net earned premiums in calendar year 2014. 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 61 and 65)

The combined ratios and results for individual classes of business do not include these adjustments as the market commentary for each class reflects trading conditions at syndicate level as reported in syndicate annual accounts.

The underwriting results and combined ratio tables include the results of all life and non-life syndicates transacting business during 2014. 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 66.

The Lloyd's market achieved a pre-tax profit of £3,161m in 2014 (2013: £3,205m) and a combined ratio of 88.1% (2013: 86.8%), which represents a return on capital of 14.7% (2013:16.2%).

2014 witnessed some sizeable risk losses, notably the tragic events impacting the aviation sector, yet in aggregate major claims and insured catastrophe events fell below the long-term average. The underwriting result also benefited from prior year releases which accounted for £1,571m (2013: £1,575m), reducing the combined ratio by 8.0% (2013: 8.0%). This level of release was achieved by actual claims development across all prior years remaining below projected levels, supported by the strong level of claims reserves. Investment return remained low at 2.0%, but marked an improvement on the return of 1.6% achieved in 2013.

On an accident year basis, underwriting performance reflected challenging market conditions with a combined ratio greater than 100% reported in some of Lloyd's core classes.

The year saw widespread softening across the market. Competition intensified on the reinsurance side with more capital attracted to the industry, including from alternative markets. Aside from the rating environment, profitable growth opportunities were also constrained by weaknesses in the global economy.

Looking ahead

Overall, 2014 performed better than expected but it was a far from 'normal' year in terms of catastrophe losses. Had aggregate catastrophe claims been more in line with the longer-term average, Lloyd's accident year result could have moved into overall loss. With the global (re)insurance market also performing well, there continued to be a surplus of industry capital. The impact of this has already surfaced in the January 2015 renewals which again saw large reductions in several core lines of business. This trend is likely to continue as 2015 progresses with the potential for alternative capital to increase and widen beyond property catastrophe reinsurance. The capital markets see insurance, particularly the incidence of natural catastrophes, as a diversifying asset class with relatively attractive returns. This will drive further downward pressure on rates, terms and conditions, and coverage.

The global economy is likely to remain fragile, particularly in the Eurozone, and this is expected to prolong the low interest rate environment. The political landscape remains in a state of heightened uncertainty with tensions continuing to build in Russia/Ukraine and the threat of the Islamic State escalating and expanding in the Middle East and beyond. The social and economic impact of the Ebola outbreak in West Africa and the threat of systemic cyber attacks also rank high on the list of potential concerns.

In the prevailing marketplace, syndicates will need to be increasingly nimble and innovative with a willingness to embrace transformational change, not least in distribution and new market business development. Of paramount importance is the need for syndicates to maintain underwriting discipline and constantly to review and re-underwrite their books as required.

2014 performance

Gross written premium for the year reduced to £25,283m compared with £25,615m in 2013. US dollar denominated business accounts for the largest share of business at Lloyd's. The average exchange rate in 2014 was US$1.65:£1 compared with US$1.56:£1 in 2013. Adjusting for the impact of exchange rate movements shows an increase in gross written premium of 2.1%

The year-on-year growth in premium income in underlying currency was less than originally planned by the syndicates. This reflected the softer than expected rating environment in the aggregate risk-adjusted rate which saw a 3.3% decrease on renewal business. With industry capital growth continuing to outstrip growth in global insurance demand, the general competitive environment intensified in most lines. Aside from rate reductions, some weakening in other terms and conditions, and the widening of coverage was also evident.

During the year, there continued to be growth in casualty classes and other speciality lines in the Lloyd's market. Meanwhile contraction was evident in some catastrophe classes, notably property treaty, as a result of growing competitive pressure. Fuelled by the influx of capacity from alternative capital providers, and a period of relatively benign loss activity, property catastrophe reinsurance continued to record the most noticeable downward movement in rates. Even in classes impacted by large losses, such as aviation, the ready supply of capacity only dampened the momentum for a sustained improvement as the market moved swiftly to access any possible opportunities. These reductions should be taken in context, since rating levels are relatively high in a number of classes by historic standards. In addition, syndicates benefit from this movement when purchasing their own outward reinsurance.

The underlying accident year ratio, excluding major claims, was 92.7% (2013: 90.4%) which is the highest level since 2002. Excluding the classes where catastrophe experience is a key driver of the results for any one year, marginal results and in some cases losses, were reported in 2014 reflecting the challenging market conditions.

Major claims

For the Lloyd's market, major claims were £670m in 2014 (2013: £873m), net of reinsurance and including reinstatements payable and receivable. This total includes severe 'man-made' major claims, including aviation. In terms of natural catastrophe events giving rise to large insurance claims, 2014 was below the long-term average.

This was particularly evident in the Gulf of Mexico where hurricane activity was again muted.

Analysis of exchange gain/(loss)

	2014 £m	2013 £m
Impact of translating non-monetary items at average rates and monetary items at closing rates	82	(120)
Accident year – Other	(13)	48
Prior years	(64)	(150)
Gain/(loss) on exchange reported in P&L	5	(222)
Gain/(loss) within premiums/expenses through reversal of exchange movement reported in previous year	120	37
Total	125	(185)

The largest insured natural catastrophe was Hurricane Odile, which swept across the Baja California peninsula in Mexico in September, impacting a number of mainly property-related treaty and facultative accounts. Other natural catastrophe events included the severe hail and tornado losses in Nebraska in June and the snowstorms in Japan in February and December.

Man-made loss activity was mostly within the aviation market which experienced a series of large, unusual and high profile claims. These included the tragic loss of two Malaysia Airlines passenger jets (Flight MH370 and Flight MH17) in separate and uncommon circumstances and substantial claims arising from the fighting at Libya's Tripoli Airport, which began in July 2014 and destroyed or severely damaged multiple aircraft over the course of the following months. The aggregate net claims to Lloyd's for these events totalled £310m, net of reinsurance.

Prior year movement

The combined ratio has been reduced by 8.0% (2013: 8.0%) through material prior year reserve releases. The release represents 5.5% (2013: 5.3%) of net claims reserves brought forward at 1 January.

This was the tenth successive year of prior year surpluses. Reserving is directly influenced by market conditions and actual experience. The strong level of claims reserves continues to support the releases that have been seen. Actual claims development for prior years remains significantly below projected levels and Lloyd's reserve monitoring has not identified any new specific areas of concern.

The development of business written in the soft market conditions of 1997-2001 continues to be within expectations and to contribute to the surplus generated, as do all the older years of account (2006 and prior).

Major claims

% of NEP	
2010	12.7
2011	25.5
2012	9.7
2013	4.4
2014	3.4

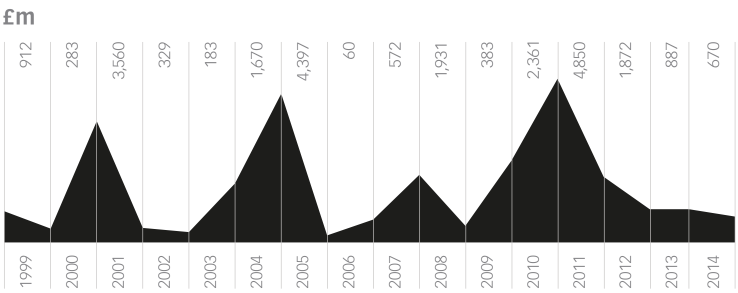
Five-year average 10.9
Ten-year average 11.3

Accident year excl. major claims

% of NEP	
2010	86.5
2011	87.8
2012	88.6
2013	90.4
2014	92.7

Five-year average 88.6
Ten-year average 86.3

Lloyd's major losses: net ultimate claims



Indexed for inflation to 2014. Claims in foreign currency translated at the exchange rates prevailing at the date of loss

£1,319m 20-year average
£1,617m 15-year average

In aggregate the estimates for major catastrophe events from recent years, such as Superstorm Sandy, have proved to be adequate.

Although Lloyd's continues to hold material reserves for older years, the potential for further surpluses to materialise is now more dependent on the robustness of reserves for more recent years. In support of these stable reserves, a number of managing agents have adopted a prudent initial reserving policy which has resulted in surpluses arising in later years. This approach is transparent within Lloyd's oversight regime, as underlying best estimate reserves are captured both within independent statements of actuarial opinion and the work being undertaken in preparation for Solvency II.

Prior to year end, the PRA wrote to all UK general insurers in respect of reserving. A specific concern was on how firms are maintaining reserve strength in the wake of falling rates and large reserve releases. Lloyd's reserve monitoring continues to focus on these very topics to ensure reserve strength is not jeopardised through continued releases, which they have not been. Lloyd's has seen an increasing trend in the ratio of IBNR to incurred loss ratios which confirms that the market aims to maintain reserve discipline in challenging conditions and reacts by posting higher nominal reserves.

The prudent reserving, seen within the market gives confidence that the trend for prior year releases will continue, especially when coupled with favourable experience. For the absolute level of reserve releases to continue at the amounts experienced recently, this will depend on actual claims development falling below projections. Reserve setting is a complex and challenging area and claims estimates are inherently uncertain, particularly in the lines of business written by Lloyd's.

Consequently, oversight of this area remains a focus for Lloyd's and future results may vary considerably from the significant surplus observed in 2014.

Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remains extremely high with 95%+ of all recoveries and reinsurance premium ceded being with reinsurers rated 'A-' and above, or supported by collateral. While the Reinsurance Asset is a material consideration for Lloyd's (equivalent to 37% of GWP) it has remained stable and consistent with the scale of risk transfer and recent loss experience. No negative settlement trends have been witnessed. Lloyd's outward reinsurance spend has remained stable (22% of GWP). While reducing margins on Lloyd's inward reinsurance book have been witnessed, this has also resulted in reduced outward reinsurance costs.

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 2012 account reached closure at 31 December 2014. The major insurance event in 2012 was Superstorm Sandy which struck the Caribbean, the US eastern seaboard and eastern Canada. It cost the Lloyd's market £1.4bn, net of reinsurance, making it the second most costly catastrophe since Hurricane Katrina in 2005. Despite this major claims event the 2012 pure year of account was still able to report an underwriting profit which was further enhanced by the investment return. This 2012 pure year profit was boosted by the addition of releases from prior years totalling £1,119m on the 2011 and prior reinsurance to close (RITC) (2010 and prior £911m), which meant the year closed with an overall profit of £2,860m. Of the six years of account that were in run-off at the beginning of 2014, three, all from one syndicate, were closed at the end of the year. However, one syndicate was unable to close its 2012 year of account at the year end and, therefore, there was a net decrease in open years of two.

In aggregate, run-off years reported a profit of £18m including investment income (2013: profit of £3m). This increased profit is principally the result of the closure of the one syndicate's three years of account while recognising the prudence in the held reserves.

The results of the major classes of business are discussed in detail on pages 49-55.

Investment review

The first nine months of 2014 represented a period of relative calm and stability for investments as global economic growth looked to be gradually improving. Conditions were favourable as central banks maintained their commitment to keep interest rates low for an extended period of time and geopolitical risks seemed not to affect markets.

The fourth quarter saw a rapid change of course as underlying tensions came to the surface causing a surge in volatility. Increasing divergence in growth among major economies emerged: solid growth in the US was contrasted by disappointing growth in Europe and China. The plummeting oil price became a major source of concern for financial markets as attention was focused on the downside implications for oil producing companies and countries rather than the broader scale benefits for many consumers and businesses.

Performance among developed equity markets was mixed: US equities achieved quite strong returns while UK equity returns were only modestly positive. Emerging markets suffered amid the oil price collapse as did most other risk assets but returns were positive, albeit modestly so, over the year. Commodities were a clear exception with significant losses generated over the year.

Bond performance in major global markets was stronger than expected over the year as government yield curves flattened, leading to mark to market capital appreciation, particularly for longer dated bonds.

Although earlier in the year the general trend in corporate bond credit spreads had been a gradual narrowing, they were not immune to the heightened volatility in the fourth quarter and some widening of credit spreads took place. Overall, corporate bonds outperformed their 'risk-free' sovereign counterparts due to their higher ongoing level of yield.

Syndicate premium assets form the largest element of investment assets at Lloyd's. Managing agents are responsible for the investment of these funds, which are used to meet insurance claims as they become payable. Traditionally, syndicates adopt conservative investment policies, utilising cash and high quality fixed interest securities of relatively short duration. Some syndicates' investments include elements of more volatile asset classes, such as equities, hedge funds and lower rated debt securities. At the margin, the proportion of riskier assets has increased in recent years; however, high quality, short dated, fixed interest securities and cash continue to dominate syndicate portfolios, notwithstanding the low yields currently offered by such instruments.

Prior year reserve movement

% of NEP	
2010	(5.9)
2011	(6.5)
2012	(7.2)
2013	(8.0)
2014	(8.0)

Combined ratio

Years of account in run-off

2010	10
2011	7
2012	8
2013	6
2014	4

Overall, syndicate investments returned £749m, or 2.2% in 2014 (2013: £379m, 1.1%). Investments are valued at market prices and unrealised gains and losses are included within reported investment returns. Investment returns have proved to be better than expected, given the large exposure to conservative, but lower yielding, bonds. The capital gains arising from a further drop in yields was a key driver. US-based equity investments have also enhanced return.

Members' capital is generally held centrally at Lloyd's. A proportion of this capital is maintained in investment assets and managed at members' discretion. A notional investment return on members' capital of £202m, or 1.3% (2013: £400m, 2.5%) has been included in the pro forma financial statements (PFFS). This is based on the investment disposition of the relevant assets and market index returns. The return is constrained by the low level of interest available on the high proportion of cash and equivalent investments held within members' capital. However, performance was marginally improved by the better than expected returns achieved on bond investments.

The investment return on Lloyd's central assets is also included in the PFFS. This was £94m or 3.6% in 2014 (2013: £60m, 2.4%). The investment performance of central assets is discussed on page 117.

Results summary

Lloyd's reported a profit before tax for the financial year of £3,161m (2013: £3,205m) and a combined ratio of 88.1% (2013: 86.8%). The PFFS aggregates the results of the syndicate annual accounts, notional investment return on funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. The basis of preparation of the PFFS is set out in note 2 on page 61. The syndicate annual accounts reported an aggregate profit of £2,861m (2013: £2,716m).

Class of business

Reinsurance – Property
Property catastrophe excess of loss represents almost three quarters of Lloyd's property reinsurance premiums. Other key sectors are property risk excess, property pro rata and agriculture and hail.

2014 performance
Lloyd's gross written premium for 2014 was £4,477m (2013: £4,930m), a decrease of 9.2%. The Lloyd's reinsurance property sector reported an accident year combined ratio of 88.7% (2013: 88.2%).

For property catastrophe there have been no major catastrophes affecting the Lloyd's market during 2014 and the results reflect the reduced incidence of large losses. Hurricane Odile in Mexico mainly affected the facultative account. However, there was some attritional activity and syndicates have been exposed to a number of smaller losses including winter snowstorms in Japan, a tornado event in Nebraska, a wind/hail event in France and Belgium (Windstorm Ela), cyclone and flood events in India and a hailstorm in Brisbane.

Property catastrophe premium levels in Lloyd's have reduced largely in reaction to the downturn in rates. Trading conditions remain under pressure with double digit reductions in almost all markets.

There has been a weakening of contractual exclusions and some radical changes to event definitions have been proposed. Perhaps the most notable and well documented is the increase in the duration period and aggregate extensions applying to the traditional Hours Clauses, the eventual impact of which may take time to materialise.

Prior year movement
The prior year reserve movement was a surplus of 12.2% (2013: 11.4%). While there continues to be further deterioration in loss estimates relating to the New Zealand earthquakes, estimates for other historical catastrophes have remained stable or reduced. This has been further mitigated by the release of catastrophe loads held within the reserves.

Looking ahead
The pressure on rates and contractual terms is likely to persist through 2015. There is unlikely to be any significant change in the market until there is a reduction in the availability of surplus capital currently dedicated to this sector which, aside from a significant catastrophe event, and/or a seismic change in global interest rates, appears unlikely.

The property catastrophe market remains under pressure. This is evidenced in weaker pricing and wider terms and conditions. Some syndicates have decided to withdraw their capacity as further weakening appears inevitable.

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

2014 performance
Lloyd's gross written premium for 2014 was £1,781m (2013: £1,698m), an increase of 4.9%. The Lloyd's casualty sector reported an accident year combined ratio of 96.6% (2013: 100.5%).

2014 saw an improvement in recent year loss ratios. Overcapacity, combined with higher cedant retentions, led to accelerated rate softening in most lines throughout the year.

Prior year movement
The prior year reserve movement was a surplus of 9.5% (2013: 12.2%). There will always be inherent uncertainty in casualty reserves, and especially in challenging market conditions.

This class contains motor excess of loss, where large bodily injury claims can be settled using Periodical Payment Orders (PPOs). There remains an increased risk for this element due to uncertainties in discount rates used to determine large awards in bodily injury claims; long term inflation and mortality trends will also impact the ultimate claims outcomes. A key metric is the real rate of return which measures the relationship between investment returns and rates of inflation given these items have opposing impacts on PPO related results.

Lloyd's monitoring continues to indicate adequate reserving over all prior years.

Looking ahead
The pricing and reserving of UK Motor excess of loss business remains a concern however, the appetite of syndicates to write this business is falling and looks set to reduce further into 2015 with some key players cutting back.

Aside from UK Motor excess of loss, rates are under pressure in other casualty treaty sectors (e.g. US WCA Catastrophe) as demand for reinsurance declines among the larger buyers and they retain more risk in-house, consolidating their outward reinsurance programmes into group or whole account structures. This is causing overall demand to fall while capacity to write this class increases as insurers look to diversify both in the US and internationally.

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

2014 performance
Gross written premium by sector was: Marine £991m (2013: £1,098m), Energy £795m (2013: £786m) and Aviation £445m (2013: £453m).

Lloyd's reinsurance – specialty reported an accident year combined ratio of 97.7% (2013: 91.5%).

Aviation excess of loss reinsurance performance was affected by the frequency of large airline and aviation war claims in 2014 (see commentary on direct aviation on page 53).

Prior year movement
The prior year reserve movement was a surplus of 11.7% (2013: 9.7%).

This class continues to generate surpluses on prior years with benign attritional experience across all major lines.

Although there has been deterioration in the Costa Concordia claim, this has been mitigated through reinsurance and more than offset by better experience elsewhere.

Looking ahead
Similar to other reinsurance sectors, most specialty classes are likely to face further, perhaps more intense, downward pressure, with the potential for softening in other terms and conditions in some areas. Classes affected by recent large losses (e.g. aviation) may be more stable.

Property
The property sector consists of a broad range of risks written worldwide. It is made up of predominantly surplus lines business with a weighting to the industrial and commercial sectors, binder business of mainly non-standard commercial and residential risks, and specialist classes including terrorism, power (electricity) generation, engineering and nuclear risks.

Business is written through the broker network as well as using the framework of coverholders and delegated authorities.

2014 performance
Lloyd's gross written premium for 2014 was £6,281m (2013: £6,103m), an increase of 2.9%. The Lloyd's property sector reported an accident year combined ratio of 94.8% (2013: 93.4%).

The market came under continued pressure to reduce rates in 2014 due to surplus capacity and aggressive competition from domestic markets. US Surplus and Excess Lines and binder business grew meaningfully, but growth in other lines was subdued. Competition was largely confined to rates, with wordings remaining largely unchanged.

Results were positive in most property segments due to the low level of catastrophe activity, with only one significant event in the international segment: Hurricane Odile in Baja, California.
In addition, attritional losses continued to trend upward and there were some sizeable power and engineering losses.

Prior year movement
The prior year reserve movement was a surplus of 7.4% (2013: 8.4%). Loss estimates for the historical catastrophes remain stable or have reduced. This is further supported by no adverse development in any of the major lines.

Looking ahead
In the absence of significant catastrophe events, meaningful reductions in available capacity and domestic market appetites, downward rating pressure is expected to continue during 2015 and for the foreseeable future for both direct and reinsurance business with binder business holding up better than open market. It is anticipated that an increase in minimum line size requirements available from syndicates will put further pressure on the market together with an increasing demand for broker binding facilities. A number of syndicates are expected to expand into new areas to supplement premium and growth targets.

The renewal and restructuring of TRIA and Pool Re, and the introduction of Flood Re in the UK, will have consequences for certain segments of the property market, and underwriters will need to factor this into their underwriting plans for future years.

Casualty
The casualty market at Lloyd's comprises a broad range of classes. The most significant are general liability, professional liability and medical malpractice. Although shorter-tail in nature than most casualty lines, accident and health business is also included within this sector. The US market is the largest single market for Lloyd's casualty

business followed by the UK/ Europe, Canada and Australia.

2014 performance
Lloyd's gross written premium for 2014 was £4,963m (2013: £4,850m), an increase of 2.3%. The Lloyd's casualty sector reported an accident year combined ratio of 99.8% (2013: 101.2%).

The casualty market in 2014 was similar to that of 2013. Surplus capacity continues to suppress rate increases, keeping them below widely agreed upon claims inflation assumptions. Profitability remains marginal with little sign of correction.

Some of the growth within casualty lines has been influenced by the green shoots of economic recovery experienced in certain jurisdictions. Increased turnover, wage rolls and fee income is helping to grow the top line despite rates decreasing across most classes.

Given the long-tail nature of many of the lines written and the depth and longevity of the recession, it may take a considerable time for the full effects of the downturn to be determined particularly in financial lines.

Prior year movement
The prior year reserve movement was a surplus of 1.9% (2013: 2.4%). Although the casualty sector continues to generate surpluses on prior years in aggregate, this class has historically seen significant reserve deteriorations and this year witnessed some adverse experience at a more micro level, for example, in some financial institutions, general liability and professional indemnity lines. These are restricted to individual segments, years or territories and therefore do not cause concern. There will always be inherent uncertainty in casualty reserves, and especially in challenging market conditions, and Lloyd's monitoring continues to indicate robust reserving over all prior years.

Looking ahead
The casualty market is particularly vulnerable to an increasingly litigious global environment. Many jurisdictions now allow 'collective actions' with third party litigation funding often fuelling the trend, leading to the increased frequency and severity of claims.

More tenacious regulators pursuing corporate wrongdoing with increased scrutiny, often via official investigations, translates into defence costs making up larger portions of losses.

The cyber market at Lloyd's continues to expand in response to greater demand-driven by high profile losses and the constantly evolving legislation to govern and dictate behaviour and liability. Governments and regulators are increasingly looking to insurers to drive up cyber security standards. There is also greater recognition of the impact of cyber exposures upon other lines of business with specific products covering property damage caused by cyber events now available.

The speed of the economic recovery will continue to influence the class over the next few years. This, coupled with an increased appetite for casualty business, means that the class is expected to continue to grow. The market remains highly competitive, with most market participants eager to expand their books frequently via Delegated Underwriting arrangements.

With no lack of appetite for insurers to enter the casualty market, the rating environment is expected to weaken further in 2015.

2014 combined ratio

	Accident year	Prior year reserve movement	Calendar year
Reinsurance	92.8%	(11.5)%	81.3%
Property	94.8%	(7.4)%	87.4%
Casualty	99.8%	(1.9)%	97.9%
Marine	103.7%	(8.5)%	95.2%
Energy	94.0%	(11.3)%	82.7%
Motor	106.9%	(0.5)%	106.4%
Aviation	132.6%	(30.5)%	102.1%
Life	93.2%	0.0%	93.2%

Marine
Lloyd's is an industry leader of marine business. Main classes include hull, cargo, marine liability and specie (the insurance of valuable property such as precious metals, art or jewellery), political risks and war.

2014 performance
Lloyd's gross written premium for 2014 was £2,142m (2013: £2,195m), a decrease of 2.4%. The Lloyd's marine sector reported an accident year combined ratio of 103.7% (2013: 102.8%).

Borderline performance continued in Hull and Cargo, Lloyd's largest marine class. All classes remained highly competitive due to abundant capacity. With rates already at relatively low points in the cycle, the downward rating pressure was accompanied by increasing limits and/or broadening conditions.

Prior year movement
The prior year reserve movement was a surplus of 8.5% (2013: 7.4%). Overall, there has been a release of reserves in all marine classes.

The expected costs associated with Costa Concordia have increased during the year but these have been mitigated by reinsurance. Otherwise, the observed experience elsewhere has been good.

Looking ahead
Positive developments in the global economy should, over time, bolster both trade volumes and insured values, which in turn should lead to an increase in premium volumes. While the macroeconomic picture appears to be improving, market conditions present many headwinds for the marine class. With abundant capacity in all lines, rates in most classes will face further pressure. Aside from the challenging market conditions, key industry issues remain. Static hull deductibles are producing larger attritional losses. With ships and cargo loads expanding in size, successful salvage is becoming an increasing challenge. This also poses challenges for the marine liability sector. Costa Concordia has highlighted the difficulties that wreck removal of large vessels can present, especially doing so in an environmentally sensitive manner.

Energy
The Lloyd's energy sector includes a variety of onshore and offshore property and liability classes, ranging from construction to exploration and production, refinery and distribution.

2014 performance
Gross written premium for the Lloyd's energy sector in 2014 was £1,533m (2013: £1,668m), a decrease of 8.1%. Most business in this sector, no matter its country of origin, is denominated in US dollars and therefore the ROE movement is most clearly shown in this sector. The Lloyd's energy sector reported an accident year combined ratio of 94.0% (2012: 94.3%).

Performance was driven by offshore energy which benefited from another year without a significant windstorm in the Gulf of Mexico and few notable risk losses.

Fuelled by favourable results and abundant capacity, competition intensified in the offshore energy sector during the course of the year with significant rate reductions, albeit from a high level, reported throughout the year. Overall premium volumes stayed broadly in line with 2013 as the rate reductions were largely offset by increases in exposure.

The onshore energy sector remains overcapitalised and the pressure to compete for premium income and market share has intensified despite marginal performance. Energy liability is one of the few areas where capacity remains at a premium, due primarily to existing underwriters reducing individual commitments per risk to manage their aggregations.

Prior year movement
The prior year reserve movement was a surplus of 11.3% (2013: 11.3%). The sector was able to generate significant reserve releases despite some deterioration in a number of claims.

Looking ahead
The low oil price has had a dramatic impact on future investment in the energy sector, any investments that can be, have been postponed. This will dramatically reduce the offshore and indeed onshore construction premium. In addition, some working wells will be capped early and equipment withdrawn. This will further reduce the premium base in the offshore sector and possibly increase claims activity as damages are discovered and repaired while units are in lay-up.

The lack of recent windstorm activity in the Gulf of Mexico should be treated with caution as this region will continue to be prone to extreme weather events.

The offshore energy sector will remain highly competitive in 2015 as underwriters compete to write a diminishing number of active units and few new projects. Market conditions for onshore energy and liability classes are also expected to weaken in 2015 as underwriters compete to maintain premium income due to potential contagion in competition from the offshore energy sector.

With the offshore energy property sector making up a significant portion of the energy class, the difficult market environment will have an impact on 2015 gross written premium.

Underwriting discipline will be particularly important in 2015, even if this leads to declining business that is not adequately priced. As ever, the focus will also need to be on close control of wordings.

Motor
Lloyd's motor market primarily covers UK private car and commercial/fleet business. Private car represents around 45% of Lloyd's UK motor premium and includes niche motor risks. Lloyd's commercial/fleet business is very diverse, ranging from light commercial vehicles and taxis to buses and heavy haulage.

International motor is also written and a large proportion of this is from North America, including private auto and static risks such as dealer's open lot.

2014 performance
Gross written premium in 2014 was £1,213m (2013: £1,184m), an increase of 2.4%. The Lloyd's motor sector reported an accident year combined ratio of 106.9% (2013: 104.4%).

The UK Motor market remains challenging with legal reforms introduced in 2013 only now starting to take real effect. Legal costs per claim are reducing, but this has been offset by an increase in general damages which formed part of the Legal Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO) reforms.

Private car rates fell during the first half of 2014 but subsequently stabilised towards the end of the year as discounts given for the LASPO reforms soon expired. The rating environment in the commercial motor sector was slightly more positive with above inflation increases achieved throughout the year. However, claims frequency remains high even with the legal reforms now firmly embedded and claims inflation appears to be on the rise again. Fraudulent claims activity is still an issue and performance concerns remain in both areas.

Prior year movement
The motor sector saw a modest release from prior year reserves of 0.5% of motor net earned premium (2013: reserve strengthening 4.2%).

While stability in motor reserves is encouraging, there does remain a risk that any possible alteration to the discount rate used to determine large awards in bodily injury claims, in addition to high claims inflation levels, could affect current claims reserves in the future or the incident of claims settled as Periodical Payment Orders (PPOs). There were also many new legal reforms introduced recently, including increasing the limits of payments under the Ministry of Justice (MOJ) Road Traffic Accident (RTA) Portal and the LASPO reforms. The overall impact of these reforms remains highly uncertain.

Looking ahead
The UK Motor insurance market continues to be very competitive, but the rating environment for both private car and commercial vehicles seems to be turning with some rate rises recorded towards the end of 2014. This trend is expected to continue throughout 2015.

LASPO meant an overall drop in legal fees for personal injury claims, which will reduce insurers' costs, but the MOJ whiplash reforms that came into force in October 2014 will take time to filter through.

The UK Competition and Markets Authority report in September 2014 did not recommend the banning of referral fees related to the provision of temporary replacement vehicles (credit hire) and credit hire fraudulent claims are still an area that needs attention.

Aviation
Lloyd's writes across all main business segments including airline, aerospace, general aviation and space.

Airline (hull and liability) is the largest segment but Lloyd's aviation is also actively involved in the underwriting of general aviation (for example, privately owned light aircraft, helicopters and large private corporate jets), airport liability, aviation product manufacturers' liability, aviation war/terrorism and satellite launch/in-orbit risks.

2014 performance
Gross written premium was £582m (2013: £562m), an increase of 3.6%. The Lloyd's aviation sector reported an accident year combined ratio of 132.6% (2013: 105.1%).

Although aviation safety continued to improve with accident rates in 2014 among the best ever, this result was driven by a series of large airline and aviation war claims which inundated the fragile premium bases in these classes.

These claims included Malaysia Airlines which suffered the losses of two passenger jets. Malaysia Airlines Flight MH370 disappeared in March while flying from Kuala Lumpur to Beijing with the loss of 239 passengers and crew. Despite extensive and continuing search and rescue efforts, it is still unclear what happened to the jet and its whereabouts. In July, Malaysia Airlines Flight MH17 was allegedly shot down over eastern Ukraine with the loss of 298 lives.

Lloyd's airline and war markets remain at the forefront regarding the speedy adjustment of claims.

Aviation underwriters were also impacted by a number of other airline disasters including the loss of Air Algerie, TransAsia and AirAsia. Aside from Malaysia Airlines, the aviation hull war market experienced a frequency of other large claims, most notably arising from the prolonged period of fighting at Tripoli Airport which resulted in the severe damage or destruction of multiple aircraft.

Space insurers also had a difficult year with the loss of the Antares 130 rocket, the ABS-2 satellite, the Express AM4R spacecraft and the Amazonas 4A telecommunications satellite.

With underwriting capacity exceeding insurance demand, in some classes by several multiples, market conditions continued to weaken quite materially across the aviation and space sectors. Only in the final quarter of 2014, when most of the world's major airlines and war risks renew, was there evidence of a change in this trend. However, with capacity still increasing in these classes, the momentum for rate increases at the start of the quarter proved short lived, with some softening again evident in the last few weeks of the year.

Despite the continued increase in aviation exposures around the world, Lloyd's premium was only slightly above 2013 levels and significantly below business plan targets. This was largely a function of the soft rating environment and the inherent miss-factor which led to a mixture of underwriting perspectives and responses following the claims.

Prior year movement
The prior year reserve movement was a surplus of 30.5% (2013: 23.7%). The prior years continue to develop very favourably. Large reserve releases are common in aviation and this continues to occur with no signs of adverse development in the back years at all.

Looking ahead
Notwithstanding the negative result in 2014, without a significant withdrawal of global underwriting capacity, the aviation market is likely to remain extremely competitive with the potential for further softening in rates, terms and conditions. With industry exposures continuing to rise sharply in terms of fleet values and passenger numbers, the accumulation potential and a more punitive legal environment are expected to lead to an increase in potential volatility and rising attritional claims.

Reinsurance

Property

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	4,761	2010	92.0	2010	279
2011	5,209	2011	158.8	2011	(2,180)
2012	5,463	2012	89.8	2012	393
2013	4,930	2013	76.8	2013	846
2014	4,477	2014	76.5	2014	820

Casualty

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	1,656	2010	90.2	2010	133
2011	1,480	2011	90.2	2011	124
2012	1,612	2012	94.5	2012	70
2013	1,698	2013	88.3	2013	165
2014	1,781	2014	87.1	2014	195

Specialty

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	1,804	2010	86.1	2010	178
2011	1,984	2011	92.1	2011	111
2012	2,360	2012	91.1	2012	142
2013	2,349	2013	81.8	2013	310
2014	2,239	2014	86.0	2014	235

Direct

Property

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	4,908	2010	92.4	2010	283
2011	4,965	2011	100.3	2011	(10)
2012	5,476	2012	94.4	2012	221
2013	6,103	2013	85.0	2013	681
2014	6,281	2014	87.4	2014	577

Casualty

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	4,397	2010	96.6	2010	113
2011	4,245	2011	96.6	2011	117
2012	4,543	2012	95.6	2012	152
2013	4,850	2013	98.8	2013	47
2014	4,963	2014	97.9	2014	81

Direct continued

Marine

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	1,671	2010	90.9	2010	128
2011	1,968	2011	94.5	2011	89
2012	2,090	2012	99.9	2012	2
2013	2,195	2013	95.4	2013	84
2014	2,142	2014	95.2	2014	85

Energy

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	1,419	2010	83.3	2010	164
2011	1,523	2011	87.9	2011	130
2012	1,727	2012	76.0	2012	275
2013	1,668	2013	83.0	2013	201
2014	1,533	2014	82.7	2014	189

Motor

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	1,103	2010	151.5	2010	(520)
2011	1,187	2011	107.4	2011	(82)
2012	1,155	2012	104.0	2012	(42)
2013	1,184	2013	108.6	2013	(87)
2014	1,213	2014	106.4	2014	(69)

Aviation

Gross written premium £m		Combined ratio %		Underwriting result £m	
2010	642	2010	74.9	2010	115
2011	708	2011	64.9	2011	196
2012	669	2012	67.7	2012	170
2013	562	2013	81.4	2013	90
2014	582	2014	102.1	2014	(8)

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MARKET RESULTS

Statement of Council's Responsibilities and Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the 2014 Pro Forma Financial Statements

Statement of Council's responsibilities

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 Council of Lloyd's is responsible for the preparation and approval of the PFFS.

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

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

Independent reasonable assurance report to the Council of Lloyd's on the preparation of the 2014 pro forma financial statements

Report on the preparation of the Lloyd's pro forma financial statements

Our conclusion
In our opinion the Council of Lloyd's has prepared the pro forma financial statements (the 'PFFS'), as defined below, for the financial year ended 31 December 2014 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:

- A pro forma profit and loss account.
- A pro forma statement of total recognised gains and losses.
- A pro forma balance sheet.
- A pro forma statement of cash flows.
- Notes 1-17 to the PFFS.

The financial reporting framework that has been applied in their preparation is set out in note 2.

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 2014 are included.

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

We applied 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.

The PFFS have been compiled in part from an aggregation of financial information extracted from the balance sheet and profit and loss account included in syndicate annual accounts by the managing agent of each syndicate, which has been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported. Our work did not involve assessing the quality of those audits or performing any audit procedures over the financial information of the syndicates.

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

- Obtaining an understanding of how the Council of Lloyd's has compiled the PFFS from the audited syndicate annual accounts, the audited Society of Lloyd's financial statements and 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 financial statements.
- Evaluating evidence to support the existence and valuation of funds at Lloyd's.
- Evaluating the evidence supporting the adjustments made and obtaining evidence that the PFFS have been prepared in accordance with the basis of preparation set out in note 2.

The engagement also involves evaluating the overall presentation of the PFFS.

Responsibilities for the pro forma financial statements and the reasonable assurance engagement

Our responsibilities and those of the Council of Lloyd's
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 purpose of the PFFS is to allow the financial results of Lloyd's and its members taken together and their net assets to be compared as closely as possible with the financial reports of 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 is made solely to the Council of Lloyd's in accordance with our engagement letter dated 3 December 2014 (the 'instructions'). Our examination has been undertaken so that we might state to the Council 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
Chartered Accountants
London, 25 March 2015

Pro Forma
Profit and Loss Account

For the year ended 31 December 2014

Technical account	Note	£m	2014 £m	Restated £m	Restated 2013 £m
Gross written premiums					
– continuing operations		25,268		25,612	
– discontinued operations	5	15		3	
	9		25,283		25,615
Outward reinsurance premiums			(5,259)		(5,384)
Premiums written, net of reinsurance			20,024		20,231
Change in the gross provision for unearned premiums		(626)		(582)	
Change in the provision for unearned premiums, reinsurers' share		177		76	
			(449)		(506)
Earned premiums, net of reinsurance			19,575		19,725
Allocated investment return transferred from the non-technical account			666		337
			20,241		20,062
Claims paid					
Gross amount		12,028		13,086	
Reinsurers' share		(2,736)		(3,004)	
			9,292		10,082
Change in provision for claims					
Gross amount		(275)		(1,501)	
Reinsurers' share		573		1,000	
			298		(501)
Claims incurred, net of reinsurance			9,590		9,581
Net operating expenses	11		7,656		7,539
Balance on the technical account for general business			2,995		2,942
Attributable to:					
– continuing operations		2,972		2,919	
– discontinued operations	5	23		23	
Total			2,995		2,942
Non-technical account					
Balance on the technical account for general business			2,995		2,942
Investment return on syndicate assets	12	749		379	
Notional investment return on funds at Lloyd's	6	202		400	
Investment return on Society assets		94		60	
		1,045		839	
Allocated investment return transferred to the technical account		(666)		(337)	
			379		502
Other income			65		62
Other expenses			(278)		(301)
Result for the financial year before tax	8		3,161		3,205

Statement of total recognised gains and losses	Note	2014 £m	2013 £m
Result for the financial year		3,161	3,205
Other recognised gains and losses	8	102	(123)
Total recognised gains and losses since previously reported	8	3,263	3,082

Pro Forma
Balance Sheet

As at 31 December 2014

Investments	Note	£m	2014 £m	Restated £m	Restated 2013 £m
Financial investments	13		45,008		42,252
Deposits with ceding undertakings			3		4
Reinsurers' share of technical provisions					
Provision for unearned premiums		1,961		1,727	
Claims outstanding		8,785		9,195	
	16		10,746		10,922
Debtors					
Debtors arising out of direct insurance operations		6,188		5,672	
Debtors arising out of reinsurance operations		3,589		3,469	
Other debtors		776		735	
			10,553		9,876
Other assets					
Tangible assets		24		40	
Cash at bank and in hand	14	9,852		9,242	
Other		9		21	
			9,885		9,303
Prepayments and accrued income					
Accrued interest and rent		72		71	
Deferred acquisition costs		3,213		2,848	
Other prepayments and accrued income		184		136	
			3,469		3,055
Total assets			79,664		75,412
Capital and reserves					
Members' funds at Lloyd's	6	15,704		15,088	
Members' balances	15	5,189		3,635	
Members' assets (held severally)		20,893		18,723	
Central reserves (mutual assets)		1,693		1,663	
	8		22,586		20,386
Subordinated debt	2		497		330
Subordinated perpetual capital securities	2		388		391
Capital, reserves and subordinated debt and securities			23,471		21,107
Technical provisions					
Provision for unearned premiums		12,562		11,656	
Claims outstanding		38,134		37,621	
	16		50,696		49,277
Deposits received from reinsurers			57		46
Creditors					
Creditors arising out of direct insurance operations		499		466	
Creditors arising out of reinsurance operations		2,945		2,743	
Other creditors including taxation		1,480		1,334	
			4,924		4,543
Accruals and deferred income			516		439
Total liabilities			79,664		75,412

Approved by the Council of Lloyd's on 25 March 2015 and signed on its behalf by

John Nelson
Chairman

Inga Beale
Chief Executive Officer

Pro Forma
Cash Flow Statement

For the year ended 31 December 2014

	2014 £m	Restated 2013 £m
Result on ordinary activities before tax	3,161	3,205
Depreciation	5	13
Realised and unrealised losses and foreign exchange	(1,454)	1,059
Net purchase of investments	(1,041)	(1,516)
Notional return on funds at Lloyd's	(202)	(400)
Increase/(decrease) in technical provisions	1,598	(729)
(Increase)/decrease in debtors	(984)	294
Increase/(decrease) in creditors	289	(796)
Cash generated from operations	1,372	1,130
Tax paid	(21)	(29)
Net cash from operating activities	1,351	1,101
Cash flows from financing activities		
Net profits paid to members	(1,512)	(937)
Net movement in funds at Lloyd's	581	(526)
Net capital transferred into/(out of) syndicate premium trust funds	80	(31)
Issue of 2014 subordinated notes	493	–
Purchase of 2004 subordinated notes	(329)	(195)
Interest paid	(54)	(62)
Net increase/(decrease) in cash holdings	610	(650)
Cash holdings at 1 January	9,242	9,892
Cash holdings at 31 December	9,852	9,242

Notes to the Pro Forma *Financial Statements*

As at 31 December 2014

1. Introduction

Lloyd's is not an insurance company. It is a Society of members which underwrite insurance (each for their own account) as members of syndicates. 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 include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's on pages 74-172.

The Aggregate Accounts do not present a consolidated view of the results of Lloyd's business taken as a single entity. In particular, each managing agent selects the accounting policies most appropriate to its managed syndicates. Where UK GAAP permits different accounting policies and managing agents have adopted various accounting treatments, these are reflected in the PFFS without making consolidation adjustments. In addition, the PFFS do not eliminate inter-syndicate reinsurances (except for SPS, see below).

The Aggregate Accounts report the audited results for calendar year 2014 and the financial position at 31 December 2014 for all syndicates which transacted business during the year. They include the syndicate level assets, which represent the first link in the Chain of Security (see page 70). The Aggregate Accounts are reported as a separate document and can be viewed at www.lloyds.com/financialreports. During 2014, certain syndicates changed their accounting policies in relation to foreign exchange resulting in a restatement of the comparative figures for 2013 within their annual accounts and the Aggregate Accounts have been restated accordingly. The restatements are not material and, therefore, the comparative figures within the PFFS have not been restated.

The capital provided by members is generally held centrally as FAL and represents the second link in the Chain of Security. The non-technical account of the PFFS includes a notional investment return on FAL.

The Society of Lloyd's audited financial statements report the central resources of the Society, which forms the third link in Lloyd's Chain of Security.

As noted on pages 133 and 134, the Society of Lloyd's has restated its comparative figures for 2013. The restatements are not material and, therefore, the comparative figures within the PFFS have not been restated.

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 of Lloyd's. The balance sheet in the PFFS aggregates the assets held at syndicate level, members' assets held as FAL and the central resources of the Society.

Overall, the PFFS aggregate the results and resources of the Society and its members and reflect all the links in Lloyd's Chain of Security as described in detail in the 'Security underlying policies issued at Lloyd's' section on pages 70-73. The PFFS may, therefore, be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is as closely as possible comparable with general insurance companies.

Taxation
The PFFS report the market's result before tax. Members are directly 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 balance sheet includes the tax provisions in the Society financial statements.

Funds at Lloyd's
FAL comprise the capital provided by members 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 are available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable, may include letters of credit and bank and other guarantees, and 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 Individual Capital Assessment (ICA) capital setting methodology.

Notional investment return on FAL
A notional investment return on FAL has been calculated, 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 calculated 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.

Notes to the Pro Forma
Financial Statements continued

As at 31 December 2014

Society of Lloyd's financial statements

The PFFS include the results and net assets reported in the consolidated financial statements of the Society of Lloyd's, 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.

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 annual accounts and as income 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 annual accounts for calendar year 2014 and earlier years 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 annual accounts and as liabilities in the Society financial statements.

Transactions between the syndicates and the Society which have been reported within both the syndicate annual accounts and the Society financial statements have been eliminated (note 8).

Special Purpose Syndicates (SPS)
The Aggregate Accounts include the results and assets of the SPS (see Glossary page 176). Due to the nature of SPS, the quota share of the host syndicate's business is reported as gross written premiums in both the host syndicate and SPS 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 reinsurance transactions of the SPS have been eliminated. The key impact of this elimination is that gross written premium is reduced by £567m (2013: £491m). The elimination does not affect the PFFS result or the balance due to members.

This disclosure has been adopted for the first time in 2014 so the 2013 adjustment noted above has been restated in the comparative figures. There is no impact on the 2013 overall result, combined ratio or the balance due to members within total capital and reserves.

All other inter-syndicate reinsurance arrangements are included in full.

Inter-syndicate loans
The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £160m (2013: £95m). 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.

Subordinated debt and securities
In accordance with the terms of the subordinated debt and securities, 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 debt and securities' in the pro forma balance sheet.

The 2014 figure for subordinated notes includes the Notes issued on 30 October 2014. Note 17 to the Society financial statements on pages 155 and 156 provides additional information.

3. Accounting policies notes

A. Aggregate Accounts
General
Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, managing agents must prepare the syndicate annual accounts under UK GAAP. However, where UK GAAP permits different accounting treatments, each managing agent is able to adopt the accounting policies it considers most appropriate to its syndicate. In particular, in certain circumstances, UK GAAP permits various accounting treatments for the movement in foreign exchange. The following accounting policies are, therefore, generic in nature.

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.

Outwards reinsurance premiums
Outwards 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 which 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 class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Statistical techniques are used to assist in making these estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors of each syndicate's managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events, which may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

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 classes of business which 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
Income and expenditure in foreign currencies are translated into pound sterling using the exchange rates prevailing at the date of the transactions or the average rate may be used when this is a reasonable approximation.

Where the international operations for a syndicate are treated as a branch, its branch assets and liabilities are translated into pound sterling at the rates of exchange ruling at the balance sheet date. The exchange differences arising are normally accounted for through the statement of total recognised gains and losses.

For other international operations, monetary assets and liabilities are translated into pound sterling at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities at the balance sheet date, primarily deferred acquisition costs and unearned premiums, are maintained at the rate of exchange ruling when the contract was entered into (or the approximate average rate). Resulting exchange differences on translation are recorded in the profit and loss account.

Investments
Investments are stated at current 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.

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 their 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.

Notes to the Pro Forma
Financial Statements continued

As at 31 December 2014

3. Accounting policies notes continued

Syndicate investment return continued
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.

Taxation
Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'. No provision has been made for any international tax payable by members on underwriting results.

Operating expenses
Operating expenses (including pension and other staff costs) 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.

B. Funds at Lloyd's
FAL are valued in accordance with their market value at the year end, and using year end exchange rates.

Investments are stated at current 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.

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 accounting policies adopted in the Society of Lloyd's financial statements are set out on pages 134-138.

4. Variability

Calendar year movements in reserves are based upon best estimates as at 31 December 2014, 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.

5. Discontinued operations

Continuing/discontinued operations represent the analysis reported in the syndicate annual accounts between business that they are continuing to underwrite and business that they have ceased to underwrite. It is quite possible, however, that business discontinued by one syndicate continues to be written at Lloyd's by one or more other syndicates.

When a syndicate has ceased underwriting, its operations are reported as discontinued within the syndicate's annual accounts. Where the entire book of business continues to be written by another syndicate, however, an adjustment is made in the PFFS to reflect the continuing nature of this business to Lloyd's and its members as a whole. Where business has been reported as discontinued in 2014, the results for that business have also been reported as discontinued in the 2013 comparative figures.

6. Members' funds at Lloyd's

The valuation of members' FAL in the balance sheet totals £15,704m (2013: £15,088m). The notional investment return on FAL included in the non-technical profit and loss account totals £202m (2013: £400m).

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 Lloyd's 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.

6. Members' funds at Lloyd's continued

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

		Proportion of FAL		Investment return	
Investment type	Index	December 2014 %	December 2013 %	2014 %	2013 %
UK equities	FTSE All share	6.0	6.7	1.5	21.2
UK government bonds	UK Gilts 1-3 years	2.3	3.4	1.8	0.0
UK corporate bonds	UK Corporate 1-3 years	8.8	8.9	1.9	0.4
UK deposits managed by Lloyd's	Return achieved	3.3	4.0	0.5	0.4
UK deposits managed externally including LoC	GBP LIBID 1 month	24.6	24.2	0.4	0.4
US equities	S&P 500 Index	4.8	4.9	13.7	32.4
US government bonds	US Treasuries 1-5 years	5.3	5.0	1.2	(0.2)
US corporate bonds	US Corporate 1-5 years	15.1	13.8	2.1	1.1
US deposits managed by Lloyd's	Return achieved	4.0	3.1	0.1	0.2
US deposits managed externally including LoC	USD LIBID 1 month	25.8	26.0	0.2	0.2

7. Society of Lloyd's

The results of the Group financial statements of the Society included in the profit and loss account are a profit of £219m (2013: £268m) in the technical account and a loss of £121m (2013: £180m) in the non-technical account.

8. Aggregation of results and net assets

A reconciliation between the results, statement of realised gains and losses and net assets reported in the syndicate annual accounts, members' FAL and by the Society is set out below.

As disclosed in the Society's basis of prepartion and consolidation note the Society has restated its comparative figures for 2013. The amounts of the adjustments are considered immaterial and so the PFFS have not been restated. The impact of the prior year adjustment (PYA) is reflected in the reconciliations below and more details can be found on page 133 of this Annual Report.

Profit and loss account	2014 £m	2013 £m
Result per syndicate annual accounts	2,861	2,717
Result of the Society	91	65
Central Fund claims and provisions incurred in Society financial statements	1	18
Central Fund recoveries from insolvent members	(9)	(2)
Taxation charge in Society financial statements	18	14
Notional investment return on members' funds at Lloyd's	202	400
Society PYA for IAS (see note above)	–	(1)
Movement in Society income not accrued in syndicate annual accounts	(3)	(6)
Result on ordinary activities before tax	3,161	3,205

Statement of total recognised gains and losses	2014 £m	2013 £m
Result for the financial year	3,161	3,205
Foreign currency movements in the syndicate annual accounts	134	(125)
Other recognised losses per syndicate annual accounts	1	(5)
Society PYA for IAS (see note above)	–	–
Other recognised gains and losses of the Society	(33)	7
Total recognised gains and losses	3,263	3,082

Notes to the Pro Forma
Financial Statements continued

As at 31 December 2014

8. Aggregation of results and net assets continued

Capital and reserves	2014 £m	2013 £m
Net assets per syndicate annual accounts	5,191	3,634
Net assets of the Society	1,693	1,635
Central Fund claims and provisions	6	11
Members' funds at Lloyd's	15,704	15,088
Unpaid cash calls reanalysed from debtors to members' balances	9	4
Society income receivable not accrued in syndicate annual accounts	(17)	(14)
Society PYA for IAS (see note above)	–	28
Total capital and reserves	22,586	20,386

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 Lloyd's provided additional information to derive the following table in respect of the classes of business reviewed in the market commentary.

2014	Gross written premiums £m	Net earned premium £m	Under-writing result £m
Reinsurance	8,497	6,680	1,250
Property	6,281	4,572	577
Casualty	4,963	3,939	81
Marine	2,142	1,759	85
Energy	1,533	1,093	189
Motor	1,213	1,082	(69)
Aviation	582	377	(8)
Life	72	73	5
Total from syndicate operations	25,283	19,575	2,110
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society	–	–	219
PFFS premiums and underwriting result	25,283	19,575	2,329
Allocated investment return transferred from the non-technical account			666
Balance on the technical account for general business			2,995

2013	Gross written premiums £m	Net earned premium £m	Under-writing result £m
Reinsurance	8,977	6,760	1,321
Property	6,103	4,551	681
Casualty	4,850	3,826	47
Marine	2,195	1,835	84
Energy	1,668	1,181	201
Motor	1,184	1,014	(87)
Aviation	562	485	90
Life	76	73	–
Total from syndicate operations	25,615	19,725	2,337
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society	–	–	268
PFFS premiums and underwriting result	25,615	19,725	2,605
Allocated investment return transferred from the non-technical account			337
Balance on the technical account for general business			2,942

10. Life business

The PFFS include the results of all life and non-life syndicates transacting business during 2014. 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

	2014 £m	2013 £m
Acquisition costs	5,808	5,674
Change in deferred acquisition costs	(296)	(226)
Administrative expenses	2,149	1,869
Underlying operating expenses	7,661	7,317
(Profit)/loss on exchange	(5)	222
	7,656	7,539

12. Syndicate investment return

	2014 £m	2013 £m
Income from investments	649	689
Net realised gains/(losses) on investments	63	(32)
Net unrealised gains/(losses) on investments	83	(223)
Investment management expenses, including interest	(46)	(55)
	749	379

The breakdown of the Society investment return is provided in the Society's financial statements on page 144. This analysis is not appropriate for the notional investment return on funds at Lloyd's.

13. Financial Investments

	2014 £m	2013 £m
Shares and other variable yield securities and units in unit trusts	6,617	5,679
Debt securities and other fixed income securities	31,953	29,225
Participation in investment pools	1,451	1,908
Loans and deposits with credit institutions	4,900	5,343
Other	87	97
	45,008	42,252

The following table provides an analysis of the credit disposition of syndicate investments.

	2014 £m	2013 £m
Government, agency and supranational	11,803	11,738
'AAA' rated	4,306	4,260
'AA' rated	4,332	3,996
'A' rated	6,923	5,960
'BBB' and lower rated	2,564	2,095
Equity and hedge funds	1,887	1,253
Cash equivalents	2,748	2,866
Total syndicate investments	34,563	32,168
FAL investments	7,884	7,731
Society investments	2,561	2,353
Total per PFFS	45,008	42,252

Government, agency and supranational investments are predominantly within the US, UK and Canada.

Notes to the Pro Forma
Financial Statements continued

As at 31 December 2014

13. Financial Investments continued

The following table provides an analysis of the average duration of syndicate fixed income securities.

	2014 %	2013 %
Less than one year	13	7
Between one and two years	41	38
Between two and three years	23	35
Over three years	23	20
Total per PFFS	100	100

The average duration of syndicate fixed income securities was 2.3 years (2013 2.3 years). The average duration for claims provisions was approximately three years.

14. 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 £7,864m (2013: £7,450m).

15. Members' balances

	2014 £m	2013 £m
Balance at 1 January	3,635	2,048
Result for the year per syndicate annual accounts	2,861	2,717
Distribution on closure of the 2011 (2010) year of account	(1,371)	(889)
Advance distributions from open years of account	(239)	(173)
Movement in cash calls	98	125
Net capital transferred into/(out of) syndicate premium trust funds	80	(31)
Foreign currency movements	158	(150)
Other movements	(33)	(12)
Balance at 31 December	5,189	3,635

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 funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of 2015.

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 in the year, the movement is reflected in the above table as 'net capital transferred into/(out of) syndicate premium trust funds'.

16. Technical provisions

Gross	2014 £m	Restated 2013 £m
Claims reported	19,048	19,601
Claims incurred but not reported and unallocated loss adjustment expenses	19,086	18,020
Unearned premiums	12,562	11,656
Total technical provisions, gross	50,696	49,277
Recoverable from reinsurers		
Claims reported	4,908	5,505
Claims incurred but not reported and unallocated loss adjustment expenses	3,877	3,690
Unearned premiums	1,961	1,727
Total reinsurers' share of technical provisions	10,746	10,922
Net		
Claims reported	14,140	14,096
Claims incurred but not reported and unallocated loss adjustment expenses	15,209	14,330
Unearned premiums	10,601	9,929
Total net technical provisions	39,950	38,355

17. Five year summary

Results	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Gross written premiums (restated)	25,283	25,615	25,173	23,337	22,425
Net written premiums	20,024	20,231	19,435	18,472	17,656
Net earned premiums	19,575	19,725	18,685	18,100	17,111
Result attributable to underwriting	2,329	2,605	1,661	(1,237)	1,143
Result for the year before tax	3,161	3,205	2,771	(516)	2,195
Assets employed					
Cash and investments	54,860	51,494	51,767	51,416	48,483
Net technical provisions	39,950	38,355	39,078	39,765	36,191
Other net assets	7,676	7,247	6,611	6,565	5,899
Capital and reserves	22,586	20,386	19,300	18,216	18,191
Statistics					
Combined ratio (%)	88.1	86.8	91.1	106.8	93.3
Return on capital (%)	14.7	16.2	14.8	(2.8)	12.1

Security Underlying Policies Issued at Lloyd's

As at 31 December 2014

Summary

Lloyd's is not an insurance company, it is a Society of members, both corporate and individual, which underwrite insurance in syndicates. These syndicates can comprise one single corporate member or any number of members, underwriting severally for their own account.

There were 94 syndicates (excluding syndicates set up to accept RITC of orphan syndicates but including the 12 Special Purpose Syndicates) as at 31 December 2014 registered to conduct business at Lloyd's. Each syndicate is managed by a managing agent. Managing agents write insurance business on behalf of the member(s) of the syndicate, which receive profits or bear losses in proportion to their share in the syndicate for each underwriting year of account. The adoption of annual accounting and presentation of the syndicate annual accounts do not change the allocation of profits and losses to members.

The Lloyd's Chain of Security

The three key features of the Lloyd's Chain of Security provide strong security to all Lloyd's policyholders, reflected in the high ratings assigned by leading rating agencies.

The first two links in the Lloyd's Chain of Security each operates on a several basis: each member's resources are only available to meet their share of claims. The third link represents assets available to meet the liabilities of any member on a mutual basis. The key features of the Chain of Security are summarised below and the sections which follow describe each of these links in greater detail.

The Chain of Security supports policies written for the 1993 and subsequent years of account for non-life business and all life business written at Lloyd's. Liabilities in relation to the 1992 and prior years of account for non-life business were reinsured into Equitas as at 31 December 1995, as part of 'Reconstruction and Renewal'. Subsequently, the 1992 and prior liabilities were subject to a statutory transfer to Equitas Insurance Limited under Part VII of the Financial Services and Markets Act in June 2009.

The first link

The first link in the Chain of Security is the member's premiums trust funds, and other assets held in trust at syndicate level. To protect the interests of policyholders, all premiums and other monies received or receivable in connection with the member's underwriting business are initially paid into the premiums trust funds of the syndicate concerned. Payments from these funds may only be made to meet permitted trust outgoings: claims, reinsurance premiums, underwriting expenses and the like, including funding international regulatory deposits. Profit is not distributed until provision has been made for all outstanding liabilities.

There are separate premiums trust funds for life business and non-life business. There is a further segregation in that a number of the premiums trust funds are exclusively available to support certain international underwriting of members. The Lloyd's Dollar Trust Funds (LDTF) receive premiums in respect of US dollar denominated non-life business underwritten or incepting on or after 1 August 1995. Receipts in respect of non-life US dollar denominated business originally written and incepting before that date were held in the Lloyd's American Trust Fund (LATF) of each member, in New York. During 2009 arrangements were made, in agreement with the New York Insurance Department, to transfer the non-life underwriting liabilities in relation to the insurance business incepting before 1 August 1995 previously held in the LATF, into the LDTF.

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

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

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

These deposits would be available to meet judgement debts of a member in respect of business connected with the relevant international territory in the event that the relevant premiums trust fund for the member, even after replenishment from other links in the Chain of Security and other free assets of the member in question, was inadequate.

Underwriters also maintain regulatory deposit trust funds in Australia and South Africa and various deposits in other countries.

The total value of all the above funds was £45,139m at 31 December 2014.

The second link

The second link is members' capital provided to support their underwriting.

The capital provided by every member is assessed according to the Lloyd's Individual Capital Assessment (ICA) capital setting framework. When agreed, each ICA is then 'uplifted' (by 35% for 2014) to provide an extra buffer to support Lloyd's rating and financial strength. This uplifted ICA, which is the Economic Capital Assessment (ECA), is used to determine members' capital requirements subject to prescribed minimum levels.

The PRA oversees the annual review of syndicate ICAs by the Corporation, which reviews the historical performance, business plans and risk appetite of that syndicate in assessing the adequacy of the capital level proposed. The PRA also reviews a small sample of syndicate ICAs in order to validate the effectiveness of the reviews carried out by the Corporation.

This capital is commonly held as FAL but from 1 July 2007 can be held by aligned corporate members within the premiums trust fund (see first link above).

FAL comprise the three trust funds in which members' assets may be held: the Lloyd's deposit, the special reserve fund and the personal reserve fund. These are each available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable; this includes letters of credit and bank and other guarantees. A member is required to have sufficient assets at least equivalent to the aggregate of the member's ECA and certain liabilities in respect of its underwriting business. The amount of FAL assets required will depend on the net open year underwriting position of the member, i.e. if the net open year position is a deficit then the member will be required to add additional FAL to cover this deficiency, if the net open year position is a surplus the member can use these surplus assets towards their ECA requirement, thus reducing the value of their assets to be held as FAL.

Minimum capital ratios are set at 40% of overall premium limits (25% for those members writing mainly EU motor business).

Individual members underwrite with unlimited liability and thus may be required to meet their share of claims to the full extent of their wealth. A corporate member may also have assets, beyond its capital to support underwriting, which can be called upon to meet its underwriting liabilities.

At 31 December 2014, the total value of capital supporting underwriting held in trust by members amounted to £15,704m (a further £2,709m of capital supporting underwriting is held in members' premiums trust funds as part of the first link).

The third link

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

The New Central Fund has been established to be available, at the discretion of the Council of Lloyd's, to ensure that policyholders' claims are met in the event of members being unable to meet their underwriting liabilities relating to 1993 and post non-life business and all life business. In practice, this entails the payment of syndicate cash calls where a member is unable to do so from their FAL or their own resources. The New Central Fund is funded by annual contributions from members.

The net assets of the Central Fund as at 31 December 2014 were £1,590m.

In 2004 and 2014, Lloyd's issued subordinated loan notes and in 2007 perpetual capital securities which, as at 31 December 2014, are included as a liability of £885m within the Society's financial statements. As set out in note 17 to the Society's financial statements, payments on the notes are subordinated to certain payments which may be made out of central assets, including payments made to discharge the liabilities of an insolvent member to any person (including any policyholders) arising out of or in connection with insurance business carried on at Lloyd's by that insolvent member.

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 premiums trust funds (described and included in the first link).

In addition, the other assets of the Society, totalling £103m at 31 December 2014, are available to meet underwriting liabilities in the last resort.

In aggregate, the value of the central resources of the Society (excluding the subordinated debt liability and the callable layer), amounted to £2,578m at 31 December 2014.

Aggregate resources

The total of syndicate assets, members' capital to support underwriting (i.e. funds at Lloyd's and capital held in syndicate premiums trust funds) and central resources of the Society as at 31 December 2014 was £63,421m. The total of net syndicate technical provisions at the end of 2014 was £39,950m. The total net resources of the Society and its members were therefore £23,471m (excluding the subordinated debt liability) as shown in the PFFS on page 59.

Security Underlying Policies Issued at Lloyd's

continued

As at 31 December 2014

Aggregate resources continued

The aggregated resources are based on the total of the assets and liabilities of all members and those of the Society. The aggregate declared resources of the Society do not represent a consolidated statement of the financial position of Lloyd's business taken as a single entity and, as indicated above, the first two links in the Chain of Security operate on a several, not mutual, basis.

Solvency controls

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

The annual solvency process requires the managing agent of each syndicate to estimate and provide for all current and future liabilities for each year of account. These liabilities, 'technical provisions for solvency', are subject to a statement of actuarial opinion. The requirement for an opinion and its required wording, that the net technical provisions for solvency are not less than the current and future liabilities, is a higher test than required in the UK company market. In the event that it is not possible for the managing agent to secure an unqualified actuarial opinion for any reason, the technical provisions for solvency would be determined by the Lloyd's Actuary, who would provide a report to the PRA. In addition, any syndicate which is not able to secure an unqualified actuarial opinion will normally be subject to a monitoring review by Lloyd's. There were no qualified actuarial opinions as at 31 December 2014.

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

First, each member's solvency position is calculated. Each member must have sufficient assets – those held in the premiums trust funds, international regulatory deposits and its capital to support underwriting – to cover its underwriting liabilities and on top of this an additional margin known as the member's capital resources requirement (MCRR). The MCRR is calculated separately for each member, determined as the greater of 16% of annual premium income or 23% of average claims incurred over a three-year period. Premiums and claims in respect of certain types of liability business have their value increased by 50%, for the purpose of this calculation. Where a member's assets are not sufficient to cover the aggregate of its underwriting liabilities and its MCRR, the member has a solvency shortfall.

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

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

The PRA are advised of the results of this monitoring.

The Lloyd's return

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

Recapitalisation at member level

The free funds available to a member to meet its capital requirements may fall below the required level for two reasons: first, increases to syndicate ICAs, following a material change to the risk profile of the business; or second, erosion of funds due to losses.

In either case, the timetable for recapitalisation and the intervention by Lloyd's will depend on the extent of the shortfall.

All members are subject to biannual (June and November) Coming into Line (CIL), where members are required to hold free funds to meet their ECA. Lloyd's has powers to require members to meet their ECA at all times, but will normally permit recapitalisation in accordance with this biannual timetable, provided that members' free funds remain above their ICA. Where a member's funds fall below their ICA level, Lloyd's requires members to inject additional capital outside of the normal CIL timetable.

Where there is a material exposure to the Central Fund and policyholder security, underwriting restrictions or other measures may be imposed to mitigate the risks until capital is lodged at Lloyd's.

In accordance with the continuous solvency regime, where a member's free funds fall below the level of regulatory solvency (underwriting losses plus MCRR), the existing powers to immediately suspend underwriting or take any other measures deemed appropriate to Lloyd's may be used.

Total net resources of the Society of Lloyd's and its members

	2014 £m	2013 £m
I Syndicate level assets (several basis)	45,139	41,990
II Members' funds at Lloyd's (several basis)	15,704	15,088
III Central assets (mutual basis)		
Net Central Fund assets	1,590	1,513
Subordinated debt	497	330
Subordinated perpetual capital securities	388	391
Other net assets of the Society	103	150
	2,578	2,384
Total resources of the Society of Lloyd's and its members	63,421	59,462
Net syndicate technical provisions	(39,950)	(38,355)
Total net resources of the Society of Lloyd's and its members	23,471	21,107

Notes

This financial summary has been compiled by aggregating the assets and liabilities of all the underlying syndicates, members' funds at Lloyd's and other net assets of the Society of Lloyd's. The statement does not purport to disclose the solvency position of each member of Lloyd's.

The 'total net resources of the Society of Lloyd's and its members' represents the capital, reserves and subordinated notes and securities shown in the PFFS as set out on page 59.

Syndicate level assets includes capital to support underwriting held by aligned corporate members in the syndicate premiums trust funds.

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SOCIETY REPORT

Introduction

This report

This report sets out the principal activities, governance arrangements and 2014 consolidated financial statements of the Society of Lloyd's.

In order to obtain an overview of the Society's operations, however, this report should be read in conjunction with the rest of the Annual Report that looks at the Lloyd's market as a whole.

The Lloyd's market comprises members underwriting through syndicates and members and managing agents each supported by the Society of Lloyd's. The interests of the Society and the market are interrelated and therefore the sections above may refer to both.

The Society's 2014 consolidated financial statements are included in this report together with a financial review. The financial results of the members of Lloyd's are not part of these financial statements but can be found within the market results section starting on page 56.

The Society

By Lloyd's Act 1871, the then existing association of underwriters was incorporated as the Society and Corporation of Lloyd's (the Society).

Its activities are governed by statute and, since 1982, have been managed by the Council of Lloyd's pursuant to Lloyd's Act 1982.

The Society is not an insurance company, although the Group does include insurance company subsidiary undertakings.

Its principal activities are:

- To facilitate the carrying on of insurance business by members of Lloyd's, who join together as syndicates to insure and reinsure risks, and the protection of their interests in this context.
- To maintain the Lloyd's Central Fund where assets are held and administered at the discretion of the Council of Lloyd's, primarily as funds available for the protection of policyholders.

Financial Highlights

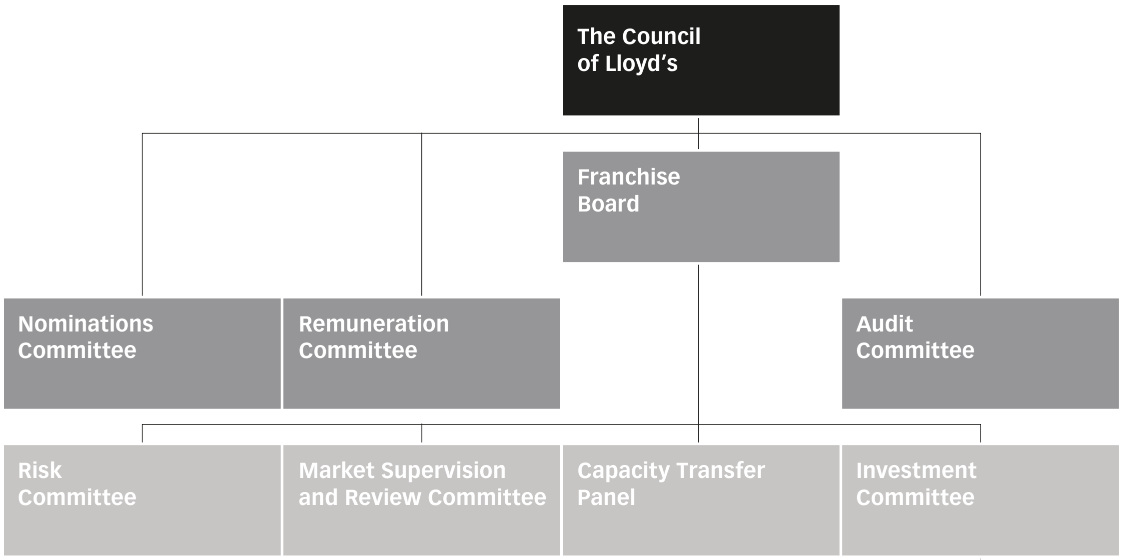
	2014 £m	Restated 2013 £m	Restated 2012 £m	2011 £m	2010 £m
Operating result					
Operating and other Group income	233	220	215	222	427
Central Fund contributions	102	106	105	95	101
Total income	335	326	320	317	528
Central Fund claims and provisions (incurred)/released	(1)	(18)	(26)	(15)	34
Central Fund repayment	(49)	–	–	–	–
Net insurance claims and provisions	1	–	–	24	17
Other Group operating expenses	(227)	(219)	(206)	(249)	(214)
Operating surplus	59	89	88	77	365
Net finance income and unrealised exchange differences on borrowings	42	(17)	59	36	75
Share of profits of associates	8	7	6	5	5
Surplus before tax	109	79	153	118	445
Tax charge	(18)	(14)	(34)	(29)	(122)
Surplus for the year	91	65	119	89	323
Balance sheet					
Net assets	1,693	1,635	1,564	1,490	1,447
Movement in net assets %	3.55%	4.54%	4.97%	2.97%	28.5%
Solvency*					
Central assets for solvency purposes	3,245	3,125	3,185	3,091	3,028
Solvency shortfalls	(19)	(34)	(94)	(115)	(123)
Excess of central assets over solvency shortfalls	3,226	3,091	3,091	2,976	2,905
Solvency ratio %	17079%	9191%	3420%	2688%	2462%
Movement in central assets for solvency purposes %	3.8%	(1.9%)	3.0%	2.1%	7.6%

* The solvency position for 2014 is estimated and will be finalised in June 2015 for submission to the PRA.

Corporate Governance

Lloyd's governance structure provides challenge, clarity and accountability.

Principal Committees of Lloyd's (Figure 13)



The Council and Franchise Board

The Council of Lloyd's is the governing body of the Society of Lloyd's and has ultimate responsibility for overall management of the market. The Council delegates many of its functions to the Franchise Board, whose members are appointed by the Council and come from both inside and outside the Lloyd's market.

The day-to-day powers and functions of the Council and Franchise Board are carried out by the Corporation's Executive Team – the Chief Executive, the Directors of the Corporation, the Head of Marketing and Communications, the Head of Human Resources and the Secretary to the Council.

Lloyd's is regulated by the PRA and FCA, which have direct supervision of managing agents and monitor capital and solvency. The Corporation is active in managing risk within the market to ensure that Lloyd's central assets, brand, licences and reputation remain protected.

The Council of Lloyd's is committed to the principle of good corporate governance and supports the application of the principles of the UK Corporate Governance Code, as far as they can be applied to the governance of a Society of members and a market of separate competing entities.

The members of the Council of Lloyd's and Franchise Board are listed on **pages 86-93**.

Details of the Executive Team can be found at: **www.lloyds.com/executiveteam**

Corporate Governance
continued

Governing body: The Council of Lloyd's

Under Lloyd's Act 1982, the Council of Lloyd's 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. Certain functions are reserved to the Council including:

- The making, amendment or revocation of byelaws (which are available at www.lloyds.com/byelaws).
- The setting of Central Fund contribution rates.
- Appointing the Chairman and Deputy Chairmen of Council.

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

The Council has delegated authority for the day-to-day management of the market to the Franchise Board. The Franchise Board is able, in turn, to sub-delegate authority to the CEO and through her to the Lloyd's Executive. In addition, the Council has delegated authority to carry out specified functions to committees including the Audit, Remuneration, and Nominations Committees, as summarised below.

The relationship between the Council and the Franchise Board is defined in the Council's Governance Policies which clarify the role of the Council and establish a more structured relationship with the Franchise Board. Further details on the role and functions of the Franchise Board and the Governance Policies are set out below.

Membership
The Council comprises a maximum of 18 members, split between six working, six external and six nominated members. The biographical details of the current members of the Council (as at 25 March 2015) are listed on pages 86-90.

Nominated members are usually appointed for three-year terms which can be renewed. They may be regarded, for the purposes of the Code, as independent members of the Council with the exception of the Chairman and CEO who are included within their number.

Working and external members are generally elected for terms of three years by the working and external members of the Society respectively. In the elections for working members, voting operates on a one member, one vote basis. In the elections for external members, the voting entitlement of an external member of the Society is based on the member's allocated underwriting capacity as determined under the Constitutional Arrangements Byelaw (No.2 of 2010).

The presence of working and external members of the Council enables the nominated members to gain an understanding of the views of key stakeholders in the Lloyd's market.

Other than the CEO, no member of Council may serve more than nine years in aggregate on the Council or Franchise Board.

Chairman and Deputy Chairmen
In accordance with Lloyd's Act 1982, the Chairman and Deputy Chairmen of Lloyd's are elected annually by special resolution of the Council from among its members. One of the Chairman and Deputy Chairmen must be a working member of the Council. This position is currently filled by Rupert Atkin.

The Chairman of Lloyd's is contracted to work three days a week but commits as much time as is necessary to undertake the role. The Council acknowledges that the Chairman has other commitments outside Lloyd's (see page 86) and is satisfied that these can be accommodated with the Chairmanship of Lloyd's.

Andy Haste (a nominated member) was appointed Senior Independent Deputy Chairman (Lloyd's equivalent of the Senior Independent Director) with effect from 1 November 2012.

Meetings
The Council met five times in 2014. These meetings are structured to allow open discussion. At each meeting the Council receives certain regular reports – for example, a written report from the CEO and oral updates from its principal committees. It also reviews the quarterly Management Information Pack.

A table showing Council members' attendance at Council and Committee meetings which they were eligible to attend is set out on pages 84-85.

The detailed arrangements for Lloyd's governance processes are set out in the Council's Governance Policies and the Constitutional Requirements as set out in the Constitutional Arrangements Byelaw.

Governance Policies and the Constitutional Requirements

The Governance Policies
Among other matters, the Governance Policies are intended to improve the clarity around the role of the Council and to establish a more structured relationship with the Franchise Board.

The Governance Policies establish the purpose for Lloyd's: 'To maintain, in accordance with Lloyd's Acts, an organisation that will enable the long-term return from carrying out the business of insurance to be maximised for capital providers' (i.e. members).

Under the Governance Policies, the Council is responsible for assessing the long-term strategic development of Lloyd's by reference to both the interests of capital providers and other stakeholders and through an evaluation of economic, political and social issues impacting the international insurance and reinsurance markets.

As the Council has delegated authority for the majority of its functions (other than its reserved matters) to the Franchise Board, the Governance Policies also define the accountability linkage between the Franchise Board and the Council. This includes determining the boundaries within which the Franchise Board will operate (the Franchise Board Limitations) and establishing a Monitoring and Assurance regime which, among other matters, requires the Chairman of the Franchise Board to report to the Council on all material issues impacting the world insurance market and Lloyd's as well as providing a summary of key performance indicators.

The Constitutional Requirements
The Constitutional Requirements align, so far as appropriate, Lloyd's governance arrangements with the Companies Act 2006. They include provisions concerning the duties and responsibilities of Council members. These same duties also apply to members of the Franchise Board and the other Lloyd's committees.

In summary, members of the Council, Franchise Board and their committees are required to act in a way which 'would be most likely to promote the success of the Society for the benefit of the members as a whole' and must have regard to:

– The likely consequences of any decision in the long term.
– The need of the Society:
  - To foster business relations with those who do business at Lloyd's.
  - To have regard to the interests of its employees.
  - To consider the impact of its operations on the community and the environment.
  - To maintain a reputation for high standards of business conduct.

The Constitutional Requirements also deal with conflicts of interest and collective responsibility.

Franchise Board

The Council established the Franchise Board as from 1 January 2003 and set it a goal: 'To create and maintain a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised'.

Specific functions delegated to the Franchise Board include:

– Determining the major risks to the Lloyd's market and determining appropriate action to address or mitigate those risks.
– Determining the key factors, levers and drivers which may affect the profitability of the Lloyd's market.
– Developing and implementing a strategy to achieve the Franchise Goal.
– Supervising, regulating and directing the business of insurance at Lloyd's.

The Franchise Board has reserved to itself a list of specific functions and powers that only it may deal with. The Franchise Board may sub-delegate authority to the CEO, directors and employees of the Corporation save in respect of those functions and powers reserved to it, the Council and their committees. The Franchise Board's committees, the CEO, directors and employees must act in accordance with the Franchise Board Limitations (including the Franchise Principles) and in accordance with the strategy, policy and principles set by the Franchise Board.

Matters reserved to the Franchise Board include:

– Setting the policy and principles relating to the supervision, regulation and direction of the business of insurance at Lloyd's (the Market Supervision Framework), in compliance with PRA and FCA requirements.
– Considering and approving Lloyd's risk appetite (both at Corporation and market level).
– Setting policy for the admission and removal of participants in the Lloyd's market.
– Admitting and removing managing agents.
– Determining the Franchise Standards for managing agents and approving the Three-Year and Annual Plan and Budget of the Corporation.
– Approving the Lloyd's Society level capital requirements.

Corporate Governance
continued

Franchise Board continued

Membership and meetings
Biographical details of the members of the Franchise Board as at 25 March 2015 are listed on pages 91-93. At the end of 2014, the Franchise Board comprised:

– The Chairman of Lloyd's (who was also its Chairman).
– The CEO, the Director, Performance Management, the Chief Risk Officer & General Counsel and the Director, Finance.
– Three non-executives connected with the Lloyd's market.
– Five independent non-executives.

The presence of market connected non-executive directors enables the independent non-executives to gain an understanding of market practitioner views and perspectives.

Other than the Lloyd's Executives no member of the Franchise Board may serve more than nine years in aggregate on the Franchise Board or the Council.

The Franchise Board held ten scheduled meetings in 2014. It also held a full day offsite focusing on the strategic risks and challenges facing Lloyd's and their impact on Lloyd's current strategy.

Franchise Board meetings are structured to allow open discussion. At each scheduled meeting, the Franchise Board receives certain regular reports – for example, a written report from the CEO. It also reviews the quarterly Management Information Pack. The Franchise Board papers and minutes are made available to members of the Council.

A table showing Franchise Board members' attendance at Franchise Board and Committee meetings which they were eligible to attend is set out on pages 84-85.

The Principal Committees of the Council

Audit Committee
The Audit Committee's role is to ensure that the financial activities of Lloyd's are subject to independent review and audit. The Audit Committee's functions include:

– Reviewing Lloyd's annual and interim financial statements, the aggregate syndicate results and the Lloyd's Return to the PRA.
– Reviewing both the external and internal audit plans and the compliance plan.

The CEO, Chief Risk Officer & General Counsel, Director, Finance, senior managers and the external and internal auditors attend meetings as appropriate. The Chairman also attends some Audit Committee meetings by invitation.

Reports from the internal and external auditors on aspects of internal control and reports from the Legal and Compliance department on internal and international compliance are reviewed by the Audit Committee and appropriate action taken in response.

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

The Audit Committee is chaired by Claire Ighodaro (an independent non-executive director on the Franchise Board) and its remaining members are drawn from both the Council and the Franchise Board. A table showing Audit Committee members' attendance at Audit Committee meetings is set out on pages 84-85.

The Audit Committee met on five occasions in 2014. The Audit Committee's full report is on pages 113-114.

Nominations Committee
The Nominations Committee is responsible for making recommendations to the Council on the appointment of the Chairman, CEO, new nominated Council members, Franchise Board members (including the executive directors on the Board), members of a number of the Council and Franchise Board committees and the Secretary to the Council. The Nominations Committee is also responsible for succession planning arrangements for these positions.

The Nominations Committee will meet at least twice annually and otherwise at the discretion of its Chairman or as directed by the Council. The Nominations Committee reports to the Council and Franchise Board on its proceedings after each meeting on all matters relating to its duties and powers. A written report is submitted to the Council annually.

Apart from the annual exercise of making recommendations with respect to the composition of Council and Franchise Board committees (together with any other necessary changes in composition during the year), the Nominations Committee made the following major recommendations to the Council during 2014:

– To reappoint the Chairman for a second three-year term with effect from 17 October 2014.
– To appoint Fred Hu as a Nominated member of Council. The Committee was assisted by Russell Reynolds (an external search consultant) with a brief to find an international business figure from one of the faster-growing economies in Asia. Dr Hu's appointment commenced on 12 May 2014.
– To appoint John Parry as Director, Finance (the previous role, Director, Finance and Operations, was split in two and the Director, Finance has primary responsibility for the Finance, Tax, Treasury and

Investment Management, and Market Reserving and Capital Departments). Russell Reynolds assisted with the search process which was concentrated in the wider financial services industry but also included an internal candidate, John Parry, who was eventually appointed. Mr Parry's appointment commenced on 11 December 2014, although he acted as Interim Finance Director from 1 July 2014.
– To appoint Sean McGovern, Lloyd's Chief Risk Officer & General Counsel, as an executive director on the Franchise Board. Mr McGovern's appointment commenced on 16 May 2014.
– To appoint Joy Griffiths as an independent non-executive director on the Franchise Board. The Committee was assisted by external search consultants (The Zygos Partnership) with a brief to find a full-time executive from outside Lloyd's to bring broad-based managerial and operational experience to the Board, with particular reference to the management of data. Ms Griffiths's term began on 25 April 2014.
– To reappoint Sir Andrew Cahn as an independent non-executive director on the Franchise Board for a second term of three years from 4 April 2014.
– To reappoint Charles Franks and Nick Furlonge as market-connected non-executive directors on the Franchise Board. Mr Franks's reappointment was for a second three-year term and Mr Furlonge was reappointed for a further two years (taking him to nine years in total). Both reappointments were effective as from 1 January 2015.

The Nominations Committee's recommendations were accepted by the Council.

In the first quarter of 2015, the Nominations Committee completed its search for a new market connected non-executive director on the Franchise Board to replace Andrew Kendrick, who will retire on 31 March 2015, having completed nine years' service. The Nominations Committee proposed to Council that Mark Cloutier, CEO of Brit PLC, should be appointed to the Franchise Board. Council agreed the recommendation on 4 February 2015.

Neither an external search consultant nor any advertising was used to identify Mr Kendrick's successor as the Nominations Committee was able to make use of its knowledge of senior market practitioners to identify suitable candidates.

None of the search consultants used by the Committee has any connection with the Society.

To assist with succession planning, the Nominations Committee also considered the future skills, knowledge and experience likely to be needed by the Franchise Board and the Council. The searches referred to above were conducted after taking into account this work.

Diversity
The Nominations Committee is fully apprised of, and supportive of, the need for recent and relevant experience and diversity. The Franchise Board and the Council are also specifically aware of the need to increase gender diversity on both bodies. It is difficult to establish a target for the number of women on the Council, given that it is two-thirds elected but gender diversity will be encouraged. The Franchise Board, however, with the support of the Nominations Committee has established an aspirational target of 25% of the Board being women by 2016. Although this is one year later than the target date set by Lord Davies in his report Women on Boards, it is seen as essential if Lloyd's is to recruit the highest quality candidates. The search for a new independent non-executive director was conducted with this target in mind.

The Nominations Committee is chaired by the Chairman of Lloyd's and its remaining members are drawn from both the Council and the Franchise Board.

A table showing the Nominations Committee members' attendance at scheduled Nominations Committee meetings is set out on pages 84-85. The Nominations Committee held three scheduled meetings in 2014.

Remuneration Committee
The Remuneration Committee is responsible for setting remuneration arrangements for the Chairman, CEO, executive directors and the Secretary to the Council. The Remuneration Committee's proposals are considered by both the Franchise Board and the Council.

Non-executive remuneration is decided by the Council, on recommendation from the Chairman and CEO who may consult the Remuneration Committee as part of that process.

The Remuneration Committee will meet at least twice a year and otherwise at the discretion of its Chairman or as directed by the Council. The Remuneration Committee reports to the Council and Franchise Board on its proceedings after each meeting on all matters relating to its duties and powers and makes recommendations to the Council or Franchise Board on any area within its remit where action or improvement is needed. The Remuneration Committee submits a written report to the Council annually.

The Remuneration Committee is chaired by the Senior Independent Deputy Chairman. The Chairman is a member of the committee and its remaining members are drawn from both the Council and the Franchise Board. A table showing Remuneration Committee members' attendance at Remuneration Committee meetings is set out on pages 84-85.

The Remuneration Committee met on four occasions in 2014. The Remuneration Committee's full report is on pages 96-112.

Corporate Governance
continued

The Principal Committees of the Franchise Board

Risk Committee
This is chaired by the CEO and its other current members are the Director, Performance Management, the Chief Risk Officer & General Counsel and the Director, Finance. It reports quarterly to the Franchise Board. It also provides updates to the Audit Committee and the Council. Its activities are set out on pages 37-39.

A table showing the Risk Committee members' attendance at meetings is set out on pages 84-85. It met on 11 occasions in 2014.

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

MSARC meets at the discretion of its Chairman. MSARC submits a written report to the Franchise Board annually and may submit additional reports to inform the Franchise Board of any matters of material concern as and when required.

A table showing MSARC members' attendance at MSARC meetings is set out on pages 84-85. MSARC met on five occasions in 2014.

Capacity Transfer Panel
The Capacity Transfer Panel (CTP) was established principally to exercise the Council's powers in relation to minority buyouts and mergers. The Panel meets at the discretion of its Chairman. The Panel submits a written report to the Franchise Board annually and may submit additional reports on matters of material concern as and when necessary.

A table showing CTP members' attendance at CTP meetings is set out on pages 84-85. The Panel met on two occasions in 2014.

Investment Committee
The Investment Committee sets the investment objectives and parameters of centrally managed assets and is responsible for monitoring the performance of these funds. In addition, it monitors the investment operations of the Treasury and Investment Management department in respect of all funds under its management and approves all investment counterparties. It may also make more general recommendations concerning investment activity at Lloyd's.

The Investment Committee meets at the discretion of its Chairman. The Investment Committee submits a written report to the Franchise Board annually and may submit additional reports on matters of material concern as and when necessary. The Investment Committee is required to obtain the approval of the Franchise Board before making any decisions which may materially affect the financial risks applying to the Society or Lloyd's market entities. A table showing Investment Committee members' attendance at Investment Committee meetings is set out on pages 84-85. The Investment Committee met on five occasions in 2014.

Terms of reference and appointment terms

The terms of reference for the Council, Franchise Board and their committees (including the Audit, Remuneration and Nominations Committees) can be found on Lloyd's website. The terms of reference for the Chairman, Deputy Chairmen (including the Senior Independent Deputy Chairman), CEO, executive directors and the Secretary to the Council can also be found on the Lloyd's website.

The terms and conditions of appointment of non-executive members of the Franchise Board and the Council are available on request from the Secretary to the Council.

Annual General Meeting

The Council reports to the members at the Annual General Meeting (AGM). A summary business presentation is given at the AGM by the CEO and Director, Finance, before the Chairman deals with the business of the meeting.

Voting entitlement at general meetings is generally capacity-based for both external and working members, except at general meetings called on the requisition of members under section 6(4) of the Lloyd's Act 1982 for the purpose of revoking or annulling byelaws, at which each member has one vote. The resolutions to be considered at general meetings are published on the Lloyd's website.

Indemnities

The Society has given indemnities to certain of its subsidiary undertakings, and the directors thereof, in respect of any claims or actions which may be brought against them or any future operating losses incurred by them in connection with the companies' activities. The Society has also given indemnities to and has agreed to cover certain specific costs that may be incurred by members of the Council, the Franchise Board, the Lloyd's Regulatory Board and the Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees, the Society staff and also certain individuals and organisations who have been asked to carry out or provide services to the Society or on behalf of, or for the benefit of, its members.

Council, Franchise Board and committee assessments

In accordance with the UK Corporate Governance Code, an external and independent evaluation of the performance of the Council, Franchise Board, Audit, Remuneration and Nominations Committees is undertaken every three years. The next external evaluation will be undertaken in 2015.

The Secretary to the Council conducted an assessment of the Council, Franchise Board, Audit, Remuneration and Nominations Committees towards the end of 2014. The assessment was based on the results of questionnaires issued to the members of these bodies.

As part of this process, Council and Franchise Board members' comments on the performance of the Chairman were discussed privately with him. The same process was followed with the Chairmen of the other committees subject to the assessment.

The principal conclusion of the assessment was that the current governance arrangements were working effectively and in accordance with the Governance Policies and that the Council and its principal committees were operating in accordance with their terms of reference.

Among the other major findings were:

- The need for more gender diversity on Council.
- A view that the wider market was sometimes unclear on the Council and the Franchise Board's respective responsibilities in Lloyd's governance structure.
- The need for more active engagement with the Council on the development of Lloyd's longer-term strategy.
- A recognition that the Franchise Board's agendas remained lengthy. While this was understandable in the light of preparations for Solvency II, it reinforced the need to improve further the quality of papers and presentations to ensure they are succinct and clear.

The recommendations for improvement will be taken forward under the guidance of the Chairman and the Secretary to the Council.

Individual assessment

The Chairman meets each non-executive director on the Franchise Board and each member of the Council once a year to appraise their performance. The Senior Independent Deputy Chairman also seeks the views of the Franchise Board and the Council on the performance of the Chairman. These views are conveyed to the Chairman by the Senior Independent Deputy Chairman.

Training and induction

All new appointments to the Council and Franchise Board receive an induction pack containing guidance notes on Lloyd's governance arrangements.

In addition, new members of the Council and Franchise Board are provided with an induction programme which includes briefings with senior executive management and others on Lloyd's, its operations and key issues of the day.

In addition, in 2014, five briefings on a range of Lloyd's related topics were made available to all members of the Council and the Franchise Board.

Independent professional advice

Members of the Council and Franchise Board have access to independent professional advice, if required.

Conflicts of interest

A register of interests is maintained by the Secretary to the Council for members of the Council, Franchise Board and their committees and is available for inspection by members.

Corporate governance of the Lloyd's market

The corporate governance of each entity within the Lloyd's market is the responsibility of that entity. The Council provides, through the Corporation, a framework for the governance of these businesses including the assessment of capital adequacy and market supervision (including inspections, visits and audits of market entities). Managing agents' governance arrangements are also reviewed on registration and as part of risk management assessments.

Corporate Governance
continued

Attendance record

	Council	Franchise Board	Audit Committee	Nominations Committee	Remuneration Committee	MSARC[1]	CTP[2]	Investment Committee	Risk Committee
Chairman of the Council of Lloyd's									
John Nelson	[a]5/5	[a]10/10		[a]3/3	4/4				
Executive Directors									
Inga Beale[10]	5/5	10/10						3/4	[a]11/11
Tom Bolt		10/10							9/11
Sean McGovern[5]		6/6							11/11
John Parry[11]		4/4						3/3	4/5
Luke Savage[6]		6/6						2/2	5/6
Non-Executive Council members									
Working members									
Rupert Atkin[8]	3/5			2/2					
Simon Beale	4/5								
Dominic Christian	5/5								
Christopher Harman	4/5								
Lawrence Holder	5/5								
Graham White	4/5			3/3					
External members									
Robert Childs	5/5								
Michael Deeny	5/5								
Matthew Fosh	5/5								
Paul Jardine	5/5		4/5		4/4				
Alan Lovell	5/5		5/5		4/4		2/2		
Michael Watson	4/5								
Nominated members									
Andy Haste	4/5			3/3	[a]4/4		[a]2/2	[a]5/5	
Fred Hu[3]	2/3								
Sir David Manning	5/5			3/3					
Henrique Meirelles	4/5								
Non-Executive Franchise Board members									
Sir Andrew Cahn		9/10							
Charles Franks		9/10	5/5						
Nick Furlonge		10/10		3/3					
Joy Griffiths[4]		5/6							
Claire Ighodaro		10/10	[a]5/5						
Andrew Kendrick		10/10	1/5		3/4				
Martin Read		10/10			4/4				
Bruce Van Saun[13]		7/10	4/5	0/1					
Andre Villeneuve[7]		3/3		2/2					

Attendance record continued

	Council	Franchise Board	Audit Committee	Nominations Committee	Remuneration Committee	MSARC[1]	CTP[2]	Investment Committee	Risk Committee
Other Committee members									
Martin Bride								4/5	
Margaret Chamberlain							2/2		
Edward Creasy						5/5			
Christine Dandridge						3/5			
Lady Delves Broughton							2/2		
David Gittings							2/2		
Michael Green								4/5	
Peter Grove[9]						1/1			
Reg Hinkley						5/5			
Jo Rickard						[a]5/5			
Nick Marsh[9]						4/4			
Philip Matthews								4/5	
Ian Salter							1/2		
Paul Swain							2/2		
Vincent Vandendael[12]									6/7
David Winkett								5/5	

[a]Chairman

Notes
1. Market Supervision and Review Committee.
2. Capacity Transfer Panel.
3. Fred Hu was appointed as a nominated member of Council on 12 May 2014.
4. Joy Griffiths was appointed as an independent non-executive director on the Franchise Board on 25 April 2014.
5. Sean McGovern, Chief Risk Officer & General Counsel, was appointed as an executive director of the Franchise Board on 16 May 2014.
6. Luke Savage, Director Finance & Operations resigned from the Franchise Board, Investment Committee and the Risk Committee on 24 July 2014. However, his last working day was 2 July 2014 and this has been used for the purposes of the attendance record.
7. Andre Villeneuve's term of office as an independent non-executive director on the Franchise Board and Nominations Committee expired on 31 March 2014.
8. Rupert Atkin was appointed as a member of the Nominations Committee on 4 February 2014.
9. Nick Marsh was appointed as a member of MSARC on 1 February 2014 following Peter Grove's resignation on 31 January 2014.
10. Inga Beale was appointed as a member of the Investment Committee on 24 March 2014.
11. John Parry acted as Interim Finance Director from 1 July 2014 and attended Franchise Board, Investment Committee and Risk Committee meetings in this capacity as from that date. He was formally appointed as an executive director on the Franchise Board on 11 December 2014.
12. Vincent Vandendael was a member of the Risk Committee until its membership was revised in September 2014.
13. Bruce Van Saun attended the Nominations Committee meeting in March 2014 as an observer. He was formally appointed as a member of the Nominations Committee on 1 April 2014.

Corporate Governance *continued*
The Council of Lloyd's

John Nelson

Chairman of Lloyd's (Nominated member)
Chairman of the Nominations Committee
Member of the Remuneration Committee

John Nelson was appointed Chairman of Lloyd's in October 2011. He was the Chairman of Hammerson plc until 2013. He is a Chartered Accountant, who worked in both the UK and the US while with Kleinwort Benson. He joined Lazard in 1986, whose Vice Chairman he became in 1990. He subsequently became Chairman of Credit Suisse First Boston (Europe), and Deputy Chairman of Kingfisher plc. In addition, he has been a Non-Executive Director of BT, Woolwich plc, JP Morgan Cazenove and Cazenove Group. He is a Senior Adviser to Charterhouse Capital Partners LLP. He is also the Chairman of Chichester Harbour Trust and a Trustee of the National Gallery and chairs its Development Committee.

Inga Beale

Chief Executive Officer (Nominated member)

Inga Beale joined Lloyd's in January 2014. Previously she was Group Chief Executive of Canopius, a prominent Lloyd's managing agent. Prior to that she spent four years with Zurich Insurance, including a period as Global Chief Underwriting Officer. She was Group CEO of Converium Ltd, the Swiss mid-sized independent reinsurance company and, while there, she led a major turnaround of the business before it was acquired by SCOR in 2007. She started her career as an underwriter with Prudential before spending 14 years in a variety of international roles for GE Insurance Solutions.

Andy Haste*

Senior Independent Deputy Chairman of Lloyd's (Nominated member)
Member of the Nominations Committee
Chairman of the Remuneration Committee

Andy Haste is Chairman of Wonga Group and former Group Chief Executive of RSA. He is currently the Senior Independent Director of ITV, and is Chairman of its Remuneration Committee and a member of both its Audit and Nominations Committees. His previous roles include Chief Executive of AXA Sun Life and Director of AXA UK (life and pensions), President and Chief Executive Officer of Global Consumer Finance Europe at GE Capital UK, Western Europe and Eastern Europe (consumer financial services) and President of National Westminster Bank's US Consumer Credit Business (retail banking). He was also a member of the Board of the Association of British Insurers from 2003-11.

Rupert Atkin

Deputy Chairman of Lloyd's (Working member)
Member of the Nominations Committee

Rupert Atkin is the Chief Executive of Talbot Underwriting and was the active underwriter for syndicate 1183 from 1991 until 2007. He is a Director of all Talbot Group companies. He was appointed Chairman of the Lloyd's Market Association with effect from 1 February 2012. He has served on various market bodies, including the Lloyd's Regulatory Board and has chaired both the Lloyd's Underwriters Association and the Joint War Risk Committee. He is a Trustee of the Lloyd's Charities Trust.

*Considered to be an independent member of Council.

Paul Jardine

Representative of Catlin Syndicate Limited
Deputy Chairman of Lloyd's (External member)
Member of the Audit Committee
Member of the Remuneration Committee

Paul Jardine, a qualified Actuary, is Deputy Chairman of Catlin Underwriting Agencies Limited and Chief Operating Officer of Catlin Group Limited. He has over 30 years of insurance industry experience and was Chairman of the Lloyd's Market Association from 2007 to 2010. He is a Fellow of the Institute & Faculty of Actuaries and was formerly the Chief Actuary and Commutations Director at Equitas Limited.

Robert Childs

Representative of Hiscox Dedicated Corporate Member Limited
(External member)

Robert Childs is the Non-Executive Chairman of Hiscox. He was Chairman of the Lloyd's Market Association from January 2003 to May 2005 and former Chairman of the Advisory Board of the School of Management of Royal Holloway University. He is currently a Trustee of Enham (a charity for the disabled) and Chairman of The Bermuda Society.

Simon Beale

(Working member)

Simon Beale is the Chief Underwriting Officer of Amlin Plc, an Executive Director of the Amlin Plc board and Non-Executive Director of Amlin Underwriting Limited, the managing agency for Syndicate 2001 of which he was joint active underwriter until 2012. He has worked in the Lloyd's market since 1984 and has served on various Lloyd's underwriting committees. He is currently a member of the Lloyd's Market Association Board.

Dominic Christian

(Working member)

Dominic Christian is the Executive Chairman of Aon Benfield International. He is also the Chief Executive Officer of Aon UK Limited. He sits on Aon Group's Executive Committee. Previously he served as co-Chief Executive Officer of Aon Benfield and prior to this as a Group Board Director of Benfield Group plc, CEO of its International Division and of Benfield Limited. He has nearly 30 years of experience as a Lloyd's Broker. He is also the Chairman of the Lloyd's Tercentenary Research Foundation and a Director of The Bermuda Society and the Juvenile Diabetes Research Foundation. He chairs the University of East Anglia's Campaign Advisory Board.

*Considered to be an independent member of Council.

Corporate Governance *continued*
The Council of Lloyd's

Michael Deeny

Representative of
The Michael Deeny
LLP
(External member)

Michael Deeny is a Chartered Accountant. He was the Chairman of the Association of Lloyd's Members (ALM) for 11 years. His career has principally been in the music industry, where he has promoted U2, Bruce Springsteen, The Eagles and Bob Dylan among others. He underwrites through a Limited Liability Partnership and is Chairman of the Equitas Trust. He is a Non-Executive Director of the ALM and of Randall & Quilter Underwriting Management Holdings Limited.

Karen Green

(Working member)

Karen Green is the Chief Executive Officer of Aspen Managing Agency Limited, the managing agency of Aspen's Lloyd's Syndicate 4711 and also performs a number of other roles within the Aspen Group. She was previously a principal with the global private equity firm MMC Capital Inc (now Stone Point Capital) and a director at GE Capital in London, co-running the business development team responsible for mergers and acquisitions in Europe. She started her career as an investment banker with Baring Brothers and then Schroders. She has previously served on the board of the International Underwriting Association.

Matthew Fosh

Representative of
Novae Corporate
Underwriting
Limited
(External member)

Matthew Fosh is the Chief Executive Officer of Novae Group plc which he joined in 2002. He is a Non-Executive Director of Ariscom Compagnia di Assicurazioni S.p.A. He previously worked in the capital markets, where in 1989 he co-founded a derivative trading business, which he subsequently sold in 2002 to ICAP plc.

Christopher Harman

(Working member)

Christopher Harman has worked in the Lloyd's market as a reinsurance broker since 1971, specialising in reinsurances of Lloyd's syndicates and companies writing global business. He is a Partner in JLT Reinsurance Brokers Ltd. He has been an unlimited Name since 1979 as well as writing through a Nameco. He is a Trustee of the Lloyd's Charities Trust.

*Considered to be an independent member of Council.

Lawrence Holder
(Working member)

Lawrence Holder has been Managing Director of Cathedral Underwriting Limited since 2000 and has worked in the Lloyd's market since 1983. He is a member of the Lloyd's Market Association Board and is a Trustee of the Lloyd's Charities Trust.

Dr Fred Hu*
(Nominated member)

Fred Hu is a renowned economist and investor. Between 1997 and 2010 he was with Goldman Sachs as a Partner and Chairman of Greater China. He is now Chairman of Primavera Capital Group, a China-based global investment firm. He is a Non-Executive Director of Hang Seng Bank, the Hong Kong Stock Exchange and South China Morning Post, a Trustee of Yale-China Association, and a member of the Council on Foreign Relations Global Board of Advisors.

Alan Lovell
Representative of Palace House International (Two) LLP
(External member)
Member of the Audit Committee
Member of the Remuneration Committee

Alan Lovell is from 1 April 2015 Chair of the Consumer Council for Water. He is also Senior Independent Director of Sweett Group plc and a Non-Executive Director of IAC Acoustics and two green energy companies. He was previously a turnaround specialist who served as Chief Executive of Costain, Dunlop Slazenger and Jarvis and is now Chief Adviser to the restructuring practice of PwC. He is a Trustee of The Mary Rose, Winchester Cathedral and the Hampshire Cultural Trust and is Chairman of the Association of Lloyd's Members.

Sir David Manning GCMG KCVO*
(Nominated member)
Member of the Nominations Committee

Sir David Manning retired from the Diplomatic Service in 2007 after four years as British Ambassador to the United States. He is now a Director of Gatehouse and a Non-Executive Director of the BG Group and of Lockheed Martin UK. He is Chair of 'IDEAS' at the London School of Economics and on the panel of Senior Advisers at the Royal Institute for International Affairs.

*Considered to be an independent member of Council.

Corporate Governance *continued*
The Council of Lloyd's

Henrique Meirelles*
Nominated member

Henrique Meirelles is Chairman of Lazard Americas, J&F (holding company of JBS), and Brazil's Olympic Public Committee, which is overseeing the preparations for the Olympic Games in Rio de Janeiro in 2016. He is also a Non-Executive Director of Azul Linhas Aéreas Brasileiras and a Senior Adviser to Kohlberg Kravis Roberts. He was President of Brazil's Central Bank from 2003 through to 2010. Previously, he was President of BankBoston.

Michael Watson
Representative of Flectat Limited (External member)

Michael Watson is Chairman and Chief Executive of Canopius Group Limited of which he led the management buy-out in 2003. Canopius is the global specialty re(insurance) platform of Sompo Japan Holdings. He has over 35 years' experience in commercial and investment banking, trade finance, stockbroking, life and non-life insurance, gained in London, Bermuda and New York. Michael currently serves on the Board of the Lloyd's Market Association and is a Chartered Accountant.

*Considered to be an independent member of Council.

Corporate Governance *continued*
The Franchise Board

John Nelson
Chairman of Lloyd's (Nominated member)
Chairman of the Nominations Committee
Member of the Remuneration Committee

Biography on page 86.

Inga Beale
Chief Executive Officer (Nominated member)

Biography on page 86.

Tom Bolt
Director, Performance Management

Tom Bolt joined Lloyd's in September 2009. Previously, he was Managing Director of Marlborough Managing Agency. He has extensive experience in international insurance and reinsurance across the UK, US and Europe and has held senior roles in Berkshire Hathaway's reinsurance divisions and as President of some of its insurance subsidiaries. He also assisted in the formation of Bankers Trust Insurance Derivatives business, as well as a related group of insurance and reinsurance companies.

Sir Andrew Cahn KCMG*

Sir Andrew Cahn is Vice Chairman at Nomura International plc. He is Chairman of the City of London's International Trade and Investment Group and a Trustee of TheCityUK. He is also a Non-Executive Director of Huawei Technologies (UK) and General Dynamics (UK). He is Chair of WWF (UK) and a Trustee of the Gatsby Foundation, the Arvon Foundation and the Institute for Government. Until 2011 he was CEO of UK Trade and Investment.

Charles Franks
Member of the Audit Committee

Charles Franks is Group Chief Executive Officer of Tokio Marine Kiln Group and of its Lloyd's managing agency, Tokio Marine Kiln Syndicates Limited (formerly R J Kiln & Co). Having joined Kiln in 1993, he became a Director of R J Kiln in 1995 and was appointed Active Underwriter of the Marine division in 2001. He became Chief Executive of R J Kiln in 2007. He is an Executive Officer of Tokio Marine Holdings.

*Considered to be an independent non-executive director.

Corporate Governance *continued*
The Franchise Board

Nicholas Furlonge
Member of the
Nominations
Committee

Nicholas Furlonge has worked in the Lloyd's market since 1972 and co-founded Beazley. He has served on a number of Lloyd's boards and committees including the Lloyd's Market Association and as Chairman of the Lloyd's Community Programme. He is a Non-Executive Director of Beazley Furlonge Ltd.

Claire Ighodaro CBE*
Chairman of the
Audit Committee

Claire Ighodaro is Audit Committee Chair. She is a Non-Executive Director and Governance Committee Chair of Merrill Lynch International, Independent Director and Audit Committee Chair of the Shell (Nig) Pension Fund and a Council Member of the University of Surrey. She has served as Audit Committee Chair of UK Trade and Investment, the British Council, Lending Standards Board and the Open University and was a Senior Executive at BT plc. She is a past President of CIMA (the Chartered Institute of Management Accountants) and sits on the International Ethics Standards Board for Accountants.

Joy Griffiths*

Joy Griffiths is Global Managing Director, Decision Analytics and Chairman, Asia Pacific region, Experian. Prior to joining Experian, she worked in financial services for over 30 years and held executive positions across a broad range of functional disciplines with Lloyds Banking Group in the UK, Wells Fargo in the US and Westpac Banking Corporation in Australia.

Andrew Kendrick
Member of the
Audit Committee
Member of the
Remuneration
Committee

Andrew Kendrick is President of ACE European Group Limited. Prior to this, he served as President and Chief Executive Officer, ACE Bermuda. With over 30 years of insurance industry experience, he is a member of the Lloyd's Market Association Board and was Chairman of the Lloyd's Market Association from January 2006 to June 2007. He was reappointed to the Lloyd's Franchise Board as a Non-Executive Director in February 2007.

*Considered to be an independent non-executive director.

Sean McGovern
Chief Risk Officer & General Counsel

Sean McGovern has been with Lloyd's since 1996 and has been a Director since 2002. He is responsible for risk governance at Lloyd's and for Lloyd's legal, regulatory and government affairs around the world. This includes maintaining Lloyd's licence network to ensure that the Lloyd's access to its international markets is competitive. He is also a Non-Executive Director of TheCityUK, which promotes the UK financial services sector. In November 2011 he was appointed to serve as a member of the first US Federal Advisory Committee on Insurance and has since been reappointed for a further term. Prior to joining Lloyd's he was with Clifford Chance in London. He holds a degree in Law from Manchester University.

John Parry
Director, Finance

John Parry, Director of Finance, is responsible for the financial reporting of the Market's results and capital adequacy. Finance also covers Treasury & Investment Management and the tax affairs of the Corporation and Market in the UK and overseas. He joined Lloyd's in August 2001 and previously led Lloyd's solvency and regulatory reporting requirements and the process for review and agreement of capital requirements for each business in the Lloyd's market.

*Considered to be an independent non-executive director.

Dr Martin Read CBE*
Member of the Remuneration Committee

Martin Read is Chairman of Laird plc, one of the two government companies (the Low Carbon Contracts Company and the Electricity Settlements Company) set up to manage contracts and payments under the electricity market reform programme and of the Remuneration Consultants Group. He is a Non-Executive Director of the UK Government Efficiency and Reform Board. He was Chief Executive of international IT services company Logica from 1993 to 2007 and has served as a Non-Executive Director on the boards of Invensys, Aegis Group, British Airways, Siemens Holdings, Boots and ASDA. He led UK government reviews on back office operations and IT across the public sector (2009) and management information (2012).

Bruce Van Saun*
Member of the Audit Committee
Member of the Nominations Committee

Bruce Van Saun is Chairman and Chief Executive Officer of Citizens Financial Group, Inc. (CFG). He joined CFG in October 2013 after serving as RBS Group Finance Director and as an Executive Director of the RBS Board since 2009. He has more than 30 years of financial services experience. From 1997 to 2008, he held a number of senior positions with Bank of New York and later Bank of New York Mellon, including Vice Chairman and Chief Financial Officer. Earlier in his career, he held senior positions with Deutsche Bank, Wasserstein Perella Group and Kidder Peabody & Co. Previously he has served on a number of boards in both the US and UK. He is a member of The Clearing House Supervisory Board and is a fellow of the Foreign Policy Association.

Internal Control Statement

The Franchise Board, on behalf of the Council of Lloyd's, has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Executive Team is responsible for the implementation and maintenance of the internal control system. This incorporates an embedded, ongoing process for identifying, evaluating and managing significant business, operational, financial, compliance and other risks. The system is designed to reduce, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee monitors and reviews the effectiveness of the system of internal control of the Society and biannual reports are provided to the Franchise Board. There is an ongoing process, in accordance with the guidance of the UK Corporate Governance Code on internal control, which has been established for identifying, evaluating and managing significant risks. Other procedures such as our Speaking-up Policy whereby any member of staff may take matters that concern them to the Head of Human Resources, the Legal and Compliance department or, where appropriate, to the Chairman of the Audit Committee or the FCA or the PRA, are clearly set out. Associate companies, Ins-sure Holdings Limited and Xchanging Claims Services Limited, are not dealt with as part of the Group for the purposes of applying the UK Corporate Governance Code.

The Group's key risk management processes and the system of internal control procedures include the following:

Management structure

Lloyd's Governance Arrangements: A Guide for Members of Lloyd's Committees, reviewed and updated in 2014, outlines the governance structure and committee members' duties and responsibilities, including confidentiality and conflicts and declarations of interest.

There is a clearly defined organisation structure with terms of reference agreed for the CEO and all directors which set out, inter alia, their functions and powers, authority to act and limitations on authority. Employees have role profiles agreed by their line manager which set out equivalent information.

The Society is committed to the highest standards of business conduct. Corporate policies and procedures are available to all staff and include the Code of Conduct, Compliance Manual, Employee Handbook, Health & Safety Policy, Information Security and Computer Usage Policy, Procurement Policy, Risk Policies, Financial Policies and authorisation limits. These policies and procedures are regularly reviewed and updated.

Lloyd's maintains an internal audit function that reports to the CEO and the Audit Committee. The Head of Internal Audit is supported by Deloitte LLP which provides resources to complete the internal audit plan.

Identification and evaluation of business risks

The Risk Management Framework ensures that the identification, assessment, monitoring and management of the major risks affecting the Society takes place on an ongoing basis. The Framework includes a number of risk assessment techniques, which are tailored to specific risk areas. One such technique is the comprehensive risk and control assessment procedure, which is conducted on a regular basis. This review re-assesses the existing risks and identifies any new risks. It evaluates controls in terms of adequacy of performance and also seeks to monitor the action plans in place to help manage risks. These processes are described in more detail in the Risk Management section on pages 34-39.

One of the key objectives of the Lloyd's risk governance structure is to provide assurance to the Franchise Board that risks facing the Society are identified and managed in accordance with approved policy and appetite. This is achieved by the risk committees having the appropriate management information (MI) to oversee and challenge. The MI includes information from many different sources within the Risk Management and internal control frameworks, such as the various risk and control assessments, details of the operating and regulatory environment and capital management reports. The risk governance structure comprises of the Risk Committee plus three specialist sub-committees; the Syndicate Risk Committee, the Financial Risk Committee and the Corporation Risk Committee. These provide clear independent challenge to the risk takers at Lloyd's and enables tailored risk management operating models, rather than a 'one-size-fits-all' platform. The Risk Management Framework enables Lloyd's to undertake a more forward looking assessment of risk, building capital consideration into the decision making process and a formal Risk Appetite Framework with defined escalation routes. An Own Risk and Solvency Assessment is performed every year, bringing together key risk, capital and solvency management information on a more formal basis for the Franchise Board. While an annual process, it is reviewed on a quarterly basis to ensure it remains relevant.

A framework of regular self-certification, with targeted independent challenge, is in place and where control failures have been reported, details of the circumstances are required together with appropriate corrective actions. A summary of these reports is reviewed by the Executive Team, the Corporation Risk Committee, Franchise Board and the Audit Committee on a regular basis.

Identification and evaluation of business risks continued

Internal auditors also perform independent reviews of control activities as part of their annual programme as approved by the Audit Committee. The Head of Internal Audit and the Legal and Compliance department report to the Executive Team on a regular basis and to each Audit Committee meeting.

A compliance plan is in place to manage the risk associated with non-compliance with FCA/PRA regulatory processes. The Head of Internal Audit and the Legal and Compliance department provide progress reports to the Risk Committees and the Audit Committee. The Risk Committees also oversee the wider coordination of international regulatory compliance through the Overseas Risk Assessments completed by global offices and the Overseas Risk Review Meeting held prior to every Corporation Risk Committee meeting.

Information and financial reporting systems

An annual budget for the Society is reviewed in detail by the Executive and is considered and approved by the Franchise Board and Council. Monthly financial reports compare actual performance with the annual budget and management action is taken, where appropriate, when variances arise. Revised forecasts are prepared regularly.

Report of the Remuneration Committee

This report is based upon best practice as set out in the UK Corporate Governance Code and by reference to the new directors' remuneration reporting regulations for UK listed companies. The code and regulations are directed at companies listed on the London Stock Exchange, whereas Lloyd's is a market of many separate and competing trading entities; nonetheless, Council supports their principles insofar as they can be applied to the governance of the Society.

Statement by Chair of Remuneration Committee

I am pleased to present the Remuneration Committee's report for 2014 in the following pages.

The Committee's focus continues to be delivering an appropriate remuneration policy that is capable of attracting and retaining the calibre of employees needed to deliver Vision 2025 and maintain an effective market oversight regime.

Our remuneration structure for executive directors at Lloyd's reflects the unique nature of the Corporation. For a number of years now we have operated a policy with a decreased emphasis on variable pay (annual bonus and LPP) to reflect better the nature and role of the organisation. Last year we took a further step in rebalancing away from variable pay and towards fixed remuneration on the appointment of the new CEO. During the year the Committee continued with this policy of rebalancing for new director appointments.

Key remuneration decisions
Tom Bolt received no increase in salary for 2013 or 2014. Inga Beale was appointed in January 2014. Sean McGovern and John Parry were appointed to the Franchise Board in May 2014 and December 2014 respectively. For 2015, Tom Bolt received a salary increase of 4%. Neither Inga Beale nor Sean McGovern received an increase. John Parry's salary as the newly appointed Director, Finance is £400k per annum.

2014 was a successful year for the Lloyd's market and the Corporation, which is reflected in the LPP and bonus awards. The latter are driven off an assessment of each director's performance against individual key performance indicators. The Committee intends to continue to ensure the KPIs are stretching and aimed at delivering Vision 2025 while remaining in accordance with Lloyd's risk policies and risk appetite.

As reported last year, during 2014 we introduced both malus and clawback provisions for annual bonus and LPP Awards for directors and senior staff. The operation of malus will be rolled out to all staff in 2015. Following a review, the Committee was pleased to note that the Corporation's policies on malus and clawback were already in line with the provisions recently introduced in the UK Corporate Governance Code.

The Committee reviewed the remuneration of the Chairman and increased fees from £525k to £575k when his contract was renewed for a further three years in October. This is the first increase for the Chairman in three years and was benchmarked against wider practice.

Changes to the Franchise Board
Luke Savage stepped down from the Franchise Board in July 2014. As he had resigned to take up a new position, his LPP and annual bonus awards lapsed and he received no payment in lieu of notice.

Sean McGovern and John Parry were appointed to the Franchise Board during the year. Although newly appointed to the Franchise Board, Sean McGovern has been a Director since 2002 and no substantive changes were made to his legacy remuneration arrangements, including the balance of fixed and variable remuneration. In line with our policy to rebalance remuneration towards fixed pay for newly appointed Directors, John Parry's LPP opportunity was set at a lower level than his predecessor's.

Review of remuneration policy
The Committee supports the principles in the UK Corporate Governance Code. While the code does not apply to Lloyd's, the Committee and Council believe that we should seek to comply with the principles as a matter of best practice, to the extent that we are able. With this in mind, during the year the Committee reviewed Lloyd's remuneration policy against the revised UK Corporate Governance Code and was satisfied with the level of compliance. The Committee also began the process of reviewing the remuneration policy against Solvency II requirements. It will continue with this work in 2015 and, where necessary, update the remuneration policy and its implementation as required.

Andy Haste
Chairman, Remuneration Committee
25 March 2015

Remuneration policy

This part of the report sets out the policy for the CEO and executive directors' remuneration. For the purposes of this report, 'executive directors' refers to Tom Bolt (Director, Performance Management), Sean McGovern (Chief Risk Officer and General Counsel, appointed to the Board on 16 May 2014), John Parry (Director, Finance, appointed to the Board on 11 December 2014 but acting as Interim Finance Director since 1 July) and Luke Savage (formerly Director, Finance and Operations, resigned from the Board on 24 July 2014) – i.e. directors who are or were members of the Franchise Board in 2014.

Corporation remuneration policy

The approach to remuneration for all current and future employees is set out in the HR Policies & Procedures as follows:

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

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

- We look beyond base salary to the value of the total reward package in meeting the needs of employees.
- We recognise and reward superior performance.

Lloyd's policy is therefore based on providing a package of rewards (salary plus benefits) that is business driven, competitive, fair and flexible. It is also founded on the proposition that the ultimate source of value in the business is people. Combining this creates a reward offering which:

- Emanates from business strategies and priorities.
- Is based on business success (i.e. our ability to pay).
- Provides a flexible mix of rewards, designed to attract, retain and motivate a performance-driven workforce with the varied range of experience and skills the business requires.
- Is externally competitive.
- Rewards for performance rather than cost of living.
- Ensures employees understand the criteria by which rewards are determined and reviewed.
- Gives managers the tools to make informed decisions regarding rewarding their teams.
- Is in line with our equality and diversity policy.

Report of the Remuneration Committee
continued

CEO and executive director remuneration policy

The structure of total compensation for the CEO and executive directors is designed to reflect the nature of the Corporation. The fixed element is higher and the variable (performance-related) element lower, in order to reflect better the role of the Corporation of Lloyd's and so that remuneration arrangements are more in line with other organisations with a similar role.

A significant proportion of executive remuneration continues to be performance-related and determined by annual performance reviews.

The following table sets out the components included in the Corporation's CEO and executive director remuneration policy:

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Base salary	Salaries set to appropriately recognise responsibilities and be broadly market competitive.	Generally reviewed by the Remuneration Committee annually.	There is no maximum salary increase; however, any increases will generally reflect our approach to all employee salary increases. Exceptions, in certain circumstances, may be made, for example to reflect a new appointment, change in role/adoption of additional responsibilities, changes to market practice or the development of the individual in the role.	None
Annual bonus	To link reward to short-term performance and contributions.	Discretionary annual bonus determined by the Committee taking into account reference to performance against objectives and key performance indicators. For bonuses payable in respect of performance in 2014 and subsequent years, the Committee retains the discretion to clawback annual bonus awards in circumstances including, but not limited to, material misstatement of financial performance or misconduct.	Current bonus maxima as a percentage of salary are: CEO: 75% (with on target of 45%) Director, Performance Management: 67% Director, Finance: 50% (with on target of 30%) Chief Risk Officer and General Counsel: 50%	Specific and measurable targets and key performance indicators are established where possible to help determine bonus awards. Payouts are discretionary and take into account the individual's achievements and contribution to the Corporation in the year and performance against the objectives and individual key performance indicators.

Remuneration policy table

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Lloyd's Performance Plan (LPP)	To offer an incentive which is directly linked to the profitability of the Lloyd's market.	Annual LPP Awards are calculated by reference to profit levels in the year. For the CEO, and the Director, Finance (in respect of awards earned subsequent to his appointment to the Board), the whole award is deferred, and is paid in October of the third financial year following the end of the performance period. For the Director, Performance Management and the Chief Risk Officer & General Counsel, the LPP is structured as an ongoing fund, where annual awards are added to a notional LPP fund, a significant portion of which pays out in future years. The Committee may apply malus and clawback to LPP Awards in respect of 2014 and subsequent years.	For the CEO and Director, Finance, an individual cap of 50% of salary applies. For the Director, Performance Management and the Chief Risk Officer & General Counsel, an individual cap of 100% of salary applies.	Annual LPP Awards are calculated by reference to Lloyd's profit for the year. LPP Awards will only be triggered for profit in excess of £100m.
Benefits	To provide market levels of benefits.	Benefits include a benefits cash allowance, private medical insurance, life insurance and a season ticket loan facility. The CEO does not receive a benefits cash allowance.	The maximum benefits cash allowance is £11,000. There is no overall maximum for total benefits as the cost of medical and life insurance depends on the individual's circumstances.	None
Relocation benefits	To support Lloyd's international strategy or to facilitate recruitment.	Relocation benefits may be offered in certain circumstances. Neither the CEO nor the executive directors have been given relocation benefits.	There is no overall maximum.	None

Report of the Remuneration Committee
continued

Remuneration policy table continued

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Pension	To provide market levels of pension provision.	Group Personal Pension Plan		
		The CEO is a member of the Group Personal Pension Plan, which is a defined contribution plan. The CEO also receives a cash allowance.	For the CEO, the Corporation makes an annual contribution of £40,000 to the Group Personal Pension Plan.	None
		Lloyd's provides for the payment of a lump sum in the event of death in service.	The cash allowance is 20% of base salary.	
		Lloyd's Pension Scheme		
		Subject to a scheme earnings cap, the executive directors continue to be members of the Lloyd's Pension Scheme which is a defined benefit scheme and is no longer open to new joiners.		
		The scheme is contributory. The accrual rate may be increased in exchange for additional contributions, or salary sacrifices may be made for employer contributions of the same amount.	Defined benefit accrual rates vary per participant.	
		Executive directors receive a cash allowance to compensate for the pension benefits being based on the scheme earnings cap rather than their base salaries.	The cash allowance is 20% of base salary.	
		Where a member of the Lloyd's pension scheme leaves the scheme as a result of the impact of 6 April 2014 changes to the annual and lifetime allowances they may be eligible for an additional cash allowance.	There is an additional cash allowance of 10% of the scheme earnings cap where a member leaves the scheme as a result of the impact of 6 April 2014 changes to the annual and lifetime allowances.	
		Dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service.		

Performance measures and targets

The annual bonus is based on performance against objectives and individual key performance indicators. The Committee believes this approach ensures alignment to Lloyd's key strategic objectives and that bonus payouts are geared to individual performance.

The LPP Awards are driven by the profitability of the Lloyd's market, creating alignment to the overall performance of the Lloyd's market.

Malus and clawback

For LPP Awards and annual bonus awards in respect of 2014 and subsequent years, malus and clawback provisions apply.

For senior employees (excluding the CEO) the circumstances in which malus may be applied are employee misconduct, material financial misstatement for which the employee was responsible, or deliberate or negligent failure in risk management for which the employee was responsible. In addition the Committee retains the discretion to clawback awards for a period of six years from the date of payment or vesting. The circumstances in which clawback may be applied are serious employee misconduct, material financial misstatement for which the employee was responsible, or deliberate failure in risk management for which the employee was responsible.

For the CEO the circumstances in which malus may be applied are broader and include, but are not limited to, employee misconduct or the performance indicators relied on to determine the award being found to be materially different. The circumstances in which clawback may be applied are employee misconduct or the performance indicators relied on by the Committee being found to be materially different to those previously considered by the Committee (whether or not involving any culpability on the part of the individual). For the CEO the clawback period is indefinite.

Comparison of policy to broader employee population

The remuneration policy for the CEO and executive directors follows the same broad principles as the policy for all employees in the Corporation. Any differences in the specific policies generally reflect differences in market practice for differences in seniority. Key elements of the remuneration policy which apply for all employees are as follows:

- All employees in the Corporation are eligible to participate in the LPP. For directors and senior management (other than the CEO, Director, Operations and the Director, Finance) the LPP operates as an ongoing fund (deferral), while for other employees it is a series of annual awards.
- All employees are eligible for a discretionary bonus.
- The framework for provision of benefits and pensions is consistent across all employees in the Corporation.

Fee policy for the Chairman and members of the Council of Lloyd's and Franchise Board who are not employees of the Corporation

In addition to his salary, the Chairman is entitled to receive private medical insurance. He does not participate in the Corporation's incentive plans.

The Chairman and CEO are responsible for making recommendations to the Council for the remuneration of members of Council, the Franchise Board and their committees (other than themselves and the executive directors). In making their recommendations, the Chairman and CEO may liaise and consult with the Remuneration Committee as they think appropriate.

Remuneration for all members of Council and Franchise Board who are not employees of the Corporation is designed to attract people of sufficient calibre and experience to govern Lloyd's affairs by providing an appropriate level of fees which reflects the demands made upon them. Reference may also be made to independent surveys of fees paid to non-executive directors of similar organisations.

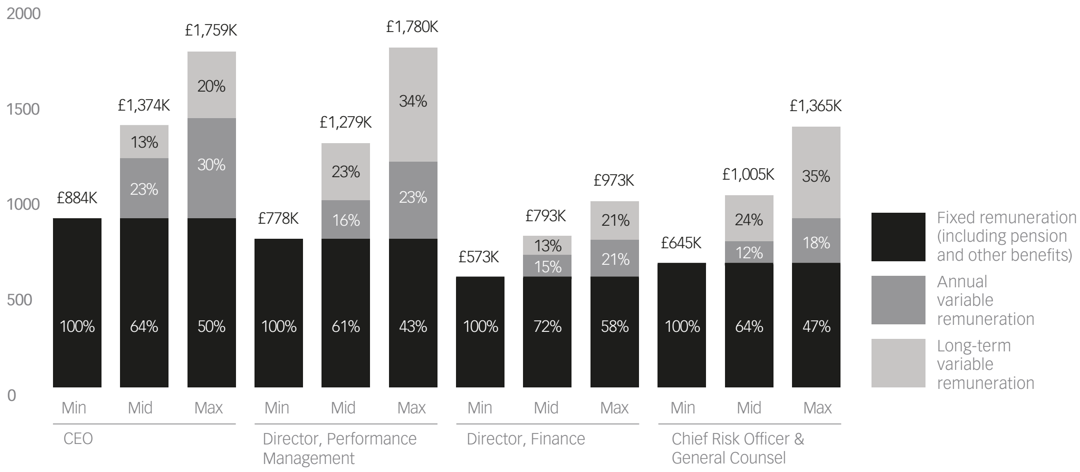
Fees for non-employee members of the Council and Franchise Board comprise payment of an annual fee and additional fees to reflect specific responsibilities, where applicable.

Annual fees	Payment of an annual fee for the following: – Council of Lloyd's membership – Franchise Board membership – Deputy Chairman
Additional fees	Additional fees are paid to reflect additional responsibilities in respect of membership or chairmanship of a number of Council and Franchise Board committees, including ad hoc committees established to consider specific issues requiring a significant time commitment.

Non-employee members of the Council and Franchise Board are not eligible to join the Lloyd's Pension arrangements.

Report of the Remuneration Committee
continued

Illustrations of the application of remuneration policy



Scenario	Assumptions
Minimum	No annual bonus, no LPP.
Middle	CEO and Director, Finance - On target bonus (i.e. 60% of maximum bonus) and 50% of maximum LPP Other executive directors - 50% of maximum bonus and 50% of maximum LPP.
Maximum	100% of bonus and maximum LPP.

Approach to remuneration in respect of recruitment

The following principles would apply when agreeing the components of a remuneration package upon the recruitment of a new executive director:

- In order to facilitate the future success of the Corporation, any package will be sufficient to attract executive directors of the calibre required to deliver the Corporation's strategic priorities. The Committee will seek to ensure that no more than is necessary is paid on recruitment, while taking into account the highly competitive market for executive talent.
- Typically, the individual will be transitioned onto an ongoing remuneration package that is in line with the policy set out in the Remuneration Policy table above. However, given the unique nature of Lloyd's, the Committee reserves the right to consider the structure of the package in the context of the strategic objectives of Lloyd's and the circumstances of the appointment.
- The Committee may, on appointing an executive director, need to 'buy out' terms or remuneration arrangements forfeited on leaving a previous employer. The terms of any buy out would be determined taking into account the terms of the forfeited awards (e.g. form of award, performance conditions, timeframe). The overriding principle will be that any replacement buy out awards should be of comparable commercial value to the awards that have been forfeited. So far as practical, the awards will also have comparable time horizons to those forfeited. Where the Committee feels it is appropriate given the specific circumstances, the Committee maintains discretion to include remuneration components which are not included in the Remuneration Policy table above.
- The Committee retains the flexibility to make additional awards for the purpose of recruitment where there is a strong rationale to do so. There is no set policy maximum level of variable remuneration which may be granted in addition to the ongoing policy. Given the nature of Lloyd's, while flexibility is maintained, it is not anticipated that the Committee would make additional variable incentive awards for a new recruit (excluding buy outs) over and above those set out in the Remuneration Policy table.
- Where an executive director is appointed from within the organisation, the normal policy is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, for any appointments following corporate reorganisation/activity, legacy terms and conditions would be honoured.
- Additional costs and support may be provided if the recruitment requires relocation of the individual.

Service contracts and loss of office payment policy

The CEO and executive directors have rolling contracts with notice periods which will not exceed one year.

Mr Nelson's contract covers his services as Chairman of Lloyd's and Chairman of the Franchise Board.

	Unexpired term as at 31 December 2014	Notice period
John Nelson[1]	33 months	12 months
Inga Beale[2]	rolling 1 year	12 months
Tom Bolt[3]	rolling 1 year	12 months
Sean McGovern[4]	rolling 1 year	12 months
John Parry[5]	rolling 6 months	6 months

Notes
1) John Nelson was appointed to the Franchise Board and Council on 17 October 2011.
2) Inga Beale was appointed to the Franchise Board and Council on 27 January 2014.
3) Tom Bolt was appointed to the Franchise Board on 1 January 2010.
4) Sean McGovern was appointed to the Franchise Board on 16 May 2014.
5) John Parry was appointed to the Franchise Board on 11 December 2014.

The CEO and executive directors' service contracts are kept available for inspection by Lloyd's members at the Corporation's registered office.

External and working members are elected to Council while nominated members are appointed to Council, usually for a three-year period. Members of the Franchise Board are appointed by Council with non-executive directors' terms of office varying between one and three years. These are not contractual arrangements and compensation is not paid if a member leaves early.

Upon the termination of employment of an executive director or the CEO (other than upon dismissal in circumstances justifying summary termination), the following principles will apply for the determination of remuneration:

Compensation for termination of employment

– If the CEO or executive director works out his or her notice period, he or she will be entitled to payment as normal during the period of notice. Alternatively, the Corporation reserves the right to terminate the employment by making a payment in lieu of notice. In these circumstances, the Corporation's policy is that the outgoing employee would be entitled to receive an amount equal to base salary only in respect of his or her notice period. The sum will be paid in monthly instalments to the CEO and, in respect of the executive directors, the sum may be paid in monthly instalments at the Corporation's discretion. In both cases, the sum paid may be reduced to reflect alternative income. In certain circumstances a contribution towards legal fees and outplacement facilities may be made.

Annual bonus

– If the CEO or executive director leaves the Corporation's employment on or before the date on which an annual bonus award would otherwise have been paid, he or she will not be entitled to that annual bonus award. However, the Remuneration Committee may determine that the CEO or executive director may receive a bonus in respect of the financial year of cessation based on performance in the year. Any bonus would be pro-rated for time.

Report of the Remuneration Committee
continued

Service contracts and loss of office payment policy continued

LPP
The Remuneration Committee will retain absolute discretion over the payment of any and all LPP Awards to participants whose employment is terminated (regardless of the reason for termination). However, the general intention is as follows:

- If the CEO or executive director leaves the Corporation's employment and is classified as a 'good leaver' (as determined by the rules of the LPP) he or she will receive a pro-rated LPP Award for each complete month of service in respect of his or her year of departure. The LPP Award will be notified to the employee and, together with any balance relating to a previous year which remains in the employee's LPP Fund at the termination date, will be paid to him or her no later than the payment date under the applicable LPP scheme rules.
- Good leaver circumstances include death, disability, ill-health or any other reason that the Remuneration Committee determines in its sole discretion should constitute a good leaver reason.
- If the CEO or executive director leaves the Corporation's employment due to any reason other than those referenced above (as determined by the Remuneration Committee acting in its absolute discretion), he or she will forfeit any and all outstanding and future LPP Awards (including, for the avoidance of any doubt, any balance of the LPP Fund) with immediate effect from the date that he or she serves or receives notice of termination.
- Any LPP Awards made to the CEO or executive director who has left the Corporation would be subject to the malus and clawback provisions set out in the rules of the LPP.

Consideration of conditions elsewhere in the Corporation

Information is provided to the Committee annually on bonuses awarded and salary increases granted across the Corporation at both a total level and further broken down by grade and other components. Historical data is also provided.

Opinion on remuneration is encouraged from all employees via an annual staff survey. Market remuneration data may be collated and shared with the Committee as a further consideration.

Remuneration policy and Lloyd's members

The remuneration policy is approved by Council as part of its consideration of the annual report. The Council is a body two thirds of which is elected by the members.

Legal status of policy report

The Corporation is not required to report under the directors' remuneration report regulations, as these only apply to UK listed companies. The Committee has chosen to follow the disclosure principles in those regulations in so far as they can be applied to the governance of the Society.

This report sets out the Corporation's current remuneration policy for the CEO and executive directors. The policy is not legally binding, and the Committee reserves the right to amend the policy at any time.

Annual remuneration report

This part of the report sets out the annual remuneration for 2014 and the way in which policy is being applied for 2015.

Single total figure of remuneration

The total remuneration receivable in respect of qualifying services for each person who served as a Franchise Board director or member of Council during the year is shown below. Further detail on LPP Awards is shown on page 107-109.

	Salary/fees		Other benefits[1]		Annual bonus		LPP Award		Pension benefit[2]		Total	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Chairman of the Council of Lloyd's												
John Nelson[3,4,7]	535	525	22	31	–	–	–	–	–	–	557	556
Executive directors												
Inga Beale[3,4,14]	654	–	4	–	365	–	304	–	167	–	1,494	–
Tom Bolt[3,5,6]	577	577	23	24	318	315	365	370	151	143	1,434	1,429
Sean McGovern[3,5,6,13]	281	–	9	–	104	–	178	–	93	–	665	–
John Parry[3,5,13]	150	–	5	–	34	–	34	–	39	–	262	–
Non-executive Council members												
Working members												
Rupert Atkin	54	38	–	–	–	–	–	–	–	–	54	38
Simon Beale	38	38	–	–	–	–	–	–	–	–	38	38
Dominic Christian[8]	34	–	–	–	–	–	–	–	–	–	34	–
Christopher Harman	38	38	–	–	–	–	–	–	–	–	38	38
Lawrence Holder	38	38	–	–	–	–	–	–	–	–	38	38
Graham White	45	55	–	–	–	–	–	–	–	–	45	55
External members												
Robert Childs[9]	38	38	–	–	–	–	–	–	–	–	38	38
Michael Deeny[9]	38	38	3	1	–	–	–	–	–	–	41	39
Matthew Fosh[9]	38	38	–	–	–	–	–	–	–	–	38	38
Paul Jardine[7,9]	64	64	–	–	–	–	–	–	–	–	64	64
Alan Lovell[7,9]	60	52	–	–	–	–	–	–	–	–	60	52
Michael Watson[8,9]	38	34	–	–	–	–	–	–	–	–	38	34
Nominated members												
Andy Haste[7]	86	86	–	–	–	–	–	–	–	–	86	86
Fred Hu[8]	23	–	1	–	–	–	–	–	–	–	24	–
Sir David Manning	45	45	–	–	–	–	–	–	–	–	45	45
Henrique Meirelles[8]	38	28	7	5	–	–	–	–	–	–	45	33
Non-executive Franchise Board members												
Sir Andrew Cahn	60	60	–	–	–	–	–	–	–	–	60	60
Charles Franks	69	69	–	–	–	–	–	–	–	–	69	69
Nick Furlonge	67	67	–	–	–	–	–	–	–	–	67	67
Joy Griffiths[15]	40	–	–	–	–	–	–	–	–	–	40	–
Claire Ighodaro	75	75	–	–	–	–	–	–	–	–	75	75
Andrew Kendrick[7]	76	76	–	–	–	–	–	–	–	–	76	76
Martin Read[7]	67	67	2	1	–	–	–	–	–	–	69	68
Bruce Van Saun	74	69	–	10	–	–	–	–	–	–	74	79
Former members of Council and Franchise Board												
Nick Marsh[10]	3	38	–	–	–	–	–	–	–	–	3	38
Luke Savage[11]	294	518	10	18	–	200	–	332	149	169	453	1,237
Andre Villeneuve[12]	17	67	–	–	–	–	–	–	–	–	17	67

The information in this table has been audited by the independent auditors, PricewaterhouseCoopers LLP.

Report of the Remuneration Committee
continued

Single total figure of remuneration continued

Table Notes
1. Other benefits include items such as benefit allowances, medical and life insurance.
2. Pension benefit is calculated as 20 times the increase in pension in the year (net of inflation) less the salary sacrificed, and also includes payments of 20% of annual base salary as pension benefits are based on a maximum earnings cap, which from 6 April 2014 was £145,800.
3. Current employee of the Corporation.
4. Member of both Council and the Franchise Board for 2014.
5. Member of the Franchise Board only.
6. Tom Bolt is a non-executive director of Xchanging Claims Services. Sean McGovern was a director of Ins-sure Holdings Limited and various subsidiary companies until 11 September 2014. He is also a director of Equitas Holdings Limited and various subsidiary companies. No fees are or were payable for these appointments.
7. Member of the Remuneration Committee during 2014.
8. Michael Watson joined Council on 1 February 2013 and Henrique Meirelles joined on 8 April 2013. Dominic Christian and Fred Hu joined Council on 1 February 2014 and 12 May 2014 respectively.
9. The following members of Council act as representatives of limited liability underwriting vehicles – Robert Childs (Hiscox Dedicated Corporate Member Ltd); Michael Deeny (The Michael Deeny LLP); Matthew Fosh (Novae Corporate Underwriting Ltd); Paul Jardine (Catlin Syndicate Ltd); Alan Lovell (Palace House International (Two) LLP); Michael Watson (Flectat Ltd).
10. Nick Marsh retired from Council on 31 January 2014.
11. Luke Savage resigned as a Corporation employee and as a member of the Franchise Board on 24 July 2014.
12. Andre Villeneuve retired as a member of the Franchise Board on 31 March 2014.
13. Sean McGovern was appointed to the Franchise Board on 16 May 2014. John Parry was appointed to the Franchise Board on 11 December 2014 and was Interim Director of Finance from 1 July 2014. The table reflects remuneration received as executive directors (including, in the case of John Parry, the period as Interim Director of Finance).
14. Inga Beale commenced employment on 27 January 2014.
15. Joy Griffiths joined the Franchise Board on 25 April 2014.

Salary

The annual salaries and bonuses of the CEO and the executive directors are reviewed by the Remuneration Committee annually.

2015 salaries are as follows:

	2015 Base salaries £000	Increase on 2014
CEO	700	0%
Director, Performance Management	600	4%
Director, Finance	400	–
Chief Risk Officer & General Counsel	480	0%

John Parry was appointed as Director, Finance on 11 December 2014.

Annual bonus

Executive directors are eligible for a discretionary annual bonus, based on performance against objectives and individual key performance indicators for the year. The maximum annual opportunity under the bonus for the CEO and each of the executive directors for 2014 was as follows:

CEO	75% of base salary
Director, Performance Management	67% of base salary
Chief Risk Officer & General Counsel	50% of base salary

The new Director, Finance's annual bonus for 2014 was determined by reference to his annual bonus opportunity prior to promotion.

Performance measures
Individual payouts are based on the Committee's judgement of performance against corporate and individual key performance indicators (KPIs) for the year. The Remuneration Committee reviews strategic and operational objectives and KPIs at the start of the financial year that are aligned to the Corporation's strategic objectives. These help in determining the annual bonus awards for the year. Because the KPIs, in the main, relate to specific strategic actions and initiatives, the Committee considers that the specific objectives are sensitive in the context of the Lloyd's market.

Annual bonus continued

Bonus outturns for 2014
2014 has been a successful year for the Lloyd's market and the Corporation. Key achievements in the year against KPIs aligned to the delivery of Vision 2025 included:

- An ongoing market oversight regime which helped contribute to a combined ratio at the mid-year point that was better than Lloyd's primary competitor group.
- The delivery of a new minimum standards regime for the Lloyd's market.
- Increasing Lloyd's international presence. The following approvals were acquired from local regulators – Dubai (co-located office with managing agents); Mexico (representative office); and Beijing (an insurance licence and new branch office).
- The Global Development Centre was launched providing insight and training on Lloyd's to brokers from both developed and high-growth economies.
- Significant progress on the market modernisation agenda, including renewed market and wider stakeholder engagement on the Central Services Refresh Project.
- The successful placing of a new sterling debt issue of £500m following a review of Lloyd's overall capital efficiency.
- Inclusion@Lloyd's was successfully launched.

Against that background, and taking into account an overall assessment of individual performance and contribution in the year, the Committee determined the following annual bonus payments:

CEO	£365k (74% of max)
Director, Performance Management	£318k (82% of max)
Director, Finance	£34k (67% of max)
Chief Risk Officer & General Counsel	£104k (71% of max)

The percentage of maximum bonus for the CEO has been calculated by reference to actual salary paid in 2014, given Ms Beale's start date of 27 January. Expressed as a percentage of annual salary, Ms Beale's bonus is 70% of the maximum.

In the case of the Director, Finance and the Chief Risk Officer & General Counsel, the bonus payments relate to the period they served on the Franchise Board (in the case of the former this includes the period as Interim Director, Finance).

Lloyd's Performance Plan

The Lloyd's Performance Plan (LPP) was introduced from 1 January 2008. It is available to all employees and has been designed to meet strategic objectives by enabling the Corporation to offer an incentive which:

- Is directly linked to the profitability of the Lloyd's market and will therefore encourage an attitude of commercial partnership with the market and align the interests of participants with capital providers.
- Will provide a competitive reward and therefore assist Lloyd's in attracting and retaining the talented individuals required to develop and support future strategy.

The plan is operated at the discretion of the Remuneration Committee and can be amended or terminated at any time.

All employees of the Corporation and international offices are eligible to participate in the LPP on the basis set out as below. The Remuneration Committee agreed in 2014 that new employees will become eligible to participate in the LPP from the beginning of the month immediately following the start of their employment.

Calculation of LPP Awards
Awards under the LPP (LPP Awards) are calculated by reference to profit on ordinary activities before tax (PBT), as reported in the pro forma financial statements in the Lloyd's Annual Report for each financial year. LPP Awards will only be triggered if PBT in excess of £100m is achieved.

The LPP Awards for each financial year will be calculated as a percentage of the participants' salaries at 31 December in that year, for each £1bn of PBT.

Report of the Remuneration Committee
continued

Lloyd's Performance Plan continued

The framework for determining LPP Awards is as follows:

Job level	Amount of LPP Award	Limits on LPP Awards (trigger)	Limits on LPP Awards (cap)
CEO and directors appointed after 1 January 2014	15% of salary per £1bn of PBT	LPP Awards will be triggered only on the achievement of a minimum threshold of £100m PBT. If PBT is below £100m, no LPP Awards will be made for that financial year.	50% of salary i.e. £3.3bn of PBT
Other directors	20% of salary per £1bn of PBT		100% of salary i.e. £5bn of PBT
Senior managers (Level 1)	10% of salary per £1bn of PBT		30% of salary i.e. £3bn of PBT
Other employees (Level 2-4)	5%-3% of salary per £1bn of PBT depending on grade		15%-9% of salary (depending on grade) i.e. £3bn of PBT

For the purpose of the above table and the section below, directors refer to directors of the Corporation rather than only the executive directors (directors who are members of the Franchise Board).

Structure and timing of payments
For directors and Level 1 employees the LPP operates with a significant element of deferral. For the CEO and directors appointed after January 2014 the total award is deferred until the third year following the year of performance. For other directors and Level 1 employees deferral is via an ongoing fund as described below.

Job level	Awards	Payments
CEO and directors appointed after 1 January 2014	Any LPP Award will be notified after the PBT for the relevant year has been announced (i.e. participants will be notified normally in May 2015 of any LPP award relating to the financial year 2014).	Payment is deferred until October in the third year following the end of the relevant financial year, i.e. any LPP award relating to financial year 2014 will be received in October 2017.
Other directors and Level 1 employees	Any LPP Award will be notified to the employee after the PBT for the relevant year has been announced (e.g. the employee will be notified normally in May 2015 of any LPP Award relating to the financial year 2014). The total amount of the LPP Award will be added to the particular employee's LPP Fund.	Each October one half of the total contents of the LPP Fund will be paid to the employee.

LPP Awards in respect of 2014
For 2014, PBT of £3.2bn was achieved. As this is above the threshold level of £100m LPP Awards were made for the year. Based on this PBT level and the LPP calculation described above, the LPP Awards as a percentage of salary were 47% for the CEO; 63% for the Director, Performance Management and the Chief Risk Officer & General Counsel; and 30% for the new Director, Finance. The latter was determined by reference to the percentage applying to Level 1 employees. These awards will be paid out as described above.

Lloyd's Performance Plan continued

A summary of movement in the directors' LPP Funds in the year is provided below:

	Total fund outstanding as at 31 December 2013 or date of appointment £000	Amount lapsing during the year ended 31 December 2014 £000	Amount paid during the year ended 31 December 2014 £000	LPP Award in respect of 2014 £000	Total fund outstanding as at 31 December 2014 £000
Inga Beale	–	–	–	304	304
Tom Bolt	556	–	(278)	365	643
Sean McGovern	568	–	(227)	178	519
John Parry	143	–	(55)	34	122
Luke Savage	540	(540)	–	–	–
Richard Ward	689	–	(689)	–	–

Following the mutual agreement to terminate his contract, Richard Ward was paid the balance of his LPP fund. Luke Savage's LPP fund lapsed following cessation of employment.

The information in this table has been audited by the independent auditors, PricewaterhouseCoopers LLP.

Pensions

The CEO receives an annual contribution of £40,000 into the Group Personal Pension Plan, the Corporation's pension scheme. She also receives a cash allowance of 20% of base salary.

The former Director, Finance and Operations, the Director, Performance Management, the Director, Finance, and the Chief Risk Officer & General Counsel are members of the Lloyd's Pension Scheme. The terms of the Scheme and details of accruals and contributions in the year are as follows:

	Details of pension arrangements	Contributions and accruals in 2014
Tom Bolt	Pension arrangements provide for a pension at retirement built in annual blocks based on a standard accrual rate of one eightieth of base annual salary subject to the Scheme earnings cap in each year of eligible service with the facility to increase the accrual rate to one thirtieth for an additional contribution.	Salary sacrifice of 5% of the earnings cap for eightieth accrual rate.
Luke Savage Sean McGovern John Parry	Pension arrangements provide for a pension at normal retirement of two thirds base annual salary after 20 years' eligible service less any entitlement from previous pension arrangements and subject to a Scheme earnings cap of £145,800 from 6 April 2014.	Salary sacrifice of 10% of the earnings cap in exchange for additional employer pension contributions of the same amount.

The former Director, Finance and Operations, the Director, Performance Management, the Director, Finance, and the Chief Risk Officer & General Counsel also received or receive a cash allowance of 20% of their base salary to compensate for their pension benefits being based on the Scheme earnings cap rather than their base salaries.

No other payments to the CEO, the former Director, Finance and Operations, the Director, Performance Management, the Director, Finance, or the Chief Risk Officer & General Counsel are pensionable. Their dependants are eligible for the payment of a lump sum in the event of death in service and, other than the CEO, for dependants' pensions.

Report of the Remuneration Committee
continued

Pensions continued

Details of the rights under the Lloyd's pension scheme are set out below:

	Salary sacrifice in year to 31 December 2014 £000	Age at 31 December 2014	Increase in pension in year to 31 December 2014 – actual £000	Increase in pension in year to 31 December 2014 – net of price inflation £000	Total accrued annual pension in year to 31 December 2014 £000 pa	Normal retirement age
Tom Bolt	7	58	2	2	2	65
Sean McGovern	14	44	4	3	4	60
John Parry	14	51	6	5	6	60
Luke Savage	8	53	4	3	4	60

The increase in pension and the total accrued pension for Luke Savage relates to the period of the year up until he left (24 July 2014).

Details of the transfer values of accrued pension benefits are set out below:

	Transfer value of accrued pension as at 31 December 2013 £000	Transfer value of accrued pension as at 31 December 2014 £000	Movement in transfer value over the year less amounts salary sacrificed £000
Tom Bolt	110	154	37
Sean McGovern	620	667	33
John Parry	782	908	112
Luke Savage	677	790	105

The transfer value represents a liability of the Lloyd's Pension Scheme, not a sum paid or due to the individual.

The transfer values have increased over the year in line with the increase in accrued pensions and due to changes in market conditions. The impact is more pronounced for those executive directors closer to retirement age.

Departing Director, Finance and Operations

Luke Savage stepped down as Director, Finance and Operations on 24 July 2014. He did not receive a bonus payment for 2014 and the outstanding balance of his LPP fund lapsed.

Additional disclosures

Six-year CEO remuneration

	CEO single figure of total remuneration £000	Annual bonus award as a percentage of maximum opportunity	LPP award as a percentage of maximum opportunity
2014	1,494	74%*	95%
2013	1,795	75%	65%
2012	1,759	75%	55%
2011	1,499	90%	0%
2010	1,750	90%	44%
2009	1,771	83%	77%

* The percentage of maximum bonus for the CEO has been calculated by reference to actual salary paid in 2014, given Ms Beale's start date of 27 January. Expressed as a percentage of annual salary, Ms Beale's bonus is 70% of the maximum.

Executive director pay increase in relation to all employees
A comparison of Inga Beale's salary and bonus with the former CEO's is not considered to be meaningful given the change in the structure of the overall remuneration package. Therefore, for 2014, the remuneration paid to the Director, Performance Management is used as an alternative (on the basis that the incumbent has been in position for both 2013 and 2014). For 2015, when meaningful year-on-year comparative information is available, the table will revert to showing CEO pay data.

The table below therefore sets out details of the change in remuneration for the Director, Performance Management and all Corporation employees.

	Executive director	All employees
Salary	0%	3.22%
Other benefits	(1.84%)	(3.12%)
Annual bonus	0.79%	2.11%

Relative importance of spend on pay

	2014 £000	2013 £000
Operating income	222,167	216,521
Total remuneration - all employees	93,065	87,874

Operating income excludes income relating to the Central Fund. Total remuneration excludes items such as employer's social security costs, net interest on defined benefit liability, non-executive remuneration, and recruitment fees.

Report of the Remuneration Committee
continued

Remuneration for the Chairman and members of the Council of Lloyd's and Franchise Board who are not employees of the Corporation

The Chairman's remuneration was increased from £525k to £575k per annum on 17 October 2014 when his contract was renewed for another three years. This was the first increase for the Chairman in three years and was benchmarked against wider practice. The Chairman's remuneration will remain at £575k for 2015.

Fees for 2014 for Council and Franchise Board members were £37,500 and £60,000 per annum respectively. Fees for 2015 have not been increased. Fees are also payable in respect of membership of a number of Council and Franchise Board committees, including ad hoc committees established to consider specific issues requiring a significant time commitment. For 2014 the additional fee payable to the Deputy Chairmen, over and above the standard Council member's fee, was £10,500 per annum. It remains at this level for 2015.

Details of the Remuneration Committee, advisers to the committee and their fees

Within the policy for remuneration approved by the Council, the Remuneration Committee is responsible for setting the total individual remuneration package for the Chairman of Lloyd's, the Chief Executive Officer, each executive director, the Secretary to the Council and other members of staff (including individual consultants) above certain thresholds.

The Remuneration Committee currently comprises six members – three members of Council, two members of the Franchise Board and the Chairman of Lloyd's. It has been chaired by Andy Haste (a Nominated member of Council and Senior Independent Deputy Chairman) since November 2012.

The Remuneration Committee met four times in 2014. The attendance record is set out in the Corporate Governance report on page 84. The Committee's terms of reference are available on the Lloyd's website and on request from the Secretary to the Council.

The Remuneration Committee was assisted by its remuneration consultants, Deloitte LLP, who adhere to the Code of Conduct for executive remuneration consultants. Deloitte LLP was appointed by the Remuneration Committee. Deloitte LLP adheres to working practices which have been agreed with the Remuneration Committee Chairman, for the purpose of maintaining independence. The Committee is satisfied that the advice received from Deloitte LLP was objective and independent. Total fees paid in respect of advice and services to assist the Remuneration Committee amounted to £37,000 for the year. Deloitte LLP also provided other services to the Corporation during the year, including the co-sourced Internal Audit resource, assurance support and tax advisory services.

At the request of the Remuneration Committee, the CEO and Head of HR regularly attend Remuneration Committee meetings. Other senior executives are invited to attend for specific agenda items from time to time.

Neither the Chairman, nor the CEO, nor any other director, plays a part in any discussion about his or her own remuneration.

Andy Haste
Chairman, Remuneration Committee
25 March 2015

Report of the Audit Committee

Statement by Chair of Audit Committee

On the following pages we set out the Report of the Audit Committee. The report comprises the following sections:

- Composition of the Audit Committee
- Financial Reporting
- Internal control
- Auditors

Our principal aim is to assist the Council in discharging its responsibilities for monitoring the integrity of the Society's financial reporting, assessing the effectiveness of the internal controls of the Society and monitoring the effectiveness, independence and objectivity of the internal and external auditors.

Claire Ighodaro, CBE
Chairman, Audit Committee
25 March 2015

Composition of the Audit Committee

The Committee, at the end of 2014, comprised two external members of the Council and four non-executive members of the Franchise Board. The Committee met five times during the year. The members of the Committee in 2014 and their attendance at meetings are shown in the Corporate Governance report on pages 84-85.

The Committee members have extensive commercial experience which enables the Committee to fulfil its terms of reference in a robust and independent manner. For the purposes of the UK Corporate Governance Code, the Committee considers that Claire Ighodaro, Alan Lovell, Paul Jardine and Bruce Van Saun have recent and relevant financial experience. More information on the skills and experience of the Committee members are set out in the biographies on pages 86-93.

Members of the Executive Team and other senior management regularly attend meetings at the invitation of the Chairman together with the Head of Internal Audit and the external auditor. The Committee as a whole meets privately with the internal and external auditors on a regular basis.

In addition, throughout the year, the Chairman of the Committee meets informally and has open lines of communication with the Executive Team, Head of Internal Audit, external auditors and senior management.

The Committee received technical updates from senior management and the external auditors on developments in financial reporting, accounting policy and regulatory developments. In addition, the Committee received an in-depth presentation from the external auditor on integrated reporting and an update on cyber risk from management.

The Committee's terms of reference can be found on the Lloyd's website.

Financial reporting

The Committee reviewed the Lloyd's published annual and interim financial statements including the pro forma financial statements, the Aggregate Accounts, the Group financial statements of the Society of Lloyd's, Lloyd's Return to the PRA and the interim management statements of the Society of Lloyd's. The Committee, with the support of the external auditor, assessed whether suitable accounting policies had been adopted and whether management had made appropriate estimates and judgements.

The principal issues reviewed in respect of the Society were:

- The notional investment return on Funds at Lloyd's and the methodology of the calculation.
- The valuation of the Lloyd's pension scheme including a review of the appropriateness of the assumptions used in the calculation and the impact of International Accounting Standard 19 Revised Employee Benefits.
- The methodology and assumptions used in the fair value calculation of recoverable Central Fund loans made to hardship members.
- The methodology and assumptions used in the calculation of amounts to be retained by the Society in respect of Central Fund Contributions and Subscriptions, including the accounting treatment and disclosure of the Central Fund repayment.
- Management's assessment of the financial position of the Society including forecasts and stress tests undertaken.
- The change in accounting for contractual capital expenditure under full repairing lease agreements.
- The change in accounting for exchange differences arising from currency translation of overseas operations.

At the request of the Council, the Committee considered whether the Annual Report was fair, balanced and understandable and whether it provided the necessary information to assess performance, business model and strategy.

Report of the Audit Committee
continued

Internal control

The Committee reviewed and monitored the effectiveness of the systems of internal control of the Society. Regular reports and updates on specific control issues were received throughout the year. Specific issues considered were:

- The Committee reviewed reports from the Risk Committee on developments to the Lloyd's Risk Framework. The Committee also considered the quarterly risk and capital management information reports. Throughout the year, the Committee was updated on the key risks which are set out in the Risk Management section of the Annual Report on pages 35-36.
- The Committee monitored progress updates on the PRA and FCA Risk Mitigation Programmes. The Committee reviewed internal audit reports, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions.
- The Committee received reports from the independent validator, Internal Audit and management on Lloyd's internal model approval process. The Committee discussed the matters that had been identified and agreed the proposed resolution plan, requesting regular progress updates.
- The Committee reviewed the external auditor's controls observation report and management's assessment of the internal control environment including reports on control failures during the period and status of progress against previously agreed actions.
- Regular reports on UK and overseas regulatory and compliance matters including the European Commission's legislative proposals on auditing; Solvency II; and the International Association of Insurance Supervisors proposed methodology for identifying Systemically Important Financial Institutions.
- The Committee reviewed the results of the speaking-up survey and updates on action being taken to address any specific matters.

Auditors

Internal audit
The Committee reviewed and approved Internal Audit's Charter and Operating Standards and the Internal Audit Plan, which provides the three-year audit cycle and details the annual scope of work and allocation of resources based on an assessment of inherent risks and existing controls. The Committee is satisfied that Internal Audit has the appropriate resources.

The performance of Internal Audit is subject to ongoing assessment and to an annual formal evaluation that is achieved through assessment of the results of questionnaires completed by the Executive Team and departments that have been subject to an internal audit in addition to Committee members' own views.

The Committee engaged Ernst & Young LLP to undertake an external assessment of Internal Audit which concluded that Internal Audit were independent, performed well against existing international standards, industry best practice and was well positioned in terms of compliance with the Chartered Institute of Internal Auditors guidance.

Deloitte LLP provides co-sourced Internal Audit resource who report directly to the Head of Internal Audit. The Committee keeps under review the relationship with Deloitte LLP and the procedures to ensure appropriate independence of the Internal Audit function is maintained.

External auditor
The Committee monitors and reviews the objectivity and independence of the external auditor. This includes having in place a policy to govern the non-audit services that may be provided by the external auditor, that sets out the circumstances in which the external auditor may be permitted to undertake non-audit services.

During the year the Committee approved an updated policy which incorporates the recommendations of EU regulation 537/2014 Article 5.

Allowable services are pre-approved up to £100,000. Any non-audit service that exceeds this threshold requires approval from the Committee and must be justified and, if appropriate, tendered before it is approved. The Committee receives a regular report on engagements undertaken by the external auditor in order to monitor the types of services provided and the fees incurred and to ensure they do not impair their independence and objectivity. The external auditor also confirmed to the Audit Committee that they believe they remain independent within the meaning of the regulations on this matter and their professional standards.

A breakdown of the fees paid to the external auditor for non-audit work may be found in note 5. Significant engagements undertaken in 2014 include other services pursuant to legislation (work undertaken on the Aggregate Accounts and regulatory returns) the pro forma financial statements, reporting accountant on the subordinated debt issue and support of the Lloyd's internal model approval submission.

The Committee performs a specific evaluation of the performance of the external auditor annually, through assessment of the results of questionnaires completed by members of the Executive Team and senior management in addition to Committee members' own views. The Committee is satisfied with the performance of External Audit.

Report of the Lloyd's Members' Ombudsman

Report by Mark Humphries, Lloyd's Members' Ombudsman

I am pleased to present the Annual Report of the Lloyd's Members' Ombudsman to the Council of Lloyd's for the year ended 31 December 2014.

The role of the Lloyd's Members' Ombudsman is to investigate complaints by members and former members who were members at any time after 30 November 2001, who believe that they have suffered injustice in consequence of maladministration in relation to any action taken by or on behalf of the Society.

Complaints received
During 2014 I received two new complaints.

I reported in June 2014 on the first complaint, finding in favour of the complainant. I made a supplementary report on the same complaint in August 2014. As a result of my findings Lloyd's has made a settlement offer which is currently being considered by the complainant.

The second complaint was received at the end of December 2014 and is in the course of being investigated.

Costs
The expenses incurred by my office amounted to £18,000.

Financial Review

This review should be read in conjunction with the financial statements of the Society on pages 128-171.

Operating surplus

The Society of Lloyd's achieved an operating surplus for the year of £59m (2013: surplus of £89m). The operating surplus by business segment is set out below:

	Corporation of Lloyd's £m	Lloyd's Central Fund £m	2014 Total £m	Restated 2013 Total £m
Total income	220	115	335	326
Central Fund claims and provisions incurred	–	(1)	(1)	(18)
Central Fund repayment	–	(49)	(49)	–
Net insurance claims	1	–	1	–
Other Group operating expenses	(218)	(9)	(227)	(219)
Operating surplus	3	56	59	89

Corporation of Lloyd's
Total income for the Corporation of Lloyd's increased by £3m to £220m (2013: £217m), driven by an increase in income generated by the overseas operating charge, where the costs of running the Corporation's international network of offices are recharged to those syndicates which underwrite business overseas, and an increase in the level of recoveries on a 'user pays' basis of costs incurred on behalf of specific managing agents. This was partly offset by a reduction in subscription income, which was impacted by adverse movements in exchange rates on the level of premium written by the Lloyd's market in the year in converted sterling terms. The subscription rate applied to written premium remained unchanged at 0.5%. In aggregate, other income streams were in line with the prior year.

Other Group operating expenses increased to £218m (2013: £212m), which includes costs incurred on behalf of managing agents which are recharged on a 'user pays' basis. Excluding these costs and currency translation gains, expenses increased compared to the previous year, reflecting the Corporation's investment to deliver the strategic priorities.

Central Fund
Total income for the Central Fund increased by £7m to £115m (2013: £108m). This was driven by recoveries of undertakings previously paid out. Central Fund contributions decreased as, whilst the rates remained unchanged during 2014 at 0.5%, income was also impacted by adverse movements in exchange rates on the level of premium written by the Lloyd's market in converted sterling terms.

The standard Central Fund claims and provisions is a net charge for the year of £1m (2013: charge of £18m). Undertakings to meet the liabilities of insolvent members to policyholders are approved at the discretion of the Council and are normally based on anticipated cash flow requirements of insolvent members in the following 12 months. During 2014, payments made in respect of insolvent corporate members were £6m (2013: £21m). There were no payments made in respect of individual members in 2014 and 2013.

Other Group operating expenses increased to £9m (2013: £7m). Excluding the impact of foreign exchange, operating expenses are in line with the prior year.

Investment performance

	2014 £m	2013 £m
Finance income	93	60
Finance costs – other	(49)	(56)
Realised/unrealised exchange gains/(losses) on borrowings	7	(6)
	51	(2)
Deficit on subordinated debt repurchase	(9)	(15)
	42	(17)

Investment performance
The Society's investments returned £93m or 3.6% during the year (2013: £60m, 2.3%). Most of the Society's investments are held within the Central Fund. Return from high quality fixed interest investments was better than expected over the year, as falling bond yields led to capital appreciation which boosted the otherwise low level of gain from income. Developed market equities generated solid returns in aggregate despite disparities between different regions. Emerging market equities withstood poor performance in the fourth quarter and finished the year with a good level of return. Other return seeking assets such as high yield bonds and hedge funds fared less well. Further commentary on investment strategy is included on page 119. The disposition of the Society's financial investments is set out in note 15 on pages 152-154.

Finance costs of £49m in 2014 (2013: £56m) predominantly relate to interest on the subordinated notes and perpetual subordinated capital securities.

Realised/unrealised exchange gains/(losses) on borrowings reflect the impact of foreign exchange movements on the Society's outstanding debt securities. The exposure to movements in the euro was managed within the investment strategy applied to Society assets and ceased following the redemption of euro denominated debt securities with effect from their first call date in November 2014.

Adjusting for interest costs and foreign exchange movements results in a net investment gain of £51m (2013: loss of £2m).

In October 2014, the Society of Lloyd's repurchased a total principal amount of £149m sterling subordinated notes at a cost of £158m. The Society additionally paid accrued interest on the purchased securities. The repurchase generated a capital loss of £9m, although interest savings over the remaining life of these securities will mean that the repurchase is of financial benefit to the Society. The Society also issued new sterling subordinated notes with a total principal amount of £500m in October 2014.

Financial Review

continued

Taxation

A tax charge of £18m (2013: £14m) on the surplus before tax of £109m (2013: £79m) has been recognised for the year ended 31 December 2014. Further details are set out in note 8 on pages 145-146.

Movement in net assets
£m

The net assets of the Central Fund are included within the above amounts and at 31 December 2014 were £1,590m (2013: £1,513m).

Pension schemes

Lloyd's pension scheme
On an IFRS basis, the Lloyd's pension scheme valuation at 31 December 2014 was a deficit of £84m before allowance for a deferred tax asset of £17m (31 December 2013: £32m deficit before allowance for a deferred tax asset of £6m).

The movement in the pension deficit during the year is summarised below:

	2014 £m
Pension deficit as at 1 January 2014	(32)
Pension expense recognised in the Group income statement	(10)
Employer contributions	5
Remeasurement effects recognised in the Group statement of comprehensive income	(47)
Pension deficit as at 31 December 2014	(84)

This was mainly due to an increase in liabilities as a result of a reduction in the real discount rate. The actuarial valuation of liabilities is particularly sensitive to changes in market conditions, which determine the discount rate, and changes to mortality assumptions. Further details are provided in note 18 on pages 156-161 which includes the sensitivity of the valuation to changes in these assumptions.

The latest triennial funding valuation of the scheme was carried out as at 30 June 2013, which showed a surplus of £9m.

The career average section of the scheme was closed to new joiners from April 2013, and to existing hires from June 2013 (existing employed members of each scheme continue to accrue benefits). After these dates, employees are eligible to join the Defined Contribution arrangement, which is administered by Aviva.

Overseas pension schemes
Overseas pension schemes' actuarial valuation at 31 December 2014 was £2.3m (2013: £1.6m). Further details are provided in note 18.

Solvency

Total assets for solvency purposes are set out below. The 2014 position is considered to be an estimate of the amount which will be finalised in June 2015 for submission to the PRA:

	2014 £m	Restated 2013 £m
Net assets at 31 December	1,693	1,635
Subordinated notes and perpetual subordinated capital securities	885	721
Central assets	2,578	2,356
Callable Central Fund contributions	779	788
Other solvency adjustments	(112)	(19)
Central assets for solvency purposes	3,245	3,125
Solvency shortfalls	(19)	(34)
Excess of central assets over solvency shortfalls	3,226	3,091

Based on central assets for solvency purposes of £3.2bn (2013: £3.1bn), the estimated solvency ratio is 17079% (2013: 9191%). In setting contribution levels, account is taken of the Society's ICA to ensure that Lloyd's is prudently but competitively capitalised. Unencumbered central assets should be at least 100% of the Society's ICA plus the higher of 150% of the Society's ICA, or 100% of the Society's ICG, on a business as usual basis.

Cash flows and liquidity

Cash and cash equivalents increased during the year ended 31 December 2014 by £111m to £262m (2013: £151m). Cash balances are maintained at appropriate levels to meet the short-term operating expenses of the Society. Any surplus cash balances are invested and are included as financial investments within the Group statement of financial position.

The Corporation's free cash balances are regularly monitored. Free cash represents the amounts, both at bank and on deposit, held in the UK and available to the Corporation to meet operating expenses, including those of overseas operations, excluding any balances held in respect of insurance and arbitration activities. Free cash balances at 31 December 2014 were £143m.

The liquidity of the Central Fund is monitored separately. Cash balances are managed to meet short-term operational commitments including the payment of drawdowns. Any surplus cash balances are invested in compliance with defined investment parameters approved by the Investment Committee.

Central Fund investment strategy

Central Fund investment strategy is considered in three parts. A proportion of assets are assigned to meet liquidity needs, based on a prudent estimate of net cash flows. These assets are commingled with other liquid assets of Lloyd's Group companies and invested in bank deposits and other short-term securities, with maturities of up to 12 months. The objective is to optimise income, for a low level of risk, while ensuring that all cash flows requirements are met as they fall due.

A significant proportion of assets are invested in fixed interest securities of a high credit quality and typically medium term maturities. The financial risk exposures represented by subordinated debt securities issued by the Society are considered when determining the disposition of fixed interest investments. The return objective is to optimise investment return in the longer term while maintaining overall financial risk within defined limits.

A smaller proportion of assets are invested in equities and other return seeking asset classes, also with an aim to optimise investment return in the longer term without exceeding defined risk tolerances. These investments are diversified among different asset classes to help manage risk and third party investment managers are retained to manage these investments within clearly defined investment parameters specified by Lloyd's. Current equity exposures comprise global developed, emerging and property related markets. Other return seeking assets include high yield and emerging market debt, hedge funds and more recently, senior secured loans.

Financial Review
continued

Financial risk management and treasury policies

Overview
The Society's principal financial instruments comprise cash and cash equivalents, investments, borrowings and items that arise directly from operations such as trade receivables and payables. These include assets and liabilities of the Central Fund.

The Society's treasury operations and investments are managed by reference to established policies which are reviewed regularly by the Investment Committee. Policies for managing these risks, in particular credit risk, liquidity risk and market risk, are summarised below.

Credit risk
Credit risk represents the risk of financial loss to the Society if a counterparty, or the issuer of a security, fails to meet its contractual obligations.

Trade and other receivables
The Society has established procedures to minimise the risk of default by trade and other receivables, which are mainly in respect of the Lloyd's market, the main source of income. These procedures include minimum standard checks for new market entrants.

Financial investments
A list of permissible bank counterparties, for the purposes of money-market investment, is maintained and restricted to banks having strong balance sheets and credit ratings. Investment parameters exist for all investment assets, controlling overall credit quality and ensuring appropriate risk diversification. Permitted counterparties to capital market transactions are also carefully controlled. All applicable parameters are reviewed regularly by the Investment Committee.

Guarantees
The Society provides certain financial guarantees as security for the underwriting activities of the members of Lloyd's. Further details are provided in note 27 on page 171.

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

The liquidity of the Central Fund is monitored separately. Cash balances are managed to meet short-term operational commitments including the payment of drawdowns. Any surplus cash balances are invested in compliance with defined investment parameters approved by the Investment Committee.

The Society had no committed borrowing facilities as at 31 December 2014 (2013: £nil).

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

Foreign currency risk
The Society enters into a variety of foreign exchange transactions in response to the foreign currency requirements of Lloyd's Group companies. In managing the exposures arising from such foreign exchange activity, which may involve transactions for forward settlement, the net risk arising from all such exposures is considered and the level of this risk is managed within defined parameters. Consequently, while some net foreign exchange exposures may accrue to the Society from time to time as a result of this activity, the level of such exposures is carefully monitored and is not significant in the context of its activities.

Foreign currency exposures arising from overseas investments are considered together with foreign currency liabilities of the Society, and net foreign currency exposures arising are managed through the use of forward foreign exchange contracts.

Separately, the Society provides a Currency Conversion Service (CCS) to participating Lloyd's syndicates, converting insurance premiums and claims between pounds sterling and other Lloyd's settlement currencies as required. Foreign exchange exposures arising from the provision of the CCS are again managed on a net basis, within defined parameters. The CCS is operated separately from other foreign exchange activity of the Society because, under the terms of the service, any profit (or loss) arising from CCS exposures is distributed to (or collected from) syndicates participating in the CCS. Currency exposures arising from CCS activity consequently do not, ultimately, represent risks to the Society.

Interest rate risk
Borrowings from the Lloyd's market for the purpose of funding statutory insurance deposits do not bear a fixed rate of interest. Instead, investment returns earned on the borrowed assets are passed on to lenders. Consequently, no interest rate risk arises on such borrowings.

Short-term assets held by the Society may be significant at certain times but such balances cannot be accurately predicted. These are invested in money market instruments of up to 12 months' duration with the objective of maximising current income while meeting liquidity requirements.

Interest rate risk arising from the requirement to make fixed rate coupon payments in respect of the Lloyd's subordinated loan notes and the perpetual subordinated capital securities is considered in conjunction with the market risk arising on the Society's investments. Overall risk is managed within defined limits, specified by the Franchise Board.

Capital management
The Society monitors its capital to ensure that it maintains sufficient assets for both operational and solvency purposes. Further disclosures with regard to financial instruments are provided in note 22 on pages 164-168.

Related party transactions

Except for disclosures made in note 26 (see pages 170-171), no related party had material transactions with the Society in 2014.

Going concern statement

After making enquiries and considering management's assessment of the financial position of the Society including forecast and stress tests undertaken on the Chain of Security, the members of the Council of Lloyd's have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Society's financial statements.

The Chain of Security is discussed in more detail in 'How Lloyd's works' on page 14 and in 'Security underlying policies issued at Lloyd's' on pages 70-72.

Statement as to disclosure of information to auditors

Having made enquiries, the Council of Lloyd's confirms that:

- To the best of each Council member's knowledge and belief there is no information relevant to the preparation of the Society Report of which the Society's auditors are unaware.
- Each Council member has taken all the steps a Council member might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Society's auditors are aware of that information.

Outlook

Central assets, which exclude subordinated liabilities, are expected to remain stable at £2.6bn in 2015.
On 25 March 2015, the Council of Lloyd's gave further undertakings to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. After taking account of the expiry of unutilised undertakings, the net increase in undertakings, which will be reflected as a charge in the 2015 income statement, is £nil (see note 4 on page 142). The operating expenses for the Corporation and its subsidiaries are budgeted to be £250m in 2015, including £11m of costs for services provided (and recharged directly) to specific managing agents, reflecting the focus on delivering the Lloyd's strategy. The Council of Lloyd's is responsible for preparing the Group financial statements in accordance with byelaws made under Lloyd's Act 1982 and International Financial Reporting Standards (IFRS) as adopted by the European Union.

Statement of the Council of Lloyd's Responsibilities for the Financial Statements

The Council of Lloyd's is required to prepare Group financial statements for each financial year which present fairly the financial position of the Society and the financial performance and cash flows of the Society for that period. In preparing these Group financial statements, the Council of Lloyd's is required to:

- Select suitable accounting policies and then apply them consistently.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Society's financial position and financial performance.
- State that the Society has complied with IFRS, subject to any material departures disclosed and explained in the Group financial statements.

The Council of Lloyd's is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable it to ensure that the Group financial statements comply with Article 4 of the IAS Regulation. As the Society's subordinated debt and perpetual subordinated capital securities are admitted to trading in a regulated market in the European Union, Council has elected to comply with Article 4, which requires Group financial statements to be prepared in conformity with IFRS as adopted by the European Union. The Council of Lloyd's is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Council of Lloyd's is responsible for the maintenance and integrity of the corporate and financial information included on the Society's website (www.lloyds.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Council of Lloyd's considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Society's performance, business model and strategy.

Independent Auditor's Report to the Members of the Society of Lloyd's

Report on the Society of Lloyd's Group financial statements

Our opinion

In our opinion, the Society of Lloyd's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Society's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Council of Lloyd's byelaws made under the Lloyd's Act 1982.

What we have audited

The Society of Lloyd's Group financial statements comprise:

- the Group statement of financial position as at 31 December 2014;
- the Group income statement and statement of comprehensive income for the year then ended;
- the Group statement of cash flows for the year then ended;
- the Group statement of changes in equity for the year then ended; and
- the notes to the Group financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Society Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview

Materiality
- Overall group materiality: £17 million which represents 0.5% of total assets.

Audit scope
- Audit procedures were performed over the complete financial information for the Corporation of Lloyd's, Central Fund and Additional Securities Limited reporting units to address the areas of focus identified below.
- Additionally, we identified Lloyd's Insurance Company (China) Limited where certain account balances were considered to be significant in size in relation to the Society, and scoped our audit to include detailed testing of those account balances.
- Taken together, the reporting units where we performed our audit work accounted for 89% of the Society's revenue, 97% of the Society's profit before tax and 98% of the Society's total assets.

Areas of focus
- Valuation of financial instruments
- Lloyd's Pension Scheme
- Revenue recognition
- Accounting for members' balances
- Valuation of loans recoverable

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Council made subjective judgements, for example in respect of significant accounting estimates. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Council that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Independent Auditor's Report to the Members of the Society of Lloyd's *continued*

Our audit approach continued

The scope of our audit and our areas of focus continued

Area of focus	How our audit addressed the area of focus
Valuation of financial investments	
We focused on this area because it represents 86% of the assets of the Society and so the valuation of financial investments has a significant impact on the financial statements. We focused in particular on the following investment classes which are new to the Central Fund investment portfolio: – Senior Secured Loans – Interest rate swaps We also focused specifically on investments recorded in Additional Securities Limited (ASL), for which valuation is more subjective because they are not publicly traded. (Refer also to note 15 to the financial statements)	We tested the valuation of the Senior Secured Loans and Interest rate swaps by re-pricing those investments using independent pricing sources. The non-publicly traded investments portfolio recorded in ASL comprises government bonds and term deposits. For government bonds, our procedures included a test to compare the booked market value to sources such as auction prices available on government websites. For term deposits, custodian confirmations were obtained. There were no matters which required reporting to those charged with governance. For the remaining investment portfolio, we tested the controls in place over pricing and valuation. We also independently re-priced the derivatives and Level 1 bonds and equities investments to complement our controls reliance. We found no exceptions in our tests of controls and substantive testing.
Lloyd's Pension Scheme	
Lloyd's operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme whose liabilities total £763m, as measured in accordance with IAS 19 'Employee benefits'. This value is equivalent to 45% of the Society's net assets. Assumptions made in valuing the pension scheme liabilities can have a material impact on them and therefore on the recognised deficit in the financial statements. There is a significant increase in the pension liabilities as at 31 December 2014 compared to the prior year mainly driven by the lower discount rate applied, partially offset by a decrease in inflation assumptions. Therefore, we focused on the key assumptions to which the scheme valuations are sensitive, being: i) Discount rate ii) Inflation iii) Post-retirement life expectancy iv) Salary increases (Refer also to note 18 to the financial statements)	We used our specialist knowledge to evaluate the key assumptions used to value the Lloyd's Pension Scheme. This included comparison of Lloyd's assumptions to our own independent expectations based on our knowledge of the Lloyd's Pension Scheme and current financial market conditions. We found the following: i) the discount rate used in the valuation of the pension liability was consistent with our expectations, taking into account the duration of the pension liability and investment market conditions at 31 December 2014; ii) the retail and consumer price inflation rates used in the valuation of the pension liability were consistent with our expectations, taking into account the duration of the pension liability and market expectations at 31 December 2014; iii) the life expectancy assumptions were in line with the recent mortality experience of the Lloyd's Pension Scheme and with assumptions made by other UK companies, and contain an appropriate allowance for how rates of mortality may fall in future; and iv) the salary increase assumption was in line with assumptions made by other UK companies.

Area of focus	How our audit addressed the area of focus
Revenue recognition	
The Central Fund contributions and members' subscription fees represent 60% of the revenue of the Society. We focused on the estimation of Central Fund contributions and members' subscription fees. Although not complex, this involves subjectivity with regards to assumptions on the estimation of future premium. The future premium is estimated based on historical development trends. From this analysis management has selected an extrapolation factor which is then applied to the current year. There is also a risk of error in terms of the calculation of the estimated revenue as this is a manual calculation. (Refer also to note 2 to the financial statements)	We evaluated the reasonableness of the assumptions applied in the estimation of the future premium. As future premium is estimated based on the development trend of historical premium, we traced a sample of the historical premium data to the market system which records audited market results. We tested Information Technology General Controls over the market system, where no exceptions were noted. Based on our work on the assumptions, we found that management's analysis supported the extrapolation factor that was selected. We tested the accuracy of the application of the assumptions to the underlying data and recomputed the total Central Fund contributions and members' subscription fees. We found management's assumptions to be reasonable. No exceptions were noted in our validation of underlying data or our recalculation of revenue.
Accounting for members' balances	
Members' balances represent balances held by the Society of Lloyd's on behalf of the members. The Society maintains accounts which relate directly to members' monies as part of Funds at Lloyd's (FAL). FAL is not recognised on the Society's balance sheet. Accounts which are not held as part of FAL are however recognised as Society assets. The financial statements were re-stated in the prior year following the detection of omissions of certain balances. Due to this we focused on the completeness of members' balances in the Society's Statement of financial position.	Our approach primarily focused on : i) testing the operating effectiveness of controls in management's process for identifying and monitoring all accounts that relate to members' balances, and ; ii) obtaining bank confirmations covering both Society and FAL accounts to ascertain the completeness of the balances recorded in the Society's Statement of financial position. We were able to obtain audit evidence from our tests of controls, and the bank confirmations obtained provided evidence of the completeness of members' cash balances in the financial statements.
Valuation of loans recoverable	
Loans recoverable are Central Fund loans made to hardship members. The valuation of loans recoverable (£46m) is subjective and judgemental. The loans recoverable amount represents the lower of: i) Valuation of property and investments held as charge; and ii) Principal loan amount including accrued interest. We focused on the following assumptions because they have a material impact on the valuation of loans recoverable: i) Discount rate ii) Fair value of properties iii) Property inflation rate. (Refer also to note 14 to the financial statements)	We evaluated the reasonableness of the assumptions used and found the following: i) the discount rate used was consistent with our expectations, taking into account the market conditions at 31 December 2014; ii) the fair value of properties was reasonable, based on comparing the valuation to the current offer price of similar properties on the open market; and iii) the property inflation rate used was set at an appropriate level, based on our assessment of market conditions at 31 December 2014. In addition, we tested a sample of loans by agreeing the principal loan amount to the signed agreements and recalculated the accrued interest. No exceptions were found in our testing.

Independent Auditor's Report to the Members of the Society of Lloyd's *continued*

Our audit approach continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Society, the accounting processes and controls, and the industry in which the Society operates.

The Society of Lloyd's group financial statements are a consolidation of 34 reporting units. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We were involved in the risk assessment process for these components, and obtained an understanding of the audit procedures performed by the component auditors to address the identified risks.

For each reporting unit we determined whether we required an audit of their complete financial information or whether specified procedures for particular balances would be sufficient. Audit procedures were performed over the complete financial information for the Corporation of Lloyd's, Central Fund and Additional Securities Limited reporting units to address the areas of focus identified above. Additionally, we identified Lloyd's Insurance Company (China) Limited where certain account balances were considered to be significant in size in relation to the Society group, and scoped our audit to include detailed testing of those account balances.

The group consolidation, financial statement disclosures and a number of complex items were audited by the group engagement team in London. These included derivative financial instruments and the pension scheme.

Taken together, the reporting units where we performed our audit work accounted for 89% of the Society's revenues, 97% of the Society's profit before tax and 98% of the Society's total assets.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality
£17m (2013: £16m)
How we determined it
0.5% of total assets
Rationale for benchmark applied
We considered total assets to be an appropriate measure because the Society is not profit oriented and because the assets of the Society represent a crucial link in the Lloyd's Chain of Security for the market.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £850,000 (2013: £800,000) as well as misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Going concern

The Council of Lloyd's has included a statement in relation to going concern in the Financial Review section of the Society report. As noted in that statement, the Council of Lloyd's has concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. This basis presumes that the Society has adequate resources to remain in operation, and that the Council of Lloyd's intends it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Society's ability to continue as a going concern.

Other required reporting

Consistency of other information
ISAs (UK & Ireland) reporting
Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- information in the Society Report is:
  - materially inconsistent with the information in the audited financial statements; or
  - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Society acquired in the course of performing our audit; or
  - otherwise misleading.
- the statement given by the Council of Lloyd's on page 122 that it considers the Society Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy is materially inconsistent with our knowledge of the Society acquired in the course of performing our audit.
- the section of the Society Report on page 113 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from the responsibilities described above.

Matters on which we have agreed to report

Adequacy of information and explanations received
Under the terms of our engagement, we agreed to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Report of the Remuneration Committee
Under the terms of our engagement, we agreed to report to you if, in our opinion, the part of the report of the Remuneration Committee that has been described as audited has been properly prepared in accordance with the basis of preparation as described therein. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Council of Lloyd's
As explained more fully in the Statement of the Council of Lloyd's Responsibilities (set out on page 122), the Council of Lloyd's is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standard on Auditing (ISA (UK and Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the members of the Society in accordance with the Council of Lloyd's byelaws made under the Lloyd's Act 1982 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come to save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Council of Lloyd's; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Council of Lloyd's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Society Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCooper LLP
Chartered Accountants
London
25 March 2015

Group Income Statement

For the year ended 31 December 2014

	Note	2014 £000	Restated 2013 £000
Operating income		219,864	216,521
Central Fund contributions		101,971	105,953
General insurance net premium income		4	7
Other Group income		13,632	3,111
Total income	3B	335,471	325,592
Central Fund claims and provisions incurred	4	(812)	(17,758)
Central Fund repayment	3	(48,995)	–
Gross insurance claims	13	(13,841)	(20,326)
Insurance claims recoverable from reinsurers	13	14,360	20,385
Other Group operating expenses	5	(227,260)	(218,885)
Operating surplus		58,923	89,008
Finance costs			
Deficit on subordinated debt repurchase	17	(8,929)	(15,162)
Other	7	(48,920)	(55,642)
Finance income	7	93,523	60,359
Realised/unrealised exchange gains/(losses) on borrowings		6,864	(6,126)
Share of profits of associates	12A	7,577	6,843
Surplus before tax		109,038	79,280
Tax charge	8A	(17,543)	(13,884)
Surplus for the year		91,495	65,396

Group Statement of Comprehensive Income

For the year ended 31 December 2014

	Note	2014 £000	Restated 2013 £000
Surplus for the year		91,495	65,396
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement (losses)/gains on pension asset/liabilities			
UK	18	(47,284)	15,004
Overseas	18	(780)	194
Associates	12A	(1,192)	354
Tax credit/(charge) relating to items that will not be reclassified	8A	9,713	(9,262)
Currency translation differences		6,202	(994)
Items that may be reclassified subsequently to profit or loss			
Unrealised losses on revaluation of Lloyd’s Collection	12B	–	(1)
Tax credit relating to items that may be reclassified	8A	–	375
Net other comprehensive (deficit)/income for the year		(33,341)	5,670
Total comprehensive income for the year		58,154	71,066

Group Statement of Financial Position

As at 31 December 2014

	Note	2014 £000	Restated 2013 £000	Restated 2012 £000
Assets				
Intangible assets	9	18	40	266
Lloyd's Collection	12B	12,506	12,506	12,507
Plant and equipment	10	11,737	14,093	20,029
Deferred tax asset	8C	19,178	6,059	8,331
Investment in associates	12A	7,958	7,897	6,422
Insurance contract assets	13	43,944	38,293	25,720
Loans recoverable	14	46,439	43,499	45,138
Financial investments	15	2,972,391	2,792,998	2,842,055
Inventories		280	256	236
Trade and other receivables due within one year	21	52,878	39,695	41,237
Prepayments and accrued income		25,818	32,194	31,323
Derivative financial instruments	22	17,774	48,148	59,586
Cash and cash equivalents	16	261,587	151,274	206,562
Total assets		3,472,508	3,186,952	3,299,412
Equity and liabilities				
Equity				
Accumulated reserve	23	1,669,736	1,617,784	1,545,723
Revaluation reserve	23	12,506	12,506	12,507
Translation reserve	23	11,075	4,873	5,867
Total equity		1,693,317	1,635,163	1,564,097
Liabilities				
Subordinated notes and perpetual subordinated capital securities	17	885,483	720,519	893,328
Insurance contract liabilities	13	43,971	38,840	26,436
Pension liabilities	18	86,045	33,972	45,075
Provisions	19	34,030	40,647	42,080
Loans funding statutory insurance deposits		472,136	518,090	501,846
Trade and other payables	20	184,991	130,750	142,903
Accruals and deferred income		42,393	39,290	38,148
Tax payable		8,681	7,987	16,574
Derivative financial instruments	22	21,461	21,694	28,925
Total liabilities		1,779,191	1,551,789	1,735,315
Total equity and liabilities		3,472,508	3,186,952	3,299,412

Approved and authorised by the Council of Lloyd's on 25 March 2015 and signed on its behalf by

John Nelson
Chairman

Inga Beale
Chief Executive Officer

Group Statement of Changes in Equity

For the year ended 31 December 2014

	Note	Accumulated reserve £000	Revaluation reserve £000	Translation reserve £000	Total equity £000
At 31 December 2012 (as previously reported)		1,579,806	12,507	–	1,592,313
Impact of restatement (Note 1)		(34,083)	–	5,867	(28,216)
At 1 January 2013 (as restated)		1,545,723	12,507	5,867	1,564,097
Surplus for the year		65,396	–	–	65,396
Net other comprehensive income/(deficit) for the year		6,665	(1)	(994)	5,670
At 31 December 2013 (as restated)		1,617,784	12,506	4,873	1,635,163
Surplus for the year		91,495	–	–	91,495
Net other comprehensive (deficit)/income for the year		(39,543)	–	6,202	(33,341)
At 31 December 2014	23	1,669,736	12,506	11,075	1,693,317

Group Statement of Cash Flows

For the year ended 31 December 2014

	Note	2014 £000	Restated 2013 £000
Cash generated from operations	24	112,063	99,942
Tax paid		(20,511)	(29,004)
Net cash generated from operating activities		91,552	70,938
Cash flows from investing activities			
Purchase of plant, equipment and intangible assets	9/10	(2,212)	(4,552)
Proceeds from the sale of plant, equipment and intangible assets		–	14
Purchase of financial investments	15A/B	(3,223,986)	(3,743,539)
Receipts from the sale of financial investments	15A/B	3,212,570	3,800,551
Increase in short-term deposits	15B	(96,998)	(46,039)
Dividends received from associates	12A	6,580	5,640
Interest received		51,259	57,220
Dividends received	7	6,828	4,626
Realised (losses)/gains on settlement of forward currency contracts		(6,499)	29,782
Net cash (used in)/generated from investing activities		(52,458)	103,703
Cash flows from financing activities			
Repurchase of subordinated notes	17	(328,630)	(195,124)
Interest paid on subordinated notes		(48,769)	(55,991)
Issue of subordinated notes		492,893	–
Other interest paid		(5,286)	(6,264)
(Decrease)/increase in borrowings for statutory insurance deposits		(39,549)	30,125
Net cash generated from/(used in) financing activities		70,659	(227,254)
Net increase/(decrease) in cash and cash equivalents		109,753	(52,613)
Effect of exchange rates on cash and cash equivalents		560	(2,675)
Cash and cash equivalents at 1 January	16	151,274	206,562
Cash and cash equivalents at 31 December	16	261,587	151,274

Notes to the Financial Statements

As at 31 December 2014

1. Basis of preparation and consolidation

In 1871, by Lloyd's Act 1871, the then existing association of underwriters was incorporated in the United Kingdom as the Society and Corporation of Lloyd's (the 'Society'). Its activities are accordingly governed by statute and, since 1982, have been managed by the Council of Lloyd's (the 'Council') pursuant to Lloyd's Act 1982. Its principal place of business is at One Lime Street, London EC3M 7HA.

The Society's main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The Group financial statements of the Society of Lloyd's comprise the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interest in associates as at each reporting date. Subsidiary undertakings are consolidated from the date of their acquisition, being the date on which the Society obtains control, and continue to be consolidated until the date that such control ceases. The financial statements are prepared using consistent accounting policies. All intra-Group balances and transactions are eliminated in full.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (as adopted by the European Union) and on a historic cost basis, except for financial assets and liabilities at fair value through profit or loss and the Lloyd's Collection, which are measured at fair value. Loans and receivables and other financial liabilities are carried at amortised cost. The Group financial statements are presented in sterling and all values are rounded to the nearest thousand (£000).

On 1 January 2014, the application of the following standards became compulsory for entities reporting in the European Union:

(a) International Accounting Standard 27 'Separate Financial Statements' (IAS 27) which applies to those entities that elect not to prepare consolidated financial statements and instead prepare separate financial statements as its only financial statements.

The Society prepares consolidated financial statements based on International Financial Reporting Standards (IFRS) and so amendments to IAS 27 are not applicable.

(b) The Society adopted the amendments to IFRS 10 'Consolidated Financial Statements' (IFRS 10) which defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. This states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to afffect those returns through its power over the investee.

The application of IFRS 10 has no material impact on the Group financial statements of the Society.

(c) Amendments to International Accounting Standard 36 'Impairment of Assets' (IAS 36) sets out the procedures that an entity should follow to ensure that it carries its assets at no more than their recoverable amount. Recoverable amount is the higher of the amount to be realised through using or selling the asset. Where the carrying amount exceeds the recoverable amount, the asset is impaired and an impairment loss must be recognised.

The amendments impose certain disclosure requirements for impairments of assets.

The application of amendments to IAS 36 has no impact on the profits reported for the year ended 31 December 2014 and prior years.

The Corporation's policy for measuring balances for insurance contracts issued by overseas subsidiaries is to apply the valuation technique used in the issuing entity's local statutory or regulatory reporting. Therefore, for insurance contracts issued by Lloyd's Insurance Company (China) Limited (LICCL), balances are calculated in accordance with People's Republic of China Generally Accepted Accounting Principles (PRC GAAP). In particular, unearned premium reserves are calculated after deducting acquisition costs such as commissions, handling fees, business taxes, surcharges and regulatory charges and outstanding claims reserves include a risk margin.

During the period ended 31 December 2014, the Society also adopted other new amendments and interpretations to IFRS that became effective on 1 January 2014 which had no material impact on the Group financial statements of the Society.

Following a review of future capital expenditure requirements, the Society has changed its accounting for contractual capital expenditure under fully repairing leases. Under the previous basis, contractual expenditure was capitalised as plant and equipment and depreciated over the estimated useful life of the asset. Under the revised basis of accounting, contractual capital expenditure is provided for over the term of the underlying lease agreement. The Society believes the new basis provides reliable and more relevant information and in accordance with International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the change has been made retrospectively and the comparatives have been restated accordingly. The impact for the year ended 31 December 2013 is a decrease in plant and equipment of £13m, an increase in deferred tax asset of £2m, an increase in provisions of £17m and a decrease in the accumulated reserves of £28m.

Notes to the Financial Statements
continued

As at 31 December 2014

1. Basis of preparation and consolidation continued

The Society has revised its accounting for foreign currency translation of overseas operations from recognising exchange differences within the group income statement to recognition within the group statement of other comprehensive income. The Society believes the new basis provides reliable and more relevant information and in accordance with International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the change has been made retrospectively and the comparatives have been restated accordingly. This resulted in a reclassification from accumulated reserves to a separate translation reserve within total equity of £5m for the year ended 31 December 2013.

The Society is regulated by the PRA and the FCA.

2. Principal accounting policies

Critical accounting estimates and assumptions
In preparing the financial statements significant estimates and judgements are made in respect of some of the items reported. The main accounting policies identified involving such assessments are considered to be:

- Central Fund claims and provisions – undertakings (see note 2Q and note 19).
- Employee benefits – defined benefit pension scheme (see note 2I and note 18).
- Insurance contracts – liabilities and reinsurance assets (see note 2G and note 13).
- Loans recoverable – hardship loans (see note 2J and note 14).

A. Plant and equipment
Plant and equipment are held at cost less accumulated depreciation and any impairment in value.

Depreciation is charged on a straight-line basis on the following principal categories:
- Furniture and fittings are depreciated over seven to 25 years according to the estimated useful life of the asset.
- Computer and specialised equipment are depreciated over three to 15 years according to the estimated useful life of the asset.
- Equipment on hire or lease is depreciated over the period of the lease.

B. Software development
Costs incurred in acquiring and developing computer software are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable asset of value. Software development is held at cost less accumulated depreciation and any impairment in value. Capitalised software is amortised over three years.

C. Lloyd's Collection
Lloyd's Collection represents various paintings, antiques and artefacts which are included at fair value. Any revaluation surplus or deficit is recognised in the Group statement of comprehensive income and is reflected in the revaluation reserve within the Group statement of changes in equity.

D. Investment in associates and joint venture
An associate is an entity in which the Society has significant influence and which is not a subsidiary undertaking or joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Society's investment in associates and joint venture are accounted for under the equity method of accounting.

Under the equity method, the investment in associates and joint venture are carried in the Group statement of financial position at cost plus post-acquisition changes in the Society's share of net assets of the associate and joint venture. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Society determines whether it is necessary to recognise any additional impairment loss with respect to the Society's net investment in an associate and joint venture. The Group income statement reflects its share of the results of operations of the associates and joint venture. The Society's share of associates' other comprehensive income is recognised in the Group statement of comprehensive income.

E. Impairment of non-financial assets
The Society performs annual impairment testing to assess whether there is an indication that an asset may be impaired. If any such indication exists an impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

F. Financial instruments
Financial assets
Initial recognition
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss or loans and receivables. The Society determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of loans and receivables, directly attributable transaction costs. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

F. Financial instruments continued

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

The Society's financial assets include loans recoverable, statutory insurance deposits and other investments designated at fair value through profit or loss, trade and other receivables, accrued income, cash and cash equivalents and derivative assets.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

(i) Financial assets at fair value through profit or loss include derivative financial assets which are classified as held for trading, and financial assets designated upon initial recognition at fair value through profit or loss. They are carried in the Group statement of financial position at fair value. Gains and losses arising from changes in their fair value are included in the Group income statement in the period in which they arise. When financial assets are interest-bearing, interest calculated using the effective interest method is recognised in the Group income statement.

(ii) Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They arise when the Society provides money, goods or services directly to a debtor with no intention of trading the receivable. These financial assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Group income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities
Initial recognition
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss or other financial liabilities. The Society determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of other financial liabilities, directly attributable transaction costs. The Society's financial liabilities include trade and other payables, accruals, subordinated loan notes and perpetual capital securities and derivative liabilities.

Subsequent measurement
The subsequent measurement of financial liabilities depends on their classification as follows:

(i) Financial liabilities at fair value through profit or loss include derivative financial liabilities which are classified as held for trading. Gains or losses on liabilities held for trading are recognised in the Group income statement.

(ii) Other financial liabilities, which include the subordinated loan notes and the subordinated perpetual capital securities, are carried at amortised cost using the effective interest method.

Fair value of financial instruments
Financial instruments are categorised for disclosure purposes into a hierarchy consisting of three levels depending upon the source of input as required by IFRS 7 'Financial Instruments Disclosures'.

Level 1 – The fair value of financial instruments which are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. The quoted market price used for financial assets held by the Society is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price.

Level 2 – The fair value of financial instruments for which quoted market prices are not used for valuation purposes are derived both directly and indirectly from observable market conditions. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values.

Level 3 – The fair value of financial instruments for which there is no observable quoted market price is determined by a variety of methods incorporating assumptions that are based, so far as possible, on market conditions existing at each reporting date.

Amortised cost of financial instruments
Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets
The Society assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the asset is written down to its recoverable amount.

Derecognition of financial instruments
Investments are derecognised when the right to receive cash flows from the asset have expired or, in the case of a financial liability, when the obligation under the liability is cancelled or discharged.

Notes to the Financial Statements
continued

As at 31 December 2014

2. Principal accounting policies continued

G. Insurance contracts (liabilities and reinsurance assets)
In accordance with IFRS 4 (Insurance contracts), the Society applies established UK accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards. This includes the application of the Statement of Recommended Practice (SORP) on accounting for insurance business issued by the Association of British Insurers in December 2005 (amended December 2006).

Insurance contracts are defined as those containing significant insurance risk which arises if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expired.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Society may not receive all amounts due to it under the terms of the contract and this can be measured reliably.

H. Inventories
Inventories are stated at the lower of cost and net realisable value on a first in, first out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

I. Employee benefits
The Society accounts for pensions and similar benefits (principally income protection due to ill-health) under IAS 19 (Employee Benefits). The Society operates a number of defined benefit pension schemes in which obligations are measured at discounted present value using the projected unit credit method, while plan assets are recorded at fair value. The operating and financing income and costs of the scheme are recognised in the Group income statement. Service costs, financing income (expected return on plan assets) and costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in full in the Group statement of comprehensive income in the period in which they occur. Costs of discretionary awards in respect of past service are recognised in the Group income statement when amounts are committed to be paid or there is a constructive liability to make awards to pensioners.

Payments to separately administered defined contribution schemes are charged to the Group income statement as they fall due.

Short-term bonuses are accrued in the period to which they relate, long-term bonuses are recognised over their vesting period.

J. Loans recoverable
Recoverable Central Fund loans made to hardship members are valued on a fair value basis and are designated as fair value through profit or loss.

Any gains and losses arising from changes in the fair value are included in the Group income statement in the period in which they arise.

Fair values are determined by reference to an estimate of the valuation of the underlying investments at the dates at which they may be exercised and discounted back to present day values. A security can normally only be exercised on the later date of death of the member or of their spouse. This date is assessed using actuarial assumptions.

K. Taxation
Corporation tax on the surplus or deficit for the periods presented comprises current and deferred tax. Corporation and income tax is recognised in the Group income statement except to the extent that it relates to items recognised directly in the Group statement of comprehensive income, in which case it is recognised in the Group statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the reporting date.

L. Subordinated notes and perpetual subordinated capital securities
Subordinated debt is initially recognised at fair value, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, the subordinated debt is subsequently recorded at amortised cost using the effective interest rate over the period to the earliest option date. Amortised cost is calculated after taking into account issue costs and issue discount.

M. Cash and cash equivalents
For the purposes of the Group statement of cash flows, cash comprises cash at banks and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with original maturities of less than three months.

N. Income recognition
Income, which is stated net of value added tax, comprises the fair value of amounts receivable. Income is recognised as follows:

(i) *Members' subscriptions, market charges and other services*
Members' subscriptions, market charges and other services are recognised in the period for which the service is provided. They are recognised on a basis that reflects the timing, nature and value of the benefits provided.

(ii) *Central Fund contributions*
Central Fund contributions from members underwriting in the year are recognised in the period for which the service is provided.

(iii) *Interest income*
Interest receivable is recognised in the Group income statement on a time apportioned basis using the effective interest method. Any unwinding of discount is recognised as interest income.

(iv) *Dividend income*
Dividend income from equity investments is included in the Group income statement on the ex-dividend date.

(v) *Other income*
Other income is recognised when recoverability is agreed.

O. Insurance premiums
Insurance premiums represent premiums on business incepting during the year, together with adjustments for premiums written in previous accounting periods. Premium income is recognised over the period of cover. Premiums written are stated before deduction of commissions but net of taxes, duties levied on premiums and other similar deductions.

P. Insurance claims
Claims incurred in insurance related activities consist of claims and claims handling expenses paid during the year together with the movement in outstanding claims. Outstanding claims are the estimated final cost of all claims incurred but not settled at the reporting date, including claims incurred but not reported (IBNR). Outstanding claims are discounted. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are reflected within the Group financial statements of later years when differences between provision and subsequent settlement became apparent.

Q. Central Fund claims and provisions
Central Fund claims and provisions (undertakings) are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council for a fixed period, normally one year, and therefore are not deemed to be constructive obligations, except for renewals of those commitments previously granted.
For those corporate members in provisional liquidation, the Council provides a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation. As the supporting undertakings are legally enforceable commitments, an estimate of their value is included within provisions in the Group financial statements and changes during the period are reflected in the Group income statement.

Recoveries in respect of undertakings previously given are credited to the Group income statement when contractually committed to be received.

R. Foreign currency and derivative instruments
Foreign currency translation

(i) *Functional and presentation currency*
The Group financial statements are presented in pound sterling, which is the Society's functional and presentation currency. Items included in the financial statements of each of the Society's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(ii) *Transactions and balances*
Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the reporting date. Translation differences on monetary items are taken to the Group income statement.

Translation differences on non-monetary items measured at fair value are reported as part of the fair value gain or loss and included in the Group statement of comprehensive income.

The results and financial position of overseas Society operations are translated into pound sterling as follows:

- Assets and liabilities are translated at the closing rate at the date of that statement of financial position.
- Income and expenses are translated at the average exchange rate for the year.
- Any resulting exchange differences are recognised in the Group statement of comprehensive income.

The Society enters into forward currency contracts to manage exposures to fluctuation in foreign exchange rates, and to provide a service to the Lloyd's market. Where gains and losses are not expected to be refunded or recovered from the Lloyd's market, these amounts are taken to the Group income statement.

Notes to the Financial Statements
continued

As at 31 December 2014

2. Principal accounting policies continued

R. Foreign currency and derivative instruments continued
The principal exchange rates were:

	2014	2013
US$	1.56	1.66
Can$	1.81	1.76
Euro	1.29	1.20

S. Leases
Payments made under operating leases are charged to the Group income statement on a straight-line basis over the period of the lease. Contractual capital expenditure is provided for over the term of the underlying lease agreement.

T. New standards and interpretations not applied
The International Accounting Standards Board and International Financial Reporting Interpretations Committee have issued the following standards and interpretations relevant to the Society. At the date these financial statements were approved, the following standards were in issue but not effective:

	Effective date (for accounting periods beginning on or after)
International Accounting Standards	
IFRS 15 Revenue from contracts with customers	1 January 2017
IFRS 9 Financial Instruments	1 January 2018

The Council does not consider that the adoption of the above standards will have a material impact on the Society's financial statements.

3. Segmental analysis

Segment information is presented in respect of the Society's business segments. The primary business segments are based on the Society's management and internal reporting structure.

Intra-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Segment information in respect of geographical location is not presented. The Society's main source of income is from the Lloyd's market based primarily in the UK, which includes the recovery of costs in respect of overseas operations. The recovery of overseas operating costs is collected in the UK from the Lloyd's market.

The Society's primary business segments are as follows:

(a) *Corporation of Lloyd's:* the main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The activities of authorised insurance company subsidiary undertakings are included within this business segment. All prior year comparatives have also been restated.

(b) *Lloyd's Central Fund:* these funds comprising the New Central Fund and Old Central Fund are assets of the Society and are held and administered at the discretion of the Council, primarily as funds available for the protection of the policyholders. Unless the approval of members is obtained, the New Central Fund may not be used for the purposes of extinguishing or reducing liabilities which have been reinsured by Equitas.

3. Segmental analysis continued

A. Information by business segment	Note	2014 Corporation of Lloyd's £000	2014 Lloyd's Central Fund £000	2014 Society total £000
Segment income				
Total income	3B	220,725	114,746	335,471
Segment operating expenses				
Central Fund claims and provisions incurred	4	–	(812)	(812)
Central Fund repayment		–	(48,995)	(48,995)
Gross claims incurred		(13,841)	–	(13,841)
Insurance claims recoverable from reinsurers		14,360	–	14,360
Other Group operating expenses:				
Employment (including pension costs)	6	(108,309)	–	(108,309)
Premises		(42,226)	–	(42,226)
Legal and professional	5	(19,711)	(1,023)	(20,734)
Systems and communications		(23,563)	–	(23,563)
Other		(24,276)	(8,152)	(32,428)
Total other Group operating expenses		(218,085)	(9,175)	(227,260)
Total segment operating expenses		(217,566)	(58,982)	(276,548)
Total segment operating surplus		3,159	55,764	58,923
Finance costs				
Deficit on subordinated debt repurchase	17	–	(8,929)	(8,929)
Other	7	(22)	(48,898)	(48,920)
Finance income	7	2,859	90,664	93,523
Realised/unrealised exchange gains on borrowings		–	6,864	6,864
Share of profits of associates	12A	7,577	–	7,577
Segment surplus before tax		13,573	95,465	109,038
Tax charge				(17,543)
Surplus for the year				91,495
Segment assets and liabilities				
Investment in associates		7,958	–	7,958
Other assets		883,684	2,561,688	3,445,372
Segment assets		891,642	2,561,688	3,453,330
Tax assets				19,178
Total assets				3,472,508
Segment liabilities		(807,904)	(962,606)	(1,770,510)
Tax liabilities				(8,681)
Total liabilities				(1,779,191)
Other segment information				
Capital expenditure	9/10	2,212	–	2,212
Depreciation	10	4,244	–	4,244
Amortisation of intangible assets	9	121	–	121
Impairment of long-term assets	10	–	–	–
Average number of UK employees (permanent and contract)		753	–	753
Average number of overseas employees (permanent and contract)		166	–	166
Average number of total employees (permanent and contract)		919	–	919

Average staff numbers shown above are on a full-time equivalent basis.

Notes to the Financial Statements
continued

As at 31 December 2014

3. Segmental analysis continued

A. Information by business segment continued	Note	Restated 2013 Corporation of Lloyd's £000	Restated 2013 Lloyd's Central Fund £000	Restated 2013 Society total £000
Segment income				
Total income	3B	217,231	108,361	325,592
Segment operating expenses				
Central Fund claims and provisions incurred	4	–	(17,758)	(17,758)
Gross claims incurred		(20,326)	–	(20,326)
Insurance claims recoverable from reinsurers		20,385	–	20,385
Other Group operating expenses:				
Employment (including pension costs)	6	(102,487)	–	(102,487)
Premises		(46,099)	–	(46,099)
Legal and professional	5	(16,316)	(686)	(17,002)
Systems and communications		(23,353)	–	(23,353)
Other		(23,202)	(6,742)	(29,944)
Total other Group operating expenses		(211,457)	(7,428)	(218,885)
Total segment operating expenses		(211,398)	(25,186)	(236,584)
Total segment operating surplus		5,833	83,175	89,008
Finance costs				
Deficit on subordinated debt repurchase	17	–	(15,162)	(15,162)
Other	7	(50)	(55,592)	(55,642)
Finance Income	7	1,582	58,777	60,359
Realised/unrealised exchange losses on borrowings		–	(6,126)	(6,126)
Share of profits of associates	12A	6,843	–	6,843
Segment surplus before tax		14,208	65,072	79,280
Tax charge				(13,884)
Surplus for the year				65,396
Segment assets and liabilities				
Investment in associates		7,897	–	7,897
Other assets		876,652	2,296,344	3,172,996
Segment assets		884,549	2,296,344	3,180,893
Tax assets				6,059
Total assets				3,186,952
Segment liabilities		(770,637)	(773,165)	(1,543,802)
Tax liabilities				(7,987)
Total liabilities				(1,551,789)
Other segment information				
Capital expenditure	9/10	4,552	–	4,552
Depreciation	10	4,221	–	4,221
Amortisation of intangible assets	9	358	–	358
Impairment of long-term assets	10	5,279	–	5,279
Average number of UK employees (permanent and contract)		709	–	709
Average number of overseas employees (permanent and contract)		158	–	158
Average number of total employees (permanent and contract)		867	–	867

3. Segmental analysis continued

B. Income	Corporation of Lloyd's 2014 £000	Corporation of Lloyd's 2013 £000	Lloyd's Central Fund 2014 £000	Lloyd's Central Fund 2013 £000	Society total 2014 £000	Society total 2013 £000
Market charges						
Managing agents and syndicates	95,500	89,094	–	–	95,500	89,094
Members and members' agents	11,056	10,814	–	–	11,056	10,814
Total market charges	106,556	99,908	–	–	106,556	99,908
Members' subscriptions	98,820	103,203	–	–	98,820	103,203
Other charges	14,488	13,410	–	–	14,488	13,410
Total operating income	219,864	216,521	–	–	219,864	216,521
Central Fund contributions	–	–	101,971	105,953	101,971	105,953
General insurance net premium income	4	7	–	–	4	7
Other Group income	857	703	12,775	2,408	13,632	3,111
Total income	220,725	217,231	114,746	108,361	335,471	325,592

During the year, members paid to the Corporation of Lloyd's (members' subscriptions) and to the Central Fund (Central Fund contributions from members) at 0.5% of their syndicate forecast written premium (2013: 0.5%). Central Fund contributions in the first three years of membership are charged at 2% of syndicate forecast written premium. The ultimate amounts to be retained by the Corporation of Lloyd's and the Central Fund for 2014 will be based on actual 2014 written premiums, of members, the quantification of which will not be known until 2016. The £102m (Central Fund contribution from members) and £99m (members' subscriptions) included in the Group income statement are based on the present best estimates of the ultimate amounts that will be retained by the Central Fund and the Corporation of Lloyd's respectively.

On 24 September 2014, the Council approved the repayment of 0.25% of premiums written arising from 2012 Year of Account Central Fund contributions, which amounted to £49m.

Other Group income includes foreign exchange gains, market settlement recoveries which represent continuing debt recoveries from the 1996 'Reconstruction and Renewal' settlement and recoveries in respect of undertakings given by the Central Fund.

Notes to the Financial Statements
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4. Central Fund claims and provisions incurred

	Note	2014 £000	2013 £000
Net undertakings granted	19	(800)	(17,758)
Claims payable in respect of individual members		(12)	–
Central Fund claims and provisions incurred		(812)	(17,758)

The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. Undertakings are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council principally on an annual basis and therefore are not deemed constructive obligations (see note 19). Unutilised undertakings as at 31 December 2014 were £6m; the undertakings have been replaced by further annual undertakings given on 25 March 2015 that total £6m, a net increase of £nil. No provision has been included in these financial statements in respect of these further undertakings.

For those corporate members in provisional liquidation, the Council has also provided supporting commitments, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation.

As the supporting undertakings are legally enforceable commitments, an estimate of their value, if applicable, has been included within provisions in the Group financial statements and changes during the year are reflected in the Group income statement, as shown in the table above.

5. Other Group operating expenses

	Note	2014 Corporation of Lloyd's £000	2014 Lloyd's Central Fund £000	2014 Total £000
Other Group operating expenses include:				
Employment costs	6	108,309	–	108,309
Operating lease costs – Lloyd's 1986 building		18,491	–	18,491
Operating lease costs – other		7,414	–	7,414
Professional fees, including legal fees and related costs		17,734	741	18,475
Audit		409	183	592
Other services pursuant to legislation payable to PricewaterhouseCoopers LLP		414	–	414
Actuarial services payable to PricewaterhouseCoopers LLP		85	–	85
Tax services payable to PricewaterhouseCoopers LLP		120	–	120
Information Technology (other) payable to PricewaterhouseCoopers LLP		22	–	22
Other services payable to PricewaterhouseCoopers LLP		927	99	1,026
Total legal and professional fees		19,711	1,023	20,734
Charitable donations		433	–	433

Other services pursuant to legislation payable to PricewaterhouseCoopers LLP includes work undertaken on the Aggregate Accounts, pro forma financial statements and regulatory returns.

5. Other Group operating expenses continued

	Note	Restated 2013 Corporation of Lloyd's £000	2013 Lloyd's Central Fund £000	Restated 2013 Total £000
Other Group operating expenses include:				
Employment costs	6	102,487	–	102,487
Operating lease cost – Lloyd's 1986 building		18,491	–	18,491
Operating lease cost – other		8,903	–	8,903
Professional fees, including legal fees and related costs		14,975	503	15,478
Audit		351	183	534
Other services pursuant to legislation payable to PricewaterhouseCoopers LLP		379	–	379
Actuarial services payable to PricewaterhouseCoopers LLP		84	–	84
Tax services payable to PricewaterhouseCoopers LLP		129	–	129
Information Technology (other) payable to PricewaterhouseCoopers LLP		25	–	25
Other services payable to PricewaterhouseCoopers LLP		373	–	373
Total legal and professional fees		16,316	686	17,002
Charitable donations		1,132	–	1,132

The 2013 comparatives have been restated to reflect the impact on operating lease costs of the change in accounting for contractual capital expenditure and dilapidation cost under fully repairing lease. Further explanation and details of the impact of the restatement are disclosed in Note 1.

6. Employment

	Note	2014 £000	2013 £000
Salaries and wages (including performance-related bonus)		66,290	62,311
Lloyd's Performance Plan (excluding social security costs – note 19)		7,579	8,327
Lloyd's Pension Scheme costs	18	9,274	8,885
Other pension costs		1,745	1,270
Social security costs		6,935	6,706
Severance costs		231	474
Contract and agency staff		5,459	4,759
Other employment costs		10,796	9,755
		108,309	102,487

The emoluments of the Chairman, CEO, members of the Council and Franchise Board are included in the report of the Remuneration Committee on page 105.

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As at 31 December 2014

7. Finance

	Note	2014 Corporation of Lloyd's £000	2014 Lloyd's Central Fund £000	2014 Total £000
Finance costs				
Interest payable on financial liabilities measured at amortised cost		–	(50,262)	(50,262)
Other interest payable and similar charges		(22)	–	(22)
Amortisation of issue costs and discount		–	1,364	1,364
Total interest payable on financial liabilities	3A	(22)	(48,898)	(48,920)
Finance income				
Bank interest received		2,027	3,289	5,316
Dividends received		–	6,828	6,828
Other returns on investments designated at fair value through profit or loss		987	83,682	84,669
Unrealised fair value movement of forward contracts held for trading		(155)	(1,979)	(2,134)
Realised fair value movement of forward contracts held for trading		–	(6,499)	(6,499)
Increase in valuation of loans recoverable designated at fair value through profit or loss		–	5,343	5,343
Total finance income	3A	2,859	90,664	93,523

	Note	2013 Corporation of Lloyd's £000	2013 Lloyd's Central Fund £000	2013 Total £000
Finance costs				
Interest payable on financial liabilities measured at amortised cost		–	(54,565)	(54,565)
Other interest payable and similar charges		(50)	–	(50)
Amortisation of issue costs and discount		–	(1,027)	(1,027)
Total interest payable on financial liabilities	3A	(50)	(55,592)	(55,642)
Finance income				
Bank interest received		821	410	1,231
Dividends received		–	4,626	4,626
Other returns on investments designated at fair value through profit or loss		524	(6,874)	(6,350)
Unrealised fair value movement of forward contracts held for trading		237	28,683	28,920
Realised fair value movement of forward contracts held for trading		–	29,782	29,782
Increase in valuation of loans recoverable designated at fair value through profit or loss		–	2,150	2,150
Total finance income	3A	1,582	58,777	60,359

8. Taxation

A. Tax analysis of charge in the year

	Note	2014 £000	Restated 2013 £000
Current tax:			
Corporation tax based on profits for the year at 21.5% (2013: 23.25%)		(21,117)	(22,023)
Adjustments in respect of previous years		812	2,313
Foreign tax suffered		(900)	(708)
Total current tax		(21,205)	(20,418)
Deferred tax:			
Origination and reversal of timing differences			
Current year		3,268	7,541
Prior year		394	(1,007)
Tax charge recognised in the Group income statement	8B	(17,543)	(13,884)
Analysis of tax charge recognised in the Group statement of comprehensive income:			
Deferred tax:			
Unrealised gain on revaluation of Lloyd's Collection		–	375
Tax credit/(charge) on actuarial loss on pension liabilities:			
Group		9,457	(9,180)
Associates		256	(82)
Tax credit/(charge) recognised in the Group statement of comprehensive income		9,713	(8,887)
Total tax charge		(7,830)	(22,771)

B. Reconciliation of effective tax rate

	Note	2014 %	2014 £000	Restated 2013 %	Restated 2013 £000
Surplus on ordinary activities before tax			109,038		79,280
Corporation tax at 21.5% (2013: 23.25%)		21.50%	(23,443)	23.25%	(18,433)
Expenses not deductible for tax purposes		0.31%	(334)	3.88%	(3,073)
Expenses allowable for tax		–	–	–	–
Utilisation of tax credits		(0.33%)	358	(0.09%)	74
Overseas tax		0.82%	(900)	0.41%	(325)
Other		(1.37%)	1,498	(0.56%)	443
Share of profits of associates		(1.49%)	1,629	(2.01%)	1,591
Deferred tax adjustment relating to the Lloyd's Collection		(2.47%)	2,688	–	–
Deferred tax adjustment relating to change in tax rate		0.25%	(274)	(5.72%)	4,533
Deferred tax prior year adjustments		(0.39%)	423	1.27%	(1,007)
Adjustments in respect of previous years		(0.74%)	812	(2.92%)	2,313
Tax charge	8A	16.09%	(17,543)	17.51%	(13,884)

C. Deferred tax

	Restated 2014 Balance at 1 January £000	2014 Income statement £000	2014 Equity £000	2014 Balance at 31 December £000
Plant and equipment	4,541	479	–	5,020
Loans recoverable	(1,721)	861	–	(860)
Financial investments	(3,417)	(1,168)	–	(4,585)
Pension liabilities	6,485	803	9,457	16,745
Other employee benefits	2,538	54	–	2,592
Other items	(2,367)	2,633	–	266
	6,059	3,662	9,457	19,178

In 2014 there were no unrecognised deductible temporary differences (2013: nil).

Notes to the Financial Statements
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As at 31 December 2014

8. Taxation continued

C. Deferred tax continued

Deferred tax assets and liabilities are measured at the tax rate that will apply to the period when an asset is expected to be realised or a liability is expected to be settled. The applicable rate is that which has been enacted or substantively enacted by the balance sheet date.

The deferred tax asset is based on a corporation tax rate of 20% (2013: 20%). This rate takes effect from 1 April 2015 and was also used in the prior years as the rate at which timing differences were expected to reverse.

	Restated 2013 Balance at 1 January £000	Restated 2013 Income statement £000	2013 Equity £000	Restated 2013 Balance at 31 December £000
Plant and equipment	5,484	(943)	–	4,541
Loans recoverable	(2,968)	1,247	–	(1,721)
Financial investments	(3,978)	561	–	(3,417)
Pension liabilities	9,945	5,720	(9,180)	6,485
Other employee benefits	2,727	(189)	–	2,538
Other items	(2,879)	137	375	(2,367)
	8,331	6,533	(8,805)	6,059

The 2013 comparatives have been restated to reflect the tax impact following the change in accounting for contractual capital expenditure and dilapidation cost under fully repairing lease, and tax impact due to revised accounting for foreign currency translation of overseas operations.

9. Intangible assets – software development

	£000
Cost:	
At 1 January 2013	4,819
Additions	202
Disposals	(187)
At 31 December 2013	4,834
Additions	102
Disposals	(202)
At 31 December 2014	4,734
Amortisation:	
At 1 January 2013	4,553
Charge for the year	358
Disposals	(117)
At 31 December 2013	4,794
Charge for the year	121
Disposals	(199)
At 31 December 2014	4,716
Net book value at 31 December 2014	18
Net book value at 31 December 2013	40

Impairment losses
As part of an assessment of the carrying value of assets, none of the intangible assets were written off in 2014 and 2013. The amortisation charge is included within other Group operating expenses.

10. Plant and equipment

	Furniture and fittings £000	Computer and specialised equipment £000	Other £000	Total £000
Cost:				
At 1 January 2013 as restated	20,203	18,797	71	39,071
Additions	2,497	1,827	26	4,350
Disposals	(2,411)	(1,496)	(7)	(3,914)
At 31 December 2013 as restated	20,289	19,128	90	39,507
Additions	448	1,657	5	2,110
Transfer	601	(601)	–	–
Disposals	(936)	(1,597)	(2)	(2,535)
At 31 December 2014	20,402	18,587	93	39,082
Depreciation and impairment:				
At 1 January 2013 as restated	7,451	11,574	17	19,042
Depreciation charge for the year	1,562	2,641	18	4,221
Impairment losses	5,233	46	–	5,279
Disposals	(1,680)	(1,447)	(1)	(3,128)
At 31 December 2013 as restated	12,566	12,814	34	25,414
Depreciation charge for the year	1,783	2,438	23	4,244
Disposals	(725)	(1,587)	(1)	(2,313)
At 31 December 2014	13,624	13,665	56	27,345
Net book value at 31 December 2014	6,778	4,922	37	11,737
Net book value at 31 December 2013 as restated	7,723	6,314	56	14,093

The 2013 comparatives have been restated following a change in accounting for contractual capital expenditure and dilapidation cost under fully repairing leases. Further explanation and details of the impact of the restatement are disclosed in Note 1.

Impairment losses
Impairment reviews are undertaken annually in which assets within plant and equipment have their recoverable amounts reassessed. As part of this assessment of the carrying value of assets, £nil was written off in 2014 (2013: £5,279,000). The charge is included within other Group operating expenses.

Notes to the Financial Statements
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As at 31 December 2014

11. Investments in subsidiary undertakings and associates

Entity	Nature of business	Proportion of equity capital held
Principal subsidiary undertakings		
Additional Securities Limited	Provision of deposits overseas on behalf of Lloyd's underwriters to comply with local insurance regulations	100%
Centrewrite Limited	Authorised UK insurance company	100%
Lloyd's Insurance Company (China) Limited	Authorised insurance company in China (incorporated in 2007 with a share capital of Rmb 1,000,000,000)	100%
Associates and Joint Venture		
Ins-sure Holdings Limited	Provision of premiums and claims accounting and settlement, policy production and ancillary insurance services principally to the London insurance market	25%
Xchanging Claims Services Limited	Provision of claims and recoveries services	50%
The Message Exchange Limited	Provision of messaging infrastructure to the London insurance market	Limited by Guarantee 25%

The issued share capital of Ins-sure Holdings Limited is £4,000. There are three classes of shares. The Society holds 1,000,000 B shares of 0.1p each that have the right to participate in 25% of any profits available for distribution.

The issued share capital of Xchanging Claims Services Limited is £4,001. There are three classes of shares. The Society holds 1,000 A shares of £1 each and 2,001 C shares of £1 each. The A and C shares have the following rights with respect to dividends:

(a) The C shares carry a right to a fixed cumulative preference dividend of 5% calculated on the nominal capital and a variable participating dividend calculated by reference to trading profits.

(b) The A shares participate in 50% of any profits available for distribution after taking account of the dividend rights outlined above.

The Society entered into a joint venture agreement with International Underwriting Association; London and International Brokers' Association; and Lloyd's Market Association for an equal participation in The Message Exchange Limited (TMEL) which was incorporated on 27 August 2010.

TMEL operates The Exchange – a simple messaging hub provided to the London insurance market to support its efforts to extend the use of electronic processing of business. As at 31 December 2014, the net assets of TMEL have no material impact on the Society accounts.

Restrictions
Lloyd's operates in over 200 territories around the world and uses a number of different operating models depending upon local regulatory requirements. Different countries operate different regulatory regimes and in some cases, these may place certain restrictions on the use of capital and assets which are held within those countries, including capital of Rmb 1,000,000,000 (2013: Rmb 220,000,000) within Lloyd's Insurance Company (China) Limited. Lloyd's proactively manages its international asset base to ensure that any such restrictions have a minimal impact upon the utilisation of capital and investments or upon the operations of the Corporation.

Risks
In addition to the risks which are set out in the Financial Risk Management section on pages 120-121, the Corporation's subsidiary Lloyd's Insurance Company (China) Limited (LICCL) is also subject to the following risks:

- Credit risk: there is a risk that a syndicate may be unable to fulfill its reinsurance obligations, in which case LICCL could potentially be exposed to a loss;
- Regulatory risk: as an overseas underwriting company, LICCL is subject to the requirements of the local regulator and could be subject to penalties if these regulations are not satisfied;
- Management do not consider that LICCL is subject to insurance risk due to the fact that all business is 100% reinsured.

12. Investments

A. Investments in associates and joint venture

	2014 £000	2013 £000
At 1 January	7,897	6,422
Share of operating profits	9,603	8,888
Share of interest income	60	112
Share of tax on profit on ordinary activities	(2,086)	(2,157)
Total share of profits of associates	7,577	6,843
Share of actuarial (loss)/gain on pension liability	(1,192)	354
Share of tax on items taken directly to equity	256	(82)
Dividends received	(6,580)	(5,640)
At 31 December	7,958	7,897

Summary of financial information for associates - 100%:

Summarised statement of financial position

	Ins-sure Holdings Limited As at 31 December		Xchanging Claims Services Limited As at 31 December		The Message Exchange Limited As at 31 December	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Current assets						
Debtors	16,671	15,341	4,992	5,373	44	193
Prepayments and accrued income	–	–	–	–	69	89
Cash at bank and in hand	19,482	16,053	9,051	12,897	62	–
Total current assets	36,153	31,394	14,043	18,270	175	282
Non-current assets						
Tangible fixed assets	9,831	7,545	816	930	–	–
Total non-current assets	9,831	7,545	816	930	–	–
Current liabilities						
Creditors falling due within one year	(21,639)	(18,009)	(9,003)	(13,425)	(175)	(282)
Provision for liabilities	–	(159)	–	–	–	–
Total current liabilities	(21,639)	(18,168)	(9,003)	(13,425)	(175)	(282)
Non-current liabilities						
Creditors falling due after more than one year	–	–	(24)	(43)	–	–
Pension liability	(3,398)	(329)	(386)	(156)	–	–
Total non-current liabilities	(3,398)	(329)	(410)	(199)	–	–
Net assets	20,947	20,442	5,446	5,576	–	–

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As at 31 December 2014

A. Investments in associates and joint venture continued

Summarised statement of comprehensive income

	Ins-sure Holdings Limited For the period ended 31 December		Xchanging Claims Services Limited For the period ended 31 December		The Message Exchange Limited For the period ended 31 December	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Revenues	91,265	88,321	39,171	41,985	1,403	1,257
Operating costs	(63,897)	(64,798)	(32,682)	(35,096)	(1,403)	(1,257)
Operating profit	27,368	23,523	6,489	6,889	–	–
Interest receivable and similar income	328	5	9	113	–	–
Interest payable and similar charges	(45)	–	(33)	(93)	–	–
Other finance income	–	401	–	–	–	–
Profit on ordinary activities before taxation	27,651	23,929	6,465	6,909	–	–
Tax on profit on ordinary activities	(6,108)	(5,860)	(1,437)	(1,737)	–	–
Profit for the financial year	21,543	18,069	5,028	5,172	–	–
Other comprehensive income	(3,426)	1,518	(160)	(216)	–	–
Total comprehensive income	18,117	19,587	4,868	4,956	–	–

B. Lloyd's Collection
The Lloyd's Collection represents various paintings, antiques and artefacts. The collection was valued at £12.5m by Gurr Johns Limited, valuers and fine art consultants in November 2012, on the basis of open market auction value assuming all items are not sold at the same time taking into account the nature, age, condition and quality of each chattel. This resulted in a revaluation gain of £0.5m in 2012. In 2014 and 2013, it has been assessed that there is no change in valuation.

13. Insurance activities

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. Outstanding claims provisions are discounted for the time value of money.

	2014 £000	2013 £000
Insurance claims		
Gross claims:		
Claims paid	(16,982)	(11,360)
Change in provisions for claims	3,141	(8,966)
	(13,841)	(20,326)
Claims recoverable from reinsurers:		
Claims recovered from reinsurers	16,981	11,250
Change in reinsurance contract assets	(2,621)	9,135
	14,360	20,385

Centrewrite Limited
Centrewrite Limited's principal activities in 2014 were to reinsure individual members of Lloyd's participations on syndicates for underwriting years of account which have not been closed and to provide reinsurance to close to syndicates with no successor syndicate. Centrewrite Limited ceased to offer Lloyd's Members' Estate Protection Plan in 2012.

Lloyd's Insurance Company (China) Limited
Lloyd's Insurance Company (China) Limited is a wholly owned subsidiary undertaking of the Society of Lloyd's. The company's principal activity during 2014 was the reinsurance of non-life business in the China insurance market and direct non-life insurance in the Shanghai municipality. Lloyd's syndicates participate in LICCL's business by means of retrocession agreements which allow a 100% risk transfer.

13. Insurance activities continued

Insurance contract liabilities for Centrewrite Limited and Lloyd's Insurance Company (China) Limited may be analysed as follows:

	2014 Insurance contract liabilities £000	2014 Reinsurer's share of liabilities £000	2014 Net £000	2013 Insurance contract liabilities £000	2013 Reinsurer's share of liabilities £000	2013 Net £000
Provision for claims reported	14,838	(14,838)	–	16,643	(16,311)	332
Provision for IBNR claims	15,768	(15,741)	27	14,974	(14,759)	215
	30,606	(30,579)	27	31,617	(31,070)	547
Unearned premiums	13,365	(13,365)	–	7,223	(7,223)	–
Insurance contract liabilities	43,971	(43,944)	27	38,840	(38,293)	547

The movement in provision for insurance claims for Centrewrite Limited and Lloyd's Insurance Company (China) Limited can be analysed as follows:

	2014 Insurance contract liabilities £000	2014 Reinsurer's share of liabilities £000	2014 Net £000	2013 Insurance contract liabilities £000	2013 Reinsurer's share of liabilities £000	2013 Net £000
At 1 January	31,617	(31,070)	547	22,603	(21,887)	716
Claims incurred/(released)	13,841	(14,360)	(519)	20,326	(20,385)	(59)
Claims paid (see below)	(16,982)	16,981	(1)	(11,360)	11,250	(110)
Effect of exchange rates	2,130	(2,130)	–	48	(48)	–
At 31 December	30,606	(30,579)	27	31,617	(31,070)	547

Claims incurred consist of claims and claims handling expenses paid during the year, together with the movement in outstanding claims. Full provision is made, on the basis of available information, for the estimated ultimate cost of claims notified but not settled as at the date of the statement of financial position, after taking into account handling costs and settlement trends. A provision for claims incurred but not notified is also established as at that date on a statistical basis. The provision also reflects claims settlement expenses and anticipated reinsurance and other recoveries. The provision for outstanding claims is based on information available at the reporting date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are dealt with in the Group income statements of later years.

Claims development table

The table below shows the development of claims over a period of time on a gross basis for Centrewrite Limited and Lloyd's Insurance Company (China) Limited. The claims development table shows the cumulative incurred claims, including both notified and IBNR claims for each successive year, together with cumulative claims at the current reporting date.

	2010 and prior £000	2011 £000	2012 £000	2013 £000	2014 £000	Total £000
At end of underwriting year	98,927	21,660	13,194	25,097	17,842	
One year later	99,957	24,126	13,776	24,389		
Two years later	88,944	20,304	12,402			
Three years later	86,909	19,916				
Four years later	79,371					
Current estimate of cumulative claims	79,371	19,916	12,402	24,389	17,842	
Cumulative payments to date	(77,859)	(18,678)	(9,780)	(14,188)	(2,809)	
Insurance contract liabilities	1,512	1,238	2,622	10,201	15,033	30,606

Due to continuing decline of insurance activities for Centrewrite Limited and the fully reinsured liabilities of LICCL, the Society has not prepared claims development over a period of time on a net basis.

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As at 31 December 2014

14. Loans recoverable

	2014 £000	2013 £000
At 1 January	43,499	45,138
Recoveries during the year	(2,403)	(3,789)
Fair value movements recognised during the year	5,343	2,150
At 31 December	46,439	43,499

The Society's loans recoverable are categorised as fair value Level 3 for disclosure purposes (refer to Note 22). All fair value movements are recognised as finance income or finance costs in the Group income statement and relate solely to the revaluation of hardship and LFAA assets.

15. Financial investments

	Note	2014 £000	2013 £000
Statutory insurance deposits	15A	477,494	527,340
Other investments	15B	2,494,897	2,265,658
		2,972,391	2,792,998

A. Statutory insurance deposits

	2014 Securities £000	2014 Deposits £000	2014 Total £000
Market value at 1 January	262,423	264,917	527,340
Additions at cost	874,160	233,244	1,107,404
Disposal proceeds	(899,745)	(251,594)	(1,151,339)
(Deficit)/surplus on the sale and revaluation of investments	(11,542)	5,631	(5,911)
Market value at 31 December	225,296	252,198	477,494

	2013 Securities £000	2013 Deposits £000	2013 Total £000
Market value at 1 January	92,640	415,823	508,463
Additions at cost	900,694	49,687	950,381
Disposal proceeds	(728,731)	(192,397)	(921,128)
Deficit on the sale and revaluation of investments	(2,180)	(8,196)	(10,376)
Market value at 31 December	262,423	264,917	527,340

	2014 Cost £000	2014 Valuation £000	2013 Cost £000	2013 Valuation £000
Analysis of government securities at year end:	228,887	225,296	266,178	262,423

Finance is arranged by advances from syndicates in the Lloyd's market. These advances are renewed annually. By agreement with the lenders, investment returns earned on these assets are paid, in appropriate proportions, to the lenders. In this way, the Society avoids any risk arising from a mismatch between borrowing and lending terms. Book cost is stated at historical exchange rates; market value is quoted at year end exchange rates.

The provision of funds by members in respect of the establishment and maintenance of overseas deposits is a condition of permission to underwrite insurance business at Lloyd's.

B. Other investments

	2014 Corporation of Lloyd's £000	2014 Central Fund £000	2014 Total £000
Market value at 1 January	108,710	2,156,948	2,265,658
Additions at cost	6,580	2,110,002	2,116,582
Increase in short-term deposits	94,296	2,702	96,998
Disposal proceeds	(71,927)	(1,989,304)	(2,061,231)
(Deficit)/surplus on the sale and revaluation of investments	(222)	77,112	76,890
Market value at 31 December	137,437	2,357,460	2,494,897
Analysis of securities at year end:			
Listed securities			
Fixed interest:			
Government	–	806,012	806,012
Corporate securities	–	679,839	679,839
Emerging markets	–	68,859	68,859
High yield	–	49,192	49,192
	–	1,603,902	1,603,902
Equities:			
Global	–	451,092	451,092
Emerging markets	–	48,311	48,311
	–	499,403	499,403
Total listed securities	–	2,103,305	2,103,305
Unlisted securities:			
Hedge funds	–	134,855	134,855
Commodities	–	–	–
Loan investments	–	77,080	77,080
Short-term deposits	137,437	22,220	159,657
Security deposits (see below)	–	20,000	20,000
Total unlisted securities	137,437	254,155	391,592
Market value	137,437	2,357,460	2,494,897
Analysis of corporate securities:			
AAA	–	221,693	221,693
AA	–	164,461	164,461
A	–	247,632	247,632
Other	–	46,053	46,053
	–	679,839	679,839

Notes to the Financial Statements
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As at 31 December 2014

15. Financial investments continued

B. Other investments continued

	2013 Corporation of Lloyd's £000	2013 Central Fund £000	2013 Total £000
Market value at 1 January	86,021	2,247,571	2,333,592
Additions at cost	–	2,793,158	2,793,158
Decrease in short-term deposits	35,717	10,322	46,039
Disposal proceeds	(11,510)	(2,867,913)	(2,879,423)
Deficit on the sale and revaluation of investments	(1,518)	(26,190)	(27,708)
Market value at 31 December	108,710	2,156,948	2,265,658
Analysis of securities at year end:			
Listed securities			
Fixed interest:			
Government	56,980	567,323	624,303
Corporate securities	8,589	881,486	890,075
Emerging markets	–	70,975	70,975
High yield	–	37,269	37,269
	65,569	1,557,053	1,622,622
Equities:			
Global	–	359,402	359,402
Emerging markets	–	46,018	46,018
	–	405,420	405,420
Total listed securities	65,569	1,962,473	2,028,042
Unlisted securities:			
Hedge funds	–	119,152	119,152
Commodities	–	35,805	35,805
Short-term deposits	43,141	19,518	62,659
Security deposits (see below)	–	20,000	20,000
Total unlisted securities	43,141	194,475	237,616
Market value	108,710	2,156,948	2,265,658
Analysis of corporate securities:			
AAA	3,637	381,040	384,677
AA	4,647	255,144	259,791
A	305	208,286	208,591
Other	–	37,016	37,016
	8,589	881,486	890,075

Security deposits
Tutelle Limited
In 1996 the Council set aside, under a Lloyd's special account, £20m of the 'Old' Central Fund to secure the Society's obligations under staff indemnities and certain indemnities which have been given by Lloyd's to certain individuals and advisers in respect of the 'Reconstruction and Renewal' plan. These include members of the Reserve Group, directors and officers of Equitas, members of the Council, Lloyd's Regulatory Board, Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees and Corporation staff.

Unless and until there is any default under the security documentation, interest earned on the trust fund is paid to the 'Old' Central Fund. The security was deposited for an initial period of two years and the Council exercised its discretion to renew this in June 1998. The Council further amended the period of the deposit, in November 1998, so that the security could only be released if the Council was satisfied that there was no reasonable prospect of a claim being made under these indemnities. Tutelle's position is under biennial review and, having been reviewed in July 2014, will be reviewed again in July 2016. The security may continue for a period of up to 80 years. Any of the funds remaining after this period will be repaid to the 'Old' Central Fund.

16. Cash and cash equivalents

	2014 £000	2013 £000
Cash at banks	83,406	63,958
Short-term deposits	178,181	87,316
	261,587	151,274

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Society and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £262m (2013: £151m).

17. Subordinated notes and perpetual subordinated capital securities

	2014 £000	2013 £000
Details of loans payable wholly or partly after more than five years:		
6.875% subordinated notes of £4.5m maturing 17 November 2025 (Sterling 2004 Notes)	4,545	153,241
5.625% subordinated notes redeemed on 17 November 2014 (Euro 2004 Notes)	–	177,876
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	500,000	–
7.421% perpetual subordinated capital securities of £392m redeemable on 21 June 2017	392,013	392,013
	896,558	723,130
Less issue costs to be charged in future years	(7,160)	(2,297)
Less discount on issue to be unwound in future years	(3,915)	(314)
	885,483	720,519

Subordinated notes
The Sterling 2004 Notes mature on 17 November 2025, although the Society may redeem them on 17 November 2015 and 17 November 2020. In the event that the Society does not redeem the Sterling Notes on 17 November 2015, the rate of interest payable will be the rate per annum which is the aggregate of the Gross Redemption Yield on the relevant Benchmark Gilt (a UK government security having a maturity date on or nearest to the next reset date) plus a margin of 3.07%.

During 2014, the Society of Lloyd's repurchased £148,696,000 (2013: £179,962,000) of its 2004 subordinated notes at a cost of £157,625,000 (2013: £195,124,000). The Society additionally paid accrued interest on the purchased securities. The loss on the repurchase was £8,929,000 (2013: £15,162,000).

The Euro 2004 Notes were redeemed on 17 November 2014.

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

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

Notes to the Financial Statements
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As at 31 December 2014

17. Subordinated notes and perpetual subordinated capital securities continued

Subordinated debt issued in 2007
The perpetual subordinated capital securities ('capital securities') are perpetual securities and have no fixed redemption date. However, they are redeemable in whole on 21 June 2017 at the option of the Society or on any interest payment date thereafter provided certain conditions have been met by the Society. The capital securities bear interest at a rate of 7.421% per annum until 20 June 2017, payable annually in arrears on 21 June in each year, and thereafter at a rate per annum reset semi-annually of 2.41% per annum above the London interbank offered rate for six-month sterling deposits, payable semi-annually in arrears on the interest payment dates falling on 21 June and 21 December in each year.

The capital securities are subordinated obligations of the Society. Upon the occurrence of any winding-up proceedings of the Society, the claims of the holders of the capital securities will rank junior to all other claims of creditors of the Society (including any creditor who is the holder of any of the Sterling Notes issued by the Society in 2004) except for those creditors having claims which rank equally with or junior to the claims of the holders of the capital securities. The claims of the holders of the capital securities will also rank junior to any payments made to discharge the liabilities of a member in connection with insurance business carried on at Lloyd's by that member and also to the claims of any person in respect of whom a New Central Fund undertaking has been made. However, in the event of a winding-up of the Society, the claims of the holders of the capital securities rank senior to the distribution of any central assets to members of Lloyd's generally (other than payments made to members in their capacity as senior creditors of the Society).

18. Pension schemes

Lloyd's operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme which is a defined benefit scheme. Other schemes have been established for certain employees based overseas.

These schemes are generally funded by the payment of contributions to separately administered funds.

Defined benefit and contribution plans
The pension deficits of the schemes at 31 December 2014 are as follows:

	2014 £000	2013 £000
Schemes in deficit:		
Lloyd's Pension Scheme	(83,723)	(32,417)
Overseas pension schemes	(2,322)	(1,555)
	(86,045)	(33,972)

The amounts charged to the Group income statement and Group statement of comprehensive income, in respect of defined benefit plans and defined contribution plans, are as follows:

	2014 £000	2013 £000
Group income statement:		
Lloyd's Pension Scheme	9,274	8,885
Overseas pension schemes	1,224	1,180
Other pension contributions	521	90
	11,019	10,155
Group statement of comprehensive income:		
Lloyd's Pension Scheme	47,284	(15,004)
Overseas pension schemes	780	(194)
	48,064	(15,198)

The Lloyd's Pension Scheme
The Lloyd's Pension Scheme is a defined benefit pension scheme with assets held in a separately administered fund. The Scheme provides pensions to members on retirement, as well as benefits on the death of members. The Scheme operates in accordance with the Scheme's Trust Deed and Rules and relevant legislation. A Board of Trustees manage and administer the Scheme; they are primarily responsible for ensuring that members are paid the correct benefits at the correct time, and that there are sufficient Scheme assets to pay benefits as they fall due.

The Scheme was originally set up as a final salary pension scheme (i.e. benefits for employed members were linked to their latest salary), a normal retirement age of 60 and an enhanced benefit section for senior managers. In recent years, in order to mitigate exposure to pension scheme liabilities, several changes have been made to the Lloyd's Pension Scheme.

- In February 2005, the senior management section of the Scheme was closed to new entrants and the Normal Retirement Age (NRA) for all new joiners was increased from 60 to 65.

- The final salary scheme was closed to new joiners at the end of June 2006. New entrants from July 2006 were eligible to join the Lloyd's Pension Scheme but accrue benefits on a career average basis (where benefits are based on their average salary rather than final salary).

- In April 2013, Lloyd's made some further changes to its pension arrangements. The career average (i.e. CARE) section of the scheme was closed to new joiners from April 2013, and to existing hires from June 2013 (existing employed members of each section continue to accrue benefits). After these dates, employees are eligible to join the Lloyd's Group Personal Pension Plan which is administered by Aviva. The amount charged to the Group income statement in respect of Lloyd's Group Personal Pension Plan is £0.5m (2013: £0.1m).

Scheme contributions and funding valuation
UK legislation requires the funding position of the Scheme to be assessed at least every three years by an independent qualified actuary. Contributions are paid to provide for the cost of benefit accrual and to meet any funding deficit. Any funding deficit or surplus is typically amortised over a period. Contributions are made at the funding rates and assumptions recommended by the actuary, and agreed between the Trustees and Lloyd's.

The last completed formal actuarial valuation of the Scheme was carried out by Towers Watson, actuaries and consultants, as at 30 June 2013 using the projected unit credit method. The total market value of the Scheme's assets at the date of the 2013 valuation was £568m, and the total value of accrued liabilities was £559m showing a surplus of £9m. These figures exclude both liabilities and the related assets in respect of money purchase AVCs.

Employee contributions of 5% of pensionable earnings (or 10% of pensionable earnings for members of the senior management section) have been introduced from July 2006. Normally, instead of making an employee contribution, employees make a salary sacrifice of the appropriate percentage of their salary and Lloyd's makes an additional employer contribution of the same amount.

Following the 2013 actuarial valuation, employer contributions to meet the cost of future accrual as a percentage of salaries are 24.8% for final salary members with an NRA of 60, 15.4% for final salary members with an NRA of 65 and 8.8% for members accruing benefits on a career average basis.

Members of the Lloyd's Group Personal Pension Plan can elect their contribution rate (payable via salary sacrifice) and can change this at any time.

The contribution structure is:

Employee	Lloyd's	Total
3%	5%	8%
4%	6%	10%
5%	7%	12%
6%	8%	14%

Lloyd's contribution is capped at 8% of salary, although individuals can elect a higher amount than 6% should they wish.

Notes to the Financial Statements
continued

As at 31 December 2014

18. Pension schemes continued

Discretionary pension increases – treatment for funding purposes
There are no guaranteed increases in payment for pensions accrued before 6 April 1997. In 2003, Lloyd's instructed Towers Watson not to allow for such increases in calculating the Scheme's liabilities for future actuarial funding valuations. Such increases have always been payable at the discretion of Lloyd's and will continue to be considered on the basis of affordability, but are not taken into account by the actuary in determining the funding level.

Information about the risks of the Scheme to Lloyd's
The ultimate cost of the Scheme to Lloyd's will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and as such the cost of the Scheme may be higher (or lower) than disclosed. In general, the risk to Lloyd's is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to Lloyd's is higher than expected. This could result in higher contributions required from Lloyd's and a higher deficit disclosed. This may also impact Lloyd's ability to grant discretionary benefits or other enhancements to members. More specifically, the assumptions not being borne out in practice could include:

– The return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the required contribution from Lloyd's.
– Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities.
– A decrease in corporate bond yields will increase the Scheme's liabilities, although this will be partially offset by an increase in the value of the Scheme's bond assets.
– The majority of the Scheme's assets are linked to inflation, and higher inflation will lead to higher liabilities.
– Unanticipated future changes in mortality patterns leading to an increase in the life expectancy for members, resulting in higher liabilities. Future mortality rates cannot be predicted with certainty.

The Scheme's investment strategy
The Scheme's current target investment strategy is to invest broadly 50% in return-seeking assets (equities, property and infrastructure) and 50% in matching assets (index-linked gilts and corporate bonds). This strategy reflects the Scheme's liability profile and the Trustees' and Lloyd's attitude to risk. As the Scheme matures, the Trustees and Lloyd's expect to gradually reduce the proportion allocated to return-seeking assets and increase the proportion allocated to matching assets.

The current allocation is around 60% return-seeking assets and 40% bonds. The Trustees are aiming to move 10% of the assets into bonds to better match the funding liabilities in the future.

Principal actuarial assumptions in respect of IAS 19
The demographic assumptions which are the most financially significant are those relating to the life expectancy of retired members. The life expectancy assumptions for the purposes of the IAS 19 valuation as at 31 December 2014 are as applied in the actuarial funding valuation as at 30 June 2013. These are 110% of SAPs light tables for males and females, with allowance for future improvements in line with CMI 2012 core projections with 1.5% per annum trend improvement.

These assumptions are equivalent to expected longevity at age 60 approximately as follows:

– For pensioners currently aged 60: ranging from 29 years to 30 years (2013: 29 years to 30 years).
– For non-pensioners currently aged 45: ranging from 30 years to 32 years (2013: 30 years to 32 years).

The other major financial assumptions used by the actuary as at 31 December 2014 for the purposes of IAS 19 were:

	2014 % per annum	2013 % per annum	2012 % per annum	2011 % per annum	2010 % per annum
General salary and wage inflation	4.1%	4.4%	4.0%	4.1%	4.5%
Rate of increase in pensions in payment					
Pre 6 April 1997 (in excess of GMPs)	–	–	–	–	–
6 April 1997 to 5 April 2005	3.0%	3.2%	3.0%	3.1%	3.5%
Post 5 April 2005	2.2%	2.3%	2.5%	2.5%	2.5%
Increases to final salary deferred pensions:					
Benefits accrued before April 2009	2.1%	2.4%	2.2%	2.1%	3.0%
Benefits accrued from April 2009	2.1%	2.4%	2.2%	2.1%	2.5%
CARE revaluation in service and in deferment, and increase in payment	2.2%	2.3%	2.2%	2.1%	2.5%
Discount rate	3.7%	4.4%	4.5%	4.9%	5.5%
Price inflation – Retail Price Inflation (RPI)	3.1%	3.4%	3.0%	3.1%	3.5%
– Consumer Price Inflation (CPI)	2.1%	2.4%	2.2%	2.1%	3.0%

An allowance is made for members commuting 20% (2013: 20%) of their pension on retirement using the factors in use at the respective date.

For IAS 19 purposes, Lloyd's recognises the cost of discretionary increases to pre 6 April 1997 benefits in payment when there is a constructive liability to make such increases. Lloyd's provided £10.0m in 2007 and a further £20.0m in 2011 to meet the expected cost of future discretionary increases. This amount has been notionally segregated from the Scheme's other assets (the 'notional fund') and its investment performance will be tracked on the assumption that it is invested in the same way as the Scheme's other assets. The notional fund will be used to facilitate the award of future discretionary pension increases when Lloyd's carries out its annual review of pensions in accordance with the Scheme's Definitive Trust Deed. As long as there is a notional fund set aside for this purpose, discretionary increases will continue to be made. As at 31 December 2014 the value of the notional fund was £28.9m (2013: £31.0m).

Sensitivity of pension obligation to changes in assumptions
The actuarial valuation of liabilities under IAS 19 is particularly sensitive to changes in market conditions.

A change of 1% per annum in the discount rate as at 31 December 2014 would result in a change to the pension liabilities at that date of around 20%, or approximately £150m.

A change of 1% per annum in the assumption for future inflation (both RPI and CPI) as at 31 December 2014, which would change future expectations of salary increases, pension increases and deferred revaluation, would result in a change to the pension liabilities at that date of around 10%, or approximately £75m.

A change in the mortality assumptions could have a significant impact on the pension liability. For instance, if members aged 65 were instead expected to live for one year longer, with all other members' life expectancies increasing by a proportionate amount, then the liability as at 31 December 2014 would be 2% higher.

Notes to the Financial Statements
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As at 31 December 2014

18. Pension schemes continued

Amounts for the current and previous years were:

Asset/(liability) analysis of the Scheme	2014 Fair value £000	2013 Fair value £000	2012 Fair value £000	2011 Fair value £000	2010 Fair value £000
Bonds					
Corporate bonds	131,291	89,233	93,573	87,700	79,963
Index-linked gilts	127,716	88,038	90,948	93,593	81,843
Equities					
UK equities	57,501	67,997	56,459	52,014	55,673
Overseas (excluding UK) equities	254,531	287,648	234,198	199,884	218,731
Property	76,661	65,088	61,277	57,911	24,993
Infrastructure	12,090	9,850	8,748	8,644	8,504
Cash and net current assets	19,803	25,633	32,184	38,727	46,249
Total market value of assets	679,593	633,487	577,387	538,473	515,956
Actuarial value of Scheme liabilities	(763,316)	(665,904)	(620,621)	(562,152)	(490,043)
(Deficit)/surplus in the Scheme	(83,723)	(32,417)	(43,234)	(23,679)	25,913
Irrecoverable surplus (effect of asset ceiling)	–	–	–	–	–
Net defined benefit (liability)/asset	(83,723)	(32,417)	(43,234)	(23,679)	25,913

All of the Scheme's assets are quoted in an active market. The Scheme is not currently invested in any of Lloyd's assets.

Approximately 97% of the Scheme's liabilities relate to final salary members and 3% relates to CARE members.

Changes in the present value of the defined benefit obligations are:

	2014 £000	2013 £000
Actuarial value of Scheme liabilities at 1 January	665,904	620,621
Interest cost on Pension Scheme liabilities	28,849	27,470
Current service cost (net of employee contributions)	8,013	7,102
Employee contributions	2,258	2,527
Benefits paid	(21,574)	(21,250)
Experience losses arising in Scheme liabilities	767	8,432
Change in assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	–	(1,225)
Financial assumption change	79,099	22,227
Actuarial value of Scheme liabilities at 31 December	763,316	665,904

Changes in fair value of plan assets were:

	2014 £000	2013 £000
Fair value of Scheme assets at 1 January	633,487	577,387
Expected return on Pension Scheme assets	27,588	25,687
Employer contributions		
Normal	5,252	4,698
Special	–	–
Employee contributions	2,258	2,527
Benefits paid	(20,504)	(20,360)
Actuarial gain on Scheme assets	32,582	44,438
Administrative expenses	(1,070)	(890)
Fair value of Scheme assets at 31 December	679,593	633,487

Lloyd's expects to contribute approximately £5.2m in normal contributions to the pension scheme in 2015.

Analysis of the amount recognised in the Group statement of comprehensive income

	2014 £000	2013 £000
Experience losses arising on Scheme liabilities	(767)	(8,432)
Changes in the assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	–	1,225
Financial assumption change	(79,099)	(22,227)
Actuarial loss arising during period	(79,866)	(29,434)
Return on Fund assets greater than discount rate	32,582	44,438
Change in irrecoverable surplus	–	–
Remeasurement effects recognised in the Group statement of comprehensive income	(47,284)	15,004

Analysis of the amount charged to the Group income statement (recognised in other Group operating expenses)

	2014 £000	2013 £000
Current service cost	8,013	7,102
Net interest on net defined benefit liability	1,261	1,783
Total operating charge	9,274	8,885

Approximately 64% of the service cost for 2014 relates to final salary members and 36% relates to CARE members.

Maturity profile of Defined Benefit Obligation
The Scheme is maturing over time with 32% of the members in the Scheme at 30 June 2014 being retired members – the approximate duration of the Scheme's liabilities is around 20 years. The expected benefit payments from the Scheme over the next few years is as follows.

	£m
Expected benefit payments during year ending 31-Dec-15	21.1
Expected benefit payments during year ending 31-Dec-16	21.7
Expected benefit payments during year ending 31-Dec-17	22.5
Expected benefit payments during year ending 31-Dec-18	23.3
Expected benefit payments during year ending 31-Dec-19	24.2
Expected benefit payments during period 01-Jan-20 to 31-Dec-24	132.1
Expected benefit payments during period 01-Jan-25 to 31-Dec-29	167.0
Expected benefit payments from 01-Jan-30 onward	1,358.9

Overseas pension schemes
Lloyd's operates a number of defined benefit schemes for qualifying employees based overseas. The actuarial valuations of these pension schemes at 31 December 2014 resulted in a deficit of £2.3m (2013: £1.6m).

Development of net balance sheet position	31 December 2014 £000	31 December 2013 £000
Value of assets	1,950	1,807
Actuarial value of scheme liabilities	(4,272)	(3,362)
Deficit in the scheme	(2,322)	(1,555)
Net defined benefit liability	(2,322)	(1,555)

The total expense recognised in other operating expenses of £0.1m (2013: £0.1m) represents the related current service cost of these schemes. An actuarial loss of £0.8m has been recognised in the Group statement of comprehensive income (2013: gain of £0.2m).

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As at 31 December 2014

18. Pension schemes continued

Defined contribution plans
Lloyd's operates a number of defined contribution retirement benefit schemes for qualifying employees based overseas. The assets of the schemes are held separately from those of Lloyd's in funds under the control of the trustees.

In some countries, employees are members of state-managed retirement benefit schemes. Lloyd's is required to contribute a specified percentage of payroll costs to fund these benefits. The only obligation of Lloyd's with respect to the retirement benefit scheme is to make the specified contributions.

The total expense recognised in the Group income statement of £0.5m (2013: £0.1m) represents contributions payable to these schemes by Lloyd's at rates specified in the rules of these schemes.

19. Provisions

	2014 Undertakings given to insolvent members £000	2014 Income Assistance Scheme £000	2014 Lloyd's Performance Plan £000	2014 Lease Cost Provision £000	2014 Restructuring £000	2014 Run off £000	2014 Total £000
Balance at 1 January	10,859	3,468	9,154	17,166	–	–	40,647
Charged in the year	800	–	7,579	2,683	–	520	11,582
Utilised in the year	(5,800)	(413)	(7,292)	(4,599)	–	(95)	(18,199)
Balance at 31 December	5,859	3,055	9,441	15,250	–	425	34,030

	2013 Undertakings given to insolvent members £000	2013 Income Assistance Scheme £000	2013 Lloyd's Performance Plan £000	Restated 2013 Lease Cost Provision £000	2013 Restructuring £000	2013 Run off £000	Restated 2013 Total £000
Balance at 1 January	14,028	3,855	7,404	14,737	2,056	–	42,080
Charged/(released) in the year	17,758	–	8,327	3,252	(89)	–	29,248
Utilised in the year	(20,927)	(387)	(6,577)	(823)	(1,967)	–	(30,681)
Balance at 31 December	10,859	3,468	9,154	17,166	–	–	40,647

Provision for undertakings given to insolvent members
The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls.

The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. For those corporate members in provisional liquidation, the Council has also provided a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding-up commencing on the date of the provisional liquidation.

	Note	2014 £000	2014 £000	2013 £000	2013 £000
Provisions for amounts payable at 1 January			10,859		14,028
Undertakings granted in the year	4		800		17,758
Analysis of paid undertakings by member:					
Flectat Limited		–		(3,527)	
Ebury Underwriting Limited		(2,800)		(8,400)	
Hermanus Underwriting Limited		(3,000)		(9,000)	
Paid during the year			(5,800)		(20,927)
Undertakings given to insolvent members at 31 December			5,859		10,859

Income support schemes

The Income Assistance Scheme was effective from 1 January 2010 and replaced both the Hardship Income Top-up Scheme and the Income and Housing Support Scheme. The Income Assistance Scheme is permanent and replaces the discretionary nature of the previous schemes and guarantees ongoing payment of income assistance to eligible members of the previous schemes until the full undertaking has been utilised, other than in the event that Lloyd's faces severe financial stress.

Lloyd's Performance Plan (LPP)

The Society introduced a performance plan for all employees, effective from 1 January 2008 that is related to the results of the Lloyd's market. Details of the plan are outlined in the report of the Remuneration Committee on pages 107-109. Included within the charge for the year and provision utilised are National Insurance contributions of £1.1m (2013: £1.0m).

Lease cost provision

The lease cost provision represents the Society's obligations in respect to the contractual capital expenditure and dilapidation cost under fully repairing leases. The amount has been restated in 2013 following a change in accounting for contractual capital expenditure and dilapidation cost as disclosed in Note 1.

Restructuring provisions

The provision was mainly in respect of obligations towards former employees arising from the restructuring programme.

Run-off provision

The run-off provision is in relation to Centrewrite Limited and represents costs associated with running-off the business and obligations that have been incurred which are recognised to the extent they are not expected to be recovered by future profits or investment income of the operation. This was previously presented as part of insurance technical provisions.

20. Trade and other payables

	2014 £000	Restated 2013 £000
Due within one year:		
Trade and other creditors	63,368	48,132
Insurance and reinsurance payables	45,891	33,147
Members' subscriptions and contributions repayable	51,906	26,804
Taxation and social security	2,198	1,962
Arbitration awards	1,988	2,558
Interest payable on subordinated loan notes	19,640	18,147
	184,991	130,750

21. Trade and other receivables due within one year

	2014 £000	2013 £000
Due within one year:		
Trade (net of allowance for impairment)	5,175	3,230
Insurance and reinsurance receivables	15,903	12,759
Interest receivable	14,478	16,981
Taxation and social security	1,368	1,055
Overseas office deposits	3,135	1,464
Amounts due from underwriters	2,595	2,074
Other receivables	10,224	2,132
	52,878	39,695

Notes to the Financial Statements
continued

As at 31 December 2014

22. Financial instruments

Explanations of the Society's financial instrument risk management objectives, policies and strategies are set out in the discussion of the Society's financial risk management and treasury policies on pages 120-121 of the Financial Review.

Fair values and credit risk
The methods and assumptions used in estimating the fair value of financial instruments are detailed in note 2F on pages 134-135.

The fair value (based on the quoted offer prices) of subordinated debt is £970.0m (2013: £793.8m) against a carrying value measured at amortised cost of £885.5m (2013: £720.5m). All other financial instruments are either held at fair value or at an amount that approximates fair value.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, in the Group statement of financial position. Exposures under guarantees entered into by the Society are detailed in note 27.

Impairment losses
Trade receivables
The ageing of trade receivables as at 31 December 2014 was as follows:

	2014 Gross £000	2014 Impairment £000	2014 Net £000	2013 Gross £000	2013 Impairment £000	2013 Net £000
Not past due	5,150	–	5,150	2,834	–	2,834
Past due 31-120 days	6	–	6	316	–	316
More than 120 days	114	(95)	19	402	(322)	80
Total	5,270	(95)	5,175	3,552	(322)	3,230

The Society's normal credit terms are 30 days. Receivables of more than 120 days represent amounts due from members no longer underwriting in respect of Society charges.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2014 £000	2013 £000
Balance at 1 January	322	346
Additional allowances during the year charged to the Group income statement	22	46
Allowances released during the year credited to the Group income statement	(88)	(16)
Recoveries during the year	(161)	(54)
Balance at 31 December	95	322

Sensitivity analysis
Foreign currency exposure
Currency risk is the risk that the sterling value of the Society's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Society's exposure to the risk of changes in the foreign exchange rates relates primarily to retranslating foreign currency subordinated notes, revaluation of loans recoverable and changes in the fair value of foreign currency denominated investments and forward contracts.

Debt securities sensitivities
The value of the Society's investments in debt securities is affected by changes in the level of yields, as determined by the financial markets.

As at 31 December 2014, a consistent increase of 100 basis points in the yields applicable to all relevant securities would have reduced the surplus before tax by approximately £33m (2013: £42m). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ.

Equity price risk
Equity price risk is the risk that the market values of equity investments fall. At 31 December 2014, a 15% fall in the value of all the Society's equity investments would have reduced the surplus before tax by approximately £75m (2013: £61m). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ.

Foreign exchange risk
The majority of foreign exchange exposures arising from investments denominated in foreign currencies are managed via a foreign exchange hedging programme. However, some net exposures to foreign currencies remain and the sterling value of the Society's investments may be impacted by movements in exchange rates relating to these exposures.
At 31 December 2014, a 10% rise in the value of sterling, against all other currencies, would have reduced the surplus before tax by £24m (2013: £17m). This analysis assumes that all other variables remain constant. In practice, actual results may differ.

Liquidity risk
The table below summarises the maturity profile of the Society's non-derivative financial liabilities as at 31 December 2014 based on undiscounted contractual cash flows:

As at 31 December 2014	Carrying amount £000	Contractual cash flows £000	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Subordinated loan notes	496,993	(742,357)	(28,607)	(23,750)	(71,250)	(618,750)
Perpetual subordinated capital securities	388,490	(479,287)	(29,091)	(29,091)	(421,105)	–
Loans funding statutory insurance deposits	472,136	(472,136)	(472,136)	–	–	–
Trade and other payables	184,991	(184,991)	(184,991)	–	–	–
	1,542,610	(1,878,771)	(714,825)	(52,841)	(492,355)	(618,750)

As at 31 December 2013	Carrying amount £000	Contractual cash flows £000	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Subordinated loan notes	330,064	(362,193)	(198,417)	(163,776)	–	–
Perpetual subordinated capital securities	390,455	(508,378)	(29,091)	(29,091)	(450,196)	–
Loans funding statutory insurance deposits	518,090	(518,090)	(518,090)	–	–	–
Trade and other payables as restated	130,750	(130,750)	(130,750)	–	–	–
	1,369,359	(1,519,411)	(876,348)	(192,867)	(450,196)	–

The contractual cash flows have been based on the expectation, but not the obligation, that the subordinated loan notes and perpetual subordinated capital securities are redeemed at the first option date.

Forward currency contracts are settled gross; notional amounts are a close proxy for gross cash flow amounts. Further details regarding the subordinated loan notes and the perpetual subordinated capital securities can be found in note 17 on pages 155-156. Information regarding financial guarantees, all of which could theoretically be called on within one year, can be found in note 27 on page 171.

Derivative financial instruments
The Society enters into forward currency contracts to manage exposures to fluctuation of exchange rates and to provide a service to the Lloyd's market. The Society's derivative financial instruments are categorised as fair value Level 2 for disclosure purposes.

Analysis of forward currency contracts:	2014 £000	2013 £000
Outstanding forward foreign exchange gains	17,774	48,148
Outstanding forward foreign exchange losses	(21,461)	(21,694)

Notes to the Financial Statements
continued

As at 31 December 2014

22. Financial instruments continued

Derivative financial instruments continued

The fair value and notional amounts of forward currency contracts, all of which mature within one year, are analysed as follows:

As at 31 December 2014	2014 Assets Fair value £000	2014 Assets Notional £000	2014 Liabilities Fair value £000	2014 Liabilities Notional £000
Currency conversion service (CCS)	2,672	190,203	(3,069)	(190,600)
Other forward foreign exchange contracts	12,292	1,196,063	(14,417)	(1,198,188)
Interest rate swaps	2,810	56,804	(3,975)	(56,804)
	17,774	1,443,070	(21,461)	(1,445,592)

As at 31 December 2013	2013 Assets Fair value £000	2013 Assets Notional £000	2013 Liabilities Fair value £000	2013 Liabilities Notional £000
Currency conversion service (CCS)	11,900	190,418	(14,369)	(192,887)
Other forward foreign exchange contracts	36,248	1,549,972	(7,325)	(1,521,049)
	48,148	1,740,390	(21,694)	(1,713,936)

Fair value hierarchy

	Notes	2014 Level 1 £000	2014 Level 2 £000	2014 Level 3 £000	2014 Total £000
Financial assets at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	3,164	–	3,164
Unlisted securities		–	222,132	–	222,132
Deposits with credit institutions		–	252,198	–	252,198
Total statutory insurance deposits	15A	–	477,494	–	477,494
Other investments					
Listed securities		924,063	679,840	–	1,603,903
Equity investments		499,403	–	–	499,403
Unlisted securities		–	211,935	–	211,935
Deposits with credit institutions		179,656	–	–	179,656
Total other investments	15B	1,603,122	891,775	–	2,494,897
Derivative financial instruments					
Currency conversion service		–	2,672	–	2,672
Other forward foreign exchange contracts		–	12,292	–	12,292
Interest rate swaps		–	2,810	–	2,810
Total derivative financial instruments	22	–	17,774	–	17,774
Loans recoverable	14	–	–	46,439	46,439
Total financial assets at fair value through profit or loss		1,603,122	1,387,043	46,439	3,036,604
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(3,069)	–	(3,069)
Other forward foreign exchange contracts		–	(14,417)	–	(14,417)
Interest rate swaps		–	(3,975)	–	(3,975)
Total derivative financial instruments	22	–	(21,461)	–	(21,461)
Total financial liabilities at fair value through profit or loss		–	(21,461)	–	(21,461)

Fair value hierarchy continued

	Notes	2013 Level 1 £000	2013 Level 2 £000	2013 Level 3 £000	2013 Total £000
Financial assets at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	2,316	–	2,316
Unlisted securities		–	260,108	–	260,108
Deposits with credit institutions		–	264,916	–	264,916
Total statutory insurance deposits	15A	–	527,340	–	527,340
Other investments					
Listed securities		732,547	890,075	–	1,622,622
Equity investments		405,420	–	–	405,420
Unlisted securities		–	154,956	–	154,956
Deposits with credit institutions		82,660	–	–	82,660
Total other investments	15B	1,220,627	1,045,031	–	2,265,658
Derivative financial instruments					
Currency conversion service		–	11,900	–	11,900
Other forward foreign exchange contracts		–	36,248	–	36,248
Total derivative financial instruments	22	–	48,148	–	48,148
Loans recoverable	14	–	–	43,499	43,499
Total financial assets at fair value through profit or loss		1,220,627	1,620,519	43,499	2,884,645
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(14,369)	–	(14,369)
Other forward foreign exchange contracts		–	(7,325)	–	(7,325)
Total derivative financial instruments	22	–	(21,694)	–	(21,694)
Total financial liabilities at fair value through profit or loss		–	(21,694)	–	(21,694)

Level 1
Inputs to Level 1 fair values are quoted prices 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 pricing information on an ongoing basis. Examples are listed debt securities in active markets or listed equities in active markets or listed deposits held with credit institutions in active markets.

Level 2
Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and fair value is determined through the use of models or other valuation methodologies. Level 2 inputs include quoted prices for similar (i.e. not identical) assets in active markets, quoted prices for identical or similar assets in markets that are not active or in which little information is released publicly, unlisted deposits held with credit institutions in active markets, low volatility hedge funds where tradeable net asset values are published.

Level 3
Inputs to Level 3 fair values are inputs that are unobservable for the asset. Unobservable inputs have been used to measure fair value where observable inputs are not available, allowing for situations where there is little or no market activity. Unobservable inputs reflect assumptions that the Society considers that market participants would use in pricing the asset and have been based on a combination of independent third party evidence and internally developed models.

The Society's loans recoverable are categorised within Level 3 fair values for disclosure purposes (refer to note 14).

Recoverable Central Fund loans made to hardship members are managed on a fair value basis and relate solely to the revaluation of hardship, LFAA and legal assets. Gains and losses arising from changes in the fair value are included in the group income statement in the period in which they arise. The revaluation process is carried out twice a year at both interim and year end.

Notes to the Financial Statements
continued

As at 31 December 2014

22. Financial instruments continued

Fair value hierarchy continued
Fair values are determined by reference to an estimate of the valuation of the underlying securities at the dates at which they may be exercised and discounted back to present day values. The securities include both properties and hardship trust fund assets. A security can normally only be exercised on the later of the date of death of the member or of their spouse. This date is assessed using actuarial assumptions.

There have been no significant transfers between levels 1, 2 and 3 for the year ended 31 December 2014.

The fair value movements during the year are recognised as finance income or finance costs in the Group income statement.

Sensitivity analysis
Loans recoverable sensitivities
The value of loans recoverable is affected by changes in both property and hardship trust fund values. The property values are determined by a valuation being carried out periodically together with applying Halifax price indices bi-annually to revalue the assets at interim and year end. Inflationary increases are then applied to both property values and hardship trust funds until the estimated exercised date and then discounted back to present day values. Inflationary increases are based on Management's best estimate taking current economic conditions into account.

As at 31 December 2014, a decrease of 100 basis points in the property values, comprising the greatest part of the total balance, would have reduced the surplus before tax by approximately £0.2m (31 December 2013: £0.5m). This analysis assumes that all other variables, including inflationary increases and discounted rates, remain the same.

23. Equity
Accumulated reserves

	2014 £000	Restated 2013 £000
Attributable to:		
Corporation of Lloyd's	71,934	97,249
Central Fund	1,589,844	1,512,638
Associates	7,958	7,897
	1,669,736	1,617,784

The 2013 comparatives have been restated due to the change in accounting for foreign currency operations from recognising exchange differences within the Group income statement to recognition within the Group statement of comprehensive income. It also includes impact of restatement due to changes in accounting for contractual capital expenditure and dilapidation cost under fully repairing leases.

Revaluation reserve
The revaluation reserve is used to record increases in the fair value of the Lloyd's Collection and decreases to the extent that such decreases relate to the amount previously recognised in the Group statement of comprehensive income.

Translation reserve
The translation reserve is used to record foreign exchange gains and losses recognised in other comprehensive income as a result of translating the results and financial position of Group entities that have a functional currency different from the presentation currency.

24. Cash generated from operations

	Notes	2014 £000	Restated 2013 £000
Surplus before tax		109,038	79,280
Finance cost - deficit on subordinated note repurchase	17	8,929	15,162
Net finance income	7	(44,603)	(4,717)
Realised/unrealised exchange (gains)/losses on borrowings		(6,864)	6,126
Share of profits of associates	12A	(7,577)	(6,843)
Operating surplus		58,923	89,008
Central Fund claims and provisions incurred	4	812	17,758
Operating surplus before Central Fund claims and provisions		59,735	106,766
Adjustments for:			
Depreciation of plant and equipment	10	4,244	4,221
Amortisation of intangible assets	9	121	358
Impairment losses	10	–	5,279
Losses on sale and revaluation of fixed assets		225	842
(Losses)/gains on investments		(6,111)	7,418
Unrealised gains/(losses) on translation of foreign operations		6,202	(994)
Foreign exchange (gains)/losses on operating activities		(560)	2,675
Operating surplus before working capital changes and claims paid		63,856	126,565
Changes in pension obligations		4,009	4,095
Decrease/(increase) in receivables		17,816	(1,245)
Increase in inventories		(24)	(20)
Increase/(decrease) in payables		33,835	(10,262)
(Decrease)/increase in provisions other than for Central Fund claims		(1,629)	1,736
Cash generated from operations before claims paid		117,863	120,869
Claims paid in respect of corporate/insolvent members	19	(5,800)	(20,927)
Cash generated from operations		112,063	99,942

25. Commitments

A. Capital expenditure commitments

Capital expenditure commitments contracted but not provided for in the financial statements totalled £6.6m (2013: £9.3m).

B. Operating lease commitments – Lloyd's as lessee

	2014 £000	Restated 2013 £000
Non-cancellable operating lease rentals are payable as follows:		
Within one year	30,955	28,218
After one year but not more than five years	92,977	98,354
More than five years	219,677	239,986

Commitments outstanding under the terms of the lease for the Lloyd's 1986 building have been included at the current rental value (£16.8m per annum) to the first break of the lease in 2021. The lease was subject to a rent review in October 2012; the next review will be undertaken in March 2016.

The Lloyd's Chatham building is included at the current rental value (£0.4m per annum). The lease was terminated by mutual agreement on 31 October 2013. During the year ended 31 December 2013 Lloyd's entered into a new lease which was subject to a rent free period of 21 months. The lease expires in October 2028.

During the year ended 31 December 2013 Lloyd's entered into a new lease for the Lloyd's Datacentre in Redhill. The lease was subject to a rent free period in the first year. The lease expires in September 2023.

Notes to the Financial Statements
continued

As at 31 December 2014

25. Commitments continued

B. Operating lease commitments – Lloyd's as lessee continued
During the year ended 31 December 2014 Lloyd's entered into new leases for the Lloyd's Datacentres in New Jersey and Hong Kong. The leases expire in August 2019 and October 2019 respectively.

Subsidiary undertakings are party to a number of small operating leases mainly for property rental and small machinery. The commitments outstanding have been included at the current rental value to the first break in the lease. These arrangements do not impose any significant restrictions on the Society.

During the year ended 31 December 2014, £25.9m (2013: £27.4m) was recognised as an expense in the Group income statement in respect of operating leases.

C. Operating lease commitments – Lloyd's as lessor

	2014 £000	2013 £000
Non-cancellable operating lease rentals are receivable as follows:		
Within one year	5,776	5,534
After one year but not more than five years	3,033	8,875
More than five years	–	–

The three major tenants for the Lloyd's 1986 building are included at the current rental value to the first break in the leases in 2016 and 2017.

Subsidiary undertakings are party to a number of small operating leases for property sub-rental. The lease rentals receivable have been included at current rental value to the first break in the lease.

During the year ended 31 December 2014, £11.7m (2013: £12.0m) was recognised as income in the Group income statement in respect of operating leases.

26. Disclosure of related party transactions

The Group financial statements include the financial statements of the Society and all of its subsidiary undertakings, the Lloyd's Central Fund and the Group's interests in its associates and joint venture as listed in note 11.

Services provided to Ins-sure Holdings Limited Group in the year ended 31 December 2014 included operating systems support and development, premises and other administrative services.

Services provided to Xchanging Claims Services Limited Group in the year ended 31 December 2014 included premises and other administrative services.

Services provided to The Message Exchange Limited in the year ended 31 December 2014 included the provision of messaging infrastructure.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial years together with information regarding the outstanding balances at 31 December 2014 and 2013.

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Associates:								
Ins-sure Holdings Limited	291	286	2,972	4,695	4	4	208	460
Xchanging Claims Services Limited	102	99	–	6	3	3	–	–
Joint venture:								
The Message Exchange Limited	–	–	1,076	958	–	–	44	69

Transactions with associates and joint arrangements are priced on an arm's length basis.

Michael Watson, a member of Council from February 2014, is also a Director of Flectat Limited which benefited from undertakings given by the Council in 2013 to meet unpaid cash calls. Amounts paid under these undertakings during the period are disclosed in note 19.

In the normal course of business, the Society may enter into transactions with Lloyd's market businesses in which members of Council and the Franchise Board may have an interest.

Details of the compensation paid to key management personnel including short-term employee benefits, post-employment benefits, other long-term benefits and termination benefits are disclosed within the Report of the Remuneration Committee on pages 96-112.

27. Contingent liabilities

(a) General average guarantees have been given on behalf of, and secured by, Lloyd's underwriters. It is estimated that the aggregate of the liabilities attaching to these guarantees at 31 December 2014 amounted to £24.9m (31 December 2013 £26.7m).

b) The Society has taken on the responsibilities of some individual members under hardship and other agreements.

In connection with the statutory transfer to Equitas Insurance Limited on 30 June 2009 of the non-life business underwritten at Lloyd's and allocated to 1992 or prior years of account, the Society has entered into undertakings for the benefit of certain policyholders of Equitas Insurance Limited (former policyholders of PCW syndicates or of members who at the material time still have the benefit of hardship or other agreements with the Society), under which the Society would meet any shortfall in recoveries by such policyholders from Equitas Insurance Limited on the occurrence of an 'Equitas Insolvency Event'.

The Society has also given an unlimited undertaking to its subsidiary undertaking Centrewrite Limited to meet any shortfall in its cashflow or assets (including any shortfall arising from an insufficiency of recoveries from Equitas Reinsurance Limited under its reinsurance of the obligations of Centrewrite Limited to Equitas Insurance Limited).

c) Uncollateralised bank guarantees and other arrangements have been entered into by the Society to provide security in connection with the underwriting activities of the members of Lloyd's in the countries shown:

	2014 £000	2013 £000
Guarantees provided by the Society:		
USA: US$1,500,000 (2013: US$1,500,000)	962	906

The Society has also entered into other arrangements in connection with the rental of office space in overseas countries.

In respect of all contingent liabilities disclosed as at 31 December 2014, no provision has been made in the Society financial statements.

Five Year Summary

As at 31 December 2014

	2014 £000	Restated 2013 £000	Restated 2012 £000	2011 £000	2010 £000
Operating income	219,864	216,521	212,666	215,085	210,193
Central Fund contributions	101,971	105,953	104,959	94,693	100,858
General insurance net premium income	4	7	4	523	1,463
Other Group income	13,632	3,111	2,395	6,598	215,822
Total income	335,471	325,592	320,024	316,899	528,336
Central Fund claims and provisions (incurred)/released	(812)	(17,758)	(26,447)	(15,283)	34,245
Central Fund repayment	(48,995)	–	–	–	–
Gross insurance claims (incurred)/released	(13,841)	(20,326)	(11,695)	22,717	11,602
Insurance claims recoverable from reinsurers	14,360	20,385	11,801	1,492	4,864
Other Group operating expenses:					
Employment (including pension costs)	(108,309)	(102,487)	(98,128)	(116,415)	(92,464)
Premises	(42,226)	(46,099)	(40,660)	(44,009)	(42,755)
Legal and professional	(20,734)	(17,002)	(14,070)	(19,707)	(18,835)
Systems and communications	(23,563)	(23,353)	(22,826)	(27,965)	(27,920)
Other	(32,428)	(29,944)	(29,992)	(40,486)	(32,509)
Total other Group operating expenses	(227,260)	(218,885)	(205,676)	(248,582)	(214,483)
Surplus before finance, associates and tax	58,923	89,008	88,007	77,243	364,564
Finance costs					
Deficit on subordinated debt repurchase	(8,929)	(15,162)	–	–	–
Other	(48,920)	(55,642)	(62,198)	(64,370)	(66,143)
Finance income					
Surplus on subordinated debt repurchase	–	–	–	4,248	1,470
Other	93,523	60,359	114,855	90,369	131,436
Realised/unrealised exchange gains/(losses) on borrowings	6,864	(6,126)	6,107	5,428	7,954
Share of profits of associates	7,577	6,843	5,945	4,927	5,084
Surplus before tax	109,038	79,280	152,716	117,845	444,365
Tax charge	(17,543)	(13,884)	(33,880)	(28,495)	(121,752)
Surplus for the year	91,495	65,396	118,836	89,350	322,613

Managing Agents and Syndicates

The table shows the key characteristics for managing agents and syndicates active as at 31 December 2014. In 2014, Lloyd's wrote gross premiums of £25,283m.

Managing agent	Managed syndicate(s)	2014 GWP* £m	2013 GWP* £m	Owned share of syndicate(s) %
ACE Underwriting Agencies Limited	2488	375	371	100%
Advent Underwriting Limited	0780	126	135	100%
AEGIS Managing Agency Limited	1225	371	367	100%
Allied World Managing Agency Limited	2232	116	96	100%
Amlin Underwriting Limited	2001	1,538	1,472	100%
AmTrust at Lloyd's Limited	0044	15	9	100%
	1206	183	183	100%
Antares Managing Agency Limited	1274	251	246	91%
ANV Syndicates Limited	0779	16	26	32%
	1861	198	155	100%
	1969	152	121	0%
	5820	239	129	17%
Arch Underwriting at Lloyd's Ltd	2012	151	158	100%
Argenta Syndicate Management Limited	1110	138	103	0%
	2121	218	239	43%
Argo Managing Agency Limited	1200	380	425	87%
Ark Syndicate Management Limited	4020	335	359	93%
	6105	40	13	0%
Ascot Underwriting Limited	1414	574	625	100%
Aspen Managing Agency Limited	4711	299	279	100%
Asta Managing Agency Limited	1686	87	–	0%
	1729	41	–	0%
	1897	91	75	0%
	1910	193	204	0%
	2357	20	9	0%
	2525	42	39	0%
	2526	39	53	0%
	4242	82	80	0%
	6117	33	–	0%
Atrium Underwriters Limited	0609	365	380	25%
Barbican Managing Agency Limited	1955	274	279	100%
	6113	28	23	44%
	6118	71	–	0%
Beaufort Underwriting Agency Limited	0318	136	149	91%
Beazley Furlonge Limited	0623	227	240	7%
	2623	1,032	1,093	100%
	3622	13	13	100%
	3623	152	134	100%
	6107	17	19	44%
Brit Syndicates Limited	2987	1,303	1,183	100%
Canopius Managing Agents Limited	0260	60	67	93%
	0958	192	172	61%
	4444	727	704	90%
	6115	65	71	100%
Cathedral Underwriting Limited	2010	219	273	58%
	3010	45	27	100%
Catlin Underwriting Agencies Limited	2003	1,975	1,911	100%
	2088	47	49	0%
	3002	10	10	100%
	6111	129	108	0%
	6112	39	38	100%
	6119	16	–	0%
Chaucer Syndicates Limited	1084	899	888	100%
	1176	24	27	57%
Chubb Managing Agent Limited	1882	88	81	100%

Managing Agents and Syndicates
continued

Managing agent continued	Managed syndicate(s)	2014 GWP* £m	2013 GWP* £m	Owned share of syndicate(s) %
ERS Syndicate Management Limited	0218	388	406	67%
Faraday Underwriting Limited	0435	208	234	100%
Hardy (Underwriting Agencies) Limited	0382	266	291	100%
HCC Underwriting Agency Limited	4141	81	87	100%
Hiscox Syndicates Limited	0033	832	823	73%
	3624	324	306	100%
	6104	49	43	0%
Liberty Syndicate Management Limited	4472	1,234	1,268	100%
Managing Agency Partners Limited	2791	170	261	20%
	6103	9	21	6%
Markel Syndicate Management Limited	3000	419	369	100%
Marketform Managing Agency Limited	2468	191	186	70%
Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited	3210	351	343	100%
Montpelier at Lloyd's Limited	5151	172	150	100%
Munich Re Underwriting Limited	0457	446	511	100%
Navigators Underwriting Agency Limited	1221	234	235	100%
Newline Underwriting Management Limited	1218	102	106	100%
Novae Syndicates Limited	2007	659	608	97%
Pembroke Managing Agency Limited	2014	60	–	0%
	4000	250	273	100%
QBE Underwriting Limited	0386	333	449	70%
	2999	888	1,118	100%
R&Q Managing Agency Limited	1991	35	5	43%
Renaissance Re Syndicate Management Limited	1458	165	141	100%
S.A. Meacock & Company Limited	0727	68	70	16%
Shelbourne Syndicate Services Limited	2008	18	25	100%
Sirius International Managing Agency Limited	1945	67	59	100%
Sportscover Underwriting Limited	3334	56	88	100%
Starr Managing Agents Limited	1919	270	289	100%
Talbot Underwriting Limited	1183	669	698	100%
The Chnannel Managing Agency Limited	2015	162	124	100%
Tokio Marine Kiln Syndicates Limited	0308	27	31	50%
	0510	1,097	1,169	55%
	0557	20	30	0%
	1880	147	237	100%
Torus Underwriting Management Limited	1301	141	148	79%
Travelers Syndicate Management Limited	5000	312	331	100%
Vibe Syndicate Management Limited	5678	5	–	100%
W. R. Berkley Syndicate Management Limited	1967	150	136	100%
XL London Market Limited	1209	302	307	100%
All other syndicates, SPS and RITC adjustments		(590)	(271)	
Total		25,283	25,615	

As at 31 December 2014
* See Glossary on page 175.

Name changes and managing agent changes during 2014 or after:
Syndicate 1110, previously managed by Argenta Syndicates Management LImited, transferred to ProSight Specialty Managing Agency Limited
Syndicate 1861, previously managed by ANV Syndicate Management Limited, transferred to ANV Syndicates Limited
Syndicate 1897, previously managed by R&Q Managing Agency LImited, transferred to Asta Managing Agency Limited
Syndicate 1945, previously managed by Asta Managing Agency LImited, transferred to Sirius International Managing Agency Limited
Syndicate 1969, previously managed by ANV Syndicate Management Limited, transferred to ANV Syndicates Limited
Syndicate 2015, previously managed by Asta Managing Agency LImited, transferred to The Channel Managing Agency Limited
Equity Syndicate Management Limited changed to ERS Syndicate Management Limited
R.J. Kiln & Co. Limited changed to Tokio Marine Kiln Syndicates Limited

The following syndicates ceased trading at 31 December 2014:
Canopius Managing Agents Limited 260 / Barbican Managing Agency Limited 6113 / Canopius Managing Agents Limited 6115

As at 25 March 2015 the following syndicates commenced trading for the 2015 year of account:
Charles Taylor Managing Agency Limited 1884 / Barbican Managing Agency Limited 6120 / Catlin Underwriting Agencies Limited 6121

Glossary of Terms

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
The accident year ratio is calculated as expenses and 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.

Calendar year ratio
This is the combined ratio (see below) and is the sum of the accident year ratio (see above) and the prior years' reserve movements (see below).

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.

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 break even (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.

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.

Financial Conduct Authority (FCA)
On 1 April 2013, the UK financial services regulatory regime saw the Financial Services Authority split into the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA). The FCA supervises the conduct of the UK financial services industry.

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

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

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

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.

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

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

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).

Glossary of Terms
continued

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.

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 as a proportion of net premiums earned during the year.

Prudential Regulatory Authority (PRA)
On 1 April 2013, the UK financial services regulatory regime saw the Financial Services Authority split into the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA). The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

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.

Service company
An approved coverholder which Lloyd's has agreed can be classified as a "service company" by reason of it being a wholly owned subsidiary of either a managing agent or of a managing agent's holding company and which is normally only authorised to enter into contracts of insurance for members of its associated syndicate and/or associated insurance companies

Special Purpose Syndicate (SPS)
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 members 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.

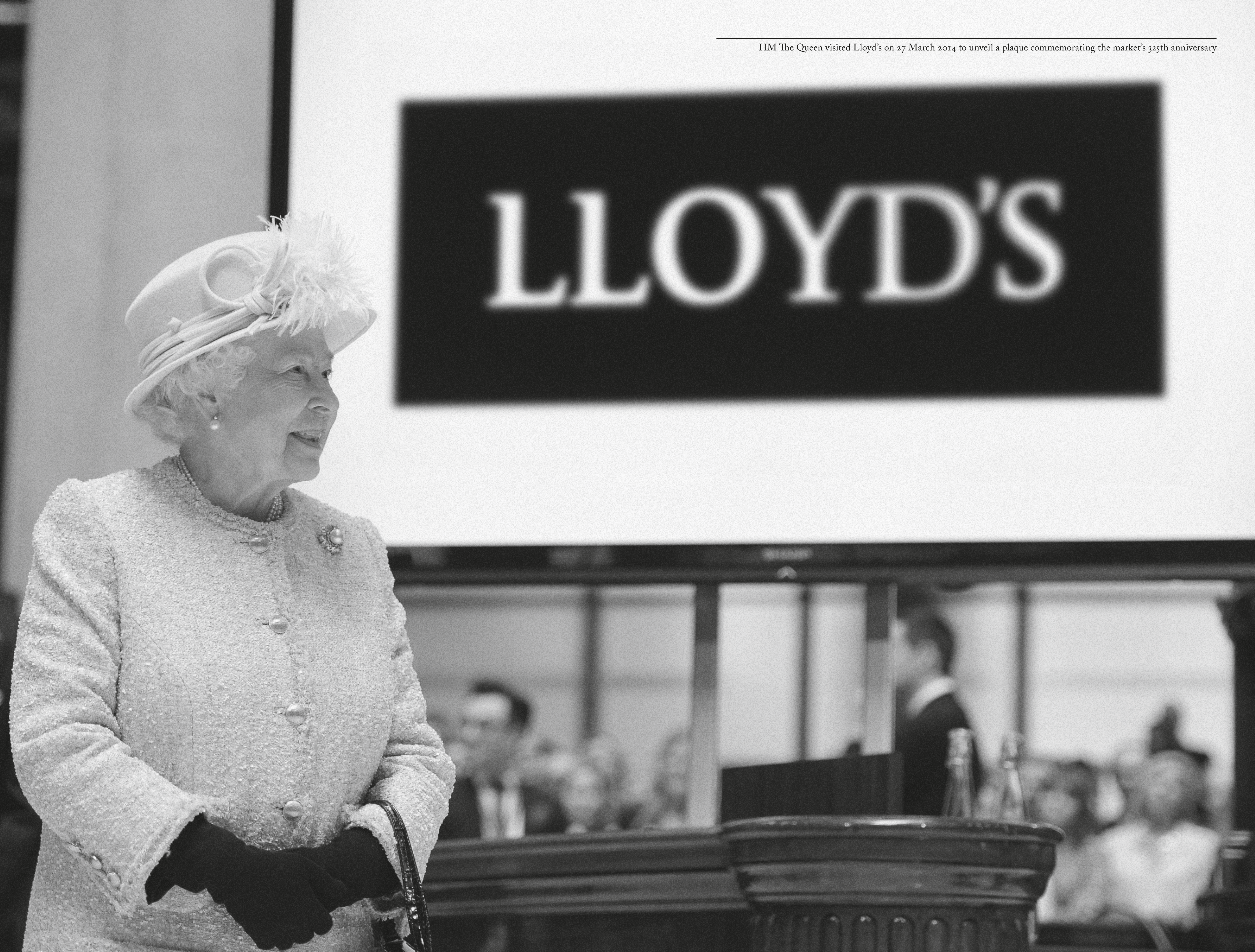
Technical account
Under UK GAAP the profit and loss account must be divided between the technical account and the non-technical account. The technical account reports the results of the underwriting activity, premiums less claims less expenses, and also includes an element of the investment return reanalysed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

Tier 1 capital
The core measure of an insurer's financial strength from the viewpoint of the PRA. It consists of the most reliable and liquid assets. The perpetual securities issued in 2007 qualify as tier 1 capital as the proceeds of the debt issue are fully paid and immediately available; debt holders are subordinate to payment of claims.

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

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 at the end of 36 months.

HM The Queen visited Lloyd's on 27 March 2014 to unveil a plaque commemorating the market's 325th anniversary



Lloyd's began 327 years ago, in Edward Lloyd's coffee house in the City of London, as the place where ship owners met those with the capital to insure their ships and cargo. Lloyd's has been protecting business and trade ever since, becoming the world's leading market for specialist property and casualty insurance.

This dynamic market brings together underwriters who provide insurance coverage with brokers seeking the best insurance for their clients. Business at Lloyd's is still most often undertaken face-to-face in the busy underwriting room, where the subscription market enables different syndicates to take a share of the same risk.

Lloyd's offers a unique concentration of expertise and talent, backed by strong financial ratings and international licences. Its strength lies in the diversity and expertise of the managing agents working at Lloyd's, supported by capital from across the world.

The Lloyd's market provides a wide range of distribution channels for managing agents (who manage syndicates) to access specialist business, primarily through brokers, coverholders and service companies.

Lloyd's remains true to its original aim of helping clients face their business challenges and setbacks with resilience.