Annual Report 2022

Sharing risk to create a braver world

Lloyd's is the world's leading insurance and reinsurance marketplace. We're sharing risk to create a braver world – protecting what matters most, building resilience and helping people and businesses recover in times of need.

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At a Glance

Our Performance: Financial key performance indicators

Gross written premium
£46,705m
2021: £39,216m

(Loss)/profit before tax
£(769)m
2021: £2,277m

Combined ratio
91.9%
2021: 93.5%

Attritional loss ratio
48.4%
2021: 48.9%

Expense ratio
34.4%
2021: 35.5%

Underwriting result
£2,641m
2021: £1,741m

Investment return
£(3,128)m
2021: £948m

Total capital, reserves and subordinated loan notes
£40,205m
2021: £36,553m

Return on capital
(2.0)%
2021: 6.6%

Central solvency coverage ratio
412%
2021: 388%

Market-wide solvency coverage ratio
181%
2021: 177%

Read more about our performance in the 'Market Performance' section. The above metrics include alternative performance measures; see page 167 for definitions.

Our purpose

Everything we do at Lloyd's is underpinned by one unifying purpose: sharing risk to create a braver world. Our purpose speaks to the aspiration and impact of the market and our collective ability to find solutions to the world's most challenging problems.

Our strategic priorities at a glance

We continue to focus on Lloyd's four strategic priorities, delivering value for our stakeholders in a complex and changing world.

Our four strategic priorities are:

Performance

In 2022, the Lloyd's market reported a strong underwriting result of £2,641m (2021: £1,741m), with a combined ratio of 91.9% (2021: 93.5%). The market is exceptionally well capitalised with the central solvency ratio increasing to 412% (2021: 388%), though rising interest rates in 2022 led to significant valuation losses across the portfolio, driving reported net investment losses and an overall loss of £(769)m before tax (2021: profit of £2,277m). The valuation losses on our bond portfolio have no cash flow impact and will reverse out over the next two-to-three years as the assets reach maturity. Lloyd's strong performance has been driven by our continued focus on portfolio management action, demonstrated by a 0.5% reduction in the attritional loss ratio (48.9% in 2021 reducing to 48.4% in 2022). Our focus on sustainable, profitable performance will continue throughout 2023, supported by our principles-based oversight framework and a differentiated approach to syndicate business planning.

Digitalisation

Together with market participants, associations and vendors, we are delivering a modern, efficient and data-driven marketplace through the development and adoption of new technologies and process improvements outlined in Blueprint Two. The London Market Joint Venture (a partnership between DXC Technology, the International Underwriting Association and Lloyd's) completed its first build sequences in 2022, and the LMG Data Council has been instrumental in developing the tools to capture and manage accurate and consistent data for market participants. Delegated authority solutions are also being improved to enable faster validation and payment of claims to policyholders – a key goal in our journey to a better, faster and cheaper market.

Purpose

Lloyd's purpose of sharing risk for a braver world sits at the heart of our ambition to build a more sustainable, resilient and inclusive marketplace and society. Lloyd's delivered a number of initiatives to advance our sustainability strategy in 2022. These included continuing to convene His Majesty The King's Sustainable Markets Initiative Insurance Task Force, bringing together leaders across our industry to actively support and enable decarbonisation, transition and climate innovation across the global economy. To help alleviate global food insecurity, our market worked with the UN to enable the transportation of millions of tonnes of Ukrainian grain; and Lloyd's Futureset released two flagship reports on the impact of the Ukraine conflict across areas including climate change, the energy transition, supply chains, food security and cyber.

Culture

We developed and implemented a new strategy for culture at Lloyd's, successfully delivering our year one priorities. Our market made progress in building a diverse and inclusive culture, with 35% of firms achieving or exceeding our 35% women in leadership target and 17% of market firms achieving the one in three ethnic minority hiring ambition. 2022 also saw the Corporation achieve Gold Status on the Clear Assured Accreditation standard, demonstrating how we have embedded diversity and inclusion into our policies and practices.

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Strategic Report

Chairman's Statement

Bruce Carnegie-Brown
Chairman, Lloyd's

"Lloyd's has demonstrated great financial strength – with double digit growth, a strong combined ratio and exceptional capital position."

Lloyd's has every reason to be proud of its performance in 2022. Despite several years of turbulence; from the political shocks of 2016 to the pandemic which continues to have an impact in 2023, and headwinds which include major claims in Ukraine and Hurricane Ian in the US – we continue to deliver sustainable and improving underwriting performance.

Lloyd's has demonstrated great financial strength – with double digit growth, a strong combined ratio and an exceptional capital position – driven by the market's greater attention to underwriting discipline and risk selection, started in earnest five years ago and pursued consistently since. That focus is bearing fruit in the form of consistent performance and a resilient balance sheet, allowing us to be the source of stability, protection and advice that our stakeholders – customers, governments, regulators, capital providers and intermediaries – need at this time.

Demonstrating leadership

The operating environment has been difficult for everyone. The overlapping crises we've faced have created a complex set of challenges for us to tackle: from the risk of recession to the impacts of inflation on the cost of living and on claims.

It has now been a year since Russia's invasion of Ukraine: an event that has caused shockwaves around the globe. Rising food and energy prices triggered by the invasion have left households and businesses in difficulty; while the initial economic rebound seen in 2021 has dissipated into slow growth in 2022.

The need for businesses to show leadership and a clear direction of travel has never been greater – from net zero to building a more inclusive society, restating what we stand for and strive for – and partnering broadly to achieve those goals – is an essential part of supporting our world through those present challenges. Lloyd's has an important role to play in demonstrating the value and expertise of our marketplace and in our ability to convene and lead the global insurance industry to find risk solutions in an uncertain world.

Supporting a braver world

Our purpose at Lloyd's is to share risk to create a braver world. By pooling the expertise and capacity of insurers in our market, we help people and businesses make smarter and bolder decisions in the face of uncertainty. When conflict hit Ukraine, we worked to support both an effective response – delivering government sanctions and tackling the complex challenges faced by customers – and proactive resilience, delivering research insights and creating new solutions such as a landmark insurance facility to enable the export of grain from Ukraine to the world.

> "Our purpose at Lloyd's is to share risk to create a braver world. By pooling the expertise and capacity of insurers in our market, we help people and businesses make smarter and bolder decisions in the face of uncertainty."

At the same time, rising prices and a slower growth environment have required us to show sensitivity and pragmatism in how we support our people, customers and communities. In September, we issued a one-off payment to many Lloyd's employees to help with the cost of living; while the creation of our Lloyd's of London Foundation has enabled us to support charities and communities around the world. In tandem, we have worked with our market to manage the cost and capital implications of a high inflation economy.

Behind these efforts, we have continued the important work that forms the core of our market: understanding complex risks and finding ways to mitigate them. That includes sharing our expertise on natural catastrophes with a world that has seen these events grow in frequency and severity in recent years, while working to build climate resilience in communities around the world. At the same time, we have continued innovating to develop new centres of excellence in fields like cyber, space and renewable technologies.

The spirit of Lloyd's

At the heart of our market is collaboration. No small amount of that was needed in 2022, and I'd like to thank our people – in the Corporation and across the market – for the outstanding commitment and creativity they have shown in supporting the market's strong performance throughout the year. That spirit extended to our wider networks, where we joined with government, regulators, investors and academia to innovate and, importantly, to find solutions.

We can say with certainty that 2023 will bring challenges of its own; yet that has been the trend over our 330 plus years of operating at Lloyd's. I am confident we will see a world growing in ambition in the coming years – and Lloyd's stands ready to progress and enable such ambitions. We look forward to working with all our stakeholders to support that braver world in 2023 and beyond.

> "I am confident we will see a world growing in ambition and bravery in the coming years."

Bruce Carnegie-Brown,
Chairman of Lloyd's

Chief Executive's Statement

John Neal
CEO, Lloyd's

"2022 marked another year of continued progress and strong underwriting results for our market, following five years of hard work to get our performance, culture and digital transformation into shape."

2022 marked another year of continued progress and strong underwriting results for our market, following five years of hard work to get our performance, culture and digital transformation into shape.

It's been a difficult year for the global economy, businesses and households. That uncertainty poses opportunities to help customers mitigate new and evolving risks, through innovation and cooperation – and as insurers, we've shown sensitivity to the challenges our customers and people are facing, supporting them with the thoughtful and flexible solutions they need.

Against this landscape, we have demonstrated the collective strength and resilience of the Lloyd's market; through both our financial performance and playing a leading role in responding to challenges such as climate change and cyber risk. Our work has paid dividends throughout the year – and though there's more to do, it has allowed us to set our sights on growth and lead our industry in the years ahead.

Sustaining performance

Nowhere was that work more evident than in our underwriting results for 2022, which demonstrate a profitable and high performing marketplace that can support sustainable growth through 2023 and beyond.

Continuing our strong underwriting performance, the Lloyd's market delivered a fantastic combined ratio of 91.9% (2021: 93.5%) and an underwriting result of £2,641m (2021: £1,741m) – a top quartile result compared to industry peers. The expense ratio fell again to 34.4%, from 35.5% in 2021, building on the hard work to reduce the cost of doing business in our market. We reported an overall loss of £769m before tax, due to mark-to-market accounting rules on our investments requiring us to mark the value of assets down to reflect prevailing market conditions – in this case, rising interest rates. However, this loss is expected to reverse out over the coming years as higher interest rates lead to greater investment returns on our assets.

Alongside our outstanding underwriting performance, Lloyd's reported a high-quality balance sheet that has enabled us to withstand a range of external shocks, from natural catastrophes to the conflict in Ukraine. Our central solvency ratio of 412% puts us among the most resilient organisations in the industry and, importantly, in a position to continue supporting our customers. Meanwhile, we expanded our offering for capital providers at Lloyd's with the launch of London Bridge II – our second investment vehicle – enhancing the choice and ease with which funds can be placed in our market.

Driving digitalisation

It was also a strong year of progress on Blueprint Two – the digital transformation programme that's making our market better, faster and cheaper for everyone placing their business here.

After launching an end-to-end roadmap in January last year, we made great progress in the months that followed to deliver the digital solutions that will power the Lloyd's market of the future. Delivering the landmark agreement for the London Market Joint Venture has meant we are now building a credible digital solution fit for the whole London market. The newly established London Market Data Council agreed the scope and approach of the Core Data Record and Market Reform Contract to standardise the data we use across the London market – a first in specialty (re)insurance. Our new Faster Claims Payment solution is enabling customers to be paid in hours and days rather than the weeks and months it took before – including in the wake of Hurricane Ian.

Blueprint Two is a complex programme with a huge number of stakeholders – so to have the expressed support of both market participants and technology providers involved is excellent progress indeed. My thanks go to everyone in the market and beyond who has made that progress possible in 2022.

Leading where it matters

We wouldn't be who we are without a clear purpose; and 2022 saw us carry out our purpose of sharing risk to create a braver world by providing leadership and driving action on the issues that matter to societies and communities.

Climate change remains the defining challenge of our time – and our work with the Sustainable Markets Initiative, where Lloyd's chairs the Insurance Task Force, was crucial in that context. Those efforts complemented the innovation we're seeing within our market to build resilience and solutions across a range of systemic risks – the likes of which we've talked about in theory, but rarely seen in practice – from cyber attacks and geopolitical conflicts to future pandemics.

Behind this, we've worked to cement Lloyd's position as a destination for global talent, realising the strengths inherent in our market: our connectivity, innovation and societal impact. But we can't embrace those strengths unless everyone can thrive and feel welcome in our marketplace, which is why our work to build an inclusive culture, from hiring targets to development programmes for diverse leaders, are so important. It's all to support a more diverse, creative and dynamic Lloyd's market – with people at the very heart of its fabric.

Delivering lasting performance

As we look ahead to 2023, we'll be supporting our market to grow where we've seen a track record of strong performance, expertise and ambition – while sustaining the underwriting excellence for which our market is renowned. We'll seek to generate even better value for our customers and investors as we continue to tackle cost and inefficiency. 2023 will be a key year for digital transformation, where our market's engagement and adoption of the Blueprint Two solutions will be the crucial determinant of success. We'll also maintain our focus on attracting and developing the very brightest minds from around the world – ensuring Lloyd's remains the innovative force it's been for the past three centuries.

> "As much as it's in our power to do so, we will offer the leadership society needs to help navigate its current challenges, guided by our purpose and the need to create genuine value for our customers."

Our world becomes more knowledgeable, connected and resilient every year – and insurance sits right at the heart of helping people build confidence to make decisions and continue innovating. We'll keep throwing ourselves into that task in 2023, showing determination and resolve as we partner with industry, governments and communities – to weather the storms and embrace the opportunities that lie before us. Reasons to be confident indeed.

John Neal
Chief Executive Officer, Lloyd's

Who We Are

Lloyd's business model

Lloyd's is the world's leading insurance and reinsurance marketplace. Since our beginnings in Edward Lloyd's coffee shop back in 1688, we've been at the forefront of providing risk solutions and insights for customers of all sizes and in every corner of the world.

The insurance written at Lloyd's is brought to the market by brokers and coverholders, to specialist syndicates who price and underwrite the risk. Syndicates are managed by 'managing agents' – insurance firms or individuals who set the parameters and provide oversight of the syndicate. Much of the insurance and reinsurance capacity available at Lloyd's is provided on a subscription basis, where syndicates collaborate to underwrite large and complex risks. Combined with the choice, flexibility and financial certainty of the market, this makes Lloyd's the world's leading platform to underwrite and purchase insurance and reinsurance cover.

The interests of our market participants are represented and promoted by market associations and committees, which are set up by our key stakeholders: underwriters, brokers and capital providers.

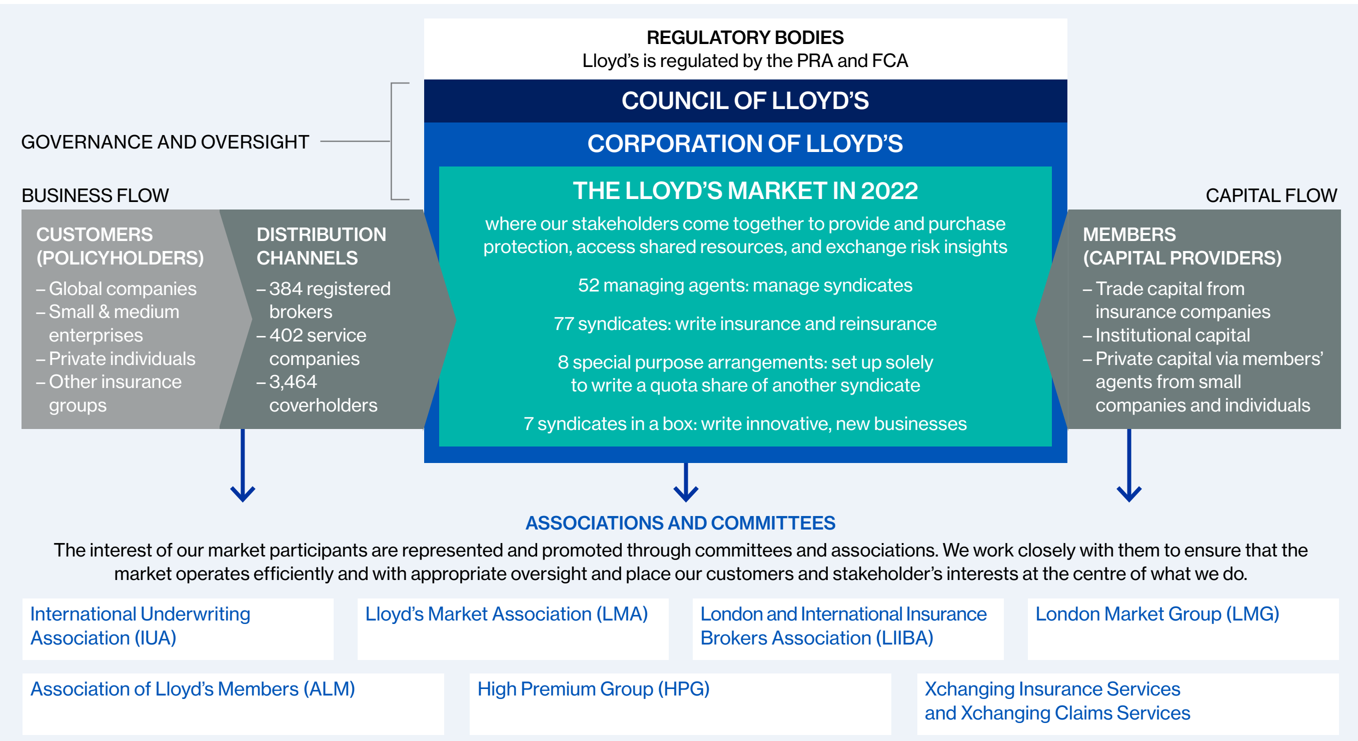
Behind the Lloyd's market is the Society of Lloyd's (also referred to as 'the Corporation'). The Corporation is not itself an insurance company, but an independent organisation that protects and maintains the market's reputation and provides services, research and reports to the industry. Lloyd's also provides a common financial security and strong ratings through our capital structure, often referred to as the 'Chain of Security', which sits behind and protects all insurance policies written at Lloyd's.

Lloyd's capital structure has three elements:

- **Syndicate assets:** All premiums received by syndicates are held in trust by the managing agents as the first resource for paying customers' claims.
- **Funds at Lloyd's:** Each member must provide sufficient capital to support their underwriting at Lloyd's. Managing agents assess the Solvency Capital Requirement (SCR) for each syndicate that they manage, which sets out how much capital the syndicate requires to cover its underlying business risks at a 99.5% confidence level.
- **Lloyd's central assets:** This includes Lloyd's Central Fund, which is a fund held by Lloyd's to protect policyholders in the rare event that a syndicate needs additional assets to meet its liabilities. Our central assets, at the discretion of the Council of Lloyd's, are available to meet any valid claims that cannot be met from the resources of any member.

The Council is responsible for the governance, management and supervision of the Society and the market. The governance and oversight frameworks are designed to ensure that the Society and the market actively manage risks to the Central Fund, Lloyd's licences, ratings and brand to result in good outcomes for customers. We work closely with market associations to continue to evolve our oversight and ensure our stakeholders' interests are appropriately reflected.

The table below shows Lloyd's flow of business and capital, alongside our key stakeholders.



Our Purpose

Sharing risk to create a braver world

Through the collective intelligence and expertise of our market's underwriters and brokers, we're helping to create a braver world – one that's more resilient, sustainable and inclusive.

Lloyd's unique model offers several core benefits to our stakeholders:

- The efficiencies of shared resources and capital to protect customers in more than 200 territories, in any industry and at any scale.
- A governing body providing oversight and common standards for the market that help maintain a competitive and secure insurance and reinsurance marketplace.
- An accelerator for product and solution innovation, providing platforms such as the Lloyd's Lab and Lloyd's Futureset to help bring innovative ideas and solutions to the market.

Supporting our stakeholders

As the world's largest specialist insurance market and global distribution network, Lloyd's has a unique set of stakeholders:

- Customers – ensuring we provide them with the products and services to protect against a range of complex risks.
- Distributors – offering the capacity to place specialty risks on behalf of their clients.
- Managing agents – providing access to attractive insurance risks and capital from around the world.
- Our people – creating a culture where every employee can thrive.

We also work closely with industry and market associations, governments, regulators, investors, rating agencies and many others to share risk and expertise across all parts of society. The key challenges for our stakeholders, as we see them, are listed below.

External challenges and how we are helping our stakeholders navigate them

Macroeconomic conditions	We are living through a period of heightened risk, following the economic crisis of 2008, the effects of COVID-19, the conflict in Ukraine and other geopolitical challenges, and the very real impacts of climate change. As the global economy emerges from the pandemic, upwards inflationary pressures are significantly ahead of recent years and are expected to further increase as a result of geopolitical tensions. Meanwhile, economic growth has stagnated around the world, with many economies facing possible recessions in 2023. From an insurance standpoint, the resulting pressure on price and the affordability issues for customers must be balanced with the risk of near-term price adequacy and long-term reserve resilience. Both are closely monitored as part of our ongoing oversight of the market in which customer value and conduct are key areas of focus to ensure that our customers receive the right outcomes. We have also moved from minimum standards to a principles-based oversight framework, allowing us to identify the areas of greatest materiality and differentiate our approach based on the characteristics of each syndicate. We will continue to monitor market conditions to see how we can support our customers through economic hardship and uncertainty.
Conflict in Ukraine	The conflict in Ukraine has resulted in large-scale humanitarian suffering, while triggering secondary impacts across the global supply chain, energy and commodity markets and movement of capital. Our two-part report – *Ukraine: A conflict that changed the world* and *Ukraine: The (re)insurance industry response* – examined the impacts of the conflict on customers, and how the (re)insurance industry could respond by plugging protection gaps and helping customers mitigate the conflict's fallout. Since the start of the conflict, Lloyd's has been working closely with global governments, regulators and non-governmental agencies to respond to the conflict. This included supporting the delivery of a comprehensive sanctions regime against the Russian state, alongside the establishment of a shipping corridor in the Black Sea to retrieve grain and fertiliser stranded in Ukraine's ports. These efforts have helped address food insecurity and economic pressure arising from the conflict, and we continue to play a collaborative role in helping our market, customers and societies to respond.
Systemic risks	Systemic risks are high impact, catastrophic events that could have detrimental impacts across multiple economies and territories. These risks are the most difficult to quantify, understand and mitigate as they often affect multiple industries, countries and sectors simultaneously. Examples of systemic risks could include pandemics, climate change, large-scale cyber attacks and geopolitical conflicts. In 2022, major economic losses continued to stem from events that were systemic in nature, including the conflict in Ukraine and extreme weather events such as Hurricane Ian. The potential scale of these events makes cross-societal collaboration essential. The insurance industry is preparing for their occurrence through exposure management, capital modelling and scenario planning for a range of eventualities. We are also working closely with governments, regulators and other industries to share expertise, resources and networks to help protect society against future systemic events. At the same time, Lloyd's is working to help the industry understand and assess the impact of systemic risks by generating innovative insights and insurance solutions through Lloyd's Futureset, the Sustainable Markets Initiative Insurance Task Force and the Lloyd's Lab incubator.

Our Purpose continued

External challenges and how we are helping our stakeholders navigate them continued

Talent and culture	Rapidly developing technology and shifting demographics are changing the nature of the global workforce – and employees' expectations of employers. Strong competition has developed for attracting and retaining the best talent, particularly where specialist skills are required. Lloyd's aim is for our marketplace to be a global destination for diverse and highly skilled talent. Creating a diverse, inclusive and collaborative culture is therefore essential in attracting this talent and ensuring high performance across our market. We have supported these goals in 2022 through a range of initiatives such as targets for ethnic minority hiring and women in leadership; development programmes for diverse leaders; best practice workshops for market participants; and partnering with charities working to promote social mobility, racial equality and economic opportunity across the communities we operate in.
Data and digitalisation	The increased availability – and capability – of data and analytics has had a profound impact on the insurance industry. The ability to collect, process and analyse quality data has become an important factor to ensure the competitiveness of insurance organisations, and this trend will only become stronger. The benefits of having the right data capability can potentially result in better risk assessments and efficiency gains through automation. Ultimately the benefit can reach to customers in various forms such as affordable protection and faster claims settlement. Lloyd's is committed to creating a better, faster and cheaper market through Blueprint Two, our digital transformation programme. 2022 saw us deliver significant improvements in our market's ability to pay claims quickly, process data efficiently and remove friction and waste from everyday processes – changes that will help us embrace the opportunity posed by increasing digital and data capabilities.

Further details on each of the above and how Lloyd's is responding are included in the 'Our Strategy' section on pages 13 to 15.

Principal risks to Lloyd's strategic priorities and our mitigating actions

The Corporation continues to identify, manage and monitor the principal current and emerging risks which could have a significant impact on Lloyd's business, and the actions we need to take to reduce or eliminate the risk. The table below sets out how Lloyd's is managing the principal risks. The status of these risks is monitored by the Lloyd's Risk Committee and the Council.

Risk	Mitigation
Geopolitical volatility Risk that Lloyd's businesses suffer losses and operational disruption as a result of changing geopolitical pressures and global events.	The conflict in Ukraine continues to be actively monitored by Lloyd's to provide assurance that risks, issues and impacts are appropriately managed as the situation evolves. We have worked closely with the market to monitor claims development and maintain reserve adequacy, and our industry continues to work closely with governments and regulators across the world to monitor and ensure we interpret and enact sanctions requirements, together with other legal and regulatory obligations, appropriately. Lloyd's conducts regular scenario modelling, asking market participants to assess the potential impacts of plausible but hypothetical geopolitical situations across areas like capital, operations and business continuity.
Macroeconomic uncertainty Risk that Lloyd's businesses suffer losses as a result of the external macroeconomic challenges, including high inflation, high interest rates, financial market volatility and increased risk of recession.	The high inflationary environment impacts various risks including reserves, pricing and investments. Lloyd's has established a cross-functional working group to monitor and manage associated risks and conduct scenario analysis to stress test Lloyd's business plan under different scenarios. Lloyd's remains confident it is well placed to manage these risks as they arise. We have also issued communications to the market outlining expectations for the explicit consideration of the inflation outlook within reserves, pricing and investments, and have conducted a thematic review to factor inflation into reserving decisions.
Performance and oversight Risk that Lloyd's businesses suffer losses or erode their capital base due to a failure to respond to changing market conditions.	Market performance will remain a key focus in 2023. The benefits of the remediation action taken by the market over recent years continues to be demonstrated in strength of Lloyd's underwriting results and reflected in our financial strength ratings and solvency position. Our enhanced principles-based approach to market oversight was implemented in 2022 which, in addition to providing a modern and robust framework for oversight, will make it easier and more cost-effective to operate in the Lloyd's market. This approach, alongside our commercial market strategic priorities and process for new entrants, will enable us to further balance business opportunities with portfolio management. Business plans will be closely monitored during 2023 to ensure they reflect market conditions, including challenges around the availability of reinsurance and the potential impacts on syndicate business plans.

Risk	Mitigation
Blueprint Two delivery Risk to the market's long-term attractiveness if the benefits of Blueprint Two are not adopted.	While Blueprint Two will help mitigate strategic threats and improve the Corporation's overall risk profile, the execution risk of delivering the programme alongside key third parties – and achieving market adoption – remains a key area of focus in order to realise the programme's benefits. Strong central project structures and governance, overseen by the Council, ensure active management of delivery risks associated with Blueprint Two. A robust risk and assurance framework is in place, including an independent Quality Assurance partner. Regular market communications and events take place to keep stakeholders updated on progress, including a Blueprint Two Progress Event held in December 2022 for market and Corporation employees. In December 2022, Lloyd's announced that all London market technology vendors currently interacting with the existing central services had pledged their intent to introduce changes to their platforms to accommodate Blueprint Two's solutions – providing commitment and support for the programme's delivery and implementation. Lloyd's Risk Management team continues to work closely with senior stakeholders to ensure that risks, such as those associated with the delivery of the London Market Joint Venture, and the ongoing responsibilities for risks and controls once delivered are understood and appropriately managed.
Cyber and operational resilience Risk that Lloyd's fails to maintain operational resilience or suffers a loss as a result of a direct malicious electronic attack that could mean operating in the Lloyd's market is inefficient, costly and no longer attractive.	We continue to embed a robust operational resilience framework and enhance contingency plans for the failure of key services, processes, or outsourced providers, to ensure recovery of services or workaround processes at Lloyd's. As Lloyd's invests in new technologies, we will assess the approach taken to ensure adequate operational resilience and monitor its effectiveness and any gaps in the technology being implemented. We continue to participate with industry bodies to maintain awareness of changing cyber risks and thought leadership reports on cyber scenarios.
International network Risk that Lloyd's fails to align the activities and operations of the global network resulting in inefficiencies and potential regulatory breach.	Lloyd's continues to embed the Lloyd's Insurance Company model following the UK's departure from the EU. Governance structures have been established to deliver clear risk ownership and accountability across the Corporation's global network. A biannual risk and control self-assessment process enables the reassessment of existing risks and identification of any new risks across the global network.
Climate risk The risk Lloyd's fails to identify and respond to the physical, transition and litigation risks associated to climate change.	Lloyd's continues to monitor and manage physical, transition and litigation risks associated with climate change. While there is inherent complexity and uncertainty in how the future climate pathway will develop, Lloyd's has controls and processes in place to manage and mitigate the exposures as they emerge. This includes re-underwriting and re-pricing insurance risks each year at renewal, adjusting exposure in line with risk appetite, as well as an enhanced oversight framework that includes a robust syndicate business plan and capital setting process. Lloyd's has played a leading role within the global insurance industry to progress the objectives of the Sustainable Markets Initiative Insurance Task Force, advancing the world's progress towards a resilient, net-zero economy. Lloyd's participated in the Climate Biennial Exploratory Scenario (CBES) process to stress test the industry for potential future climate pathways. This demonstrated the robust management actions available to manage the risk.

Our Strategy

Our strategic priorities:

We have four key strategic priorities that will enable us to deliver value to our stakeholders, as outlined in the Our Purpose section on page 10.

Performance

We remain committed to delivering sustainable performance at Lloyd's and the remediation work we have undertaken in partnership with the market has been clearly demonstrated by profitable underwriting results in 2022. Together with the continued requirement for all syndicates to produce a logical, realistic and achievable business plan, the market is well positioned to support customers in uncertain market conditions.

Key achievements in 2022

In 2022, the Lloyd's market reported a strong underwriting result of £2,641m (2021: £1,741m) with a combined ratio of 91.9% (2021: 93.5%) and an attritional loss ratio of 48.4% (2021: 48.9%). The strength of these results is a testament to our continued focus on achieving sustainable, profitable performance. Market conditions in 2022 led to significant valuation losses across the portfolio, driving reported net investment losses and an overall loss of £(769)m before tax (2021: profit of £2,277m).

Gross written premiums have grown by 19.1% to £46,705m (2021: £39,216m), attributable to 7.8% foreign exchange movement, 7.7% of price changes and 3.6% volume growth. The expense ratio has also improved, falling to 34.4% (2021: 35.5%). Our Blueprint Two digital transformation remains central to our long-term objective of reducing the cost of doing business at Lloyd's.

Through the annual business planning process, we used our new principles-based oversight categories to drive a differentiated approach to syndicate management. Exposure growth was supported for syndicates with a proven track record of stable underwriting performance, while underperforming syndicates were subject to increased scrutiny and oversight through the process. We collected enhanced data on inflation to further understand syndicates' assumptions going into 2023 and challenged where we felt these were unrealistic in light of the macroeconomic environment.

The market demonstrated a high degree of responsiveness to unforeseen events in 2022, including the invasion of Ukraine, setting aside £1.4bn of reserves at 31 December 2022 (£1.1bn at 30 June 2022). The resilience built into the market through a number of years of remediation, and our resultant strong underlying performance, has enabled us to respond quickly and effectively to these challenges.

For further details on performance refer to the 2022 Highlights section on pages 21 to 30.

Plans for 2023

Sustainable, profitable performance will continue to be our priority through 2023, with a focus on ensuring syndicate business plans remain logical, realistic and achievable.

Using the principles-based oversight framework, we'll continue to differentiate market participants by supporting the ambitions of our best performing syndicates, while reducing unprofitable business across the poorer performing syndicates. We'll do this by maintaining proportional oversight of the market across core areas including underwriting, pricing, outwards reinsurance, capital, reserving, culture and conduct.

The prevailing market conditions, driven by conflict in Ukraine and reinsurance capacity challenges, will be an area of constant focus throughout 2023 to ensure syndicates are actively managing their portfolios in a volatile environment. As we did in 2022, we will also regularly review syndicates' inflation and risk adjusted rate change assumptions.

If well managed, uncertainty can present an opportunity for our market to deliver sustained value through the development of new and innovative solutions that meet customer demand.

Our oversight work will centre around delegated underwriting performance, the impact of capital and reinsurance capacity pressures, systemic risk and ensuring the market is compliant with state-backed cyber attack exclusions.

Our ambition is to attract and retain the best underwriting businesses on the Lloyd's platform, supporting the ambitions of our best performing syndicates, while continuing to simplify the process for new entrants.

Digitalisation

2022 was a milestone year in outlining and delivering our plans to drive a better, faster and cheaper marketplace through Blueprint Two.

Key achievements in 2022

In January, we published our roadmap detailing the key milestones and actions that market participants need to take to implement the changes outlined in Blueprint Two.

The London Market Joint Venture, a partnership established in 2021 between DXC Technology, the International Underwriting Association (IUA) and Lloyd's, successfully delivered the first of their build sequences in 2022. These are a set of digital, foundational components that will be used to power the digital services for the benefit of the whole London market and will support future phases of delivery.

Another key milestone was establishing the London Market Group (LMG) Data Council, gaining agreement for the industry-leading Core Data Record (CDR), which aligns to the ACORD Global Standards for premiums and claims, already adopted by the London market. We also supported the Data Council on a market-wide consultation to review proposed changes to the Market Reform Contract (MRC), which will enable computable contracts for market participants. Together, these changes will provide the London market with accurate, usable and consistent data, alongside improved methods for data input, processing and extraction.

We made a number of usability improvements to our delegated authority platforms, predominantly the Delegated Contract Oversight Manager (DCOM) system. This included a reduction in the number of mandatory data fields by more than 40% and providing functionality for continuous binder contracts. More than 80% of active contracts are now on the DCOM platform. We also integrated DCOM with Delegated Data Manager (DDM), allowing relevant contract data entered in DCOM to auto-populate in DDM, saving time and improving data quality to power downstream processes. Finally, managing agents who qualify based on our principles-based oversight framework can now issue continuous contracts with coverholders – removing the need for annual renewals in those cases.

We made great strides in digitalising the claims lifecycle through both the pilot and successful launch of the Faster Claims Payment (FCP) solution, with 15 managing agents onboard at the end of 2022 and a further six in the first quarter of 2023 (representing more than 50% of the Lloyd's delegated authority market by volume). FCP has already been used to swiftly pay valid claims, including losses arising from Hurricane Ian.

We assembled a coordinated market engagement and readiness team from the Joint Venture, LIMOSS and Lloyd's in 2022, who undertook regular individual and market-wide engagements throughout the year. Supporting our engagement strategy, we also produced key artefacts including playbooks for insurers and brokers, a benefits framework and customer journeys, which have been instrumental in supporting the market with their digital transformation.

Plans for 2023

Building technology that's fit for purpose and supporting the market to be ready to transition to the new digital solutions by 2024 will be our key focus for 2023.

As we work alongside the Joint Venture to build the new digital platforms for processing, accounting and settlement, as well as claims processing and settlement, we will develop deployment options and run comprehensive vendor and market acceptance testing to support delivery.

In Q1 2023, the Joint Venture has delivered premium and claims services for global business, which in turn will be used to inform the build of the London market-specific elements that will be completed in later phases of 2023 and 2024. The LMG Data Council will publish the new version of the MRC, as well as an updated version of the CDR including updates to align to ACORD's technical data standards. This is a big step towards our ambition of market-wide computable contracts and so our focus will shift to encouraging market adoption of the new standards.

We will work with the LMG Data Council to facilitate a market-wide consultation on recommendations for what the new processes, roles and responsibilities could look like within the target-state digital journey.

We are also making improvements to the Lloyd's Claims Scheme (to be renamed the Lloyd's Claims Lead Arrangements), so that the right level of expertise is allocated to the claim at each stage. This will mean brokers will only need to deal with a single claims agreement party for more claims. For our delegated authority business, we will also focus on advancing market adoption of the FCP solution. These are important elements for improving our customers' claim experience. For delegated authority business, we will continue to update and improve our platforms – including creating a market-standard CDR for delegated business and supporting the technology build for new delegated authority platforms in the latter part of the year. For open market business, our focus will be on building the London market capabilities and the Digital Gateway. This will give us an updated, cloud-based and resilient technology stack for the London market.

Our single engagement team will drive adoption of the new data standards and ensure firms are ready to transition to the new digital services by 2024.

Purpose

Lloyd's purpose of sharing risk for a braver world sits at the heart of our ambition to build a more sustainable, resilient and inclusive market and society. Against a backdrop of prolonged economic and societal uncertainty and volatility, Lloyd's has continued to fulfil that purpose during 2022 through a number of actions and initiatives.

A summary of some of these initiatives is provided below, with the full 2022 Sustainability Report to be published in Q2 2023.

Key achievements in 2022

Lloyd's continued to convene His Majesty The King's Sustainable Markets Initiative (SMI) Insurance Task Force, which drives tangible progress to help accelerate the transition to a sustainable future. During 2022, this included developing a strategic framework for insurance-associated carbon measurement and launching a pledge to drive greater sustainability across insurance industry supply chains.

The Corporation continued to embed sustainability across the market throughout the year, including completing a feasibility study with market participants to inform our carbon measurement strategy, together with requiring managing agents to submit their own ESG strategy to the Corporation for the first time.

Futureset released two flagship reports on the impact of the conflict in Ukraine. Both reports provided analysis, insights and practical solutions to advance customers' risk protection.

In August 2022, the Lloyd's of London Foundation (the Foundation) was launched to further the impact on projects supporting employability, social mobility, mental health, climate and disaster avoidance and relief.

Plans for 2023

We will continue to drive action towards enhancing the capital and risk solutions that can support adaptation and resilience, accelerating the global economy's transformation to a low-carbon future across industries and countries.

Our work leading the SMI Insurance Task Force will be focused on tangibly demonstrating the value of the insurance industry through:

1. Leading transition working groups to identify opportunities for insurance to better support the scaling of climate innovation;
2. Continuing to advance pilot projects that help climate-vulnerable countries in developing economies to build disaster resilience; and
3. Collaborating with the Agribusiness Task Force to support resilience in emerging economies dependent on crop production and export.

At the same time, we will support our market in insuring the transition by providing thematic feedback on ESG strategies submitted through our performance oversight process, including our expectations for future annual submissions. We will also publish a three year roadmap, defining what it means to be an insurer of the transition, practical actions to embed sustainable practices, a climate transition measurement and data roadmap, as well as our future oversight activities.

In tandem, the Lloyd's Futureset research platform will continue to provide action leadership, addressing challenges facing our customers and industry, including on climate, cyber and catastrophe risk and resilience.

Culture

To reach our ambition of building a more resilient, sustainable and inclusive market, we need to have the right people in place and create an environment where they can thrive. To deliver that, we need a market that is diverse, welcoming and where everyone has equity of opportunity. Lloyd's remains committed to creating a diverse, inclusive and high-performance culture to attract and retain the best talent, both within the Corporation and across the wider market.

Key achievements in 2022

In 2022, our market made progress in building a diverse and inclusive culture, with 35% of firms achieving or exceeding the 35% women in leadership target, and 17% of market firms achieving the one in three ethnic minority hiring ambition.

We also delivered against the goals and priorities set out for year one of our culture strategy, successfully introducing culture as part of our principles-based oversight approach which provides categorisation of our managing agents and guidance on improvements to be made in 2023.

The Annual Dive In Festival 2022 reached its largest ever audience with over 30,000 participants in 40 countries, providing education and awareness on key diversity and inclusion issues across our global market.

As we strive to lead the market by example, the Corporation exceeded our 35% target of women in leadership, with 38% of leaders in the Corporation and 52% of our overall workforce being women. In addition, 25% of all new hires at the Corporation were from an ethnic minority background and we continue to progress our Ethnicity Long Term Plan to enable us to meet our ambitions.

We're proud to have broadened our approach to diversity and inclusion beyond the focus areas of gender and ethnicity. The Corporation achieved Disability Confident Employer status and Gold Level on the Clear Assured Accreditation standard for our diversity and inclusion practices, demonstrating they are embedded across all our activities. We remain committed to social mobility and in 2022 were recognised as a Top 75 Employer, improving 30 places from 75th to 45th on the Social Mobility Index.

2022 also saw several new initiatives announced across the Corporation. We relaunched the Lloyd's Together Network with seven diverse communities, including the Multicultural Awareness Community (MAC) which hosted events throughout Black History Month, attended by employees from across the insurance industry. In exploring and responding to our historical links to the Transatlantic slave trade, a research and collaboration project was launched with Black Beyond Data, from Johns Hopkins University, which will lead to the creation of a digital exhibition in 2023. To encourage Corporation employees to live our values – 'we are brave', 'we are stronger together' and 'we do the right thing' – 2022 saw the launch of employee awards to recognise and reward individuals embodying these values.

Plans for 2023

In 2023, we will further develop and implement our culture strategy, setting standards for the Lloyd's market and holding our managing agents to account. Having successfully integrated culture as part of our oversight approach, we will focus on a programme of upskilling, enhanced data collection and sharing best practice during 2023. For further information on our current actions to promote an inclusive culture, and to see details on Lloyd's Gender and Ethnicity Pay Gap reports, please see the Diversity and Inclusion page on www.lloyds.com.

Continuing our commitment to take meaningful and measurable action to help improve the experience and enablement of Black, Asian and minority ethnic talent in the Lloyd's market, Lloyd's have committed to partnering with Race Equality Matters, the Reach Society, SEO London, and the Runnymede Trust.

We'll continue our commitment to building a more inclusive market by evolving approach to the Dive In Festival. This includes delivering an outreach programme under the Dive In brand to promote early career opportunities in our market. By incorporating outreach opportunities for Dive In participants, we aim to transform from a global three-day diversity and inclusion awareness festival to a year-round diversity, inclusion and talent brand – ensuring a truly diverse range of talents from a wide variety of backgrounds can embrace opportunities in the Lloyd's market.

For the Corporation, we aim to achieve Disability Confident Leader Status during 2023 and will continue strengthening our culture by embedding our Employee Change Forums to create a feedback loop with our leaders and support actions related to employee engagement.

Sustainability

Our sustainability strategy

At the heart of Lloyd's purpose – sharing risk to create a braver world – is our ambition to build a more resilient, sustainable and inclusive future for the market and wider society.

The past year saw Lloyd's deliver this purpose across four key priorities:

– Embedding sustainability
– Improving society's resilience to risk
– Convening to inspire and drive action
– Building a more inclusive market

Embedding sustainability

Lloyd's ambition is to be the commercial and specialty market of choice for insuring the transition to net zero. We are seeking to do this by driving positive climate action across several key areas:

Sustainable operations

– We have seen a 16% decrease in our global emissions per full-time employee since 2021 (see our carbon emissions table on page 18 for further detail).
– In 2022, we switched to a renewable gas energy supply. This means our total energy supply for both our London and Chatham offices is now 100% renewable.

Sustainable investments

– In 2022, we launched the impact investment fund, comprising 5% of the Central Fund, with ESG scoring embedded in its investment process.
– We have completed the first carbon intensity and emission measurement of the Central Fund.

Sustainable underwriting

– We have completed a feasibility study with market participants to inform our carbon measurement strategy.
– For the first time, we requested managing agents submit an ESG strategy as part of their syndicate business plans to enable us to form an aggregated market-level view of how embedded sustainability is across the market.
– We have contributed to the development of the first accounting standard for insurance associated emissions through the UN-convened Net Zero Insurance Alliance (NZIA) and Partnership for Climate Accounting Financials.

Improving society's resilience to risk

In 2022, Lloyd's acted quickly to respond to the conflict in Ukraine by:

– Deploying expertise and resources to support a comprehensive global sanctions regime against the Russian state.
– Launching a first-of-its-kind market facility to insure grain shipments from Ukraine's ports, giving ship owners the confidence to move over 100 ships, carrying 2.3 million tonnes of grain, out of Ukraine.
– Working with the UN to enable vital Russian fertiliser transportation, to help ease food insecurity and market volatility.

Lloyd's Futureset

Our Futureset research platform published two landmark reports on the impact of the Ukraine conflict, for both customers and the (re)insurance industry, covering affected areas such as the global energy transition, supply chains and cyber security.

In addition to the Ukraine conflict reports, Futureset:

– Published two additional reports on the geopolitical implications of climate change and physical cyber risk, and the first report in a series of three on supply chain protection. These reports have been downloaded more than 6,500 times.
– Ran 12 events to boost awareness and cross-sector collaboration around the evolving risk landscape and changing insurance needs. Futureset events have been attended by more than 900 people from the market and beyond.

Convening to inspire and drive action

Building on the launch and early progress of His Majesty The King's Sustainable Markets Initiative (SMI) Insurance Task Force, launched in 2021, we continued to convene the industry to build climate resilience across underwriting, claims and investment. This included:

Sustainable Markets Initiative Insurance Task Force

– Launching an industry commitment to build more sustainable global supply chains.
– Convening the market to partner with HM Treasury for delivery of the Live Events Reinsurance Scheme, supporting the UK's economic recovery from the pandemic.
– Collaborating with the UK Government and leading industry experts on the development of the Earth and Space Sustainability Initiative kitemark.
– Updating the SMI insurance products and services showcase with new green and sustainable products developed in 2022.
– Representing the market at COP27 and New York Climate Week, establishing relationships with global leaders and organisations working to support the global transition to net zero.

Building a more inclusive market

We know that to reach our ambition of building a more resilient, sustainable and inclusive market we need to have the right people in place – and create an environment where they can thrive. To deliver that we need a market that is diverse, inclusive and where everyone has equity of opportunity.

Lloyd's is working to foster this culture both internally, in the Corporation, and across the market. It is one of our four strategic pillars – and you can read about our work to build a more inclusive market in the 'Our Strategy' section on pages 13 to 15.

Sustainability reporting

Further information on sustainability initiatives can be found in the Lloyd's Environmental, Social and Governance Report published on www.lloyds.com.

Supporting our communities

Lloyd's was proud to announce the formation of the Lloyd's of London Foundation (the Foundation) in 2022, bringing our global charitable giving together under one roof. The Foundation sets the focus for charitable support across the Corporation and the Lloyd's charities – Lloyd's of London Foundation (formerly Lloyd's Charities Trust), Lloyd's Patriotic Fund, Lloyd's Benevolent Fund and Lloyd's Tercentenary Research Foundation – to help people and communities become more resilient, sustainable and inclusive.

In 2022, we supported 50 charities in the communities where we work and donated £1.9m, impacting 100,000 people globally across our charitable giving programmes. As part of the Foundation's Community Programme, 58 market firms and almost 2,000 volunteers from the Corporation and the market volunteered with our community partners.

Case study:
SEO London

In 2022, Lloyd's supported almost 700 students through the SEO London 'Step into Insurance' programme. The programme prepares young people for the world of work and encourages them to explore careers in the Lloyd's insurance market, exposing them to the plethora of opportunities and innovation that our industry offers. 300 volunteers across the Lloyd's market worked to bring insurance to life for young people through mentoring, workshops, masterclasses and internships.

Michael Moyo, who completed an internship at Hiscox, said: "The team I worked with at SEO London was nothing short of amazing! I would like to thank them for welcoming and teaching me so many invaluable lessons. Through the masterclasses we got exceptional and unique tips on submitting successful applications tailored to each organisation and the opportunity to meet and interact with people ranging from different seniority levels. I was offered a placement in the London Market Claims team at Hiscox and after attending a masterclass and learning about their company, I was able to fully immerse myself in their organisation. There is no way I could have learnt about the industry without the support of SEO London."

Key stats

£1.9m

donation to 50 causes across the Lloyd's charities and nominated by Lloyd's Corporation

100,000

beneficiaries supported

2,000

volunteers contributing 8,000 hours of volunteering

£40,000

donated to 50 charities supported by our employees through Lloyd's Matched Funding Scheme

£58,000

donated to charities by employees through the Lloyd's Payroll Giving Scheme

5,000

young people supported globally through education and employability programmes

Carbon emissions

		Total scope 1 (location based)	Total scope 1 (market based)	Total scope 2 (location based)	Total scope 2 (market based)	Total scope 1+2 (location based)	Total scope 3	Grand total scope 1,2,3 (location based)	Grand total scope 1,2,3 (market based)	Carbon intensity location based (tCO_2e/ FTE)	Total energy usage (kWh)
2022 (tCO_2e)	**UK emissions**	**1,295**	**79**	**2,582**	**–**	**3,877**	**1,148**	**5,025**	**1,227**	**4.7**	**20,324,585**
	Global emissions (ex. UK)	**22**	**22**	**599**	**641**	**621**	**129**	**750**	**792**	**2.4**	**1,482,626**
2021 (tCO_2e)	UK emissions	1,609	1,609	3,074	–	4,683	888	5,571	2,497	5.7	23,500,425
	Global emissions (ex. UK)	15	15	518	538	533	54	587	607	2.2	1,316,387

The methodology used to compile our Greenhouse Gas (GHG) emissions inventory is in accordance with the requirements of the WRI GHG Protocol Corporate Standard (revised version) and Defra's Environmental Reporting Guidelines including Streamlined Energy and Carbon Reporting requirements (March 2019).

The data above is reported based on calendar year location-based totals, which are the summation of the UK emissions and Global emissions (ex UK) to comply with the requirements of the SECR regulations.

Scope 1 includes natural gas, company cars, other fuels, refrigerants; scope 2 includes electricity; scope 3 includes employee cars, flights, domestic and international rail, public transport, commute, paper, waste, water, data centres, and electricity transmission and distribution losses. Energy reporting includes kWh from scope 1, scope 2 and scope 3 employee cars only.

The figures above include all our global offices, where we request actual consumption data for electricity, natural gas, paper, waste and water. Where emissions and energy use data cannot be collected directly an estimation has been used based on industry benchmarks. To make these estimations as accurate as possible, we request up-to-date floor area information. This methodology is in line with previous years' methodology.

We have seen a 16% decrease in our global emissions per full-time employee since 2021, and an overall 44% reduction since our baseline year of 2019. Our 19% reduction in scope 1 emissions was achieved by switching from traditional natural gas to certified biogas in our London office. While office use has remained fairly consistent since 2021, we have reduced our electricity consumption, resulting in an 11% reduction in location-based emissions from electricity.

Our electricity consumption for our two operating UK sites, 1986 building and Fidentia House, increased by 9% as more people returned to the office following the COVID-19 restrictions being lifted. However, overall our electricity consumption in the UK fell by 8%, this is due in large part to the closure of an external server site in the UK – this site contributed to 14% of electricity consumed in the UK in 2021. The collection of actual consumption data has allowed us to reduce our reliance on assumption-based calculations, which has resulted in some significant decreases at specific sites. In total, we received actual consumption data or updated floor area and FTE data from 17 offices this year, compared with 13 last year. An example of how this resulted in a reduction was our office in Mumbai, actual consumption data is 88% lower than what was estimated for 2021.

Our overall increase in scope 3 emissions, as well as our overall increase for global emissions, has been driven almost entirely by an increase in business travel and employee commuting as a result of COVID-19 restrictions being eased in the UK and worldwide. Additionally, due to a significant remodelling of our UK office site, we experienced a spike in waste and recycling emissions in 2022.

Lloyd's are aware of our reporting requirements under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. We continue to go beyond the requirement of the regulations by reporting on all material global emissions in scope 1 and 2, plus selected scope 3 emissions, using an operational control approach.

The analysis is partially based on the country-specific CO2 emission factors developed by the International Energy Agency, but the results above have been prepared by Lloyd's and do not necessarily reflect the views of the International Energy Agency.

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Market Results

2022 Highlights

Financial highlights

Lloyd's reported a loss before tax of
£769m
(2021: £2,277m profit)

Combined ratio of
91.9%
(2021: 93.5%)

Gross written premium of
£46,705m
(2021: £39,216m)

Capital, reserves and subordinated loan notes stand at
£40,205m
(2021: £36,553m)

Gross written premium
(£m)

2018	35,527
2019	35,905
2020	35,466
2021	39,216
2022	**46,705**

Result before tax
(£m)

2018	(1,001)
2019	2,532
2020	(887)
2021	2,277
2022	**(769)**

Capital, reserves and subordinated loan notes (£m)

2018	28,222
2019	30,638
2020	33,941
2021	36,553
2022	**40,205**

Central assets and subordinated loan notes (£m)

2018	3,211
2019	3,285
2020	3,308
2021	3,073
2022	**3,105**

Return on capital[1]
(%)

2018	(3.7)
2019	8.8
2020	(2.8)
2021	6.6
2022	**(2.0)**

Combined ratio[1]
(%)

2018	104.5
2019	102.1
2020	110.3
2021	93.5
2022	**91.9**

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), the Society of Lloyd's financial statements and any central adjustments. Further information concerning the basis of preparation of the PFFS is set out on pages 37 and 38.

1 The combined ratio and the return on capital are metrics that are consistently used to analyse financial performance in the Lloyd's market results and/or in the Society Report. These metrics (wherever used in this Annual Report) are Alternative Performance Measures (APMs), with further information available on pages 167 and 168.

Market results

The Lloyd's market reported an underwriting result of £2,641m with a combined ratio of 91.9% for the 2022 financial year, (2021: underwriting result of £1,741m with a combined ratio of 93.5%), reflecting improved managing agent underwriting discipline and the benefit of a favourable pricing environment. The favourable underwriting result was dampened by the valuation losses on investments of £3,128m (2021: net investment income of £948m), driven by the turbulence experienced in the financial markets in 2022. The overall result is a loss before tax of £769m (2021: profit before tax of £2,277m), with other expenses partially offset by the benefit of foreign exchange gains and other income of £282m (2021: £412m). The valuation losses on our bond portfolio have no cash flow impact and will reverse out over the next two-to-three years as the assets reach maturity.

Underwriting result

Market gross written premium grew 19.1% year-on-year to £46,705m.

The market continued to see risk adjusted rate increases on renewal business across most classes, with the 20th consecutive quarter of positive rate movement being reported in the fourth quarter of 2022. Risk adjusted rate change accounted for 7.7% of premium growth. The remaining growth in gross written premium is attributable to 7.8% foreign exchange movement and 3.6% volume growth.

As in previous years, syndicates which have a proven track record of producing sustainable profit are given greater business plan flexibility, including to grow their business. The underwriting result rose 51.7% year-on-year to £2,641m driven by the continued realisation of benefits from the market's strong underwriting action and positive rating environment.

The combined ratio of 91.9% represents a 1.6% improvement when compared with prior year. Prior year releases benefited the combined ratio by 3.6% (2021: 2.1%), with releases reported across all lines of business other than specialty reinsurance and casualty.

The underwriting result includes the impact of major claims which represented 12.7% of the combined ratio. Hurricane Ian was the costliest weather event of the year and one of the key drivers of major claims alongside the conflict in Ukraine.

Improvement to the underlying combined ratio was driven by reductions to the attritional loss and expense ratios of 0.5% and 1.1% respectively. The attritional loss ratio of 48.4% reflects the market's continued action to drive sustainable profitable performance as well as the benefit of risk adjusted rate increases across most lines.

The improvement in the expense ratio, which has reduced to 34.4% from 35.5%, was driven by a 0.6 percentage point improvement in the acquisition cost ratio and a 0.5 percentage point improvement in the administrative expense ratio. The improvement in the operating expense ratio was largely driven by foreign exchange gains favourably affecting premiums.

Investment review

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

2022 was an exceptionally turbulent year for risk assets, driven by rising interest rates, as Central Banks have taken action to contain the increasing levels of inflation caused by supply chain disruption, the war in Ukraine and political uncertainty. The US Federal Reserve raised rates by 425 basis points over the course of the year to 4.5%, at times at a pace of 75 basis points. The Bank of England, which actually started increasing rates at the tail end of 2021, raised rates by 325 basis points to close the year at 3.5%. The pace of rate increases caused a major re-pricing across all asset classes. Assets from investment grade fixed income bonds to equity markets generated significant negative total returns, with long-duration assets the most affected. Specific to the United Kingdom, there was extreme volatility in pounds sterling and UK Gilts over September as a result of the Government's 'fiscal event'.

Despite a turbulent 2022 the higher interest rate environment has created significant opportunities for the Lloyd's market looking forward to 2023, given the majority of the market portfolio is invested in short-duration government bonds, high-quality corporate bonds and cash that are expected to generate a higher return.

Balance sheet strength

The Lloyd's market continues to be strongly capitalised with total capital, reserves and subordinated loan notes of £40,205m at 31 December 2022, a 10.0% increase from the £36,553m reported at 31 December 2021. The Lloyd's market solvency ratios, both central and market-wide solvency ratios, have strengthened since 31 December 2021.

The central solvency ratio has increased from 388% at 31 December 2021 to 412% at 31 December 2022. This is driven by an increase in the callable layer (calculated as 5% of members' contributions) due to underlying premium growth in the market, and fair value movements on investments. The positive movements are partially offset by a £100m increase in the Central SCR.

The market wide solvency ratio has increased from 177% at 31 December 2021 to 181% at 31 December 2022. This is driven by increases in member balances, primarily as a result of the discounting benefit, and Funds at Lloyd's as a result of exposure changes. The positive movements are driven by growth, increased economic inflation uncertainty and a weakening of the sterling against US dollars during 2022. These changes are partially offset by an increase in interest rates and increased profitability of business. The change in inflation uncertainty is captured within market risk, which has increased significantly since 31 December 2021.

2022 Highlights continued

2022 Performance

Premium

Gross written premiums have increased by 19.1% to £46,705m (2021: £39,216m), attributable to 7.8% foreign exchange movement, 7.7% of price changes and 3.6% volume growth.

Casualty and property were the largest drivers of premium growth in the market, growing £2,627m and £2,458m respectively. All lines of business experienced growth during 2022.

US dollar denominated business continues to account for the majority of business written in the Lloyd's market. Strengthening of US dollar to sterling average rates of exchange has led to comparative increases in premiums year-on-year.

Accident year ratio

The accident year ratio[1] excluding major claims has continued to improve, reducing to 82.8% (2021: 84.4%). Within this there has been further improvement in the attritional loss ratio and expense ratio[1]. Prior year movements have had a slightly better impact on the results than in 2021.

Attritional loss ratio[1]: the attritional loss ratio continued to improve in 2022, reducing to 48.4% (2021: 48.9%). Improvements to the attritional loss ratio continue to be driven by the sustained positive rate environment and emphasis on underwriting discipline across the market. The improvement in the loss ratio continued despite the market reserving 2.9% for inflation in addition to any implicit allowance included in reserving methodologies.

Prior year development: 2022 was the 17th consecutive year of prior year releases. The current year result has seen more benefit from prior year releases[1] at 3.6% of net earned premium (2021: 2.1%). There have been releases against all lines of business other than specialty reinsurance and casualty.

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

Major claims

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

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

Hurricane Ian and the conflict in Ukraine both remain manageable events for the market. Hurricane Ian was a 1 in 10 event on a gross basis and 1 in 7 net when compared to Lloyd's modelled outcomes. Losses from Ukraine continue to develop and the claims incurred but not reported (IBNR) component represents greater than 90% of the loss.

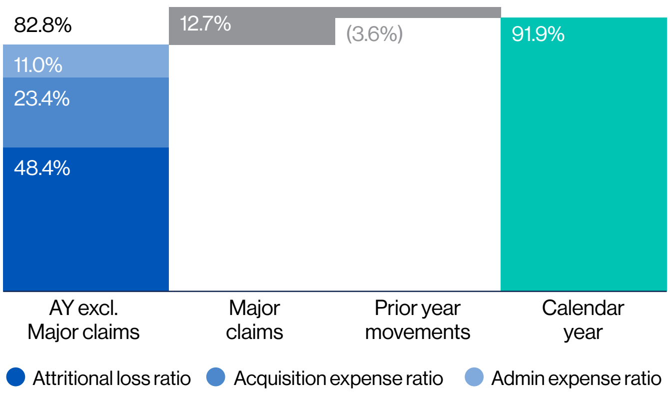
Major claims and accident year ratio excluding major claims

Major claims	% of net earned premium
2018	11.6
2019	7.0
2020	23.0
2021	11.2
2022	**12.7**
Five year average[2]	10.5
Ten year average[2]	9.4

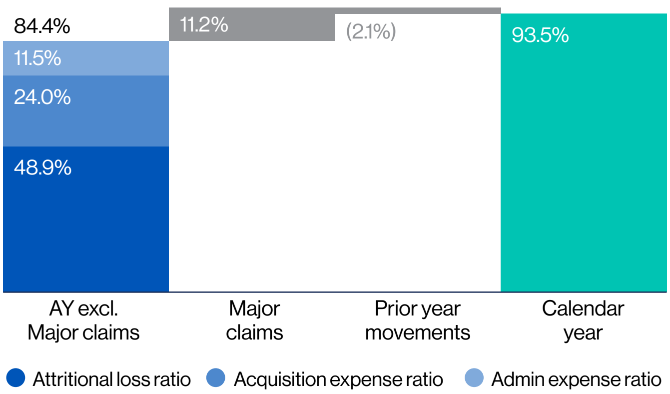
Accident year ratio excl. major claims	%
2018	96.8
2019	96.0
2020	89.1
2021	84.4
2022	**82.8**
Five year average[2]	89.8
Ten year average[2]	91.9

1. The accident year ratio, underlying combined ratio, attritional loss ratio, prior year release ratio and expense ratio are metrics that are consistently used to analyse financial performance in the Lloyd's market results and/or in the Society Report. These metrics (wherever used in this Annual Report) are Alternative Performance Measures (APMs), with further information available on pages 167 and 168.
2. Averages exclude impact of COVID-19.

Contributors to combined ratio
2022 Combined ratio %



2021 Combined ratio %



Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remains extremely high, with 98% (2021: 98%) of all balance sheet reinsurance recoverables and reinsurance premium ceded being with reinsurers rated A- and above or supported by high-quality collateral assets.

Reinsurers' share of claims outstanding remains a material consideration for Lloyd's, equivalent to 63.0% of gross written premium or 79.3% of members' assets (2021: 61.7% of gross written premium or 72.3% of members' assets). There has been an increase in the overall reinsurance recoverables primarily due to catastrophe losses experienced during 2022 and the continuing use of retrospective reinsurance protections. This increase reflects the reinsurance risk transfer strategy of the Lloyd's market, the nature of loss events experienced during 2022 and risk mitigation actions being taken to assist in the management of legacy exposures. No negative settlement trends have been witnessed to date.

Lloyd's outward reinsurance premium spend for the 2022 calendar year was 26.0% (2021: 27.5%) of gross written premium, which reflects a relatively stable overall position in regard to the scale of reinsurance purchased. This level of reinsurance transfer remains within risk appetite.

Inwards pricing and reinsurance structures at 1/1 varied by class of business, with property classes shifting significantly and war and political risk classes also restricted. Casualty and liability classes were the least affected. Overall the shape of the reinsurance portfolio is not expected to materially alter gross written premium.

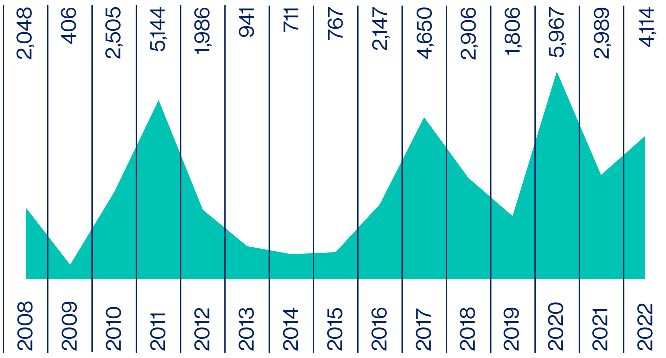
Result for the closed year and run-off years of account

Under Lloyd's three-year accounting policy for final distribution of each underwriting year of account, the 2020 underwriting year of account reached closure at 31 December 2022. The 2020 pure underwriting year suffered losses from COVID-19 as well as a number of catastrophic events, including Hurricane Laura and Hurricane Sally.

Despite these major claim events, the 2020 pure underwriting year of account reported an underwriting result that was boosted by the addition of releases from 2019 and prior years, which were reinsured to close at the end of 2021. These releases amounted to £816m. The underwriting result was partially offset by investment losses on the 2020 underwriting year, which meant the total result was an overall profit of £290m (2019 underwriting year loss: £953m).

At the beginning of 2022, there were nine syndicates whose 2017, 2018 and 2019 underwriting years remained open. These run-off years reported an aggregate loss of £15m, including investment return in 2022 (2021: loss of £100m). There were seven syndicates whose 2017/2018/2019 underwriting years remained open post 31 December 2022. The total number of open underwriting years at 1 January 2023 is nine.

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



Five year average: £3,909m; 15 year average: £2,955m. Indexed for inflation to 2022. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

Prior year reserve movement	% of net earned premium
2018	(3.9)
2019	(0.9)
2020	(1.8)
2021	(2.1)
2022	**(3.6)**

Years of account in run-off	Number of years
2018	0
2019	3
2020	9
2021	9
2022	**9**

Line of business:

Reinsurance – Property

Property catastrophe excess of loss represents the largest class in this line. Other key sectors include property facultative, property risk excess and property pro rata.

2022 performance

Property reinsurance gross written premium for 2022 was £7,745m (2021: £7,385m), an increase of 4.9%.

The line reported an accident year ratio of 100.5% (2021: 102.8%) representing a 2.3% improvement year-on-year.

Weather related disasters continued to dominate in 2022. The US was significantly impacted with Hurricane Ian and the severe convective storm season, both of which had a major impact on results for this line. Other regions also experienced extreme events; notably the Australian Floods, European windstorms and Typhoon Nanmadol.

Attachment point and aggregate deployment are key themes for this line given higher frequency and severity of loss activity in recent years.

Prior year movement

The prior year movement was a release of 4.9%, calculated as the net movement in ultimate claims, as a percentage of net earned premium (2021: release of 3.9%). Releases are generally expected as claims estimates for older losses become more certain and margins for uncertainty are released.

Experience on prior years has been favourable overall. There have been reductions in ultimate claims on some historical catastrophe events such as Hurricane Harvey (2017), Hurricane Irma (2017), California Wildfires (2017), Typhoon Faxai (2019) and Typhoon Hagibis (2019). These movements have been partially offset by deteriorations on 2021 catastrophe events on property reinsurance classes, in particular Hurricane Ida, European Flooding events and the US Winter Storms.

In addition to this, property reinsurance losses arising from COVID-19 have deteriorated, driven in general by litigation developments.

Looking ahead

January 2023 presented one of the hardest and most dislocated reinsurance markets in years. Accumulated reinsurer loss experience was exacerbated by Hurricane Ian and contributed to an ongoing trend of loss fatigue and trapped collateral. Alongside the global inflationary environment and rising risk-free returns, this manifested in a reduction of capacity available within the reinsurance and retrocession market. Property reinsurance was among the most impacted lines of business, with a significant imbalance between supply and demand for capacity and a more restrictive product offering. These trends are likely to present both an opportunity for writers of property reinsurance as price increases accelerate, while also creating cost and capacity challenges for their own retrocession programmes. It is widely expected that these trends are likely to persist for the foreseeable future.

Reinsurance – Casualty

Non-marine liability excess of loss represents the largest class in this line.

2022 performance

Casualty reinsurance gross written premium for 2022 was £4,818m (2021: £4,440m), an increase of 8.5%.

The line reported an accident year ratio of 94.2% (2021: 88.9%), representing a 5.3% deterioration year-on-year.

Over the course of 2022, casualty reinsurance maintained the trend of price strengthening as reinsurers managed inflation and an uncertain global economic outlook. The market continued to experience tightening policy coverage and positive price momentum was particularly pronounced in distressed and high exposure accounts across most lines of business. Capacity availability continued to return for better performing portfolios, but not to the detriment of underwriting discipline.

Prior year movement

The prior year movement was a release of 2.9% (2021: strengthening of 8.1%). Despite 2022 being a year of favourable prior year claims experience for casualty reinsurance business, emerging issues such as the material increase in economic inflationary environment drove further uncertainty on this line.

Looking ahead

The market continues to closely monitor social and economic inflation as well as the rise in interest rates to ensure adequate and robust pricing and reserving.

While new capacity has come to the market during 2022, the expectation is that positive pricing momentum will continue and the availability of capacity for loss impacted accounts will remain constrained. Maintaining pricing parity with claims inflation will remain a key theme and prudent risk selection and terms setting will continue to remain fundamental to profitability in the coming year.

Reinsurance – Specialty

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

2022 performance

Specialty reinsurance gross written premium for 2022 was £2,802m (2021: £2,512m), an increase of 11.5%.

The line reported an accident year ratio of 96.4% (2021: 80.9%), representing a 15.5% deterioration year-on-year.

Gross written premium by sector within specialty was as follows: marine, aviation and transport £2,115m (2021: £1,782m), energy £684m (2021: £655m), life £3m (2021: £75m).

Marine reinsurance has historically included composite programmes for a broad variety of coverages such as political violence, strikes, riots, war and civil commotion. 2022 performance was negatively impacted by the conflict in Ukraine.

Prior year movement

The prior year movement was a strengthening of 0.3% (2021: strengthening of 0.2%). Claims experience has performed broadly in line with expectations over 2022.

This sector is predominantly marine, aviation and motor business, written on an excess of loss basis. All three of these lines have not seen significant movements over 2022. Claims experience on marine reinsurance, however has been a little more mixed, with deteriorations on Hurricane Ida (2021) being offset by releases on Hurricane Sandy (2012).

Looking ahead

Following the events arising out of the conflict in Ukraine we have seen substantial rate increases coming into nearly all programmes with increased retentions and reduced aggregate limits. From a policy wording perspective we have seen restructuring of composite programmes to include more specific cover, as well as tightening of wordings and event definitions on both the marine and aviation lines. There are still some key portfolios yet to renew and these trends are expected to continue for 2023 renewals.

Property

Property consists of a broad range of risks written worldwide, made up of predominantly excess and surplus lines of business. Coverage includes specialist sectors such as terrorism, power generation, engineering and nuclear. Delegated authority arrangements such as coverholder frameworks represent a high proportion of the distribution mix for this class.

2022 performance

Property gross written premium for 2022 was £12,045m (2021: £9,587m), an increase of 25.6%.

The line reported an accident year ratio of 100.1% (2021: 104.7%), representing a 4.6% improvement year-on-year.

2022 was impacted by a year of heightened catastrophic losses, most notably Hurricane Ian. The catastrophe component of the loss ratio remains under pressure and a challenge to the class profitability. However, portfolio remediation work continues to drive improvement on the attritional loss ratio. In addition, the market continues to see some de-risking of catastrophe exposures in certain areas and refinement of risk appetites where performance has lagged.

In terms of the political risk and terrorism segments of the property portfolio, 2022 performance was negatively impacted by the conflict in Ukraine. This brought significant levels of distress to an already volatile geopolitical and macro-economic environment and put pressure on pricing, aggregation, distribution and reinsurance protection for some market participants on the back of a prolonged soft market phase.

Losses in the contingency line of business, due to the impact of COVID-19, have stabilised. There are no material concerns around the risk of loss deterioration given the lifting of all legal restrictions in the UK and the application of exclusions and reductions in exposure. Almost all policies now exclude coverage. Certain legacy policies still include pandemic cover having been written many years in advance however, given the current environment surrounding COVID-19 the risk of these policies incurring losses is greatly reduced.

Prior year movement

The prior year movement was a release of 6.8% (2021: release of 9.9%). Recent years of account have seen elevated levels of catastrophe losses worldwide, with the most impact seen for the direct and facultative lines of business. On catastrophe losses, there is a tendency for the initial view of claims to allow for inherent uncertainty and so releases are common.

There have been releases on recent catastrophe events during 2022. In particular, Hurricane Ida (2021) saw favourable movements, as well as the US Winter Storms (2021) and Hurricane Laura (2020). There have also been releases on older catastrophe events such as Hurricanes Harvey, Irma and Maria (2017) and Hurricane Florence (2018).

As a result of COVID-19, prior years were impacted by contingency, business interruption cover and political risks, credit and financial guarantee losses. Over the 2022 calendar year, there have been releases in respect of business interruption claims, driven by favourable court rulings in Australia. Additionally, there have been releases for political risks, credit and financial guarantee losses as a result of reduced uncertainty in relation to these claims. This has been partially offset by slight deteriorations in contingency losses in relation to COVID-19.

Looking ahead

Positive pricing momentum is expected to continue through 2023, driven primarily through hardening reinsurance market costs, particularly where critical catastrophe or political violence exposures exist.

Aggregate appetite for catastrophe exposures will remain a key challenge in 2023, requiring focus and discipline to successfully execute and deliver upon 2023 plans.

Challenges are also envisaged for the political violence and terrorism segment, as market participants recalibrate risk appetites.

Performance within binder class business remains an area in which continued focus is needed through 2023.

Casualty

General liability and professional lines represent the largest classes in this line. Other key sectors include shorter tail lines such as cyber and accident & health.

2022 performance

Casualty gross written premium for 2022 was £12,987m (2021: £10,360m), an increase of 25.4%.

The line reported an accident year ratio of 91.7% (2021: 95.6%), representing a 3.9% improvement year-on-year

2022 saw positive price momentum for the line slow following multiple years of significant price increases across almost all lines of business, particularly cyber.

The market started to soften while capacity remained stable overall. There has been a pronounced shift away from certain lines, exposures and occupations. Cyber maintained positive pricing momentum though not to levels seen in recent years. Proportional growth was seen in cyber through other distribution channels and regions worldwide where a strong correction on rates has been carried out. Increased focus on performance management and remediation in cyber has resulted in a continuation of growth outside the US, which represents maturity of cyber standards as well as appetite for portfolio diversification

Directors & officers liability has experienced market softening resulting in significant downwards pressure on pricing.

Prior year movement

The prior year movement was a strengthening of 2.0% (2021: strengthening of 4.7%). Strengthening has been observed over a number of casualty lines and is due to a combination of adverse experience and strengthening of reserving assumptions.

Inflation has been a key area of oversight for Lloyd's over 2022, given the current economic environment. In particular, Lloyd's set out its expectation to the market that explicit consideration should be given within the reserves to the impact of the current inflationary environment. As such, part of the strengthening in the prior year reserves for casualty is due to increases in allowances for inflation, in line with Lloyd's guidance.

Given the long-term nature of the underlying policies and current macro view on concerns such as economic and social inflation, we would generally expect a greater level of uncertainty in the casualty line being factored into the reserves. Given the increased level of uncertainty with respect to casualty reserves over 2022, in particular with respect to inflation, reserve strengthening in the market is not out of line with expectations.

Looking ahead

As with casualty reinsurance there continues to be a growing focus on social and economic inflation as well as the impact of recession on all lines. Slowing price increases will need to be monitored in light of these broader macro-economic trends.

Given the above, there is a continued elevated level of oversight by Lloyd's and additional work being done by the market to monitor the robustness of reserves for this line during this period of heightened uncertainty.

Marine, Aviation and Transport

Marine business encompasses a wide variety of sub-lines including cargo, hull, marine war, marine liabilities, and specie and fine art. Cargo represents the largest class in this line.

Aviation encompasses airline, aerospace, general aviation, space and war. Airline (hull and liability) represents the largest class in this line. Other key sectors include general aviation, airport liability, aviation product manufacturers' liability, aviation, war/terrorism and satellite launch and in-orbit risks.

2022 performance

Marine, aviation and transport gross written premium for 2022 was £3,851m (2021: £2,909m), an increase of 32.4%.

The line reported an accident year ratio of 101.7% (2021: 90.0%), representing a 11.7% deterioration year-on-year.

Marine, aviation and transport lines continue to see positive price momentum coming through the portfolio. 2022 was dominated by the Russian invasion of Ukraine leading to sharp pricing increases, particularly in aviation war and specific marine war breach calls.

For those classes of business, which were largely unaffected by the Russia Ukraine conflict, rate increases remained positive but showed signs of slowing. Marine liability saw significant price increases as well as wording tightening across the reinsurances placed into the market. Cargo, the largest of the sub-classes in the portfolio, continues to deliver excellent results following years of positive price momentum and improved terms and conditions. Marine war portfolios are currently holding reserves in the 2022 year of account for potential losses that may materialise as a result of blocking and trapping in the Black Sea arising from the conflict in Ukraine.

Prior year movement

The prior year movement was a release of 11.4% (2021: release of 8.0%).

On marine lines, there is a tendency for the view of claims to be held for a number of years to allow for inherent uncertainty and so releases are common. Overall, these lines of business have performed favourably against expectations over 2022. Many carriers have reported benign claims experience on prior years for most lines of business including marine cargo, hull and liability, and across both attritional and large claims. Recent years have seen higher than average catastrophe losses, which are known to drive property damage claims. However, there has been limited movement on historical catastrophe events over 2022, with the exception of Hurricane Ida (2021), where losses have deteriorated.

Similarly, on aviation lines, carriers have reported favourable experience for both attritional claims and large losses across a range of lines of business, with many insurers seeing favourable experience on Aerospace classes and hence releasing reserves. The ultimate position for losses relating to the grounding of the Boeing 737 MAX fleet has remained stable over 2022.

Looking ahead

Following the Russian invasion of Ukraine, there remains considerable uncertainty as the to the ultimate amounts at which claims arising from the war will be settled. There has been a sharp contraction in the amount of available reinsurance capacity for the affected sub-classes and reinsurance capacity that is available is significantly more expensive than in previous years. This means that market participants are having to be far more cognisant of aggregation and accumulation exposures going forwards, particularly in aviation and marine war portfolios. The reinsurance contraction and lateness of reinsurance renewals led to a pressurised purchasing environment for syndicates, however it is driving improved underwriting disciplines for the market and the expectation is that this will be reflected in better performance going forwards. An increased awareness for the very real and severe chance of significant accumulation of risks is leading to necessary pricing correction, particularly in aviation war and contingent risks.

Marine liabilities, following a relatively benign year in 2022, are beginning to achieve rate increases whereas other areas in marine are largely flat. This does follow several years of positive rate change and major improvements and consistency in results.

Energy

Energy encompasses a variety of onshore and offshore property and liability products ranging from construction to exploration, production, refining and distribution.

2022 performance

Energy gross written premium for 2022 was £1,505m (2021: £1,262m), an increase of 19.3%.

The line reported an accident year ratio of 96.6% (2021: 98.0%), representing a 1.4% year-on-year improvement.

Energy endured a challenging year in 2022 due to the Russian invasion of Ukraine and subsequent sanctions brought against Russian energy companies and financial institutions. While this impacted premium levels for many Lloyd's syndicates, the subsequent energy security concerns that followed and increased energy retail costs, led to a significant uptick in production elsewhere globally and, as such, insurable values increased by virtue of heightened business interruption exposures. These factors were prominent underwriting considerations in 2022. The pricing environment across property and casualty lines for energy stayed relatively stable. A number of midstream and downstream gas, LNG, pipeline and refinery loss activity in the second half of year materially impacted profitability.

Prior year movement

The prior year movement was a release of 6.5% (2021: release of 6.5%). This line contains a mix of contracts that give rise to claims that are settled on both a short-term and long-term time horizon. With respect to short-term contracts, there has been limited movement on historical catastrophe events, with the exception of Hurricane Zeta (2020), where losses have deteriorated. Given that the energy lines are also exposed to isolated large losses, large margins for uncertainty tend to be held and released in benign years. For long-term contracts, these margins can be held for a number of years. Reductions in claims estimates for these large losses and the release of unused margin is expected to drive releases at a market level. This is evident across the market with insurers reporting releases on incurred but not reported (IBNR) following benign claims experience on prior years of account with respect to both specific events and attritional claims.

Looking ahead

After years of positive pricing the initial outlook was to expect slowing rate increases into 2023. However, convergence of midstream loss activity in the second half of 2022 and a changing specialty reinsurance market has led to a refreshed outlook with all energy product lines now anticipating to remain positive for another year. While some insurers will be prepared to take an increased net exposure to offset increased reinsurance costs, given the high values and large limits the exposure to large losses will still have to be carefully managed.

2022 saw a substantial increase in opportunities to write renewable energy exposures and this is anticipated once again for 2023, especially given the increasing requirement to transition towards sustainable energy. Globally, onshore solar and offshore wind in particular are expected areas of growth; however, pricing and terms and conditions, while improved, remain challenging to sustainable profitability.

Pricing models and assumptions around secondary catastrophe, such as hail for example, are specifically likely to be under review in 2023.

Motor

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

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

2022 performance

Motor gross written premium in 2022 was £895m (2021: £713m), an increase of 25.5%.

The line reported an accident year ratio of 104.5% (2021: 101.0%), representing a deterioration of 3.5% year-on-year.

Following a number of years of competitive pricing, international motor has continued to see positive trends with more price strengthening during 2022, though not to the same level as 2021. There has also been a focus on increased deductibles and tightening of terms and conditions.

In the UK, the pricing levels achieved during 2022 are under pressure from competitors, with a continued focus on performance management and remediation by Lloyd's.

Prior year movement

The prior year movement was a release of 14.8% of net earned premium (2021: release of 7.2%). This is driven by favourable claims experience against expectation for UK and overseas motor, including favourable experience on both small and large injury claims.

Looking ahead

While current indications have shown recent improvements in the performance of international motor, there remains uncertainty as to whether current pricing levels are sufficient and whether enough consideration has been given to further development of longer tail risks, especially given the inflationary environment.

2022 Highlights continued

Reinsurance

Property		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2018	6,440	121.1	(4.9)	116.2	(672)
	2019	6,405	106.5	(0.3)	106.2	(258)
	2020	6,627	112.8	(2.8)	110.0	(441)
	2021	7,385	102.8	(3.9)	98.9	54
	2022	**7,745**	**100.5**	**(4.9)**	**95.6**	**247**

Casualty		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2018	2,541	99.7	(3.6)	96.1	78
	2019	2,960	102.4	1.7	104.1	(94)
	2020	3,321	113.0	(2.3)	110.7	(288)
	2021	4,440	88.9	8.1	97.0	99
	2022	**4,818**	**94.2**	**(2.9)**	**91.3**	**322**

Specialty		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2018	2,089	101.9	(11.0)	90.9	138
	2019	2,053	108.6	(2.8)	105.8	(82)
	2020	2,211	101.1	(6.0)	95.1	73
	2021	2,512	80.9	0.2	81.1	336
	2022	**2,802**	**96.4**	**0.3**	**96.7**	**67**

Insurance

Property		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2018	9,687	114.0	(3.6)	110.4	(700)
	2019	9,586	101.5	(1.7)	99.8	12
	2020	9,227	135.4	(3.5)	131.9	(2,104)
	2021	9,587	104.7	(9.9)	94.8	336
	2022	**12,045**	**100.1**	**(6.8)**	**93.3**	**538**

Casualty		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2018	9,094	103.9	(1.0)	102.9	(183)
	2019	9,459	103.8	1.9	105.7	(390)
	2020	9,067	105.2	5.1	110.3	(688)
	2021	10,360	95.6	4.7	100.3	(17)
	2022	**12,987**	**91.7**	**2.0**	**93.7**	**536**

Marine, Aviation and Transport		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2018	3,152	116.2	(0.9)	115.3	(392)
	2019	2,802	113.3	(4.8)	108.5	(199)
	2020	2,976	98.2	(8.5)	89.7	239
	2021	2,909	90.0	(8.0)	82.0	388
	2022	**3,851**	**101.7**	**(11.4)**	**90.3**	**280**

Energy		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2018	1,404	105.6	(18.2)	87.4	113
	2019	1,500	107.5	(10.2)	97.3	27
	2020	1,265	99.2	(8.2)	91.0	79
	2021	1,262	98.0	(6.5)	91.5	71
	2022	**1,505**	**96.6**	**(6.5)**	**90.1**	**97**

Motor		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2018	1,037	101.8	(3.1)	98.7	12
	2019	1,053	100.6	(1.8)	98.8	11
	2020	720	95.5	(2.2)	93.3	48
	2021	713	101.0	(7.2)	93.8	35
	2022	**895**	**104.5**	**(14.8)**	**89.5**	**62**

Statement of Council's Responsibilities

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

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

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

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

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

The Lloyd's Annual Report presents the financial results of the Society of Lloyd's and its members. Lloyd's is not an insurance company. It is a Society of members, both corporate and individual, which underwrite insurance via syndicates. These syndicates can comprise one single corporate member or any number of corporate and individual members, underwriting severally for their own account. In view of Lloyd's unique structure, the Annual Report includes two sets of financial statements.

Pro Forma Financial Statements

The PFFS include the results of the syndicates as reported in the syndicate annual returns, members' funds at Lloyd's (FAL), the Society of Lloyd's Group financial statements and any central adjustments (see note 2).

Society of Lloyd's Group Financial Statements

The consolidated financial statements of the Society comprise the Society and its subsidiaries, the Lloyd's Central Fund and the Society's interest in associates and joint ventures (the Group).

Report of PricewaterhouseCoopers LLP to the Council on the 2022 Pro Forma Financial Statements

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2022 Lloyd's Pro Forma Financial Statements

Opinion

In our opinion the Council of Lloyd's has prepared the Lloyd's Pro Forma Financial Statements (the "PFFS") for the financial year ended 31 December 2022, defined below, in all material respects in accordance with the basis of preparation set out in note 2.

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

What we have assured

The PFFS, which are prepared by the Council of Lloyd's, comprise: the Pro Forma Balance Sheet as at 31 December 2022; the Pro Forma Profit and Loss account, the Pro Forma Statement of Comprehensive Income, and the Pro Forma Statement of Cash Flows for the year then ended; and the notes to the financial statements.

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

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Lloyd's Annual Report 2022 within which the PFFS for the year ended 31 December 2022 are included.

What a reasonable assurance engagement involves

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

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

The PFFS have been compiled by aggregating financial information reported in syndicate annual returns and accounts, which have been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported, members' Funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's (the Society). Our work in respect of the syndicate annual returns and accounts did not involve assessing the quality of the syndicate audits or performing any audit procedures over the financial or other information of the syndicates or provided by the managing agents of the syndicates.

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

- obtaining an understanding of how the Council of Lloyd's has compiled the PFFS from the audited syndicate annual returns and accounts, the Society of Lloyd's books and records and Members' Funds at Lloyd's;
- checking (on a sample basis) that the financial information included in the PFFS was correctly extracted from the syndicate annual accounts and the Society of Lloyd's books and records;
- evaluating evidence to support the existence and valuation of Members' Funds at Lloyd's; and
- evaluating the evidence supporting the adjustments made in the preparation of the PFFS and obtaining evidence that the PFFS have been prepared in accordance with the basis of preparation set out in the PFFS notes.

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

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

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

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

This report including our conclusions has been prepared solely for the Council of Lloyd's in accordance with our engagement letter dated 6 September 2022 (the "instructions"). Our examination has been undertaken so that we might state to the Council of Lloyd's those matters which we are required to state in this report in accordance with the instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
London
22 March 2023

Pro Forma Profit and Loss Account

(For the year ended 31 December 2022)

		2022		2021	
Technical account	Note	**£m**	**£m**	£m	£m
Gross written premiums	9	46,705		39,216	
Outward reinsurance premiums		(12,135)		(10,777)	
Premiums written, net of reinsurance			34,570		28,439
Change in the gross provision for unearned premiums		(2,445)		(2,223)	
Change in the provision for unearned premiums, reinsurers' share		333		441	
			(2,112)		(1,782)
Earned premiums, net of reinsurance	9		32,458		26,657
Allocated investment return transferred from the non-technical account	9		(1,448)		48
Claims paid					
Gross amount		21,405		19,931	
Reinsurers' share		(7,350)		(6,722)	
			14,055		13,209
Change in provision for claims					
Gross amount		7,358		3,214	
Reinsurers' share		(2,758)		(983)	
			4,600		2,231
Claims incurred, net of reinsurance	9		18,655		15,440
Net operating expenses	9, 11		11,162		9,476
Balance on the technical account for general business			**1,193**		1,789
Non-technical account					
Balance on the technical account for general business			1,193		1,789
Investment return on syndicate assets		(1,613)		113	
Notional investment return on members' funds at Lloyd's	6	(1,338)		841	
Investment return on Society assets		(177)		(6)	
Total investment return	12		(3,128)		948
Allocated investment return transferred to the technical account			1,448		(48)
			(1,680)		900
Gain on foreign exchange			158		66
Other income			75		91
Other expenses			(515)		(569)
Result for the financial year before tax			**(769)**		2,277

All operations relate to continuing activities.

Pro Forma Statement of Comprehensive Income

(For the year ended 31 December 2022)

	Note	**2022 £m**	2021 £m
Result for the financial year before tax	8	(769)	2,277
Currency translation differences		273	(19)
Other comprehensive losses in the syndicate annual accounts		(46)	(14)
Remeasurement gain on pension liabilities in the Society annual accounts		113	72
Total comprehensive (loss)/income for the year		**(429)**	2,316

Pro Forma Balance Sheet

(For the year ended 31 December 2022)

			2022		2021 (Restated)
	Note	£m	£m	£m	£m
Financial investments	13		83,583		73,041
Deposits with ceding undertakings			899		720
Reinsurers' share of technical provisions					
Provision for unearned premiums	18(a)	4,847		4,076	
Claims outstanding	18(c)	29,408		24,208	
			34,255		28,284
Debtors					
Debtors arising out of direct insurance operations	14	14,162		10,322	
Debtors arising out of reinsurance operations	15	9,418		8,969	
Other debtors		887		777	
			24,467		20,068
Other assets					
Tangible assets		23		25	
Cash at bank and in hand	16	12,289		10,957	
Other		151		158	
			12,463		11,140
Prepayments and accrued income					
Accrued interest and rent		166		105	
Deferred acquisition costs	18(b)	5,387		4,528	
Other prepayments and accrued income		310		269	
			5,863		4,902
Total assets			**161,530**		138,155
Members' funds at Lloyd's	6	34,139		31,272	
Members' balances	17	2,961		2,208	
Members' assets (held severally)			37,100		33,480
Central reserves (mutual assets)			2,502		2,277
Total capital and reserves	8		39,602		35,757
Subordinated loan notes	2, 4		603		796
Total capital, reserves and subordinated loan notes			**40,205**		36,553
Technical provisions					
Provision for unearned premiums	18(a)	23,228		19,074	
Claims outstanding	18(c)	80,905		67,800	
			104,133		86,874
Deposits received from reinsurers			1,545		1,734
Creditors					
Creditors arising out of direct insurance operations	20	1,016		871	
Creditors arising out of reinsurance operations	21	10,254		8,115	
Other creditors including taxation		2,705		2,538	
Senior debt	2, 4	303		299	
			14,278		11,823
Accruals and deferred income			1,369		1,171
Total capital, reserves and liabilities			**161,530**		138,155

Approved by the Council on 22 March 2023 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Pro Forma Statement of Cash Flows

(For the year ended 31 December 2022)

	Note	2022 £m	2021 (Restated) £m
Result for the financial year before tax		(769)	2,277
Increase in gross technical provisions		14,273	5,659
Increase in reinsurers' share of gross technical provisions		(4,952)	(3,390)
Increase in debtors		(4,127)	(1,600)
Increase in creditors		1,924	552
Movement in other assets/liabilities		(578)	(3)
Investment return		3,128	(948)
Depreciation, amortisation and impairment charge		20	18
Tax (paid)/refund		(23)	26
Foreign exchange		(1,317)	(34)
Other		43	47
Net cash inflows from operating activities		**7,622**	2,604
Investing activities			
Purchase of equity and debt instruments		(46,945)	(40,821)
Sale of equity and debt instruments		39,357	37,233
Purchase of derivatives		(345)	(455)
Sale of derivatives		275	406
Investment income received		750	610
Other		(279)	(432)
Net cash outflows from investing activities		**(7,187)**	(3,459)
Financing activities			
Net losses collected from members		360	2,109
Net capital transferred out of syndicate premium trust funds		(298)	(1,296)
Redemption of subordinated loan notes		(194)	–
Interest paid on subordinated and senior loan notes		(46)	(46)
Net movement in members' funds at Lloyd's		869	206
Other		(103)	(4)
Net cash inflows from financing activities		**588**	969
Net increase in cash and cash equivalents		**1,023**	114
Cash and cash equivalents at 1 January		12,416	12,303
Foreign exchange differences on cash and cash equivalents		342	(1)
Cash and cash equivalents at 31 December	22	**13,781**	12,416

Notes to the Pro Forma Financial Statements

(For the year ended 31 December 2022)

1. The Pro Forma Financial Statements

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

2. Basis of preparation

General

The PFFS have been prepared by aggregating audited financial information reported in syndicate returns and annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the audited financial statements of the Society of Lloyd's (the Society) on pages 121 to 164. The Council considers the environment in which the Society of Lloyd's and Lloyd's market participants are operating and any associated risks which could have an impact on the reasonableness of financial information presented in the PFFS. Where the Council considers it appropriate, central adjustments may be included in the PFFS to reflect the impact of any additional risks, as deemed necessary in preparing the PFFS. Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the PFFS; the going concern and viability statement of the Society is included within the Society Report on page 112.

The Aggregate Accounts report the audited results for calendar year 2022 and the financial position at 31 December 2022 for all life and non-life syndicates that transacted business during the year. The results and total capital and reserves 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). The Aggregate Accounts are reported as a separate document and can be viewed at www.lloyds.com/fullyearresults2022. In order to provide more meaningful information in the Aggregate Accounts and PFFS, the Society has required syndicates to consistently report certain disclosures, presented on a basis which may vary from the presentation included in the individual syndicate's annual accounts.

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

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

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

The approach taken in preparing the PFFS is outlined in (a) to (e):

(a) Aggregation

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

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

Inter-syndicate loans

The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £447m (2021: £334m). These amounts have been eliminated from those amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the PFFS.

Special Purpose Arrangements (SPA)

The Aggregate Accounts include the results and assets of the SPA (see Glossary on page 165). Due to the nature of the SPA, the quota share of the host syndicates' business is reported as gross written premiums in both the host syndicate and the SPA annual accounts. This leads to an overstatement of the original premiums written by the whole Lloyd's market. To provide users of the PFFS with a more meaningful presentation of the market's figures, all the transactions arising from the insurance contracts between the SPA and host syndicates have been eliminated. The key impact of this elimination is that gross written premium is reduced by £862m (2021: £772m). The elimination does not affect the PFFS result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

Reinsurance-to-close arrangements between syndicates

The Aggregate Accounts include the results of the syndicates, including the arrangements where prior years of account are ceded to other syndicates. Due to the nature of the arrangements, the ceding and accepting syndicates report these as current period transactions impacting gross written premiums, net earned premiums and net incurred claims. This leads to an overstatement of such balances for the Lloyd's market as a whole. To provide users of the PFFS with a more meaningful presentation of the market's figures, such RITC arrangements between syndicates for prior years of account have been eliminated. The impact of this elimination is a reduction in gross written premium, net earned premiums and net incurred claims by £1,057m (2021: £893m), £861m (2021: £844m) and £861m (2021: £844m) respectively. The elimination does not affect the PFFS result or the balance due to members.

Transactions between syndicates and the Society

- Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate returns and as income in the Society's financial statements.
- Syndicate loans to the Central Fund are reported as assets in the syndicate returns and as equity in the Society financial statements. Interest on the loans is reported as investment income in syndicate returns and as a reduction to equity in the Society's financial statements.
- Technical insurance-related transactions and balances existing between the syndicates and the subsidiaries of the Society are reported in both the syndicate returns and in the Society's financial statements.
- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls, and do not have the resources to meet those cash calls, are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate returns include those members' results and at the balance sheet date will report the outstanding liability within members' balances.
- Loans funding statutory insurance deposits and other deposits received from syndicates are reported as assets within the syndicate returns and as liabilities in the Society financial statements.

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

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

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

(c) Statement of changes in equity

Where Lloyd's is not the investment manager for FAL, actual changes are not available and therefore a statement of changes in equity has not been included. However, a statement of changes in members' balances has been included in note 17, which, along with the Society's Group statement of changes in equity (on page 124), represents the changes in equity of the other components of the PFFS.

(d) Taxation

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

(e) Related party transactions

Individual syndicates or their members do not disclose details of insurance and/or reinsurance transactions with other (non-related) syndicates or members within the market. Therefore, analysis and/or disclosure of these transactions within the Lloyd's market in the PFFS is not possible. Other than the disclosures made in note 24, a more detailed related party transaction note is therefore not included within the PFFS. The annual accounts of each syndicate or member provide, where appropriate, the required disclosures on related parties. The related party transactions of the Society are disclosed in note 32 on page 164 of the Society financial statements.

Members' funds at Lloyd's (FAL)

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

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

Subordinated loan notes

In accordance with the terms of the Society's subordinated loan notes, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves and subordinated loan notes' in the pro forma balance sheet. Note 24(a) to the Society financial statements on pages 160 to 161 provides additional information.

Senior debt

Unsecured senior debt of £300m was issued by the Society on 21 January 2020, increasing liabilities. The debt has been issued to finance the investment in the Future at Lloyd's strategy. Note 24(b) to the Society financial statements on page 161 provides additional information.

Society financial statements

The PFFS include the results and capital and reserves reported in the financial statements of the Society of Lloyd's, comprising the consolidated financial statements of the Society of Lloyd's and its subsidiaries, the Lloyd's Central Fund and the Society's interest in associates and joint ventures.

(For the year ended 31 December 2022)

3. Accounting policies

Sources of significant accounting judgements and estimation uncertainty

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

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

– Claims provisions and related recoveries are the most significant accounting estimate in preparing the PFFS, in particular for losses incurred but not reported. Variances between the estimated and actual cost of settling claims impacts claims incurred, net of reinsurance and the balance on the technical account for general insurance. Total gross outstanding claims at 31 December 2022 is £80,905m (2021: £67,800m). The total estimate as at 31 December 2022, net of reinsurers' share, is £51,497m (2021: £43,592m) and is included within the pro forma balance sheet (see note 3(a) and note 18).

– Estimated premium income, in particular estimates for premiums written under delegated authority agreements, is a significant estimate. Variances between the estimated premium income and actual received impact gross written premiums and provisions for unearned premium (see note 3(a) and note 9).

– Valuation of investments requires a degree of estimation, in particular for valuations based on models and inputs other than those observable in the market ('Level 3' of the fair value hierarchy). The estimation uncertainty impacts the carrying value of financial investments, which is the largest PFFS asset class, however, a relatively small proportion is valued at 'Level 3' of the fair value hierarchy (see note 3(a) and note 13).

– Notional investment return on FAL is an estimate based on yields from indices for each type of asset held. The estimation uncertainty affects the notional investment return presented separately in the profit and loss account and the carrying value of members' funds at Lloyd's on the balance sheet (see note 2(b), note 3(b) and note 6).

The Council considers the environment in which the Society of Lloyd's and Lloyd's market participants are operating and any associated risks which could have an impact on the reasonableness of financial information presented in the PFFS. Where the Council considers it appropriate, central adjustments may be included in the PFFS to reflect the impact of any additional risks, as deemed necessary in preparing the PFFS.

(a) Aggregate Accounts

General

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

Premiums written

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

Unearned premiums

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

Outward reinsurance premiums

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

Claims provisions and related recoveries

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

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

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

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the line of business, the claims experience for the year and the current security rating of the reinsurers involved. Statistical techniques are used to assist in making these estimates.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The Directors of each syndicate's managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them.

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

Additional information on insurance risk is disclosed in note 4.

Discounted claims provisions

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

Unexpired risks provision

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

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

Acquisition costs

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

Foreign currencies

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

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

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

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

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

Investments

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

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

3. Accounting policies notes continued

Sources of significant accounting judgements and estimation uncertainty continued

(a) Aggregate Accounts continued

Syndicate investment return

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

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

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

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

Tangible assets

Tangible assets relate to plant and equipment and the Lloyd's Collection, with additional detail disclosed in note 2 to the Society of Lloyd's financial statements on page 127.

Taxation

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

Operating expenses

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

Profit commission

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

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

Cash at bank and in hand

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

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

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

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

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

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

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

The accounting policies adopted in the Society of Lloyd's financial statements are set out on pages 121 to 164.

(d) Comparative disclosures

Comparative balances have been restated to reflect changes to presentation in the current year, whereby certain amounts previously reported within other debtors are now correctly reported within other assets. These adjustments do not have any impact on total capital and reserves reported in prior periods.

The Society of Lloyd's transitioned its basis of preparation of financial statements from International Financial Reporting Standards (IFRS) to UK GAAP with effect from 1 January 2021. The Council considers that it brings the basis of reporting in line with the market reporting in the PFFS. There were no adjustments recognised as a result of this transition to UK GAAP impacting the result on capital and reserves. However, certain balances were restated in line with UK GAAP requirements as stated below.

Pro Forma Balance Sheet

As at 31 December 2021	Previously reported £m	Restated £m
Financial investments	72,977	73,041
Debtors arising out of reinsurance operation	9,023	8,969
Other debtors	970	777
Other assets	43	158
Accrued interest and rent	91	105
Other prepayment and accrued income	215	269

There has also been an adjustment to comparatives on the cash flow statement and related notes to correctly reflect restatements to the amount of cash and cash equivalents reported by syndicates for the year ended 31 December 2021. This adjustment does not have any impact on net cash flows or total capital and reserves reported in prior periods.

Pro Forma Statement of Cash Flows and related note

For the year ended 31 December 2021	Previously reported £m	Restated £m
Cash and cash equivalents at 1 January	12,734	12,303
Cash and cash equivalents at 31 December	12,847	12,416
Overdraft (note 22)	132	(299)

4. Risk management

Governance framework

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

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

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

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

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

The principal committees of the Council are the Nominations & Governance Committee, the Remuneration Committee, the Audit Committee, the Risk Committee; the other committees of the Council include the Market Supervision and Review Committee, the Environmental, Social and Governance Committee, the Capacity Transfer Panel, the Underwriting Advisory Panel, the Investment Committee and the Technology & Transformation Advisory Panel.

Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a several basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR that reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, the Society applies a capital uplift to the member's capital requirement to determine the ECA. The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2022 was 35% (2021: 35%) of the member's SCR 'to ultimate'.

Solvency Capital Requirement (Solvency II basis)

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

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

The material risk is that members do not have sufficient funds to meet their underwriting losses even having complied with the Society's rigorous capital setting rules.

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

4. Risk management continued

Solvency Capital Requirement (Solvency II basis) continued

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

The Lloyd's Internal Model

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

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

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

Details of the major risk components are set out below.

Insurance risk

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

(i) underwriting risk
(ii) reserving risk
(iii) credit risk
(iv) catastrophe risk

Underwriting risk

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

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

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

The managing agents' underwriting controls should ensure that underwriting is aligned with their strategy, agreed business plan and underwriting policy.

Managing agents are expected to have controls in place to ensure that regulatory requirements and the scope of Lloyd's market licences are clearly understood and that risks are written within those requirements.

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

Reserving risk

Reserving risk arises where the reserves established in the balance sheet are not adequate to meet eventual claims arising. The level of uncertainty varies significantly across lines of business but can arise from inadequate reserves for known or incurred but not reported (IBNR) claims. These shortfalls can arise from inadequate reserving processes or from the naturally uncertain progress of insurance events.

Lloyd's current level of aggregate market reserves remains robust and the continued level of overall reserve releases are supported by underlying claims experience being more favourable than expected. This will not necessarily translate to all syndicates.

There are currently specific reserving issues, and the main perceived risks relate to macro influences resulting in heightened inflation, interest rate environment, impact of recession, geopolitical uncertainty, climate change and cyber business.

The Society analyses reserve developments at line of business and syndicate levels quarterly; and briefs the market on issues it considers need to be taken into account. A central adjustment has been included to reflect the very different nature of these uncertainties. Case-specific claim reserves should make financial provision at reported loss levels, without prejudice to coverage. Legal advisers', underwriters' and loss adjusters' judgement are used to set the estimated case reserves. Reserving processes use a variety of statistical analyses such as projections of historical loss development patterns, with results adjusted for expert judgement. Lloyd's syndicates have significant exposure to volatile lines of business that carry material inherent risk that the ultimate claims settlement will vary from previous assessments of reserves.

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

Credit risk

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

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

Catastrophe risk

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

4. Risk management continued

Lloyd's MWSCR

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

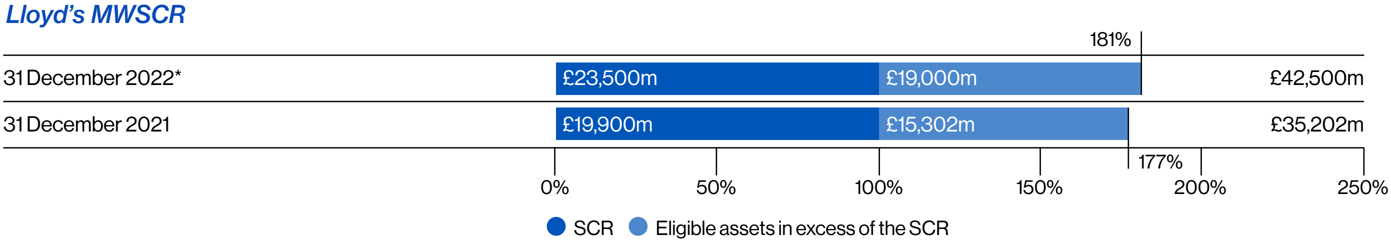
	31 December 2022* SCR £m	31 December 2021 SCR £m
Reserving risk	7,285	7,550
All other (attritional) underwriting risk	7,811	7,822
Catastrophe risk	447	802
Market risk	6,582	2,304
Reinsurance credit risk	706	728
Operational risk	561	431
Pension risk	7	35
MWSCR before adjustments	**23,399**	19,672
Foreign exchange adjustment	101	228
MWSCR	**23,500**	19,900

The increase in the overall market-wide SCR is driven by growth, increased economic inflation uncertainty and a weakening of the sterling against US dollars during 2022. These changes are partially offset by an increase in interest rates and increased profitability of business. The change in inflation uncertainty is captured within market risk, which has increased significantly since 31 December 2021.

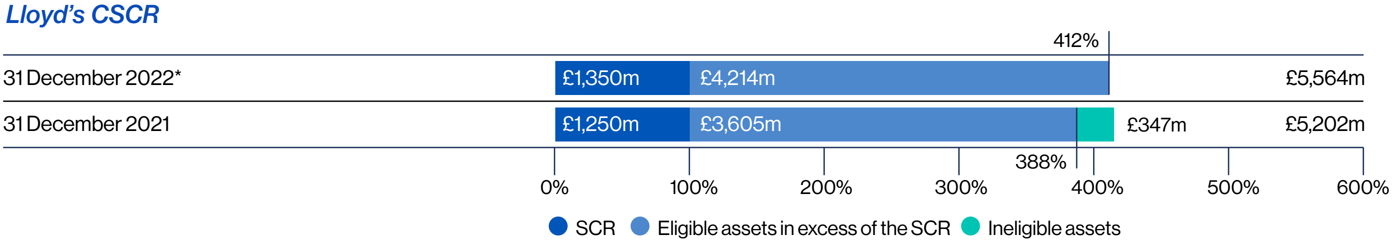
Solvency Capital Requirement coverage

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

Lloyd's MWSCR



Lloyd's CSCR



* Represents the position based on solvency returns which have not been assured by independent auditors; this may differ from the final 2022 submissions.

The central solvency ratio has increased to 412% from 388% at 31 December 2021 and the market-wide solvency ratio has increased to 181% from 177% at 31 December 2021. The market-wide ratio increase is driven by increases in Funds at Lloyd's and member balances. Please refer to page 22 for further details.

In addition to the quarterly reporting to the PRA, internal risk appetites have been set to monitor the coverage of the MWSCR and CSCR as part of the risk management framework in place at Lloyd's. During 2022, the solvency coverage ratios for both the MWSCR and the CSCR were in excess of internal risk appetites and regulatory requirements.

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

Solvency cover ratios	MWSCR coverage	CSCR coverage
31 December 2022*	**181%**	**412%**
31 December 2021	177%	388%
Risk appetite for solvency cover ratio	125%	200%

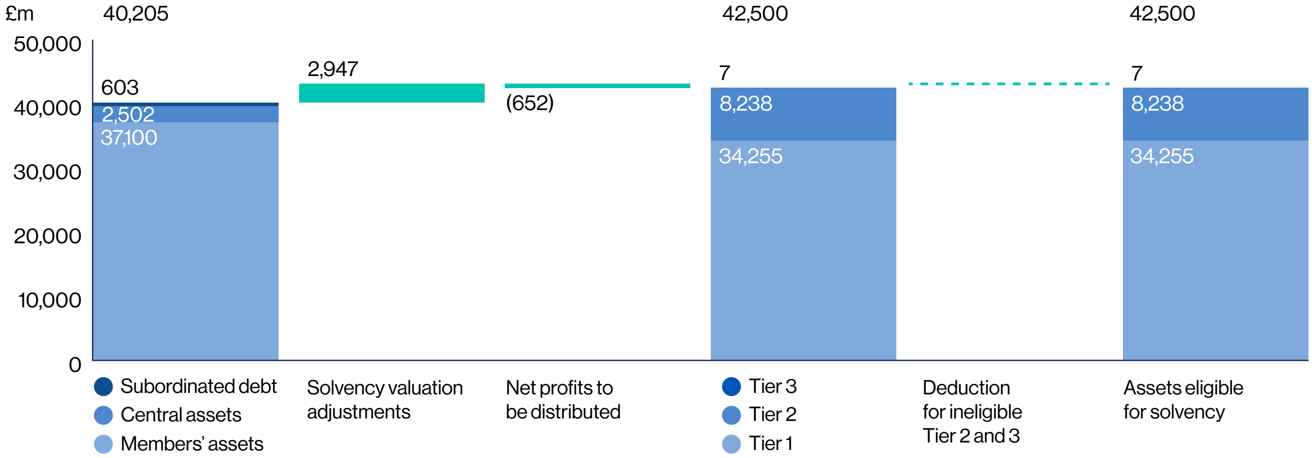
Assets eligible for solvency

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

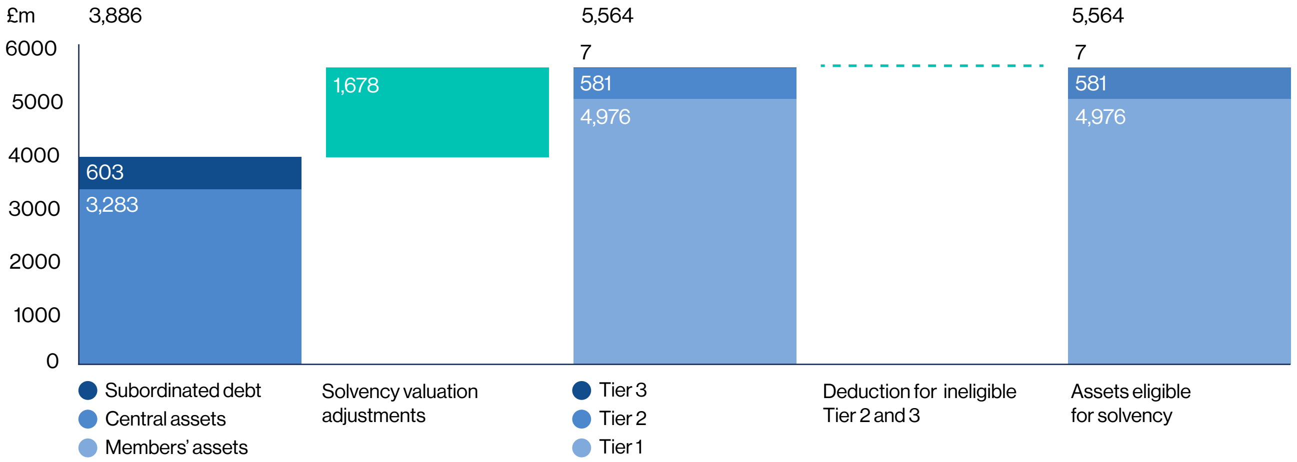
The eligibility of assets to cover the SCR under Solvency II is determined by a tiering test. Tier 1 assets are fully available to cover the SCR, while Tier 2 and Tier 3 assets in aggregate can cover up to 50% of the SCR. The majority of the assets available to cover the MWSCR are Tier 1. A proportion of members' FAL is provided in the form of letters of credit, which are classed as Tier 2 assets, restricting their ability to cover the MWSCR. However, given the total value of these instruments at 31 December 2022 is less than 50% of the SCR, there are no unrestricted assets. These letters of credit are callable on demand, and when called the proceeds, namely cash, would qualify as Tier 1 assets.

The capital tiering rules also apply to the coverage of the central SCR. The inclusion of the subordinated debt and deferred tax asset results in Lloyd's available Tier 2 and 3 central capital of £588m (2021: £972m). Given the total Tier 2 and 3 central capital is now less than the maximum allowance – 50% of the SCR – there is no deduction for ineligible Tier 2 and Tier 3 in 2022 (2021: £347m).

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



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



* Represents the position based on solvency returns which have not been assured by independent auditors; this may differ from the final 2022 submissions.

4. Risk management continued

Claims development table

The tables below illustrate the development of the estimates of earned ultimate cumulative claims for syndicates in aggregate after the end of the underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non-sterling balances have been converted using 2022 year end exchange rates to aid comparability. As these tables are on an underwriting year basis, there is an apparent jump from figures for the end of the underwriting year to one year later, as a large proportion of premiums are earned in the year of account's second year of development.

Gross

Underwriting year	2012 and prior years £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	**2022 £m**	Total £m
At end of underwriting year		7,530	7,755	7,483	9,129	17,886	14,340	10,806	12,564	15,606	16,315	
One year later		14,315	14,806	14,668	20,296	28,681	26,289	24,019	22,749	28,083	–	
Two years later		14,553	15,714	16,596	21,856	30,745	28,873	24,794	23,521	–	–	
Three years later		14,222	15,513	17,628	22,683	31,015	28,894	24,428	–	–	–	
Four years later		14,066	16,766	17,883	22,970	31,090	29,559	–	–	–	–	
Five years later		14,535	16,899	18,120	23,250	31,437	–	–	–	–	–	
Six years later		14,648	16,970	18,144	23,518	–	–	–	–	–	–	
Seven years later		14,590	16,889	18,229	–	–	–	–	–	–	–	
Eight years later		14,507	16,898	–	–	–	–	–	–	–	–	
Nine years later		14,417	–	–	–	–	–	–	–	–	–	
Cumulative payments		13,576	15,400	15,958	19,921	26,189	21,803	15,403	11,812	8,524	1,816	
Estimated balance to pay	4,902	841	1,498	2,271	3,597	5,248	7,756	9,025	11,709	19,559	**14,499**	80,905

Net

Underwriting year	2012 and prior years £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	**2022 £m**	Total £m
At end of underwriting year		6,237	6,255	5,994	7,068	10,160	9,419	7,832	9,272	11,695	11,431	
One year later		11,741	11,964	12,321	15,165	17,814	17,532	17,066	16,445	20,104	–	
Two years later		11,926	12,456	13,065	16,116	19,289	19,123	17,183	16,780	–	–	
Three years later		11,529	12,387	13,577	16,588	19,533	19,008	16,470	–	–	–	
Four years later		11,413	12,772	13,562	16,511	19,363	18,984	–	–	–	–	
Five years later		11,562	12,729	13,622	16,555	19,258	–	–	–	–	–	
Six years later		11,516	12,773	13,545	16,634	–	–	–	–	–	–	
Seven years later		11,465	12,615	13,506	–	–	–	–	–	–	–	
Eight years later		11,390	12,569	–	–	–	–	–	–	–	–	
Nine years later		11,287	–	–	–	–	–	–	–	–	–	
Cumulative payments		10,810	11,691	12,168	14,636	16,234	14,716	10,871	8,935	6,896	1,489	
Estimated balance to pay	2,920	477	878	1,338	1,998	3,024	4,268	5,599	7,845	13,208	**9,942**	51,497

Financial risk

Credit risk

Credit risk is the exposure to loss if a counterparty fails to perform its contractual obligations.

As discussed on page 44, the market's principal credit risk is that the reinsurance purchased to protect the syndicates' gross losses does not respond as expected. Syndicates are also exposed to credit risk in their premium debtors. Credit risk in respect of premium debt is controlled through broker approval and regular monitoring of premium settlement performance. Syndicates and members are exposed to credit risks in their investment portfolios. PRA and Lloyd's investment guidelines are designed to mitigate credit risk by ensuring diversification of holdings.

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

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

2022	**Neither past due nor impaired £m**	**Past due £m**	**Impaired £m**	**Total £m**
Debt securities	61,072	–	–	61,072
Participation in investment pools	2,695	–	–	2,695
Loans with credit and other institutions	4,352	–	–	4,352
Deposits with credit institutions	5,559	–	–	5,559
Derivative assets	111	–	–	111
Other investments	156	–	–	156
Reinsurers' share of claims outstanding	29,414	–	(6)	29,408
Cash at bank and in hand, including letters of credit and bank guarantees	12,289	–	–	12,289
Total	**115,648**	**–**	**(6)**	**115,642**

2021	(Restated) Neither past due nor impaired £m	Past due £m	Impaired £m	(Restated) Total £m
Debt securities	50,929	–	–	50,929
Participation in investment pools	3,073	–	–	3,073
Loans with credit and other institutions	4,045	–	–	4,045
Deposits with credit institutions	5,248	–	–	5,248
Derivative assets	28	–	–	28
Other investments	114	–	–	114
Reinsurers' share of claims outstanding	24,214	–	(6)	24,208
Cash at bank and in hand, including letters of credit and bank guarantees	10,957	–	–	10,957
Total	98,608	–	(6)	98,602

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

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

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

4. Risk management continued

Financial risk continued

Credit risk continued

The table below provides information regarding the credit risk exposure at 31 December 2022 by classifying assets according to the credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as other. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated. This table is the sum of assets neither past due nor impaired.

2022	**Rated AAA £m**	**Rated AA £m**	**Rated A £m**	**Rated BBB £m**	**Other £m**	**Total £m**
Debt securities	20,251	14,183	15,175	7,056	4,407	61,072
Participation in investment pools	178	167	106	38	2,206	2,695
Loans with credit and other institutions	8	44	10	–	4,290	4,352
Deposits with credit institutions	2,169	1,128	1,024	368	870	5,559
Derivative assets	–	–	5	–	106	111
Other investments	2	3	2	–	149	156
Reinsurers' share of claims outstanding	485	8,633	17,884	337	2,075	29,414
Cash at bank and in hand	641	571	10,801	81	195	12,289
Total credit risk	**23,734**	**24,729**	**45,007**	**7,880**	**14,298**	**115,648**

2021 (Restated)	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	15,190	11,981	12,437	6,471	4,850	50,929
Participation in investment pools	166	176	93	36	2,602	3,073
Loans with credit and other institutions	19	45	17	–	3,964	4,045
Deposits with credit institutions	1,742	1,008	1,133	364	1,001	5,248
Derivative assets	–	1	2	–	25	28
Other investments	3	3	2	–	106	114
Reinsurers' share of claims outstanding	293	6,557	15,309	143	1,912	24,214
Cash at bank and in hand	563	576	9,609	77	132	10,957
Total credit risk	17,976	20,347	38,602	7,091	14,592	98,608

Liquidity risk

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

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

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

2022	**No stated maturity £m**	**0-1 yrs £m**	**1-3 yrs £m**	**3-5 yrs £m**	**>5 yrs £m**	**Total £m**
Claims outstanding	267	26,816	28,548	12,364	12,910	80,905
Derivatives	–	38	6	1	–	45
Deposits received from reinsurers	377	282	382	147	357	1,545
Creditors	1,104	11,165	1,168	168	325	13,930
Other liabilities	164	167	5	1	–	337
Subordinated loan notes	–	1	304	–	298	603
Senior debt	–	4	–	–	299	303
Total	**1,912**	**38,473**	**30,413**	**12,681**	**14,189**	**97,668**

2021	No stated maturity £m	0-1 yrs £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Claims outstanding	267	22,393	23,805	10,389	10,946	67,800
Derivatives	–	38	3	2	–	43
Deposits received from reinsurers	456	433	348	165	332	1,734
Creditors	808	9,580	804	205	84	11,481
Other liabilities	4	123	1	–	–	128
Subordinated loan notes	–	1	497	–	298	796
Senior debt	–	–	–	–	299	299
Total	1,535	32,568	25,458	10,761	11,959	82,281

Market risk – overview

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

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

Oversight of market risk includes the monitoring of investment management. The Society monitors assets across the full chain of security to ensure the asset disposition of the market and Society remains appropriate, closely monitoring global economic and market trends.

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

Market risk comprises three types of risk:

(i) currency risk
(ii) interest rate risk
(iii) equity price risk

4. Risk management continued

Financial risk continued

Currency risk

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

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

2022	**Sterling £m**	**US dollar £m**	**Euro £m**	**Canadian dollar £m**	**Australian dollar £m**	**Other £m**	**Total £m**
Financial investments	11,577	56,589	3,119	7,384	2,010	2,904	83,583
Reinsurers' share of technical provisions	4,659	26,268	1,481	1,277	516	54	34,255
Insurance and reinsurance receivables	3,012	18,089	897	826	609	147	23,580
Cash at bank and in hand	2,565	7,656	813	439	448	368	12,289
Other assets	1,557	5,008	603	434	211	10	7,823
Total assets	**23,370**	**113,610**	**6,913**	**10,360**	**3,794**	**3,483**	**161,530**
Technical provisions	(16,571)	(71,937)	(5,989)	(6,183)	(2,707)	(746)	(104,133)
Insurance and reinsurance payables	(1,542)	(8,436)	(507)	(467)	(247)	(71)	(11,270)
Other liabilities	(2,162)	(3,415)	(406)	(336)	(70)	(136)	(6,525)
Total liabilities	**(20,275)**	**(83,788)**	**(6,902)**	**(6,986)**	**(3,024)**	**(953)**	**(121,928)**
Total capital and reserves	**3,095**	**29,822**	**11**	**3,374**	**770**	**2,530**	**39,602**

2021	(Restated) Sterling £m	US dollar £m	Euro £m	Canadian dollar £m	Australian dollar £m	Other £m	(Restated) Total £m
Financial investments	11,057	48,120	3,084	6,596	1,681	2,503	73,041
Reinsurers' share of technical provisions	4,641	20,650	1,353	1,105	466	69	28,284
Insurance and reinsurance receivables	3,031	14,287	775	604	501	93	19,291
Cash at bank and in hand	2,431	6,630	731	431	411	323	10,957
Other assets	825	4,789	513	278	132	45	6,582
Total assets	21,985	94,476	6,456	9,014	3,191	3,033	138,155
Technical provisions	(15,912)	(57,035)	(5,542)	(5,269)	(2,343)	(773)	(86,874)
Insurance and reinsurance payables	(1,430)	(6,564)	(390)	(384)	(194)	(24)	(8,986)
Other liabilities	(2,371)	(3,427)	(254)	(272)	(88)	(126)	(6,538)
Total liabilities	(19,713)	(67,026)	(6,186)	(5,925)	(2,625)	(923)	(102,398)
Total capital and reserves	2,272	27,450	270	3,089	566	2,110	35,757

Sensitivity analysis

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

2022	**Impact on result before tax £m**	**Impact on members' balances £m**
Strengthening of US dollar	392	3,318
Weakening of US dollar	(320)	(2,715)
Strengthening of euro	(70)	17
Weakening of euro	57	(14)

2021	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	430	3,065
Weakening of US dollar	(352)	(2,508)
Strengthening of euro	(58)	39
Weakening of euro	48	(32)

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

Interest rate risk

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

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

2022	**Impact on result before tax £m**	**Impact on members' balances £m**
+ 50 basis points	(561)	(764)
- 50 basis points	557	760

2021	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(486)	(686)
- 50 basis points	480	680

4. Risk management continued

Financial risk continued

Equity price risk

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

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

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

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

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

2022	**Impact on result before tax £m**	**Impact on members' balances £m**
5% increase in equity markets	154	332
5% decrease in equity markets	(154)	(332)

2021	Impact on result before tax £m	Impact on members' balances £m
5% increase in equity markets	112	343
5% decrease in equity markets	(112)	(343)

Concentration risk

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

While syndicates define the type of business that they write, at the market level the Society seeks to avoid an inappropriate concentration of premium sources, monitoring concentration of business in poorly performing lines, material sources of premium by method of placement, as well as coverholder concentration, which feature in metrics reported quarterly to the Council. Managing agents controlling more than 10% of overall market gross written premium are also subject to Council review. Any reported metrics outside of appetite are reported to, and discussed by, the Risk Committee and the Council. Specific and targeted actions can then be agreed, which will be discussed with specific managing agents or the market as a whole, as appropriate. These actions can vary considerably depending on the nature of the risk or the line of business impacted, with different levels of the requirements placed on syndicates, which forms part of the Society's oversight role of the market.

Further analysis of premiums, claims, expenses and underwriting result by line of business is included within note 9, with commentary on the performance of each line of business included on pages 25 to 30.

Regulatory risk

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

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Managing agents manage these risks through internal compliance monitoring and the use of detailed procedure manuals. The Society applies a principles-based oversight framework to agents and monitors delivery against these.

Group risk

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

5. Prior year reserves

Movements in reserves are based upon estimated cost of claims as at 31 December 2022, 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 estimates are reflected in the technical account of the year in which they occur. The aggregate of the prior year surpluses/deficiencies is a net surplus of £1,181m (2021: £552m). Surpluses have been reported across all lines of business except specialty reinsurance and casualty, reflecting favourable claims development compared with projections.

6. Members' funds at Lloyd's

The valuation of members' FAL in the balance sheet totals £34,139m (2021: £31,272m). The notional investment return on FAL included in the non-technical profit and loss account totals £(1,338)m (2021: £841m).

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

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

		Proportion of FAL		Investment return	
Investment type	Index	**2022 %**	2021 %	**2022 %**	2021 %
UK equities	FTSE All share	3.4	4.5	(0.0)	16.8
UK government bonds	UK Gilts 1-3 years	7.0	6.4	(3.1)	(1.1)
UK corporate bonds	UK Corporate 1-3 years	2.2	2.7	(3.3)	(1.0)
UK deposits managed by Lloyd's	Return achieved	3.8	4.3	0.7	0.1
UK deposits managed externally including letters of credit	GBP LIBID 1 month	6.9	6.6	1.1	(0.1)
US equities	S&P 500 Index	7.0	10.9	(22.0)	25.5
US government bonds	US Treasuries 1-5 years	21.9	17.8	(4.8)	(1.2)
US corporate bonds	US Corporate 1-5 years	24.3	24.0	(5.5)	(0.8)
US deposits managed by Lloyd's	Return achieved	7.8	7.7	0.7	0.1
US deposits managed externally including letters of credit	USD LIBID 1 month	15.7	15.1	1.4	(0.2)

(For the year ended 31 December 2022)

7. Society of Lloyd's (the Society)

The Society has adopted UK GAAP from 1 January 2022 and the accounting policies adopted by the Society are set out on pages 126 to 132. As stated in note 2(a), syndicates and the Society separately report the transactions and balances for technical insurance related transactions, members' subscriptions and other charges, Central Fund contributions and interest on syndicate loans. These balances are reversed from the Society's results to arrive at the adjusted result of the Society in note 8 below.

8. Aggregation of results and net assets

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

Profit and loss account	**2022 £m**	2021 £m
Result per syndicate annual accounts	469	1,719
Adjusted result of the Society	100	(283)
Notional investment return on members' funds at Lloyd's	(1,338)	841
Result for the financial year before tax	**(769)**	2,277

Capital and reserves	**2022 £m**	2021 £m
Net assets per syndicate annual accounts	3,006	2,250
Adjusted net assets of the Society	2,457	2,235
Members' funds at Lloyd's	34,139	31,272
Total capital and reserves	**39,602**	35,757

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 adjusted Society results to arrive at the PFFS disclosures, as set out in note 2(a) and 7.

9. Segmental analysis

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

2022	**Gross written premiums £m**	**Net earned premium £m**	**Net incurred claims £m**	**Net operating expenses £m**	**Under-writing result £m**
Reinsurance	15,365	11,355	(7,221)	(3,498)	636
Casualty	12,987	8,568	(4,734)	(3,298)	536
Property	12,045	8,028	(4,292)	(3,198)	538
Marine, Aviation and Transport	3,851	2,878	(1,527)	(1,071)	280
Energy	1,505	981	(542)	(342)	97
Motor	895	601	(307)	(232)	62
Life	57	47	(32)	(16)	(1)
Total from syndicate operations	46,705	32,458	(18,655)	(11,655)	2,148
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society				493	493
PFFS premiums and underwriting result	**46,705**	**32,458**	**(18,655)**	**(11,162)**	**2,641**
Allocated investment return transferred from the non-technical account					**(1,448)**
Balance on the technical account for general business					**1,193**

2021	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Under-writing result £m
Reinsurance	14,337	10,107	(6,649)	(2,969)	489
Casualty	10,360	6,408	(3,670)	(2,755)	(17)
Property	9,587	6,551	(3,442)	(2,773)	336
Marine, Aviation and Transport	2,909	2,159	(903)	(868)	388
Energy	1,262	835	(468)	(296)	71
Motor	713	567	(307)	(225)	35
Life	48	30	(1)	(16)	13
Total from syndicate operations	39,216	26,657	(15,440)	(9,902)	1,315
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society				426	426
PFFS premiums and underwriting result	39,216	26,657	(15,440)	(9,476)	1,741
Allocated investment return transferred from the non-technical account					48
Balance on the technical account for general business					1,789

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

	2022 £m	2021 £m
United Kingdom	30,324	24,261
EU member states	4	2
Rest of the World	1,012	616
Total	**31,340**	24,879

10. Life business

The PFFS include the results of all life and non-life syndicates transacting business during 2022. 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

	2022 £m	2021 £m
Acquisition costs	10,429	8,724
Change in deferred acquisition costs	(485)	(377)
Administrative expenses	2,668	2,303
Reinsurance commissions and profit participation	(1,450)	(1,174)
Total	**11,162**	9,476

Total commissions on direct insurance business accounted for in the year amounted to £6,924m (2021: £5,650m).

12. Investment return

Interest and similar income	**2022 £m**	(Restated) 2021 £m
From financial instruments designated as at fair value through profit or loss	796	603
From available for sale investments	62	30
Dividend income	20	27
Interest on cash at bank	97	26
Other interest and similar income	4	(8)
Notional investment return on members' funds at Lloyd's[1]	(1,338)	841
Investment expenses	(61)	(53)
Total	**(420)**	1,466

Other income from investments designated as at fair value through profit or loss		
Realised losses	(415)	(102)
Unrealised losses	(2,284)	(411)
Other relevant losses	(9)	(5)
Total	**(2,708)**	(518)
Total investment return	**(3,128)**	948

1 The notional investment return on members' funds at Lloyd's of £(1,338)m (2021: £841m) has been disclosed as a separate line item for the year ended 31 December 2022. This figure was previously reported as part of income from financial instruments at fair value through profit or loss.

13. Financial investments

	2022 £m	(Restated) 2021 £m
Shares and other variable yield securities	9,638	9,569
Debt securities and other fixed income securities	61,072	50,929
Participation in investment pools	2,695	3,073
Loans and deposits with credit and other institutions	9,911	9,264
Other investments	267	206
Total financial investments	**83,583**	73,041

Disclosures of fair values in accordance with the fair value hierarchy

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

The fair value hierarchy includes the following classifications:

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

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

2022	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Sub-total fair value £m**	**Assets held at amortised cost £m**	**Total £m**
Shares and other variable yield securities	4,493	3,956	1,188	9,637	1	9,638
Debt and other fixed income securities	26,703	34,359	10	61,072	–	61,072
Participation in investment pools	2,053	641	1	2,695	–	2,695
Loans and deposits with credit and other institutions	5,653	3,472	152	9,277	634	9,911
Other investments	16	93	158	267	–	267
Total assets	**38,918**	**45,521**	**1,509**	**82,948**	**635**	**83,583**
Derivative liabilities	(16)	13	(1)	(4)	–	(4)
Total liabilities	**(16)**	**13**	**(1)**	**(4)**	**–**	**(4)**

2021 (Restated)	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Assets held at amortised cost £m	Total £m
Shares and other variable yield securities	5,301	3,194	1,073	9,568	1	9,569
Debt and other fixed income securities	18,828	32,090	11	50,929	–	50,929
Participation in investment pools	2,633	439	1	3,073	–	3,073
Loans and deposits with credit and other institutions	5,278	3,080	118	8,476	788	9,264
Other investments	10	22	174	206	–	206
Total assets	32,050	38,825	1,377	72,252	789	73,041
Derivative liabilities	(5)	5	(3)	(3)	–	(3)
Total liabilities	(5)	5	(3)	(3)	–	(3)

14. Debtors arising out of direct insurance operations

	2022 £m	2021 £m
Due within one year	13,981	10,168
Due after one year	181	154
Total	**14,162**	10,322

15. Debtors arising out of reinsurance operations

	2022 £m	2021 (Restated) £m
Due within one year	8,933	8,609
Due after one year	485	360
Total	**9,418**	8,969

16. Cash at bank and in hand

Cash at bank and in hand of £12,289m (2021: £10,957m) includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £7,661m (2021: £6,792m).

17. Members' balances

	2022 £m	2021 £m
Balance at 1 January	2,208	(326)
Result for the year per syndicate annual accounts	469	1,719
Losses collected in relation to distribution on closure of underwriting years	102	1,150
Advance distributions from open underwriting years	(53)	(11)
Cash calls requested (but not yet paid)	311	970
Net movement on funds in syndicate (see note below)	(298)	(1,296)
Foreign exchange gains	273	32
Other	(51)	(30)
Balance at 31 December	**2,961**	2,208

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account, with reference to policies incepting in that year of account. Members' balances represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and members' funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of 2023.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. These funds are known as funds in syndicate (FIS). At 31 December 2022, there was £3,474m (2021: £3,797m) of FIS within members' balances. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as 'net movement on funds in syndicate'.

18. Technical provisions and deferred acquisition costs

(a) Provision for unearned premiums

2022	**Gross £m**	**Reinsurers' share £m**	**Net £m**
At 1 January	19,074	4,076	14,998
Premiums written in the year	46,705	12,135	34,570
Premiums earned in the year	(44,260)	(11,802)	(32,458)
Foreign exchange movements	1,709	438	1,271
At 31 December	**23,228**	**4,847**	**18,381**

2021	Gross £m	Reinsurers' share £m	Net £m
At 1 January	16,743	3,588	13,155
Premiums written in the year	39,216	10,777	28,439
Premiums earned in the year	(36,993)	(10,336)	(26,657)
Foreign exchange movements	108	47	61
At 31 December	19,074	4,076	14,998

(b) Deferred acquisition costs

	2022 £m	2021 £m
At 1 January	4,528	4,148
Change in deferred acquisition costs	485	377
Foreign exchange movements	380	31
Other	(6)	(28)
At 31 December	**5,387**	4,528

(c) Claims outstanding

2022	**Gross £m**	**Reinsurers' share £m**	**Net £m**
At 1 January	67,800	24,208	43,592
Claims paid during the year	(21,405)	(7,350)	(14,055)
Claims incurred during the year	28,763	10,108	18,655
Foreign exchange movements	5,763	2,211	3,552
Other[1]	(16)	231	(247)
At 31 December	**80,905**	**29,408**	**51,497**

2021	Gross £m	Reinsurers' share £m	Net £m
At 1 January	64,364	21,485	42,879
Claims paid during the year	(19,931)	(6,722)	(13,209)
Claims incurred during the year	23,145	7,705	15,440
Foreign exchange movements	243	141	102
Other[1]	(21)	1,599	(1,620)
At 31 December	67,800	24,208	43,592

1 Other movements include loss portfolio transfers which have driven an increase in reinsurers' share of claims outstanding.

19. Discounted claims

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

The claims have been discounted as follows:

	Average discounted rates		Average mean term of liabilities	
Line of business	**2022 %**	2021 %	**2022 years**	2021 years
Motor (third-party liability)	2.71	2.17	21.30	26.70
Motor (other lines)	3.00	3.00	4.63	4.57
Third-party liability	3.76	3.03	22.73	23.73

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

The claims provisions before discounting are as follows:

	Before discounting		Effect of discounting		Discounted provision	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Total claims provisions	1,649	1,347	(480)	(307)	1,169	1,040
Reinsurers' share of total claims	857	817	(256)	(189)	601	628

20. Creditors arising out of direct insurance operations

	2022 £m	2021 £m
Due within one year	989	867
Due after one year	27	4
Total	**1,016**	871

21. Creditors arising out of reinsurance operations

	2022 £m	2021 £m
Due within one year	9,074	7,591
Due after one year	1,180	524
Total	**10,254**	8,115

22. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	2022 £m	2021 (Restated) £m
Cash at bank and in hand	12,289	10,957
Short-term deposits with credit institutions	1,788	1,758
Overdrafts	(296)	(299)
Total	**13,781**	12,416

Of the cash and cash equivalents, £344m (2021: £368m) is held in regulated bank accounts in overseas jurisdictions.

23. Five year summary

Results	2022 £m	2021 (Restated) £m	2020 £m	2019 £m	2018 £m
Gross written premiums	46,705	39,216	35,466	35,905	35,527
Net written premiums	34,570	28,439	25,826	25,659	25,681
Net earned premiums	32,458	26,657	25,876	25,821	25,178
Result attributable to underwriting	2,641	1,741	(2,676)	(538)	(1,130)
Result for the year before tax	(769)	2,277	(887)	2,532	(1,001)
Assets employed					
Cash and investments	95,872	83,998	79,951	73,193	71,240
Net technical provisions	69,878	58,590	56,034	53,201	54,924
Other net assets	13,608	10,349	9,229	9,852	11,112
Capital and reserves	39,602	35,757	33,146	29,844	27,428
Statistics					
Combined ratio (%)	91.9	93.5	110.3	102.1	104.5
Return on capital (%)	(2.0)	6.6	(2.8)	8.8	(3.7)

24. Related party transactions

The annual accounts of each syndicate provide, where appropriate, the required disclosures on related parties. Syndicate level disclosures are specific to that syndicate and its managing agent. For 2022, there were no material related party transactions conducted outside normal market conditions reported in the syndicate annual accounts requiring disclosure. The related party transactions of the Society are disclosed in note 32 on page 164.

25. Events after the reporting period

Following the recent banking events – including the failure of Silicon Valley Bank, Signature Bank and First Republic, and the sale of Credit Suisse to UBS – the current conditions of the banking sector and impact on the assets of the market and the Society have been considered.

At 31 December 2022, the total Lloyd's market portfolio is not materially exposed to US regional banks and has very limited exposure to AT1 loans. The exposure to the wider banking sector is diversified and includes globally systemically important banks.

The Central Fund has no exposure to US regional banks and AT1 loans.

Management will continue to monitor the situation.

Contents

Society Report

Council Statement

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

The members of Council are committed to fulfilling their responsibilities under paragraph 3.2 of the Constitutional Arrangements Byelaw, ensuring that they take into account the likely impact of any decision in the long term as well as the interests of our stakeholders. While not subject to the Act, the Council has accordingly elected to include this statement.

Stakeholders

The Council has a duty to act in the interests of the Society's members. All decisions have been taken in the clear and certain knowledge that the Council must take material action to ensure the long-term interests of the Society's members are protected. Our governance is therefore designed to ensure that we take into account the views of Lloyd's members and broader stakeholders.

Engagement with members

The AGM is an annual opportunity for Council members and the Executive to engage with the members of the Society. On publication the annual report and accounts are made available on the Lloyd's website. In addition, forecast information is released each quarter to assist members' planning and members' agents are invited to attend results presentations where they can ask questions on behalf of their constituent members.

The Council has a duty to recognise the need to act fairly between different members and categories or classes of members who may have different interests. The composition of the Council includes six elected market representatives, the presence of which enables the independent nominated members of the Council to gain an understanding of the views of key stakeholders in the Lloyd's market and ensures the representation of market views in key decisions.

Engagement with other stakeholders

In addition to members, the Society's key stakeholders include Lloyd's customers, managing agents, distributors, industry and market associations, global governments and regulators, investors, rating agencies, our people, our suppliers, and the communities in which we operate.

Engagement with our stakeholders is undertaken in a variety of ways, ranging from discussion panels, surveys, conferences and consultations. The Society consults throughout the year with members and market participants on strategic initiatives, which in 2022 included the Future at Lloyd's transformation strategy (see below). For a note of the key decisions taken following stakeholder engagement and feedback please refer to the table set out on pages 69 to 70.

The Chairman undertakes a variety of external engagements with a wide range of stakeholders, including meetings with UK and international regulators and government officials, senior market executives, the Lloyd's Market Association (LMA)[1], members' agents, attending events and speaking at conferences. The Chairman's engagement schedule is shared with the Council bi-annually. The Chairman maintains an ongoing dialogue with all non-executive members of Council including holding private sessions at the end of Council meetings, without the executive present.

Lloyd's actively engages with suppliers and is committed to ensuring that there is no modern slavery or human trafficking taking place in our supply chains or in any part of our business. In March 2022, the Council approved Lloyd's Modern Slavery Statement, please see https://assets.lloyds.com/media/f0e17bb9-92f0-4617-956f-3c3735110e68/(9.1)-Modern-Slavery-Act-Statement-February-2022.pdf. A Code of Conduct is provided to each supplier, and we work with our suppliers to uphold high standards of conduct around safe working conditions, treating workers with dignity and respect and acting fairly ethically. We have a varied and robust schedule of activities in place to maintain these high standards, including desk-top audits of our key suppliers. For further information on Lloyd's responsible business approach and engagement with suppliers, please see https://www.lloyds.com/about-lloyds/responsible-business/governance/ and https://www.lloyds.com/about-lloyds/working-with-lloyds/supplying-lloyds/supplier-information.

Engagement with Regulators

Lloyd's is dual regulated and engages with both the PRA and the FCA on a frequent basis. This interaction is enhanced due to Lloyd's role in overseeing the market, but generally takes one of the following forms:

- Regular planned engagement with persons holding Senior Management Functions (as designated under the Senior Managers and Certification Regime).
- Regular planned engagement with wider senior management in relation to strategy.
- Regular planned engagement with Lloyd's Regulatory Engagement team.
- Project or programme driven interaction, instigated either by Lloyd's or by the FCA/PRA.
- Ad-hoc interaction in response to issues.

The Council is kept informed of key regulatory matters through reports from the Chief Risk Officer at Risk Committee and Council meetings. Core monitoring tools such as the FCA's Firm Evaluation Letter (FEL) and the PRA's annual Periodic Summary Meeting Review Letter (PSM), along with associated action plans, are reviewed by the Council. The FCA and PRA attend Council meetings, as appropriate, including to present the FEL and PSM.

Engagement with employees

The Society has a formal workforce advisory panel. Until March 2022, this was achieved through the Employee Engagement Group (EEG), comprising of an executive sponsor and representatives from the Society's workforce. With effect from April 2022, the Employee Change Forum (ECF) was launched with supporting Terms of Reference. Representatives are elected for each division within Lloyd's with the Executive from that division chairing ECF meetings for their division. Each ECF division elects a representative who attends Corporation-wide ECF meetings chaired by the Chief Executive Officer (CEO). The divisional ECF meetings take place a minimum of six times each year, with Corporation ECF meetings taking place at least once a quarter. The CEO reports to the Council in his CEO Report as appropriate so that Council can continue to ensure effective workforce engagement.

In 2022, ECF feedback resulted in improvements to the new working environment in addition to improvements in technology and connectivity.

1. The LMA represents the interests of managing agents.

Lloyd's strategic priorities – delivering long-term value for our stakeholders

The products and services available from the Lloyd's market support the world's economic growth, and help nations, individuals, businesses and communities improve their resilience to disasters, and recover faster following a loss. Lloyd's purpose and strategy therefore helps customers protect themselves from the emerging risks facing the world, including technological and environmental changes.

Throughout 2022, the Council continued to focus on the four strategic priorities that will have the most beneficial and long-term impact on Lloyd's stakeholders. These were:

1. Performance: maintaining our focus on delivering sustainable profitable underwriting performance and improving efficiency in the way we deliver market oversight.
2. Digitalisation: continuing to deliver our strategy to digitalise the Lloyd's market through the execution of the Future at Lloyd's transformation.
3. Purpose: heightening our focus on sustainability, climate and inclusion.
4. Culture: progressing our cultural priorities for both the market and the Society.

Each of the above priorities were drawn out in the Executive's reports to the Council at each meeting in 2022.

1. Performance

The Society is committed to delivering sustainable performance and profitable growth. The Society aims to achieve the highest standards to protect customers and the market's reputation by continuing to undertake strong performance management.

The Chief of Markets reported to the Council at each of its meetings in 2022. In addition, the Chief of Markets presented quarterly 'market messages' to market stakeholders, which included the objectives for syndicate business plans and market oversight information. The hard work over the past four years to encourage high performance and underwriting discipline continues to bear fruit with Lloyd's full year results signalling that continued sustainable performance.

The new principles-based oversight framework for doing business at Lloyd's was implemented through 2022 with managing agents and syndicates being categorised under the new principles. Continuous engagement was undertaken to assist the implementation of the new principles, including engagement with the LMA, market briefings, individual sessions with managing agents, training programmes, drop-in sessions and question and answer documentation.

The assessment and categorisation of managing agents under the new principles for doing business at Lloyd's has enabled Lloyd's to identify which managing agents are meeting expected maturity ratings. This in turn enabled Lloyd's to progress its Delegated Authority Strategy (to be the market of choice for sustainable, profitable, delegated authority business partnerships, making Lloyd's an attractive place for new and innovative business opportunities) by simplifying the third-party delegated authority oversight requirements for those agents who meet the maturity ratings. The changes to third-party oversight requirements were made effective from 1 November 2022. For further information please see https://www.lloyds.com/conducting-business/delegated-authorities/third-party-oversight.

For further information, please refer to the Our Strategy section within the Strategic Report, under the Performance heading (starting on page 13).

2. Digitalisation

Through Blueprint Two, we are building digital solutions for the market, making it better, faster and cheaper for all participants to do business. In 2022, the focus was on the technology build and ensuring market participants have the information needed to be ready for these solutions as they become available.

During 2022, Lloyd's worked with market associations and market participants through an agreed engagement structure designed to deliver participation and insight at senior and practitioner level across the market.

Having published a roadmap for our transformation journey in January 2022 (the second edition of the Blueprint Two Interactive Guide) stakeholder engagement milestones during 2022 included:

- Consultation on the extended version of the Core Data Record (CDR) to all risk classes and territories (with the London Market Group's Data Council approving the CDR in March).
- The London Market Group Data Council's consultation on the proposed changes to the Market Reform Contract (MRC). MRC review group reviewed the feedback, and the new template was updated accordingly, with the release due to take place at the end of Q1 2023.
- In September 2022, following a successful pilot, the Faster Claims Payments (FCP) solution was delivered to the market. Managing agents are now able to sign individual agreements with London Insurance Market Operations and Strategic Sourcing (LIMOSS) to transfer binding authority contracts to the Vitesse platform, enabling faster claims payments to policyholders. Market forums, guidance and training were provided and held with managing agents, delegated claims administrators and brokers, as well as virtual and face-to-face drop-in sessions. FCP has already been used to pay claims resulting from Hurricane Ian. For further information, please see https://www.lloyds.com/conducting-business/delegated-authorities/systems-and-tools/faster-claims-payment.
- In October 2022, the integration of the Delegated Contract and Oversight Manager (DCOM) and Delegated Data Manager (DDM) was completed and is now being used by market participants. DCOM is now a usable solution for delegated authority business, and we have completed the delivery of user enhancements. The platform now has the functionality to process continuous contracts (with the idea having been piloted in the market first), providing more flexibility for market participants and coverholders;
- In December 2022, an interactive event was co-hosted by Lloyd's and DXC Technology, informing employees and market participants of the progress made against the Blueprint Two roadmap (launched in January 2022) and to support market participants' understanding of the digital changes taking place. A further market event was held in February 2023;.
- The Technology & Transformation Advisory Panel (TTA) met throughout 2022, with the Lloyd's CEO as Chair. The TTA comprises senior market practitioners and representatives of market associations. The Council received updates on Blueprint Two delivery at each of its meetings in 2022. The Chairman of the LMA is also an elected member of Council.

The Blueprint Two hub (https://www.blueprint-2.com/) provides more detail on the digital technologies and solutions, and market engagement, with newsletters released monthly.

For further information, please refer to the Our Strategy section within the Strategic Report, under the Digitalisation heading (starting on page 13).

3. Purpose

Lloyd's purpose of sharing risk for a braver world sits at the heart of our ambition to build a more sustainable, resilient and inclusive market, and society. Against a backdrop of continued economic and societal uncertainty and volatility, during 2022 Lloyd's delivered a number of initiatives to advance our environmental, social and governance (ESG) commitments and goals.

Following the appointment of Lloyd's first Sustainability Director in September 2021, the past year has seen the Corporation and market make steady progress to deliver against four key priorities:

- Embedding sustainability across the Corporation and market
- Improving society's resilience to risk
- Convening to drive action
- Creating a more inclusive market (see Culture for more detail)

A summary of some of these initiatives is provided below, with the full 2022 Sustainability Report to be published in Q2 2023.

Lloyd's continued to convene His Majesty The King's Sustainable Markets Initiative (SMI) Insurance Task Force, which brings together CEOs from a number of the largest insurance brokers and carriers to drive tangible progress to help accelerate the transition to a sustainable future. During 2022, this included:

- Developing a strategic framework for carbon measurement to support a consistent approach to tracking the industry's contribution to decarbonisation and transition.
- Launching a pledge and best practice guidance to drive greater sustainability across insurance industry supply chains (please see https://www.sustainable-markets.org/taskforces/insurance-taskforce/).
- Supporting the Energy Transition Task Force's development of a framework to help stakeholders identify, assess, rank and track companies driving transition progress (please see https://www.sustainable-markets.org/taskforces/energy-transition-taskforce/).
- Convening energy, climate technology and financial services executives at COP27 in Sharm el Sheikh, Egypt, to determine near-term actions needed to accelerate the transition of energy systems.

The Corporation continued to embed sustainability across the market during the past year, including completing a feasibility study with market participants to inform our carbon measurement strategy, together with requiring managing agents to submit their own ESG strategy to the Society for the first time, as part of the 2023 syndicate business planning process. The requirement was to evidence a credible pathway to net zero investments, underwriting and operations by 2050, supporting the ambition set for the Lloyd's market.

In July and October 2022, Futureset released two flagship reports on the impact of the conflict in Ukraine across the climate change and the energy transition, supply chains, food security and cyber risk. Both reports provided analysis, insights and practical solutions to advance customers' risk protection against these potential threats. Please see (https://www.lloyds.com/news-and-insights/futureset).

To support global food security, Lloyd's was proud to launch a landmark facility to insure crucial shipments of grain out of Ukraine. More than 100 ships, carrying more than 2.3 million tonnes of grain, have now left Ukraine, saving many people from certain food shortages, and getting the World Food Program moving once again. For further information please see https://www.lloyds.com/about-lloyds/our-purpose/stories/resilience/ukraine-grain.

In August 2022, the Lloyd's of London Foundation (the Foundation) was launched to further the impact of charitable programmes supported by Lloyd's. Victoria Carter (Deputy Chair of Lloyd's and Council member) is the Chair of the Foundation. The creation of the Foundation ensures that Lloyd's charitable funding supports people and communities for the greatest impact. The Foundation focuses on projects supporting employability, social mobility, mental health, climate and disaster avoidance and relief.

Lloyd's also held a cyber summit using its convening powers to gather a number of stakeholders across the cyber insurance, policy-making and academia to present and discuss the current and future cyber risks. Attendees included: government and industry experts, security agencies, the LMA, Council members, customers, market participants and suppliers. For further information, please see https://www.lloyds.com/news-and-insights/mind-of-the-market/article-09-nov-2022-a-clear-and-present-danger.

The Environmental, Social & Governance Committee (ESG) of the Council of Lloyd's, chaired by Lord Mark Sedwill and comprising independent subject matter experts, members of the Council and the Lloyd's Executive, met during the year and reported on its activities to the Council.

For further information, please refer to the ESG paragraph within the Corporate Governance Report (starting on page 71) and the Our Strategy section within the Strategic Report, under the Purpose heading (starting on page 14).

For further information on Lloyd's sustainability progress, please refer to the Sustainability section within the Strategic Report (starting on page 17).

4. Culture

Lloyd's has a continuous focus on culture and is committed to creating a diverse, inclusive and high-performance culture across the Corporation and market to attract, retain and develop the best talent.

Lloyd's employees are guided by three values: (i) We are brave; (ii) We are stronger together; and (iii) We do the right thing (the Values). The Values reflect how the Corporation needs to work to deliver the four strategic pillars, while also making the Corporation a great place to work. The Values have been embedded through being incorporated into annual and mid-year performance reviews, meaning an individual's performance is measured on both what is delivered (the output), and how it is delivered (the behaviours demonstrated). In addition, 2022 saw the launch of a Values recognition scheme for employees to further embed the Values by showcasing values-driven behaviours. For further information, please see https://www.lloyds.com/about-lloyds/culture/lloyds-corporation/values/.

During 2022, Lloyd's published an updated Culture Dashboard, tracking the progress made against all areas of the Lloyd's market culture survey and Markets Policies & Practices return. For further information, please see https://www.lloyds.com/about-lloyds/future-culture-at-lloyds/culture-dashboard/2022-dashboard.

Dominic Christian (Aon Global Executive, and also Lloyd's Council member and Deputy Chair until 31 January 2023) is the Chair of Inclusion@Lloyd's. In September, the Dive In Festival (an initiative of Inclusion@Lloyd's) was held with the theme of Braver Cultures. Over 25,000 attendees attended more than 150 events across three days from 27 insurance partners and 40 countries. For further information, please https://www.lloyds.com/about-lloyds/diversity-and-inclusion/inclusion-at-lloyds/dive-in/.

The Council received updates on Culture initiatives during 2022 from the Chair of the ESG Committee and the CEO.

For further details please refer to the Our Strategy section within the Strategic Report, under the Culture heading (starting on page 15), and the Nominations & Governance and ESG paragraphs within the Corporate Governance Report (starting on page 71), which includes information on our progress against targets set for the Corporation and market.

Council decisions and their impact on stakeholders

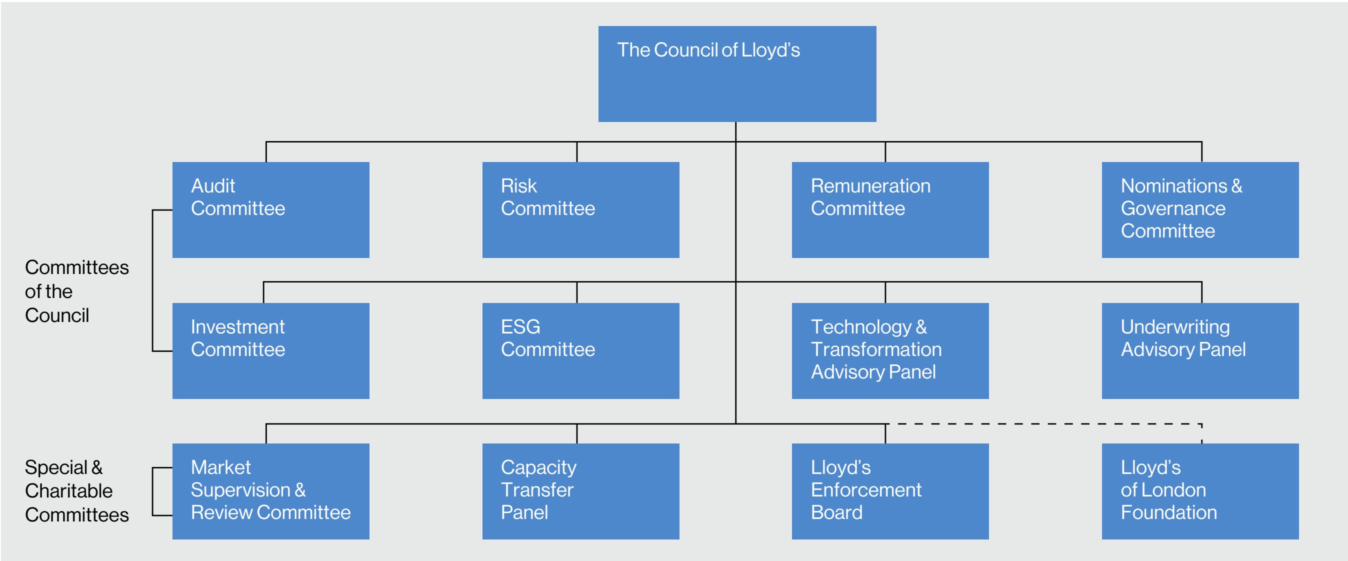
We place great importance on considering the needs of all our stakeholders in our decision making. The following table sets out examples of decisions taken by the Council during 2022 and how the views of our stakeholders were considered.

Decision	How we took stakeholders into account	Long-term implications
The Future at Lloyd's – operational structure	In March 2022, a new operational structure was implemented to enhance stakeholder engagement and further assist the adoption phase of Blueprint Two. Council took the decision to dissolve the Technology Transformation Committee (TTC) and establish the Technology and Transformation Advisory Panel (TTA), which is comprised of senior market practitioners drawn from both the underwriting and broking communities, to enable the sharing of market insights and assessment of developments in the delivery of the programme and London Market Joint Venture. A new Joint Delivery Advisory Committee (JDAC) was also created to ensure a joined-up approach to communications, delivery and adoption strategies for the market. The JDAC is chaired by Lloyd's Chief Operations Officer, and its members include the Joint Venture Chair plus representatives of the LMA, PPL, IUA, LIIBA. The Future at Lloyd's programme is led by the Lloyd's programme team in conjunction with the London Market Joint Venture working in conjunction with stakeholders with the Council overseeing the delivery, supported by the TTA. Activities in 2022 included working in conjunction with the London Market Group's Data Council and the LMA to agree the build and framework of the Digital Gateway and working with the LMA to amend the common data store for delegated authority business (DDM) in response to feedback.	The Blueprint Two solutions will offer market participants the opportunity to innovate in the way they serve their customers, and operate more efficiently, at a lower cost base – better, faster and cheaper.
Embedding Lloyd's Oversight Framework	The CEO and Chief of Markets provided regular updates to the Council throughout 2022 on the implementation of the new Oversight Framework, including the categorisation of syndicates and managing agents under the new principles for doing business at Lloyd's. The design and implementation of the new Oversight Framework involved continuous engagement with market stakeholders and regulators. During 2022, an implementation plan with guidance and training sessions to ease the transition was developed having taken into account feedback received. The categorisation of syndicates and managing agents based on an assessment against the principles was communicated to each individual business ahead of 2023 business and capital planning and was then incorporated into the annual capital and planning process.	Lloyd's Oversight Framework creates an efficient and joined-up approach to provide the conditions for the best business to thrive and drive decisive interventions for underperforming businesses.
Commercial market strategic priorities	In July 2022, the Council held its annual strategy day, which considered five strategic areas of focus for the medium term. The needs of stakeholders were central to the Council's considerations and to the shaping of the decided strategies which focus on enhancing and tailoring Lloyd's unique advantages to better serve those stakeholders.	Lloyd's strategic initiatives will aim to realise aspirations of the market.
ESG strategy	The ESG Committee oversaw a feasibility study on underwriting emissions with six managing agents in 2022 to understand in detail policy-level data availability and test the credibility of the measurement approach developed. This exercise has informed and evolved Lloyd's approach to carbon measurement and reporting. This has enabled the Society to ensure that the measurement approach and process is adjusted to take into consideration the specific data challenges relevant to syndicates and determine a pragmatic solution that will provide a transparent and robust carbon measurement that allows us to track our progress at an aggregate level. Alongside the feasibility study, the Society also sought feedback from several additional managing agents to provide supplementary views on challenges and considerations to the carbon measurement process and approach being developed. Through the LMA Climate Risk Working Group, the Society also sought feedback on the SMI Insurance Task Force strategic framework for climate transition measurement, alongside wide consultation with SMI ITF members.	This engagement has enabled the Society to evolve its approach to the carbon measurement across the Lloyd's market, taking into consideration specific data challenges that need to be factored into the process to be implemented across the market. This has helped the Society map out a multi-year pathway to carbon measurement that is pragmatic and that provides the market with the appropriate tools and guidance to implement the process.

Decision	How we took stakeholders into account	Long-term implications
Investment Platform	In March 2022, Lloyd's announced its partnership with Schroders Solutions, as Investment Consultant, on the new Lloyd's investment platform (the Platform). The inaugural Lloyd's Private Impact Fund was established in December 2022, with investment beginning in Q1 2023. The Platform will consist of a series of funds across asset classes, made available to Lloyd's market investors who can freely invest in and allocate between them. The Platform will be multi-manager and funds are being deployed in consultation with market participants to meet demand. The Platform will be operated by Waystone, as Platform Operator. The Platform was approved by the Investment Committee, with updates provided to the Council, as appropriate. A full request for proposal (RFP) process was undertaken to select the Investment Consultant and Platform Operator, as part of which process market stakeholder views were considered. Engagement with Lloyd's regulators has continued throughout the development of the Platform and its operating model.	The funds on the Platform will give access to investment opportunities, create efficiencies and allow market investors to benefit from their collective economies of scale. Criteria on objectives such as carbon emissions and sustainable governance are embedded in the platform funds, allowing investors to fulfil their ESG objectives while supporting Lloyd's wider efforts to support the transition to a low carbon economy.
Lloyd's of London Foundation (launched August 2022)	In November 2021, the Council approved the proposal to create the Lloyd's of London Foundation (the Foundation) and work to implement that proposal continued throughout 2022, including further engagement with stakeholders and the ESG Committee of the Council. In August 2022, the Charity Commission approved the change of Lloyd's Charities Trust to the Lloyd's of London Foundation, officially marking the formation of the Foundation. Key stakeholders, including existing trustees of all the Lloyd's charities (www.lloyds.com/communities), and an employee working group were engaged and consulted with to develop the operating model and areas of focus for the Foundation. Feedback gathered through this process highlighted that stakeholders wanted to increase awareness of employee engagement in and reporting on the impact of Lloyd's charitable initiatives. In November 2022, the Foundation invited grant applications, with a shortlist of candidates put to a vote of Corporation employees in early 2023, to select the Foundation's charity partners for 2023.	The Foundation partners with charities to build more resilient, sustainable and inclusive communities, empowering these communities through tangible action and long-term partnerships. For further information, please see https://www.lloyds.com/foundation which includes a collection of stories and videos highlighting the important work of the Foundation.

Corporate Governance

Organisational Chart[1]



1. Organisational chart as of 23 March 2023

The Society's governance structure provides challenge, clarity and accountability

Please see Committee Structure above.

Council and committee attendance in 2022

Regular annual meetings are scheduled at appropriate intervals in line with an agreed meeting schedule, with the Council ordinarily holding eight scheduled meetings a year. Additional unscheduled meetings are arranged as required, and in exceptional circumstances the timing of scheduled meetings may need to be adjusted, and while every effort is made to arrange that all members are able to attend that is not always possible at short notice. Outside of the formal Council and committee meetings, non-executives have unfettered access to the executive, regularly liaise with management on activities aligned to their key skills and attend appropriate management strategy and training events. All members of Council also attended an annual strategy day. Attendance at scheduled Council and committee meetings is set out below. Where a member has been appointed or retired during the year, meeting attendance is shown against the number of possible scheduled meetings they could have attended rather than the annual number of scheduled meetings.

The Council

		Scheduled meetings attended
Chair	Bruce Carnegie-Brown	8/8
Nominated Members[1]	Angela Crawford-Ingle	8/8
	Fiona Luck	7/8
	Neil Maidment[2]	7/8
	Lord Mark Sedwill	8/8
	John Sununu	8/8
External Members	Jeffery Barratt	8/8
	Karen Green	8/8
	Dominick Hoare[3]	7/7
	Michael Watson[3]	1/1
Working Members	Andrew Brooks	7/8
	Victoria Carter	8/8
	Dominic Christian[4]	8/8
Executive Directors of the Council	Burkhard Keese	8/8
	John Neal	8/8
	Patrick Tiernan	8/8

1. For the purposes of the UK Corporate Governance Code the nominated members listed above are considered to be independent.
2. Neil Maidment recuses himself from discussions relating to Beazley, a Lloyd's managing agent, to manage the risk of a conflict of interest arising owing to his deferred bonuses and shareholding following his retirement from that firm in 2018.
3. Michael Watson ceased as a member of the Council, with effect from 31 January 2022, due to the completion of his nine year term on the Council. Munich Re Capital Limited, represented by Mr Dominick Hoare, was elected as a member of the Council, with effect from 1 February 2022.
4. Dominic Christian ceased as a member of the Council, with effect from 31 January 2023, due to the completion of his nine year term on the Council. Richard Dudley was elected as a member of the Council, with effect from 1 February 2023.

Corporate Governance continued

The Council is the governing body of the Society of Lloyd's (the Society) and has ultimate responsibility for overall management of the market. The Society is regulated by the PRA and FCA, which have direct supervision of managing agents and monitor capital, solvency and conduct. The Society is active in managing risk within the market to ensure that Lloyd's central assets, brand, licences and reputation remain protected.

The day to day powers and functions of the Council are carried out by the Society's Executive Committee – the Chief Executive Officer, Chief Financial Officer, Deputy Chief Financial Officer, Chief of Markets, Chief Risk Officer, Chief People Officer, General Counsel and Company Secretary, Chief Operations Officer and Chief Marketing and Communications Officer.

A list of the members of the Council can be found at: www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds. Details of the Executive Committee can be found at: www.lloyds.com/about-lloyds/governance-and-management/executive-committee.

Governing body: the Council

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

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

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

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

Constitutional Requirements

The Constitutional Requirements, as set out in the Constitutional Arrangements Byelaw (No. 2 of 2010), align, so far as appropriate, the Society's governance arrangements with the Companies Act 2006. They include provisions concerning the duties and responsibilities of Council members.

In summary, members of the Council 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 in accordance with the Objects of the Society*' and must have regard to:

- the likely consequences of any decision in the long term; and
- the needs 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; and
  - to maintain a reputation for high standards of business conduct.

The Constitutional Requirements also deal with conflicts of interest and set out the duties of Council members that include a responsibility to exercise independent judgement and maintain collective responsibility.

Council Membership

The composition of the Council is prescribed by the Lloyd's Act 1982 and the Constitutional Arrangements Byelaw. The Council comprises a maximum of 15 members, split between three working, three external, six independent nominated members and three executive nominated members (the CEO, CFO and Chief of Markets, together 'the Executive Directors of the Council'). Accordingly, and in line with best practice, the Council's composition ensures that no one individual or a small group of individuals dominate the Council's decision making. The biographical details of the current members of the Council can be found at www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.

The composition and appointment/election processes for Council members are prescribed by the Lloyd's Act 1982 and the Constitutional Arrangements Byelaw. Nominated members are appointed by the Council, on the recommendation of the Nominations & Governance Committee, by a 'Special Resolution' which requires separate majorities of (a) the working members of Council, and (b) the other members of Council combined. Working and external members are elected by the working and external members of Lloyd's. In elections for working members voting operates on a one member, one vote basis. In the elections for external members, voting is weighted by allocated underwriting capacity as determined under the Constitutional Arrangements Byelaw (No. 2 of 2010).

Constitutional Requirements continued

Council Membership continued

Members are usually appointed or elected for a three-year term, renewable up to a maximum of nine years in total. Members are not therefore subject to annual re-election and this is a departure from Provision 18 of the UK Corporate Governance Code 2018 (the 'Code'). This deviation from the Code is considered appropriate in the context of appointment and election procedures that enable representation of the members of the Society and the market for all key appointments – with direct election of the three working and three external members, and oversight of the selection process for nominated members by a Nominations & Governance Committee, which comprises an equal number of elected market representatives and independent non-executives.

The majority of the Council is non-executive but, as the elected market members are not considered to be independent, the composition of the Council deviates from Provision 11 of the Code, in that independent members do not form a majority. This departure from the Code is appropriate, as the composition of the Council is tailored to the Society and the Lloyd's market and meets the requirements of the Lloyd's Act 1982 (which do not apply to other companies). The presence of elected market members on the Council enables the independent nominated members to gain an understanding of the views of key stakeholders in the Lloyd's market. It is acknowledged that the presence of market members on the Council elevates the risk of conflicts of interest arising. This risk is actively managed via the Council's conflict of interest procedures, which are outlined at the Conflicts of Interest paragraph on page 81.

Chairman and Deputy Chairs

In accordance with the Lloyd's Act 1982, the Chairman and Deputy Chairs of Lloyd's are elected annually by Special Resolution of the Council from among its members. If the Chairman is not a working member of the Society, then at least one of the Deputy Chairs must be. At the date of this report there are three Deputy Chairs, Lord Mark Sedwill (nominated member), Victoria Carter (working member) and Andrew Brooks (working member).

The Chairman leads the Council, and his principal responsibility is to create the conditions to ensure the overall effectiveness of the Council.

The Chairman 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 and is satisfied that these can be accommodated with the Chair position of Lloyd's. For the purposes of the Code, the Chairman was considered to be independent upon his appointment. Lord Mark Sedwill, (a nominated member), was appointed Senior Independent Deputy Chairman (the Society's equivalent of the senior independent director), with effect from 3 December 2021.

The Chairman's role and responsibilities are defined by the Lloyd's Act 1982, the Constitutional Arrangements Byelaw and the terms of reference for the Chairman and Deputy Chairs, all of which are published on www.lloyds.com.

Council meetings

The Council met on eight occasions in 2022. The meetings of the Council are structured to allow open discussion. At each meeting the Council receives certain regular reports – for example, a written report from the Chief Executive Officer and updates from Council committees. The Chief Financial Officer, Chief Risk Officer, Chief of Markets and General Counsel and Company Secretary also produce reports for the Council. Members of the Executive Committee attend Council meetings, as appropriate. Private sessions are held regularly by the Chairman at the end of Council meetings without the Executive being present.

Key Council decisions

Please refer to the Council Statement at page 65.

Committees of the Council

Nominations & Governance Committee

		Scheduled meetings attended
Chair	Bruce Carnegie-Brown	3/3
Council Members	Jeffery Barratt	3/3
	Victoria Carter	3/3
	Dominic Christian[1]	3/3
	Fiona Luck	3/3
	Lord Mark Sedwill	3/3

Notes:
1. Dominic Christian ceased as a member of the Nominations & Governance Committee with effect from 31 January 2023. Andrew Brooks was appointed as a member of the Nominations & Governance Committee with effect from 9 February 2023.

The Nominations & Governance Committee is responsible for keeping under review the governance arrangements and leadership needs of the Society and its subsidiaries. Its functions include making recommendations to the Council on the appointment of the Chairman, Chief Executive Officer, new nominated Council members, key members of the Executive, members of Council committees and the Secretary to the Council. The Committee is also responsible for succession planning arrangements for these positions.

The Committee seeks to ensure that the members of the Council and its committees have an appropriate combination of skills, knowledge, experience and diversity, and have sufficient time to fulfil their Lloyd's roles. For further information on the members of Council, please see www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.

The Committee is chaired by the Chairman of Lloyd's and its remaining members are drawn from the Council. Executive Directors are not eligible to become members of the Committee. Three of the Committee's six members are elected representatives of the Lloyd's market. Accordingly, the Committee's composition does not comply with Provision 17 of the UK Corporate Governance Code in that independent nominated members do not form a majority. The composition of the Committee is, however, considered appropriate as it ensures appropriate representation of members and the market in relation to key appointments.

This section summarises the Nominations & Governance Committee's activities in 2022.

1. Composition of the Council and its committees	
Appointments and renewals	– Recommended to Council the reappointment of Bruce Carnegie-Brown for a third term as Chairman of Lloyd's, effective June 2022, running to June 2025. – Undertook a search for a new nominated member of Council who would be able to add to the risk management and technology transformation capabilities on the Council. As a result of that search process, on the recommendation of the Committee, Joe Hurd was appointed as a nominated member of Council with effect from May 2023, when he will succeed John Sununu, who will be stepping away from Council to focus on a new role as Non-Executive Chair, Lloyd's Americas. In this search the Committee was supported by Sapphire Partners, a search agency which has no connection to the Society or to members of the Council. – Submitted proposals to the Council to make changes to certain committees' composition in order to strengthen their performance and support the Council in their areas of authority, and to renew the appointment of Simon Cooper as Lloyd's Members' Ombudsman for a second term of three years. The Committee's recommendations were all unanimously supported and approved by the Council.
Succession planning for the Council and senior management	– Effective succession plans are in place for key executive and non-executive positions and are reviewed at least annually by the Committee. This includes both emergency and medium-term succession plans for the Chairman and the CEO. The emergency succession plan for the CEO was activated successfully when John Neal was involved in a collision with a car while riding his bike. During John's recovery, Lloyd's was led by the CFO and Chief of Markets, with support from the wider Executive Committee and oversight from the Chairman who assumed the CEO's regulatory responsibilities for this period. – In 2022, the Committee reviewed the succession plans to ensure the orderly succession of senior individuals through a transparent and rigorous process that promotes diversity in its broadest sense. – The Committee carried out an evaluation of the skills, knowledge, experience and diversity on the Council and its committees and identified, using a skills matrix, desired areas of expertise and recruitment.

Committees of the Council continued
Nominations & Governance Committee continued

1. Composition of the Council and its committees	
Diversity & Inclusion policies	– In alignment with the Society's continued strategic focus on building a more inclusive culture for the Society and the market, the Council Diversity Policy (https://www.lloyds.com/about-lloyds/the-corporation/governance-structure/council-of-lloyds) places great emphasis on ensuring that the Committee considers candidates from a wide range of backgrounds on merit and against objective criteria, and a target has been set that by the end of 2023 a minimum of 33% of the Council should be female and/or from an ethnic minority background. As at year end 2022, four of the 15 members of Council (27%) are female. On the appointment of Joe Hurd to the Council as of May 2023, one member of Council (7%) will be from an ethnic minority background. – In 2022, on the recommendation of the Committee, the Council approved an update to the Council Diversity Policy to expressly require the Committee, when considering the performance of the Council and when making new appointments, to consider socioeconomic backgrounds as a factor of diversity. – In July 2020, targets were set for the Lloyd's market of 35% female representation in leadership posts across the market by 31 December 2023 (Board, Executive Committee, Executive Committee direct reports); at least 20% female representation on Boards and Executive Committees combined by 31 December 2023; and a commitment to achieve parity by 2030.

2. Corporate governance	
Potential conflicts of interest and other professional activities	– The Society has a conflicts of interest procedure in place under paragraph 3.5 of the Constitutional Arrangements Byelaw (https://assets.lloyds.com/assets/pdf-constitutional-arrangements-byelaw/1/pdf-constitutional-arrangements-byelaw.pdf). – In 2022, the Committee examined changes to the other professional activities for the Chairman, members of Council and the Executive Committee and the related time commitment; and concluded these commitments did not interfere with their commitment to the Council and did not put them in any conflict of interest.
Internal governance oversight	– The Committee reports to the Council on its proceedings after each meeting, and on all matters relating to the exercise of its duties and powers. A written report is also submitted to the Council annually. – In 2022, the Committee reviewed and recommended to Council for approval a new principles-based governance framework for the Society and its subsidiaries (UK and international).
Annual governance effectiveness review	– The Committee reviewed the findings of the annual Corporate Governance Report and agreed the actions to be taken forward by the Chairman and Company Secretary and agreed the approach to be taken for the following year's review.

Remuneration Committee

		Scheduled meetings attended*
Chair	Fiona Luck	4/4
Council Members	Bruce Carnegie-Brown	4/4
	Dominic Christian[1]	4/4
	Karen Green	4/4
	John Sununu	4/4
	Michael Watson[2]	1/1

Notes:
* In addition to the scheduled meetings identified above, four ad-hoc meetings were held.
1. Dominic Christian ceased as a member of the Remuneration Committee with effect from 31 January 2023. Victoria Carter was appointed as a member of the Nominations & Governance Committee with effect from 9 February 2023.
2. Michael Watson ceased as a member of the Remuneration Committee with effect from 31 January 2022.

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

Non-Executive remuneration is decided by the Council, on recommendation from the Chairman and Chief Executive Officer, who may consult the Remuneration Committee as part of that process. The level of remuneration for each position reflects the time commitment and responsibilities of each role. Please refer to the Remuneration Report (starting on page 89) for details of the non-executive remuneration.

The Remuneration Committee's full report is on pages 86. The Remuneration Committee reports to the Council on its proceedings after each meeting, and on all matters relating to its duties and powers and makes recommendations to the Council on any area within its remit where action or improvement is needed. The Remuneration Committee submits a written report to the Council annually.

The Remuneration Committee is chaired by Fiona Luck, an independent nominated member of the Council. The Chairman is a member of the Remuneration Committee, and its remaining members are drawn from the Council. As at 31 December 2022, two of the Remuneration Committee's five members were elected market representatives, the Remuneration Committee's composition did not comply with Provision 32 of the Code in that it is not comprised entirely of independent members. It is recognised that the departure could be perceived as a risk to the independence of the Committee. However, the Remuneration Committee's composition is deemed appropriate notwithstanding its departure from the Code. The Council has done this to maximise the pool of skills and experience available to it when appointing the members of the Remuneration Committee. The Society has a conflicts of interest procedure in place (please see below) and no Executive Director of the Council is eligible to be a member of the Remuneration Committee.

The Chair of the Remuneration Committee meets informally with and has open lines of communication with the Chief People Officer and other members of the Executive team (as appropriate) together with senior management, to discuss topical issues and the operations of the Society. These meetings provide an opportunity for any matters to be raised confidentially.

Audit Committee

		Scheduled meetings attended*
Chair	Angela Crawford-Ingle	7/7
Council Members[3]	Jeffery Barratt	7/7
	Dominick Hoare[1]	4/6
	Neil Maidment	6/7
	John Sununu	6/7
	Michael Watson[2]	1/1

Notes:
* In addition to the scheduled meetings identified above, one ad-hoc meeting was held.
1. Dominick Hoare was appointed as a member of the Audit Committee with effect from 1 February 2022.
2. Michael Watson ceased as a member of the Audit Committee with effect from 31 January 2022.
3. Victoria Carter was appointed as a member of the Audit Committee with effect from 9 February 2023.

The Audit Committee's role is to assist the Council in discharging its responsibilities for monitoring the integrity of the Society's financial reporting, assessing the effectiveness of the systems of internal control of the Society and monitoring the effectiveness, independence and objectivity of the internal and external auditors. The Committee's functions in 2022 included reviewing the Society Report (which includes the Group Financial statements of the Society[1]), the annual and interim Pro Forma Financial Statements (PFFS[2]), the Aggregate Accounts and the Lloyd's Solvency and Financial Condition Report to the PRA.

The Chairman of Lloyd's, the Chief Executive Officer, the Chief Financial Officer, Deputy Chief Financial Officer, the Chief Risk Officer, the Head of Internal Audit and other senior management regularly attend Committee meetings at the invitation of the Chair of the Audit Committee, together with representatives of the external auditors, PricewaterhouseCoopers LLP. The Audit Committee as a whole meets privately with the Head of Internal Audit and the external auditors.

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

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

The Audit Committee is chaired by an independent nominated member of the Council. As at 31 December 2022, the Audit Committee's remaining members comprised of two external members of the Council and two independent nominated members of the Council. As two of the Committee's five members are elected market representatives, the Audit Committee's composition does not comply with Provision 24 of the Code in that it is not comprised entirely of independent members. It is recognised that the departure could be perceived as a risk to the independence of the Committee. However, the Audit Committee's composition is deemed appropriate notwithstanding its departure from the Code. Council has done this to maximise the pool of skills and experience available to it when appointing the members of the Audit Committee. The Society has a conflicts of interest procedure in place (please see below) and no Executive Director of the Council is eligible to be a member of the Committee.

The Audit Committee's full report is on pages 98 to 102.

1. Refer to note 1 to the Financial Statements for the definition of **Group financial statements of the Society**.
2. The **PFFS** are an aggregation of the audited financial information reported in syndicate returns and annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the audited Group financial statetments of the Society of Lloyd's.

Committees of the Council continued

Risk Committee

		Scheduled meetings attended
Chair	Neil Maidment	7/7
Council Members	Andrew Brooks	4/7
	Victoria Carter[1]	7/7
	Angela Crawford-Ingle	7/7
	Karen Green	6/7
	Fiona Luck	7/7
	Lord Mark Sedwill	6/7

Notes:
1. Victoria Carter ceased as a member of the Risk Committee with effect from 9 February 2023. Dominick Hoare was appointed as a member of the Risk Committee with effect from 9 February 2023.

The Risk Committee's role is to assist the Council in its oversight of the identification and control of material risks to the objectives of Lloyd's. In carrying out the role, the Committee takes into account the relevant work of the Investment Committee and the Audit Committee. The Risk Committee is chaired by Neil Maidment, an independent nominated member of the Council. The other members of the Committee are drawn from the Council. The Chief Executive Officer, Chief Risk Officer, Chief Financial Officer and Chief of Markets are regular attendees, with other individuals invited to attend all or part of any meeting as and when deemed appropriate. The Committee members meet privately with the Chief Risk Officer at the end of each meeting.

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

The Risk Committee's full report is on pages 104 to 106.

Investment Committee

		Scheduled meetings attended*
Chair	Karen Green	4/4
Council Members	Jeffery Barratt[1]	3/3
	Michael Watson[2]	0/0
SMEs	Mark Allan	4/4
	Reeken Patel	4/4
	Emily Penn	3/4
	Paul Stanworth	3/4
Executive Members	Eleanor Bucks	4/4
	Burkhard Keese	4/4
	John Neal	4/4

Notes:
* In addition to the scheduled meetings identified above, two ad-hoc meetings were held.
1. Jeffery Barratt was appointed as a member of the Investment Committee with effect from 23 March 2022.
2. Michael Watson ceased as a member of the Investment Committee with effect from 31 January 2022.

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

The Investment Committee submits a written report to the Council annually and submits reports on its proceedings after each meeting (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 Council before making any decisions that may materially affect the financial risks applying to the Society or Lloyd's market entities.

The Investment Committee is chaired by Karen Green, an elected external member of the Council. The other members of the Committee are drawn from the Council and the Executive together with independent Subject Matter Experts. The Chairman and Chief Risk Officer are regular attendees, with other individuals invited to attend all or part of any meeting as and when deemed appropriate.

The Chair of the Investment Committee meets informally with and has open lines of communication with the Chief Financial Officer and Chief Investment Officer and other members of the Executive team (as appropriate) together with senior management, to discuss topical issues and the operations of the Society. These meetings provide an opportunity for any matters to be raised confidentially.

Environmental, Social & Governance Committee (ESG Committee)

		Scheduled meetings attended
Chair	Lord Mark Sedwill	4/4
Council Members[4]	Dominick Hoare[1]	3/4
	Fiona Luck	4/4
Market Representatives	Sheila Cameron	4/4
	Jane Warren	4/4
SMEs	Brian Dow	4/4
	Ingrid Holmes	4/4
	Kamel Hothi	4/4
	Moses Ojeisekhoba[2]	2/3
Executive Members	Rebekah Clement	4/4
	Sara Gomez[3]	1/1
	Mark Lomas	4/4
	David Sansom	4/4
	Jo Scott	4/4

Notes:
1. Dominick Hoare ceased as a member of the ESG Committee with effect from 9 February 2023.
2. Moses Ojeisekhoba ceased as a member of the ESG Committee with effect from 30 September 2022.
3 Sara Gomez, Chief People Officer, was appointed as a member of the ESG Committee with effect from 16 June 2022.
4. Richard Dudley was appointed as a member of the ESG Committee with effect from 9 February 2023.

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

The ESG Committee submits a written report to the Council annually and submits reports on its proceedings after each meeting (and may submit additional reports on matters of material concern, as and when necessary).

The ESG Committee is chaired by Lord Mark Sedwill, the Senior Independent Deputy Chairman of Lloyd's. The ESG Chair has a wealth of skills, knowledge and experience having led or helped shape policymaking approaches to topics such as ESG and energy transition. The remaining members are drawn from the Council, representation from the market, subject matter experts and executive members as set out in the above table. The ESG Committee membership includes the Lloyd's Sustainability Director, who is responsible for leading and executing Lloyd's (Corporation and Market) sustainability strategy globally. This includes driving Lloyd's climate action commitments. For further information on the expertise of ESG Committee members, please see https://www.lloyds.com/about-lloyds/responsible-business/esg-committee.

The Chair of the ESG Committee meets informally with and has open lines of communication with the Chief Executive Officer and other members of the Executive team as required, together with the Sustainability Director and other members of senior management (as appropriate), to discuss topical issues and the operations of the Society. These meetings provide an opportunity for any matters to be raised confidentially.

The Society has a formal workforce advisory panel. Until March 2022, this was achieved through the Employee Engagement Group (EEG), comprising an executive sponsor and representatives from the Society's workforce. With effect from April 2022, the Employee Change Forum (ECF) was launched with supporting terms of reference. Representatives are elected for each division within Lloyd's, with the Executive from that division chairing ECF meetings for their division. Each ECF division elects a representative who attends Corporation-wide ECF meetings chaired by the Chief Executive Officer. The divisional ECF meetings take place a minimum of six times each year, with Corporation ECF meetings taking place at least once a quarter. The Chief Executive Officer reports to the Council in his CEO Report as appropriate so that Council can continue to ensure effective workforce engagement.

Committees of the Council continued

Technology & Transformation Advisory Panel (TTA)

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

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

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

Underwriting Advisory Panel (UAP)

The UAP assists the Chief of Markets by sharing, as appropriate, insights and assessments regarding underwriting conditions, developments and trends in the insurance market (including any long-term issues) and provides expert advice on technical market matters. The UAP is chaired by the Chief of Markets, and its remaining members are comprised of the Chair of the Lloyd's Market Association and Council members with relevant market expertise.

Special Committees

Capacity Transfer Panel (the 'Panel')

		Scheduled meetings attended
Chair	Neil Maidment	1/1
SMEs	Richard Boys-Stones	1/1
	Margaret Chamberlain	1/1
Other Non-Executive Committee Members	Sheila Cameron	1/1
	Alan Lovell[1]	0/1
	Lady Rona Delves Broughton[2]	1/1
	Paul Swain[3]	1/1

Notes:
1. Alan Lovell recused himself from the Panel meeting in 2022 owing to a conflict of interest. Belinda Schofield attended the meeting as alternate member on behalf of third-party captial. Alan Lovell ceased as a member of the Panel with effect from 30 September 2022.
2. Lady Rona Delves Broughton recused herself from part of the Panel meeting in 2022 owing to a conflict of interest.
3. Paul Swain ceased as a member of the Panel with effect from 29 September 2022.

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

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

Market Supervision and Review Committee (MSARC)

		Scheduled meetings attended
Chair	Sir Mark Havelock-Allan KC	2/2
SMEs	Nick Marsh	2/2
	Julian James	2/2
	Tammy Richardson	2/2

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

MSARC submits a written report to the Council annually and may submit additional reports where appropriate.

The members of MSARC are appointed by the Council and are neither Council members, nor employees of the Society. MSARC is chaired by a qualified lawyer.

Corporate Governance and the Code

The Council is committed to the principle of good corporate governance and supports the application of the principles of the UK Corporate Governance Code (the Code). Please see below for the Society's disclosure on how the provisions of the Code have been complied with and an explanation of any divergences.

Terms of reference and appointment terms

There are terms of reference for the Council and its committees (including the Audit, Risk, Nominations & Governance, Remuneration and ESG Committees). There are also terms of reference for the Chairman, Deputy Chairs (including the Senior Independent Deputy Chairman) and the Chief Executive Officer. All of the aforementioned terms of reference are available to view on www.lloyds.com. The terms of reference provide a clear division of responsibilities between the leadership of the Council and the Executive leadership of the Society. The terms and conditions of appointment of non-executive members of the Council are available on request by members of the Society from the Secretary to the Council.

Changes to the non-Lloyd's professional activities of the non-executive members of Council are submitted to the Nominations & Governance Committee for review and require the approval of the Chairman. While approval of the Council as a whole is not required and it is acknowledged that this is a departure from Provision 15 of the Code, the Nominations & Governance Committee reports to the Council after each meeting and accordingly Lloyd's approach is considered appropriate and proportionate.

Annual General Meeting

The Council reports to the members of the Society at the Annual General Meeting (AGM). The AGM is an annual opportunity for Council members and the Executive to engage with members of the Society. A summary business presentation is given at the AGM by the Chief Executive Officer before the Chairman deals with the business of the meeting.

Where a poll is called, voting entitlement at general meetings is 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 www.lloyds.com.

Indemnities

The Society has given indemnities to a number 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, its committees and directors of certain subsidiaries, the Society's employees, and 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 and committee assessments

In accordance with the UK Corporate Governance Code, an external and independent evaluation of the performance of the Council and its committees[1] is undertaken every three years. In intervening years an internal assessment is undertaken. In all cases, feedback is sought from non-executive directors on the operation and dynamics of the Council. The composition, diversity and how effectively members work together is considered.

The last independent external review was conducted in 2020/21 by YSC Consulting (YSC). The review was undertaken through observations of the Council and selected committees (Remuneration, Audit, Risk, Nominations & Governance and Investment) and discussions with Council members, Executive Committee members and other senior leaders of the Society. The overall conclusion (which was reported to members of the Society at the AGM) was that there was a noticeable improvement in both the efficiency and effectiveness of governance at Lloyd's across almost all measures. For further information, please see Lloyd's 2021 Annual Report (https://www.lloyds.com/about-lloyds/investor-relations/financial-performance/financial-results/full-year-results-2021). The next independent external review will be conducted in 2023/24.

In late 2021/early 2022, an internal assessment of the Council and selected committees (Remuneration, Audit, Risk, Nominations & Governance and Investment) took place. The key actions were taken forward and an update was provided to the Council during the year to report on the progress made. For further information, please see Lloyd's 2021 Annual Report (https://www.lloyds.com/about-lloyds/investor-relations/financial-performance/financial-results/full-year-results-2021).

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1. Formal evaluations are not undertaken for the TTA, UAP, MSARC, CTP, LEB and Lloyd's of London Foundation.

Council and committee assessments continued

In late 2022/early 2023, an internal assessment of the Council and selected committees (Remuneration, Audit, Risk, Nominations & Governance, Investment and ESG) took place. The assessment was conducted in two stages: meetings between the Secretary to the Council and the Head of Secretariat and Governance with each Council member individually; and questionnaires distributed to all Council and Committee members. The principal conclusion of the assessment was that the governance arrangements were working effectively. Observations included that the relationships between Council and the Executive are strong and constructive, that Council meetings are running well and are improved, and that succession planning (which has been a focus area in recent reviews) had been enhanced in line with the actions taken from the previous review. However, it was highlighted that there was further improvement to be made on improving the quality and timeliness of materials submitted to the Council and its committees, ensuring that there is a sufficiently strong weighting to strategic rather than operational discussions at Council meetings, as well as some focus areas for individual committees. The recommendations for improvement will be taken forward under the guidance of the Chairman and the Secretary to the Council during 2023.

Engagement and assessment

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

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

Training

All new members of the Council are provided with a Guide for Members of the Lloyd's committees and a tailored induction programme that includes briefings with senior executive management on Lloyd's, its operations and the key current issues. Members of the Council also receive ongoing briefings from management and external advisers on their duties as members of Council and on new developments that are relevant to the business of Lloyd's.

Training is provided annually, as appropriate, to the Council and to all Corporation employees, thereby supporting the application of Principle E of the Code.

Independent professional advice

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

In addition, members of the Council have access to the advice of the Secretary to the Council, who is responsible for advising the Council on all governance matters. Both the appointment and removal of the Secretary to the Council are matters for the Council as a whole.

Conflicts of interest

A register of interests of members of the Council and their committees is maintained by the Secretary to the Council and is available for inspection on request by members of the Society. On appointment, non-executive members of the Council notify the Secretary to the Council of any conflicts of interest. Thereafter, there is an ongoing obligation for members of the Council to notify the Secretary of Council as to any conflicts of interest which arise after appointment. Where a conflict of interest arises, the member is recused from the meeting. In addition, papers for meetings are redacted appropriately. Training is provided annually.

The Code

An internal assessment of the Code has been undertaken. Except where expressly stated below, the Society has complied throughout the reporting period with the Code insofar as its provisions can be applied to the governance of a Society of members and a market of separate and competing entities.

1. Board Leadership and Company Purpose

Principles	Explanation (* denotes a deviation)
A	– Council Statement, starting at page 65. – Corporate Governance Report, starting at page 71, including the following paragraphs: Governing body: the Council; the Constitutional Requirements; and the Society's governance structure.
B	– Strategic Report, starting at page 4, including the following paragraphs/sections: Lloyd's business model; Sharing risk to create a braver world; Supporting our stakeholders and accompanying table; and Culture. – Council Statement, starting at page 65, including the Engagement with employees and Culture paragraphs. – Corporate Governance Report, starting at page 71, including the ESG Committee paragraph.
C	– Corporate Governance Report, starting at page 71, including the following paragraphs: Governing body: the Council; Terms of Reference and appointment terms; Audit Committee; and Risk Committee. – Audit Committee Report, starting at page 98. – Risk Committee Report, starting at page 104. – Remuneration Committee Report, starting at page 86, including the Summary of remuneration policy and out-turns for 2022 section.
D	– Council Statement, starting at page 65. – Corporate Governance Report, starting at page 71, including the following paragraphs/sections: AGM; and Attendance tables showing composition of Council (and its Committees). – Strategic Report, starting at page 4, including the following paragraphs: Purpose; and Supporting our communities.
E	– Corporate Governance Report, starting at page 71, including the following paragraphs: Audit Committee; Training; and ESG Committee. – Council Statement, starting at page 65. – Audit Committee Report, starting at page 98, including the following paragraphs/sections: Responsibilities of the Audit Committee; Audit Committee primary activities and 2022 key areas of focus; and Internal Control. – Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
Provisions	**Explanation (* denotes a deviation)**
1-8	– Council Statement, starting at page 65, including the following paragraphs/sections: Council decisions and their impact on stakeholders; Culture; Purpose; Engagement with members; and Engagement with employees. – Corporate Governance Report, starting at page 71, including the following paragraphs/sections: Nominations & Governance Committee; ESG Committee; Investment Committee; TTA; Training; Council Membership; Council meetings; and Conflicts of Interest. – Strategic Report, starting at page 4, including the following paragraphs/sections: Lloyd's business model; Principal risks to Lloyd's Strategic priorities and our mitigating actions table; Supporting our Stakeholders and accompanying table; Culture; and Sustainability section. – Remuneration Report, starting at page 86, Wider Society employees' and Culture at Lloyd's and employee engagement paragraphs. – Risk Committee Report, starting at page 104. – Audit Committee Report, starting at page 98, Responsibilities of the Audit Committee and Internal Control paragraphs.

The Code continued

2. Division of Responsibilities

Principles	Explanation (* denotes a deviation)
F	– Corporate Governance Report, starting at page 71, including the following paragraphs: Chairman and Deputy Chairs; Council Membership; Council meetings; and Engagement and assessment. – Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
G	– Corporate Governance Report, starting at page 71, including the following paragraphs: Council Membership; Council Attendance tables, Nominations & Governance Committee; and Terms of reference and appointment terms. – Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
H	– Corporate Governance Report, starting at page 71, including the following paragraphs/sections: Nominations & Governance Committee; Attendance tables of Committees; Conflicts of Interest; Council Meetings; Engagement and assessment; and Council and Committee assessments.
I	– Corporate Governance Report, starting at page 71, including the following paragraphs: Terms of reference and appointment terms; Council and Committee assessments; and Training. – Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
9-10 12-14& 16	– Corporate Governance Report, starting at page 71, including the following paragraphs/sections: Chairman and Deputy Chairs; Council meetings; Council attendance table (and further attendance tables throughout the report); Council membership; Engagement and assessment; Governing body: the Council; Nominations & Governance Committee; Remuneration Committee; Terms of Reference and appointment terms; and Independent professional advice. – Council biographies www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds. – Executive biographies www.lloyds.com/about-lloyds/governance-and-management/executive-committee. – Terms of Reference https://www.lloyds.com/about-lloyds/governance-and-management. – Remuneration Report at page 86.
*11	* Corporate Governance Report, starting at page 71, Council Membership paragraph.
*15	* Corporate Governance Report, starting at page 71, Terms of Reference and appointment terms paragraph. – Corporate Governance Report, starting on page 71, Nominations and governance paragraph.

3. Composition, Succession and Evaluation

Principles	Explanation (* denotes a deviation)
J	– Corporate Governance Report, starting at page 71, including the following paragraphs/sections: Nominations & Governance Committee; Council Membership; Governing body: the Council; and Terms of reference and appointment terms. – Strategic Report, starting at page 4, including the following paragraphs/sections: Our Strategic priorities; and Culture. – Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
K	– Corporate Governance Report, starting at page 71, Nominations & Governance Committee and Council Membership paragraphs/sections. – Council biographies www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.
L	– Corporate Governance Report, starting at page 71, Engagement & Assessment and Council and Committee assessments paragraphs.
Provisions	**Explanation (* denotes a deviation)**
*17	* Corporate Governance Report, starting at page 71, Nominations & Governance Committee section. – Corporate Governance Report, starting at page 71, Conflict of interest paragraph. – Nominations & Governance Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
*18	* Corporate Governance Report, starting at page 71, Council Membership paragraph. * Corporate Governance Report, starting at page 71, Chairman and deputy chairs.
19-23	– Council Statement, starting at page 65, including the Culture section – Corporate Governance Report, starting at page 71, including the following paragraphs/sections: Chairman and Deputy Chairs; Council Membership; Nominations & Governance Committee (including the Succession Planning for the Council and senior management; and Diversity & Inclusion policies sections); and Council and committee assessments. – Council biographies https://www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds. – Remuneration Report, starting at page 86, Remuneration for Chairman and members of the Council who are not employees of the Society paragraph. – Strategic Report, starting at page 4, Culture section.

4. Audit, Risk and Internal Control

Principles	Explanation (* denotes a deviation)
M	– Corporate Governance Report, starting at page 71, Audit Committee paragraph. – Audit Committee Report, starting at page 98, including the following paragraphs: Responsibilities of the Audit Committee; Audit Committee primary activities and 2022 key areas of focus; Financial Reporting and External Audit; and Internal Audit paragraphs. – Audit Committee Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
N	– Audit Committee Report, starting at page 98, Financial reporting and external audit paragraph.
O	– Corporate Governance Report, starting at page 71, Audit Committee and Risk Committee paragraphs. – Audit Committee Report, starting at page 98, Internal Control and Internal Audit paragraphs. – Risk Committee Report, starting at page 104, Internal Control and Risk Management Framework paragraph/sections. – Strategic Report, starting at page 4, including the Principal risks to Lloyd's strategic priorities and our mitigating actions section.

Provisions	Explanation (* denotes a deviation)
***24**	* Corporate Governance Report, starting at page 71, Audit Committee paragraph. – Corporate Governance Report, starting at page 71, Nominations & Governance Committee paragraph. – Audit Committee Report, starting at page 98, Composition of the Audit Committee paragraph. – Council biographies www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.
25-31	– Corporate Governance Report, starting at page 71, including Audit Committee and Risk Committee paragraphs. – Audit Committee Report, starting at page 98, including the following paragraphs: Statement by the Chair of the Audit Committee; Responsibilities of the Audit Committee; Audit Committee primary activities and 2022 key areas of focus; Financial reporting and external audit; Internal Control; and Internal Audit. – Strategic Report, starting at page 4, including Principal risks to Lloyd's strategic priorities and our mitigating actions section together with table. – Risk Committee Report, starting at page 104, including the following paragraphs: Responsibilities of the Risk Committee; Key areas of focus during the year; Internal Control; and Risk Management Framework. – Audit Committee and Risk Committee Terms of Reference www.lloyds.com/about-lloyds/governance-and-management. – Market Results, Statement of Councils responsibilities in respect of the Pro Forma Financial Statements at pages 32 to 36. – Society Report, starting at page 64, including the following paragraphs: Statement of the Council's Responsibilities for the Financial Statements; Going Concern and viability paragraphs at page 112 and Liquidity Risk paragraph at page 111.

5. Remuneration

Principles	Explanation (* denotes a deviation)
P	– Corporate Governance Report, starting at page 71, Remuneration Committee paragraph. – Remuneration Report, starting at page 86, including the following paragraphs/sections: Statement by the Chair of the Remuneration Committee; the Remuneration Policy principles; Remuneration Policy table, Remuneration policy; Key remuneration decisions and Incentive out-turns; Annual Bonus (Individual Performance Award); 2022 awards-performance framework and weightings; and Bonus out-turns for 2022. – Remuneration Committee Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
Q	– Remuneration Report, starting at page 86, including the following paragraphs: Remuneration Policy principles; Remuneration Policy table; and Compliance Statement. – Remuneration Committee Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
R	– Corporate Governance Report, starting at page 71, The Constitutional Requirements paragraph. – Remuneration Report. starting at page 86, including the following paragraphs: Remuneration Policy principles; Remuneration Policy table; Compliance Statement; Summary of remuneration policy and out-turns for 2022 table; 2022 awards-performance framework and weightings; and Market Award. – Remuneration Committee Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.

The Code continued

5. Remuneration continued

Provisions	Explanation (* denotes a deviation)
***32**	* Corporate Governance Report, starting at page 71, Remuneration Committee paragraph. – Corporate Governance Report, starting at page 71, Council Membership paragraph and Remuneration Committee attendance table. – Remuneration Report, starting at page 86, Details of the Remuneration Committee, advisers to the Committee and their fees paragraph.
33-37 & 39-40	– Remuneration Committee Terms of Reference www.lloyds.com/about-lloyds/governance-and-management. – Remuneration Report, starting at page 86, including the following paragraphs: Statement by Chair of the Remuneration Committee, Details of the Remuneration Committee, advisers to the Committee and their fees; Remuneration for the Chairman and members of the Council who are not employees of the Society; Remuneration Policy table; Annual Remuneration Report table; Malus and clawback; Service Contracts; 2022 awards-performance framework and weighting table; Key remuneration decisions and incentive out-turns and Wider Society Employees. – Corporate Governance Report, starting at page 71, Remuneration Committee and Constitutional Requirements paragraphs.
***38**	* Remuneration Report, starting at page 86, Pensions and Benefits section of the table, Summary of the Remuneration policy and out-turns for 2022. – Remuneration Report, starting at page 86, Pensions paragraph.
***41**	* Remuneration Report, starting at page 86, including the following paragraphs: Compliance with UK Corporate Governance Code 2018 and Remuneration Policy. – Strategic Report. starting at page 4, including the following paragraphs: Our Strategic Priorities; Culture. – Remuneration Report, starting at page 86, including the following paragraphs/sections: Wider Society Employees; Summary of remuneration policy and out-turns for 2022, 2022 awards-performance framework and weightings; Key Remuneration decisions and Incentive Out-turns and; Culture at Lloyd’s and employee engagement.

Report of the Remuneration Committee

This report is based upon the principles of the Directors' remuneration reporting regulations for UK-listed companies, and the UK Corporate Governance Code. 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, the Council supports their principles insofar as they can be applied to the governance of the Society and has chosen to broadly follow the disclosure principles in this report.

The remuneration report is unaudited with the exception of the single total figure of remuneration table which is audited by the independent external auditors PricewaterhouseCoopers LLP.

The Remuneration Committee reviews and recommends the framework and policy for the remuneration of the Chairman of Lloyd's, the Chief Executive Officer, the Executive Directors, any other direct reports of the Chief Executive Officer and such other members of the executive management or other persons (including Solvency II employees) as appropriate, to the Council.

Statement by Chair of the Remuneration Committee

I am pleased to present the Remuneration Committee's report for 2022 on the following pages.

The Society's Remuneration Policy seeks to reward individuals who contribute to the success of the Corporation and the Lloyd's market and our reward principles align to the Society's purpose and values, and the successful delivery of the long-term strategy. Progress against our four key strategic pillars of performance, digitalisation, purpose and culture remains critical to our future success.

The Lloyd's market reported an underwriting result of £2,641m for 2022 (2021: £1,741m) with a combined operating ratio of 91.9% (2021: 93.5%), demonstrating continued delivery of sustainable performance and profitable growth. The market is exceptionally well capitalised with the Central Solvency ratio of 412% (2021: 388%) and a prudent asset allocation, however economic headwinds and the conflict in Ukraine led to valuation losses across the investment portfolio.

Our focus on sustainable performance is supported by the implementation of a principles-based oversight framework and the delivery of industry-wide initiatives to optimise growth through technology, sustainability and talent.

In an uncertain external environment, we will continue to support our customers and colleagues in responding to the challenges that we face. Our strong performance and strategic priorities position us well to provide this, and a focus on innovation – including our ambition to digitalise the Lloyd's market – will be essential in building continued resilience in 2023 and beyond.

Fiona Luck
Remuneration Committee Chair
22 March 2023

Remuneration policy principles

The overall principles that underpin the remuneration policy are as follows:

- **Nature of the Society** – The organisation has a unique role, both as an oversight body and a promoter of the Lloyd's market. Incentives are generally set below market levels, reflecting the oversight role of the Society.
- **Alignment to Lloyd's strategy** – Individual Performance Awards are linked to the Society and individual KPIs. Performance is assessed against a rigorous balanced scorecard of quantifiable metrics and is subject to risk adjustment.

  For 2023, as in 2022, a Transformation Incentive Plan will operate for key roles that are critical to the successful execution of the ambitious Blueprint Two programme and the sustainability of the Lloyd's platform for the future (see pages 91 to 92).
- **Alignment to the Lloyd's market** – A significant element of remuneration is based on the performance of the Lloyd's market. This encourages an attitude of commercial partnership with the market and aligns the interests of participants with capital providers. This alignment means that the payment under the market element was £nil in 2017, 2018 and 2020. Market and Society risk adjustment metrics also apply to this element.
- In order to provide a balanced approach to performance measurement and reflect the focus of the Society and its drive for improved efficiencies and transformation in the Lloyd's market, profit before tax and combined operating ratio are key metrics used to measure market performance.
- **Solvency II** – We continue to operate appropriate features such as long-term deferral for Solvency II staff and risk adjustment.

The remuneration policy is set out on pages 95 to 97.

Key remuneration decisions and incentive out-turns

Salaries

The Committee carefully considered the salaries of the Chief Executive Officer, Chief Financial Officer & Chief Operating Officer and Chief of Markets.

In reviewing salaries this year, the Committee was mindful of the challenging external economic environment. High inflation and an increase in the cost of living is impacting all of our employees, and in September 2022 Lloyd's awarded a cost-of-living payment of £2,500 to Society employees earning less than £75,000. A further cost of living payment of £1,500 will be made in April 2023. The average salary increase for employees is 5%, taking effect from 1 January 2023.

Following consideration of the wider environment, no salary increases were awarded to the Chief Executive Officer and Chief Financial Officer. An increase of 4% was awarded to the Chief of Markets, below the average increase for wider Society employees.

Incentive out-turns

The Individual Performance Awards (annual bonus) are based on an assessment of each Director's performance against KPIs and Lloyd's Values. The Committee seeks to ensure that KPIs are stretching and aimed at delivering strategic priorities while remaining in accordance with Lloyd's risk policies and risk appetite.

The Society made strong progress against its key strategic priorities in 2022, which is reflected in the Individual Performance Awards (see page 90).

Key remuneration decisions and incentive out-turns continued

Incentive out-turns continued

Executive Directors' incentive awards are also aligned to market performance. The Lloyd's market recorded a loss before tax of £769m (2021: £2,277m profit) and the combined operating ratio was 91.9% (2021: 93.5%) which resulted in a Market Award for Executive Directors (see page 91).

40% of the total Lloyd's Incentive Plan award for Executive Directors will be deferred for three years.

The Transformation Incentive Plan, as outlined below, vested at 78% of maximum (2021: nil award), reflecting our progress against the Blueprint Two programme during the year (see page 92 for more details).

The Committee considered that the remuneration policy operated as intended in terms of the Society's performance and out-turns.

Future at Lloyd's strategy – Lloyd's Transformation Incentive Plan

Blueprint Two is a transformational programme that will radically shift the market to a digital ecosystem, powered by data and technology – designed to deliver better value at a lower cost for its customers.

In 2021, we launched a Transformation Incentive Plan, operating for a group of key roles who are critical to the successful execution of the ambitious Blueprint Two programme and the sustainability of the Lloyd's platform for the future. Performance metrics are directly aligned to the success of the programme and are underpinned by profitability and financial strength of the Lloyd's marketplace. The plan is an additional incentive, separate to Lloyd's existing incentive plan.

The Remuneration Committee carefully considered achievement of 2022 performance against key lead and lag performance indicators as set out on page 90. 2022 awards vested at 78% of maximum, reflecting strong achievements against the targets set in the year (2021 awards: £nil award).

Payment of vested awards will be made in three tranches in the three years following the end of the performance period (April 2023, April 2024 and April 2025).

Awards may be made in 2023 and further information is provided on pages 90 to 92.

Wider Society employees

The Remuneration Committee reviews policies which apply to all employees across the Society.

During 2022, an independent review of the Society's existing reward strategy was undertaken, to ensure our approach remains aligned with core business priorities and enables the delivery of Lloyd's ambition through the attraction, retention and incentivisation of key talent. In July 2022, the Remuneration Committee held a strategy workshop session in which it discussed the findings of the review and potential areas of focus looking ahead.

The Committee is regularly updated on key areas of the Lloyd's Culture Dashboard, designed to drive the market towards a more inclusive environment and deliver cultural change in key areas such as gender and ethnicity pay gaps and employee engagement.

The Remuneration Policy and Bonus Scheme Rules are published internally and are available to all employees.

All Society employees are eligible to participate in Lloyd's Incentive Plan, and the framework is consistent across all employees.

Pension arrangements for Executive Directors are in line with the maximum contribution available to wider Society employees.

Culture at Lloyd's and employee engagement

In 2022, Lloyd's launched our 'Lloyd's Culture Strategy', which describes how we define, engage and measure progress on culture across the Lloyd's market.

The results of our survey revealed positive progress towards our diversity ambitions, including our target of 35% of leadership positions filled by women and one in three new hires coming from ethnic minority backgrounds.

We will continue to provide transparent reporting on representation and pay in our market, alongside robust oversight of market firms, taking appropriate action when necessary.

The Society operates a range of employee engagement channels, including employee engagement surveys and a formal workforce advisory panel set up in 2022, the Employee Change Forum (ECF), comprising of representatives from across the workforce. The ECF collates and discusses the views of the workforce on a wide range of topics, and in 2023 this will include the approach to reward and employee policies across the Society.

Compliance statement

The Society is not required to report under the Directors' remuneration reporting regulations, as these only apply to UK-listed companies. The Committee has chosen broadly to follow the disclosure principles in those regulations insofar as they can be applied to the governance of the Society.

For the purposes of this report, Executive Directors refers to John Neal (Chief Executive Officer), Burkhard Keese (Chief Financial Officer) and Patrick Tiernan (Chief of Markets). Directors are not involved in deciding their own remuneration outcome.

The Remuneration Committee's Terms of Reference and Remuneration Policy provide further direction on the circumstances that must be considered when authorising remuneration outcomes.

Summary of remuneration policy and out-turns for 2022

The following table provides a summary of how our remuneration policy was implemented in 2022. The remuneration policy is provided on pages 95 to 97.

Salary

Salaries are set to appropriately recognise responsibilities and be broadly market competitive.

From 1 April 2022, annual salaries were as follows:

- Chief Executive Officer: £700,000
- Chief Financial Officer & Chief Operating Officer[1]: £550,000
- Chief of Markets: £510,000

Lloyd's Incentive Plan (Individual Performance Award and Market Award)

The Lloyd's Incentive Plan comprises an Individual Performance Award (annual bonus) and a Market Award.

The Individual Performance Award links reward to corporate and individual KPIs aligned with our strategy.

The Market Award offers an incentive which is directly linked to the performance of the Lloyd's market. Market Awards are calculated by reference to profit before tax and combined operating ratio levels in the year.

Further details of performance are provided on pages 90 to 91. A summary of the out-turns for 2022 is provided below.

	Individual Performance Award		Market Award	
	Maximum opportunity (% of salary)	2022 out-turn (% of salary)	Maximum opportunity (% of salary)	2022 out-turn (% of salary)
John Neal: Chief Executive Officer	100%	74%	50%	25%
Burkhard Keese: Chief Financial Officer & Chief Operating Officer[1]	100%	74%	50%	25%
Patrick Tiernan: Chief of Markets	100%	78%	50%	25%

Risk underpin

In 2022, all awards under the Lloyd's Incentive Plan were subject to a risk underpin. The Committee assessed performance against a range of Society and market risk and compliance metrics and after consideration agreed not to make any specific adjustment to 2022 awards. Downwards adjustments have been made in prior years.

Deferral

For Executive Directors, 40% of total incentives (all variable incentives including Individual Performance Award and Market Award) will be deferred for three years.

Transformation Incentive Plan

Transformation Incentive Plan awards are subject to key metrics aligned to the delivery of the Blueprint Two programme. Lead performance indicators are underpinned by profitability and the financial strength of the Lloyd's marketplace. 2022 awards vested at 78% of the maximum award (2021: nil award). Payment of vested awards will be made in three tranches in the three years following the end of the performance period (April 2023, April 2024 and April 2025). Further details are provided on page 92.

In 2023, awards will be made with a maximum opportunity of 100% of salary. Awards will be performance tested and vest following 31 December 2023. Payment of any vested awards will be made in three tranches in the three years following the end of the performance period, subject to employment at the time of vesting.

Pension and benefits

The Chief Executive Officer, Chief Financial Officer & Chief Operating Officer[1] and Chief of Markets received a pension supplement of 15% of salary, which is in line with the pension available to the wider workforce. All employees, including Directors have access to the same pension arrangements that do not vary by age.

All Executive Directors receive a benefit supplement of 3% of salary.

1. With effect from 14 March 2023, a Chief Operating Officer was appointed, taking over responsibilities from the Chief Financial Officer.

Report of the Remuneration Committee continued

Annual remuneration report

This part of the report sets out the annual remuneration for 2022 and a summary of how the policy will apply for 2023.

Single total figure of remuneration

The total remuneration receivable in respect of qualifying services for each person who served as a member of Board or Council during the year is shown below. Further details on annual bonus and Market Awards are shown on pages 90 to 91.

	Salary/ fees		Other benefits[1]		Annual bonus		Market Award[2]		Pension benefit[3]		Total fixed		Total variable		Total	
	2022 £000	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Chairman of the Council																
Bruce Carnegie-Brown	650	623	2	2	–	–	–	–	–	–	650	623	2	2	652	625
Executive Directors																
John Neal	691	660	50	72	519	436	721	332	104	99	820	784	1,265	815	2,085	1,599
Burkhard Keese	546	469	28	29	408	352	567	238	82	70	653	561	977	597	1,630	1,158
Patrick Tiernan[4]	508	336	278	588	399	375	525	250	76	50	604	399	1,182	1,200	1,786	1,599

	Salary/fees		Other benefits[1]		Total	
	2022 £000	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Working members						
Andrew Brooks	78	78	–	–	78	78
Dominic Christian	84	84	–	–	84	84
Victoria Carter	92	87	–	–	92	87
External members						
Jeffery Barratt[5]	85	79	13	8	98	87
Karen Green	100	95	–	–	100	95
Michael Watson[6]	7	86	–	–	7	86
Dominick Hoare[7]	83	10	–	–	83	10
Nominated members						
Andy Haste[8]	–	120	–	–	–	120
Angela Crawford-Ingle[9]	163	118	–	–	163	118
Fiona Luck	107	108	14	8	121	116
John Sununu	80	86	17	3	97	89
Lord Mark Sedwill	117	17	–	–	117	17
Neil Maidment	115	106	–	–	115	106

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

1. Other benefits include items such as benefit allowances (all Executive Directors receive a benefit supplement of 3% of salary) other taxable benefits and taxable business expenses. These include travel costs met by Lloyd's, including any tax due under HMRC regulations. These travel costs are provided in accordance with the Society's policy and to enable Executive Directors to undertake responsibilities most efficiently while travelling. Other taxable business expenses include business-related membership fees and hotels.
2. Market Award includes an amount for the 2022 Transformation Incentive Plan bonus awarded to support the delivery of the market transformation.
3. The Chief Executive Officer, Chief Financial Officer & Chief Operating Officer and Chief of Markets received a pension supplement of 15% of salary, in line with the pension available to the wider workforce.
4. A payment was awarded to Mr Tiernan as part of the employment contract terms and is reflected in other benefits.
5. Mr Jeffery Barratt was appointed to the Investment Committee with effect from 23 March 2022.
6. Mr Michael Watson ceased as a member of the Council, the Remuneration Committee, the Investment Committeee and the Audit Committeee with effect from 31 January 2022.
7. Munich Re Capital Limited, represented by Mr Dominick Hoare, was elected as a member of the Council, the Environmental, Social and Governance Committee, and the Audit Committee with effect from 1 February 2022.
8. Mr Andy Haste ceased as a member of the Council with effect from 31 December 2021.
9. Ms Angela Crawford-Ingle is a non-Executive member of the Board of Directors of Lloyd's Insurance Company S.A. (Lloyd's Europe) and a member of the Lloyd's Europe Audit and Risk Committee. Ms Crawford-Ingle is paid in Euros for the Lloyd's Europe appointments. The Lloyd's Europe fees have been included in the Single total figure of remuneration table. The fees are paid quarterly and have been translated at the same quarterly FX rates used for the financial statements and notes.

Salary

The annual salaries of the Executive Directors take into account a range of factors, including increases for all employees across the Society, and are reviewed by the Remuneration Committee annually.

Salaries effective from 1 April 2023 are as follows:

	2023 Base salaries £000	Increase on 2022
John Neal: Chief Executive Officer	700	0%
Burkhard Keese: Chief Financial Officer	550	0%
Patrick Tiernan: Chief of Markets	530	4%

The average increase awarded to all employees was 5%. All salary increases have been backdated to 1 January 2023.

Annual bonus (Individual Performance Award)

Executive Directors are eligible for a discretionary Individual Performance Award. Payments are based on the Remuneration Committee's judgement of performance against a scorecard of corporate and individual KPIs for the year.

The Committee reviews strategic and operational objectives and KPIs at the start of the financial year, to ensure that they are stretching and aligned to the Society's strategic objectives.

The following table sets out the performance framework and weightings for 2022 awards.

2022 awards – performance framework and weightings

Performance metric	Performance and Risk Management	Digitalisation	Purpose	Culture	Individual strategic KPIs
Weighting	21%	21%	9%	9%	40%

Individual strategic KPIs are aligned to the four key strategic pillars of performance, digitalisation, purpose and culture.

Awards are subject to a risk underpin. The Committee assessed performance against a range of Society risk and compliance metrics and after consideration agreed not to make any specific adjustment to 2022 awards. Downwards adjustments have been made in prior years.

Bonus out-turns for 2022

The following table sets out performance achievements against the KPIs set in respect of 2022.

Performance and Risk Management	Digitalisation	Purpose	Culture
– Strong performance against the 2022 business plan. – Delivery of initial proposal on new entrant strategy. – Progress in relation to engagement with key distribution partners, as part of the wider Commercial Strategy. – Reform of Global Excellence Framework network model. – Continued strengthening of relationships with rating agencies and regulators, including delivery of sustainability model. – Improved control environment with embedding of risk culture across the Corporation.	– Completion of CDR consultation, with continued progress with iMRC. – Strong progress in enhancements of DCOM and DDM with Delegated Authority data strategy on track. – Enhancements to control and execution of change projects. – Improved engagement with the market on Blueprint Two, including launch of Blueprint Two roadmap and quarterly updates. – Strong progress made with sequences 1 and 2 in joint venture with DXC.	– Delivery of Futureset initiatives with wide circulation. – Implementation of Sustainable Markets Initiative, illustrated through access afforded to Lloyd's and positive COP27 feedback. – Development of engagement with regulators, ratings agencies and investors through delivery of Lloyd's Sustainability Model.	– Delivery and execution of the culture strategy, including Inclusion@Lloyd's. – Sustained target for gender ratio at 35% female across Corporation leadership . – Successful launch of Lloyd's Foundation. – Strong progress against People Management Capabilities, including implementation of new performance management solution.

Annual remuneration report continued

Bonus out-turns for 2022 continued

Taking into account an overall assessment of the above achievements, as well as individual performance and Society risk, the Committee determined the following annual bonus payments in respect of 2022:

Role	Maximum	Out-turn
John Neal: Chief Executive Officer	100% of salary	74% of salary
Burkhard Keese: Chief Financial Officer & Chief Operating Officer	100% of salary	74% of salary
Patrick Tiernan: Chief of Markets	100% of salary	78% of salary

40% of total incentives (Individual Performance Award and Market Award) for Executive Directors will be deferred for three years.

Market Award

The Market Award has been designed to meet Lloyd's strategic objectives by enabling the Society to offer an incentive which:

- is directly linked to the performance 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 the Society in attracting and retaining the talented individuals required to develop and support future strategy; and
- is subject to personal performance.

All employees of the Society, including international offices, were eligible to participate in the Market Award for 2022 on the basis set out below:

- Market Awards are calculated by reference to profit before tax and combined operating ratio (weighted equally) for each financial year;
- Market Awards are subject to a risk underpin; and
- 40% of the Market Award is deferred for three years for Executive Directors. For other employees above the proportionality threshold, 40% of the Market Award will be deferred with payment made in three equal tranches in April 2024, April 2025 and April 2026.

For senior employees whose remuneration is below the proportionality test (and applicable to those defined as Solvency II staff for remuneration purposes), the Market Award will be paid on an ongoing fund basis. Under this approach, one half of an award will be paid in April following the relevant financial year, with the remaining 50% treated as an ongoing fund. For other employees, the Market Award is paid in full in April following the relevant financial year.

The maximum opportunity for Executive Directors is 50% of salary. Market Awards are subject to a personal performance underpin.

2022 Market Award – out-turn

2022 Market Award – performance metric	Threshold (20% of maximum)	Target (50% of maximum)	Maximum (100% of maximum)	2022 performance out-turn	2022 Market Award out-turn (% of salary)
Profit before tax element (50% weighting)	£500m	£1.2bn	£2.5bn	(£0.8)bn	0%
Combined operating ratio element (50% weighting)	100%	98%	94%	91.9%	50%
Total Market Award payout (as a % of salary)					25%

Transformation Incentive Plan

In November 2020, Lloyd's launched the second phase of its ambitious Future at Lloyd's strategy. Blueprint Two is a transformational programme that will radically shift the market to a digital ecosystem, powered by data and technology – designed to deliver better value at a lower cost for its customers.

The Committee considered how the remuneration framework could motivate and retain key roles that are critical to the successful execution of the ambitious Blueprint Two programme and the sustainability of the Lloyd's platform for the future. Against this background, the Committee introduced a Transformation Incentive Plan. Feedback was sought with several market members as the plan was developed and the details of the plan were shared with the Regulators.

2022 Transformation Incentive Plan – out-turn

The Remuneration Committee carefully considered achievement of 2022 performance against key lead and lag performance indicators, as set out below. 2022 awards vested at 78% of maximum (2021: £nil award). Payment of vested awards will be made in three tranches in April 2023, April 2024 and April 2025.

2022 award lead indicators	Underpin/lag indicators
Delivery of Blueprint Two interactive guide to the market, with workstream delivery plans tracked	The following underpin indicators were met in respect of 2022 awards: – For 2022, Lloyd's normalised (normalised for large risk and catastrophe loss) combined operating ratio (COR) did not exceed 98.5% (2022: 91.5%); and – Lloyd's key financial strength rating with Standard & Poor's remains at a minimum of A+.
Strong progress on delivery of a credible work solution that can take CDR from iMRC, with CDR consultation complete and Gateway contract signed	
IMRC consultation complete, with key design questions approved by Data Council	
Enhanced and continued engagement with tech vendors demonstrated throughout Transformation	
Successful delivery of Sequence 1 of the DXC Build Contract, with sequence 2 build complete and delivery scheduled	
Sustained progress in relation to delivery of a credible solution for DCOM, with version 1.5 delivered in Q4 2022. DA data strategy created and socialised	

2023 Transformation Incentive Plan award

For 2023, awards will be made under the Transformation Incentive Plan which will operate as follows:

- Awards will be made to selected participants, with a maximum value of 25% to 100% of base salary. Executive Directors will receive a maximum award of 100% of salary.
- Performance metrics will be directly aligned to key progress metrics for Blueprint Two, based on lead indicators in processing, technology and data standards, as set out below. Lead indicators will be underpinned by profitability and financial strength of the Lloyd's marketplace. As in 2022, vesting may be deferred by 12 months and the underpin tests reapplied in the following year in the event that performance underpins are not met.
- Awards made in 2023 will be performance tested and vest following 31 December 2023. Payment of any vested awards will be made in three tranches in the three years following the end of the performance period (April 2024, April 2025 and April 2026).
- Awards will be subject to Lloyd's malus and clawback provisions, and the risk underpin adjustment applicable to the Lloyd's Incentive Plan.

2023 award – performance metrics

2023 award lead indicators	Underpin/lag indicators
Early adopters program implemented for a minimum of 6 participants	Awards will only vest subject to the following conditions being met: – At the end of the vesting year, Lloyd's normalised (normalised for large risk and catastrophe loss) combined operating ratio (COR) does not exceed 98.5%; and – Lloyd's key financial strength rating with Standard & Poor's remains at a minimum of A+. Vesting may be deferred by 12 months and the underpin tests reapplied in the following year in the event that performance underpins are not met.
Faster Claim Payment Adoption	
Technology Vendor Adoption	
Central services cost reduction	
Delivery of JSP sequences on time and to budget	
Deliver contractual agreements	

Pensions

The Chief Executive Officer, Chief Financial Officer and Chief of Markets receive a pension supplement of 15% of salary, which is in line with the maximum pension contribution available to the wider workforce.

No other payments to the Executive Directors are pensionable. Their dependants are eligible for the payment of a lump sum in the event of death in service.

Annual remuneration report continued

Service contracts

The Executive Directors have rolling contracts with notice periods that will not exceed one year. The Chairman has a contract for three years from appointment.

	Appointment date	**Unexpired term as at 31 December 2022**	Notice period
Bruce Carnegie-Brown	16 June 2022	2 years and 5 months	12 months
John Neal	15 October 2018	rolling 1 year	12 months
Burkhard Keese	1 April 2019	rolling 6 months	6 months
Patrick Tiernan	4 May 2021	rolling 6 months	6 months

The Chairman and the Executive Directors' service contracts are kept available for inspection by Lloyd's members at the Society'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 Board were 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.

Additional disclosures

Ten-year Chief Executive Officer remuneration

		CEO single figure of total remuneration £000	Annual bonus award as a percentage of maximum opportunity	Market Award/LPP award as a percentage of maximum opportunity[2]
2022	John Neal	2,085	74%	25%
2021	John Neal	1,599	66%	100%
2020	John Neal	1,299	74%	0%
2019	John Neal	1,594	92%	38%
2018[1]	John Neal	167	NA	NA
2018[1]	Inga Beale	1,304	75%	0%
2017	Inga Beale	1,304	76%	0%
2016	Inga Beale	1,525	75%	63%
2015	Inga Beale	1,531	81%	63%
2014	Inga Beale	1,494	74%	95%
2013	Richard Ward	1,795	75%	65%

1. Inga Beale stepped down on 13 October 2018 and John Neal took up the appointment on 15 October 2018. John Neal was not awarded a bonus in 2018 as his joining date was after the date for eligibility.
2. For year on year comparison the Transformation Incentive Plan is excluded from the above table.

Percentage change in remuneration

The table below sets out details of the change in remuneration between 2021 and 2022, and between 2020 and 2021.

	2020 – 2021			**2021 – 2022**		
	Salary/Fees	Benefits[1]	Bonus	**Salary/Fees**	**Benefits[1]**	**Bonus**
Chief Executive remuneration	2%	(65)%	1%	5%	(31)%	19%
Chief Financial Officer remuneration[2]	4%	14%	(39)%	16%	(2)%	16%
Chief of Markets remuneration[3]	100%	100%	100%	51%	(53)%	6%
Non-Executive Council member remuneration (average)	(15)%	196%	NA	4%	132%	NA
Average of all Society employees	2%	2%	0%	3%	3%	3%

1. Benefits largely relate to travel expenses (including tax thereon) and other employment related expenses, which may fluctuate between periods.
2. In 2022 the Chief Financial Officer took on the additional role of Chief Operating Officer, resulting in an increase in salary. With effect from 14 March 2023, a Chief Operating Officer was appointed, taking over responsibilities from the Chief Financial Officer.
3. The Chief of Markets was appointed on 4 May 2021, therefore the salary during the comparative period is pro-rated.

Relative importance of spend on pay

	2022 £m	2021 £m	% change
Corporation operating income	412	372	11%
Total remuneration – all employees	172	166	3%

Corporation operating income excludes income relating to the Central Fund.

Remuneration for the Chairman and members of the Council who are not employees of the Society

The current Chairman, Bruce Carnegie-Brown, was appointed on 15 June 2017. In June 2022, the Council and Nominations & Governance Committee approved his reappointment for a third term of three years running to June 2025. The Chair fee is £665,000 with effect from 1 June 2022.

In accordance with Lloyd's constitutional arrangements, the fees for members of the Council who are not employees of the Society are a matter for the Council on the recommendation of the Chairman and the Chief Executive Officer. The level of fees reflects the time commitment and responsibility of the role.

With effect from 1 June 2020, a revised fee structure came into effect when the Board merged into the Council. The revised fee structure brought Council member fees into line with the fees previously payable to Board members, in recognition of the increase in responsibilities and time commitment. Additional fees are payable over and above the standard Council member's fee of £62,500, in respect of the Deputy Chair and Senior Independent Director. Additional fees are also payable in respect of Chair and membership of a number of Council committees, including ad-hoc committees established to consider specific issues requiring a significant time commitment.

Non-Executive Council members do not participate in performance related reward.

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, the Chief Executive Officer, each Executive Director, any other senior direct reports of the Chief Executive Officer and such other members of the executive management (including those designated as Solvency II staff for remuneration purposes, and individual consultants) as it is designated to consider.

As at 31 December 2022, the Remuneration Committee comprised five members – four members of the Council and the Chair. The Committee was chaired by Fiona Luck (a Nominated member of Council), who has been a member of the Remuneration Committee since 2018 and Remuneration Committee Chair since 1 November 2021.

The Remuneration Committee met eight times in 2022. The attendance record is set out in the Corporate Governance Report on page 71. The Committee's terms of reference are available on www.lloyds.com 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 and their services are periodically reviewed by the Committee to ensure that these remain relevant and provide the assistance required. Deloitte LLP adheres to working practices that have been agreed with the Remuneration Committee Chair, for the purpose of maintaining independence, and 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 £111,600 for the year (2021: £146,720) and are determined by the scope of the services and the services agreement. Deloitte LLP also provided other services to the Society during the year including the co-sourced Internal Audit resource; data and technology Transformation advisory services; forensic advisory, reporting and regulatory support and specialist and tax advisory services.

At the request of the Remuneration Committee, the Chief Executive Officer and Chief People Officer regularly attend Remuneration Committee meetings. Other senior Executives, for example, the Chief Risk Officer, are invited to attend for specific agenda items from time to time.

Neither the Chairman, nor the Executive Directors, nor any other Director, plays a part in any discussion about his or her own remuneration.

Report of the Remuneration Committee continued

Compliance with UK Corporate Governance Code 2018

Use of discretion

The extent to which discretion has been applied to remuneration outcomes and the reasons why they are not disclosed is a departure from Provision 41 of the Code. The possible risk with this approach is that the use of discretion cannot be assessed in the way envisaged by the Code. However, the Remuneration Report explains that a discretionary risk underpin applies to incentive out-turns and sets out if a downward risk underpin has been applied when such a decision is made. The Remuneration Report also details the circumstances where the Committee retains the discretion to apply malus or clawback to awards. In addition, in accordance with Part 3 of the Constitutional Arrangements Byelaw (No. 2 of 2010), the Society's Directors are required to exercise independent judgement and act in good faith to promote the success of the Society having regard to a number of factors, including (but not limited to) the likely consequences of the decision in the long term and the need for the Society to have regard to the interests of its employees. Therefore, it is not considered appropriate to incorporate the extent to which discretion has been applied to the remuneration outcomes and the reasons why, within the Remuneration Report over and above that already covered.

Provision 40 and 41

The Remuneration Report contains clear and concise information with sufficient detail contained overall within the Remuneration Report to give external stakeholders a good understanding on how executive director remuneration policy and practices are determined. It is considered that the inclusion of descriptions following specific wording from Provision 40 could potentially duplicate and dilute the information contained within the report. Therefore, a description (with examples) of how the Remuneration Committee has addressed the factors in Provision 40 of the Code are not incorporated in the Remuneration Report under the specific headings identified in the Code and this is a departure from Provision 41 of the Code. The risk of this approach is that the descriptions are not presented in the way envisaged by the Code. However, as set out above, the Remuneration Report contains clear and concise information that achieves the overall objectives envisaged by the Code.

Lloyd's is not subject to the directors' remuneration reporting regulations for UK-listed companies, and therefore is not required to publish CEO and Executive Director to employee pay ratios (and this is a departure from Provision 41 of the Code). However, the Committee reviews and considers gender and ethnicity pay gaps, as explained in both this report and the Strategic Report.

Remuneration policy

The Society is not required to comply with the directors' remuneration reporting regulations, including the requirement for a binding remuneration policy for Executive Directors, as these only apply to UK-listed companies. Nonetheless, in line with good practice, this part of the report sets out the key features of the Society's remuneration policy. Note that this is in a shortened format compared with the regulatory requirements. The policy is not legally binding, and the Committee reserves the right to amend the policy at any time.

Council approves the Remuneration Policy rather than any shareholders because the Society does not have shareholders (this is a departure from Provision 41 of the Code). Elected representatives sit on Council and therefore engagement is undertaken with external stakeholders when remuneration discussions come before Council.

Remuneration policy

Base salary		– Salaries set to appropriately recognise responsibilities and must be broadly market competitive. – Generally reviewed annually by the Remuneration Committee. – No maximum salary increase; however, any increases will generally reflect the 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.
Lloyd's Incentive Plan	Individual performance award (annual bonus)	*Performance measures* – Individual Performance Awards paid by reference to performance against a balanced scorecard of strategic objectives and KPIs during the year. – Individual awards are subject to a risk underpin. The Committee will assess performance against Society risk and compliance metrics and may apply a downward adjustment, where appropriate. *Maximum* – Current individual maximums are 100% of salary for Executive Directors. *Operation* – For Executive Directors, 40% of the total Lloyd's Incentive Plan award will be deferred for three years and paid in April of the fourth financial year following the end of the performance period. – The Committee may apply malus and clawback to individual awards (see below).
	Market Award (formerly LPP)	*Performance measures* – Market Awards directly linked to Lloyd's market profitability in the year, subject to a minimum threshold of £500m. Market Awards are subject to the achievement of profit before tax and combined operating ratio metrics. – Market Awards are subject to a risk underpin. The Committee will assess performance against market-based risk and compliance metrics and may apply a downward adjustment, where appropriate. – The Market element is also subject to individual performance. *Maximum* – Current individual maximums are 50% of salary for Executive Directors. *Operation* – For Executive Directors, 40% of the total Lloyd's Incentive Plan award will be deferred for three years and paid in April of the fourth financial year following the end of the performance period. – The Committee may apply malus and clawback to Market Awards (see below).
Transformation Incentive Plan		*Performance measures* – Awards are made to a group of key roles who have a material impact on the development and execution of the Future at Lloyd's strategy. Performance metrics are directly aligned to the success of the Blueprint Two programme. – Lead indicators will be underpinned by profitability and financial strength of the Lloyd's marketplace. Vesting may be deferred by 12 months and the underpin tests reapplied in the following year in the event that performance underpins are not met. *Maximum* – Current individual maximum awards are 100% of salary for Executive Directors. – Awards may be made in 2023 and will be performance tested and vest following 31 December 2023 respectively. – Payment of any vested awards will be made in three tranches in the three years following the end of the performance period, subject to employment at the time of vesting. – Awards will be subject to Lloyd's malus and clawback provisions, and the risk underpin adjustment applicable to the Lloyd's Incentive Plan.
Pension		– Executive Directors will receive a pension contribution of 15% of salary.

Remuneration policy continued

Benefits	– Benefits may include private medical insurance, life insurance and a season ticket loan facility. – Relocation benefits may be offered in certain circumstances. – Executive Directors receive a benefits cash allowance of 3% of salary.
Approach to remuneration on recruitment	The following broad principles would apply when agreeing the components of a remuneration package upon the recruitment of a new Executive Director: – Any package will be sufficient to attract Executive Directors of the calibre required to deliver Lloyd's strategic priorities. – Typically, the individual will be transitioned onto an ongoing remuneration package that is in line with the remuneration policy above. – The Committee may, on appointing an Executive Director, need 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 and the overriding principle will be that any replacement buy-out award should be of comparable commercial value to the awards that have been forfeited with comparable time horizons. – The Committee retains the flexibility to make additional awards for the purpose of recruitment where there is a strong rationale to do so. – 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.
Approach to remuneration on termination	The following broad principles would apply when determining the termination arrangements for an Executive Director: – If an 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 Society reserves the right to terminate the employment by making a payment in lieu of notice. – In these circumstances, the Society'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 may be paid in monthly instalments at the Society's discretion and may be reduced to reflect alternative income. – If an Executive Director is under notice of termination on or before the date on which an Individual Performance Award or Market Award would otherwise have been paid, the award will generally be forfeit, other than in certain 'good leaver' circumstances. 'Good leaver' circumstances include death; disability; ill-health; redundancy; retirement and any other reason at the Remuneration Committee's discretion (excluding gross misconduct). Where any payment is made, this would be based on performance, with payments made in line with normal time horizons under the plan rules (except in the case of death). In relation to any award in respect of the financial year during which notice of termination was served, the award would also normally be pro-rated for time. – If an Executive Director leaves the Society's employment on or before the date on which a Transformation Incentive award would otherwise have been paid, they will be entitled to that award, provided that they were in employment at the date the Transformation Incentive award vested.

Malus and clawback

For incentive awards in respect of 2014 and subsequent years, malus and clawback provisions apply.

Malus may be applied prior to payment including any deferral period. For senior employees (excluding the Chief Executive Officer) 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 award. 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 Chief Executive Officer, the circumstances in which malus and clawback may be applied are broader and include, but are not limited to, 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), or deliberate or negligent failure in risk management for which the Chief Executive Officer was solely or in part responsible. The clawback period is indefinite for the Chief Executive Officer.

Report of the Audit Committee

Statement by Chair of Audit Committee

I am pleased to present the Report of the Audit Committee (the 'Committee') for the year ended 31 December 2022. The report explains the work of the Committee during the year and the key role played by the Committee in overseeing the integrity of the Society's financial reporting and internal control environment. The report comprises the following sections:

- Composition of the Committee
- Responsibilities of the Committee
- Primary activities and 2022 key areas of focus during the year
- Financial reporting and external audit
- Internal control
- Internal Audit.

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 systems of internal control of the Society and monitoring the effectiveness, independence and objectivity of the internal and external auditors.

The terms of reference of the Committee can be found on www.lloyds.com.

Angela Crawford-Ingle
Chair, Audit Committee
22 March 2023

Composition of the Audit Committee

The Committee's members are drawn from the Council and is chaired by a nominated member of the Council, Angela Crawford-Ingle. At the end of 2022, the Audit Committee comprised of three independent nominated members of the Council and two external members of the Council. The Chair of the Audit Committee is also a member of the Risk Committee and the Chair of the Risk Committee is a member of the Audit Committee. Reports on the activities of the Risk Committee are provided to the Audit Committee, as required. When relevant, the two Committees meet together. The arrangements in place enhance the collaboration between the two committees as some responsibilities can overlap and impact on the other's work.

The Council requires the Committee to operate effectively and efficiently and its members to have a balance of skills and experience to enable it to fulfil its responsibilities in a robust and independent manner. Members of the Committee have varied and extensive experience as executives/non-executives in international insurance, reinsurance and asset management sectors, as well as audit, risk and prudential regulation.

The Council has determined that, by virtue of their professional backgrounds, the members of the Committee collectively have the competence and skills required to discharge the responsibilities of the Committee as set out in its terms of reference. In addition, the Council consider that Angela Crawford-Ingle has the recent and relevant financial experience required to Chair the Committee.

Committee member attendance in 2022, biographical details and experience of the members of the Committee and its reports to the Council are explained in the Audit Committee paragraph in the Corporate Governance Report and at www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.

The Chair of the Committee meets informally with and has open lines of communication with the Executive Committee, Head of Internal Audit, external auditors and senior management to discuss topical issues and the operations of the Society. These meetings provide an opportunity for any matters to be raised confidentially.

The Committee received appropriate technical updates and presentations throughout the year on financial reporting, accounting policy and regulatory developments.

Responsibilities of the Audit Committee

The Committee is a committee of the Council.

The Committee:

- Has responsibility for overseeing the Society's system of internal control, including financial reporting control and for reviewing its effectiveness:
  - The Committee ensures that a bi-annual report on the financial controls and an annual internal control report is undertaken.
  - The Committee is responsible for ensuring that the Internal Audit team has the appropriate resources and budget, for approving the appointment and reappointment of the external auditors, and for overseeing the effectiveness of the interactions with the external auditors.
  - The Committee reviews reports from the internal and external auditors on aspects of internal control and appropriate action is taken in response.
- Has a primary role to assist the Council in fulfilling its oversight responsibilities over financial reporting. The Committee's functions in 2022 included providing oversight of the Society Report (which includes the Group financial statements of the Society[1]) and the annual and interim Pro Forma Financial Statements (PFFS[2]), the Aggregate Accounts and the Lloyd's Solvency and Financial Condition Report to the PRA.
- Has a role to ensure that appropriate arrangements are in place by which employees may, in confidence, raise concerns relating to possible impropriety relating to the Society, in matters of financial reporting or other matters. The Chair of the Committee is also the Whistleblowers' Champion and has responsibility for ensuring the integrity, independence and effectiveness of Lloyd's policies and procedures for whistleblowing.

1. Please refer to note 1 to the financial statements for the definition of **Group financial statements of the Society**.
2. The **PFFS** are an aggregation of the audited financial information reported in syndicate returns and annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the audited Group financial statetments of the Society of Lloyd's.

Audit Committee primary activities and 2022 key areas of focus

The Committee had oversight of:

- ensuring that the Strategic Report, the Society Report (which includes the Group financial statements of the Society) and the PFFS (hereinafter referred to as 'Lloyd's Annual Report' where appropriate) when taken as a whole, is fair, balanced and understandable;
- the key themes, structure and integrity of the interim and annual reports, including the PFFS;
- the review of the appropriateness of significant accounting estimates and judgements;
- the effectiveness and independence of the external auditors;
- the appointment/reappointment or removal of the external auditors;
- the fees of the external auditors;
- the Society's relationship with the external auditors;
- the effectiveness of the internal control framework, including financial reporting control;
- the effectiveness of systems and controls in relation to whistleblowing; and
- the internal audit function.

The Committee met eight times during the year. The key areas of focus during the year are highlighted below:

- Audit Tender: A comprehensive audit tender process was undertaken in 2022 for the 2023 year end (the previous tender was completed in 2012 for the 2013 year end). Four firms were invited to participate in the tender, split evenly between the 'Big 4' and mid-tier insurance audit firms. Two firms moved forward in the process, which included the completion of a written response to a request for proposal (RFP), participation in partner interviews and a presentation to the Audit Committee. Each firm was assessed based on the following transparent and non-discriminatory decision-making criteria: overall audit quality and service proposition; coordination and communication; additional value; and capability and competence of the lead partner, team and the firm. Appropriate steps were taken to create a level playing field given the incumbent auditor was participating. The tender process was concluded in July 2022, with PricewaterhouseCoopers LLP being reappointed (please see below). The next required audit tender will take place on or around 2032 in line with required practice, at which point PricewaterhouseCoopers LLP will not be eligible to participate in the re-tender.
- Adoption of UK GAAP for Group financial reporting: The Group adopted UK GAAP for financial reporting on 1 January 2022 and is more fully explained in note 3, Transition from IFRS to UK GAAP. The first external publication of the results applying this standard was for the interim results for the six months ended 30 June 2022. The Committee reviewed the Group's UK GAAP accounting policies and confirmed they were appropriate to use in the financial statements. It considered the changes to policies resulting from the change in reporting basis from IFRS to UK GAAP. In addition, the Committee reviewed and approved the changes to the 2021 comparative information.
- Reserving and inflation: The Committee received presentations from the Chief Actuary on reserves (some as part of joint sessions with the Risk Committee), including areas of uncertainty regarding Ukraine and inflation and were satisfied with the amounts established.
- International Financial Reporting: The Committee received regular updates from the International Finance Officer, including where international law requires local jurisdictions to comply with IFRS 17.
- Internal Audit: During 2022, 19 audits were undertaken by Internal Audit. Themes from the 2022 activity included: Global Network Oversight,; Future at Lloyd's; and implementation of the new oversight principles.

  In addition to the delivery of the 2022 Plan, Internal Audit undertook actions in line with recommendations from the External Quality Assessment (EQA), providing updates to the Committee to report on the progress made. Internal Audit also undertook a review of the Lloyd's Annual Whistleblowing Report (September 2021) and supporting documentation (including the Whistleblowing Policy and its replacement with the Consolidated Compliance Policy, Whistleblowing Procedures, and relevant management reporting) to support the second attestation made to the PRA. Please refer to the Internal Control paragraph for further information.
- The review of the annual and interim PFFS and related disclosures and the Aggregate Accounts (on the basis of preparation as an aggregation of the Lloyd's market results). The key areas of judgement were considered and supported by the Committee, in approving the respective financial statements, specifically:
  - (i) Management of the Reserve Margin for uncertainties: the PFFS include a central reserve margin, in addition to the reserves held by syndicates to reflect the uncertainties and challenges in estimating reserves at syndicate level due to the heightened economic pressure, geopolitical tensions with the war in Ukraine and social inflation.
  - (ii) Notional investment return estimation on Funds at Lloyd's (FAL): notional investment return is estimated on Funds at Lloyd's, equivalent to the investment return an insurer would generate on the capital they hold to support their underwriting.
  - (iii) Insurance contract liabilities and related reinsurance contracts: the reasonableness of key assumptions and methodology over the valuation of assets and liabilities.
  - (iv) Valuation of financial investments (including FAL): the basis upon which the reasonable fair valuation of financial investments was determined and the methodology and assumptions supporting the notional investment return on FAL.
  - (v) Provisions: any changes to the methodology and key assumptions supporting the estimation of the material provisions reported on the statement of financial position.
  - (vi) Estimation of net pension assets: the reasonableness and consistency of the key assumptions that impact the valuation of the net pension assets.
  - (vii) Capitalisation of software development costs and prepayments: the approach and reasonableness supporting the capitalisation and carrying value of such assets.
  - (viii) The basis of preparation of the PFFS.

- Viability statement and going concern: Consideration of the viability statement and the confirmation of the continuing status of the Society as a going concern as part of the annual and interim reporting processes, which includes the impact from major claims in the Lloyd's market. The Committee were presented with the net asset, solvency and liquidity position to consider the assessment, including the stress testing assessments undertaken.
- Solvency II Pillar 3 reporting for the market and the Society: The Committee reviewed the ongoing capital and solvency position of the Society. They also considered the reporting requirements and governance arrangements for Solvency II Pillar 3 reporting for both the market and the Society by reviewing and approving the Solvency and Financial Condition Report (SFCR) and Regular Supervisory Report (RSR) for the year ending 31 December 2021 for submission to the PRA.
- Tax strategy: The Committee recommended the approval of the Corporation's Tax strategy to the Council which was approved. Please see https://www.lloyds.com/resources-and-services/tax-information.
- Key change and development areas: The Committee received updates on Blueprint Two, the Investment and Members' Platform.

Financial reporting and external audit

A key focus of the Committee is its work in assisting the Council in ensuring that the Lloyd's Annual Report, when taken as a whole, is fair, balanced and understandable. The Committee has considered the key messages being communicated in the Annual Report, as well as the information provided to the Committee throughout the year. The Committee, having completed its review, has recommended to the Council that, when taken as a whole, the 2022 Strategic Report, Society Report (which includes the Group financial statements of the Society) and PFFS is fair, balanced and understandable and provides the information necessary to assess the Society's position and performance, business model and strategy.

During the year, the Committee has continued to keep abreast of any significant and emerging accounting developments.

The Committee places great importance on the quality, effectiveness and independence of the external audit process and monitors and reviews the objectivity and independence of the external auditors. The Committee also monitors the Society's relationship with its external auditor.

The Committee assesses the effectiveness of the external auditors on an ongoing basis throughout the year during Committee meetings and private sessions with external audit (without the Executive Committee in attendance). The Committee receives reports from external audit as appropriate, including any particular matters for consideration. Please refer to the Audit Committee paragraph within the Corporate Governance Report, on page 76 for further information on who attends Audit Committee meetings. The external audit partner also holds meetings with the Chair of the Audit Committee, as appropriate.

The Committee performs a specific annual evaluation on the performance of the external auditors, through questionnaires that are completed by members of the Committee, the Executive and the Executive Leadership (on behalf of their teams).

The questionnaires included assessment against the following criteria:

- Audit Scope and Planning, including communication and feedback.
- Audit Team, including composition, use of specialists and understanding of Lloyd's.
- Communication, including whether information was timely, effective and complete; and whether insights and points of view were provided on a forward-looking basis.
- Independence, including information on compliance with independence requirements and safeguards in place to detect any independence issues.
- Fees, including appropriateness given audit scope.

Feedback from the questionnaire was discussed by the Committee and with the external auditors. The Head of Internal Audit, the Chair of the Committee and senior stakeholders identified actions and held a working session to introduce stakeholders and collaborate on areas identified.

The Committee oversees the engagement of the external auditors for non-audit services. This includes having in place a policy to govern the non-audit services that may be provided to the Society by the external auditors and setting out the circumstances in which the external auditors may be permitted to undertake non-audit services. All non-audit services require approval from the Committee and must be justified and, if appropriate, tendered before approval. A breakdown of the fees paid to the external auditors for non-audit work is set out in note 11(b) to the Society financial statements (within the Society Report). Significant non-audit engagements undertaken by the external auditors in 2022 include services pursuant to legislation (work undertaken on the Aggregate Accounts and regulatory returns) and non-audit services (the PFFS).

The Committee receives a regular report on engagements undertaken by the external auditors in order to monitor the types of services provided and the fees incurred and to ensure they do not impair the ongoing independence and objectivity of the external audit. PricewaterhouseCoopers LLP operate a rotation system of the lead auditor partner after five years. The external auditors have confirmed to the Committee that it believes that it remains independent within the meaning of the applicable regulations and professional standards.

The Committee has primary oversight on the appointment, reappointment or removal of the external auditor and the audit fee payable.

In May 2022, PricewaterhouseCoopers LLP were reappointed as the auditors of the Aggregate Accounts at the Society's AGM.

In July 2022, PricewaterhouseCoopers LLP were reappointed (and will continue in their role) as auditors for the Society. In accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, a resolution will be tabled at the 2023 AGM to reappoint PricewaterhouseCoopers LLP as the auditor for the Aggregate Accounts. PricewaterhouseCoopers LLP will audit all group entities, including the audit for Centrewrite Limited, Lloyd's Insurance Company S.A. (Lloyd's Brussels and Lloyd's Insurance Company (China) Limited (Lloyd's China)).

The Committee approved the fees proposed by the external auditors for 2022 following the Audit Tender process and consideration by management.

Report of the Audit Committee continued

Financial reporting and external audit continued

Overall, the Committee is satisfied with the performance of the Society's external auditors, PricewaterhouseCoopers LLP. The Committee has concluded that there has been appropriate focus by the external auditor and that the external auditor has provided robust challenge throughout the audit process.

Internal Audit

The Internal Audit function provides the Committee and Executive Committee with independent and objective assurance on the effectiveness of internal control and risk management across the Society and its subsidiaries. The Head of Internal Audit has a direct reporting line to the Chair of the Committee with an administrative reporting line to the Chief Executive Officer. The use of the Internal Audit is governed by the Audit Charter, which sets out the authority, scope and remit of the Internal Audit function.

Internal Audit submits a risk-based annual plan of work for the Committee's review and approval. This considers an independent view of the risks facing the Corporation, as well as other factors such as strategic initiatives, emerging risks and change. The annual plan is regularly reviewed by the Committee and updated as necessary to ensure appropriate focus on the key risks. For 2022, the Committee was satisfied that appropriate resources were in place.

Internal Audit's remit only extends to the Society of Lloyd's and, as such, it does not undertake internal audit reviews of market participants. However, given the Corporation's role in providing market oversight activity, Internal Audit does undertake reviews of the mechanisms in place to ensure this oversight is both appropriate and proportionate. This includes regular reviews of the approach taken by the market's oversight function in its close and continuous monitoring of syndicates, other oversight activities (such as ad-hoc and thematic reviews), and the role of the Capital & Planning Group (CPG) and the annual business planning/capital return approval cycles.

The Committee satisfies itself as to the quality, experience and expertise of the Internal Audit function through regular interaction with the Head of Internal Audit and by way of ongoing assessment by stakeholders who have been subject to an internal audit. The results of the ongoing assessment are shared with the Chair of the Audit Committee and shared with the Committee periodically, as appropriate.

An annual evaluation of Internal Audit is undertaken through the Committee completing a questionnaire, with the results presented to the Committee and discussed.

In accordance with best practice, Internal Audit is also subject to an External Quality Assessment (EQA) at least every five years. The last EQA took place in 2021 and concluded that Internal Audit 'generally conforms' with the Chartered Institute of Internal Auditors International Professional Practices Framework (IPPF) Standards and Code of Ethics (the Standards).

While Internal Audit relies on co-sourced support, it has increased its internal technical skills, with a major focus during 2022 on onboarding and embedding an in-house audit function. The Committee concluded that Internal Audit has the skills and resources needed to complete the Internal Audit plan.

Internal Control

The Council has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Council has delegated responsibility to the Audit Committee for reviewing the effectiveness of the system of internal control and monitoring the risk and internal controls framework of the Society. The Internal Control 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.

On behalf of the Council, the Committee ensures a bi-annual assessment of the effectiveness of the internal controls over financial reporting takes place and is reviewed by the Committee. This is undertaken in conjunction with year-end and interim reporting. The adequacy of the Group's overall risk management and control arrangements is co-ordinated by Risk Management.

Reporting on the broader control environment is provided by delivery of an approved Internal Audit plan comprised of risk-based internal audit reviews performed across the business with the outcomes being reported to management, the Executive Committee and to the Audit Committee. The independent, objective assurance services performed by Internal Audit are designed to improve the organisation's operations.

Internal Audit co-ordinate the reporting on the effectiveness of the control environment to the Committee. Internal Audit complete an annual Control Opinion that provides an assessment of the control environment based on prior Internal Audit reviews, regular interactions with both management and the Risk Management function and interactions with other stakeholders, including the Corporation's external auditors, regulators, the bi-annual financial assessment, and the Risk Management assessment.

Reports and updates on control issues were received throughout the year. The Committee reviewed:

- Internal Audit reports and the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions.
- Internal Audit's Internal 2022 Control Opinion ('Control Opinion') which concluded that the control framework is adequately designed and operating to provide reasonable assurance that the key risks are managed appropriately. The key observations were that:
  - (i) No material issues have been noted by Internal Audit during 2022.
  - (ii) Enhancements to the overall Risk and Control framework have been made, notably around senior engagement, attestation to key controls, use of the Risk and Control Self Assessment (RCSA) maturity scores and increased integrated assurance across the second and third line of defence. There are opportunities for improvement as the framework is further integrated into the organisation. For example, the level of supporting information provided by business units during the attestation process could be developed.

(iii) IT and Operational Controls continue to be an area of focus. The controls are operating to a required standard but rely on legacy technologies which are being updated. When a potential IT network incident was suspected in October, a precautionary decision was made to turn off all external connectivity and reset the network and systems. The Society acted swiftly and appropriately in the circumstances. Investigations found no evidence that the network and systems had been compromised. The suspected incident allowed the Society to identify areas of refinement, including the strengthening of communication with market participants.

In 2023, as part of the Internal Audit Plan, Internal Audit will review the RCSA Process (to test the continued maturity of the framework) and have planned activity for Cyber Security and Resilience, Data Protection and Change Framework.

– The external auditors' controls observations and findings report in respect of the year ended 31 December 2021 Society audit.
– An annual report on the effectiveness and operation of the Society's whistleblowing systems and controls (with Council being provided with a copy for information). Systems and controls include having a whistleblowing policy (which is now part of the Lloyd's Consolidated Compliance Policy and Procedure) and appropriate channels in place (eg. Whistleblowing helpline and web reporting provider) to ensure employees may, in confidence, raise concerns as detailed above.

  The Financial Crime and Compliance Department is responsible for overseeing the whistleblowing controls. The Whistleblowing Escalation Group (WEG) support the procedures in place, with the Head of Financial Crime and Compliance being a member.

  The Committee received quarterly updates on whistleblowing throughout the year explaining developments and enhancements to the 'arrangements', such as testing, training and awareness. The updates were provided by the Head of Financial Crime and Compliance, providing Committee members with an opportunity to ask questions.

  The second attestation in connection with whistleblowing systems and controls was provided to the PRA on 31 March 2022, supported by an audit assessing the arrangements to be effective.

Based on the Committee's assessment of internal control, the Committee concluded that the Society's system of internal control continues to provide reasonable (although not absolute) assurance against material misstatement or loss.

Report of the Lloyd's Members' Ombudsman

Report by Simon Cooper, 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 2022.

The role of the Lloyd's Members' Ombudsman is to investigate complaints made by members of Lloyd's 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 2022, I dealt with two complaints.

The first complaint had previously been referred to me during 2021. I had investigated the complaint and, in May 2021, I had reported my finding that the allegations of maladministration on the part of the Society were not made out. In January 2022, the complainant asked me to review my earlier decision, on the basis of new evidence that had not been available when I first considered the complaint. I considered this request and concluded that no material new evidence had become available. I therefore declined the request to review my earlier decision.

I reported on my investigation of the second complaint in December 2022. I concluded that the complainant had not suffered injustice in consequence of action taken by, or on behalf of, the Society. However, I made certain recommendations in relation to Lloyd's procedures for handling complaints relating to members' agents or managing agents.

Costs

The expenses incurred by my office amounted to £12,400.

Report of the Risk Committee

Statement by Chair of the Risk Committee

I am pleased to present the Report of the Risk Committee for the year ended 31 December 2022. The report explains the work of the Committee during the year and the key role played by the Committee in assisting the Council in its oversight duties in respect of managing the risk of the Corporation and in overseeing the Lloyd's market. The report comprises the following sections:

– Composition of the Committee
– Responsibilities of the Committee
– Key areas of focus during the year
– Internal control
– Risk Management Framework

Our principal aim is to assist the Council in discharging its responsibilities for overseeing the identification of, and control by, the management of material risks to the objectives of Lloyd's. This encompasses the processes undertaken by management to identify, evaluate and mitigate the material risks to the objectives including, but not limited to, insurance risk, investment risk, credit risk, liquidity risk, operational risk and regulatory risk.

The terms of reference of the Risk Committee can be found on www.lloyds.com.

Neil Maidment
Chair, Risk Committee
22 March 2023

Composition of the Risk Committee

The Committee is chaired by Neil Maidment, a Nominated member of the Council. The Committee's remaining members are drawn from the Council. At the end of 2022, the Committee comprised of three external members of the Council and four Non-Executive Nominated members of the Council.

The Chair of the Risk Committee is a member of the Audit Committee, and the Chair of the Audit Committee is a member of the Risk Committee and updates from each committee are provided as required. The arrangements in place enhance the collaboration between the two committees.

The Council requires the Committee to operate effectively and efficiently and its members to have a balance of skills and experience to enable it to fulfil its responsibilities in a robust and independent manner. Members of the Committee have varied and extensive commercial experience, including as executives in the international insurance, reinsurance and asset management sectors, as well as audit and risk.

Council has determined that, by virtue of their professional backgrounds, the members of the Committee collectively have the competence and skills required to discharge the responsibilities of the Committee, as set out in its terms of reference. In addition, the Council consider that Neil Maidment has the recent and relevant experience required to Chair the Committee.

Biographical details and experience of the current members of the Committee, members' attendance at meetings in 2022 and the reports it makes to the Council are shown in the Risk Committee paragraph in the Corporate Governance Report and at www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.

The Chair of the Committee meets informally and has open lines of communication with the Chief Executive Officer, Chief Risk Officer and other members of the Executive Committee and senior management, to discuss topical issues and the operations and risk profile of the Society. These meetings provide an opportunity for any matters to be raised confidentially.

Responsibilities of the Risk Committee

The Risk Committee is a committee of the Council. The Committee:

– Has primary responsibility for assisting the Council in overseeing the processes undertaken by management to identify, evaluate and mitigate, material risks to the objectives of Lloyd's, including, but not limited to, the insurance risk, investment risk, credit risk, liquidity risk, operational risks, regulatory risk in respect of the Corporation (including global offices), its insurance subsidiaries and the aggregate market and thematic risks which could affect the Lloyd's market or the Society as a whole.
– Reviews management reports regarding oversight of any heightened or material risks, or any material breaches of risk limits and the adequacy of proposed action. This includes the Chief Risk Officer Report, Own Risk and Solvency Assessment (ORSA) and the Risk and Control Self-Assessment (RCSA).
– Reviews management's assessment of emerging and strategic risks, including climate change.
– Reviews, at least annually, the Society's risk appetite and risk limits and makes recommendations as to their appropriateness to the Council. The Committee oversees the impact of sustainability and climate change on the Lloyd's Risk Appetite Framework.
– Reviews and annually recommends to the Council for approval the ORSA report, which considers the current and future risk profile.
– Reviews and makes recommendations to the Council on the appropriateness of the design and methodologies associated with the Lloyd's Internal Model (LIM), including model changes, stress and scenario testing and the results of the independent validation of the LIM.
– Reviews and makes recommendations to the Council regarding Lloyd's regulatory and economic capital requirements.
– Reviews management's proposals for the global risk management framework, policies and associated internal control and make recommendations as to its adoption or otherwise.
– Reviews and approves the Corporation's annual Risk Plan and monitors the progress against the plan respectively.
– Reviews and approves the Corporation's annual Financial Crime and Compliance Plan and monitors the progress against the plan respectively. The Committee ensures that appropriate arrangements are in place to ensure that the Corporation's activities are in compliance with relevant laws and regulations.
– Reviews and recommends to the Council for approval the Money Laundering Reporting Officer's (MLRO) Annual Report.
– Reviews the Corporation's annual market oversight plan determining the oversight of the market based on current and prospective risks.
– Reviews and approves the CRO's qualitative advice to the Remuneration Committee on risk weightings to be applied to variable remuneration of senior management.

Report of the Risk Committee continued

Key areas of focus during the year

The Committee met seven times during the year. The key areas of focus during the year are highlighted below:

- Market oversight and performance: The Committee ensured that the new supervisory framework was implemented and embedded and that the performance of the market continued to improve against risk appetite. The business planning process and ongoing uncertainty regarding COVID-19 and Ukraine continued to be monitored.
- Future at Lloyd's: The Committee ensured that the impacts the Future at Lloyd's workstreams have on Lloyd's risk profile are well understood and execution risks associated with delivery are being managed, including the DXC Joint Venture to deliver Blueprint Two services.
- Cyber and data resilience: The Committee ensured management had robust and high-quality oversight of Lloyd's cyber and data risks and associated controls in line with the Corporation's risk appetite. The Committee reviewed management's response to an outage across the IT network, considered lesson learned reviews and delivery of mitigating action plans.
- Risk accountability: The Committee monitored management's actions to embed enhancements to the risk framework and driving accountability for the management of risk across the business, through the RCSA process and ongoing management of incidents. The Committee considered the CRO report on notable risk issues for the Remuneration Committee to make any necessary adjustments to the variable remuneration of senior management.
- Looking ahead: The Committee ensured management continued to remain alert to external threats and prepare for potential systemic risks by evaluating practical options for managing risks such as inflation and climate.
- Global risk framework: The Committee monitored the implementation of one risk framework across the Corporation and its insurance subsidiaries.

The Committee also considered its annual agenda items to satisfy its responsibilities. This included:

- 2022 Regulatory and Economic Capital.
- Policy approvals, such as Risk Management and Internal Control Policy and Compliance Policies.
- ORSA report, which included monitoring against risk appetite, heightened risk updates, strategic and emerging risks, RCSA conclusions, control failure reporting, and capital and solvency updates.

At each meeting the Committee received a report from the CRO summarising the key areas of risk and other significant updates.

Internal Control

The Council has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Council has delegated to the Risk Committee the responsibility for monitoring the identification, and control by management, of material risks to the objectives of Lloyd's. The Executive Committee is responsible for the implementation and maintenance of the internal control system and for instilling a strong internal control environment across the Society.

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

Central to the internal control system is the 'three lines of defence' model. Each person at the Society is part of the 'three lines of defence', which protects the Society and its employees.

- First Line – Front line business functions: responsible for the operation of the business, owning the risk of carrying out responsibilities correctly and for establishing, monitoring and maintaining effective internal controls within their areas of responsibility, as well as adhering to firm-wide controls as set out in corporate policies and procedures such as the Risk Management and Internal Control Policy.
- Second Line – Risk Management, Financial Crime and Compliance: specialised and independent functions responsible for oversight, ensuring business is conducted correctly and operating a framework that ensures risks are identified, assessed and adequately managed in line with the Corporation's risk appetite.
- Third Line – Internal Audit: an independent assurance function responsible for reviewing that business is conducted in accordance with relevant processes and controls (please refer to the Audit Committee report for further information).

The second and third line teams meet regularly and have open lines of communication to discuss relevant matters. Control profile reporting is provided to the Executive Risk Committee, Risk Committee and Audit Committee.

Risk Management Framework

In accordance with the guidance of the UK Corporate Governance Code on internal control and regulatory requirements, there is an established Risk Management Framework that facilitates the ongoing process for identifying, evaluating and managing significant business, operational, financial, compliance and other risks affecting the Society.

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

The Risk Appetite Framework articulates the level of risk believed to be acceptable and desirable for the Society through a series of risk appetite statements and metrics.

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

Within each pillar, there are several risk areas with metrics that define the amount of risk that the Council is willing to take. These metrics represent the key elements that could result in the risk objectives not being achieved for the pillar.

The metrics are monitored on an ongoing basis and reported to the Risk Committee each quarter in the ORSA report alongside any get to green actions if a threshold has been breached.

The Risk Management Framework includes several risk assessment techniques, which are tailored to specific risk areas. This includes the ongoing risk and control self-assessment (RCSA) process to reassess existing risks and identify any new risks. A bi-annual RCSA attestation process is in place where risk owners from the first line attest to the assessment of their risks and effectiveness of mitigating controls, which is then reviewed by the second line of defence. There is a risk incident reporting process in place through which the business can report material control failures and mitigating actions, these are escalated to the relevant governance forums as required.

The risk governance structure, which includes the Risk Committee, provides clear independent challenge to the risk takers within the Society. A key objective of the Society's risk governance structure is to provide assurance to the Council that risks facing the Society are identified and managed in accordance with the approved policies and risk appetite. The Risk Committee oversees, challenges and, where appropriate, escalates issues using management information from the Risk Management and Internal Control Frameworks, including via reports such as the Own Risk and Solvency Assessment (ORSA), details of the operating and regulatory environment and capital management reports.

Appropriate corporate policies and procedures are in place, with reviews being undertaken as appropriate in accordance with the Lloyd's Compliance Policy Framework and regulatory requirements.

Financial Review

This review should be read in conjunction with the financial statements of the Society on pages 121 to 164 and the Strategic Report on pages 4 to 18. The Strategic Report sets out the strategic priorities for both the Society and the Lloyd's market as a whole.

Profit before tax

The Society achieved a profit before tax for the year of £124m (2021: £6m), as set out below:

	2022			2021 (Restated)		
	Corporation of Lloyd's £m	**Lloyd's Central Fund £m**	**Society total £m**	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Technical account						
Earned premiums, net of reinsurance	–	–	–	–	–	–
Other technical income	8	–	8	9	–	9
Claims incurred, net of reinsurance	–	–	–	–	–	–
Net operating income/(expenses)	22	–	22	(5)	–	(5)
Balance on the technical account for general business	**30**	**–**	**30**	4	–	4
Non-technical account						
Total investment return	(22)	(155)	(177)	(1)	79	78
Investment expenses and charges	–	(2)	(2)	–	(4)	(4)
Profit/(loss) on foreign exchange	10	231	241	8	(32)	(24)
Non-technical income	334	157	491	307	143	450
Non-technical operating expenses	(362)	(97)	(459)	(402)	(96)	(498)
Profit/(loss) before tax	(10)	134	124	(84)	90	6

The technical account represents the results of the Society's insurance business carried out by its subsidiaries, Lloyd's Europe and Lloyd's China, which is fully reinsured to the Lloyd's syndicates. As a result, the net underwriting result (premiums less claims and related expenses) is nil, except for the ceding commission earned by Lloyd's Europe and China for their reinsurance to the Lloyd's syndicates. The balance on the technical account has increased largely because of lower expenditure on projects in Lloyd's Europe and higher ceding commission due to growth in reinsurance business ceded.

	2022 £m	2021 (Restated) £m
Gross written premiums	3,227	2,732
Outward reinsurance premiums	(3,227)	(2,732)
Net written premiums	–	–

During 2022 there has been an increase in both gross written and earned premium in comparison to 2021. This is primarily driven by increasing business volumes, mainly from continued growth in the Lloyd's Europe portfolio, as well as the benefit of the strong rating environment experienced across the non-life insurance market; this is consistent with the experience across the wider Lloyd's market. The gross loss ratio has increased to 84% from 52% in 2021. This increase is primarily driven by losses arising from the war in Ukraine and the impact of the current inflationary environment, for which appropriate allowances have been made in estimating loss reserves in 2022. The expense ratio has remained flat year-on-year, however, there has been an increase in acquisition expenses, in line with the growth in premium, offset by lower administrative expenses.

The non-technical account performance is driven by investment returns, primarily from the Central Fund, as well as the core operations of the Society in servicing and regulating the Lloyd's market.

Non-technical income has increased as a result of the general growth in premiums written across the Lloyd's market in 2022, as the Society's key revenue streams – subscriptions, Central Fund contributions and overseas operating charges – are driven by syndicate premium and underwriting year premium growth. Non-technical operating expenses decreased primarily as a result of the decline in expenditure on strategic projects as well as the benefit realised from the partial redemption of the subordinated notes. These were partly offset by the impact of additional one-off costs incurred in 2022. During 2022 there was also a significant benefit to the result from foreign exchange, as US dollars strengthened against sterling, arising from the investment portfolio which has a significant proportion of instruments denominated in US dollars.

Investment performance

	2022 £m	2021 (Restated) £m
Investment income	30	91
Unrealised losses on financial assets	(207)	(13)
Total investment return	**(177)**	78

The Society's investments, mostly held within the Central Fund, generated an investment result of £58m or a return of +1.1% during 2022 (2021: £52m, +1.0%). Excluding exchange rate movements, the investment result was a loss of £177m, reflecting a return of -3.2% (2021: £78m, +1.4%).

The Central Fund investment portfolio generated a positive return, including foreign exchange effects, of +1.6% benefiting from the portfolio's allocation to the US dollar. The Society's currency policy, which aims to preserve the solvency strength of the Central Fund by holding US dollars, resulted in gains from the US dollar strengthening against sterling over the year. Investment return is therefore higher when including foreign exchange impacts. The Central Fund investment return excluding foreign exchange movements was down -4.6%. The allocation to investment grade fixed income assets had an overall negative performance in 2022, as US Treasuries and UK Gilts both suffered severe losses as Central Banks raised rates aggressively in the face of multi-decade highs in inflation. The movement in the rates markets spilled over into equity, investment-grade and sub-investment grade markets with the MSCI World down -17%, and the US corporate and high yield markets both down -15% in 2022.

2022 was an exceptionally turbulent year for risk assets, driven by heightened rate volatility, as Central Banks have taken action to contain the increasing levels of inflation caused by supply chain disruption, the war in Ukraine and political uncertainty. The US Federal Reserve raised rates by 425 basis points over the course of the year to 4.5%, at times at a pace of 75 basis points. The Bank of England, which actually started increasing rates at the tail end of 2021, raised rates by 325 basis points to close the year at 3.5%. The pace of rate increases caused a major re-pricing across all asset classes. Assets from investment grade fixed income bonds to equity markets generated significant negative total returns, with long-duration assets the most affected. Specific to the United Kingdom, there was extreme volatility in pounds sterling and UK Gilts over September as a result of the Government's 'fiscal event'.

Taxation

A tax charge of £26m (2021: tax credit of £1m) on profit before tax of £124m (2021: £6m) has been recognised in the profit and loss account for the year ended 31 December 2022. A tax charge of £34m (2021: £4m) has been recognised in other comprehensive income. Further details are set out in note 13.

Movement in net assets

	2022 £m	2021 (Restated) £m
Net assets at 1 January	3,058	3,029
Profit for the year	98	7
Actuarial gain on pension schemes	150	76
Currency translation differences	30	(31)
Tax (charge)/credit on other comprehensive income	(34)	(4)
Interest paid on syndicate loans	(19)	(19)
Net assets at 31 December[1]	3,283	3,058

1. The net assets of the Central Fund are included within the above amounts and at 31 December 2022 were £3,083m (2021: £2,986m).

Pension schemes

Lloyd's pension scheme

On a UK GAAP basis, the Lloyd's pension scheme valuation at 31 December 2022 was a surplus of £57m (2021: deficit of £102m) before allowance for a deferred tax liability of £14m (2021: deferred tax asset of £26m).

The movement in the pension scheme during the year is summarised below:	**2022 £m**	2021 £m
Pension deficit as at 1 January	(102)	(183)
Pension expense recognised in the Group profit and loss account	(2)	(3)
Employer contributions	11	11
Remeasurement effects recognised in the Group statement of other comprehensive income	150	73
Pension surplus/(deficit) as at 31 December	57	(102)

The Lloyd's pension scheme has reported a surplus as at 31 December 2022. The deficit at 1 January 2022 has changed to a surplus mainly due to an increase in corporate bond yields driving the discount rate, which has been partially offset by an increase in inflation and a lower than expected return on assets during the year. Further details are provided in note 21, which includes the sensitivity of the valuation to changes in these assumptions.

The triennial funding valuation as at 30 June 2019, undertaken by Willis Towers Watson, was completed during 2020. The total market value of the Scheme's assets at the date of the valuation was £810m and the total value of accrued liabilities was £889m, showing a funding deficit of £79m. These figures exclude both liabilities and the related assets in respect of money purchase Additional Voluntary Contributions (AVCs). A recovery plan, agreed by the Trustees, is in place. The most recent triennial valuation as at 30 June 2022 is underway and expected to be completed during 2023.

Overseas pension schemes

The actuarial valuations of the overseas pension schemes at 31 December 2022 resulted in a deficit of £3m (2021: £4m). Further details are provided in note 21.

Solvency

Total assets for solvency purposes are set out below. The 2022 position is an estimate of the amount which will be finalised in April 2023 alongside the 2022 Lloyd's Solvency and Financial Condition Report. The figures are calculated on a Solvency II basis. The solvency figures in the table below are unaudited:

	2022 £m	2021 (Restated) £m
Central assets at 31 December	3,283	3,058
Subordinated debt	603	796
Total	3,886	3,854
Solvency valuation adjustments	1,678	1,348
Available central own funds to meet the Central Solvency Capital Requirement (SCR)	5,564	5,202
Excess central own funds not eligible to meet the Central SCR	–	(347)
Eligible central own funds available to meet the Central SCR	5,564	4,855
Central SCR	1,350	1,250
Central solvency ratio	**412%**	388%

The Central SCR covers central risks of the Society. This includes the risk that members may have insufficient capital to meet their losses. The Central SCR may be covered only by central eligible own funds of the Society.

The solvency valuation adjustments above include items such as valuation differences arising and assets being disallowed, due to the valuation principles used in Solvency II. It also includes recognition of the callable layer, which may be taken from member level capital to strengthen central resources.

The eligibility of assets to count towards the solvency coverage is also subject to tiering restrictions. All Tier 1 assets count fully towards the solvency coverage assessment. However, Tier 2 and Tier 3 assets may only count up to a maximum of 50% of the SCR. The increase in the Central SCR and the partial redemption of the subordinated notes has meant that Lloyd's Tier 2 and 3 central capital did not exceed 50% of the SCR at 31 December 2022 (2021: exceeded by £347m).

Based on central own funds eligible to meet the Central SCR of £5.6bn (2021: £4.9bn), the estimated solvency ratio is 412% (2021: 388%). In setting contribution levels, account is taken of the Central SCR to ensure that Lloyd's is prudently, but competitively capitalised.

The central solvency ratio reported above is based on the solvency capital requirements (SCR), which have been calculated using the latest approved version of the Lloyd's Internal Model.

Cash flows and liquidity

Cash and cash equivalents decreased during the year ended 31 December 2022 by £16m to £1,167m (2021: £1,183m). 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 balance sheet.

The Corporation's free cash balances[1] 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 2022 were £282m (2021: £268m).

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.

The role of the Central Fund, the third link in the chain of security, is to support central solvency by adding an additional set of assets to pay a member's insurance liabilities in the unlikely event that members' Premium Trust Fund (PTF) and Funds at Lloyd's (FAL) have been exhausted. Acceptable levels of investment risk are taken on to grow the value of the Central Fund in line with market exposure.

In order to achieve this objective, a proportion of assets is assigned to meet liquidity needs, based on a prudent estimate of net cash flows. These assets are commingled with other liquid assets of Society 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 flow requirements are met as they fall due.

A majority 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 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 the Society. Equity investments currently include global developed and emerging market equities. Investments in other growth assets include multi-asset credit.

1. Free cash balances are a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is an Alternative Performance Measure (APM), with further information available on page 168.

Following approval by the Council and the Investment Committee at the end of 2021, the allocation to growth assets in the Central Fund was increased to 17% from 10% over the course of the year. This represented a partial reversal of de-risking activity undertaken in 2020. The Central Fund remains underweight in terms of investment risk versus its long-term average and risk tolerances. The current asset mix of the Central Fund is 83% in core assets (cash + investment grade fixed income) and 17% in growth assets. In 2022, the Council and the Investment Committee approved the introduction of private assets in the Central Fund and the first tranches of the investment are expected to take place in 2023.

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 that are reviewed regularly by the Investment Committee. Overall risk is managed within defined limits, specified by the Council. Policies for managing these risks, in particular credit risk, liquidity risk, interest risk, currency risk and market risk, are summarised below. The following financial risk management objectives and policies and disclosures within note 21 are audited.

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 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 in accordance with the risk appetite set by the Council.

Insurance contract assets

Insurance contract assets are all recoverable from Lloyd's syndicates. All syndicates benefit from the Lloyd's chain of security, therefore credit risk for insurance contract assets is concentrated with the Society of Lloyd's. The Society monitors the underwriting profitability of syndicates by responding to the risk appetite of the market, adjusting business planning for future years.

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 drawdown. Any surplus cash balances are invested in compliance with defined investment parameters approved by the Investment Committee, in accordance with the risk appetite set by the Council.

The Society had no committed borrowing facilities as at 31 December 2022 (2021: none). Details of the amounts owed to credit institutions placed by the Society are included in note 24(b).

The Society has a strong free cash balance at 31 December 2022 of £282m (2021: £268m), with additional holdings in short-term investments, making the Society's liquidity very strong.

The Society has not experienced any liquidity constraints or inability to settle its obligations when due.

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 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, other than statutory insurance deposits and short-term and security deposits which are held at amortised cost.

As part of the strategy to mitigate these risks in relation to the equity portfolio of investments, the Society has the ability to enter into equity futures hedges.

The valuation of the Lloyd's Pension Scheme requires significant judgement and is significantly impacted by short-term market movements. In particular, the increase in market bond yields during the period has led to a decrease in the actuarial value of Scheme liabilities at 31 December 2022. Further details, including sensitivity analysis, are included in note 21.

Foreign currency risk

The Society enters into a variety of foreign exchange transactions in response to the foreign currency requirements of Society 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. 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 any foreign currency liabilities of the Society, as well as the underlying currency mix of the Central Solvency Capital Requirement, of which a high proportion is US dollar based. 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 sterling and other Society 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 significant risks to the Society.

The Society continues to closely monitor exposure to foreign currency transactions, along with the use of forward foreign exchange contracts to mitigate a portion of the investment exposure governed by Lloyd's risk appetite. As a result of this strategy, the Society has a significant US dollar exposure. As the US dollar strengthened against sterling, the Society recorded a gain on foreign exchange of £241m, increasing the investment return for the period.

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. 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 Society's senior and subordinated debt, and discretionary fixed rate coupon payments in respect of the Society syndicate loans, is considered in conjunction with the market risk arising on the Society's investments.

As part of the strategy to mitigate these risks, the Society has the ability to enter into interest rate swap contracts.

Capital management

The Society monitors its capital to ensure that it maintains sufficient assets for both operational and solvency purposes. Further disclosures regarding financial instruments are provided in note 15. Further details regarding solvency are given on page 109.

Charitable expenditure

Lloyd's, including the Lloyd's charities – Lloyd's of London Foundation (formerly Lloyd's Charities Trust), Lloyd's Patriotic Fund, Lloyd's Benevolent Fund and Lloyd's Tercentenary Research Foundation – made charitable donations of £1.9m in 2022 to help people and communities become more resilient, sustainable and inclusive. This includes £0.6m of charitable expenditure incurred by the Society.

Related party transactions

Except for disclosures made in note 32, no related party had material transactions with the Society in 2022.

Going concern and viability statement

Assessment of prospects

The Lloyd's business model and strategy are central to an understanding of its prospects and details can be found on pages 9 to 16. The strategy is subject to ongoing monitoring and development.

The prospects of the Lloyd's market, including the Society, are primarily assessed through the annual strategic review and planning process. The output of the review is a strategic plan to deliver any recommendations. The review is led by the Chief Executive Officer through the Executive Committee and all relevant departments are involved. The Council participate fully in the process and part of their role is to consider whether the strategic plan continues to take appropriate account of the external environment and meets the needs of the market.

The review determines a set of medium-term targets, key performance indicators for the current year and activities to deliver on those metrics. The latest strategic plan for 2023 was approved in December 2022 following completion of the latest review cycle. As part of the planning process financial assumptions for 2024 and 2025 were prepared for the Society and approved by the Council in March 2023.

Assessment of viability

The Council receives quarterly reports from the Risk Committee on the key risks and risk appetites, including the Society's own risk and solvency assessment as well as stress testing resilience to severe yet plausible scenarios. The principal risks and material uncertainties that would threaten the business model, future performance, liquidity or solvency of the Lloyd's market as a whole are set out on pages 11 and 12. In addition, the financial statements include notes on investment strategy, financial risk management, treasury policies and sensitivity analysis.

The Lloyd's capital structure is set out in the link provided on page 170 and Lloyd's is required to maintain solvency on a continuous basis. The solvency position of each member, and thus of Lloyd's as a whole, is monitored on a regular basis. Council considers biannually management's assessment of the current solvency position and the forecast position over a three-year period, including resilience of central assets to meet the Central SCR.

Viability statement

While the members of the Council have no reason to believe that the Society will not be viable over a longer period, the period over which the assessment is based is the three-year period to 31 December 2025, being the period considered under the strategic plan, including the detailed budgets prepared, and the solvency projections of the Society.

The members of the Council believe that the Society is well placed to manage its business risks successfully, having taken into account the current economic outlook, and confirm that they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2025.

Going concern

After making enquiries, the members of the Council consider it appropriate to adopt the going concern basis in preparing the Society's financial statements.

Statement as to disclosure of information to auditors

Having made enquiries, the Council 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; and
- 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 over £3bn in 2023. Following its meeting on 23 March 2023, the Council gave no Undertakings to corporate members to use the New Central Fund to discharge the liability of members with unpaid cash calls who do not have the resources to meet those calls. There were also no Undertakings from previous years.

Transition to UK GAAP

The Council have decided to move from IFRS to UK GAAP as it considers it to be a more appropriate basis for financial reporting for the Society than IFRS. It has brought the basis of reporting in line with market reporting in the Pro Forma Financial Statements, is widely recognised and understood by readers of accounts, and it improves the efficiency of the Society's reporting processes.

Statement of the Council's Responsibilities for the Financial Statements

The Council is responsible for preparing the Group financial statements in accordance with byelaws made under the Lloyd's Act 1982 and UK Generally Accepted Accounting Principles (UK GAAP), including FRS 102 'The Financial Reporting Standard applicable in the UK and Ireland', and FRS 103 'Insurance Contracts'.

The Council is required to prepare Group financial statements for each financial year that 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 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 UK GAAP 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;
– make judgements and accounting estimates that are reasonable and prudent; and
– state that the Society has complied with UK GAAP, subject to any material departures disclosed and explained in the Group financial statements.

The Council is responsible for keeping proper accounting records that 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 UK GAAP. The Council 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 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 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.

We confirm that to the best of our knowledge:

– the Group financial statements, which have been prepared in accordance with byelaws made under the Lloyd's Act 1982 and UK GAAP, including FRS 102 and FRS 103, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
– the Council Statement and Corporate Governance section includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Council of Lloyd's:

Bruce Carnegie-Brown
Chairman
22 March 2023

John Neal
Chief Executive Officer

Independent Auditors' Report to the Members of the Society of Lloyd's

Report on the audit of the financial statements

Opinion

In our opinion, the Society of Lloyd's group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Council byelaws made under the Lloyd's Act 1982.

We have audited the financial statements, included within the Lloyd's Annual Report 2022 (the "Annual Report"), which comprise: the Group Balance Sheet as at 31 December 2022; the Group Profit and Loss Account and Statement of Comprehensive Income, the Group Statement of Changes in Equity and the Group Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 11, we have provided no non-audit services to the Society of Lloyd's or its group undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- We performed full scope audit procedures over two components for the Society of Lloyd's group audit being the UK (which includes the Corporation of Lloyd's, the Central Fund and Additional Securities Limited) and Belgium (which includes Lloyd's Insurance Company S.A. (LIC)). For China (Lloyd's Insurance Company (China) Limited (LICCL)), we performed audit procedures over specified financial statement line item balances. For the remaining components that were not inconsequential, analytical procedures were performed by the group engagement team.

Key audit matters

- Valuation of the incurred but not reported (IBNR) component of claims outstanding in LIC
- Valuation of pipeline premiums included within LIC's gross written premium (GWP)
- Valuation of the Lloyd's Pension Scheme liabilities
- The conversion of the Society of Lloyd's group financial statements from an International Financial Reporting Standards (IFRS) basis to a United Kingdom Generally Accepted Accounting Practice (UK GAAP) basis

Materiality

- Overall materiality: £95.4m (2021: £71.1m) based on 0.5% of total assets
- Performance materiality: £71.6m (2021: £53.3m)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The conversion of the Society of Lloyd's group financial statements from an IFRS basis to a UK GAAP basis is a new key audit matter this year. The valuation, accuracy, presentation and disclosure of the DXC transaction, which was a key audit matter last year, is no longer included because it was a specific one-off transaction which impacted the Society of Lloyd's group financial statements in 2021. Otherwise, the key audit matters below are consistent with last year.

Independent Auditors' Report to the Members of the Society of Lloyd's continued

Key audit matter	How our audit addressed the key audit matter
Valuation of the IBNR component of claims outstanding in LIC	

See notes 2(i), 4, 5(a) and 25 of the Society Report for disclosures of related accounting policies, judgements and estimates.
 	
The IBNR component of claims outstanding ("IBNR reserves") in LIC is a material balance within the financial statements. Recognised actuarial techniques are used to derive the IBNR reserves. The valuation of IBNR reserves relies on a large degree of judgement and underpinning assumptions. Relatively small changes in these assumptions can lead to significant movements in IBNR reserves and as such we placed significant focus on this area.
	Our work over the valuation of the IBNR reserves in LIC was performed by our local component audit team and actuarial specialists with input and oversight from the group engagement team.
	
	Specifically, we have:
	– Performed walkthroughs to understand the processes that management have put in place to control:
	  – the completeness and accuracy of the data used by LIC in the reserving process; and
	  – the selection of appropriate methods and assumptions applied by LIC in the reserving process.
	  We assessed whether these controls have been designed and implemented effectively.
	– Tested the underlying reserving data for accuracy and completeness; and
	– Engaged with our actuarial specialists to:
	  – Develop an independent point estimate of LIC IBNR reserves related to non-catastrophe claims. We compared our estimates to those derived by management, and in all those cases where significant differences were identified we obtained explanations; and
	  – Understand the approach used to establish the LIC IBNR reserves in relation to large losses and catastrophe events. We performed a review of the key methodologies and assumptions used by management in determining the associated LIC IBNR reserves and challenged them as appropriate.
	
	The results of our procedures indicated that the methodologies and assumptions used in the valuation of LIC's IBNR reserves were supported by the evidence we obtained.

Valuation of pipeline premiums included within LIC's GWP	
See notes 2(i), 4, 7 and 25 of the Society Report for disclosures of related accounting policies, judgements and estimates. LIC writes business through several placement types, for example, open market and binders. In light of the outsource arrangement between LIC and the underlying syndicates there is generally a level of uncertainty regarding the amount of premium income that should be recognised in any given year. The valuation of pipeline premiums relies on a number of underpinning assumptions and judgements and as such we placed significant focus on this area.	Our work over pipeline premiums in LIC was performed by our local component audit team with input and oversight from the group engagement team. Our work focused on understanding the methodology used to derive LIC's GWP (and the associated pipeline premiums) and independently testing the derivation of LIC's GWP. Specifically, we have: – Updated our understanding of the processes in place to derive LIC's GWP (and the associated pipeline premiums) and evaluated the design and implementation of the relevant controls in place; – Performed testing over controls related to the process to derive LIC's GWP (and the associated pipeline premiums); – Evaluated the methodology and assumptions used in relation to management's calculation of LIC GWP (and the associated pipeline premiums); and – Recalculated independently LIC's GWP (and the associated pipeline premiums) at year end. The results of our procedures indicated that the methods and assumptions used in the valuation of LIC's pipeline premiums, included within LIC's reported GWP, were supported by the evidence we obtained.

Key audit matter	How our audit addressed the key audit matter
Valuation of the Lloyd's Pension Scheme liabilities	
See notes 2(l), 4, and 21 of the Society Report for disclosures of related accounting policies, judgements and estimates. The Society of Lloyd's operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme. At 31 December 2022 the Scheme was in a net surplus position totalling £57m (2021: net liabilities £102m). Certain key assumptions (for example, the discount rate, inflation and post-retirement life expectancy) have a material impact in determining the valuation of the pension scheme liabilities and as such we placed significant focus on this area.	We used our actuarial specialists to evaluate the key assumptions used to value the Lloyd's Pension Scheme liabilities. 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. Specifically, we have: – Tested the discount rate used in the valuation of the Lloyd's Pension Scheme liabilities against our expectations, taking into account the duration of the pension scheme liability and investment market conditions at 31 December 2022; – Tested the retail and consumer price inflation rates used in the valuation of the Lloyd's Pension Scheme liabilities, taking into account the duration of the pension scheme liability and market expectations at 31 December 2022; and – Evaluated whether the post-retirement life expectancy assumptions were in line with the recent mortality experience of the Lloyd's Pension Scheme and with assumptions made by comparable UK companies, and assessed whether there is an appropriate allowance for how rates of mortality may change in the future. The results of our procedures indicated that the methods and assumptions used in the valuation of the Lloyd's Pension Scheme liabilities were supported by the evidence we obtained.
The conversion of the Society of Lloyd's group financial statements from an IFRS basis to a UK GAAP basis	
See notes 2(a) and 3 of the Society Report for disclosures of related accounting policies, judgements and estimates. On 01 January 2022 the Society of Lloyd's transitioned from IFRS to UK GAAP as its financial reporting framework. The impact of the transition required material adjustment of some financial statement line items. The associated presentation and disclosures made within the financial statements were also changed to comply with FRS 102 and FRS 103.	Our work over the UK GAAP transition focused on obtaining an understanding of the impact of the UK GAAP transition on the valuation, presentation and disclosure of the Society of Lloyd's financial statements. The transition has been applied retrospectively, as required by the financial reporting standards, and therefore this work encompassed confirming the prior year restatement was executed completely and accurately. Specifically, we have: – Assessed the completeness of management's transition adjustments and tested the adjustments for accuracy; and – Reviewed the presentation and disclosure of the financial statements to ensure compliance with UK GAAP standards. The results of our procedures indicated that the valuation, accuracy, presentation and disclosure of the UK GAAP transition was supported by the evidence we obtained.

Independent Auditors' Report to the Members of the Society of Lloyd's 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 group, the accounting processes and controls, and the industry in which it operates.

The Society of Lloyd's financial statements are a consolidation of a number of components. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the components by us, as the group engagement team, and from other PwC network firms operating under our instruction. For the audit of the Society of Lloyd's financial statements, all audit procedures were performed centrally by the group engagement team with the exception of the audits of the financial information of LIC and LICCL. Where the work was performed by a component auditor, we determined the level of involvement we needed to have in the audit work at that component 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. In our role as group auditors, we exercised oversight of work performed by component auditors, including performing the following procedures: maintained an active dialogue with reporting component audit teams throughout the year, including involvement in the risk assessment process during the planning phase of the audit; worked closely with the reporting component audit teams to develop detailed work plans in key areas of focus for the audit; attended meetings with local management; and performed detailed reviews of the reporting component audit teams working papers.

For each component, 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 UK and LIC components to address the key audit matters identified above. Additionally, we identified LICCL where certain account balances were considered to be significant in size in relation to the Society of Lloyd's and scoped our audit to include detailed testing of those account balances. For the remaining components that were not inconsequential, analytical procedures were performed by the group engagement team.

Together, the components where we performed our audit work accounted for greater than 90% of the Society of Lloyd's total assets and greater than 85% of the Society of Lloyd's surplus before tax for 2022.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the group's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the group's financial statements.

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 on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate 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	£95.4m (2021: £71.1m).
How we determined it	0.5% of total assets
Rationale for benchmark applied	We have identified the key financial statement users as rating agencies, syndicate members, policyholders and regulators, who will be primarily concerned with the overall asset position of the Society of Lloyd's, as those assets provide financial security for the market. Therefore, we have assessed that it is appropriate to use an asset-based benchmark for the materiality determination for the 31 December 2022 year end audit.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The materiality allocated to each component was £70.0m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £71.6m (2021: £53.3m) for the group financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £4.7m (2021: £1.2m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Council's assessment of the group's ability to continue to adopt the going concern basis of accounting included:

– Validating management's Society of Lloyd's going concern assessment;

– Performing sensitivity analysis on management's going concern assessment and assessing the impact on the Society of Lloyd's capital, solvency and liquidity positions; and

– Assessing the disclosures made in the financial statements in respect of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Council's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's ability to continue as a going concern.

In relation to the Council's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Council's statement in the financial statements about whether the Council considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Council with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Council is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Council members' remuneration

The Society of Lloyd's voluntarily prepares a Report of the Remuneration Committee in accordance with the provisions of the Companies Act 2006. The Council requested that we audit the part of the Report of the Remuneration Committee specified by the Companies Act 2006 to be audited as if the Society of Lloyd's were a quoted company.

In our opinion, the part of the Report of the Remuneration Committee to be audited has been properly prepared in accordance with the Companies Act 2006.

Independent Auditors' Report to the Members of the Society of Lloyd's continued

Corporate Governance statement

ISAs (UK) require us to review the Council's statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Society of Lloyd's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Corporate Governance Report, is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Council's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Council's statement in the financial statements about whether it considered it appropriate to adopt the going concern basis of accounting in preparing them, and its identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Council's explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate; and
- The Council's statement as to whether it has a reasonable expectation that the Society of Lloyd's will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Council's statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the Council's process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Council's statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the Council's statement relating to the Society of Lloyd's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the Council for the financial statements

As explained more fully in the Statement of the Council's Responsibilities for the Financial Statements, the Council is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Council is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK, European and China regulatory principles, such as those governed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Lloyd's Act 1982. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate the group's results and management bias applied in establishing material accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

– discussions with management, the Audit Committee, Head of Internal Audit, senior management involved in the Risk and Compliance function and the group's Legal Function, including consideration of known or suspected instances of non-compliance with laws, regulations and fraud, and assessment of matters reported on the group's whistleblowing helpline and management's investigation of such matters;
– evaluation of management's internal controls designed to prevent and detect irregularities, including the controls around related party transactions;
– reading key correspondence with the group's regulators, including for example, the Prudential Regulation Authority and the Financial Conduct Authority, in relation to compliance with laws and regulations;
– testing and challenging, where appropriate, the assumptions and judgements made by management in their significant accounting estimates, for example, in relation to the valuation of the IBNR component of claims outstanding in LIC, the valuation of pipeline premiums included within LIC's GWP and the valuation of the Lloyd's Pension Scheme liabilities;
– identifying and testing journal entries, in particular, any journal entries posted with unusual account combinations including those affecting revenue, post-close entries, or journals posted by unusual users;
– reviewing internal audit reports so far as they related to non-compliance with laws and regulations and fraud; and
– designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the Society of Lloyd's members as a body in accordance with 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 save where expressly agreed by our prior consent in writing.

Other required reporting
We have agreed to report to you if, in our opinion:

– we have not obtained all the information and explanations we require for our audit; or
– proper accounting records have not been maintained by the Society of Lloyd's; or
– certain disclosures of Council's remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the Audit Committee, we were appointed by the members on 1 July 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is ten years, covering the years ended 31 December 2013 to 31 December 2022.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 March 2023

Group Profit and Loss Account and Statement of Comprehensive Income

(As at 31 December 2022)

Profit and Loss Account			2022		2021 (Restated)
Technical account	Note	£m	£m	£m	£m
Gross written premiums	7	3,227		2,732	
Outward reinsurance premiums		(3,227)		(2,732)	
Change in the gross provision for unearned premiums		(352)		(253)	
Change in the provision for unearned premiums, reinsurers' share		352		253	
Earned premiums, net of reinsurance			–		–
Other technical income			8		9
Claims paid					
Gross amount		1,098		1,246	
Reinsurers' share		(1,098)		(1,246)	
			–		–
Change in provision for claims					
Gross amount		1,329		35	
Reinsurers' share		(1,329)		(35)	
			–		–
Claims incurred, net of reinsurance			–		–
Net operating income/(expenses)	8		22		(5)
Balance on the technical account for general business			**30**		4
Non-technical account					
Balance on the general business technical account			30		4
Investment income	9	30		91	
Unrealised losses on investments	9	(207)		(13)	
Total investment return			(177)		78
Investment expenses and charges	9		(2)		(4)
Profit/(loss) on exchange			241		(24)
Non-technical income	10		491		450
Non-technical operating expenses	11		(459)		(498)
Profit before tax			**124**		6
Tax (charge)/credit on profit	13(a)		(26)		1
Profit after tax			**98**		7

Statement of Comprehensive Income	Note	2022 £m	2021 (Restated) £m
Profit after tax		98	7
Other comprehensive income:			
Currency translation differences		30	(31)
Remeasurement gains on pension assets and liabilities	21	151	73
Share of remeasurement (loss)/gain on associates and joint venture pension liabilities	21	(1)	3
Tax charge relating to items that will not be reclassified	13(a)	(34)	(4)
Other comprehensive income for the year, net of tax		146	41
Total comprehensive income for the financial period		**244**	48

Group Balance Sheet

(As at 31 December 2022)

	Note	2022 £m	2022 £m	2021 (Restated) £m	2021 (Restated) £m
Intangible assets	14		54		58
Investments					
Financial investments	15	4,370		4,299	
Investment in Group undertakings	16	42		36	
			4,412		4,335
Reinsurers' share of technical provisions					
Provision for unearned premiums	25	1,937		1,497	
Claims outstanding	25	7,311		5,654	
			9,248		7,151
Debtors					
Debtors arising out of direct insurance operations		2,086		1,595	
Debtors arising out of reinsurance operations		1,491		1,358	
Other debtors	20(a)	27		42	
			3,604		2,995
Other assets					
Tangible assets	17	23		25	
Cash at bank and in hand	18	1,167		1,183	
Other assets	20(b)	12		57	
			1,202		1,265
Prepayments and accrued income					
Accrued interest and rent		20		17	
Deferred acquisition costs	19	356		277	
Other prepayments and accrued income	20(c)	144		140	
			520		434
Pension scheme assets	21		57		–
Total assets			**19,097**		16,238

Group Balance Sheet continued

(As at 31 December 2022)

	Note	2022 £m	2022 £m	2021 (Restated) £m	2021 (Restated) £m
Capital and reserves					
Revaluation reserve	22(c)	15		15	
Translation reserve	22(b)	25		(5)	
Syndicate loans	23	514		514	
Profit and loss account	22(a)	2,729		2,534	
			3,283		3,058
Subordinated debt	24(a)		603		796
Technical provisions					
Provision for unearned premiums	25	1,937		1,497	
Claims outstanding	25	7,311		5,654	
			9,248		7,151
Provisions for other risks					
Provisions for pensions and similar obligations	21	3		106	
Tax provisions		2		2	
Other provisions	26	59		50	
			64		158
Deposits received from reinsurers			1,161		1,096
Creditors					
Creditors arising out of direct insurance operations	27	509		420	
Creditors arising out of reinsurance operations	27	3,231		2,643	
Other creditors including taxation and social security	27	194		216	
Amounts owed to credit institutions	24(b)	303		299	
			4,237		3,578
Accruals and deferred income	28		501		401
Total capital, reserves and liabilities			**19,097**		16,238

The financial statements on pages 121 to 164 were approved by the Council on 22 March 2023 and signed on its behalf by:

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Group Statement of Changes in Equity

(For the year ended 31 December 2022)

	Note	**Profit and loss account £m**	**Translation reserve £m**	**Revaluation reserve £m**	**Syndicate loans £m**	**Total equity £m**
At 1 January 2022		2,534	(5)	15	514	3,058
Profit for the period		98	–	–	–	98
Net other comprehensive income for the period		116	30	–	–	146
Interest paid on syndicate loans	23	(19)	–	–	–	(19)
At 31 December 2022		**2,729**	**25**	**15**	**514**	**3,283**

	Note	Profit and loss account £m	Translation reserve £m	Revaluation reserve £m	Syndicate loans £m	Total equity £m
At 1 January 2021 (Restated)		2,474	26	15	514	3,029
Profit for the period (Restated)		7	–	–	–	7
Net other comprehensive profit/(loss) for the period		72	(31)	–	–	41
Interest paid on syndicate loans	23	(19)	–	–	–	(19)
At 31 December 2021 (Restated)		2,534	(5)	15	514	3,058

Group Statement of Cash Flows

(For the year ended 31 December 2022)

	Note	2022 £m	2021 (Restated) £m
Net cash from operating activities	29	122	229
Tax (paid)/refunded		(23)	26
Net cash generated from operating activities		**99**	255
Cash flow from investing activities			
Purchase of intangible assets	14	(13)	(19)
Purchase of equity and debt instruments		(3,909)	(4,032)
Sale of equity and debt instruments		3,664	3,992
Decrease/(increase) in short-term deposits		282	(132)
Net sale/(purchase) of derivatives		7	(21)
Loan to associate		(8)	–
Investment income received		59	33
Other		2	–
Net cash inflows/(outflows) from investing activities		**84**	(179)
Cash flow from financing activities			
Interest paid on senior debt		(8)	(8)
Interest paid on subordinated notes		(38)	(38)
Redemption of subordinated notes		(194)	–
Interest paid on syndicate loans	23	(19)	(19)
Increase in borrowings for statutory insurance deposits		29	2
Net cash outflows from financing activities		**(230)**	(63)
Net (decrease)/increase in cash and cash equivalents		**(47)**	13
Cash and cash equivalents at 1 January		1,183	1,174
Exchange differences on cash and cash equivalents		31	(4)
Cash and cash equivalents at 31 December		**1,167**	1,183

Notes to the Financial Statements

(As at 31 December 2022)

1. General information

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 conduct of insurance business by members of Lloyd's, the advancement and protection of their interests in this context and to manage the Society's insurance undertakings. The Society's revenue consists of members' subscriptions, various market charges and Central Fund contributions. The Society's wholly owned subsidiaries, Lloyd's Insurance Company S.A. (Lloyd's Europe) and Lloyd's Insurance Company (China) Limited (Lloyd's China) are the principal insurance businesses of the Society. The principal activities of Lloyd's Europe and Lloyd's China is to provide reinsurance of non-life business and direct non-life insurance in the European and Chinese insurance markets, respectively. Lloyd's syndicates participate in Lloyd's Europe and Lloyd's China business by means of 100% retrocession agreements.

The Society is regulated by the Prudential Regulatory Authority and the Financial Conduct Authority. Lloyd's Europe and Lloyd's China are also regulated by their respective country regulators.

2. Summary of significant accounting policies

This section describes the Group's significant accounting policies that relate to the Group financial statements and notes as a whole. These policies have been consistently applied to all years presented unless otherwise stated.

(a) Basis of preparation

The Group financial statements have been prepared in compliance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 'The Financial Reporting Standard applicable in the UK and Ireland', and FRS 103 'Insurance Contracts'. The previous financial statements for the year ended 31 December 2021 were prepared under International Financial Reporting Standards (IFRS) and the date of transition to UK GAAP was therefore 1 January 2022. As a consequence of adopting FRS 102 and FRS 103, a number of accounting policies have changed to comply with those standards resulting in adjustments to balances on transition.

In order to provide relevant comparative figures to the 2022 Group financial statements, the results for the year ended 31 December 2021 and balances at 31 December 2021 per the annual financial statements have been restated on a UK GAAP basis. Details of the transition to FRS 102 and FRS 103 are disclosed in note 3.

(b) Going concern

The Group financial statements are prepared on a going concern basis under the historic cost convention, except for certain assets and liabilities at fair value, as required or permitted under FRS 102 and FRS 103.

(c) Basis of consolidation

The Group financial statements of the Society comprise the financial statements of the Society and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interest in associates and joint ventures 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. All intra-Group balances and transactions are eliminated in full.

Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary financial statements to apply Group's accounting policies, if material, when preparing the consolidated financial statements.

(d) Functional and presentation currency

The Group financial statements are presented in pounds sterling, which is the Society's functional and presentational currency, and rounded to millions. 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).

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction, or an average rate for the period in which it was recorded. At each reporting date, monetary assets and liabilities (including unearned premium, deferred acquisition costs and unexpired risks provisions) denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date. Translation differences on monetary items are taken to the Group profit and loss account. Non-monetary items measured at historical cost are translated using the exchange rate at the date of transaction and non-monetary items measured at fair value are measured using the exchange rate when the fair value was determined.

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

Translation of overseas operations

The results and financial position of overseas Society operations are translated into pounds sterling as follows:

(i) Assets and liabilities are translated at the closing rate at the date of that balance sheet;

(ii) Income and expenses are translated at the average exchange rate for the year; and

(iii) Any resulting exchange differences are recognised in the Group statement of comprehensive income.

(e) Tangible assets

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 twenty five years, according to the estimated useful life of the asset; and
- Computer and specialised equipment are depreciated over three to fifteen years, according to the estimated useful life of the asset.

Lloyd's Collection

The Lloyd's Collection represents various paintings, antiques and artefacts which are included at fair value and is valued every three years, unless there is any indication of impairment. 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.

2. Summary of significant accounting policies continued

(f) Intangible assets

Intangible assets recognised by the Society consist of software development assets. Costs incurred in acquiring and developing computer software may be 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 amortisation and any impairment in value. Capitalised software is amortised on a straight-line basis over its expected useful life. Computer software typically has an expected useful life of up to seven years, although a longer lifetime may be determined for certain business systems.

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.

(g) Investment in associates and joint ventures

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 investments in associates and joint ventures are accounted for under the equity method of accounting.

Under the equity method, the investments in associates and joint ventures are carried in the Group balance sheet at cost plus post-acquisition changes in the Society's share of net assets of the associates and joint ventures. Goodwill relating to an associate is included in the carrying amount of the investment and is amortised on a straight-line basis over its expected useful life. 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 or joint venture. The Group profit and loss account reflects its share of the results of operations of associates and joint ventures. The Society's share of associates' other comprehensive income is recognised in the Group statement of comprehensive income.

(h) Prepayments

Prepayments are recognised at historic cost when the right to receive services or goods has been established. Where services or goods are to be received over a period exceeding a year, then prepayments are expensed in the profit and loss account on a straight-line basis over the period of the contract. Where amounts are considered to be not recoverable, the prepaid assets are written down to the recoverable amounts.

(i) Insurance and reinsurance contracts

The Society's wholly owned subsidiaries, Lloyd's Europe and Lloyd's China are the principal insurance businesses of the Society, wherein they provide reinsurance of non-life business and direct non-life insurance in the European and Chinese insurance markets, respectively. Lloyd's syndicates participate in Lloyd's Europe and Lloyd's China business by means of 100% reinsurance and retrocession agreements.

In accordance with FRS 103 Insurance Contracts, the Society applies established accounting practices for insurance and reinsurance contracts. The results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as stated in the below paragraphs.

Classification

Insurance and reinsurance 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.

Measurement and presentation

The Society'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 China, balances are calculated in accordance with China Generally Accepted Accounting Principles (China GAAP). For insurance contracts issued by, or transferred to Lloyd's Europe, balances are calculated in accordance with Belgium Generally Accepted Accounting Principles (Belgium GAAP).

The principal differences between UK GAAP and China and Belgium GAAP that remain unadjusted are as follows:

Lloyd's China calculates its reserves on a discounted basis and includes a local statutory risk margin, by class of business, as required under China GAAP. The discounting of reserves results in lower technical provisions by £12m (2021: £11m). The inclusion of a local statutory risk margin results in an increase in reserves. The reserves are 100% reinsured to syndicates with a net nil impact on profit before tax and on capital and reserves. Management considers the local statutory risk margin to be appropriate and not excessively prudent, and as permitted by FRS 103, it is included in technical provisions. In addition, management does not consider the amount of discounting of reserves to be material and has not adjusted the Group profit and loss account or the balance sheet.

Lloyd's Europe calculates its reserves on an undiscounted best estimate basis and includes a local statutory risk margin as required under Belgium GAAP. The reserves are 100% reinsured to syndicates with a net nil impact on profit before tax and on capital and reserves. Management considers the local statutory risk margin to be appropriate and not excessively prudent, and as permitted by FRS 103, it is included in technical provisions.

Certain other principal differences that have been adjusted or presented in the Group profit and loss account and balance sheet are for recognition of deferred acquisition costs for Lloyd's Europe and the gross presentation of unearned premium reserve liability for Lloyd's China, in accordance with the Group's accounting policy. These adjustments or presentation differences have a net nil impact on the Group's profit before tax and capital and reserves as these are 100% reinsured.

Premiums written

Gross written premiums are recognised on the date of inception of the contract as the total estimated premiums receivable. Gross written premiums include the impact of the difference between the estimated premium recognised in previous periods and actual income received. Premiums written are stated before deduction of commissions but net of taxes, duties levied on premiums and other similar deductions.

Earned premiums and provision for unearned premiums
Written premiums are recognised as premium income on a pro rata basis over the period of cover.

Provision for 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. Premiums earned during the year are disclosed in note 25.

Acquisition costs
Acquisition costs which represent commission and other related expenses are deferred over the period in which the related premiums are earned.

Claims incurred
Claims incurred in insurance-related activities consist of claims and claims handling expenses paid during the year together with the change in provision for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

Claims provisions and related reinsurance recoveries
Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not reported to the Society. The estimated cost of claims includes expenses to be incurred in settling claims. However, given the uncertainty in establishing claims provisions, 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 become apparent. Note 5(a) provides further details of how insurance claims are estimated.

Outstanding claims reserves include a risk margin in accordance with local regulatory reporting requirements for Lloyd's Europe and Lloyd's China. Lloyd's China outstanding claims provisions are discounted under local regulatory requirements for the time value of money and the difference between discounted and undiscounted claims provisions is not material.

Provision is recognised for any deficiencies arising when unearned premiums, net of associated acquisition costs are insufficient to meet claims and expenses after taking into account future investment return on investments supporting the unearned premiums provision and unexpired risks provision.

Reinsurance contracts
Lloyd's Europe and Lloyd's China enter into reinsurance agreements with syndicates to reinsure 100% of the insurance premiums written.

Reinsurance premiums and reinsurers' share of unearned premiums
Outward reinsurance premiums are recognised over the period of cover of the reinsured contracts, in line with premium income recognised. Reinsurers' share of provision for unearned premiums is calculated before deducting acquisition costs such as commissions, handling fees, business taxes, surcharges and regulatory charges, which are presented separately as deferred acquisition costs.

The amounts the Society is entitled to under reinsurance contracts are recognised as reinsurers' share of technical provisions. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts. Debtors and creditors arising out of reinsurance operations primarily comprise amounts recoverable from reinsurers or premiums payable for outward reinsurance contracts, respectively.

Reinsurance premiums and reinsurers' share of unearned premiums continued
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.

Claims recoverable under the Society's reinsurance agreements are recognised and measured in line with insurance claims relating to the policies they reinsure.

Reinsurance commission income is receivable from syndicates as a percentage of premiums earned by Lloyd's Europe and on premiums written by Lloyd's China, net of recoveries and included in net operating income/(expense) in the technical account in the Group profit and loss account.

(j) Financial investments
Financial investments classification
Financial investments are classified, at initial recognition, in the following measurement categories:

– those to be measured at fair value through profit or loss (FVTPL); and

– those to be measured at amortised cost.

The classification depends on the Society's business model for managing the financial investments and the contractual terms of the cash flows. The Society measures financial investments at amortised cost if both of the following conditions are met:

– the financial investment is held within a business model with the objective to hold financial investments in order to collect contractual cash flows; and

– the contractual terms of the financial investment give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Society's financial investments at amortised cost include short-term and security deposits, statutory insurance deposits, loans recoverable and trade receivables due within one year.

Financial investments at FVTPL include financial investments held for trading or financial investments mandatorily required to be measured at fair value. Financial investments are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading. Financial investments with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. This category includes government fixed interest securities, corporate securities, emerging market investments, equities, hedge funds, multi-asset investments and loan investments.

2. Summary of significant accounting policies continued

(j) Financial investments continued

Initial recognition

At initial recognition, the Society measures a financial investment at its fair value plus, in the case of a financial investment not valued at FVTPL, transaction costs that are directly attributable to the acquisition of the financial investment. Transaction costs of financial investments carried at fair value through profit and loss are expensed in the Group profit and loss account.

Subsequent measurement

The subsequent measurement of financial instruments depends on their classification as follows:

– Financial instruments at FVTPL are carried in the Group balance sheet at fair value. Gains and losses arising from changes in their fair value are included in the Group profit and loss account in the period in which they arise; and

– Where financial instruments are carried at amortised cost, the value is computed using the effective interest rate 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.

Derecognition

A financial investment (or, where applicable, a part of a financial investment or part of a group of similar financial investments) is derecognised when:

– The rights to receive cash flows from the investment have expired; or

– The Society has transferred its right to receive cash flows from the investment and has substantially transferred all the risks and rewards; or

– The Society has assumed an obligation to pay the received cash flows in full and has substantially transferred all the risks and rewards; or

– The Society has neither transferred nor retained substantially all the risks and rewards of the investment but has transferred control of the investment; and

– The Society considers control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally.

Expected credit losses of financial assets

The Society recognises an allowance for expected credit losses for all debt instruments not held at FVPTL. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Society expects to receive, discounted at the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, allowance is made for credit losses that result from default events that are possible within the next 12 months (12 month expected credit losses). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (lifetime expected credit losses).

For trade receivables and insurance contract assets, the Society applies a simplified approach in calculating expected credit losses. Therefore, the Society does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date.

The Society considers a financial investment in default when contractual payments are 90 days past due. However, in certain cases, the Society may also consider a financial investment to be in default when internal or external information indicates that the Society is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Society. A financial investment is written off when there is no reasonable expectation of recovering the contractual cash flows.

(k) Financial liabilities

Financial liabilities include subordinated loan notes, senior debt and deposits received from reinsurers.

Initial recognition and measurement

Financial liabilities are classified at initial recognition, at FVTPL, loans and borrowings or as payables, as appropriate and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Society. Gains or losses on liabilities held for trading are recognised in the Group profit and loss account.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Group profit and loss account when the liabilities are derecognised, as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as non-technical operating expenses in the Group profit and loss account.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Group profit and loss account.

(l) Employee benefits

The Society accounts for pensions and similar benefits (principally income protection due to ill health) under Schedule 28 Employee Benefits of FRS 102. 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.

Judgement is required in determining the economic and demographic assumptions underpinning the estimated actuarial value of scheme liabilities. These judgements are based on observable historic data and, in many cases, publicly available information. The operating and financing income and costs of the scheme are recognised in the Group profit and loss account. 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 profit and loss account when amounts are committed to be paid or there is a constructive liability to make awards to pensioners.

Payments to defined contribution pension schemes are charged to the Group profit and loss account 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.

(m) Other provisions

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated.

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 profit and loss account. The Council has provided no such supporting commitments during the year and therefore no provision is held at year end.

Recoveries in respect of Undertakings previously given are credited to the Group profit and loss account when contractually committed to be received.

(n) Syndicate loans

Syndicate loans comprise loans issued to strengthen the Society's central resources and facilitate the injection of capital into Lloyd's Europe.

The amount collected was based on a percentage of the syndicate gross written premium forecast. The loans are treated as equity as there is no contractual obligation to settle the loans and the Society may elect not to settle at its sole discretion (other than on liquidation). On initial recognition, syndicate loans are measured at fair value and are not subsequently revalued. Further details on syndicate loans can be found in note 23.

(o) Other technical income

Income directly related to the insurance activities of the Society is presented in the technical account and largely comprises recoveries of costs from syndicates under the contracts.

(p) Net operating income/(expenses) – technical account

Costs directly related to the insurance activities of the Society are presented in the technical account in the Group profit and loss account.

Acquisition costs which represent commission and other related expenses are deferred over the period in which the related premiums are earned.

Administration costs are expensed as incurred.

Reinsurance commission income is receivable from syndicates as a percentage of premiums earned by Lloyd's Europe and on premiums written by Lloyd's China.

(q) Non-technical income

The Society supports the market to underwrite risks through its trading rights and distribution network. It also ensures that the market remains well capitalised and provides services to enable the market's efficient operation. Revenue consists of members' subscriptions (net of rebates), various market charges and other services and Central Fund contributions.

Revenue from contracts with customers is recognised when services are transferred to the customer at an amount that reflects the consideration to which the Society expects to be entitled in exchange for those services.

- Members' subscriptions, market charges and other services are recognised in the period for which the service is provided. These are recognised on a basis that reflects the timing, nature and value of the benefits provided and are net of rebates;
- Central Fund contributions from members underwriting in the year are recognised in the period for which the service is provided; and
- Other income is recognised on a basis that reflects the timing, nature and value of the benefits provided. Other income includes rental income from the sub-lease of properties held under operating lease contracts.

For members' subscriptions, market charges and other services, and Central Fund contributions, the period for which the service is provided is the financial year, and performance obligations are generally satisfied within the financial year. Revenue arising in respect of members' subscriptions and Central Fund contributions are calculated by applying a percentage to the forecast gross written premiums of each syndicate underwriting year.

Where performance obligations are not satisfied in the financial year, revenue is recognised based on the extent to which service obligations are completed. Judgement has been applied in determining revenue recognised for the year.

Share of profits from associates and joint ventures are recognised as stated in note 2(g).

Debtors represent the Society's right to an amount of consideration that is unconditional (only the passage of time is required before payment of the consideration is due).

2. Summary of significant accounting policies continued

(r) Non-technical operating expenses

Non-technical operating expenses comprise costs relating to the operating activities of the Society. These costs are charged to the Group profit and loss account as incurred. Non-technical operating expenses comprise employment costs, premises costs, legal and professional fees, systems and communications costs, Central Fund protection cover costs, depreciation and amortisation and interest expense.

All of the Society's leases are classified as operating leases, as a significant portion of the risk and rewards of ownership are retained by the lessor. Payments under operating leases, net of lease incentives received, are recognised as an expense in the Group profit and loss account on a straight-line basis over the term of the lease. The Society's leases mainly comprise properties, including the 1986 building.

(s) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses.

Investment income

Investment income includes:

- Interest receivable, recognised on a time apportioned basis using the effective interest method. Any unwinding of discount is recognised as interest income;
- Dividend income from equity investments on the ex-dividend date; and
- Realised gains and losses on financial instruments, including derivative contracts, calculated as the difference between net sales proceeds and purchase price.

Unrealised gains/(losses) on investments

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

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 profit and loss account.

Investment expenses and charges

Investment expenses and charges comprise costs relating to the investing activities of the Society and impairment charges on financial assets held at amortised cost. These costs are charged to the Group profit and loss account as incurred.

(t) Taxation

Corporation tax on the profit or loss for the periods presented comprise current and deferred tax. Corporation tax is recognised in the Group profit and loss account except to the extent that it relates to items recognised directly 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 substantively 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 substantively enacted at the reporting date.

3. Transition from IFRS to UK GAAP

(a) Changes in accounting policy arising on the transition from IFRS to UK GAAP

As a consequence of adopting FRS 102 and FRS 103, the accounting policies that have been applied are under UK GAAP. The changes in accounting policies and, where applicable, the financial impact of restating the comparative amounts, are set out below. Other changes in accounting policies with no financial impact are also outlined in the following sections.

Changes in accounting policy that have a net impact on the balance sheet or statement of comprehensive income on transition

Leases accounted for by lessees: IFRS 16 requires lessees to recognise all leases on the balance sheet (other than certain low value or short-term leases) by the recognition of a right-of-use asset and a related lease liability. Under UK GAAP, leases are classified as either operating or finance leases depending on whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Leases classified as operating leases are not included on the balance sheet, but the lease rentals are recognised as an expense as incurred. All of the Society's leases are classified as operating leases and lease costs are recognised as incurred. The Society's leases mainly comprise properties, including the 1986 building. The impact of the change in accounting policy on the current and comparative reporting periods is outlined below.

Changes in accounting policy that have no net impact on the balance sheet or statement of comprehensive income on transition

Insurance contracts: As permitted by IFRS 4, the Society adopted an IFRS measurement basis for insurance contracts that was a continuation of the policies applied prior to adopting IFRS. For insurance contracts issued by or transferred to Lloyd's Europe and Lloyd's China, balances are calculated in accordance with Belgian Generally Accepted Accounting Principles (Belgian GAAP) and China Generally Accepted Accounting Principles (China GAAP) respectively. FRS 103 similarly allows a continuation of previous practice and so the Society continues to apply the same recognition and measurement basis. As stated in note 2(i), Insurance and reinsurance contracts, certain principal differences between UK GAAP and Belgian and China GAAP have not been adjusted as these are permitted under FRS 103 or are not material to the Group profit and loss account or capital and reserves. In addition, as stated in note 2(i), other presentation changes have been made to align with UK GAAP. Lloyd's Europe and Lloyd's China comprise the insurance businesses of the Society and 100% reinsure their liabilities to syndicates.

Accordingly, there is no net impact on the profit before tax or total capital and reserves for the consolidated Group arising from such change in accounting policies and/or resulting adjustments.

Financial assets and liabilities: FRS 102 provides entities with an accounting policy choice in respect of the recognition and measurement of financial assets and liabilities between applying: (i) the provisions of both Section 11 and Section 12 of FRS 102 in full (a simplified version of the requirements in IAS 39 'Financial Instruments: Recognition and Measurement'); (ii) the recognition and measurement provisions of IAS 39 (prior to its amendment on the publication of IFRS 9 'Financial Instruments'); or (iii) the recognition and measurement provisions of IFRS 9 and IAS 39 (as amended following the publication of IFRS 9), where hedge accounting is applicable. The Group has taken the option to apply the recognition and measurement requirements of IFRS 9 and IAS 39 (as amended following the publication of IFRS 9).

(b) Reconciliation of total equity

FRS 102 Section 35.13 (b) requires a reconciliation of the Society's equity under the previous financial reporting framework to equity under UK GAAP. The table below shows a reconciliation of equity under IFRS to UK GAAP at 31 December 2021 and 1 January 2021.

	31 December 2021 £m	1 January 2021 £m
Total equity reported under IFRS	3,050	3,023
Impact of the change in lease accounting[1]	8	6
Total capital and reserves reported under UK GAAP	3,058	3,029

1. The impact of removing the right-of-use assets, lease liabilities and related balances recognised in accordance with IFRS 16 for leases treated as operating leases under FRS 102, net of the impact on the tax liabilities.

(c) Reconciliation of the Statement of Comprehensive Income for 2021

FRS 102 Section 35.13 (c) requires a reconciliation of the profit or loss determined under the Society's previous financial reporting framework in the most recent financial statements to the equivalent profit or loss using UK GAAP. The table below shows a reconciliation of the total comprehensive income from the 31 December 2021 IFRS financial statements to the equivalent total under UK GAAP.

	2021 £m
Total comprehensive income reported under IFRS	46
Impact of the change in lease accounting on the profit and loss statement[2]	2
Total comprehensive income reported under UK GAAP	48

2. The impact of removing the right-of-use assets, lease liabilities and related balances recognised in accordance with IFRS 16 for leases treated as operating leases under FRS 102, net of the impact on the tax liabilities. The capital and reserves reported under UK GAAP at 31 December 2022 are impacted by the same amount.

3. Transition from IFRS to UK GAAP continued

(d) Presentational and other changes arising on the transition from IFRS to UK GAAP

The Society's insurance business carried out by its insurance subsidiaries, Lloyd's Europe and Lloyd's China, have been re-presented to present a technical account and non-technical account.

- Technical account presentation: net technical operating expenses and other technical income related to the Society's insurance operations (primarily Lloyd's Europe and Lloyd's China) are presented in the technical account, together with the results from underwriting. Costs and income related to the investment portfolio are presented in the non-technical account as these are not considered as assets covering technical provisions.
- Non-technical income: comprises the Society's income from members' subscriptions, various market charges (including the overseas operating charge) and Central Fund contributions and is presented in the non-technical account. There are no significant changes in the basis of revenue recognition.
- Non-technical operating expenses: comprise costs relating to the operating activities of the Society, excluding the insurance operations. These costs are charged to the profit and loss account as incurred and are presented in the non-technical account.

(e) Comparative disclosures

Comparative balances have been restated to reflect changes to presentation in the current year following the conversion from IFRS to UK GAAP. As part of the UK GAAP conversion additional correcting adjustments have been made to premiums receivable to report balances gross of related commissions payable and to reinsurance balances to report gross of the related commissions and reinsurer's share of paid claims. These balances were reported on a net basis in 2021. These adjustments have had no net impact on total capital and reserves reported in prior periods.

As at 31 December 2021	2021 (UK GAAP presentation) £m	2021 (Restated[1]) £m
Debtors arising out of direct insurance operations	1,012	1,595
Debtors arising out of reinsurance operations	541	1,358
Other prepayments and accrued income	87	140
Other assets[2]	13,121	13,145
Total assets	14,761	16,238
Creditors arising out of direct insurance operations	4	420
Creditors arising out of reinsurance operations	1,625	2,643
Other creditors including taxation and social security	196	216
Other capital, reserves and liabilities	12,936	12,959
Total capital, reserves and liabilities	14,761	16,238

1. Comparatives as at 31 December 2021 have also been restated to meet the presentational requirements of UK GAAP and for measurement differences compared to the previous IFRS accounting standards.
2. Other assets is the balance of assets on the restated balance sheet not affected by the transition.

A correcting adjustment has been made to the Group Statement of Cash Flows presented for the year ended 31 December 2021 to record the effect of a restatement presented in the prior year comparatives as at 31 December 2020 in relation to statutory insurance deposits. This adjustment has no net impact on net cash used in investing activities reported in prior periods.

For the year ended 31 December 2021	2021 (UK GAAP presentation) £m	2021 (Restated) £m
Purchase of equity and debt instruments	(4,142)	(4,032)
Sale of equity and debt instruments	4,102	3,992

4. Critical accounting judgements and estimation uncertainty

In preparing the financial statements, significant estimates and judgements are made in respect of some of the items reported, based on historical experience and other factors, including expectations of future events.

(a) Significant judgements in applying the accounting policies

The main areas of accounting judgement on policy application are:

Allowance for risk and uncertainty within claims provisions

In setting the provision for insurance liabilities an allowance for risk and uncertainty is added. The objective is to ensure that local statutory requirements and management's reasonable expectations have been met. The insurance reserves including the allowance for uncertainty is 100% reinsured and there is no impact on the profit before tax or net assets of the consolidated Group.

Defined benefit pension scheme

The Group has obligations to pay pension benefit liabilities to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including the discount rate on corporate bonds, life expectancy, salary increases and asset valuations. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect the historical experience and current trends. The carrying value of the Lloyd's Pension Scheme is a surplus of £57m (2021: deficit of £102m) which has been recognised as an asset in the balance sheet. See note 21.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Society has extended a loan that is categorised at Level 3 of the fair value hierarchy. The carrying value of this asset is £67m (2021: £77m). Judgement is used to select a method and make assumptions based on market conditions existing at the end of each reporting period. See note 5 for discussion of the related interest rate and credit risks.

(b) Sources of estimation uncertainty

There are a number of accounting assumptions made by the Society about the future, and other sources of estimation uncertainty at the end of the reporting period, that could result in misstatement of the carrying amount of assets and liabilities. In the next year, the assumptions considered to bring significant risk of material change are as follows:

– The ultimate liability arising from claims made under insurance contracts and asset arising from reinsurance contracts;

– Defined benefit pension scheme; and

– Climate change.

We have previously disclosed the impact of provisions on the repair and maintenance of the 1986 building and pipeline premiums. Whilst still sources of uncertainty, they are not deemed to present a risk of material misstatement in the next year.

The ultimate liability arising from claims made under insurance contracts and asset arising from reinsurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts and the related asset arising from the 100% reinsurance quota share agreements in place are significant accounting estimates. The carrying amount of the liability is £7,311m (2021: £5,654m) and asset is £7,311m (2021: £5,654m). There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. In particular, in respect of claims arising from the war in Ukraine and inflation, there remains considerable uncertainty as to the ultimate amounts at which they will be settled. The current inflationary environment is a risk to the estimation of the insurance liabilities and inflation has been monitored throughout the year. It has been specifically considered using outstanding claims in conjunction with inflation estimates at total market class of business and an additional uplift has been allowed for in the reserves of Lloyd's Europe.

In respect of the war in Ukraine, the market has reserved £1.4bn of liabilities (£1.1bn at 30 June 2022), with a proportion of those liabilities being provided for in Lloyd's Europe and relating to aviation leasing. Lloyd's Europe is currently aware of nine claims in total which have been brought against it in England and Ireland (ie. claims in which it is a named defendant) and is aware of one further claim that is likely to be issued. Each claim is brought by aviation lessors in respect of policies covering aircraft operating in Russia and related countries in 2022. The legal proceedings are at an early stage and although some are more advanced than others, there are key procedural matters and factual and legal questions yet to be resolved in all of the actions. It is therefore too early to comment on the potential outcome of these cases. Lloyd's Europe understands there are a number of other similar claims brought against the relevant Lloyd's syndicates directly (ie. claims in which Lloyd's Europe is not a named defendant) in those jurisdictions and others in respect of business not underwritten through Lloyd's Europe. It is noted that Lloyd's Europe has 100% quota share reinsurance agreements in place with the relevant Lloyd's syndicates in respect of the business it has underwritten.

The level of provision has been set on the basis of the information that is currently available. While the Council considers that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amount of the provision 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. See note 25 for disclosures relating to these provisions and note 5 for discussion of the related risks.

4. Critical accounting judgements and estimation uncertainty continued

(b) Sources of estimation uncertainty continued

Defined benefit pension scheme

Significant assumptions are made to estimate the actuarial value of the Lloyd's Pension Scheme and other defined benefit plan liabilities. Judgement is required in determining the appropriateness of the basis of assumptions underpinning the estimated actuarial value of scheme liabilities. The demographic assumptions that are the most financially significant are those relating to the life expectancy of retired members. The major financial assumptions used by the actuary are the discount rate on corporate bonds, the rate of price inflation and the rate of increase in future pension payments. The assumptions reflect historical experience and current trends. See note 21 for the disclosures relating to the defined benefit pension schemes. The carrying value of the scheme assets is £706m and scheme liabilities is £649m (2021: net scheme liabilities of £102m).

Climate change

As set out in the principal risks to Lloyd's strategic priorities on page 12, Lloyd's continues to monitor and manage risks associated to physical, transition and litigation risks associated to climate change. There is inherent complexity and uncertainty in how the future climate pathway will develop, however, the current management view is that reasonably possible changes arising from climate risk would not have a material Impact on asset and liability valuations at the year end date.

5. Insurance and financial risk

(a) Insurance risk

This is the risk arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities.

Lloyd's Insurance Company S.A. (Lloyd's Europe) and Lloyd's Insurance Company (China) Limited (Lloyd's China) are the principal insurance businesses of the Society. The companies' principal activity is to provide reinsurance of non-life business and direct non-life insurance in the European and Chinese insurance markets, respectively. Lloyd's syndicates participate in Lloyd's Europe and Lloyd's China business by means of retrocession agreements. Lloyd's Europe and Lloyd's China have reinsured and retroceded 100% of the insurance risk for all underwritten premiums to Lloyd's syndicates. As such, insurance risk after this is nil. Therefore, an increase or decrease in estimated technical provisions has a corresponding impact on the reinsurers' share of technical provisions, and nil net impact on the Society's claims incurred, net of reinsurance and profit before tax for the year and the Capital and reserves at the balance sheet date.

The Society's insurance risk can be subdivided into the following categories:
(i) underwriting risk;
(ii) reserving risk;
(iii) credit risk;
(iv) catastrophe risk; and
(v) concentration risk.

Lloyd's Europe accounts for 98% (2021: 97%) of the Society's gross written premiums for the year. As such, the vast majority of the Society's gross insurance risk relates to the operations of Lloyd's Europe.

Underwriting risk

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

Lloyd's Europe and Lloyd's China underwrite business introduced by Lloyd's syndicates in line with their approved business plans. As outlined on page 43, approval of syndicates' business plans (which includes the syndicates' underwriting strategy) is the key control the Society uses to manage the underwriting risk of Lloyd's Europe and Lloyd's China.

The Society has controls in place to ensure that risks are underwritten within regulatory requirements and the scope of Lloyd's market licences. Controls are also in place to ensure reinsurance agreements are in place with syndicates to retrocede 100% of the insurance risk of all underwritten premiums.

Reserving risk

Reserving risk arises where the reserves established in the balance sheet are not adequate to meet eventual claims arising. Lloyd's Europe and Lloyd's China estimate incurred but not reported (IBNR) claims based on case reserves set by managing agents, their own historic claims development data and, in the case of Lloyd's Europe, historic claims development data for policies under the Part VII transfer of EEA insurance liabilities transferred from Lloyd's syndicates. Lloyd's Europe and Lloyd's China reserves are annually subject to a formal independent actuarial opinion.

Specific reserving issues for the Society reflect those for the market as a whole in the geographic areas business is written, as outlined on page 43. In particular, Lloyd's Europe has gross exposure to losses arising from the war in Ukraine. The resulting increase in energy prices and high rates of inflation have been specifically considered in estimating reserves. Any change in the estimated ultimate loss ratio has a nil net impact on Capital and reserves in the balance sheet as all risks are 100% reinsured.

For Lloyd's Europe, the ultimate claim cost including claims expense reserves is determined using actuarial techniques based primarily on historical experience, actual claims experience and in accordance with their statutory reporting requirements. Significant judgement is required in applying these actuarial techniques in order to calculate the expected ultimate claims and expenses. A combined approach is taken with the provisions for the business transferred through the Part VII agreement in 2020, calculated using the same techniques as for the business originally written through Lloyd's Europe. An explicit allowance is also derived for specific claims that are thought to require an additional IBNR allowance, such as for the war in Ukraine, primarily using ultimate claims estimates provided by the syndicates.

For Lloyd's China, the ultimate claim cost is determined based on historical experience, the expected loss ratio provided by the syndicates, actual claims experience and in accordance with their statutory reporting requirements. Claims expense reserves are calculated with reference to actual claims expenses and future developing trends by line of business. Significant judgement is required in assessing the expected loss ratios provided by syndicates to determine whether the provision for insurance claims held for prior underwriting years is reasonable. Changes in loss ratios for one or more lines of business have had a relatively insignificant impact on the valuation of insurance contract liabilities as a whole.

For Lloyd's China only, outstanding claims reserves are calculated taking the time value of money into account. The discount rate used is the same as that used for the calculation of the unexpired risk reserve.

Credit risk

Lloyd's Europe and Lloyd's China are exposed to credit risks primarily associated with insurance and reinsurance arrangements with its insurance counterparties. The most significant credit risk is the recoverability of the Society's reinsurance assets receivable from syndicates under the 100% reinsurance agreements. Credit risk is minimised by actively monitoring the creditworthiness of counterparties to ensure this is managed proactively. Judgement is required in determining expected credit losses on the current reinsurance assets. Expected credit losses are calculated and recognised as described in note 2(j).

Catastrophe risk

Catastrophe risk is the risk of loss occurring across all lines of business from worldwide catastrophic events. The Society has developed a suite of Realistic Disaster Scenarios to measure syndicate level and aggregate market exposure to both natural catastrophes and man-made losses. These are monitored frequently, and additional information is provided by syndicates as described on page 44. In addition, enhancements to the monitoring and oversight of aggregate market catastrophe risk exposure have been implemented within the approved internal model under Solvency II.

Concentration risk

As described on page 53, the Society monitors concentrations of risk against defined risk appetites. Any reported metrics outside of appetite are reported to, and discussed by, the Lloyd's Europe or Lloyd's China Audit and Risk Committee.

Claims development table

The table below shows the development of claims over a period of time on a gross basis. The claims development table shows the cumulative incurred claims, including both notified and incurred but not reported claims for each successive year, together with cumulative claims at the current reporting date.

	2017 and prior £m	2018 £m	2019 £m	2020 £m	2021 £m	**2022 £m**	**Total £m**
At end of underwriting year	473	84	813	4,596	918	929	–
One year later	538	112	1,647	5,038	2,688	–	–
Two years later	555	102	1,592	4,903	–	–	–
Three years later	540	104	1,520	–	–	–	–
Four years later	545	103	–	–	–	–	–
Five years later	562	–	–	–	–	–	–
Current estimate of cumulative claims	562	103	1,520	4,903	2,688	929	10,705
Cumulative payments to date	(500)	(83)	(776)	(1,685)	(318)	(32)	(3,394)
Total provision for insurance claims	62	20	744	3,218	2,370	**897**	**7,311**

As the Lloyd's Europe and Lloyd's China insurance liabilities are 100% reinsured and comprise the vast majority of the Society's insurance business, the Society has not prepared a claims development table on a net basis.

The claims development table above includes claims relating to the 2020 and prior underwriting year EEA business transferred under the Part VII agreement on 30 December 2020. All liabilities transferred are included within the 2020 underwriting year.

(b) Financial risk

The Society's risk management of investment operations is predominantly controlled by the Lloyd's Treasury and Investment Management department under policies approved by the Investment Committee. The department identifies, evaluates and hedges financial risks in close cooperation with the Society's operating units. The Council provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

5. Insurance and financial risk continued

(c) Credit risk

Credit risk is the exposure to loss if a counterparty fails to perform its contractual obligations. Other than the credit risk on the 100% reinsurance agreements with syndicates, the Society's primary credit risk relates to its financial investments and cash balances. Refer to note 15 for classification of assets according to credit ratings. The Society is also exposed to credit risk in its premium debtors. Credit risk in respect of premium debt is controlled through broker approval and regular monitoring of premium settlement performance.

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

(d) Liquidity risk

Liquidity risk is the risk that there are insufficient funds to meet liabilities, as they fall due.

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 managed to meet short-term operational commitments, including the payment of any drawdown. Any surplus cash balances are invested in compliance with defined investment parameters approved by the Investment Committee, in accordance with the risk appetite set by the Council.

The Society had no committed borrowing facilities as at 31 December 2022 or 2021. The primary long-term financial liabilities of the Society are subordinated debt and senior loan notes which are detailed in note 24, including details of the maturity of these liabilities.

The Society has a strong free cash balance at 31 December 2022 of £282m (31 December 2021: £268m), with additional holdings in short-term investments, making the Society's liquidity very strong.

(e) Market risk

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

Interest rate risk

Interest rate risk is the risk that the value and future cash flows of a financial instrument will fluctuate because of changes in interest rates.

Interest rate risk arising from the requirement to make fixed rate coupon payments in respect of the Society's senior and subordinated debt, and discretionary fixed rate coupon payments in respect of the Society syndicate loans, is considered in conjunction with the market risk arising on the Society's investments.

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. These are invested in money market instruments of up to 12 months' duration with the objective of maximising current income while meeting liquidity requirements.

As part of the strategy to mitigate these risks, the Society has entered into a number of interest rate swap contracts.

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

	2022	2021
+ 50 basis points	(28)	(34)
- 50 basis points	28	34
+ 100 basis points	(55)	(67)
- 100 basis points	55	67

Foreign currency risk

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 changes in the fair value of foreign currency denominated investments and forward contracts.

The majority of foreign exchange exposures arising from investments denominated in foreign currencies are managed via a foreign exchange hedging programme. The Society also hedges against the portion of the capital requirement denominated in US dollars, in excess of US dollar holdings. As a result, the Society has remaining net exposures to foreign currencies and the sterling value of the Society's investments may be affected by movements in exchange rates relating to these exposures.

A 10% strengthening or weakening of pounds sterling, against all other currencies, at 31 December would have reduced/increased the profit before tax for the financial year by £317m (2021: £323m). This analysis is presented net of foreign exchange hedges and assumes that all other variables remain constant.

Equity price risk

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

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

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

	2022	2021
5% increase in equity markets	26	23
5% decrease in equity markets	(26)	(23)
15% increase in equity markets	78	70
15% decrease in equity markets	(78)	(70)

6. Segmental analysis

Segmental 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. Segmental results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

The Society's primary business segments are as follows:

(vi) 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 (primarily Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited) are included within this business segment; and

(vii) 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 Reinsurance Limited.

6. Segmental analysis continued

Segment revenue and expenses	Note	2022 Corporation of Lloyd's £m	2022 Lloyd's Central Fund £m	2022 Society total £m	2021 (Restated) Corporation of Lloyd's £m	2021 (Restated) Lloyd's Central Fund £m	2021 (Restated) Society total £m
Technical account							
Earned premiums, net of reinsurance		–	–	–	–	–	–
Other technical income		8	–	8	9	–	9
Claims incurred, net of reinsurance		–	–	–	–	–	–
Net operating income/(expenses)		22	–	22	(5)	–	(5)
Balance on the technical account for general business		**30**	**–**	**30**	4	–	4
Non-technical account							
Total investment return		(22)	(155)	(177)	(1)	79	78
Investment expenses and charges		–	(2)	(2)	–	(4)	(4)
Profit/(loss) on exchange		10	231	241	8	(32)	(24)
Non-technical income	10	334	157	491	307	143	450
Non-technical operating expenses	11	(362)	(97)	(459)	(402)	(96)	(498)
(Loss)/profit before tax		**(10)**	**134**	**124**	(84)	90	6
Tax (charge)/credit on (loss)/profit		(6)	(20)	(26)	18	(17)	1
(Loss)/profit after tax		**(16)**	**114**	**98**	(66)	73	7
Segment assets and liabilities							
Financial investments	15	1,592	2,778	4,370	1,464	2,835	4,299
Cash at bank and in hand		784	383	1,167	764	419	1,183
Deferred tax asset		12	–	12	57	–	57
Tax receivable		1	9	10	–	–	–
Reinsurers' share of technical provisions		9,248	–	9,248	7,151	–	7,151
Debtors arising out of direct insurance operations		2,086	–	2,086	1,595	–	1,595
Debtors arising out of reinsurance operations		1,491	–	1,491	1,358	–	1,358
Other assets		131	582	713	2	593	595
Total assets		**15,345**	**3,752**	**19,097**	12,391	3,847	16,238
Technical provisions		9,248	–	9,248	7,151	–	7,151
Tax provisions		2	–	2	(15)	17	2
Deposits received from reinsurers		1,161	–	1,161	1,096	–	1,096
Creditors arising out of direct insurance operations		509	–	509	420	–	420
Creditors arising out of reinsurance operations		3,231	–	3,231	2,643	–	2,643
Subordinated debt and amounts owing to credit institutions	24	303	603	906	299	796	1,095
Other liabilities		691	66	757	724	49	773
Total capital and reserves		200	3,083	3,283	73	2,985	3,058
Total capital, reserves and liabilities		**15,345**	**3,752**	**19,097**	12,391	3,847	16,238

7. Particulars of insurance business

The geographical analysis of direct written premiums where contracts were concluded is as below:

	2022 £m	2021 £m
European Economic Area ('EEA')	3,164	2,659
China	63	73
Total	**3,227**	2,732

Refer also to note 25 for details of insurance balances.

8. Net operating income/(expenses) – technical account

	2022 £m	2021 £m
Acquisition costs	(654)	(561)
Change in deferred acquisition costs	60	19
Administrative expenses	(54)	(70)
Reinsurance commissions and profit participation	670	607
Total net operating income/(expenses)	**22**	(5)

9. Total investment return and investment expenses and charges

	2022 £m	2021 £m
Income from financial investments held at FVTPL	37	28
Income from financial investments held at amortised cost	25	2
Net realised gains/(losses) on derivative contracts	23	(21)
Other net realised (losses)/gains on investments held at FVTPL and amortised cost	(55)	82
Total investment income	**30**	91
Net unrealised gains on derivative contracts	1	4
Other net unrealised losses on financial investments at FVTPL	(208)	(17)
Total net unrealised losses on financial assets	**(207)**	(13)
Total investment return	**(177)**	78
Investment expenses and charges	**(2)**	(4)

10. Non-technical income

Non-technical income comprises income from members such as subscriptions, market charges and other services, Central Fund contributions and share of profits from associates and joint ventures.

Set out below is the disaggregation of the Group's non-technical income:

		2022			2021	
	Corporation of Lloyd's £m	**Lloyd's Central Fund £m**	**Society total £m**	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Members' subscriptions, net of rebate	155	–	155	141	–	141
Market charges and other services:						
Market charges	167	–	167	148	–	148
Other charges	5	–	5	9	–	9
Central Fund income	–	157	157	–	143	143
Share of profits from associates and joint ventures	7	–	7	9	–	9
Total non-technical income from contracts with customers	**334**	**157**	**491**	307	143	450

(As at 31 December 2022)

11. Non-technical operating expenses

	2022			2021		
	Corporation of Lloyd's £m	**Lloyd's Central Fund £m**	**Society total £m**	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Employment costs	171	–	171	168	–	168
Premises	48	–	48	44	–	44
Legal and professional fees	55	2	57	94	3	97
Systems and communications costs	55	–	55	57	–	57
Central Fund protection cover	–	56	56	–	47	47
Depreciation and amortisation	10	–	10	10	–	10
Interest expense	11	36	47	11	39	50
Other	12	3	15	18	7	25
Total non-technical operating expenses	**362**	**97**	**459**	402	96	498

(a) Employment costs

	2022	2021
Wages and salaries (including bonus)	132	123
Social security costs	16	15
Other pension costs	12	13
Other employment costs	11	17
Total employment costs	**171**	**168**

Employment costs exclude those relating to the insurance activities of the Group, which are presented in the technical account.

(b) Legal and professional fees

	2022 £m	2021 £m
Legal and professional fees, excluding paid to Group's auditors	54	95
Fees payable to the Group's auditors for the audit of the Group's annual accounts	2	1
Fees payable to the Group's auditors and its associates for other services	1	1
Total legal and professional fees	**57**	97

Other services payable to the Group's auditors, PricewaterhouseCoopers LLP, include audit of the accounts of subsidiaries, audit-related assurance services (such as work undertaken for on the Aggregate Accounts, Pro Forma Financial Statements and regulatory returns) and other assurance services.

Legal and professional fees exclude those relating to the insurance activities of the Group, which are included in the technical account.

12. Employees and directors

Employees

Average number of employees (including executive directors)	**2022**	2021
UK employees (permanent and contract)	1,043	1,089
Overseas employees (permanent and contract)	277	267
Average number of total employees (permanent and contract)	**1,320**	1,356

Average employee numbers are on a full-time equivalent basis.

Directors

The aggregate amount of remuneration paid to, or receivable by, both executive and non-executive directors (including the highest paid) is shown in the Annual Remuneration Report on page 89. Post-employment benefits are accruing for three executive directors (2021: three) under a defined contribution pension scheme. No executive or non-executive directors (2021: none) were members of the defined benefit pension scheme.

13. Taxation

(a) Tax charge

	2022 £m	2021 (Restated) £m
Current tax:		
Corporation tax based on profits for the year at 19% (2021: 19%)	(6)	(5)
Prior year adjustment	(1)	(1)
Foreign tax suffered	(10)	(2)
Total current tax	**(17)**	(8)
Deferred tax:		
Origination and reversal of timing differences		
Current year	(9)	8
Prior year	–	1
Tax (charge)/credit recognised in the Group profit and loss account	**(26)**	1
Analysis of tax (charge)/credit recognised in the Group statement of comprehensive income:		
Tax credit on syndicate loan interest	3	4
Tax charge on actuarial gain on Group pension liabilities	(37)	(8)
Tax charge recognised in the Group statement of comprehensive income	(34)	(4)
Total tax charge recognised in the Group statement of comprehensive income	**(60)**	(3)

(b) Reconciliation of effective tax rate

	2022 £m	2021 (Restated) £m
Profit on ordinary activities before tax	124	6
Expected tax at the current rate	(24)	(1)
Gross up of dividend income	(1)	(1)
Expenses not deductible for tax purposes	(2)	(2)
Tax on share of profits of associates and joint ventures	1	2
Deferred tax adjustment relating to change in tax rate	2	3
Deferred tax prior year adjustments	–	1
Difference in UK and overseas tax rates	(2)	–
Overseas tax relief	1	–
Prior year adjustment	(1)	–
Other	–	(1)
Tax (charge)/credit	**(26)**	1

In 2022, there were no unrecognised deductible temporary differences (2021: £nil). 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 the UK corporation tax rate, which is set to increase to 25% from 1 April 2023 (2021: 19-25%).

(As at 31 December 2022)

14. Intangible assets

Software development

	Asset available for use £m	Asset in development £m	Total £m
Cost			
At 1 January 2022	73	36	109
Additions	6	7	13
Disposals	(3)	(21)	(24)
Other movements[1]	6	(6)	–
At 31 December 2022	**82**	**16**	**98**
Accumulated amortisation and impairment			
At 1 January 2022	(25)	(26)	(51)
Amortisation for the year	(12)	–	(12)
Impairment for the year	(4)	(1)	(5)
Disposals	3	21	24
Other movements[1]	(6)	6	–
At 31 December 2022	**(44)**	–	**(44)**
Net book value at 31 December 2022	**38**	**16**	**54**
Net book value at 31 December 2021	**48**	**10**	**58**

1. Other movements relate to the transfer of intangible assets from in development to available for use.

Impairment losses

Impairment reviews are undertaken annually for the assessment of carrying value of assets. As part of the assessment, £5m (2021: £3m), of the intangible assets were impaired during the year.

Amortisation and impairment charges are recognised within non-technical operating expenses in the Group profit and loss account.

15. Financial investments

	Note	2022 £m Carrying value	2021 £m Carrying value
Financial investments at amortised cost			
Statutory insurance deposits	15(a)	934	810
Deposits with credit institutions	15(a)	597	758
Loans secured by mortgages[1]		24	28
Loans (unsecured)[2]		8	–
Total financial investments at amortised cost[3]		**1,563**	1,596
Financial assets at fair value through profit and loss			
Financial investments at fair value through profit and loss	15(b)	2,787	2,690
Derivative financial assets	15(c)	20	13
Total financial assets at fair value through profit and loss		**2,807**	2,703
Total financial investments		**4,370**	4,299

1. Loans made from the Central Fund to hardship members are related to the valuation of hardship, Limited Financial Assistance Agreement and legal assets. Gains and losses are included in the Group profit and loss account in the period they arise.
2. During the year, an unsecured loan was provided to an associate of the Group and is repayable in 2026.
3. Financial investments at amortised cost include Corporation £1,100m (2021: £959m) and Central Fund £463m (2021:637m).

(a) Financial investments at amortised cost

Financial investments at amortised cost include investments such as government bonds, treasury bills, letters of credit, call accounts, fixed-term deposits and cash deposits held in certain countries to satisfy local trading authorisation requirements. These are excluded from cash and cash equivalents, because these are not available to finance the Society's day to day operations.

	2022			2021		
Statutory insurance deposits	**Securities £m**	**Deposits £m**	**Total £m**	Securities £m	Deposits £m	Total £m
At 1 January	148	662	810	117	690	807
Additions at cost	34	1,333	1,367	60	991	1,051
Disposal proceeds	(33)	(1,305)	(1,338)	(25)	(1,006)	(1,031)
Profit/(loss) on the sale and revaluation of investments	14	81	95	(4)	(13)	(17)
At 31 December	**163**	**771**	**934**	148	662	810

	2022			2021		
Statutory insurance deposits	**Securities £m**	**Deposits £m**	**Total £m**	Securities £m	Deposits £m	Total £m
AAA	1	–	1	1	–	1
AA	150	481	631	137	403	540
A	–	285	285	–	250	250
BB	9	–	9	7	–	7
Other	3	5	8	3	9	12
At 31 December	**163**	**771**	**934**	148	662	810

Deposits with credit institutions	**2022 £m**	2021 £m
AA	359	421
A	203	330
BBB	35	7
At 31 December	**597**	758

15. Financial investments continued

(b) Financial investments at fair value through profit and loss

	2022 Corporation of Lloyd's £m	2022 Lloyd's Central Fund £m	2022 Total £m
At 1 January	504	2,186	2,690
Additions at cost	510	2,032	2,542
Disposal proceeds	(512)	(1,814)	(2,326)
Loss on the sale and revaluation of investments	(12)	(107)	(119)
Fair value at 31 December	**490**	**2,297**	2,787
Analysis of securities[1]			
Debt securities and other fixed-income securities:			
Government	105	1,229	1,334
Corporate securities	252	473	725
Total debt securities and other fixed-income securities	**357**	**1,702**	2,059
Shares and other variable-yield securities and units in unit trusts:			
Global equities	1	315	316
Participation in investment pools:			
Hedge funds	–	18	18
Multi-asset	–	131	131
Emerging markets	52	64	116
Developed markets	80	–	80
Other loans[2]	–	67	67
Fair value at 31 December	**490**	**2,297**	2,787

1. All securities are listed, except for hedge funds and other loans.
2. Other loans comprises loan to Constellation IC Limited of £80m in 2021 towards the arrangements made for the protection for Lloyd's Central Fund, in situations where the Central Fund makes payments to cover members' liabilities. The programme incepted on 1 January 2021 and has an initial fixed duration of five years (with a possible extension to hold collateral for a further three years to cover adverse claims development). The Society retains the first £600m of claims payable. The total amount of cover provided by the programme is £650m, with layers provided by Constellation and a panel of reinsurers. The layer covered by Constellation of £450m is 100% collateralised for the five year term. Constellation has been funded by loans, including £80m from the Society (2021: £80m). The loan is classified and measured at fair value through profit and loss in accordance with the Society's accounting policy for financial assets in accordance with IFRS 9 Financial Instruments. Interest income is accrued on the loan.

Analysis of securities	2022 Corporation of Lloyd's £m	2022 Lloyd's Central Fund £m	2022 Total £m
AAA	88	310	398
AA	79	901	980
A	62	287	349
BBB	129	244	373
Other	132	555	687
Fair value at 31 December	**490**	**2,297**	**2,787**

	2021 Corporation of Lloyd's £m	2021 Lloyd's Central Fund £m	2021 Total £m
At 1 January	533	2,143	2,676
Additions at cost	347	2,634	2,981
Disposal proceeds	(340)	(2,621)	(2,961)
(Loss)/profit on the sale and revaluation of investments	(36)	30	(6)
Fair value at 31 December	504	2,186	2,690

Analysis of securities[1]			
Debt securities and other fixed-income securities:			
Government	291	1,161	1,452
Corporate securities	213	439	652
Total debt securities and other fixed-income securities	504	1,600	2,104
Shares and other variable-yield securities and units in unit trusts:			
Global equities	–	357	357
Participation in investment pools:			
Hedge funds	–	15	15
Multi-asset	–	62	62
Emerging markets	–	75	75
Other Loans[2]	–	77	77
Fair value at 31 December	504	2,186	2,690

1. All securities are listed, except for hedge funds and other loans.
2. Other loans comprises loan to Constellation IC Limited of £80m in 2021 towards the arrangements made for the protection for Lloyd's Central Fund, in situations where the Central Fund makes payments to cover members' liabilities. The programme incepted on 1 January 2021 and has an initial fixed duration of five years (with a possible extension to hold collateral for a further three years to cover adverse claims development). The Society retains the first £600m of claims payable. The total amount of cover provided by the programme is £650m, with layers provided by Constellation and a panel of reinsurers. The layer covered by Constellation of £450m is 100% collateralised for the five year term. Constellation has been funded by loans, including £80m from the Society (2021: £80m). The loan is classified and measured at fair value through profit and loss in accordance with the Society's accounting policy for financial assets in accordance with IFRS 9 Financial Instruments. Interest income is accrued on the loan.

Analysis of securities	2021 Corporation of Lloyd's £m	2021 Lloyd's Central Fund £m	2021 Total £m
AAA	115	249	364
AA	166	801	967
A	41	298	339
BBB	170	252	422
Other	12	586	598
Fair value at 31 December	504	2,186	2,690

15. Financial investments continued

(c) Fair value hierarchy

To provide further information on the valuation techniques used to measure assets and liabilities carried at fair value, the Society categorises the measurement basis for assets carried at fair value into a 'fair value hierarchy', based on the lowest level input that is significant to the valuation as a whole, described as follows:

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, listed equities in active markets or listed deposits held with credit institutions in active markets.

Fair values are determined using a pricing hierarchy structure for valuation purposes. The valuation principles employed are to provide the most accurate valuations, while also working to provide independent valuations. The pricing process employs a hierarchy that utilises numerous third-party sources in a tiered system.

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 (ie. as prices) or indirectly (ie. 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 (ie. 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 and low volatility hedge funds where tradable net asset values are published.

Where estimates are used to value unlisted securities, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data. While such valuations are sensitive to estimates, changing one or more of the assumptions to reasonably possible alternative assumptions are unlikely to result in a significant change in fair value.

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.

	2022			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets at fair value through profit or loss				
Debt securities and other fixed income securities	1,335	725	–	2,060
Shares and other variable yield securities and units in unit trusts	315	–	–	315
Participation in investment pools	–	345	–	345
Other loans	–	–	67	67
Total financial investments at fair value through profit and loss	**1,650**	**1,070**	**67**	**2,787**
Derivative financial instruments				
Currency conversion service	–	2	–	2
Other forward foreign exchange contracts	–	12	–	12
Interest rate swaps	–	6	–	6
Total derivative financial instruments	**–**	**20**	**–**	**20**
Total financial assets at fair value through profit or loss	**1,650**	**1,090**	**67**	**2,807**
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Currency conversion service	–	2	–	2
Other forward foreign exchange contracts	–	10	–	10
Interest rate swaps	–	8	–	8
Equity futures	–	–	–	–
Total financial liabilities at fair value through profit or loss	**–**	**20**	**–**	**20**

	2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Debt securities and other fixed income securities	1,452	652	–	2,104
Shares and other variable yield securities and units in unit trusts	357	–	–	357
Participation in investment pools	–	152	–	152
Other loans	–	–	77	77
Total financial investments at fair value through profit and loss	1,809	804	77	2,690
Derivative financial instruments				
Currency conversion service	–	1	–	1
Other forward foreign exchange contracts	–	11	–	11
Interest rate swaps	–	1	–	1
Total derivative financial instruments	–	13	–	13
Total financial assets at fair value through profit or loss	1,809	817	77	2,703
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Currency conversion service	–	1	–	1
Other forward foreign exchange contracts	–	12	–	12
Interest rate swaps	–	5	–	5
Equity futures	–	2	–	2
Total financial liabilities at fair value through profit or loss	–	20	–	20

Derivative financial instruments

The Society enters into forward currency contracts to manage exposures to fluctuation of exchange rates and to provide a currency conversion service to the Lloyd's market. The Society also enters into interest rate swaps and equity futures to manage exposures aligned to its investment strategy. The Society's derivative financial instruments are categorised as fair value hierarchy Level 2.

The fair value and notional amounts of derivative instruments held, all of which mature within one year, are analysed as follows:

	2022 Assets		**2022 Liabilities**	
As at 31 December	**Fair value £m**	**Notional £m**	**Fair value £m**	**Notional £m**
Currency conversion service	2	221	2	220
Other forward foreign exchange contracts	12	414	10	760
Interest rate swaps	6	290	8	292
Equity futures	–	–	–	–
Total	**20**	**925**	**20**	**1,272**

	2021 Assets		2021 Liabilities	
As at 31 December	Fair value £m	Notional £m	Fair value £m	Notional £m
Currency conversion service	1	187	1	187
Other forward foreign exchange contracts	11	930	12	931
Interest rate swaps	1	296	5	296
Equity futures	–	168	2	168
Total	13	1,581	20	1,582

15. Financial investments continued

(c) Fair value hierarchy continued

Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in the fair value of Level 3 investments for the year ended 31 December 2022 and 31 December 2021:

	2022 £m	2021 £m
As at 1 January	77	79
Loss recognised in the income statement	(10)	(2)
As at 31 December	**67**	77

Level 3 investments are comprised of the loan to Constellation IC Limited of £80m in 2021 towards the arrangements made for the protection for Lloyd's Central Fund, in situations where the Central Fund makes payments to cover members' liabilities. Refer to page 145 for further detail.

There were no transfers to or from fair value hierarchy Level 3 for the period ending 31 December 2022.

16. Investments in Group undertakings

Subsidiaries are those entities over which the Society directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. The basis by which subsidiaries are consolidated in the Group financial statements is outlined in the basis of preparation in note 1.

The following subsidiaries principally affected the Group's financial position and results for the year ended 31 December 2022, as set out in the Society Group income statement.

Company name	**Nature of business**	**Registered address and country of incorporation**
Additional Securities Limited	Provision of deposits overseas on behalf of Lloyd's underwriters to comply with local insurance regulations	One Lime Street, London EC3M 7HA England and Wales
Centrewrite Limited	Authorised UK insurance company assisting resigned members of the Society with participations on run-off syndicates to end their affairs at Lloyd's	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Finance Company Limited	Provides additional flexibility regarding the capital structure of Lloyd's Insurance Company S.A. (Lloyd's Europe)	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Housing Support Limited	General commercial company	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Australia Limited	In relation to the Society's activities within Australia, the company undertakes certain regulatory compliance and market development activities	Suite 1603, Level 16, 1 Macquarie Place, Sydney NSW 2000, Australia
Lloyd's Canada Inc.	In relation to the Society's activities within Canada, the company undertakes certain regulatory compliance and market development activities	200 Bay Street, Suite 2930 PO Box 51, Toronto, Ontario, M5J 2J2
Lloyd's Brasil Servicos Tecnicos Ltda	In relation to the Society's activities within Brazil, the company undertakes certain regulatory compliance and market development activities	Avenida Almirante Barroso 52, Sala2401, CEP 20031-918 – Rio de Janeiro, RJ – Brazil
Lloyd's Insurance Company (China) Limited	In relation to the Society's activities within China, the company provides bespoke services to support business development and underwriting. The entity is an authorised insurance company	30th Floor Shanghai Tower, 501 Middle Yincheng Road, Pudong New Area, Shanghai 200120, China
Lloyd's Insurance Company S.A.	In relation to the Society's activities within Europe, the company provides bespoke services to support business development and underwriting. The entity ensures that Lloyd's policyholders across the European Economic Area can continue to access the underwriting expertise and financial security of the Lloyd's market, despite the United Kingdom's exit from the European Union. The entity is an authorised insurance company and is the holding company of various other European subsidiaries of the Society	Bastion Tower – Floor 14 5 Place du Champ de Mars, 1050 Bruxelles, Belgium

Company name	Nature of business	Registered address and country of incorporation
Lloyd's Japan Inc.	In relation to the Society's activities within Japan, the company provides bespoke services to support business development and underwriting	Tokyo Club Building 6F 3-Chome-2-6 Kasumigaseki Chiyoda-ku, Tokyo 100-0013 Japan
Lloyd's Labuan Limited	In relation to the Society's activities within Malaysia, the company is licensed to carry on business as underwriting manager	Brumby Centre, Lot 42, Jalan Muhibbah, 87000 Labuan F.T, Malaysia
Lloyd's Limited	In relation to the Society's activities within Dubai, the company undertakes certain regulatory compliance and market development activities	Unit 4A, Floor 5, Gate Village 8, DIFC, Dubai, United Arab Emirates
Lloyd's of London (Asia) Pte Ltd	In relation to the Society's activities within Singapore (and the wider region), the company provides bespoke services to support business development and underwriting	138 Market Street, #03-01 CapitaGreen, Singapore 048946
Lloyd's of London (Representative Office) Greece Single Member SA	In relation to the Society's activities within Greece, the company acts as a fiscal representative	25A Boukourestiou Street, 106 71 Athens, Greece
Lloyd's South Africa (Proprietary) Ltd	In relation to the Society's activities within South Africa, the company undertakes certain regulatory compliance and market development activities	15th floor, The Forum 2 Maude Street, Sandton, 2146 South Africa
Lloyd's America Holdings Inc. Lloyd's America Inc.	In relation to the Society's activities, the company provides certain services in the United States	280 Park Avenue, 25th Floor, New York, NY 10017
Lloyd's Kentucky, Inc.	Serves as the attorney-in-fact for Underwriters writing licensed insurance business in Kentucky and the US Virgin Islands. Provides compliance support for licensed business. The US Finance Team is also employed by Lloyd's Kentucky, Inc	200 W. Main St. Frankfort, Kentucky KY 40601-1806
Lloyd's Illinois, Inc.	Serves as the attorney-in-fact for Underwriters writing licensed insurance business in Illinois. Provides compliance support for licensed business, as well as operational and IT support services in the Americas	181 W Madison Street, Suite 3870 Chicago, Illinois 60602

The main territory of operation of subsidiaries incorporated in England and Wales is the UK. For overseas subsidiaries, the principal country of operation is the same as the country of incorporation. All operating subsidiaries have a 31 December year end reporting date with the exception of Lloyd's Japan Inc., with the year end reporting date of 31 March. All operating subsidiaries are 100% directly owned by the Society with the exception of Lloyd's Insurance Company S.A., which is 99% owned by the Society and 1% owned by Lloyd's Finance Company Limited.

Restrictions

Lloyd's operates in more than 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 that are held within those countries, including capital of RMB 1bn (2021: RMB 1bn) within Lloyd's Insurance Company (China) Limited and €558m (2021: €556m) in Lloyd's Insurance Company S.A. 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.

Dormant subsidiaries

During the financial year, the Society had, or continues to have, an interest in the following dormant subsidiaries. These subsidiaries are all 100% owned by the Society and have not actively traded for the year ended 31 December 2022.

Company name	Registered address and country of incorporation
Additional Underwriting Agencies (No. 9) Limited	One Lime Street, London EC3M 7HA England and Wales
Additional Underwriting Agencies (No. 10) Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's America Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Nominees Director Limited	One Lime Street, London EC3M 7HA England and Wales

16. Investments in Group undertakings continued

Dormant subsidiaries continued

Company name	Registered address and country of incorporation
Lloyd's Nominees Secretary Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Aviation Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Building Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's.com Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Information Services Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Life Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's List Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London Press Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Recoveries Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Shelf Company 1 Limited	One Lime Street, London EC3M 7HA England and Wales
Lutine Nominees & Insurance Limited	One Lime Street, London EC3M 7HA England and Wales
Sharedealer Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London Limited	One Lime Street, London EC3M 7HA England and Wales

All subsidiary undertakings are included in the consolidated Society Report. The proportions of the voting rights in the subsidiary undertakings held directly by the Society do not differ from the proportion of the ordinary shares held. With the exception of £1 preference share for Lloyd's Building Limited, the Society does not have any preference shares of subsidiary undertakings included in the Group.

Investment in Associates and Joint Ventures

The Society has the following significant holdings which have been included as investments in associates and joint ventures.

Company name	Registered address and country of incorporation	Proportion of equity capital held	Nature of business
Associates			
Ins-sure Holdings Limited	Royal Pavilion, Wellesley Road, Aldershot, Hampshire GU11 1PZ England and Wales	25%	Provision of premiums and claims accounting and settlement, policy production and ancillary insurance services principally to the London insurance market
Xchanging Claims Services Limited	Royal Pavilion, Wellesley Road, Aldershot, Hampshire GU11 1PZ England and Wales	50%	Provision of claims and recoveries services
Joint Ventures			
London Market Operations and Strategic Sourcing Limited	One Lime Street, London EC3M 7HA England and Wales	Limited by guarantee 33%	A centralised capability to source and manage outsourced market services for the London insurance market
Placing Platform Limited	One Lime Street, London EC3M 7HA England and Wales	Limited by guarantee 36%	Advance the implementation of digital trading in the Lloyd's market

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:

– The A shares participate in 50% of any profits available for distribution after taking account of the dividend rights outlined above; and
– The C shares carry a right to a fixed cumulative preference dividend of 5%, calculated on the paid-up nominal capital and a variable participating dividend in priority to the payment of any dividend to the holders of the A and B shares.

The wholly owned subsidiaries of Xchanging Claims Services Limited are LCO Marine Limited and LCO Non-Marine & Aviation Limited; and for Ins-sure Holdings Limited are Ins-sure Services Limited, London Processing Centre Limited and LPSO Limited.

	2022 £m	2021 £m
At 1 January	36	24
Share of operating profits	8	11
Share of tax on profit on ordinary activities	(1)	(2)
Total share of profits of associates and joint ventures	**7**	9
Share of actuarial (loss)/gain on pension liability	(1)	3
At 31 December	**42**	36

Summarised statement of financial position

Summary of financial information for associates and joint ventures:

	Ins-sure Holdings Limited As at 31 December		Xchanging Claims Services Limited As at 31 December		Placing Platform Limited As at 31 December		London Market Operations and Strategic Sourcing Limited As at 31 December	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021[1] £m	**2022 £m**	2021 £m
Current assets								
Cash at bank and in hand	49	56	28	20	13	14	6	4
Debtors, prepayments and accrued income	40	13	4	4	7	12	3	4
Other assets	–	2	–	–	–	–	–	–
Total current assets	89	71	32	24	20	26	9	8
Non-current assets								
Total non-current assets	18	28	1	1	27	9	–	–
Current liabilities								
Creditors falling due within one year	26	27	10	9	6	2	9	5
Other liabilities	1	–	1	–	–	1	–	3
Total current liabilities	27	27	11	9	6	3	9	8
Non-current liabilities								
Total non-current liabilities	1	1	–	–	8	–	–	–
Net assets	**79**	71	**22**	16	**33**	32	**–**	–

1. Restated to align to published financial statements

Note: Ins-sure Holdings Limited and Xchanging Claims Services Limited are unaudited figures for both 2022 and 2021. Their last audited financial year end was 31 March 2022. Placing Platform Limited and London Market Operations and Strategic Sourcing Limited are unaudited figures for 2022 and audited for 2021.

16. Investments in Group undertakings continued

Summarised statement of comprehensive income

	Ins-sure Holdings Limited		Xchanging Claims Services Limited		Platform Placing Limited		London Market Operations and Strategic Sourcing Limited	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Revenues	85	83	30	31	29	28	22	21
Operating costs	(73)	(63)	(22)	(21)	(28)	(17)	(22)	(21)
Operating profit	12	20	8	10	1	11	–	–
Tax on profit on ordinary activities	(4)	(4)	(2)	(2)	–	(2)	–	–
Profit for the financial year	**8**	16	**6**	8	**1**	9	**–**	–
Other comprehensive (expense)/income	(1)	9	–	–	–	–	–	–
Total comprehensive income	**7**	25	**6**	8	**1**	9	–	–

17. Tangible assets

Plant and equipment

	Furniture and fittings £m	Computer and specialised equipment £m	Lloyd's Collection £m	Total £m
Cost				
At 1 January 2022	21	15	15	51
Disposals	(2)	(8)	–	(10)
At 31 December 2022	**19**	**7**	**15**	**41**
Depreciation				
At 1 January 2022	(15)	(11)	–	(26)
Depreciation charge for the year	(2)	(1)	–	(3)
Disposals	3	8	–	11
At 31 December 2022	**(14)**	**(4)**	**–**	**(18)**
Net book value at 31 December 2022	**5**	**3**	**15**	**23**
Net book value at 31 December 2021	6	4	15	25

Impairment losses

Impairment reviews are undertaken annually of the recoverability of the carrying value of plant and equipment assets held. As part of this review, £nil of tangible assets were impaired during the year (2021: £nil).

Lloyd's Collection

The Lloyd's Collection represents various paintings, antiques and artefacts. A desktop valuation was conducted by Gurr Johns Limited, valuers and fine art consultants, in January 2021. The collection was valued at £15m 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. The Lloyd's Collection is valued every three years unless there is any indication of impairment. There were no indications of impairment in 2022 (2021: £nil).

18. Cash at bank and in hand

	2022 £m	2021 £m
Cash at banks	679	758
Short-term deposits	488	425
Total cash at bank and in hand	**1,167**	1,183

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 £1,167m (2021: £1,183m).

19. Deferred acquisition cost

	2022			2021		
	Gross £m	**Reinsurers' share £m**	**Net £m**	Gross £m	Reinsurers' share £m	Net £m
Balance at 1 January (restated)	277	277	–	275	275	–
Expenses for the acquisition of insurance contracts during the year	662	662	–	572	572	–
Amortisation	(600)	(600)	–	(553)	(553)	–
Foreign exchange movements	17	17	–	(17)	(17)	–
Balance at 31 December (restated)	**356**	**356**	**–**	277	277	–

Note: Reinsurers' share of deferred acquisition costs is presented within accruals and deferred income. Please refer to note 28.

20. Other debtors, other assets and prepayments and accrued income

(a) Other debtors

	2022 £m	2021 (Restated) £m
Other debtors	17	42
Tax receivable	10	–
Total other debtors	**27**	42

(b) Other assets

	2022 £m	2021 (Restated) £m
Deferred tax asset	12	57
Total other assets	**12**	57

(c) Other prepayments and accrued income

	2022 £m	2021 (Restated) £m
Prepayments[1]	137	134
Accrued income	7	6
Total prepayments and accrued income	**144**	140

1. Prepayments include amounts paid for services to Xchanging Global Insurance Solutions Limited ('XGIS') in 2021, which will be received after more than one year from the balance sheet date of £44m (2021: £55m). Management reviews the recoverability of such prepayment at each reporting period and there are no amounts not considered recoverable at 31 December 2022 (2021: £nil).

21. Pension schemes

Lloyd's operates a number of defined benefit and defined contribution pension schemes. In the UK, employees are entitled to join a Group Personal Pension Plan and there is also a closed 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.

21. Pension schemes continued

Defined benefit pension schemes

The pension surplus/(deficit) of the defined benefit schemes are as follows:

	2022 £m	2021 £m
Lloyd's Pension Scheme	57	(102)
Overseas pension schemes	(3)	(4)
Net surplus/(deficit) from pension schemes	**54**	**(106)**

The amounts recognised in the Group profit and loss account and Group statement of comprehensive income in respect of defined benefit schemes and the defined contribution schemes, are as follows:

	2022 £m	2021 £m
Lloyd's Pension Scheme	(2)	(3)
Overseas pension schemes	(2)	(2)
Other pension contributions	(9)	(9)
Total Group profit and loss account	**(13)**	(14)
Lloyd's Pension Scheme	150	73
Overseas pension schemes	1	–
Share of associates' and joint ventures' pension	(1)	3
Total Group statement of comprehensive income	**150**	76

The Lloyd's Pension Scheme

The Lloyd's Pension Scheme ('The 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 Lloyd's Pension Scheme closed to new members in 2013 and closed to future accrual for existing members on 30 June 2018. Existing members of the scheme at that time were enrolled into the Group Personal Pension Plan for future pension benefits.

On an FRS 102 Section 28 'Employee Benefits' valuation basis, the pension scheme asset at 31 December 2022 was £57m (2021: £102m deficit) before the allowance of deferred tax. An actuarial pre-tax gain of £150m has been recognised in the year (2021: £73m gain). In accordance with paragraph 22 of FRS 102 Section 28 'Employee Benefits', the value of the net pension scheme asset that can be recognised in the balance sheet is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. The Society has recognised the scheme surplus as a defined benefit plan asset as the Scheme Trust Deed and Rules give the Society the right to a refund of surplus in certain circumstances, and as such the asset is recoverable.

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. Following closure of the Scheme to future benefit accrual, there are no regular monthly contributions paid to the Scheme. However, where a funding deficit is identified, a recovery plan will be agreed between the Society and the Trustees, setting out the contributions required to meet the deficit. The net deficit at the date of the previous triennial valuation at 30 June 2019 was £79m and a recovery plan is in place and has been agreed with the Trustees.

The Trustees are in the process of completing and finalising their formal actuarial valuation of the Scheme as at 30 June 2022, using the projected unit credit method and the report is awaited, which may indicate changes in the deficit and to the contributions required to meet the deficit.

Information about the risks of the Scheme to the Society

The ultimate cost of the Scheme to the Society will depend upon actual future events rather than the assumptions made. Many of the assumptions made may not 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 the Society is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to the Society is higher than expected. This could result in a deficit disclosed and therefore higher recovery contributions required from the Society. This may also affect the Society's ability to grant discretionary benefits or other enhancements to members.

The key assumptions that may not be borne out in practice are unchanged from those described in the 2021 Lloyd's Annual Report. 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.

Principal actuarial assumptions in respect of FRS 102 Section 28

The most significant change compared to the assumptions as outlined in the 2021 Lloyd's Annual Report is the discount rate, which has increased to 5.0% (2021: 1.9%). This financial assumption change is the main driver for the £387m reduction in the total liabilities for the scheme. The discount rate assumption is determined with reference to the yield on corporate bonds at the valuation date, which have increased since the previous valuation. There has been no change in the methodology used to derive the discount rate compared to the valuation at 31 December 2021.

Other changes in assumptions compared to the 31 December 2021 valuation do not have a material impact on the net pension asset balance at 31 December 2022.

The demographic assumptions that are most financially significant are those relating to the life expectancy of retired members. The mortality table used for the purposes of the valuation is as follows:

	2022	2021
Post retirement mortality assumption	SAPS Light 3 table: Male 94%, Female 93%	SAPS Light 3 table: Male 94%, Female 93%
Additional description of allowance of future mortality improvements	CMI 2021	CMI 2018
Life expectancy of a male aged 60 now	28	29
Life expectancy of a female aged 60 now	30	30
Life expectancy of a male aged 60 in 15 years	29	30
Life expectancy of a female aged 60 in 15 years	31	32

The other major financial assumptions used by the actuary are as follows:

	2022 % per annum	2021 % per annum
Discount rate	5.00	1.90
Price inflation		
– Retail price inflation (RPI)	3.20	3.30
– Consumer price inflation (CPI)	2.70	2.90
General salary and wage inflation	N/a	N/a

Other financial assumptions, including rate of increase in pensions in-payment, increases to final salary deferred pensions, career average revaluation in service and in deferment and increase in-payment and guaranteed minimum pension equalisation, are largely similar and not presented above.

Total market value of assets and actuarial value of Scheme liabilities

Changes in fair value of plan assets were:

	2022 £m	2021 £m
Fair value of Scheme assets at 1 January	934	906
Interest income on Pension Scheme assets	18	13
Employer contributions	11	11
Benefits paid	(30)	(28)
Return on plan assets excluding interest income	(227)	32
Fair value of Scheme assets at 31 December	**706**	934

21. Pension schemes continued

Total market value of assets and actuarial value of Scheme liabilities continued

Changes in the present value of the defined benefit obligations are:

	2022 £m	2021 £m
Actuarial value of scheme liabilities at 1 January	1,036	1,089
Current service cost	1	–
Interest cost on Pension Scheme liabilities	19	16
Benefits paid and administrative expenses	(30)	(28)
Experience losses arising in scheme liabilities	16	4
Change in assumptions underlying the present value of the scheme liabilities		
Demographic assumption change	(11)	–
Financial assumption change	(382)	(45)
Actuarial value of Scheme liabilities at 31 December	**649**	1,036

Amounts for the current and previous years were:

Asset/(liability) analysis of the scheme	**2022 Fair value £m**	2021 Fair value £m	2020 Fair value £m	2019 Fair value £m	2018 Fair value £m
Bonds					
Corporate bonds	12	29	33	37	33
Index linked bonds	377	482	469	410	374
Equities					
UK equities	21	27	25	33	29
Overseas (excluding UK) equities	130	241	230	244	224
Property	67	57	51	53	85
Diversified income credit	35	43	43	41	–
Infrastructure	–	–	–	20	16
Hedge funds	48	43	38	–	–
Cash and net current assets	16	12	17	22	12
Total market value of assets	**706**	934	906	860	773
Actuarial value of scheme liabilities	(649)	(1,036)	(1,089)	(997)	(860)
Net defined benefit asset/(liability)	**57**	(102)	(183)	(137)	(87)

All of the Scheme's assets are quoted in an active market when looking at the underlying asset, apart from hedge funds and property (2022: £115m; 2021: £100m). The Scheme is not currently invested in any of the Society's own assets. Approximately 94% (2021: 94%) of the scheme's liabilities relate to final salary members and 6% (2021: 6%) relates to CARE members.

Sensitivity of pension obligation to changes in assumptions

A 1% pa increase in the discount rate to be adopted as at 31 December 2022 would result in a reduction to the balance sheet liabilities at that date of around 11.5%, or approximately £75m. A corresponding 1% pa decrease would increase liabilities at that date by around 14.3%, or approximately £93m.

A 1% pa increase in the assumption for future inflation (both Retail Price Index and Consumer Price Index) as at 31 December 2022, which would increase future expectations of pension increases and deferred revaluation, would result in an increase in the balance sheet liabilities at that date of around 4.8%, or approximately £31m. A corresponding 1% pa decrease would reduce liabilities at that date by around 5.3%, or approximately £34m.

A change in the mortality assumptions could have a significant impact on the liabilities. For instance, if members aged 60 were instead expected to live for one year longer, with all members' life expectancies increasing by a proportionate amount, then the liability as at 31 December 2022 would be around 2% higher, or approximately £13m. Similarly, if members aged 60 were instead expected to live for one year less, then the liability would be around 1.9% lower, or approximately £12m.

The notional fund

The Society recognises the cost of discretionary increases to pre-6 April 1997 benefits in payment when there is a constructive liability to make such increases. The Society provided £10m in 2007, and a further £20m 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 the Society 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 considered. As at 31 December 2022, the value of the notional fund was £11m (2021: £23m).

Overseas pension schemes

The Society operates a number of defined benefit schemes for qualifying employees based overseas. The actuarial valuations of these pension schemes at 31 December 2022 resulted in a deficit of £3m (2021: £4m).

	2022 £m	2021 £m
Value of assets	2	2
Actuarial value of scheme liabilities	(5)	(6)
Net defined benefit liability	**(3)**	(4)

Lloyd's Group Personal Pension Plan

UK employees are eligible to join the Lloyd's Group Personal Pension Plan, which is administered by Aviva. The Group Personal Pension Plan was introduced in 2013, when the defined benefit pension scheme was closed to new members. The amount charged to the Group income statement in respect of Lloyd's Group Personal Pension Plan is £9m (2021: £9m).

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. Lloyd's participates alongside the employees in the contribution scheme.

Analysis of the amount recognised in the Group profit and loss account

	2022 £m	2021 £m
Current service cost	1	–
Net interest on net defined benefit assets/liabilities	1	3
Total operating charge	**2**	3

21. Pension schemes continued

Analysis of the amount recognised in the Group statement of comprehensive income

	2022 £m	2021 £m
Experience losses arising on scheme liabilities	(16)	(4)
Changes in the assumptions underlying the present value of the scheme assets/liabilities		
Financial assumption change	382	45
Demographic assumption change	11	–
Actuarial gain arising during period	**377**	41
Actuarial (loss)/gain on scheme assets/liabilities	(227)	32
Remeasurement effects recognised in the Group statement of comprehensive income	**150**	73

22. Equity

(a) Profit and loss account

	2022 £m	2021 (Restated) £m
Attributable to:		
Corporation of Lloyd's	132	34
Central Fund	2,597	2,500
Total profit and loss account	**2,729**	2,534

(b) Translation reserve

The translation reserve of £25m (2021: £(5)m) 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.

(c) Revaluation reserve

The revaluation reserve of £15m (2021: £15m) 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.

23. Syndicate loans

	2022 £m	2021 £m
2020 Syndicate loan (November)	285	285
2020 Syndicate loan (June)	119	119
2019 Syndicate loan	110	110
Principal loan balance	**514**	514

Syndicate loans may be repaid in full or in part, at the discretion of the Society, only after a period of five years has elapsed. The interest rate on the loans is based on a risk-free rate with an allowance for credit spread. The Council may elect to defer or cancel payment of all or any interest. Interest is only recognised once the holders' right to receive payment is confirmed. At 31 December 2022 the cumulative interest to date, not yet confirmed, totals £8m (2021: £8m).

Syndicate loans are accounted for as an equity instrument in the Society's financial statements and as such any interest paid to loan holders (syndicates) is recorded as a reduction in equity. An interest payment of £19m (2021: £19m) has been made during the period.

24. Subordinated debt and amounts owing to credit institutions

(a) Subordinated debt

	2022 £m	2021 £m
4.875% subordinated notes of £300m maturing 7 February 2047 (Sterling 2017 Notes)	300	300
4.750% subordinated notes of £306m maturing 30 October 2024 (Sterling 2014 Notes)	306	500
Total subordinated notes issued	**606**	800
Less issue costs to be charged in future years	(2)	(3)
Less discount on issue to be unwound in future years	(1)	(1)
Total	**603**	796

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 the insolvent member and payments made in respect of the costs required by or under any insolvency procedure to which the Society or the Lloyd's market may be subject. However, in the event of a winding-up of the Society, the claims of the holders of the notes rank senior to the distribution of any central assets to members of Lloyd's generally (other than payments made to members in their capacity as senior creditors of the Society).

The Sterling 2014 notes issued on 30 October 2014 mature on 30 October 2024 and bear interest at a rate of 4.750% per annum, payable annually in arrears on 30 October in each year.

(a) Subordinated debt continued

The Sterling 2017 notes issued on 7 February 2017 mature on 7 February 2047 and bear interest at a rate of 4.875% per annum, until (but excluding) 7 February 2027, payable annually in arrears on 7 February in each year, and thereafter at a floating rate of interest calculated using a compounded daily SONIA (Sterling Overnight Index Average) interest rate plus a credit adjustment spread and margin, payable quarterly in arrears.

In February 2022, the subordinated notes were delisted from the Main Market of the London Stock Exchange and relisted on the London Stock Exchange's International Securities Market.

In December 2022, following the approval from the Prudential Regulatory Authority, the notes of the value of £193.9m from the Sterling 2014 issue were repurchased by the Society.

(b) Amounts owed to credit institutions

	2022 £m	2021 £m
2.48% senior debt of £60m maturing January 2030 (Sterling 2020)	60	60
2.48% senior debt of £40m maturing January 2031 (Sterling 2020)	40	40
2.61% senior debt of £70m maturing January 2035 (Sterling 2020)	70	70
2.81% senior debt of £130m maturing January 2045 (Sterling 2020)	130	130
Less issue costs and discount on issue to be charged/unwound in future years	(1)	(1)
Total cost	**299**	299
Accrued interest	**4**	–
Amortised cost (carrying value)	**303**	299

25. Insurance balances

	2022			2021		
Unearned premium provision	**Gross £m**	**Reinsurers' share £m**	**Net £m**	Gross £m	Reinsurers' share £m	Net £m
Balance at 1 January (restated)	1,497	1,497	–	1,342	1,342	–
Premium written in the year	3,227	3,227	–	2,732	2,732	–
Premiums earned during the year	(2,875)	(2,875)	–	(2,479)	(2,479)	–
Foreign exchange movements	88	88	–	(98)	(98)	–
Balance at 31 December (restated)	**1,937**	**1,937**	**–**	1,497	1,497	–

	2022			2021		
Claims outstanding	**Gross £m**	**Reinsurers' share £m**	**Net £m**	Gross £m	Reinsurers' share £m	Net £m
Balance at 1 January	5,654	5,654	–	6,021	6,021	–
Claims paid during the year	(1,098)	(1,098)	–	(1,246)	(1,246)	–
Claims incurred during the year	2,427	2,427	–	1,281	1,281	–
Foreign exchange movements	328	328	–	(405)	(405)	–
Other	–	–	–	3	3	–
Balance at 31 December	**7,311**	**7,311**	**–**	5,654	5,654	–

Gross claims outstanding at 31 December 2022 includes claims discounted by Lloyd's China under China GAAP. The undiscounted claims outstanding as required under UK GAAP are higher than the discounted claims reserves by £12m and are not material to the Society financial statements (2021: £10m). The claims outstanding are 100% reinsured and there is no impact on the Society's profit before tax or capital and reserves.

26. Other provisions

	2022			2021 (Restated)		
	Lease cost provision £m	**Other provisions £m**	**Total £m**	Lease cost provision £m	Other provisions £m	Total £m
Balance at 1 January	41	9	50	54	9	63
Charged in the year	4	13	17	4	3	7
Utilised in the year	(4)	(4)	(8)	(17)	(3)	(20)
Balance at 31 December	**41**	**18**	**59**	41	9	50

Lease cost provision

The lease cost provision represents the Society's obligations in respect of the contractual capital expenditure and dilapidation cost under fully repairing leases. Under the 1986 Building lease, the Society has obligations to the lessor to repair, maintain and cleanse the building throughout the duration of the lease, and to bring the building back to its original condition at the end of the lease. The Society reviews annually the estimated cost of satisfying the obligations under the lease. Third-party experts are engaged to help identify and validate required repair or maintenance and to estimate the cost of work required. The estimated costs for all repairs that have been evidenced, as required under the lease, are fully provided for.

The value of the lease cost provision is calculated with reference to the costs that are expected to be incurred during the remainder of the lease term. The value of the provision is not sensitive to the timing of expenditure during the lease term.

Central Fund claims and provisions incurred

The Council grants Undertakings within financial limits to certain corporate members to use the 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. Unutilised Undertakings at 31 December 2022 were £nil (2021: £nil).

Other provisions

Other provisions include restructuring provision and provisions for obligations under an onerous lease, other contractual obligations and under the Income Assistance Scheme.

Restructuring provision

The provision is calculated using assumptions regarding the average salary and length of service of potentially impacted employees and is therefore sensitive to changes in these assumptions.

Obligations under onerous lease and contracts

A provision is made for obligations under an operating lease when the physically separable part of a property is taken out of use by the Society and the unavoidable costs of meeting the obligations under the lease exceed the economic benefits expected to be received.

The provision is calculated using future lease payments as per the lease contract discounted at the Society's long-term borrowing rate and is therefore sensitive to changes in this assumption.

A provision under contractual arrangements is recognised when the obligation can be reliably estimated and is probable that there will be a transfer of economic benefits in settlement of such obligation.

Income Assistance Scheme

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.

The provision covers expected future payments under the Income Assistance Scheme. The Names covered by the scheme receive quarterly payments until: (a) death (or a spouse's death, depending upon the individual arrangements agreed); (b) earlier settlement of the debt by the Name; or (c) default by the Name of their contractual obligations. The value of the provision is therefore sensitive to the factors above, as well as changes in inflation rates.

27. Creditors

	2022 £m	2021 £m
Creditors arising out of direct insurance operations (restated)	509	420
Creditors arising out of reinsurance operations (restated)	3,231	2,643
Other creditors including taxation and social security	194	216
Total creditors (restated)	**3,934**	3,279

Other creditors including taxation and social security comprises the Society's trade and other creditors due within one year.

Creditors arising out of direct insurance operations and creditors arising out of reinsurance operations as at 31 December 2021 have been restated following the transition to UK GAAP. Please refer to note 3, transition to UK GAAP, for comparative disclosures.

28. Accruals and deferred income

	2022 £m	2021 £m
Reinsurers' share of deferred acquisition costs (restated)	356	277
Accrued expenses	85	76
Deferred income	60	48
Total accruals and deferred income	**501**	401

29. Cash generated from operations

	Note	2022 £m	2021 (Restated) £m
Profit before tax		124	6
Adjustments for:			
Net investment return	8	179	(74)
Share of profits of associates and joint ventures		(7)	(9)
Amortisation of intangible assets		12	12
Depreciation of tangible fixed assets		3	3
Impairment losses		5	3
Interest expense on financial liabilities at amortised cost		44	46
Increase in debtors, prepayments and accrued income		(2,285)	(423)
Increase in creditors, accruals and deferred income		2,306	661
Decrease in provisions		(9)	(13)
Loss/(profit) on foreign exchange		(241)	24
Net defined benefit pension payment		(9)	(7)
Cash generated from operations		**122**	229

30. Operating leases

The total of future minimum lease payments under non-cancellable operating leases are as follows:

	2022 £m	2021 £m
Payment due:		
Not later than one year	25	26
Later than one year and not later than five years	77	82
Later than five years	56	74
Total	**158**	182

31. Contingent liabilities and capital commitments

On behalf of the Society, a letter of credit has been issued to Lloyd's Europe of €200m or £177m with a term until 2025 (2021: €200m or £168m).

Capital expenditure commitments contracted, but not provided for in the financial statements were £nil (2021: £5m).

32. Related party transactions

The Group financial statements include the financial statements of the Society and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interests in its associates and joint ventures as listed in note 16.

Services provided to Ins-sure Holdings Limited in the year ended 31 December 2022, included operating systems support and development, and other administrative services.

Services provided to Xchanging Claims Services Limited in the year ended 31 December 2022, were primarily administrative services.

Services provided to London Market Operations & Strategic Sourcing Limited in the year ended 31 December 2022, were primarily fee collection services.

The Society made a £6.6m investment in Placing Platform Limited (PPL) in 2020, to continue to advance the implementation of digital trading in the Lloyd's market. It is accounted for as an investment in a joint venture using the equity method. The investment is recognised at cost. The carrying value is adjusted to reflect the Society's share of PPL profit or loss.

During the year a loan was provided to PPL at a rate of interest of 4.25%, repayable within four years.

The following table provides the total value of transactions entered with Society related parties for the relevant financial years, together with information regarding the outstanding balances at 31 December 2022 and 2021.

	Purchases from related parties		Amounts due from related parties	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Associates:				
Ins-sure Holdings Limited	2	1	–	–
Xchanging Claims Services Limited	–	–	–	–
Joint ventures:				
London Market Operations & Strategic Sourcing Limited	1	1	–	–
Placing Platform Limited	–	–	8	–

Transactions with associates and joint arrangements are priced on an arm's-length basis.

In the normal course of business, the Society may enter into transactions with Lloyd's market businesses in which members of Council may have an interest.

33. Events after the reporting period

Following the recent banking events – including the failure of Silicon Valley Bank, Signature Bank and First Republic, and the sale of Credit Suisse to UBS – the current conditions of the banking sector and impact on the assets of the market and the Society have been considered.

At 31 December 2022, the total Lloyd's market portfolio is not materially exposed to US regional banks and has very limited exposure to AT1 loans. The exposure to the wider banking sector is diversified and includes globally systemically important banks.

The Central Fund has no exposure to US regional banks and AT1 loans.

Management will continue to monitor the situation.

Contents

Other Information

Alternative Performance Measures (APMs)

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

Metric	Applicable part of the Annual Report	Definition	Reason for use
Combined ratio	Market Results	Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	Combined ratio is used to measure the profitability of the underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Expense ratio	Market Results	Expense ratio is a measure of the level of expenses associated with underwriting activity. It is the ratio of net operating expenses to earned premiums net of reinsurance.	Expense ratio is used to measure the level of expenses associated with underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market expenses to its peers.
Underwriting result	Market Results	Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.	Underwriting result is used to measure the profitability of the underwriting activity across the Lloyd's market.
Underlying combined ratio	Market Results	Underlying combined ratio is a measure of the profitability of the underwriting activity excluding major claims. It is the ratio of net operating expenses plus claims incurred, excluding major claims, to earned premium net of reinsurance.	Underlying combined ratio is used to measure the profitability of the underwriting activity of the Lloyd's market, excluding the impact of major claims.
Accident year ratio	Market Results	Accident year ratio is a measure of the profitability of the underwriting activity attributable to the current financial year. It is the ratio of net operating expenses plus claims incurred net of reinsurance, before prior year releases, to earned premium net of reinsurance.	Accident year ratio is used to measure the profitability of the underwriting activity of the Lloyd's market attributable to the current financial year.
Attritional loss ratio	Market Results	Attritional loss ratio is a measure of residual insurance claims as a percentage of earned premiums net of reinsurance. Attritional insurance claims are calculated as total claims less major losses and movements in prior year claims reserves.	Attritional loss ratio is used to measure the profitability of general underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Prior year release ratio	Market Results	Prior year release ratio is a measure of assessing prior year movements in claims reserves. This is calculated as a percentage of earned premiums net of reinsurance.	Prior year release ratio is used to determine the adequacy of reserves across the Lloyd's market and the benefit of reserve margin to be considered within the combined ratio. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.

Metric	Applicable part of the Annual Report	Definition	Reason for use
Major claims ratio	Market Results	Major claims ratio is a measure of significant loss events which have impacted the profitability of underwriting activity. This is calculated as the sum of major claims in the market as a percentage of earned premiums net of reinsurance.	Major claims ratio is used to measure the impact of significant loss events against the underwriting performance of the market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Return on capital	Market Results	Return on capital is a measure of overall profitability. It is the ratio of result for the year before tax to the average of opening and closing total capital and reserves..	Return on capital ratio is used to measure the overall profitability and value creating potential of the Lloyd's market.
Investment return	Market Results and Society Report	Investment return is a measure of performance of an insurer's investing activity. When expressed as a ratio it is calculated as total investment return to the average of opening and closing financial investments and cash at bank and in hand.	Investment return ratio is used to measure the performance of the portfolio of investments and cash balances held across the Lloyd's market.
Free cash balances	Society Report	Free cash represents the amounts, both at bank and on deposit, held in the UK and overseas, excluding any balances held in respect of insurance and arbitration activities.	Provides a measure of the cash resources available to the Corporation to meet operating expenses.
Solvency coverage ratio	Market Results and Society Report	Under the Solvency II regime, Lloyd's monitors the amount of eligible capital available to cover its market-wide SCR (MWSCR) and central SCR (CSCR). This is calculated as total eligible capital as a percentage of the respective solvency capital requirements.	Solvency coverage ratios are used to ensure that the Society and its members hold sufficient capital to meet Lloyd's regulatory capital requirements, as well as to ensure Lloyd's solvency risk appetites are satisfied.

Glossary of Terms and Useful Links

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

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

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

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

Callable layer Central Fund assets may be supplemented by a 'callable layer' of up to 5% of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Lines of business Refers to the product segmental split disclosed in the Pro Forma Financial Statements.

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

Major claims Major claims encompass both natural and non-natural catastrophe losses. For the purpose of the PFFS this amounts to loss codes reported by the market, in aggregate, in excess of £20m net of reinsurance.

Market-wide SCR The Market-Wide Solvency Capital Ratio is calculated to cover all of the risks arising on the syndicate activity, members' capital provided at Lloyd's and the Society taken together at a 99.5% confidence level over a one year time horizon.

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

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

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

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

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

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.

Price changes on renewal business This is calculated as current year insurance premium less prior year insurance premium as a proportion of prior year insurance premium, where the policy coverage and wording is held consistent.

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

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

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

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

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

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

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

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

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

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.

Syndicate in a box A member, or group of members, underwriting insurance business at Lloyd's, which has met certain criteria for adjusted participation and entry requirements for the first three years of underwriting.

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.

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

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

Useful Links

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

– What is Lloyd's	www.lloyds.com/about-lloyds/our-market
– Lloyd's Corporation	www.lloyds.com/corporation
– Lloyd's capital structure and chain of security	www.lloyds.com/capitalstructure
– Lloyd's governance	www.lloyds.com/about-lloyds/the-corporation/governance-and-management/lloyds-governance-structure/
– Lloyd's ESG Report	www.lloyds.com/about-lloyds/responsible-business/esg-report
– Diversity & Inclusion	www.lloyds.com/about-lloyds/culture/lloyds-corporation/diversity-and-inclusion
– Lloyd's Gender and Ethnicity Pay Gap Reports	www.lloyds.com/about-lloyds/diversity-and-inclusion/gender-and-ethnicity-pay-gap-reports
– Full glossary of terms	www.lloyds.com/glossary

lloyds.com/fullyearresults2022