Society Report

Lloyd's financial strength gives customers the confidence that the market will always be ready to provide expert risk advice and world-class products – as well as pay claims – whatever the circumstances they face.

Contents

Financial Highlights

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Operating result					
Corporation operating income	358	352	351	332	239
Central Fund income	125	149	125	120	111
Total income	483	501	476	452	350
Central Fund claims and provisions incurred	–	–	–	(8)	–
Group operating expenses	(422)	(362)	(306)	(307)	(259)
Operating surplus[1]	61	139	170	137	91
Finance costs	(51)	(39)	(55)	(54)	(54)
Finance income[2]	151	93	62	314	43
Share of profits of associates and joint ventures	9	9	10	8	7
Surplus before tax	170	202	187	405	87
Tax charge	(33)	(39)	(31)	(75)	(13)
Surplus for the year	137	163	156	330	74
Balance sheet					
Net assets	2,601	2,417	2,188	1,996	1,763
Movement in net assets %	7.6%	10.5%	9.6%	13.2%	4.1%
Solvency					
Eligible central own funds to meet Central SCR	3,574	3,494	3,445	3,433	3,162
Central SCR	(1,500)	(1,400)	(1,600)	(1,600)	(1,450)
Excess of eligible central own funds over the Central SCR	2,074	2,094	1,845	1,833	1,712
Solvency ratio %	238%	250%	215%	215%	218%

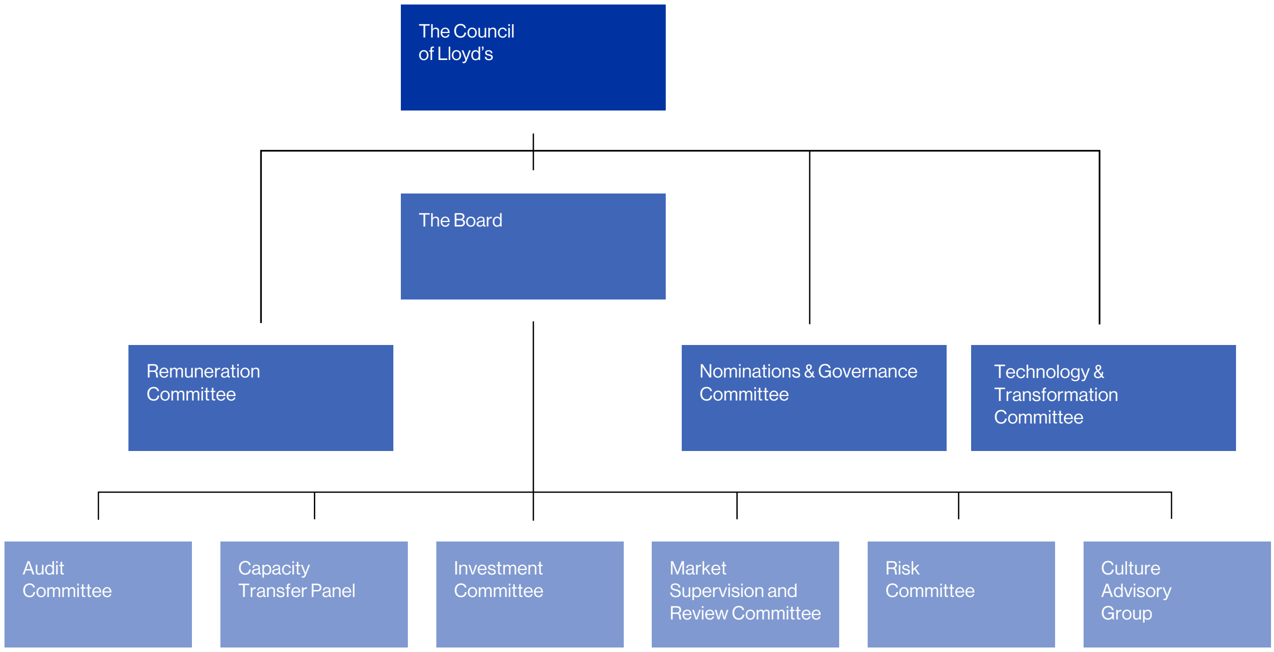
The solvency ratio is reported under the Solvency II legislative requirements, which came into force on 1 January 2016. The 2019 position is an estimate of the amount which will be finalised in April 2020 for submission to the PRA. The solvency figures in the table above are unaudited. Prior year figures are the estimates reported in the prior year Annual Report.

1. The operating surplus is 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 176.
2. The Society's investments, mostly held within the Central Fund, returned £151m or 3.6% during the year (2018: £93m, 2.4%). Excluding the impact of a £62m foreign exchange loss in 2019 (2018: foreign exchange gain of £100m), as Sterling was volatile against most other major currencies but strengthened against the US Dollar, underlying investment returns were higher, returning a gain of £213m or 5.02% in 2019 (2018: £7m loss or -0.2%).

Corporate Governance

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

Committee structure



The Council and Board

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

The day-to-day powers and functions of the Council and Board are carried out by the Society's Executive Committee – the Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, Chief Risk Officer, Chief Human Resources Officer, General Counsel, Performance Management Director and Chief Marketing and Communications Officer.

Lloyd's 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 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"), in so far as they can be applied to the governance of a society of members and a market of separate and competing entities. The current version of the Code (published in July 2018) applies to accounting periods beginning on or after 1 January 2019. It places increased emphasis on relationships between companies, shareholders and stakeholders. It also promotes the importance of establishing a corporate culture that promotes integrity, values diversity and is aligned with company purpose and strategy. The Code requires disclosure of how the provisions of the Code have been complied with and an explanation, appropriate to individual circumstances, of any divergences from the Code. An internal assessment has been undertaken and the areas of divergence from the Code are explained in this report. Examples of where the Code is not applied by the Society include where the Code specifically refers to shareholders or equity shares of a company, or where the committee composition recommendations of the Code are not compatible with the Society's governance structure.

The members of the Council and Board are listed on pages 81 to 86. Details of the Executive Committee can be found at: https://www.lloyds.com/about-lloyds/governance-and-management/executive-team. The Society also has a formal workforce advisory panel, the Employee Engagement Group (EEG), comprising two executive sponsors (the Chief Human Resources Officer and the General Counsel) and representatives from the Society's workforce. The EEG collates and discusses the views of the workforce in relation to the Society as an employer and communicates those views to the executive. It also comments on policy development and change initiatives at the Society, the latter in conjunction with a network of change champions from across the workforce. The EEG will play a key role in relation to the Society's 2020 staff survey, by advertising the survey to colleagues, analysing the responses received and holding the executive to account on the delivery of the resulting action plan.

On 7 November 2019 it was announced that the Board would merge into the Council, with effect from 1 June 2020. The impact of this change is discussed below.

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:

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

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

The Council has delegated authority for the day-to-day management of the market to the Board. The Board is able, in turn, to sub-delegate authority to the Chief Executive Officer and through him to the Society's executive. In addition, the Council has delegated authority to carry out specified functions to committees including the Remuneration and Nominations & Governance Committees, as summarised below.

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

Membership

The Council comprises a maximum of 18 members, split between six working, six external and six nominated members. The biographical details of the current members of the Council (as at 24 March 2020) are listed on pages 82 and 83.

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

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

The Society has not adopted the Code provision that all Council members should be subject to annual re-election. Twelve of the seats on the Council are subject to direct election by the Lloyd's market, and holding an election for all of these seats every year would represent a significant interruption to the business of the Council.

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

Chairman and Deputy Chairmen

In accordance with the Lloyd's Act 1982, the Chairman and Deputy Chairmen of Lloyd's are elected annually by special resolution of the Council from among its members. One of the Chairman and Deputy Chairmen must be a working member of the Council. Until 31 December 2019 this position was filled by Simon Beale, who stepped down from the Council on that date. Since 5 February 2020 the position has been filled by Dominic Christian.

The Chairman's 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 (see page 82) and is satisfied that these can be accommodated with the Chairmanship of Lloyd's. For the purposes of the Code, the Chairman was considered to be independent upon his appointment.

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

Meetings

The Council met on six occasions in 2019. Two of these were joint meetings with the Board. It also held a joint offsite with the Board in New York focusing on the major strategic challenges facing Lloyd's and their impact on Lloyd's current strategy. 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 oral updates from the principal committees.

A table showing Council members' attendance at Council and Committee meetings which they were eligible to attend is set out on pages 79 and 80.

The detailed arrangements for the Society's governance processes are set out in the Council's Governance Policies and the Constitutional Requirements as set out in the Constitutional Arrangements Byelaw (No. 2 of 2010).

Governance Policies and Constitutional Requirements

The Governance Policies

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

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

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

The Constitutional Requirements

The Constitutional Requirements, 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. These same duties also apply to members of the Board and the other committees of the Society.

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

- the likely consequences of any decision in the long term; 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 collective responsibility.

Board

The Council established the Board as from 1 January 2003.

Specific functions delegated to the Board include:

- determining the major risks to the Lloyd's market and determining appropriate action to address or mitigate those risks;
- determining the key factors, levers and drivers which may affect the profitability of the Lloyd's market;
- developing and implementing a strategy to achieve the Society's goals; and
- supervising, regulating and directing the business of insurance at Lloyd's.

The Board has reserved to itself a list of specific functions and powers that only it may deal with. The Board may sub-delegate authority to the Chief Executive Officer, executive and employees of the Society save in respect of those functions and powers reserved to it, the Council and their committees.

The Board's committees, the Chief Executive Officer, the executive and employees must act in accordance with the Board Limitations and in accordance with the strategy, policy and principles set by the Board.

Matters reserved to the Board include:

- setting the policy and principles relating to the supervision, regulation and direction of the business of insurance at Lloyd's (the Market Supervision Framework), in compliance with PRA and FCA requirements;
- considering and approving Lloyd's risk appetite (both at Society and market level);
- setting policy for the admission and removal of participants in the Lloyd's market;
- admitting and removing managing agents;
- determining the Standards for managing agents and approving the Three-Year and Annual Plan and Budget of the Society; and
- approving the Lloyd's Society level capital requirements.

Membership and meetings

Biographical details of the members of the Board as at 24 March 2020 are listed on pages 85 and 86. At the end of 2019, the Board comprised:

- the Chairman of Lloyd's (who was also the Chairman of the Board);
- the Chief Executive Officer, the Performance Management Director and the Chief Financial Officer;
- three non-executives connected with the Lloyd's market; and
- six independent Non-Executive Directors.

The presence of market-connected Non-Executive Directors enables the independent non-executives to gain an understanding of market practitioner views and perspectives. Neil Maidment, an independent Non-Executive Director of the Board, recuses himself from any discussion related to Beazley, a Lloyd's managing agent from which he retired in 2018, owing to his deferred bonuses and shareholding.

The Board held eight scheduled meetings in 2019 including two joint meetings with the Council. It also held a joint offsite with the Council in New York focusing on the major strategic challenges facing Lloyd's and their impact on Lloyd's current strategy.

Board meetings are structured to allow open discussion. At each scheduled meeting, the Board receives certain regular reports – for example, a written report from the Chief Executive Officer. The Board papers and minutes are made available to members of the Council.

A table showing Board members' attendance at Board and Committee meetings which they were eligible to attend is set out on pages 79 and 80.

Merging the Board into the Council

In May 2019 the Council and Board launched a consultation with members and other participants in the Lloyd's market on a proposal to merge the Board into the Council to create a single governing body for the Society and the Lloyd's market.

The proposal had the unanimous support of the members of both the Council and Board and received wide support from the market and members with over 90% of respondents in favour of the merger. The merger was approved by the Council and Board and will take effect from 1 June 2020. The merger has been discussed with the PRA and FCA, who have confirmed they have no objections to the planned changes in principle.

With effect from 1 June 2020, the revised Council will comprise fifteen members. In order to achieve a balance of independent and market members, the Council will comprise six independent nominated members (including the Chairman), three executive nominated members (the Chief Executive Officer, Chief Financial Officer and Performance Management Director), three elected working members and three elected external members. The revised Council will therefore have a significantly increased proportion of independent members.

It is planned that the current committees of the Board will become committees of the revised Council from 1 June 2020, and that matters that are currently reserved to the Board will be reserved to the revised Council.

Main Committees of the Council

Nominations & Governance Committee

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

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

In addition to the annual exercise of making recommendations with respect to the composition of Council and Board committees (together with any other necessary changes in composition during the year), the Committee made the following major recommendations to the Council during 2019:

- to re-elect Andy Haste as the Senior Independent Deputy Chairman and Simon Beale and Robert Childs, nominated representative of Hiscox Dedicated Member Limited, as Deputy Chairmen (Simon Beale subsequently stepped down as a member and Deputy Chairman of the Council on 31 December 2019);
- to elect John Sununu as a nominated member of the Council for a three-year term with effect from 6 February 2019;
- to re-appoint Richard Keers as an independent Non-Executive Director of the Board and Chair of the Audit Committee for a further term of one year with effect from 1 June 2019 (Richard Keers subsequently stepped down with effect from 14 January 2020); and
- to appoint Angela Crawford-Ingle as an independent Non-Executive Director of the Board and Chair of the Audit Committee for a term of three years to replace Richard Keers, with effect from 14 January 2020.

The Committee's recommendations were supported and approved by the Council.

The Committee was assisted by external search consultants Russell Reynolds and Sapphire Partners for the appointments of John Sununu and Angela Crawford-Ingle respectively. The external search agents had no connection to the Society.

To assist with succession planning, the Committee also considered the future skills, knowledge and experience likely to be needed by the Council following the merger with the Board in June 2020.

The Committee considers candidates on merit and against objective criteria, taking care that prospective appointees have enough time available to devote to the position. The Committee is very focused on the need for recent and relevant experience in the appointments it recommends and is equally focused on increasing the diversity of its membership especially with respect to the appointment of female Board members. It is difficult to establish diversity targets for the Council, given that it is currently two-thirds elected, but diversity of candidates offering themselves for election is encouraged. Candidates for appointed positions are selected on merit and with due regard to the benefits of diversity in its broadest sense. In addition, the Board, with the support of the Committee, established a target of 30% of the Board being female by 2020 in line with current market practice. Three of the 12 Board members as at the date of this report (25%) are female.

The Committee is chaired by the Chairman of Lloyd's and its remaining members are drawn from both the Council and the Board. As four of the Committee's seven members are connected to members of the Lloyd's market, the Committee's composition does not comply with the Code provision that a majority of members of the Committee should be independent. The Council has chosen not to follow the Code provision on this point, in order to maximise the pool of skills and experience available to it when appointing the members of the Committee. No executive member of the Council or Board is eligible to be a member of the Committee.

The Committee held three meetings in 2019. A table showing Committee members' attendance at Committee meetings is set out on pages 79 and 80.

Remuneration Committee

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

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

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

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

The Remuneration Committee is chaired by the Senior Independent Deputy Chairman. The Chairman is a member of the Committee and its remaining members are drawn from both the Council and the Board. As two of the Committee's five members are connected to members of the Lloyd's market, the Committee's composition does not comply with the Code provision that the members of the Committee should be independent. The Council has chosen not to follow the Code provision on this point, in order to maximise the pool of skills and experience available to it when appointing the members of the Committee. No executive member of the Council or Board is eligible to be a member of the Committee.

The Committee met on six occasions in 2019. A table showing Committee members' attendance at Committee meetings is set out on pages 79 and 80. The Committee's full report is on pages 89 to 100.

Technology & Transformation Committee

The Technology & Transformation Committee (TTC), which first met in early March 2020, has a remit covering oversight of the Society's transformation and innovation strategies, including the Future at Lloyd's programme. The TTC is the successor body to the Innovation Investment Committee, a former committee of the Board which is described below.

The TTC is chaired by the Senior Independent Deputy Chairman. The Chairman is a member of the TTC, and its remaining members are the Chief Executive Officer, the Chief Operating Officer, three non-executive members of the Board and two representatives of the Lloyd's Market Association.

Main Committees of the Board

Audit Committee

The Audit Committee's role is to ensure that the financial activities of Lloyd's are subject to independent review and audit. The Committee's functions in 2019 included reviewing Lloyd's annual and interim financial statements, the syndicate aggregate accounts and the Lloyd's Solvency and Financial Condition Report to the PRA.

The Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, senior managers and the external and internal auditors attend meetings as appropriate. The Chairman also attends some meetings by invitation.

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

The Audit Committee was chaired by Richard Keers, an independent non-executive member of the Board, until 14 January 2020. The Committee is now chaired by Angela Crawford-Ingle, an independent non-executive member of the Board. Its remaining members are drawn from both the Council and the Board. As two of the Committee's four members are connected to members of the Lloyd's market, the Committee's composition does not comply with the Code provision that the members of the Committee should be independent. The Board has chosen not to follow the Code provision on this point, in order to maximise the pool of skills and experience available to it when appointing the members of the Committee. No executive member of the Council or Board is eligible to be a member of the Committee.

The Committee met on four occasions in 2019. A table showing Committee members' attendance at Committee meetings is set out on pages 79 and 80.

The Audit Committee's full report is on pages 101 to 103.

Risk Committee

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

During 2019, the Risk Committee was chaired by Patricia Jackson, an independent non-executive member of the Board. The other members of the Committee are drawn from both the Council and the Board. Other individuals including the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer and Performance Management Director are regular attendees, with others invited to attend all or part of any meeting as and when deemed appropriate by the Committee or its Chair.

The Committee submits an annual report to the Board. It also reports to the Council and the Board on its proceedings after each meeting. The minutes of Committee meetings are submitted to the Board and the Council.

The Committee met on nine occasions in 2019. A table showing the Committee members' attendance at Committee meetings is set out on pages 79 and 80.

Market Supervision and Review Committee (MSARC)

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 Board annually and may submit additional reports to inform the Board of any matters of material concern as and when required.

The members of MSARC are appointed by the Board and are neither Council members, Board members nor employees of the Society. The chairman of MSARC is Jo Rickard, a practising lawyer. MSARC met on five occasions in 2019. A table showing MSARC members' attendance at MSARC meetings is set out on pages 79 and 80. Very sadly, in September 2019, Reg Hinkley, a long-standing member of MSARC (and before that of the Council) passed away. His contributions to MSARC will be greatly missed.

Capacity Transfer Panel

The Capacity Transfer Panel was established principally to exercise the Council's powers in relation to minority buyouts and mergers. The Panel meets at the discretion of its Chairman.

The Panel submits a written report to the Board 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 the Senior Independent Deputy Chairman, and the other members of the Panel are neither Council members, Board members nor employees of the Society. The Panel did not meet in 2019.

Investment Committee

The Investment Committee sets 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.

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

The members of the Committee are appointed by the Board. The Committee is chaired by the Senior Independent Deputy Chairman, and the Chief Executive Officer and Chief Financial Officer are members of the Committee. The other members of the Committee are neither Council members, Board members nor employees of the Society. The Committee met on four occasions in 2019. A table showing Committee members' attendance at Committee meetings is set out on pages 79 and 80.

Innovation Investment Committee

The Innovation Investment Committee was responsible for the development and implementation of investment strategies identified by the Lloyd's Lab. In doing so, the Committee aimed to promote an innovative culture within the market and increase the rate of adoption of new technologies and initiatives. The Committee met on three occasions in 2019. A table showing Committee members' attendance at Committee meetings is set out on pages 79 and 80. The remit of the Committee was significantly expanded at the end of 2019 and it became the Technology & Transformation Committee, a committee of the Council (described above).

Culture Advisory Group

The Culture Advisory Group was formed in 2019 as part of the Society's response to the Market Culture Survey conducted earlier in the year. Its first meeting was held on 30 January 2020. The Group's role is to provide thought leadership, advice and guidance on delivering the actions agreed by the Board and Council to ensure improvement of the culture across the Lloyd's market.

The Group is chaired by Fiona Luck, an independent non-executive member of the Board, and its other members are key representatives from the Lloyd's market and subject matter experts. The Group's members are appointed by the Board on the recommendation of the Nominations & Governance Committee.

Terms of reference and appointment terms

There are terms of reference for the Council, Board and their committees (including the Audit, Risk, Nominations & Governance and Remuneration Committees). There are also terms of reference for the Chairman, Deputy Chairmen (including the Senior Independent Deputy Chairman) and the Chief Executive Officer. All of the aforementioned terms of reference are available to view on lloyds.com.

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

Annual General Meeting

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

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

In accordance with the UK Corporate Governance Code, an external and independent evaluation of the performance of the Council, Board, Audit, Remuneration and Nominations & Governance Committees is undertaken every three years. The last external evaluation was undertaken by YSC Consulting and took place at the end of 2018. The next external evaluation is due to be undertaken at the end of 2021.

The Secretary to the Council conducted an assessment of the Council, the Board and their principal committees at the start of 2020. The assessment was based on the results of questionnaires issued to the members of these bodies.

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

Among the other major findings were:

- Whilst the current governance arrangements are effective, the merger of the Board into the Council in June 2020 will significantly improve the efficiency and accountability of the arrangements, including clarifying the Council's role in developing and overseeing the delivery of Lloyd's strategy;
- Having focused in 2019 on rebuilding the Executive Committee (and the executive leadership team and their capabilities) and on the merger of the Board into the Council, a broader discussion on executive, non-executive and Chairman's succession is now due and will be led by the Nominations & Governance Committee in H2 2020;
- The importance of Lloyd's risk governance structure continuing to evolve and develop in line with new risks arising including in relation to risks arising from the Future at Lloyd's programme.

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

Individual assessment

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

Training and induction

All new members of the Council and Board are provided with an induction programme which includes briefings with senior executive management and others on Lloyd's, its operations and the key current issues. Members of the Council and Board also receive ongoing briefings from management and external advisers on new developments that are relevant to the business of Lloyd's.

Independent professional advice

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

In addition, members of the Council and Board have access to the advice of the Secretary to the Council, who is responsible for advising the Council and the Board 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, Board and their committees is maintained by the Secretary to the Council and is available for inspection by members of the Society.

Attendance record

	Council	The Board	Nominations & Governance Committee	Remuneration Committee	Audit Committee	Capacity Transfer Panel[1]	Innovation Investment Committee[2]	Investment Committee	MSARC[3]	Risk Committee
Chairman of the Council of Lloyd's										
Bruce Carnegie-Brown	6/6	8/8	3/3	6/6						
Executive directors										
Jon Hancock		8/8								
Burkhard Keese[4]		5/8					1/3	3/4		
Shirine Khoury-Haq[5]							1/3			
John Neal	6/6	8/8						3/4		
John Parry[6]		2/8						1/4		
Jennifer Rigby[7]							1/3			
Non-executive Council members Working members										
Simon Beale[8]	6/6		2/3							
Andrew Brooks	5/6									
Dominic Christian[9]	6/6		2/3							
Victoria Carter[10]	6/6		1/3							
Karen Green[11]	6/6			4/6			3/3			8/9
Julian James[12]									4/4	
External members										
Albert Benchimol[13]	5/6									
Jeffery Barratt	6/6									
Robert Childs	5/6		3/3							
Matthew Fosh[14]										
Dominick Hoare[15]	5/6						3/3			
Philip Swatman[16]				1/6						
Michael Watson	6/6				4/4					
Nominated members										
Andy Haste	5/6		2/3	6/6				4/4		
Sir David Manning[17]	4/6		1/3							
Christian Noyer	5/6									
John Sununu[18]	6/6									
Non-executive Franchise Board members										
Mike Bracken[19]		8/8					3/3			
Mark Cloutier		6/8	2/3		4/4					
Charles Franks[20]		8/8								8/9
Nigel Hinshelwood[21]		7/8					2/3			7/9
Patricia Jackson		8/8			4/4					7/9
Richard Keers[22]		5/8			4/4					
Fiona Luck[23]		8/8	2/3	5/6						9/9
Neil Maidment[24]		8/8								9/9
Richard Pryce[25]		6/8		6/6						

	Council	The Board	Nominations & Governance Committee	Remuneration Committee	Audit Committee	Capacity Transfer Panel[1]	Innovation Investment Committee[2]	Investment Committee	MSARC[3]	Risk Committee
Other Committee members										
Mark Allan[26]								3/4		
Martin Bride[27]								1/4		
Edward Creasy									3/4	
Sir Mark Havelock-Allan[28]									4/4	
Reg Hinkley[29]									4/4	
Nick Marsh									2/4	
Philip Matthews								3/4		
Reeken Patel[30]								1/4		
Jo Rickard									4/4	
Sacha Sadan								4/4		
Jayne Styles[31]								1/4		

Notes

1. The Capacity Transfer Panel did not meet during 2019.
2. The Innovation Investment Committee was dissolved with effect from 31 October 2019.
3. Market Supervision and Review Committee.
4. Burkhard Keese was appointed as the Chief Financial Officer and as a member of the Board, Innovation Investment Committee and Investment Committee with effect from 1 April 2019. He ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
5. Shirine Khoury-Haq ceased as the Chief Operations Officer and as a member of the Innovation Investment Committee with effect from 29 March 2019.
6. John Parry ceased as the Chief Financial Officer with effect from 1 April 2019 and ceased as a member of the Board, Investment Committee and Innovation Investment Committee with effect from 26 April 2019.
7. Jennifer Rigby was appointed as the Chief Operations Officer on an interim basis with effect from 1 April 2019 and then on a permanent basis with effect from 1 July 2019. Jennifer was appointed as a member of the Innovation Investment Committee with effect from 1 April 2019. She ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
8. Simon Beale ceased as a member of the Council and Nominations & Governance Committee with effect from 31 December 2019.
9. Dominic Christian was appointed as a member of the Remuneration Committee with effect from 1 January 2020 and was elected as a Deputy Chairman of Lloyd's with effect from 5 February 2020.
10. Victoria Carter was elected as a member of the Council with effect from 1 February 2019 and was appointed as a member of the Nominations & Governance Committee with effect from 26 March 2019.
11. Karen Green ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
12. Julian James ceased as a member of the Council with effect from 31 January 2019 and was appointed to the MSARC with effect from 4 February 2019.
13. Albert Benchimol was elected as a member of the Council with effect from 1 February 2019.
14. Matthew Fosh ceased as a member of the Council with effect from 31 January 2019.
15. Dominick Hoare ceased as member and chair of the Innovation Investment Committee with effect from 31 October 2019.
16. Philip Swatman ceased as a member of the Council and as a member of the Remuneration Committee with effect from 31 January 2019.
17. Sir David Manning ceased as a member of the Nominations & Governance Committee with effect from 26 March 2019 and as a member of the Council with effect from 31 August 2019.
18. John Sununu was appointed as a nominated member of the Council with effect from 6 February 2019.
19. Mike Bracken ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
20. Charles Franks ceased as a member of the Nominations & Governance Committee with effect from 26 March 2019.
21. Nigel Hinshelwood ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
22. Richard Keers ceased as an independent non-executive director of the Board and as chair of the Audit Committee and a member of the Risk Committee with effect from 14 January 2020.
23. Fiona Luck was appointed to the Nominations & Governance Committee with effect from 26 March 2019.
24. Neil Maidment ceased as a member of the Council with effect from 31 January 2019 and was appointed as an independent non-executive director of the Board with effect from 1 February 2019.
25. Richard Pryce ceased as an independent non-executive director of the Board and as a member of the Remuneration Committee with effect from 31 December 2019.
26. Mark Allan was appointed to the Investment Committee with effect from 1 April 2019.
27. Martin Bride ceased as a member of the Investment Committee with effect from 14 March 2019.
28. Sir Mark Havelock-Allan was appointed to the MSARC with effect from 4 February 2019.
29. Reg Hinkleyceased as a member of the MSARC with effect from 2 September 2019.
30. Reeken Patel was appointed to the Investment Committee with effect from 31 October 2019.
31. Jayne Styles ceased as a member of the Investment Committee with effect from 1 April 2019.

The Council

A. Bruce Carnegie-Brown

Nominated member
Appointed 15 June 2017
Chairman of Lloyd's
Chairman of the Nominations & Governance Committee
Member of the Remuneration Committee
Member of the Technology & Transformation Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Bruce Carnegie-Brown was appointed Chairman in June 2017. He is a Vice-Chairman of Banco Santander and a non-executive director of Santander UK Group Holdings plc and Santander UK plc. He is also Chairman of Cuvva, a digital motor insurance start-up. He was Chairman of Moneysupermarket Group from 2014 to 2019, a non-executive director of JLT Group plc from 2016 to 2017, Non-Executive Chairman of Aon UK Ltd from 2012 to 2015, Senior Independent Director of Close Brothers Group plc from 2006 to 2014, Senior Independent Director of Catlin Group Ltd from 2010 to 2014 and Chief Executive for Marsh UK and Europe from 2003 to 2006. He previously worked at JP Morgan for 18 years in a number of senior roles and was Managing Partner of 3i Group plc's Quoted Private Equity Division from 2007 to 2009. He is President of the Chartered Management Institute.

B. John Neal

Nominated member
Appointed 15 October 2018
Chief Executive Officer
Member of the Investment Committee
Member of the Technology & Transformation Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

John Neal was appointed Chief Executive Officer in October 2018. He was previously Group Chief Executive Officer of QBE, a global insurance and reinsurance business with a significant Lloyd's footprint. In this role, he was responsible for running a A$14bn gross written premium (GWP) business with over 14,000 employees in 37 countries. He refocused QBE's business around commercial and specialty lines, disposing of non-core portfolios and reducing costs by over A$350m. Before becoming Chief Executive Officer, he held a number of roles at QBE including Chief Underwriting Officer and Chief Operations Officer of the firm's European operations.

Prior to this, he led a management buyout of Ensign to establish a dedicated Lloyd's Managing Agency. As Chief Executive Officer of Ensign, he grew GWP to $300m to create the leading specialist commercial motor underwriter in the UK. He also worked at Bankside Managing Agency, where he was the youngest active underwriter at Lloyd's. He started his career at the Crowe Underwriting Agency, where over the course of a decade he grew UK GWP from £3m to £100m.

C. Albert Benchimol

(Representative of AXIS Corporate Capital UK Ltd)
External member
Elected 1 February 2019

Albert Benchimol is currently President and Chief Executive Officer of AXIS Capital Holdings Limited, a position he has held since 2012. He joined the company in 2011 as Chief Financial Officer. He formerly served as Executive Vice President and Chief Financial Officer of PartnerRe Ltd. for a 10-year period, and was also Chief Executive Officer of PartnerRe Ltd.'s Capital Markets Group business unit from 2007 to 2010. Albert spent several years working for Reliance Group Holdings and for the Bank of Montreal in Montreal, Toronto and New York. He received a Bachelor of Science degree in Physiology and Immunology from McGill University in Montreal, and earned a Master's in Business Administration at the same university. Albert is Chairman of the Association of Bermuda Insurers and Reinsurers and is also on the Board of Overseers of the School of Risk Management, Insurance and Actuarial Science at St John's University in addition to being a member of the Insurance Development Fund Steering Committee. He speaks French and Spanish.

D. Andrew Brooks

Working member
Elected 1 February 2017

Andrew Brooks is Chief Executive Officer of Ascot Group and Ascot Underwriting Ltd and a member of both boards. He joined Ascot Underwriting at its inception in 2001 and was promoted to Chief Underwriting Officer in 2005 and Chief Executive Officer in 2008. He was also appointed CEO of the newly formed Ascot Group in 2017. He has worked in the Lloyd's market since 1983 and is currently a member of the London Market Group Board and Chairman of the Lloyd's Market Association. He is ACII qualified.

E. Andy Haste*

Nominated member
Appointed 1 November 2012
Senior Independent Deputy Chairman of Lloyds
Chairman of the Remuneration Committee
Chairman of the Investment Committee
Member of the Nominations & Governance Committee
Chairman of the Capacity Transfer Panel
Chairman of the Technology & Transformation Committee

Andy Haste was Chairman of Wonga Group from July 2014 to August 2018. Since 2012 he has also been Senior Independent Deputy Chairman of Lloyd's. His previous roles include Senior Independent Director of ITV, a member of both its audit and nomination committees and chair of its remuneration committee, Group Chief Executive of RSA Insurance Group plc, Chief Executive of AXA Sun Life plc, director of AXA UK plc (life and pensions), President and Chief Executive Officer of GE Capital Global Consumer Finance, Western Europe and Eastern Europe and President and Chief Executive Officer of National Westminster Bank's US Consumer Credit Business (retail banking). He was also a member of the board of the Association of British Insurers from 2003 to 2011 and a Visiting Fellow at the Oxford University Centre for Corporate Reputation from 2008 to 2019.

F. Christian Noyer*

Nominated member
Appointed 2 November 2018

Christian was Governor of the Bank of France for twelve years until 2015. He is a member of the French Fiscal Council, and adviser to the French government on issues related to Brexit. He is also a non-executive director of several corporations, including Lloyd's Insurance Company SA (Brussels) and Power Corporation of Canada. During his 40-year career within international public finance, Christian held several high-profile positions including Vice-President of the European Central Bank, from when the institution was set up in 1998 to 2002, and President of the Bank for International Settlements between 2010 and 2015. He worked for the French Treasury for over 20 years and was appointed Director of the Treasury in 1993. He has been awarded the honours of Commandeur de la Légion d'Honneur and Commandeur des Arts et des Lettres in France. Christian also holds numerous prestigious international decorations including Commander of the National Order of the Lion of Senegal, the Spanish Great Cross of the Orden del Mérito Civil, Officier de l'Ordre National de la Valeur of Cameroun, and the Japanese Order of the Rising Sun gold and silver star.

G. Dominic Christian

Working member
Elected 1 February 2014
Deputy Chairman of Lloyd's
Member of the Nominations & Governance Committee
Member of the Remuneration Committee

Dominic Christian is Executive Chairman of Aon Benfield International. He is also Chief Executive Officer of Aon UK Ltd. He sits on Aon Group's executive committee. Previously he served as co-Chief Executive Officer of Aon Benfield and prior to this as a group board director of Benfield Group plc. He has nearly 32 years of experience as a Lloyd's broker. He was also Chairman of the Lloyd's Tercentenary Research Foundation until February 2019. He is a director of The Bermuda Society and the Juvenile Diabetes Research Foundation. He chairs the University of East Anglia's Campaign Advisory Board. He was the President of the Insurance Institute of London from 2015 to 2016 and is Chairman of ClimateWise and of the Sainsbury Centre for Visual Arts. He was elected Deputy Chairman of Lloyd's in February 2020.

H. Dominick Hoare

(Representative of Munich Re Capital Ltd)
External member
Elected 19 April 2017
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Dominick Hoare is Group Chief Underwriting Officer of Munich Re Syndicate Ltd and is also an executive director of both Munich Re Speciality Group Ltd and Munich Re Capital Ltd. He also holds various non-executive directorships of subsidiary companies of Munich Re Speciality Group Ltd. He has worked in the Lloyd's market since 1985 and has served on various Lloyd's underwriting committees including the Lloyd's Market Association Board.

I. Jeffery Barratt

(Representative of Nameco (No 1249) Ltd)
External member
Elected 1 February 2017

Jeffery Barratt is a lawyer and has been a member of Lloyd's since 1987. He is a director of the Association of Lloyd's Members. He was a partner at Norton Rose Fulbright for many years, specialising in project finance and financial law, and held a number of management positions within the firm. He has been actively involved in promoting the City's interests for a number of years and chaired TCUK Infrastructure and Energy executive board from 2013 to 2017. He was a non-executive director of the International Project Finance Association from 2011 to 2018. He sat on the London Council of the CBI from 2011 to 2018 and currently sits on its International Advisory Group. He was Chairman of the Cook Society in 2015 and 2016 and remains on its Committee. He actively supports a number of children's charities including the Dyspraxia Foundation, Snow-Camp, Beanstalk, Wooden Spoon and the Change Foundation. He is a qualified coach and mentor with ILM and mentors and coaches a number of senior executives.

J. John E Sununu*

Nominated member
Appointed 6 February 2019

John E Sununu represented New Hampshire in the United States Senate from 2003-2009. Previously, he served in the US House of representatives (1997-2003) and as Chief Financial Officer for privately held manufacturer Teletrol Systems. During his term in office, he was a member of the Senate Banking Committee, Senate Finance Committee, and Subcommittee on Science, Technology and Innovation. Since 2011 he has worked for international law firm Akin Gump Strauss & Hauer, where he provides strategic advice to energy, technology, telecommunications and financial services clients. He is a non-executive director of Boston Scientific, a publicly traded manufacturer of medical devices, where he chairs the nominations and governance committee and is a member of the audit committee. He also serves on the boards of Sorenson Communications and Afiniti, both privately held technology firms. Sununu holds bachelor's and master's degrees in Mechanical Engineering from Massachusetts Institute of Technology, and earned a Master of Business Administration from Harvard University.

K. Karen Green

Working member
Elected 1 February 2015
Member of the Remuneration Committee
Member of the Risk Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Karen Green is a non-executive director of Asta Managing Agency Ltd and was previously Deputy Chair of Aspen Managing Agency Ltd (AMAL) and prior to that Chief Executive Officer of Aspen UK, which included AMAL. She is a non-executive director of Phoenix Group Holdings and the Admiral Insurance Group. She previously worked as a principal with the global private equity firm MMC Capital Inc (now Stone Point Capital). Before this, she was a director at GE Capital in London, co-running the business development team responsible for mergers and acquisitions in Europe. She started her career as an investment banker with Baring Brothers and then Schroders. She is a member (and former chair) of the Development Council for the Almeida Theatre Company. She is also a Vice President of the Insurance Institute of London.

L. Robert Childs

(Representative of Hiscox Dedicated Corporate Member Ltd)
External member
Elected 1 February 2012
Deputy Chairman of Lloyd's
Member of the Nominations & Governance Committee

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

M. Michael Watson

(Representative of Flectat Ltd)
External member
Elected 1 February 2013
Member of the Audit Committee

Michael Watson is Executive Chairman of Canopius Group Limited, a private equity backed global specialty (re)insurance business with its principal operations at Lloyd's. He led the original management buyout of Canopius in 2003 and again in 2018. He has over 40 years' experience in commercial and investment banking, trade finance, stockbroking, life and non-life insurance, gained in London, Bermuda and New York. He is a chartered accountant and serves on the board of the Lloyd's Market Association and Weston Insurance Holdings Corporation.

N. Victoria Carter

Working member
Elected 1 February 2019
Member of the Nominations & Governance Committee

Victoria Carter has worked in the Lloyd's market for 40 years, starting her career in medicine and then moving to reinsurance broking in 1980. She joined Guy Carpenter in 2010 as Vice Chairman of International Operations and in 2019 became Chairman of Global Capital Solutions, International. She also holds positions on the company's executive committee and board. Prior to that, she was Chairman of UK and Europe at Towers Watson. In 1992, she founded Dunn & Carter Ltd, becoming the first female founder of a Lloyd's broking house. She is also the founder and driver of the Marsh & McLennan Rising Professionals Initiative, which initiated a market-wide networking and educational platform. Victoria is Chair of the Lloyd's Charities Trust and a board member of the Lloyd's Community Programme. She is also on the Court of the Worshipful Company of Insurers and a trustee of The Sick Children's Trust.

* Considered to be an independent Non-Executive Director

The Board

A. Bruce Carnegie-Brown

Chairman of the Board
Appointed 15 June 2017
Chairman of Lloyd's
Chairman of the Nominations & Governance Committee
Member of the Remuneration Committee
Member of the Technology & Transformation Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Biography on page 82.

B. John Neal

Executive Director
Appointed 15 October 2018
Chief Executive Officer
Member of the Investment Committee
Member of the Technology & Transformation Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Biography on page 82.

C. Charles Franks

Market-connected Non-Executive Director
Appointed 1 January 2012
Member of the Risk Committee

Charles Franks was, until 2019, Group Chief Executive Officer of Tokio Marine Kiln Group and of its Lloyd's managing agency, Tokio Marine Kiln Syndicates Ltd and insurance company Tokio Marine Kiln Insurance Ltd. Having joined Kiln in 1993, he became a director of R J Kiln in 1995 and was appointed Active Underwriter of the Marine division in 2001. He became Chief Executive of R J Kiln in 2007.

D. Fiona Luck

Independent Non-Executive Director
Appointed 1 March 2018
Member of the Nominations & Governance Committee
Member of the Risk Committee
Member of the Remuneration Committee
Chair of the Culture Advisory Group

Fiona Luck has more than 25 years' experience in insurance and reinsurance. She was a non-executive director of the Bermuda Monetary Authority from 2013 to 2018. Previously, she was non-executive director at Catlin Holdings Ltd and Allied World Holdings Ltd and, prior to that, spent a decade at XL Capital Ltd, in a variety of senior roles including Chief of Staff to the Chief Executive Officer and Executive Vice-President responsible for Strategy, Global HR, IT and Corporate Social Responsibility. She also worked for the ACE Group from 1996 to 1999 and was President and Chief Executive Officer of Marsh and McLennan's Bermuda operation from 1992 to 1996. She is a chartered accountant.

E. Burkhard Keese

Executive Director
Appointed 1 April 2019
Chief Financial Officer
Member of the Investment Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Burkhard Keese joined Lloyd's on 1 April 2019, following 14 years at Allianz Group. From 2012 to 2019 he was the Chief Financial Officer of Allianz Deutschland AG, Germany's largest insurer with over €34bn in premiums. Prior to this he was Executive Vice President and Chief Operating Officer of the global finance function of Allianz.

During his time as CFO of Allianz Deutschland AG, he successfully implemented the internal models for Solvency II, introduced a value-generating growth strategy and initiated several large transformation programmes. As the CFO of Allianz Germany, he was also responsible for the firm's €300bn investment portfolio.

F. Jon Hancock

Executive Director
Appointed 1 December 2016
Performance Management Director

Jon Hancock joined Lloyd's as Performance Management Director in December 2016. In this role, he has responsibility for performance management, capital setting and risk management across the market. Prior to this, he enjoyed a career of over 25 years at RSA Group, starting out as a marine underwriter in their Liverpool branch. In the years that followed, he worked across the UK and in the London market, and spent many years overseas. He held a variety of chief underwriting and chief risk officer roles in both developed and emerging markets, and was CEO for RSA's Asia & Middle East businesses. Before joining Lloyd's, his last role at the company was Managing Director of the UK Commercial and European Specialty Lines business and Global Relationship Director for the RSA Group.

G. Mark Cloutier

Market-connected Non-Executive Director
Appointed 1 April 2015
Member of the Audit Committee
Member of the Nominations & Governance Committee

Mark Cloutier was appointed Executive Chairman and Group Chief Executive Officer of Aspen with effect from 15 February 2019. Between January 2017 and December 2018 he was Executive Chairman of Brit Group, having previously been Chief Executive Officer. With over 35 years' experience working in the international insurance and reinsurance sector he holds a number of non-executive positions and has held a number of Chief Executive Officer and senior executive positions, including Chief Executive Officer of the Alea Group, Chief Executive Officer of Overseas Partners Re and President of E.W. Blanch Insurance Services Inc. He has worked in partnership with a number of leading private equity and institutional investors including Kohlberg Kravis Roberts (KKR), Fortress Investment Group, Apollo LP, CVC Capital Partners, Ontario Municipal Employees and Texas Teachers Retirement Services.

H. Mike Bracken

Independent Non-Executive Director
Appointed 1 March 2018
Member of the Technology & Transformation Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Mike Bracken was formerly Chief Digital Officer at the Co-op Group and prior to that he spent four years as the UK Government's Executive Director, Digital and also as Chief Data Officer. In this role he created the Government Digital Service, the organisation behind gov.uk and the transformation of mainstream government transactions. He is a member of the advisory board of the Inter-American Development Bank and a partner at the Public Digital Consultancy for Digital Transformation. He is a Visiting Professor at University College London.

I. Neil Maidment

Independent Non-Executive Director
Appointed 1 February 2019
Member of the Risk Committee
Member of the Technology & Transformation Committee

Neil Maidment has worked in the Lloyd's market for 35 years. He was previously a director of Beazley plc and was Chief Underwriting Officer of the company and Active Underwriter for its Lloyd's syndicates from 2008 to 2018. He was Chairman of the Lloyd's Market Association from 2016 to 2018 and served as an elected working member of the Council of Lloyd's during the same period.

J. Nigel Hinshelwood

Independent Non-Executive Director
Appointed 1 March 2018
Member of the Risk Committee
Member of the Technology & Transformation Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Nigel Hinshelwood has over 27 years' experience in the financial services sector working across the UK and Europe, North and South America, the Middle East and Asia Pacific. He was most recently Head of HSBC UK and Deputy Chief Executive Officer of HSBC Bank plc. He had a 12-year career at HSBC, where he was a Group General Manager, in a variety of senior global roles including Global Head of Operations, Chief Operating Officer for Europe, Middle East and Africa, Head of HSBC Insurance Holdings and Head of Business Transformation. Prior to joining HSBC, he was a Partner at Ernst & Young (subsequently Cap Gemini Ernst & Young) where he held numerous positions including Head of Financial Services and Chief Executive Officer of Southeast Asia. He was also a Group General Manager with Unisys where he was responsible for the Financial Services practice in Asia Pacific.

He is Senior Independent Director of Lloyds Bank plc and Bank of Scotland plc. He is also an independent non-executive director and chairman of the risk committee of Nordea Bank Group.

K. Patricia Jackson

Independent Non-Executive Director
Appointed 30 March 2017
Chair of the Risk Committee
Member of the Audit Committee

Patricia Jackson is a non-executive director and chair of the risk committee of the digital challenger bank Atom, SMBC Nikko Capital Markets Ltd and BGL, which owns Compare The Market. She is a council member of the European Money and Finance Forum SUERF and an Adjunct Professor at the Imperial College Business School. From 2004 to 2013 she was a partner at EY and led the risk governance and financial regulation practice across EMEIA. Up until 2004 she was a senior official at the Bank of England and head of the Financial Industry and Regulation division. She represented the United Kingdom on the Basel Committee for Banking Supervision for seven years.

L. Angela Crawford-Ingle

Independent Non-Executive Director
Appointed 14 January 2020
Chair of the Audit Committee

Angela Crawford-Ingle is currently the Senior Independent Director and Chair of Audit Committee (previously Chair of Audit & Risk Committee) at River & Mercantile Group plc and non-executive director and audit committee chair at Openwork Ltd. She has over 30 years' experience as a senior partner at PwC in the financial services industry, specialising in insurance and asset management, and was until recently a non-executive director and chair of the audit and risk committees at Beazley plc and at Swinton Insurance.

Internal Control Statement

The Board, on behalf of the Council, has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Audit Committee monitors and reviews the effectiveness of the system of internal control, providing biannual reports to the Board. 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.

In accordance with the guidance of the UK Corporate Governance Code on internal control, and Solvency II requirements, there is an established, ongoing process for identifying, evaluating and managing significant business, operational, financial, compliance and other risks. The Society has a Whistleblowing Policy whereby any staff member, consultant, or contracted worker may take up matters that concern them through a dedicated external independent helpline, an internal dedicated mailbox or via the Whistleblowers' Champion who is a non-executive Board member. Associate companies, Ins-sure Holdings Limited and Xchanging Claims Services Limited, are not dealt with as part of the Group for the purposes of applying the UK Corporate Governance Code.

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

Management structure

'Lloyd's Governance Arrangements: A Guide for Members of Lloyd's Committees', reviewed and updated in February 2020, outlines the governance structure and committee members' duties and responsibilities, including confidentiality and conflicts and declarations of interest.

There is a clearly defined organisation structure with terms of reference agreed for the Chief Executive Officer and all directors which sets out, inter alia, their functions and powers, authority to act and limitations on authority. This reflects the Senior Managers and Certification Regime which sets out requirements relating to senior management functions. Role profiles are required to ensure that employees are aware of their role and responsibilities and sets out the equivalent information, as agreed with their line manager.

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

The Society maintains an independent and objective internal audit function that reports functionally to the Chair of the Audit Committee and administratively to the Chief Executive Officer. The Head of Internal Audit is supported by two internal senior managers and Deloitte LLP ("Deloitte"), who provide additional skills and resources as required under a co-source arrangement.

During the second half of 2019, an interim Head of Internal Audit was in place. This individual, a professional from Deloitte on secondment, was not responsible for monitoring the performance of Deloitte under the existing co-source arrangement with this responsibility being held by a member of the Society's Executive Committee.

Identification and evaluation of business risks

The Risk Management Framework (the Framework) ensures the identification, assessment, monitoring and management of all material risks affecting the Society takes place on an ongoing basis.

The Framework includes a number of risk assessment techniques, which are tailored to specific risk areas.

One such technique is the comprehensive risk and control assessment process, which is conducted on a regular basis. This review reassesses the existing risks and identifies any new or emerging risks. It evaluates the performance of key controls and also seeks to monitor the action plans in place to help manage risks. The Framework also enables the Society to undertake a more forward-looking assessment of risk, building capital consideration into the decision-making processes. An Own Risk and Solvency Assessment (ORSA) is performed every year, bringing together key risk, capital and solvency management information on a more formal basis for the Board on a current and future basis. While the ORSA is an annual process, the risk profile is reviewed by the Board Risk Committee on a quarterly basis.

The risk governance structure, which includes the Board Risk Committee provides clear independent challenge to the risk takers at Lloyd's and enables tailored risk management operating models, rather than a one-size-fits-all platform.

The Board Risk Committee oversees, challenges and where appropriate escalates issues using appropriate management information sourced from the Risk Management and Internal Control Frameworks, such as the various risk and control assessments, details of the operating and regulatory environment and capital management reports. The risk governance structure is reviewed on a regular basis to ensure it remains fit for purpose.

A key objective of the Society's risk governance structure is to provide assurance to the Board that risks facing the Society are identified and managed in accordance with the approved policies and risk appetite. The Risk Appetite Framework articulates the level of risk believed to be acceptable and desirable for the Society through a series of risk appetite metrics. These are monitored on an ongoing basis by both the business areas responsible for each risk area and the Board Risk Committee.

A framework of regular self-certification, with targeted independent challenge has recently been put in place and where control failures have been reported, details of the circumstances are required together with appropriate corrective actions. A summary of these reports will be reviewed by the Executive Risk Committee, Board Risk Committee, Board and the Audit Committee.

The Internal audit function also performs independent reviews of control activities as part of their annual risk-based programme as approved by the Audit Committee. The Head of Internal Audit reports to the Audit Committee on a regular basis and as part of every audit discusses the key findings with the executive responsible.

The compliance function undertakes a programme of activities which include a plan of compliance activities which is in place for 2020. These activities include provision of compliance monitoring, challenge and assurance relating to PRA and FCA requirements. A short report on progress is included in reports received by the Board Risk Committee and plans are in place to expand compliance reporting to the Committee.

Information and financial reporting systems

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

Report of the Remuneration Committee

This report is based upon 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.

Statement by Chair of the Remuneration Committee

I am pleased to present the Remuneration Committee's report for 2019 on the following pages.

2019 was a critical year for Lloyd's, with key transformation initiatives announced by John Neal around performance, strategy and culture. These set out how the Lloyd's market can deliver sustainable, profitable growth while meeting the expectations of our customers and all our stakeholders in the future.

Business context

Profit before tax for the Lloyd's market in the period was £2.5bn (2018: a loss of £1.0bn) with an improved combined ratio of 102.1% (2018: 104.5%) and strong investment returns. We are pleased to be reporting a return to profitability in 2019, while recognising the importance of continued focus on performance management to maintain this momentum throughout future years.

Remuneration policy review

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. In 2018, remuneration packages for executives with Board member roles were rebalanced, with reduced emphasis on fixed pay (salary, pension and benefits), and a greater weighting on variable pay elements linked to measurable strategic key performance indicators (KPIs). Under this approach, incentives will continue to be set below market levels, reflecting the oversight role of the Society.
- Alignment to Lloyd's strategy – Individual performance awards will continue to be linked to the Society and individual KPIs. Performance will be assessed against a rigorous balanced scorecard of quantifiable metrics and will continue to be subject to risk adjustment.
- 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 for both 2017 and 2018. 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 Ratio are key metrics used to measure market performance from 2019.
- 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 98 and 99.

Key remuneration decisions and incentive outturns

No salary increases were awarded for Executive Directors for 2019 or 2020.

The individual performance awards (annual bonus) are based on an assessment of each Director's performance against KPIs. 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 good progress against strategic priorities in 2019, which is reflected in the individual performance awards (see page 93).

The Lloyd's Market Profit Before Tax was £2.5bn (2018: a loss of £1.0bn) and the Combined Ratio was 102.1% (2018: 104.5%) which resulted in a Market Award of 38% of maximum for executive directors (see page 94).

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

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

Key management changes – departing Directors

John Parry stepped down on 26 April 2019. Further details of his leaving arrangements are set out on page 95.

UK Corporate Governance developments

The Committee has considered the new UK Corporate Governance Code and other regulatory changes which took effect from 1 January 2019. While some aspects are not applicable to the Society, the Committee considered how these principles can be applied to the Society in the areas of workforce remuneration, pensions and discretion.

Wider Society employees

The Remuneration Committee reviews policies which apply to all employees across the Society and is periodically updated on wider matters such as employee engagement, gender pay and diversity.

All employees in the Society are eligible to participate in the Society's incentive arrangements, and the framework is consistent across all employees in the Society.

Pension arrangements for new and existing executive directors are in line with the maximum contribution available to wider Society employees.

In 2019 the Society carried out a review of reward and benefits across our global workforce. As a result of the review, I am pleased to report that from 2020 our market competitive UK family care and parental leave provisions will be extended globally. This aligns to our Future Culture ambition to create an inclusive marketplace for all.

The Society has also launched a Gender Balance Plan, with the intention to set clear measurable targets for improving the representation of women at senior levels (boards, executive and their direct reports) within the Lloyd's market.

Andy Haste
Chairman, Remuneration Committee
9 March 2020

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 to broadly 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), Jon Hancock (Performance Management Director) and Burkhard Keese (appointed Chief Financial Officer on 1 April 2019) – i.e. Directors who are current members of the Board. "Former Chief Financial Officer" refers to John Parry, who stepped down as Chief Financial Officer on 26 April 2019.

Summary of remuneration policy and outturns for 2019

The following table provides a summary of how our remuneration policy was implemented in 2019. The remuneration policy is provided on pages 98 and 99.

Salary

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

For 2019, annual salaries were as follows:

- Chief Executive Officer: £650,000
- Chief Financial Officer: £450,000 (appointed 1 April 2019)
- Performance Management Director: £510,000
- Former Chief Financial Officer: £433,500 (stepped down on 26 April 2019)

Lloyd's Incentive Plan (Individual Performance 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. From 2019, market awards are calculated by reference to Profit before Tax and Combined Ratio levels in the year.

Further details of performance are provided on page 93. A summary of the outturns for 2019 is provided below.

	Individual Performance Award		Market Award	
	Maximum opportunity (% of salary)	2019 outturn (% of salary)	Maximum opportunity (% of salary)	2019 outturn (% of salary)
Chief Executive Officer	100%	92%	50%	19%
Chief Financial Officer	100%	53%	50%	19%
Performance Management Director	100%	–	50%	–
Former Chief Financial Officer	50%	35%	50%	19%

The Chief Financial Officer and Former Chief Financial Officer's incentive awards were pro-rated for time spent in the role, resulting in an Individual Performance Award of 39.4% and 11.5% of salary respectively and Market Award of 14.3% and 6.1% of salary respectively.

Jon Hancock will step down as Performance Management Director during 2020. As a leaver due to resignation, and in line with Lloyd's policy, he will not be eligible for 2019 Individual and Market Awards.

As disclosed in the 2018 remuneration report, the Chief Financial Officer was also eligible to receive a recruitment award of up to 50% of salary subject to achievement of specified KPIs during 2019. Following consideration of performance against KPIs in the year, the Committee determined that an award of 26.25% of salary would vest in one year, subject to continued performance.

Risk underpin

In 2019, 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 decided to apply a downward adjustment to a number of individual performance awards across the Society.

Deferral

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

Pension and benefits

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

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

Annual remuneration report

This part of the report sets out the annual remuneration for 2019 and a summary of how the policy will apply for 2020.

Single total figure of remuneration

The total remuneration receivable in respect of qualifying services for each person who served as a Board Director or member of Council during the year is shown below. Further detail on annual bonus and market awards is shown on pages 93 and 94.

	Salary/fees		Other benefits[1]		Annual bonus		Market Award		Pension benefit[2]		Total	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Chairman of the Council												
Bruce Carnegie-Brown	**600**	600	**6**	–	**–**	–	**–**	–	**–**	–	**606**	600
Executive Directors												
Inga Beale[3]	**383**	715	**1**	5	**–**	405	**–**	–	**21**	179	**405**	1,304
Jon Hancock	**510**	510	**21**	15	**–**	250	**–**	–	**77**	112	**608**	887
Burkhard Keese[4]	**338**	–	**166**	–	**177**	–	**64**	–	**51**	–	**796**	–
John Neal	**650**	139	**112**	5	**600**	–	**124**	–	**108**	23	**1,594**	167
John Parry[5]	**155**	434	**5**	17	**49**	156	**26**	–	**31**	124	**266**	731

	Salary/fees		Other benefits[1]		Total	
Council	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Working members						
Simon Beale[6]	**58**	58	**–**	7	**58**	65
Andrew Brooks	**39**	39	**–**	–	**39**	39
Dominic Christian[7]	**46**	46	**–**	–	**46**	46
Karen Green[8]	**70**	65	**–**	–	**70**	65
Julian James[9]	**12**	39	**–**	–	**12**	39
Victoria Carter[10]	**41**	–	**–**	–	**41**	–
External members						
Jeffery Barratt	**39**	39	**6**	2	**45**	41
Albert Benchimol[11]	**35**	–	**–**	–	**35**	–
Robert Childs	**58**	58	**–**	–	**58**	58
Matthew Fosh[12]	**3**	39	**–**	–	**3**	39
Dominick Hoare[13]	**53**	47	**–**	–	**53**	47
Philip Swatman[14]	**5**	55	**–**	–	**5**	55
Michael Watson	**48**	48	**–**	–	**48**	48
Nominated members						
Andy Haste	**89**	89	**–**	–	**89**	89
Sir David Manning[15]	**30**	46	**–**	–	**30**	46
Christian Noyer	**38**	13	**22**	–	**60**	13
John Sununu[16]	**35**	–	**11**	–	**46**	–
Board Non-Executive Directors						
Mike Bracken[17]	**73**	58	**–**	–	**73**	58
Mark Cloutier	**79**	79	**–**	–	**79**	79
Charles Franks[18]	**80**	93	**–**	–	**80**	93
Nigel Hinshelwood[19]	**87**	69	**1**	–	**88**	69
Patricia Jackson	**92**	85	**–**	–	**92**	85
Fiona Luck[20]	**94**	64	**1**	–	**95**	64
Richard Keers[21]	**78**	78	**–**	–	**78**	78
Neil Maidment[22]	**75**	53	**–**	–	**75**	53
Richard Pryce[23]	**70**	70	**–**	–	**70**	70

	Salary/fees		Other benefits[1]		Total	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Former members of Council and Board						
Martin Read	**–**	59	**–**	1	**–**	60
Sir Andrew Cahn	**5**	66	**–**	–	**5**	66

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

Table notes

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 whilst travelling. Other taxable business expenses include business-related membership fees and hotels. Burkhard Keese benefits include £118k recruitment award and c.£35k of relocation benefits (and tax thereon) provided during 2019 in relation to a change of location to London following his appointment as Chief Financial Officer.
2. The Chief Executive Officer, Chief Financial Officer and Performance Management Director receive a pension supplement of 15% of salary, in line with the pension available to the wider workforce.
3. Inga Beale ceased as Chief Executive Officer with effect from 13 October 2018, but remained as a Lloyd's employee for the remainder of her contractual notice.
4. Burkhard Keese was appointed as the Chief Financial Officer and as a member of the Board, Innovation Investment Committee (dissolved with effect from 31 October 2019) and Investment Committee with effect from 1 April 2019.
5. John Parry ceased as the Chief Financial Officer with effect from 1 April 2019 and ceased as a member of the Board, Investment Committee and Innovation Investment Committee with effect from 26 April 2019.
6. Simon Beale ceased as a member of the Council and Nominations & Governance Committee with effect from 31 December 2019.
7. Dominic Christian was appointed as a member of the Remuneration Committee with effect from 1 January 2020 and was elected as a Deputy Chairman of Lloyd's with effect from 5 Feburary 2020.
8. Karen Green ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
9. Julian James ceased as a member of the Council with effect from 31 January 2019 and was appointed to the Market Supervision and Review Committeee with effect from 4 February 2019.
10. Victoria Carter was elected as a member of the Council with effect from 1 February 2019 and was appointed as a member of the Nominations & Governance Committee with effect from 26 March 2019.
11. Albert Benchimol was elected as a member of the Council with effect from 1 Feburary 2019.
12. Matthew Fosh ceased as a member of the Council with effect from 31 January 2019.
13. Dominick Hoare ceased as a chair of the Innovation Investment Committeee with effect from 31 October 2019.
14. Philip Swatman ceased as a member of the Council and as a member of the Remuneration Committee with effect from 31 January 2019.
15. Sir David Manning ceased as a member of the Nominations & Governance Committee with effect from 26 March 2019 and as a member of the Council with effect from 31 August 2019.
16. John Sununu was appointed as a nominated member of the Council with effect from 6 February 2019.
17. Mike Bracken ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
18. Charles Franks ceased as a member of the Nominations & Governance Committee with effect from 26 March 2019.
19. Nigel Hinshelwood ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
20. Fiona Luck was appointed to the Nominations & Governance Committee with effect from 26 March 2019.
21. Richard Keers ceased as an Independent Non-Executive Director of the Board and as Chair of the Audit Committee and a member of the Risk Committeee with effect from 14 January 2020.
22. Neil Maidment ceased as a member of the Council with effect from 31 January 2019 and was appointed as an Independent Non-Executive Director of the Board with effect from 1 February 2019.
23. Richard Pryce ceased as an Independent Non-Executive Director of the Board and as a member of the Remuneration Committeee with effect from 31 December 2019.

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. 2020 salaries are as follows:

	2020 Base salaries £000	Increase on 2019
Chief Executive Officer	650	0%
Performance Management Director	510	0%
Chief Financial Officer (appointed on 1 April 2019)	450	0%

The average increase awarded to all employees was 2%.

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 2019 awards.

Strategic Initiatives / Business Priorities	Leadership and Culture	Risk and Compliance	Individual Performance
(40%)	(20%)	(20%)	(20%)

Individual performance awards are subject to a "risk underpin". The Committee assessed performance against a range of Society risk and compliance metrics and decided to apply a downward adjustment to a number of Individual Performance Awards across the Society.

Bonus outturns for 2019

The following table sets out performance achievements against the KPIs set in respect of 2019.

Strategic Initiatives/Business Priorities	Leadership and Culture	Risk and Compliance
Strategic vision – Extensive **market and stakeholder engagement** to inform Future at Lloyd's strategy. Strong **market collaboration** – Renewed Lloyds purpose and value proposition – **Future at Lloyds** Blueprint One published setting out the vision for a **digital marketplace**. Implementation planning underway – Raised **£300m of senior debt** to fund the early stages of the programme Operational efficiency – Set up **Brussels LIC** in readiness for Brexit – Integrated **global functional operating model** implemented in the Society – **Society savings** of £15m from procurement, operational excellence and reduction in contract staff Performance management – Introduced **Decile 10 risk-based oversight** approach, reducing underperforming lines and encouraging excellent performance – **Standard & Poor's rating** upgrade and A+ rating maintained.	Culture – **Market-wide culture survey** undertaken with 6,000 responses – **Five-point plan** to address market culture challenges and accelerate change – **Comprehensive action plan** developed for sustainable culture change – Commenced move towards **agile workplace** environment Leadership – Appointed **four new Executive team members** and succession plans created – **Leadership framework** developed and new incentive scheme implemented	– New Chief Risk Officer appointed Risk management – **Risk control framework** updated and strengthened – **SMCR regime** fully deployed

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 2019:

Role	Maximum	Outturn
Chief Executive Officer	100% of salary	92% of salary
Chief Financial Officer	100% of salary	53% of salary
Performance Management Director	100% of salary	–
Former Chief Financial Officer	50% of salary	35% of salary

Awards made to the Chief Financial Officer and Former Chief Financial Officer were pro-rated for time served during the year. This resulted in an Individual Performance Award of 39.4% and 11.5% of salary respectively.

Jon Hancock will step down as Performance Management Director during 2020. As a leaver due to resignation, and in line with Lloyd's policy, he will not be eligible for a 2019 Individual Performance Award.

40% of total incentives (Individual Performance Award and Market Award) 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 2019 on the basis set out below:

– Market awards are calculated by reference to Profit before Tax and Combined Ratio (weighted equally) for each financial year.
– Market awards are subject to a "risk underpin".
– 40% of the market award is deferred for three years.

For senior employees whose remuneration is below the proportionality test (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% paid one year later. For other employees, the market award is paid in full in April following the relevant financial year.

The performance targets for 2019 Market Awards, and related outturns, were as set out in the following table. For 2017 and 2018, no Market Award was payable.

Market award-performance metric	Threshold (20% of maximum)	Target (50% of maximum)	Maximum (100% of maximum)	2019 performance outturn	2019 Market Award outturn (% of salary)
Profit Before Tax element (50% weighting)	£400m	£1.7bn	£3.3bn	£2.5bn	19%
Combined Ratio element (50% weighting)	100.5%	98.5%	96.5%	102.1	0%
Market award payout (as a % of salary)	10%	25%	50%	19%	19%

The maximum opportunity for executive directors is 50% of salary. Awards made to the Chief Financial Officer and Former Chief Financial Officer were pro-rated for time served during the year, resulting in a Market Award of 14.3% and 6.1% of salary respectively.

Jon Hancock will step down as Performance Management Director during 2020. As a leaver due to resignation, and in line with Lloyd's policy, he will not be eligible for a 2019 Market Award.

Chief Financial Officer – Recruitment Award

Burkhard Keese was appointed as Chief Financial Officer with effect from 1 April 2019.

As disclosed in the 2018 remuneration report, the Chief Financial Officer was also eligible to receive a recruitment award of up to 50% of salary subject to achievement of specified KPIs during 2019. Following consideration of performance against KPIs in the year, the Committee determined that an award of 26.25% of salary would vest in one year, subject to continued performance.

Pensions

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

The Former Chief Financial Officer, John Parry, was a member of the Lloyd's Pension Scheme, which closed to future accruals on 30 June 2018. The terms of the Scheme and details of accruals and contributions in the year are as follows:

Details of pension arrangements	Pension arrangements provide for a pension at normal retirement of two thirds base annual salary after 20 years' eligible service less any entitlement from previous pension arrangements and subject to a Scheme earnings cap of £160,800 from 6 April 2018. No further accrual post 1 July 2018.

John Parry also received a cash allowance of 20% of base salary. Details of his rights under the Lloyd's Pension Scheme and the transfer value of accrued pension benefits are set out below.

Scheme rights						Transfer value		
Salary sacrifice in year to 31 December 2019	Age at 31 December 2019	Increase in pension in year to 31 December 2019 £000	Increase in pension in year to 31 December 2019 – net of price inflation £000	Total accrued annual pension in year to 31 December 2019 £000	Normal retirement age	Transfer value of accrued pension as at 31 December 2018 £000	Transfer value of accrued pension as at 31 December 2019 £000	Movement in transfer value over the year less amounts salary sacrificed £000
–	56	2	–	77	60	1,613	1,825	212

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

From 1 July 2018, John Parry joined the Group Pension Plan on the same terms as other Executive Directors (i.e. capped annual contribution of £10,000). He continues to receive a cash allowance of 20% of base salary (up to 26 April 2019).

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 and, for John Parry, dependants' pensions.

Departing Directors and Executives

Former Chief Financial Officer (John Parry)

John Parry stepped down on 26 April 2019. He was eligible to receive individual performance and market awards in respect of performance achieved in 2019, pro-rated for time served in the role. Outstanding deferred bonus and market awards will be subject to normal deferral rules and will be delivered in line with ordinary payment dates.

Service contracts

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

	Appointment date	Unexpired term as at 31 December 2019	Notice period
Bruce Carnegie-Brown	15 June 2017	6 months	12 months
John Neal	15 October 2018	rolling 1 year	12 months
Burkhard Keese	1 April 2019	rolling 6 months	6 months
Jon Hancock	1 December 2016	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 are appointed by Council with Non-Executive Directors' terms of office varying between one and three years. These are not contractual arrangements and compensation is not paid if a member leaves early.

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
2019	1,594	92%	38%
2018	1,304	76%	0%
2017	1,304	76%	0%
2016	1,525	75%	63%
2015	1,531	81%	63%
2014	1,494	74%	95%
2013	1,795	75%	65%
2012	1,759	75%	55%
2011	1,499	90%	0%
2010	1,750	90%	44%

Chief Executive Officer pay increase in relation to all employees

The table below sets out details of the change in remuneration for the Chief Executive Officer and all Society employees.

	CEO %	All employees %
Salary	–	2%
Other benefits[1]	N/A	2%
Annual bonus[2]	N/A	2%

1. The Chief Executive Officer's other benefits largely relate to travel expenses (including tax thereon) and other employment related expenses, which may fluctuate between periods.
2. The Chief Executive Officer was not eligible for an Annual bonus In 2018.

Relative importance of spend on pay

	2019 £m	2018 restated £m
Society operating income	358	352
Total remuneration – all employees	114	105

Society operating income excludes income relating to the Central Fund. 2018 remuneration is restated to exclude items such as employer's social security costs, net interest on defined benefit pension liability, non-executive remuneration, and recruitment fees.

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

The Chairman's remuneration was not be increased in 2019. For 2020 his fee will remain unchanged at £600,000 per annum.

Fees for 2019 for Council and Board members were £38,500 and £62,000 per annum respectively. The additional fee payable to the Deputy Chairman, over and above the standard Council member's fee, was £12,000. Fees are also payable in respect of membership of a number of Council and Board committees, including ad hoc committees established to consider specific issues requiring a significant time commitment. Council, Board and committee fees will remain unchanged in the first half of 2020 and a revised fee structure will come into effect from 1 June 2020 when the Board is merged into the Council. The revised fee structure will include bringing Council member fees into line with the fees previously payable to Board members, in recognition of the increase in responsibilities and time commitment.

Non-Executive Directors 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.

The Remuneration Committee currently comprises five members – two members of Council, two members of the Board and the Chairman. The Committee has been chaired by Andy Haste (a Nominated member of Council and Senior Independent Deputy Chairman) since November 2012.

The Remuneration Committee met six times in 2019. The attendance record is set out in the Corporate Governance report on pages 79 and 80. The Committee's terms of reference are available on 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. Deloitte LLP adheres to working practices which have been agreed with the Remuneration Committee Chairman, 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 £75,400 for the year. Deloitte LLP also provided other services to the Society during the year, including the co-sourced Internal Audit resource, risk and project management advice, other ad hoc assurance services and tax advice.

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 or any other Director plays a part in any discussion about his or her own remuneration.

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 to the regulatory requirements. The policy is not legally binding, and the Committee reserves the right to amend the policy at any time.

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*** – From 2019 awards onwards, 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. This will apply to relevant Solvency II staff above the proportionality threshold. – 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 £100m. From 2019, market awards will be subject to the achievement of Profit Before Tax and Combined 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*** – From 2019 onwards, 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. This will apply to relevant Solvency II staff above the proportionality threshold. – The Committee may apply malus and clawback to market awards (see below).
Pension		– Executive Directors will receive a pension contribution of 15% of salary.
Benefits		– Benefits may include a benefits cash allowance, private medical insurance, life insurance and a season ticket loan facility. – Relocation benefits may be offered in certain circumstances. – Executive Directors will receive a benefits cash allowance of 3% of salary.

Remuneration policy

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 to "buy out" terms or remuneration arrangements forfeited on leaving a previous employer. The terms of any buy out would be determined taking into account the terms of the forfeited awards 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 leaves the Society's employment on or before the date on which an annual bonus award would otherwise have been paid, they will not be entitled to that annual bonus award. However, the Remuneration Committee may determine that the Executive Director may receive a bonus in respect of the financial year of cessation based on performance in the year. – If an executive director leaves the Society's employment on or before the date on which a market award would otherwise have been paid, they will not be entitled to that market award. However, the Remuneration Committee may determine that the Executive Director may receive a market award in respect of the financial year of cessation based on performance in the year.

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.

Andy Haste
Chairman, Remuneration Committee
9 March 2020

Report of the Audit Committee

Statement by Chair of Audit Committee

I am pleased to present the Report of the Audit Committee for the year ended 31 December 2019. 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 Audit Committee
– Responsibilities of the Audit Committee
– Primary activities and key areas of focus during the year
– Financial reporting, financial controls and external audit
– Internal control
– Internal audit

Our principal aim is to assist the Council and Board in discharging their 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 Audit Committee can be found on lloyds.com.

Angela Crawford-Ingle
Chair, Audit Committee

24 March 2020

Composition of the Audit Committee

Until 14 January 2020 the Committee was chaired by Richard Keers, an independent non-executive director on the Board. Since 14 January 2020 the Committee has been chaired by Angela Crawford-Ingle, also an independent non-executive director on the Board. The Committee's remaining members are drawn from both the Council and the Board. At the end of 2019 the Audit Committee comprised one external member of the Council and three non-executive members of the Board.

The Council and Board require 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, risk and prudential regulation.

The Council and Board have determined that, by virtue of their previous experience gained in other organisations, the members of the Committee collectively have the competence and skills required to discharge the terms of reference and responsibilities of the Committee. In addition, the Council and Board consider that both Richard Keers and Angela Crawford-Ingle have the recent and relevant financial experience required to chair the Committee.

Biographical details and experience of the current members of the Committee and members' attendance at meetings in 2019 are shown in the Corporate Governance report on pages 79 and 80.

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

In addition, throughout the year, the Chair of the Committee meets informally with and has open lines of communication with the Executive Committee, Head of Internal Audit, external auditor 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 technical updates throughout the year from senior management and the external auditor on developments in financial reporting, accounting policy and regulatory developments.

Responsibilities of the Audit Committee

The Audit Committee's primary role is to assist the Board in fulfilling its oversight responsibilities over financial reporting and controls. The Audit Committee's functions in 2019 included providing oversight of Lloyd's annual and interim financial statements, the syndicate aggregate accounts, and the Lloyd's Solvency and Financial Condition Report to the PRA.

The Committee also has responsibility for overseeing the Society's system of internal control and for reviewing its effectiveness. The Committee provides biannual internal control reports to the Board.

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 auditor, and for overseeing the effectiveness of the interactions with the external auditor.

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

The Committee submits an annual report to the Board in respect of its activities during each financial year. The Committee also reports to the Council and the Board on the Committee's proceedings after each meeting. Additional reports are submitted to the Council and/or the Board on matters of material interest as and when necessary. The minutes of Committee meetings are submitted to the Board and the Council.

Primary activities and key areas of focus during the year

The Committee's primary activities are the oversight of:

– the key themes, structure and integrity of the interim and annual reports, including the Society's financial statements and the market pro forma financial statements;
– the review of the appropriateness of significant accounting estimates and judgements;
– the effectiveness of the financial control framework;
– the effectiveness and independence of the external auditor;
– the appointment or removal of the external auditor;
– the appointment or removal of the external auditor;
– the fees of the external auditor;
– the Society's relationship with the external auditor;
– the fees of the external auditor;
– the Society's relationship with the external auditor;
– the effectiveness of the internal control framework; and
– the internal audit function.

The Committee met four times during the year. The key areas of focus during the year were:

– changes in annual report content and disclosure requirements and associated guidance issued by the Financial Reporting Council (including in relation to IFRS 16 and section 172 of the Companies Act 2006);
– the review of the Society's and market pro forma annual and interim financial statements and related disclosures and the syndicate aggregate accounts (on the basis of preparation as an aggregation of the Lloyd's market results);
– the basis of preparation of the market pro forma financial statements including the notional investment return on Funds at Lloyd's and the methodology for its calculation;
– 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;
– reporting requirements and governance arrangements for Solvency II Pillar 3 reporting for both the market and the Society;
– the operation and effectiveness of the Society's whistleblowing arrangements, including liaison between the Society and the Prudential Regulation Authority (PRA) following the Society's self-identification and disclosure to the PRA that aspects of its internal whistleblowing systems and controls had been ineffective for a period of time; and
– the rating methodology used for the Society's internal audits.

Financial reporting, financial controls and external audit

A key focus of the Committee is its work in assisting the Council and Board in ensuring that the 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 Board and Council that, when taken as a whole, the 2019 Annual Report 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 significant and emerging accounting developments, in particular, changes to International Financial Reporting Standards relating to insurance accounting.

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 auditor.

The Committee assesses the effectiveness of the external auditor against some of the following criteria:

– provision of timely and accurate industry-specific technical knowledge;
– the level of professionalism and open dialogue with the Chair of the Committee and its other members;
– delivery of an efficient and effective audit and the achievement of objectives within agreed timescales; and
– the quality of the external auditor's findings, management's responses and stakeholder feedback.

In addition, the Committee performs a specific evaluation of the performance of the external auditor annually, through assessment of the results of feedback and questionnaires completed by members of the Executive Committee and other senior management, together with Committee members' own views.

The Committee is satisfied with the performance of the Society's external auditor, 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.

In discharging its responsibilities for approving the terms of engagement of the external auditor and monitoring the external auditor's independence, the Committee oversees the engagement of the external auditor 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 auditor, setting out the circumstances in which the external auditor 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 auditor for non-audit work is set out in note 7. Significant non-audit engagements undertaken by the external auditor in 2019 include services pursuant to legislation (work undertaken on the Aggregate Accounts and regulatory returns) and the pro forma financial statements.

The Committee receives a regular report on engagements undertaken by the external auditor in order to monitor the types of services provided and the fees incurred and to ensure they do not impair the ongoing independence and objectivity of the external audit. The external auditor has also confirmed to the Committee that it believes that it remains independent within the meaning of the applicable regulations and professional standards.

Internal control

The Board, on behalf of the Council, has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Board has delegated to the Audit Committee responsibility for reviewing the effectiveness of the system of internal control and monitoring the risk and internal controls framework of the Society. On behalf of the Board, the Committee carries out biannually an assessment of the effectiveness of the internal controls framework, including the controls related to the financial reporting process. The Committee also considers the adequacy of the Group's risk management arrangements in the context of the Society's business and strategy.

In carrying out its biannual assessments during 2019, the Committee considered reports from the Chief Financial Officer, Chief Risk Officer, Chief Accountant, Head of Internal Audit, other senior management, and also from the external auditor. Reports and updates on specific control issues were received throughout the year. Specific issues considered were:

- the Committee reviewed reports from the Risk Committee on developments to the Lloyd's Risk Framework. The Committee also considered the quarterly Own Risk & Solvency Assessment reports. Throughout the year, the Committee was updated on the key risks which are set out on pages 13 and 14;
- the Committee reviewed internal audit reports, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions;
- the Committee reviewed the external auditor's controls observation report and management's assessment of the internal control environment, including reports on control failures during the period and status of progress against previously agreed actions;
- the Committee reviewed an annual report on the effectiveness and operation of the Society's whistleblowing systems and controls; and
- the Committee also reviewed specific updates on the Society's whistleblowing controls, Lloyd's America data systems, Lloyd's Brussels internal control and data systems, gifts and hospitality reporting, and the status of the Society's preparations in respect of Brexit.

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.

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 Internal Audit is governed by the Charter and Operating Standards, which set out the authority, scope and remit of the Internal Audit function. Internal Audit sets an annual plan of work which considers an independent view of the risks facing the Society, as well as other factors such as strategic initiatives, emerging risks and change. The annual plan is approved and regularly reviewed by the Committee and is updated as necessary to ensure appropriate focus on the key risks. For 2019, the Committee was satisfied that appropriate resources were in place.

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. The performance of Internal Audit is subject to ongoing assessment and to an annual formal evaluation that is achieved through assessment of the results of feedback and questionnaires completed by the Executive Committee and departments that have been subject to an internal audit, in addition to the Committee members' own views.

The Head of Internal Audit left the Society in July 2019, at which point an interim professional from Deloitte LLP ("Deloitte") was seconded. Deloitte provides co-sourced Internal Audit resource and had previously reported directly to the Head of Internal Audit. During the period of the secondment, the interim Head of Internal Audit was not responsible for monitoring the performance of Deloitte under the existing co-source arrangement, with this responsibility being held by a member of the Society's Executive Committee. Additionally, the secondee did not have the ability to approve services of Deloitte parties to the Society or the settlement of invoices.

To ensure the 2020 annual plan was both risk-based and aligned to the Society's key risks, the planning process included a top-down and bottom-up approach. As part of this process, the interim Head of Internal Audit, supported by two internal senior managers, met with members of the Committee (including the Chair) and all of the Society's executive. The annual plan therefore reflects areas of focus for both the Committee and the executive, including major change initiatives such as the Future at Lloyd's and risk culture. The plan was shared and discussed with the Executive Committee prior to review and approval by the Committee in November 2019. The Committee keeps under review the relationship with Deloitte and the procedures to ensure that appropriate independence of the Internal Audit function is maintained.

A permanent replacement for the departed Head of Internal Audit took up the role from March 2020.

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 2019.

The role of the Lloyd's Members' Ombudsman is to investigate complaints by members and former members who were members any time after 30 November 2001 and 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 2019 I dealt with one complaint. I reported on the complaint in September 2019 and dismissed the complaint because it was outside my jurisdiction.

Costs

The expenses incurred by my office amounted to £6,500.

Financial Review

This review should be read in conjunction with the financial statements of the Society on pages 118 to 172 and the Strategic Report on pages 10 to 21. These sections set out the strategic priorities for both the Society and the Lloyd's market as a whole.

Operating surplus

The Society achieved an operating surplus for the year of £61m (2018: surplus of £139m). The operating (deficit)/surplus by business segment is set out below:

	Corporation of Lloyd's £m	Lloyd's Central Fund £m	2019 Total £m	2018 Total £m
Total income	358	125	483	501
Gross written premiums	2,466	–	2,466	176
Outward reinsurance premiums	(2,466)	–	(2,466)	(176)
Group operating expenses	(422)	–	(422)	(362)
Operating (deficit)/surplus	(64)	125	61	139

Corporation of Lloyd's

Total income for the Corporation increased by £6m to £358m (2018: £352m). Within this, the overseas operating charge was higher, mainly as a result of the increase in the charge rate on 1 January 2019 to partially cover the increased cost of setting up Lloyd's Insurance Company S.A. ("Lloyd's Brussels") subsidiary in readiness for Brexit. The increase was to a large extent offset by a rebate to market participants resulting in a very small overall cost to the market. Members' subscription income reduced reflecting the shortage of premium income approved for the 2019 underwriting year; subscription rates were held steady for the second consecutive year. However, this reduction was dampened by lower rebates to market participants for the adoption of the electronic placing platform. Other income streams reported an overall net reduction due to increased revenue from User Pay services, offset by a reduction in market modernisation income due to the deferral of income in respect of services to be provided to the market in future modernisation programmes, in particular Future at Lloyd's.

Gross written premiums increased significantly following the commencement of underwriting by Lloyd's Brussels. All business underwritten through the company is 100% reinsured to Lloyd's Syndicates.

The Corporation's operating expenses have increased to £422m (2018: £350m). The Corporation continues to make investment in strategic initiatives such as the Future at Lloyd's and other strategic programmes, which have contributed to the increase in costs. Lloyd's Brussels has had a marginal impact on cost as it moved from set up to fully operational from 1 January 2019. Market modernisation expenses decreased ahead of the decision to wind down the programme ahead of the launch of the Future at Lloyd's. Operating expenses also include estimated costs of fulfilling the Society's obligations to repair and maintain the 1986 Building under the terms of the lease agreement. The increase in the provision in the current year reflects the significant investment required at this stage of the building's lifecycle.

In 2019 the Society has applied IFRS 16 Leases for the first time. As a result a right-of-use asset of £156m and a lease liability of £152m are recognised in the statement of financial position. Adoption of the standard had net £nil impact on the Society's net assets as at 1 January 2019, and a £4m decrease on the Society's operating surplus for the year.

Central Fund

Total income for the Central Fund decreased by £24m to £125m (2018: £149m). Contribution income decreased as a result of the reduction in the level of written premiums in the 2019 underwriting year, together with a reduction in income from new Syndicates at the higher charge rate. Significant recoveries were made in respect of Undertakings previously given by the Central Fund during 2018; these were lower in 2019. The rate of contribution for established Syndicates remained constant at 0.35% of gross written premiums (further details are given in note 4).

Central Fund claims and provisions were £nil for the year (2018: £nil). Undertakings to meet the liabilities of insolvent members to policyholders are approved at the discretion of the Council and are normally based on anticipated cash flow requirements of insolvent members in the following 12 months. No payments were made in respect of insolvent corporate members (2018: £nil).

Investment performance

	2019 £m	2018 £m
Finance income	151	93
Finance costs	(51)	(39)
	100	54

The Society's investments, mostly held within the Central Fund, returned £151m or 3.6% during the year (2018: £93m, 2.4%). Excluding exchange rate movements, investments returned £213m or 5.02% during the year (2018: loss of £7m or -0.2%).

The Central Fund investment portfolio generated a strong return, excluding foreign exchange effects, benefiting from its diversified asset base. The Society's currency policy, which aims to preserve the solvency strength of the Central Fund by holding US dollars, resulted in mark to market losses from US Dollar weakening against Sterling over the year. Investment return was therefore lower when including foreign exchange impacts.

2019 was a markedly positive year for investments. Equities generated a particularly strong level of return for the calendar year with other risk assets also performing well. In fixed interest markets, the easing of monetary policy drove a reduction in risk free yields resulting in capital gains for government bonds. Corporate bond returns were further enhanced by credit spread narrowing, in line with the trajectory of other risk assets.

Finance costs include interest arising on subordinated notes and following the implementation of IFRS 16, interest expense on the lease liability. The £12m increase in finance costs primarily relates to the new lease interest expense.

Taxation

A tax charge of £33m (2018: £39m) on the surplus before tax of £170m (2018: £202m) has been recognised for the year ended 31 December 2019. Further details are set out in note 12.

Movement in net assets (£m)

Net assets at 1 January 2019	2,417
Surplus for the year	137
Actuarial (loss)/gain on pension schemes	(59)
Currency translation differences	(14)
Tax credit/(charge) on other comprehensive income	10
Syndicate loans	110
Net assets at 31 December 2019[1]	**2,601**

1. The net assets of the Central Fund are included within the above amounts and at 31 December 2019 were £2,483m (2018: £2,184m).

Pension schemes

Lloyd's pension scheme

On an IFRS basis, the Lloyd's pension scheme valuation at 31 December 2019 was a deficit of £137m (31 December 2018: deficit of £87m) before allowance for a deferred tax asset of £24m (2018: £16m).

The movement in the pension deficit during the year is summarised below:

	2019 £m	2018 £m
Pension deficit as at 1 January	(87)	(161)
Pension expense recognised in the Group income statement	(2)	(12)
Employer contributions	11	15
Remeasurement effects recognised in the Group statement of comprehensive income	(59)	71
Pension deficit as at 31 December	**(137)**	(87)

The increase in the pension deficit was mainly due to a decrease in corporate bond yields and a change in demographic and financial assumptions, partly offset by a higher than expected return on assets during the year. Further details are provided in note 13 which includes the sensitivity of the valuation to changes in these assumptions.

The last triennial funding valuation as at 30 June 2016 was undertaken by Willis Towers Watson. The total market value of the Scheme's assets at the date of the valuation was £667m and the total value of accrued liabilities was £730m showing a funding deficit of £63m. 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. This has been kept under review as circumstances developed.

The Trustee is currently undertaking a formal actuarial valuation of the Scheme as at 30 June 2019. The statutory deadline for completing this actuarial valuation is 30 September 2020.

The Lloyd's Pension Scheme closed to new members in 2013 and closed to future accrual for existing members in 2018.

Overseas pension schemes

The actuarial valuations of the overseas pension schemes at 31 December 2019 resulted in a deficit of £3m (2018: deficit of £3m). Further details are provided in note 13.

Solvency

Total assets for solvency purposes are set out below. The 2019 position is an estimate of the amount which will be finalised in April 2020 for submission to the PRA. The figures are calculated on a Solvency II basis. The solvency figures in the table below are unaudited:

	2019 £m	2018 £m
Central assets at 31 December	2,601	2,417
Subordinated debt	794	794
Total	3,395	3,211
Solvency valuation adjustments	367	436
Available central own funds to meet the Central Solvency Capital Requirement (SCR)	3,762	3,647
Excess central own funds not eligible to meet the Central SCR	(188)	(153)
Eligible central own funds available to meet the Central SCR	3,574	3,494
Central SCR	1,500	1,400
Central solvency ratio	238%	250%

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 inclusion of the Tier 2 subordinated debt issued means that Lloyd's Tier 2 and 3 central capital exceeded 50% of the Central SCR by £188m as at 31 December 2019 (2018: £153m).

Based on central own funds eligible to meet the Central SCR of £3.6bn (2018: £3.5bn), the estimated solvency ratio is 238% (2018: 250%). In setting contribution levels, account is taken of the Central SCR to ensure that Lloyd's is prudently but competitively capitalised.

Brexit

The Society's solution to maintain access to markets in the European Economic Area (EEA) post-Brexit opened to new business at the start of 2019 and has already written significant volumes. Lloyd's Insurance Company SA (Lloyd's Brussels) is authorised and regulated by the National Bank of Belgium and regulated by the Financial Services and Markets Authority to write non-life risks across all markets within the EEA. Lloyd's Brussels is a Solvency II compliant insurance company with its own Board and Executive Committee. The Company started writing new business from 1 January 2019 and all policies are 100% reinsured to Lloyd's Syndicates. They are therefore backed by Lloyd's unique Chain of Security capital structure, providing excellent financial security to policyholders. As such the Company has the same financial strength ratings as the Society.

The Society is continuing with its plans to ensure that existing non-life EEA insurance (and where required reinsurance) policies written by the Lloyd's market can be serviced following the UK's withdrawal from the EU, including the payment of valid insurance claims. To achieve this, the Society is proposing to transfer all relevant non-life EEA business that has been written by the Lloyd's market between 1993 and 2020 to Lloyd's Brussels, before the end of 2020. This will be undertaken via an insurance business transfer under Part VII of the UK's Financial Services and Markets Act 2000.

The Executive Committee and senior management of the Society continue to work to assess Brexit risks, and minimise their impact on the Society, the Lloyd's market and its policyholders. There remain significant uncertainties surrounding Brexit transition, with unknown economic and political implications for the UK. The Society is monitoring developments closely and refining its plans to ensure delivery of the Lloyd's business model and strategy. In particular, it continues to call for a positive reinsurance equivalence determination with respect to the UK at the earliest opportunity during the transition period. This would harmonise reinsurance market access to EEA member states from the UK.

Cash flows and liquidity

Cash and cash equivalents decreased during the year ended 31 December 2019 by £68m to £533m (2018: £601m). Cash balances are maintained at appropriate levels to meet the short-term operating expenses of the Society. Any surplus cash balances are invested and are included as financial investments within the Group statement of financial position.

The Corporation's free cash balances[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 2019 were £289m (2018: £279m).

The liquidity of the Central Fund is monitored separately. Cash balances are managed to meet short term operational commitments including the payment of drawdowns. Any surplus cash balances are invested in compliance with defined investment parameters approved by the Investment Committee.

Central Fund investment strategy

Central Fund investment strategy is considered in three parts.

A proportion of assets 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 significant 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 and hedge funds.

Financial risk management and treasury policies

Overview

The Society's principal financial instruments comprise cash and cash equivalents, investments, borrowings and items that arise directly from operations such as trade receivables and payables. These include assets and liabilities of the Central Fund.

The Society's treasury operations and investments are managed by reference to established policies which are reviewed regularly by the Investment Committee. Overall risk is managed within defined limits, specified by the Board. Policies for managing these risks, in particular credit risk, liquidity risk and market risk, are summarised below. The following financial risk management objectives and policies and disclosures within note 20 are audited.

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 176.

Credit risk

Credit risk represents the risk of financial loss to the Society if a counterparty, or the issuer of a security, fails to meet its contractual obligations.

Trade and other receivables

The Society has established procedures to minimise the risk of default by trade and other receivables, which are mainly in respect of the Lloyd's market, the main source of income. These procedures include minimum standard checks for new market entrants.

Financial investments

A list of permissible bank counterparties, for the purposes of money-market investment, is maintained and restricted to banks having strong balance sheets and credit ratings. Investment parameters exist for all investment assets, controlling overall credit quality and ensuring appropriate risk diversification. Permitted counterparties to capital market transactions are also carefully controlled. All applicable parameters are reviewed regularly by the Investment Committee in accordance with the risk appetite set by the Board.

Guarantees

The Society provides certain financial guarantees as security for the underwriting activities of the members of Lloyd's. The risk to guarantees is assessed by review of the performance of individual syndicates to proactively manage the Society's exposure to financial loss.

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 Board.

The Society had no committed borrowing facilities as at 31 December 2019 (2018: nil).

Market risk

Market risk represents the risk that movements in financial markets will affect the financial position of the Society. Market risks arising from the disposition of the Society's investments are monitored against defined parameters using Value at Risk 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.

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 and the level of this risk is managed within defined parameters. Consequently, while some net foreign exchange exposures may accrue to the Society from time to time as a result of this activity, the level of such exposures is carefully monitored and is not significant in the context of its activities.

Foreign currency exposures arising from overseas investments are considered together with 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.

Interest rate risk

Borrowings from the Lloyd's market for the purpose of funding statutory insurance deposits do not bear a fixed rate of interest. Instead, investment returns earned on the borrowed assets are passed on to lenders. Consequently, no interest rate risk arises on such borrowings.

Short term assets held by the Society may be significant at certain times but such balances cannot be precisely predicted. These are invested in money market instruments of up to 12 months' duration with the objective of maximising current income while meeting liquidity requirements.

Interest rate risk arising from the requirement to make fixed rate coupon payments in respect of the Society subordinated loan notes, 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 entered into a number of 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 20. Further details regarding solvency are given on page 107.

Related party transactions

Except for disclosures made in note 29, no related party had material transactions with the Society in 2019.

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 10 to 21. 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 Board and 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 three-year strategic plan (Lloyd's Strategy 2020 to 2022) was approved in December following completion of the latest review cycle. As part of the planning process, financial budgets were prepared for the Society for the three year period to 31 December 2022.

Assessment of viability

The Board and Council receive 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 10 to 21. 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 in page 178 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. The Audit Committee 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 2022, 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 2022.

Going concern

After making enquiries, the members of the Council also consider it appropriate to adopt the going concern basis in preparing the Society's financial statements. These enquiries include assessment of the Society's forecast future net assets and free cash flow, including the potential Impact of solvency stress test scenarios.

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 stable at over £3bn in 2020. Following its meeting on 24 March 2020, the Council gave no further 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. After taking account of the expiry of unutilised Undertakings, the net movement in Undertakings is nil (see note 5). The operating expenses for the Corporation (excluding organisational transformation costs) and its subsidiaries are budgeted to be £324m in 2020*. Significant investment is also expected in respect of The Future at Lloyd's programme. In January 2020 £300m of debt was successfully issued to fund this programme (see note 30 to the Society financial statements). Completion of the insurance business transfer of EEA business to Lloyd's Brussels (as described in the Brexit section above) will increase the Lloyd's Brussels capital requirement and the Society plans to make resources available to satisfy these requirements.

The COVID-19 pandemic has created turbulence in financial markets and economic uncertainty which will impact individuals and businesses. For the Society of Lloyd's there are operational as well as financial impacts all of which are being actively monitored and appropriate plans are in place. Our consideration of the risks to the business and our responses are set out on page 13 of our Strategic Report. Note 30, Events after the reporting period, also provides further detail on the quantitative assessment of the impact to our central solvency coverage.

* Budgeted operating expenses is 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 176.

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 Lloyd's Act 1982 and International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Council is required to prepare Group financial statements for each financial year which present fairly the financial position of the Society and the financial performance and cash flows of the Society for that period. In preparing these Group financial statements, the Council is required to:

- Select suitable accounting policies and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Society's financial position and financial performance; and
- State that the Society has complied with IFRS, subject to any material departures disclosed and explained in the Group financial statements.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable it to ensure that the Group financial statements comply with Article 4 of the IAS Regulation. As the Society's subordinated debt is admitted to trading in a regulated market in the European Union, Council has elected to comply with Article 4, which requires Group financial statements to be prepared in conformity with IFRS as adopted by the European Union. The Council 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 (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.

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 (the "financial statements"):

– give a true and fair view of the state of the group's affairs as at 31 December 2019 and of its surplus and cash flows for the year then ended;
– have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
– have been prepared in accordance with the requirements of the Council byelaws made under the Lloyd's Act 1982.

We have audited the financial statements, included within the Annual Report, which comprise: the Group Statement of Financial Position as at 31 December 2019; the Group Income Statement and the Group Statement of Comprehensive Income, the Group Statement of Cash Flows, and the Group Statement of Changes in Equity 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 to the group.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the group in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

– Overall group materiality: £39.3 million (2018: £24.4 million), based on 0.5% of total assets.

– The three principal components of the Society of Lloyd's are considered to be the Central Fund, the Corporation of Lloyd's and Lloyd's Insurance Company S.A. These were fully scoped in for the purposes of the audit. For the remaining components, a group scoping exercise was undertaken to identify significant balances.

– Assumptions used in the valuation of the Lloyd's pension scheme;
– Investment valuation; and
– Impact of COVID-19 subsequent event.

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.

Capability of the audit in detecting irregularities, including fraud

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, US 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 preparation of the financial statements such as the Lloyd's Act 1982 and regulations of the FCA and PRA. 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 increase the revenue of the group, and management bias in accounting estimates such as the assumptions used in the estimate of revenue, the valuation of the pension scheme liability and investment valuation. 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, 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 and regulation and fraud;
- Evaluation of management's internal controls designed to prevent and detect irregularities, in particular their controls around disclosure of related parties and associated transactions;
- Reading key correspondence with, reports to and meeting with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing internal audit reports so far as they related to non-compliance with laws and regulations and fraud;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations including those with revenue journals, backdated and post close entries, or journals posted by senior management;
- 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 and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

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.

Key audit matter	How our audit addressed the key audit matter
Assumptions used in the valuation of the Lloyd's pension scheme	
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 whose net liabilities total £137m at 31 December 2019. Certain key assumptions have a material impact in determining the pension scheme liabilities and therefore were subject to more audit attention from us. We focused on these key assumptions which included the discount rate; inflation; and post-retirement life expectancy. (Refer also to note 13 to the financial statements).	We used our actuarial experts to evaluate the key assumptions used to value the Lloyd's Pension Scheme. This included comparison of Lloyd's assumptions to our own independent expectations based on our knowledge of the Lloyd's Pension Scheme and current financial market conditions. We found the following: – the discount rate used in the valuation of the pension liability was consistent with our expectations, taking into account the duration of the pension liability and investment market conditions at 31 December 2019; – the retail and consumer price inflation rates used in the valuation of the pension liability were consistent with our expectations, taking into account the duration of the pension liability and market expectations at 31 December 2019; and – 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 other UK companies, and contain an appropriate allowance for how rates of mortality may change in the future. We found the assumptions to be reasonable.

Independent Auditors' Report to the Members of the Society of Lloyd's *continued*

Key audit matter	How our audit addressed the key audit matter
Investment valuation	
We focused on this area because financial investments and derivative financial instruments represent 51% of the total assets of the Group, so the valuation of financial investments has a significant impact on the financial statements. This includes investments in the Society's portfolio held as statutory insurance deposits by Additional Securities Limited (ASL).	Our procedures to address this risk included: – Performed walkthroughs with management to understand the design of controls in this area. – Independently re-priced all bonds directly held by the Society at fair value; – Obtained investment manager confirmations for investments held within funds which provide comfort over valuation; and – Evaluated the design and tested the operating effectiveness of controls relating to the valuation of investments, including those at third party fund managers. Based on the above procedures, no material exceptions were found.
Impact of COVID-19 subsequent event	
As disclosed in note 30, 2020 began with the outbreak of a new strain of Coronavirus (COVID-19) in China, resulting in a global pandemic which is causing significant economic disruption. The situation at 31 December 2019 was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019, and it is therefore a non-adjusting event. Subsequent to the year end management have performed procedures to assess the financial and operational impacts of COVID-19 which include: – frequent monitoring of both the central solvency ratio and the market-wide solvency ratio; – review of the investment portfolio and developing a suitable de-risking plan to mitigate financial losses and the impact on solvency; – assessing the potential impact upon credit ratings and developing appropriate plans to protect current ratings; and – consideration of the possibility of increased policyholder claims across impacted classes of business. Management have not identified the need for asset impairments and are of the view that the Society and market will continue to meet their capital requirements and operate through this pandemic. They have concluded, therefore, that the Society continues to be a going concern. However, as the situation is rapidly evolving it is not possible to quantify the ultimate financial impact of the outbreak on the Society.	We assessed management's approach to the impact of COVID-19 on the Society and the financial statements by performing the following procedures: – reviewed Board and Council papers related to viability, going concern and COVID-19; – evaluated management's stress and scenario testing and challenged management's key assumptions. As the central solvency capital requirement and market wide solvency capital requirement are not subject to audit, we reviewed the controls and governance over the production of this information; – assessed the likelihood of any impact on the Society's credit rating and implications for going concern; – considered the underwriting impact on the Society and any implications for management's going concern assessment; and – assessed the adequacy of the disclosures made by management within the financial statements and checked consistency of these disclosures against our knowledge of the Society based on our audit. Based on the work performed and the evidence obtained, we consider the disclosure of the impact of COVID-19 in the financial statements to be appropriate.

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 reporting units. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. 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 Lloyd's Insurance Company S.A. and Lloyd’s Insurance Company (China) Limited. 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 reporting unit 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 auditors of the component 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; visited significant in-scope components and undertook a detailed review of audit working papers; and attended meetings with local management.

For each reporting unit we determined whether we required an audit of their complete financial information or whether specified procedures for particular balances would be sufficient. Audit procedures were performed over the complete financial information for the Corporation of Lloyd’s, Central Fund and Lloyd's Insurance Company S.A. reporting units to address the key audit matters identified above. Additionally, we identified Lloyd’s Insurance Company (China) Limited and Additional Securities Limited, where certain account balances were considered to be significant in size in relation to the Society, and scoped our audit to include detailed testing of those account balances.

Together, the reporting units where we performed our audit work accounted for 99.5% of the Society’s total assets and 98.7% of the Society’s surplus before tax.

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	£39.3 million (2018: £24.4 million).
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 and policyholders who will be primarily concerned with the overall asset position of Lloyd's, as those assets act as a backstop for the market. This will include the quality of assets held by Lloyd's as well as its solvency. Therefore, we have assessed that it is appropriate to use an asset based benchmark for the materiality determination for the 31 December 2019 year end.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £13.9 million and £35.4 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.2 million (2018: £1.2 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
The Council has voluntarily included a statement in relation to going concern in accordance with provision 30 of the UK Corporate Governance Code (the ‘Code’) in the Financial Review section of the Society report. We agreed with the Council to report if we have anything material to add or draw attention to in respect of the Council’s statement about whether it is appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Council’s identification of any material uncertainties to the group’s ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group’s ability to continue as a going concern.

Independent Auditors' Report to the Members of the Society of Lloyd's *continued*

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.

The Council's assessment of the prospects of the Society and of the principal risks that would threaten the solvency or liquidity of the Society

Under the terms of our engagement, we agreed to report to you if we have anything material to add or to draw attention to in relation to:

- the Council's confirmation on page 110 of the Annual Report, in accordance with provision 28 of the Code, that they have carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; and
- the Council's explanation on page 110 of the Annual Report, in accordance with provision 31 of the Code, as to how it has assessed the prospects of the Society, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether 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 period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to regarding the above responsibilities.

Other Code Provisions

Under the terms of our engagement, we agreed to report to you if we have anything material to add or to draw attention to in relation to:

- The statement given by the Council, on page 111, in accordance with provision 27 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's position and performance, business model and strategy is materially inconsistent with our knowledge of the group obtained in the course of performing our audit.
- The section of the Annual Report on page 101 to 103, as required by provision 26 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing material to add or to draw attention to regarding the above responsibilities.

Report of the Remuneration Committee

The Council is responsible for preparing the part of the report of the Remuneration Committee that has been described as audited in accordance with Schedule 8 Part 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "basis of preparation").

Under the terms of our engagement, we agreed to report to you whether, in our opinion, the part of the report of the Remuneration Committee that is described as audited has been properly prepared in accordance with the basis of preparation as described therein. In our opinion, the part of the report of the Remuneration Committee that is described as audited has been properly prepared in accordance with the basis of preparation as described therein.

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 set out on page 111, 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.

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'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

Under the terms of our engagement, we have agreed to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been maintained by the Society.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members in 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 7 years, covering the years ended 31 December 2013 to 31 December 2019.

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 March 2020

Group Income Statement

(For the year ended 31 December 2019)

	Note	2019 £m	2018 £m
Corporation operating income		358	352
Central Fund income		125	149
Gross written premiums	4, 6	2,466	176
Outward reinsurance premiums	4, 6	(2,466)	(176)
Total income	3, 4	**483**	501
Gross insurance claims and insurance expenses incurred	6	(1,302)	(189)
Insurance claims and expenses recoverable from reinsurers	6	1,302	189
Group operating expenses	3, 7	(422)	(362)
Operating surplus		**61**	139
Finance costs	9	(51)	(39)
Finance income	9	151	93
Share of profits of associates and joint ventures	11	9	9
Surplus before tax		**170**	202
Tax charge	12	(33)	(39)
Surplus for the year		**137**	163

Group Statement of Comprehensive Income

(For the year ended 31 December 2019)

	Note	2019 £m	2018 £m
Surplus for the year		137	163
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement (losses)/gains on pension liabilities			
UK	13	(59)	71
Associates	11	–	1
Tax credit/(charge) relating to items that will not be reclassified	12	10	(12)
Items that may be reclassified subsequently to profit or loss			
Unrealised gains on revaluation of Lloyd's Collection	15	–	2
Currency translation differences		(14)	4
Net other comprehensive (deficit)/surplus for the year		(63)	66
Total comprehensive income for the year		74	229

Group Statement of Financial Position

(As at 31 December 2019)

	Note	2019 £m	2018 £m
Assets			
Intangible assets	14	16	6
Lloyd's Collection	15	15	15
Plant and equipment	15	13	12
Right-of-use asset	2, 16	156	–
Deferred tax asset	12	47	31
Investment in associates and joint ventures	11	21	19
Insurance contract assets	3, 6	1,878	347
Loans recoverable	17	34	36
Financial investments at fair value through profit and loss	18	2,788	2,486
Financial investments at amortised cost	18	1,174	1,097
Trade and other receivables due within one year	19	1,145	214
Prepayments and accrued income		12	36
Derivative financial instruments	20	25	11
Cash and cash equivalents	21, 27	533	601
Total assets		**7,857**	4,911
Equity and liabilities			
Equity			
Accumulated reserve	22	2,466	2,378
Translation reserve	22	10	24
Revaluation reserve	22	15	15
Syndicate loans	2, 23	110	–
Total equity		**2,601**	2,417
Liabilities			
Subordinated notes	24	794	794
Insurance contract liabilities	3, 6	1,878	347
Pension liabilities	13	140	90
Provisions	25	80	20
Loans funding statutory insurance deposits		690	625
Trade and other payables	26	1,372	507
Accruals and deferred income		136	70
Tax payable		1	31
Lease liability	2, 16	152	–
Derivative financial instruments	20	13	10
Total liabilities		**5,256**	2,494
Total equity and liabilities		**7,857**	4,911

Approved and authorised by the Council on 24 March 2020 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 2019)

	Note	Accumulated reserve £m	Translation reserve £m	Revaluation reserve £m	Syndicate loans £m	Total equity £m
At 1 January 2018		2,155	20	13	–	2,188
Surplus for the year		163	–	–	–	163
Net other comprehensive surplus for the year		60	4	2	–	66
At 31 December 2018	22	2,378	24	15	–	2,417
Syndicate loans	2, 23	–	–	–	110	110
Surplus for the year		137	–	–	–	137
Net other comprehensive (deficit) for the year		(49)	(14)	–	–	(63)
At 31 December 2019	22	**2,466**	**10**	**15**	**110**	**2,601**

Group Statement of Cash Flows

(For the year ended 31 December 2019)

	Note	2019 £m	2018 £m
Cash generated from operations	27	145	221
Tax paid		(69)	(34)
Net cash generated from operating activities		76	187
Cash flows from investing activities			
Purchase of intangible assets	14	(12)	(6)
Purchase of plant and equipment	15	(5)	(3)
Purchase of financial investments	18	(2,110)	(2,265)
Receipts from the sale of financial investments	18	1,834	2,234
Increase in short-term and security deposits	18	(10)	(196)
Dividends received from associates	11	7	9
Interest received		52	46
Dividends received	9	7	5
Settlement of forward currency contracts	9	(9)	15
Net cash (used in)/generated from investing activities		(246)	(161)
Cash flow from financing activities			
Syndicate loans	2, 23	110	–
Interest paid on subordinated notes		(38)	(38)
Issue costs in relation to subordinated notes		–	(1)
Increase in borrowings for statutory insurance deposits		65	113
Lease payments	2, 16	(27)	–
Net cash generated from financing activities		110	74
Net (decrease)/increase in cash and cash equivalents		(60)	100
Effect of exchange rates on cash and cash equivalents		(8)	4
Cash and cash equivalents at 1 January		601	497
Cash and cash equivalents at 31 December	21	533	601

Notes to the Financial Statements

1. Basis of preparation and consolidation

In 1871, by Lloyd's Act 1871, the then existing association of underwriters was incorporated in the United Kingdom as the Society and Corporation of Lloyd's (the Society). Its activities are accordingly governed by statute and, since 1982, have been managed by the Council of Lloyd's (the Council) pursuant to Lloyd's Act 1982. Its principal place of business is at One Lime Street, London EC3M 7HA.

The Society's main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The Group financial statements of the Society 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. The Group financial statements are prepared using consistent accounting policies. All intra Group balances and transactions are eliminated in full.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (as adopted by the European Union) (IFRS) and on a historic cost basis, except for financial assets and liabilities at fair value through profit or loss and the Lloyd's Collection, which are measured at fair value.

Other financial liabilities, which include the subordinated notes and lease liabilities, are carried at amortised cost. The Group financial statements are presented in pounds sterling and all values are rounded to the nearest million (£m).

The Society is regulated by the Prudential Regulatory Authority and the Financial Conduct Authority.

2. Principal accounting policies

Summary of significant accounting policies

This section provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent that they have not been superseded by accounting policies adopted due to new standards that became effective from 1 January 2019 (see note 2(p)). The policies, except for those which have been superseded on 1 January 2019 (see note 2(q)), have been consistently applied to all the years presented, unless otherwise stated.

(a) Critical accounting estimates and assumptions

In preparing the financial statements, significant estimates and judgements are made in respect of some of the items reported. The main accounting policies identified involving such assessments are:

- Employee benefits – defined benefit pension scheme – significant assumptions are made to estimate the actuarial value of scheme liabilities (see note 2(k) and note 13);
- Insurance and reinsurance contracts – liabilities and reinsurance assets – significant assumptions are made to estimate insurance contract liabilities and assets (see note 2(g) and note 6);
- Revenue – income recognition – judgement has been applied in determining when services obligations have been completed (see note 2(j)); and
- Provisions – judgement is required to determine whether estimated future 1986 building repair and maintenance expenses require provision (see note 25).

(b) Plant and equipment

Plant and equipment are held at cost less accumulated depreciation and any impairment in value.

Depreciation is charged on a straight-line basis on the following principal categories:

- Furniture and fittings are depreciated over seven to 25 years according to the estimated useful life of the asset;
- Computer and specialised equipment are depreciated over two to 15 years according to the estimated useful life of the asset; and
- Equipment on hire or lease is depreciated over the period of the lease.

(c) Software development

The only intangible assets recognised are software development assets. Costs incurred in acquiring and developing computer software are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable asset of value. Software development is held at cost less accumulated 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 strategic market systems.

(d) Lloyd's Collection

The Lloyd's Collection represents various paintings, antiques and artefacts which are included at fair value. Any revaluation surplus or deficit is recognised in the Group statement of comprehensive income and is reflected in the revaluation reserve within the Group statement of changes in equity.

(e) 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 statement of financial position 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 not amortised. After application of the equity method, the Society determines whether it is necessary to recognise any additional impairment loss with respect to the Society's net investment in an associate or joint venture. The Group income statement 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.

(f) Impairment of non-financial assets

The Society performs annual impairment testing to assess whether there is an indication that an asset may be impaired. If any such indication exists an impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

(g) Insurance and reinsurance contracts

In accordance with IFRS 4 Insurance Contracts, the Society applies established UK accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards.

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.

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 Insurance Company (China) Limited (Lloyd's China), balances are calculated in accordance with the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP). For Insurance contracts issued by Lloyd's Insurance Company S.A. (Lloyd's Brussels), balances are calculated in accordance with Belgian Generally Accepted Accounting Principles (Belgian GAAP). There are no differences between PRC GAAP and Belgian GAAP that have a material impact on the Society financial statements.

Gross premiums and outward reinsurance premiums are presented on a written basis in the Group Income Statement as we believe this provides relevant information on the volume of insurance business underwritten during the period. 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 estimated premium recognised in previous periods and actual income received.

Gross premiums and outward reinsurance premiums earned are recognised proportionally over the period of coverage in line with the incidence of risk. An estimate is made of the incidence of risk exposure across the period of coverage of the insurance contracts. Unearned premium reserves and reinsurer's share of unearned premium reserves are calculated after deducting acquisition costs such as commissions, handling fees, business taxes, surcharges and regulatory charges. Premiums earned during the year are disclosed in note 6.

Reinsurance contracts

Lloyd's Brussels and Lloyd's China enter into reinsurance agreements with syndicates to reinsure 100% of the insurance premiums written. The amounts the Society is entitled to under reinsurance contracts are recognised as insurance contract assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts. Insurance and reinsurance payables primarily comprise premiums payable for outwards reinsurance contracts.

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.

Reinsurance commission income is receivable from syndicates as a percentage of insurance premiums written.

Claims recoverable under the Society's reinsurance agreements are recognised and measured in line with insurance claims relating to the policies they reinsure.

Insurance premiums

Insurance premiums represent premiums on business incepting during the year, together with adjustments for premiums written in previous accounting periods. Premium income is recognised over the period of cover, taking the underlying risk exposure into account. Premiums written are stated before deduction of commissions but net of taxes, duties levied on premiums and other similar deductions. Gross written premiums are presented before adjustment for the movement in unearned premium reserve.

Outward reinsurance premiums

Outward reinsurance premiums are recognised over the period of cover of the reinsured contracts, in line with premium income recognised.

Insurance claims

Claims incurred in insurance related activities consist of claims and claims handling expenses paid during the year together with the movement in outstanding claims. Outstanding claims are the estimated final cost of all claims incurred but not settled at the reporting date, including claims incurred but not reported. 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 6 provides further details of how insurance claims are estimated.

Outstanding claims reserves include a risk margin. A liability adequacy test is undertaken annually; refer to note 6 for details.

(h) Financial assets

Financial assets classification

Financial assets are classified, at initial recognition, in the following measurement categories:

– those to be measured at fair value through profit or loss; and
– those to be measured at amortised cost.

The classification depends on the Society's business model for managing the financial assets and the contractual terms of the cash flows. The Society measures financial assets at amortised cost if both of the following conditions are met:

– the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
– the contractual terms of the financial asset 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 assets at amortised cost includes short term and security deposits, statutory insurance deposits, loans recoverable, trade and other receivables due within one year.

(h) Financial assets *continued*

Financial assets at fair value through profit or loss include financial assets held for trading, or financial assets mandatorily required to be measured at fair value. Financial assets 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 assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, 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.

Initial recognition

At initial recognition, the Society measures a financial asset at its fair value plus, in the case of a financial asset not valued at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit and loss are expensed in the Group income statement.

Subsequent measurement

The subsequent measurement of financial instruments depends on their classification as follows:

- Financial instruments at fair value through profit or loss are carried in the Group statement of financial position at fair value. Gains and losses arising from changes in their fair value are included in the Group income statement in the period in which they arise. When financial assets are interest bearing, interest calculated using the effective interest method is recognised in the Group income statement; 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 asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Society has transferred its right to receive cash flows from the asset 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 asset but has transferred control of the asset; 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 and without imposing additional restrictions on the transfer.

When the Society has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Society's continuing involvement, in which case, the Society also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Society has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Society could be required to pay.

Expected credit losses of financial assets

The Society recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. 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 an approximation of 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 has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Society considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Society may also consider a financial asset 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 asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(i) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, at fair value through profit or loss, 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 fair value through profit or loss 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 income statement.

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 income statement 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 finance costs in the Group income statement. This category generally applies to interest bearing loans and borrowings.

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 income statement.

(j) Revenue

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, various market charges 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;
- Central Fund contributions from members underwriting in the year are recognised in the period for which the service is provided;
- Interest receivable is 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 is included in the Group income statement on the ex-dividend date; and
- Other income is recognised when recoverability is agreed.

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, the market modernisation levy 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.

Trade receivables represent the Society's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

(k) Employee benefits

The Society accounts for pensions and similar benefits (principally income protection due to ill health) under IAS 19 Employee Benefits. The Society operates a number of defined benefit pension schemes in which obligations are measured at discounted present value using the projected unit credit method, while plan assets are recorded at fair value. 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 income statement. Service costs, financing income (expected return on plan assets) and costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in full in the Group statement of comprehensive income in the period in which they occur.

Costs of discretionary awards in respect of past service are recognised in the Group income statement when amounts are committed to be paid or there is a constructive liability to make awards to pensioners.

Payments to separately administered defined contribution schemes are charged to the Group income statement as they fall due.

Short term bonuses are accrued in the period to which they relate, long term bonuses are recognised over their vesting period.

(l) Taxation

Corporation tax on the surplus or deficit for the periods presented comprise current and deferred tax. Corporation tax is recognised in the Group income statement except to the extent that it relates to items recognised directly in the Group statement of comprehensive income.

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.

(m) Central Fund claims and provisions

Central Fund claims and provisions (Undertakings) are accounted for when they are approved by the Council and become contractual commitments. These Undertakings are granted wholly at the discretion of the Council for a fixed period, normally one year, and therefore are not deemed to be constructive obligations, except for renewals of those commitments previously granted.

For those corporate members in provisional liquidation, the Council provides a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation. As the supporting Undertakings are legally enforceable commitments, an estimate of their value is included within provisions in the Group financial statements and changes during the period are reflected in the Group income statement. 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 income statement when contractually committed to be received.

(n) Foreign currency and derivative instruments foreign currency translation

Functional and presentation currency

The Group financial statements are presented in pounds sterling, which is the Society's functional and presentational currency. Items included in the financial statements of each of the Society's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

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 recorded. At each reporting date, monetary assets and liabilities 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 income statement.

The principal exchange rates were:

	2019 Average	2018 Average	**2019 Closing**	2018 Closing
US$	**1.28**	1.33	**1.32**	1.27
CAN$	**1.69**	1.73	**1.72**	1.74
RMB	**8.84**	8.82	**9.08**	8.71
EUR	**1.14**	1.13	**1.18**	1.11

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 statement of financial position;

(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.

The Society enters into forward currency contracts to manage exposures to fluctuation in foreign exchange rates, and to provide a service to the Lloyd's market. Where gains and losses are not expected to be refunded or recovered from the Lloyd's market, these amounts are taken to the Group income statement.

(o) Accounting policies superseded on 1 January 2019

Leases

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

(p) New standards, interpretations and amendments to existing standards that have been adopted by the Society

The Society adopted the following new IFRS which is effective by European Union endorsement for annual periods beginning on or after 1 January 2019:

– IFRS 16 Leases.

Details of the impact of this new accounting standards on the Society financial statements, as well as the significant new accounting policies adopted from 1 January 2019 are set out below.

In addition, the Society adopted the following interpretations and amendments to existing standards with effect from 1 January 2019:

– Annual improvements 2015 – 2017 Cycle;
– IFRIC 23 Uncertainty over Income Tax Treatments;
– Prepayment Features with Negative Compensation – Amendments to IFRS 9;
– Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28; and
– Plan Amendment, Curtailment and Settlement – Amendments to IAS 19.

These interpretations and amendments had no significant Impact on the Society financial statements.

(p) New standards, interpretations and amendments to existing standards that have been adopted by the Society *continued*

IFRS 16 Leases

IFRS 16 provides a single lessee accounting model, specifying how leases are measured, presented and disclosed. This standard replaces IAS 17 Leases.

The Society transitioned to IFRS 16 in accordance with the modified retrospective approach. Under this method comparative information has not been restated, as permitted under the transitional provisions in the standard. The reclassifications and adjustments arising from the new standard are therefore recognised in the opening balance sheet on 1 January 2019.

Under IFRS 16, the Society recognises lease liabilities in relation to property previously classified as 'operating leases' under IAS 17 Leases. These liabilities are measured at the present value of the remaining minimum lease payments. Lease liabilities are discounted at the Society's incremental borrowing rate. Having conducted sensitivity analysis, the Society has applied a single portfolio incremental borrowing rate of 5.1%, being the assessed weighted average incremental borrowing rate, to all lease liabilities.

The Society recognises a right-of-use asset in the Group statement of financial position, representing its right to use the underlying asset. The right-of-use asset is measured as the lease liability plus lease payments made before or at the commencement date, and restoration costs. A depreciation expense is recognised in the Group income statement, together with an interest expense calculated using the Society's weighted-average incremental borrowing rate. There is no impact on equity upon initial recognition. The change in the accounting policy led to the Society recognising £171m of lease liabilities and an increase of £5m in the provision for contractual repair obligations bringing this provision to £12m. This corresponds to £179m of right-of-use assets and a reduction in prepayments of £4m in the statement of financial position as at 1 January 2019.

There are immaterial reconciling items between the valuation of the lease commitments as at 31 December 2018 and 1 January 2019.

Practical expedients applied

The Society has elected to use the following applicable practical expedients allowed by the standard on initial application:

- The application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The use of hindsight when determining the lease term if the contracts contain options to extend or terminate the lease;
- The exclusion of initial direct costs from the measurement of the right-of-use asset;
- IFRS 16 has only been applied to contracts that were previously classified as leases; and
- The Society has based its assessment of whether a lease is onerous by applying IAS 37 immediately before the date of initial application.

The Society has also adopted the ongoing practical expedient of expensing the lease payments for contracts with a duration of 12 months or less and contracts for which the underlying asset is of a low value to the Group income statement on a straight-line basis over the lease term.

Lease portfolio

The Society's lease portfolio encompasses property in the UK, Europe, Asia and the Americas. The 1986 Building is the material component of the portfolio and accounts for 88% of the right-of-use asset value. The remaining portfolio is made up of 41 other leases, the next largest being Lloyd's of London (Asia) PTE Ltd., which represents 2% of the total value. The Society sub-leases parts of the 1986 Building for which it receives an income. Leases typically run from three to five years, with the exception of the 1986 Building, Kent Science Park and the premises in Chatham. The 1986 Building has a lease duration of 35 years, and Kent Science Park and Chatham both have lease durations of 15 years.

Rental payments are either fixed, subject to rent reviews or are index-linked. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Group income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the assets useful life and the lease term on a straight-line basis and is subject to testing for impairment if there is an indicator of impairment.

The application of IFRS 16 requires management to make judgements that affect the valuation of the lease liabilities and the valuation of the right-of-use assets. These include:

- Determining contracts in scope of IFRS 16;
- Determining the contract term and the term over which to depreciate the asset;
- Payments to be included in the valuation; and
- Determining the interest rate used for discounting of future cash flows.

The Society has contractual obligations to carry out repairs at the end of some leases. Contractual repair obligations are recognised in full on commencement of the lease and a finance expense charged to the Group income statement. The contractual repair obligation is capitalised at the inception of the lease and depreciated over the lease term.

Extension and termination options

The lease term determined by the Society comprises;

- Non-cancellable period of lease contracts covered by an option to extend the lease if the Society is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the Society is reasonably certain that it will not exercise that option.

Variable lease payments

Lease payments generally include fixed payments and variable payments that depend on an index (such as an inflation index). Leases with variable lease payments are immaterial. When the lease contains an extension or purchase option that the Society considers reasonably certain to be exercised, the cost of the option is included in the lease payments.

(p) New standards, interpretations and amendments to existing standards that have been adopted by the Society *continued*

Syndicate loans

Syndicate loans to the Central Fund were issued on 29 March 2019, increasing equity by £110m. The loan issue will strengthen the Society's central resources and facilitate the injection of capital to Lloyd's Brussels.

The amount collected is 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). Further details on Syndicate loans can be found in note 23.

(q) New standards and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance contracts

IFRS 17 Insurance contracts was issued in May 2017 as replacement for IFRS 4 Insurance contracts. The exposure draft of proposed amendments to IFRS 17 was published at the end of June 2019. The proposed effective date of the standard is 1 January 2022.

Implementation of IFRS 17 is expected to have a material impact on the Society's consolidated statement of financial position, driven by the insurance operations in China, Lloyd's China, and the Society's new insurance subsidiary in Belgium, Lloyd's Brussels. However, as the business is fully reinsured, the impact on the operating surplus and surplus for the year is not expected to be material. In December 2019, the IASB Board tentatively agreed to finalise the proposed amendments to IFRS 17 included in the exposure draft. These are expected to further reduce the impact on the Society.

With the extent of the changes expected to the Society's consolidated financial statements, the Society continues to review the approach to IFRS 17 implementation and possible alternative solutions.

3. 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.

Segmental capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Further details of segment revenue from contracts with customers is included in note 4.

The Society's primary business segments are as follows:

(i) Corporation of Lloyd's: the main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The activities of authorised insurance company subsidiary undertakings are included within this business segment; and

(ii) Lloyd's Central Fund: these funds, comprising the New Central Fund and Old Central Fund, are assets of the Society and are held and administered at the discretion of the Council, primarily as funds available for the protection of the policyholders. Unless the approval of members is obtained, the New Central Fund may not be used for the purposes of extinguishing or reducing liabilities which have been reinsured by Equitas.

3. Segmental analysis *continued*

Information by business segment	Note	2019 Corporation of Lloyd's £m	2019 Lloyd's Central Fund £m	2019 Society total £m
Segment income				
Total income	4	358	125	483
Segment operating expenses				
Gross insurance claims and insurance expenses incurred	6	(1,302)	–	(1,302)
Insurance claims and expenses recoverable from reinsurers	6	1,302	–	1,302
Group operating expenses:				
Employment (including pension costs)	8	(173)	–	(173)
Premises		(99)	–	(99)
Legal and professional	7	(72)	(1)	(73)
Systems and communications		(39)	–	(39)
Other		(39)	1	(38)
Total Group operating expenses		(422)	–	(422)
Total segment operating expenses		(422)	–	(422)
Total segment operating (deficit)/surplus		(64)	125	61
Finance costs	9	(9)	(42)	(51)
Finance income	9	3	148	151
Share of profits of associates and joint ventures	11	9	–	9
Segment (deficit)/surplus before tax		(61)	231	170
Tax charge	12			(33)
Surplus for the year				137

Segment assets and liabilities				
Insurance contract assets	6	1,878	–	1,878
Financial investments at fair value through profit and loss	18	210	2,578	2,788
Financial investments at amortised cost		986	188	1,174
Cash and cash equivalents		439	94	533
Other assets		982	455	1,437
Segment assets		4,495	3,315	7,810
Tax assets	12	47	–	47
Total assets		4,542	3,315	7,857
Insurance contract liabilities	6	(1,878)	–	(1,878)
Other segment liabilities		(2,551)	(826)	(3,377)
Tax liabilities		5	(6)	(1)
Total liabilities		(4,424)	(832)	(5,256)
Total equity		118	2,483	2,601
Other segment information				
Capital expenditure	14, 15	19	–	19
Depreciation	15	4	–	4
Amortisation of intangible assets	14	2	–	2
Average number of UK employees (permanent and contract)		980	–	980
Average number of overseas employees (permanent and contract)		300	–	300
Average number of total employees (permanent and contract)		1,280	–	1,280

Average employee numbers are on a full-time equivalent basis.

3. Segmental analysis *continued*

Information by business segment continued	Note	2018 Corporation of Lloyd's £m	2018 Lloyd's Central Fund £m	2018 Society total £m
Segment income				
Total income	4	352	149	501
Segment operating expenses				
Gross insurance claims and insurance expenses incurred	6	(189)	–	(189)
Insurance claims and expenses recoverable from reinsurers	6	189	–	189
Group operating expenses:				
Employment (including pension costs)	8	(164)	–	(164)
Premises		(55)	–	(55)
Legal and professional	7	(50)	(1)	(51)
Systems and communications		(43)	–	(43)
Other		(38)	(11)	(49)
Total Group operating expenses		(350)	(12)	(362)
Total segment operating expenses		(350)	(12)	(362)
Total segment operating surplus		2	137	139
Finance costs	9	–	(39)	(39)
Finance income	9	14	79	93
Share of profits of associates and joint ventures	11	9	–	9
Segment surplus before tax		25	177	202
Tax charge	12			(39)
Surplus for the year				163

Segment assets and liabilities				
Insurance contract assets	6	347	–	347
Financial investments at fair value through profit and loss	18	146	2,340	2,486
Financial investments at amortised cost		918	179	1,097
Cash and cash equivalents		439	162	601
Other assets		15	334	349
Segment assets		1,865	3,015	4,880
Tax assets	12	31	–	31
Total assets		1,896	3,015	4,911
Insurance contract liabilities	6	(347)	–	(347)
Other segment liabilities		(1,280)	(836)	(2,116)
Tax liabilities		(36)	5	(31)
Total liabilities		(1,663)	(831)	(2,494)
Total equity		233	2,184	2,417
Other segment information				
Capital expenditure	14, 15	9	–	9
Depreciation	15	5	–	5
Impairment of long-lived assets	14	4	–	4

Average number of UK employees (permanent and contract)		951	–	951
Average number of overseas employees (permanent and contract)		269	–	269
Average number of total employees (permanent and contract)		1,220	–	1,220

Average employee numbers are on a full-time equivalent basis.

4. Revenue from contracts with Customers

Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Corporation of Lloyd's		Lloyd's Central Fund		Society Total	
	2019 £m	2018 (restated) £m	2019 £m	2018 £m	2019 £m	2018 (restated) £m
Type of service						
Members' subscriptions	125	128	–	–	125	128
Market charges and other services						
Market charges	190	185	–	–	190	185
Market modernisation levy	(4)	33	–	–	(4)	33
Reinsurance commission	37	3	–	–	37	3
Members' subscriptions rebate, net	(6)	(12)	–	–	(6)	(12)
Other charges	16	15	–	–	16	15
Central Fund income	–	–	125	149	125	149
Total revenue from contracts with customers	358	352	125	149	483	501
Geographical markets						
UK	237	296	125	149	362	445
Europe	34	–	–	–	34	–
China	22	21	–	–	22	21
Other	65	35	–	–	65	35
Total revenue from contracts with customers	358	352	125	149	483	501

Note: The segmental analysis of income is restated to disclose Reinsurance commission income separately from market charges to managing agents and syndicates and to separately disclose income from the Europe geographical segment.

The table below analyses insurance premiums by geographical segment:

2019 £m	UK	Europe	China	Other	Total
Gross written premiums	–	2,309	157	–	2,466
Outward reinsurance premiums	–	(2,309)	(157)	–	(2,466)
Net insurance premiums	–	–	–	–	–

Note: In addition to Central Fund contributions, Central Fund income includes £2m (2018: £24m) of recoveries to the Central Fund and other income.

2018 £m	UK	Europe	China	Other	Total
Gross written premiums	–	–	176	–	176
Outward reinsurance premiums	–	–	(176)	–	(176)
Net insurance premiums	–	–	–	–	–

Revenue recognised from previously satisfied performance obligations is £12m (2018: £14m). This represents the adjustment to members' subscriptions, market modernisation levy and Central Fund contributions based on final premiums written for the year of account.

4. Revenue from contracts with customers *continued*

Disaggregated revenue information *continued*

Timing of revenue recognition

Services transferred over time	358	352	–	–	358	352
Services transferred at a point in time	–	–	125	149	125	149
Total revenue from contracts with customers	**358**	352	**125**	149	**483**	501

Central Fund contributions from members and Corporation of Lloyd's subscriptions

During the year, members paid to the Corporation (members' subscriptions) and to the Central Fund (Central Fund contributions from members) 0.36% and 0.35% respectively of their syndicate forecast gross written premium (2018: 0.36% and 0.35% respectively). Central Fund contributions in the first three years of membership are charged at 1.4% of syndicate forecast gross written premium. The £123m (2018: £128m) Central Fund contributions from members and £125m (2018: £128m) members' subscriptions included in the Group income statement are based on the final amounts retained by the Central Fund and the Corporation respectively. Central Fund income includes market settlement recoveries of £2m (2018: £16m), which represent continuing debt recoveries from the 1996 Reconstruction and Renewal settlement, and recoveries in respect of Undertakings previously given by the Central Fund.

In order to fund the operation of the Society's overseas network of offices, an overseas operating charge is levied on the market based on a set percentage of overseas gross written premiums. The collection method is quarterly.

In addition to the above, a levy was charged to fund the costs of market modernisation, the levy is calculated as 0.07% (2018: 0.09%) of gross written premiums. 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 recognising revenue with reference to market modernisation services which demonstrably are not completed. This has led to the deferral of £30m of income at the reporting date.

The rebate on members' subscriptions is the net amount paid or payable to members in relation to targets for the adoption of the electronic placement of business within the market.

5. Central Fund claims and provisions incurred

The Council grants Undertakings within financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls (see note 2(m) for further information). Unutilised Undertakings as at 31 December 2019 were nil (2018: nil).

6. Insurance activities

Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited

Lloyd's Insurance Company S.A. (Lloyd's Brussels) and Lloyd's Insurance Company (China) Limited (Lloyd's China) are the principal insurance businesses of the Society. Lloyd's Brussels and Lloyd's China are wholly owned subsidiary undertakings 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 Brussels's and Lloyd's China's business by means of retrocession agreements.

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. In accordance with the approach for reporting to their respective regulators, the Lloyd's China outstanding claims provisions are discounted for the time value of money, whilst no allowance for the time value of money is made for Lloyd's Brussels outstanding claims reserves. The Society's policy is to apply the valuation technique used in the issuing entity's statutory or regulatory reporting as described in note 2(g); the approach to discounting reflects local reporting requirements and practice under China GAAP and Belgian GAAP respectively.

6. Insurance activities *continued*

Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited *continued*

	2019 £m	2018 £m
Insurance claims		
Gross claims		
Claims paid	(198)	(108)
Net change in gross provision for claims	(753)	(31)
Total gross claims	(951)	(139)
Acquisition costs	(351)	(50)
Total gross insurance claims and insurance expenses incurred	(1,302)	(189)
Europe	(1,140)	–
China	(162)	(189)

	2019 £m	2018 £m
Claims recoverable from reinsurers		
Claims recovered from reinsurers	198	108
Net change in reinsurers share of provision for claims	753	31
Total claims recoverable from reinsurers	951	139
Acquisition costs recovered from reinsurers	351	50
Total insurance claims and expenses recoverable from reinsurers	1,302	189
Europe	1,140	–
China	162	189

Insurance contract assets and liabilities are analysed as follows:

	2019 Insurance contract liabilities £m	2019 Reinsurer's share of liabilities £m	2019 Net £m	2018 Insurance contract liabilities £m	2018 Reinsurer's share of liabilities £m	2018 Net £m
Provision for claims reported	227	(227)	–	136	(136)	–
Provision for IBNR claims	763	(763)	–	129	(129)	–
Total provision for insurance claims	990	(990)	–	265	(265)	–
Unearned premiums	888	(888)	–	82	(82)	–
Insurance contract liabilities	1,878	(1,878)	–	347	(347)	–

The balances result from the commencement of Lloyd's Brussels underwriting from 1 January 2019 and the cumulative growth of the Lloyd's China platform over time and the duration of claims payments.

The movement in provision for insurance claims is analysed as follows:

	2019 Insurance contract liabilities £m	2019 Reinsurer's share of liabilities £m	2019 Net £m	2018 Insurance contract liabilities £m	2018 Reinsurer's share of liabilities £m	2018 Net £m
At 1 January	265	(265)	–	233	(233)	–
Claims incurred/(released)	951	(951)	–	139	(139)	–
Claims (paid)/recoveries (see below)	(198)	198	–	(108)	108	–
Effect of exchange rates	(28)	28	–	1	(1)	–
At 31 December	990	(990)	–	265	(265)	–

Claims incurred consist of claims and claims handling expenses paid during the year, together with the change in provision for outstanding claims. Full provision is made, on the basis of available information, for the estimated ultimate cost of claims notified but not settled as at the date of the statement of financial position, after taking into account handling costs and, for Lloyd's China, settlement trends. A provision for claims incurred but not reported is also established as at that date on a statistical basis. The provision also reflects claims settlement expenses and anticipated reinsurance and other recoveries. The provision for outstanding claims is based on information available at the reporting date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are recorded in the Group income statements of later years.

6. Insurance activities *continued*

Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited *continued*

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.

	2015 and prior £m	2016 £m	2017 £m	2018 £m	**2019 £m**	**Total £m**
At end of underwriting year	253	117	103	77	**902**	
One year later	259	157	161	105		
Two years later	250	165	172			
Three years later	248	169				
Four years later	240					
Current estimate of cumulative claims	240	169	172	105	**902**	**1,588**
Cumulative payments to date	(220)	(135)	(117)	(38)	**(88)**	**(598)**
Total provision for insurance claims	20	34	55	67	**814**	**990**

As the Lloyd's Brussels 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.

Provision for unearned premiums

The movement in provision for unearned premiums is analysed as follows:

	2019 Insurance contract liabilities £m	**2019 Reinsurer's share of liabilities £m**	**2019 Net £m**	2018 Insurance contract liabilities £m	2018 Reinsurer's share of liabilities £m	2018 Net £m
At 1 January	**82**	**(82)**	**–**	109	(109)	–
Premiums written	**2,466**	**(2,466)**	**–**	176	(176)	–
Premiums earned	**(1,422)**	**1,422**	**–**	(202)	202	–
Acquisition costs deferred	**(211)**	**211**	**–**	–	–	–
Effect of exchange rates	**(27)**	**27**	**–**	(1)	1	–
At 31 December	**888**	**(888)**	**–**	82	(82)	–

Insurance Risk

Insurance risk represents the possibility of the occurrence of a risk event, which results in uncertainties in relation to claim payments and timing. Under the Society's insurance contracts, the key insurance risk of the company is that the actual claim payment exceeds the carrying amount of insurance reserves provided. These risks are likely to take place under the following circumstances:

- Occurrence risk – the possibility that the number of risk events is different from expectation;
- Severity risk – the possibility that the cost of risk events is different from expectation; and
- Development risk – the possibility that there is a change in reserves before the end of the contract.

6. Insurance activities *continued*

Insurance Risk *continued*

Lloyd's Brussels and Lloyd's China has reinsured and retroceded 100% of the insurance risk for all underwritten premiums. As such, insurance risk after this is nil. Therefore, an increase or decrease in estimated insurance contract liabilities has a corresponding impact on insurance contract assets with reinsurers, and net nil impact on the Society's surplus for the year or net assets. The concentration of insurance risk, before the 100% retrocession, is presented by major line of business below:

	2019 %	2018 %
Property insurance	9	32
Agricultural insurance	1	15
Credit insurance	4	4
Engineering insurance	2	11
Marine insurance	20	10
Special risk insurance	–	4
Liability insurance	13	15
Accident and Health insurance	8	–
Aviation insurance	5	–
Energy insurance	7	–
Financial products	22	–
Other	9	9
	100	100

Risks

In addition to the risks which are set out in the Financial Risk Management section on pages 108 and 109, Lloyd's Brussels and Lloyd's China are also subject to the following risks:

- Credit risk: there is a risk that a syndicate may be unable to fulfil its reinsurance obligations, in which case Lloyd's Brussels or Lloyd's China could potentially be exposed to a loss; and
- Regulatory risk: as an overseas underwriting company, Lloyd's Brussels or Lloyd's China is subject to the requirements of the local regulator and could be subject to penalties if these regulations are not satisfied.

Management do not consider that Lloyd's Brussels or Lloyd's China is subject to insurance risk due to the fact that all business is 100% reinsured.

Risk margin

Risk margin is the reserves provided for the uncertainty of estimated future cash flows. As Lloyd's Brussels and Lloyd's China have insufficient cumulative historic data to perform an accurate computation of its risk margin, judgement is required. The margin for non-life business is determined based on an industry ratio. For Lloyd's Brussels, a risk margin of 4.5% is applied to the incurred claims reserve on a best estimate basis. No risk margin is applied to the unearned premium reserve in accordance with Belgian regulatory reporting requirements. Judgement is required as to whether industry ratios are reflective of the uncertainty of Lloyd's Brussels future cash flows.

Similarly, for Lloyd's China, judgement has been applied to determine the risk margin of the unearned premium reserve and outstanding claims reserve, which are set at 3% and 2.5% of the unbiased estimation of the respective future cash flows.

Credit Risk

Lloyd's Brussels 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 credit worthiness of counterparties and reviewing the pattern of aged debt across the portfolio 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(h).

Significant accounting estimates

Insurance contract reserves are calculated based on estimates of future payments arising from insurance contract obligations. The estimates are based on current available information as at the balance sheet date taking into account the respective probability of various scenarios.

6. Insurance activities *continued*

Unexpired risk reserve

The main assumptions used in the calculation of the Lloyd's China unexpired risk reserve relate to the loss ratio, expenses and the discount rate. Lloyd's Brussels do not currently calculate an unexpired risk reserve because the loss ratios used indicate no loss-making categories of business written.

(a) Loss ratio

The Lloyd's China insurance loss ratio is calculated by making estimates with reference to the historical experience of loss ratios in the London insurance market; the expected loss ratio provided by syndicates; and the Corporation's actual claims experience. As Lloyd's Brussels commenced underwriting from 1 January 2019, there is currently insufficient actual claims experience. Therefore, the Lloyd's Brussels loss ratios are based on a detailed assessment of historical experience of loss ratios in the Lloyd's market and business forecasts submitted by syndicates for business underwritten through Lloyd's Brussels. The loss ratios derived are then compared to the latest European insurance market data published by the European Insurance and Occupational Pension Authority (EIOPA).

(b) Expenses

In determining expense assumptions, estimates are made based on analysis of future development trends. For Lloyd's China only, inflation is taken into account where applicable. The assumptions set for the inflation rate are consistent with those used for determining the discount rate.

(c) Discount rate

For Lloyd's China only, the discount rate used to calculate the unexpired risk reserve is based on the market rate corresponding to the term and risk of liabilities. Discount rates are determined with reference to the 750-day moving average bond yield curve, taking liquidity, taxation and other factors into account. The discount rate assumption is affected by certain factors, such as future macroeconomics and capital markets and is therefore subject to uncertainty. No allowance for the time value of money is made by Lloyd's Brussels in line with the basis of its local regulatory reporting.

Provision for insurance claims

When calculating the provision for insurance claims, the estimate is based on the expected ultimate cost of claims reported and incurred but not reported claims at the balance sheet date. For Lloyd's Brussels, the ultimate claim cost is determined based on detailed assessment of historical loss ratios experienced in the Lloyd's market and syndicate business forecasts; compared to the latest European insurance market data published by EIOPA.

Since Lloyd's Brussels has no historical claims experience, determining the ultimate loss ratios is judgemental and relies on analysis of other relevant data that is available. The Lloyd's Market Capital & Reserving team analyse historical market loss ratios for all relevant classes of business written at Lloyd's to determine benchmark loss ratios by class of business. Lloyd's Brussels assess the benchmark loss ratios against the insurance sector's combined loss ratios as gathered by EIOPA in their 2019 Financial Stability Report, as well as Lloyd's Brussel's syndicate business forecast estimates to assess whether adjustments are required. A change to the loss ratio for an individual class of business has a relatively insignificant impact on the valuation of insurance contract liabilities as a whole. Any change in the estimated ultimate loss ratio has a net nil impact on net assets given all risks are 100% reinsured.

For Lloyd's China, the ultimate claim cost is determined based on historical experience; the expected loss ratio provided by the syndicates; and actual claims experience. Claims expense reserves are calculated with reference to actual claims expenses and future developing trends by class of business. 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. 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 classes of business has a relatively insignificant impact on the valuation of insurance contract liabilities as a whole. Any change in the estimated ultimate loss ratio has a net nil impact on net assets given all risks are 100% reinsured.

7. Group operating expenses

	Note	2019 Corporation of Lloyd's £m	2019 Lloyd's Central Fund £m	2019 Total £m
Group operating expenses include:				
Employment costs	8	173	–	173
Legal and professional fees				
Professional fees, including legal fees and related costs		70	1	71
Audit		1	–	1
Other assurance services payable to PricewaterhouseCoopers LLP		1	–	1
Total legal and professional fees		72	1	73
Charitable donations		1	–	1

	Note	2018 Corporation of Lloyd's £m	2018 Lloyd's Central Fund £m	2018 Total £m
Group operating expenses include:				
Employment costs	8	164	–	164
Operating lease costs – Lloyd's 1986 building	2	17	–	17
Operating lease costs – other	2	9	–	9
Legal and professional fees				
Professional fees, including legal fees and related costs		48	1	49
Audit		1	–	1
Other assurance services payable to PricewaterhouseCoopers LLP		1	–	1
Total legal and professional fees		50	1	51
Charitable donations		1	–	1

Other assurance services payable to PricewaterhouseCoopers LLP include work undertaken on the Aggregate Accounts, Pro Forma Financial Statements and regulatory returns, in addition to actuarial and information technology services.

8. Employment

	Note	2019 £m	2018 £m
Salaries and wages (including performance related bonus)		98	91
Lloyd's Performance Plan (excluding social security costs)		10	–
Lloyd's Pension Scheme costs	13	2	12
Other pension costs		9	7
Social security costs		14	11
Severance costs		3	5
Contract and agency employees		23	25
Other employment costs		14	13
Total employment costs		173	164

The emoluments of the Chairman, Chief Executive Officer and members of the Council and Board are included in the Report of the Remuneration Committee on pages 91 and 92. The number of employees is disclosed in note 3.

9. Finance costs and income

	2019 Corporation of Lloyd's £m	2019 Lloyd's Central Fund £m	2019 Total £m
Finance costs			
Interest payable on financial liabilities measured at amortised cost	–	(38)	(38)
Amortisation of issue costs and discount	–	(1)	(1)
Other finance costs	(9)	(3)	(12)
Total finance costs	(9)	(42)	(51)
Finance income			
Bank interest received	7	5	12
Dividends received	–	7	7
Other returns on investments designated at fair value through profit or loss	(3)	158	155
Unrealised fair value movement of forward contracts held for trading	(3)	(9)	(12)
Realised fair value movement of forward contracts held for trading	2	(11)	(9)
Decrease in valuation of loans recoverable designated at fair value through profit and loss	–	(2)	(2)
Total finance income	3	148	151

	2018 Corporation of Lloyd's £m	2018 Lloyd's Central Fund £m	2018 Total £m
Finance costs			
Interest payable on financial liabilities measured at amortised cost	–	(38)	(38)
Amortisation of issue costs and discount	–	(1)	(1)
Total finance costs	–	(39)	(39)
Finance income			
Bank interest received	5	6	11
Dividends received	–	5	5
Other returns on investments designated at fair value through profit or loss	11	52	63
Unrealised fair value movement of forward contracts held for trading	(5)	4	(1)
Realised fair value movement of forward contracts held for trading	3	12	15
Total finance income	14	79	93

10. Investments in subsidiary 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 2019, as set out in the Society Group income statement.

Company name	Nature of business	Registered Address and Country of incorporation
Additional Underwriting Agencies (No. 5) Limited	Acts as members' agent for certain names Names who had open years of account during 1992 and earlier	Clyde & Co LLP The St Botolph Building, 138 Houndsditch London, EC3A 7AR England and Wales
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	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 Brussels")	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 Members Agency Services Limited	Acts as members' agent for run off affairs	One Lime Street, London, EC3M 7HA England and Wales
Syndicate Underwriting Management Limited	Currently not trading	One Lime Street, London, EC3M 7HA England and Wales
Lloyd's Australia Limited	Provision of administrative functions for Lloyd's underwriters and acts as liaison office with the insurance regulatory authorities in Australia	Level 9, 1 O'Connell Street, Sydney NSW 2000, Australia
Lloyd's Canada Inc.	Provision of administration function on behalf of the Society and Lloyd's underwriters in Canada	1155 Metcalfe Street, Suite 2200, Montreal, Quebec H3B 2V6, Canada
Lloyd's Cyprus Limited	Acts as general and fiscal representative for Lloyd's underwriters in Cyprus	41-49 Agiou Nicolaou Street, Nimeli Court, Block C 2408 Engomi, Nicosia, Cyprus
Lloyd's Escritorio de Representacao no Brasil Ltda.	Provides representative, administrative and management services on behalf of the Society and participant of Lloyd's insurance market. Also acts as general and fiscal representative for Lloyd's underwriters	Av. Almirante Barroso 52/2401 Rio de Janeiro, Brazil
Lloyd's France SAS	Provides administrative and management services on behalf of the Society and insurance market participants	8/10 rue Lamennais, 75008 Paris, France
Lloyd's Iberia Representative S. L. U.	Provides administrative and management services on behalf of the Society and participants of Lloyd's insurance market	C/ Pinar, 7 1ª Drcha, 28006 Madrid, Spain
Lloyd's Insurance Company (China) Limited	Authorised insurance company in China	3001, 3004, 3005, 3006, 3007, 3008, 30th Floor, No.501 Middle Yincheng Road, China (Shanghai) Free Trade Zone
Lloyd's Insurance Company S.A.	Authorised insurance company in Belgium for EEA business	Bastion Tower – Floor 14 5 Place du Champ de Mars, 1050 Bruxelles, Belgium
Lloyd's Ireland Representative Limited	Provides administrative and management services on behalf of the Society and participants of Lloyd's insurance market. Also acts as general representative for Lloyd's underwriters in Ireland	7/8 Wilton Terrace, Dublin 2, D02 KC57, Republic of Ireland
Lloyd's Japan Inc.	Acting as a general agent for the Society in Japan	Tokyo Club Building 6F 3-2-6 Kasumigaseki Chiyoda-ku, Tokyo 100-0013 Japan

10. Investments in subsidiary undertakings *continued*

Company name	Nature of business	Registered Address and Country of incorporation
Lloyd's Labuan Limited	Licensed to carry on business as underwriting manager in Malaysia	Brighton Place,Ground Floor U0123-U0215 Jalan Bahasa 87014 Labuan F.T, Malaysia
Lloyd's Limited	Provides administrative and management services on behalf of the Society and participants of Lloyd's insurance market	Dubai International Financial Centre Office 301, Precinct Building 2 DIFC, Dubai, United Arab Emirates
Lloyd's Malta Limited	Acts as a local general representative of the Society and those underwriting members of Lloyd's who transact insurance business in Malta	171, Old Bakery Street, Valletta VLT 1455, Malta
Lloyd's Netherlands Representative B. V.	Acts as representative office of Lloyd's underwriters and the Society	Beursplein 37 Kant. H20.02 t/m H20.04 3011 AA Rotterdam, Netherlands
Lloyd's of London (Asia) Pte Ltd	Provides support for business development, administration and co-ordination services to the Society and Lloyd's managing agents. Also provides administrative functions for Lloyd's underwriters and acts as a liaison with the relevant regulatory authorities in Singapore	138 Market Street, #05-01 CapitaGreen, Singapore 048946
Lloyd's of London (Representative Office) Greece Single MemberSA	Acts as general and fiscal representative of Lloyd's underwriters in Greece	25A Boukourestiou Street, 106 71 Athens, Greece
Lloyd's Polska Sp. z o.o.	Provides administrative and management services on behalf of the Society and participants of Lloyd's insurance market	ul. Emilii Plater 53 . 00-113 Warszawa, Poland
Lloyd's South Africa (Proprietary) Ltd	Provision of administration function on behalf of the Society and Lloyd's underwriters in South Africa	15th floor, The Forum 2 Maude Street, Sandton South Africa
Lloyd's America Ltd.	Parent Company of Lloyd's America Holding Inc.	One Lime Street, London, EC3M 7HA England and Wales
Lloyd's America Holdings Inc. Lloyd's America Inc.	Provision of services to the Society and its brokers and customers in North America	42 West 54th St., 14th Floor New York, NY 10019
Lloyd's Kentucky Inc.	Provision of services to the Society and its brokers and customers in North America	200 W. Main St. Frankfort, Kentucky KY 40601-1806
Lloyd's Illinois Inc.	Provision of services to the Society and its brokers and customers in North America	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% owned with the exception of Lloyd's Escritorio de Representacao no Brasil Ltda. which is 99.99% owned by the Society and Lloyd's Insurance Company S.A. which is 99% directly owned by the Society and 1% indirectly owned via 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 (2018: RMB 1bn) within Lloyd's Insurance Company (China) Limited (LICCL) and €300m (2018: €201m) 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

The Society has an ongoing interest in the following dormant subsidiaries. These subsidiaries are all 100% owned by the Society and they have not actively traded for the year ended 31 December 2019.

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
Bankside Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Barder & Marsh Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
CI de Rougemont (Nominees) Limited	One Lime Street, London, EC3M 7HA England and Wales
CMA (CT&W) Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Crowe Agency Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Cuthbert Heath Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Devonshire Underwriting Agencies Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
EHW (Nominees) Limited	One Lime Street, London, EC3M 7HA England and Wales
EWC (Nominees) Limited	One Lime Street, London, EC3M 7HA England and Wales
GP Eliot (Nominees) Limited	One Lime Street, London, EC3M 7HA England and Wales
Gammell Kershaw Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
GTUA Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Habit Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Hayter Brockbank Shipton Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Higgins Brasier Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd’s Nominees Director Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd’s Nominees Secretary Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd’s of London (Cassidy Members) Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd’s of London (Claremount) Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd’s of London (Harrison Brothers) Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd’s of London (Murray Lawrence) Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd’s of London (Octavian) Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd’s of London (R J Kiln) Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd’s of London (Sedgwick) Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd’s of London (Spratt & White) Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales

10. Investments in subsidiary undertakings *continued*
Dormant subsidiaries *continued*

Company name	Registered Address and Country of incorporation
Lloyd's of London (Stewart Members) Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd's of London (Wellington) Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd-Roberts & Gilkes Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Mander, Thomas & Cooper Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Meacock (Nominees) Limited	One Lime Street, London, EC3M 7HA England and Wales
MFK Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Miles Smith Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Mocatta Dashwood Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
MUA Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Mythzone Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Nomad Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Pieri Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Pound Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
R F Kershaw (Nominees) Limited	One Lime Street, London, EC3M 7HA England and Wales
Rilong Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Scott Caudle Hilsum Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Sturge Central Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
Wendover Nominees Limited	One Lime Street, London, EC3M 7HA England and Wales
WFDA Nominees 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

Company name	Registered Address and Country of incorporation
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

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.

11. Investments 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			
The Message Exchange Limited	One Lime Street, London, EC3M 7HA England and Wales	Limited by guarantee 25%	Provision of messaging infrastructure to the London insurance market
Structured Data Capture Limited	One Lime Street, London, EC3M 7HA England and Wales	Limited by guarantee 33%	Provision of standardisation of data capture across the London market
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

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.

11. Investments in Associates and Joint Ventures *continued*

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.

In 2018, the Society entered into a joint venture agreement with International Underwriting Association of London Limited and Lloyd's Market Association for an equal participation in London Market Operations and Strategic Sourcing Limited ("LMOSS") which was incorporated on 7 March 2018.

The Society entered into a joint venture agreement with International Underwriting Association of London Limited; London and International Brokers' Association Limited; and Lloyd's Market Association for an equal participation in The Message Exchange Limited ("TMEL") which was incorporated on 27 August 2010. TMEL operates The Exchange – a simple messaging hub provided to the London insurance market to support its efforts to extend the use of electronic processing of business. TMEL entered into an agreement with LMOSS for the sale of the business and assets of the company on 29 November 2019. The consideration received was £1 and no gain or loss was recognised in the Group Financial Statements for the year.

In 2017, the Society entered into a joint venture agreement with International Underwriting Association of London Limited and Lloyd's Market Association for an equal participation in Structured Data Capture Limited ("SDC") which was incorporated on 14 June 2017. SDC entered into an agreement with LMOSS for the sale of the business and assets of the company on 25 November 2019. The consideration received was £1 and no gain or loss was recognised in the Group Financial Statements for the year.

Investments in Associates and Joint Ventures

	2019 £m	2018 £m
At 1 January	19	18
Share of operating profits	12	12
Share of tax on profit on ordinary activities	(3)	(3)
Total share of profits of associates and joint ventures	9	9
Share of actuarial gains on pension liability	–	1
Dividends received	(7)	(9)
At 31 December	**21**	19

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		The Message Exchange Limited As at 31 December		Structured Data Capture Limited As at 31 December		London Market Operations and Strategic Sourcing Limited As at 31 December	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Current assets										
Debtors	**19**	21	**4**	4	**–**	–	**–**	–	**–**	–
Prepayments and accrued income	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Cash at bank and in hand	**43**	36	**24**	28	**–**	–	**–**	–	**4**	2
Total current assets	**62**	57	**28**	32	**–**	–	**–**	–	**4**	2
Non-current assets										
Tangible fixed assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Intangible assets	**29**	34	**–**	–	**–**	–	**–**	–	**–**	–
Deferred tax assets	**3**	3	**–**	–	**–**	–	**–**	–	**–**	–
Pension asset	**–**	–	**1**	1	**–**	–	**–**	–	**–**	–
Total non-current assets	**32**	37	**1**	1	**–**	–	**–**	–	**–**	–
Current liabilities										
Creditors falling due within one year	**(37)**	(41)	**(12)**	(17)	**–**	–	**–**	–	**(1)**	(2)
Current income tax liabilities	**(1)**	(4)	**(2)**	(2)	**–**	–	**–**	–	**–**	–
Provisions	**–**	(1)	**–**	–	**–**	–	**–**	–	**(3)**	–
Total current liabilities	**(38)**	(46)	**(14)**	(19)	**–**	–	**–**	–	**(4)**	(2)
Net assets	**56**	48	**15**	14	**–**	–	**–**	–	**–**	–

Summarised statement of comprehensive income

	Ins-sure Holdings Limited		Xchanging Claims Services Limited		The Message Exchange Limited		Structured Data Capture Limited		London Market Operations and Strategic Sourcing Limited	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Revenues	**89**	94	**31**	32	**–**	2	**1**	3	**8**	2
Operating costs	**(65)**	(65)	**(21)**	(22)	**–**	(2)	**(1)**	(3)	**(8)**	(2)
Operating profit	**24**	29	**10**	10	**–**	–	**–**	–	**–**	–
Tax on profit on ordinary activities	**(4)**	(7)	**(2)**	(2)	**–**	–	**–**	–	**–**	–
Profit for the financial year	**20**	22	**8**	8	**–**	–	**–**	–	**–**	–
Other comprehensive income	**(2)**	2	**–**	–	**–**	–	**–**	–	**–**	–
Total comprehensive income	**18**	24	**8**	8	**–**	–	**–**	–	**–**	–

12. Taxation

(a) Tax charge

	2019 £m	2018 £m
Current tax:		
Corporation tax based on profits for the year at 19% (2018: 19%)	(35)	(42)
Adjustments in respect of previous years	–	(12)
Foreign tax suffered	(4)	(4)
Total current tax	(39)	(58)
Deferred tax:		
Origination and reversal of timing differences		
Current year	5	8
Prior year	1	11
Tax charge recognised in the Group income statement	(33)	(39)
Analysis of tax charge recognised in the Group statement of comprehensive income:		
Tax credit/(charge) on actuarial loss on Group pension liabilities	10	(12)
Tax credit/(charge) recognised in the Group statement of comprehensive income	10	(12)
Total tax charge	(23)	(51)

(b) Reconciliation of effective tax rate

	2019 %	2019 £m	2018 %	2018 £m
Surplus on ordinary activities before tax		170		202
Expected tax at the current rate	19.0%	(33)	19.0%	(38)
Expenses not deductible for tax purposes	1.0%	(2)	1.3%	(3)
Overseas tax	–	–	(1.4%)	3
Share of profits of associates and joint ventures	(0.9%)	2	(0.9%)	2
Deferred tax adjustment relating to change in tax rate	0.5%	(1)	1.0%	(2)
Deferred tax prior year adjustments	(0.3%)	1	(5.6%)	11
Current tax prior year adjustments	–	–	5.9%	(12)
Tax charge	19.3%	(33)	19.3%	(39)

12. Taxation *continued*

(c) Deferred tax

	2019 Balance at 1 January £m	2019 Income statement £m	2019 Statement of comprehensive income £m	2019 Balance at 31 December £m
Plant and equipment	6	7	–	13
Losses provided	6	–	–	6
Pension liabilities	16	(2)	10	24
Other employee benefits	1	1	–	2
Provisions	2	–	–	2
Total deferred tax asset	**31**	**6**	**10**	**47**

In 2019 there were no unrecognised deductible temporary differences (2018: 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 corporation tax rates of 19% to 17% depending on when an asset is expected to unwind (2018: 19% to 17%). Reductions to the UK corporate tax rate to 19% from 1 April 2017 and 17% from 1 April 2020 were announced in the Budget 2016 on 16 March 2016 and substantively enacted in September 2016.

	2018 Balance at 1 January £m	2018 Income statement £m	2018 Statement of comprehensive income £m	2018 Balance at 31 December £m
Plant and equipment	5	1	–	6
Losses provided	–	6	–	6
Financial investments	(13)	13	–	–
Pension liabilities	29	(1)	(12)	16
Other employee benefits	2	(1)	–	1
Provisions	1	1	–	2
Other items	1	–	(1)	–
Total deferred tax asset	25	19	(13)	31

13. Pension schemes

The Society 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.

Defined benefit and defined contribution pension schemes

The pension deficits of the defined benefit schemes at 31 December 2019 are as follows:

	2019 £m	2018 £m
Lloyd's Pension Scheme	(137)	(87)
Overseas pension schemes	(3)	(3)
Total schemes deficit	(140)	(90)

The amounts charged/(credited) to the Group income statement and Group statement of comprehensive income in respect of defined benefit plans and defined contribution plan, are as follows:

	2019 £m	2018 £m
Group income statement		
Lloyd's Pension Scheme	2	12
Overseas pension schemes	2	2
Other pension contributions	7	5
Total	11	19
Group statement of comprehensive income		
Lloyd's Pension Scheme	59	(71)
Total	59	(71)

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 £7m (2018: £5m).

Members of the Lloyd's Group Personal Pension plan can elect their contribution rate (payable via salary sacrifice) and can change this at any time.

The contribution matrix for the Group Personal Pension Plan was enhanced in 2018 and is now:

Employee	Lloyd's	Total
3%	8%	11%
4%	9%	13%
5%	10%	15%
6%	11%	17%
7%	12%	19%
8%	13%	21%
9%	14%	23%
10% or more	15%	25%

The cap on Lloyd's contribution is 15%.

13. Pension schemes *continued*

Lloyd's Pension Scheme

The Lloyd's Pension Scheme is a defined benefit pension scheme with assets held in a separately administered fund. The Scheme provides pensions to members on retirement, as well as benefits on the death of members. The Scheme operates in accordance with the Scheme's Trust Deed and Rules and relevant legislation. A Board of Trustees manage and administer the Scheme; they are primarily responsible for ensuring that members are paid the correct benefits at the correct time, and that there are sufficient Scheme assets to pay benefits as they fall due.

The 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.

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.

A formal actuarial valuation of the Scheme was carried out by Willis Towers Watson as at 30 June 2016 using the projected unit credit method. The total market value of the Scheme's assets at the 2016 valuation was £663m, and the total value of accrued liabilities was £726m showing a funding deficit of £63m. These figures exclude both liabilities and the related assets in respect of money purchase Additional Voluntary Contributions (AVCs). A recovery plan is in place and has been agreed with the Trustees.

The Trustee is currently undertaking a formal actuarial valuation of the Scheme as at 30 June 2019. The statutory deadline for completing this actuarial valuation is 30 September 2020.

Discretionary pension increases – treatment for funding purposes

There are no guaranteed increases in payment for most of the pensions accrued before 6 April 1997 (apart from on guaranteed minimum pension). In 2003, Lloyd's instructed Willis Towers Watson not to allow for such increases in calculating the Scheme's liabilities for future actuarial funding valuations. Such increases have always been payable at the discretion of the Society and will continue to be considered on the basis of affordability but are not taken into account by the actuary in determining the funding level.

Guaranteed minimum pension equalisation

On 26 October 2018, the High Court ruled on the equalisation of benefits for the gender effect on a member's guaranteed minimum pension ("GMP"). The High Court rules that equalisation is required. Following this, Willis Towers Watson provided a report to the Society setting out the financial effect of the GMP equalisation on the pension liabilities for the purpose of disclosure in the 2018 Society financial statements. Lloyd's agreed that an allowance of 0.4% of the pension liabilities as at 31 December 2018 should be reflected in the accounting valuations as an estimate of the extra liabilities in respect of the GMP equalisation.

For the valuation as at 31 December 2019 the allowance for 0.4% of the pension liabilities has been retained.

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 higher deficit disclosed and therefore higher recovery contributions required from the Society. This may also impact the Society's ability to grant discretionary benefits or other enhancements to members.

13. Pension schemes *continued*

Information about the risks of the Scheme to the Society *continued*

More specifically, the assumptions not being borne out in practice could include:

– The return on the Scheme's assets being lower than assumed;
– Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities;
– A decrease in corporate bond yields will increase the Scheme's liabilities, although this will be partially offset by an increase in the value of the Scheme's bond assets;
– Some of the Scheme's assets are linked to inflation, and higher inflation will lead to higher liabilities; and
– Unanticipated future changes in mortality patterns leading to an increase in the life expectancy for members, resulting in higher liabilities. Future mortality rates cannot be predicted with certainty.

The Scheme's investment strategy

The Scheme's investment strategy apportions the Scheme's assets into two portfolios. The risk-reducing portfolio, currently amounting to around 50% of the total assets, is invested in bonds, structured with the intention of generating cash flows that match as far as possible those required to meet a proportion of the Scheme's obligations. The return-seeking portfolio is intended to generate returns which over the long term will fund the remainder of the Scheme's obligations. This portfolio is invested in a range of assets including passive and active equities, property and infrastructure.

As the Scheme matures, the Trustees and the Society expect to continue to gradually reduce the proportion allocated to return-seeking assets and increase the proportion allocated to matching assets.

Principal actuarial assumptions in respect of IAS 19

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 mortality table used for the purposes of the IAS 19 valuation as at 31 December 2019 was 94% of SAPs S3 light tables for male members and 93% SAPs S3 light tables for female members, 103% of SAPs S3 light tables for dependants of male members and 90% of SAPs S3 tables for dependants of female members with allowance for future improvements in line with the Continuous Mortality Investigation's (CMI) published 2018 core projection model with 1.25% per annum long-term improvements and an initial addition parameter of 0.5% per annum (2018: 110% of SAPs S1 light tables for males and 115% SAPs S1 light tables for females, with allowance for future improvements in line with CMI's 2017 core projections with 1.5% per annum trend improvement).

These assumptions are equivalent to expected longevity at age 60 approximately as follows:

– For pensioners currently aged 60: ranging from 29 years to 30 years (2018: 28 years to 29 years); and
– For non-pensioners currently aged 45: ranging from 30 years to 31 years (2018: 29 years to 30 years).

The other major financial assumptions used by the actuary as at 31 December 2019 for the purposes of IAS 19 were:

	2019 % per annum	2018 % per annum	2017 % per annum	2016 % per annum	2015 % per annum
General salary and wage inflation	N/A	N/A	4.2	4.4	4.2
Rate of increase in pensions in payment					
6 April 1997 to 5 April 2005	2.8	3.1	3.1	3.2	3.1
Post 5 April 2005	1.9	2.2	2.2	2.3	2.2
Increases to final salary deferred pensions					
Benefits accrued before April 2009	2.2	2.2	2.2	2.4	2.2
Benefits accrued from April 2009	2.2	2.2	2.2	2.4	2.2
CARE* revaluation in service and in deferment, and increase in payment	1.9	2.2	2.2	2.3	2.2
Discount rate	2.0	2.9	2.4	2.6	3.8
Price inflation					
Retail Price Inflation (RPI)	2.9	3.2	3.2	3.4	3.2
Consumer Price Inflation (CPI)	2.2	2.2	2.2	2.4	2.2

*Career average revalued earnings.

13. Pension schemes *continued*

Principal actuarial assumptions in respect of IAS 19 *continued*

An allowance is made for members commuting 20% (2018: 20%) of their pension on retirement using the factors in use at the respective date.

For IAS 19 purposes, 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 2019 the value of the notional fund was £21m (2018: £26m).

Sensitivity of pension obligation to changes in assumptions

The discount rate, inflation and mortality assumptions are critical estimates. The actuarial valuation of liabilities under IAS 19 is particularly sensitive to changes in market conditions:

- An increase of 1% per annum in the discount rate as at 31 December 2019 would result in a reduction to the pension liabilities at that date of around 16% (2018: 20%) or approximately £160m (2018: £170m);
- An increase of 1% per annum in the assumption for future inflation (both RPI and CPI) as at 31 December 2019, which would increase future expectations of pension increases and deferred revaluation, would result in an increase in the pension liabilities at that date of around 8% (2018: 10%) or approximately £80m (2018: £85m);
- A change in the mortality assumptions could have a significant impact on the pension liability. For instance, if members aged 60 were instead expected to live for one year longer, with all other members' life expectancies increasing by a proportionate amount, then the liability as at 31 December 2019 would be 3% higher (2018: 3%), or approximately £30m.

Total market value of assets and actuarial value of Scheme liabilities

Amounts for the current and previous years were:

Asset/(liability) analysis of the Scheme	2019 Fair value £m	2018 Fair value £m	2017 Fair value £m	2016 Fair value £m	2015 Fair value £m
Bonds					
Corporate bonds	37	33	137	135	127
Gilts	410	374	142	141	124
Equities					
UK equities	33	29	33	41	56
Overseas (excluding UK) equities	244	224	342	284	257
Property	53	85	97	91	86
Diversified income credit	41	0	0	0	0
Infrastructure	20	16	16	15	11
Cash and net current assets	22	12	29	23	13
Total market value of assets	860	773	796	730	674
Actuarial value of Scheme liabilities	(997)	(860)	(957)	(958)	(768)
Net defined benefit liability	(137)	(87)	(161)	(228)	(94)

All of the Scheme's assets are quoted in an active market. The Scheme is not currently invested in any of the Society's own assets. Approximately 94% (2018: 96%) of the Scheme's liabilities relate to final salary members and 6% (2018: 4%) relates to CARE members.

13. 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:

	2019 £m	2018 £m
Actuarial value of Scheme liabilities at 1 January	860	957
Interest cost on Pension Scheme liabilities	24	23
Current service cost (net of employee contributions)	–	5
Employee contributions	–	1
Benefits paid	(30)	(30)
Experience (gains)/reductions arising in Scheme liabilities	(1)	10
Scheme amendments	–	3
Change in assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	31	(27)
Financial assumption change	113	(82)
Actuarial value of Scheme liabilities at 31 December	**997**	860

Changes in fair value of plan assets were:

	2019 £m	2018 £m
Fair value of Scheme assets at 1 January	773	796
Expected return on Pension Scheme assets	22	19
Employer contributions	11	15
Employee contributions	–	1
Benefits paid	(30)	(29)
Actuarial gain/(loss) on Scheme assets	84	(28)
Administrative expenses	–	(1)
Fair value of Scheme assets at 31 December	**860**	773

13. Pension schemes *continued*

Analysis of the amount recognised in the Group statement of comprehensive income

	2019 £m	2018 £m
Experience gains/(reductions) arising on Scheme liabilities	1	(10)
Changes in the assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	(31)	27
Financial assumption change	(113)	82
Actuarial (loss)/gain arising during period	(143)	99
Actuarial gain/(loss) on Scheme assets	84	(28)
Remeasurement effects recognised in the Group statement of comprehensive income	(59)	71

Analysis of the amount charged to the Group income statement (recognised in other Group operating expenses)

	2019 £m	2018 £m
Current service cost	–	5
Past service cost	–	3
Net interest on net defined benefit liability	2	4
Total operating charge	2	12

Maturity profile of Defined Benefit Obligation

The Scheme is maturing over time, with 38% of the members in the Scheme at the 30 June 2016 valuation date being retired members and with an approximate duration of the Scheme's liabilities of around 18 years.

The expected benefit payments from the Scheme over the next few years are as follows:

	£m
Expected benefit payments during year ending 31 December 2020	29
Expected benefit payments during year ending 31 December 2021	29
Expected benefit payments during year ending 31 December 2022	30
Expected benefit payments during year ending 31 December 2023	31
Expected benefit payments during year ending 31 December 2024	33
Expected benefit payments during period 1 January 2025 to 31 December 2029	182
Expected benefit payments during period 1 January 2030 to 31 December 2034	191
Expected benefit payments from 1 January 2035 onwards	971

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 2019 resulted in a deficit of £3m (2018: £3m).

Development of net balance sheet position	2019 £m	2018 £m
Value of assets	2	3
Actuarial value of scheme liabilities	(5)	(6)
Deficit in the scheme/net defined benefit liability	(3)	(3)

Defined contribution plans

The Society operates a number of defined contribution retirement benefit schemes for qualifying employees based overseas. The assets of the schemes are held separately from those of the Society in funds under the control of the Trustees.

In some countries, employees are members of state-managed retirement benefit schemes. The Society is required to contribute a specified percentage of payroll costs to fund these benefits. The only obligation of the Society with respect to the retirement benefit scheme is to make the specified contributions.

The total expense recognised in the Group income statement of £3m (2018: £2m) represents contributions payable to these schemes by the Society at pricing levels specified in the rules of these schemes.

14. Intangible assets

Software development

	£m
Cost	
At 1 January 2018	5
Additions	6
At 31 December 2018	11
Additions	12
Disposals	–
At 31 December 2019	**23**
Amortisation	
At 1 January 2018	(5)
Amortisation charge for the year	–
At 31 December 2018	(5)
Amortisation charge for the year	(2)
At 31 December 2019	**(7)**
Net book value at 31 December 2019	**16**
Net book value at 31 December 2018	6

Impairment losses

Impairment reviews are undertaken annually for the assessment of the carrying value of assets. As part of the assessment none of the intangible assets were impaired in 2019 and 2018.

15. Tangible assets

Plant and equipment

	Furniture and fittings £m	Computer and specialised equipment £m	Total £m
Cost			
At 1 January 2018	35	25	60
Additions	3	–	3
Disposals	(1)	(3)	(4)
At 31 December 2018	37	22	59
Additions	4	3	7
Disposals	(4)	–	(4)
At 31 December 2019	**37**	**25**	**62**
Depreciation and impairment			
At 1 January 2018	(22)	(20)	(42)
Depreciation charge for the year	(3)	(2)	(5)
Disposals	1	3	4
Impairment losses	(4)	–	(4)
At 31 December 2018	(28)	(19)	(47)
Depreciation charge for the year	(3)	(1)	(4)
Disposals	2	–	2
At 31 December 2019	**(29)**	**(20)**	**(49)**
Net book value at 31 December 2019	**8**	**5**	**13**
Net book value at 31 December 2018	9	3	12

15. Tangible assets *continued*

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, there were no impairments for plant and equipment in 2019 (2018: £4m).

Lloyd's Collection

The Lloyd's Collection represents various paintings, antiques and artefacts. The collection was valued at £15m by Gurr Johns Limited, valuers and fine art consultants in November 2018, on the basis of open market auction value assuming all items are not sold at the same time taking into account the nature, age, condition and quality of each chattel. This resulted in a revaluation gain of £2m in 2018. The Lloyd's Collection is valued every three years, unless there is any indication of impairment.

16. Leases

The Society's lease portfolio encompasses property in the UK, Europe, Asia and the Americas. The 1986 Building is the material component of the portfolio and accounts for 88% of the right-of-use asset value. The remaining portfolio is made up of 41 other leases, the next largest being Lloyd's of London (Asia) PTE Ltd. representing 2% of the value. The Society sub-leases parts of the 1986 Building for which it receives an income. Leases typically run from three to five years, with the exception of the 1986 Building, Kent Science Park and the premises in Chatham. The 1986 Building has a lease duration of 35 years, and Kent Science Park and Chatham both have lease durations of 15 years.

The Society also has certain leases of, predominantly, office equipment with low value. The Society applies the IFRS 16 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Right-of-use asset

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	1986 Building £m	Other £m	Total £m
At 1 January 2019	–	–	–
Initial recognition	157	22	179
Depreciation charge for the year	(13)	(10)	(23)
At 31 December 2019	**144**	**12**	**156**

Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	1986 Building £m	Other £m	Total £m
At 1 January 2019	–	–	–
Initial recognition	(150)	(21)	(171)
Interest	(7)	(1)	(8)
Payments	17	10	27
At 31 December 2019	**(140)**	**(12)**	**(152)**
Non-cancellable lease rental payables are as follows:			
Current	**10**	**8**	**18**
Non-current (between 1 and 5 years)	**45**	**2**	**47**
Non-current (greater than 5 years)	**85**	**2**	**87**

16. Leases *continued*

Expenses recognised in Income statement

The following are the amounts recognised in the Group income statement:

	2019 £m
Depreciation expense of right-of-use asset	23
Interest expense on lease liabilities	8
Total amount recognised in the Group income statement	**31**

The Society had total cash outflows for leases of £27m in 2019 (2018: £29m).

The Society has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Society's business needs. Management exercises significant judgement in determining whether these extensions and termination options are reasonably certain to be exercised. The most significant lease in this regard is the 1986 Building. There are options to terminate the lease in 2021 and 2026. Management are reasonably certain that these options will not be exercised and therefore the term of the lease for the 1986 Building is expected to extend to 2031.

Group as a lessor

The Society has entered into operating leases for the 1986 Building and other property leases. The amounts receivable as at 31 December 2019 are:

	1986 Building £m	Other £m	Total £m
Non-cancellable lease rentals are receivable are as follows:			
Within one year	5	1	6
After one year but not more than five years	2	–	2
More than five years	–	–	–

17. Loans recoverable

Recoverable Central Fund loans made to hardship members are recorded at fair value and relate solely to the revaluation of hardship, Limited Financial Assistance Agreement and legal assets. Gains and losses arising from changes in the fair value are included in the Group income statement in the period in which they arise. The revaluation process is carried out twice a year at both interim and year end.

	2019 £m	2018 £m
At 1 January	**36**	40
Fair value movement recognised during the year	**(2)**	(4)
At 31 December	**34**	36

18. Financial investments

	Note	**2019 £m**	2018 £m
Financial investments at amortised cost			
Statutory insurance deposits		**696**	629
Short term and security deposits		**478**	468
Total financial investments at amortised cost	18(a)	**1,174**	1,097
Financial investments at fair value through profit and loss	18(b)	**2,788**	2,486
Financial investments		**3,962**	3,583

(a) Financial investments at amortised cost

Financial investments at amortised cost include statutory insurance deposits, short term deposits and security deposits.

Statutory insurance deposits 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 amounts are not available to finance the Society’s day to day operations.

18. Financial investments *continued*

(a) Financial investments at amortised cost *continued*

Statutory insurance deposits	2019 Securities £m	2019 Deposits £m	2019 Total £m
At 1 January	11	618	629
Additions at cost	27	649	676
Disposal proceeds	(26)	(566)	(592)
Deficit on the sale and revaluation of investments	(1)	(16)	(17)
At 31 December	**11**	**685**	**696**

Statutory insurance deposits	2018 Securities £m	2018 Deposits £m	2018 Total £m
At 1 January	12	474	486
Additions at cost	15	466	481
Disposal proceeds	(16)	(353)	(369)
Surplus on the sale and revaluation of investments	–	31	31
At 31 December	11	618	629

Analysis of statutory insurance deposits	2019 £m	2018 £m
AAA	1	1
AA	414	371
A	261	238
BBB	8	8
Other	12	11
Total securities	**696**	629

Analysis of short term and security deposits	2019 £m	2018 £m
AAA	11	20
AA	146	–
A	209	348
BBB	108	100
Other	4	–
Total securities	**478**	468

18. Financial investments *continued*

(b) Financial investments at fair value through profit and loss

	2019 Corporation of Lloyd's £m	2019 Lloyd's Central Fund £m	2019 Total £m
Market value at 1 January	146	2,340	2,486
Additions at cost	197	1,237	1,434
Disposal proceeds	(123)	(1,119)	(1,242)
Surplus/(deficit) on the sale and revaluation of investments	(10)	120	110
Fair value at 31 December	**210**	**2,578**	**2,788**
Analysis of securities at year end:			
Listed securities			
Fixed interest:			
Government	137	835	972
Corporate securities	73	658	731
Total fixed interest	210	1,493	1,703
Emerging markets	–	159	159
Global equities	–	367	367
Fixed income absolute return fund	–	105	105
Total listed securities	**210**	**2,124**	**2,334**
Unlisted securities			
Hedge funds	–	165	165
Multi-asset funds	–	289	289
Total unlisted securities	**–**	**454**	**454**
Fair value	**210**	**2,578**	**2,788**

Analysis of securities:			
AAA	44	261	305
AA	86	600	686
A	37	413	450
BBB	43	360	403
Other	–	944	944
Total securities	**210**	**2,578**	**2,788**

18. Financial investments *continued*

(b) Financial investments at fair value through profit and loss *continued*

	2018 Corporation of Lloyd's £m	2018 Lloyd's Central Fund £m	2018 Total £m
Fair value at 1 January	159	2,648	2,807
Transfers to amortised cost	(159)	(82)	(241)
Additions at cost	214	1,570	1,784
Disposal proceeds	(68)	(1,797)	(1,865)
Surplus on the sale and revaluation of investments	–	1	1
Fair value at 31 December	146	2,340	2,486
Analysis of securities at year end:			
Listed securities			
Fixed interest:			
Government	112	862	974
Corporate securities	34	644	678
Total fixed interest	146	1,506	1,652
Emerging markets	–	164	164
Global equities	–	249	249
Total listed securities	146	1,919	2,065
Unlisted securities			
Hedge funds	–	158	158
Multi-asset	–	263	263
Loan investments	–	–	–
Total unlisted securities	–	421	421
Fair value	146	2,340	2,486

Analysis of securities:			
AAA	36	386	422
AA	61	569	630
A	32	349	381
BBB	17	294	311
Other	–	742	742
Total securities	146	2,340	2,486

19. Trade and other receivables due within one year

	2019 £m	2018 £m
Due within one year		
Trade (net of allowance for expected credit losses)	4	1
Insurance and reinsurance receivables	1,065	177
Reinsurance commission receivable	33	–
Interest receivable	16	16
Taxation and social security	7	7
Overseas office deposits	3	3
Amounts due from underwriters	3	5
Other receivables	14	5
Total trade and other receivables	**1,145**	214

20. Financial risk management objectives and policies

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 board of directors. The department identifies, evaluates and hedges financial risks in close cooperation with the Society's operating units. The Board 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.

Explanations of the Society's financial instrument risk management objectives, policies and strategies are set out in the discussion of the Society's financial risk management and treasury policies on pages 108 and 109 of the Financial Review.

(a) Fair values and credit risk

The methods and assumptions used in estimating the fair value of financial instruments are detailed in note 2(h).

The fair value (based on the quoted offer prices) of subordinated debt is £908m (2018: £840m) against a carrying value measured at amortised cost of £794m (2018: £794m). All other financial instruments are either held at fair value, amortised cost or at an amount that approximates fair value.

At the reporting date there were no significant concentrations of credit risk, other than insurance contract assets, which 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 maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, in the Group statement of financial position.

20. Financial risk management objectives and policies *continued*

Expected credit losses

The Group has the following types of financial assets that are subject to the expected credit loss model:

– Insurance contract assets;
– Statutory insurance deposits;
– Debt instruments carried at amortised cost;
– Trade and other receivables; and
– Cash and cash equivalents.

While these financial assets are subject to the impairment requirements of IFRS 9, the identified impairment losses are immaterial.

Trade receivables

The ageing of trade receivables as at 31 December 2019 and 2018 was as follows:

	2019 Gross £m	2019 Impairment £m	2019 Net £m	2018 Gross £m	2018 Impairment £m	2018 Net £m
1-30 days	3	–	3	–	–	–
Past due 31-120 days	1	–	1	1	–	1
Total	4	–	4	1	–	1

The Society's normal credit terms are 30 days. There was no movement in the £nil allowance for expected credit losses in respect of trade receivables during the year.

(b) Sensitivity analysis

Foreign currency exposure

Currency risk is the risk that the sterling value of the Society's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Society's exposure to the risk of changes in the foreign exchange rates relates primarily to revaluation of loans recoverable and changes in the fair value of foreign currency denominated investments and forward contracts. Further details on foreign currency risk can be found on page 109.

The majority of foreign exchange exposures arising from investments denominated in foreign currencies are managed via a foreign exchange hedging programme. However, some net exposures to foreign currencies remain and the sterling value of the Society's investments may be impacted by movements in exchange rates relating to these exposures. At 31 December 2019, a 10% rise or fall in the value of sterling, against all other currencies, would have reduced/increased the surplus before tax by £288m (2018: £277m (restated)). This analysis is presented net of foreign exchange hedges and assumes that all other variables remain constant. In practice, actual results may differ.

Debt securities sensitivities

The value of the Society's investments in debt securities is affected by changes in the level of yields, as determined by the financial markets. As at 31 December 2019, a consistent increase or decrease of 100 basis points in the yields applicable to all relevant securities would have reduced/increased the surplus before tax by approximately £45m (2018: £35m (restated)). Relevant securities include investment grade sovereign and corporate bonds, floating rate notes and interest rate swaps. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ. Further details on market risk can be found on page 109.

Equity price risk

Equity price risk is the risk that the market values of equity investments fall. At 31 December 2019, a 15% fall or rise in the value of all the Society's equity investments would have reduced/increased the surplus before tax by approximately £79m (2018: £62m). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ. Further details on market risk can be found on page 109.

The comparative impact of changes in factors for the sensitivity analysis above has been restated to include the impact on Corporation investments as well as Central Fund investments.

20. Financial risk management objectives and policies *continued*

(b) Sensitivity analysis *continued*

Liquidity risk

The table below summarises the maturity profile of the Society's non-derivative financial liabilities as at 31 December 2019 based on undiscounted contractual cash flows:

As at 31 December 2019	Note	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Subordinated loan notes	24	794	(1,035)	(38)	(38)	(615)	(344)
Loans funding statutory insurance deposits		690	(690)	(690)	–	–	–
Trade and other payables	26	1,372	(1,372)	(1,372)	–	–	–
Total		2,856	(3,097)	(2,100)	(38)	(615)	(344)

As at 31 December 2018	Note	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Subordinated loan notes	24	794	(1,073)	(38)	(38)	(115)	(882)
Loans funding statutory insurance deposits		625	(625)	(625)	–	–	–
Trade and other payables	26	507	(507)	(507)	–	–	–
Total		1,926	(2,205)	(1,170)	(38)	(115)	(882)

The contractual cash flows have been based on the expectation, but not the obligation, that the subordinated notes are redeemed at the first option date.

Forward currency contracts are settled gross; notional amounts are a close proxy for gross cash flow amounts. Further details regarding the subordinated notes can be found in note 24 on page 169.

(c) 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's derivative financial instruments are categorised as fair value hierarchy Level 2.

Analysis of forward currency contracts	**2019 £m**	2018 £m
Outstanding forward foreign exchange gains	25	11
Outstanding forward foreign exchange losses	(13)	(10)

The fair value and notional amounts of forward currency contracts, all of which mature within one year, are analysed as follows:

	2019 Assets		2019 Liabilities	
As at 31 December	**Fair value £m**	**Notional £m**	**Fair value £m**	**Notional £m**
Currency conversion service	2	161	(2)	(161)
Other forward foreign exchange contracts	22	789	(3)	(771)
Interest rate swaps	1	295	(5)	(295)
Equity futures	–	132	(3)	(132)
Total	25	1,377	(13)	(1,359)

	2018 Assets		2018 Liabilities	
As at 31 December	Fair value £m	Notional £m	Fair value £m	Notional £m
Currency conversion service	1	152	(1)	(152)
Other forward foreign exchange contracts	6	1,104	(8)	(1,105)
Interest rate swaps	4	220	(1)	(220)
Total	11	1,476	(10)	(1,477)

20. Financial risk management objectives and policies *continued*

(d) Fair value hierarchy

To provide further information on the valuation techniques the Society uses to measure assets carried at fair value, the Society has categorised the measurement basis for assets carried at fair value into a "fair value hierarchy" described as follows, based on the lowest level input that is significant to the valuation as a whole:

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, listed deposits held with credit institutions in active markets.

Level 2

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and fair value is determined through the use of models or other valuation methodologies. Level 2 inputs include quoted prices for similar (i.e. not identical) assets in active markets, quoted prices for identical or similar assets in markets that are not active or in which little information is released publicly, unlisted deposits held with credit institutions in active markets or low volatility hedge funds where tradeable net asset values are published.

Level 3

Inputs to Level 3 fair values are inputs that are unobservable for the asset. Unobservable inputs have been used to measure fair value where observable inputs are not available, allowing for situations where there is little or no market activity. Unobservable inputs reflect assumptions that the Society considers that market participants would use in pricing the asset and have been based on a combination of independent third-party evidence and internally developed models. There are no assets categorised at Level 3 in either 2019 or 2018.

	Note	2019 Level 1 £m	2019 Level 2 £m	2019 Total £m
Financial assets at fair value through profit or loss				
Listed securities		972	731	1,703
Equity investments		367	159	526
Fixed income absolute return fund		–	105	105
Unlisted securities		–	454	454
Total	18	1,339	1,449	2,788
Derivative financial instruments				
Currency conversion service		–	2	2
Other forward foreign exchange contracts		–	22	22
Interest rate swaps		–	1	1
Equity futures		–	–	–
Total derivative financial instruments	20(c)	–	25	25
Total financial assets at fair value through profit or loss		**1,339**	**1,474**	**2,813**
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Currency conversion service		–	(2)	(2)
Other forward foreign exchange contracts		–	(3)	(3)
Interest rate swaps		–	(5)	(5)
Equity futures		–	(3)	(3)
Total derivative financial instruments	20(c)	–	(13)	(13)
Total financial liabilities at fair value through profit or loss		**–**	**(13)**	**(13)**

20. Financial risk management objectives and policies *continued*

(d) Fair value hierarchy *continued*

	Note	2018 Level 1 £m	2018 Level 2 £m	2018 Total £m
Financial assets at fair value through profit or loss				
Listed securities		772	880	1,652
Equity investments		249	164	413
Unlisted securities		–	421	421
Total	18	1,021	1,465	2,486
Derivative financial instruments				
Currency conversion service		–	1	1
Other forward foreign exchange contracts		–	6	6
Interest rate swaps		–	4	4
Total derivative financial instruments	20(c)	–	11	11
Total financial assets at fair value through profit or loss		1,021	1,476	2,497
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Currency conversion service		–	(1)	(1)
Other forward foreign exchange contracts		–	(8)	(8)
Interest rate swaps		–	(1)	(1)
Total derivative financial instruments	20(c)	–	(10)	(10)
Total financial liabilities at fair value through profit or loss		–	(10)	(10)

Unlisted securities

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. The standard pricing hierarchy includes the following independent pricing vendors: FT Interactive Data, Reuters, Barclays Indices, Citigroup Indices, Merrill Lynch Indices, SNP (Standard & Poor's), MarkIt/LoanX – senior secured loans, Broker/Dealer Pricing, Fair Value/Model Pricing and Spread Pricing.

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 where possible. While such valuations are sensitive to estimates, at year end changing one or more of the assumptions to reasonably possible alternative assumptions is unlikely to result in a significant change in fair value.

21. Cash and cash equivalents

	2019 £m	2018 £m
Cash at banks	285	314
Short term deposits	248	287
Total cash and cash equivalents	**533**	601

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 £533m (2018: £601m).

22. Equity

Accumulated reserves

	2019 £m	2018 £m
Attributable to:		
Corporation of Lloyd's	72	175
Central Fund	2,373	2,184
Associates and joint ventures	21	19
Total accumulated reserves	**2,466**	2,378

Translation reserve

The translation reserve of £10m (2018: £24m) 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.

Revaluation reserve

The revaluation reserve of £15m (2018: £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

	2019 £m	2018 £m
2019 Syndicate loans	110	–
Principal loan balance	**110**	–

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 2019 the cumulative interest to date, not yet confirmed, totals £3m (31 December 2018: nil).

24. Subordinated notes

	2019 £m	2018 £m
Details of loans payable wholly or partly after more than five years:		
4.875% subordinated notes of £300m maturing 7 February 2047 (Sterling 2017 Notes)	**300**	300
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	**500**	500
	800	800
Less issue costs to be charged in future years	**(4)**	(4)
Less discount on issue to be unwound in future years	**(2)**	(2)
Total	**794**	794

Subordinated notes

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

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

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

25. Provisions

	2019 Income Assistance Scheme £m	2019 Lease cost provision £m	2019 Restructuring £m	2019 Obligations under onerous lease £m	2019 Other risks and charges £m	2019 Total £m
Balance at 1 January	**2**	**8**	**7**	**3**	**–**	**20**
Charged in the year	**–**	**60**	**2**	**–**	**2**	**64**
Utilised in the year	**(1)**	**(1)**	**(2)**	**–**	**–**	**(4)**
Balance at 31 December	**1**	**67**	**7**	**3**	**2**	**80**

	2018 Income Assistance Scheme £m	2018 Lease cost provision £m	2018 Restructuring £m	2018 Obligations under onerous lease £m	2018 Other risks and charges £m	2018 Total £m
Balance at 1 January	2	8	4	1	–	15
Charged/(released) in the year	–	5	5	2	–	12
Utilised in the year	–	(5)	(2)	–	–	(7)
Balance at 31 December	2	8	7	3	–	20

25. Provisions *continued*

Undertakings given to insolvent members

The Council grants, at its discretion, Undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. No new Undertakings were granted during 2018 or 2019.

The purpose of these Undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. For those corporate members in provisional liquidation, the Council, at its discretion, has also provided a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding-up commencing on the date of the provisional liquidation.

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.

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. Additional items have been identified that are currently in disrepair which add to the previous estimate. The estimated costs for all repairs that have been evidenced as required under the lease are fully provided for. During 2019 further information was obtained from third parties to verify that significant repair and maintenance work was required under the lease, much of which is being undertaken during 2020 and 2021. This has led to total additions during the year of £60m to the provision held.

Restructuring provision

The provision is mainly in respect of obligations arising from the implementation of the Corporation's operating model programme, Setting Ourselves Up for Success.

Obligations under onerous lease

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 Group and the unavoidable costs of meeting the obligations under the lease exceed the economic benefits expected to be received.

Sensitivities

Undertakings given to insolvent members

This provision is calculated with reference to the financial exposure that is expected to be borne by the Central Fund based upon forecast member losses. It is therefore sensitive to both the likelihood of these losses occurring as well as the potential value of the losses.

Income Assistance Scheme

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.

Lease cost provisions

The value of the lease cost provision is calculated with reference to the costs which are expected to be incurred during the remainder of the lease term. A 10% increase/(decrease) in these costs will therefore increase/(decrease) the value of the provision by 10%. The value of the provision is not sensitive to the timing of expenditure during the lease term.

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

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.

26. Trade and other payables

	2019 £m	2018 £m
Due within one year		
Trade and other creditors	101	105
Insurance and reinsurance payables	1,223	346
Market charges repayable	25	31
Taxation and social security	4	6
Arbitration awards	2	2
Interest payable on subordinated loan notes	17	17
Total trade and other payables	**1,372**	507

27. Cash generated from operations

	Note	2019 £m	2018 £m
Surplus before tax		170	202
Net finance income	9	(100)	(54)
Share of profits of associates and joint ventures	11	(9)	(9)
Operating surplus		61	139
Adjustments for:			
Amortisation of intangible assets	14	2	–
Depreciation of plant and equipment	15	4	5
Depreciation of right-of-use asset	16	23	–
Impairment losses	15	–	4
Interest on lease liability	16	8	–
Operating surplus before working capital changes		98	148
Changes in pension obligations		(9)	(3)
(Increase)/decrease in receivables		(2,584)	45
Increase in payables		2,580	27
Increase in provisions		60	4
Cash generated from operations		**145**	221

	Note	1 January 2019 £m	Cash flows £m	Non-cash changes £m	31 December 2019 £m
Subordinated notes	24	794	(1)	1	794
Loans funding statutory insurance deposits		625	65	–	690
Leases liability	16	171	(27)	8	152
Total		**1,590**	**37**	**9**	**1,636**

28. Commitments

Capital expenditure commitments

Capital expenditure commitments contracted but not provided for in the Financial Statements were £1m (2018: nil).

29. Disclosure of 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 11.

Services provided to Ins-sure Holdings Limited Group in the year ended 31 December 2019 included operating systems support and development, and other administrative services.

Services provided to Xchanging Claims Services Limited Group in the year ended 31 December 2019 were primarily administrative services.

London Market Operations & Strategic Sourcing Limited ("LMOSS"), a company limited by guarantee in which the Society holds a one third interest alongside the Lloyd's Market Association and the International Underwriting Association, was incorporated on 7 March 2018. The Company was set up to source and manage the market services used across the London Market. Services provided to LMOSS in the year ended 31 December 2019 were primarily fee collection services. Structured Data Capture Limited ("SDC") was set up to improve the efficiency of market reform contract processing and to implement standardisation of data capture across the market. SDC entered into an agreement with LMOSS for the sale of the business and assets of the company on 25 November 2019. The consideration received was £1 and no gain or loss was recognised in the Group Financial Statements for the year.

Services provided to The Message Exchange Limited ("TMEL") in the year ended 31 December 2019 included the provision of messaging infrastructure. TMEL entered into an agreement with LMOSS for the sale of the business and assets of the company on 29 November 2019. The consideration received was £1 and no gain or loss was recognised in the Group Financial Statements for the year.

The following table provides the total value of transactions entered into with Society related parties for the relevant financial years together with information regarding the outstanding balances at 31 December 2019 and 2018.

	Purchases from related parties		Amounts owed to related parties	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Associates:				
Ins-sure Holdings Limited	**4**	2	**–**	1
Xchanging Claims Services Limited	**–**	–	**–**	–
Joint ventures:				
London Market Operations & Strategic Sourcing Limited	**2**	3	**–**	–
Structured Data Capture Limited	**1**	2	**–**	–
The Message Exchange Limited	**–**	2	**–**	–

Transactions with associates and joint arrangements are priced on an arm's length basis. There were no sales to related parties during the current or prior year, and no amounts owed by related parties as at 31 December 2019 and 2018.

In the normal course of business, the Society may enter into transactions with Lloyd's market businesses in which members of Council and the Board may have an interest.

30. Events after the reporting period

Senior debt issue

To ensure funding is available to meet the near and medium-term cash requirements of the Future at Lloyd's, the Society has taken advantage of the low interest rate environment and placed £300m of senior debt on 21 January 2020, thereby avoiding any increase in market levies. The debt is placed with six different investors across four tranches, with maturity profiles ranging from 10 to 25 years. The average coupon rate is 2.6%.

COVID-19 pandemic

The recent volatility in financial markets has impacted the valuation of the investment portfolio of the Society of Lloyd's. Whilst there is still a significant degree of uncertainty, having considered the positions within the financial markets up to 19 March 2020 our estimates indicate that our central solvency ratio continues to be above our risk appetite. A further 220 basis points widening of credit spreads and 26% fall in equity values would result in a more material impact to our central solvency ratio. However, our central solvency coverage would continue to be in excess of regulatory requirements.

Five Year Summary

(For the year ended 31 December 2019)

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Corporation operating income	**358**	352	351	332	239
Central Fund income	**125**	149	125	120	111
Gross written premiums	**2,466**	176	253	238	104
Outward reinsurance premiums	**(2,466)**	(176)	(253)	(238)	(104)
Total income	**483**	501	476	452	350
Central Fund claims and provisions incurred	**–**	–	–	(8)	–
Gross insurance claims and insurance expenses incurred	**(1,302)**	(189)	(212)	(200)	(69)
Insurance claims and expenses recoverable from reinsurers	**1,302**	189	212	200	69
Other Group operating expenses					
Employment (including pension costs)	**(173)**	(164)	(138)	(147)	(126)
Premises	**(99)**	(55)	(52)	(50)	(40)
Legal and professional	**(73)**	(51)	(37)	(34)	(27)
Systems and communications	**(39)**	(43)	(33)	(36)	(26)
Other	**(38)**	(49)	(46)	(40)	(40)
Total other Group operating expenses	**(422)**	(362)	(306)	(307)	(259)
Operating surplus	**61**	139	170	137	91
Finance costs	**(51)**	(39)	(55)	(54)	(54)
Finance income	**151**	93	62	314	43
Share of profits of associates and joint ventures	**9**	9	10	8	7
Surplus before tax	**170**	202	187	405	87
Tax charge	**(33)**	(39)	(31)	(75)	(13)
Surplus for the year	**137**	163	156	330	74