LLOYD'S

Annual Report 2015

January – Conduct Standards Assurance team established to promote high standards of customer service

February – Lloyd's opens specialist underwriting platform in Dubai

March – Lloyd's opens branch office in Beijing

April – Lloyd's publishes 2015–2017 Strategy

May – Feast or Famine report highlights insurance implications of food safety and security

June – Lloyd's global offices take part in activities to mark UN World Environment Day

July – Lloyd's announces plans to apply for onshore reinsurance licence in Malaysia

August – Business Blackout report considers the insurance implications of a cyber attack on the US power grid

September – Results for first six months of 2015 announced

October – Lloyd's expands into new offices in Singapore and opens first office in Mexico

November – Lloyd's launches inaugural Innovation Awards

December – Prudential Regulatory Authority approves Lloyd's internal model for Solvency II

The Lloyd’s market profit for 2015 was £2.1bn. Lloyd’s capital position was further strengthened with total resources of £25.1bn and ratings were reaffirmed, at A+ with Standard & Poor’s, AA– with Fitch Ratings and A with A.M. Best.

Our Business

Lloyd’s accepts business from over 200 countries and territories worldwide. Licences in over 75 jurisdictions, supported by a network of local offices and coverholders across the world, ensure access to insurance markets large and small. (All figures are as at 31 December 2015.)

Syndicates

84

% of the FTSE 250 insured at Lloyd’s

63

Coverholders

4,008

% of the Fortune 500 insured at Lloyd’s

65

Brokers

242

Countries and territories

220

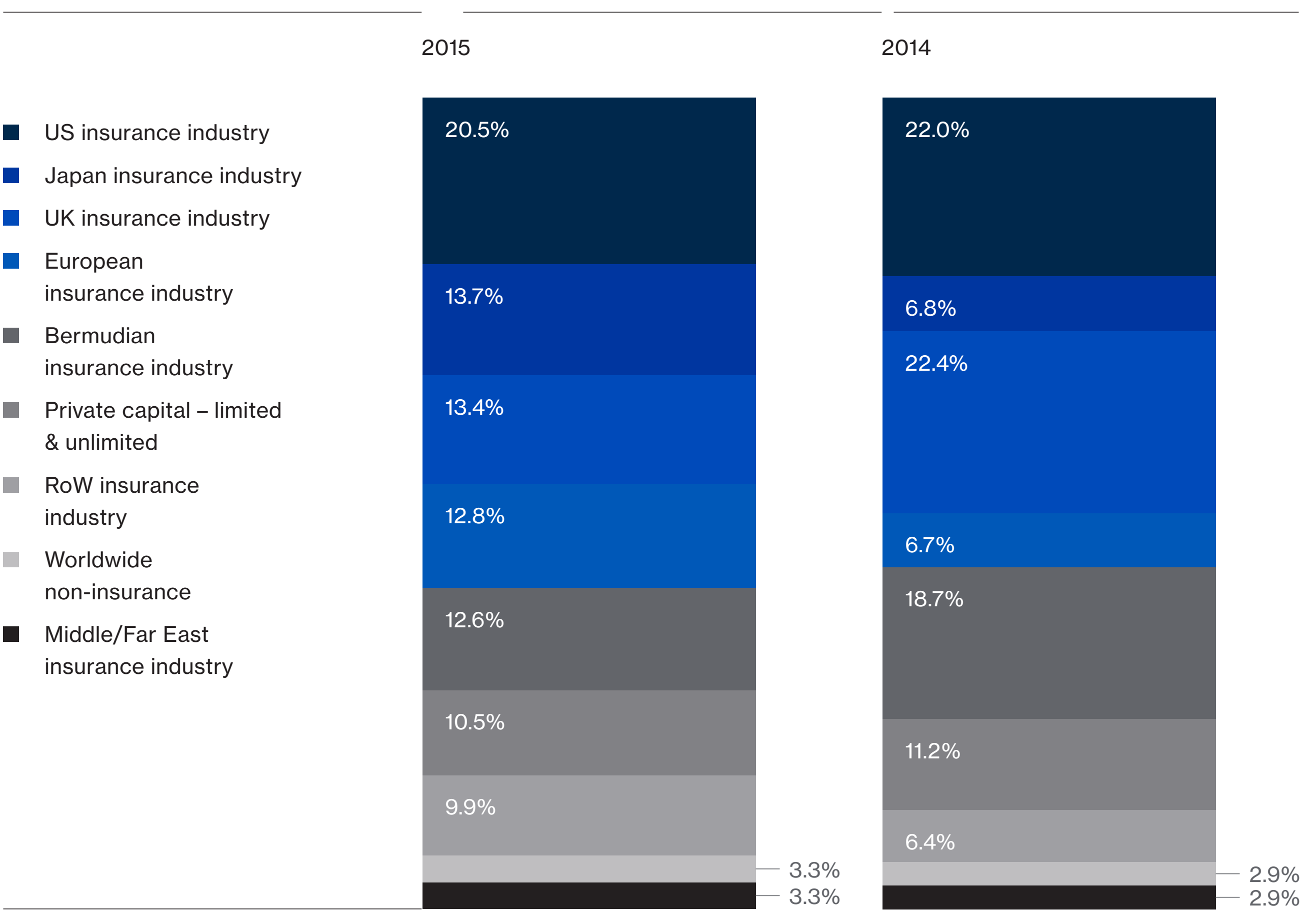
Total resources (£bn)

25.1

Lloyd's class breakdown by region (Figure 1)

	US and Canada	Other Americas	United Kingdom	Rest of Europe	Central Asia & Asia Pacific	Rest of the World	Total for all Regions
Reinsurance	24%	70%	26%	32%	46%	63%	32%
Property	35%	7%	25%	18%	16%	8%	26%
Casualty	23%	12%	23%	20%	25%	11%	22%
Marine	7%	5%	6%	18%	8%	7%	9%
Energy	7%	3%	2%	6%	2%	3%	5%
Motor	2%	1%	17%	2%	1%	3%	4%
Aviation	2%	2%	1%	4%	2%	5%	2%
Total GWP	47%	7%	18%	14%	10%	4%	100%

Lloyd's capital providers by source and location (Figure 2)



2015 At a Glance

Financial highlights

- Lloyd's made a profit of £2,122m (2014: £3,016m)
- Combined ratio of 90.0% (2014: 88.4%)
- Gross written premium of £26,690m (2014: £25,259m)
- Capital, reserves and subordinated loan notes stand at £25,098m (2014: £23,413m)

Gross written premium*

£m	
2011	23,337
2012	25,173
2013	25,615
2014	25,259
2015	26,690

Result before tax

£m	
2011	(516)
2012	2,771
2013	3,205
2014	3,016
2015	2,122

Capital, reserves and subordinated debt and securities

£m	
2011	19,114
2012	20,193
2013	21,107
2014	23,413
2015	25,098

Central assets*

£m	
2011	2,388
2012	2,485
2013	2,384
2014	2,578
2015	2,645

Return on capital

%	
2011	(2.8)
2012	14.8
2013	16.2
2014	14.1
2015	9.1

Combined ratio

%	
2011	106.8
2012	91.1
2013	86.8
2014	88.4
2015	90.0

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

The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. As noted on page 67, the 2014 figures have been restated following adoption of the new UK GAAP accounting standards.

*See glossary on inside back cover.

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Introduction

As infrastructure becomes ever more interconnected, Lloyd's Business Blackout report demonstrated how modelling for extreme scenarios, including cyber attacks, could help develop products to mitigate the impact of events such as failure of a power supply.

Chairman’s Statement

In a market undeniably tougher than seen for many years, in 2015 we have had to demonstrate our determination, innovative thinking and ability to adapt and take action.

The significant pressure on premium rates and exceptionally low investment returns have, naturally, had an impact on our results. Low interest rates and low investment returns generally in the capital markets continue to attract additional capital into the sector.

Against this background, the profit for the Lloyd's market was reduced to £2.1bn (2014: £3.0bn); gross written premiums grew by 6% to £26.7bn; the combined ratio was 90.0%; and return on capital was 9.1%. Our capital position remains exceptionally strong with our total capital increasing to £25.1bn (2014: £23.4bn). Our ratings remain at A+ (strong) with Standard & Poor's AA– (very strong) with Fitch Ratings, and A (excellent) with A.M. Best.

In these conditions, these results are creditable and a tribute to the continued skill and professionalism of the Lloyd's market underwriting community. The results are supported by the market's prudent reserving position overall and the consequent significant reserve release in respect of prior years.

Our response to this climate must be to focus on underwriting discipline, on which the Franchise Board remains particularly vigilant, remain attentive to emerging risks and become an even more attractive platform: widening global access, making it easier to do business and fostering innovation – all part of our Vision 2025 strategy.

This report highlights significant progress – in global market access in Asia, Latin America and the Middle East; on modernising processes and systems within the market; and on innovation, such as the planned launch of the Lloyd's Index, which aims to provide opportunities for alternative capital to have exposure to the Lloyd's market. It is critical that we maintain momentum.

An important achievement during 2015 was securing approval to use our internal model when setting our regulatory capital for Solvency II purposes. This was an arduous process, partly because of the need to create a unique model for the market, and our team should be congratulated.

I have no doubt there is long-term growth potential for specialist insurance, particularly in markets with higher rates of GDP growth and low levels of insurance penetration. I have personally focused on many of these, advocating not only the Lloyd's market and model but also how the use of insurance to mitigate and transfer risk tangibly contributes to economic sustainability, growth and improved quality of life. Our aim is that the Lloyd's market will continue to contribute and be ready to grasp opportunities presented by the re-balancing of the global economy.

Nothing, of course, can be achieved without the expertise and commitment of those who work in the Lloyd's market and directly for the Corporation, which has an outstanding leadership team under Inga Beale.

We benefit from the wise counsel of both the Council of Lloyd's and the Franchise Board. I would like to thank Rupert Atkin, both as a Deputy Chairman and Council member, and Chris Harman and Alan Lovell, both Council members, who retired in January, for their significant contribution over a number of years. We welcome Julian James, Neil Maidment and Philip Swatman, as members of the Council. I would also like to congratulate Simon Beale, on his appointment as a Deputy Chairman. On the Franchise Board, we will be welcoming Richard Keers at the end of May. Bruce Van Saun, who has re-located to the United States, is retiring from the Franchise Board. I want to thank Bruce for his wise counsel and great contribution.

Finally, Tom Bolt, Director of Performance Management, will be leaving Lloyd's at the end of April. Tom has done an outstanding job for Lloyd's over the last seven years and is highly respected in the market. I am sure many will join me in thanking him and wishing him well for the future.

It is already clear that the conditions we faced in 2015 are continuing into 2016. Uncertainty over the United Kingdom's membership of the European Union adds an unsettling ingredient to the mix. We believe strongly that continued membership would be the better outcome for Lloyd's and the businesses in our market but we are preparing contingency plans in the event of an exit.

Throughout its history, Lloyd's has adapted imaginatively to a changing world and changing requirements of insurance. The steps we are taking, together, as the Lloyd's market should ensure that we reinforce our position as the world's centre for specialist insurance and reinsurance.

John Nelson, Chairman

Chief Executive's Statement

2015 presented a number of challenges to how and where Lloyd's does business.

While the insurance sector remained highly competitive, it has been further impacted by new regulatory obligations and the broader economic environment. Meanwhile, rapid advances in technology create their own pressure for the market to adapt and change in response.

With regards to regulatory demands, it is fair to say that securing approval of our internal model for the Solvency II capital requirements was the single most important event of 2015. If at times it seemed to be the Corporation's only priority, this reflects the huge combined efforts across the market; efforts that crucially allowed us to satisfy the regulators. 2016 is about embedding the processes to meet ongoing supervisory, reporting and disclosure requirements.

Market conditions will remain challenging, providing a climate of reduced levels of returns, and in 2015 these trends contributed to the continuing high level of M&A activity. There were eight M&A transactions involving a Lloyd's business announced in 2015. This activity affected some 20% of Lloyd's capacity – a more than threefold increase on the previous year.

Against this background, we remain focused on driving forward our Vision 2025 plan. Lloyd's continued to expand its market access with two office openings in Beijing and Dubai. Interest has been high with 32 syndicates on our China platform and 10 syndicates to date in Dubai. New representative offices were opened in Mexico and Colombia. Lloyd's also applied for a licence in Malaysia and conversations continued with regard to access to the Indian and Turkish markets. Meanwhile, Lloyd's maintained a strong share in well-established markets such as North America, where total gross written premium now accounts for 47% of the Lloyd's market.

Looking across the financial sector, we live in the age of disruptive innovation. The breakneck pace of adoption of new technology, changing attitudes towards ways of working, and higher expectations of business ethics are destabilising traditional models. Therefore, the importance of innovation and modernisation – to the health of the market and for the benefit of policyholders – cannot be overstated.

In 2015 the Target Operating Model (TOM) picked up momentum. This ambitious portfolio of initiatives, brought together under the TOM umbrella, will make it easier for brokers to access the Lloyd's market and reduce frictional costs.

A first important step will be the transition to electronic placing from an outmoded paper based system. Thanks to committed work by PPL (Placing Platform Limited), support for this change has been pledged by brokers and carriers, the London & International Insurance Brokers Association, the Lloyd's Market Association and the International Underwriting Association of London.

Another key piece of work under TOM, the Central Services Refresh Programme, delivering standardised automated processing for premium and claims using global messaging standards, is under development and due for rollout in 2016.

But modernisation is about more than our systems; it is also about our people, specifically the ability to attract the smartest individuals to the industry. With that in mind the Corporation and the market have taken active steps to encourage a more diverse, inclusive workforce. Launching a four day festival 'Dive In' in September, with other leading companies, enabled us to communicate our desire to welcome talented individuals, whoever they are and wherever they are from.

I am acutely aware that every year the Corporation must demonstrate to the Lloyd's market its continued commitment to enabling its success. Doing the right things and doing them effectively and efficiently are what the market rightly expects and, as we continue to navigate difficult economic waters, this remains the priority for me and my senior team.

We have made tremendous progress since launching the Vision 2025 strategy in 2012. In 2016 our collective commitment to achieving its goals remains as strong as ever.

Inga Beale, Chief Executive

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Strategic Review

Lloyd’s Strategy 2016–2018

Market Performance

Drones are now used for a range of activities including agriculture, public services, wildlife protection and research. Lloyd's Drones Take Flight report showed how the industry's product development and risk assessment expertise could be applied to address concerns about this emerging technology and support its adoption.

Strategic Review

Strategic Review

Tom Bolt
Director, Performance Management

Market Oversight
Progress in 2015

In many ways, 2015 saw a continuation of the factors that were prevalent in 2014 – for better and for worse. On the one hand, the market benefited from an absence of catastrophic events and a strong run of lower claims outcomes, including claim frequencies on casualty lines, which enabled us to take reserves down. On the other, the prolonged pressure on prices places a premium on experience, with astute management being the main driver of satisfactory returns.

From the Corporation's perspective, with our focus on the long-term interest of the market, our reputation is built on being the natural home of bespoke underwriting of complex insurance risks. Our aim must be to encourage whatever is needed to maintain that pre-eminence.

At times, this means acting as the catalyst, initiating changes that are aimed at making it easier for market participants to maintain oversight of their exposure and reduce the risk of future surprises. For example, in the current environment, one of the easiest ways for syndicates to lose money is through erosions of wordings and conditions. That's a matter for each individual syndicate but we can help. In the past year, we have undertaken a piece of work focusing on contract quality oversight, updating the standard wordings used in the market. Syndicates may elaborate upon these, of course, but we can be confident that the backbone is in place and fit for purpose.

Similarly, with the FCA's emphasis on conduct, we have been working with both the regulator and our managing agents to develop an approach that can be applied across the market, so reducing the need for individual firms to be audited by the FCA. Lloyd's conduct standards came into effect during the year, with compliance being reviewed, and a new international complaints handling process was introduced, to ensure that Lloyd's continues to meet its FCA obligations. At the same time, we have streamlined coverholder audit activity, with the aim of delivering considerable savings. Following discussions with the market, we changed the rules on binding authorities – where managing agents or coverholders give brokers authority to accept risk on their behalf – to allow three-year agreements to be made. This should reduce the administrative burden of the annual approval process.

Our other role, though, is as the market's critical friend. And like all genuine friends, this sometimes calls for well-intended but less comfortable conversations. We continue to monitor aggregate exposures, particularly in newer or less well-understood sectors such as cyber or nuclear, chemical, biological and radiological (NCBR) threats, to ensure that the lines available are realistically aligned to market needs. In the case of NCBR risk, we require those considering underwriting those risks to obtain prior agreement. During 2015 we introduced new requirements to ensure that Lloyd's exposure to cyber risk is better understood and quantified.

The factors governing market conditions are very different from those prevalent in 2001 when we last experienced such a soft market. We have greater broker concentration, higher levels of capital from more diverse sources and, for the same reasons, lower investment income to absorb the pain. However, regardless of market conditions, the fundamentals of our business remain unchanged and good management should prevail.

Vincent Vandendael
Director, Global Markets

Global Market Access
Progress in 2015

For Lloyd's to continue to be the global leader in specialist insurance and reinsurance business, it is important that we provide our managing agents and brokers an optimal combination of trading rights, effective infrastructure and trusted partnerships. In 2015 we successfully developed our platforms and strengthened key relationships that will bring us closer to meeting the objectives of Vision 2025.

Emerging markets will account for close to 40% of worldwide non-life premiums by 2025. Carriers and brokers are actively pursuing these markets, often seeking to establish a local presence. Lloyd's is rising to that challenge. In 2015, we opened new offices in Dubai and Beijing and representative offices in Colombia and Mexico. We welcomed 21 new syndicates to our platforms in Dubai, Singapore and China, requiring office moves in Shanghai and Singapore. Meanwhile, we registered 11 new Lloyd's brokers in Europe, China and Malaysia. These encouraging trends are set to continue and our focus on broker relationship management will be extended across the network in 2016.

Alongside developing and diversifying Lloyd's international premium flow, we worked to attract new capital from emerging markets and other under-represented sources. 2015 was a pivotal year with four new or upgraded capital partnerships from China, South Korea, Mexico and Panama. These will help increase the flow of inward reinsurance business from our target markets.

We took a number of measures to support coverholders including introducing multi-year binders and simplifying application and audit processes. Coverholders form a cornerstone of our strategy in developed markets and are key to our ambitions in high growth markets. We saw 305 new coverholders joining in 2015, including the first from Mexico. We are also keen to facilitate consortia, where several syndicates combine to offer bigger line sizes in order to compete where larger lines are required. While this may represent a small proportion of our revenue at present, it is a growing and important distribution channel.

Another important aspect of our outreach has been education and training, through the Global Development Centre. The Centre ran 11 bespoke programmes in 2015, for brokers and risk managers from over 40 countries, in partnership with managing agents and brokers, who form an integral part of each programme.

While we have reached outward to new markets and new partners, we have deepened our dialogue with existing stakeholders. We have worked very closely with managing agents to understand their appetite for market development and prioritised licence development accordingly.

We obtained an establishment licence in Finland and negotiations are progressing well in India, Malaysia and Tanzania to develop our onshore presence in those markets. Meanwhile, an increasing amount of work has been devoted to defending our licences and meeting the rising demands of regulators for compliance and reporting.

Shirine Khoury-Haq
Director, Operations

Ease of Doing Business
Progress in 2015

In 2015 we launched a comprehensive modernisation programme for the London market, the London Market Target Operating Model (TOM). This was achieved through a collaborative effort between the Lloyd's managing agents, the broking community, company market carriers and the Corporation of Lloyd's.

The programme's key focus is to improve the ease of doing business in the London market and it has two central tenets. First, to move towards 'one touch' data input, enabling data to be entered once on behalf of all of the organisations and processes that require it. This is a key enabler to the TOM goal of straight through processing wherever possible. The second is to introduce shared services where appropriate, removing duplication of non-competitive administration and reducing the frictional cost of doing business.

During the Discovery Phase, we built the vision and high level Target Operating Model. An extensive consultation exercise followed. This process saw 1,260 people attend 28 events in 39 days and we received 608 helpful and innovative ideas from market professionals and experts from outside the market.

Under the Target Operating Model banner, this market modernisation programme is run as a centralised programme by the London Market Group and governed by a Board of senior executives representing all market constituencies. There are 3 key deliveries in 2016: the post bind submission element of the Central Services Refresh Programme (CSRP); implementation of e-trading via Placing Platform Limited (PPL); and improving Delegated Authority processes. There is also an initiative to look at data as an important enabler.

The aim of CSRP is to remove a large proportion of broker administration specific to the London market and we are planning to launch a pilot in the first half of 2016 with full roll-out planned for later in the year.

Work to establish a single London market platform for electronic placing is also progressing. Ebix was appointed as the preferred supplier during 2015 and the PPL Board is working towards a launch in the first half of this year.

In the Delegated Authority space, great progress was made in 2015 in successfully piloting one touch data transfer of binding authority data in a fraction of the time consumed by current processes. The team will be rolling out these initiatives further in 2016, along with centralised compliance, and trialling straight through processing of coverholder business.

The data initiative focuses on both foundational work such as establishing data standards and implementing governance for common data across the market as well as driving proofs of concepts, in collaboration with the TOM innovation stream, to apply new technology and thinking from outside of our industry.

To date, the response from the market has been positive and there is a real belief that we will achieve our shared objectives. The programme has delivered so far and it will continue to deliver in 2016; however, our real success will be determined by whether leaders in our market can drive the adoption of new ways of working to enable us to be the global centre of speciality insurance and reinsurance for generations to come.

Sean McGovern
Chief Risk Officer
and General Counsel

Risk and Regulation
Risk Landscape in 2015

A consistent key risk in recent years has been the challenging political and regulatory environment that the financial services sector has been experiencing. At the Corporation, we have also had to navigate our way through this period, representing the interests of the Lloyd's market to governments and regulators the world over: protecting Lloyd's access to markets and seeking opportunities to bring the Lloyd's market's expertise to new countries. This market access, supported by central regulatory relationship management, is a key benefit for Lloyd's managing agents, particularly when regulators recognise the Corporation's role in market regulation.

Our strategy is simple: ensure that the Corporation is regarded as credible and transparent in its dealing with regulators and provide as many central regulatory services and as much advice as we can to managing agents. Both are designed to create an efficient regulatory framework in which both regulators and managing agents can have confidence.

In the UK, we have established written co-operation agreements with both the Prudential Regulatory Authority and the Financial Conduct Authority which aim to reduce significantly the risk of duplication of oversight activity between the Corporation, the PRA and the FCA. By demonstrating to regulators that our risk management activity is appropriately targeted and credible, we offer them the opportunity to take account of our risk management oversight, creating greater efficiency for managing agents.

Providing further support to managing agents' business in an increasingly complex international marketplace, we monitor and respond to regulatory changes in local markets and take on the responsibility to file around 1,000 regulatory returns annually. We provide compliance information through our online trading advice service, which is updated regularly as local regulatory requirements change. We provide specific guidance and support to the market on compliance with international sanctions.

The end of 2015 heralded the beginning of the new dawn of Solvency II. After a protracted, and at times painful, transition we must avoid the risk that the capital model becomes an end in itself and dominates the conversation by the management of firms and between firms and the regulators. That would crowd out the management of the very real and complex risks to the asset and liability sides of balance sheets where the model can be used as a part of that risk approach. We will be working with the PRA and managing agents to ensure that, as Solvency II becomes further embedded into how the market operates, compliance with its requirements are manageable and proportionate.

Political and economic instability is a sustained risk factor. The most pressing example is the risk that the forthcoming UK referendum will result in a vote to leave the European Union. Our position is clear: Lloyd's interests lie in remaining within a reformed EU. However, we are not taking anything for granted. We are putting in place contingency plans to deal with a variety of possible outcomes should there be a vote to leave. Our aim, again, is to secure continued access for managing agents to the EU – the world's largest insurance market.

John Parry
Director, Finance

Capital
Progress in 2015

Perhaps obviously, I must start with the achievement of internal model approval under Solvency II from the PRA in December. It's been a long road with bumps along the way and some doubted that Solvency II would ever come into force as implementation dates changed and lobbying continued over all aspects of the framework. Let's not forget how wide reaching the ambition is – to harmonise capital standards and ensure transparent, consistent reporting across the largest insurance market in the world. The reward for this effort had to be kept in mind; assessing our capital needs according to our own risk profile, not a standard formula that fitted neither our business mix nor our structure of independent businesses underpinned by the Central Fund. It involved considerable interaction with the PRA and an understandable focus on the risk of understatement of capital as we neared the implementation date.

Considerable work will be needed each year to keep the model in line with regulatory requirements and changes to our risk profile. Solvency II is not a one-off exercise; it's part of the fabric of our business of measured risk taking. The efforts of the last few years have given us enhanced risk management, giving greater insight into risk embedded with capital setting. Now we must ensure we meet the new reporting standards. In meeting the goal of harmonising requirements, Europe appears to have turned the dial to maximum. We are aware of the pressures this places on the market and are working with it to minimise the impact. The quantity and frequency of the reporting requirements are exacting demands of Solvency II, just as much as capital modelling.

Lloyd's remains attractive for insurance business and capital providers. The support we provide to meet global regulators' demands is one of our strengths and a differentiator for Lloyd's. We cannot stand still, particularly if we are to succeed in further diversifying our sources of capital and expanding our licence network. Our engagement with potential new entrants has continued and 2015 saw growth in capital from new sources. We are looking at how we meet local regulators' needs and how best to deploy capital locally where required. As the industry environment evolves, in particular with regulation and tax, we must adapt to the ways in which members may want to access Lloyd's – for example, through the use of Special Purpose Syndicates.

Similarly, we know that the wider capital markets are interested in broadening their exposure and evolving from solely natural catastrophe ventures to general insurance. We will investigate options to enhance our capital structure and how we can harness these markets to maximise capital efficiency. One element of the structure that will not be changing is the Central Fund, which we will maintain at a level that clearly demonstrates Lloyd's ability to absorb the impact of a market-changing event. This is reflected in our financial strength ratings, which are appropriate for the risks we accept, balancing efficiency and sufficiency of capital. There were no new calls upon the fund during 2015 and we enter the Solvency II era in robust financial health.

Gavin Steele
Executive Sponsor
for Innovation

Innovation
Progress in 2015

In our approach to innovation, there are initiatives that the Corporation can and should take itself and there are those that present us with an opportunity to provide leadership or provoke discussion in the market that may pave the way for new ideas.

Our plan to publish a Lloyd's Insurance Index clearly falls into the first category. The index will provide loss ratio data at whole market level and, possibly, for certain classes of business as well and, as such, give an insight on insurance performance. The index also has the potential to be used to develop products that can offer investors exposure to insurance in a new way. The range of current and historic data we can access will give the index the authority of a credible benchmark and, as it will use data we already collect, we aim to produce it without placing any significant additional burden on the market. We plan to publish by mid-2016 and update the index quarterly thereafter.

While the index will, hopefully, be attractive to alternative capital, we have also been working with the other members of the London Market Group to secure an amendment to the Bank of England and Financial Services Bill that will enable Insurance-Linked Securities vehicles to be domiciled in the UK. This is an important step in helping maintain London's position at the centre of the global risk transfer market.

Collaboration is also at the heart of our approach to the other face of innovation at Lloyd's. We have been considering ways we can help the market innovate around products and develop new insurance coverages that meet clients' needs. To this end, we recently started a programme bringing together managing agents, business development experts, brokers, risk managers and others at roundtables to debate specific areas where there is deemed to be a lack of insurance coverage currently.

The Corporation's role here is not to develop new products and policies; that is very much the province of the underwriters and brokers. We are able to help with pre-competitive stage work, such as stimulating the debate, distilling research and considering practical and regulatory challenges.

Our thought leadership work supports this by identifying potential opportunities for the market as well as analysing possible threats. During 2015 we published six substantial reports, covering topics such as food security, cyber risk, bitcoins and drones. Over time we see these reports becoming more 'solution-orientated', pointing the market towards the opportunities from emerging risks.

We also remain alert to the impact of disruptive business models and both the threats and opportunities presented by new ways of thinking about the market.

Finally, towards the end of 2015 we held our inaugural Innovation Awards, designed to recognise imaginative ideas that are being developed in the market. In all three categories – product, non-product and under-35s – we saw a range of inspiring and thought-provoking ideas. We anticipate that in future years these awards will demonstrate that innovation remains at the heart of Lloyd's.

Delivering Vision 2025
Key Achievements in 2015

Market Oversight

Lloyd's combined ratio for 2015 outperformed its competitor group by 4.7 percentage points.

New oversight plan was published covering all oversight areas for the market.

There were no new members needing to access the Central Fund.

Global Market Access

New trading offices opened in Dubai and Beijing.

New representative offices opened in Colombia and Mexico.

20 new registered Lloyd's brokers, 11 from outside the UK.

Ease of Doing Business

Discovery phase completed for all 15 Target Operating Model initiatives.

TOM market engagement with 28 events and over 1,200 attendees.

The Placement Platform entered user testing phase.

Capital

PRA approved Lloyd's Internal Model for use in calculating Solvency Capital Requirement.

2015 saw growth in capital from new sources – by type and geography – participating at Lloyd's.

Innovation

Announced plans for launch of Lloyd's index in 2016.

Six thought leadership reports published including City Risk Index, drones, cyber and bitcoins.

Talent

Dive In festival, promoting diversity and inclusion, was attended by over 1,750 people across the London insurance market.

93% of graduates and 100% of apprentices found jobs in the Lloyd's market after completing their structured development programmes.

27 senior leaders from across the Lloyd's market participated in the Developing Leaders Programme in partnership with London Business School.

Brand

Lloyd's brand survey showed Lloyd's brand reputation index is on a par with best-in-class (re)insurance companies.

Over twice as many references to Lloyd's in the media made in 2015 relative to 2014 mentions (up by 113%).

Global Corporate Social Responsibility

Lloyd's went global with its CSR programme with the launch of 'Lloyd's Together'.

Over 2,600 volunteers from the Lloyd's market were involved in Lloyd's Community Programme.

During 2015 Lloyd's Charities Trust supported the training of more than 600 aid workers from 99 organisations living and working in 91 countries, through its partnership with humanitarian disaster relief charity, RedR.

Chief Executive's Foreword

We are now almost four years into Vision 2025, with the aim of ensuring that Lloyd's remains the global centre for specialist insurance and reinsurance in 2025 and beyond.

This road map, developed through close collaboration between the market and the Corporation, is broken down into rolling three year plans. While the eight strategic priorities remain constant, it is a dynamic plan that can respond to changing market and business conditions. For 2016 the focus is on making significant progress on initiatives already underway.

Industry conditions continue to be challenging and pressures on underwriting and investment income remain. Market oversight, therefore, remains a key focus as we seek the optimum balance between supporting and stimulating growth while protecting the market's security and reputation.

Market modernisation and increasing global market access are cornerstones of Vision 2025. As this update demonstrates, work on these strategic priorities is already delivering results and, again, has benefited from market-wide involvement in setting objectives and implementation.

We continue to increase our emphasis on innovation and being open to change. On one level, this is represented by product and process developments and proposals to embrace alternative sources of capital for the market. On another, it is manifested in ensuring that the Lloyd's business model remains relevant, including consideration of the offer to market participants and the Corporation's role and organisational design.

The most compelling element of Vision 2025 is that it is a collective plan for the market, to be delivered by brokers, managing agents and the Corporation working together. That spirit of partnership is delivering progress and I have no doubt that the commitment and drive that we have seen so far will continue as we take forward the many initiatives designed to help achieve our shared goals.

Inga Beale Chief Executive

Lloyd's Strategy 2016–2018

Vision 2025
To be the global centre for specialist insurance and reinsurance

What will Lloyd's be?

- Lloyd's will be an international, London-based market, built on trusted relationships and focused on specialist property and casualty business requiring bespoke underwriting and broking.
- Lloyd's will be a mutual supported by a Central Fund, so it will always be more capital efficient to trade inside Lloyd's than outside.
- Lloyd's will be able to access all major international insurance markets, including emerging markets, through its global licence network.
- Lloyd's will offer access to underwriting expertise and capacity in the most efficient way to meet brokers' and clients' needs, including through a face-to-face subscription market.
- Lloyd's world class underwriting and claims management will be supported by an industry-leading infrastructure and service proposition with efficient central services and seamless processing.
- Lloyd's will be a risk selector and a market where entrepreneurialism and innovation will thrive, underpinned by robust risk and performance management.
- Lloyd's ratings will be at a level capable of attracting the specialist business it will write.
- Lloyd's will be larger than today, predicated on sustainable, profitable growth after allowing for movements in the underwriting cycle. Its performance will outstrip that of its competitor group. The increase in premium income in the largest 10 developed economies will track or slightly exceed increases in non-life premium. In the largest 10 developing economies, at times we would expect growth to exceed non-life premium as the specialist risk sector develops and insurance penetration increases.
- Lloyd's will be known around the world for its integrity. The Lloyd's brand will be globally admired and recognised. Lloyd's will be respected for its reputation as the world's specialist centre for (re)insurance.

Managing agents

- Managing agents will actively attract business to Lloyd's through brokers. Lloyd's will be a thriving market of diverse managing agents by size and type, ranging from Lloyd's-centric businesses to the specialty operations of international (re)insurance groups. Any broker owned managing agents will be subject to the existing 20% related party business restriction.
- New entrants will be encouraged, including overseas trade capital providers with a franchise as well as all other innovative, entrepreneurial start-ups.
- There will be no minimum size threshold for managing agents but the maximum size will remain at 15% of premium.

Distribution

- Lloyd’s will be a broker market and will build on its relationships with the larger brokers, as well as encouraging other specialist brokers.
- Lloyd’s will provide efficient access to local markets through service companies, coverholders and local brokers. It will be as easy to access Lloyd’s as any local carrier.
- Lloyd’s distribution chain will be optimised through the efficient use of technology.
- Lloyd’s will have a local presence, in some cases local establishment, in international markets, where this is a commercial or regulatory requirement for business access.

Capital

- Lloyd’s capital base will be globally diverse. There will be overseas trade capital bringing in new specialist business and people to Lloyd’s from countries where Lloyd’s needs to increase its market share.
- Private ‘Names’ capital will continue, but to grow and flourish it will need to be re-energised and provided on a more flexible and efficient basis.

People

- Lloyd’s will be a place where talented, diverse and socially responsible employees feel proud to work. It will attract the best talent and will provide an accelerated career path for the progression of high achievers. Lloyd’s will be a diverse and inclusive market. Its people will increasingly mirror the geographic origin of the market’s business and capital.

Vision 2025
To be the global centre for specialist insurance and reinsurance

Objectives of the eight strategic priorities:

Market oversight

Lloyd's market oversight will be supportive of sustainable profitable growth and will be valued by all stakeholders.

Global market access

Lloyd's international growth will be enabled by offering optimal trading rights and effective operational infrastructure.

Ease of doing business

Lloyd's will have a leading industry service proposition, built on excellence in processes, technology and data.

Capital

Lloyd's optimal capital strength and attractiveness will be designed and demonstrated.

Innovation

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

Talent

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

Brand

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

Global CSR

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

External Environment

The world in 2015

Political and economic instability provided a backdrop to 2015. A number of large-scale and high-profile terrorist attacks formed only part of a steady stream of incidents, particularly in the Middle East. Continued instability in this region has contributed to the largest-yet recorded number of displaced people seeking asylum in the EU. Another tumultuous year in Greek politics also continued to weigh on the European economy.

Yet while commodity prices declined and financial market volatility was sparked by the sharp stock market declines in China, the global economy continued to expand during 2015. The US experienced modest GDP growth (2.5%) resulting in the Federal Reserve raising interest rates at the end of 2015 for the first time since 2008. The UK economy was the second fastest growing in the G7 in 2015 (2.2%), while Euro area growth picked up slightly (1.5%), helped by quantitative easing by the European Central Bank.

Emerging markets remained the engine for global growth, although rates were slower than anticipated (4.0%). The prevailing global economic conditions combined with reduced capital flows to emerging markets and weakening currencies to temper growth stimuli from urbanisation and growing wealth.

US interest rates were raised in December, with positive implications for insurers' investment income in the medium term, although there may be some short term capital impact. Euro area interest rates remained low. The prolonged low interest rate environment continues to attract alternative capital to insurance. Insurance-linked securities have gained mainstream acceptance, although at the expense of property reinsurance pricing. The UK government has been working with the London Market Group to create a tax and regulatory infrastructure to enable ILS business to thrive in the UK. In December, Lloyd's announced plans to support the attraction of alternative capital through the publication of a Lloyd's index.

Low interest rates and slow growth have seen mergers and acquisitions across many industries soar to the highest levels since 2007, including in the insurance industry. These were driven by continued soft prices, a relatively benign period for catastrophes and cheap finance combined with the drive for growth and diversification. Lloyd's participants have proven particularly attractive targets. This has continued to increase the proportion of Lloyd's business written by large multinational insurance groups.

What this meant for insurance

Industry pricing conditions continued to fall in most classes of business, with pressure to broaden terms and conditions emerging in some sectors. This enivronment is fuelled in part by the longer-term reduction in reinsurance demand arising from the centralisation of reinsurance purchasing and growth of alternative products.

The prevailing macro-economic and insurance industry conditions put pressure on both insurers and brokers. This pressure has been a driver of major strategic initiatives within the broking community, including significant consolidation. The commercial leverage of the large brokers is stronger in a market like Lloyd's than for large unitary carriers. Many brokers are seeking to reduce the number of carriers with whom they deal – through preferred partner arrangements and facilities.

Natural catastrophe losses were relatively low in 2015 and were outweighed by a higher frequency of large man-made losses with impacts on insurers' bottom lines. These included explosions at the port of Tianjin, China and Pemex's Abkatun A-Permanente oil platform in the Gulf of Mexico and the high-profile losses of Germanwings flight 9525 and Metrojet flight 9268.

Cyber threats became increasingly prevalent in 2015. As public awareness grows, so does the demand from businesses for cyber insurance – and Lloyd's has been at the forefront of developing insurance solutions.

Climate change is an area where insurance can demonstrate its role as a public good. Lloyd's recognises the potential effects of climate change and the direct impact on the business community. In 2015 Lloyd's pledged its support for the Target Two Degrees campaign. Lloyd's CEO signed an open letter from the coalition of CEO Climate Leaders stating the private sector's responsibility both to engage in global efforts to reduce greenhouse gas emissions and to help lead the global transition to a low-carbon, climate-resilient economy.

Divergent levels of insurance penetration between countries remain. Emerging markets across Latin America, Africa and Asia contribute over 40% to global GDP but only 16% of global insurance premiums – suggesting significant underinsurance in these high growth markets. Many such countries are susceptible to natural catastrophes but lack the resilient infrastructure to cope with their impact. Lloyd's has been active in developing responses. In addition to Lloyd's work through the Geneva Association, in November eight Lloyd's syndicates joined forces to develop new solutions to help developing economies tackle underinsurance and improve their resilience against the economic impact of natural catastrophes.

Outlook

The global economic outlook remains challenging. Uncertainty over the UK's membership of the European Union could have an impact on Lloyd's access to European markets.

Gradual GDP growth should see demand for insurance rise, but this rate will be tempered as China's economic expansion continues to slow and a number of other previously high-growth emerging economies suffer challenging conditions.

Pricing in most classes will remain under pressure due to excess capital, competition from Insurance-Linked Securities and a lack of major catastrophes. This could be exacerbated by slowing reserve releases and higher capital requirements following the implementation of Solvency II in 2016.

Insurance industry consolidation is expected to continue as companies seek size and relevance in an environment of cheap capital and globalising markets. While some trends appear cyclical, others look set to become long-term features of the insurance industry. Long planned regulatory changes will start to take effect in 2016 with the advent of Solvency II and the next phase of the various pan national insurance oversight regimes. The insurance sector began to embrace alternative forms of capital some 20 years ago and it is increasingly being seen as mainstream, presenting opportunities for innovation and diversification. Similarly, technology companies have been reshaping the landscape in many industries including retail insurance.

Lloyd's Key Risks

The prevailing macro-economic and industry conditions give rise to a number of current and future risks. The most critical risks are highlighted for management focus through Lloyd's risk framework. A summary of these risks is provided below, outlining the risk, a description of the potential impact and an overview of the mitigating actions put in place to ensure risk exposures are at a suitable level.

Risk	Impact on Lloyd's	Mitigation
Catastrophe risk	Lloyd's businesses suffer losses or erode their capital base through material aggregations of risks or insufficient monitoring processes.	– Continue to closely monitor and respond to the market risk appetite measures – Managing agents constantly monitor exposures around the world in accordance with Lloyd's minimum standards – Development of the analysis and consideration of non-modelled risks – Monitoring and identification of emerging risks – Market oversight framework detailing annual review activity
Insurance cycle	Lloyd's businesses suffer losses or erode their capital base due to inappropriate underwriting in challenging market conditions or failure in management controls.	– Syndicate business plan and capital approval processes enable consistent and robust challenge to premium growth and ensure loss ratios are realistic given the market underwriting conditions and managing agents' capabilities – Close monitoring of syndicates' performance against approved business plans ensure they do not materially deviate from the approved plan or, where they do, that the changes are acceptable – Market oversight framework detailing annual review activity to include thematic reviews into specific trends and classes of business – Continue to closely monitor and respond to the market risk appetite measures

Lloyd's Key Risks
continued

Risk	Impact on Lloyd's	Mitigation
Process and technology change and resilience	Failure to deliver process change or maintain operational resilience could mean that placing business in the Lloyd's market is inefficient, costly and no longer attractive.	– Strong central governance to manage delivery risks associated to change programmes – Detailed project risk assessments – Contingency plans for the failure of key processes or outsource providers to ensure a recovery of services or workaround processes at the Corporation and in the market
Significant regulatory change across multiple jurisdictions	Lloyd's sees its competitive position weakened, suffers regulatory penalties or disadvantageous capital position in new and existing territories.	– Syndicate business plan and continue to lobby to influence the evolution of UK, European and global regulatory frameworks to maintain the competitive position of the market – Ongoing assurance programme for the conduct risk minimum standard
Uncertain outcomes from a referendum on UK membership of the European Union	The impact of a vote in favour of leaving the European Union is uncertain but could impact Lloyd's access to the European (re)insurance market.	– Close monitoring and assessment of the potential impact on Lloyd's business – Contingency planning to ensure continued access to EU markets under a variety of scenarios
Unstable economic, financial and political climate	Lloyd's suffers increased insurance liabilities, decreased asset values or restricted access to capital.	– Close monitoring and ongoing monitoring and oversight of asset dispositions and asset risk concentrations – Relevant stress and scenario testing, including economic slowdown in the Chinese economy and Brexit

Overview of Lloyd's Performance Metrics Framework

Lloyd's performance metrics cascade from Vision 2025: To be the global centre for specialist insurance and reinsurance.

Vision 2025 is divided into eight strategic priorities. Each priority has a delivery plan comprising milestones and annual key performance indicators (KPIs) and activities. These form a hierarchy of metrics ranging from the vision to annual KPIs for each strategic priority.

Lloyd's strategy and the associated performance metrics framework are reviewed annually to ensure they remain appropriate. The remuneration of Corporation Directors is influenced by progress against these milestones and performance indicators. Corporation employees are assessed against personal objectives designed to meet the performance indicators relevant to their role.

The most material milestones and annual KPIs are listed for each strategic priority.

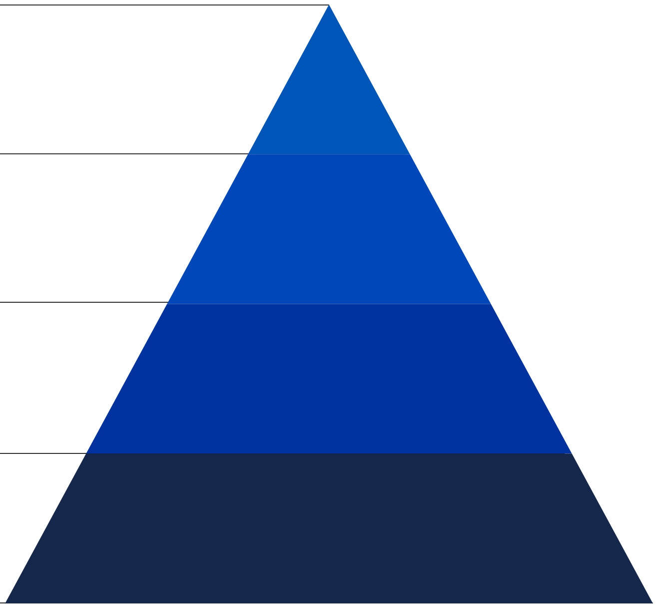
Performance metrics framework (Figure 3)

Vision 2025 [1]

Strategic priority objective [2]

Interim milestones (to end 2018) [3]

Annual KPIs [3]



Notes:

[1] Related market-performance metrics: annual market ROC; annual market COR; annual market investment return

[2] 'End state' descriptions for each strategic priority

[3] Many of which are project milestones, given the significant volume of change activity

Market Oversight
Approach and Rationale

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

As industry conditions remain challenging, Market Oversight remains a priority for the Corporation and market participants alike. Ensuring that oversight is appropriately calibrated between protection and growth is an ongoing task, requiring dialogue between the Corporation, managing agents and regulators.

The Corporation has published the second annual supervision oversight plan. This provides managing agents with the Corporation's view of the risks and issues facing the market and gives transparency over the Corporation's planned oversight activity to manage those risks. The plan outlines the framework for the supervision of the Lloyd's market and key activities for the year. In addition, syndicates receive individual supervisory letters. This approach ensures that oversight activity is targeted and risk-based.

What success looks like

Vision 2025

- Lloyd's will be a risk selector, and a market where entrepreneurialism and innovation will thrive, underpinned by robust risk and performance management.

- Lloyd's will be larger than today, predicated on sustainable, profitable growth after allowing for movements in the underwriting cycle. Its performance will outstrip that of its competitor group.

Interim milestones (to end 2018)

- Lloyd's combined ratio is better than its primary competitor group over the five year period.

- Central Fund undertakings are within Lloyd's risk appetite.

- Lloyd's oversight framework is effective in managing risk in the market and is demonstrably risk based and efficient.

- Lloyd's oversight framework is demonstrably supportive of profitable growth where market conditions and managing agent capabilities allow.

2016 KPIs

- No new Central Fund dependent members other than as a result of a significant event.

- Lloyd's 2016 combined ratio performance is better than its primary competitor group.

Major 2016 Corporation actions

- Undertake ongoing oversight responsibilities including:

  - carry out the 2017 Syndicate Business Planning and Capital Setting process, ensuring robust review and challenge;
  - monitor performance of managing agents and syndicates against plans, guidelines, reserving, and Lloyd's minimum standards;
  - monitor market risk profile against risk appetites, escalating issues as appropriate and implementing risk mitigation strategies where necessary; and
  - complete implementation of the market oversight framework, including delivery of targeted risk-based oversight plans. Ensure the framework supports profitable growth.

- Implement changes to the Syndicate Business Planning and Capital Setting process and the Lloyd's New Entrant process.

- Review Lloyd's plans in response to a market-turning event.

- Deliver Class of Business thought leadership including new insight products for the market.

Global Market Access
Approach and Rationale

Access to international insurance markets is one of Lloyd's most important assets. A key strand of Vision 2025 is the protection and expansion of this access. Lloyd's is pursuing new trading rights in developing markets which will be supported by effective operational infrastructure. This access will reflect ongoing and long-term shifts in the global economy and the dispersal of insurance capacity.

In some territories, commercial or regulatory requirements may require local presence. The prioritisation of new trading rights and the form of access is agreed by the market and Corporation working in partnership to consider opportunities on a territory by territory basis. This work takes into account forecast insurance market development, legislative developments, local placement trends and managing agent appetite. The aim is to create access in the short-term which leaves Lloyd's well positioned for opportunities over the medium to longer term. The focus for 2016 will be on embedding recently acquired trading rights and making significant progress in negotiations already underway.

Efforts to increase Lloyd's presence in developing economies will not be at the expense of Lloyd's position in established insurance markets. Maintaining and defending existing access is an increasingly significant component of the Corporation's work. Building on existing relationships with distribution partners, clients and regulators continues to be a major focus.

Broker relationships will remain core to the future success of Lloyd's. These relationships span global and specialist brokers; local market brokers (particularly in developing economies); and delegated arrangements with local market participants. The consolidation of both brokers and insurers continues, raising the threshold level for 'relevance' in an increasingly globalised market. Lloyd's will consider how best to aggregate capacity in response to this trend and to evolving broker and client demands.

What success looks like

Vision 2025
- Lloyd's will be able to access all major international insurance markets, including emerging markets, through its global licence network.

- The increase in premium income in the largest 10 developed economies will track or slightly exceed increases in non-life premium.[1] In the largest 10 developing economies, at times growth would be expected to exceed non-life premium[1] as the specialist risk sector develops and insurance penetration increases.

- Lloyd's will have a local presence, in some cases local establishment, in international markets, where this is a commercial or regulatory requirement for business access.

- Lloyd's will be a broker market and will build on its relationships with the larger brokers, as well as encouraging other specialist brokers. Lloyd's will provide efficient access to local markets through service companies, coverholders and local brokers. It will be as easy to access Lloyd's as any local carrier.

Interim milestones (to end 2018)
- Enhancements to, and the defence of, Lloyd's Global Market Access offer lead to demonstrable profitable growth.

- New trading rights in five developing economies, subject to business cases and favourable political climates.

- Lloyd's distribution channels will expand, both in number and geographically, and Lloyd's will grow its premiums from its major distribution partners.

2016 KPIs
- Defend existing licences – no material impairment to existing trading rights.

- Subject to business cases and favourable political climates, gain at least two new licences/trading rights/permissions to trade.

- Increased relationships with all types of distribution partner, including: global, wholesale and specialist brokers and coverholders.

Major 2016 Corporation actions

Trading rights and international operations
- Monitor and respond to legislative, regulatory and tax developments to defend Lloyd's trading rights.

- Pursue trading rights in India, Malaysia, Turkey and Tanzania.

- Establish co-location offices in India, Malaysia, Colombia and Sydney. Develop support operations for new offices in India and Malaysia.

- Effective implementation of C-ROSS in China.

- Develop tax strategy for conducting business in new territories.

- Deliver strategic relationship management plans with managing agents/group owners.

- Encourage managing agent participation on co-located platforms.

- Review Lloyd's strategy in established global/regional hubs.

- Develop contingency plan for Brexit.

Support for existing business
- Continue market development activities and ongoing publication of market intelligence products.

- Commence work on future coverholder model and review consortia administrative and oversight arrangements.

- Deliver market development support in all countries where Lloyd's has a presence.

Broker relationships
- Global implementation of broker relationship management and deliver action plans with key Lloyd's producing brokers.

- Deliver 2016 Global Development Centre programmes.

[1] Excluding Motor, PA and Health business

Ease of Doing Business
Approach and Rationale

Addressing the operational challenges being faced by the London market is a high priority and the required change can only be delivered by the whole market working together. By working in partnership to build an industry-leading infrastructure and service proposition covering the London market, international operations and delegated authorities, Lloyd's aims to make the market more attractive to existing and new business in London and in local markets alike.

The overall programme of work – the London Market Target Operating Model (TOM) – along with Lloyd's-specific elements, aims to provide:

- a market with 21st century processes and infrastructure;
- improved access to, and from, global insurance markets;
- increased efficiency, reduced administrative burden and consequently reduced frictional costs;
- a suite of central services for non-competitive activities; and
- improved access to, and smarter use of, Lloyd's market data.

What success looks like

Vision 2025

- Lloyd's will offer access to underwriting expertise and capacity in the most efficient way to meet brokers' and clients' needs, including through a face-to-face subscription market. Lloyd's world class underwriting and claims management will be supported by efficient central services and seamless processing.
- Lloyd's distribution chain will be optimised through the efficient use of technology.
- Lloyd's will provide efficient access to local markets through service companies, coverholders and local brokers. It will be as easy to access Lloyd's as any local carrier.

Interim milestones (to end 2018)

- It will be as easy to deal with Lloyd's as other insurance markets. Doing business in the Lloyd's market will be more attractive through increased efficiency in major components of its operating model.
- Removal of two-thirds of the London specific back-office processes that have been identified as one of the factors hindering placing of business at Lloyd's.
- Lloyd's will be among the top performing claims players globally. Improvements in speed and quality, across the entire claims life cycle, will be maintained.
- Flexible, efficient and fit for purpose Corporation processes and best practice data capability.

2016 KPIs

- Deliver 2016 TOM milestones for all major workstreams.
- Central Services Refresh Programme: capabilities in place for market players to remove London-specific processes identified for elimination in 2016.

Major 2016 Corporation actions

Support for LMG led London Market Target Operating Model

- Continue to provide project management support and resources across all workstreams, including:
  - Central Services Refresh Programme: launch e-accounting for both premium and claims submissions; launch an online submission portal for brokers and service companies;
  - Electronic Support for Placing (Placing Platform Limited): go live with pilot and an agreed roll out plan for other classes of business;
  - Delegated Authority: improve functionality and data integration of coverholder systems, further streamline coverholder audits;
  - Data Management: design of capability to enable one-touch data capture; and
  - TOM programme governance: develop blueprint to clarify overall business case, scope and timelines.

Corporation operational efficiency

- Extend governance and stewardship over the Corporation's data.
- Continue to implement process improvements for key Corporation processes.

Capital
Approach and Rationale

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

Lloyd's focus in recent years has been on meeting the requirements of Solvency II ahead of its implementation from 1 January 2016. Lloyd's has been successful in this task. The focus now is to consider Lloyd's future capital strategy within the Solvency II framework. This will include determining:

– future capitalisation through consideration of the optimal balance between prudence and efficiency;

– future financial strength and ratings; and

– the impact of internationalising Lloyd's business model and any potential associated regulatory capital requirements.

What success looks like

Vision 2025

- Lloyd's will be a mutual supported by a Central Fund, so it will always be more capital efficient to trade inside Lloyd's than outside.
- Lloyd's capital base will be globally diverse. There will be overseas trade capital bringing in new specialist business and people to Lloyd's from countries where Lloyd's needs to increase its market share.
- New entrants will be encouraged, including overseas trade capital providers with a franchise as well as all other innovative, entrepreneurial start-ups.

Interim milestones (to end 2018)

- Lloyd's capital strength and diversity will provide demonstrable security to policyholders.
- Lloyd's capital structure will be optimised and simplified.
- Lloyd's will remain attractive to, and – subject to market conditions – see growth in, all types of capital providers (private, trade, institutional) and in the geographic diversity of the market's capital base. There will be five new trade capital providers.

2016 KPIs

- Lloyd's financial strength ratings are on a par with its primary competitor group.
- New trade capital entrants from developing economies.

Major 2016 Corporation actions

Maintain Lloyd's Solvency II programme

- Continue development and validation of Lloyd's Internal Model.
- Continue oversight of syndicates' adherence to the Solvency II tests and standards.
- Complete implementation of Pillar 3.

Capital structure

- Develop effective models for providing overseas regulatory funding.
- Investigate options for enhancing Lloyd's capital structure.
- Explore possible options for more efficient structures for members.

New trade capital

- Continue Structured Relationship Management Programme activities with potential new trade capital providers.

Innovation
Approach and Rationale

Lloyd's has a reputation for innovation and will build on this in the coming years. The aim of this priority is to enhance Lloyd's activity in respect of product innovation, thought leadership, and alternative capital and alternative products.

The existing strengths and expertise of the market, combined with developments in analytics and technology, provide a strong basis from which to develop this capacity for innovation into a sustainable competitive advantage.

The Corporation has a role in facilitating innovation and product development. This is delivered through pioneering thought leadership and support for market participants at the 'pre-competitive' stage of product development.

What success looks like

Vision 2025

- Lloyd's will be a risk selector and a market where entrepreneurialism and innovation will thrive, underpinned by robust risk and performance management.

Interim milestones (to end 2018)

- Lloyd's will embrace alternative capital and new products and processes. There will be an increase in both the number of non-traditional capital providers investing at Lloyd's and non-traditional products being traded at Lloyd's.

- Lloyd's reputation for innovation will be demonstrably enhanced.

2016 KPIs

- Lloyd's Index established.

- Increased positive perception of Lloyd's reputation for innovation as measured by an increase in the number of net positive international and trade press references.

Major 2016 Corporation actions

- Publish a Lloyd's loss ratio index.

- Continue to encourage alternative capital to participate at Lloyd's through an engagement programme.

- Continue to identify product gaps and facilitate product development in the market.

- Address any identified areas for improvement through the thought leadership benchmarking exercises for insurance company management and for emerging risks.

Talent
Approach and Rationale

Lloyd's has a reputation for a breadth and depth of expertise in specialist risk. This arises in part through the clustering benefits of the London insurance market. The whole market has an interest in ensuring that relevant skills, capabilities and knowledge are acquired and developed in order to reinforce this differentiator.

London market participants are working to raise awareness of the sector with individuals who might not otherwise be attracted to insurance. This will become increasingly important as the 'baby boom' generation transitions into retirement.

Lloyd's is committed to attracting, retaining and developing the best talent through a high performance culture, best practice and inspirational leadership.

Diversity and inclusion is good for business and remains a priority. The Corporation and market work in partnership, through Inclusion@Lloyd's, to embrace and embed diversity by widening perspectives and sharing best practice.

What success looks like

Vision 2025

- Lloyd's will be a place where talented, diverse and socially responsible employees feel proud to work. It will attract the best talent and will provide an accelerated career path for the progression of high achievers. Lloyd's will be a diverse and inclusive market. Its people will increasingly mirror the geographic origin of the market's business and capital.

Interim milestones (to end 2018)

- The market's workforce will have the skills, capabilities and knowledge to ensure that expertise is a competitive differentiator for Lloyd's. The attraction and retention of high calibre employees will be increased.
- The market's workforce will be significantly more diverse and inclusive. Diversity and inclusion will be integrated into Lloyd's culture.

2016 KPIs

- Refreshed graduate and apprentice schemes delivered for the benefit of the market and the Corporation; and talent management and development is integrated into the way the Corporation does business.
- Develop and grow diversity and inclusion in the market and the Corporation.

Major 2016 Corporation actions

Talent learning and development

- Continue roll-out of high quality leadership and management training for leaders and managers in Lloyd's.
- Lead and support talent development activity across the Corporation and market, including a refreshed mentoring programme and a market-wide Learning Week.
- Develop the framework and curriculum for Lloyd's University.
- Where relevant, develop external talent pools as part of Corporation succession planning.

Diversity and inclusion

- Continue to support and encourage Corporation and market participation in Inclusion@Lloyds.
- Develop a diversity and inclusion scorecard for use within the Corporation and to share with the market.
- Provide ongoing diversity and inclusion training for Corporation leaders and awareness training for all employees.

2015 Corporation employee segmentation figures

UK	821
Non-UK	174

	Executive Team	Head of function	Manager	Professional/ Technical	Administrative	Total
Female	4	6	111	241	168	530
Male	5	33	183	179	65	465
Total	9	39	294	420	233	995

Brand
Approach and Rationale

Lloyd’s 328-year old brand is globally recognised and highly valued both within the insurance industry and broader society. The positive role Lloyd’s plays in times of crisis is well documented and the current strength and buoyancy of the marketplace is held in high regard.

Nonetheless, as globalisation gathers pace and competition intensifies, there is no time for complacency. A programme of work intended to protect the Lloyd’s brand and ensure its future power and relevance has commenced with the full support of the market.

What success looks like

Vision 2025

– Lloyd’s will be known around the world for its integrity. The Lloyd’s brand will be globally admired and recognised. Lloyd’s will be respected for its reputation as the world’s specialist centre for (re)insurance.

Interim milestone (to end 2018)

– Lloyd’s brand is globally admired and is attractive to all stakeholders. Lloyd’s brand will rank in the top quartile of its surveyed competitor group in Lloyd’s biennial brand survey.

2016 KPIs

– Lloyd’s global brand perceptions understood and appropriate insights developed to optimise business and brand strategies in different territories.

– Key brand touchpoints assessed and opportunities to improve brand perceptions identified by channel (digital/physical) and/or by audience group (employees, coverholders, etc.).

– No material impairment to Lloyd’s brand or reputation.

Major 2016 Corporation actions

– Distil brand research insights and develop strategic priorities to shape a 12 month plan of action by country/region.

– Refresh and develop the 2016 marketing plan to build world-class and effective global marketing channels.

– Develop the visitor online experience of the Lloyd’s website to create positive stronger impressions of the Lloyd’s brand.

– Protect Lloyd’s brand and reputation through effective public relations response to any issues arising.

– Strengthen Lloyd’s responsible business approach and reputation.

Brand strength

A strong global brand and positive reputation make Lloyd’s more attractive to talent, capital, and clients. Confidence in the brand encourages policyholders and brokers to choose Lloyd’s, creating wealth for market participants and, arguably, greater security for wider society through wider use of insurance for risk transfer.

Vision 2025 created impetus to change the approach to measuring brand health. In 2015 we introduced a new Brand Reputation Index based on an independent survey of managing agents/service companies, brokers, coverholders, (re)insurance policyholders and influencers. This index measures reputation (trust and advocacy) as well as the drivers of brand reputation as they relate to Lloyd’s strategy. The results are aggregated across the 12 countries surveyed to produce a global score compared with best in class (re)insurance companies. The survey will be repeated biennially to track relative changes in perceptions over time.

Current position

Lloyd’s has a pre-eminent reputation, achieving consistently high scores across key brand measures with brand health at parity with best in class. Lloyd’s is perceived to outperform best in class competitors on important attributes including expertise, competitiveness, innovation, its leadership position, underwriting flexibility and risk appetite.

2015 brand reputation index (maximum 100)

Lloyd’s	83
Best in class	83

Global Corporate Social Responsibility
Approach and Rationale

As a major player in the global economy, it is important that Lloyd's acts responsibly. Lloyd's is already highly regarded for the corporate social responsibility activities undertaken in its local communities. As the market grows and diversifies, so does this activity.

This responsibility also applies to business practices. The Lloyd's market should aspire to the highest standards in business conduct and ensure its customers are fairly treated at all times.

Lloyd's also wants to use its experience and expertise to help communities around the world build resilience against disasters, including the effects of climate change and extreme weather events.

Responding to humanitarian disasters

Lloyd's Charities Trust supports international disaster relief charity RedR to deliver the Ready to Respond programme designed to build the capacity of humanitarians to respond to disasters, especially within urban areas. During 2015, Lloyd's Charities Trust supported the training of more than 600 aid workers from 99 organisations living and working in 91 countries and new urban-specific training courses were developed and delivered in the UK, Jordan and Pakistan.

Lloyd's Together

'Lloyd's Together' programme, launched in 2015, provides support and encouragement for Lloyd's global offices to undertake community and charitable activities. 18 offices were active in their local communities during 2015, many in collaboration with companies in the Lloyd's market. Initiatives ranged from providing solar lamps in East Africa to helping to build affordable housing in Canada.

Lloyd's Patriotic Fund

Lloyd's has been providing support to the UK armed forces community for over 200 years. Lloyd's Patriotic Fund makes grants to support serving and ex-service personnel and their families, with a particular focus on those who are disabled or facing poverty, illness and hardship. Lloyd's hosts an annual Service of Remembrance in the Underwriting Room of the Lloyd's building and the Lloyd's and City branch of the Royal British Legion organises London Poppy Day. Lloyd's is a signatory to the Armed Forces Covenant.

What success looks like

Vision 2025
– Lloyd's will be known around the world for its integrity.

– Lloyd's will be a place where talented, diverse and socially responsible employees feel proud to work.

Interim milestone (to end 2018)
– Lloyd's is a responsible global corporate citizen through its ethical principles and practices, sharing of knowledge and expertise, and positive contribution to social and environmental issues.

2016 KPIs
– Receive recognition by external stakeholders for Lloyd's responsible business approach.

– Maintain positive rating by Corporation employees for Lloyd's responsible business approach (85%+ positivity in employee survey).

Major 2016 Corporation actions

– Undertake activities to support an ethical culture and business conduct standards within the Corporation and market.

– Respond to changing legal and regulatory responsible business requirements.

– Initiate disaster resilience initiatives and promote emerging risk management to relevant stakeholders.

– Maintain momentum on Lloyd's social and environmental programmes in the UK and internationally.

Lloyd's Community Programme – Number of volunteers from across the Lloyd's market supporting programmes in London

2011	2012	2013	2014	2015
1,514	1,883	1,716	2,087	2,666

Lloyd's greenhouse gas (GHG) emissions 2015

	Scope 1 (tonnes CO_2e)	Scope 2 (tonnes CO_2e)	Scope 3 (tonnes CO_2e)	Out of scopes (tonnes CO_2e)	Lloyd's total 2015 GHG emissions (tonnes CO_2e)	Lloyd's total 2014 GHG emissions (tonnes CO_2e)
UK	1,276	9,122	3,179	<1	13,577	13,678
International offices	7	825	421	–	1,254	1,442
Lloyd's 2015 total reported GHG emissions					14,831	15,120

Lloyd's total reported greenhouse gas (GHG) emissions in 2015 were 14,831 tonnes of CO_2e, which is a decrease of 2% against 2014. This year's decrease has been driven primarily by a 9% reduction in electricity related emissions. In the UK this is mostly due to the decarbonisation of UK grid electricity and reduced electricity consumption in the Lloyd's London building. GHG emissions from international offices also decreased by 13% as reporting improved. In contrast, there was a rise of 65% in 2015 air travel emissions as Lloyd's increased activity in emerging markets led to an increase in overall flights – offset by buying carbon credits. In 2015 the World Resource Institute introduced a 'dual reporting' update to the GHG protocol requiring organisations to report two numbers for scope 2 emissions: location-based (in the table above) and market-based (5,709 tCO_2e). Market-based emissions are lower due to the fact that Lloyd's UK sites use 100% renewable energy. A more detailed statement on Lloyd's GHG emissions is available at: www.lloyds.com/ghgemissions

Delivering the Strategy

Corporation's role

- Maintain the market oversight framework, built upon minimum standards, and ensure that is supportive of profitable growth and new business development where appropriate.
- Defend existing licence arrangements and access to markets, and seek new trading rights where there is market demand.
- Undertake market development internationally, including promotional, educational and relationship management activities aimed at brokers, coverholders and risk managers.
- Work closely with the London Market Group, other associations and market participants to make the transaction of insurance business at Lloyd's (from placement to claims settlement) as efficient as possible.
- Determine Lloyd's capital structure and maintain its financial strength and capital efficiency. Set appropriate capital levels at member and central level.
- Provide supporting frameworks and structures, and address constraints, in order to allow new innovative products and alternative capital propositions to thrive at Lloyd's.
- Work with the market to attract, develop and retain a diverse range of talent with the appropriate skills and expertise.
- Protect and promote Lloyd's brand and reputation globally.
- Encourage market participants to be good corporate citizens.

Managing agents

- Operate in a professional and profitable manner, ensuring good customer outcomes and with the freedom to participate in whichever type of business they choose within their risk appetites and an agreed business plan.
- Make decisions on underwriting new business and to pursue opportunities in developed and developing economies where aligned with their own strategies.
- Conduct business in line with agreed market process standards (e.g. ACORD).
- Work with brokers and the Corporation to help deliver innovative risk management solutions for clients.
- Promote talent and diversity and inclusion in their organisations.

Brokers

- Maintain high professional standards in their business, ensuring that the interests of clients are held paramount.
- Engage with the Corporation and managing agents to support change so that the Lloyd's market meets the needs of clients in the most effective manner.
- Conduct business in line with agreed market process standards (e.g. ACORD).
- Work with managing agents and the Corporation to help deliver innovative risk management solutions for clients.
- Promote talent and diversity and inclusion in their organisations.

Members' agents

- Support existing private capital providers and facilitate the introduction of new private capital.

Market Performance

Highlights 2015

- Profit before tax of £2,122m (2014: £3,016m) and a combined ratio of 90.0% (2014: 88.4%)
- Total investment return of £402m (2014: £1,038m)
- Overall surplus on prior years of £1,621m (2014: £1,571m)
- Pre-tax return on capital of 9.1% (2014: 14.1%)

Underwriting result by class*

£m	
Reinsurance	904
Property	501
Casualty	(5)
Marine	108
Energy	247
Motor	(17)
Aviation	19
Life	(3)

Combined ratio by class*

%	
Reinsurance	86.7
Property	90.1
Casualty	100.1
Marine	94.2
Energy	76.0
Motor	102.0
Aviation	95.7
Life	104.4

* The combined ratio for the market and by class of business is the ratio of net incurred claims and net operating expenses to net earned premiums. The prior year reserve movement represents the ratio of the surplus/deficit arising on reserves set at December 2014 to overall net earned premiums in calendar year 2015. The overall combined ratio includes central adjustments in the technical account in respect of transactions between syndicates and the Society as described in notes 3 and 10 to the PFFS (pages 68 and 82). The combined ratios and results for individual classes of business do not include these adjustments as the market commentary for each class reflects trading conditions at syndicate level as reported in syndicate annual accounts. The underwriting results and combined ratio tables include the results of all life and non-life syndicates transacting business during 2015. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business have been reported in the segmental analysis, note 11 on page 83.

The Lloyd's market achieved a pre-tax profit of £2,122m in 2015 (2014: £3,016m) and a combined ratio of 90.0% (2014: 88.4%), which represents a return on capital of 9.1% (2014: 14.1%).

2015 was marked by some sizeable risk losses, notably in the offshore energy sector and from the explosion at Tianjin Port in China. However, for the third consecutive year, aggregate major claims and insured catastrophe events were below the long-term average. Indeed the level of claims to Lloyd's from natural catastrophes was extraordinarily low, at less than £100m.

The underwriting result also benefited from prior year releases which accounted for £1,621m (2014: £1,571m), reducing the combined ratio by 7.9% (2014: 8.1%). This level of release is consistent with previous years and is supported by the strong level of claims reserves.

Investment return was very low at 0.7%, representing the lowest level seen since we started to report on an annual accounting basis for the 2001 year-end.

On an accident year basis, 2015 saw a reported deterioration in the underwriting performance as market conditions remained challenging. Several of Lloyd's core classes of business reported accident year losses, relying on prior year reserves releases to report overall profits. The reserving methodology for setting initial loss estimates on these varies between syndicates. There are a significant number that reserve prudently, which contributes to the observed trend of relatively high accident year ratios, which reduce over time as they book releases from reserves.

Rate decreases continued across the market in 2015, with competition within the reinsurance sector intense as traditional and alternative capital continues to be attracted to the industry.

Aviation, Energy and Property sectors also experienced intense rating pressure. Profitable growth opportunities continue to be somewhat constrained by weaknesses in the global economy.

The level of expenses as a proportion of net earned premiums continues to increase and erodes underwriting margins.

Looking ahead

The absence of large catastrophe losses in particular has meant that industry capital remains at record levels. This had a more detrimental than expected impact on underwriting conditions in 2015. Following the January renewal season early indicators suggest that there has been no change in the direction of travel.

Premium volumes are likely to remain under pressure as the year progresses. The challenging conditions in the insurance sector, greater local market risk appetite, and higher retentions cannot be divorced from continuing concerns in the broader economic environment.

Similarly, in some regions the political landscape is becoming less certain. There is growing tension in the Middle East and in Russia.

In an insurance market and economy such as this, syndicates need to demonstrate meaningful flexibility at short notice.

Innovators and those willing to embrace transformational change, not least in distribution and new market business development, will be better positioned to take advantage. In addition, and as ever, the need for underwriting discipline remains of paramount importance.

2015 performance

Gross written premium for the year increased to £26,690m compared with £25,259m in 2014. US dollar denominated business accounts for the largest share of business at Lloyd's. The average exchange rate in 2015 was US$1.53: £1 compared with US$1.65: £1 in 2014. The strong US dollar increased premiums as reported in converted sterling by 4.6%. Adjusting for the impact of exchange rate movements, the increase in gross written premium was 1.1%.

The overall price change (taking into account terms and conditions) on renewal business was a decrease of 4.6%. Year-on-year growth in premium income in underlying currency was once more lower than originally planned by the syndicates. With the growth in global insurance industry capital again stronger than demand, competition continued to intensify in most lines. Aside from rate reductions, some weakening in other terms and conditions and the widening of coverage were evident.

During the year, there continued to be growth in casualty classes and other specialty lines in the Lloyd's market. Meanwhile, contraction was evident in energy and motor classes. In the case of energy, this was largely due to reduced economic activity in the sector and growing competitive pressure. The contraction in UK motor premium was largely due to one prominent market participant exiting the class.

The significant over-capacity continued to drive downward movement in rates across the property catastrophe reinsurance, energy and aviation classes. The underlying accident year ratio, excluding major claims, was 94.4% (2014: 93.1%) reflecting the challenging market conditions.

Major claims

For the Lloyd's market, major claims were £724m in 2015 (2014: £670m), net of reinsurance and including reinstatements payable and receivable.

There were few notable insured natural catastrophe events with the largest losses arising from winter weather in the USA. While the UK experienced its own severe weather and flooding in December 2015, the level of insurance claims from the storms is not expected to be significant to the Lloyd's market.

In terms of man-made losses, the offshore energy sector was affected by a series of large events, four of particular note. So far claims from China's Tianjin Port explosion have been largely marine related. There were several large losses in the aviation and space sectors, including the tragic Germanwings airline disaster.

Prior year movement

The combined ratio has been reduced by 7.9% (2014: 8.1%) through material prior year reserve releases. The release represents 5.5% (2014: 5.5%) of net claims reserves brought forward at 1 January.

This was the eleventh successive year of prior year surpluses. Reserving is directly influenced by market conditions and actual experience. The strong level of claims reserves continues to support the releases that have been seen.

In aggregate actual claims that have come through in 2015 are significantly below projected levels. The development of business written in the soft market conditions of 1997-2001 continues to be within expectations and to contribute to the surplus generated, as do all the older years of account (2006 and prior).

Major claims

% of NEP

2011	25.5
2012	9.7
2013	4.4
2014	3.4
2015	3.5

Five-year average 9.3
Ten-year average 7.8

Accident year excl. major claims

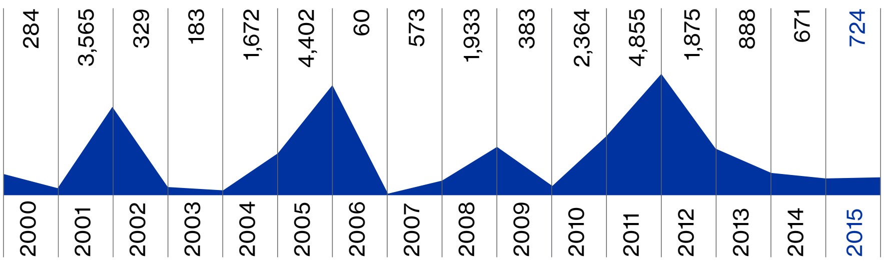
%

2011	87.8
2012	88.6
2013	90.4
2014	93.1
2015	94.4

Five-year average 90.9
Ten-year average 89.0

Lloyd's major losses: net ultimate claims

£m



21 year average 1,289
15 year average 1,602

Indexed for inflation to 2015. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

In June 2015, Lloyd's wrote to all syndicates in respect of the level of casualty reserves held for the 2013 and 2014 underwriting years. Lloyd's has carried out a focused review on these years over 2015 calendar year to investigate the drivers of this concern. Although the 2015 calendar year had a prior year release of 7.9%, this was driven by the older years of account (2012 and prior), rather than the most recent underwriting years where concerns remain. Lloyd's will continue to monitor reserves closely and react accordingly to ensure that adequate market discipline is being maintained particularly on the longer-tailed classes.

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

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

For the absolute amount of reserve releases to continue at levels experienced recently, that depends on actual claims development falling below projections. Reserve setting is a complex and challenging area and claims estimates are inherently uncertain, particularly in the lines of business written by Lloyd's.

Consequently, oversight of this area remains a focus for Lloyd's and future results may vary considerably from the significant surplus observed in 2015.

Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remain extremely high with 95%+ of all recoveries and reinsurance premium ceded being with reinsurers rated 'A-' and above, or supported by collateral. While the Reinsurance Asset is a material consideration for Lloyd's (equivalent to 32% of GWP/38% of members' capital) it has remained stable and consistent with the scale of risk transfer and recent loss experience. No negative settlement trends have been witnessed. Lloyd's outward reinsurance spend has remained stable (21% of GWP), but there has been a moderate increase in the scale of reinsurance being purchased. While reducing margins on Lloyd's inward reinsurance book have been witnessed, there have also been reductions in outward reinsurance costs relative to the exposures being ceded.

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

Under Lloyd's three-year accounting policy for final distribution of each underwriting year of account, the 2013 account reached closure at 31 December 2015. After three calendar years of significant major insurance events, 2013 benefited from a relatively benign level of large insurance claims. The most significant insured event was in Alberta, Canada where flooding followed heavy rainfall and there was also flooding in central Europe. With this lower than normal level of major claims, the 2013 pure year of account was able to report a good underwriting profit. This 2013 pure year profit was boosted by the addition of releases from prior years totalling £1,038m on the 2012 and prior reinsurance to close (RITC) (2011 and prior £1,119m), which meant the year closed with an overall profit of £2,285m.

Four years of account were in run-off at the beginning of 2015. Two of those were closed at the end of 2015 but two syndicates were unable to close their 2013 year of account at the year end and, therefore, the number of open years remains at four.

In aggregate, run-off years reported a small surplus of £8m including investment income (2014: surplus of £18m). The 2015 result is as expected for the four years of account, that were in run-off during 2015.

The results of the major classes of business are discussed in detail on pages 52-59.

Investment review

The investment environment and resulting returns in 2015 were dominated by events in the second half of the year. This was reflected in the market's investment return of £402m. Of this amount £339m was achieved in the first half of the year with just £63m coming from the last six months. The total investment return of £402m is the lowest recorded by the Lloyd's market since it began producing annual accounts in 2001.

Prior year reserve movement

% of NEP	
2011	(6.5)
2012	(7.2)
2013	(8.0)
2014	(8.1)
2015	(7.9)

Combined ratio

Years of account in run-off

%	
2011	7
2012	8
2013	6
2014	4
2015	4

June saw Greece's debt situation emerge as the year's first major source of volatility but investor concern was short lived as Greece and its creditors agreed a third bailout in August. Attention then turned to the economic slowdown in China which became the most significant source of volatility marked by an abrupt fall in risk asset values followed by a prompt recovery in October. Energy prices fell over the year as supply continued to outpace demand. Finally, December saw the US Federal Reserve execute its first rate increase in several years. Whilst this event had the potential to fuel volatility, its wide anticipation and careful planning helped secure its fairly benign impact.

Risk assets generally suffered amidst the market turbulence but returns varied by asset type. Developed equity markets finished the year with a positive, albeit low, level of return whilst emerging equity markets generated losses.

Sovereign bond yields saw a modest increase over the year leading to a small degree of capital erosion. Return on investment was positive but below the yield level, as a result.

Investment grade corporate bonds experienced some volatility over the year with credit spreads widening a little over the year. Overall, corporate bonds outperformed their 'risk-free' sovereign counterparts due to their higher ongoing level of yield.

Syndicate premium assets form the largest element of investment assets at Lloyd's. Managing agents have responsibility for the investment of these assets, which are used to meet insurance claims as they become payable. The aggregate asset disposition reflects the conservative investment policy pursued by agents. Cash and high quality, shorter duration, fixed interest investments constitute a majority share with exposure to more volatile equity and growth assets tending to make up one tenth of the whole.

Overall, syndicate investments returned £273m, or 0.8% in 2015 (2014: £742m, 2.2%). Investments are valued at market prices and unrealised gains and losses are included within reported investment returns. Investment returns were low by comparison to previous years. Exposure to equity and growth assets proved not to be a source of additional return this year and return from bond investments continued to be very low.

Members' capital is generally held centrally at Lloyd's. A proportion of this capital is maintained in investment assets and managed at members' discretion. A notional investment return on members' capital of £86m, or 0.5% (2014: £202m, 1.3%) has been included in the pro forma financial statements (PFFS). This is based on the investment disposition of the relevant assets and market index returns. Return on this pool of assets was also low by comparison to previous years with equity and growth assets delivering poor returns and cash and fixed interest generating a continued low level of return.

The investment return on Lloyd's central assets is also included in the PFFS. This was £43m or 1.5% in 2015 (2014: £94m, 3.6%). The investment performance of central assets is discussed on page 133.

Results summary

Lloyd's reported a profit before tax for the financial year of £2,122m (2014: £3,016m) and a combined ratio of 90.0% (2014: 88.4%). The PFFS aggregates the results of the syndicate annual accounts, notional investment return on funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. The basis of preparation of the PFFS is set out in note 3 on page 67. The syndicate annual accounts reported an aggregate profit of £1,950m (2014: £2,716m).

Class of business

Reinsurance – Property

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

2015 performance

Lloyd's gross written premium for 2015 was £4,627m (2014: £4,472m), an increase of 3.5%. The Lloyd's reinsurance property sector reported an accident year ratio of 87.4% (2014: 89.2%).

Once again, property catastrophe and facultative reinsurance have experienced limited natural catastrophe losses although there were some notable weather related losses which included freeze losses in the USA, a windstorm in northern Europe and cyclone damage in Australia. This below average catastrophe experience, combined with a decrease in attritional activity, has resulted in a decrease in the accident year ratio.

While property catastrophe premium prices are still in decline due to the availability of capital and positive experience in the sector, the rate of decline has slowed in some major markets.

There has been a weakening of contractual exclusions, a wider use of multiannual contracts and the extension of loss occurrence definitions. The increase in annual premiums is due to exchange rate strengthening of US dollar denominated business and positive premium adjustments from prior years.

Prior year movement

The prior year reserve movement was a surplus of 11.1% (2014: 12.2%). Case reserves and specific provisions for catastrophes have remained stable or reduced. This has been further bolstered by the release of loads held within reserves for general catastrophe exposures.

Looking ahead

As evidenced in weaker pricing and wider terms and conditions, the entire sector remains under pressure. In the absence of a reduction in the level of capital in the sector or a major catastrophe event the pressure on rates and contractual terms is likely to continue through 2016.

Reinsurance – Casualty

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

2015 performance

Lloyd's gross written premium for 2015 was £1,797m (2014: £1,779m), an increase of 1.0%. The Lloyd's casualty sector reported an accident year ratio of 103.9% (2014: 97.2%).

2015 performance showed adverse movement against recent year loss ratios as margins were squeezed. Excess global capacity, combined with a change in reinsurance purchasing strategies led to continued rate decreases in most lines throughout the year.

Prior year movement

The prior year reserve movement was a surplus of 3.9% (2014: 9.6%). There will always be inherent uncertainty in casualty reserves, and especially in challenging market conditions.

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

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

Looking ahead

The pricing and reserving of UK Motor excess of loss business is perhaps less of a concern with many syndicates now writing this business on a capitalised basis, under which exposures are more easily quantified. The premium in this sector has also diminished in volume in recent years with some formerly significant participants having withdrawn. Rates remain under pressure in other casualty treaty sectors as demand for reinsurance amongst larger buyers continues to decline through greater retention and further consolidation within their reinsurance programmes. Meanwhile available capacity has continued to increase as insurers seek further diversification across their portfolios.

Reinsurance – Specialty

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

2015 performance

Gross written premium by sector was: Marine £1,051m (2014: £990m), Energy £622m (2014: £794m), Aviation £471m (2014: £445m) and life £25m (2014: £8m).

Lloyd's reinsurance – specialty reported an accident year ratio of 106.0% (2014: 98.3%).

While there continued to be a frequency of large facultative reinsurance losses in each of the main specialty sectors, performance in the corresponding treaty excess of loss classes proved to be largely satisfactory.

The level of reinsurance purchased may indicate why the direct energy and marine markets outperformed their reinsurance counterparts.

This, combined with more than ample capacity, led to further downward pressure on rates, particularly at the marine treaty renewals.

Prior year movement

The prior year reserve movement was a surplus of 12.7% (2014: 11.8%). This class was impacted by some significant aviation losses in 2014 including the two Malaysian Airline claims and claims for fighting at Libya's Tripoli Airport. Reserves for these claims have remained broadly stable since 2014 year-end but continue to be monitored.

Other large claims, such as Costa Concordia have seen no further adverse development.

Looking ahead

There was some evidence of increased rating pressure at the January 2016 renewals. Further softening is anticipated as the year progresses with the potential for terms and conditions to weaken in some areas.

Property

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

Business is written through the broker network with a significant proportion using the framework of cover-holders (or managing general agencies) and delegated authorities.

2015 combined ratio

	Accident year	Prior year reserve movement	Calendar year
Reinsurance	96.3%	(9.6)%	86.7%
Property	94.1%	(4.0)%	90.1%
Casualty	104.5%	(4.4)%	100.1%
Marine	105.4%	(11.2)%	94.2%
Energy	97.3%	(21.3)%	76.0%
Motor	109.5%	(7.5)%	102.0%
Aviation	113.0%	(17.3)%	95.7%
Life	107.3%	(2.9)%	104.4%

2015 performance

Lloyd's gross written premium for 2015 was £6,893m (2014: £6,274m), an increase of 9.9%. The Lloyd's property sector reported an accident year ratio of 94.1% (2014: 95.1%).

Excess capacity and increased competition from domestic markets kept rates under pressure during the year. US excess and surplus lines and binding authority business continued to see growth although in other lines it was more subdued. Competition is still largely confined to rates, with base wordings remaining largely unchanged despite some movement in sub-limits.

Results were positive in most property segments due to the modest level of catastrophe activity, with only one significant event in the international segment: the Tianjin port explosion in China in August 2015. US performance was impacted by a combination of winter weather during the first quarter of 2015, the South Carolina floods in October 2015, and a series of California wildfire losses.

The death in December 2015 of the thoroughbred racehorse 'Scat Daddy' also had a meaningful impact upon the performance of the bloodstock and livestock account. Attritional losses moved upward, and there were some sizeable power losses.

Prior year movement

The prior year reserve movement was a surplus of 4.0% (2014: 7.4%). Loss estimates for historical catastrophes remain stable or have reduced. This is further supported by no adverse development in any of the major lines.

Looking ahead

In the absence of significant catastrophe events, excess capacity and domestic market competition will contribute to the maintenance of pressure on rates during 2016. Nevertheless, on binding authority business rate changes are expected to continue to be less volatile than in the open market.

Line size is expected to continue to be an issue on open market business as syndicates compete with broker facilities and external markets, many of which offer substantial line sizes.

Casualty

The casualty market at Lloyd's comprises a broad range of classes.

The most significant are General Liability and Professional Liability. Although shorter-tail in nature than most casualty lines, Accident and Health business is also included within this sector. The US market is the largest single market for Lloyd's casualty followed by Europe, Canada and Australia.

2015 performance

Lloyd's gross written premium for 2015 was £5,764m (2014: 4,959m), an increase of 16.2%. The Lloyd's casualty sector reported an accident year ratio of 104.5% (2014: 100.0%).

The wider casualty market in 2015 remained replete with capacity. This suppressed rate increases, keeping them below widely agreed-upon claims inflation assumptions. This continuing trend is disappointing given that accident year results are loss making. Inflation remains a risk but with CPI currently at nil, the risk is not immediate.

Growth continues in the casualty lines. Some of this growth comes from genuinely new, innovative, business; cyber liability particularly stands out. These products continue to develop, addressing rapidly evolving exposures, with many insureds being first time buyers. Additionally there is also some organic premium growth illustrating more prosperity as insureds experienced higher turnover, wage rolls and fee income reflecting a slowly improving economic environment.

Prior year movement

The prior year reserve movement was a surplus of 4.4% (2014: 1.9%).

Although the casualty sector continues to generate surpluses on prior years in aggregate, there are concerns around reserve strength of more recent years. This is however confined to individual classes, years or territories.

While there will always be inherent uncertainty in casualty reserves, especially in challenging market conditions, casualty has been a particular focus for 2015 and will continue to be closely monitored over the year ahead.

Looking ahead

The casualty market's performance is highly correlated with the economic and legal conditions.

Recovery from the global financial crisis remains fragile with many economies still vulnerable.

While the legal environment varies across territories, many jurisdictions now allow 'collective actions' with third party litigation funding sometimes fuelling the trend. This may lead to an increase in frequency and severity of claims.

Regulators continue their pursuit of corporate wrongdoing via official investigations, increasingly holding business and industry to higher standards of care. While positive in many respects, this also contributes to defence costs making up a larger portion of losses.

The cyber liability market at Lloyd's continues to expand in response to greater demand. Lloyd's has pioneered many of the products in this class, and remains at the leading edge of product development through providing innovative, bespoke, risk transfer solutions.

Casualty business is expected to continue to grow. The market remains highly competitive, with many participants seeking to expand their books, often through delegated underwriting arrangements.

With no lack of appetite among insurers for casualty business, pricing conditions are expected to weaken further in 2016.

Marine

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

2015 performance

Lloyd's gross written premium for 2014 was £2,245m (2014: £2,140m), an increase of 4.9%. The Lloyd's marine sector reported an accident year ratio of 105.4% (2014: 103.7%).

Performance remains difficult in Hull and Cargo, Lloyd's largest marine classes. The abundance of available capacity ensures all classes remain highly competitive and with rates already relatively weak, downward pricing pressure has been accompanied by increasing limits and broadening conditions.

Prior year movement

The prior year reserve movement was a surplus of 11.2% (2014: 8.5%).

Overall, there has been a release of reserves in all marine classes.

Looking ahead

Improvements in the global economy will in time improve trade volumes and insured values. However, current market conditions with excess capacity in all lines is expected to result in further downward rate pressure in 2016.

Nevertheless, there has been some improvement performance in the Hull class in the last two years. This is ascribed to the significant improvement in the quality of risk in the world's commercial fleet, with the average age of vessels falling due to the high scrappage rate of old vessels.

Energy

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

2015 performance

Gross written premium for the Lloyd's energy sector in 2015 was £1,414m (2014: £1,532m), a decrease of 7.7%. Most business in this sector, no matter its country of origin, is denominated in US dollars and therefore the impact of exchange rate movements is most clearly shown in this sector. Despite the increase in converted sterling the fall in insured values and economic activity has cut back previous values materially.

The Lloyd's energy sector reported an accident year ratio of 97.3% (2014: 94.7%).

This is a very satisfactory result given the offshore energy property sector suffered a number of significant large losses this year.

Plentiful capacity, attracted by favourable recent results has contributed to an intense level of competition in the offshore energy sector during the course of the year. This resulted in significant rate reductions. In addition, the falling oil price caused oil and gas producers to restrict both exploration and investment in new fields leading to a reduced premium base. Premium fell in the offshore property and construction sectors by more than 30%.

The onshore energy sector remains well capitalised; competition for premium income and market share has also intensified despite marginal performance. The decline in premium in the offshore property book increased pressure on the rating of both onshore and offshore energy liabilities as underwriters sought to cover the lost premium.

Prior year movement

The prior year reserve movement was a surplus of 21.3% (2014:11.3%). The sector continues to generate significant reserve releases across both the property and liability classes. This stems from low incurred loss experience across the prior years of account.

Looking ahead

Low oil prices have resulted in a significant reduction in demand for insurance in this sector. As a result, competition remains intense as underwriters compete for a diminishing number of active risks and fewer new projects.

The lack of hurricane activity in the Gulf of Mexico has benefited recent results. But the region remains exposed to extreme weather events and expansion into new offshore fields continues, broadening the exposure footprint.

Maintaining underwriting discipline will be particularly important in 2016, allied with close attention to contract wordings and claims management.

Motor

Lloyd's motor market primarily covers UK private car, commercial and fleet business. Private car represents around 40% of Lloyd's UK motor premium and includes niche motor risks. Lloyd's commercial and fleet business is very diverse, ranging from light commercial vehicles and taxis to buses and heavy haulage.

International motor is also written; a large proportion of this is North American risk, including private auto and static risks such as dealer open lot.

2015 performance

Gross written premium in 2015 was £1,120m (2014: £1,213m), a decrease of 7.7%, a decrease coming in part from the withdrawal from this class of one major syndicate. The Lloyd's motor sector reported an accident year ratio of 109.5% (2014: 107.1%).

Underwriting conditions in the UK Motor market remain challenging. Claims frequency and severity are growing. With the price of fuel falling in 2015, the average number of miles driven during the year has increased. This, the rising costs of labour, parts and materials and concerns surrounding whiplash claims continue to present issues to this class.

Private car rates increased towards the end of 2015 reflecting the increase in insurance premium tax (IPT) from 6.5% to 9% in November. Rates are now at 2011 levels. The rating environment in the commercial motor sector was slightly more positive, with above inflation increases achieved throughout the year. Claims frequency remains high with the RTA claims portal showing year on year increase in claims notified of 5%. Fraudulent claims activity is still an issue. Concerns over performance remain in both areas.

Prior year movement

The motor sector saw a reserve release of 7.5% of motor net earned premium (2014: 0.5%).

While stability in motor reserves is encouraging, there does remain a risk that any possible alteration to the discount rate used to determine large awards in bodily injury claims, in addition to high claims inflation levels, could affect current claims reserves in the future as could the incidence of claims settled as Periodical Payment Orders (PPOs).

Looking ahead

The UK Motor insurance market continues to be very competitive, but the rating environment for both private car and commercial vehicles is improving. This improvement is expected to continue through 2016.

Legal costs for personal injury claims have reduced; this will reduce insurers' costs. However, reforms addressing whiplash will take a while to filter through.

Without a marked improvement in the general economic environment in the UK, the motor insurance market will struggle with profitability in 2016.

Aviation

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

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

2015 performance

Gross written premium was £587m (2014: £581m), an increase of 1.0%. The Lloyd's aviation sector reported an accident year ratio of 113.0% (2014: 133.2%).

The 2015 accident year was affected by a number of large claims in the airline, general aviation, and war and space sectors. These included the deliberate downing of Germanwings Flight 9525 in March, the crash at Shoreham Airshow in August and the loss of Metrojet Flight 9268 in October, all of which resulted in tragic loss of life. Space insurers also experienced a frequency of large claims, notably the Proton launch failure in May.

The result was also impacted by the continued rise in exposure and attritional claims against a broadly static premium base. There was continued decline in risk-adjusted rates which accelerated as the year progressed.

Prior year movement

The prior year reserve movement was a surplus of 17.3% (2014: 30.5%).

This class was impacted by significant aviation losses in 2014 including the two Malaysian Airline claims and claims for fighting at Libya's Tripoli Airport. Reserves for these claims have remained broadly stable since 2014 year-end but continue to be monitored.

Looking ahead

Despite poor results in the last two years, there remains an abundance of industry capacity in all lines.

Unless there is a significant withdrawal of capacity, market conditions are likely to remain challenging with the potential to deteriorate further. Positive returns will be even harder to achieve without increased underwriting discipline and good fortune.

Reinsurance

Property

Gross written premium £m		Combined ratio %		Underwriting result £m	
2011	5,209	2011	158.8	2011	(2,180)
2012	5,463	2012	89.8	2012	393
2013	4,930	2013	76.8	2013	846
2014	4,472	2014	77.0	2014	801
2015	4,627	2015	76.3	2015	794

Casualty

Gross written premium £m		Combined ratio %		Underwriting result £m	
2011	1,480	2011	90.2	2011	124
2012	1,612	2012	94.5	2012	70
2013	1,698	2013	88.3	2013	165
2014	1,779	2014	87.6	2014	187
2015	1,797	2015	100.0	2015	0

Specialty

Gross written premium £m		Combined ratio %		Underwriting result £m	
2011	1,984	2011	92.1	2011	111
2012	2,360	2012	91.1	2012	142
2013	2,349	2013	81.8	2013	310
2014	2,237	2014	86.5	2014	225
2015	2,169	2015	93.3	2015	110

Direct

Property

Gross written premium £m		Combined ratio %		Underwriting result £m	
2011	4,965	2011	100.3	2011	(10)
2012	5,476	2012	94.4	2012	221
2013	6,103	2013	85.0	2013	681
2014	6,274	2014	87.7	2014	558
2015	6,893	2015	90.1	2015	501

Direct (continued)

Casualty

	Gross written premium £m	Combined ratio %	Underwriting result £m
2011	4,245	96.6	117
2012	4,543	95.6	152
2013	4,850	98.8	47
2014	4,959	98.1	74
2015	5,764	100.1	(5)

Marine

	Gross written premium £m	Combined ratio %	Underwriting result £m
2011	1,968	94.5	89
2012	2,090	99.9	2
2013	2,195	95.4	84
2014	2,140	95.2	84
2015	2,245	94.2	108

Energy

	Gross written premium £m	Combined ratio %	Underwriting result £m
2011	1,523	87.9	130
2012	1,727	76.0	275
2013	1,668	83.0	201
2014	1,532	83.4	181
2015	1,414	76.0	247

Motor

	Gross written premium £m	Combined ratio %	Underwriting result £m
2011	1,187	107.4	(82)
2012	1,155	104.0	(42)
2013	1,184	108.6	(87)
2014	1,213	106.6	(71)
2015	1,120	102.0	(17)

Aviation

	Gross written premium £m	Combined ratio %	Underwriting result £m
2011	708	64.9	196
2012	669	67.7	170
2013	562	81.4	90
2014	581	102.7	(10)
2015	587	95.7	19

Contents

Financial Statements

Lloyd's Catastrophe Modelling & Climate Change report considered the impact of increasingly frequent severe weather events and how insurers could make more effective use of catastrophe modelling tools for more accurate risk-based pricing.

Statement of Council's Responsibilities and Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the 2015 Pro Forma Financial Statements

Statement of Council's responsibilities

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

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

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

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

Independent reasonable assurance report to the Council of Lloyd's on the preparation of the 2015 pro forma financial statements

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

Our conclusion

In our opinion, the Council of Lloyd's has prepared the pro forma financial statements the PFFS for the financial year ended 31 December 2015, as defined below, in all material respects in accordance with the basis of preparation set out in note 3.

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

What we have assured

The PFFS, which are prepared by the Council of Lloyd's, comprise:

– A pro forma profit and loss account;
– A pro forma statement of other comprehensive income;
– A pro forma balance sheet;
– A pro forma statement of cash flows; and,
– Notes 1-22.

The financial reporting framework that has been applied in their preparation is set out in note 3.

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Lloyd's Annual Report within which the PFFS for the year ended 31 December 2015 are included.

What a reasonable assurance engagement involves

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

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

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

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

- Obtaining an understanding of how the Council of Lloyd's has compiled the PFFS from the audited syndicate annual accounts, the audited Society of Lloyd's financial statements and funds at Lloyd's.
- Checking (on a sample basis) that the financial information included in the PFFS was correctly extracted from the syndicate annual accounts and the Society of Lloyd's financial statements.
- Evaluating evidence to support the existence and valuation of funds at Lloyd's.
- Evaluating the evidence supporting the adjustments made and obtaining evidence that the PFFS have been prepared in accordance with the basis of preparation set out in note 3.

The engagement also involves evaluating the overall presentation of the PFFS. We do not consider the appropriateness of the basis of preparation of the PFFS.

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

Our responsibilities and those of the Council of Lloyd's

The Council of Lloyd's is responsible for the preparation and approval of the PFFS in accordance with the basis of preparation set out in note 3. The purpose of the PFFS is to allow the financial results of Lloyd's and its members and their net assets taken together to be compared as closely as possible with the financial reports of general insurance companies.

Our responsibility is to express an opinion about whether the preparation of the PFFS has been performed by the Council of Lloyd's on the basis set out in note 3.

This report including our conclusions has been prepared solely to the Council of Lloyd's in accordance with our engagement letter dated 4 February 2016 (the 'instructions'). Our examination has been undertaken so that we might state to the Council those matters which we are required to state in this report in accordance with the instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London, 22 March 2016

Pro Forma Profit and Loss Account

For the year ended 31 December 2015

Technical account	Note	£m	2015 £m	£m	2014 £m
Gross written premiums					
– continuing operations		26,690		25,244	
– discontinued operations	7	–		15	
	11		26,690		25,259
Outward reinsurance premiums			(5,667)		(5,253)
Premiums written, net of reinsurance			21,023		20,006
Change in the gross provision for unearned premiums		(803)		(692)	
Change in the provision for unearned premiums, reinsurers' share		345		185	
			(458)		(507)
Earned premiums, net of reinsurance			20,565		19,499
Allocated investment return transferred from the non-technical account			302		659
			20,867		20,158
Claims paid					
Gross amount		12,477		12,017	
Reinsurers' share		(2,846)		(2,729)	
			9,631		9,288
Change in provision for claims					
Gross amount		7		(268)	
Reinsurers' share		624		570	
			631		302
Claims incurred, net of reinsurance			10,262		9,590
Net operating expenses	13		8,256		7,656
Balance on the technical account for general business			2,349		2,912
Attributable to:					
– continuing operations		2,349		2,889	
– discontinued operations	7	–		23	
Total	11		2,349		2,912
Non-technical account					
Balance on the technical account for general business			2,349		2,912
Investment return on syndicate assets		273		742	
Notional investment return on funds at Lloyd's	8	86		202	
Investment return on Society assets		43		94	
	14	402		1,038	
Allocated investment return transferred to the technical account		(302)		(659)	
			100		379
Profit/(loss) on exchange			(70)		(62)
Other income			56		65
Other expenses			(313)		(278)
Result for the financial year before tax	10		2,122		3,016
Attributable to:					
– continuing operations		2,122		3,003	
– discontinued operations		–		13	
Total			2,122		3,016

Statement of other comprehensive income	Note	£m	2015 £m	£m	2014 £m
Result for the financial year			2,122		3,016
Other comprehensive income			62		115
Total comprehensive income for the year	10		2,184		3,131

Pro Forma Balance Sheet

As at 31 December 2015

Investments	Note	2015 £m	2015 £m	2014 £m	2014 £m
Financial investments	15		45,874		44,951
Deposits with ceding undertakings			3		3
Reinsurers' share of technical provisions					
Provision for unearned premiums		2,368		1,976	
Claims outstanding		8,610		8,785	
	18		10,978		10,761
Debtors					
Debtors arising out of direct insurance operations		7,081		6,220	
Debtors arising out of reinsurance operations		4,008		3,576	
Other debtors		763		745	
			11,852		10,541
Other assets					
Tangible assets		32		24	
Cash at bank and in hand	16	11,026		9,938	
Other		42		9	
			11,100		9,971
Prepayments and accrued income					
Accrued interest and rent		69		71	
Deferred acquisition costs	18	3,585		3,231	
Other prepayments and accrued income		168		184	
			3,822		3,486
Total assets			83,629		79,713
Capital and reserves					
Members' funds at Lloyd's	8	17,840		15,704	
Members' balances	17	4,613		5,131	
Members' assets (held severally)		22,453		20,835	
Central reserves (mutual assets)		1,763		1,693	
	10		24,216		22,528
Subordinated debt	3		494		497
Subordinated perpetual capital securities	3		388		388
Capital, reserves and subordinated debt and securities			25,098		23,413
Technical provisions					
Provision for unearned premiums		13,723		12,652	
Claims outstanding		38,833		38,134	
	18		52,556		50,786
Deposits received from reinsurers			57		86
Creditors					
Creditors arising out of direct insurance operations		615		481	
Creditors arising out of reinsurance operations		3,311		2,951	
Other creditors including taxation		1,451		1,476	
			5,377		4,908
Accruals and deferred income			541		520
Total liabilities			83,629		79,713

Approved by the Council of Lloyd's on 22 March 2016 and signed on its behalf by

John Nelson
Chairman

Inga Beale
Chief Executive Officer

Pro Forma Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 £m	2014 £m
Result on ordinary activities before tax		2,122	3,016
Increase/(decrease) in gross technical provisions		1,382	1,541
(Increase)/decrease in reinsurers' share of gross technical provisions		(196)	73
(Increase)/decrease in debtors		(1,580)	(804)
Increase/(decrease) in creditors		702	326
Movement in other assets/liabilities		(265)	(210)
Investment return		(402)	(1,038)
Depreciation		10	5
Tax paid		(21)	(21)
Other		(11)	(1)
Net cash flows from operating activities		1,741	2,887
Investing activities			
Purchase of equity and debt instruments		(34,855)	(33,725)
Sale of equity and debt instruments		35,386	32,219
Purchase of derivatives		(35)	(43)
Sale of derivatives		23	5
Investment income received		553	361
Net movement in Funds at Lloyd's		895	414
Other		(52)	(135)
Net cash flows from investing activities		1,915	(904)
Financing activities			
Net profits paid to members		(2,742)	(1,520)
Net capital transferred into/(out of) syndicate premium trust funds		205	80
Purchase of subordinated notes		–	(329)
Interest paid on subordinated notes		(53)	(49)
Issue of subordinated notes		–	493
Other		5	16
Net cash flows from financing activities		(2,585)	(1,309)
Net increase/(decrease) in cash and cash equivalents		1,071	674
Cash and cash equivalents at 1 January		11,525	10,851
Exchange differences on cash and cash equivalents		(30)	–
Cash and cash equivalents at 31 December	19	12,566	11,525

Notes to the Pro Forma Financial Statements

As at 31 December 2015

1. The Pro Forma Financial Statements

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

2. Change in accounting policies

A number of changes have been made to the PFFS following the adoption of Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and Financial Reporting Standard 103 'Insurance Contracts' ('FRS 103'), together 'New UK GAAP'. This is the first period Lloyd's has presented the PFFS with changed accounting policies following the adoption of FRS 102 and FRS 103. The last PFFS under the previously extant UK GAAP were for the year ended 31 December 2014. The date of transition to the updated accounting policies described below was 1 January 2014.

The PFFS do not present a consolidated view of the results of Lloyd's business taken as a single entity. In particular, each managing agent selects the accounting policies most appropriate to its managed syndicates. The syndicates' financial information included in the PFFS has been prepared in accordance with New UK GAAP.

Where New UK GAAP permits different accounting policies and managing agents have adopted various accounting treatments, these are reflected in the PFFS without making consolidation adjustments. In addition, the PFFS do not eliminate inter-syndicate reinsurances (except for SPS, see below).

The consolidated financial information of the Society of Lloyd's, presented on pages 144 to 190 is prepared in accordance with International Financial Reporting Standards ('IFRS'). When included in the PFFS the Society of Lloyd's financial information is prepared in accordance with New UK GAAP. No adjustments have been made to the information incorporated into the PFFS as we do not consider there to be any material accounting policy differences between the existing IFRS accounting policies and the recognition and measurement requirements of New UK GAAP.

The Funds at Lloyd's accounting policy, presented below, is consistent with the 'fair value through profit and loss' accounting policy permitted under FRS 102. No measurement differences have arisen from the change in accounting policy for Funds at Lloyd's from the PFFS included within the 2014 annual report.

The recognition and measurement differences that have been recognised in the PFFS as a result of the changes in accounting policy set out above are disclosed in note 22. The comparative figures for the financial year ended 31 December 2014 have been prepared in accordance with New UK GAAP.

3. Basis of preparation

General

The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' Funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's on pages 144 to 190. Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the PFFS; the going concern and viability statement of the Society is included within the Society Report on page 136.

The Aggregate Accounts report the audited results for calendar year 2015 and the financial position at 31 December 2015 for all life and non-life syndicates which transacted business during the year. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 11). The Aggregate Accounts include the syndicate level assets, which represent the first link in the Chain of Security. The Aggregate Accounts are reported as a separate document and can be viewed at www.lloyds.com/financialreports. In order to provide more meaningful information in the Aggregate Accounts and PFFS, the Society has required syndicates to report certain disclosures presented on a consistent basis, which may vary from presentation included in the individual syndicates' annual accounts.

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

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

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

Notes to the Pro Forma Financial Statements continued

As at 31 December 2015

3. Basis of preparation continued

Overall, the PFFS aggregate the results and resources of the Society and its members and reflect all the links in Lloyd's Chain of Security as described in detail in the 'Security underlying policies issued at Lloyd's' which is reported as a separate document and can be viewed at www.lloyds.com/about-us/what-we-do-/stability-and-security. The PFFS may, therefore, be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is as closely as possible comparable with general insurance companies.

Statement of compliance

Whilst Lloyd's is not an insurance company, the PFFS have where possible been prepared in compliance with United Kingdom Accounting Standards, including FRS 102 and FRS 103. Where Lloyd's is not the investment manager for FAL, actual changes are not available and therefore a statement of changes in equity has not been included. However, a statement of changes in members' balances has been included in note 17, which along with the Society's group statement of changes in equity (on page 147) represent the changes in equity of the other components of the PFFS.

Taxation

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

Funds at Lloyd's

FAL comprise the capital provided by members to support their underwriting, and are the equivalent of capital shown in insurance companies' accounts. The valuation of FAL has, therefore, been included in the pro forma balance sheet. FAL are available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable and may include letters of credit and bank and other guarantees. The total resources, including FAL, for members writing ongoing insurance must be at least equivalent to the aggregate of the member's Economic Capital Assessment (ECA) requirement and certain liabilities in respect of its underwriting business. Each member's ECA to support its underwriting at Lloyd's is determined using Lloyd's Solvency Capital Requirement to ultimate capital setting methodology.

Notional investment return on FAL

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

Society of Lloyd's financial statements

The PFFS include the results and net assets reported in the consolidated financial statements of the Society of Lloyd's prepared in accordance with new UK GAAP, comprising the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates. No adjustments have been made to the information incorporated into the PFFS as Council do not consider there to be any material accounting policy differences between the existing IFRS accounting policies and the recognition and measurement requirements of New UK GAAP.

Transactions between syndicates and the Society

- Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate annual accounts and as income in the Society financial statements.
- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls, and do not have the resources to meet those cash calls, are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate annual accounts for calendar year 2015 and earlier years include those members' results and at the balance sheet date will report the outstanding liability within members' balances.
- Loans funding statutory overseas deposits are reported as assets within the syndicate annual accounts and as liabilities in the Society financial statements.

Transactions between the syndicates and the Society which have been reported within both the syndicate annual accounts and the Society financial statements have been eliminated (note 10).

Special Purpose Syndicates (SPS)

The Aggregate Accounts include the results and assets of the SPS (see Glossary on inside back cover). Due to the nature of SPS, the quota share of the host syndicate's business is reported as gross written premiums in both the host syndicate and SPS annual accounts. This leads to an overstatement of the original premiums written by the whole Lloyd's market. To provide users of the PFFS with a more meaningful presentation of the market's figures, all the transactions arising from the insurance contracts between the SPS and host syndicates have been eliminated. The key impact of this elimination is that gross written premium is reduced by £790m (2014: £567m). The elimination does not affect the PFFS result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

Inter-syndicate loans

The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £120m (2014: £160m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the PFFS.

Subordinated debt and securities

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

Note 17 to the Society financial statements on pages 173 and 174 provides additional information.

4. Accounting policies notes

Sources of significant accounting judgements and estimation uncertainty

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

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

- Claims provisions and related recoveries (estimates for outstanding claims)
- Premiums written (estimates for premiums written under delegated authority agreements)
- Investments (valuations based on models and unobservable inputs)
- Notional investment return on FAL (estimate based on yields from indices for each type of asset held).

The most critical accounting estimate included within the balance sheet is the estimate for outstanding claims. The total estimate, net of reinsurers' share, as at 31 December 2015 is £30,223m (2014: £29,349m) and is included within the pro forma balance sheet.

A. Aggregate accounts

General

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, managing agents must prepare the syndicate annual accounts under New UK GAAP. However, where New UK GAAP permits different accounting treatments, each managing agent is able to adopt the accounting policies it considers most appropriate to its syndicate. In particular, in certain circumstances, New UK GAAP permits different accounting treatments for investments. The following accounting policies are, therefore, an overview of the policies of all syndicates.

Premiums written

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

Unearned premiums

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

Outwards reinsurance premiums

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

Claims provisions and related recoveries

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

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

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

Notes to the Pro Forma Financial Statements continued

As at 31 December 2015

4. Accounting policies notes continued

Claims provisions and related recoveries continued
The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Statistical techniques are used to assist in making these estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The directors of each syndicate's managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events, which may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Additional information on insurance risk is disclosed in note 5.

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

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

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

Foreign currencies
The Council considers that the functional currency and the presentational currency of the PFFS and Aggregate Accounts is Sterling. Notwithstanding this a number of syndicates are now US dollar functional currency. In the context of the PFFS and Aggregate Accounts the Council views this to be the equivalent of a group which has different operating units with a mix of functional currencies.

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

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

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

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

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

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

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

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

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

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

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

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

Operating expenses
Operating expenses (including pension and other staff costs) have been charged to the syndicates in accordance with the policies adopted by the managing agents.

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

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

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

B. Funds at Lloyd's
FAL are valued in accordance with their market value at the year end, and using year end exchange rates. Investments are stated at fair value at the balance sheet date. For this purpose, listed investments are stated at their bid price market value, and deposits with credit institutions and international deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date. Letters of credit are stated at the amount guaranteed by the issuing credit institution.

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

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

C. Society of Lloyd's
The accounting policies adopted in the Society of Lloyd's financial statements are set out on pages 150-154. No adjustments have been made to the information incorporated into the PFFS as we do not consider there to be any material accounting policy differences between the existing IFRS accounting policies and the recognition and measurement requirements of New UK GAAP.

5. Risk management

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

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

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

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

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

The principal committees of the Council are the nominations committee, the remuneration committee and the audit committee.

The principal committees of the Franchise Board are the risk committee, the market supervision and review committee, the capacity transfer panel and the investment committee.

Notes to the Pro Forma Financial Statements continued

As at 31 December 2015

5. Risk management continued

Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a several basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1-in-200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement to determine the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Lloyd's capital structure, often referred to as the Chain of Security, has three elements:

- Syndicate assets, being all of the assets less liabilities of the syndicates, as represented in the members' balances reported in the balance sheet on page 65;
- Funds at Lloyd's, the capital deposited at Lloyd's by the member to meet its ECA; and
- Lloyd's central capital, which are the assets of the Corporation and the Central Fund.

The Lloyd's capital structure is described in a separate document and can be viewed at www.lloyds.com/lloyds/about-us/what-we-do/stability and security.

Insurance risk

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

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

Underwriting risk

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

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

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

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

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

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

Reserving risk

Reserving risk arises where the reserves established in the balance sheet are either not adequate to meet eventual claims arising or that those reserves are significantly in excess of the eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate or excessive reserves for known or Incurred But Not Reported Claims (IBNR). These shortfalls/surpluses can arise from inadequate reserving processes or from the naturally uncertain progress of insurance events.

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

Case-specific claim reserves should make financial provision at reported loss levels, without prejudice to coverage. Legal advisers', underwriters' and loss adjusters' judgement are used to set the estimated case reserves.

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

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

Credit risk

The market's principal credit risk is that the reinsurance purchased to protect the syndicate's gross losses does not respond as expected. This can occur because the reinsurance policy is poorly worded, there is a mismatch with the gross loss, reinsurance limits are exhausted or a combination of willingness and ability to pay by reinsurers. Managing agents are expected to have a clear and comprehensive plan for the reinsurance of each syndicate. This takes into account risk appetite for retained insurance risk and the potential for the accumulation of risk.

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

Catastrophe risk

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

Notes to the Pro Forma Financial Statements continued

As at 31 December 2015

5. Risk management continued

Claims development table

The tables below illustrate the development of the estimates of earned ultimate cumulative claims for syndicates in aggregate after the end of the underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non-sterling balances have been converted using average 2015 exchange rates to aid comparability. As these tables are on an underwriting year basis there is an apparent jump from figures for the end of the underwriting year to one year later as a large proportion of premiums are earned in the year of account's second year of development.

Advantage has been taken of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed will be increased from five years to 10 years over the period 2016–2020.

Gross

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	Total £m
At end of underwriting year		9,429	8,139	6,973	7,152	6,863	
One year later		15,493	13,320	13,235	13,726		
Two years later		15,704	13,563	13,441			
Three years later		15,421	13,344				
Four years later		15,378					
Cumulative payments		(11,946)	(8,911)	(7,459)	(4,702)	(830)	
Estimated balance to pay	9,929	3,432	4,433	5,982	9,024	6,033	38,833

Net

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	Total £m
At end of underwriting year		7,512	6,315	5,860	5,974	5,804	
One year later		12,304	10,780	11,066	11,325		
Two years later		12,324	10,943	11,176			
Three years later		12,089	10,683				
Four years later		11,910					
Cumulative payments		(9,316)	(7,273)	(6,351)	(4,123)	(766)	
Estimated balance to pay	7,154	2,594	3,410	4,825	7,202	5,038	30,223

Financial risk

Credit risk

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

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

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

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

2015	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Debt securities	33,073	–	4	33,077
Participation in investment pools	1,203	–	–	1,203
Loans with credit institutions	471	–	–	471
Deposits with credit institutions	4,109	–	–	4,109
Derivative assets	45	–	–	45
Other investments	61	–	–	61
Reinsurers' share of claims outstanding	8,604	6	–	8,610
Cash at bank and in hand	11,026	–	–	11,026
Total	58,592	6	4	58,602

2014	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Shares and other variable yield securities and unit trusts	32,057	–	–	32,057
Debt securities	1,451	–	–	1,451
Loans with credit institutions	570	–	–	570
Deposits with credit institutions	4,154	–	–	4,154
Derivative assets	9	–	–	9
Other investments	75	–	–	75
Reinsurers' share of claims outstanding	8,771	14	–	8,785
Cash at bank and in hand	9,938	–	–	9,938
Total	57,025	14	–	57,039

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

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

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

Notes to the Pro Forma Financial Statements continued

As at 31 December 2015

5. Risk management continued

Financial risk

Credit risk continued

The table below provides information regarding the credit risk exposure at 31 December 2015 by classifying assets according to the credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as other. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated. This table is the sum of assets neither past due nor impaired.

2015	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	10,742	9,777	7,438	3,375	1,741	33,073
Participation in investment pools	243	20	20	3	917	1,203
Loans with credit institutions	281	47	4	28	111	471
Deposits with credit institutions	1,498	634	501	236	1,240	4,109
Derivative assets	3	–	12	–	30	45
Other investments	1	–	23	–	37	61
Reinsurers' share of claims outstanding	154	2,650	4,980	40	780	8,604
Cash at bank and in hand	576	1,419	8,303	378	350	11,026
Total credit risk	13,498	14,547	21,281	4,060	5,206	58,592

2014	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	11,741	9,185	7,434	2,346	1,351	32,057
Participation in investment pools	239	27	15	1	1,169	1,451
Loans with credit institutions	359	69	6	15	121	570
Deposits with credit institutions	1,565	646	664	127	1,152	4,154
Derivative assets	1	–	–	–	8	9
Other investments	–	–	16	2	57	75
Reinsurers' share of claims outstanding	169	2,764	5,335	58	445	8,771
Cash at bank and in hand	245	1,043	8,175	158	317	9,938
Total credit risk	14,319	13,734	21,645	2,707	4,620	57,025

Liquidity risk

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

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

For syndicates in aggregate the table below summarises the maturity profile of financial liabilities. The average duration for claims provisions was 3.1 years (2014: 3.0 years). The maturity profiles for the Society of Lloyd's can be found on page 183.

2015	No stated maturity £m	0-1yr £m	1-3yr £m	3-5yr £m	>5yrs £m	Total £m
Deposits received from reinsurers	36	21	–	–	–	57
Creditors	706	3,869	651	93	–	5,319
Other creditors	11	171	27	1	–	210
Total	753	4,061	678	94	–	5,586

2014	No stated maturity £m	0-1yr £m	1-3yr £m	3-5yr £m	>5yrs £m	Total £m
Deposits received from reinsurers	54	32	–	–	–	86
Creditors	602	3,486	649	90	–	4,827
Other creditors	26	201	65	-	–	292
Total	682	3,719	714	90	–	5,205

Market risk – Overview

Market risk is the risk that the value of financial instruments will fluctuate because of movements in foreign currency, interest rates or asset values. Syndicate assets are held in premium trust funds and are subject to the asset rules contained in the PRA's handbook. Managing agents manage asset risk through their investment strategy.

There is greater oversight of market risk in light of the volatile economic climate, which includes the monitoring of Investment Management Minimum Standards. The Lloyd's Financial Risk Committee monitors assets across the full Chain of Security to ensure the asset disposition of the market and Corporation remains appropriate, closely monitoring global economic and market trends.

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

Market risk comprises three types of risk:

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

Notes to the Pro Forma Financial Statements continued

As at 31 December 2015

5. Risk management continued

Financial risk

Currency risk

Managing agents must identify the main currencies in which each syndicate transacts its business. For the market overall, the US dollar is the largest currency exposure. Assets are then held in each of those currencies to match the relevant liabilities. Managing agents must ensure that assets match liabilities and take corrective action where a mismatch arises. Lloyd's also reviews the matching of assets to liabilities at the syndicate level as well as at the market level. In addition, many members seek to match their capital disposition by currency against their peak exposures. At 31 December 2015, over half of all capital deployed at Lloyd's was provided in US dollars.

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

2015	Sterling £m	US Dollar £m	Euro £m	CAD £m	Australian $ £m	Other £m	Total £m
Financial investments	9,662	28,605	2,801	3,162	1,207	437	45,874
Reinsurers' share of technical provisions	2,938	6,905	564	347	136	88	10,978
Insurance and reinsurance receivables	2,457	7,429	623	302	200	72	11,083
Cash at bank and in hand	4,667	5,421	427	138	84	289	11,026
Other assets	1,292	2,727	415	160	51	62	4,707
Total assets	21,016	51,087	4,830	4,109	1,678	948	83,668
Technical provisions	12,535	32,167	3,940	2,350	1,096	468	52,556
Insurance and reinsurance payables	833	3,357	254	159	40	48	4,691
Other creditors	1,799	226	100	59	32	(11)	2,205
Total liabilities	15,167	35,750	4,294	2,568	1,168	505	59,452
Total capital and reserves	5,849	15,337	536	1,541	510	443	24,216

2014	Sterling £m	US Dollar £m	Euro £m	CAD £m	Australian $ £m	Other £m	Total £m
Financial investments	9,752	26,994	3,232	3,327	1,232	414	44,951
Reinsurers' share of technical provisions	2,757	6,736	576	416	151	125	10,761
Insurance and reinsurance receivables	2,264	6,303	608	249	147	220	9,791
Cash at bank and in hand	4,157	4,829	372	176	105	299	9,938
Other assets	1,399	2,360	338	147	60	9	4,313
Total assets	20,329	47,222	5,126	4,315	1,695	1,067	79,754
Technical provisions	12,055	30,612	4,007	2,472	1,105	535	50,786
Insurance and reinsurance payables	733	2,174	241	133	47	43	3,371
Other creditors	2,226	758	45	27	5	8	3,069
Total liabilities	15,014	33,544	4,293	2,632	1,157	586	57,226
Total capital and reserves	5,315	13,678	833	1,683	538	481	22,528

Sensitivity analysis

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

2015	Impact on profit before tax £m	Impact on members' balances £m
Strengthening of US Dollar	278	1,271
Weakening of US Dollar	(340)	(1,487)
Strengthening of Euro	13	52
Weakening of Euro	(16)	(63)

2014	Impact on profit before tax £m	Impact on members' balances £m
Strengthening of US Dollar	263	1,050
Weakening of US Dollar	(321)	(1,283)
Strengthening of Euro	38	80
Weakening of Euro	(47)	(97)

The impact on profit before tax is different to the impact on members' balance as the calculation of the notional return on FAL is not affected by currency movements.

Financial risk – Interest rate risk

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

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

2015	Impact on profit before tax £m	Impact on members' balances £m
+ 50 basis points	(369)	(369)
- 50 basis points	372	372

2014	Impact on profit before tax £m	Impact on members' balances £m
+ 50 basis points	(332)	(332)
- 50 basis points	339	339

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As at 31 December 2015

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

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

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

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

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

2015	Impact on profit before tax £m	Impact on members' balances £m
5% increase in equity markets	174	174
5% decrease in equity markets	(175)	(175)

2014	Impact on profit before tax £m	Impact on members' balances £m
5% increase in equity markets	173	173
5% decrease in equity markets	(172)	(172)

Regulatory risk
Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. Managing agents monitor regulatory development to ensure ongoing compliance and any impact on claims reserves. Additionally, given current developments in the global regulatory landscape, the Corporation closely monitors changes which may adversely impact the global licence network. Lloyd's is actively working with the market to assist and adapt to the changes in the UK regulatory architecture, in particular the increased focus on conduct risk by the Financial Conduct Authority; managing agents are now expected to comply with the Lloyd's Conduct Minimum Standards. Similarly, Lloyd's monitors global political trends and is taking action at both a Corporation and market level in response to a growing geopolitical risk facing companies operating around the world. A review of market sanctions and financial crime controls was completed in 2014 to gain assurance that all managing agents are meeting the necessary standards.

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

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

6. Variability

Calendar year movements in reserves are based upon best estimates as at 31 December 2015, taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimate are reflected in the technical account of the year in which they occur.

7. Discontinued operations

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

When a syndicate has ceased underwriting, its operations are reported as discontinued within the syndicate's annual accounts. Where the entire book of business continues to be written by another syndicate, however, an adjustment is made in the PFFS to reflect the continuing nature of this business to Lloyd's and its members as a whole. Where business has been reported as discontinued in 2015, the results for that business have also been reported as discontinued in the 2014 comparative figures.

8. Members' funds at Lloyd's

The valuation of members' FAL in the balance sheet totals £17,840m (2014: £15,704m). The notional investment return on FAL included in the non-technical profit and loss account totals £86m (2014: £202m).

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

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

		Proportion of FAL		Investment return	
Investment type	Index	December 2015 %	December 2014 %	2015 %	2014 %
UK equities	FTSE All share	5.0	6.0	1.2	1.5
UK government bonds	UK Gilts 1-3 years	4.5	2.3	0.4	1.8
UK corporate bonds	UK Corporate 1-3 years	6.7	8.8	0.6	1.9
UK deposits managed by Lloyd's	Return achieved	3.4	3.3	1.0	0.5
UK deposits managed externally including LoC	GBP LIBID 1 month	24.3	24.6	0.2	0.4
US equities	S&P 500 Index	5.0	4.8	1.8	13.7
US government bonds	US Treasuries 1-5 years	7.8	5.3	0.7	1.2
US corporate bonds	US Corporate 1-5 years	15.7	15.1	1.2	2.1
US deposits managed by Lloyd's	Return achieved	2.8	4.0	0.2	0.1
US deposits managed externally including LoC	USD LIBID 1 month	24.8	25.8	0.0	0.2

Notes to the Pro Forma Financial Statements continued

As at 31 December 2015

9. Society of Lloyd's

The results of the Group financial statements of the Society included in the profit and loss account are a profit of £293m (2014: £219m) in the technical account and a loss of £207m (2014: £121m) in the non-technical account.

10. Aggregation of results and net assets

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

Profit and loss account	2015 £m	2014 £m
Result per syndicate annual accounts	1,950	2,716
Result of the Society	74	91
Central Fund claims and provisions incurred in Society financial statements	–	1
Central Fund recoveries from insolvent members	–	(9)
Taxation charge in Society financial statements	13	18
Notional investment return on members' funds at Lloyd's	86	202
Movement in Society income not accrued in syndicate annual accounts	(1)	(3)
Result on ordinary activities before tax	2,122	3,016

Other comprehensive income	2015 £m	2014 £m
Result for the financial year	2,122	3,016
Foreign currency movements in the syndicate annual accounts	68	147
Other comprehensive income per syndicate annual accounts	(1)	1
Other comprehensive income of the Society	(5)	(33)
Total comprehensive income for the year	2,184	3,131

Capital and reserves	2015 £m	2014 £m
Net assets per syndicate annual accounts	4,613	5,133
Net assets of the Society	1,763	1,693
Central Fund claims and provisions	6	6
Members' funds at Lloyd's	17,840	15,704
Unpaid cash calls reanalysed from debtors to members' balances	12	9
Society income receivable not accrued in syndicate annual accounts	(18)	(17)
Total capital and reserves	24,216	22,528

Transactions between syndicates and the Society which have been reported within both the syndicate annual accounts and the Society financial statements have been eliminated in the PFFS as set out in note 3.

11. Segmental analysis

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

2015	Gross written premiums £m	Net earned premium £m	Under-writing result £m
Reinsurance	8,593	6,796	904
Property	6,893	5,072	501
Casualty	5,764	4,434	(5)
Marine	2,245	1,853	108
Energy	1,414	1,029	247
Motor	1,120	867	(17)
Aviation	587	446	19
Life	74	68	(3)
Total from syndicate operations	26,690	20,565	1,754
Transactions between syndicates and the Society (notes 3 and 9) and insurance operations of the Society	–	–	293
PFFS premiums and underwriting result	26,690	20,565	2,047
Allocated investment return transferred from the non-technical account			302
Balance on the technical account for general business			2,349

2014	Gross written premiums £m	Net earned premium £m	Under-writing result £m
Reinsurance	8,488	6,657	1,213
Property	6,274	4,550	558
Casualty	4,959	3,920	74
Marine	2,140	1,754	84
Energy	1,532	1,090	181
Motor	1,213	1,080	(71)
Aviation	581	375	(10)
Life	72	73	5
Total from syndicate operations	25,259	19,499	2,034
Transactions between syndicates and the Society (notes 3 and 9) and insurance operations of the Society	–	–	219
PFFS premiums and underwriting result	25,259	19,499	2,253
Allocated investment return transferred from the non-technical account			659
Balance on the technical account for general business			2,912

12. Life business

The PFFS include the results of all life and non-life syndicates transacting business during 2015. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 11).

Notes to the Pro Forma Financial Statements continued

As at 31 December 2015

13. Net operating expenses

	2015 £m	2014 £m
Acquisition costs	6,181	5,808
Change in deferred acquisition costs	(268)	(323)
Administrative expenses	2,343	2,171
	8,256	7,656

14. Investment return

Interest and similar income	2015 £m	2014 £m
From financial instruments designated as at fair value through profit or loss	603	738
From available for sale investments	24	24
From financial instruments designated as held to maturity	–	8
Dividend income	58	44
Interest on cash at bank	22	21
Other interest and similar income	29	30
Investment expenses	(31)	(36)
Total	705	829

Other income from investments designated as at fair value through profit or loss	2015 £m	2014 £m
Realised gains/(losses)	47	5
Unrealised gains/(losses)	(378)	159
Other relevant income/(losses)	23	37
Total	(308)	201

Other income from investments designated as available for sale	2015 £m	2014 £m
Realised gains/(losses)	9	25
Unrealised gains/(losses)	(4)	(17)
Other income	–	–
Total	5	8

Total investment return	402	1,038

15. Financial Investments

	2015 £m	2014 £m
Shares and other variable yield securities and units in unit trusts	6,908	6,635
Debt securities and other fixed income securities	33,077	32,057
Participation in investment pools	1,203	1,451
Loans and deposits with credit institutions	4,580	4,724
Other	106	84
	45,874	44,951

Disclosures of fair values in accordance with the fair value hierarchy

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

The fair value hierarchy includes the following classifications:

- included in Category A are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis;
- included in Category B are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using models whereby the significant inputs into the assumptions are market observable; and
- included in Category C are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect our view of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include own data.

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

2015	Category A £m	Category B £m	Category C £m	Sub-total fair value £m	Assets held at amortised cost £m	Total £m
Shares and other variable yield securities	4,042	2,205	661	6,908	–	6,908
Debt and other fixed income security	10,779	18,915	3,301	32,995	82	33,077
Participation in investment pools	165	1,002	36	1,203	–	1,203
Loans and deposits with credit institutions	2,924	1,580	76	4,580	–	4,580
Other investments	27	46	21	94	12	106
Total	17,937	23,748	4,095	45,780	94	45,874

2014	Category A £m	Category B £m	Category C £m	Sub-total fair value £m	Assets held at amortised cost £m	Total £m
Shares and other variable yield securities	4,056	1,980	599	6,635	–	6,635
Debt and other fixed income security	9,197	18,844	3,925	31,966	91	32,057
Participation in investment pools	203	1,200	48	1,451	–	1,451
Loans and deposits with credit institutions	3,181	1,417	126	4,724	–	4,724
Other investments	17	20	33	70	14	84
Total	16,654	23,461	4,731	44,846	105	44,951

Notes to the Pro Forma Financial Statements continued

As at 31 December 2015

16. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £8,758m (2014: £7,864m).

17. Members' balances

	2015 £m	2014 £m
Balance at 1 January	5,131	3,710
Result for the year per syndicate annual accounts	1,950	2,716
Other comprehensive income	67	145
Distribution on closure of the 2012 (2011) year of account	(2,554)	(1,379)
Advance distributions from open years of account	(204)	(239)
Movement in cash calls	17	98
Net movement on Funds in Syndicate (see note below)	206	80
Balance at 31 December	4,613	5,131

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account with reference to policies incepting in that year of account. Members' balances represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of 2016.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. These funds are know as funds in syndicate (FIS). At 31 December 2015 there was £2,998m (2014: £2,709m) of FIS within members' balances. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as 'net movement on funds in syndicate'.

18. Technical provisions

(a) Provisions for unearned premiums

2015	Gross £m	Reinsurers' share £m	Net £m
At 1 January	12,652	1,976	10,676
Premiums written in the year	26,690	5,667	21,023
Premiums earned in the year	(25,887)	(5,322)	(20,565)
Exchange movements	268	47	221
At 31 December	13,723	2,368	11,355

2014	Gross £m	Reinsurers' share £m	Net £m
At 1 January	11,675	1,734	9,941
Premiums written in the year	25,259	5,253	20,006
Premiums earned in the year	(24,567)	(5,068)	(19,499)
Exchange movements	285	57	228
At 31 December	12,652	1,976	10,676

(b) Deferred acquisition costs

	2015 £m	2014 £m
At 1st January	3,231	2,835
Change in deferred acquisition costs	268	323
Exchange movements	86	73
At 31st December	3,585	3,231

(c) Claims outstanding

2015	Gross £m	Reinsurers' share £m	Net £m
At 1 January	38,134	8,785	29,349
Claims paid during the year	(12,477)	(2,846)	(9,631)
Claims incurred during the year	12,484	2,222	10,262
Exchange movements	713	440	273
Other	(21)	9	(30)
At 31 December	38,833	8,610	30,223

2014	Gross £m	Reinsurers' share £m	Net £m
At 1 January	37,621	9,196	28,425
Claims paid during the year	(12,017)	(2,729)	(9,288)
Claims incurred during the year	11,749	2,159	9,590
Exchange movements	982	311	671
Other	(201)	(152)	(49)
At 31 December	38,134	8,785	29,349

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

19. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	2015 £m	2014 £m
Cash at bank and in hand	11,026	9,938
Short term deposits with credit institutions	1,663	1,737
Overdrafts	(123)	(150)
	12,566	11,525

Of the cash and cash equivalents, £310m (2014: £294m) is held in regulated bank accounts in overseas jurisdictions and is not available for immediate use other than to pay claims in those jurisdictions.

Notes to the Pro Forma Financial Statements continued

As at 31 December 2015

20. Five year summary

Results	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Gross written premiums	26,690	25,259	25,615	25,173	23,337
Net written premiums	21,023	20,006	20,231	19,435	18,472
Net earned premiums	20,565	19,499	19,725	18,685	18,100
Result attributable to underwriting	2,047	2,253	2,605	1,661	(1,237)
Result for the year before tax	2,122	3,016	3,205	2,771	(516)
Assets employed					
Cash and investments	56,900	54,889	51,494	51,767	51,416
Net technical provisions	41,578	40,025	38,355	39,078	39,765
Other net assets	8,894	7,664	7,247	6,611	6,565
Capital and reserves	24,216	22,528	20,386	19,300	18,216
Statistics					
Combined ratio (%)	90.0	88.4	86.8	91.1	106.8
Return on capital (%)	9.1	14.1	16.2	14.8	(2.8)

21. Related party transactions

The annual accounts of each syndicate provide, where appropriate, the required disclosures on related parties. Syndicate level disclosures are specific to that syndicate and its managing agent. For 2015, there were no material related party transactions conducted outside normal market conditions reported in the syndicate annual accounts requiring disclosure. The related party transactions of the Society are disclosed in note 26 on pages 188-189 of the Society Report.

22. Transition to FRS 102 and FRS 103

The PFFS are prepared under UK GAAP. On 1 January 2014 the PFFS transitioned to the recognition and measurement requirements of FRS 102 and FRS 103 from previously extant UK GAAP. The impact on the PFFS from the transition to FRS 102 and FRS 103 is as follows:

Reconciliation of result for the period

	2014 £m
Profit on ordinary activities before tax under previous UK GAAP	3,161
Foreign exchange under SSAP 20	31
Foreign exchange under FRS 23	(176)
Profit on ordinary activities before tax under New UK GAAP	3,016

Reconciliation of members' assets and central reserves

	2014 £m	2013 £m
Members' assets and central reserves under previous UK GAAP	22,586	20,386
Foreign exchange under SSAP 20	–	–
Foreign exchange under FRS 23	(58)	74
Members' assets and central reserves under New UK GAAP	22,528	20,460

Foreign exchange under SSAP 20

For accounting periods up to and including 31 December 2014, a number of syndicates had adopted Statement of Standard Accounting Practice No 20 ('SSAP 20') (Foreign currency translation) as the basis on which they accounted for foreign currency translation. SSAP20 permitted 'branch' accounting with exchange movements being reported as adjustments to reserves. In accordance with FRS 103 all exchange differences have been reported in the non-technical account.

Foreign exchange under FRS 23

For accounting periods up to and including 31 December 2014, a number of syndicates had adopted FRS 23 (The Effect of Changes in Foreign Exchange Rates) as the basis on which they accounted for foreign currency translation. On this basis, some balances arising from foreign currency denominated insurance contracts were treated as non-monetary items, and so were not retranslated at closing rates. FRS 103 requires an entity to treat all assets and liabilities arising from an insurance contract as monetary items.

Balance sheet – cash at bank and in hand

The transition to FRS 102 has impacted the amount reported as cash at bank and in hand. Under FRS 102 this now includes financial assets with a maturity of 90 days or less. Such assets that were previously reported under financial investments are now reported as cash at bank and in hand. This has resulted in an increase in cash at bank and in hand and decrease in financial investments of £65m as at 31 December 2014.

This report sets out the principal activities, governance arrangements and 2015 consolidated financial statements of the Society of Lloyd's.

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

The Society's 2015 consolidated financial statements are included in this report together with a financial review. The financial results of the members of Lloyd's are not part of these financial statements but can be found within the market results section starting on page 60.

The Society's principal activities are:

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

Society Report

Financial Highlights

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Operating result					
Operating and other Group income	243	233	220	215	222
Central Fund contributions	107	102	106	105	95
Total income	350	335	326	320	317
Central Fund claims and provisions incurred	–	(1)	(18)	(26)	(15)
Central Fund repayment to members	–	(49)	–	–	–
Net insurance claims and provisions	–	1	–	–	24
Other Group operating expenses	(259)	(227)	(219)	(206)	(249)
Operating surplus	91	59	89	88	77
Finance Costs					
Deficit on subordinated debt repurchase	–	(9)	(15)	–	4
Interest payable on financial liabilities and other	(54)	(49)	(56)	(62)	(64)
Finance Income	43	93	60	115	91
Realised/unrealised exchange on borrowings	–	7	(6)	6	5
Share of profits of associates	7	8	7	6	5
Surplus before tax	87	109	79	153	118
Tax charge	(13)	(18)	(14)	(34)	(29)
Surplus for the year	74	91	65	119	89
Balance sheet					
Net assets	1,763	1,693	1,635	1,564	1,490
Movement in net assets %	4.1%	3.6%	4.5%	5.0%	3.0%
Solvency*					
Central assets for solvency purposes	3,332	3,240	3,125	3,185	3,091
Solvency shortfalls	(20)	(19)	(34)	(94)	(115)
Excess of central assets over solvency shortfalls	3,312	3,221	3,091	3,091	2,976
Solvency ratio %	16660%	17058%	9191%	3420%	2688%
Movement in central assets for solvency purposes %	2.8%	3.7%	(1.9%)	3.0%	2.1%

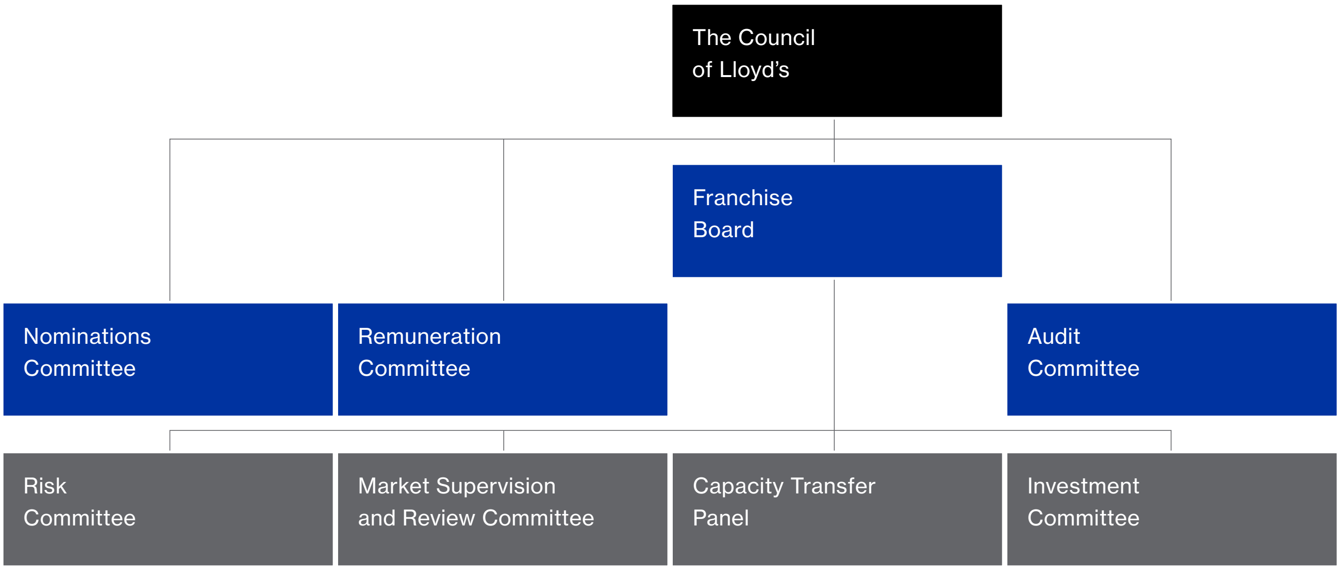
* The solvency position for 2015 is estimated and will be finalised in June 2016 for submission to the PRA.

The solvency ratio is reported under the Solvency I legislative requirements. Solvency II came into force on 1 January 2016, and the Solvency ratio will be reported annually from 31 December 2016 in Lloyd's Solvency & Financial Condition Report (SFCR) , the public regulatory return to the PRA. The basis of reporting solvency will be more consistent with other EU insurers, and will show for the Lloyd's market as a whole, the ratio of eligible capital to meet Lloyd's Solvency Capital Requirement.

Corporate Governance

Lloyd's governance structure provides challenge, clarity and accountability

Principal Committees of Lloyd's (Figure 4)



The Council and Franchise Board

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

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

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

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

The members of the Council of Lloyd's and Franchise Board are listed on pages 102-109

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

Corporate Governance continued

Governing body: The Council of Lloyd's

Under Lloyd's Act 1982, the Council of Lloyd's undertakes the management and superintendence of the affairs of the Society and 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 Council.

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

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

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

Membership

The Council comprises a maximum of 18 members, split between six working, six external and six nominated members. The biographical details of the current members of the Council (as at 22 March 2016) are listed on pages 102-106.

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

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

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

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

Chairman and Deputy Chairmen

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

The Chairman of Lloyd's is contracted to work a minimum of 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 102) and is satisfied that these can be accommodated with the Chairmanship of Lloyd's.

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

Meetings

The Council met five times in 2015. These meetings are structured to allow open discussion. At each meeting the Council receives certain regular reports – for example, a written report from the CEO and oral updates from its principal committees. It also reviews the quarterly Management Information Pack.

A table showing Council members' attendance at Council and Committee meetings which they were eligible to attend is set out on pages 100-101.

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

Governance Policies and the Constitutional Requirements

The Governance Policies

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

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

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

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

The Constitutional Requirements

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

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

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

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

Franchise Board

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

Specific functions delegated to the Franchise Board include:

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

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

Matters reserved to the Franchise Board include:

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

Corporate Governance continued

Franchise Board continued

Membership and meetings

Biographical details of the members of the Franchise Board as at 22 March 2016 are listed on pages 107-109. At the end of 2015, the Franchise Board comprised:

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

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

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

The Franchise Board held eight scheduled meetings in 2015. It held two additional meetings focused specifically on Solvency II. It also held a full day offsite focusing on the major strategic challenges facing Lloyd's and their impact on Lloyd's current strategy.

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

A table showing Franchise Board members' attendance at Franchise Board and Committee meetings which they were eligible to attend is set out on pages 100-101.

The Principal Committees of the Council

Audit Committee

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

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

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

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

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

The Audit Committee is chaired by Claire Ighodaro (an independent non-executive director on the Franchise Board) and its remaining members are drawn from both the Council and the Franchise Board. A table showing Audit Committee members' attendance at Audit Committee meetings is set out on pages 100-101.

The Audit Committee met on five occasions in 2015. The Audit Committee's full report is on pages 129-130.

Nominations Committee

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

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

Apart from the annual exercise of making recommendations with respect to the composition of Council and Franchise Board committees (together with any other necessary changes in composition during the year), the Nominations Committee made the following major recommendations to the Council during 2015:

- To reappoint Andy Haste as a Nominated member of the Council for a second three-year term with effect from 1 November 2015;
- To appoint Mark Cloutier a market-connected non-executive director on the Franchise Board for a three-year term commencing on 1 April 2015. Neither an external search consultant nor any advertising was used to identify Mr Cloutier as the Nominations Committee was able to make use of its knowledge of senior market practitioners in making the recommendation; and
- To reappoint Martin Read and Bruce Van Saun as independent non-executive directors on the Franchise Board. Dr Read's reappointment was for a third and final three-year term commencing on 14 September 2015. In view of Mr Van Saun's relocation to the United States, he was reappointed for a further term of 10 months commencing on 3 September 2015.

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

Mindful of Mr Van Saun's retirement from the Franchise Board during 2016, the Nominations Committee completed its search for his replacement during the first quarter of 2016. The Committee was assisted by external search consultants (The Zygos Partnership) with a brief to find a full-time executive with considerable financial experience, ideally a serving Chief Financial Officer (CFO). The Committee proposed to Council that Richard Keers, CFO of Schroders plc, should be appointed. Council agreed the recommendation on 4 February 2016. Subject to regulatory approval, it is intended that Mr Keers will chair the Audit Committee following Mrs Ighodaro's retirement. The Zygos Partnership does not have any connection with the Society.

To assist with succession planning, the Nominations Committee also considered the future skills, knowledge and experience likely to be needed by the Franchise Board and the Council. The search for Mr Van Saun's replacement on the Franchise Board referred to above was conducted after taking into account this work.

Diversity – The Nominations Committee is fully apprised of, and supportive of, the need for recent and relevant experience and diversity. The Franchise Board and the Council are also specifically aware of the need to increase gender diversity on both bodies. It is difficult to establish a target for the number of women on the Council, given that it is two-thirds elected but gender diversity will be encouraged. The Franchise Board, however, with the support of the Nominations Committee has established a target of 25% of the Board being women by 2016. Three of the 13 Board members as at the date of this report are women.

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

A table showing the Nominations Committee members' attendance at scheduled Nominations Committee meetings is set out on pages 100-101. The Nominations Committee held three scheduled meetings in 2015.

Remuneration Committee

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

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

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

The Remuneration Committee is chaired by the Senior Independent Deputy Chairman. The Chairman is a member of the committee and its remaining members are drawn from both the Council and the Franchise Board. A table showing Remuneration Committee members' attendance at Remuneration Committee meetings is set out on pages 100-101.

The Remuneration Committee met on three occasions in 2015. The Remuneration Committee's full report is on pages 112-128.

Corporate Governance continued

The Principal Committees of the Franchise Board

Risk Committee

This is chaired by the CEO and its other current members are the Director, Performance Management, the Chief Risk Officer & General Counsel and the Director, Finance. Other senior members of staff, including the Head of Risk Management, Head of Internal Audit, Lloyd's Actuary, and the Secretary to the Council, attend meetings as appropriate. It reports quarterly to the Franchise Board. It also provides updates to the Audit Committee and the Council.

A table showing the Risk Committee members' attendance at meetings is set out on pages 100-101. It met on 15 occasions in 2015.

Market Supervision and Review Committee (MSARC)

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

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

A table showing MSARC members' attendance at MSARC meetings is set out on pages 100-101. MSARC met on three occasions in 2015.

Capacity Transfer Panel

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

A table showing CTP members' attendance at CTP meetings is set out on pages 100-101. The Panel met on two occasions in 2015.

Investment Committee

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

The Investment Committee meets at the discretion of its Chairman. The Investment Committee submits a written report to the Franchise Board annually and may submit additional reports on matters of material concern as and when necessary. The Investment Committee is required to obtain the approval of the Franchise Board before making any decisions which may materially affect the financial risks applying to the Society or Lloyd's market entities. A table showing Investment Committee members' attendance at Investment Committee meetings is set out on pages 100-101. The Investment Committee met on four occasions in 2015.

Terms of reference and appointment terms

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

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

Annual General Meeting

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

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

Indemnities

The Society has given indemnities to 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 Franchise Board, the Lloyd's Regulatory Board and the Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees, the Society staff and also certain individuals and organisations who have been asked to carry out or provide services to the Society or on behalf of, or for the benefit of, its members.

Council, Franchise Board and committee assessments

In accordance with the UK Corporate Governance Code, an external and independent evaluation of the performance of the Council and Franchise Board was undertaken by Mr Geoffrey Shepheard of ICSA Board Evaluation at the end of 2015. The review also covered the performance of the Audit, Remuneration and Nominations Committees. This is consistent with the practice followed by the Society to have an independent evaluation undertaken every three years. In the intervening years, the Secretary to the Council undertakes the evaluation.

The principal conclusion of the independent evaluation was that the current governance arrangements were working effectively, although some improvements were identified. These included:

- To further improve the quality of the paperwork submitted to the Council and Franchise Board which would help make better use of Council and Board time and, in particular, review whether the Council has the necessary information to exercise its oversight of the Franchise Board;
- To consider ways in which to engage the Council earlier in the annual review and development of strategy; and
- To increase Franchise Board engagement on senior executive succession planning.

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

Individual assessment

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

Training and induction

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

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

In addition, in 2015, five briefings on a range of Lloyd's related topics were made available to all members of the Council and the Franchise Board.

Independent professional advice

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

Conflicts of interest

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

Corporate Governance continued

Attendance record

	Council	Franchise Board	Audit Committee	Nominations Committee	Remuneration Committee	MSARC[1]	CTP[2]	Investment Committee	Risk Committee
Chairman of the Council of Lloyd's									
John Nelson	[a]5/5	[a]7/8		[a]3/3	2/3				
Executive Directors									
Inga Beale	5/5	8/8						3/4	[a]15/15
Tom Bolt		8/8							14/15
Sean McGovern		7/8							13/15
John Parry		8/8						4/4	15/15
Non-Executive Council members									
Working members									
Rupert Atkin	5/5			3/3					
Simon Beale	5/5								
Dominic Christian	4/5								
Karen Green	5/5								
Christopher Harman	5/5								
Lawrence Holder	5/5								
External members									
Robert Childs	4/5								
Michael Deeny	4/5								
Matthew Fosh	5/5								
Paul Jardine	4/5		5/5		3/3				
Alan Lovell	5/5		5/5		3/3		2/2		
Michael Watson	4/5								
Nominated members									
Andy Haste	5/5			3/3	[a]3/3		[a]2/2	[a]4/4	
Fred Hu	5/5								
Sir David Manning	5/5			3/3					
Henrique Meirelles	3/5								
Non-Executive Franchise Board members									
Sir Andrew Cahn		8/8							
Mark Cloutier[4]		5/6	2/3						
Charles Franks		6/8	4/5						
Nick Furlonge[5]		8/8		3/3	1/1				
Joy Griffiths		8/8							
Claire Ighodaro		8/8	[a]5/5						
Andrew Kendrick[3]		1/2	2/2		2/2				
Martin Read		7/8			3/3				
Bruce Van Saun		5/8	5/5	3/3					

Attendance record continued

	Council	Franchise Board	Audit Committee	Nominations Committee	Remuneration Committee	MSARC[1]	CTP[2]	Investment Committee	Risk Committee
Other Committee members									
Richard Boys-Stones[7]							1/1		
Martin Bride								3/4	
Margaret Chamberlain							1/2		
Edward Creasy						3/3			
Christine Dandridge						3/3			
Lady Delves Broughton							2/2		
David Gittings							2/2		
Michael Green								3/4	
Reg Hinkley						2/3			
Jo Rickard						[a]3/3			
Nick Marsh						2/3			
Philip Matthews								4/4	
Paul Swain							2/2		
Graham White[6]				1/1					
David Winkett								3/4	

[a]Chairman

Notes
1. Market Supervision and Review Committee.
2. Capacity Transfer Panel.
3. Andrew Kendrick's term of office as a non-executive director on the Franchise Board and as a member of the Audit Committee and Remuneration Committee expired on 31 March 2015.
4. Mark Cloutier was appointed as a non-executive director on the Franchise Board and as a member of the Audit Committee on 1 April 2015.
5. Nick Furlonge was appointed as a member of the Remuneration Committee on 1 April 2015.
6. Graham White was a member of the Nominations Committee until his term on Council expired on 31 January 2015.
7. Richard Boys-Stones was appointed as a member of CTP on 1 October 2015.

Corporate Governance continued
The Council of Lloyd's

John Nelson

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

John Nelson was appointed Chairman of Lloyd's in October 2011. He was the Chairman of Hammerson plc until 2013. He is a Chartered Accountant, who worked in both the UK and the US while with Kleinwort Benson. In 1986, he joined Lazard, whose Vice Chairman he became in 1990. He subsequently became Chairman of Credit Suisse First Boston (Europe) and Deputy Chairman of Kingfisher plc. In addition, he has been a non-executive director of BT, Woolwich plc, JP Morgan Cazenove and Cazenove Group. He is a senior adviser to Charterhouse Capital Partners LLP. He is also the Chairman of Chichester Harbour Trust and a trustee of the National Gallery and chairs its Development Committee. He is a member of the UK Prime Minister's Business Advisory Group and the International Advisory Panel of the Monetary Authority of Singapore.

Inga Beale

Chief Executive Officer (Nominated member)

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

Andy Haste*

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

Andy Haste is Chairman of Wonga Group and former Group Chief Executive of RSA. He is currently the Senior Independent Director of ITV, and is Chairman of its Remuneration Committee and a member of both its Audit and Nominations Committees. His previous roles include Chief Executive of AXA Sun Life and Director of AXA UK (life and pensions), President and Chief Executive Officer of Global Consumer Finance Europe at GE Capital UK, Western Europe and Eastern Europe (consumer financial services) and President of National Westminster Bank's US Consumer Credit Business (retail banking). He was also a member of the Board of the Association of British Insurers from 2003-2011.

Simon Beale

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

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

*Considered to be independent members of Council.

Paul Jardine

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

Paul Jardine, a qualified Actuary, is Executive Vice President and Chief Experience Officer with responsibility for XL Group's Communications & Marketing function, Claims, and Distribution Strategy. He is also the Deputy Chairman of Catlin Underwriting Agencies Limited and was formerly Chief Operating Officer of Catlin Group Limited. He has over 30 years of insurance industry experience and was Chairman of the Lloyd's Market Association from 2007–2010. He is a Fellow of the Institute & Faculty of Actuaries and was formerly the Chief Actuary and Commutations Director at Equitas Limited. He is the Chairman of The Sick Children's Trust, a charity that provides homes from home for families whose children are undergoing treatment at various specialist hospitals around the UK.

Robert Childs

Representative of Hiscox Dedicated Corporate Member Limited
(External member)

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

Dominic Christian

(Working member)

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

Michael Deeny

Representative of The Michael Deeny LLP
(External member)

Michael Deeny is a chartered accountant. He was the Chairman of the Association of Lloyd's Members (ALM) for 11 years. His career has principally been in the music industry, where he has promoted U2, Luciano Pavarotti, Bruce Springsteen, The Eagles and Bob Dylan, amongst others. He underwrites through a Limited Liability Partnership and is Chairman of the Equitas Trust. He is a Non-Executive Director of the ALM and of Equitas Holdings and all its subsidiaries.

*Considered to be independent members of Council.

Corporate Governance continued
The Council of Lloyd's

Matthew Fosh

Representative of
Novae Corporate Underwriting Limited
(External member)

Matthew Fosh is the Chief Executive Officer of Novae Group plc, which he joined in 2002. He is a Non-Executive Director of Ariscom Compagnia di Assicurazioni S.p.A. He previously worked in the equity markets with Strauss Turnbull and Sheppards during the 1980s, before moving to the futures & options markets in 1989 where he co-founded a derivative trading business, Seagray Fosh Futures Ltd. He subsequently sold the business in 2002 to ICAP plc, before joining Novae Group.

Karen Green

(Working member)

Karen Green is the Chief Executive Officer of Aspen UK which includes Aspen Managing Agency Limited, the managing agency of Aspen's Lloyd's Syndicate 4711. She also performs a number of other roles within the Aspen Group. She had 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 trustee of the Lloyd's Charities Trust. She also chairs the Development Council for the Almeida Theatre Company and previously chaired the Advisory Council for Almeida Projects, the theatre's educational outreach programme.

Lawrence Holder

(Working member)

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

Dr Fred Hu*

(Nominated member)

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

*Considered to be independent members of Council.

Julian James
(Working member)

Julian James is President, Global Markets for Allied World Assurance Company and the CEO of Allied World Managing Agency Ltd. He has worked in the Lloyd's market since 1981 after starting his insurance career at Sedgwick (one of the former companies of Marsh & McLennan). Prior to joining Allied World he was CEO of Lockton International and a Director of the Corporation of Lloyd's. He is a past President of the Chartered Insurance Institute and serves as a member of Council for The Insurance Institute of London.

Neil Maidment
(Working member)

Neil Maidment has worked in the Lloyd's market for 31 years. He is Chief Underwriting Officer of Beazley plc and Active Underwriter for its six Lloyd's syndicates. He is a Director of Beazley Furlonge Limted, the group's Lloyd's managing agency, and a Director of Beazley plc. In 2011 he was elected to the Board of the Lloyd's Market Association and was appointed its Chairman in November 2015.

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

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

Henrique Meirelles*
(Nominated member)

Henrique Meirelles is Chairman of Lazard Americas and J&F (holding company of JBS and five other companies). He is also a Non-Executive Director of Azul Linhas Aéreas Brasileiras and Head of Associação Viva o Centro, an NGO he founded in the 1990s for the revitalisation of the downtown area in São Paulo. He was the longest-serving President of Brazil's Central Bank from 2003–2010. Previously, he was President of BankBoston Corporation. In 2002 he was elected a Congressman in Brazil.

*Considered to be independent members of Council.

Corporate Governance continued
The Council of Lloyd's

Philip Swatman

Representative of Nomina No 115 LLP
(External member)
Member of the Remuneration Committee
Member of the Audit Committee

Philip Swatman is a Chartered Accountant and has been a Member of Lloyd's since 1987. He worked for NM Rothschild for 29 years, becoming Co-Head of Investment Banking. He retired as a Vice-Chairman in 2008. He is or has been a Non-Executive Director or Chairman of nine companies.

Michael Watson

Representative of Flectat Limited
(External member)

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

*Considered to be independent members of Council.

Corporate Governance continued
The Franchise Board

John Nelson

Chairman of Lloyd's
Chairman of the Nominations Committee
Member of the Remuneration Committee

Biography on page 102.

Inga Beale

Chief Executive Officer

Biography on page 102.

Tom Bolt

Director, Performance Management

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

Sir Andrew Cahn KCMG*

Sir Andrew Cahn is a Non-Executive Director at Nomura International plc and General Dynamics (UK). He is also a Non-Executive Director of Huawei Technologies (UK) and chairs its Audit Committee. He is Chair of WWF (UK) and on the International Board of WWF as well as Chairman of the Global Audit Committee. He is also a Trustee of the Gatsby Foundation, the Arvon Foundation and the Institute for Government. Until 2011 he was CEO of UK Trade and Investment.

Mark Cloutier

Member of the Audit Committee

Mark Cloutier was appointed Chief Executive Officer of the Brit Group in October 2011. He serves on the Boards of Brit Ltd and Brit Syndicates Limited and is a Member of the Investment Committee and the Underwriting Committee. 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 CEO and senior executive positions, including CEO of the Alea Group, CEO of Overseas Partners Re and President of E.W. Blanch Insurance Services Inc. He has worked with a variety of private equity investors including Apollo Management International LP, CVC Capital Partners, Kohlberg Kravis Roberts (KKR) and Fortress.

*Considered to be an independent non-executive director.

Corporate Governance continued
The Franchise Board

Charles Franks
Member of the Audit Committee

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

Nicholas Furlonge
Member of the Nominations Committee
Member of the Remuneration Committee

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

Joy Griffiths*

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

Claire Ighodaro CBE*
Chairman of the Audit Committee

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

*Considered to be an independent non-executive director.

Sean McGovern

Chief Risk Officer & General Counsel

Sean McGovern joined Lloyd's in 1996, became a director in 2002 and Chief Risk Officer in 2014. He is responsible for risk governance and Lloyd's global legal, regulatory and government affairs. He is a board member of TheCityUK and is also Chairman of its International Trade & Investment Group. In 2011 he was appointed as a member of the US Federal Advisory Committee on Insurance and in 2015 he was appointed as a member of the Terrorism Risk Advisory Committee. He is also a Trustee of The Centre for Effective Dispute Resolution (CEDR), which promotes conflict management and dispute resolution.

John Parry

Director, Finance

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

Dr Martin Read CBE*

Member of the Remuneration Committee

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

Bruce Van Saun*

Member of the Audit Committee
Member of the Nominations Committee

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

*Considered to be an independent non-executive director.

Internal Control Statement

The Franchise Board, on behalf of the Council of Lloyd's, has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Audit Committee monitors and reviews the effectiveness of the system of internal control, providing biannual reports to the Franchise Board. The Executive Team is responsible for the implementation and maintenance of the internal control system and for instilling a strong internal control environment across the Corporation and market.

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. Other procedures such as our Speaking-up Policy whereby any member of staff may take matters that concern them to the Head of Human Resources, the Legal and Compliance department or, where appropriate, to the Chairman of the Audit Committee or the FCA or the PRA, are clearly set out. Associate companies, Ins-sure Holdings Limited and Xchanging Claims Services Limited, are not dealt with as part of the group for the purposes of applying the UK Corporate Governance Code.

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

Management structure

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

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

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

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

Identification and evaluation of business risks

The Risk Management Framework (the framework) ensures that the identification, assessment, monitoring and management of all material risks affecting the Society takes place on an ongoing basis. The framework includes a number of risk assessment techniques, which are tailored to specific risk areas. These processes are described in more detail in the Risk Management section on pages 25–26.

One such technique is the comprehensive risk and control assessment process, which is conducted on a quarterly basis. This review re-assesses the existing risks and identifies any new risks. It evaluates the performance of key controls and also seeks to monitor the action plans in place to help manage risks. The framework also enables Lloyd's to undertake a more forward looking assessment of risk, building capital consideration into 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 Franchise Board on a current and future basis. Whilst an annual process, the ORSA is reviewed on a quarterly basis to ensure it remains relevant.

The risk governance structure comprises the Risk Committee plus three specialist sub-committees: the Syndicate Risk Committee, the Financial Risk Committee and the Corporation Risk Committee. These provide clear independent challenge to the risk takers at Lloyd's and enables tailored risk management operating models, rather than a 'one-size-fits-all' platform. The risk committees oversee, challenge and where appropriate escalate issues using appropriate management information (MI) sourced from the Risk Management and internal control frameworks, such as the various risk and control assessments, details of the operating and regulatory environment and capital management reports.

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

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

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

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

Information and financial reporting systems

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

Report of the Remuneration Committee

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

Statement by Chair of Remuneration Committee

I am pleased to present the Remuneration Committee's report for 2015 in the following pages.

As in previous years, the Committee continues to focus on delivering an appropriate remuneration policy that is capable of attracting and retaining the calibre of employees needed to deliver Vision 2025 and maintain an effective market oversight regime.

Our remuneration structure for executive directors at Lloyd's reflects the unique nature of the Corporation. We continue to operate a policy with a decreased emphasis on variable pay (annual bonus and LPP) to reflect better the nature and role of the organisation.

Key remuneration decisions

For 2015 neither Inga Beale nor Sean McGovern received a salary increase. Tom Bolt received an increase of 4%. Due to John Parry being appointed Director, Finance in December 2014, his salary remained unchanged.

For 2016, Inga Beale received a salary increase of 2%, her first increase since joining Lloyd's in January 2014. Tom Bolt received no salary increase. Sean McGovern and John Parry received 1% and 6% increases respectively.

2015 was a successful year for the Lloyd's market and the Corporation, which is reflected in the LPP and bonus awards. The latter are driven off an assessment of each director's performance against individual key performance indicators. The Committee intends to continue to ensure the KPIs are stretching and aimed at delivering Vision 2025 while remaining in accordance with Lloyd's risk policies and risk appetite. As part of its review of Lloyd's remuneration policy with Solvency II requirements (see below), the Committee has considered the 'risk underpin' and has agreed procedures to make sure this is fully considered and assessed when considering annual bonus awards and LPP awards for 2016 and subsequent years.

The Chairman's fees for 2015 and 2016 remained unchanged at the level set when his contract was renewed for a further three years in October 2014.

Review of remuneration policy

The Committee has reviewed Lloyd's remuneration policy against Solvency II requirements and has agreed appropriate changes to the policy. Other than the 'risk underpin' for both annual bonus and LPP awards referred to above, the most material amendment relates to the deferral of LPP payments. For 2016 and subsequent years, for the CEO, all directors and the senior management population, payment of LPP awards will be deferred for a full three years following the end of the relevant financial year. Any LPP awards relating to the 2016 financial year will therefore not be payable until February 2020.

The Committee will continue to review the remuneration policy against wider best practice, including the Senior Insurance Managers Regime and, where necessary, update it as required.

Andy Haste
Chairman, Remuneration Committee
22 March 2016

Remuneration policy

This part of the report sets out the policy for the CEO and executive directors' remuneration. For the purposes of this report, 'executive directors' refers to Tom Bolt (Director, Performance Management), Sean McGovern (Chief Risk Officer and General Counsel) and John Parry (Director, Finance) – i.e. directors who are members of the Franchise Board.

Corporation remuneration policy

The approach to remuneration for all current and future employees is set out in Lloyd's Remuneration Policy as follows:

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

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

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

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

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

Report of the Remuneration Committee continued

CEO and executive director remuneration policy

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

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

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

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

Remuneration policy table continued

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Lloyd's Performance Plan (LPP)	To offer an incentive which is directly linked to the profitability of the Lloyd's market.	Annual LPP Awards are calculated by reference to profit levels in the year. For 2015, for the CEO, and the Director, Finance (in respect of awards earned subsequent to his appointment to the Board), the whole award is deferred, and is paid in October of the third financial year following the end of the performance period. For 2015, for the Director, Performance Management and the Chief Risk Officer & General Counsel, the LPP is structured as an ongoing fund, where annual awards are added to a notional LPP fund, a significant portion of which pays out in future years. For 2016 and subsequent years, for the CEO and the executive directors, the whole of the LPP award will be deferred for three years and will be paid in the fourth financial year following the end of the performance period. The Committee may apply malus and clawback to LPP Awards in respect of 2014 and subsequent years.	For the CEO and Director, Finance, an individual cap of 50% of salary applies. For the Director, Performance Management and the Chief Risk Officer & General Counsel, an individual cap of 100% of salary applies.	Annual LPP Awards are calculated by reference to Lloyd's profit for the year. LPP Awards will only be triggered for profit in excess of £100m.
Benefits	To provide market levels of benefits.	Benefits include a benefits cash allowance, private medical insurance, life insurance and a season ticket loan facility. The CEO does not receive a benefits cash allowance.	The maximum benefits cash allowance is £11,000. There is no overall maximum for total benefits as the cost of medical and life insurance depends on the individual's circumstances.	None
Relocation benefits	To support Lloyd's international strategy or to facilitate recruitment	Relocation benefits may be offered in certain circumstances. Neither the CEO nor the executive directors have been given relocation benefits.	There is no overall maximum.	None

Report of the Remuneration Committee continued

Remuneration policy table continued

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

Performance measures and targets

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

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

For 2016 both the annual bonus and the LPP will be subject to a potential downwards risk adjustment following the Committee's consideration of a scorecard of relevant risk metrics.

Malus and clawback

For LPP Awards and annual bonus 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 CEO) the circumstances in which malus may be applied are employee misconduct, material financial misstatement for which the employee was responsible, or deliberate or negligent failure in risk management for which the employee was responsible. In addition, the Committee retains the discretion to clawback awards for a period of six years from the date of 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 CEO, the circumstances in which malus may be applied are broader and include, but are not limited to, employee misconduct or the performance indicators relied on to determine the award being found to be materially different. The circumstances in which clawback may be applied are employee misconduct or the performance indicators relied on by the Committee being found to be materially different to those previously considered by the Committee (whether or not involving any culpability on the part of the individual). The clawback period is indefinite for the CEO.

Comparison of policy to broader employee population

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

- All employees in the Corporation are eligible to participate in the LPP. For directors and senior management (other than the CEO, Director, Operations and the Director, Finance) in 2015 the LPP operated as an ongoing fund (deferral). For 2016 onwards, LPP awards will be deferred for three years for the CEO, all directors and senior management. For other employees the LPP is a series of annual awards;
- All employees are eligible for a discretionary bonus; and
- The framework for provision of benefits and pensions is consistent across all employees in the Corporation.

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

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

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

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

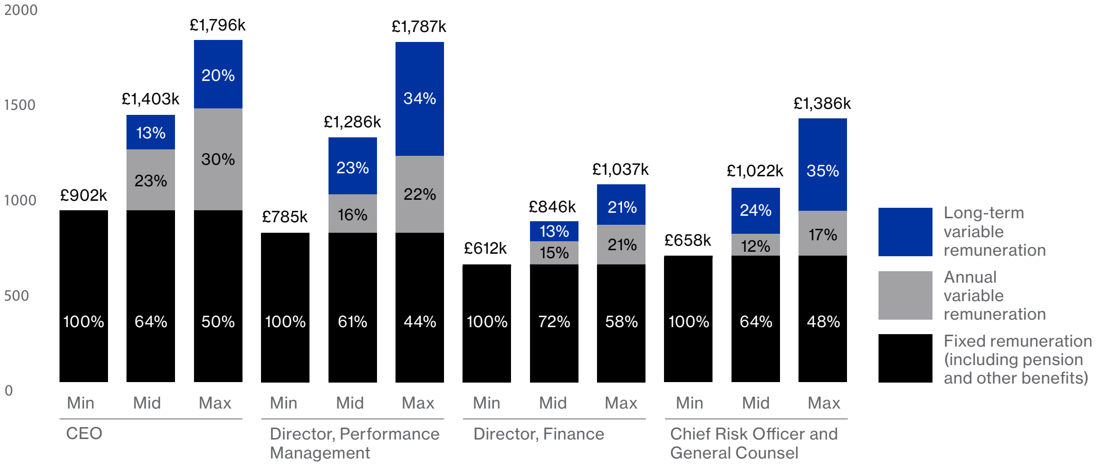
Fees for non-employee members of the Council and Franchise Board comprise payment of an annual fee and additional fees to reflect specific responsibilities, where applicable.

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

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

Report of the Remuneration Committee continued

Illustrations of the application of remuneration policy



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

Approach to remuneration in respect of recruitment

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

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

Service contracts and loss of office payment policy

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

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

	Unexpired term as at 31 December 2015	Notice period
John Nelson[1]	21 months	12 months
Inga Beale[2]	rolling 1 year	12 months
Tom Bolt[3]	rolling 1 year	12 months
Sean McGovern[4]	rolling 1 year	12 months
John Parry[5]	rolling 6 months	6 months

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

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

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

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

Compensation for termination of employment

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

Annual bonus

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

Report of the Remuneration Committee continued

Service contracts and loss of office payment policy continued

Consideration of conditions elsewhere in the Corporation

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

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

Remuneration policy and Lloyd's members

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

Legal status of policy report

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

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

Annual remuneration report

This part of the report sets out the annual remuneration for 2015 and the way in which policy is being applied for 2016.

Single total figure of remuneration

The total remuneration receivable in respect of qualifying services for each person who served as a Franchise Board director or member of Council during the year is shown below. Further detail on LPP Awards is shown on page 123-125.

	Salary/fees		Other benefits[1]		Annual bonus		LPP Award		Pension benefit[2]		Total	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Chairman of the Council of Lloyd's												
John Nelson[3,4,7]	575	535	20	22	–	–	–	–	–	–	595	557
Executive directors												
Inga Beale[3,4,14]	700	654	4	4	425	365	222	304	180	167	1,531	1,494
Tom Bolt[3,5,6]	598	577	24	23	350	318	254	365	161	151	1,387	1,434
Sean McGovern[3,5,6,13]	480	281	15	9	190	104	203	178	157	93	1,045	665
John Parry[3,5,13]	400	150	16	5	170	34	127	34	166	39	879	262
Non-executive Council members												
Working members												
Rupert Atkin	55	54	–	–	–	–	–	–	–	–	55	54
Simon Beale	38	38	–	–	–	–	–	–	–	–	38	38
Dominic Christian[8]	38	34	–	–	–	–	–	–	–	–	38	34
Karen Green[8]	34	–	–	–	–	–	–	–	–	–	34	–
Christopher Harman	38	38	–	–	–	–	–	–	–	–	38	38
Lawrence Holder	38	38	–	–	–	–	–	–	–	–	38	38
External members												
Robert Childs[9]	38	38	–	–	–	–	–	–	–	–	38	38
Michael Deeny[9]	38	38	4	3	–	–	–	–	–	–	42	41
Matthew Fosh[9]	38	38	–	–	–	–	–	–	–	–	38	38
Paul Jardine[7,9]	64	64	–	–	–	–	–	–	–	–	64	64
Alan Lovell[7,9]	60	60	–	–	–	–	–	–	–	–	60	60
Michael Watson[9]	38	38	–	–	–	–	–	–	–	–	38	38
Nominated members												
Andy Haste[7]	86	86	–	–	–	–	–	–	–	–	86	86
Fred Hu[8]	38	23	2	1	–	–	–	–	–	–	40	24
Sir David Manning	45	45	–	–	–	–	–	–	–	–	45	45
Henrique Meirelles	38	38	5	7	–	–	–	–	–	–	43	45
Non-executive Franchise Board members												
Sir Andrew Cahn	60	60	–	–	–	–	–	–	–	–	60	60
Mark Cloutier[16]	52	–	–	–	–	–	–	–	–	–	52	–
Charles Franks	69	69	–	–	–	–	–	–	–	–	69	69
Nick Furlonge[7]	72	67	–	–	–	–	–	–	–	–	72	67
Joy Griffiths[15]	60	40	–	–	–	–	–	–	–	–	60	40
Claire Ighodaro	75	75	–	–	–	–	–	–	–	–	75	75
Martin Read[7]	67	67	2	2	–	–	–	–	–	–	69	69
Bruce Van Saun	76	74	–	–	–	–	–	–	–	–	76	74
Former members of Council and Franchise Board												
Andrew Kendrick[7,16]	19	76	–	–	–	–	–	–	–	–	19	76
Nick Marsh[10]	–	3	–	–	–	–	–	–	–	–	–	3
Luke Savage[11]	–	294	–	10	–	–	–	–	–	149	–	453
Andre Villeneuve[12]	–	17	–	–	–	–	–	–	–	–	–	17
Graham White[10]	4	45	–	–	–	–	–	–	–	–	4	45

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

Report of the Remuneration Committee continued

Single total figure of remuneration continued

Table notes
1. Other benefits include items such as benefit allowances, medical and life insurance.
2. Pension benefit is calculated as 20 times the increase in pension in the year (net of inflation) less the salary sacrificed, and also includes any pension cash allowances.
3. Current employee of the Corporation.
4. Member of both Council and the Franchise Board for 2015.
5. Member of the Franchise Board only.
6. Tom Bolt is a non-executive director of Xchanging Claims Services. Sean McGovern was a director of Ins-sure Holdings Limited and various subsidiary companies until 11 September 2014. He is also a director of Equitas Holdings Limited and various subsidiary companies. No fees are or were payable for these appointments, other than for Equitas Holdings Limited where £20k per annum is payable to the Corporation of Lloyd's.
7. Member of the Remuneration Committee during 2015. Andrew Kendrick retired from the Remuneration Committee on 31 March 2015 and Nick Furlonge joined the Remuneration Committee on 1 April 2015.
8. Dominic Christian and Fred Hu joined Council on 1 February 2014 and 12 May 2014 respectively. Karen Green joined Council on 1 February 2015.
9. The following members of Council act as representatives of limited liability underwriting vehicles – Robert Childs (Hiscox Dedicated Corporate Member Ltd); Michael Deeny (The Michael Deeny LLP); Matthew Fosh (Novae Corporate Underwriting Ltd); Paul Jardine (Catlin Syndicate Ltd); Alan Lovell (Palace House International (Two) LLP); Michael Watson (Flectat Ltd).
10. Nick Marsh retired from Council on 31 January 2014. Graham White retired from Council on 31 January 2015.
11. Luke Savage resigned as a Corporation employee and as a member of the Franchise Board on 24 July 2014.
12. Andre Villeneuve retired as a member of the Franchise Board on 31 March 2014.
13. Sean McGovern was appointed to the Franchise Board on 16 May 2014. John Parry was appointed to the Franchise Board on 11 December 2014 and was Interim Director of Finance from 1 July 2014. The table only reflects remuneration received as executive directors (including, in the case of John Parry, the period as Interim Director of Finance).
14. Inga Beale commenced employment on 27 January 2014.
15. Joy Griffiths joined the Franchise Board on 25 April 2014.
16. Andrew Kendrick retired from the Franchise Board on 31 March 2015 and Mark Cloutier joined the Franchise Board on 1 April 2015.

Salary

The annual salaries and bonuses of the CEO and the executive directors are reviewed by the Remuneration Committee annually. 2016 salaries are as follows:

	2016 Base salaries £000	Increase on 2015
CEO	715	2%
Director, Performance Management	600	0%
Director, Finance	425	6%
Chief Risk Officer & General Counsel	485	1%

Annual bonus

Executive directors are eligible for a discretionary annual bonus, based on performance against objectives and individual key performance indicators for the year. The maximum annual opportunity under the bonus for the CEO and each of the executive directors for 2015 was as follows:

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

Performance measures

Individual payouts are based on the Committee's judgement of performance against corporate and individual key performance indicators (KPIs) for the year. The Remuneration Committee reviews strategic and operational objectives and KPIs at the start of the financial year. These help in determining the annual bonus awards for the year and ensure that annual bonus awards are aligned to the Corporation's strategic objectives.

Annual bonus continued

Bonus outturns for 2015

2015 has been a successful year for the Lloyd's market and the Corporation. Key achievements against KPIs aligned to the delivery of Vision 2025 included:

- A market oversight regime that contributed to a combined ratio at Q3 that was better than Lloyd's primary competitor group;
- Approval of Lloyd's Solvency II Internal Model by the PRA;
- Increasing Lloyd's international presence. Approvals received from local regulators included – Colombia (authorisation to establish a representative office); Mexico (authorisation to enable managing agents to bind business on the ground); and Finland (approval of an establishment licence);
- Three new trade capital providers from developing markets joined the market;
- Good progress on the market modernisation agenda, including completing the discovery phase on the London Market Target Operating Model (TOM) and completing an extensive consultation with the market. London Market TOM Steering Board has been launched; and
- Refreshed Values and Behaviours for Corporation employees developed and approved.

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

CEO	£425k (81% of max)
Director, Performance Management	£350k (87% of max)
Director, Finance	£170k (85% of max)
Chief Risk Officer & General Counsel	£190k (79% of max)

Lloyd's Performance Plan

The Lloyd's Performance Plan (LPP) is available to all employees and has been designed to meet strategic objectives by enabling the Corporation to offer an incentive which:

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

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

All employees of the Corporation and international offices are eligible to participate in the LPP on the basis set out as below. New employees are eligible to participate in the LPP from the beginning of the month immediately following the start of their employment.

Calculation of LPP Awards

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

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

Report of the Remuneration Committee continued

Lloyd's Performance Plan continued

The framework for determining LPP Awards is as follows:

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

From 2016 LPP Awards will also be subject to a risk assessment underpin which will take into account relevant Lloyd's market risk metrics.

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

Structure and timing of payments

For directors and Level 1 employees the LPP operates with a significant element of deferral. For the CEO and directors appointed after January 2014 the total award for 2014 and 2015 is deferred until the third year following the year of performance. For other directors and Level 1 employees deferral is via an ongoing fund as described below:

Job level	Awards	Payments
CEO and directors appointed after 1 January 2014	Any LPP Award will be notified after the PBT for the relevant year has been announced (i.e. participants will be notified normally in May 2016 of any LPP award relating to the financial year 2015).	Payment is deferred until October in the third year following the end of the relevant financial year, i.e. any LPP Award relating to financial year 2015 will be received in October 2018.
Other directors and Level 1 employees	Any LPP Award will be notified to the employee after the PBT for the relevant year has been announced (e.g. the employee will be notified normally in May 2016 of any LPP Award relating to the financial year 2015). The total amount of the LPP Award will be added to the particular employee's LPP Fund.	Each October one half of the total contents of the LPP Fund will be paid to the employee. Following the transition to three year deferral, 50% of the ongoing fund will be paid in October 2016 and the remaining balance will be paid one year later.

For 2016 and subsequent years, for the CEO and all directors and Level 1 employees, any LPP award will be deferred until the fourth year following the end of the relevant financial year.

LPP Awards in respect of 2015

For 2015, PBT of £2.1bn was achieved. As this is above the threshold level of £100m LPP Awards were made for the year. Based on this PBT level and the LPP calculation described above, the LPP Awards as a percentage of salary were 31.7% for the CEO and the Director, Finance and 42.3% for the Director, Performance Management and the Chief Risk Officer & General Counsel. The payment of these awards will be made as described in the table above.

Lloyd's Performance Plan continued

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

	Total fund outstanding as at 31 December 2014 or date of appointment £000	Amount paid during the year ended 31 December 2015 £000	LPP Award in respect of 2015 £000	Total fund outstanding as at 31 December 2015 £000
Inga Beale	304	–	222	526
Tom Bolt	643	(322)	254	575
Sean McGovern	519	(259)	203	463
John Parry	122	(61)	127	188

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

Pensions

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

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

	Details of pension arrangements	Contributions and accruals in 2015
Tom Bolt	Pension arrangements provide for a pension at retirement built in annual blocks based on a standard accrual rate of one eightieth of base annual salary subject to the Scheme earnings cap in each year of eligible service with the facility to increase the accrual rate to one thirtieth for an additional contribution.	Salary sacrifice of 5% of the earnings cap for eightieth accrual rate.
Sean McGovern John Parry	Pension arrangements provide for a pension at normal retirement of two thirds base annual salary after 20 years' eligible service less any entitlement from previous pension arrangements and subject to a Scheme earnings cap of £149,400 from 6 April 2015.	Salary sacrifice of 10% of the earnings cap in exchange for additional employer pension contributions of the same amount.

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

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

Report of the Remuneration Committee continued

Pensions continued

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

	Salary sacrifice in year to 31 December 2015 £000	Age at 31 December 2015	Increase in pension in year to 31 December 2015 – actual £000	Increase in pension in year to 31 December 2015 – net of price inflation £000	Total accrued annual pension in year to 31 December 2015 £000 pa	Normal retirement age
Tom Bolt	7	59	3	2	3	65
Sean McGovern	15	45	4	4	4	60
John Parry	15	52	5	5	5	60

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

	Transfer value of accrued pension as at 31 December 2014 £000	Transfer value of accrued pension as at 31 December 2015 £000	Movement in transfer value over the year less amounts salary sacrificed £000
Tom Bolt	154	191	29
Sean McGovern	667	742	60
John Parry	908	1,018	96

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

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

Additional disclosures

Seven-year CEO remuneration

	CEO single figure of total remuneration £000	Annual bonus award as a percentage of maximum opportunity	LPP award as a percentage of maximum opportunity
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%
2009	1,771	83%	77%

Chief Executive Officer pay increase in relation to all employees

The table below sets out details of the change in remuneration for the CEO and all Corporation employees.

	CEO %	All employees %
Salary	0	2.1
Other benefits	14.2	3.3
Annual bonus	8.8	8.1

The increase in other benefits of the CEO arises due to the increased cost of medical insurance.

The CEO's start date was 27 January 2014, and the increase is calculated using annualised remuneration for 2014.

Relative importance of spend on pay

	2015 £000	2014 £000
Operating income	238,765	222,167
Total remuneration – all employees	110,817	93,065

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

Report of the Remuneration Committee continued

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

The Chairman's remuneration was not increased in 2015 and will remain unchanged at £575k per annum for 2016.

Fees for 2015 for Council and Franchise Board members were £37,500 and £60,000 per annum respectively. Fees for 2016 will increase to £38,500 for Council members and £62,500 for Franchise Board members. This is the first increase for three years. Fees are also payable in respect of membership of a number of Council and Franchise Board committees, including ad hoc committees established to consider specific issues requiring a significant time commitment. These will remain at 2015 levels. For 2015 the additional fee payable to the Deputy Chairmen, over and above the standard Council member's fee, was £10,500 per annum. It will increase to £11,000 for 2016.

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

Within the policy for remuneration approved by the Council, the Remuneration Committee is responsible for setting the total individual remuneration package for the Chairman of Lloyd's, the Chief Executive Officer, each executive director, the Secretary to the Council and such other members of the executive management (including individual consultants) as it is designated to consider.

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

The Remuneration Committee met three times in 2015. The attendance record is set out in the Corporate Governance report on page 100. The Committee's terms of reference are available on the Lloyd's website and on request from the Secretary to the Council.

The Remuneration Committee was assisted by its remuneration consultants, Deloitte LLP, who adhere to the Code of Conduct for executive remuneration consultants. Deloitte LLP was appointed by the Remuneration Committee. Deloitte LLP adheres to working practices which have been agreed with the Remuneration Committee Chairman, for the purpose of maintaining independence. The Committee is satisfied that the advice received from Deloitte LLP was objective and independent. Total fees paid in respect of advice and services to assist the Remuneration Committee amounted to £44k for the year. Deloitte LLP also provided other services to the Corporation 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 CEO and Head of HR regularly attend Remuneration Committee meetings. Other senior executives are invited to attend for specific agenda items from time to time.

Neither the Chairman, nor the CEO, nor any other director, plays a part in any discussion about his or her own remuneration.

Andy Haste
Chairman, Remuneration Committee
22 March 2016

Report of the Audit Committee

Statement by Chair of Audit Committee

On the following pages we set out the Report of the Audit Committee. The report comprises the following sections:

- Composition of the Audit Committee;
- Financial Reporting;
- Internal Control; and
- Auditors.

Our principal aim is to assist the Council in discharging its responsibilities for monitoring the integrity of the Society's financial reporting, assessing the effectiveness of the internal controls of the Society and monitoring the effectiveness, independence and objectivity of the internal and external auditors.

Claire Ighodaro, CBE
Chairman, Audit Committee
22 March 2016

Composition of the Audit Committee

The committee, at the end of 2015, comprised two external members of the Council and four non-executive members of the Franchise Board. The committee met five times during the year. The members of the committee in 2015 and their attendance at meetings are shown in the Corporate Governance report on pages 100-101.

The committee members have extensive commercial experience which enables the committee to fulfil its terms of reference in a robust and independent manner.

For the purposes of the UK Corporate Governance Code, the committee considers that Claire Ighodaro, Alan Lovell, Paul Jardine and Bruce Van Saun have recent and relevant financial experience. More information on the skills and experience of the committee members are set out in the biographies on pages 102-109.

Members of the Executive Team and other senior management regularly attend meetings at the invitation of the Chairman together with the Head of Internal Audit and the external auditor. The committee as a whole meets privately with the internal and external auditors on a regular basis.

In addition, throughout the year, the Chairman of the committee meets informally and has open lines of communication with the Executive Team, Head of Internal Audit, external auditors and senior management.

The committee received technical updates from senior management and the external auditor on developments in financial reporting, accounting policy and regulatory developments. In addition, the committee received an in-depth presentation from the external auditor on integrated reporting and an update on Solvency II Pillar III reporting from management.

The committee's terms of reference can be found on the Lloyd's website.

Financial reporting

The committee reviewed the Lloyd's published annual and interim financial statements including the pro forma financial statements, the Aggregate Accounts, the Group financial statements of the Society of Lloyd's, Lloyd's Return to the PRA and the interim management statements of the Society of Lloyd's. The committee, with the support of the external auditor, assessed whether suitable accounting policies had been adopted and whether management had made appropriate estimates and judgements.

The principal issues reviewed in respect of the Society were:

- The notional investment return on Funds at Lloyd's and the methodology of the calculation;
- The valuation of the Lloyd's pension scheme including a review of the appropriateness of the assumptions used in the calculation;
- The methodology and assumptions used in the fair value calculation of recoverable Central Fund loans made to hardship members;
- The methodology and assumptions used in the calculation of amounts to be retained by the Society in respect of Central Fund Contributions and Subscriptions; and
- Management's assessment of the financial position of the Society including forecasts and stress tests undertaken.

At the request of the Council, the committee considered whether the Annual Report was fair, balanced and understandable and whether it provided the necessary information to assess performance, business model and strategy.

Report of the Audit Committee continued

Internal control

The committee reviewed and monitored the effectiveness of the systems of internal control of the Society. Regular reports and updates on specific control issues were received throughout the year. Specific issues considered were:

- The committee reviewed reports from the Risk Committee on developments to the Lloyd's Risk Framework. The committee also considered the quarterly risk and capital management information reports. Throughout the year, the committee was updated on the key risks which are set out on pages 25-26;
- The committee reviewed internal audit reports, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions;
- The committee received reports from the independent validator, Internal Audit and management on Lloyd's internal model approval process. The committee discussed the matters that had been identified and agreed the proposed resolution plan, requesting regular progress updates. The Lloyd's internal model was approved by the PRA on 5 December 2015;
- The committee reviewed the external auditor's controls observation report and management's assessment of the internal control environment including reports on control failures during the period and status of progress against previously agreed actions;
- Regular reports on UK and overseas regulatory and compliance matters;
- The committee reviewed the results of the risk culture survey and updates on action being taken to address any specific matters; and
- The committee was updated on the Corporation's minimum conduct standards regime, and managing agents' self assessment of their compliance with the requirements.

Auditors

Internal audit

The committee reviewed and approved Internal Audit's Charter and Operating Standards and the Internal Audit Plan, which provides the three-year audit cycle and details the annual scope of work and allocation of resources based on an assessment of inherent risks and existing controls. The committee is satisfied that Internal Audit has the appropriate resources.

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

Deloitte LLP provides co-sourced Internal Audit resource who report directly to the Head of Internal Audit. The committee keeps under review the relationship with Deloitte LLP and the procedures to ensure appropriate independence of the Internal Audit function is maintained.

External auditor

The committee monitors and reviews the objectivity and independence of the external auditor. This includes having in place a policy to govern the non-audit services that may be provided by the external auditor, that sets out the circumstances in which the external auditor may be permitted to undertake non-audit services. Allowable services are pre-approved up to £100,000. Any non-audit service that exceeds this threshold requires approval from the committee and must be justified and, if appropriate, tendered before it is approved. The committee receives a regular report on engagements undertaken by the external auditor in order to monitor the types of services provided and the fees incurred and to ensure they do not impair their independence and objectivity. The external auditor also confirmed to the Audit Committee that they believe they remain independent within the meaning of the regulations on this matter and their professional standards.

A breakdown of the fees paid to the external auditor for non-audit work may be found in note 5. Significant engagements undertaken in 2015 include other services pursuant to legislation (work undertaken on the Aggregate Accounts and regulatory returns) the pro forma financial statements and support of the Lloyd's internal model approval submission.

The committee performs a specific evaluation of the performance of the external auditor annually, through assessment of the results of questionnaires completed by members of the Executive Team and senior management in addition to committee members' own views. The committee is satisfied with the performance of External Audit.

Report of the Lloyd's Members' Ombudsman

Report by Mark Humphries, Lloyd's Members' Ombudsman

I am pleased to present the Annual Report of the Lloyd's Members' Ombudsman to the Council of Lloyd's for the year ended 31 December 2015.

The role of the Lloyd's Members' Ombudsman is to investigate complaints by members and former members who were members at any time after 30 November 2001 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 2015 I received three new complaints.

I reported in July 2015 on the first and second complaints, both of which I dismissed for want of jurisdiction.

I reported in September 2015 on the third complaint, finding in favour of Lloyd's.

Costs

The expenses incurred by my office amounted to £18,000.

Financial Review

This review should be read in conjunction with the financial statements of the Society on pages 144-189.

Operating surplus

The Society of Lloyd's achieved an operating surplus for the year of £91m (2014: surplus of £59m). The operating surplus by business segment is set out below:

	Corporation of Lloyd's £m	Lloyd's Central Fund £m	2015 Total £m	2014 Total £m
Total income	239	111	350	335
Central Fund claims and provisions incurred	–	–	–	(1)
Central Fund repayment to members	–	–	–	(49)
Net insurance claims	–	–	–	1
Other Group operating expenses	(247)	(12)	(259)	(227)
Operating (deficit)/surplus	(8)	99	91	59

Corporation of Lloyd's

Total income for the Corporation of Lloyd's increased by £19m to £239m (2014: £220m), mainly as a result of higher income generated by the overseas operating charge. This levy covers the cost of running the Corporation's international network of offices and supporting our licences worldwide by recharging expenses to those syndicates which underwrite business overseas. Subscription income was broadly in line with 2014, and the subscription rate applied to written premium (net of acquisition costs) remained unchanged at 0.5%. In aggregate, other income streams were in line with the prior year.

Other Group operating expenses increased to £247m (2014: £218m), which includes costs incurred on behalf of managing agents which are recharged on a 'user pays' basis. Excluding these costs, expenses increased during the year, as the Corporation continues to invest in delivering its strategic priorities.

Central Fund

Total income for the Central Fund decreased by £4m to £111m (2014: £115m). The 2014 income includes recoveries of Undertakings to members previously paid out. Central Fund contributions increased as, whilst the rates remained unchanged during 2015 at 0.5% of written premium (net of acquisition costs), income was also impacted by favourable movements in exchange rates on the level of premium written by the Lloyd's market in converted sterling terms.

The standard Central Fund claims and provisions is a net nil charge for the year (2014: charge of £1m). Undertakings to meet the liabilities of insolvent members to policyholders are approved at the discretion of the Council and are normally based on anticipated cash flow requirements of insolvent members in the following 12 months. During 2015, payments made in respect of insolvent corporate members were nil (2014: £6m). There were no payments made in respect of individual members in 2015 and 2014.

Other Group operating expenses increased to £12m (2014: £9m). Excluding the impact of foreign exchange, operating expenses are in line with the prior year.

Investment performance

	2015 £m	2014 £m
Finance income	43	93
Finance costs – interest payable on financial liabilities and other	(54)	(49)
Realised/unrealised exchange gains on borrowings	–	7
	(11)	51
Deficit on subordinated debt repurchase	–	(9)
	(11)	42

Investment performance

The Society's investments, mostly held within the Central Fund, returned £43m or 1.5% during the year (2014: £93m, 3.6%). Return on growth assets was impacted by the financial market turbulence that occurred mostly over the second half of the year. Developed market equities ended the year with low positive returns whilst emerging market assets incurred losses on both equity and debt investments in this sector. Hedge fund investments generated small losses but senior secured loans withstood the volatility and generated a positive return. Return from high quality fixed interest investments was also positive but lower than expected as rising bond yields led to capital depreciation which weakened the already low level of income from yield.

Commodities had the worst performance by a wide margin and, although this asset class remains part of the fund's strategic target disposition, a tactical exit in 2014 continued to prove highly beneficial in 2015.

Currency movement also made a significant contribution to return in the period. The Society's currency policy had been amended to incorporate a degree of exposure to be maintained to US dollars in order to match the underlying US dollar element of the Central Solvency Capital Requirement. The US dollar strengthened significantly versus the pound following the implementation of this policy leading to an appreciation in Society asset values.

The disposition of the Society's financial investments is set out in note 15 on pages 170-172.

Finance costs of £54m in 2015 (2014: £49m) predominantly relate to interest on the subordinated notes and perpetual subordinated capital securities.

Exposure to foreign exchange movement on borrowings ceased in November 2014 following the redemption of euro denominated debt securities.

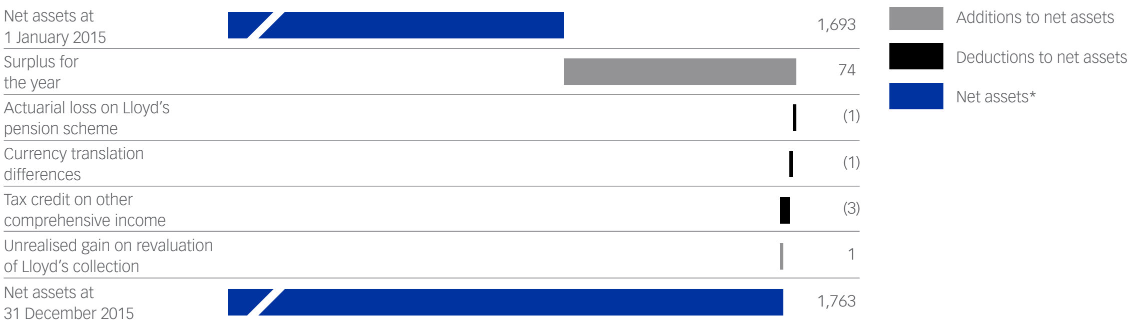
Adjusting for interest costs results in a net finance income deficit of £11m (2014: gain of £51m).

Taxation

A tax charge of £13m (2014: £18m) on the surplus before tax of £87m (2014: £109m) has been recognised for the year ended 31 December 2015. Further details are set out in note 8 on pages 161-162.

Movement in net assets

£m



*Net assets data not to scale

The net assets of the Central Fund are included within the above amounts and at 31 December 2015 were £1,658m (2014: £1,590m).

Financial Review continued

Pension schemes

Lloyd's pension scheme

On an IFRS basis, the Lloyd's pension scheme valuation at 31 December 2015 was a deficit of £93m before allowance for a deferred tax asset of £17m (31 December 2014: £84m deficit before allowance for a deferred tax asset of £17m).

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

	2015 £m	2014 £m
Pension deficit as at 1 January	(84)	(32)
Pension expense recognised in the Group income statement	(12)	(10)
Employer contributions	5	5
Remeasurement effects recognised in the Group statement of comprehensive income	(2)	(47)
Pension deficit as at 31 December	(93)	(84)

This was mainly due to an increase in liabilities as a result of a reduction in the real discount rate. The actuarial valuation of liabilities is particularly sensitive to changes in market conditions, which determine the discount rate, and changes to mortality assumptions. Further details are provided in note 18 on pages 174-180 which includes the sensitivity of the valuation to changes in these assumptions.

The latest triennial funding valuation of the scheme was carried out as at 30 June 2013, which showed a surplus of £9m.

The career average section of the scheme was closed to new joiners from April 2013, and to existing hires from June 2013 (existing employed members of each scheme continue to accrue benefits). After these dates, employees are eligible to join the Defined Contribution arrangement, which is administered by Aviva.

Overseas pension schemes

The actuarial valuations of the overseas pension schemes at 31 December 2015 resulted in a deficit of £2.5m (2014: deficit of £2.3m). Further details are provided in note 18.

Solvency

Total assets for solvency purposes are set out below. The 2015 position is considered to be an estimate of the amount which will be finalised in June 2016 for submission to the PRA:

	2015 £m	2014 £m
Net assets at 31 December	1,763	1,693
Subordinated notes and perpetual subordinated capital securities	882	885
Central assets	2,645	2,578
Callable Central Fund contributions	822	779
Other solvency adjustments	(135)	(117)
Central assets for solvency purposes	3,332	3,240
Solvency shortfalls	(20)	(19)
Excess of central assets over solvency shortfalls	3,312	3,221

Based on central assets for solvency purposes of £3.3bn (2014: £3.2bn), the estimated solvency ratio is 16660% (2014: 17058%). In setting contribution levels, account is taken of the Central Solvency Capital Requirement (SCR) to ensure that Lloyd's is prudently but competitively capitalised. Unencumbered central assets should be at least equal to the greater of 200% of the Central SCR or 80% of the Economic Capital Requirement (ECR), as set by the Franchise Board.

The solvency ratio is reported under the Solvency I legislative requirements. Solvency II came into force on 1 January 2016, and the Solvency ratio will be reported annually from 31 December 2016 in Lloyd's Solvency & Financial Condition Report (SFCR), the public regulatory return to the PRA. The basis of reporting solvency will be more consistent with other EU insurers, and will show for the Lloyd's market as a whole, the ratio of eligible capital to meet Lloyd's Solvency Capital Requirement.

Cash flows and liquidity

Cash and cash equivalents decreased during the year ended 31 December 2015 by £87m to £175m (2014: £262m). Cash balances are maintained at appropriate levels to meet the short-term operating expenses of the Society. Any surplus cash balances are invested and are included as financial investments within the Group statement of financial position.

The Corporation's free cash balances are regularly monitored. Free cash represents the amounts, both at bank and on deposit, held in the UK and available to the Corporation to meet operating expenses, including those of overseas operations, excluding any balances held in respect of insurance and arbitration activities. Free cash balances at 31 December 2015 were £139m.

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

Central Fund investment strategy

Central Fund investment strategy is considered in three parts. A proportion of assets are assigned to meet liquidity needs, based on a prudent estimate of net cash flows. These assets are commingled with other liquid assets of Lloyd's Group companies and invested in bank deposits and other short-term securities, with maturities of up to 12 months. The objective is to optimise income, for a low level of risk, while ensuring that all cash flow requirements are met as they fall due.

A significant proportion of assets are invested in fixed interest securities of a high credit quality and typically medium term maturities. The financial risk exposures represented by subordinated debt securities issued by the Society are considered when determining the disposition of fixed interest investments. The return objective is to optimise investment return in the longer term while maintaining overall financial risk within defined limits.

A smaller proportion of assets are invested in equities and other return seeking asset classes, also with an aim to optimise investment return in the longer term without exceeding defined risk tolerances. These investments are diversified among different asset classes to help manage risk and third party investment managers are retained to manage these investments within clearly defined investment parameters specified by Lloyd's. Equity investments currently include global developed and emerging market equities. Investments in other growth assets include high yield and emerging market debt, hedge funds and senior secured loans.

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 Franchise Board. Policies for managing these risks, in particular credit risk, liquidity risk and market risk, are summarised below.

Credit risk

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

Trade and other receivables

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

Financial investments

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

Guarantees

The Society provides certain financial guarantees as security for the underwriting activities of the members of Lloyd's. Further details are provided in note 27 on page 189.

Financial Review continued

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

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

The Society had no committed borrowing facilities as at 31 December 2015 (2014: nil).

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

Foreign currency risk
The Society enters into a variety of foreign exchange transactions in response to the foreign currency requirements of Lloyd's Group companies. In managing the exposures arising from such foreign exchange activity, which may involve transactions for forward settlement, the net risk arising from all such exposures is considered and the level of this risk is managed within defined parameters. Consequently, while some net foreign exchange exposures may accrue to the Society from time to time as a result of this activity, the level of such exposures is carefully monitored and is not significant in the context of its activities.

Foreign currency exposures arising from overseas investments are considered together with 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 pounds sterling and other Lloyd's settlement currencies as required. Foreign exchange exposures arising from the provision of the CCS are again managed on a net basis, within defined parameters. The CCS is operated separately from other foreign exchange activity of the Society because, under the terms of the service, any profit (or loss) arising from CCS exposures is distributed to (or collected from) syndicates participating in the CCS. Currency exposures arising from CCS activity consequently do not, ultimately, represent risks to the Society.

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

Short-term assets held by the Society may be significant at certain times but such balances cannot be 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 Lloyd's subordinated loan notes and the perpetual subordinated capital securities is considered in conjunction with the market risk arising on the Society's investments.

Capital management
The Society monitors its capital to ensure that it maintains sufficient assets for both operational and solvency purposes. Further disclosures with regard to financial instruments are provided in note 22 on pages 182-186. Further details regarding solvency are given on page 119.

Related party transactions

Except for disclosures made in note 26 (see pages 188-189), no related party had material transactions with the Society in 2015.

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 199 to 201. The Franchise goal, vision and strategic priorities are 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 the Lloyd's vision. The review is led by the CEO through the Executive Team and all relevant departments are involved. The Franchise Board and the Council of Lloyd's 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.

The review determines a set of interim milestones (to be achieved by the end 2018), key performance indicators for the current year and activities to deliver on those metrics. The latest three year strategic plan (Lloyd's Strategy 2016-2018) was approved in March following completion of the latest review cycle. As part of the planning process, detailed financial budgets were prepared for the Society for the three-year period to 31 December 2018.

Assessment of viability

The Franchise Board and Council of Lloyd's 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 25-26. 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 on pages 199-203 and Lloyd's is required to maintain solvency on a continuous basis, and the solvency position of each member, and thus of Lloyd's as a whole, is monitored on a regular basis. The 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 Solvency Capital Requirement and the expectation, but not the obligation, that the perpetual subordinated capital securities are redeemed at the first option date.

Viability statement

Whilst the members of the Council of Lloyd's 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 2018, 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 of Lloyd's 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 2018.

Going concern

After making enquiries the members of the Council of Lloyd's also consider it appropriate to adopt the going concern basis in preparing the Society's financial statements.

Statement as to disclosure of information to auditors

Having made enquiries, the Council of Lloyd's confirms that:

- to the best of each Council member's knowledge and belief there is no information relevant to the preparation of the Society Report of which the Society's auditors are unaware; 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 £2.6bn in 2016. On 22 March 2016, the Council of Lloyd's gave further undertakings to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. After taking account of the expiry of unutilised undertakings, the net movement in undertakings is nil (see note 4 on page 158). The operating expenses for the Corporation and its subsidiaries are budgeted to be £326m in 2016. This includes net investment of £41m in respect of market modernisation and £22m of costs for services recharged directly to specific managing agents. The Council of Lloyd's is responsible for preparing the Group financial statements in accordance with byelaws made under Lloyd's Act 1982 and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

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

Statement of the Council of Lloyd's Responsibilities for the Financial Statements

The Council of Lloyd's is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable it to ensure that the Group financial statements comply with Article 4 of the IAS Regulation. As the Society's subordinated debt and perpetual subordinated capital securities are admitted to trading in a regulated market in the European Union, Council has elected to comply with Article 4, which requires Group financial statements to be prepared in conformity with IFRS as adopted by the European Union. The Council of Lloyd's is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Council of Lloyd's is responsible for the maintenance and integrity of the corporate and financial information included on the Society's website (www.lloyds.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Council of Lloyd's considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Society's performance, business model and strategy.

Independent Auditor's Report to the Members of the Society of Lloyd's

Report on the Society of Lloyd's Group financial statements

Our opinion

In our opinion, the Society of Lloyd's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Society's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Council of Lloyd's byelaws made under the Lloyd's Act 1982.

What we have audited

The Society of Lloyd's Group financial statements, included within the Society Report, comprise:

- the Group statement of financial position as at 31 December 2015;
- the Group income statement and statement of comprehensive income for the year then ended;
- the Group statement of cash flows for the year then ended;
- the Group statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Society Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview

Materiality

- Overall group materiality: £18m, which represents 0.5% of total assets.

Audit scope

- Audit procedures were performed over the complete financial information for the Corporation of Lloyd's, Central Fund and Additional Securities Limited reporting units to address the areas of focus identified below.
- Additionally, we considered certain account balances in Lloyd's Insurance Company (China) Limited to be significant in size in relation to the Society, and therefore we scoped our audit to include testing of those account balances.
- Taken together, the reporting units where we performed our audit work accounted for 92% of the Society's revenue, 99% of the Society's profit before tax and 98% of the Society's total assets.

Our areas of focus were:

- Valuation of financial investments;
- Lloyd's Pension Scheme;
- Revenue recognition;
- Valuation of loans recoverable; and
- Valuation of the lease cost provision.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Council of Lloyd's made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Council of Lloyd's that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Independent Auditor's Report to the Members of the Society of Lloyd's continued

Our audit approach continued

The scope of our audit and our areas of focus continued

Area of focus	How our audit addressed the area of focus
Valuation of financial investments	
We focused on this area because it represents 86% of the total assets of the Society and so the valuation of financial investments has a significant impact on the financial statements. We focused in particular on the non-publicly traded investments in the Society's portfolio, which includes investments held as statutory insurance deposits by Additional Securities Limited ('ASL'), and other non-publicly traded investments in the Corporation and Central Fund. These investments are hard to value because quoted prices are not readily available. (Refer also to note 15 to the financial statements)	For these hard to value investments we assessed both the methodology and assumptions used by management in the calculation of the year end values as well as testing the governance controls that the Council of Lloyd's has in place to monitor these processes. The testing included performing the following procedures: – Assessing the methodology and assumptions used within the valuation models; – Comparing the assumptions used against appropriate benchmarks and investigating significant differences; and – Testing the operating effectiveness of the valuation controls over assets managed by third parties. Our work and the evidence provided identified no significant issues.
Lloyd's Pension Scheme	
Lloyd's operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme whose liabilities total £768m at 31 December 2015, as measured in accordance with IAS 19 'Employee benefits'. This value is equivalent to 41% of the Society's net assets. Assumptions made in valuing the pension scheme liabilities can have a material impact on them and therefore on the recognised deficit in the financial statements. We focused on the key assumptions to which the Lloyd's Pension Scheme valuation is sensitive, being: – discount rate; – inflation; and – post-retirement life expectancy. (Refer also to note 18 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 2015; – 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 2015; 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 fall in future.
Revenue recognition	
The Central Fund contributions (recognised as revenue in the Central Fund reporting unit) and members' subscription fees (recognised as revenue within the Corporation of Lloyd's reporting unit) represent 59% of the revenue of the Society. We focused on these components of revenue because they are recognised based on management's estimate of the future premium of each syndicate underwriting year. Although not complex, this estimate involves subjectivity with regards to assumptions on the estimation of future premium. The future premium is estimated based on historical development trends. From this analysis, management selects an extrapolation factor, which is then applied to the current year. There is also a risk of error in terms of the calculation of the estimated revenue as this is a manual calculation. (Refer also to note 2 to the financial statements)	We evaluated the reasonableness of the assumptions applied in the estimation of the future premium. As future premium is estimated based on the development trend of historical premium, we traced a sample of the historical premium data to the market system which records audited market results. We tested Information Technology General Controls over the market system, where no exceptions were noted. Based on our work on the assumptions, we found that management's analysis supported the extrapolation factor that was selected. We tested the accuracy of the application of the assumptions to the underlying data and recomputed the total Central Fund contributions and members' subscription fees. We found management's assumptions to be reasonable. No exceptions were noted in our testing of underlying data or our recalculation of revenue.

Area of focus	How our audit addressed the area of focus
Valuation of loans recoverable	
Loans recoverable are Central Fund loans made to hardship members. The valuation of loans recoverable of £45m (2014: £46m) is subjective and judgemental. The loans recoverable amount represents the lower of: – valuation of property and investments held as charge; and – principal loan amount including accrued interest. We focused on the following assumptions because they have a material impact on the valuation of loans recoverable: – discount rate; – fair value of properties; and – property inflation rate. (Refer also to note 14 to the financial statements)	We evaluated the reasonableness of the assumptions used and found the following: – the discount rate used was consistent with our expectations, taking into account the market conditions at 31 December 2015; – the fair value of properties was reasonable, based on comparing the valuation to the current offer price of similar properties on the open market on a sample basis; and – the property inflation rate used was set at an appropriate level, based on our assessment of market conditions at 31 December 2015. In addition, we tested a sample of loans by agreeing the principal loan amount to the signed agreements and recalculated the accrued interest. No exceptions were found in our testing.
Lease cost provision (new in 2015)	
The Corporation of Lloyd's is lessee to number of 'fully repairing' operating leases, the most significant of which relates to the 1986 building. The estimate of £12.7m (2014: £15.3m) for the provision for the replacement cost of plant and equipment, and any dismantling and removal costs, which are borne by Lloyd's under the terms of the leases is subjective and judgemental. We focussed on management's estimate of the projected total capital expenditure for the 1986 building over the life of the lease because it has a material impact on the valuation of the provision. (Refer also to note 19 to the financial statements)	We tested the judgements made by management with respect to the percentage completion of capital expenditure projects undertaken in the year by evaluating forecast capital expenditure against documentary evidence. We also evaluated variances between budgeted and actual capital expenditure in the year to assess the accuracy of management's estimation process. The evidence we obtained supported management's estimate of future capital expenditure for the 1986 building and the overall valuation of the provision in the balance sheet.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Society, the accounting processes and controls, and the industry in which the Society operates. The Society of Lloyd's financial statements are a consolidation of 33 reporting units. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We were involved in the risk assessment process for these reporting units, and obtained an understanding of the audit procedures performed by the component auditors to address the identified risks.

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

The group consolidation, financial statement disclosures and a number of complex items were audited by the group engagement team in London. These included derivative financial instruments and the pension scheme.

Taken together, the reporting units where we performed our audit work accounted for 92% of the Society's revenue, 99% of the Society's profit before tax and 98% of the Society's total assets.

Independent Auditor's Report to the Members of the Society of Lloyd's continued

Our audit approach continued

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 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
£18m (2014: £17m)
How we determined it
0.5% of total assets
Rationale for benchmark applied
We considered total assets to be an appropriate measure because the Society is not profit oriented and because the assets of the Society represent a crucial link in the Lloyd's Chain of Security for the market. This is consistent with the benchmark we selected in 2014.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £900,000 (2014: £850,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The Council of Lloyd's has voluntarily included a statement in relation to going concern in accordance with provision C1.3 of the UK Corporate Governance Code (the 'Code') in the Financial Review section of the Society report. We agreed with the Council of Lloyd's to report whether we have anything material to add or to draw attention to in relation to this statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in that statement, the Council of Lloyd's has concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. This basis presumes that the Society has adequate resources to remain in operation, and that the Council of Lloyd's intends it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Society's ability to continue as a going concern.

Matters on which we have agreed to report

Consistency of other information

In our opinion, the other financial and non-financial information included in the Society Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

- information in the Society Report is:
  - materially inconsistent with the information in the audited financial statements; or
  - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Society acquired in the course of performing our audit; or
  - otherwise misleading.
- the statement given by the Council of Lloyd's on page 138 in accordance with provision C2.1 of the Code, that it considers the Society Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Society's position and performance, business model and strategy is materially inconsistent with our knowledge of the Society acquired in the course of performing our audit.
- the section of the Society Report on page 129 of the Society Report, included in accordance with provision C3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from the responsibilities described above.

The Council of Lloyd'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 of Lloyd's confirmation on page 138 of the Society Report, in accordance with provision C.2.1 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; or
- the disclosures in the Society Report that describe those risks and explain how they are being managed or mitigated.

– the Council of Lloyd's explanation on page 137 of the Society Report, in accordance with provision C.2.2 of the Code, as to how they have 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.

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions arising from this responsibility.

Report of the Remuneration Committee

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 has been 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 has been 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

Our responsibilities and those of the Council of Lloyd's

As explained more fully in the Statement of the Council of Lloyd's Responsibilities set out on page 138, the Council of Lloyd's is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the members of the Society in accordance with the Council of Lloyd's byelaws made under the Lloyd's Act 1982 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come to save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

– whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed;
– the reasonableness of significant accounting estimates made by the Council of Lloyd's; and
– the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Council of Lloyd's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through the testing of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Society Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP
Chartered Accountants
London
22 March 2016

Group Income Statement

For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Operating income		238,765	219,864
Central Fund contributions		106,922	101,971
Gross written premiums		104,413	53,040
Outward reinsurance premiums		(104,409)	(53,036)
Other Group income		4,810	13,632
Total income	3B	350,501	335,471
Central Fund claims and provisions incurred	4	(14)	(812)
Central Fund repayment to members	3	–	(48,995)
Gross insurance claims	13	(68,639)	(13,841)
Insurance claims recoverable from reinsurers	13	68,639	14,360
Other Group operating expenses	5	(259,057)	(227,260)
Operating surplus		91,430	58,923
Finance costs			
Deficit on subordinated debt repurchase	17	–	(8,929)
Interest payable on financial liabilities and other	7	(54,362)	(48,920)
Finance income	7	42,728	93,523
Unrealised exchange gains on borrowings		–	6,864
Share of profits of associates	12A	7,391	7,577
Surplus before tax		87,187	109,038
Tax charge	8A	(12,835)	(17,543)
Surplus for the year		74,352	91,495

Group Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Surplus for the year		74,352	91,495
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement (losses)/gains on pension asset/liabilities			
UK	18	(2,025)	(47,284)
Overseas	18	(42)	(780)
Associates	12A	467	(1,192)
Tax (charge)/credit relating to items that will not be reclassified	8A	(3,332)	9,713
Currency translation differences		(739)	6,202
Items that may be reclassified subsequently to profit or loss			
Unrealised gains on revaluation of Lloyd's Collection	12B	808	–
Tax credit relating to items that may be reclassified		–	–
Net other comprehensive deficit for the year		(4,863)	(33,341)
Total comprehensive income for the year		69,489	58,154

Group Statement of Financial Position

As at 31 December 2015

	Note	2015 £000	2014 £000
Assets			
Intangible assets	9	81	18
Lloyd's Collection	12B	13,314	12,506
Plant and equipment	10	18,244	11,737
Deferred tax asset	8C	24,388	19,178
Investment in associates	12A	8,502	7,958
Insurance contract assets	13	109,548	43,944
Loans recoverable	14	44,577	46,439
Financial investments	15	3,103,560	2,972,391
Inventories		332	280
Trade and other receivables due within one year	21	80,990	52,878
Prepayments and accrued income		15,618	25,818
Derivative financial instruments	22	8,789	17,774
Cash and cash equivalents	16	175,414	261,587
Total assets		3,603,357	3,472,508
Equity and liabilities			
Equity			
Accumulated reserve	23	1,739,156	1,669,736
Revaluation reserve	23	13,314	12,506
Translation reserve	23	10,336	11,075
Total equity		1,762,806	1,693,317
Liabilities			
Subordinated notes and perpetual subordinated capital securities	17	882,090	885,483
Insurance contract liabilities	13	109,575	43,971
Pension liabilities	18	95,534	86,045
Provisions	19	29,585	34,030
Loans funding statutory insurance deposits		436,518	472,136
Trade and other payables	20	210,171	184,991
Accruals and deferred income		51,263	42,393
Tax payable		8,977	8,681
Derivative financial instruments	22	16,838	21,461
Total liabilities		1,840,551	1,779,191
Total equity and liabilities		3,603,357	3,472,508

Approved and authorised by the Council of Lloyd's on 22 March 2016 and signed on its behalf by

John Nelson
Chairman

Inga Beale
Chief Executive Officer

Group Statement of Changes in Equity

For the year ended 31 December 2015

	Note	Accumulated reserve £000	Revaluation reserve £000	Translation reserve £000	Total equity £000
At 1 January 2014		1,617,784	12,506	4,873	1,635,163
Surplus for the year		91,495	–	–	91,495
Net other comprehensive (deficit)/income for the year		(39,543)	–	6,202	(33,341)
At 31 December 2014		1,669,736	12,506	11,075	1,693,317
Surplus for the year		74,352	–	–	74,352
Net other comprehensive (deficit)/income for the year		(4,932)	808	(739)	(4,863)
At 31 December 2015	23	1,739,156	13,314	10,336	1,762,806

Group Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Cash generated from operations	24	131,346	112,063
Tax paid		(20,948)	(20,511)
Net cash generated from operating activities		110,398	91,552
Cash flows from investing activities			
Purchase of plant, equipment and intangible assets	9/10	(16,174)	(2,212)
Proceeds from the sale of plant, equipment and intangible assets		3	–
Purchase of financial investments	15A/B	(2,654,226)	(3,223,986)
Receipts from the sale of financial investments	15A/B	2,643,058	3,212,570
Increase in short-term deposits	15B	(116,474)	(96,998)
Dividends received from associates	12A	7,181	6,580
Interest received		43,762	51,259
Dividends received	7	6,932	6,828
Realised gains/(losses) on settlement of forward currency contracts		7,403	(6,499)
Net cash used in investing activities		(78,535)	(52,458)
Cash flows from financing activities			
Repurchase of subordinated notes	17	–	(328,630)
Redemption of subordinated notes		(4,545)	–
Interest paid on subordinated notes		(53,154)	(48,769)
Issue of subordinated notes		–	492,893
Issue costs in relation to subordinated notes		(140)	–
Other interest paid		(14,202)	(5,286)
Decrease in borrowings for statutory insurance deposits		(45,250)	(39,549)
Net cash (used in)/generated from financing activities		(117,291)	70,659
Net (decrease)/increase in cash and cash equivalents		(85,428)	109,753
Effect of exchange rates on cash and cash equivalents		(745)	560
Cash and cash equivalents at 1 January	16	261,587	151,274
Cash and cash equivalents at 31 December	16	175,414	261,587

Notes to the Financial Statements

As at 31 December 2015

1. Basis of preparation and consolidation

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

The Society's main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The Group financial statements of the Society of Lloyd's comprise the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interest in associates as at each reporting date. Subsidiary undertakings are consolidated from the date of their acquisition, being the date on which the Society obtains control, and continue to be consolidated until the date that such control ceases. The financial statements are prepared using consistent accounting policies. All intra-Group balances and transactions are eliminated in full.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (as adopted by the European Union) and on a historic cost basis, except for financial assets and liabilities at fair value through profit or loss and the Lloyd's Collection, which are measured at fair value. Loans and receivables and other financial liabilities are carried at amortised cost. The Group financial statements are presented in sterling and all values are rounded to the nearest thousand (£000).

On 1 January 2015, the application of the following standards became compulsory for entities reporting in the European Union. Although these new standards and amendments apply for the first time in 2015, they do not have material impact on the Group financial statements of the Society. The nature and impact of each new standard or amendment is described below.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This is consistent with the Society's current accounting policy, and thus this amendment does not impact the Group financial statements of the Society.

Annual Improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and include amendments to the following standards:

- IFRS 2 Share Based Payment – amends the definition of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). This amendment does not impact the Group financial statements of the Society;
- IFRS 3 Business Combination – clarifies that all contingent consideration arrangements that are classified as assets or liabilities arising from a business combination should be subsequently measured at fair value through profit or loss at each reporting date. This amendment does not impact the Group financial statements of the Society;
- IFRS 8 Operating Segments – clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria to operating segments; also clarifies that reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported regularly. The description of aggregation criteria is already disclosed in note 3 of the Group financial statements of the Society;
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – clarifies that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount of the asset. The Society did not record any revaluation adjustments as at 31 December 2015; and
- IAS 24 Related Party Disclosures – clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The Society did not receive any management services from other entities, thus, this amendment does not impact the Group financial statements of the Society.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and include amendments to the following standards:

- IFRS 3 Business Combination – clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. Although the Group financial statements of the Society reflects its share of the results of operations of its investment in a joint venture, the Society is not a joint arrangement, and so this amendment is not applicable to the Group financial statements of the Society; and

Notes to the Financial Statements continued

As at 31 December 2015

1. Basis of preparation and consolidation continued

Annual Improvements 2011-2013 Cycle continued

- IAS 40 Investment Property – clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. The Society does not report any investment property within the Group financial statements of the Society.

During the period ended 31 December 2015, the Society also adopted other new amendments and interpretations to IFRS that became effective on 1 January 2015 which had no material impact on the Group financial statements of the Society.

The Society is regulated by the PRA and the FCA.

2. Principal accounting policies

Critical accounting estimates and assumptions

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

- Central Fund claims and provisions – undertakings (see note 2Q and note 19);
- Employee benefits – defined benefit pension scheme (see note 2I and note 18);
- Insurance contracts – liabilities and reinsurance assets (see note 2G and note 13);
- Loans recoverable – hardship loans (see note 2J and note 14); and
- Provisions – lease cost provision (see note 19).

A. Plant and equipment

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

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

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

B. Software development

Costs incurred in acquiring and developing computer software are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable asset of value. Software development is held at cost less accumulated depreciation and any impairment in value. Capitalised software is amortised over three years.

C. Lloyd's Collection

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

D. Investment in associates and joint venture

An associate is an entity in which the Society has significant influence and which is not a subsidiary undertaking or joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Society's investment in associates and joint venture are accounted for under the equity method of accounting.

Under the equity method, the investment in associates and joint venture are carried in the Group statement of financial position at cost plus post-acquisition changes in the Society's share of net assets of the associate and joint venture. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Society determines whether it is necessary to recognise any additional impairment loss with respect to the Society's net investment in an associate and joint venture. The Group income statement reflects its share of the results of operations of the associates and joint venture. The Society's share of associates' other comprehensive income is recognised in the Group statement of comprehensive income.

E. Impairment of non-financial assets

The Society performs annual impairment testing to assess whether there is an indication that an asset may be impaired. If any such indication exists an impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

F. Financial instruments

Financial assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss or loans and receivables. The Society determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of loans and receivables, directly attributable transaction costs. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the market place (regular way purchases) are recognised on the settlement date.

The Society's financial assets include loans recoverable, statutory insurance deposits and other investments designated at fair value through profit or loss, trade and other receivables, accrued income, cash and cash equivalents and derivative assets.

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

(i) Financial assets at fair value through profit or loss include derivative financial assets which are classified as held for trading, and financial assets designated upon initial recognition at fair value through profit or loss. They are carried in the Group statement of financial position at fair value. Gains and losses arising from changes in their fair value are included in the Group income statement in the period in which they arise. When financial assets are interest-bearing, interest calculated using the effective interest method is recognised in the Group income statement; and

(ii) Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They arise when the Society provides money, goods or services directly to a debtor with no intention of trading the receivable. These financial assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Group income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities

Initial recognition
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss or other financial liabilities. The Society determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of other financial liabilities, directly attributable transaction costs. The Society's financial liabilities include trade and other payables, accruals, subordinated notes and perpetual subordinated capital securities and derivative liabilities.

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

(i) Financial liabilities at fair value through profit or loss include derivative financial liabilities which are classified as held for trading. Gains or losses on liabilities held for trading are recognised in the Group income statement; and

(ii) Other financial liabilities, which include the subordinated notes and the perpetual subordinated capital securities, are carried at amortised cost using the effective interest method.

Fair value of financial instruments
Financial instruments are categorised for disclosure purposes into a hierarchy consisting of three levels depending upon the source of input as required by IFRS 7 'Financial Instruments Disclosures'.

Level 1 – The fair value of financial instruments which are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. The quoted market price used for financial assets held by the Society is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price.

Level 2 – The fair value of financial instruments for which quoted market prices are not used for valuation purposes are derived both directly and indirectly from observable market conditions. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values.

Level 3 – The fair value of financial instruments for which there is no observable quoted market price is determined by a variety of methods incorporating assumptions that are based, so far as possible, on market conditions existing at each reporting date.

Amortised cost of financial instruments
Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets
The Society assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the asset is written down to its recoverable amount.

Derecognition of financial instruments
Investments are derecognised when the right to receive cash flows from the asset have expired or, in the case of a financial liability, when the obligation under the liability is cancelled or discharged.

G. Insurance contracts (liabilities and reinsurance assets)

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

Notes to the Financial Statements continued

As at 31 December 2015

2. Principal accounting policies continued

G. Insurance contracts (liabilities and reinsurance assets) continued

Insurance contracts are defined as those containing significant insurance risk which arises if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expired.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Society may not receive all amounts due to it under the terms of the contract and this can be measured reliably.

The Corporation's policy for measuring balances for insurance contracts issued by overseas subsidiaries is to apply the valuation technique used in the issuing entity's local statutory or regulatory reporting. Therefore, for insurance contracts issued by Lloyd's Insurance Company (China) Limited (LICCL), balances are calculated in accordance with People's Republic of China Generally Accepted Accounting Principles (PRC GAAP). In particular, unearned premium reserves are calculated after deducting acquisition costs such as commissions, handling fees, business taxes, surcharges and regulatory charges and outstanding claims reserves include a risk margin.

H. Inventories

Inventories are stated at the lower of cost and net realisable value on a first in, first out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

I. Employee benefits

The Society accounts for pensions and similar benefits (principally income protection due to ill health) under IAS 19 (Employee Benefits). The Society operates a number of defined benefit pension schemes in which obligations are measured at discounted present value using the projected unit credit method, while plan assets are recorded at fair value. The operating and financing income and costs of the scheme are recognised in the Group income statement. Service costs, financing income (expected return on plan assets) and costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in full in the Group statement of comprehensive income in the period in which they occur. Costs of discretionary awards in respect of past service are recognised in the Group income statement when amounts are committed to be paid or there is a constructive liability to make awards to pensioners.

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

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

J. Loans recoverable

Recoverable Central Fund loans made to hardship members are valued on a fair value basis and are designated as fair value through profit or loss.

Any gains and losses arising from changes in the fair value are included in the Group income statement in the period in which they arise.

Fair values are determined by reference to an estimate of the valuation of the underlying investments at the dates at which they may be exercised and discounted back to present day values. A security can normally only be exercised on the later date of death of the member or of their spouse. This date is assessed using actuarial assumptions.

K. Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the reporting date.

L. Subordinated notes and perpetual subordinated capital securities

Subordinated debt is initially recognised at fair value, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, the subordinated debt is subsequently recorded at amortised cost using the effective interest rate over the period to the earliest option date. Amortised cost is calculated after taking into account issue costs and issue discount.

M. Cash and cash equivalents

For the purposes of the Group statement of cash flows, cash comprises cash at banks and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with original maturities of less than three months.

N. Income recognition

Income, which is stated net of value added tax, comprises the fair value of amounts receivable. Income is recognised as follows:

(i) Members' subscriptions, market charges and other services
Members' subscriptions, market charges and other services are recognised in the period for which the service is provided. They are recognised on a basis that reflects the timing, nature and value of the benefits provided.

(ii) Central Fund contributions
Central Fund contributions from members underwriting in the year are recognised in the period for which the service is provided.

(iii) Interest income
Interest receivable is recognised in the Group income statement on a time apportioned basis using the effective interest method. Any unwinding of discount is recognised as interest income.

(iv) Dividend income
Dividend income from equity investments is included in the Group income statement on the ex-dividend date.

(v) Other income
Other income is recognised when recoverability is agreed.

O. Insurance premiums

Insurance premiums represent premiums on business incepting during the year, together with adjustments for premiums written in previous accounting periods. Premium income is recognised over the period of cover. Premiums written are stated before deduction of commissions but net of taxes, duties levied on premiums and other similar deductions.

P. Insurance claims

Claims incurred in insurance related activities consist of claims and claims handling expenses paid during the year together with the movement in outstanding claims. Outstanding claims are the estimated final cost of all claims incurred but not settled at the reporting date, including claims incurred but not reported (IBNR). Outstanding claims are discounted. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are reflected within the Group financial statements of later years when differences between provision and subsequent settlement became apparent.

Q. Central Fund claims and provisions

Central Fund claims and provisions (undertakings) are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council for a fixed period, normally one year, and therefore are not deemed to be constructive obligations, except for renewals of those commitments previously granted. For those corporate members in provisional liquidation, the Council provides a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation. As the supporting undertakings are legally enforceable commitments, an estimate of their value is included within provisions in the Group financial statements and changes during the period are reflected in the Group income statement.

Recoveries in respect of undertakings previously given are credited to the Group income statement when contractually committed to be received.

R. Foreign currency and derivative instruments

Foreign currency translation

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

(ii) Transactions and balances
Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the reporting date. Translation differences on monetary items are taken to the Group income statement.

Translation differences on non-monetary items measured at fair value are reported as part of the fair value gain or loss and included in the Group statement of comprehensive income.

The results and financial position of overseas Society operations are translated into pound sterling as follows:

- Assets and liabilities are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at the average exchange rate for the year; and
- Any resulting exchange differences are recognised in the Group statement of comprehensive income.

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

Notes to the Financial Statements continued

As at 31 December 2015

2. Principal accounting policies continued

R. Foreign currency and derivative instruments continued

The principal exchange rates were:

	2015	2014
US$	1.47	1.56
Can$	2.05	1.81
Euro	1.36	1.29

S. Leases

Payments made under operating leases are charged to the Group income statement on a straight-line basis over the period of the lease. Contractual capital expenditure is provided for over the term of the underlying lease agreement. The lease cost provision (see note 19) is an accounting estimate which arises due to the fact the the Society has entered into a number of fully repairing leases.

T. New standards and interpretations not applied

The International Accounting Standards Board and International Financial Reporting Interpretations Committee have issued the following standards and interpretations relevant to the Society. At the date these financial statements were approved, the following standards were in issue but not effective:

	Effective date (for accounting periods beginning on or after)
International Accounting Standards	
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018

The Council does not expect that the adoption of the above standards will have a material impact on the Society's financial statements although the impact will be assessed as the standards develop.

3. Segmental analysis

Segment information is presented in respect of the Society's business segments. The primary business segments are based on the Society's management and internal reporting structure.

Intra-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

Segment information in respect of geographical location is not presented. The Society's main source of income is from the Lloyd's market based primarily in the UK, which includes the recovery of costs in respect of overseas operations. The recovery of overseas operating costs is collected in the UK from the Lloyd's market.

The Society's primary business segments are as follows:

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

3. Segmental analysis continued

A. Information by business segment	Note	2015 Corporation of Lloyd's £000	2015 Lloyd's Central Fund £000	2015 Society total £000
Segment income				
Total income	3B	238,994	111,507	350,501
Segment operating expenses				
Central Fund claims and provisions incurred	4	–	(14)	(14)
Gross insurance claims	13	(68,639)	–	(68,639)
Insurance claims recoverable from reinsurers	13	68,639	–	68,639
Other Group operating expenses:				
Employment (including pension costs)	6	(125,381)	–	(125,381)
Premises		(40,305)	–	(40,305)
Legal and professional	5	(26,068)	(1,120)	(27,188)
Systems and communications		(26,012)	–	(26,012)
Other		(29,458)	(10,713)	(40,171)
Total other Group operating expenses		(247,224)	(11,833)	(259,057)
Total segment operating expenses		(247,224)	(11,847)	(259,071)
Total segment operating (deficit)/surplus		(8,230)	99,660	91,430
Finance costs – other	7	(36)	(54,326)	(54,362)
Finance income	7	4,258	38,470	42,728
Share of profits of associates	12A	7,391	–	7,391
Segment surplus before tax		3,383	83,804	87,187
Tax charge				(12,835)
Surplus for the year				74,352
Segment assets and liabilities				
Investment in associates		8,502	–	8,502
Other assets		1,038,267	2,532,200	3,570,467
Segment assets		1,046,769	2,532,200	3,578,969
Tax assets				24,388
Total assets				3,603,357
Segment liabilities		(876,203)	(955,371)	(1,831,574)
Tax liabilities				(8,977)
Total liabilities				(1,840,551)
Other segment information				
Capital expenditure	9/10	16,174	–	16,174
Depreciation	10	7,640	–	7,640
Amortisation of intangible assets	9	175	–	175
Average number of UK employees (permanent and contract)		806	–	806
Average number of overseas employees (permanent and contract)		220	–	220
Average number of total employees (permanent and contract)		1,026	–	1,026

Average staff numbers shown above are on a full-time equivalent basis.

Notes to the Financial Statements continued

As at 31 December 2015

3. Segmental analysis continued

A. Information by business segment continued	Note	2014 Corporation of Lloyd's £000	2014 Lloyd's Central Fund £000	2014 Society total £000
Segment income				
Total income	3B	220,725	114,746	335,471
Segment operating expenses				
Central Fund claims and provisions incurred	4	–	(812)	(812)
Central Fund repayment to members		–	(48,995)	(48,995)
Gross insurance claims	13	(13,841)	–	(13,841)
Insurance claims recoverable from reinsurers	13	14,360	–	14,360
Other Group operating expenses:				
Employment (including pension costs)	6	(108,309)	–	(108,309)
Premises		(42,226)	–	(42,226)
Legal and professional	5	(19,711)	(1,023)	(20,734)
Systems and communications		(23,563)	–	(23,563)
Other		(24,276)	(8,152)	(32,428)
Total other Group operating expenses		(218,085)	(9,175)	(227,260)
Total segment operating expenses		(217,566)	(58,982)	(276,548)
Total segment operating surplus		3,159	55,764	58,923
Finance costs				
Deficit on subordinated debt repurchase	17	–	(8,929)	(8,929)
Other	7	(22)	(48,898)	(48,920)
Finance income	7	2,859	90,664	93,523
Unrealised exchange gains on borrowings		–	6,864	6,864
Share of profits of associates	12A	7,577	–	7,577
Segment surplus before tax		13,573	95,465	109,038
Tax charge				(17,543)
Surplus for the year				91,495
Segment assets and liabilities				
Investment in associates		7,958	–	7,958
Other assets		883,684	2,561,688	3,445,372
Segment assets		891,642	2,561,688	3,453,330
Tax assets				19,178
Total assets				3,472,508
Segment liabilities		(807,904)	(962,606)	(1,770,510)
Tax liabilities				(8,681)
Total liabilities				(1,779,191)
Other segment information				
Capital expenditure	9/10	2,212	–	2,212
Depreciation	10	4,244	–	4,244
Amortisation of intangible assets	9	121	–	121
Average number of UK employees (permanent and contract)		753	–	753
Average number of overseas employees (permanent and contract)		166	–	166
Average number of total employees (permanent and contract)		919	–	919

3. Segmental analysis continued

B. Income	Corporation of Lloyd's 2015 £000	Corporation of Lloyd's 2014 £000	Lloyd's Central Fund 2015 £000	Lloyd's Central Fund 2014 £000	Society total 2015 £000	Society total 2014 £000
Market charges						
Managing agents and syndicates	110,877	95,500	–	–	110,877	95,500
Members and members' agents	11,509	11,056	–	–	11,509	11,056
Total market charges	122,386	106,556	–	–	122,386	106,556
Members' subscriptions	102,887	98,820	–	–	102,887	98,820
Other charges	13,492	14,488	–	–	13,492	14,488
Total operating income	238,765	219,864	–	–	238,765	219,864
Central Fund contributions	–	–	106,922	101,971	106,922	101,971
Gross written premiums	104,413	53,040	–	–	104,413	53,040
Outward reinsurance premiums	(104,409)	(53,036)	–	–	(104,409)	(53,036)
Other Group income	225	857	4,585	12,775	4,810	13,632
Total income	238,994	220,725	111,507	114,746	350,501	335,471

During the year, members paid to the Corporation of Lloyd's (members' subscriptions) and to the Central Fund (Central Fund contributions from members) at 0.5% of their syndicate forecast written premium net of acquisition costs (2014: 0.5%). Central Fund contributions in the first three years of membership are charged at 2% of syndicate forecast written premium. The ultimate amounts to be retained by the Corporation of Lloyd's and the Central Fund for 2015 will be based on actual 2015 written premiums, of members, the quantification of which will not be known until 2017. The £107m (Central Fund contribution from members) and £103m (members' subscriptions) included in the Group income statement are based on the present best estimates of the ultimate amounts that will be retained by the Central Fund and the Corporation of Lloyd's respectively.

On 24 September 2014, the Council approved the repayment of 0.25% of premiums written arising from 2012 Year of Account Central Fund contributions, which amounted to £49m. There is no repayment in 2015.

Other Group income includes foreign exchange gains, market settlement recoveries which represent continuing debt recoveries from the 1996 'Reconstruction and Renewal' settlement and recoveries in respect of undertakings given by the Central Fund.

Notes to the Financial Statements continued

As at 31 December 2015

4. Central Fund claims and provisions incurred

	Note	2015 £000	2014 £000
Net undertakings granted	19	–	(800)
Claims payable in respect of individual members		(14)	(12)
Central Fund claims and provisions incurred		(14)	(812)

The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. Undertakings are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council principally on an annual basis and therefore are not deemed constructive obligations (see note 19). Unutilised undertakings as at 31 December 2015 were £6m; the undertakings have been replaced by further annual undertakings given on 21 March 2016 that total £6m, a net increase of nil. No provision has been included in these financial statements in respect of these further undertakings.

For those corporate members in provisional liquidation, the Council has also provided supporting commitments, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation.

As the supporting undertakings are legally enforceable commitments, an estimate of their value, if applicable, has been included within provisions in the Group financial statements and changes during the year are reflected in the Group income statement, as shown in the table above.

5. Other Group operating expenses

	Note	2015 Corporation of Lloyd's £000	2015 Lloyd's Central Fund £000	2015 Total £000
Other Group operating expenses include:				
Employment costs	6	125,381	–	125,381
Operating lease costs – Lloyd's 1986 building		17,010	–	17,010
Operating lease costs – other		7,669	–	7,669
Professional fees, including legal fees and related costs		23,998	927	24,925
Audit		388	193	581
Other services pursuant to legislation payable to PricewaterhouseCoopers LLP		548	–	548
Actuarial services payable to PricewaterhouseCoopers LLP		73	–	73
Tax services payable to PricewaterhouseCoopers LLP		123	–	123
Information Technology (other) services payable to PricewaterhouseCoopers LLP		30	–	30
Other services payable to PricewaterhouseCoopers LLP		908	–	908
Total legal and professional fees		26,068	1,120	27,188
Charitable donations		455	–	455

Other services pursuant to legislation payable to PricewaterhouseCoopers LLP includes work undertaken on the Aggregate Accounts, pro forma financial statements and regulatory returns.

5. Other Group operating expenses continued

	Note	2014 Corporation of Lloyd's £000	2014 Lloyd's Central Fund £000	2014 Total £000
Other Group operating expenses include:				
Employment costs	6	108,309	–	108,309
Operating lease cost – Lloyd's 1986 building		18,491	–	18,491
Operating lease cost – other		7,414	–	7,414
Professional fees, including legal fees and related costs		17,734	741	18,475
Audit		409	183	592
Other services pursuant to legislation payable to PricewaterhouseCoopers LLP		414	–	414
Actuarial services payable to PricewaterhouseCoopers LLP		85	–	85
Tax services payable to PricewaterhouseCoopers LLP		120	–	120
Information Technology (other) services payable to PricewaterhouseCoopers LLP		22	–	22
Other services payable to PricewaterhouseCoopers LLP		927	99	1,026
Total legal and professional fees		19,711	1,023	20,734
Charitable donations		433	–	433

6. Employment

	Note	2015 £000	2014 £000
Salaries and wages (including performance-related bonus)		75,800	66,290
Lloyd's Performance Plan (excluding social security costs – note 19)		5,916	7,579
Lloyd's Pension Scheme costs	18	12,364	9,274
Other pension costs		2,555	1,745
Social security costs		8,438	6,935
Severance costs		774	231
Contract and agency staff		8,555	5,459
Other employment costs		10,979	10,796
Total employment costs		125,381	108,309

The emoluments of the Chairman, CEO, members of the Council and Franchise Board are included in the report of the Remuneration Committee on page 121.

Notes to the Financial Statements continued

As at 31 December 2015

7. Finance

	Note	2015 Corporation of Lloyd's £000	2015 Lloyd's Central Fund £000	2015 Total £000
Finance costs				
Interest payable on financial liabilities measured at amortised cost		–	(53,034)	(53,034)
Other interest payable and similar charges		(36)	–	(36)
Amortisation of issue costs and discount		–	(1,292)	(1,292)
Total interest payable on financial liabilities	3A	(36)	(54,326)	(54,362)
Finance income				
Bank interest received		3,807	4,107	7,914
Dividends received		–	6,932	6.932
Other returns on investments designated at fair value through profit or loss		350	25,400	25,750
Unrealised fair value movement of forward contracts held for trading		101	(6,455)	(6,354)
Realised fair value movement of forward contracts held for trading		–	7,403	7,403
Increase in valuation of loans recoverable designated at fair value through profit or loss		–	1,083	1,083
Total finance income	3A	4,258	38,470	42,728

	Note	2014 Corporation of Lloyd's £000	2014 Lloyd's Central Fund £000	2014 Total £000
Finance costs				
Interest payable on financial liabilities measured at amortised cost		–	(50,262)	(50,262)
Other interest payable and similar charges		(22)	–	(22)
Amortisation of issue costs and discount		–	1,364	1,364
Total interest payable on financial liabilities	3A	(22)	(48,898)	(48,920)
Finance income				
Bank interest received		2,027	3,289	5,316
Dividends received		–	6,828	6,828
Other returns on investments designated at fair value through profit or loss		987	83,682	84,669
Unrealised fair value movement of forward contracts held for trading		(155)	(1,979)	(2,134)
Realised fair value movement of forward contracts held for trading		–	(6,499)	(6,499)
Increase in valuation of loans recoverable designated at fair value through profit or loss		–	5,343	5,343
Total finance income	3A	2,859	90,664	93,523

8. Taxation

A. Tax analysis of charge in the year

	Note	2015 £000	2014 £000
Current tax:			
Corporation tax based on profits for the year at 20.25% (2014: 21.5%)		(20,751)	(21,117)
Adjustments in respect of previous years		773	812
Foreign tax suffered		(1,254)	(900)
Total current tax		(21,232)	(21,205)
Deferred tax:			
Origination and reversal of timing differences			
Current year		8,026	3,268
Prior year		371	394
Tax charge recognised in the Group income statement	8B	(12,835)	(17,543)
Analysis of tax charge recognised in the Group statement of comprehensive income:			
Tax (charge)/credit on actuarial loss on pension liabilities:			
Group		(3,199)	9,457
Associates		(133)	256
Tax (charge)/credit recognised in the Group statement of comprehensive income		(3,332)	9,713
Total tax charge		(16,167)	(7,830)

B. Reconciliation of effective tax rate

	Note	2015 %	2015 £000	2014 %	2014 £000
Surplus on ordinary activities before tax			87,187		109,038
Corporation tax at 20.25% (2014: 21.50%)		20.25%	(17,655)	21.50%	(23,443)
Expenses not deductible for tax purposes		1.21%	(1,054)	0.31%	(334)
Utilisation of tax credits		–	–	(0.33%)	358
Overseas tax		0.29%	(254)	0.82%	(900)
Other		(0.73%)	637	(1.37%)	1,498
Share of profits of associates		(1.72%)	1,497	(1.49%)	1,629
Deferred tax adjustment relating to the Lloyd's Collection		–	–	(2.47%)	2,688
Deferred tax on restated fixed assets		(1.20%)	1,048	–	–
Deferred tax adjustment relating to change in tax rate		(2.06%)	1,798	0.25%	(274)
Deferred tax prior year adjustments		(0.43%)	375	(0.39%)	423
Adjustments in respect of previous years		(0.89%)	773	(0.74%)	812
Tax charge	8A	14.72%	(12,835)	16.09%	(17,543)

C. Deferred tax

	2015 Balance at 1 January £000	2015 Income statement £000	2015 Equity £000	2015 Balance at 31 December £000
Plant and equipment	5,020	610	–	5,630
Loans recoverable	(860)	860	–	–
Financial investments	(4,585)	3,428	–	(1,157)
Pension liabilities	16,745	3,669	(3,199)	17,215
Other employee benefits	2,592	(195)	–	2,397
Other items	266	26	11	303
Total deferred tax	19,178	8,398	(3,188)	24,388

In 2015 there were no unrecognised deductible temporary differences (2014: nil).

Notes to the Financial Statements continued

As at 31 December 2015

8. Taxation continued

C. Deferred tax continued

Deferred tax assets and liabilities are measured at the tax rate that will apply to the period when an asset is expected to be realised or a liability is expected to be settled. The applicable rate is that which has been enacted or substantively enacted by the balance sheet date.

The deferred tax asset is based on a corporation tax rate of 20%-18% depending on when an asset is expected to unwind (2014: 20%). Reductions to the UK corporate tax rate to 19% from 1 April 2017 and 18% from 1 April 2020 were announced in the Budget on 8 July 2015 and substantively enacted in October 2015.

	2014 Balance at 1 January £000	2014 Income statement £000	2014 Equity £000	2014 Balance at 31 December £000
Plant and equipment	4,541	479	–	5,020
Loans recoverable	(1,721)	861	–	(860)
Financial investments	(3,417)	(1,168)	–	(4,585)
Pension liabilities	6,485	803	9,457	16,745
Other employee benefits	2,538	54	–	2,592
Other items	(2,367)	2,633	–	266
Total deferred tax	6,059	3,662	9,457	19,178

9. Intangible assets – software development

	£000
Cost	
At 1 January 2014	4,834
Additions	102
Disposals	(202)
At 31 December 2014	4,734
Additions	272
Disposals	(195)
At 31 December 2015	4,811
Amortisation	
At 1 January 2014	4,794
Charge for the year	121
Disposals	(199)
At 31 December 2014	4,716
Charge for the year	175
Disposals	(161)
At 31 December 2015	4,730
Net book value at 31 December 2015	81
Net book value at 31 December 2014	18

Impairment losses

As part of an assessment of the carrying value of assets, none of the intangible assets were written off in 2015 and 2014.
The amortisation charge is included within other Group operating expenses.

10. Plant and equipment

	Furniture and fittings £000	Computer and specialised equipment £000	Other £000	Total £000
Cost:				
At 1 January 2014	20,289	19,128	90	39,507
Additions	448	1,657	5	2,110
Transfer	601	(601)	–	–
Disposals	(936)	(1,597)	(2)	(2,535)
At 31 December 2014	20,402	18,587	93	39,082
Additions	11,654	4,241	7	15,902
Disposals	(2,506)	(725)	(35)	(3,266)
At 31 December 2015	29,550	22,103	65	51,718
Depreciation and impairment				
At 1 January 2014	12,566	12,814	34	25,414
Depreciation charge for the year	1,783	2,438	23	4,244
Disposals	(725)	(1,587)	(1)	(2,313)
At 31 December 2014	13,624	13,665	56	27,345
Depreciation charge for the year	5,311	2,311	18	7,640
Disposals	(900)	(585)	(26)	(1,511)
At 31 December 2015	18,035	15,391	48	33,474
Net book value at 31 December 2015	11,515	6,712	17	18,244
Net book value at 31 December 2014	6,778	4,922	37	11,737

Impairment losses

Impairment reviews are undertaken annually in which assets within plant and equipment have their recoverable amounts reassessed. As part of this assessment of the carrying value of assets, none of the plant and equipment were written off in 2015 and 2014.

11. 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 (Note 1).

The following subsidiaries principally affected the Group's results as at 31 December 2015, as set out in the Society Group income statement.

Principal subsidiary undertakings		
Company name	Nature of business	Country of incorporation
Additional Underwriting Agencies (No. 5) Limited	Acts as members' agent for Names	England and Wales
Additional Securities Limited	Provision of deposits overseas on behalf of Lloyd's underwriters to comply with local insurance regulations	England and Wales
Centrewrite Limited	Authorised UK Insurance Company	England and Wales
Lloyd's Housing Support Limited	General commercial Company	England and Wales
Lloyd's Members Agency Services Limited	Acts as members' agent for run-off affairs	England and Wales
Omniline Services Limited	Incorporated for the purpose of sale and leaseback of Lloyd's 1958 Building	England and Wales
Syndicate Underwriting Management Limited	Provision of insurance run-off and related administrative services	England and Wales
Tutelle Limited	Acts as a trustee of a fund established in order to secure the performance of obligations under certain indemnities given by the Society of Lloyd's	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	Australia

Notes to the Financial Statements continued

As at 31 December 2015

11. Investments in subsidiary undertakings continued

Principal subsidiary undertakings continued

Company name	Nature of business	Country of incorporation
Lloyd's Canada Inc.	Provision of administration function on behalf of Society of Lloyd's and Lloyd's underwriters in Canada	Canada
Lloyd's Cyprus Limited	Acts as general and fiscal representative in Cyprus Lloyd's underwriters	Cyprus
Lloyd's Escritorio de Representacao no Brasil Ltda.	Provides representative, administrative and management services on behalf of the Society of Lloyd's and participant of Lloyd's insurance market. Also acts as general and fiscal representative for Lloyd's underwriters	Brazil
Lloyd's France SAS	Provides administrative and management services on behalf of the Society of Lloyd's and participant of Lloyd's insurance market	France
Lloyd's Iberia Representative S. L. U.	Provides administrative and management services on behalf of the Society of Lloyd's and participant of Lloyd's insurance market	Spain
Lloyd's Insurance Company (China) Limited	Authorised insurance Company in China	China
Lloyd's Ireland Representative Limited	Provides administrative and management services on behalf of Society of Lloyd's and participants of Lloyds insurance market. Also acts as general representative for Lloyd's underwriters in Ireland	Ireland
Lloyd's Japan Inc.	Acting as a General Agent for the Society of Lloyd's in Japan	Japan
Lloyd's Labuan Limited	Licensed to carry on business as underwriting manager in Labuan	Malaysia
Lloyd's Limited	Provides administrative and management services on behalf of the Society of Lloyd's and participant of Lloyd's insurance market	UAE
Lloyd's Malta Limited	Acts as a local general representative of the Society of Lloyd's and those underwriting members of Lloyd's who transact insurance business in Malta	Malta
Lloyd's Netherlands Representative B. V.	Acts as representative office of Lloyd's underwriters and Society of Lloyd's	Netherlands
Lloyd's of London (Asia) Pte Ltd	Provides support for business development, administration and co-ordination services to the Society of Lloyd's and Lloyd's managing agents as well as providing administrative functions for Lloyd's underwriters and acting as a liaison with the relevant regulatory authorities in Singapore	Singapore
Lloyd's of London (Representative Office) Greece SA	Acts as general and fiscal representative in Greece of Lloyd's underwriters	Greece
Lloyd's Polska Sp. z o.o.	Provides administrative and management services on behalf of the Society of Lloyd's and participant of Lloyd's insurance market	Poland
Lloyd's South Africa (Proprietary) Ltd	Provision of administration function on behalf of Society of Lloyd's and Lloyd's underwriters in South Africa	South Africa
Lloyd's America Ltd.	Parent Company of Lloyd's America Holding Inc.	England and Wales
Lloyd's America Holding Inc. Lloyd's America Inc. Lloyd's Illinois Inc. Lloyd's Kentucky Inc.	Provision of services to Society of Lloyd's and its brokers and customers in North America	USA

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 Malta Limited which is 99% owned and Lloyd's Escritorio de Representacao no Brasil Ltda. which is 99.99% owned by Society of Lloyd's.

Restrictions

Lloyd's operates in over 200 territories around the world and uses a number of different operating models depending upon local regulatory requirements. Different countries operate different regulatory regimes and in some cases, these may place certain restrictions on the use of capital and assets which are held within those countries, including capital of RMB 1bn (2014: RMB 1bn) within Lloyd's Insurance Company (China) Limited. Lloyd's proactively manages its international asset base to ensure that any such restrictions have a minimal impact upon the utilisation of capital and investments or upon the operations of the Corporation.

Risks

In addition to the risks which are set out in the Financial Risk Management section on pages 135-136, the Corporation's subsidiary Lloyd's Insurance Company (China) Limited (LICCL) is also subject to the following risks:

- Credit risk: there is a risk that a syndicate may be unable to fulfil its reinsurance obligations, in which case LICCL could potentially be exposed to a loss;
- Regulatory risk: as an overseas underwriting company, LICCL is subject to the requirements of the local regulator and could be subject to penalties if these regulations are not satisfied;
- Management do not consider that LICCL is subject to insurance risk due to the fact that all business is 100% reinsured.

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 as at 31 December 2015.

Company Name	Country of Incorporation
Additional Underwriting Agencies (No. 9) Limited	England and Wales
Additional Underwriting Agencies (No.10) Limited	England and Wales
Bankside Nominees Limited	England and Wales
Barder & Marsh Nominees Limited	England and Wales
CI de Rougemont (Nominees) Limited	England and Wales
CMA (CT&W) Nominees Limited	England and Wales
Crowe Agency Nominees Limited	England and Wales
Cuthbert Heath Nominees Limited	England and Wales
Devonshire Underwriting Agencies Nominees Limited	England and Wales
EHW (Nominees) Limited	England and Wales
EWC (Nominees) Limited	England and Wales
GP Eliot (Nominees) Limited	England and Wales
Gammell Kershaw Nominees Limited	England and Wales
GTUA Nominees Limited	England and Wales
Habit Nominees Limited	England and Wales
Hayter Brockbank Shipton Nominees Limited	England and Wales
Higgins Brasier Nominees Limited	England and Wales
Lloyd's Nominees Director Limited	England and Wales
Lloyd's Nominees Secretary Limited	England and Wales
Lloyd's of London (Cassidy Members) Nominees Limited	England and Wales
Lloyd's of London (Claremount) Nominees Limited	England and Wales
Lloyd's of London (Harrison Brothers) Nominees Limited	England and Wales
Lloyd's of London (Murray Lawrence) Nominees Limited	England and Wales
Lloyd's of London (Octavian) Nominees Limited	England and Wales
Lloyd's of London (R J Kiln) Nominees Limited	England and Wales
Lloyd's of London (Sedgwick) Nominees Limited	England and Wales
Lloyd's of London (Spratt & White) Nominees Limited	England and Wales
Lloyd's of London (Stewart Members) Nominees Limited	England and Wales
Lloyd's of London (Wellington) Nominees Limited	England and Wales
Lloyd-Roberts & Gilkes Nominees Limited	England and Wales
Mander, Thomas & Cooper Nominees Limited	England and Wales
Meacock (Nominees) Limited	England and Wales

Notes to the Financial Statements continued

As at 31 December 2015

11. Investments in subsidiary undertakings continued

Dormant subsidiaries continued

Company Name	Country of Incorporation
MFK Nominees Limited	England and Wales
Miles Smith Nominees Limited	England and Wales
Mocatta Dashwood Nominees Limited	England and Wales
MUA Nominees Limited	England and Wales
Mythzone Nominees Limited	England and Wales
Nomad Nominees Limited	England and Wales
Pieri Nominees Limited	England and Wales
Pound Nominees Limited	England and Wales
R F Kershaw (Nominees) Limited	England and Wales
Rilong Nominees Limited	England and Wales
Scott Caudle Hilsum Nominees Limited	England and Wales
Sturge Central Nominees Limited	England and Wales
Wendover Nominees Limited	England and Wales
WFDA Nominees Limited	England and Wales
Lloyd's Aviation Limited	England and Wales
Lloyd's Building Limited	England and Wales
Lloyd's.com Limited	England and Wales
Lloyds Information Services Limited	England and Wales
Lloyd's Life Limited	England and Wales
Lloyds List Limited	England and Wales
Lloyds of London Press Limited	England and Wales
Lloyd's Recoveries Limited	England and Wales
Lloyd's Shelf Company 1 Limited	England and Wales
Lutine Nominees & Insurance Limited	England and Wales
Sharedealer Limited	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.

12. Investments in Associates and Joint Venture

The Society has the following significant holdings which have been included as investments in associates and joint ventures.

Investment in Associates and Joint Venture			
Company Name	Country of Incorporation	Proportion of equity capital held	Nature of business
Ins-sure Holdings Limited	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	England and Wales	50%	Provision of claims and recoveries services
The Message Exchange Limited	England and Wales	Limited by Guarantee 25%	Provision of messaging infrastructure to 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:

(a) The C shares carry a right to a fixed cumulative preference dividend of 5% calculated on the nominal capital and a variable participating dividend calculated by reference to trading profits; and

(b) The A shares participate in 50% of any profits available for distribution after taking account of the dividend rights outlined above.

The Society entered into a joint venture agreement with International Underwriting Association; London and International Brokers' Association; and Lloyd's Market Association for an equal participation in The Message Exchange Limited (TMEL) which was incorporated on 27 August 2010.

TMEL operates The Exchange – a simple messaging hub provided to the London insurance market to support its efforts to extend the use of electronic processing of business. As at 31 December 2014 and 2015, the net assets of TMEL have no material impact on the Society accounts.

A. Investments in Associates and Joint Venture

	2015 £000	2014 £000
At 1 January	7,958	7,897
Share of operating profits	9,545	9,603
Share of interest income	(141)	60
Share of tax on profit on ordinary activities	(2,013)	(2,086)
Total share of profits of associates	7,391	7,577
Share of actuarial gains/(losses) on pension liability	467	(1,192)
Share of tax on items taken directly to equity	(133)	256
Dividends received	(7,181)	(6,580)
At 31 December	8,502	7,958

Summary of financial information for associates – 100%:

Summarised statement of financial position

	Ins-sure Holdings Limited As at 31 December		Xchanging Claims Services Limited As at 31 December		The Message Exchange Limited As at 31 December	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Current assets						
Debtors	18,791	16,671	5,117	4,992	72	44
Prepayments and accrued income	286	–	195	–	68	69
Cash at bank and in hand	15,992	19,482	3,477	9,051	–	62
Total current assets	35,069	36,153	8,789	14,043	140	175
Non-current assets						
Tangible fixed assets	665	9,831	7	816	–	–
Intangible Assets	20,948	–	365	–	–	–
Deferred tax assets	350	–	–	–	–	–
Total non-current assets	21,963	9,831	372	816	–	–
Current liabilities						
Creditors falling due within one year	(23,306)	(21,639)	(5,085)	(9,003)	(140)	(175)
Current income tax liabilities	(5,557)	–	–	–	–	–
Total current liabilities	(28,863)	(21,639)	(5,085)	(9,003)	(140)	(175)
Non-current liabilities						
Creditors falling due after more than one year	(484)	–	(12)	(24)	–	–
Pension liability	(1,943)	(3,398)	68	(386)	–	–
Total non-current liabilities	(2,427)	(3,398)	56	(410)	–	–
Net assets	25,742	20,947	4,132	5,446	–	–

Notes to the Financial Statements continued

As at 31 December 2015

12. Investments in Associates and Joint Venture continued

A. Investments in Associates and Joint Venture continued

Summarised statement of comprehensive income

	Ins-sure Holdings Limited For the period ended 31 December		Xchanging Claims Services Limited For the period ended 31 December		The Message Exchange Limited For the period ended 31 December	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Revenues	99,932	91,265	27,516	39,171	856	1,403
Operating costs	(67,015)	(63,897)	(22,797)	(32,682)	(856)	(1,403)
Operating profit	32,917	27,368	4,719	6,489	–	–
Interest receivable and similar income	17	328	5	9	–	–
Interest payable and similar charges	(293)	(45)	(12)	(33)	–	–
Profit on ordinary activities before taxation	32,641	27,651	4,712	6,465	–	–
Tax on profit on ordinary activities	(6,820)	(6,108)	(959)	(1,437)	–	–
Profit for the financial year	25,821	21,543	3,753	5,028	–	–
Other comprehensive income	(480)	(3,426)	56	(160)	–	–
Total comprehensive income	25,341	18,117	3,809	4,868	–	–

B. Lloyd's Collection

The Lloyd's Collection represents various paintings, antiques and artefacts. The collection was valued at £13.3m by Gurr Johns Limited, valuers and fine art consultants in November 2015, on the basis of open market auction value assuming all items are not sold at the same time taking into account the nature, age, condition and quality of each chattel. This resulted in a revaluation gain of £0.8m in 2015. In 2014, it was assessed that there was no change in valuation.

13. Insurance activities

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. Outstanding claims provisions are discounted for the time value of money.

	2015 £000	2014 £000
Insurance claims		
Gross claims		
Claims paid	(20,630)	(16,982)
Change in provisions for claims	(48,009)	3,141
Total gross claims	(68,639)	(13,841)
Claims recoverable from reinsurers		
Claims recovered from reinsurers	20,630	16,981
Change in reinsurance contract assets	48,009	(2,621)
Total claims recoverable from reinsurers	68,639	14,360

Centrewrite Limited

Centrewrite Limited's principal activities in 2015 were to reinsure individual members of Lloyd's participations on syndicates for underwriting years of account which have not been closed and to provide reinsurance to close to syndicates with no successor syndicate. Centrewrite Limited ceased to offer Lloyd's Members' Estate Protection Plan in 2012.

Lloyd's Insurance Company (China) Limited

Lloyd's Insurance Company (China) Limited is a wholly owned subsidiary undertaking of the Society of Lloyd's. The company's principal activity during 2015 was the reinsurance of non-life business in the China insurance market and direct non-life insurance in the Shanghai municipality. Lloyd's syndicates participate in LICCL's business by means of retrocession agreements which allow a 100% risk transfer.

Insurance contract liabilities for Centrewrite Limited and Lloyd's Insurance Company (China) Limited may be analysed as follows:

	2015 Insurance contract liabilities £000	2015 Reinsurer's share of liabilities £000	2015 Net £000	2014 Insurance contract liabilities £000	2014 Reinsurer's share of liabilities £000	2014 Net £000
Provision for claims reported	34,889	(34,889)	–	14,838	(14,838)	–
Provision for IBNR claims	43,865	(43,838)	27	15,768	(15,741)	27
	78,754	(78,727)	27	30,606	(30,579)	27
Unearned premiums	30,821	(30,821)	–	13,365	(13,365)	–
Insurance contract liabilities	109,575	(109,548)	27	43,971	(43,944)	27

The increased balances flow from additional business written through the LICCL platform and reflects LICCL exposure to the Tianjin explosion in August 2015.

The movement in provision for insurance claims for Centrewrite Limited and Lloyd's Insurance Company (China) Limited can be analysed as follows:

	2015 Insurance contract liabilities £000	2015 Reinsurer's share of liabilities £000	2015 Net £000	2014 Insurance contract liabilities £000	2014 Reinsurer's share of liabilities £000	2014 Net £000
At 1 January	30,606	(30,579)	27	31,617	(31,070)	547
Claims incurred/(released)	68,639	(68,639)	–	13,841	(14,360)	(519)
Claims paid (see below)	(20,630)	20,630	–	(16,982)	16,981	(1)
Effect of exchange rates	139	(139)	–	2,130	(2,130)	–
At 31 December	78,754	(78,727)	27	30,606	(30,579)	27

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

Claims development table

The table below shows the development of claims over a period of time on a gross basis for Centrewrite Limited and Lloyd's Insurance Company (China) Limited. The claims development table shows the cumulative incurred claims, including both notified and IBNR claims for each successive year, together with cumulative claims at the current reporting date.

	2011 and prior £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
At end of underwriting year	105,052	13,097	24,913	17,711	65,164	
One year later	105,439	13,675	24,210	21,955		
Two years later	93,241	11,999	25,213			
Three years later	91,898	12,148				
Four years later	84,300					
Current estimate of cumulative claims	84,300	12,148	25,213	21,955	65,164	
Cumulative payments to date	(82,306)	(10,192)	(19,791)	(12,454)	(5,283)	
Insurance contract liabilities	1,994	1,956	5,422	9,501	59,881	78,754

Due to continuing decline of insurance activities for Centrewrite Limited and the fully reinsured liabilities of LICCL, the Society has not prepared claims development over a period of time on a net basis.

Notes to the Financial Statements continued

As at 31 December 2015

14. Loans recoverable

	2015 £000	2014 £000
At 1 January	46,439	43,499
Recoveries during the year	(2,945)	(2,403)
Fair value movements recognised during the year	1,083	5,343
At 31 December	44,577	46,439

The Society's loans recoverable are categorised as fair value Level 3 for disclosure purposes (refer to Note 22). All fair value movements are recognised as finance income or finance costs in the Group income statement and relate solely to the revaluation of hardship and LFAA assets.

15. Financial investments

	Note	2015 £000	2014 £000
Statutory insurance deposits	15A	445,901	477,494
Other investments	15B	2,657,659	2,494,897
Total financial investments		3,103,560	2,972,391

A. Statutory insurance deposits

	2015 Securities £000	2015 Deposits £000	2015 Total £000
Market value at 1 January	225,296	252,198	477,494
Additions at cost	292,010	580,685	872,695
Disposal proceeds	(508,822)	(414,297)	(923,119)
Surplus on the sale and revaluation of investments	3,033	15,798	18,831
Market value at 31 December	11,517	434,384	445,901

	2014 Securities £000	2014 Deposits £000	2014 Total £000
Market value at 1 January	262,423	264,917	527,340
Additions at cost	874,160	233,244	1,107,404
Disposal proceeds	(899,745)	(251,594)	(1,151,339)
(Deficit)/surplus on the sale and revaluation of investments	(11,542)	5,631	(5,911)
Market value at 31 December	225,296	252,198	477,494

	2015 Cost £000	2015 Valuation £000	2014 Cost £000	2014 Valuation £000
Analysis of government securities at year end	11,202	11,517	228,887	225,296

Finance is arranged by advances from syndicates in the Lloyd's market. These advances are renewed annually. By agreement with the lenders, investment returns earned on these assets are paid, in appropriate proportions, to the lenders. In this way, the Society avoids any risk arising from a mismatch between borrowing and lending terms. Book cost is stated at historical exchange rates; market value is quoted at year end exchange rates.

The provision of funds by members in respect of the establishment and maintenance of overseas deposits is a condition of permission to underwrite insurance business at Lloyd's.

B. Other investments

	2015 Corporation of Lloyd's £000	2015 Central Fund £000	2015 Total £000
Market value at 1 January	137,437	2,357,460	2,494,897
Additions at cost	–	1,781,531	1,781,531
Increase in short-term deposits	98,478	17,996	116,474
Disposal proceeds	–	(1,719,939)	(1,719,939)
Deficit on the sale and revaluation of investments	–	(15,304)	(15,304)
Market value at 31 December	235,915	2,421,744	2,657,659

Analysis of securities at year end			
Listed securities			
Fixed interest			
Government	–	829,860	829,860
Corporate securities	–	704,864	704,864
Emerging markets	–	62,198	62,198
High yield	–	49,179	49,179
Total fixed interest	–	1,646,101	1,646,101
Global equities	–	495,577	495,577
Total listed securities	–	2,141,678	2,141,678
Unlisted securities			
Hedge funds	–	141,086	141,086
Commodities	–	–	–
Loan investments	–	78,764	78,764
Short-term deposits	235,915	40,216	276,131
Security deposits (see below)	–	20,000	20,000
Total unlisted securities	235,915	280,066	515,981
Market value	235,915	2,421,744	2,657,659

Analysis of securities			
AAA	59,035	365,675	424,710
AA	80,494	777,502	857,996
A	96,386	257,421	353,807
BBB	–	384,428	384,428
Other	–	636,718	636,718
Total securities	235,915	2,421,744	2,657,659

Notes to the Financial Statements continued

As at 31 December 2015

15. Financial investments continued

B. Other investments continued

	2014 Corporation of Lloyd's £000	2014 Central Fund £000	2014 Total £000
Market value at 1 January	108,710	2,156,948	2,265,658
Additions at cost	6,580	2,110,002	2,116,582
Increase in short-term deposits	94,296	2,702	96,998
Disposal proceeds	(71,927)	(1,989,304)	(2,061,231)
(Deficit)/surplus on the sale and revaluation of investments	(222)	77,112	76,890
Market value at 31 December	137,437	2,357,460	2,494,897
Analysis of securities at year end			
Listed securities			
Fixed interest			
Government	–	806,012	806,012
Corporate securities	–	679,839	679,839
Emerging markets	–	68,859	68,859
High yield	–	49,192	49,192
Total fixed interest	–	1,603,902	1,603,902
Global equities	–	499,403	499,403
Total listed securities	–	2,103,305	2,103,305
Unlisted securities			
Hedge funds	–	134,855	134,855
Commodities	–	–	–
Loan investments	–	77,080	77,080
Short-term deposits	137,437	22,220	159,657
Security deposits (see below)	–	20,000	20,000
Total unlisted securities	137,437	254,155	391,592
Market value	137,437	2,357,460	2,494,897
Analysis of securities			
AAA	78,083	471,244	549,327
AA	37,948	737,580	775,528
A	21,406	276,064	297,470
BBB	–	238,016	238,016
Other	–	634,556	634,556
Total securities	137,437	2,357,460	2,494,897

Security deposits

Tutelle Limited

In 1996 the Council set aside, under a Lloyd's special account, £20m of the 'Old' Central Fund to secure the Society's obligations under staff indemnities and certain indemnities which have been given by Lloyd's to certain individuals and advisers in respect of the 'Reconstruction and Renewal' plan. These include members of the Reserve Group, directors and officers of Equitas, members of the Council, Lloyd's Regulatory Board, Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees and Corporation staff.

Unless and until there is any default under the security documentation, interest earned on the trust fund is paid to the 'Old' Central Fund. The security was deposited for an initial period of two years and the Council exercised its discretion to renew this in June 1998. The Council further amended the period of the deposit, in November 1998, so that the security could only be released if the Council was satisfied that there was no reasonable prospect of a claim being made under these indemnities. Tutelle's position is under biennial review and, having been reviewed in July 2014, will be reviewed again in July 2016. The security may continue for a period of up to 80 years. Any of the funds remaining after this period will be repaid to the 'Old' Central Fund.

16. Cash and cash equivalents

	2015 £000	2014 £000
Cash at banks	113,561	83,406
Short-term deposits	61,853	178,181
Total cash and cash equivalents	175,414	261,587

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 £175.4m (2014: £261.6m).

17. Subordinated notes and perpetual subordinated capital securities

	2015 £000	2014 £000
Details of loans payable wholly or partly after more than five years:		
6.875% subordinated notes redeemed on 17 November 2015 (Sterling 2004 Notes)	–	4,545
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	500,000	500,000
7.421% perpetual subordinated capital securities of £392m redeemable on 21 June 2017	392,013	392,013
	892,013	896,558
Less issue costs to be charged in future years	(6,510)	(7,160)
Less discount on issue to be unwound in future years	(3,413)	(3,915)
Total	882,090	885,483

Subordinated notes

The Sterling 2004 Notes were due to mature on 17 November 2025, although the Society took the option to redeem them on 17 November 2015.

During 2014, the Society of Lloyd’s repurchased £148,696,000 of its Sterling 2004 subordinated notes at a cost of £157,625,000. The Society additionally paid accrued interest on the purchased securities. The loss on the repurchase was £8,929,000.

The Euro 2004 Notes were redeemed on 17 November 2014.

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

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

Notes to the Financial Statements continued

As at 31 December 2015

17. Subordinated notes and perpetual subordinated capital securities continued

Subordinated debt issued in 2007

The perpetual subordinated capital securities ('capital securities') are perpetual securities and have no fixed redemption date. However, they are redeemable in whole on 21 June 2017 at the option of the Society or on any interest payment date thereafter provided certain conditions have been met by the Society. The capital securities bear interest at a rate of 7.421% per annum until 20 June 2017, payable annually in arrears on 21 June in each year, and thereafter at a rate per annum reset semi-annually of 2.41% per annum above the London interbank offered rate for six-month sterling deposits, payable semi-annually in arrears on the interest payment dates falling on 21 June and 21 December in each year.

The capital securities are subordinated obligations of the Society. Upon the occurrence of any winding-up proceedings of the Society, the claims of the holders of the capital securities will rank junior to all other claims of creditors of the Society (including any creditor who is the holder of any of the Sterling Notes issued by the Society in 2004) except for those creditors having claims which rank equally with or junior to the claims of the holders of the capital securities. The claims of the holders of the capital securities will also rank junior to any payments made to discharge the liabilities of a member in connection with insurance business carried on at Lloyd's by that member and also to the claims of any person in respect of whom a New Central Fund undertaking has been made. However, in the event of a winding-up of the Society, the claims of the holders of the capital securities rank senior to the distribution of any central assets to members of Lloyd's generally (other than payments made to members in their capacity as senior creditors of the Society).

18. Pension schemes

Lloyd's operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme which is a defined benefit scheme. Other schemes have been established for certain employees based overseas.

These schemes are generally funded by the payment of contributions to separately administered funds.

Defined benefit and contribution plans

The pension deficits of the schemes at 31 December 2015 are as follows:

	2015 £000	2014 £000
Schemes in deficit		
Lloyd's Pension Scheme	(93,050)	(83,723)
Overseas pension schemes	(2,484)	(2,322)
Total schemes deficit	(95,534)	(86,045)

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

	2015 £000	2014 £000
Group income statement		
Lloyd's Pension Scheme	12,364	9,274
Overseas pension schemes	1,513	1,224
Other pension contributions	1,042	521
Total	14,919	11,019
Group statement of comprehensive income		
Lloyd's Pension Scheme	2,025	47,284
Overseas pension schemes	42	780
Total	2,067	48,064

The Lloyd's Pension Scheme

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

The Scheme was originally set up as a final salary pension scheme (i.e. benefits for employed members were linked to their latest salary), a normal retirement age of 60 and an enhanced benefit section for senior managers. In recent years, in order to mitigate exposure to pension scheme liabilities, several changes have been made to the Lloyd's Pension Scheme.

– In February 2005, the senior management section of the Scheme was closed to new entrants and the Normal Retirement Age (NRA) for all new joiners was increased from 60 to 65.
– The final salary scheme was closed to new joiners at the end of June 2006. New entrants from July 2006 were eligible to join the Lloyd's Pension Scheme but accrue benefits on a career average basis (where benefits are based on their average salary rather than final salary).
– In April 2013, Lloyd's made some further changes to its pension arrangements. The career average (i.e. CARE) section of the scheme was closed to new joiners from April 2013, and to existing hires from June 2013 (existing employed members of each section continue to accrue benefits). After these dates, employees are eligible to join the Lloyd's Group Personal Pension Plan which is administered by Aviva. The amount charged to the Group income statement in respect of Lloyd's Group Personal Pension Plan is £1.0m (2014: £0.5m).

Scheme contributions and funding valuation

UK legislation requires the funding position of the Scheme to be assessed at least every three years by an independent qualified actuary. Contributions are paid to provide for the cost of benefit accrual and to meet any funding deficit. Any funding deficit or surplus is typically amortised over a period. Contributions are made at the funding rates and assumptions recommended by the actuary, and agreed between the Trustees and Lloyd's.

The last completed formal actuarial valuation of the Scheme was carried out by Willis Towers Watson, actuaries and consultants, as at 30 June 2013 using the projected unit credit method. The total market value of the Scheme's assets at the date of the 2013 valuation was £568m, and the total value of accrued liabilities was £559m showing a surplus of £9m. These figures exclude both liabilities and the related assets in respect of money purchase AVCs.

Employee contributions of 5% of pensionable earnings (or 10% of pensionable earnings for members of the senior management section) have been introduced from July 2006. Normally, instead of making an employee contribution, employees make a salary sacrifice of the appropriate percentage of their salary and Lloyd's makes an additional employer contribution of the same amount.

Following the 2013 actuarial valuation, employer contributions to meet the cost of future accrual as a percentage of salaries are 24.8% for final salary members with an NRA of 60, 15.4% for final salary members with an NRA of 65 and 8.8% for members accruing benefits on a career average basis.

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

The contribution structure is:

Employee	Lloyd's	Total
3%	5%	8%
4%	6%	10%
5%	7%	12%
6%	8%	14%

Lloyd's contribution is capped at 8% of salary, although individuals can elect a higher amount than 6% should they wish.

Notes to the Financial Statements continued

As at 31 December 2015

18. Pension schemes continued

Discretionary pension increases – treatment for funding purposes

There are no guaranteed increases in payment for pensions accrued before 6 April 1997. In 2003, Lloyd's instructed 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 Lloyd's and will continue to be considered on the basis of affordability, but are not taken into account by the actuary in determining the funding level.

Information about the risks of the Scheme to Lloyd's

The ultimate cost of the Scheme to Lloyd's will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and as such the cost of the Scheme may be higher (or lower) than disclosed. In general, the risk to Lloyd's is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to Lloyd's is higher than expected. This could result in higher contributions required from Lloyd's and a higher deficit disclosed. This may also impact Lloyd's ability to grant discretionary benefits or other enhancements to members. More specifically, the assumptions not being borne out in practice could include:

- The return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the required contribution from Lloyd's;
- Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities;
- A decrease in corporate bond yields will increase the Scheme's liabilities, although this will be partially offset by an increase in the value of the Scheme's bond assets;
- The majority of the Scheme's assets are linked to inflation, and higher inflation will lead to higher liabilities; 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 current target investment strategy is to invest broadly 50% in return-seeking assets (equities, property and infrastructure) and 50% in matching assets (index-linked gilts and corporate bonds). This strategy reflects the Scheme's liability profile and the Trustees' and Lloyd's attitude to risk. As the Scheme matures, the Trustees and Lloyd's expect to gradually reduce the proportion allocated to return-seeking assets and increase the proportion allocated to matching assets.

The current allocation is around 60% return-seeking assets and 40% bonds. The Trustees are aiming to move 10% of the assets into bonds to better match the funding liabilities in the future.

Principal actuarial assumptions in respect of IAS 19

The demographic assumptions which are the most financially significant are those relating to the life expectancy of retired members. The life expectancy assumptions for the purposes of the IAS 19 valuation as at 31 December 2015 are as applied in the actuarial funding valuation as at 30 June 2013. These are 110% of SAPs light tables for males and females, with allowance for future improvements in line with CMI 2012 core projections with 1.5% per annum trend improvement.

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

– For pensioners currently aged 60: ranging from 29 years to 30 years (2014: 29 years to 30 years); and
– For non-pensioners currently aged 45: ranging from 30 years to 32 years (2014: 30 years to 32 years).

The other major financial assumptions used by the actuary as at 31 December 2015 for the purposes of IAS 19 were:

	2015 % per annum	2014 % per annum	2013 % per annum	2012 % per annum	2011 % per annum
General salary and wage inflation	4.2%	4.1%	4.4%	4.0%	4.1%
Rate of increase in pensions in payment					
Pre 6 April 1997 (in excess of GMPs)	–	–	–	–	–
6 April 1997 to 5 April 2005	3.1%	3.0%	3.2%	3.0%	3.1%
Post 5 April 2005	2.2%	2.2%	2.3%	2.5%	2.5%
Increases to final salary deferred pensions					
Benefits accrued before April 2009	2.2%	2.1%	2.4%	2.2%	2.1%
Benefits accrued from April 2009	2.2%	2.1%	2.4%	2.2%	2.1%
CARE revaluation in service and in deferment, and increase in payment	2.2%	2.2%	2.3%	2.2%	2.1%
Discount rate	3.8%	3.7%	4.4%	4.5%	4.9%
Price inflation					
Retail Price Inflation (RPI)	3.2%	3.1%	3.4%	3.0%	3.1%
Consumer Price Inflation (CPI)	2.2%	2.1%	2.4%	2.2%	2.1%

An allowance is made for members commuting 20% (2014: 20%) of their pension on retirement using the factors in use at the respective date.

For IAS 19 purposes, Lloyd's recognises the cost of discretionary increases to pre 6 April 1997 benefits in payment when there is a constructive liability to make such increases. Lloyd's provided £10.0m in 2007 and a further £20.0m in 2011 to meet the expected cost of future discretionary increases. This amount has been notionally segregated from the Scheme's other assets (the 'notional fund') and its investment performance will be tracked on the assumption that it is invested in the same way as the Scheme's other assets. The notional fund will be used to facilitate the award of future discretionary pension increases when Lloyd's carries out its annual review of pensions in accordance with the Scheme's Definitive Trust Deed. As long as there is a notional fund set aside for this purpose, discretionary increases will continue to be made. As at 31 December 2015 the value of the notional fund was £27.2m (2014: £28.9m).

Sensitivity of pension obligation to changes in assumptions

The actuarial valuation of liabilities under IAS 19 is particularly sensitive to changes in market conditions.

A change of 1% per annum in the discount rate as at 31 December 2015 would result in a change to the pension liabilities at that date of around 20%, or approximately £150m.

A change of 1% per annum in the assumption for future inflation (both RPI and CPI) as at 31 December 2015, which would change future expectations of salary increases, pension increases and deferred revaluation, would result in a change to the pension liabilities at that date of around 10%, or approximately £75m.

A change in the mortality assumptions could have a significant impact on the pension liability. For instance, if members aged 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 2015 would be 2% higher.

Notes to the Financial Statements continued

As at 31 December 2015

18. Pension schemes continued

Amounts for the current and previous years were:

Asset/(liability) analysis of the Scheme	2015 Fair value £000	2014 Fair value £000	2013 Fair value £000	2012 Fair value £000	2011 Fair value £000
Bonds					
Corporate bonds	126,893	131,291	89,233	93,573	87,700
Index-linked gilts	123,489	127,716	88,038	90,948	93,593
Equities					
UK equities	56,009	57,501	67,997	56,459	52,014
Overseas (excluding UK) equities	258,274	254,531	287,648	234,198	199,884
Property	85,493	76,661	65,088	61,277	57,911
Infrastructure	11,251	12,090	9,850	8,748	8,644
Cash and net current assets	13,300	19,803	25,633	32,184	38,727
Total market value of assets	674,709	679,593	633,487	577,387	538,473
Actuarial value of Scheme liabilities	(767,759)	(763,316)	(665,904)	(620,621)	(562,152)
Deficit in the Scheme	(93,050)	(83,723)	(32,417)	(43,234)	(23,679)
Irrecoverable surplus (effect of asset ceiling)	–	–	–	–	–
Net defined benefit liability	(93,050)	(83,723)	(32,417)	(43,234)	(23,679)

All of the Scheme's assets are quoted in an active market. The Scheme is not currently invested in any of Lloyd's assets.

Approximately 97% of the Scheme's liabilities relate to final salary members and 3% relates to CARE members.

Changes in the present value of the defined benefit obligations are:

	2015 £000	2014 £000
Actuarial value of Scheme liabilities at 1 January	763,316	665,904
Interest cost on Pension Scheme liabilities	27,814	28,849
Current service cost (net of employee contributions)	9,398	8,013
Employee contributions	2,073	2,258
Benefits paid	(23,832)	(21,574)
Experience (gains)/losses arising in Scheme liabilities	(3,112)	767
Change in assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	–	–
Financial assumption change	(7,898)	79,099
Actuarial value of Scheme liabilities at 31 December	767,759	763,316

Changes in fair value of plan assets were:

	2015 £000	2014 £000
Fair value of Scheme assets at 1 January	679,593	633,487
Expected return on Pension Scheme assets	24,848	27,588
Employer contributions		
Normal	5,062	5,252
Special	–	–
Employee contributions	2,073	2,258
Benefits paid	(23,170)	(20,504)
Actuarial (loss)/gain on Scheme assets	(13,035)	32,582
Administrative expenses	(662)	(1,070)
Fair value of Scheme assets at 31 December	674,709	679,593

Lloyd's expects to contribute approximately £4.9m in normal contributions to the pension scheme in 2016.

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

	2015 £000	2014 £000
Experience gains/(losses) arising on Scheme liabilities	3,112	(767)
Changes in the assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	–	–
Financial assumption change	7,898	(79,099)
Actuarial gain/(loss) arising during period	11,010	(79,866)
Return on Fund assets (less)/greater than discount rate	(13,035)	32,582
Change in irrecoverable surplus	–	–
Remeasurement effects recognised in the Group statement of comprehensive income	(2,025)	(47,284)

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

	2015 £000	2014 £000
Current service cost	9,398	8,013
Net interest on net defined benefit liability	2,966	1,261
Total operating charge	12,364	9,274

Approximately 64% of the service cost for 2015 relates to final salary members and 36% relates to CARE members.

Maturity profile of Defined Benefit Obligation

The Scheme is maturing over time with 32% of the members in the Scheme at 30 June 2015 being retired members – the approximate duration of the Scheme's liabilities is around 20 years. The expected benefit payments from the Scheme over the next few years is as follows:

	£m
Expected benefit payments during year ending 31-Dec-16	21.7
Expected benefit payments during year ending 31-Dec-17	22.4
Expected benefit payments during year ending 31-Dec-18	23.1
Expected benefit payments during year ending 31-Dec-19	24.1
Expected benefit payments during year ending 31-Dec-20	25.3
Expected benefit payments during period 01-Jan-21 to 31-Dec-25	146.2
Expected benefit payments during period 01-Jan-26 to 31-Dec-30	182.3
Expected benefit payments from 01-Jan-31 onward	1,369.6

Overseas pension schemes

Lloyd's operates a number of defined benefit schemes for qualifying employees based overseas. The actuarial valuations of these pension schemes at 31 December 2015 resulted in a deficit of £2.5m (2014: £2.3m).

Development of net balance sheet position	31 December 2015 £000	31 December 2014 £000
Value of assets	1,919	1,950
Actuarial value of scheme liabilities	(4,403)	(4,272)
Deficit in the scheme	(2,484)	(2,322)
Net defined benefit liability	(2,484)	(2,322)

The total expense recognised in other operating expenses of £0.1m (2014: £0.1m) represents the related current service cost of these schemes. An actuarial loss of £42,000 has been recognised in the Group statement of comprehensive income (2014: loss of £0.8m).

Notes to the Financial Statements continued

As at 31 December 2015

18. Pension schemes continued

Defined contribution plans

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

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

The total expense recognised in the Group income statement of £0.5m (2014: £0.5m) represents contributions payable to these schemes by Lloyd's at rates specified in the rules of these schemes.

19. Provisions

	2015 Undertakings given to insolvent members £000	2015 Income Assistance Scheme £000	2015 Lloyd's Performance Plan £000	2015 Service Benefit Provision £000	2015 Lease Cost Provision £000	2015 Run off £000	2015 Total £000
Balance at 1 January	5,859	3,055	9,441	–	15,250	425	34,030
Charged in the year	–	–	5,917	13	3,191	162	9,283
Utilised in the year	–	(357)	(7,503)	–	(5,804)	(64)	(13,728)
Balance at 31 December	5,859	2,698	7,855	13	12,637	523	29,585

	2014 Undertakings given to insolvent members £000	2014 Income Assistance Scheme £000	2014 Lloyd's Performance Plan £000	2014 Service Benefit Provision £000	2014 Lease Cost Provision £000	2014 Run off £000	2014 Total £000
Balance at 1 January	10,859	3,468	9,154	–	17,166	–	40,647
Charged in the year	800	–	7,579	–	2,683	520	11,582
Utilised in the year	(5,800)	(413)	(7,292)	–	(4,599)	(95)	(18,199)
Balance at 31 December	5,859	3,055	9,441	–	15,250	425	34,030

Provision for undertakings given to insolvent members

The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls.

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

	Note	2015 £000	2015 £000	2014 £000	2014 £000
Provisions for amounts payable at 1 January			5,859		10,859
Undertakings granted in the year	4		–		800
Analysis of paid undertakings by member					
Ebury Underwriting Limited		–		(2,800)	
Hermanus Underwriting Limited		–		(3,000)	
Paid during the year			–		(5,800)
Undertakings given to insolvent members at 31 December			5,859		5,859

Income support schemes

The Income Assistance Scheme was effective from 1 January 2010 and replaced both the Hardship Income Top-up Scheme and the Income and Housing Support Scheme. The Income Assistance Scheme is permanent and replaces the discretionary nature of the previous schemes and guarantees ongoing payment of income assistance to eligible members of the previous schemes until the full undertaking has been utilised, other than in the event that Lloyd's faces severe financial stress.

Lloyd's Performance Plan (LPP)

The Society introduced a performance plan for all employees, effective from 1 January 2008 that is related to the results of the Lloyd's market. Details of the plan are outlined in the report of the Remuneration Committee on pages 123-125. Included within the charge for the year and provision utilised are National Insurance contributions of £0.8m (2014: £1.1m).

Service Benefit Provision

This is in relation to end of service benefits for contracted employees of Lloyd's Limited in Dubai. It represents the full amount due to employees for their periods of service up to the reporting date in accordance with the UAE (United Arab Emirates) Labour Law. The entitlement to end of service benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period as specified by applicable regulations. The expected costs of these benefits are accrued over the period of employment.

Lease cost provision

The lease cost provision represents the Society's obligations in respect to the contractual capital expenditure and dilapidation cost under fully repairing leases.

Run-off provision

The run-off provision is in relation to Centrewrite Limited and represents costs associated with running-off the business and obligations that have been incurred which are recognised to the extent they are not expected to be recovered by future profits or investment income of the operation. This was previously presented as part of insurance technical provisions.

20. Trade and other payables

	2015 £000	2014 £000
Due within one year		
Trade and other creditors	53,125	63,368
Insurance and reinsurance payables	85,721	45,891
Members' subscriptions and contributions repayable	47,325	51,906
Taxation and social security	2,706	2,198
Arbitration awards	1,774	1,988
Interest payable on subordinated loan notes	19,520	19,640
Total trade and other payables	210,171	184,991

21. Trade and other receivables due within one year

	2015 £000	2014 £000
Due within one year		
Trade (net of allowance for impairment)	8,149	5,175
Insurance and reinsurance receivables	31,559	15,903
Interest receivable	17,631	14,478
Taxation and social security	1,806	1,368
Overseas office deposits	3,372	3,135
Amounts due from underwriters	8,501	2,595
Other receivables	9,972	10,224
Total trade and other receivables	80,990	52,878

Notes to the Financial Statements continued

As at 31 December 2015

22. Financial instruments

Explanations of the Society's financial instrument risk management objectives, policies and strategies are set out in the discussion of the Society's financial risk management and treasury policies on pages 135-136 of the Financial Review.

Fair values and credit risk

The methods and assumptions used in estimating the fair value of financial instruments are detailed in note 2F on pages 150-151.

The fair value (based on the quoted offer prices) of subordinated debt is £948.4m (2014: £970.0m) against a carrying value measured at amortised cost of £882.1m (2014: £885.5m). All other financial instruments are either held at fair value or at an amount that approximates fair value.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, in the Group statement of financial position. Exposures under guarantees entered into by the Society are detailed in note 27.

Impairment losses

Trade receivables

The ageing of trade receivables as at 31 December 2015 was as follows:

	2015 Gross £000	2015 Impairment £000	2015 Net £000	2014 Gross £000	2014 Impairment £000	2014 Net £000
Not past due	2,032	–	2,032	5,150	–	5,150
Past due 31-120 days	5,312	–	5,312	6	–	6
More than 120 days	829	(24)	805	114	(95)	19
Total	8,173	(24)	8,149	5,270	(95)	5,175

The Society's normal credit terms are 30 days. Receivables of more than 120 days represent amounts due from members no longer underwriting in respect of Society charges.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2015 £000	2014 £000
Balance at 1 January	95	322
Additional allowances during the year charged to the Group income statement	20	22
Allowances released during the year credited to the Group income statement	(36)	(88)
Recoveries during the year	(55)	(161)
Balance at 31 December	24	95

Sensitivity analysis

Foreign currency exposure

Currency risk is the risk that the sterling value of the Society's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Society's exposure to the risk of changes in the foreign exchange rates relates primarily to retranslating foreign currency subordinated notes, revaluation of loans recoverable and changes in the fair value of foreign currency denominated investments and forward contracts.

Debt securities sensitivities

The value of the Society's investments in debt securities is affected by changes in the level of yields, as determined by the financial markets.

As at 31 December 2015, a consistent increase of 100 basis points in the yields applicable to all relevant securities would have reduced the surplus before tax by approximately £33m (2014: £33m). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ.

Equity price risk

Equity price risk is the risk that the market values of equity investments fall. At 31 December 2015, a 15% fall in the value of all the Society's equity investments would have reduced the surplus before tax by approximately £76m (2014: £75m). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ.

Foreign exchange risk

The majority of foreign exchange exposures arising from investments denominated in foreign currencies are managed via a foreign exchange hedging programme. However, some net exposures to foreign currencies remain and the sterling value of the Society's investments may be impacted by movements in exchange rates relating to these exposures. At 31 December 2015, a 10% rise in the value of sterling, against all other currencies, would have reduced the surplus before tax by £95m (2014: £24m). This analysis assumes that all other variables remain constant. In practice, actual results may differ.

Liquidity risk

The table below summarises the maturity profile of the Society's non-derivative financial liabilities as at 31 December 2015 based on undiscounted contractual cash flows:

As at 31 December 2015	Carrying amount £000	Contractual cash flows £000	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Subordinated loan notes	493,600	(713,750)	(23,750)	(23,750)	(71,250)	(595,000)
Perpetual subordinated capital securities	388,490	(450,196)	(29,091)	(421,105)	–	–
Loans funding statutory insurance deposits	436,518	(436,518)	(436,518)	–	–	–
Trade and other payables	210,171	(210,171)	(210,171)	–	–	–
Total	1,528,779	(1,810,635)	(699,530)	(444,855)	(71,250)	(595,000)

As at 31 December 2014	Carrying amount £000	Contractual cash flows £000	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Subordinated loan notes	496,993	(742,357)	(28,607)	(23,750)	(71,250)	(618,750)
Perpetual subordinated capital securities	388,490	(479,287)	(29,091)	(29,091)	(421,105)	–
Loans funding statutory insurance deposits	472,136	(472,136)	(472,136)	–	–	–
Trade and other payables as restated	184,991	(184,991)	(184,991)	–	–	–
Total	1,542,610	(1,878,771)	(714,825)	(52,841)	(492,355)	(618,750)

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

Forward currency contracts are settled gross; notional amounts are a close proxy for gross cash flow amounts. Further details regarding the subordinated notes and the perpetual subordinated capital securities can be found in note 17 on pages 173-174. Information regarding financial guarantees, all of which could theoretically be called on within one year, can be found in note 27 on page 189.

Derivative financial instruments

The Society enters into forward currency contracts to manage exposures to fluctuation of exchange rates and to provide a service to the Lloyd's market. The Society's derivative financial instruments are categorised as fair value Level 2 for disclosure purposes.

Analysis of forward currency contracts	2015 £000	2014 £000
Outstanding forward foreign exchange gains	8,789	17,774
Outstanding forward foreign exchange losses	(16,838)	(21,461)

Notes to the Financial Statements continued

As at 31 December 2015

22. Financial instruments continued

Derivative financial instruments continued

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

	2015 Assets		2015 Liabilities	
As at 31 December 2015	Fair value £000	Notional £000	Fair value £000	Notional £000
Currency conversion service (CCS)	3,200	176,852	(3,416)	(177,069)
Other forward foreign exchange contracts	5,029	538,304	(11,372)	(544,647)
Interest rate swaps	560	123,673	(2,050)	(123,673)
Total	8,789	838,829	(16,838)	(845,389)

	2014 Assets		2014 Liabilities	
As at 31 December 2014	Fair value £000	Notional £000	Fair value £000	Notional £000
Currency conversion service (CCS)	2,672	190,203	(3,069)	(190,600)
Other forward foreign exchange contracts	12,292	1,196,063	(14,417)	(1,198,188)
Interest rate swaps	2,810	56,804	(3,975)	(56,804)
Total	17,774	1,443,070	(21,461)	(1,445,592)

Fair value hierarchy

	Notes	2015 Level 1 £000	2015 Level 2 £000	2015 Level 3 £000	2015 Total £000
Financial assets at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	3,355	–	3,355
Unlisted securities		–	8,162	–	8,162
Deposits with credit institutions		–	434,384	–	434,384
Total statutory insurance deposits	15A	–	445,901	–	445,901
Other investments					
Listed securities		941,237	704,864	–	1,646,101
Equity investments		495,578	–	–	495,578
Unlisted securities		–	219,849	–	219,849
Deposits with credit institutions		296,131	–	–	296,131
Total other investments	15B	1,732,946	924,713	–	2,657,659
Derivative financial instruments					
Currency conversion service		–	3,200	–	3,200
Other forward foreign exchange contracts		–	5,029	–	5,029
Interest rate swaps		–	560	–	560
Total derivative financial instruments	22	–	8,789	–	8,789
Loans recoverable	14	–	–	44,577	44,577
Total financial assets at fair value through profit or loss		1,732,946	1,379,403	44,577	3,156,926
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(3,416)	–	(3,416)
Other forward foreign exchange contracts		–	(11,372)	–	(11,372)
Interest rate swaps		–	(2,050)	–	(2,050)
Total derivative financial instruments	22	–	(16,838)	–	(16,838)
Total financial liabilities at fair value through profit or loss		–	(16,838)	–	(16,838)

Fair value hierarchy continued

	Notes	2014 Level 1 £000	2014 Level 2 £000	2014 Level 3 £000	2014 Total £000
Financial assets at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	3,164	–	3,164
Unlisted securities		–	222,132	–	222,132
Deposits with credit institutions		–	252,198	–	252,198
Total statutory insurance deposits	15A	–	477,494	–	477,494
Other investments					
Listed securities		924,063	679,840	–	1,603,903
Equity investments		499,403	–	–	499,403
Unlisted securities		–	211,935	–	211,935
Deposits with credit institutions		179,656	–	–	179,656
Total other investments	15B	1,603,122	891,775	–	2,494,897
Derivative financial instruments					
Currency conversion service		–	2,672	–	2,672
Other forward foreign exchange contracts		–	12,292	–	12,292
Interest rate swaps		–	2,810	–	2,810
Total derivative financial instruments	22	–	17,774	–	17,774
Loans recoverable	14	–	–	46,439	46,439
Total financial assets at fair value through profit or loss		1,603,122	1,387,043	46,439	3,036,604
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(3,069)	–	(3,069)
Other forward foreign exchange contracts		–	(14,417)	–	(14,417)
Interest rate swaps		–	(3,975)	–	(3,975)
Total derivative financial instruments	22	–	(21,461)	–	(21,461)
Total financial liabilities at fair value through profit or loss		–	(21,461)	–	(21,461)

Level 1

Inputs to Level 1 fair values are quoted prices in active markets for identical assets. An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples are listed debt securities in active markets or listed equities in active markets or listed deposits held with credit institutions in active markets.

Level 2

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

Level 3

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

The Society's loans recoverable are categorised within Level 3 fair values for disclosure purposes (refer to note 14).

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

Notes to the Financial Statements continued

As at 31 December 2015

22. Financial instruments continued

Fair value hierarchy continued

Fair values are determined by reference to an estimate of the valuation of the underlying securities at the dates at which they may be exercised and discounted back to present day values. The securities include both properties and hardship trust fund assets. A security can normally only be exercised on the later of the date of death of the member or of their spouse. This date is assessed using actuarial assumptions.

There have been no significant transfers between levels 1, 2 and 3 for the year ended 31 December 2015.

The fair value movements during the year are recognised as finance income or finance costs in the Group income statement.

Sensitivity analysis

Loans recoverable sensitivities

The value of loans recoverable is affected by changes in both property and hardship trust fund values. The property values are determined by a valuation being carried out periodically together with applying Halifax price indices bi-annually to revalue the assets at interim and year end. Inflationary increases are then applied to both property values and hardship trust funds until the estimated exercised date and then discounted back to present day values. Inflationary increases are based on Management's best estimate taking current economic conditions into account.

As at 31 December 2015, a decrease of 100 basis points in the property values, comprising the greatest part of the total balance, would have reduced the surplus before tax by approximately £0.1m (31 December 2014: £0.2m). This analysis assumes that all other variables, including inflationary increases and discounted rates, remain the same.

23. Equity

Accumulated reserves

	2015 £000	2014 £000
Attributable to:		
Corporation of Lloyd's	72,696	71,934
Central Fund	1,657,958	1,589,844
Associates	8,502	7,958
Total accumulated reserves	1,739,156	1,669,736

Revaluation reserve

The revaluation reserve is used to record increases in the fair value of the Lloyd's Collection and decreases to the extent that such decreases relate to the amount previously recognised in the Group statement of comprehensive income.

Translation reserve

The translation reserve is used to record foreign exchange gains and losses recognised in other comprehensive income as a result of translating the results and financial position of Group entities that have a functional currency different from the presentation currency.

24. Cash generated from operations

	Notes	2015 £000	2014 £000
Surplus before tax		87,187	109,038
Finance cost – deficit on subordinated note repurchase	17	–	8,929
Net finance cost/(income)	7	11,634	(44,603)
Unrealised exchange gains on borrowings		–	(6,864)
Share of profits of associates	12A	(7,391)	(7,577)
Operating surplus		91,430	58,923
Central Fund claims and provisions incurred	4	14	812
Operating surplus before Central Fund claims and provisions		91,444	59,735
Adjustments for:			
Depreciation of plant and equipment	10	7,640	4,244
Amortisation of intangible assets	9	175	121
Losses on sale and revaluation of fixed assets		1,786	225
Gains/(losses) on investments		145	(6,111)
Unrealised (losses)/gains on translation of foreign operations		(739)	6,202
Foreign exchange losses/(gains) on operating activities		745	(560)
Operating surplus before working capital changes and claims paid		101,196	63,856
Changes in pension obligations		7,422	4,009
(Increase)/decrease in receivables		(68,433)	17,816
Increase in inventories		(52)	(24)
Increase in payables		95,672	33,835
Decrease in provisions other than for Central Fund claims		(4,445)	(1,629)
Cash generated from operations before claims paid		131,360	117,863
Claims paid in respect of corporate/insolvent members	19	(14)	(5,800)
Cash generated from operations		131,346	112,063

25. Commitments

A. Capital expenditure commitments

Capital expenditure commitments contracted but not provided for in the financial statements totalled £0.9m (2014: £6.6m).

B. Operating lease commitments – Lloyd’s as lessee

	2015 £000	2014 £000
Non-cancellable operating lease rentals are payable as follows		
Within one year	33,074	30,955
After one year but not more than five years	100,616	92,977
More than five years	208,383	219,677

Commitments outstanding under the terms of the lease for the Lloyd’s 1986 building have been included at the current rental value (£16.8m per annum) to the end of the lease term in 2031. The lease is subject to a rent review every fifth year, with the next review due in 2016.

The Lloyd’s Chatham building is included at the current rental value (£0.4m per annum) to the end of the lease term in 2028. The lease was subject to a 21 month rent free period which ended on 31 July 2015.

During the year ended 31 December 2014, the Society entered into new lease agreements for the Lloyd’s Datacentres in New Jersey and Hong Kong. The leases expire in August 2019 and October 2019 respectively.

During the year ended 31 December 2015, the Society entered into a new lease for the Lloyd’s Datacentre in Singapore, the lease expires in October 2020.

During the year ended 31 December 2015, the Society entered into a new lease agreement for Lloyd’s Limited in Dubai, the lease expires in January 2018.

Notes to the Financial Statements continued

As at 31 December 2015

25. Commitments continued

B. Operating lease commitments – Lloyd's as lessee continued

Subsidiary undertakings are party to a number of small operating leases for property rental and small machinery. The commitments outstanding have been included at current rental value to the first break in the lease. These arrangements do not impose any significant restrictions on the Society.

During the year ended 31 December 2015, £24.7m (2014: £25.9m) was recognised as an expense in the Group income statement in respect of operating leases.

C. Operating lease commitments – Lloyd's as lessor

	2015 £000	2014 £000
Non-cancellable operating lease rentals are receivable as follows		
Within one year	7,228	5,776
After one year but not more than five years	22,570	3,033
More than five years	–	–

The three major tenants for the Lloyd's 1986 building are included at the current rental value to the first break in the leases in 2016 and 2017.

Subsidiary undertakings are party to a number of small operating leases for property sub-rental. The lease rentals receivable have been included at current rental value to the first break in the lease.

During the year ended 31 December 2015, the Society entered into a new lease agreement for Lloyd's Limited in Dubai. This has resulted in a number of additional sub-lease agreements being entered into between Lloyd's Limited and various managing agents.

During the year ended 31 December 2015, £12.4m (2014: £11.7m) was recognised as income in the Group income statement in respect of operating leases.

26. Disclosure of related party transactions

The Group financial statements include the financial statements of the Society and all of its subsidiary undertakings, the Lloyd's Central Fund and the Group's interests in its associates and joint venture as listed in note 11.

Services provided to Ins-sure Holdings Limited Group in the year ended 31 December 2015 included operating systems support and development, premises and other administrative services.

Services provided to Xchanging Claims Services Limited Group in the year ended 31 December 2015 included premises and other administrative services.

Services provided to The Message Exchange Limited in the year ended 31 December 2015 included the provision of messaging infrastructure.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial years together with information regarding the outstanding balances at 31 December 2015 and 2014.

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Associates:								
Ins-sure Holdings Limited	287	291	1,814	2,972	28	4	121	208
Xchanging Claims Services Limited	88	96	–	–	6	3	–	–
Joint venture:								
The Message Exchange Limited	–	–	493	1,076	–	31	40	44

Transactions with associates and joint arrangements are priced on an arm's length basis.

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

Details of the compensation paid to key management personnel including short-term employee benefits, post-employment benefits, other long-term benefits and termination benefits are disclosed within the Report of the Remuneration Committee on pages 112-128.

27. Contingent liabilities

(a) General average guarantees have been given on behalf of, and secured by, Lloyd's underwriters. It is estimated that the aggregate of the liabilities attaching to these guarantees at 31 December 2015 amounted to £29.2m (31 December 2014: £24.9m).

(b) The Society has taken on the responsibilities of some individual members under hardship and other agreements.

In connection with the statutory transfer to Equitas Insurance Limited on 30 June 2009 of the non-life business underwritten at Lloyd's and allocated to 1992 or prior years of account, the Society has entered into undertakings for the benefit of certain policyholders of Equitas Insurance Limited (former policyholders of PCW syndicates or of members who at the material time still have the benefit of hardship or other agreements with the Society), under which the Society would meet any shortfall in recoveries by such policyholders from Equitas Insurance Limited on the occurrence of an 'Equitas Insolvency Event'.

The Society has also given an unlimited undertaking to its subsidiary undertaking Centrewrite Limited to meet any shortfall in its cashflow or assets (including any shortfall arising from an insufficiency of recoveries from Equitas Reinsurance Limited under its reinsurance of the obligations of Centrewrite to Equitas Insurance Limited).

(c) Uncollateralised bank guarantees and other arrangements have been entered into by the Society to provide security in connection with the underwriting activities of the members of Lloyd's in the countries shown:

	2015 £000	2014 £000
Guarantees provided by the Society		
USA: US$1,500,000 (2014: US$1,500,000)	1,018	962

The Society has also entered into other arrangements in connection with the rental of office space in overseas countries.

In respect of all contingent liabilities disclosed as at 31 December 2015, no provision has been made in the Society financial statements.

Five Year Summary

As at 31 December 2015

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Operating income	238,765	219,864	216,521	212,666	215,085
Central Fund contributions	106,922	101,971	105,953	104,959	94,693
Gross written premiums	104,413	53,040	39,218	29,910	512
Outward reinsurance premiums	(104,409)	(53,036)	(39,211)	(29,906)	11
Other Group income	4,810	13,632	3,111	2,395	6,598
Total income	350,501	335,471	325,592	320,024	316,899
Central Fund claims and provisions incurred	(14)	(812)	(17,758)	(26,447)	(15,283)
Central Fund repayment to members	–	(48,995)	–	–	–
Gross insurance claims (incurred)/released	(68,639)	(13,841)	(20,326)	(11,695)	22,717
Insurance claims recoverable from reinsurers	68,639	14,360	20,385	11,801	1,492
Other Group operating expenses					
Employment (including pension costs)	(125,381)	(108,309)	(102,487)	(98,128)	(116,415)
Premises	(40,305)	(42,226)	(46,099)	(40,660)	(44,009)
Legal and professional	(27,188)	(20,734)	(17,002)	(14,070)	(19,707)
Systems and communications	(26,012)	(23,563)	(23,353)	(22,826)	(27,965)
Other	(40,171)	(32,428)	(29,944)	(29,992)	(40,486)
Total other Group operating expenses	(259,057)	(227,260)	(218,885)	(205,676)	(248,582)
Surplus before finance, associates and tax	91,430	58,923	89,008	88,007	77,243
Finance costs					
Deficit on subordinated debt repurchase	–	(8,929)	(15,162)	–	–
Interest payable on financial liabilities and other	(54,362)	(48,920)	(55,642)	(62,198)	(64,370)
Finance income					
Surplus on subordinated debt repurchase	–	–	–	–	4,248
Other	42,728	93,523	60,359	114,855	90,369
Realised/unrealised exchange gains/(losses) on borrowings	–	6,864	(6,126)	6,107	5,428
Share of profits of associates	7,391	7,577	6,843	5,945	4,927
Surplus before tax	87,187	109,038	79,280	152,716	117,845
Tax charge	(12,835)	(17,543)	(13,884)	(33,880)	(28,495)
Surplus for the year	74,352	91,495	65,396	118,836	89,350

Managing Agents and Syndicates

The table shows the key characteristics for managing agents and syndicates active as at 31 December 2015. In 2015, Lloyd's wrote gross premiums of £26,690m.

Managing agent	Managed syndicate(s)	2015 GWP* £m	2014 GWP* £m	Owned share of syndicate(s) %
ACE Underwriting Agencies Limited	2488	378	361	100%
Advent Underwriting Limited	780	157	126	100%
AEGIS Managing Agency Limited	1225	333	371	100%
Allied World Managing Agency Limited	2232	144	116	100%
Amlin Underwriting Limited	2001	1,654	1,538	100%
AmTrust at Lloyd's Limited	44	17	15	100%
	1206	154	183	100%
	2526	29	39	99%
Antares Managing Agency Limited	1274	261	251	100%
ANV Syndicates Limited	779	14	16	0%
	1861	222	198	100%
	5820	228	239	52%
Apollo Syndicate Management Limited	1969	188	152	18%
Arch Underwriting at Lloyd's Limited	2012	154	151	100%
Argenta Syndicate Management Limited	2121	227	218	43%
Argo Managing Agency Limited	1200	421	380	87%
Ark Syndicate Management Limited	4020	337	332	93%
	6105	44	40	0%
Ascot Underwriting Limited	1414	567	575	100%
Aspen Managing Agency Limited	4711	331	297	100%
Asta Managing Agency Limited	1686	118	87	0%
	1729	66	40	0%
	1897	97	90	0%
	1910	275	188	0%
	2357	47	20	0%
	2525	44	42	0%
	4242	111	82	0%
	6117	24	33	0%
	6123	4	0	0%
Atrium Underwriters Limited	609	383	365	25%
Barbican Managing Agency Limited	1955	328	274	100%
	6118	48	71	45%
	6120	40	0	0%
Beaufort Underwriting Agency Limited	318	137	136	91%
Beazley Furlonge Limited	623	248	227	9%
	2623	1,131	1,032	100%
	3622	14	13	100%
	3623	172	152	100%
	6050	12	0	0%
	6107	31	17	28%
Brit Syndicates Limited	2987	1,308	1,303	100%
Canopius Managing Agents Limited	958	205	192	61%
	4444	827	727	87%
	6115	6	65	100%
Capita Managing Agency Limited	1492	3	0	0%
Cathedral Underwriting Limited	2010	197	219	58%
	3010	47	45	100%

Managing Agents and Syndicates continued

Catlin Underwriting Agencies Limited	1209	318	302	100%
	2003	1,919	1,975	100%
	2088	79	47	0%
	3002	27	10	100%
	6111	131	129	0%
	6112	37	39	100%
	6119	17	16	0%
	6121	22	0	100%
Charles Taylor Managing Agency Limited	1884	33	0	3%
Chaucer Syndicates Limited	1084	839	899	100%
	1176	27	24	57%
	6124	317	0	0%
Chubb Managing Agent Limited	1882	99	88	100%
Endurance at Lloyd's Limited	5151	175	172	100%
ERS Syndicate Management Limited	218	394	388	61%
Faraday Underwriting Limited	435	227	208	100%
Hamilton Underwriting Limited	3334	23	56	100%
Hardy (Underwriting Agencies) Limited	382	268	266	100%
HCC Underwriting Agency Limited	4141	98	81	100%
Hiscox Syndicates Limited	33	847	832	73%
	3624	400	324	100%
	6104	33	49	0%
Liberty Syndicate Management Limited	4472	1,151	1,234	100%
Managing Agency Partners Limited	2791	149	170	20%
	6103	5	9	9%
Markel Syndicate Management Limited	3000	429	419	100%
Marketform Managing Agency Limited	2468	210	192	70%
Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited	3210	370	351	100%
Munich Re Underwriting Limited	457	436	446	100%
Navigators Underwriting Agency Limited	1221	272	234	100%
Newline Underwriting Management Limited	1218	96	102	100%
Novae Syndicates Limited	2007	789	659	100%
Pembroke Managing Agency Limited	4000	242	250	100%
	2014	92	60	0%
ProSight Specialty Managing Agency Limited	1110	212	138	100%
QBE Underwriting Limited	386	335	333	70%
	2999	991	888	100%
R&Q Managing Agency Limited	1991	59	35	30%
RenaissanceRe Syndicate Management Limited	1458	244	165	100%
S.A. Meacock & Company Limited	727	68	68	16%
Sirius International Managing Agency Limited	1945	83	67	100%
Starr Managing Agents Limited	1919	264	270	100%
StarStone Underwriting Management Limited	1301	170	141	89%
	2008	68	18	100%
Talbot Underwriting Limited	1183	667	669	100%
The Channel Managing Agency Limited	2015	194	162	100%
Tokio Marine Kiln Syndicates Limited	308	28	27	50%
	510	1,163	1,097	55%
	557	17	20	0%
	1880	184	147	100%
Travelers Syndicate Management Limited	5000	287	312	100%
Vibe Syndicate Management Limited	5678	17	5	100%
W R Berkley Syndicate Management Limited	1967	142	150	100%
All other syndicates, SPS and RITC adjustments		(857)	(502)	
Total		26,690	25,259	

As at 31 December 2015
* See Glossary on inside back cover.

The following syndicates ceased trading at 31 December 2015:
Canopius Managing Agents Limited 958
Catlin Underwriting Agencies Limited 1209
Ark Syndicate Management Limited 6105
Barbican Managing Agency Limited 6120
Chaucer Syndicates Limited 6124

As at 22 March 2016 the following syndicates commenced trading for the 2016 year of account:
Barbican Managing Agency Limited 1856
Asta Managing Agency Limited 2786
Pembroke Managing Agency Limited 6125
Asta Managing Agency Limited 6126
Novae Syndicates Limited 6129

Contents

How Lloyd's Works

Disruption to the global food system would have economic and social, as well as physical, impacts. Lloyd's Food System Shock report encouraged insurers to work with researchers to model these interconnected risks and develop appropriate risk transfer products to improve the system's resilience and sustainability.

What is Lloyd's?

The business written at Lloyd's is brought to specialist syndicates, who price and underwrite risk, via brokers and coverholders.

Under its globally recognised name, Lloyd's acts as the market's custodian and is backed by diverse global resources and a capital structure designed to ensure financial security. Lloyd's works with an international distribution network to increase the use of insurance — building the resilience of local communities and supporting global economic growth.

Led by expert brokers and underwriters operating in more than 200 territories, the Lloyd's market develops and distributes complex and critical insurance to help underwrite human progress.

With expertise earned over centuries, Lloyd's is an influential force in the insurance industry. Its Vision 2025 strategy, launched in 2012, is aimed at ensuring that it remains a global centre for specialist insurance and reinsurance, facing future challenges head-on while grasping the opportunities of a fast-changing world.

Lloyd's Market Structure

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

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

At 31 December 2015 there were 97 syndicates at Lloyd's.

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

At 31 December 2015 there were 59 managing agents at Lloyd's.

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

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

At 31 December 2015 there were 242 brokers at Lloyd's.

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

At 31 December 2015 there were 4,008 coverholders at Lloyd's.

A service company operates like a coverholder but is a wholly owned subsidiary of a managing agent or its group. Unlike a coverholder, a service company is able to sub-delegate underwriting authority to other coverholders.

At 31 December 2015 there were 381 service companies at Lloyd's, with the majority in the UK and the US.

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

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

At 31 December 2015, there were four members' agents at Lloyd's.

The Corporation's role includes:

- Managing and protecting Lloyd's network of international licences;
- Agreeing syndicates' business plans and evaluating performance against those plans. Syndicates are required to underwrite only in accordance with their agreed business plans. If they fail to do so, Lloyd's can take a range of actions including, as a last resort, stopping a syndicate underwriting;
- Monitoring syndicates' compliance with Lloyd's minimum standards; and
- Continuing to raise standards and improve performance across two main areas:
  - overall risk and performance management of the market; and
  - maintaining and developing the market's attractiveness to capital providers, distributors and clients, while preserving its diversity.

The Corporation's Executive Team exercises the day-to-day powers and functions of the Council of Lloyd's and the Franchise Board.

At 31 December 2015 the Corporation and its subsidiaries had 995 staff.

Market structure (Figure 5)

Lloyd's Business Model

The Lloyd's market

Among Lloyd's defining features are the diversity of its underwriting portfolio and its very wide, and expanding, geographic reach.

Access to international insurance markets is one of Lloyd's greatest assets. It has specific trading rights to write insurance business in more than 75 jurisdictions and the ability to write reinsurance in more than 200 countries and territories. Historically, the UK and US have been the dominant markets but in recent years there has been an increase in business from locations such as Singapore, China and Latin America.

Lloyd's strategy is to extend and enhance its geographical coverage to reflect the evolution of the global economy and the dispersal of insurance capacity. During 2015, it increased its presence in a number of countries, including China, Colombia, Dubai, Malaysia and Mexico.

Lloyd's capital structure

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

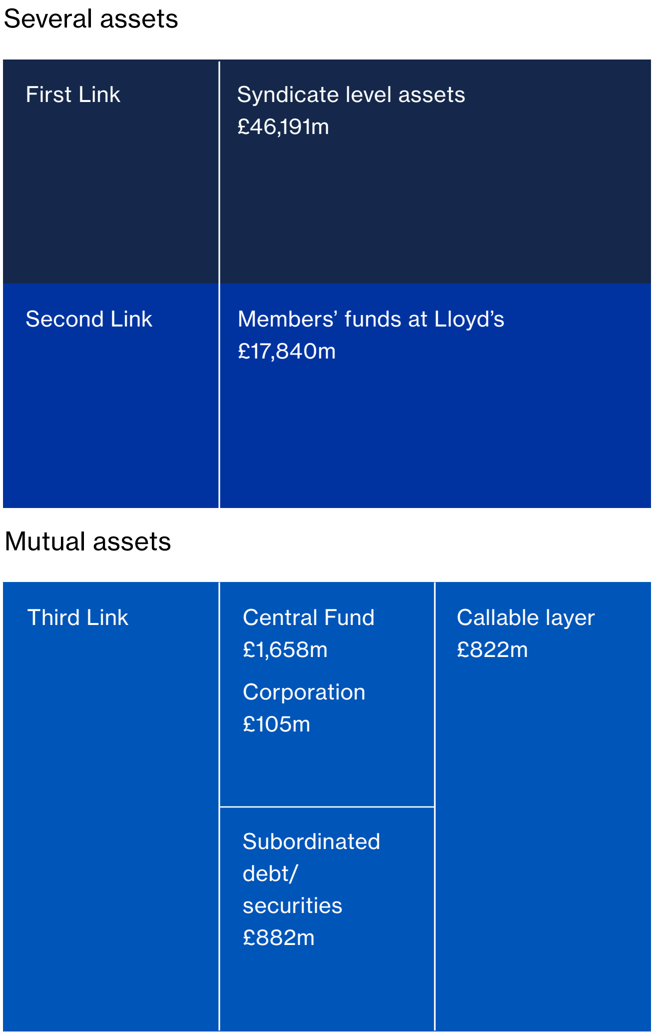
Syndicate assets – members' working capital – the first link in the Chain of Security

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

Funds at Lloyd's – members' capital deposited at Lloyd's – the second link in the Chain of Security

Each member, whether corporate or individual, must provide sufficient capital to support their underwriting at Lloyd's. Managing agents are required to assess the Solvency Capital Requirement (SCR) for each syndicate that they manage.

Lloyd's Chain of Security (Figure 6)



This sets out how much capital the syndicate requires to cover its underlying business risks at a 99.5% confidence level. In light of Lloyd's mix of business, it is important that this assessment goes beyond the 12 month horizon required by Solvency II and must cover the risk of such extreme losses until all liabilities are paid and extend to an ultimate basis.

The Corporation reviews each syndicate's SCR to assess the adequacy of the proposed capital level. When agreed, each SCR is then 'uplifted' to ensure there is sufficient capital to support Lloyd's ratings and financial strength. The uplift applied for 2016 is 35%. This uplifted SCR is known as the syndicate's Economic Capital Assessment and drives members' capital levels across all of the syndicates in which they participate in proportion to their share of those syndicates. Each member's capital is held in trust by the Corporation for the benefit of policyholders but is not available for the liabilities of other members.

Lloyd's central capital – the third link in the Chain of Security

Lloyd's central assets, which include the Central Fund, are available, at the discretion of the Council of Lloyd's, to meet any valid claim that cannot be met from the resources of any member.

Should syndicates need additional assets to meet their liabilities, the funds at Lloyd's ensure that members have additional resources available. In the rare event that a member's capital is insufficient and that member is not able to provide further assets to the relevant syndicates, Lloyd's central capital provides further financial support to ensure valid claims are paid. The Corporation calculates the central Solvency Capital Requirement, which is independently validated and overseen by the PRA. The Franchise Board sets the level of economic capital needed above the regulatory minimum to meet its risk appetite and support the market's ratings and global licence network.

Lloyd's ratings

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

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

Additional information on the security underlying policies at Lloyd's can be found on the Lloyd's website.

Lloyd's ratings at 31 December 2015 (Figure 7)

Standard & Poor's: A+ (Strong)

A+

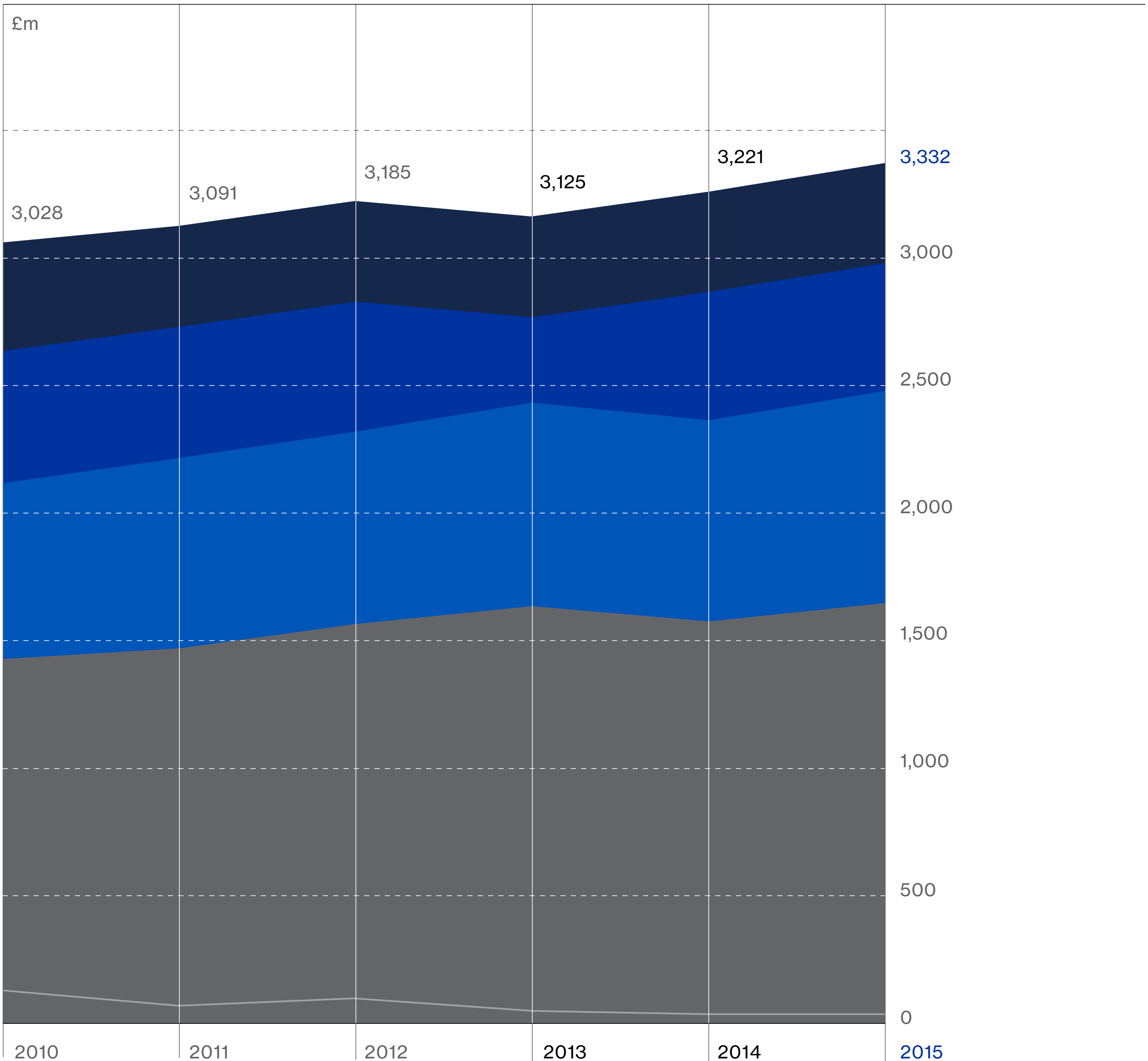
Fitch Ratings: AA– (Very Strong)

AA–

A.M. Best: A (Excellent)

A

Analysis of mutual net assets for solvency (Figure 8)



	2013	2014	2015
Corporation and Central Fund net assets	1,616	1,557	1,628
Callable layer	788	779	822
Subordinated debt issued 2004 and 2014	330	497	494
Subordinated perpetual securities issued 2007	391	388	388
Solvency deficit	34	19	20

The Lloyd's Market

Acappella Syndicate 2014	ADVENT A FAIRFAX Company	AEGIS London	AG DORÉ & OTHERS
ALLIED WORLD	AmTrust at Lloyd's An AmTrust Financial Company	antares	ANV
APOLLO Syndicate Management Limited	Arch Underwriting at Lloyd's	ARCUS 1856	Argenta
ArgoGlobal Member Argo Group	Ariel Re	ARK	ascot
ASPEN	asta	ATRIUM	AXIS
Barbican Insurance Group	Beaufort Underwriting Agency Limited	beazley	BRIT Global Specialty
CAPITA	Cathedral Underwriting Ltd	Charles Taylor Managing Agency	Chaucer
CHINA RE Syndicate 2088 at Lloyd's	CHUBB	CNA / HARDY	Dale Underwriting Partners
DTW 1991	Endurance	ERS	EVEREST
FARADAY	Hamilton Insurance Group	HISCOX	icat

At 31 December 2015, the Lloyd's market consisted of 84 syndicates* managed by 59 managing agents.

Liberty Specialty Markets	MAP underwriting at Lloyd's	MARKEL	Marketform
MS Amlin	MSIG	MSF Pritchard Syndicate 318 Underwriters at Lloyd's	Munich Re Syndicate Limited Munich RE
Navigators Insuring A World In Motion	Nephila	Newline Group	Novae LOOKING FORWARD
Pembroke MANAGING AGENCY	1492 PROBITAS	ProSight Specialty Insurance	QBE
R&Q	RenaissanceRe	RiverStone	S A Meacock & Company Limited
Sirius	SKULD	SOMPO CANOPIUS	STARR COMPANIES
STARSTONE	SYNDICATE 2525	TALBOT VALIDUS GROUP	The Channel Managing Agency
The Standard Syndicate	TOKIO MARINE HCC	TOKIO MARINE KILN	TRAVELERS
VIBE SYNDICATE MANAGEMENT	W/R/B UNDERWRITING	XL CATLIN	

* As well as 13 special purpose syndicates

Lloyd's Value Creation

Throughout history, human progress has gone hand-in-hand with risk taking. From the smallest idea to the largest expedition, whether considerable or minimal, risk, to some degree, is an ever-present factor. Properly quantified and managed, it should not be a barrier to success. Indeed, risk taking is key to making progress.

The role of insurance is to transfer risk, so providing individuals and organisations with the confidence to undertake endeavours that might otherwise be avoided.

In this way, insurance – and Lloyd's as one of its most well-known names – can be seen as having played a significant role in underwriting human progress. The 17th century saw Lloyd's insuring ships and their cargoes as new trade routes were opened up around the globe. It has provided cover for ventures such as the first non-stop transatlantic flight, the first airships and missions to the International Space Station.

Today, Lloyd's continues to support technological progress, developing policies that cover the use of aerial drones and pioneering the first cyber-security liability policy.

Lloyd's itself provides a platform for individual commercial business to thrive. It is a varied market, ranging from large international organisations to smaller niche businesses. Lloyd's syndicates often cover complex risks, including categories such as shipping, aviation, nuclear, climate, pandemics, political risk and energy.

For those seeking such protection, whether individuals, companies or even governments, the confidence that their insurance policies have sound financial backing and that their claims will be dealt with fairly and quickly is paramount. This confidence is fundamental to Lloyd's global brand and reputation. Lloyd's is a globally recognised and highly valued brand within the insurance industry.

Benefits to brokers and policyholders

Underwriting expertise and product offering – The Lloyd's market is a recognised centre of specialist underwriting, claims and analytics expertise. This expertise supports a wide range of specialist insurance and reinsurance products, often developed to meet complex and challenging insurance needs.

Claims payment – Lloyd's is proud of its reputation for paying all valid claims in a timely and efficient manner.

Security and ratings – The single market ratings – from Standard & Poor's, Fitch Ratings and A.M. Best – reflect the fact that all contracts underwritten at Lloyd's are backed by Lloyd's Chain of Security. All policyholders benefit from the robust financial position of the market as a whole.

Benefits to syndicates and capital providers

Market access – Through Lloyd's central licensing arrangements syndicates at Lloyd's are able to access business from more than 200 countries and territories. The London underwriting room, in which transactions take place on a face to face basis, and Lloyd's strategically located international hubs are all supported by a global network of representatives with extensive local knowledge.

Lloyd's has been described (for example, in a 2014 report from Standard & Poor's) as the 'natural' home for some areas of specialist insurance and so is an equally natural choice for those looking to underwrite in these specialist fields.

Capital advantages – Lloyd's capital framework, under which insurance commitments are underpinned by a Central Fund, is efficient and flexible.

Central processes – Lloyd's market infrastructure supports its efficient operation. The Corporation provides central cash settlement and up to date information on regulatory and legal changes that could have an impact on underwriting decisions. It provides efficient tax and regulatory reporting to help the market meet its requirements and represents the market's interests to regulators and governments.

Market oversight – The Corporation aims to strike a proportionate balance between supporting a robust market oversight regime and supporting the entrepreneurial and innovative culture that has contributed to its growth and reputation for more than three centuries. It seeks not only to work with market participants wanting to develop new and innovative products but also to foster new thinking for the market as a whole – for example, through research into emerging risks and their potential mitigation.

Benefits to society and the economy

Economic contribution – Lloyd's is part of the broader London insurance market, which employs around 48,000 people – 34,000 of them in London. It contributes some £60bn to the UK's GDP – more than a fifth of the City of London's GDP contribution. In 2015, 157 of FTSE 250 companies and 28 of the 30 listed in the Dow Jones Industrial Average were insured at Lloyd's.

Contribution to society – Lloyd's also has a part to play globally in supporting the communities in which it operates and in taking a lead on wider social and environmental issues. In 2015 Lloyd's chief executive was among the insurance sector leaders signing an open letter to the Prudential Regulatory Authority calling for more action on building resilience to climate change. Lloyd's is also a founding member of the Climatewise initiative, a collaborative endeavour by insurers to drive action on climate change.

Lloyd's also co-ordinates a number of Corporate Social Responsibility (CSR) programmes. During 2015, these included a week-long series of events across Lloyd's international network for UN World Environment Day and, in London, Dive-In, a festival focusing on diversity and inclusion.

The provision of risk transfer, through insurance and reinsurance, gives Lloyd's policyholders the confidence to undertake activities that carry risk and the potential to recover when things go wrong.

In this way, Lloyd's helps to underwrite human progress and it has created – and continues to create – value to society that far exceeds any financial measure.

Lloyd's Market Governance

The governance and oversight framework for the Lloyd's market is designed to ensure that both the Corporation and managing agents in the Lloyd's market have robust and comprehensive systems of governance, risk management and internal controls. The underlying objective of this overall framework is that the Corporation and the market actively manage risks to the Central Fund, Lloyd's licences, ratings and brand and to ensure good outcomes for policyholders.

Lloyd's governance and risk management

The Council of Lloyd's is Lloyd's governing body and has ultimate responsibility for overall management of the market. The Council delegates many of its functions to the Franchise Board, whose members are appointed by the Council and come from both inside and outside the Lloyd's market. The Franchise Board is responsible for, among other things, supervising and regulating the market and owns Lloyd's risk management framework.

Lloyd's risk management framework identifies the key risks that Lloyd's faces and enables an assessment of these risks on a common basis.

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

Oversight of the Lloyd's market

Each managing agent within the market has the responsibility for its own corporate governance. However, the Corporation provides a comprehensive market oversight framework for the governance of these businesses. This covers performance management, capital setting and risk management. The framework includes extensive Minimum Standards, including a Governance Minimum Standard, to which managing agents must adhere. The Corporation regularly assesses compliance with these standards. The Corporation's oversight activity is published in its 2016 Market Oversight Plan. This provides managing agents with a summary of the Corporation's view of the key risks facing the market in 2016, together with the key oversight activities that the Corporation will undertake during the year.

The Corporation's oversight role through this framework is crucial. The Corporation is accountable to the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) for this (see below).

Managing agents' boards play an important role in ensuring that their firms' business plans, strategy and key risks are subject to appropriate and effective levels of oversight and challenge.

External regulation

In addition to the oversight and supervision provided by the Corporation as set out above, the Corporation and managing agents are regulated by the PRA and FCA. Members' agents and Lloyd's brokers are regulated by the FCA alone.

The Corporation is required by the PRA to meet various prudential requirements relating to capital and solvency and to demonstrate that the Lloyd's market is soundly and prudently managed.

The FCA's focus is on ensuring that the Corporation and managing agents have systems and controls in place to manage conduct risk arising from business underwritten at Lloyd's, with a view to securing an appropriate degree of protection for policyholders.

[1] Details of Lloyd's corporate governance are set out in the Society Report & Accounts on Corporate Governance, which provides the detail on the Council, Franchise Board and its principal committees.

Glossary of Terms

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

Accident year ratio The accident year ratio is calculated as expenses and incurred losses (paid and reserves) for claims occurring in the year as a proportion of net premiums earned during the year. It excludes movements during the calendar year on claims, expenses and premium estimates for previous years.

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

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

Calendar year ratio This is the combined ratio (see below) and is the sum of the accident year ratio (see above) and the prior years' reserve movements (see below).

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

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

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

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

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

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

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

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

Franchise Board The board established by the Council with responsibility for creating and maintaining a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised. This includes setting the Risk Management Framework and profitability targets for the market.

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

Gross Written Premiums (GWP) Written insurance premiums, gross of reinsurance and acquisition costs.

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

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

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

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

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

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

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

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

Prior years' reserve movements This is calculated as movements in reserves established for claims that occurred in previous accident years as a proportion of net premiums earned during the year.

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

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

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

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

Service company An approved coverholder which Lloyd's has agreed can be classified as a 'service company' by reason of it being a wholly owned subsidiary of either a managing agent or of a managing agent's holding company and which is normally only authorised to enter into contracts of insurance for members of its associated syndicate and/or associated insurance companies.

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

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

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

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

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

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

Tier 1 capital The core measure of an insurer's financial strength from the viewpoint of the PRA. It consists of the most reliable and liquid assets. The perpetual securities issued in 2007 qualify as tier 1 capital as the proceeds of the debt issue are fully paid and immediately available; debt holders are subordinate to payment of claims.

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

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

Lloyd's began 328 years ago, in Edward Lloyd's coffee house in the City of London, as the place where ship owners met those with the capital to insure their ships and cargo. Lloyd's has been protecting business and trade ever since, becoming the world's leading market for specialist property and casualty insurance.

This dynamic market brings together underwriters who provide insurance coverage with brokers seeking the best insurance for their clients. Business at Lloyd's is still most often undertaken face-to-face in the busy underwriting room, where the subscription market enables different syndicates to take a share of the same risk.

Lloyd's offers a unique concentration of expertise and talent, backed by strong financial ratings and international licences. Its strength lies in the diversity and expertise of the managing agents working at Lloyd's, supported by capital from across the world.

The Lloyd's market provides a wide range of distribution channels for managing agents (who manage syndicates) to access specialist business, primarily through brokers, coverholders and service companies.

Lloyd's remains true to its original aim of helping clients face their business challenges and setbacks with resilience.