LLOYD'S

LLOYD'S ANNUAL REPORT 2013

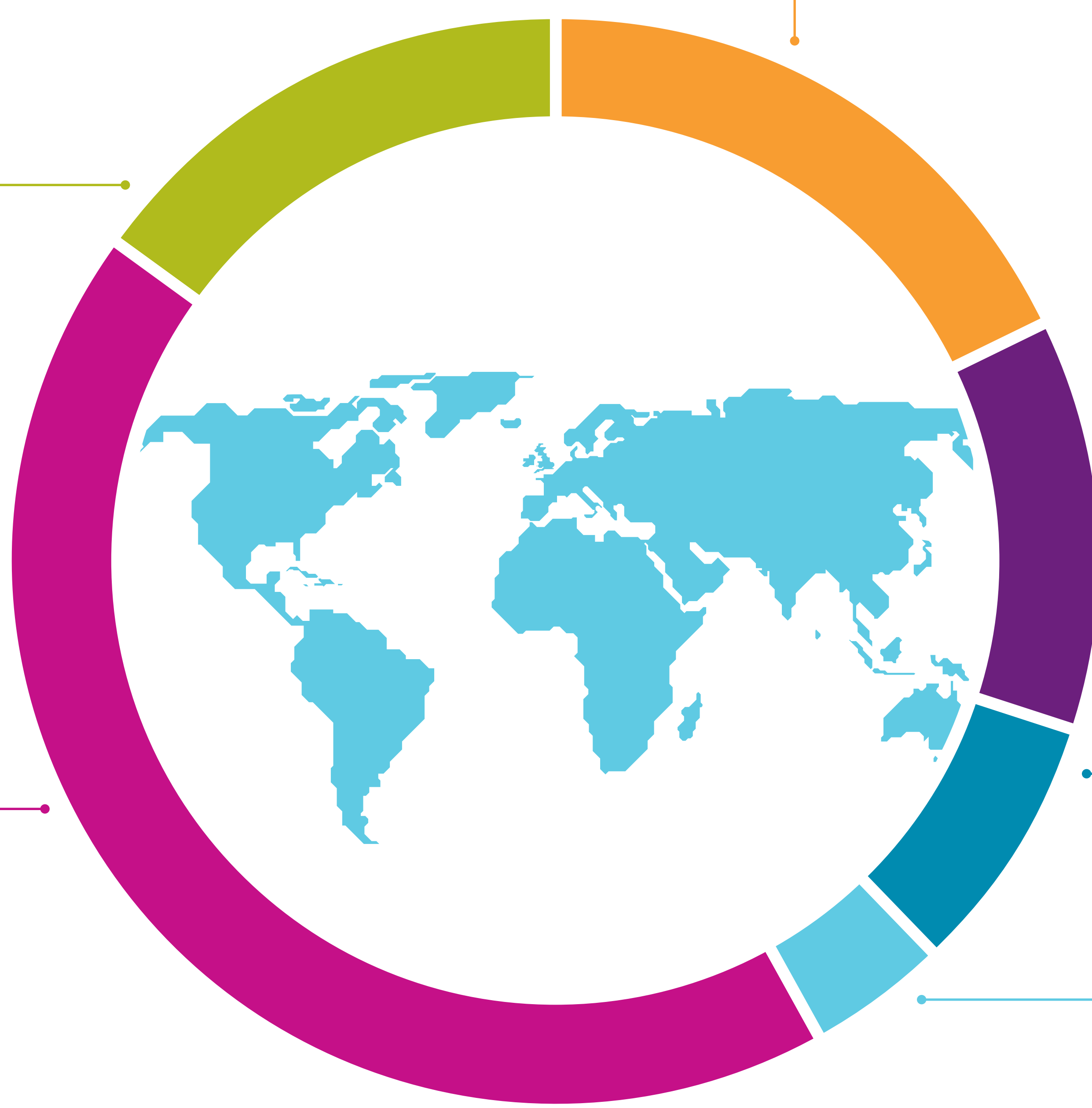
OUR BUSINESS

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

LLOYD'S CLASS BREAKDOWN BY REGION

	US and Canada	Other Americas	United Kingdom	Rest of Europe	Central Asia and Asia-Pacific	Rest of the world	Total for all regions
Reinsurance	27%	75%	29%	37%	46%	61%	37%
Property	34%	7%	21%	15%	16%	8%	23%
Casualty	20%	7%	19%	18%	25%	10%	19%
Marine	7%	5%	6%	18%	7%	9%	8%
Energy	9%	4%	3%	7%	3%	5%	6%
Motor	1%	1%	20%	1%	1%	2%	5%
Aviation	2%	1%	2%	4%	2%	5%	2%
Total	**43%**	**8%**	**18%**	**15%**	**12%**	**4%**	**100%**

LLOYD'S TOTAL BUSINESS BY REGION



18%
UNITED KINGDOM
The Lloyd's building at One Lime Street in the heart of the City of London has been the global headquarters of Lloyd's since 1986.

15%
REST OF EUROPE
Lloyd's has full-time country managers supporting Lloyd's market development activities in Benelux, France, Germany/Austria, Iberia, Ireland, Italy, Poland, the Nordic Area and Switzerland.

43%
US AND CANADA
Lloyd's has offices in Atlanta, Boston, Chicago, Frankfort KY, Los Angeles, New York, Toronto and Montreal and is represented in the US Virgin Islands by an Attorney In Fact.

12%
CENTRAL ASIA AND ASIA-PACIFIC
Lloyd's is a licensed insurer in Australia, China, Hong Kong SAR, Japan, New Zealand and Singapore. Lloyd's has a Tier 2 reinsurance licence in Labuan, Malaysia. Lloyd's Asia in Singapore has 18 co-located service companies writing both Singapore and regional business.

8%
OTHER AMERICAS
Lloyd's has an office in Brazil with co-located syndicates to access reinsurance business.

4%
REST OF THE WORLD
Lloyd's has a full-time country manager in South Africa.

LLOYD'S IN NUMBERS

91
SYNDICATES
of specialist underwriting experience and talent.

3068
COVERHOLDERS
offering a local route to Lloyd's.

202
BROKERS
bringing business from over...

200
COUNTRIES AND TERRITORIES
which covers...

94%
OF THE FTSE 100
and...

100%
OF DOW JONES
industrial average companies, all underpinned by...

326
YEARS OF UNDERWRITING EXPERIENCE

CONTENTS

STRATEGIC REPORT

MARKET PERFORMANCE

MARKET RESULTS

SOCIETY REPORT

APPENDIX

CHAIRMAN'S STATEMENT

"These results demonstrate the great talent and professionalism that is embedded in the Lloyd's market."

2013 was an outstanding year for the Lloyd's market with profits reaching £3.2bn. Our combined ratio was 86.8% and gross written premium has increased by 2.4%. Our return on capital was 16.2%. Our capital position further strengthened with net assets of £21.1bn. Our ratings remain at A+ with Standard & Poor's and Fitch, and A with A.M. Best. Each of these ratings agencies has Lloyd's on positive outlook.

Good as these results are, they should be seen in the context of a year which was low in terms of major claims for the Lloyd's market, with little exposure to the typhoon in the Philippines or the severe flooding and windstorms in the UK and the rest of Europe.

This result was, however, achieved despite investment returns being historically low, caused by continued exceptionally low interest rates. While there are encouraging signs of the UK and the US economies showing stronger GDP growth, the wider global recovery remains subdued. We do not expect interest rates to rise in the short term.

As well as reducing investment income, low interest rates have also led to the insurance market attracting substantial levels of capital, some coming from capital market sources, which historically have not invested in the insurance industry. This additional capital, combined with a relatively light claims experience, has caused significant and increased competitive pressure over the year end and into the early part of 2014. We expect this increased pressure to continue for the foreseeable future.

While the Lloyd's market is in a strong position, we are facing significant challenges and significant opportunities which require the market to evolve in order to maintain and reinforce our position as the global centre for specialist insurance and reinsurance.

First, we need to maintain underwriting discipline in the increasingly competitive environment. And we must do this while continuing to invest for longer-term profitable growth in developing insurance markets, particularly in Asia and Latin America – which is the key element of our Vision 2025, the long-term strategy of the Lloyd's market.

During 2013, we made substantial progress in terms of taking this strategy forward. We are making good progress in developing our licence network. In addition, we have applied to open a branch office in Beijing. We are making progress in increasing our representation in Latin America. Finally, Lloyd's has decided to open a representative office in Dubai in 2014.

Second, we must continue our focus on modernising our operating processes. Progress has been made in 2013 but it will now require a real commitment by the market to greater levels of cooperation in order to produce a world class platform to enable us to capture our full growth potential.

Third, we have strong support from our brokers and their clients in our core markets and we need to continue to evolve our product and service offering to meet their demand. In doing this, we must continue to develop new risk transfer products for our customers to reflect changing business models. This means aligning the products we offer more closely with the new risks that businesses face. This is both a challenge and an opportunity. However, Lloyd's reputation for innovation is strong and I am confident we will respond.

Fourth, Lloyd's, as a market, has the opportunity over the medium and longer term to harness capital, from traditional and new sources, to meet the growing demand for specialist insurance. This will require imagination and innovation in developing the right structures – blending this new capital with the right approach to underwriting discipline, risk modelling and measurement, and appropriate pricing.

At this important time for the Lloyd's market, I am really delighted to welcome Inga Beale, who was appointed as the new CEO of Lloyd's at the beginning of 2014 in succession to Richard Ward. Richard had been CEO for eight years and I want to thank him once again for his contribution to Lloyd's over that period.

Inga has over thirty years' experience in the industry, both as an underwriter and CEO, and broad international experience. This will be of great benefit to the Lloyd's market in the coming years.

I welcome Rupert Atkin who has been appointed as one of our Deputy Chairmen. Rupert has a long and distinguished record in the Lloyd's market and has served on the Council since 2007. Graham White is standing down as Deputy Chairman but I am delighted that he will stay on the Council until the end of 2014. Reg Hinkley has retired from the Council and Andre Villeneuve will retire from the Franchise Board at the end of this month. I want to thank them both for their wise counsel and their substantial contribution to Lloyd's.

Finally, I would like to pay tribute to the management team and the entire staff of the Corporation for their tremendous commitment during 2013. It is, however, our managing agencies who have produced these excellent results for 2013. This demonstrates the great talent and professionalism that are embedded in the Lloyd's market – a great strength for all of us in taking Lloyd's forward.

JOHN NELSON
Chairman

2013 AT A GLANCE

Financial highlights

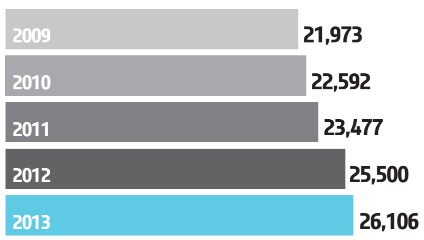
- Lloyd's made a profit of £3,205m (2012: £2,771m) despite a reduction in investment return.
- Combined ratio of 86.8% (2012: 91.1%).
- Gross written premium rose 2.4% to £26,106m (2012: £25,500m).
- Capital, reserves and subordinated loan notes stand at £21,107m (2012: £20,193m).

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 with general insurance companies. The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the Society of Lloyd's financial statements.

To read more on our financial results, see **page 33**.

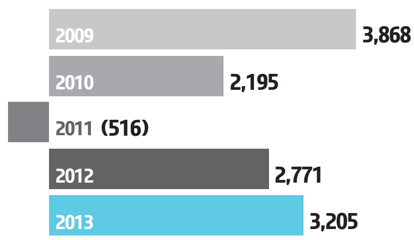
The Aggregate Accounts are reported as a separate document and can be found at: **www.lloyds.com/2013annualresults**

Gross written premium
£m



£26,106m

Result before tax
£m

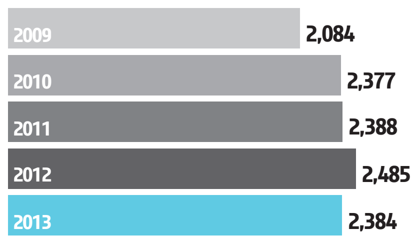


£3,205m

Capital, reserves and subordinated debt and securities
£m

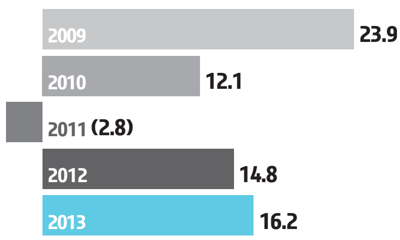
£21,107m

Central assets*
£m



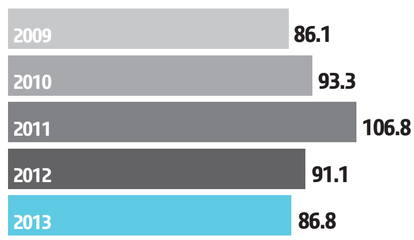
£2,384m

Return on capital
%



16.2%

Combined ratio*
%



86.8%

The basis for translating income and expenditure and assets and liabilities in foreign currency is set out on **page 50**.
* See Glossary on **pages 148-149**.

CHIEF EXECUTIVE'S STATEMENT

"Our most important asset is our reputation for expert underwriting and understanding business risk."

It was an honour to take on the role of CEO of Lloyd's in January 2014. The results contained within this report confirm what I already know: that Lloyd's is in a good place. The Lloyd's market recorded excellent profits of £3.2bn. I would like to thank everyone in the market and the Corporation who contributed to these results.

Looking to the future, Lloyd's has a huge opportunity to grow into new markets. Vision 2025, launched in 2012, is the right response to the shift in economic power from the West to the rest. This report details some of the actions which we have taken in 2013 – I see my priority as driving the delivery of this vision in the years to come.

This will involve a number of focus areas: regulatory; efficient ways of bringing business to Lloyd's; and building the brand, to name just three. It will also involve progress in terms of improving the efficiency of the operating processes. However, market modernisation is much more than that; it also involves understanding changing distribution and capital dynamics, our brand and reputation. In short, it means our culture and way of doing business.

Prior to this role, I was running a Lloyd's managing agency, and I started in the market as an underwriter, so I am acutely aware that the delivery of Vision 2025 will need close engagement with all of the stakeholders in the market. There will be change, and, of course, that can be difficult in a market of many players, but I will work hard to ensure that the mechanisms which we put in place have a lasting benefit for the market as a whole.

Lloyd's is a world famous brand with an envied distribution network of brokers and we need to continue to find ways of helping the market develop new opportunities with them. So we also need to understand where managing agencies are looking to grow, in terms of geographic location and types of business. Above all, we need to grasp how both brokers and managing agents intend to use the Lloyd's platform as they expand into these territories.

Individual managing agents and brokers have different business development strategies, which will of course evolve. The level of diversity is a strength of the market; we do not want everyone to write the same business. However, this means that the Corporation's role is to provide a flexible platform in London and elsewhere that will enable market players to take forward their strategies, now and in the future. We need to refresh our thinking on this, so, during 2014, we will engage with the market to understand their long-term plans.

An immediate challenge is to find the right balance between growth and caution. Lloyd's has recorded an excellent profit for 2013, but beyond this headline sum, the industry is facing a number of significant challenges. Low investment returns coupled with excess capital and continuing economic uncertainties need to be carefully managed and I expect a good deal of my time will be ensuring that the prudential oversight of the market remains strong.

Our capital base, our ratings and our oversight processes all serve to make Lloyd's an attractive place for business to place their risks. But our most important asset is of course our reputation for expert underwriting and understanding business risk. For this we rely on talent, the people who work at Lloyd's, in both the Corporation and the market. Maintaining and nurturing this expertise will be a core focus because it is central to our future success.

It is, of course, a privilege to lead this iconic institution. I have been very grateful for the initial support I have received from colleagues in the market and the Corporation. I am very much looking forward to working with you, and for you.

INGA BEALE
Chief Executive

STRATEGIC REPORT

VISION 2025 SETS OUT THE STRATEGIC DIRECTION FOR THE LLOYD'S MARKET IN A CHANGING GLOBAL ECONOMY

OVERVIEW

On pages 6 to 43, we present our strategic report in relation to the Lloyd's market.

The Lloyd's market as a whole comprises members underwriting through syndicates supported by the Society of Lloyd's, including the Central Fund. The interests of the Lloyd's market and the Society are interlinked and therefore this report refers to both.

In order to obtain an overview of the operations of the Lloyd's market, this report should be read in conjunction with the rest of the Annual Report.

ABOUT LLOYD'S

The world's specialist insurance market

Lloyd's began 326 years ago, in Edward Lloyd's coffee house in the City of London, as the place where shipowners 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. The Lloyd's market provides insurance for 94% of FTSE 100 companies and 100% of Dow Jones industrial average companies.

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 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 in one place, backed by strong financial ratings and international licences. Our 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.

Constantly evolving to meet new challenges, Lloyd's remains true to its original aim of helping clients to rebuild and recover after disaster and loss. We are always seeking new ways to ensure Lloyd's becomes an even easier and more attractive place for the world to do business.

ABOUT LLOYD'S
THE LLOYD'S MARKET

At 31 December 2013, the Lloyd's market consisted of 91 active syndicates (plus five RITC syndicates) managed by the 56 managing agents shown here. The sheer scale of the market offers huge diversity of products; the scope of specialist broking and underwriting expertise found together under the Lloyd's umbrella makes it unique.

HOW LLOYD'S WORKS
MARKET STRUCTURE

Our unique structure creates a market based on trusted relationships and expertise

MARKET STRUCTURE

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

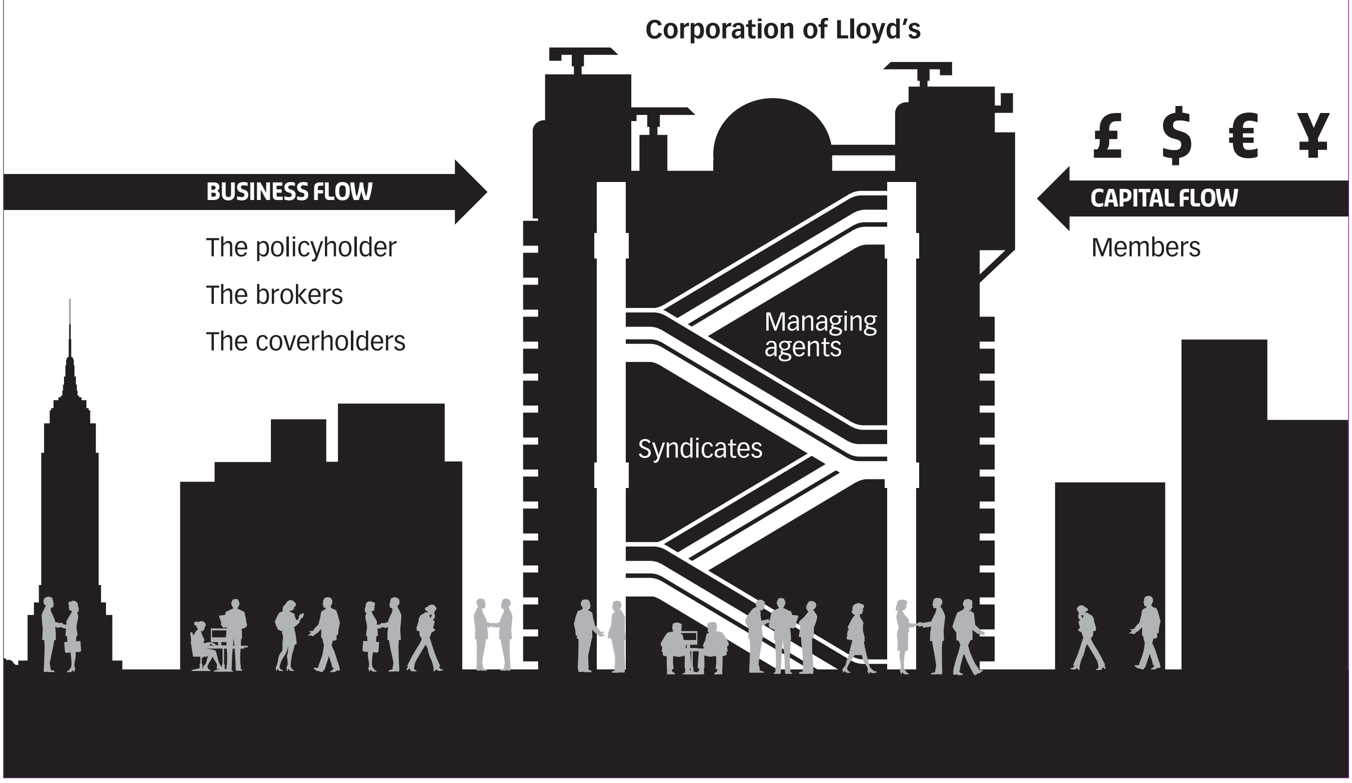
Members – Providing the capital
The capital, which enables the syndicates' underwriting, is provided by members of Lloyd's. This capital is backed by many of the world's major insurance groups, listed companies, individuals and limited partnerships, with corporate groups providing the majority of the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

Syndicates – Writing the insurance
A Lloyd's syndicate is formed by one or more members joining together to accept insurance risks. Most syndicates write a range of classes of business but many will have areas of specific expertise. Much of this business involves face-to-face negotiations between brokers and underwriters in the underwriting room in the Lloyd's building, where most syndicates trade.

Syndicates are, technically, set up on an annual basis. In practice, they usually operate from year to year with members having the right, but not the obligation, to participate in syndicates the following year. These ongoing operations allow for a strong level of continuity in the capital which backs syndicates, meaning they function like permanent insurance operations under the Lloyd's umbrella.

Managing agents – Managing the syndicates
A managing agent is a company set up to manage one or more syndicates on behalf

How the market works (Figure 1)



of the members who provide the capital. Managing agents have responsibility for employing underwriters, overseeing their underwriting and managing the infrastructure and day-to-day operations.

DISTRIBUTION

Brokers

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

Coverholders – offering local access to Lloyd's

A coverholder is a business authorised by a managing agent to accept insurance risks on behalf of a syndicate. They are a vital distribution channel, offering a local route to Lloyd's in many insurance markets around the world. In 2013, Lloyd's had 3,068 coverholders. Its largest coverholder markets are currently the US, UK, Canada, Europe and Australia, but Lloyd's coverholders can be found as far afield as Chile, Tahiti and South Africa.

A service company operates like a coverholder but is a wholly owned subsidiary of a managing agent or its group. Unlike a coverholder, a service company is able to sub-delegate underwriting authority to other coverholders. There are 289 service companies, with the majority in the UK, the US and Singapore.

POLICYHOLDERS

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

CORPORATION OF LLOYD'S

Supporting the market

The Corporation of Lloyd's (the Corporation) oversees the market, provides processing services and promotes the Lloyd's brand. This includes the management of Lloyd's network of international licences. The Corporation's Executive Team exercises the day-to-day powers and functions of the Council of Lloyd's (the Council) and the Franchise Board. At the end of 2013, the Corporation and its subsidiaries had 923 staff.

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

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

MANAGING INSURANCE RISK

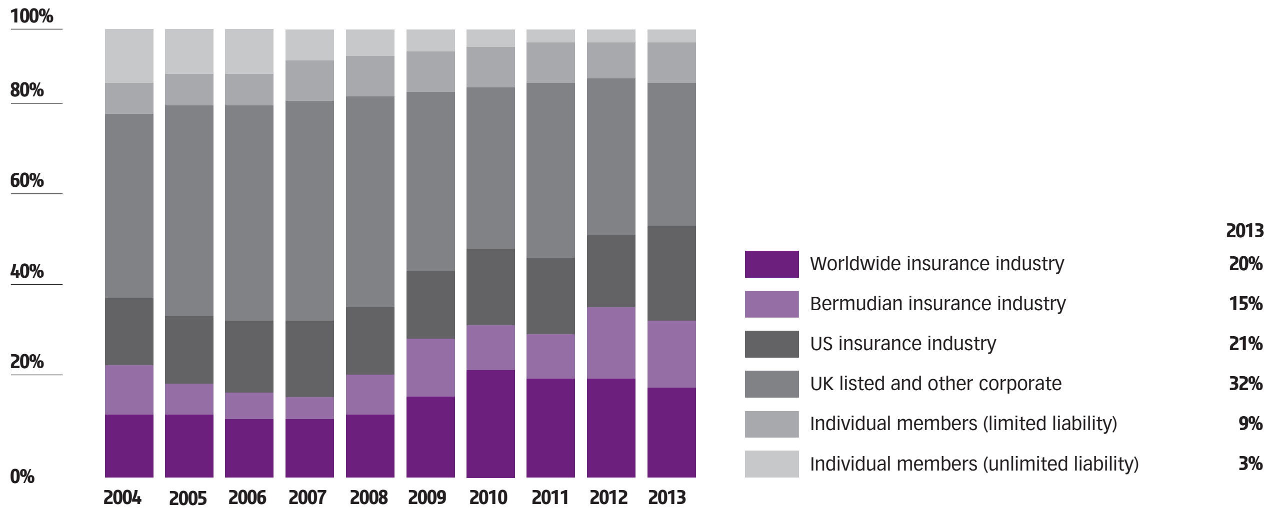
Each syndicate sets its own appetite for risk, develops a business plan, arranges its reinsurance protection and manages its exposures and claims. The Corporation reviews and agrees business plans, monitors compliance against Lloyd's minimum standards and evaluates syndicates' performance against their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

For a list of managing agents and the syndicates they manage, see **pages 146-147**.

See **pages 63-75** for more detail on the governance of Lloyd's.

For more information on managing insurance risk, see **pages 22-27**.

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



HOW LLOYD'S WORKS
CHAIN OF SECURITY

Lloyd's financial strength comes from its unique capital structure

THE CHAIN OF SECURITY

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

Lloyd's Chain of Security has three links:

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

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

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

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

To read more on the Chain of Security see **page 20** and **pages 57-59.**

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 validate Lloyd's robust capitalisation and the market's financial strength. In 2013, all three reaffirmed our ratings and placed Lloyd's on positive outlook.

Lloyd's ratings (Figure 3)

A+	A+	A
STANDARD & POOR'S A+ (STRONG)	FITCH RATINGS A+ (STRONG)	A.M. BEST A (EXCELLENT)

HOW LLOYD'S WORKS
BENEFITS OF LLOYD'S OPERATING MODEL

Benefits of Lloyd's to market participants (Figure 4)

MARKET ACCESS	SECURITY AND RATINGS	CAPITAL ADVANTAGES	CENTRAL PROCESSES AND SERVICES
Access to major insurance markets and an expanding licencing network.	Excellent financial security underpinned by Lloyd's Chain of Security and strong ratings capable of attracting specialist insurance business.	Capital efficient framework driven by the benefits of mutuality.	Infrastructure supporting the subscription market and the provision of tax and regulatory reporting. Other central services (eg lobbying) and the ability to benefit from a Solvency II ready environment.
PRODUCT OFFERING	**CLAIMS PAYMENT**	**UNDERWRITING EXPERTISE**	**MARKET OVERSIGHT**
Access to a wide range of specialist and bespoke (re)insurance solutions.	A reputation for paying all valid claims in a timely and efficient manner.	Access to specialist underwriting expertise and innovation.	A proportionate but robust market oversight regime consistent with an innovative and entrepreneurial culture.

BRAND STRENGTH AND REPUTATION
The benefits of Lloyd's are underpinned by Lloyd's leading global brand and reputation.

PERFORMANCE

OPERATING ENVIRONMENT

Lloyd's financial strength has been preserved in an environment of soft rates and reduced investment income

ECONOMIC RECOVERY STARTING TO TAKE HOLD

Global economic activity is picking up, although the picture is mixed and downside risks remain in many economies. Positive economic growth has been reported in several large developed economies and there are signs that a more broadly based sustainable global economic recovery could be taking hold. Many developing economies, while still forecast to grow faster than developed economies, have seen a lowering of future projections.

Until recovery becomes sustained, non-life premium growth may remain modest due to suppressed demand. Insurers seeking profitable growth need to consider opportunities in the faster growing developing economies.

The bulk of insurer assets are invested in developed economies, where inflation forecasts remain low or declining. However, the risk of monetary policy driven inflation remains. Even with relatively low inflation forecasts, the developed regions of the world are forecast to provide negative real investment returns. However, evidence of stronger economic growth should cause markets to anticipate higher interest rates, improving investment returns towards a three-year horizon.

POLITICAL AND REGULATORY FRAMEWORKS CONTINUE TO EVOLVE

While London's position as a leading financial centre remains strong, competition from Asian centres, and elsewhere, is increasing. Ensuring Lloyd's and the wider London financial services market remain attractive given continuing UK, EU and global regulatory change is key to the future success of the Lloyd's market.

A number of factors are exerting pressure on insurers in the UK, EU and globally:

- The UK's new regulatory architecture came into force in April 2013 with the PRA and FCA commencing operation. The precise impact of this new regime continues to emerge and already exhibits a more intrusive oversight regime and possible regulatory overlap.
- The debate on the UK's future in the EU continues, creating uncertainty over the UK's commitment to the EU. The UK's withdrawal from the EU would likely remove the ability of insurers to transact business via a passport, both on an establishment and on a cross-border basis throughout the EU from London. This would be damaging for Lloyd's.

REGULATORY UPDATE – SOLVENCY II

Solvency II is now almost certain to start on 1 January 2016, given the achievement of political agreement in Europe on the overarching Omnibus II Directive. Lloyd's has treated the implementation of Solvency II as a priority. Both the Corporation and the market have made significant progress towards implementation and are on track to successfully complete this work. This has enabled Lloyd's to use Solvency II calibrated internal models and balance sheets for capital setting and to meet the current Individual Capital Adequacy Standards (ICAS) regulatory requirement from 2013.

In the meantime, the European insurance supervisor European Insurance and Occupational Pensions Authority (EIOPA) has implemented the Guidelines, which apply interim measures in respect of Pillars 2 (risk management) and 3 (reporting and disclosure), from 2014.

The Pillar 2 measures, in respect of risk governance and the Own Risk and Solvency Assessment (ORSA), are in line with the work that the Corporation and managing agents have already implemented. The Pillar 3 measures impose interim reporting requirements as at 31 December 2014 and 30 September 2015. Lloyd's is preparing for these by conducting a market Pillar 3 dry run later this year, which will help both the Corporation and managing agents to be ready for reporting in accordance with the guidelines in 2015.

Details can be found at:
www.lloyds.com/solvencyii

- Lloyd's is on track to meet the expected implementation date (1 January 2016) for Solvency II. Existing preparations will be used for the purposes of compliance with the UK's current ICAS+ requirements.
- The International Association Insurance Services (IAIS) published in 2013 a list of global systemically important insurers (G-SIIs). An equivalent list of reinsurers is expected to be published in 2014. Work also continues within the IAIS on development of its proposed Common Framework (ComFrame) for regulating internationally active insurance groups (IAIGs) will be published in 2013. Lloyd's is monitoring developments closely on both of these issues.

INSURANCE INDUSTRY CONDITIONS ARE CHALLENGING

Stagnant premium growth in many large developed economies, record levels of (re)insurance capital and a lack of major insured catastrophes in 2013 continue to exert downward pressure on rates and increase competition in key markets. These factors, combined with some forecasts of thinning reserve margins, require insurers to focus more than ever on underwriting discipline.

The reinsurance industry continues to innovate in response to the influx of non-traditional capital into the market, especially in 'peak' catastrophe risks. New capital (often pension funds) is attracted by returns and diversification, while many buyers are demanding alternatives to traditional reinsurance products. In response to competition and pressure on rates, reinsurers are being forced to adapt by developing new products and accessing new types of capital.

The growth of large cities in developing economies and climate change present both risks and opportunities to insurers. With a large gap between economic and insured losses, particularly in developing economies, insurers may be able to grow by demonstrating their value to individuals, governments and businesses in underinsured areas.

Future industry losses may arise from a range of emerging risks including cyber and other intangible risks, climate change related catastrophes and potential litigation against 'polluters', space weather, supply chain disruption and new technologies.

Understanding the potential nature and impact of these risks, as well as developing insurance solutions, is a key future activity for the industry.

(Re)insurer merger and acquisition activity is expected to be driven by insurers pursuing growth, portfolio diversification, Solvency II capital efficiencies and by private equity investors seeking an exit. Lloyd's businesses continue to be attractive acquisition targets and a popular route for gaining a presence in the market. Given this activity, the number of 'available' businesses is now limited.

LLOYD'S MUST EVOLVE TO REMAIN THE GLOBAL CENTRE FOR SPECIALIST RISKS

Lloyd's continues to outperform its peer group with its strong combined ratio driven by superior underwriting results. Lloyd's financial strength has been preserved in an environment of soft rates and reduced investment income.

That said, Lloyd's needs to increase its presence in developing economies as their share of global non-life premium grows. At the same time, with the developed markets continuing to account for the vast majority of global non-life premium, Lloyd's must work to maintain its position in those markets where Lloyd's has leadership positions and to seek profitable opportunities wherever they may exist.

Lloyd's is a broker market. Like most commercial (re)insurers, Lloyd's has a significant reliance on large global brokers. The impact of recently introduced broker facilities remains uncertain and the Lloyd's market must pay close attention to changes in the wholesale broker model.

The composition of the Lloyd's market continues to evolve, with increases in: the international diversity of capital providers, the number of managing agents writing in excess of £1bn premium and new entrants. The vast majority of managing agents are part of larger insurance groups, making them less dependent on Lloyd's. This change evidences the attractiveness of the Lloyd's model as well as reinforcing the need for Lloyd's to continue to strengthen its attractiveness compared with other specialist (re)insurance platforms.

Demographic changes, the international reach of the global insurance industry and increased competition are driving demand for talent globally and in the Lloyd's market. Insurers that are able to attract and retain talent with technical skills and international capabilities will be most successful. Lloyd's needs to continue to retain, attract and develop the best talent from the widest possible talent pool.

Given economic, political, regulatory and insurance market conditions, profitable growth, in the near term, may be challenging for Lloyd's.

PERFORMANCE
2013 BUSINESS OBJECTIVES

At the heart of Vision 2025 are Lloyd's international growth aspirations

These are the areas the Council of Lloyd's seeks to build on to ensure its success in the global market place.

1. Monitoring and managing the cycle
Lloyd's will be a market where entrepreneurialism and innovation will thrive, underpinned by robust risk and performance management.

2. International growth
The increase in premium income in developed markets will track or slightly exceed increases in GDP by region. In developing markets, at times, we would expect growth to exceed GDP as the specialist risk sector develops. Lloyd's will have a small number of local offices in certain major overseas markets.

3. Market modernisation
Lloyd's will be a subscription market, with efficient central services providing seamless processing to support face-to-face trading and world class claims management.

4. Enhancing 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. Coverholders and service companies will provide efficient access to local markets.

5. Attracting and promoting talent
Lloyd's will attract the best talent and will provide an accelerated career path for the progression of high achievers. Lloyd's will be a diverse market by gender, age and ethnicity. Its people will increasingly mirror the geographic origin of the market's business and capital. Information on work in relation to human resources can be found on page 29.

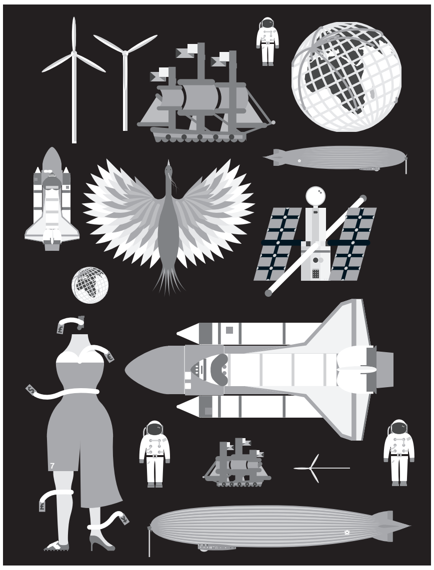
6. Names capital
New names will participate on a more flexible basis and more efficiently, mainly via Special Purpose Syndicates.

MONITORING AND MANAGING THE CYCLE

The Franchise Board and Executive Team oversee the market's management of the insurance cycle and, where appropriate, seek to flag risks to ensure performance issues are proactively addressed.

In 2013, Lloyd's continued to improve and strengthen its oversight of the market. In the first half of the year, Lloyd's carried out a review of the syndicate business planning and capital setting processes, in conjunction with the Lloyd's Market Association (LMA). The outcome of this review was that a single Lloyd's committee, the Capital and Planning Group (CPG), took over responsibility for both the syndicate business planning and the capital setting processes. Lloyd's also carried out three thematic reviews on onshore energy and power generation, marine hull and financial institutions and provided feedback to the market in July.

In conjunction with the LMA's Risk Assurance Committee, work has progressed during the year to review Lloyd's minimum standards



325 YEARS OF LLOYD'S

In 2013, Lloyd's celebrated its 325th year of existence. As a market that specialises in unusual risks, Lloyd's has insured some fascinating things over the years and we used the anniversary to celebrate our extraordinary history.

An astonishing number of inspired thinkers have played their part in the history of the Lloyd's market, from founder and coffee shop owner Edward Lloyd to the innovative Cuthbert Heath. Cuthbert Heath pioneered natural catastrophe cover against earthquakes and hurricanes and even insured against Zeppelin attacks during World War 1.

As part of our celebrations, we relaunched the history pages on our website, commissioned a beautifully animated short film and designed bespoke Lloyd's cocktails, which were served in One Under Lime. The film was distributed in over 71 countries and was awarded 'Best use of video' at the 2013 Content Marketing Awards.

To watch the film, go to **www.lloyds.com/325**

To find out more, go to **www.lloyds.com/history** alongside the Solvency II tests and standards to produce a consolidated, up-to-date set of requirements for the market. As part of this exercise, new Governance and Risk Management Standards were agreed with the market following consultation.

INTERNATIONAL GROWTH

Vision 2025

At the heart of Vision 2025 are Lloyd's international growth aspirations. Lloyd's intends to take advantage of the opportunities presented by developing economies and to seek profitable, sustainable growth. This focus on developing markets will not be at the expense of Lloyd's position in established markets.

Both the Chairman, John Nelson, and the then CEO, Richard Ward, spent a considerable part of 2013 promoting Lloyd's in international markets. Richard Ward visited Europe, the US and South Africa. John Nelson also spent time in the US and Europe, as well as Singapore, India, Brazil and Mexico. John Nelson and Richard Ward also carried out visits to China to promote Vision 2025 to the Chinese insurance industry. The second 'Lloyd's Day' event was held in Beijing in October. This was an opportunity to promote Lloyd's, Vision 2025 and specific insurance products to the Chinese insurance market.

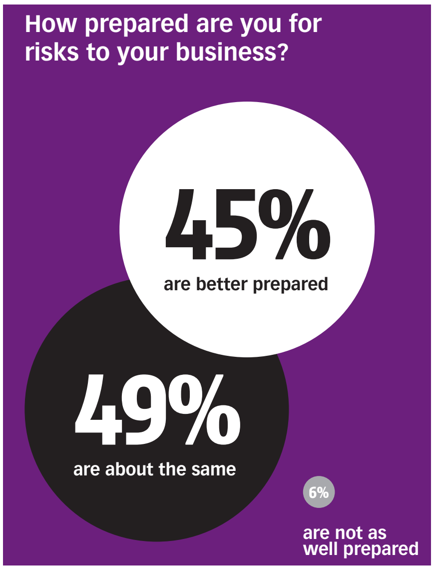
Lloyd's continues to pursue an onshore reinsurance presence in India, but this depends on legislative changes and progress on these has been slow. Lloyd's continues to engage with the Indian Government and the insurance regulator on this issue. Lloyd's also plans to develop an onshore presence in Turkey and has made significant progress towards securing a licence.

Upon Croatia's accession to the EU, Lloyd's applied for and secured freedom of services authorisation for the country. Lloyd's also obtained authorisation to establish coverholders in Lithuania, improving Lloyd's licence network in Eastern Europe.

International Markets

The International Markets directorate conducted a review to ensure the work of the Corporation was effectively supporting the market to fulfil its international ambitions and deliver Vision 2025. They identified six areas for development. Some improvements have already been delivered and work will continue in 2014:

- Providing more granular class of business intelligence: Lloyd's published Class of Business Reviews and is piloting new local broker and cedant insight in China, Brazil, Turkey, India and Mexico.
- Developing Lloyd's licence network: Lloyd's will share market intelligence with the market in 2014 to help determine priorities for licence development.
- Supporting broker and coverholder distribution: In 2013 Lloyd's streamlined the coverholder approval process.
- Promoting the subscription market: Lloyd's is encouraging consortia development in areas where larger line sizes would help grow business.
- Providing tailored services: Lloyd's will share an overview of market development services with all managing agents to highlight available support.
- Promotion and education: Lloyd's is



RISK INDEX 2013 REVEALS BUSINESS LEADERS' CONCERNS

Lloyd's third Risk Index, our survey of more than 500 of the world's most senior business leaders, suggests that executives are focusing more on problems such as cyber-attacks and the increased costs of materials, rather than longer-term strategic issues such as skills shortages and reputational risk.

Cyber risk was a particular priority in Latin America; in Mexico, it leapt to second place, having been in just 28th place in the 2011 Lloyd's Risk Index. In Asia-Pacific, the price of material inputs was seen as the number one risk to businesses. Given that so much production has moved to the Asia-Pacific region, this concern is understandable because any cost increases will have to be handed on to consumers, compromising competitiveness. In China, the risk of supply chain failure has moved up 31 places since 2011 to the number three spot. Inconsistent regional distribution networks pose a particular challenge to businesses targeting the domestic market and recent food scandals have highlighted the risks of poorly managed supply chains.

Details can be found at:
www.lloyds.com/riskindex

PERFORMANCE 2013 BUSINESS OBJECTIVES CONTINUED

internationalising its communications and will develop a Global Development Centre to support London and regional broker programmes in 2014.

MODERNISING OPERATING PROCESSES

This encompasses initiatives led by both Lloyd's and the market.

In 2013, Lloyd's launched a new central processing facility for service companies operating on its Singapore platform called Insurance Services for Lloyd's Asia. This brings the benefits of central processing in the London market to our regional underwriting office for Asian business. It will make it easier for brokers to do business with service companies on the Lloyd's Asia platform by providing a single point of contact for back-office functions, easier payment processing and cost reductions. Three service companies have joined central processing services initially: Amlin, Atrium and Chaucer. Over the course of 2014, Lloyd's plans to expand Insurance Services for Lloyd's Asia by offering claims processing and subscription support.

The Central Services Refresh Programme (CSRP) is designed to improve and extend the central services available to the London market for back-office processing. The programme is overseen by a cross-market steering group which is working with the London Market Group, the LMA, the International Underwriting Association (IUA), the London & International Insurance Brokers' Association and Xchanging Insurance Services to progress market modernisation. In 2013, work focused on identifying the improvements required, prioritisation and planning. The first components of the programme will be delivered in 2014.

The Claims Transformation Programme continues to make progress, improving the way the market handles claims. Since the programme's inception, there has been a 53% improvement in the speed at which the relevant parties agree a claim transaction, bringing the average time down from 25 days to less than 12.

Key market-led initiatives include the Exchange and Project Genesis. The Exchange is co-owned by the Corporation, the LMA, the IUA and the London and International Insurance Brokers' Association. In 2013 TMEL (The Message Exchange Limited), the governing body of the Exchange, agreed a new five-year contract with IBM for the future provision of the Exchange service. The IUA and Lloyd's also agreed a funding model for the ongoing running of the Exchange. The Exchange became the world's first ACORD Certified Hub through the efforts of the Exchange team and ACORD to develop a set of certification criteria for global hubs.

LAUNCH OF 'ON THE GROUND GLOBAL PROFILES' FOR CLAIMS

In 2013, the Lloyd's Market Strategic Claims Group launched *On the Ground Global Profiles*, an online tool for managing agents to support them in dealing with local claims following a catastrophe or large loss. It's a one stop shop for information and resources on local regulations and legal frameworks, but it also includes information on 'softer' areas such as business culture and customs.

The first country covered by *On the Ground Global Profiles* was Mexico. Mexico is a priority country under Vision 2025 and has a high level of exposure to a range of natural hazards including flood and earthquake. The number of countries covered is growing and includes Australia and Canada. *On the Ground Global Profiles* adds to the suite of tools developed by Lloyd's to assist the market in doing business internationally and supports the development of Vision 2025.

Details can be found at:
www.lloyds.com/claims

At the heart of Project Genesis is the concept of a shared Data Capture Service (DCS). DCS will provide an outsourced, shared service which will take input from insurers of Market Reform Contract information in any format and turn it into rich structured ACORD standard data, once on behalf of all subscribing insurers, to be made available to insurers' back-office systems and to core central processes. Development of the DCS provides early learning and developed thinking to feed into the wider market-level programme of change including the CSRP. The project is being driven by a Steering Group under LMA chairmanship and reporting to LMA's Market Processes Committee and IUA's Process Efficiency Group.

ENHANCING DISTRIBUTION

Lloyd's is a broker market and improving the experience for brokers and coverholders is a key priority for the Corporation.

Over the last few years, Lloyd's has successfully developed programmes for US brokers and European Risk Managers that promote Lloyd's as a specialist (re) insurance market and explain how the market works and can be accessed. We are now putting in place a broader range of programmes, both regional and global.

At year end, Lloyd's had 3,068 approved coverholders, an increase of 270 from the previous year. The highest numbers of coverholders are in the US, UK, Canada, Australia and Italy. Coverholders generated 31% of the total premium income written by the Lloyd's market in 2013. During the year, the market was asked what steps could be taken to improve the way that delegated underwriting is managed. Following responses from the market, the approval process was streamlined to speed up full and branch applications. Brokers were allowed to sponsor new applications and further work has started to coordinate more coverholder audits and to find solutions to reduce duplication of compliance in the market.

The use of consortia underwriting in Lloyd's is increasing. This distribution mechanism enables leading Lloyd's underwriters, usually in specialist classes of business, to offer significantly enlarged capacity by also accepting risk on behalf of other syndicates. Consortia underwriting allows capacity to be deployed more quickly and efficiently by pooling the market's resources and often combining the expertise.

NAMES CAPITAL

The Corporation is supporting members' agents' efforts to increase the supply of private capital into the market. During 2013, Lloyd's approved four new traditional syndicates, two supported by private capital. Lloyd's also approved three Special Purpose Syndicates, one of which is supported by private capital.

Source: Maritime New Zealand

CHALLENGES AND IMPLICATIONS OF REMOVING SHIPWRECKS

In recent years, there have been a number of high profile marine wrecks: the MSC Napoli in the English Channel, the Rena, which ran aground off New Zealand, and of course the Costa Concordia, which ran aground off the coast of Italy. Managing wreck removal operations has become increasingly costly and the burden is often shouldered by insurers. In 2013 Lloyd's, in partnership with marine and insurance experts, published *The Challenges and Implications of Removing Shipwrecks in the 21st Century*, which investigates the factors driving up the costs of wreck removal and explores the role government and local authorities play following disaster at sea.

There are inconsistencies in the regulatory framework which governs wreck removal regulations, which can create uncertainty.

The current regulatory framework is a combination of coastal states' domestic law and relevant international conventions. The International Maritime Organisation (IMO) has recognised the inconsistencies in the treatment of wrecks, and in 2007 adopted the IMO Convention on the Removal of Wrecks. More consistency and fairness in the approach to wreck removal across different territories is required.

More Lloyd's risk research can be found at:
www.lloyds.com/riskinsight

PERFORMANCE
PERCEPTIONS OF THE LLOYD'S MARKET

STRENGTH OF THE BRAND

In 2013, Lloyd's conducted a survey of almost 1,000 brokers, coverholders, insureds and reinsureds to establish their views on the qualities of the market. We asked respondents to use one or two words to spontaneously describe the Lloyd's market. The results were largely positive, as can be seen in the word cloud in Figure 5. Lloyd's also scored higher than the average, for both the financial services industry and the insurance industry across a range of attributes, as seen in Figure 6.

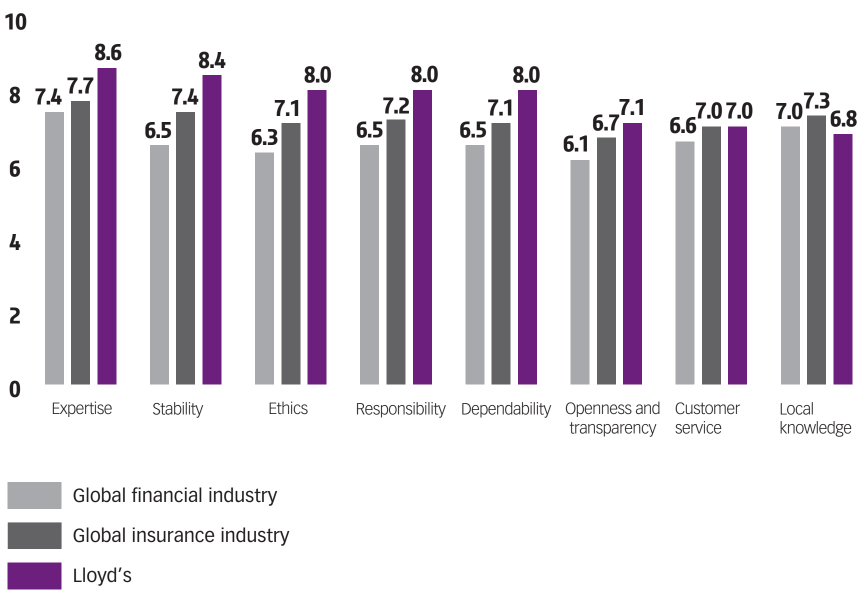
Expertise was singled out as a particular strength of the Lloyd's market, a view which was reinforced by a survey conducted by Gracechurch Consulting to identify London's 50 leading underwriters: the top ten places were all taken by underwriters operating in the Lloyd's market.

Lloyd's innovation was also recognised at the Insurance Insider awards, with the W. R. Berkley led consortia to cover political violence – the first of its kind – winning an award for underwriting innovation, as well as Milano Finanza recognising Lloyd's broker friendly approach in naming it best foreign insurer.

We will continue to listen to our stakeholders to ensure that Lloyd's global reputation remains high and the brand in good health. The results of the 2013 exercise suggest we need to continue to focus on access, as well as building greater awareness of Lloyd's offer, and relationships, in international markets. We will be working on this in 2014.

Lloyd's perception word cloud (Figure 5)

Brand attribute perceptions – Lloyd's compared with wider industry (Figure 6)



PERFORMANCE
KEY PERFORMANCE INDICATORS: CORPORATION

MEASURING PERFORMANCE AT LLOYD'S

Key performance indicators (KPIs) are used by the management team to evaluate both the Lloyd's market and the Society's performance. Lloyd's has a range of metrics used internally for tracking and managing performance. Those shown here best illustrate Lloyd's financial performance and progress against delivering our strategy in 2013. Some of the measures change over time as the management team receives new information and to reflect significant changes in strategy. Trends that indicate changes in direction are important to the team, even in a market made up of independent businesses.

SECURITY AND RATINGS

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

Rationale
Indicates the financial robustness of Lloyd's.

Progress
Lloyd's ratings from all three rating agencies are at the target level and were reaffirmed in 2013 with each placing Lloyd's on positive outlook.

STANDARD & POOR'S	A+
FITCH RATINGS	A+
A.M. BEST	A

BRAND STRENGTH

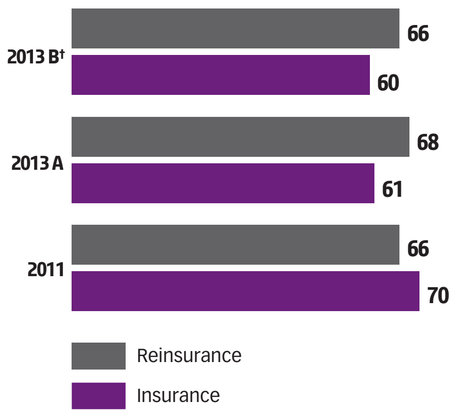
Definition
Non-financial indicator – Independent brand tracking survey of brokers, coverholders and policyholders run biennially. The brand health score is a combination of scores for brand affinity, usage, and awareness. The measure is an index that tracks relative changes in perception over time.

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

Progress
Lloyd's has maintained solid brand health in the insurance sector overall, with consistently high scores across brand measures (favourability scored a mean of 7.6 out of ten and renewal likelihood an impressive 8.9 out of ten), however a dip in unprompted insurance awareness has been noted from 33% in 2011 to 29% in 2013, which has contributed to the overall insurance score dip. The reinsurance results remain strong with an overall two point increase. The next survey will take place in 2015 and will be reported in the 2015 Annual Report.

Changes to the 2013 survey
The 2013 survey questioned 980 respondents versus 760 in 2011. The survey now includes insight and results from all the international regions covered by Lloyd's and will continue to do so; we surveyed respondent groups in 16 countries including India, Mexico and Turkey for the first time. The index methodology was improved for 2013 to better fit the size and scope of the survey. The methodology measures areas that were not researched before 2011; therefore, comparisons, using the new methodology can only be made back to 2011.

Index scores

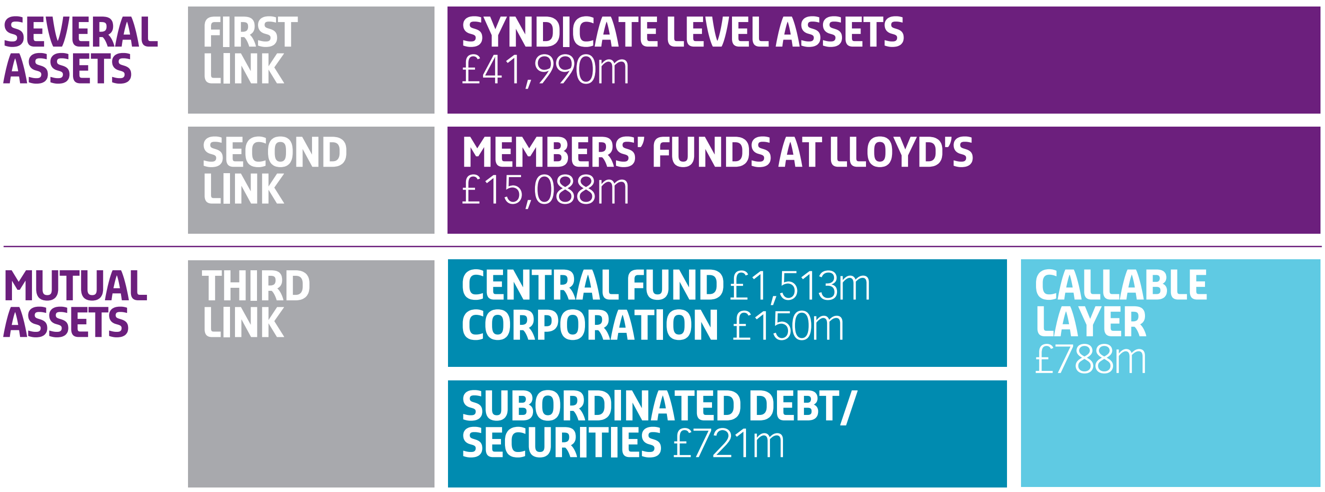


†Exc. India, Mexico and Turkey

The 2013 research included three new countries, as a result, Lloyd's has two sets of results for brand health in 2013. 2013 (a) illustrates the results of all 16 countries surveyed. 2013 (b) represents the overall scores of the same 13 countries included in both the 2013 and 2011 surveys.

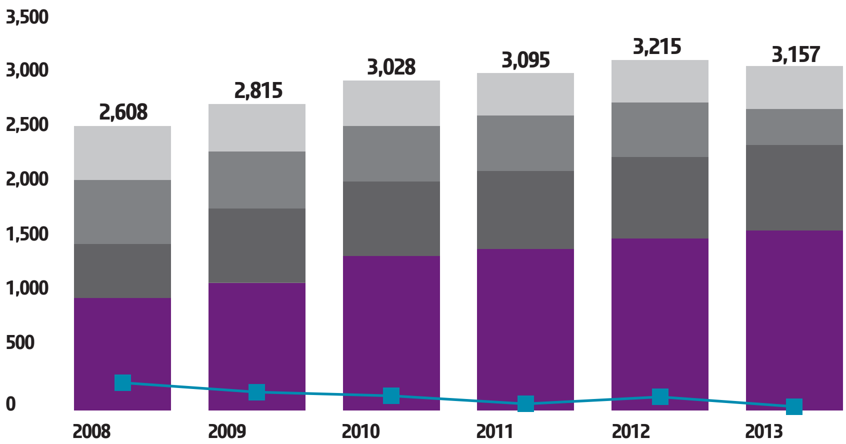
PERFORMANCE
KEY PERFORMANCE INDICATORS: CAPITAL SECURITY

Lloyd's Chain of Security (Figure 7)



The Lloyd's Chain of Security remains both strong and flexible. Further details are provided on pages 57 to 59.

Corporation and Central Fund net assets for solvency† (Figure 8)
£m



	2013
Corporation and Central Fund net assets	1,648
Callable layer	788
Subordinated debt issued 2004	330
Subordinated perpetual securities issued 2007	391
Solvency deficits	34

† The aggregate value of central assets of the Corporation for solvency purposes at 31 December 2013, excluding the subordinated debt liabilities, including the callable layer.

ENSURING THE OPTIMUM LEVEL OF CENTRAL ASSETS

The Corporation regularly runs detailed analyses of central assets, aiming to balance the need for financial security with the need for cost-effective mutuality of capital. Sophisticated modelling tests each member's underwriting portfolio against a number of scenarios and forecasts of market conditions.

The Corporation's current target for unencumbered central assets is that they should be at least 250% of the Society's ICA on a business as usual basis. Members' contributions to the Central Fund remain at 0.5% of gross written premiums for 2013. The Council of Lloyd's periodically reviews the central assets target and the level of contributions and will adjust the contribution levels as required.

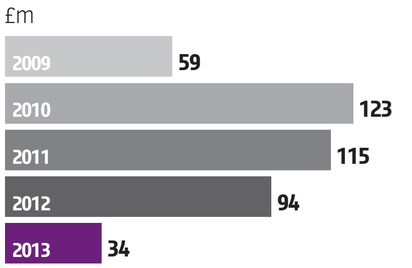
LLOYD'S ICA AND SOLVENCY

The Corporation prepares an ICA for Lloyd's as a whole, using the PRA's six risk categories to examine risks not included in each syndicate's ICA, such as damage to the Lloyd's building. The Corporation also calculates the statutory solvency position of the Society of Lloyd's and reports this to the PRA. At 31 December 2013, the Society had an estimated solvency surplus of £3,123m.

PERFORMANCE
KEY PERFORMANCE INDICATORS: MARKET

STRATEGIC PERFORMANCE

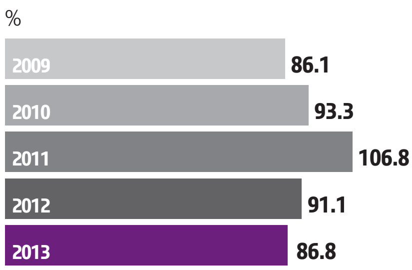
Solvency deficit
- Definition: The aggregate shortfalls for all members where the member's assets are insufficient to cover its underwriting liabilities and member capital requirement.
- Rationale: Indication of success at mitigating Central Fund exposure. Lower is better.
- Progress: Solvency deficits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



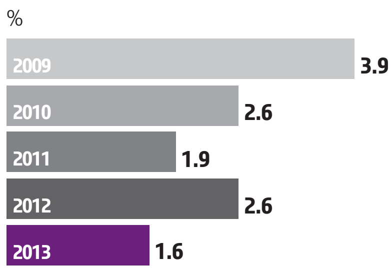
Cost of mutuality
- Definition: Central Fund contribution rate charged to members.
- Rationale: Medium-term cost indicator for the operational efficiency of mutually available assets. Lower is better.
- Progress: The 2013 contribution rate of 0.5% of GWP continues to represent a cost-effective benefit of mutuality; the rate for 2014 remains at 0.5%.

MARKET PERFORMANCE

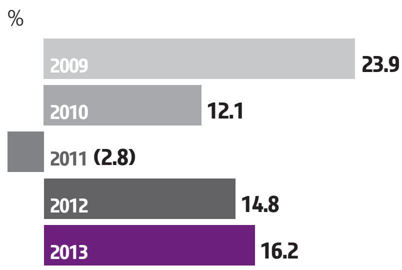
Combined ratio
- Definition: The combined ratio is an expression of net incurred claims and expenses against net earned premium. Any figure that is less than 100% signifies a technical underwriting profit.
- Rationale: Headline financial indicator for measuring underwriting performance. Lower is better.
- Progress: A benign catastrophe year and robust claims reserves has enabled the market to report a combined ratio of 86.8%.



Investment return
- Definition: Net investment income plus realised and unrealised return on investments as a percentage of average total investments.
- Rationale: Investment return can have a significant impact on overall profitability for (re)insurers.
- Progress: A return of 1.6% reflects the continued low interest rate environment and a conservative overall portfolio.



Pre-tax return on capital
- Definition: Profits on ordinary activities before tax as a proportion of average capital and reserves held.
- Rationale: Indicates the capital efficiency of Lloyd's. The goal of the Franchise Board and Council is to support the market in monitoring cross-cycle returns to all capital providers.
- Progress: Strong return on capital of 16.2% as excellent underwriting results offset low investment return.



RISK MANAGEMENT

Demonstrating the importance of managing risk

A RISK FRAMEWORK TAILORED TO LLOYD'S UNIQUE STRUCTURE

Lloyd's employs a tailored risk framework to manage risks facing the market and the Corporation which accounts for the unique structure of the Lloyd's market.

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

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

DEFINED RISK APPETITES FOR THE MARKET AND CORPORATION

Each managing agent must have set its own risk appetite that is appropriate for its individual business model and strategy. In addition, Lloyd's Franchise Board defines its own risk appetite – the level of risk it deems acceptable across the whole Lloyd's market and the Corporation. Risk appetite statements – clear descriptions detailing appropriate levels of risk – are in place for each material area. Each of these statements is supported by a set of metrics for detailed monitoring which are regularly reviewed and escalated where appropriate through the governance structure. While there is heightened risk in some areas driven by the underwriting cycle and uncertainties of the economic climate, risk appetite metrics are set at levels at which they are intended to be triggered to ensure that sufficient remedial actions are put in place.

RISK MANAGEMENT OWNED BY THE FRANCHISE BOARD

Effective risk management is fundamental to the operation of Lloyd's and a core responsibility of the Corporation. As such, risk management is owned at the most senior levels of Lloyd's. The risk governance structure is led by the Risk Committee, chaired by the CEO, which is responsible for the effective management of risks facing Lloyd's. The Risk Committee meets on a monthly basis and reports to the Franchise Board and Council quarterly to ensure appropriate challenge and oversight on key risk issues.

CONTINUOUS ENHANCEMENTS TO THE RISK FRAMEWORK

Lloyd's is always improving the risk framework to make sure that the way we identify, manage and monitor risks is effective. Lloyd's aims to raise standards across the market and during 2013 initiated a review of Lloyd's minimum standards to incorporate the requirements of Solvency II.

Lloyd's has also recently enhanced its approach to stress and scenario testing to ensure the Lloyd's business model is tested against adverse events to ensure we have the appropriate controls, contingency plans and capital in place to deal with severe events.

CURRENT AREAS OF FOCUS

Lloyd's Corporation continuously monitors the full set of risks – described on pages 25 to 27 – to which both the market and Corporation are exposed. The risk framework ensures the most critical areas are highlighted for senior management focus. The current key areas of focus for the Risk Committee and Franchise Board are described on page 23, alongside key actions Lloyd's has put in place to ensure risk exposures are at an acceptable level.

AT THE FOREFRONT OF EMERGING RISKS

Solar flares are spectacular explosions on the sun's surface caused by the release of magnetic energy in the solar atmosphere. Solar flares are one of the many phenomena that make up space weather. Space weather describes disturbances that occur in near-Earth space, which can disrupt technologies. Space weather has the potential to disrupt aviation, power generation and transport. Lloyd's Emerging Risks team published the report *Solar Storm Risk to the North American Electric Grid* to quantify the risk solar storms pose to the electric grid in North America. Lloyd's risk committees' framework for identification of new and emerging risks draws on research undertaken by the Emerging Risks team as well as on information from around the business.

Details can be found at:
www.lloyds.com/emergingrisks

RISK FRAMEWORK

RISK ISSUE	POTENTIAL IMPACT	MITIGATION
The insurance cycle	Lloyd's businesses suffer losses or erode their capital base due to inappropriate underwriting or failure in management controls.	– Syndicate business plan and capital approval processes aligned to enable consistent and robust challenge to premium growth and ensure loss ratios are realistic given the market underwriting conditions and managing agents' capabilities. – Continued close monitoring of syndicates' performance against agreed business plans to ensure they do not materially deviate from the agreed plan or, where they do, that the changes are acceptable. – Increased review activity to test compliance with minimum underwriting standards. – Ongoing reviews into specific classes of business.
Unstable economic, financial and political climate	Lloyd's suffers increased insurance liabilities, decreased asset values or restricted access to capital.	– Ongoing monitoring and oversight of asset dispositions and asset risk concentrations. – Relevant scenario testing, including Eurozone and interest rate increases.
Significant regulatory change across multiple jurisdictions	Lloyd's sees its competitive position weakened, suffers regulatory penalties or disadvantageous capital position.	– Continue to lobby to influence the evolution of the UK, European and global regulatory frameworks to maintain the competitive position of the market. – Developing a conduct framework and a set of conduct minimum standards. – Lloyd's has re-engaged with the market and continues to work with market participants on the Solvency II implementation programme.
Catastrophe exposure	Lloyd's businesses suffer losses or erode their capital base through material aggregations of risks and insufficient monitoring processes.	– Continue to closely monitor and respond to the market risk appetite measures. – Managing agents continue to monitor exposures around the world in accordance with Lloyd's minimum standards. – Development of the analysis and consideration of non-modelled risks. – Continue to monitor and identify emerging risks.
Strategic threats	Changes in the distribution landscape and/or the increasing competitive threat from non-traditional capital reduces the volume or quality of business shown to the Lloyd's market.	– These areas fall within the 'strategic priorities' around which the next iteration of Lloyd's strategic plan is being built. Work is under way to assess the potential impact of both the evolving strategies and actions of brokers and of the influx of additional non-traditional capital entering the market. The strategic plan will outline Lloyd's response to these issues and identify specific actions.
Outsourcing	Lloyd's is unable to maintain operations and services to policyholders due to the failure of key outsource providers.	– Conduct scenario analysis to assess potential impacts on Lloyd's of a failure of key outsource providers. – Review of contingency plans for key outsource providers to ensure recovery of services in the event of a failure. – Ongoing monitoring of the performance and resilience of key outsource providers.

RISK MANAGEMENT CONTINUED

REPORT OF THE RISK COMMITTEE

This report sets out the role, remit and activities of the Risk Committee during 2013.

Composition and support of the Risk Committee

The Risk Committee is comprised of the Lloyd's Executive Team. At the end of 2013, this consisted of Richard Ward, Tom Bolt, Luke Savage, Sean McGovern and Vincent Vandendael. The Committee is supported by senior managers and relevant technical experts as required and Committee meetings are routinely attended by the Head of Risk Management, the Lloyd's Actuary and the Head of Internal Audit.

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

TERMS OF REFERENCE

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

The principal responsibilities of the Risk Committee include:

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

ATTENDANCE

Director	Risk Committee attendance in 2013
Richard Ward	12/12
Tom Bolt	10/12
Sean McGovern	11/12
Luke Savage	10/12
Vincent Vandendael	10/12

PERFORMANCE OF THE RISK COMMITTEE

During 2013, the Risk Committee met each month. It received a report from the Syndicate Risk Committee every meeting and four reports from each of the Financial Risk Committee and Corporation Risk Committee in quarterly meetings held in January, April, July and October. Furthermore, the Risk Committee received and discussed Lloyd's Own Risk and Solvency Assessment (ORSA) – a summary of the key current and future risks facing the Society and the overall capital and solvency position. The Lloyd's ORSA is an ongoing process, reviewed annually by Internal Audit, with reporting produced quarterly for the Risk Committee and Franchise Board.

In addition, the Committee received reporting on a range of risk and capital topics, including:

– The Lloyd's Internal Capital Model – review and approval of the capital required and review of the Model Validation report.
– Recovery and Resolution Planning – initiation of a recovery and resolution plan.
– Risk appetite and policies – annual review of the Franchise Board's risk appetite.
– Franchise guidelines and standards – review of the guidelines which govern the operation of Lloyd's managing agents.

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

Risk governance structure (Figure 9)

RISKS FACING LLOYD'S SYNDICATES

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 underwriting risk and reserving 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.

RISK MANAGEMENT CONTINUED

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

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

Syndicate 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.

In the reserving process managing agents will use a variety of statistical analyses including 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.

Catastrophe risk
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 Solvency II programme.

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. 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 is under way to gain assurance that all managing agents are meeting the necessary standards.

Credit risk (including reinsurer counterparty risk)
Credit risk is the exposure to loss by a syndicate if a counterparty fails to perform its contractual obligations. 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.

Syndicates are also exposed to credit risk in their investment portfolio and their premium debtors. PRA investment guidelines are designed to mitigate credit risk by ensuring diversification of holdings. Credit risk in respect of premium debt is controlled through broker approval and regular monitoring of premium settlement performance.

Market risk
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 implementation and monitoring of Investment Governance 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.

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 December 2013, approximately half of all capital deployed at Lloyd's was provided in US dollars.

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 syndicates operate a generally conservative investment strategy with material cash and short dated bonds portfolios, which reduces the interest rate risk exposure.

Liquidity risk
Liquidity risk arises where a syndicate has insufficient funds to meet its 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.

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.

FORWARD OBJECTIVES

Vision 2025 builds on our position of strength and remains the best response to the strategic challenges facing Lloyd's

FORWARD OBJECTIVES

Lloyd's Strategic Plan outlines the market's approach for the delivery of Vision 2025.

Vision 2025 builds on Lloyd's position of strength and remains the best and most appropriate response to the strategic challenges facing the Lloyd's market. Vision 2025 is dynamic. The vision, and plans for its delivery, will evolve as the global reinsurance industry changes and the market learns from its experience. This is a strategy for the market and its successful delivery requires collaboration with the market: both managing agents and brokers.

Lloyd's next Strategic Plan covering 2014 to 2016 will be published in April and a summary of this plan, and its major priorities, is outlined below.

MARKET OVERSIGHT

Market oversight remains a critical responsibility, especially as market conditions remain challenging. The industry is facing an oversupply of capital, softening of rates and margins and an uncertain regulatory environment. Given this backdrop, growth must be measured and profitable. Lloyd's market oversight regime must operate in such a way that it supports Lloyd's reputation for innovation and increases the market's geographic footprint.

INTERNATIONAL GROWTH

Growth and expansion into developing markets remain at the heart of Vision 2025. Accessing cross-border reinsurance from London will not, alone, be sufficient to meet the aims of Vision 2025. Increasing Lloyd's share of insurance business in developing markets is also required. This likely necessitates a shift away from Lloyd's historic preferred model in some markets. Trading rights must be obtained and consideration of offices, local establishment and other access options in selected territories will be required.

DISTRIBUTION

Lloyd's is a broker market. The role of brokers in London and in local markets is key to accessing new business in both developed and developing economies. To access the widest range of potential business, the breadth of distribution options available to the market needs to increase through growth in all existing channels (brokers; coverholders; service companies and Lloyd's local underwriting offices) as well as managing agents giving consideration to new options (such as joint ventures with local reinsurers).

CAPITAL AND CONVERGENCE

Diversity of capital underpins Lloyd's current and future strength; encompassing private, trade and institutional capital providers. The Lloyd's model was built around the management of third party capital and this remains a core competency of the market.

Encouraging diversity of capital, by both type and geography, is important, ensuring that Lloyd's is alert to trends in capital provision and the growth of the (re)insurance sector in developing economies.

MARKET OPERATIONS

Placing and processing business in the Lloyd's market needs to be easier and more efficient. This will make the market more attractive to existing and new business in London and in local markets. Work in this area requires significant effort given the diversity of market participants and the often complex nature of business at Lloyds. Key stakeholders must continue to work together to deliver required improvements, including the removal of London-specific back office which currently hinder the processing of business at Lloyd's.

MARKET TALENT

Attracting and retaining the best people is core to Lloyd's future success. The market needs to work together to attract, retain and develop the best talent from the widest possible talent pool and to provide accelerated career paths for high achievers.

Details can be found at:
www.lloyds.com/strategy

HUMAN RESOURCES AND PEOPLE STRATEGY

Committed to attracting and developing the best talent from around the world

The Corporation, together with the Lloyd's market, is committed to attracting and developing the best talent from around the world. During 2013, we worked hard to encourage those at the start of their working lives to choose a career in insurance.

APPRENTICESHIPS
This year saw the launch of Lloyd's first Apprenticeship Programme. Twelve school leavers began the 18-month programme in September. Following an induction period at Lloyd's, apprentices have now taken up placements with Lloyd's managing agents and brokers in the market. There were 262 applicants for the 12 places offered. We look forward to welcoming a further 12 apprentices to Lloyd's in 2014.

GRADUATE PROGRAMMES
Lloyd's runs two graduate programmes: the Lloyd's Generalist Graduate Programme and the Claims Graduate Programme. They provide 12 to 18 months of training in specialist insurance, reinsurance and claims, including work placements within the Corporation and the market, and a course of professional qualifications. Retention rates have been high – with approximately 91% of all graduates subsequently employed by the market in 2013. As a result of the success of the programme, Lloyd's increased the number of places on the generalist scheme from eight to 15.

DIVERSITY
Lloyd's is committed to becoming a diverse market by gender, age, ethnicity and nationality and in 2013 we signed up to a number of diversity initiatives – Race for Opportunity, Opportunity Now, and Stonewall – all of which will benchmark our current position, provide recommendations and track our progress.

The Corporation of Lloyd's and the Lloyd's Market Association have set up a Market Diversity Forum to increase awareness of the diversity agenda and to develop and promote best practice across the Lloyd's market.

ENCOURAGING TALENT INTERNATIONALLY
Lloyd's is also committed to reaching talent internationally and is involved in a number of initiatives that attract people to the Lloyd's market.

In Brazil, Lloyd's partners with the Brazilian National School of Insurance, FUNENSEG, which announced in 2013 that it will be offering the Lloyd's and London Market Introductory Test (LLMIT) in two of its teaching centres from 2014.

In Asia, Lloyd's supports the General Insurance Association's Global Internship Programme and in 2013 ran a ten-week internship programme for undergraduates. Lloyd's Asia and its service companies also support the Insurance Executive Scholarship Programme for the Singapore College of Insurance, aimed at attracting talent into the insurance industry.

In the US, our offices reached approximately 1,500 students through various outreach events and this year Lloyd's America was pleased to welcome a new staff member to its Chicago office, following the completion of an internship with Lloyd's Kentucky office.

EXCELLENCE IN HUMAN RESOURCES
Lloyd's was certified as one of Britain's Top Employers for its HR policies and practices, culture management and working conditions. Another two certifications were awarded to recognise Lloyd's achievements in graduate recruitment: we are listed as one of The Times 100 and The Guardian Top 300 Graduate Employers. We have also been highly commended as one of Britain's Healthiest Workplaces.

EMPLOYEE OPINION SURVEY
Lloyd's employee engagement survey entered its eighth year in 2013. The online survey measures employee satisfaction and engagement across all Lloyd's offices, identifying key areas of success and areas for development.

The 2014 survey received an extremely positive response rate of 90%. Overall satisfaction with working for Lloyd's is high at 90%, while 97% of employees agree that they are proud to work for Lloyd's.

Global employee segmentation	Executive*		Head of function		Manager		Professional/ technical		Admin		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Male	**5**	5	**31**	32	**155**	153	**184**	179	**75**	54	**450**	423
Female	**0**	1	**5**	4	**76**	79	**218**	182	**172**	170	**473**	472
Total	**5**	6	**36**	36	**231**	232	**402**	361	**247**	224	**923**	895

* The Chairman of Lloyd's has been excluded from these employee statistics.

CORPORATE SOCIAL RESPONSIBILITY

Lloyd's is committed to achieving the highest social, ethical and environmental standards

The Corporation is committed to achieving the highest social, ethical and environmental standards. The Corporation believes that all Lloyd's employees have a role to play in relation to Corporate Social Responsibility (CSR). During 2013, we continued to embed the CSR strategy which we launched in 2012. The strategy is sponsored by the CEO and coordinated by a dedicated CSR team.

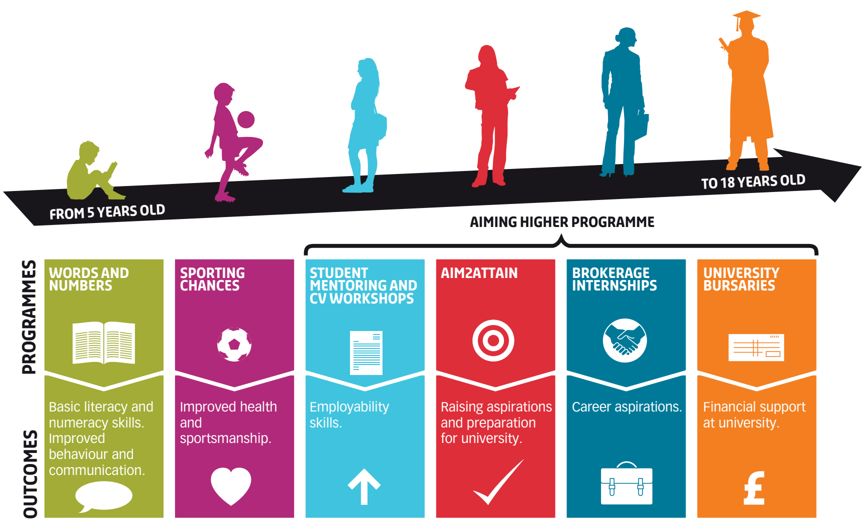
DOING BUSINESS RESPONSIBLY

The 2013 Lloyd's employee survey showed that 91% of employees agreed that Lloyd's is a responsible organisation in relation to the work it does, 85% agreed Lloyd's is responsible in relation to the environment and 89% agreed that Lloyd's is responsible in relation to the wider community.

CSR is now included in training for everyone joining the Corporation and those with line management responsibilities. Lloyd's published information setting out what we expect of suppliers regarding sustainability issues. We also updated our Invitation to Tender requirements to incorporate requests for information on suppliers' policies on a range of issues. These include equality and diversity, employee relations, environmental issues and health and safety.

The Corporation set up the Lloyd's Market CSR Network, a group of people with responsibility for CSR within managing agents, which meets regularly to share best practice and discuss new initiatives.

Lloyd's Community Programme:
From primary school to employability (Figure 10)



We also conducted an internal and external stakeholder consultation in relation to CSR, to share progress made to date and to shape the future focus of the CSR strategy. The updated CSR strategy will be launched in 2014.

AN AWARD-WINNING PROGRAMME

Community initiatives are one important aspect of our CSR work and a key achievement this year was winning the Lord Mayor's Dragon Award for the work of Lloyd's Community Programme, which supports young people from disadvantaged communities in East London.

The Lord Mayor's Award recognises businesses that have shown a long-term, sustainable commitment to a wide-ranging programme of community engagement in London. Lloyd's Community Programme was set up in 1989, making it one of the longest-running City-based community programmes. This is our fifth Dragon Award.

SUPPORTING YOUNG LIVES

Lloyd's Community Programme touches young lives at every stage of their development. See Figure 10 for all the different ways Lloyd's Community Programme offers support and guidance to young people. A key element of Lloyd's Community Programme is providing volunteers to support community projects in East London. In 2013, over 1,700 people from more than 50 managing agents and brokers in the Lloyd's market were supporters of Lloyd's Community Programme.

Details can be found at:
www.lloyds.com/community

AN INTERNATIONAL RESPONSE

In 2013, Lloyd's announced a new partnership with the disaster relief charity RedR. Lloyd's Charities Trust will donate £300,000 over the next three years to fund the Ready to Respond programme, which aims to address gaps in the specialist knowledge, skills and systems required to deal with large-scale urban emergencies and enable those affected by disasters to rebuild their lives and livelihoods more quickly. Urbanisation is increasing the complexity of disasters and creating new challenges in relief and response.

The project has three elements: enhancing skills of humanitarian workers; recruiting senior professionals from business and academia to provide immediate short-term assistance in the event of a disaster; and strengthening RedR's online technical support service.

In addition, Lloyd's is also part-funding the training of over 1,000 aid workers around the world, who will be trained in all aspects of disaster response in urban and rural areas.

SUSTAINABILITY

Lloyd's is committed to disclosing our direct emissions of greenhouse gases using a globally recognised standard.

Environmental consultants, Carbon Smart, helped Lloyd's to calculate the greenhouse gas emissions from our global operations, using the internationally recognised Greenhouse Gas (GHG) Protocol.

2013 marked a new development in our carbon reporting and management as we have expanded our reporting to include international offices. This has added 10% to our overall carbon footprint. We also increased the scope of our reporting to include staff commuting, taxi usage and paper.

Lloyd's total reported GHG emissions for 2013 were 14,395 tonnes of CO_2 equivalent. Carbon Smart has given an opinion statement to support the Corporation's 2013 carbon footprint calculations and provide insight into the quality and reliability of our reporting and this can be downloaded from www.lloyds.com/carbonemissions.

The unusually cold winter experienced caused gas usage to rise at the London office by 23%. However overall UK emissions remain stable against 2012 levels.

The carbon emissions associated with our air travel in 2013 were 761 tonnes of CO_2e and includes, for the first time, the air travel for our international offices. We offset our air travel emissions by buying carbon credits for renewable energy projects through the CarbonNeutral Company.

Lloyd's Greenhouse Gas (GHG) emission 2013	**Scope 1 (tonnes CO_2e)**	**Scope 2 (tonnes CO_2e)**	**Scope 3 (tonnes CO_2e)**	**Total GHG emissions (tonnes CO_2e)**
UK	1,616	9,133	2,366	13,115
International offices	21	989	269	1,280
Lloyd's 2013 total reported GHG emissions				**14,395**

BRIGHTER FUTURES FOR LONDONERS

Lloyd's Charities Trust will donate £480,000 to Bromley by Bow Centre and Mayor's Fund for London over the next three years to support the delivery of education and outreach for 4,000 children and adults in London through two different projects.

The Brighter Futures for Londoners programme supports disadvantaged Londoners by equipping them with resources and skills they need for the future. Bromley by Bow Centre's Connection Zone will enable 2,000 people in East London to access vital services including health programmes, debt advice and employment advice, ensuring people receive support before they reach crisis. The Mayor's Fund for London Count on Us – Maths Clubs (pictured) will provide after school maths support to 2,000 children across 24 primary schools in some of London's most disadvantaged areas.

Details can be found at:
www.lloyds.com/brighterfutures

HOW THE MARKET PERFORMED IN 2013

LLOYD'S IS THE WORLD'S SPECIALIST INSURANCE MARKET

2013 MARKET PERFORMANCE REVIEW

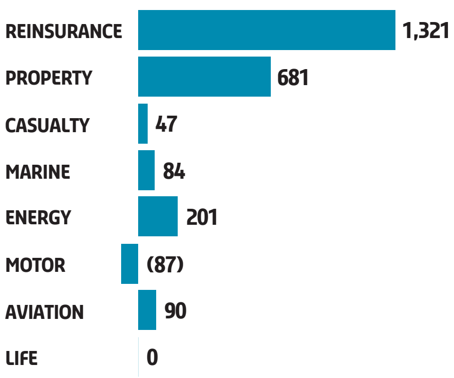
2013 highlights

- Profit before tax of £3,205m (2012: £2,771m) and a combined ratio of 86.8% (2012: 91.1%).
- Total investment return of £839m (2012: £1,311m).
- Overall surplus on prior years of £1,575m (2012: £1,351m).
- Pre-tax return on capital of 16.2% (2012: 14.8%).

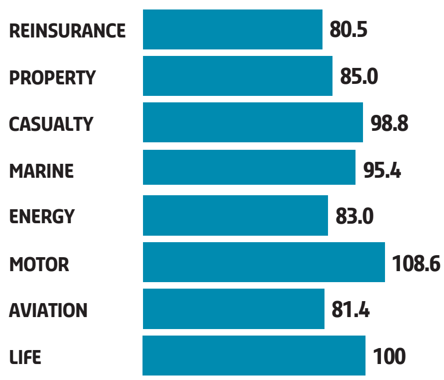
2013 COMBINED RATIO*

Accident year	94.8%
Prior year reserve movement	(8.0)%
Calendar year	86.8%

Underwriting results by class
£m



Combined ratio by class
%



* 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 2012 to overall net earned premiums in calendar year 2013. The overall combined ratio includes central adjustments in the technical account in respect of transactions between syndicates and the Society as described in notes 2 and 8 to the PFFS (pages 49 and 53). 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 2013. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business have been reported in the segmental analysis, note 9 on page 53.

For 2013 the Lloyd's market achieved a strong return on capital of 16.2% with a pre-tax profit of £3,205m (2012: £2,771m). Key factors contributing to this result were the absence of significant insured catastrophe events and a release of prior year reserves which together helped the market post a combined ratio of 86.8% (2012: 91.1%). By contrast investment return was low compared with previous years at 1.6% (2012: 2.6%).

The overall underwriting result was boosted by another strong performance on prior year reserves, mostly attributable to actual experience being significantly more favourable than projected. This produced an overall release of £1,575m (2012: £1,351m), reducing the combined ratio by 8.0% (2012: 7.2%).

While Lloyd's has benefited from a low level of catastrophes and major losses in 2013, underwriting performance on an accident year basis reflected the challenging market conditions with small overall losses being reported in several of Lloyd's core classes.

This was largely due to pressure on rates which changed from being soft but stable at the start of the year to softening further as the year progressed. Competition intensified during the year, particularly on the reinsurance side, as more capital was attracted to the industry, including from alternative markets due to the relatively attractive returns available compared with other sectors. Aside from the rating environment, profitable growth opportunities were also constrained by the weak global economy.

MARKET PERFORMANCE CONTINUED

LOOKING AHEAD

With major loss activity in 2013 well below average and the prior years running off more favourably, Lloyd's has seen the benefits flow through to its calendar year result. However, this belies the current soft market conditions which culminated in January 2014 being the most challenging reinsurance renewal seasons the market has experienced for several years. Substantial concessions in both price and terms and conditions have been made in several treaty reinsurance lines. While the larger reductions are in lines where ratings are relatively strong and the market benefits from lower outwards reinsurance costs, ultimately this will affect performance and may also contribute to a weaker primary market.

While industry capital continues to be in plentiful supply, the rating environment is anticipated to experience further downward pressure in the coming months with the softening in market conditions extending more widely across other lines.

There is some uncertainty as to the outcome of terrorism legislation in the US which is due for renegotiation this year. This is likely to have a direct effect on Lloyd's terrorism exposure, as both a participant in the US scheme and a supplier of terrorism cover in its own right.

The peril of flood was a key feature in 2013 with flooding in the province of Alberta producing the largest historical catastrophe loss for the Canadian market. Flooding in the Czech Republic and Germany led to the largest European flood loss catastrophe since 2002. This trend is again prevalent in 2014 with unprecedented levels of rainfall in the UK causing property and farmland inundations which are currently under evaluation. These floods, as well as water damage from Superstorm Sandy in 2012 in the US, will focus attention on government sponsored solutions such as NFIP in US and Flood Re in the UK which is due to start in 2015. For Lloyd's, the UK flooding is not expected to result in material claims exposure, based on the limited information to date.

Typhoon Haiyan, one of the most intense ever recorded, and the unusually late US Midwest tornadoes in 2013 are also indicative of the increasing propensity for extreme weather events. Typhoon Haiyan is representative of the under insurance prevalent in emerging economies, highlighted by the report commissioned by Lloyd's in January 2013. This pattern may continue in the coming years with climatic change.

Brokers provide a fundamental distribution channel for transacting risks in Lloyd's. In recent months, several of the larger brokers have considered how to streamline and package this flow of business to selected panels of insurers and reinsurers. The challenge for Lloyd's is to be mindful that the quality of these packaged facilities merits the increased commissions and potentially lower levels of transparency.

In spite of more positive news on the US and UK economic recovery, the global macro environment is still very challenging for insurers. With the prospect of continued weak investment returns, emphasis on profitable underwriting remains paramount. It is this same low interest rate and weak economic environment that has contributed to the appearance of capital from sources not normally associated with the non-life insurance industry, which is now competing for market share with the more traditional insurance capital. While it is still important for the market to proactively seek growth opportunities, the industry has now entered a much more difficult phase of the cycle and maintaining underwriting discipline is critical. Lloyd's oversight will continue to closely monitor changes in terms as well as price, recognising that some soft market behaviours that may be about to be experienced are difficult to measure and manage.

2013 PERFORMANCE

Gross written premium for the year increased by 2.4% to £26,106m (2012: £25,500m). For 2013, the Lloyd's market recorded an accident year combined ratio of 94.8% (2012: 98.3%). After reinsurance, net earned premiums increased by 5.6% to £19,725m with most of the increase attributable to the direct property class. The rise in earned premium in 2013 is partly attributable to the higher written premium in 2012, compared with 2011, where the period of risk extends into 2013 and is, therefore, reflected in this year's income statement.

The US dollar denominated business accounts for the largest share of Lloyd's business and the average exchange rate in 2013 was US$1.56:£1 compared with

ANALYSIS OF EXCHANGE GAIN/(LOSS)

	2013 £m	2012 £m
Impact of translating non-monetary items at average rates and monetary items at closing rates	**(120)**	(37)
Accident year – other	**48**	9
Prior years	**(150)**	(55)
(Loss) on exchange	**(222)**	(83)
Gain/(loss) within premiums/expenses through reversal of exchange movement reported in previous year	**37**	(38)
Total	**(185)**	(121)

US$1.59:£1 in 2012. Adjusting the 2.3% increase for the impact of the exchange rate movement and for a negative risk adjusted rate change of 0.3% in the year reduces the increase to 1.5%.

This increase comes from modest growth, which was less than originally planned by syndicates with risk adjusted rate change on renewal business being broadly flat in aggregate. Rating levels weakened across most lines as the year progressed. The growth in premiums was mainly driven by the direct classes, particularly motor, and counteracted by treaty reinsurance, energy and aviation which all reduced in premium volume. In terms of the distribution chain, an additional ten brokers and over 250 new coverholders were approved to place business at Lloyd's.

The underlying accident year ratio, excluding major claims, was 90.4% (2012: 88.6%) which is the highest level since 2002. Excluding the classes where catastrophe experience is a key driver of the results for any one year, modest overall losses were reported in 2013 reflecting the challenging market conditions. In recent years, however, the prior years' experience is evidence that a significant number of syndicates post prudent initial claims reserves, which subsequently reduce contributing to surpluses in later accounting periods.

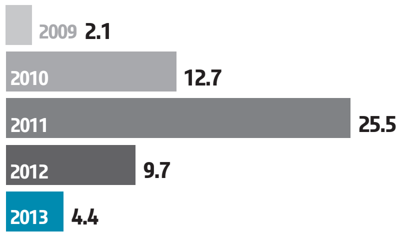
MAJOR CLAIMS

In terms of catastrophe events giving rise to large insurance claims, 2013 was a benign year. For Lloyd's, major claims cost £873m (2012: £1,816m), net of reinsurance and including reinstatements payable and receivable. This was particularly evident in the Gulf of Mexico where, for the first year since 1968, there were no category 2 or greater hurricanes and there were only two category 1 hurricanes, Humberto and Ingrid. This is not to say that 2013 saw no disasters. Typhoon Haiyan (Typhoon Yolanda in the Philippines) was the deadliest in that country's history, killing at least 6,200 people there with bodies still being discovered in early 2014. The economic damage caused by Typhoon Haiyan is estimated to be between US$6.5bn and US$14.5bn but the insured claims are expected to be less than US$700m.

Accident year excluding major claims
%

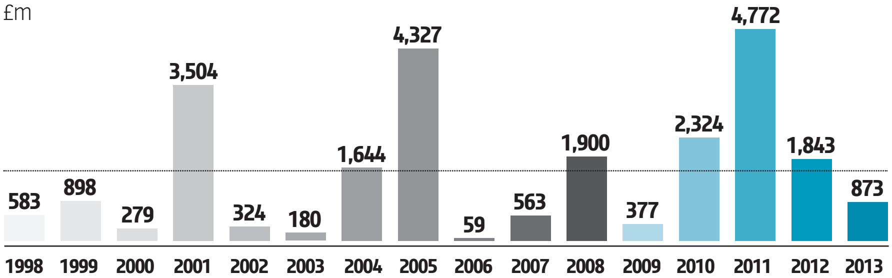
5 year average 88.6
10 year average 86.3

Major claims
%



5 year average 10.9
10 year average 11.3

Lloyd's major losses: net ultimate claims
£m



Indexed for inflation to 2013. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

£1,320m 19-year average
£1,572m 15-year average

In spite of the absence of major catastrophes and no hurricane affecting the US coastline, there were a number of lesser events elsewhere in markets where Lloyd's operates. Canada had a record year for catastrophes from flooding in Alberta and Toronto to a winter ice-storm. The net estimated claims of £120m from the Alberta flooding made it the most costly event to the Lloyd's market in 2013. Mexico was hit on both its Pacific and Caribbean coasts and some significant losses on state infrastructure were covered by the market. Continental Europe was also affected by floods and hailstorms which impacted the property treaty account. The mostly costly man-made events for the Lloyd's market included the sinking of the MOL Comfort containership, which impacted the hull and cargo accounts of some syndicates, the Asiana Airlines crash in San Francisco and the loss of two satellites which impacted the aviation and space markets.

PRIOR YEAR MOVEMENT

The combined ratio has been reduced by 8.0% (2012: 7.2%) through material prior year reserve releases. The release represents 5.3% (2012: 4.4%) of net claims reserves brought forward at 1 January.

This was the ninth successive year of prior year surpluses. Similarly to last year, the strong level of claims reserves support the releases that have been seen over almost all classes of business and years of account. Actual claims development for prior years remains significantly below projected levels and Lloyd's reserve monitoring has not identified any new specific areas of concern.

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

MARKET PERFORMANCE CONTINUED

catastrophe events of 2011, namely the Australian floods, Japanese earthquake and tsunami, Thai floods and New Zealand earthquakes have in aggregate proved to be adequate. The claims estimates for Superstorm Sandy in 2012 have also remained stable, with all remaining below the initial estimate of net claims that Lloyd's reported.

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 where Lloyd's monitoring continues to indicate stability in terms of reserve strength. Indeed, a number of managing agents adopt a prudent initial reserving policy, which has resulted in surpluses arising in later years. This approach is transparent within Lloyd's oversight regime, which captures underlying best estimate reserves both within independent statements of actuarial opinion and the work done to prepare for Solvency II. The range of potential reserve outcomes is skewed with allowance made for extreme deterioration when preparing overall reserves. Accordingly, more years should produce a surplus than not. This factor, together with the reserving methodology of syndicates, gives confidence that the trend for prior year releases will continue. For the absolute level to continue at the amounts experienced for 2013 and recent years does depend on actual claims development falling below projections. Reserve setting is a complex and challenging area and claims estimates are inherently uncertain, particularly in the lines of business written by Lloyd's. Consequently, oversight of this area remains a focus for Lloyd's and future results may vary considerably from this year's significant surplus.

REINSURANCE PROTECTION

The credit quality of the Lloyd's market's reinsurance cover remains extremely high with the top ten reinsurers and 94% of all recoveries rated 'A-' and above. While the Reinsurance Asset is a material consideration for Lloyd's it has remained stable and consistent with the scale of risk transfer and recent loss experience, including Superstorm Sandy. The rate reductions experienced in the January 2014 renewals, while reducing margins on Lloyd's inwards reinsurance book, will reduce outwards reinsurance cost given the overall spend on reinsurance of approximately £6bn.

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 2011 account reached closure at 31 December 2013. The first quarter of the 2011 calendar year saw claims from heavy rainfall in Australia, earthquakes in New Zealand and the earthquake and tsunami that devastated North East Japan. This was followed by the series of US tornadoes in the second quarter and the heavy flooding in Thailand in October. With this level of catastrophe claims the 2011 pure year of account inevitably reported an underwriting loss though this was matched by the investment return. Overall, this was more than compensated for by releases from prior years totalling £911m on the 2010 and prior reinsurance to close (RITC) (2009 and prior £992m), which meant the year closed with an overall profit of £911m.

In aggregate, run-off years reported a small profit of £3m including investment income (2012: loss of £24m). This improved result reflects the strength of the run-off reserves at the beginning of the year with most of the run-off years able to make small releases.

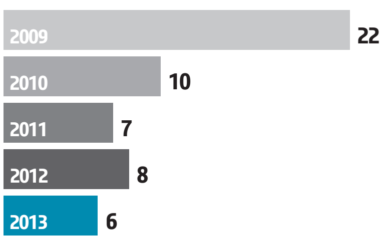
Of the eight years of account that were in run-off at the beginning of 2013, four were closed by the end of the year. However, two syndicates, both already with years in run-off, were unable to close their 2011 year of account at the year end and, therefore, there was a net decrease in open years of two. To put this in context, the six open years compares to over 100 run-off years of account in 2006.

The results of the major classes of business are discussed in detail on pages 40 to 43.

Prior year reserve movement
%

Combined ratio

Years of account in run-off



INVESTMENT REVIEW

Improving prospects for global economic growth in 2013 had varied implications for investment returns from different asset classes in the period. For fixed interest investments, which predominate in asset dispositions at Lloyd's, the most significant developments surrounded expectations that the US Federal Reserve would begin to taper its Quantitative Easing programme. Yields in many currencies rose significantly during the second quarter, as markets concluded that tapering was likely in the near term, leading to concerns that reduced demand for bond assets would adversely impact values. Yields at shorter maturities were less impacted, as interest rates were expected to remain low for an extended period. As a result, yield curves steepened and some bonds with longer maturities saw significant mark to market capital losses. In general, yields remain low, by historic standards, offering little protection against such adverse developments. As a result, 2013 was a difficult year for fixed interest investors, with many portfolios struggling to achieve positive returns. This difficult environment for bonds seems likely to persist in the near term, as economic growth generates further pressure for yields to revert to more traditional, higher levels. However, such higher yields should also lead to improved returns from fixed interest assets in the medium term.

The performance of many corporate bonds was aided by narrowing credit spreads in 2013, as investors, encouraged by the improving economic environment, became increasingly accepting of credit risk in exchange for elusive higher yields. As a result, portfolios with more significant credit exposures generally achieved better returns in the period.

Developed equity markets also performed strongly, with returns exceeding 25% and the syndicates and members who include equities within their overall portfolios posted the better aggregate returns. Other asset classes did less well in 2013. Emerging markets were hit particularly hard by concerns about falling demand associated with a reduction in US Quantitative Easing, as well as growing political instability in a number of countries. Commodities also experienced negative returns as increased supply, following price increases in recent years, was not matched by demand.

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

Overall, syndicate investments returned £379m, or 1.1% in 2013 (2012: £997m, 3.0%). Investments are valued at market prices and unrealised gains and losses are included within reported investment returns. The modest return reflects the difficult, low but rising, yield environment. However, the short average duration of these assets has protected them from the worst effects of rising yields and better performance from some corporate bond exposures and, where applicable, equity investments has also helped ensure a positive return.

Members' capital is generally held centrally at Lloyd's. A proportion of this capital is maintained in investment assets and managed at members' discretion. A notional investment return on members' capital of £400m, or 2.5% (2012: £199m, 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. The return is constrained by the low level of interest available on the high proportion of cash and equivalent investments held within members' capital. However, the strong performance of equities, which make up 14% of members' assets, has improved the overall return.

The investment return on Lloyd's central assets is also included in the PFFS. This was £60m or 2.3% in 2013 (2012: £115m, 4.5%). The investment performance of central assets is discussed on page 94.

RESULTS SUMMARY

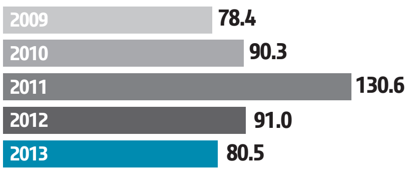
Lloyd's reported a profit before tax for the financial year of £3,205m (2012: £2,771m) and a combined ratio of 86.8% (2012: 91.1%). The PFFS aggregates the results of the syndicate annual accounts, notional investment return on funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. The basis of preparation of the PFFS is set out in note 2 on page 49. The syndicate annual accounts reported an aggregate profit of £2,717m (2012: £2,379m).

MARKET PERFORMANCE CONTINUED

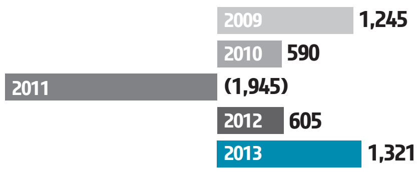
REINSURANCE

Gross written premium
£m

Combined ratio
%



Underwriting result
£m

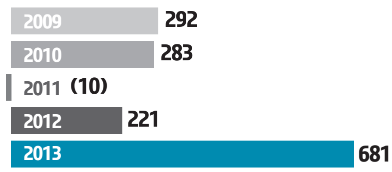


PROPERTY

Gross written premium
£m

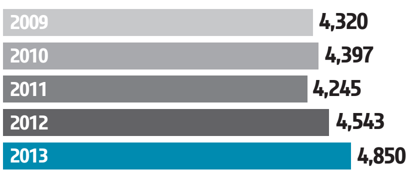
Combined ratio
%

Underwriting result
£m

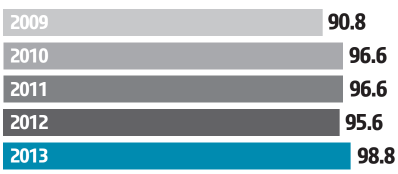


CASUALTY

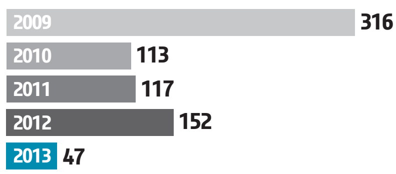
Gross written premium
£m



Combined ratio
%

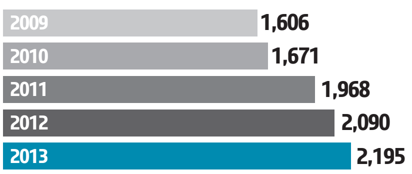


Underwriting result
£m

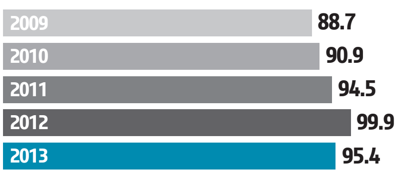


MARINE

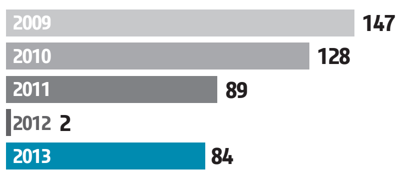
Gross written premium
£m



Combined ratio
%



Underwriting result
£m



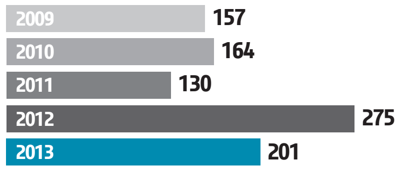
Strategic report
Market performance
Market results
Society report

ENERGY

Gross written premium
£m

Combined ratio
%

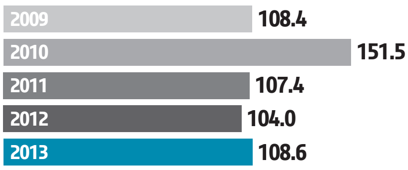
Underwriting result
£m



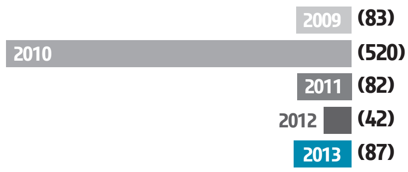
MOTOR

Gross written premium
£m

Combined ratio
%

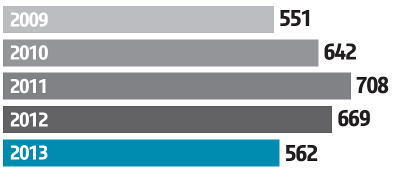


Underwriting result
£m

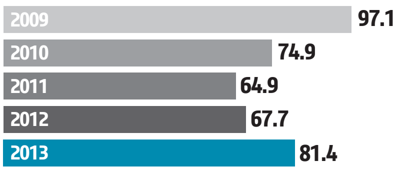


AVIATION

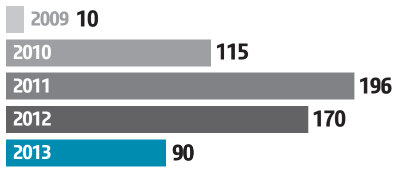
Gross written premium
£m



Combined ratio
%



Underwriting result
£m



MARKET PERFORMANCE CONTINUED

CLASS OF BUSINESS

Reinsurance

The reinsurance market at Lloyd's covers a wide range of classes, both short and long-tail. Business is written as both facultative and treaty, mainly on an excess of loss basis.

The predominant class is property, which includes catastrophe risks worldwide with a significant exposure to the US and global markets. Other reinsurance classes include accident and health, casualty, motor, general liability and professional liability, energy, marine and aviation.

2013 performance

Lloyd's gross written premium for 2013 was £9,468m (2012: £9,763m), a decrease of 3.0%. The Lloyd's reinsurance sector reported an accident year combined ratio of 91.7% (2012: 97.9%). The headline figure includes reported gross income for Special Purpose Syndicates (see Glossary on pages 148 and 149) who reinsure a 'host' syndicate. The underlying reduction in premium income for 2013 is, however, similar to the 3.0% above as the modest growth in SPS was offset by one material whole account reinsurance transaction being written in 2012 with no comparable transaction in 2013.

Following favourable results in 2012, pressure on the property treaty reinsurance market intensified over the year. In particular, the Florida property catastrophe renewals in June experienced larger than expected rate reductions, though this is from a well priced book that has seen little hurricane activity since 2005.

The year was remarkable for the absence of hurricanes crossing the US coastline, as well as for the relatively low level of major catastrophes resulting in annual global claims from natural catastrophes falling below their ten year average. Lloyd's benefited from this lack of hurricane activity in the US, and the low severity of events elsewhere. The North American continent still contributed the majority of Lloyd's natural peril losses in 2013 including floods in Canada (Alberta and Ontario), tornadoes in the Midwest and hurricanes Manuel and Ingrid in Mexico. Europe was the source of the next largest amount of catastrophe losses with floods in Central Europe and a major hailstorm in Southwest Germany producing significant catastrophe claims to property treaty portfolios. The Asia-Pacific region was affected by the intensely destructive Typhoon Haiyan which severely impacted southern Philippines but had little effect on the insurance market. Larger insurance claims were produced from Cyclone Oswald in Australia in January 2013.

Large risk losses in marine and aviation accounts were the sinking of the MOL Comfort containership, the Intelsat satellite launch failure in the Pacific, and the crash of Asiana Airlines 777 at San Francisco International Airport in July.

At the start of the year rates were stable, largely as a result of the market's response to claims incurred from Superstorm Sandy which struck late in 2012, while the marine market was continuing to evaluate the cost of removing the Costa Concordia wreck. Catastrophe rates declined mid-year for the main North American renewals which coincided with the arrival of additional capital from new sources to the market, and this trend continued and spread to most markets through to the year end. Property treaty premium volumes reduced 5% in 2013. This was in excess of the internally monitored rate change, indicating that some business was actively declined due to unsatisfactory terms. A similar but less severe trend was observed in other major reinsurance lines.

Prior year movement

The prior year reserve movement was a material surplus of 11.2% (2012: 6.9%). This is due to syndicates releasing 'cat loads' in held reserves combined with a reduction in the net claims estimate for the 2011 Thai floods. There has been stable development of the estimates for the other major catastrophes in 2011 and for Superstorm Sandy in 2012.

Looking ahead

Given the low incidence of major natural catastrophes and risk losses in 2013, competitive pressures built up steadily through the year and culminated in one of the most severe property renewal seasons the market has experienced for many years in January 2014. Property treaty renewal rates were reported to have fallen by double digits and at the same time underwriters were faced with demands for widening the scope of reinsurance coverage, for example, extended hours clauses. These changes will undoubtedly put more pressure on reinsurers' margins in 2014. There remains a risk of renewed interest in the expansion of broker facilities, with the consequent struggle to maintain and strengthen lines of distribution.

Property

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

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

2013 performance

Lloyd's gross written premium for 2013 was £6,103m (2012: £5,476m), an increase of 11.4%. The Lloyd's property sector reported an accident year combined ratio of 93.4% (2012: 102.6%).

Property premium income has again grown over and above rate change as syndicates exploit the Lloyd's trading platform to expand into new markets and increase their share of existing developed markets (mainly US). Rates were not under the same pressure as in treaty reinsurance and showed modest gains in the first half of the year, partly as a result of Superstorm Sandy which affected rates in a prime segment for Lloyd's. The US market has performed the strongest, showing top line growth and positive rate movement, although the rate increases have fallen away in the second half of the year. The international segments have declined in volume; Lloyd's has reduced its share of open market business as rates still show reductions. Technical lines (power, engineering and nuclear) as well as bloodstock have also reduced in volume, reflecting difficult trading conditions. Terrorism has grown in volume as there is some uncertainty over the renewal of terrorism legislation in the US but the underlying trading conditions are increasingly competitive. There has been some growth in property consumer lines.

All major property lines have benefited from the low incidence of catastrophe losses that are outlined in the reinsurance section. There have been some headline risk losses to a computer plant in China, a mining landslide in US, and energy losses in both the US and Argentina, but none of these events in

2013 COMBINED RATIO

	Accident year	Prior year reserve movement	Calendar year
Reinsurance	91.7%	(11.2)%	80.5%
Property	93.4%	(8.4)%	85.0%
Casualty	101.2%	(2.4)%	98.8%
Marine	102.8%	(7.4)%	95.4%
Energy	94.3%	(11.3)%	83.0%
Motor	104.4%	4.2%	108.6%
Aviation	105.1%	(23.7)%	81.4%

themselves or in aggregate have had any material effect on results or rating levels. Attritional losses have remained for the most part within the expected levels of tolerance allowed for in business plans.

Prior year movement

The prior year reserve movement was a surplus of 8.4% (2012: 8.2%) with loss estimates for the historical catastrophes remaining stable in aggregate. This is supported by no adverse development in any of the major lines.

Looking ahead

Looking ahead to 2014, we expect a continued weakening of the market across all property lines. Although direct lines of business will gain some improved margin from weaker reinsurance terms, this ultimately may well drive a weaker and more competitive rating environment. Open market business for larger risks is likely to be under more pressure than personal lines and small commercial risks written under coverholder agreements. Specialist and non-US business remain competitive with lower prospective margins. Growth in the major developed markets is likely to be constrained, while there should be opportunities to develop in emerging markets, where Lloyd's market share is currently relatively low.

Casualty

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

2013 performance

Lloyd's gross written premium for 2013 was £4,850m (2012: £4,543m), an increase of 6.8%. The Lloyd's casualty sector reported an accident year combined ratio of 101.2% (2012: 100.4%).

The casualty market in 2013 was similar to 2012 with the much talked about harder market failing to materialise. Surplus capacity continues to suppress rate increases and is keeping them below widely agreed upon claims inflation assumptions. Profitability remains marginal with little sign of correction.

A significant portion of the past years' claims development continues to come from the financial institution lines of business. There is some evidence that the market has undergone a degree of re-underwriting within these lines; however, there remains some concern over the future potential claims impact compounded by a competitive market offering broad coverage at questionable pricing levels.

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

Prior year movement

The prior year reserve movement was a surplus of 2.4% (2012: 4.8%). Although the casualty sector continues to generate surpluses on prior years in aggregate, some adverse experience has been seen on the more recent years, particularly from the financial institutions and general liability lines. There will always be inherent uncertainty in casualty reserves, and especially at times of financial crisis, but Lloyd's monitoring continues to indicate robust reserving over all prior years.

Looking ahead

The challenging economic environment continues to cast a shadow over the casualty sector's performance, particularly affecting the financial and professional lines. Indeed, while the recent years' raft of increased regulation may improve corporate behaviour and raise accountability, the more tenacious regulators, overseeing this sector, are pursuing wrongdoing with increased scrutiny, often via official investigations, which will translate into higher defence costs making up larger portions of losses.

MARKET PERFORMANCE CONTINUED

The casualty market is particularly vulnerable to the effects of the increasingly litigious environment across the world, illustrated by many jurisdictions now allowing 'collective actions' with third party litigation funding often fuelling the trend.

The cyber liability market at Lloyd's continues to expand in response to greater demand for the product typically driven by increasingly publicised high profile losses and the ever evolving legislation which governs/dictates behaviour and liability. Coverage breadth has expanded over the years responding to emerging risks that require an insurance solution.

Insurers appear to be positioning themselves to take advantage of the expected better trading times, if and when they arrive, often by acquiring business at today's marginal rates with the goal of enjoying the payback when the market turns. In their quest to achieve increased market share there is an increasing propensity to delegate underwriting to third parties which comes at the price of paying away increased commissions. Increased line size and creeping coverage breadth are a common feature across certain lines particularly in the financial and professional sector. The forecast is a flat rating environment with no lack of appetite for insurers to enter the casualty market.

Marine

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

2013 performance

Lloyd's gross written premium for 2013 was £2,195m (2012: £2,090m), an increase of 5.0%. The Lloyd's marine sector reported an accident year combined ratio of 102.8% (2012: 103.8%).

While performance in most lines was satisfactory, the marine hull sector continued to be disappointing and the general specie market was affected by several large claims.

Most classes remained highly competitive due to abundant capacity. With rates already at relatively low points in the cycle, increasing downward rating pressure was evident in most lines as the year progressed. The premium growth was largely driven by the political risk class and rate increases in marine liability off the back of significant removal of wreck claims.

Prior year movement

The prior year reserve movement was a surplus of 7.4% (2012: 3.9%). Overall there has been a release of reserves in all marine classes. Movements associated with Costa Concordia have been heavily mitigated by reinsurance and have been more than offset by good experience elsewhere.

Looking ahead

There are signs that the world is slowly coming out of recession and global economies are returning to growth. This positive development should, over time, bolster both trade volumes and insured values, which in turn should lead to an increase in premium volumes. While the macroeconomic picture appears to be improving, market conditions present many headwinds for the marine class. With abundant capacity in nearly all lines, rates in most classes could face further pressure. Marine liability is the possible exception due to recent claims deterioration. Aside from the challenging market conditions, key industry issues remain. Static hull deductibles are producing larger attritional losses. With ships and cargo loads increasing in size, successful salvage is becoming an increasing challenge. This increase in ship size also poses challenges for the marine liability sector. Costa Concordia has highlighted the difficulties that wreck removal of large vessels can present, especially in an environmentally sensitive manner. The increased challenges of recent removal of wreck losses are likely to be a trend that is set to continue.

Energy

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

A significant part of the portfolio is offshore energy business and a large proportion of this is located in the Gulf of Mexico.

2013 performance

Gross written premium for the Lloyd's energy sector in 2013 was £1,668m (2012: £1,727m), a decrease of 3.4%. The Lloyd's energy sector reported an accident year combined ratio of 94.3% (2012: 95.1%).

The strong overall performance was driven by offshore energy which benefited from another year without a significant windstorm in the Gulf of Mexico and few notable risk losses. However, onshore energy was affected by a number of large risk losses, notably the La Plata oil refinery in Argentina and performance in this sector was again disappointing.

Fuelled by favourable recent year results and abundant capacity, competition intensified in the offshore energy sector during the course of the year with significant rate reductions reported in the second half of the year. Overall premium volumes stayed broadly in line with 2012 as the rate reductions were largely offset by increases in sums insured.

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

Prior year movement

The prior year reserve movement was a surplus of 11.3% (2012: 19.1%). The sector was able to generate significant reserve releases despite some deterioration relating to the Deepwater Horizon event. In particular, the energy offshore property account, which holds substantial reserves, has seen minimal incurred development across the prior years of account.

Looking ahead

The lack of recent wind activity in the Gulf of Mexico should be treated with caution as this region will continue to be prone to extreme weather events, perhaps increasingly so. This notwithstanding, the offshore energy sector is likely to become increasingly competitive in 2014. Market conditions for onshore energy and liability classes are expected to remain more stable given weak performance, the challenging regulatory landscape and the propensity for volatile results.

With the offshore energy sector making up a significant portion of the energy class, the difficult market environment could have an effect on 2014 gross written premium. Underwriting discipline will be particularly important for 2014, even if this results in declining business that is not adequately priced. As ever, the focus will also need to be on close control of wordings.

Motor

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

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

2013 performance

Gross written premium in 2013 was £1,184m (2012: £1,155m), an increase of 2.5%. The Lloyd's motor sector reported an accident year combined ratio of 104.4% (2012: 104.9%).

In response to the introduction of new legal reforms earlier in the year designed to cut claims costs, price reductions continued across most UK personal motor lines during 2013. The rating environment for commercial motor remained more stable although performance concerns remain in both areas.

While claims inflation levels remain above long-term norms, there was some improvement in underlying trends including fraudulent claims activity.

Prior year movement

Motor was the one Lloyd's sector that saw the need for reserve strengthening in the year at 4.2% of motor net earned premium (2012: release of 0.9%). There remains 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. There were many new legal reforms introduced over the course of 2013, including increasing the limits of payments under the Ministry of Justice (MOJ) Road Traffic Accident (RTA) Portal and the Legal Aid Sentencing and Punishment of Offenders Act 2012 (LASPO) reforms. The overall impact of these remains highly uncertain.

Looking ahead

Motor insurance has gone through a transformational year in terms of the legal environment with many new law changes taking effect in 2013. Legal reforms such as the Gender Directive and LASPO have caused motor insurers to adjust rates to remain competitive in this challenging market.

Downward pressure on private car premiums is likely to continue throughout 2014 as LASPO takes effect while commercial motor classes are expected to remain more stable. With industry pricing and premium levels falling, 2014 is expected to offer borderline underwriting profitability.

The LASPO Act which passed in April 2013 meant a ban on referral fees for motor insurers and is aimed at reducing fraudulent claims. LASPO has also meant an overall drop in legal fees for personal injury claims, which will reduce insurers' costs, although claims frequency still remains high and is a concern.

The MOJ have yet to publish their findings on the consultations on the discount rate in setting liability payments for large bodily injury cases. Periodical Payment Orders continue to be a hot topic in the UK motor market and could lead to increased claims/administration costs as well as extending the liability tail. Any potential change on the discount rate here may have negative implications for insurers.

Aviation

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

2013 performance

Aviation business is written as both direct and reinsurance acceptances, on an excess of loss, proportional or facultative basis. Direct gross written premium was £562m (2012: £669m), a decrease of 16.0%. In 2013, Lloyd's syndicates also wrote £466m (2012: £487m) of aviation business on a facultative and treaty reinsurance basis.

The Lloyd's aviation sector reported an accident year combined ratio of 105.1% (2012: 86.2%). While overall loss activity remained below long-term norms, the aviation and space markets were affected by two large losses. These included the Sea Launch Intelsat 27 launch failure in February and July's Asiana Airlines Flight 214 crash landing at San Francisco International Airport which caused three fatalities and left many injured, some critically.

Despite these losses, capacity remained abundant in all lines and the market continued to face high levels of competition with increased pressure on rates, terms, conditions and coverage as the year progressed. While industry exposures continued to rise year on year, particularly in emerging markets, the reduction in Lloyd's premium volume largely reflected the decline in rates.

Prior year movement

The prior year reserve movement was a surplus of 23.7% (2012: 18.5%). The prior years continue to develop favourably, with incurred development over 2013 lower than the historical average.

Looking ahead

Rates in all areas have been falling for a number of years and are now significantly below peak levels. Without a material withdrawal of capacity, the aviation market is likely to experience further downward pressure in 2014. While 2013 was another good year from a safety point of view, Lloyd's accident year result was disappointing given the limited incidence of large losses. With industry exposures continuing to rise sharply in terms of fleet values and passenger numbers, the accumulation potential and the more punitive legal environment are expected to lead to an increase in potential volatility and rising attritional claims.

THE MARKET'S FINANCIAL RESULTS

UNDERPINNED BY ITS ROBUST CAPITAL BASE THE LLOYD'S MARKET CAN BE RELIED ON TO PAY ALL VALID CLAIMS

STATEMENT OF COUNCIL'S RESPONSIBILITIES AND REPORT OF PRICEWATERHOUSECOOPERS LLP TO THE COUNCIL OF LLOYD'S ON THE 2013 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 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 2013 PRO FORMA FINANCIAL STATEMENTS

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

Our conclusion

In our opinion the Council of Lloyd's has prepared the pro forma financial statements (the 'PFFS'), as defined below, for the financial year ended 31 December 2013 in all material respects in accordance with the basis of preparation set out in note 2.

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

What we have assured

The PFFS, which are prepared by the Council of Lloyd's, comprise:
- A pro forma profit and loss account,
- A pro forma statement of total recognised gains and losses,
- A pro forma balance sheet,
- A pro forma statement of cash flows; and
- Notes 1 to 17 to the PFFS.

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

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Lloyd's Annual Report within which the PFFS for the year ended 31 December 2013 are included.

What a reasonable assurance engagement involves

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

We applied the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

Our examination of the preparation of the PFFS consisted principally of:
- Obtaining an understanding of how the Council of Lloyd's has compiled the PFFS from the audited syndicate annual accounts and the Society of Lloyd's financial statements,
- 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; and
- Evaluating the evidence supporting the adjustments made and obtaining evidence that the PFFS have been prepared in accordance with the basis of preparation set out in note 2.

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

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

Our responsibilities and those of the Council of Lloyd's

The Council of Lloyd's is responsible for the preparation and approval of the PFFS in accordance with the basis of preparation set out in note 2. The purpose of the PFFS is to allow the financial results of Lloyd's and its members taken together and their net assets to be compared with the financial reports of general insurance companies.

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

This report is made solely to the Council of Lloyd's in accordance with our engagement letter dated 25 February 2014 (the 'instructions'). Our examination has been undertaken so that we might state to the Council those matters which we are required to state in this report in accordance with the instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
25 March 2014

PRO FORMA PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2013

Technical account	Note	£m	2013 £m	£m	2012 £m
Gross written premiums					
– continuing operations		26,103		25,489	
– discontinued operations	5	3		11	
	9		26,106		25,500
Outward reinsurance premiums			(5,875)		(6,065)
Premiums written, net of reinsurance			20,231		19,435
Change in the gross provision for unearned premiums		(653)		(994)	
Change in the provision for unearned premiums, reinsurers' share		147		244	
			(506)		(750)
Earned premiums, net of reinsurance			19,725		18,685
Allocated investment return transferred from the non-technical account			337		902
			20,062		19,587
Claims paid					
Gross amount		13,153		13,398	
Reinsurers' share		(3,071)		(2,940)	
			10,082		10,458
Change in provision for claims					
Gross amount		(1,392)		151	
Reinsurers' share		891		(511)	
			(501)		(360)
Claims incurred, net of reinsurance			9,581		10,098
Net operating expenses	11		7,539		6,926
Balance on the technical account for general business			2,942		2,563
Attributable to:					
– continuing operations		2,919		2,549	
– discontinued operations	5	23		14	
Total			2,942		2,563
Non-technical account					
Balance on the technical account for general business			2,942		2,563
Investment return on syndicate assets	12	379		997	
Notional investment return on funds at Lloyd's	6	400		199	
Investment return on Society assets		60		115	
		839		1,311	
Allocated investment return transferred to the technical account		(337)		(902)	
			502		409
Other income			62		61
Other expenses			(301)		(262)
Result for the financial year before tax	8		3,205		2,771

Statement of total recognised gains and losses	Note	2013 £m	2012 £m
Result for the financial year		3,205	2,771
Other recognised gains and losses	8	(123)	(52)
Total recognised gains and losses since previously reported	8	3,082	2,719

PRO FORMA BALANCE SHEET

As at 31 December 2013

Investments	Note	£m	2013 £m	£m	2012 £m
Financial investments	13		**42,252**		41,875
Deposits with ceding undertakings			**4**		6
Reinsurers' share of technical provisions					
Provision for unearned premiums		**1,909**		1,759	
Claims outstanding		**9,557**		10,680	
	16		**11,466**		12,439
Debtors					
Debtors arising out of direct insurance operations		**5,672**		5,526	
Debtors arising out of reinsurance operations		**4,041**		4,187	
Other debtors		**744**		1,193	
			10,457		10,906
Other assets					
Tangible assets		**40**		48	
Cash at bank and in hand	14	**9,242**		9,892	
Other		**63**		50	
			9,345		9,990
Prepayments and accrued income					
Accrued interest and rent		**71**		78	
Deferred acquisition costs		**2,848**		2,640	
Other prepayments and accrued income		**136**		157	
			3,055		2,875
Total assets			**76,579**		78,091
Capital and reserves					
Members' funds at Lloyd's	6	**15,088**		15,660	
Members' balances	15	**3,635**		2,048	
Members' assets (held severally)		**18,723**		17,708	
Central reserves (mutual assets)		**1,663**		1,592	
	8		**20,386**		19,300
Subordinated debt			**330**		503
Subordinated perpetual capital securities			**391**		390
Capital, reserves and subordinated debt and securities			**21,107**		20,193
Technical provisions					
Provision for unearned premiums		**11,838**		11,314	
Claims outstanding		**37,983**		40,203	
	16		**49,821**		51,517
Deposits received from reinsurers			**46**		65
Creditors					
Creditors arising out of direct insurance operations		**466**		519	
Creditors arising out of reinsurance operations		**3,354**		3,714	
Other creditors including taxation		**1,346**		1,732	
			5,166		5,965
Accruals and deferred income			**439**		351
Total liabilities			**76,579**		78,091

Approved by the Council of Lloyd's on 25 March 2014 and signed on its behalf by

John Nelson
Chairman

Inga Beale
Chief Executive Officer

PRO FORMA CASH FLOW STATEMENT

For the year ended 31 December 2013

	2013 £m	2012 £m
Result on ordinary activities before tax	**3,205**	2,771
Depreciation	**13**	7
Realised and unrealised losses and foreign exchange	**1,059**	921
Net purchase of investments	**(1,516)**	(1,395)
Notional return on funds at Lloyd’s	**(400)**	(199)
(Decrease) in technical provisions	**(729)**	(654)
Decrease/(increase) in debtors	**97**	(957)
(Decrease)/increase in creditors	**(599)**	692
Cash generated from operations	**1,130**	1,186
Tax paid	**(29)**	(24)
Net cash from operating activities	**1,101**	1,162
Cash flows from financing activities		
Net profits paid to members	**(937)**	(1,903)
Net movement in funds at Lloyd’s	**(526)**	536
Net capital transferred (out of)/into syndicate premium trust funds	**(31)**	117
Purchase of debt securities	**(195)**	–
Interest paid	**(62)**	(66)
Net (decrease) in cash holdings	**(650)**	(154)
Cash holdings at 1 January	**9,892**	10,046
Cash holdings at 31 December	**9,242**	9,892

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS

As at 31 December 2013

1. INTRODUCTION

Lloyd's is not an insurance company. It is a Society of members which underwrite insurance (each for their own account) as members of syndicates. The pro forma financial statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies.

2. BASIS OF PREPARATION

General

The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's on pages 60 to 145.

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

The Aggregate Accounts report the audited results for calendar year 2013 and the financial position at 31 December 2013 for all syndicates which transacted business during the year. They include the syndicate level assets, which represent the first link in the Chain of Security (see page 57). The Aggregate Accounts are reported as a separate document and can be viewed at www.lloyds.com/financialreports. During 2013, certain syndicates changed their accounting policies in relation to foreign exchange resulting in a restatement of the comparative figures for 2013 within their annual accounts and the Aggregate Accounts have been restated accordingly. The restatements are not material and, therefore, the comparative figures within the PFFS have not been restated.

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

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

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

Overall, the PFFS aggregate the results and resources of the Society and its members and reflect all the links in Lloyd's Chain of Security as described in detail in the 'Security underlying policies issued at Lloyd's' section on pages 57 to 59. 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 broadly comparable with general insurance companies.

Taxation

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

Funds at Lloyd's

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

Notional investment return on FAL

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

SOCIETY OF LLOYD'S FINANCIAL STATEMENTS

The PFFS include the results and net assets reported in the consolidated financial statements of the Society of Lloyd's, comprising the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates.

Transactions between syndicates and the Society

- Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate annual accounts and as income in the Society financial statements.
- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls, and do not have the resources to meet those cash calls, are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate annual accounts for calendar year 2012 and earlier years include those members' results and at the balance sheet date will report the outstanding liability within members' balances.
- Loans funding statutory overseas deposits are reported as assets within the syndicate annual accounts and as liabilities in the Society financial statements.

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

Inter-syndicate loans

The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £116m (2012: £106m). 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.

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

SOCIETY OF LLOYD'S FINANCIAL STATEMENTS CONTINUED

Subordinated debt and securities

In accordance with the terms of the subordinated debt and securities, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves and subordinated debt and securities' in the pro forma balance sheet. The Society financial statements on pages 60 to 145 provide additional information.

3. ACCOUNTING POLICIES NOTES

A. Aggregate Accounts

General

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

Premiums written

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

Unearned premiums

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

Outwards reinsurance premiums

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

Claims provisions and related recoveries

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

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

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

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Statistical techniques are used to assist in making these estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

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

Unexpired risks provision

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

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

Acquisition costs

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

Foreign currencies

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

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

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

3. ACCOUNTING POLICIES NOTES CONTINUED

A. Aggregate Accounts continued

Investments

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

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

Syndicate investment return

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

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

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

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

Taxation

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

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

Operating expenses

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

Profit commission

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

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

B. Funds at Lloyd's

FAL are valued in accordance with their market value at the year end, and using year end exchange rates.

Investments are stated at current value at the balance sheet date. For this purpose, listed investments are stated at their bid price market value, and deposits with credit institutions and international deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

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

C. Society of Lloyd's

The accounting policies adopted in the Society of Lloyd's financial statements are set out on pages 107 to 112.

4. VARIABILITY

Calendar year movements in reserves are based upon best estimates as at 31 December 2013, taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimate are reflected in the technical account of the year in which they occur.

5. DISCONTINUED OPERATIONS

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

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

Where business has been reported as discontinued in 2013, the results for that business have also been reported as discontinued in the 2012 comparative figures.

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

6. MEMBERS' FUNDS AT LLOYD'S

The valuation of members' FAL in the balance sheet totals £15,088m (2012: £15,660m). The notional investment return on FAL included in the non-technical profit and loss account totals £400m (2012: £199m).

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 yields applied for the full year.

		Proportion of FAL		Investment Return	
Investment type	Index	**December 2013 %**	December 2012 %	**2013 %**	2012 %
UK equities	FTSE All share	**8.0**	6.0	**18.6**	11.8
UK fixed income securities	UK Gilts 1-3 years	**11.4**	14.3	**(0.1)**	0.2
UK deposits managed by Lloyd's	Return achieved	**3.7**	5.4	**0.3**	0.3
UK deposits managed externally	LIBID	**23.5**	21.8	**0.2**	0.4
US equities	S&P 500 Index	**6.5**	3.5	**26.4**	14.4
US fixed income securities	US Treasuries 1-3 years	**17.8**	18.9	**0.2**	0.3
US deposits managed by Lloyd's	Return achieved	**2.4**	1.5	**0.1**	0.0
US deposits managed externally	LIBID	**26.7**	28.6	**(0.1)**	0.0

7. SOCIETY OF LLOYD'S

The results of the group financial statements of the Society included in the profit and loss account are a profit of £268m (2012: £279m) in the technical account and a loss of £180m (2012: £86m) in the non-technical account.

8. AGGREGATION OF RESULTS AND NET ASSETS

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

Profit and loss account	**2013 £m**	2012 £m
Result per syndicate annual accounts	**2,717**	2,379
Result of the Society	**64**	119
Central Fund claims and provisions incurred in Society financial statements	**18**	26
Central Fund recoveries from insolvent members	**(2)**	–
Taxation charge in Society financial statements	**14**	35
Notional investment return on members' funds at Lloyd's	**400**	199
Society PYA for IAS (see note below)	–	4
Movement in Society income not accrued in syndicate annual accounts	**(6)**	9
Result on ordinary activities before tax	**3,205**	2,771

Statement of total recognised gains and losses	**2013 £m**	2012 £m
Result for the financial year	**3,205**	2,771
Foreign currency movements in the syndicate annual accounts	**(125)**	(27)
Other recognised losses per syndicate annual accounts	**(5)**	(5)
Society PYA for IAS (see note below)	–	(4)
Other recognised gains and losses of the Society	**7**	(16)
Total recognised gains and losses	**3,082**	2,719

For 2013 the Society has adopted the amendments to International Accounting Standard 19R 'Employee Benefits'. This has required the Society to restate its 2012 income statement by £4m for the full 2012 year (£6m movement in operating expenses less £2m tax adjustment). The figures are considered immaterial and so the PFFS have not been restated. The impact of the prior year adjustment (PYA) is reflected in the reconciliations above and more details can be found on page 107 of this Annual Report.

8. AGGREGATION OF RESULTS AND NET ASSETS CONTINUED

Capital and reserves	2013 £m	2012 £m
Net assets per syndicate annual accounts	**3,634**	**2,056**
Net assets of the Society	**1,663**	**1,592**
Central Fund claims and provisions	**11**	**14**
Members' funds at Lloyd's	**15,088**	**15,660**
Unpaid cash calls reanalysed from debtors to members' balances	**4**	**(14)**
Society income receivable not accrued in syndicate annual accounts	**(14)**	**(8)**
Total capital and reserves	**20,386**	**19,300**

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

9. SEGMENTAL ANALYSIS

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

2013	Gross written premiums £m	Net earned premium £m	Under-writing Result £m
Reinsurance	**9,468**	**6,760**	**1,321**
Property	**6,103**	**4,551**	**681**
Casualty	**4,850**	**3,826**	**47**
Marine	**2,195**	**1,835**	**84**
Energy	**1,668**	**1,181**	**201**
Motor	**1,184**	**1,014**	**(87)**
Aviation	**562**	**485**	**90**
Life	**76**	**73**	–
Total from syndicate operations	**26,106**	**19,725**	**2,337**
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society	–	–	**268**
PFFS premiums and underwriting result	**26,106**	**19,725**	**2,605**
Allocated investment return transferred from the non-technical account			**337**
Balance on the technical account for general business			**2,942**

2012	Gross written premiums £m	Net earned premium £m	Under-writing Result £m
Reinsurance	9,763	6,713	605
Property	5,476	3,963	221
Casualty	4,543	3,469	152
Marine	2,090	1,736	2
Energy	1,727	1,147	275
Motor	1,155	1,062	(42)
Aviation	669	526	170
Life	77	69	(1)
Total from syndicate operations	25,500	18,685	1,382
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society	–	–	279
PFFS premiums and underwriting result	25,500	18,685	1,661
Allocated investment return transferred from the non-technical account			902
Balance on the technical account for general business			2,563

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

10. LIFE BUSINESS

The PFFS include the results of all life and non-life syndicates transacting business during 2013. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 9).

11. NET OPERATING EXPENSES

	2013 £m	2012 £m
Acquisition costs	**5,674**	5,346
Change in deferred acquisition costs	**(226)**	(209)
Administrative expenses	**1,869**	1,706
Underlying operating expenses	**7,317**	6,843
Loss on exchange	**222**	83
	7,539	6,926

12. SYNDICATE INVESTMENT RETURN

	2013 £m	2012 £m
Income from investments	**689**	738
Net realised (losses)/gains on investments	**(32)**	88
Net unrealised (losses)/gains on investments	**(223)**	222
Investment management expenses, including interest	**(55)**	(51)
	379	997

The breakdown of the Society investment return is provided in the Society's financial statements on page 119. This analysis is not appropriate for the notional investment return on funds at Lloyd's.

13. FINANCIAL INVESTMENTS

	2013 £m	2012 £m
Shares and other variable yield securities and units in unit trusts	**5,679**	4,123
Debt securities and other fixed income securities	**29,225**	30,469
Participation in investment pools	**1,908**	1,731
Loans and deposits with credit institutions	**5,343**	5,516
Other	**97**	36
	42,252	41,875

13. FINANCIAL INVESTMENTS CONTINUED

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

	2013 £m	2012 £m
Government, agency and supranational	11,738	13,066
'AAA' rated	4,260	4,101
'AA' rated	3,996	3,712
'A' rated	5,960	4,798
'BBB' and lower rated	2,095	1,759
Equity and hedge funds	1,253	1,007
Cash equivalents	2,866	3,148
Total syndicate investments	32,168	31,591
FAL investments	7,731	7,807
Society investments	2,353	2,477
Total per PFFS	42,252	41,875

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

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

	2013 %	2012 %
Less than one year	7	8
Between one and two years	38	39
Between two and three years	35	28
Over three years	20	25
Total per PFFS	100	100

The average duration of syndicate fixed income securities was 2.3 years (2012 2.4 years). The average duration for claims provisions was approximately 3 years.

14. CASH AT BANK AND IN HAND

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £7,450m (2012: £7,900m).

15. MEMBERS' BALANCES

	2013 £m	2012 £m
Balance at 1 January	2,048	1,555
Result for the year per syndicate annual accounts	2,717	2,379
Distribution on closure of the 2010 (2009) year of account	(889)	(2,547)
Advance distributions from open years of account	(173)	(117)
Movement in cash calls	125	764
Net capital transferred (out of)/into syndicate premium trust funds	(31)	117
Foreign currency movements	(150)	(89)
Other movements	(12)	(14)
Balance at 31 December	**3,635**	2,048

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 2014.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as 'net capital transferred (out of)/into syndicate premium trust funds'.

NOTES TO THE PRO FORMA FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

16. TECHNICAL PROVISIONS

Gross	2013 £m	2012 £m
Claims reported	**19,761**	21,597
Claims incurred but not reported and unallocated loss adjustment expenses	**18,222**	18,606
Unearned premiums	**11,838**	11,314
Total technical provisions, gross	**49,821**	51,517
Recoverable from reinsurers		
Claims reported	**5,665**	6,316
Claims incurred but not reported and unallocated loss adjustment expenses	**3,892**	4,364
Unearned premiums	**1,909**	1,759
Total reinsurers' share of technical provisions	**11,466**	12,439
Net		
Claims reported	**14,096**	15,281
Claims incurred but not reported and unallocated loss adjustment expenses	**14,330**	14,242
Unearned premiums	**9,929**	9,555
Total net technical provisions	**38,355**	39,078

17. FIVE YEAR SUMMARY

Results	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Gross written premiums	**26,106**	25,500	23,477	22,592	21,973
Net written premiums	**20,231**	19,435	18,472	17,656	17,218
Net earned premiums	**19,725**	18,685	18,100	17,111	16,725
Result attributable to underwriting	**2,605**	1,661	(1,237)	1,143	2,320
Result for the year before tax	**3,205**	2,771	(516)	2,195	3,868
Assets employed					
Cash and investments	**51,494**	51,767	51,416	48,483	46,254
Net technical provisions	**38,355**	39,078	39,765	36,191	33,613
Other net assets	**7,247**	6,611	6,565	5,899	5,522
Capital and reserves	**20,386**	19,300	18,216	18,191	18,163
Statistics					
Combined ratio (%)	**86.8**	91.1	106.8	93.3	86.1
Return on capital (%)	**16.2**	14.8	(2.8)	12.1	23.9

SECURITY UNDERLYING POLICIES ISSUED AT LLOYD'S

As at 31 December 2013

SUMMARY

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

There were 91 syndicates (excluding syndicates set up to accept RITC of orphan syndicates but including the 11 Special Purpose Syndicates) as at 31 December 2013 registered to conduct business at Lloyd's. Each syndicate is managed by a managing agent. Managing agents write insurance business on behalf of the member(s) of the syndicate, which receive profits or bear losses in proportion to their share in the syndicate for each underwriting year of account. The adoption of annual accounting and presentation of the syndicate annual accounts do not change the allocation of profits and losses to members.

THE LLOYD'S CHAIN OF SECURITY

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

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

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

THE FIRST LINK

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

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

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

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

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

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

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

The total value of all the above funds was £41,990m at 31 December 2013.

THE SECOND LINK

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

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

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

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

SECURITY UNDERLYING POLICIES ISSUED AT LLOYD'S CONTINUED

As at 31 December 2013

THE SECOND LINK CONTINUED

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

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

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

At 31 December 2013, the total value of capital supporting underwriting held in trust by members amounted to £15,088m (a further £2,524m of capital supporting underwriting is held in members' premiums trust funds as part of the first link).

THE THIRD LINK

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

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

The net assets of the Central Fund as at 31 December 2013 were £1,513m.

In 2004 and 2007, Lloyd's issued subordinated loan notes and perpetual capital securities respectively which, as at 31 December 2013, are included as a liability of £721m within the Society's financial statements. As set out in note 17 to the Society's financial statements, payments on the notes are subordinated to certain payments which may be made out of central assets, including payments made to discharge the liabilities of an insolvent member to any person (including any policyholders) arising out of or in connection with insurance business carried on at Lloyd's by that insolvent member.

Central Fund assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits in any one calendar year. These funds would be drawn from premiums trust funds (described and included in the first link).

In addition, the other assets of the Society, totalling £150m at 31 December 2013, are available to meet underwriting liabilities in the last resort.

In aggregate, the value of the central resources of the Society (excluding the subordinated debt liability and the callable layer), amounted to £2,384m at 31 December 2013.

AGGREGATE RESOURCES

The total of syndicate assets, members' capital to support underwriting (ie funds at Lloyd's and capital held in syndicate premiums trust funds) and central resources of the Society as at 31 December 2013 was £59,462m. The total of net syndicate technical provisions at the end of 2013 was £38,355m. The total net resources of the Society and its members were therefore £21,107m (excluding the subordinated debt liability) as shown in the PFFS on page 47. The aggregated resources are based on the total of the assets and liabilities of all members and those of the Society. The aggregate declared resources of the Society do not represent a consolidated statement of the financial position of Lloyd's business taken as a single entity and, as indicated above, the first two links of the Chain of Security operate on a several, not mutual, basis.

SOLVENCY CONTROLS

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

The annual solvency process requires the managing agent of each syndicate to estimate and provide for all current and future liabilities for each year of account. These liabilities, 'technical provisions for solvency', are subject to a statement of actuarial opinion. The requirement for an opinion and its required wording, that the net technical provisions for solvency are not less that the current and future liabilities, is a higher test than required in the UK company market. In the event that it is not possible for the managing agent to secure an unqualified actuarial opinion for any reason, the technical provisions for solvency would be determined by the Lloyd's Actuary, who would provide a report to the PRA. In addition, any syndicate which is not able to secure an unqualified actuarial opinion will normally be subject to a monitoring review by Lloyd's. There were no qualified actuarial opinions as at 31 December 2013.

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

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

SOLVENCY CONTROLS CONTINUED

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

Lloyd's is required to maintain solvency on a continuous basis, and the solvency position of each member, and thus of Lloyd's as a whole, is monitored on a regular basis. The PRA are advised of the results of this monitoring.

RECAPITALISATION AT MEMBER LEVEL

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

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

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

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

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

THE LLOYD'S RETURN

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

	2013 £m	2012 £m
I Syndicate level assets (several basis)	**41,990**	41,126
II Members' funds at Lloyd's (several basis)	**15,088**	15,660
III Central assets (mutual basis)		
Net Central Fund assets	**1,513**	1,459
Subordinated debt	**330**	503
Subordinated perpetual capital securities	**391**	390
Other net assets of the Society	**150**	133
	2,384	2,485
Total resources of the Society of Lloyd's and its members	**59,462**	59,271
Net syndicate technical provisions	**(38,355)**	(39,078)
Total net resources of the Society of Lloyd's and its members	**21,107**	20,193

Notes

1. This financial summary has been compiled by aggregating the assets and liabilities of all the underlying syndicates, members' funds at Lloyd's and other net assets of the Society of Lloyd's. The statement does not purport to disclose the solvency position of each member of Lloyd's.
2. The 'total net resources of the Society of Lloyd's and its members' represents the capital, reserves and subordinated notes and securities shown in the PFFS as set out on page 47.
3. Syndicate level assets includes capital to support underwriting held by aligned corporate members in the syndicate premiums trust funds.

SOCIETY REPORT

CONTENTS

INTRODUCTION

THIS REPORT

This report sets out the principal activities, 2013 consolidated financial statements and governance arrangements of the Society of Lloyd's.

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

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

The Society's 2013 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 46.

THE SOCIETY

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

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

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

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

FINANCIAL HIGHLIGHTS

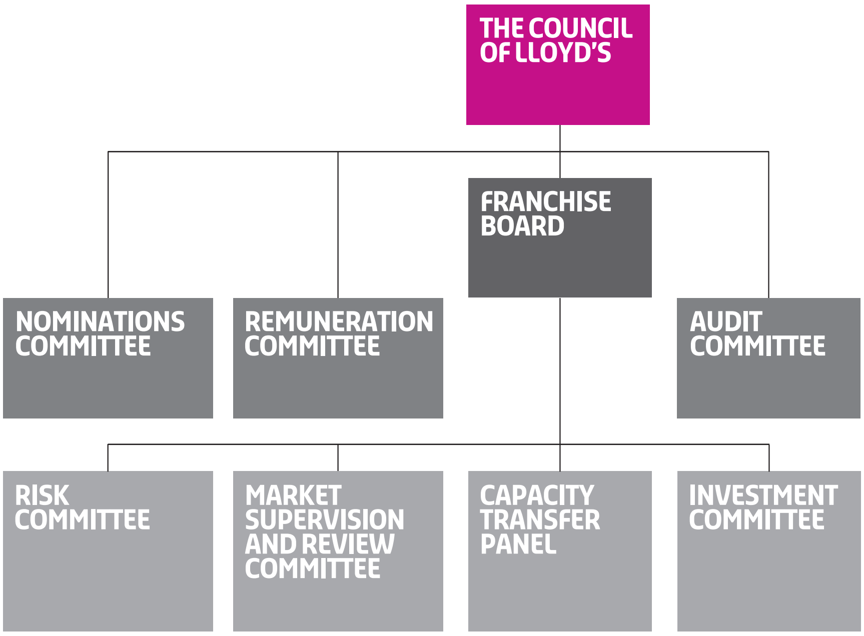
	2013 £m	Restated 2012 £m	2011 £m	2010 £m	2009 £m
Operating result					
Operating and other group income	**220**	215	222	427	254
Central Fund contributions	**106**	105	95	101	100
Total income	**326**	320	317	528	354
Central Fund claims and provisions (incurred)/released	**(18)**	(26)	(15)	34	19
Net insurance claims and provisions	**–**	–	24	17	(6)
Other group operating expenses	**(220)**	(206)	(249)	(214)	(240)
Operating surplus	**88**	88	77	365	127
Net finance income and unrealised exchange differences on borrowings	**(17)**	59	36	75	70
Share of profits of associates	**7**	6	5	5	3
Surplus before tax	**78**	153	118	445	200
Tax charge	**(14)**	(34)	(29)	(122)	(57)
Surplus for the year	**64**	119	89	323	143
Balance sheet					
Net assets	**1,663**	1,592	1,490	1,447	1,126
Movement in net assets %	**4.46%**	6.85%	2.97%	28.5%	13.7%
Solvency*					
Central assets for solvency purposes	**3,157**	3,215	3,091	3,028	2,815
Solvency shortfalls	**(34)**	(94)	(115)	(123)	(59)
Excess of central assets over solvency shortfalls	**3,123**	3,121	2,976	2,905	2,756
Solvency ratio %	**9285%**	3420%	2688%	2462%	4771%
Movement in central assets for solvency purposes %	**(1.8%)**	4.0%	2.1%	7.6%	7.3%

* The solvency position for 2013 is estimated and will be finalised in June 2014 for submission to the PRA.

CORPORATE GOVERNANCE

Lloyd’s governance structure provides challenge, clarity and accountability

Principal committees of Lloyd’s (Figure 11)



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 and Directors of the Corporation.

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 72-75**.

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

CORPORATE GOVERNANCE CONTINUED

GOVERNING BODY: THE COUNCIL OF LLOYD'S

Under Lloyd's Act 1982, the Council of Lloyd's has the management and superintendence of the affairs of the Society and the power to regulate and direct the business of insurance at Lloyd's. Certain functions are reserved to the Council including:
- The making, amendment or revocation of byelaws (which are available at www.lloyds.com/byelaws).
- The setting of Central Fund contribution rates.
- Appointing the Chairman and Deputy Chairmen of Council.

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

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

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

Membership

The Council comprises a maximum of 18 members, split between six working, six external and six nominated members. The biographical details of the current members of the Council (as at 25 March 2014) are listed on pages 72-73.

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.

Chairman and Deputy Chairmen

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

The Chairman of Lloyd's is contracted to work three days a week but commits as much time as is necessary to undertake the role. The Council acknowledges that the Chairman has other commitments outside Lloyd's (see page 72) 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 six times in 2013. 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 70-71.

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' (ie members).

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

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

The Constitutional Requirements

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

In summary, members of the Council, Franchise Board and their committees are required to act in a way which 'would be most likely to promote the success of the Society for the benefit of the members as a whole' and must have regard to:
– The likely consequences of any decision in the long term.
– The need of the Society:
  - To foster business relations with those who do business at Lloyd's.
  - To have regard to the interests of its employees.
  - To consider the impact of its operations on the community and the environment.
  - To maintain a reputation for high standards of business conduct.

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

FRANCHISE BOARD

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

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

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

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

CORPORATE GOVERNANCE CONTINUED

FRANCHISE BOARD CONTINUED

Membership and meetings

Biographical details of the members of the Franchise Board as at 25 March 2014 are listed on pages 74-75. At the end of 2013, the Franchise Board comprised:

- The Chairman of Lloyd's (who was also its Chairman).
- The CEO, the Director, Performance Management, and the Director, Finance and Operations.
- Three non-executives connected with the Lloyd's market.
- Five independent non-executives.

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

The Franchise Board held 11 scheduled meetings in 2013. It also held a full day offsite focusing on the strategic challenges facing Lloyd's and their impact on Vision 2025. Franchise Board meetings were 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 70-71.

THE PRINCIPAL COMMITTEES OF THE COUNCIL

Audit Committee

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

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

The CEO, Director, Finance and Operations, Director, General Counsel and Risk Management, 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 70-71.

The Audit Committee met on five occasions in 2013. The Audit Committee's full report is on pages 90-91.

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 Director, Finance and Operations, and the Director, Performance Management), 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 2013:

- To appoint Inga Beale as CEO. This followed a search process in which the Nominations Committee was assisted by Odgers Berndtson (an external search consultant). The search was global in reach and was based on a role description and an evaluation of the necessary skills and experience for the role. Insurance industry knowledge and experience together with leadership, strategic and operational skills were deemed particularly important. Ms Beale's appointment commenced on 27 January 2014. She is a member of the Franchise Board and a Nominated member of Council.

THE PRINCIPAL COMMITTEES OF THE COUNCIL CONTINUED

Nominations Committee continued

- To appoint Henrique Meirelles as a Nominated member of Council. The Committee was assisted by Russell Reynolds (an external search consultant) with a brief to find an international business figure from one of the faster growing economies. Mr Meirelles's appointment is for a three-year term which started on 8 April 2013.
- To reappoint Sir David Manning as a Nominated member of Council. Sir David's reappointment is for a second term of three years which started on 1 September 2013. In addition, Reg Hinkley was reappointed as a Nominated member of Council until 31 December 2013 following the expiry of his second three year term on 28 October 2013.
- To reappoint Claire Ighodaro, Nick Furlonge and Andre Villeneuve as members of the Franchise Board. Mrs Ighodaro's reappointment was for a final three-year term (taking her to nine years in total) starting on 1 January 2014. Mr Furlonge's reappointment was for a third term to last one year starting on 1 January 2014. Mr Villeneuve's current term came to an end in May 2013. He was reappointed until the end of 2013 (subsequently extended to the end of March 2014).

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

The Nominations Committee is also undertaking a search for a new nominated member of Council to replace Reg Hinkley who retired from Council at the end of his second three-year term in October 2013 (subsequently extended to 31 December 2013). The Committee is being assisted by external search consultants (Russell Reynolds) with a brief to find an international business figure from one of the faster growing economies in the Far East.

In addition, the Nominations Committee is undertaking a search for a new independent non-executive director on the Franchise Board to replace Andre Villeneuve. The Committee is being assisted by external search consultants (The Zygos Partnership) with a brief to find a full time executive from outside Lloyd's to bring broad based managerial and operational experience to the Board.

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

To assist with succession planning, the Nominations Committee also considered the future skills, knowledge and experience likely to be needed by the Franchise Board and the Council. The searches for a new Franchise Board member and a new Nominated member of Council were conducted after taking into account this work. The Committee also reviewed the Level 1 staff as part of its executive succession planning remit.

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

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

A table showing Nominations Committee members' attendance at scheduled Nominations Committee meetings is set out on pages 70-71.

The Nominations Committee held three scheduled meetings in 2013. It also held additional meetings and interviews in connection with the search for the new CEO.

Remuneration Committee

The Remuneration Committee is responsible for setting remuneration arrangements for the Chairman, CEO, executive directors and the Secretary to the Council. The Council considers the Remuneration Committee's proposals.

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.

CORPORATE GOVERNANCE CONTINUED

THE PRINCIPAL COMMITTEES OF THE COUNCIL CONTINUED

Remuneration Committee continued

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 70-71.

The Remuneration Committee met on four occasions in 2013.

The Remuneration Committee's full report is on pages 77-89.

THE PRINCIPAL COMMITTEES OF THE FRANCHISE BOARD

Risk Committee

This is chaired by the CEO and its other members are the executive directors. It reports quarterly to the Franchise Board. It also provides updates to the Audit Committee and the Council. Its activities are set out on page 22.

A table showing the Risk Committee members' attendance at meetings is set out on pages 70-71. It met on 12 occasions in 2013.

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 70-71. MSARC met on five occasions in 2013.

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 70-71. The Panel met on two occasions in 2013.

Investment Committee

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

The Investment Committee meets at the discretion of its Chairman. The Investment Committee submits a written report to the Franchise Board annually and may submit additional reports on matters of material concern as and when necessary. The Investment Committee is required to obtain the approval of the Franchise Board before making any decisions which may materially affect the financial risks applying to the Society or Lloyd's market entities. A table showing Investment Committee members' attendance at Investment Committee meetings is set out on pages 70-71. The Investment Committee met on five occasions in 2013.

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 and executive directors can also be found on Lloyd's website.

The terms and conditions of appointment of non-executive directors and non-executive members of 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 and Operations, before the Chairman deals with the business of the meeting.

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

INDEMNITIES

The Society has given indemnities to certain of its subsidiary undertakings, and the directors thereof, in respect of any claims or actions which may be brought against them or any future operating losses incurred by them in connection with the companies' activities. The Society has also given indemnities to and has agreed to cover certain specific costs that may be incurred by members of the Council, the Franchise Board, Lloyd's Regulatory Board and 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 ICSA Board Evaluation at the end of 2012. The review also covered the performance of the Audit, Remuneration and Nominations Committees. It is intended that the next external evaluation will be undertaken in 2015.

The Secretary to the Council conducted an assessment of the Council, Franchise Board, Audit, Remuneration and Nominations Committees towards the end of 2013. The assessment was based on the results of questionnaires issued to the members of these bodies.

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

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

Amongst the other major findings were:
- The need to review the delegation of authority from the Council to the Franchise Board and the Executive.
- An acknowledgement that Franchise Board agendas were lengthy and that sufficient time needed to be allocated to Board meetings to cover the ground.
- The need to continue with improvements to the focus and clarity of Council and Franchise Board papers.

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, Franchise Board and Lloyd's committees receive an induction pack containing guidance notes on Lloyd's governance arrangements.

In addition, new members of the Council and Franchise Board without extensive knowledge of Lloyd's 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. Members of the Council and Franchise Board with pre-existing knowledge and involvement at Lloyd's are given the opportunity to receive briefings on subjects of particular interest to them.

In addition, in 2013, four briefings on a range of Lloyd's related topics were made available to all members of the Council and the Franchise Board.

INDEPENDENT PROFESSIONAL ADVICE

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

CONFLICTS OF INTEREST

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

CORPORATE GOVERNANCE OF THE LLOYD'S MARKET

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

CORPORATE GOVERNANCE
CONTINUED

ATTENDANCE RECORD

	Council	Franchise Board	Audit Committee	Nominations Committee	Remuneration Committee	MSARC[1]	CTP[2]	Investment Committee	Risk Committee
Chairman of the Council of Lloyd’s									
John Nelson	[a]6/6	[a]11/11		[a]3/3	4/4				
Executive Directors									
Richard Ward	5/6	11/11							[a]12/12
Tom Bolt		11/11							10/12
Luke Savage		11/11						5/5	10/12
Non-Executive Council members									
Working members									
Rupert Atkin	5/6								
Simon Beale	6/6								
Christopher Harman	5/6								
Lawrence Holder	6/6								
Nick Marsh	6/6								
Graham White	6/6			3/3					
External members									
Robert Childs	5/6								
Michael Deeny	6/6								
Matthew Fosh	6/6								
Paul Jardine	6/6		4/5		3/4				
Alan Lovell	6/6				3/4		2/2		
Michael Watson	5/6								
Nominated members									
Andy Haste	6/6			3/3	[a]4/4		[a]2/2	[a]5/5	
Reg Hinkley	6/6		5/5			5/5			
Sir David Manning	6/6			2/3					
Henrique Meirelles[3]	4/4								
Non-Executive Franchise Board members									
Sir Andrew Cahn		9/11							
Charles Franks		9/11	5/5						
Nick Furlonge		10/11		3/3					
Claire Ighodaro		11/11	[a]5/5						
Andrew Kendrick		7/11	3/5		2/4				
Martin Read		8/11			3/4				
Bruce Van Saun		9/11	4/5						
Andre Villeneuve		8/11		3/3					

Strategic report
Market performance
Market results
Society report

ATTENDANCE RECORD CONTINUED

	Council	Franchise Board	Audit Committee	Nominations Committee	Remuneration Committee	MSARC[1]	CTP[2]	Investment Committee	Risk Committee
Other Committee members									
Martin Bride								4/5	
Margaret Chamberlain							2/2		
Edward Creasy						5/5			
Christine Dandridge						5/5			
Lady Delves Broughton							2/2		
David Gittings							2/2		
Michael Green								5/5	
Peter Grove						4/5			
Jo Rickard						[a]5/5			
Philip Matthews								3/5	
Sean McGovern									11/12
Ian Salter							2/2		
Paul Swain							2/2		
Vincent Vandendael									10/12
David Winkett								3/5	

[a] Chairman.

Notes

1. Market Supervision and Review Committee.
2. Capacity Transfer Panel.
3. Henrique Meirelles was appointed as a nominated member of Council on 8 April 2013.

CORPORATE GOVERNANCE CONTINUED
THE COUNCIL OF LLOYD'S

The Council as at 25 March 2014.

*Considered to be an independent member of the Council.

JOHN NELSON

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

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

INGA BEALE

Chief Executive Officer (Nominated member)

Inga Beale joined Lloyd's in January 2014. Previously she was Group Chief Executive of Canopius, a prominent Lloyd's managing agent. Prior to that she spent four years with Zurich Insurance, including a period as Global Chief Underwriting Officer, and was Group CEO of Converium Ltd, the Swiss mid-sized independent reinsurance company. While at Converium, 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.

RUPERT ATKIN

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

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

ANDY HASTE*

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

Andy Haste, former Group CEO of RSA, joined the Board of RSA as Group Chief Executive in April 2003 and was a member of the Group Executive Team, Investment Committee and Board Risk Committee. Prior to that he was CEO of AXA Sun Life plc and Director of AXA UK plc (life and pensions), President and Chief Executive Officer of Global Consumer Finance Europe at GE Capital UK, Western Europe and Eastern Europe (consumer financial services) and President of National Westminster Bank's US Consumer Credit Business (retail banking). He was also a member of the Board of the Association of British Insurers from 2003-11. He is currently the Senior Independent Director of ITV plc.

PAUL JARDINE

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

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

SIMON BEALE

(Working member)

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

ROBERT CHILDS

Representative of Hiscox Dedicated Corporate Member Limited (External member)

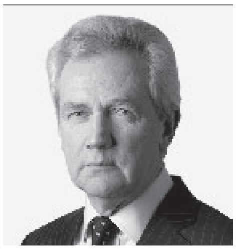
Robert Childs is the Non-Executive Chairman of Hiscox plc. He was Chairman of the Lloyd's Market Association from January 2003 to May 2005 and former Chairman of the Advisory Board of the School of Management of Royal Holloway University. He is currently a Trustee of Enham (a charity for the disabled)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

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 a Director of The Bermuda Society, the Juvenile Diabetes Research Foundation and a Trustee of the Lloyd's Tercentenary 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, Bruce Springsteen, Nirvana and Luciano Pavarotti amongst others. He underwrites through a Limited Liability Partnership and is Deputy Chairman of the Equitas Trust. He is a Non-Executive Director of the ALM and of Randall & Quilter Underwriting Management Holdings Limited.

MATTHEW FOSH

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

CHRISTOPHER HARMAN

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

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.

ALAN LOVELL

Representative of Palace House International (Two) LLP
(External member)
Member of the Audit Committee
Member of the Remuneration Committee
Alan Lovell is Chairman of Tamar Energy, an anaerobic digestion business, and has other green energy roles. He was previously a turnaround specialist who served as Chief Executive of Costain, Dunlop Slazenger and Jarvis and is now Chief Adviser to the restructuring practice of PwC. He is a Trustee of The Mary Rose and of Winchester Cathedral and is Chairman of the Association of Lloyd's Members.

SIR DAVID MANNING GCMG CVO*

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

HENRIQUE MEIRELLES*

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

MICHAEL WATSON

Representative of Flectat Limited
(External member)
Michael Watson is Executive Chairman and Chief Executive of Canopius Group Limited of which he led the management buy out in 2003. He has over 30 years' experience in commercial and investment banking, trade finance, stock broking, life and non-life insurance, gained in London, Bermuda and New York. Michael currently serves on the Board of the Lloyd's Market Association and is a Chartered Accountant.

GRAHAM WHITE

(Working member)
Member of the Nominations Committee
Graham White is Chairman of Argenta Private Capital Limited and Deputy Chairman of Argenta Syndicate Management Limited. He is also the Chairman of Marine Aviation and General (London) Limited and a Non-Executive Director of the Newton Follis Partnership Limited. He is also a Trustee of The City Arts Trust Limited. He has worked in the Lloyd's market since 1968 as a reinsurance broker, company secretary and for members' agents and managing agents. In addition, he is a Trustee of the Lloyd's Patriotic Fund.

CORPORATE GOVERNANCE CONTINUED
THE FRANCHISE BOARD

The Franchise Board as at 25 March 2014.

*Considered to be an independent non-executive director.

JOHN NELSON

Chairman of Lloyd's
Biography on page 72.

INGA BEALE

Chief Executive Officer
Biography on page 72.

TOM BOLT

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

SIR ANDREW CAHN KCMG*

Sir Andrew Cahn is Vice Chairman of Nomura International plc and Chair of the Advisory Board of Huawei Technologies (UK). He is Chair of the International Trade and Investment Group and a Trustee of TheCityUK. He is a Non-Executive Director of General Dynamics (UK). He is a Trustee of the Institute for Government, the Gatsby Charitable Foundation and the Arvon Foundation. He was previously Chief Executive of UK Trade and Investment.

CHARLES FRANKS

Member of the Audit Committee
Charles Franks is Group Chief Executive Officer of Tokio Marine Kiln Group and of its Lloyd's managing agency, R J Kiln & Co. Having joined Kiln in 1993, he became a Director of R J Kiln in 1995 and was appointed Active Underwriter of the Marine division in 2001. He became Chief Executive of R J Kiln In 2007. He is a member of the Lloyd's Market Association Board and is an Executive Officer of Tokio Marine Holdings.

NICHOLAS FURLONGE

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

CLAIRE IGHODARO CBE*

Chairman of the Audit Committee

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

ANDREW KENDRICK

Member of the Audit Committee
Member of the Remuneration Committee

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

DR MARTIN READ CBE*

Member of the Remuneration Committee

Martin Read is a Non-Executive Director and Chairman designate of Laird plc, the Independent Chairman of the Remuneration Consultants Group and a Non-Executive Director of the UK Government Efficiency and Reform Board. He was Chief Executive of international IT services company Logica from 1993 to 2007 and has served as a Non-Executive Director on the boards of Invensys, Aegis Group, British Airways, Siemens Holdings, Boots and ASDA. He led UK Government reviews on back-office operations and IT across the public sector which reported in 2009 and on management information which reported in 2012.

LUKE SAVAGE

Director, Finance and Operations

Luke Savage trained as a Chartered Accountant with Price Waterhouse. He joined Lloyd's in 2004 as Director of Finance and Risk Management, subsequently assuming responsibility for operations. Prior to joining Lloyd's he worked in the financial services sector for over 20 years, including Morgan Stanley and Deutsche Bank.

BRUCE VAN SAUN*

Member of the Audit Committee

Bruce Van Saun is Chairman and Chief Executive Officer of RBS Citizens Financial Group, Inc. (RBSCFG), and Head of RBS Americas. He is a member of the Royal Bank of Scotland Group Executive Committee. He became CEO of RBSCFG in October 2013 after serving as RBS Group Finance Director and an Executive Director of the RBS Board since 2009. He previously held senior positions at Bank of New York Mellon, Deutsche Bank, Wasserstein Perella and Kidder Peabody. He is a member of the Financial Services Roundtable and The Clearing House Supervisory Board. He has served on several boards in the US and UK and has been active with many community organisations.

ANDRE VILLENEUVE*

Member of the Nominations Committee

Andre Villeneuve is Chairman of ICE Benchmark Administration. He was the former Chairman of the City of London's International Regulatory Strategy Group. He is an Independent Director of United Technologies Corporation and a Member of the Advisory Council of TheCityUK. He served as Chairman of Euronext-LIFFE and Instinet, Non-Executive Director of Aviva and TheCityUK Board, and Executive Director of Reuters where he worked for many years.

INTERNAL CONTROL STATEMENT

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

The Audit Committee monitors and reviews the effectiveness of the system of internal control of the Society and biannual reports are provided to the Franchise Board. There is an ongoing process, in accordance with the guidance of the UK Corporate Governance Code on internal control, which has been established for identifying, evaluating and managing significant risks. Other procedures, such as our speaking up policy whereby any member of staff may take matters that concern him or her to the Head of Internal Audit, 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 2013, outlines the governance structure and committee members' duties and responsibilities, including confidentiality and conflicts and declarations of interest.

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

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

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

Identification and evaluation of business risks
The Risk Management Framework ensures that the identification, assessment, monitoring and management of the major risks affecting the Society take place on an ongoing basis. The Framework includes a number of risk assessment techniques, which are tailored to specific risk areas. One such technique is the comprehensive risk and control assessment procedure, which is conducted on a regular basis. This review reassesses the existing risks and identifies any new risks. It evaluates controls in terms of adequacy of performance and also seeks to monitor the action plans in place to help manage risks. These processes are described in more detail in the Risk Management section on pages 22-27.

One of the key objectives of the Lloyd's risk governance structure is to provide assurance to the Franchise Board that risks facing the Society are identified and managed in accordance with approved policy and appetite. This is achieved by the risk committees having the appropriate management information (MI) to oversee and challenge. The MI includes information from many different sources within the Risk Management and internal control frameworks, such as the various risk and control assessments, details of the operating and regulatory environment and capital management reports. The risk governance structure comprises the Risk Committee plus three specialist sub-committees, the Syndicate Risk Committee, the Financial Risk Committee and the Corporation Risk Committee. These provide clear independent challenge to the risk-takers at Lloyd's and enables tailored risk management operating models, rather than a 'one size fits all' platform. The Risk Management Framework enables Lloyd's to undertake a more forward-looking assessment of risk, building in capital consideration into the decision making process and a formal Risk Appetite Framework with defined escalation routes. An Own Risk and Solvency Assessment was implemented during 2012, which brought together key risk, capital and solvency management information on a more formal basis for the Franchise Board. While an annual process, it is reviewed on a quarterly basis to ensure it remains relevant.

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

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

A compliance plan is in place to manage the risk associated with non-compliance with FCA/PRA regulatory processes. The Head of Internal Audit and the Legal and Compliance department provide progress reports to the Risk Committees and the Audit Committee. The Risk Committees also oversee the wider coordination of international regulatory compliance.

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

REPORT OF THE REMUNERATION COMMITTEE

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

STATEMENT BY CHAIR OF REMUNERATION COMMITTEE

I am pleased to present the Remuneration Committee's report for 2013 in the following pages.

The Committee's focus is on delivering a remuneration policy that is capable of attracting and retaining the calibre of employees needed to deliver Vision 2025. Our remuneration structure for executive directors at Lloyd's reflects the unique nature of the Corporation. Two years ago the Committee undertook a review and rebalanced the package for executive directors, with a decreased emphasis on variable pay (annual bonus and LPP) to better reflect the nature and role of the organisation.

A key event for the year was the appointment of Inga Beale, our new CEO. With this appointment, the Committee has taken a further step in rebalancing away from variable pay and towards fixed remuneration. The total level of remuneration is at a lower level to the previous CEO in most likely performance scenarios. Ms Beale will be paid a base salary of £700k, which is higher than her predecessor, but with lower variable pay as the maximum opportunities under both the annual bonus and LPP schemes have been reduced. The maximum bonus opportunity has reduced from 100% of salary to 75% and LPP Awards are capped at 50% (rather than 100%) of salary. A three-year deferral period has also been introduced for any LPP Awards Ms Beale may earn.

The balance of fixed and variable pay for other executive directors will remain unchanged in the near term. However, the intention is that for any new appointments, the emphasis on variable pay would be similarly reduced, in line with the approach taken for our new CEO.

Our compensation for the executive directors continues to operate within the same framework as for other employees in the Corporation. For 2014 we are introducing malus and clawback provisions in respect of future bonus and LPP Awards. Provisions relating to malus will be rolled out to all staff and clawback will be extended to senior staff.

The executive directors received no increase in salary for 2013 or 2014. 2013 was, however, 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.

Richard Ward ceased to be CEO on 31 December 2013. The Remuneration Committee agreed his leaving arrangements which are set out on page 88 of this report.

Finally, the Committee supports the principles set out by Business, Innovation and Skills (BIS) on the disclosure of remuneration. While the new regulations do not apply to Lloyd's, the Committee and Council believe that we should seek to comply with the disclosure principles as a matter of best practice, to the extent that we are able. The report that follows has been prepared on that basis.

Andy Haste
Chairman, Remuneration Committee
25 March 2014

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

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) and Luke Savage (Director, Finance and Operations) – ie 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 the HR Policies & Procedures as follows:

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

Lloyd's Total Reward approach is supported by the following practices:
– We look beyond base salary to the value of the total reward package in meeting the needs of employees.
– We recognise and reward superior performance.

Lloyd's policy is therefore based on providing a package of rewards (salary plus benefits) that is business driven, competitive, fair and flexible. It is also founded on the proposition that the ultimate source of value in the business is people. Combining this creates a reward offering which:
– Emanates from business strategies and priorities.
– Is based on business success (ie our ability to pay).
– Provides a flexible mix of rewards, designed to attract, retain and motivate a performance driven workforce with the varied range of experience and skills the business requires.
– Is externally competitive.
– Rewards for performance rather than cost of living.
– Ensures employees understand the criteria by which rewards are determined and reviewed.
– Gives managers the tools to make informed decisions regarding rewarding their teams.
– Is in line with our equality and diversity policy.

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 to bring remuneration arrangements 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.

REMUNERATION POLICY TABLE

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

REMUNERATION POLICY TABLE CONTINUED

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Annual bonus	To link reward to short-term performance and contribution.	Discretionary annual bonus determined by the Committee taking into account reference to performance against objectives and key performance indicators. For bonuses payable in respect of performance in 2014 and subsequent years, the Committee retains the discretion to clawback annual bonus awards in circumstances including, but not limited to, material misstatement of financial performance or misconduct.	Current bonus maxima as a percentage of salary are: CEO: 75% (with on target of 45%) Director, Performance Management: 67% Director, Finance and Operations: 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.
Lloyd's Performance Plan (LPP)	To offer an incentive which is directly linked to the profitability of the Lloyd's market.	Annual LPP Awards are calculated by reference to profit levels in the year. For the CEO, the whole award is deferred, and is paid in the October of the third financial year following the end of the performance period. For other executive directors 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 LPP Awards in respect of 2014 and subsequent years, the Committee may apply malus in respect of deferred LPP Awards and reduce the amount of any LPP Award in circumstances including, but not limited to, material misstatement of financial performance or misconduct. In addition, for LPP Awards payable in respect of 2014 and subsequent years, the Committee retains the discretion to clawback any LPP Award in circumstances including, but not limited to, material misstatement of financial performance or misconduct.	For the CEO, an individual cap of 50% of salary applies. For the remaining executive directors, 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 these benefits as the cost of medical and life insurance depends on the individual's circumstances.	None
Relocation benefits	To support Lloyd's international strategy or to facilitate recruitment.	Relocation benefits may be offered in certain circumstances. Neither the CEO nor the executive directors have been given relocation benefits.	There is no overall maximum	None

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

REMUNERATION POLICY TABLE CONTINUED

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

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) the LPP operates as an ongoing fund (deferral), while for other employees it is a series of annual awards.
– All employees are eligible for a discretionary bonus.
– The framework for provision of benefits and pensions is consistent across all employees in the Corporation.

FEE POLICY FOR THE CHAIRMAN AND MEMBERS OF THE COUNCIL OF LLOYD'S AND FRANCHISE BOARD WHO ARE NOT EMPLOYEES OF THE CORPORATION

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

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

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

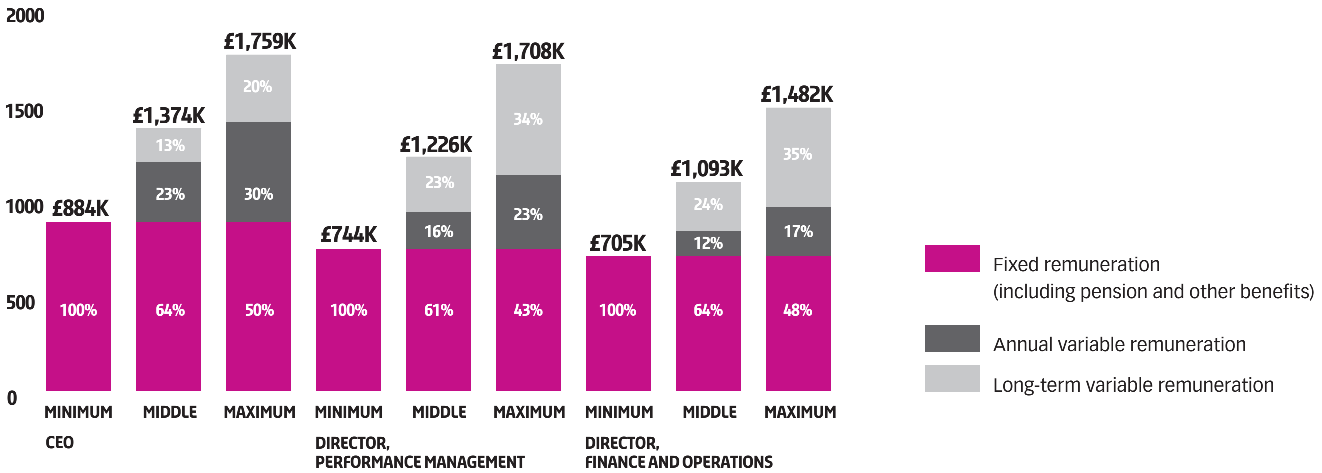
FEE POLICY FOR THE CHAIRMAN AND MEMBERS OF THE COUNCIL OF LLOYD'S AND FRANCHISE BOARD WHO ARE NOT EMPLOYEES OF THE CORPORATION CONTINUED

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

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

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

ILLUSTRATIONS OF THE APPLICATION OF REMUNERATION POLICY



Scenario	Assumptions
Minimum	No annual bonus, no LPP.
Middle	CEO - On target bonus (ie 60% of maximum bonus) and 50% of maximum LPP Executive directors - 50% of maximum bonus and 50% of maximum LPP.
Maximum	100% of bonus and maximum LPP.

APPROACH TO RECRUITMENT REMUNERATION

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

- In order to facilitate the future success of the Corporation, any package will be sufficient to attract 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 (eg 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 which 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.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

APPROACH TO RECRUITMENT REMUNERATION CONTINUED

- Where an executive director is appointed from within the organisation, the normal policy is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, for any appointments following corporate reorganisation/activity, legacy terms and conditions would be honoured.
- Additional costs and support may be provided if the recruitment requires relocation of the individual.

SERVICE CONTRACTS AND LOSS OF OFFICE PAYMENT POLICY

The CEO, the Director, Finance and Operations, and the Director, Performance Management, have rolling one-year contracts providing for a maximum of one year's notice.

Mr Nelson's contract covers his services as Chairman of Lloyd's and Chairman of the Franchise Board. On 25 March, the Council agreed to renew Mr Nelson's contract for another three years with effect from 17 October 2014.

	Effective date of contract	Unexpired term as at 31 December 2013	Notice period
John Nelson[1]	17/10/11	9 months	12 months
Inga Beale[2]	27/01/14	rolling 1 year	12 months
Tom Bolt[3]	01/09/09	rolling 1 year	12 months
Luke Savage[4]	20/09/04	rolling 1 year	12 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. Luke Savage was appointed to the Franchise Board on 30 September 2004.

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

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

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

Compensation for termination of employment:

- If the CEO or executive director works out his or her notice period, he or she will be entitled to payment as normal during the period of notice. Alternatively, the Corporation reserves the right to terminate the employment by making a payment in lieu of notice. In these circumstances, the Corporation's policy is that the outgoing employee would be entitled to receive an amount equal to base salary only in respect of his or her notice period. By exception, the Director, Finance and Operations, is additionally entitled to receive the value of his cash benefits allowance, private medical insurance and pension in respect of the 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 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.

LPP:

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

- If the CEO or executive director leaves the Corporation's employment and is classified as a 'good leaver' (as determined by the rules of the LPP) he or she will receive a pro-rated LPP Award for each complete month of service in respect of his or her year of departure. The LPP Award will be notified to the employee and, together with any balance relating to a previous year which remains in the employee's LPP Fund at the termination date, will be paid to him or her no later than the payment date under the applicable LPP scheme rules.
- Good leaver circumstances include death, disability, ill-health or any other reason that the Remuneration Committee determines in its sole discretion should constitute a good leaver reason.

SERVICE CONTRACTS AND LOSS OF OFFICE PAYMENT POLICY CONTINUED

- If the CEO or executive director leaves the Corporation's employment due to any reason other than those referenced above (as determined by the Remuneration Committee acting in its absolute discretion), he or she will forfeit any and all outstanding and future LPP Awards (including, for the avoidance of any doubt, any balance of the LPP Fund) with immediate effect from the date that he or she serves or receives notice of termination.
- Any LPP Awards made to the CEO or executive director who has left the Corporation would be subject to the malus and clawback provisions set out in the rules of the LPP.

CONSIDERATION OF CONDITIONS ELSEWHERE IN THE COMPANY

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 is 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 new 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.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

ANNUAL REMUNERATION REPORT

This section sets out the annual remuneration for 2013 and the way in which policy is being applied for 2014.

SINGLE TOTAL FIGURE OF REMUNERATION

The total remuneration receivable in respect of qualifying services for each person who served as a director or member of Council during the year is shown below. Further detail on LPP Awards is shown on page 86.

	Salary/Fees		Other benefits[1]		Annual bonus		LPP Award		Pension benefit[2]		Total	
	2013 £000	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Chairman of the Council of Lloyd's												
John Nelson[3,4,7]	**525**	525	**31**	21	**–**	–	**–**	–	**–**	–	**556**	546
Executive directors												
Richard Ward[3,4]	**668**	668	**25**	23	**502**	502	**428**	370	**172**	196	**1,795**	1,759
Tom Bolt[3,5,6]	**577**	577	**24**	20	**315**	315	**370**	320	**143**	144	**1,429**	1,376
Luke Savage[3,5]	**518**	518	**18**	16	**200**	250	**332**	287	**169**	194	**1,237**	1,265
Non-Executive Council members												
Working members												
Rupert Atkin	**38**	36	**–**	–	**–**	–	**–**	–	**–**	–	**38**	36
Simon Beale[8]	**38**	33	**–**	–	**–**	–	**–**	–	**–**	–	**38**	33
Christopher Harman	**38**	36	**–**	–	**–**	–	**–**	–	**–**	–	**38**	36
Lawrence Holder[8]	**38**	33	**–**	–	**–**	–	**–**	–	**–**	–	**38**	33
Nick Marsh	**38**	36	**–**	–	**–**	–	**–**	–	**–**	–	**38**	36
Graham White	**55**	53	**–**	–	**–**	–	**–**	–	**–**	–	**55**	53
External members												
Robert Childs[8,9]	**38**	33	**–**	–	**–**	–	**–**	–	**–**	–	**38**	33
Michael Deeny[9]	**38**	36	**1**	1	**–**	–	**–**	–	**–**	–	**39**	37
Matthew Fosh[9]	**38**	36	**–**	–	**–**	–	**–**	–	**–**	–	**38**	36
Paul Jardine[7,9]	**64**	62	**–**	–	**–**	–	**–**	–	**–**	–	**64**	62
Alan Lovell[7,9]	**52**	50	**–**	–	**–**	–	**–**	–	**–**	–	**52**	50
Michael Watson[9,10]	**34**	–	**–**	–	**–**	–	**–**	–	**–**	–	**34**	–
Nominated members												
Andy Haste[7,11]	**86**	14	**–**	–	**–**	–	**–**	–	**–**	–	**86**	14
Reg Hinkley	**56**	54	**–**	–	**–**	–	**–**	–	**–**	–	**56**	54
Sir David Manning	**45**	43	**–**	–	**–**	–	**–**	–	**–**	–	**45**	43
Henrique Meirelles[12]	**28**	–	**5**	–	**–**	–	**–**	–	**–**	–	**33**	–
Non-Executive Franchise Board members												
Sir Andrew Cahn	**60**	56	**–**	–	**–**	–	**–**	–	**–**	–	**60**	56
Charles Franks	**69**	64	**–**	–	**–**	–	**–**	–	**–**	–	**69**	64
Nick Furlonge	**67**	63	**–**	–	**–**	–	**–**	–	**–**	–	**67**	63
Claire Ighodaro	**75**	71	**–**	–	**–**	–	**–**	–	**–**	–	**75**	71
Andrew Kendrick[7]	**76**	72	**–**	–	**–**	–	**–**	–	**–**	–	**76**	72
Martin Read[7]	**67**	63	**1**	–	**–**	–	**–**	–	**–**	–	**68**	63
Bruce Van Saun[13]	**69**	19	**10**	–	**–**	–	**–**	–	**–**	–	**79**	19
Andre Villeneuve	**67**	63	**–**	–	**–**	–	**–**	–	**–**	–	**67**	63
Former members of Council												
Lord Ashton of Hyde[14]	**3**	36	**–**	–	**–**	–	**–**	–	**–**	–	**3**	36
Sir Robert Finch[15]	**–**	58	**–**	–	**–**	–	**–**	–	**–**	–	**–**	58
Ewen Gilmour[16]	**–**	8	**–**	–	**–**	–	**–**	–	**–**	–	**–**	8
Barnabas Hurst-Bannister[16]	**–**	3	**–**	–	**–**	–	**–**	–	**–**	–	**–**	3
Andreas Prindl[17]	**–**	77	**–**	–	**–**	–	**–**	–	**–**	–	**–**	77

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

SINGLE TOTAL FIGURE OF REMUNERATION CONTINUED

Notes

1. Other benefits include items such as benefit allowances, medical and life insurance.
2. Pension benefit is calculated as 20 times the increase in pension in the year (net of inflation) less the salary sacrificed, and also includes payments of 20% of annual base salary as pension benefits are based on a maximum earnings cap, which from 6 April 2013 was £141,000.
3. Employee of the Corporation of Lloyd's.
4. Member of both Council and the Franchise Board for 2013.
5. Member of the Franchise Board only.
6. Tom Bolt is a non-executive director of Xchanging Claims Services. No fees are payable.
7. Member of the Remuneration Committee during 2012.
8. Simon Beale and Lawrence Holder joined Council on 8 February 2012. Robert Childs joined Council on 1 February 2012.
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. Michael Watson joined Council on 1 February 2013.
11. Andy Haste was appointed to Council on 1 November 2012. He was also appointed as Chairman of the Remuneration Committee as from the same date.
12. Henrique Meirelles joined Council on 8 April 2013.
13. Bruce Van Saun was appointed to the Franchise Board on 3 September 2012.
14. Lord Ashton of Hyde (representative of Faraday Capital Ltd) retired from Council on 31 January 2013.
15. Sir Robert Finch retired from Council on 31 December 2012.
16. Ewen Gilmour and Barnabas Hurst-Bannister (the representative of Aprilgrange Ltd) retired from Council on 31 January 2012.
17. Andreas Prindl retired from Council and as Chairman of the Remuneration Committee on 31 October 2012.

SALARY

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

As discussed in the annual statement from the Committee Chairman, the new CEO will be paid a salary of £700,000. This increase, in comparison with the previous incumbent, has been accompanied by a reduction in maximum opportunities under both the annual bonus and LPP. Taken together, the total level of remuneration is at a lower level to that of the previous CEO in most likely performance scenarios.

No salary increases were made for the executive directors for 2013 or 2014.

Salaries for 2014 are as follows:

	2014 Base salaries £000	Increase on 2013
CEO	**700**	**n/a**
Director, Performance Management	**577**	**0%**
Director, Finance and Operations	**518**	**0%**

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 2013 was as follows:

Former CEO	100% of base salary (new CEO 75%)
Director, Performance Management	67% of base salary
Director, Finance and Operations	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 sets strategic and operational objectives and KPIs at the start of the financial year that are aligned to the Corporation's strategic objectives. These help in determining the annual bonus awards for the year. Because the KPIs, in the main, relate to specific strategic actions and initiatives, the Committee considers that the specific objectives are sensitive in the context of the Lloyd's market.

Bonus outturns for 2013

2013 has been a successful year for the Lloyd's market and the Corporation. Key achievements in the year against KPIs included:

- A significantly improved capital and syndicate business planning process.
- Improvements in claims efficiency through the Claims Transformation Programme (end-to-end average times for claims settlement have improved by 53% since the beginning of the Programme).
- The development of a Volume Claims Service for handling high volume, low complexity claims (made available January 2014).
- Expanding Lloyd's international profile through market and licence development work.
- Delivery of insurance services for Lloyd's Asia.
- Introduction of the Data Standards Control Framework for service companies.
- Implementation of a new complaints code and supporting technology.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

ANNUAL BONUS CONTINUED

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:

Former CEO	£502k (75% of max)
Director, Performance Management	£315k (81% of max)
Director, Finance and Operations	£200k (77% of max)

LLOYD'S PERFORMANCE PLAN

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

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

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

All employees of the Corporation and international offices are eligible to participate in the LPP on the basis set out as below. New employees will become eligible to participate in the LPP from the first full financial year following their recruitment. Under the terms of the new CEO's LPP scheme, Inga Beale is permitted to participate in the LPP from the date of her appointment.

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.

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)
New CEO	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 ie £3.3bn of PBT
Directors	20% of salary per £1bn of PBT		100% of salary ie £5bn of PBT
Senior managers (Level 1)	10% of salary per £1bn of PBT		30% of salary ie £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) ie £3bn of PBT

Structure and timing of payments

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

Job level	Awards	Payments
New CEO	Any LPP Award will be notified to Ms Beale after the PBT for the relevant year has been announced (ie Ms Beale will be notified normally in May 2015 of any LPP award relating to the financial year 2014).	Payment is deferred until October in the third year following the end of the relevant financial year, ie Ms Beale will receive any LPP award relating to financial year 2014 in October 2017.
Directors and Level 1 employees	Any LPP Award will be notified to the employee after the PBT for the relevant year has been announced (eg the employee will be notified normally in May 2014 of any LPP Award relating to the financial year 2013). 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.

LLOYD'S PERFORMANCE PLAN CONTINUED

LPP Awards in respect of 2013

For 2013, PBT of £3.2bn was achieved. As this is above the threshold level of £100m LPP Awards were made for the year. Based on this PBT level and the LPP calculation described above, the LPP Awards for the former CEO and the executive directors in respect of 2013 was 64% of salary. These awards will be paid out as described above.

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

	Total fund outstanding as at 31 December 2012 £000	**Amount paid during the year ended 31 December 2013 £000**	**LPP Award in respect of 2013 £000**	**Total fund outstanding as at 31 December 2013 £000**
Richard Ward	522	**(261)**	**428**	**689**
Tom Bolt	372	**(186)**	**370**	**556**
Luke Savage	417	**(209)**	**332**	**540**

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

PENSIONS

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

The former CEO, the Director, Finance and Operations, and the Director, Performance Management, 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 2013
Richard Ward	Pension arrangements provide for a pension on retirement based on a standard accrual rate of one sixtieth of base annual salary subject to the Scheme earnings cap, for 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 in relation to the standard sixtieth accrual rate and an additional 10.1% of the earnings cap to increase the accrual rate to 45ths.
Tom Bolt	Pension arrangements provide for a pension at retirement built in annual blocks based on a standard accrual rate of one eightieth of base annual salary subject to the Scheme earnings cap in each year of eligible service with the facility to increase the accrual rate to one thirtieth for an additional contribution.	Salary sacrifice of 5% of the earnings cap for eightieth accrual rate.
Luke Savage	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 £141,000 from 6 April 2013.	Salary sacrifice of 10% of the earnings cap in exchange for additional employer pension contributions of the same amount.

The former CEO, the Director, Finance and Operations, and the Director, Performance Management, 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 former CEO, the Director, Finance and Operations, or the Director, Performance Management, are pensionable. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service.

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 2013 £000	Age at 31 December 2013	Increase in pension in year to 31 December 2013 – actual £000	Increase in pension in year to 31 December 2013 – net of price inflation £000	Total accrued annual pension in year to 31 December 2013 £000 pa	Normal retirement age
Richard Ward	**14**	**56**	**4**	**3**	**3**	**65**
Tom Bolt	**7**	**57**	**2**	**2**	**2**	**65**
Luke Savage	**14**	**52**	**5**	**4**	**4**	**60**

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

	Transfer value of accrued pension as at 31 December 2012 £000	Transfer value of accrued pension as at 31 December 2013 £000	Movement in transfer value over the year less amounts salary sacrificed £000
Richard Ward	449	**480**	**17**
Tom Bolt	86	**110**	**17**
Luke Savage	619	**677**	**44**

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

DEPARTING CEO

Richard Ward's employment terminated by mutual agreement on 31 December 2013. Under this agreement, Dr Ward will receive, in addition to the bonus and LPP Award earned in respect of 2013, a payment of up to £668k, representing 12 months' salary. Payment will be made in monthly instalments, which will be reduced to take account of income received from other new employment or directorships during the 12 month period ending on 31 December 2014. As at the date of publication of this report, Dr Ward has been paid £125k.

Dr Ward is entitled to benefit for up to 12 months from private health insurance and life insurance. Dr Ward has also received a contribution to his legal fees of £5k.

ADDITIONAL DISCLOSURES

Five 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
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%

CEO pay increase in relation to all employees

The table below sets out details of the change in remuneration elements for the CEO and all Corporation employees.

	CEO	All employees
Salary	0%	3.57%
Other benefits	7.29%	0.79%
Annual bonus	0%	1.55%

ADDITIONAL DISCLOSURES CONTINUED

Relative importance of spend on pay

	2013 £000	2012 £000
Operating Income	**217,231**	214,388
Total remuneration - all employees	**87,874**	85,495

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

REMUNERATION FOR THE CHAIRMAN AND MEMBERS OF THE COUNCIL OF LLOYD'S AND FRANCHISE BOARD WHO ARE NOT EMPLOYEES OF THE CORPORATION

The Chairman was paid £525k for 2013 and his salary remains at this level for 2014.

Fees for 2013 for Council and Franchise Board members were increased by 5% and 7% respectively. This was the first increase in fees for three years. For 2014, fees for members of Council and Franchise Board are £37,500 and £60,000 per annum respectively (the same as 2013). 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. The additional fee payable to the Deputy Chairmen, over and above the standard Council member's fee, was increased by 3% for 2013 to £10,500 per annum. This was the first increase for three years and remains at this level for 2014.

DETAILS OF THE REMUNERATION COMMITTEE, ADVISERS TO THE COMMITTEE AND THEIR FEES

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

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

The Remuneration Committee met four times in 2013. The attendance record is set out in the Corporate Governance report on page 70. 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 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 £48,650 for the year. Deloitte LLP also provided other services to the Corporation during the year, including the co-sourced Internal Audit resource.

Kepler provided remuneration services in relation to the search and appointment of the new CEO. Total fees paid to Kepler amounted to £3,600 for the year.

At the request of the Remuneration Committee, the CEO and Head of HR regularly attend Remuneration Committee meetings. Other senior executives are invited to attend for specific agenda items from time to time.

Neither the Chairman, nor the CEO, nor any other director, plays a part in any discussion about his or her own remuneration.

Andy Haste
Chairman, Remuneration Committee
25 March 2014

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 controls.
- 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.

In 2013, the Committee conducted a tender for audit services. We compared the quality and effectiveness of audit services offered and examined the qualifications, independence and expertise of the firms under consideration. The tender process is described in the Report of the Audit Committee.

Claire Ighodaro, CBE
Chairman, Audit Committee
25 March 2014

COMPOSITION OF THE AUDIT COMMITTEE

The Committee, at the end of 2013, comprised two nominated members of the Council, one external member 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 2013 and their attendance at meetings are shown in the Corporate Governance report on pages 70 and 71.

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, Reg Hinkley, 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 72 to 75.

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.

A detailed forward agenda has been in operation for a number of years focused to coincide with key events of the annual financial reporting cycle, together with standing items that the Committee is required to consider regularly under its terms of reference. The agenda changes to respond to key issues and the results of the Committee's work are reported to the Council.

The Committee received technical updates from senior management and the external auditors on developments in financial reporting, accounting policy and regulatory developments. In addition, the Committee received an in-depth presentation from the external auditor on corporate reporting developments and the proposed changes to insurance accounting.

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 2013 in respect of the Society were:
- The notional investment return on Funds at Lloyd's and the methodology of the calculation.
- The valuation of the Lloyd's pension scheme including a review of the appropriateness of the assumptions used in the calculation and the impact of International Accounting Standard 19 Revised Employee Benefits.
- The methodology and assumptions used in the fair value calculation of recoverable Central Fund loans made to hardship members.
- The methodology and assumptions used in the calculation of amounts to be retained by the Society in respect of Central Fund Contributions and Subscriptions.
- 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.

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 during 2013 were:

- The Committee reviewed reports from the Risk Committee on developments to the Lloyd's Risk Framework. The Committee also considered the quarterly risk and capital management information reports. Throughout the year, the Committee was updated on the key risks which are set out in the Risk Management section of the Annual Report on page 23.
- The Committee monitored progress updates on the PRA and FCA Risk Mitigation Programmes.
- The Committee reviewed internal audit reports, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions.
- The Committee reviewed management's assessment of the internal control environment including reports on control failures during the period and status of progress against previously agreed actions.
- Regular reports on UK and overseas regulatory and compliance matters including the European Commission's legislative proposals on auditing; Solvency II; and the International Association of Insurance Supervisors proposed methodology for identifying Systemically Important Financial Institutions.
- The Committee reviewed the results of the speaking-up survey and updates on action being taken to address any specific matters.

AUDITORS

Internal audit

The Committee reviewed and approved Internal Audit's Charter and Operating Standards and the Internal Audit Plan, which provides the three-year audit cycle and details the annual scope of work and allocation of resources based on an assessment of inherent risks and existing controls.

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

The Committee also reviewed the PRA assessment of Internal Audit, which indicated their satisfaction with the Internal Audit function, and reviewed the new Chartered Institute of Internal Auditors 'Effectiveness of Internal Auditors in Financial Services Guidance'. The Committee agreed that an external assessment of Internal Audit should be undertaken during 2014.

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, which 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 these thresholds requires approval from the Chairman of 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 its 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 2013 include other services pursuant to legislation (work undertaken on the Aggregate Accounts and regulatory returns) and the pro forma financial statements.

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.
As a matter of good governance the Society competitively tendered the external audit service contract during 2013. As a result of the tender, PricewaterhouseCoopers LLP has been selected as the Society's auditor. Ernst & Young LLP has resigned its position as auditor and PricewaterhouseCoopers LLP was appointed by the Council.

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 2013.

The role of the Lloyd's Members' Ombudsman is to investigate complaints by members and former members who were members at any time after 30 November 2001, who believe that they have suffered injustice in consequence of maladministration in relation to any action taken by or on behalf of the Society.

Complaints received

During the course of the year no complaints were received by my office.

Costs

The expenses incurred by my office amounted to £15,000.

FINANCIAL REVIEW

This review should be read in conjunction with the financial statements of the Society on pages 102-106.

OPERATING SURPLUS

The Society of Lloyd's achieved an operating surplus for the year of £88m (2012: surplus of £88m). The operating surplus by business segment is set out below:

	Corporation of Lloyd's £m	Lloyd's Central Fund £m	2013 Total £m	Restated 2012 Total £m
Total income	217	108	325	320
Central Fund claims and provisions incurred	–	(18)	(18)	(26)
Other group operating expenses	(212)	(7)	(219)	(206)
Operating surplus	**5**	**83**	**88**	88

Corporation of Lloyd's

Total income for the Corporation of Lloyd's increased by £3m to £217m (2012: £214m) driven by the increase in subscription income which has benefited from an increase in the level of written premium; the rate itself remain unchanged at 0.5%. In aggregate other income streams were in line with the prior year as charges were maintained at the same level for a further year and increases in "user pays" charges, where costs incurred on behalf of specific managing agents are recharged directly to the individual agent, and rental income on additional box capacity offset decreases in other income streams. The performance and risk management charge was again waived for 2013.

Other group operating expenses increased to £212m (2012: £200m), which includes additional costs incurred on behalf of specific managing agents which are recharged on a "user pays" basis and an impairment charge following a reassessment of the recoverable amount of certain fixed assets. Excluding these items, other group operating expenses increased by 3% reflecting the increased investment in strategic initiatives, partially mitigated by further cost reductions across other areas.

Central Fund

Total income for the Central Fund increased by £2m to £108m (2012: £106m). While Central Fund contributions also benefited from an increase in the level of written premium, this was offset by a decrease in the level of premiums written by new members that are charged the additional contribution rate of 1.5% for their first three years of operation. The standard Central Fund contribution rate was unchanged during 2013 at 0.5%.

Central Fund claims and provisions is a net charge for the year of £18m (2012: charge of £26m). 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 2013, payments made in respect of insolvent corporate members were £21m (2012: £20m). There were no payments made in respect of individual members in 2013 and 2012.

Other group operating expenses increased to £7m (2012: £6m). Excluding the impact of foreign exchange, operating expenses are in line with the prior year.

FINANCIAL REVIEW CONTINUED

INVESTMENT PERFORMANCE

	2013 £m	2012 £m
Finance income	**60**	115
Finance costs – other	**(56)**	(62)
Realised/unrealised exchange (losses)/gains on borrowings	**(6)**	6
	(2)	59
Deficit on subordinated debt repurchase	**(15)**	–
	(17)	59

The Society's investments returned £60m or 2.3% during the year (2012: £115m, 4.5%). Most of the Society's investments are held within the Central Fund. Of these assets, the majority are invested in fixed interest securities of high credit quality. The investment environment was generally adverse for such investments in 2013 and the Society's fixed interest portfolio produced a low, but positive return, helped by a strategic move to reduce duration exposures early in the year. Other investments, including high yield bonds, emerging market equities and commodities also performed poorly in the period. By contrast, developed market equities produced strong returns, helping to deliver a positive, though modest, return on the Society's investments as a whole in 2013. A commentary on investment strategy is set out on page 96. The disposition of the Society's financial investments is set out in note 15 on pages 126-128.

Finance costs of £56m in 2013 (2012: £62m) predominantly relate to interest on the subordinated notes and perpetual subordinated capital securities. The decrease in the level of finance costs is as a result of the reduction in the level of outstanding debt securities during 2013.

Realised/unrealised exchange losses on borrowings reflect the impact of foreign exchange movements on the Society's outstanding debt securities. The exposure to movements in the euro is managed within the investment strategy applied to the Society's assets.

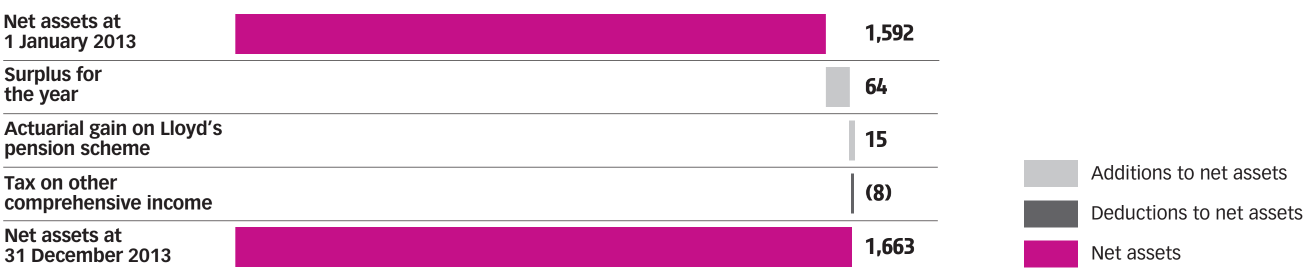
Adjusting for interest costs and foreign exchange movements results in a net investment loss of £2m (2012: return of £59m).

During 2013, the Society of Lloyd's repurchased a total principal amount of £180m of its 2004 subordinated notes at a cost of £195m. The Society additionally paid accrued interest on the purchased securities. The repurchase generated a capital loss of £15m, although interest savings over the remaining life of these securities will mean that the repurchase is of financial benefit to the Society.

TAXATION

A tax charge of £14m (2012: £34m) on the surplus before tax of £78m (2012: £153m) has been recognised for the year ended 31 December 2013. Further details are set out in note 8 on pages 120-121.

Movement in net assets
£m



The net assets of the Central Fund are included within the above amounts and at 31 December 2013 were £1,513m (2012: £1,460m).

PENSION SCHEMES

Lloyd's pension scheme

On an IFRS basis, the Lloyd's pension scheme valuation at 31 December 2013 was a deficit of £32m before allowance for deferred tax asset of £6m (31 December 2012: £43m deficit before allowance for a deferred tax asset of £10m).

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

	2013 £m
Pension deficit as at 1 January 2013	(43)
Pension expense recognised in the group income statement	(9)
Employer contributions	5
Actuarial gain recognised in the group statement of comprehensive income	15
Pension deficit as at 31 December 2013	**(32)**

This was mainly due to better than expected asset returns, although this effect was partially offset by an increase in liabilities due to a reduction in the real discount rate, and updating the calculations to use the membership data from the 2013 valuation. 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 130-135 which includes the sensitivity of the valuation to changes in these assumptions.

The latest triennial funding valuation of the scheme was carried out as at 30 June 2013, which showed a surplus of £9m.

The career average section of the scheme was closed to new joiners from April 2013, and to existing hires from June 2013 (existing employed members of each scheme continue to accrue benefits). After these dates, employees are eligible to join the Defined Contribution arrangement, which is administered by Aviva.

Overseas pension schemes

Overseas pension schemes' actuarial valuation at 31 December 2013 was £1.6m (2012: £1.8m). Further details are provided in note 18.

SOLVENCY

Total assets for solvency purposes are set out below. The 2013 position is an estimate of the amount which will be finalised in June 2014 for submission to the PRA:

	2013 £m	2012 £m
Net assets at 31 December	**1,663**	1,592
Subordinated notes and perpetual subordinated capital securities	721	893
Central assets	**2,384**	2,485
Callable Central Fund contributions	788	745
Other solvency adjustments	(15)	(15)
Central assets for solvency purposes	**3,157**	3,215
Solvency shortfalls	(34)	(94)
Excess of central assets over solvency shortfalls	**3,123**	3,121

Based on central assets for solvency purposes of £3.2bn (2012: £3.2bn), the estimated solvency ratio is 9285% (2012: 3420%). In setting contribution levels, account is taken of the Society's ICA to ensure that Lloyd's is prudently but competitively capitalised. Unencumbered central assets should be at least 100% of the Society's ICA plus the higher of 150% of the Society's ICA, or 100% of the Society's ICG, on a business as usual basis.

CASH FLOWS AND LIQUIDITY

Cash and cash equivalents decreased during the year ended 31 December 2013 by £56m to £151m (2012: £207m). Cash balances are maintained at appropriate levels to meet the short-term operating expenses of the Society. Any surplus cash balances are invested and are included as financial investments within the group balance sheet.

The Corporation's free cash balances 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 2013 were £79m.

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.

FINANCIAL REVIEW
CONTINUED

CENTRAL FUND INVESTMENT STRATEGY
Central Fund investment strategy is considered in three parts. A prudent estimate of possible net cash flow requirements is used to determine the value of assets to be maintained for liquidity purposes. These 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, with the objective to optimise current income, with low risk, while ensuring that all cash flow requirements are met as they arise.

A significant element of Central Fund assets is invested in fixed interest securities of high credit quality. The financial risk exposures represented by debt securities issued by the Society are also considered when determining the disposition of fixed interest investments. The aim is to optimise investment returns in the longer term while maintaining overall financial risk within defined limits.

A proportion of investments is maintained in more volatile asset classes. Here also, the aim is to optimise investment returns in the longer term without exceeding defined risk tolerances. These investments are diversified among different asset classes to help manage risk. Current exposures include global equities, high yield bonds, global property (via property-related equity securities), commodities and hedge funds. Fixed interest assets of high credit quality are managed 'in house' by Lloyd's. Third party investment managers are retained to manage investments in other asset classes, operating within clearly defined investment parameters specified by Lloyd's, which also monitors the activity of the external managers on an ongoing basis.

In 2013, the Franchise Board approved an increase in the investment risk budget applying to the Central Fund. Consequently, asset dispositions have been gradually amended during the year, including moderately higher exposures to more volatile asset classes, in order to optimise investment returns in the longer term.

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

The Society's treasury operations and investments are managed by reference to established policies which are reviewed regularly by the Investment Committee. Policies for managing these risks, in particular credit risk, liquidity risk and market risk, are summarised below:

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

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

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

Guarantees
The Society provides certain financial guarantees as security for the underwriting activities of the members of Lloyd's. Further details are provided in note 27 on page 144.

Liquidity risk
The value and term of short-term assets are carefully monitored against those of the Society's liabilities. The Society maintains sufficient liquid assets to meet liabilities as they fall due.

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

The Society had no committed borrowing facilities as at 31 December 2013 (2012: £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.

FINANCIAL RISK MANAGEMENT AND TREASURY POLICIES CONTINUED

Foreign currency risk

The Society enters into a variety of foreign exchange transactions in response to the foreign currency requirements of Lloyd's group companies. In managing the exposures arising from such foreign exchange activity, which may involve transactions for forward settlement, the net risk arising from all such exposures is considered and the level of this risk is managed within defined parameters. Consequently, while some net foreign exchange exposures may accrue to the Society from time to time as a result of this activity, the level of such exposures is carefully monitored and is not significant in the context of its activities.

Foreign currency exposures arising from overseas investments are considered together with foreign currency liabilities of the Society, and net foreign currency exposures arising are managed through the use of forward foreign exchange contracts.

Separately, the Society provides a Currency Conversion Service (CCS) to participating Lloyd's syndicates, converting insurance premiums and claims between pounds sterling and other Lloyd's settlement currencies as required. Foreign exchange exposures arising from the provision of the CCS are again managed on a net basis, within defined parameters. The CCS is operated separately from other foreign exchange activity of the Society because, under the terms of the service, any profit (or loss) arising from CCS exposures is distributed to (or collected from) syndicates participating in the CCS. Currency exposures arising from CCS activity consequently do not, ultimately, represent risks to the Society.

Interest rate risk

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

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

Interest rate risk arising from the requirement to make fixed rate coupon payments in respect of the Lloyd's subordinated loan notes and the perpetual subordinated capital securities is considered in conjunction with the market risk arising on the Society's investments. Overall risk is managed within defined limits, specified by the Franchise Board.

Capital management

The Society monitors its capital to ensure that it maintains sufficient assets for both operational and solvency purposes. Further disclosures with regard to financial instruments are provided in note 22 on pages 137-141.

RELATED PARTY TRANSACTIONS

Except for disclosures made in note 26 (see pages 143-144), no related party had material transactions with the Society in 2013.

GOING CONCERN STATEMENT

After making enquiries and considering management's assessment of the financial position of the Society including forecast and stress tests undertaken on the Chain of Security, the members of the Council of Lloyd's have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Society's financial statements.

The Chain of Security is discussed in more detail in 'How Lloyd's works' on page 10 and in 'Security underlying policies issued at Lloyd's' on page 57.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

Having made enquiries, the Council of Lloyd's confirms that:

- To the best of each Council member's knowledge and belief there is no information relevant to the preparation of the Society Report of which the Society's auditors are unaware.
- Each Council member has taken all the steps a Council member might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Society's auditors are aware of that information.

OUTLOOK

Central assets, which exclude subordinated liabilities, are expected to remain stable at £2.4bn in 2014. On 25 March 2014, the Council of Lloyd's gave further undertakings to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. After taking account of the expiry of unutilised undertakings, the net increase in undertakings, which will be reflected as a charge in the 2014 income statement, is £6m (see note 4 on page 117). The operating expenses for the Corporation and its subsidiaries are budgeted to be £235m in 2014 reflecting the focus on delivering the Lloyd's strategy. The Council of Lloyd's is responsible for preparing the group financial statements in accordance with byelaws made under Lloyd's Act 1982 and International Financial Reporting Standards (IFRS) as adopted by the European Union.

STATEMENT OF THE COUNCIL OF LLOYD'S RESPONSIBILITIES TO THE FINANCIAL STATEMENTS

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

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

The Council of Lloyd's is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable it to ensure that the group financial statements comply with Article 4 of the IAS Regulation. As the Society's subordinated debt and perpetual subordinated capital securities are admitted to trading in a regulated market in the European Union, Council has elected to comply with Article 4, which requires group financial statements to be prepared in conformity with IFRS as adopted by the European Union. The Council of Lloyd's is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Council of Lloyd's is responsible for the maintenance and integrity of the corporate and financial information included on the Society's website (www.lloyds.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Council of Lloyd's considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Society's performance, business model and strategy.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE SOCIETY OF LLOYD'S

REPORT ON THE GROUP FINANCIAL STATEMENTS

In our opinion the Group financial statements:

- Give a true and fair view of the state of the Society's affairs as at 31 December 2013 and of the Group's 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.
- Have been prepared in accordance with the requirements of the Lloyd's Act 1982.

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

What we have audited

The Group financial statements, which are prepared by The Society of Lloyd's, comprise:

- The Group statement of financial position as at 31 December 2013.
- The Group income statement and statement of comprehensive income for the year then ended.
- The Group statement of changes in equity and statement of cash flows for the year then ended.
- The notes to the Group financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK and Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the Group financial statements sufficient to give reasonable assurance that the Group 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 Group's circumstances and have been consistently applied and adequately disclosed.
- The reasonableness of significant accounting estimates made by the Council.
- The overall presentation of the Group financial statements.

In addition, we read all the financial and non-financial information in the Society Report to identify material inconsistencies with the audited Group 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.

OVERVIEW OF OUR AUDIT APPROACH

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

In making our assessment we considered the financial measures which we believed to be relevant to determining such thresholds. We have considered total assets to be an appropriate measure since the Society provides a crucial link in the Lloyd's Chain of Security for the market and is not a profit orientated entity.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £16 million. We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.8 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Society of Lloyd's is composed of two key segments; the Corporation of Lloyd's and the Central Fund. Together these consist of 34 reporting units. A significant portion of Society operations are performed in the UK, with some presence overseas.

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 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 Group financial statements as a whole.

The Group has a number of significant reporting units; we perform a complete audit of financial information on those significant units which enables us to account for 90% of the Group's revenue and 94% of the Group's profit before tax and 92% of net assets. These procedures, together with additional procedures performed over the remaining balances, provide us with the evidence we needed for our opinion on the Group financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE SOCIETY OF LLOYD'S CONTINUED

OVERVIEW OF OUR AUDIT APPROACH CONTINUED

Areas of particular audit focus

In preparing the Group financial statements, the Council made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Council's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Group financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the Group financial statements is set out on page 90.

Area of focus	How the scope of our audit addressed the area of focus
Valuation of financial investments	
We focused on this area because it represents 87% of the assets of the Society and so accurate investment valuation is critical.	Our approach primarily focused on obtaining independent prices for the investment portfolio. We completed this for 82% of total investments. For other investments we evaluated the Society's pricing source and methodology.
Pension	
Lloyd's has a number of defined benefit pension schemes which total £666m, as measured by IAS 19. This value is equivalent to 40% of the Society Net Assets. Assumptions in this valuation therefore can have a material impact on the pension scheme valuation and therefore recognised deficit in the Group financial statements.	We deployed pension specialists to evaluate the key assumptions used to value the Lloyd's pension scheme. We also compared the selected assumptions to those used by similar organisations in the market.
Fraud in revenue recognition	
ISAs (UK and Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on the recognition of Central Fund contributions. Although not complex this involves subjective estimation with regard to estimated written premiums reported by the market. (Refer also to note 2 to the Group financial statements.)	We independently recomputed total Central Fund contributions based on submitted and audited premium data from the Lloyd's market, also using this to assess assumptions on future premium.
Risk of management override of internal controls	
ISAs (UK and Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to 'whistle-blow' inappropriate actions, and interviewed senior management and the Group's internal audit function. We examined the significant accounting estimates and judgements relevant to the Group financial statements for evidence of bias by the Society that may represent a risk of material misstatement due to fraud. In particular, we considered loans recoverable, undertakings given to insolvent members and revenue as noted above. We also tested manual journal entries.

Going Concern

As noted in the Financial Review, the Council of Lloyd's has used the going concern basis of accounting to prepare the Group financial statements. This basis presumes that the Group has adequate resources to remain in operation, and that the Council intend it to do so, for at least one year from the date the Group 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 Group's ability to continue as a going concern.

OPINIONS ON OTHER MATTERS IN THE SOCIETY REPORT

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.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of information and explanations received
We are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement in the Society Report
On page 98 of the Society Report, the Council state that they consider the Society Report taken as a whole (ie including the Society, PFFS and Market results) to be fair, balanced and understandable and providing the information necessary for members to assess the Group's performance, business model and strategy. On page 90, the Audit Committee has set out the significant issues that it considered in relation to the Group financial statements, and how they were addressed. As instructed by the Council of Lloyd's we report to you if, in our opinion:

- The statement given by the Council is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.
- The section of the Society Report 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 this responsibility.

Other information in the Society Report
Under ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Society Report is:
- Materially inconsistent with the information in the audited Group financial statements.
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit.
- Is otherwise misleading.

We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE GROUP 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 98), the Council are responsible for the preparation of the Group 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 Group financial statements in accordance with applicable law and International Standard on Auditing (ISA (UK and Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Society in accordance with the Lloyd's Act 1982 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

James Bichard (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 March 2014

GROUP INCOME STATEMENT

For the year ended 31 December 2013

	Note	2013 £000	Restated 2012 £000
Operating income		**216,521**	212,666
Central Fund contributions		**105,953**	104,959
General insurance net premium income		**7**	4
Other group income		**3,111**	2,395
Total income	3B	**325,592**	320,024
Central Fund claims and provisions incurred	4	**(17,758)**	(26,447)
Gross insurance claims	13	**(20,326)**	(11,695)
Insurance claims recoverable from reinsurers	13	**20,385**	11,801
Other group operating expenses	5	**(219,831)**	(205,676)
Operating surplus		**88,062**	88,007
Finance costs			
Deficit on subordinated debt repurchase	17	**(15,162)**	–
Other	7	**(55,642)**	(62,198)
Finance income	7	**60,359**	114,855
Realised/unrealised exchange (losses)/gains on borrowings		**(6,126)**	6,107
Share of profits of associates	12A	**6,843**	5,945
Surplus before tax		**78,334**	152,716
Tax charge	8A	**(13,987)**	(34,169)
Surplus for the year		**64,347**	118,547

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013 £000	Restated 2012 £000
Surplus for the year		**64,347**	118,547
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement gains/(losses) on pension asset/liabilities			
UK	18	**15,004**	(16,416)
Overseas	18	**194**	(422)
Associates	12A	**354**	168
Tax (charge)/credit relating to items that will not be reclassified	8A	**(9,262)**	61
Items that may be reclassified subsequently to profit or loss			
Unrealised (losses)/gains on revaluation of Lloyd's Collection	12B	**(1)**	488
Tax credit relating to items that may be reclassified	8A	**375**	128
Net other comprehensive income/(deficit) for the year		**6,664**	(15,993)
Total comprehensive income for the year		**71,011**	102,554

GROUP STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 £000	Restated 2012 £000
Assets			
Intangible assets	9	**40**	266
Lloyd's Collection	12B	**12,506**	12,507
Plant and equipment	10	**27,681**	35,147
Deferred tax asset	8C	**4,317**	6,692
Investment in associates	12A	**7,897**	6,422
Insurance contract assets	13	**38,293**	25,720
Loans recoverable	14	**43,499**	45,138
Financial investments	15	**2,792,998**	2,842,055
Inventories		**256**	236
Trade and other receivables due within one year	21	**39,695**	41,237
Prepayments and accrued income		**32,194**	31,323
Forward currency contracts	22	**48,148**	59,586
Cash and cash equivalents	16	**151,274**	206,562
Total assets		**3,198,798**	3,312,891
Equity and liabilities			
Equity			
Accumulated reserve	23	**1,650,818**	1,579,806
Revaluation reserve	23	**12,506**	12,507
Total equity		**1,663,324**	1,592,313
Liabilities			
Subordinated notes and perpetual subordinated capital securities	17	**720,519**	893,328
Insurance contract liabilities	13	**38,840**	26,436
Pension liabilities	18	**33,972**	45,075
Provisions	19	**23,481**	27,343
Loans funding statutory insurance deposits		**518,090**	501,846
Trade and other payables	20	**131,601**	142,903
Accruals and deferred income		**39,290**	38,148
Tax payable		**7,987**	16,574
Forward currency contracts	22	**21,694**	28,925
Total liabilities		**1,535,474**	1,720,578
Total equity and liabilities		**3,198,798**	3,312,891

Approved and authorised by the Council of Lloyd's on 25 March 2014 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 2013

	Note	Accumulated reserve £000	Revaluation reserve £000	Total equity £000
At 1 January 2012		1,477,740	12,019	1,489,759
Total comprehensive income for the year		102,066	488	102,554
At 31 December 2012		1,579,806	12,507	1,592,313
Total comprehensive income for the year		**71,012**	**(1)**	**71,011**
At 31 December 2013	23	**1,650,818**	**12,506**	**1,663,324**

GROUP STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	2013 £000	Restated 2012 £000
Cash generated from operations	24	**100,765**	109,757
Tax paid		**(29,004)**	(24,425)
Net cash generated from operating activities		**71,761**	85,332
Cash flows from investing activities			
Purchase of plant, equipment and intangible assets	9/10	**(5,375)**	(10,173)
Proceeds from the sale of plant, equipment and intangible assets		**14**	17
Purchase of financial investments	15A/B	**(3,743,539)**	(2,191,524)
Receipts from the sale of financial investments	15A/B	**3,800,551**	2,015,903
(Increase)/decrease in short-term deposits	15B	**(46,039)**	20,994
Dividends received from associates	12A	**5,640**	4,870
Interest received		**57,220**	57,712
Dividends received	7	**4,626**	3,533
Realised gains/(losses) on settlement of forward currency contracts		**29,782**	(1,351)
Net cash generated from/(used in) investing activities		**102,880**	(100,019)
Cash flows from financing activities			
Repurchase of subordinated notes	17	**(195,124)**	–
Interest paid on subordinated notes		**(55,991)**	(61,117)
Other interest paid		**(6,264)**	(4,514)
Increase in borrowings for statutory insurance deposits		**30,125**	160,516
Net cash (used in)/generated from financing activities		**(227,254)**	94,885
Net (decrease)/increase in cash and cash equivalents		**(52,613)**	80,198
Effect of exchange rates on cash and cash equivalents		**(2,675)**	(918)
Cash and cash equivalents at 1 January	16	**206,562**	127,282
Cash and cash equivalents at 31 December	16	**151,274**	206,562

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2013

1. BASIS OF PREPARATION AND CONSOLIDATION

In 1871, by Lloyd's Act 1871, the then existing association of underwriters was incorporated as the Society and Corporation of Lloyd's (the 'Society'). Its activities are accordingly governed by statute and, since 1982, have been managed by the Council of Lloyd's (the 'Council') pursuant to Lloyd's Act 1982.

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).

The Society adopted the amendments to IAS 1 'Presentation of Financial Statements' which requires the grouping of items presented in other comprehensive income according to whether they will subsequently be reclassified to profit or loss. The impact of the adoption of IAS 1 results in a revised presentation of the statement of comprehensive income on the group financial statements.

The Society adopted the amendments to IAS 19R 'Employee Benefits'. The revised standard has been applied retrospectively in accordance with the transitional provision of the standard. The key impact of the revised standard on the group financial statements of the Society is the replacement of the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate at the beginning of the year. There is no change to the method to determine the discount rate.

This resulted in a decrease in surplus before tax of £6m for the year ended 31 December 2012 with a corresponding increase in Other Comprehensive Income as the discount rate applied to assets is lower than the previously applied expected return on assets.

The Society adopted IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in other entities'. The adoption of these standards had no material impact on the group finance statements.

The Society adopted the amendments to International Financial Reporting Standards (IFRS) 13 'Fair Value Measurements' which establishes a single standard for all fair value measurements. The standard does not change the scope of fair value measurement, but provides guidance on how fair values should be determined. The changes have no impact on the Society's application of fair value measurements. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 'Financial Instruments Disclosures'.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

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).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

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 life of the asset.
– Computer and specialised equipment are depreciated over three to 15 years according to the estimated life of the asset.
– Equipment on hire or lease is depreciated over the period of the lease.

B. Software development

Costs incurred in acquiring and developing computer software are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable asset of value. Software development is held at cost less accumulated depreciation and any impairment in value. Capitalised software is amortised over three years.

C. Lloyd's Collection

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

D. Investment in associates and joint venture

An associate is an entity in which the Society has significant influence and which is not a subsidiary undertaking or joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Society's investment in associates and joint venture are accounted for under the equity method of accounting.

Under the equity method, the investment in associates and joint venture are carried in the group statement of financial position at cost plus post-acquisition changes in the Society's share of net assets of the associate and joint venture. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Society determines whether it is necessary to recognise any additional impairment loss with respect to the Society's net investment in an associate and joint venture. The group income statement reflects its share of the results of operations of the associates and joint venture. The Society's share of associates' other comprehensive income is recognised in the group statement of comprehensive income.

E. Impairment of non-financial assets

The Society performs annual impairment testing to assess whether there is an indication that an asset may be impaired. If any such indication exists an impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

F. Financial instruments

Financial assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss or loans and receivables. The Society determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of loans and receivables, directly attributable transaction costs. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the market place (regular way purchases) are recognised on the settlement date.

The Society's financial assets include loans recoverable, statutory insurance deposits and other investments designated at fair value through profit or loss, trade and other receivables, accrued income, cash and cash equivalents and derivative assets.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:
(i) Financial assets at fair value through profit or loss include derivative financial assets which are classified as held for trading, and financial assets designated upon initial recognition at fair value through profit or loss. They are carried in the group statement of financial position at fair value. Gains and losses arising from changes in their fair value are included in the group income statement in the period in which they arise. When financial assets are interest-bearing, interest calculated using the effective interest method is recognised in the group income statement.
(ii) Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They arise when the Society provides money, goods or services directly to a debtor with no intention of trading the receivable. These financial assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the group income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

F. Financial instruments continued

Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss and other financial liabilities. The Society determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of other financial liabilities, directly attributable transaction costs. The Society's financial liabilities include trade and other payables, accruals, subordinated loan notes and perpetual capital securities and derivative liabilities.

Subsequent measurement

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

(i) Financial liabilities at fair value through profit or loss include derivative financial liabilities which are classified as held for trading. Gains or losses on liabilities held for trading are recognised in the group income statement.
(ii) Other financial liabilities, which include the subordinated loan notes and the subordinated perpetual capital securities, are carried at amortised cost using the effective interest method.

Fair value of financial instruments

Financial instruments are categorised for disclosure purposes into a hierarchy consisting of three levels depending upon the source of input as required by IFRS 7 'Financial Instruments Disclosures'.

Level 1 – The fair value of financial instruments which are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. The quoted market price used for financial assets held by the Society is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price.

Level 2 – The fair value of financial instruments for which quoted market prices are not used for valuation purposes are derived both directly and indirectly from observable market conditions. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values.

Level 3 – The fair value of financial instruments for which there is no observable quoted market price is determined by a variety of methods incorporating assumptions that are based, so far as possible, on market conditions existing at each reporting date.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Society assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the asset is written down to its recoverable amount.

Derecognition of financial instruments

Other 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. This includes the application of the Statement of Recommended Practice (SORP) on accounting for insurance business issued by the Association of British Insurers in December 2005 (amended December 2006).

Insurance contracts are defined as those containing significant insurance risk which arises if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expired.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Society may not receive all amounts due to it under the terms of the contract and this can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

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 managed 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 securities at the dates at which they may be exercised and discounted back to present day values. A security can normally only be exercised on the later date of death of the member or of their spouse. This date is assessed using actuarial assumptions.

K. Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the reporting date.

L. Subordinated notes and perpetual subordinated capital securities

Subordinated debt is initially recognised at fair value, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, the subordinated debt is subsequently recorded at amortised cost using the effective interest rate over the period to the earliest option date. Amortised cost is calculated after taking into account issue costs and issue discount.

M. Cash and cash equivalents

For the purposes of the group statement of cash flows, cash comprises cash at banks and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with original maturities of less than three months.

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

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 not 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 income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

R. Foreign currency and derivative instruments continued

The results and financial position of overseas Society operations are translated into pound sterling as follows:

– Assets and liabilities are translated at the closing rate at the date of that statement of financial position.
– Income and expenses are translated at the average exchange rate for the year.
– Any resulting exchange differences are recognised in the group income statement.

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.

The principal exchange rates were:

	2013	2012
US$	**1.66**	1.63
Can$	**1.76**	1.62
Euro	**1.20**	1.23

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.

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 9 Financial Instruments	1 January 2015
Amendments to IAS 27 Consolidated and Separate Financial Statements	1 January 2014
Amendments to IAS 32 Financial Instruments Presentation	1 January 2014
Amendments to IAS 36 Impairment of Assets	1 January 2014
Amendments to IAS 39 Financial Instruments: Recognition and Measurement	1 January 2014

The Council does not consider that the adoption of the above standards will have a material impact on the Society's financial statements.

3. SEGMENTAL ANALYSIS

Segment information is presented in respect of the Society's business segments. The primary business segments are based on the Society's management and internal reporting structure.

Intra-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

Segment information in respect of geographical location is not presented. The Society's main source of income is from the Lloyd's market based primarily in the UK, which includes the recovery of costs in respect of overseas operations. The recovery of overseas operating costs is collected in the UK from the Lloyd's market.

The Society's primary business segments are as follows:

(a) Corporation of Lloyds: the main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The activities of authorised insurance company subsidiary undertakings are included within this business segment. All prior year comparatives have also been restated.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

3. SEGMENTAL ANALYSIS CONTINUED

A. Information by business segment	Note	2013 Corporation of Lloyd's £000	2013 Lloyd's Central Fund £000	2013 Society total £000
Segment income				
Total income	3B	217,231	108,361	325,592
Segment operating expenses				
Central Fund claims and provisions incurred	4	–	(17,758)	(17,758)
Gross claims incurred		(20,326)	–	(20,326)
Insurance claims recoverable from reinsurers		20,385	–	20,385
Other group operating expenses:				
Employment (including pension costs)	6	(102,487)	–	(102,487)
Premises		(46,051)	–	(46,051)
Legal and professional	5	(16,316)	(686)	(17,002)
Systems and communications		(23,353)	–	(23,353)
Other		(24,196)	(6,742)	(30,938)
Total other group operating expenses		(212,403)	(7,428)	(219,831)
Total segment operating expenses		(212,344)	(25,186)	(237,530)
Total segment operating surplus		4,887	83,175	88,062
Finance costs				
Deficit on subordinated debt repurchase	17	–	(15,162)	(15,162)
Other	7	(50)	(55,592)	(55,642)
Finance income	7	1,582	58,777	60,359
Realised/unrealised exchange losses on borrowings		–	(6,126)	(6,126)
Share of profits of associates	12A	6,843	–	6,843
Segment surplus before tax		13,262	65,072	78,334
Tax charge				(13,987)
Surplus for the year				64,347
Segment assets and liabilities				
Investment in associates		7,897	–	7,897
Other assets		890,240	2,296,344	3,186,584
Segment assets		898,137	2,296,344	3,194,481
Tax assets				4,317
Total assets				3,198,798
Segment liabilities		(754,322)	(773,165)	(1,527,487)
Tax liabilities				(7,987)
Total liabilities				(1,535,474)
Other segment information				
Capital expenditure	9/10	5,375	–	5,375
Depreciation	10	6,574	–	6,574
Amortisation of intangible assets	9	358	–	358
Impairment of long-term assets	10	5,279	–	5,279
Average number of UK employees (permanent and contract)		709	–	709
Average number of overseas employees (permanent and contract)		158	–	158
Average number of total employees (permanent and contract)		867	–	867

Average staff numbers shown above are on a full-time equivalent basis.

3. SEGMENTAL ANALYSIS CONTINUED

A. Information by business segment continued	Note	Restated 2012 Corporation of Lloyd's £000	Restated 2012 Lloyd's Central Fund £000	Restated 2012 Society total £000
Segment income				
Total income	3B	214,388	105,636	320,024
Segment operating expenses				
Central Fund claims and provisions incurred	4	–	(26,447)	(26,447)
Gross claims incurred		(11,695)	–	(11,695)
Claims recoverable from reinsurers		11,801	–	11,801
Other group operating expenses:				
Employment (including pension costs)	6	(98,128)	–	(98,128)
Premises		(40,660)	–	(40,660)
Legal and professional	5	(13,472)	(598)	(14,070)
Systems and communications		(22,826)	–	(22,826)
Other		(24,615)	(5,377)	(29,992)
Total other group operating expenses		(199,701)	(5,975)	(205,676)
Total segment operating expenses		(199,595)	(32,422)	(232,017)
Total segment operating surplus		14,793	73,214	88,007
Finance costs	7	(77)	(62,121)	(62,198)
Finance income				
Surplus on subordinated debt repurchase	17	–	–	–
Other	7	1,803	113,052	114,855
Realised/unrealised exchange gains on borrowings		–	6,107	6,107
Share of profits of associates	12A	5,945	–	5,945
Segment surplus before tax		22,464	130,252	152,716
Tax charge				(34,169)
Surplus for the year				118,547
Segment assets and liabilities				
Investment in associates		6,422	–	6,422
Other assets		857,328	2,442,449	3,299,777
Segment assets		863,750	2,442,449	3,306,199
Tax assets				6,692
Total assets				3,312,891
Segment liabilities		(749,283)	(954,721)	(1,704,004)
Tax liabilities				(16,574)
Total liabilities				(1,720,578)
Other segment information				
Capital expenditure	9/10	10,173	–	10,173
Depreciation	10	5,535	–	5,535
Amortisation of intangible assets	9	415	–	415
Impairment of long-term assets	10	312	–	312
Average number of UK employees (permanent and contract)		717	–	717
Average number of overseas employees (permanent and contract)		154	–	154
Average number of total employees (permanent and contract)		871	–	871

Average staff numbers shown above are on a full-time equivalent basis.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

3. SEGMENTAL ANALYSIS CONTINUED

	Corporation of Lloyd's		Lloyd's Central Fund		Society total	
B. Income	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Market charges						
Managing agents and syndicates	**89,094**	89,010	**–**	–	**89,094**	89,010
Members and members' agents	**10,814**	10,046	**–**	–	**10,814**	10,046
Performance and risk management charge	**–**	400	**–**	–	**–**	400
Total market charges	**99,908**	99,456	**–**	–	**99,908**	99,456
Members' subscriptions	**103,203**	99,801	**–**	–	**103,203**	99,801
Other charges	**13,410**	13,409	**–**	–	**13,410**	13,409
Total operating income	**216,521**	212,666	**–**	–	**216,521**	212,666
Central Fund contributions	**–**	–	**105,953**	104,959	**105,953**	104,959
General insurance net premium income	**7**	4	**–**	–	**7**	4
Other group income	**703**	1,718	**2,408**	677	**3,111**	2,395
Total income	**217,231**	214,388	**108,361**	105,636	**325,592**	320,024

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 (2012: 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 2013 will be based on actual 2013 written premiums, of members, the quantification of which will not be known until 2015. The £106m (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.

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.

4. CENTRAL FUND CLAIMS AND PROVISIONS

	Note	2013 £000	2012 £000
Net undertakings granted	19	**(17,758)**	(26,494)
Provisions released in respect of Limited Financial Assistance Agreements	19	**–**	47
Central Fund claims and provisions incurred		**(17,758)**	(26,447)

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 2013 were £11m, of these £6m were called after the year end; the balance of £5m has been replaced by further annual undertakings given on 25 March 2014 that total £11m, a net increase of £6m. 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	2013 Corporation of Lloyd's £000	2013 Lloyd's Central Fund £000	2013 Total £000
Other group operating expenses include:				
Employment costs	6	**102,487**	**–**	**102,487**
Operating lease rentals – Lloyd's 1986 building		**16,767**	**–**	**16,767**
Operating lease rentals – other		**8,180**	**–**	**8,180**
Professional fees, including legal fees and related costs		**14,975**	**503**	**15,478**
Audit		**351**	**183**	**534**
Other services pursuant to legislation payable to PricewaterhouseCoopers LLP		**379**	**–**	**379**
Actuarial services payable to PricewaterhouseCoopers LLP		**84**	**–**	**84**
Tax services payable to PricewaterhouseCoopers LLP		**129**	**–**	**129**
Information Technology (other) payable to PricewaterhouseCoopers LLP		**25**	**–**	**25**
Other services payable to PricewaterhouseCoopers LLP		**373**	**–**	**373**
Total legal and professional fees		**16,316**	**686**	**17,002**
Charitable donations		**1,132**	**–**	**1,132**

Other services pursuant to legislation payable to PricewaterhouseCoopers LLP includes work undertaken on the Aggregate Accounts, pro forma financial statements and regulatory returns.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

5. OTHER GROUP OPERATING EXPENSES CONTINUED

	Note	Restated 2012 Corporation of Lloyd's £000	Restated 2012 Lloyd's Central Fund £000	Restated 2012 Total £000
Other group operating expenses include:				
Employment costs	6	98,128	–	98,128
Operating lease rentals – Lloyd's 1986 building		16,767	–	16,767
Operating lease rentals – other		6,946	–	6,946
Professional fees, including legal fees and related costs		11,974	397	12,371
Audit		462	201	663
Other services pursuant to legislation payable to Ernst & Young LLP		504	–	504
Actuarial services payable to Ernst & Young LLP		45	–	45
Tax services payable to Ernst & Young LLP		98	–	98
Other services payable to Ernst & Young LLP		389	–	389
Total legal and professional fees		13,472	598	14,070
Charitable donations		292	–	292

6. EMPLOYMENT

	Note	2013 £000	Restated 2012 £000
Salaries and wages (including performance-related bonus)		**62,311**	60,898
Lloyd's Performance Plan (excluding social security costs – note 19)		**8,327**	6,912
Lloyd's Pension Scheme costs	18	**8,885**	8,022
Other pension costs		**1,270**	1,565
Social security costs		**6,706**	6,573
Severance costs		**474**	86
Contract and agency staff		**4,759**	5,736
Other employment costs		**9,755**	8,336
		102,487	98,128

The emoluments of the Chairman, CEO, members of the Council and Franchise Board are included in the report of the Remuneration Committee on page 84.

7. FINANCE

	Note	2013 Corporation of Lloyd's £000	2013 Lloyd's Central Fund £000	2013 Total £000
Finance costs				
Interest payable on financial liabilities measured at amortised cost		–	(54,565)	(54,565)
Other interest payable and similar charges		(50)	–	(50)
Amortisation of issue costs and discount		–	(1,027)	(1,027)
Total interest payable on financial liabilities	3A	(50)	(55,592)	(55,642)
Finance income				
Bank interest received		821	410	1,231
Dividends received		–	4,626	4,626
Other returns on investments designated at fair value through profit or loss		524	(6,874)	(6,350)
Unrealised fair value movement of forward contracts held for trading		237	28,683	28,920
Realised fair value movement of forward contracts held for trading		–	29,782	29,782
Increase in valuation of loans recoverable designated at fair value through profit or loss		–	2,150	2,150
Total finance income	3A	1,582	58,777	60,359

	Note	2012 Corporation of Lloyd's £000	2012 Lloyd's Central Fund £000	2012 Total £000
Finance costs				
Interest payable on financial liabilities measured at amortised cost		–	(61,103)	(61,103)
Other interest payable and similar charges		(77)	–	(77)
Amortisation of issue costs and discount		–	(1,018)	(1,018)
Total interest payable on financial liabilities	3A	(77)	(62,121)	(62,198)
Finance income				
Bank interest received		698	1,367	2,065
Dividends received		–	3,533	3,533
Other returns on investments designated at fair value through profit or loss		1,006	74,414	75,420
Unrealised fair value movement of forward contracts held for trading		99	31,994	32,093
Realised fair value movement of forward contracts held for trading		–	(1,351)	(1,351)
Increase in valuation of loans recoverable designated at fair value through profit or loss		–	3,095	3,095
Total finance income	3A	1,803	113,052	114,855

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

8. TAXATION

A. Tax analysis of charge in the year

	Note	2013 £000	Restated 2012 £000
Current tax:			
Corporation tax based on profits for the year at 23.25% (2012: 24.50%)		**(22,023)**	(37,041)
Adjustments in respect of previous years		**2,313**	(1,132)
Foreign tax suffered		**(708)**	(194)
Total current tax		**(20,418)**	(38,367)
Deferred tax:			
Origination and reversal of timing differences			
Current year		**7,438**	4,246
Prior year		**(1,007)**	(48)
Tax charge recognised in the group income statement	8B	**(13,987)**	(34,169)
Analysis of tax charge recognised in the group statement of comprehensive income:			
Deferred tax:			
Unrealised gain on revaluation of Lloyd's Collection		**375**	128
Tax (charge)/credit on actuarial loss on pension liabilities:			
Group		**(9,180)**	102
Associates		**(82)**	(41)
Tax (charge)/credit recognised in the group statement of comprehensive income		**(8,887)**	189
Total tax charge		**(22,874)**	(33,980)

B. Reconciliation of effective tax rate

	Note	2013 %	2013 £000	Restated 2012 %	Restated 2012 £000
Surplus on ordinary activities before tax			**78,334**		152,716
Corporation tax at 23.25% (2012: 24.50%)		**23.25%**	**(18,213)**	24.50%	(37,415)
Expenses not deductible for tax purposes		**4.21%**	**(3,295)**	0.30%	(459)
Utilisation of tax credits		**(0.09%)**	**74**	(0.10%)	170
Overseas tax		**0.41%**	**(325)**	0.10%	(194)
Other		**(2.45%)**	**1,918**	(1.10%)	1,717
Deferred tax adjustment relating to change in tax rate		**(5.81%)**	**4,548**	(2.00%)	3,192
Deferred tax prior year adjustments		**1.29%**	**(1,007)**	0.00%	(48)
Adjustments in respect of previous years		**(2.95%)**	**2,313**	0.70%	(1,132)
Tax charge	8A	**17.86%**	**(13,987)**	22.40%	(34,169)

C. Deferred tax

	2013 Balance at 1 January £000	2013 Income statement £000	2013 Equity £000	2013 Balance at 31 December £000
Plant and equipment	**3,845**	**(1,046)**	**–**	**2,799**
Loans recoverable	**(2,968)**	**1,247**	**–**	**(1,721)**
Financial investments	**(3,978)**	**561**	**–**	**(3,417)**
Pension liabilities	**9,945**	**5,720**	**(9,180)**	**6,485**
Other employee benefits	**2,727**	**(189)**	**–**	**2,538**
Other items	**(2,879)**	**137**	**375**	**(2,367)**
	6,692	**6,430**	**(8,805)**	**4,317**

In 2013 there were no unrecognised deductible temporary differences (2012: nil).

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 prior year deferred tax calculations were based on a corporation tax rate of 23%. A reduction to 21% (with effect from 1 April 2014) and to 20% (with effect from 1 April 2015) was enacted by the Finance Act 2013 on 2 July 2013. The effect of the 3% reduction in the tax rate is a reduction in the net deferred tax liability of £4,548k reflected in the amounts recognised at 31 December 2013.

	2012 Balance at 1 January £000	Restated 2012 Income statement £000	Restated 2012 Equity £000	2012 Balance at 31 December £000
Plant and equipment	4,867	(1,022)	–	3,845
Loans recoverable	(4,302)	1,334	–	(2,968)
Financial investments	(2,530)	(1,448)	–	(3,978)
Pension liabilities	5,920	3,923	102	9,945
Other employee benefits	1,316	1,411	–	2,727
Other items	(3,007)	–	128	(2,879)
	2,264	4,198	230	6,692

9. INTANGIBLE ASSETS – SOFTWARE DEVELOPMENT

	£000
Cost:	
At 1 January 2012	4,933
Additions	172
Disposals	(286)
At 31 December 2012	4,819
Additions	**202**
Disposals	**(187)**
At 31 December 2013	**4,834**
Amortisation:	
At 1 January 2012	4,311
Charge for the year	415
Disposals	(173)
At 31 December 2012	4,553
Charge for the year	**358**
Disposals	**(117)**
At 31 December 2013	**4,794**
Net book value at 31 December 2013	**40**
Net book value at 31 December 2012	266

Impairment losses

As part of an assessment of the carrying value of assets, none of the intangible assets were written off in 2013 and 2012. The amortisation charge is included within other group operating expenses.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

10. PLANT AND EQUIPMENT

	Furniture and fittings £000	Computer and specialised equipment £000	Other £000	Total £000
Cost:				
At 1 January 2012	47,913	21,742	27	69,682
Additions	7,551	2,403	47	10,001
Disposals	(1,729)	(2,035)	(3)	(3,767)
At 31 December 2012	53,735	22,110	71	75,916
Additions	**3,221**	**1,926**	**26**	**5,173**
Disposals	**(2,411)**	**(1,496)**	**(7)**	**(3,914)**
At 31 December 2013	**54,545**	**22,540**	**90**	**77,175**
Depreciation and impairment:				
At 1 January 2012	26,304	11,969	1	38,274
Depreciation charge for the year	2,711	2,808	16	5,535
Impairment losses	–	312	–	312
Disposals	(1,331)	(2,021)	–	(3,352)
At 31 December 2012	27,684	13,068	17	40,769
Depreciation charge for the year	**3,528**	**3,028**	**18**	**6,574**
Impairment losses	**5,233**	**46**	**–**	**5,279**
Disposals	**(1,680)**	**(1,447)**	**(1)**	**(3,128)**
At 31 December 2013	**34,765**	**14,695**	**34**	**49,494**
Net book value at 31 December 2013	**19,780**	**7,845**	**56**	**27,681**
Net book value at 31 December 2012	26,051	9,042	54	35,147

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, £5,279,000 was written off in 2013 (2012: £312,000). The charge is included within other group operating expenses.

11. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS AND ASSOCIATES

Entity	Nature of business	Proportion of equity capital held
Principal subsidiary undertakings		
Additional Securities Limited	Provision of deposits overseas on behalf of Lloyd's underwriters to comply with local insurance regulations	100%
Centrewrite Limited	Authorised UK insurance company	100%
Lloyd's Insurance Company (China) Limited	Authorised insurance company in China (incorporated in 2007 with a share capital of Rmb 200,000,000)	100%
Associates and Joint Venture		
Ins-sure Holdings Limited	Provision of premiums and claims accounting and settlement, policy production and ancillary insurance services principally to the London insurance market	25%
Xchanging Claims Services Limited	Provision of claims and recoveries services	50%
The Message Exchange Limited	Provision of messaging infrastructure to the London insurance market	Limited by Guarantee 25%

The issued share capital of Ins-sure Holdings Limited is £4,000. There are three classes of shares. The Society holds 1,000,000 B shares of 0.1p each that have the right to participate in 25% of any profits available for distribution.

The issued share capital of Xchanging Claims Services Limited is £4,001. There are three classes of shares. The Society holds 1,000 A shares of £1 each and 2,001 C shares of £1 each. The A and C shares have the following rights with respect to dividends:

(a) The C shares carry a right to a fixed cumulative preference dividend of 5% calculated on the nominal capital and a variable participating dividend calculated by reference to trading profits.
(b) The A shares participate in 50% of any profits available for distribution after taking account of the dividend rights outlined above.

11. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS AND ASSOCIATES CONTINUED

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 2013, the net assets of TMEL have no material impact on the Society accounts.

12. INVESTMENTS

A. Investments in associates and joint venture

	2013 £000	2012 £000
At 1 January	**6,422**	5,220
Share of operating profits	**8,888**	8,048
Share of interest income	**112**	38
Share of tax on profit on ordinary activities	**(2,157)**	(2,141)
Total share of profits of associates	**6,843**	5,945
Share of actuarial gain on pension liability	**354**	168
Share of tax on items taken directly to equity	**(82)**	(41)
Dividends received	**(5,640)**	(4,870)
At 31 December	**7,897**	6,422

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	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Current assets						
Debtors	**15,341**	15,467	**5,373**	5,077	**193**	100
Prepayments and accrued income	**–**	–	**–**	–	**89**	89
Cash at bank and in hand	**16,053**	14,717	**12,897**	13,741	**–**	32
Total current assets	**31,394**	30,184	**18,270**	18,818	**282**	221
Non-current assets						
Tangible fixed assets	**7,545**	2,738	**930**	434	**–**	–
Pension asset	**–**	205	**–**	61	**–**	–
Total non-current assets	**7,545**	2,943	**930**	495	**–**	–
Current liabilities						
Creditors falling due within one year	**(18,009)**	(18,208)	**(13,425)**	(12,270)	**(282)**	(221)
Provision for liabilities	**(159)**	–	**–**	–	**–**	–
Total current liabilities	**(18,168)**	(18,208)	**(13,425)**	(12,270)	**(282)**	(221)
Non-current liabilities						
Creditors falling due after more than one year	**–**	–	**(43)**	(270)	**–**	–
Pension liability	**(329)**	(2,769)	**(156)**	–	**–**	–
Total non-current liabilities	**(329)**	(2,769)	**(199)**	(270)	**–**	–
Net assets	**20,442**	12,150	**5,576**	6,773	**–**	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

12. INVESTMENTS 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	
	2013 £000	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Revenues	**88,321**	81,179	**41,985**	44,308	**1,257**	1,094
Operating costs	**(64,798)**	(63,793)	**(35,096)**	(35,803)	**(1,257)**	(1,094)
Operating profit	**23,523**	17,386	**6,889**	8,505	**–**	–
Interest receivable and similar income	**5**	18	**113**	87	**–**	–
Interest payable and similar charges	**–**	–	**(93)**	(69)	**–**	–
Other finance income	**401**	96	**–**	–	**–**	–
Profit on ordinary activities before taxation	**23,929**	17,500	**6,909**	8,523	**–**	–
Tax on profit on ordinary activities	**(5,860)**	(4,974)	**(1,737)**	(2,149)	**–**	–
Profit for the financial year	**18,069**	12,526	**5,172**	6,374	**–**	–
Other comprehensive income	**1,518**	591	**(216)**	(41)	**–**	–
Total comprehensive income	**19,587**	13,117	**4,956**	6,333	**–**	–

B. Lloyd's Collection

The Lloyd's Collection represents various paintings, antiques and artefacts. The collection was valued at £12.5m by Gurr Johns Limited, valuers and fine art consultants in November 2012, on the basis of open market auction value assuming all items are not sold at the same time taking into account the nature, age, condition and quality of each chattel. This resulted in a revaluation gain of £0.5m in 2012. In 2013, it has been assessed that there is no change in valuation.

13. INSURANCE ACTIVITIES

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. Outstanding claims provisions are not discounted for the time value of money.

	2013 £000	2012 £000
Insurance claims		
Gross claims:		
Claims paid	**(11,360)**	(29,734)
Change in provisions for claims	**(8,966)**	18,039
	(20,326)	(11,695)
Claims recoverable from reinsurers:		
Claims recovered from reinsurers	**11,250**	21,667
Change in reinsurance contract assets	**9,135**	(9,866)
	20,385	11,801

Centrewrite Limited

Centrewrite Limited's principal activities in 2013 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.

13. INSURANCE ACTIVITIES CONTINUED

Lloyd's Insurance Company (China) Limited

Lloyd's Insurance Company (China) Limited (LICCL) is a wholly owned subsidiary undertaking of the Society of Lloyd's. The company's principal activity during 2013 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 may be analysed as follows:

	2013 Insurance contract liabilities £000	2013 Reinsurer's share of liabilities £000	2013 Net £000	2012 Insurance contract liabilities £000	2012 Reinsurer's share of liabilities £000	2012 Net £000
Provision for claims reported	**16,643**	**(16,311)**	**332**	8,647	(8,126)	521
Provision for IBNR claims	**14,974**	**(14,759)**	**215**	13,956	(13,761)	195
	31,617	**(31,070)**	**547**	22,603	(21,887)	716
Unearned premiums	**7,223**	**(7,223)**	**–**	3,833	(3,833)	–
Insurance contract liabilities	**38,840**	**(38,293)**	**547**	26,436	(25,720)	716

The movement in provision for insurance claims can be analysed as follows:

	2013 Insurance contract liabilities £000	2013 Reinsurer's share of liabilities £000	2013 Net £000	2012 Insurance contract liabilities £000	2012 Reinsurer's share of liabilities £000	2012 Net £000
At 1 January	**22,603**	**(21,887)**	**716**	41,783	(32,894)	8,889
Claims incurred/(released)	**20,326**	**(20,385)**	**(59)**	11,695	(11,801)	(106)
Claims paid (see below)	**(11,360)**	**11,250**	**(110)**	(29,734)	21,667	(8,067)
Effect of exchange rates	**48**	**(48)**	**–**	(1,141)	1,141	–
At 31 December	**31,617**	**(31,070)**	**547**	22,603	(21,887)	716

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. 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.

	2009 and prior £000	2010 £000	2011 £000	2012 £000	2013 £000	Total £000
At end of underwriting year	84,218	15,875	20,579	12,522	**23,819**	
One year later	83,075	17,694	22,919	13,075		
Two years later	73,949	15,416	19,289			
Three years later	72,746	14,381				
Four years later	65,455					
Current estimate of cumulative claims	65,455	14,381	19,289	13,075	**23,819**	
Cumulative payments to date	(64,156)	(13,573)	(16,874)	(7,433)	**(2,366)**	
Insurance contract liabilities	1,299	808	2,415	5,642	**21,453**	**31,617**

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 2013

14. LOANS RECOVERABLE

	2013 £000	2012 £000
At 1 January	**45,138**	45,956
Recoveries during the year	**(3,789)**	(3,913)
Fair value movements recognised during the year	**2,150**	3,095
At 31 December	**43,499**	45,138

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	2013 £000	2012 £000
Statutory insurance deposits	15A	**527,340**	508,463
Other investments	15B	**2,265,658**	2,333,592
		2,792,998	2,842,055

A. Statutory insurance deposits

	2013 Securities £000	2013 Deposits £000	2013 Total £000
Market value at 1 January	**92,640**	**415,823**	**508,463**
Additions at cost	**900,694**	**49,687**	**950,381**
Disposal proceeds	**(728,731)**	**(192,397)**	**(921,128)**
Surplus on the sale and revaluation of investments	**(2,180)**	**(8,196)**	**(10,376)**
Market value at 31 December	**262,423**	**264,917**	**527,340**

	2012 Securities £000	2012 Deposits £000	2012 Total £000
Market value at 1 January	132,016	229,801	361,817
Additions at cost	427,383	330,520	757,903
Disposal proceeds	(462,311)	(140,031)	(602,342)
Surplus on the sale and revaluation of investments	(4,448)	(4,467)	(8,915)
Market value at 31 December	92,640	415,823	508,463

	2013 Cost £000	2013 Valuation £000	2012 Cost £000	2012 Valuation £000
Analysis of government securities at year end:	**266,178**	**262,423**	92,379	92,640

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.

15. FINANCIAL INVESTMENTS CONTINUED

B. Other investments

	2013 Corporation of Lloyd's £000	2013 Central Fund £000	2013 Total £000
Market value at 1 January	86,021	2,247,571	2,333,592
Additions at cost	–	2,793,158	2,793,158
Increase in short-term deposits	35,717	10,322	46,039
Disposal proceeds	(11,510)	(2,867,913)	(2,879,423)
Surplus on the sale and revaluation of investments	(1,518)	(26,190)	(27,708)
Market value at 31 December	**108,710**	**2,156,948**	**2,265,658**
Analysis of securities at year end:			
Listed securities			
Fixed interest:			
Government	56,980	567,323	624,303
Corporate securities	8,589	881,486	890,075
Emerging markets	–	70,975	70,975
High yield	–	37,269	37,269
	65,569	1,557,053	1,622,622
Equities:			
Global	–	359,402	359,402
Emerging markets	–	46,018	46,018
	–	405,420	405,420
Total listed securities	**65,569**	**1,962,473**	**2,028,042**
Unlisted securities:			
Hedge funds	–	119,152	119,152
Commodities	–	35,805	35,805
Short-term deposits	43,141	19,518	62,659
Security deposits (see below)	–	20,000	20,000
Total unlisted securities	**43,141**	**194,475**	**237,616**
Market value	**108,710**	**2,156,948**	**2,265,658**
Analysis of corporate securities:			
AAA	3,637	381,040	384,677
AA	4,647	255,144	259,791
A	305	208,286	208,591
Other	–	37,016	37,016
	8,589	881,486	890,075

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

15. FINANCIAL INVESTMENTS CONTINUED

B. Other investments continued

	2012 Corporation of Lloyd's £000	2012 Central Fund £000	2012 Total £000
Market value at 1 January	107,575	2,214,893	2,322,468
Additions at cost	94,042	1,339,579	1,433,621
Decrease in short-term deposits	(10,375)	(10,619)	(20,994)
Disposal proceeds	(103,962)	(1,309,599)	(1,413,561)
Surplus on the sale and revaluation of investments	(1,259)	13,317	12,058
Market value at 31 December	86,021	2,247,571	2,333,592
Analysis of securities at year end:			
Listed securities			
Fixed interest:			
Government	67,777	964,436	1,032,213
Corporate securities	10,820	823,519	834,339
Emerging markets	–	56,677	56,677
High yield	–	38,011	38,011
	78,597	1,882,643	1,961,240
Equities:			
Global	–	174,141	174,141
Emerging markets	–	45,476	45,476
	–	219,617	219,617
Total listed securities	78,597	2,102,260	2,180,857
Unlisted securities:			
Hedge funds	–	75,402	75,402
Commodities	–	40,713	40,713
Short-term deposits	7,424	9,196	16,620
Security deposits (see below)	–	20,000	20,000
Total unlisted securities	7,424	145,311	152,735
Market value	86,021	2,247,571	2,333,592
Analysis of corporate securities:			
AAA	5,736	316,713	322,449
AA	4,769	367,870	372,639
A	315	138,936	139,251
	10,820	823,519	834,339

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 2012, will be reviewed again in July 2014. 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

	2013 £000	Restated 2012 £000
Cash at banks	**63,958**	92,777
Short-term deposits	**87,316**	113,785
	151,274	206,562

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 £151m (2012: £207m).

The prior year cash balance has been restated upwards by £19m to reflect certain cash amounts previously not deemed attributable to the Society. There is no impact to net assets or surplus as all amounts have associated liabilities.

17. SUBORDINATED NOTES AND PERPETUAL SUBORDINATED CAPITAL SECURITIES

	2013 £000	2012 £000
Details of loans payable wholly or partly after more than five years:		
6.875% subordinated notes of £153m maturing 17 November 2025 (Sterling Notes)	**153,241**	300,000
5.625% subordinated notes of €214m maturing 17 November 2024 (Euro Notes)	**177,876**	204,935
7.421% perpetual subordinated capital securities of £392m redeemable on 21 June 2017	**392,013**	392,013
	723,130	896,948
Less issue costs to be charged in future years	**(2,297)**	(3,079)
Less discount on issue to be unwound in future years	**(314)**	(541)
	720,519	893,328

Subordinated debt issued in 2004
The Sterling Notes mature on 17 November 2025, although the Society may redeem them on 17 November 2015 and 17 November 2020. In the event that the Society does not redeem the Sterling Notes on 17 November 2015, the rate of interest payable will be the rate per annum which is the aggregate of the Gross Redemption Yield on the relevant Benchmark Gilt (a UK government security having a maturity date on or nearest to the next reset date) plus a margin of 3.07%.

The Euro Notes mature on 17 November 2024, although the Society may redeem them on 17 November 2014 or on any interest payment date thereafter.

In the event that the Society does not redeem the Euro Notes on 17 November 2014, the rate of interest payable will be three month Euribor plus a margin of 2.72%.

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).

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

17. SUBORDINATED NOTES AND PERPETUAL SUBORDINATED CAPITAL SECURITIES CONTINUED

Subordinated debt issued in 2007 continued

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 or Euro 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).

Subordinated debt repurchases

During 2013, the Society of Lloyd's repurchased the local currency equivalent of £179,962,000 of its 2004 subordinated notes at a cost of £195,124,000. The Society additionally paid accrued interest on the purchased securities. The loss on the repurchase was £15,162,000.

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 plans

The pension deficits of the schemes at 31 December 2013 are as follows:

	2013 £000	2012 £000
Schemes in deficit:		
Lloyd's Pension Scheme	**(32,417)**	(43,234)
Overseas pension schemes	**(1,555)**	(1,841)
	(33,972)	(45,075)

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:

	2013 £000	Restated 2012 £000
Group income statement:		
Lloyd's Pension Scheme	**8,885**	8,022
Overseas pension schemes	**1,270**	1,565
	10,155	9,587
Group statement of comprehensive income:		
Lloyd's Pension Scheme	**(15,004)**	16,416
Overseas pension schemes	**(194)**	422
	(15,198)	16,838

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 (ie 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).

18. PENSION SCHEMES CONTINUED

Lloyd's Pension Scheme continued

- In April 2013, Lloyd's made some further changes to its pension arrangements. The career average (ie CARE) section of the scheme was closed to new joiners from April 2013, and to existing hires from June 2013 (existing employed members of each section continue to accrue benefits). After these dates, employees are eligible to join the Lloyd's Group Personal Pension Plan which is administered by Aviva. The amount charged to the group income statement in respect of Lloyd's Group Personal Pension Plan is £0.1m (2012:£nil).

Scheme contributions and funding valuation

UK legislation requires the funding position of the Scheme to be assessed at least every three years by an independent qualified actuary. Contributions are paid to provide for the cost of benefit accrual and to meet any funding deficit. Any funding deficit or surplus is typically amortised over a period. Contributions are made at the funding rates and assumptions recommended by the actuary, and agreed between the Trustees and Lloyd's.

The last completed formal actuarial valuation of the Scheme was carried out by Towers Watson, actuaries and consultants, as at 30 June 2013 using the projected unit credit method. The total market value of the Scheme's assets at the date of the 2013 valuation was £568m, and the total value of accrued liabilities was £559m showing a surplus of £9m. These figures exclude both liabilities and the related assets in respect of money purchase AVCs.

Employee contributions of 5% of pensionable earnings (or 10% of pensionable earnings for members of the senior management section) have been introduced from July 2006. Normally, instead of making an employee contribution, employees make a salary sacrifice of the appropriate percentage of their salary and Lloyd's makes an additional employer contribution of the same amount.

Following the 2013 actuarial valuation, employer contributions to meet the cost of future accrual as a percentage of salaries are 24.8% for final salary members with an NRA of 60, 15.4% for final salary members with an NRA of 65 and 8.8% for members accruing benefits on a career average basis.

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

The contribution structure is:

Employee	Lloyd's	Total
3%	5%	8%
4%	6%	10%
5%	7%	12%
6%	8%	14%

Lloyd's contribution is capped at 8% of salary, although individuals can elect a higher amount than 6% should they wish.

Discretionary pension increases – treatment for funding purposes

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

Information about the risks of the Scheme to Lloyd's

The ultimate cost of the Scheme to Lloyd's will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and as such the cost of the Scheme may be higher (or lower) than disclosed. In general, the risk to Lloyd's is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to Lloyd's is higher than expected. This could result in higher contributions required from Lloyd's and a higher deficit disclosed. This may also impact Lloyd's ability to grant discretionary benefits or other enhancements to members. More specifically, the assumptions not being borne out in practice could include:

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

18. PENSION SCHEMES CONTINUED

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 2013 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 (2012: 28 years to 30 years).
- For non-pensioners currently aged 45: ranging from 30 years to 32 years (2012: 30 years to 32 years).

The other major financial assumptions used by the actuary as at 31 December 2013 for the purposes of IAS 19 were:

	2013 % per annum	2012 % per annum	2011 % per annum	2010 % per annum	2009 % per annum
General salary and wage inflation	**4.4%**	4.0%	4.1%	4.5%	4.6%
Rate of increase in pensions in payment					
Pre 6 April 1997 (in excess of GMPs)	**–**	–	–	–	–
6 April 1997 to 5 April 2005	**3.2%**	3.0%	3.1%	3.5%	3.6%
Post 5 April 2005	**2.3%**	2.5%	2.5%	2.5%	2.5%
Increases to final salary deferred pensions:					
Benefits accrued before April 2009	**2.4%**	2.2%	2.1%	3.0%	3.6%
Benefits accrued from April 2009	**2.4%**	2.2%	2.1%	2.5%	2.5%
CARE revaluation in service and in deferment, and increase in payment	**2.3%**	2.2%	2.1%	2.5%	2.5%
Discount rate	**4.4%**	4.5%	4.9%	5.5%	5.7%
Price inflation - Retail Price Inflation (RPI)	**3.4%**	3.0%	3.1%	3.5%	3.6%
- Consumer Price Inflation (CPI)	**2.4%**	2.2%	2.1%	3.0%	n/a

An allowance is made for members commuting 20% (2012: 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 2013 the value of the notional fund was £31.0m (2012: £32.6m).

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 2013 would result in a change to the pension liabilities at that date of around 20%, or approximately £130m.

A change of 1% per annum in the assumption for future inflation (both RPI and CPI) as at 31 December 2013, 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 £66m.

18. PENSION SCHEMES CONTINUED

Sensitivity of pension obligation to changes in assumptions continued

A change in the mortality assumptions could have a significant impact on the pension liability. For instance, if members aged 65 were instead expected to live for one year longer, with all other members' life expectancies increasing by a proportionate amount, then the liability as at 31 December 2013 would be 2% higher.

Amounts for the current and previous years were:

Asset/(liability) analysis of the Scheme	2013 Fair value £000	2012 Fair value £000	2011 Fair value £000	2010 Fair value £000	2009 Fair value £000
Bonds					
Corporate bonds	**89,233**	93,573	87,700	79,963	71,516
Index-linked gilts	**88,038**	90,948	93,593	81,843	75,549
Equities					
UK equities	**67,997**	56,459	52,014	55,673	50,294
Overseas (excluding UK) equities	**287,648**	234,198	199,884	218,731	200,232
Property	**65,088**	61,277	57,911	24,993	9,729
Infrastructure	**9,850**	8,748	8,644	8,504	8,093
Cash and net current assets	**25,633**	32,184	38,727	46,249	20,195
Total market value of assets	**633,487**	577,387	538,473	515,956	435,608
Actuarial value of Scheme liabilities	**(665,904)**	(620,621)	(562,152)	(490,043)	(456,899)
(Deficit)/surplus in the Scheme	**(32,417)**	(43,234)	(23,679)	25,913	(21,291)
Irrecoverable surplus (effect of asset ceiling)	**–**	–	–	–	–
Net defined benefit (liability)/asset	**(32,417)**	(43,234)	(23,679)	25,913	(21,291)

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:

	2013 £000	2012 £000
Actuarial value of Scheme liabilities at 1 January	**620,621**	562,152
Interest cost on Pension Scheme liabilities	**27,470**	27,020
Current service cost (net of employee contributions)	**7,102**	7,046
Employee contributions	**2,527**	2,643
Benefits paid	**(21,250)**	(22,113)
Experience losses arising in Scheme liabilities	**8,432**	861
Change in assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	**(1,225)**	–
Financial assumption change	**22,227**	43,012
Actuarial value of Scheme liabilities at 31 December	**665,904**	620,621

Changes in fair value of plan assets were:

	2013 £000	2012 £000
Fair value of Scheme assets at 1 January	**577,387**	538,473
Expected return on Pension Scheme assets	**25,687**	26,044
Employer contributions		
Normal	**4,698**	4,883
Special	**–**	–
Employee contributions	**2,527**	2,643
Benefits paid	**(20,360)**	(21,440)
Actuarial gain on Scheme assets	**44,438**	27,457
Administrative expenses	**(890)**	(673)
Fair value of Scheme assets at 31 December	**633,487**	577,387

Lloyd's expects to contribute approximately £5.1m in normal contributions to the pension scheme in 2014.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

18. PENSION SCHEMES CONTINUED

Analysis of the amount recognised in the group statement of comprehensive income.

	2013 £000	Restated 2012 £000
Experience losses arising on Scheme liabilities	**(8,432)**	(861)
Changes in the assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	**1,225**	–
Financial assumption change	**(22,227)**	(43,012)
Actuarial loss arising during period	**(29,434)**	(43,873)
Return on Fund assets greater than discount rate	**44,438**	27,457
Remeasurement effects recognised in the group statement of comprehensive income	**15,004**	(16,416)

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

	2013 £000	Restated 2012 £000
Current service cost	**7,102**	7,046
Net interest on net defined benefit liability	**1,783**	976
Total operating charge	**8,885**	8,022

Approximately 62% of the service cost for 2013 relates to final salary members and 38% 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 2013 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-14	**20.0**
Expected benefit payments during year ending 31-Dec-15	**20.5**
Expected benefit payments during year ending 31-Dec-16	**21.1**
Expected benefit payments during year ending 31-Dec-17	**21.8**
Expected benefit payments during year ending 31-Dec-18	**22.6**
Expected benefit payments during period 01-Jan-19 to 31-Dec-23	**129.6**
Expected benefit payments during period 01-Jan-24 to 31-Dec-28	**165.7**
Expected benefit payments from 01-Jan-29 onwards	**1,419.4**

18. PENSION SCHEMES CONTINUED

Maturity profile of Defined Benefit Obligation continued

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 2013 resulted in a deficit of £1.6m (2012: £1.8m).

Development of net balance sheet position	31 December 2013 £000	31 December 2012 £000
Value of assets	**1,807**	1,710
Actuarial value of scheme liabilities	**(3,362)**	(3,551)
Deficit in the scheme	**(1,555)**	(1,841)
Net defined benefit liability	**(1,555)**	(1,841)

The total expense recognised in other operating expenses of £0.1m (2012: £0.4m) represents the related current service cost of these schemes. An actuarial gain of £0.2m has been recognised in the group statement of comprehensive income (2012: actuarial loss of £0.4m).

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 £0.4m (2012: £0.3m) represents contributions payable to these schemes by Lloyd's at rates specified in the rules of these schemes.

19. PROVISIONS

	2013 Undertakings given to insolvent members £000	2013 Limited Financial Assistance Agreements £000	2013 Income Assistance Scheme £000	2013 Lloyd's Performance Plan £000	2013 Restructuring £000	2013 Total £000
Balance at 1 January	**14,028**	**–**	**3,855**	**7,404**	**2,056**	**27,343**
Charged/(released) in the year	**17,758**	**–**	**–**	**8,327**	**(89)**	**25,996**
Utilised in the year	**(20,927)**	**–**	**(387)**	**(6,577)**	**(1,967)**	**(29,858)**
Balance at 31 December	**10,859**	**–**	**3,468**	**9,154**	**–**	**23,481**

	2012 Undertakings given to insolvent members £000	2012 Limited Financial Assistance Agreements £000	2012 Income Assistance Scheme £000	2012 Lloyd's Performance Plan £000	2012 Restructuring £000	2012 Total £000
Balance at 1 January	7,665	47	4,245	1,859	6,644	20,460
Charged/(released) in the year	26,494	(47)	–	6,912	(443)	32,916
Utilised in the year	(20,131)	–	(390)	(1,367)	(4,145)	(26,033)
Balance at 31 December	14,028	–	3,855	7,404	2,056	27,343

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

19. PROVISIONS CONTINUED

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Provisions for amounts payable at 1 January			**14,028**		7,665
Undertakings granted in the year	4		**17,758**		26,494
Analysis of paid undertakings by member:					
Flectat Limited		**(3,527)**		(3,044)	
Ebury Underwriting Limited		**(8,400)**		(4,160)	
Hermanus Underwriting Limited		**(9,000)**		(3,463)	
ACAL Underwriting Limited		**–**		(9,464)	
Paid during the year			**(20,927)**		(20,131)
Undertakings given to insolvent members at 31 December			**10,859**		14,028

Limited Financial Assistance Agreements (LFAAs)
LFAAs were provided to individual members between 2005 and 2010 to meet their outstanding underwriting liabilities. Assistance is provided to individuals who are reliant on their funds at Lloyd's (FAL) either because it is in the form of a bank guarantee secured on their sole residence or because they are reliant on the income generated by their FAL. All costs are funded by the New Central Fund.

Income support schemes
Hardship income top-up scheme
The Hardship Scheme was created in 1989 to assist individual members who had reduced means as a result of high underwriting losses. Members in the Scheme are eligible to receive ex-gratia top-up income payments from Lloyd's by virtue of having a Hardship Trust Fund (HTF) or having been awarded litigation recoveries used in 'Reconstruction and Renewal' to pay Equitas premiums. The Income Top-up Scheme was not permanent and discretionary, requiring Council's approval to continue to fund the Scheme annually. All costs were funded by the 'Old' Central Fund.

Income and Housing Support Scheme (IHSS Scheme)
The IHSS Scheme was established in 1996 to provide financial assistance to individual members who accepted the 'Reconstruction and Renewal' settlement offer, to ensure that their housing and income requirements were maintained at a reasonable level. The payments under the scheme were discretionary and were currently funded by the 'Old' Central Fund.

Income Assistance Scheme
The Income Assistance Scheme is effective from 1 January 2010 and replaces both the Hardship Income Top-up payments and the IHSS. The Income Assistance Scheme is permanent, replacing the discretionary nature of the previous schemes, and guarantees ongoing payment 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 and the transitional arrangements for executive directors and senior employees are outlined in the report of the Remuneration Committee on pages 86 to 87. Included within the charge for the year and provision utilised are National Insurance contributions of £1.0m (2012: £0.9m).

Restructuring provisions
The provision was mainly in respect of obligations towards former employees arising from the restructuring programme.

20. TRADE AND OTHER PAYABLES

	2013 £000	Restated 2012 £000
Due within one year:		
Trade and other creditors	**48,983**	58,793
Insurance and reinsurance payables	**33,147**	28,705
Members' subscriptions and contributions repayable	**26,804**	30,166
Taxation and social security	**1,962**	2,305
Arbitration awards	**2,558**	3,361
Interest payable on subordinated loan notes	**18,147**	19,573
	131,601	142,903

The prior year balance has been restated by £17m to reflect certain liabilities previously not deemed the obligation of the Society and to better reflect asset and liability positions the Society is able to off-set. There is no impact to net assets or surplus as all amounts have associated assets.

21. TRADE AND OTHER RECEIVABLES

	2013 £000	Restated 2012 £000
Due within one year:		
Trade (net of allowance for impairment)	**3,230**	2,608
Insurance and reinsurance receivables	**12,759**	7,987
Interest receivable	**16,981**	21,551
Taxation and social security	**1,055**	1,768
Overseas office deposits	**1,464**	2,123
Amounts due from underwriters	**2,074**	3,727
Other receivables	**2,132**	1,473
	39,695	41,237

The prior year balance has been restated by £36m to reflect assets previously not deemed attributable to the Society and to better reflect asset and liability positions the Society is able to off-set. There is no impact to net assets or surplus as all amounts have associated liabilities.

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 96 and 97 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 108 to 109.

The fair value (based on the quoted offer prices) of subordinated debt is £793.8m (2012: £965.9m) against a carrying value measured at amortised cost of £720.5m (2012: £893.3m). 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 2013 was as follows:

	2013 Gross £000	2013 Impairment £000	2013 Net £000	2012 Gross £000	2012 Impairment £000	2012 Net £000
Not past due	**2,834**	**–**	**2,834**	1,630	–	1,630
Past due 31-120 days	**316**	**–**	**316**	823	–	823
More than 120 days	**402**	**(322)**	**80**	501	(346)	155
Total	**3,552**	**(322)**	**3,230**	2,954	(346)	2,608

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:

	2013 £000	2012 £000
Balance at 1 January	**346**	487
Additional allowances during the year charged to the group income statement	**46**	29
Allowances released during the year credited to the group income statement	**(16)**	(98)
Recoveries during the year	**(54)**	(72)
Balance at 31 December	**322**	346

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

22. FINANCIAL INSTRUMENTS CONTINUED

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 2013, a consistent increase of 100 basis points in the yields applicable to all relevant securities would have reduced the surplus before tax by approximately £42m (2012: £58m). 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 2013, a 15% fall in the value of all the Society's equity investments would have reduced the surplus before tax by approximately £61m (2012: £33m). 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 2013, a 10% rise in the value of sterling, against all other currencies, would have reduced the surplus before tax by £17m (2012: £12m). 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 2013 based on undiscounted contractual cash flows:

As at 31 December 2013	**Carrying amount £000**	**Contractual cash flows £000**	**Within 1 year £000**	**1-2 years £000**	**2-5 years £000**
Subordinated loan notes	**330,064**	**(362,193)**	**(198,417)**	**(163,776)**	**–**
Perpetual subordinated capital securities	**390,455**	**(508,378)**	**(29,091)**	**(29,091)**	**(450,196)**
Loans funding statutory insurance deposits	**518,090**	**(518,090)**	**(518,090)**	**–**	**–**
Trade and other payables	**131,601**	**(131,601)**	**(131,601)**	**–**	**–**
	1,370,210	**(1,520,262)**	**(877,199)**	**(192,867)**	**(450,196)**

As at 31 December 2012	Restated Carrying amount £000	Restated Contractual cash flows £000	Restated Within 1 year £000	1-2 years £000	2-5 years £000
Subordinated loan notes	503,322	(589,866)	(32,153)	(237,088)	(320,625)
Perpetual subordinated capital securities	390,006	(537,469)	(29,091)	(29,091)	(479,287)
Loans funding statutory insurance deposits	501,846	(501,846)	(501,846)	–	–
Trade and other payables	142,903	(142,903)	(142,903)	–	–
	1,538,077	(1,772,084)	(705,993)	(266,179)	(799,912)

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

22. FINANCIAL INSTRUMENTS CONTINUED

Liquidity risk continued

Forward currency contracts are settled gross; notional amounts are a close proxy for gross cash flow amounts. Further details regarding the subordinated loan notes and the perpetual subordinated capital securities can be found in note 17 on pages 129 to 130. Information regarding financial guarantees, all of which could theoretically be called on within one year, can be found in note 27 on page 144.

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:	**2013 £000**	2012 £000
Outstanding forward foreign exchange gains	**48,148**	59,586
Outstanding forward foreign exchange losses	**(21,694)**	(28,925)

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

	2013 Assets		**2013 Liabilities**	
As at 31 December 2013	**Fair value £000**	**Notional £000**	**Fair value £000**	**Notional £000**
Currency conversion service (CCS)	**11,900**	**190,418**	**(14,369)**	**(192,887)**
Other forward foreign exchange contracts	**36,248**	**1,549,972**	**(7,325)**	**(1,521,049)**
	48,148	**1,740,390**	**(21,694)**	**(1,713,936)**

	2012 Assets		2012 Liabilities	
As at 31 December 2012	Fair value £000	Notional £000	Fair value £000	Notional £000
Currency conversion service (CCS)	12,254	244,621	(13,696)	(246,063)
Other forward foreign exchange contracts	47,332	1,414,611	(15,229)	(1,382,508)
	59,586	1,659,232	(28,925)	(1,628,571)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

22. FINANCIAL INSTRUMENTS CONTINUED

Fair value hierarchy

	Notes	2013 Level 1 £000	2013 Level 2 £000	2013 Level 3 £000	2013 Total £000
Financial assets at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	2,316	–	2,316
Unlisted securities		–	260,108	–	260,108
Deposits with credit institutions		–	264,916	–	264,916
Total statutory insurance deposits	15A	–	527,340	–	527,340
Other investments					
Listed securities		732,547	890,075	–	1,622,622
Equity investments		405,420	–	–	405,420
Unlisted securities		–	154,956	–	154,956
Deposits with credit institutions		82,660	–	–	82,660
Total other investments	15B	1,220,627	1,045,031	–	2,265,658
Forward currency contracts					
Currency conversion service		–	11,900	–	11,900
Other forward foreign exchange contracts		–	36,248	–	36,248
Total forward currency contracts	22	–	48,148	–	48,148
Loans recoverable	14	–	–	43,499	43,499
Total financial assets at fair value through profit or loss		1,220,627	1,620,519	43,499	2,884,645
Financial liabilities at fair value through profit or loss					
Forward currency contracts					
Currency conversion service		–	(14,369)	–	(14,369)
Other forward foreign exchange contracts		–	(7,325)	–	(7,325)
Total forward currency contracts	22	–	(21,694)	–	(21,694)
Total financial liabilities at fair value through profit or loss		–	(21,694)	–	(21,694)

22. FINANCIAL INSTRUMENTS CONTINUED

Fair value hierarchy continued

	Notes	2012 Level 1 £000	2012 Level 2 £000	2012 Level 3 £000	2012 Total £000
Financial assets at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	2,729	–	2,729
Unlisted securities		–	89,911	–	89,911
Deposits with credit institutions		–	415,823	–	415,823
Total statutory insurance deposits	15A	–	508,463	–	508,463
Other investments					
Listed securities		1,126,901	834,339	–	1,961,240
Equity investments		219,617	–	–	219,617
Unlisted securities		–	116,115	–	116,115
Deposits with credit institutions		36,620	–	–	36,620
Total other investments	15B	1,383,138	950,454	–	2,333,592
Forward currency contracts					
Currency conversion service		–	12,254	–	12,254
Other forward foreign exchange contracts		–	47,332	–	47,332
Total forward currency contracts	22	–	59,586	–	59,586
Loans recoverable	14	–	–	45,138	45,138
Total financial assets at fair value through profit or loss		1,383,138	1,518,503	45,138	2,946,779
Financial liabilities at fair value through profit or loss					
Forward currency contracts					
Currency conversion service		–	(13,696)	–	(13,696)
Other forward foreign exchange contracts		–	(15,229)	–	(15,229)
Total forward currency contracts	22	–	(28,925)	–	(28,925)
Total financial liabilities at fair value through profit or loss		–	(28,925)	–	(28,925)

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 (ie as prices) or indirectly (ie derived from prices) and fair value is determined through the use of models or other valuation methodologies. Level 2 inputs include quoted prices for similar (ie not identical) assets in active markets, quoted prices for identical or similar assets in markets that are not active or in which little information is released publicly, 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.

There have been no significant transfers between levels 1, 2 and 3 for the year ended 31 December 2013.

The fair value movements during the year are recognised as finance income or finance cost in the group income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

As at 31 December 2013

23. EQUITY

Accumulated reserves

	2013 £000	2012 £000
Attributable to:		
Corporation of Lloyd's	**130,283**	113,501
Central Fund	**1,512,638**	1,459,883
Associates	**7,897**	6,422
	1,650,818	1,579,806

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.

24. CASH GENERATED FROM OPERATIONS

	Notes	2013 £000	Restated 2012 £000
Surplus before tax		**78,334**	152,716
Finance cost - deficit on subordinated note repurchase	17	**15,162**	–
Net finance income	7	**(4,717)**	(52,657)
Realised/unrealised exchange losses/(gains) on borrowings		**6,126**	(6,107)
Share of profits of associates	12A	**(6,843)**	(5,945)
Operating surplus		**88,062**	88,007
Central Fund claims and provisions incurred	4	**17,758**	26,447
Operating surplus before Central Fund claims and provisions		**105,820**	114,454
Adjustments for:			
Depreciation of plant and equipment	10	**6,574**	5,535
Amortisation of intangible assets	9	**358**	415
Impairment losses	10	**5,279**	312
Losses on sale and revaluation of fixed assets		**841**	511
(Losses)/gains on investments including unrealised movements of forward currency contracts		**(25,099)**	8,161
Foreign exchange losses on operating activities		**2,675**	918
Operating surplus before working capital changes and claims paid		**96,448**	130,306
Changes in pension obligations		**4,096**	3,230
Decrease in receivables		**(1,246)**	65,091
Increase in inventories		**(20)**	(38)
Increase/(decrease) in payables		**23,107**	(69,268)
(Decrease)/increase in provisions other than for Central Fund claims		**(693)**	567
Cash generated from operations before claims paid		**121,692**	129,888
Claims paid in respect of corporate/insolvent members	19	**(20,927)**	(20,131)
Cash generated from operations		**100,765**	109,757

25. COMMITMENTS

a. Capital expenditure commitments

Capital expenditure commitments contracted but not provided for in the financial statements totalled £9,300,000 (2012: £78,000).

b. Operating lease commitments – Lloyd's as lessee

	2013 £000	2012 £000
Non-cancellable operating lease rentals are payable as follows:		
Within one year	**23,189**	24,942
After one year but not more than five years	**78,523**	80,670
More than five years	**58,439**	74,610

25. COMMITMENTS CONTINUED

b. Operating lease commitments – Lloyd's as lessee continued

Commitments outstanding under the terms of the lease for the Lloyd's 1986 building have been included at the current rental value (£16.8m per annum) to the first break of the lease in 2021. The lease was subject to a rent review in October 2012; the next review will be undertaken in March 2016.

The Lloyd's Chatham building is included at the current rental value (£0.4m per annum). The lease was terminated by mutual agreement on 31 October 2013. During the year Lloyd's entered into a new lease which was subject to a rent free period of 21 months. The lease expires in October 2023.

During the year ended 31 December 2012 Lloyd's entered into a new lease for the Lloyd's Datacentre in Redhill. The lease was subject to a rent free period in the first year. The lease expires in September 2023.

Subsidiary undertakings are party to a number of small operating leases mainly for property rental and small machinery. The commitments outstanding have been included at the current rental value to the first break in the lease. These arrangements do not impose any significant restrictions on the Society.

During the year ended 31 December 2013, £25.0m (2012: £23.7m) was recognised as an expense in the group income statement in respect of operating leases.

c. Operating lease commitments – Lloyd's as lessor

	2013 £000	2012 £000
Non-cancellable operating lease rentals are receivable as follows:		
Within one year	**5,534**	6,684
After one year but not more than five years	**8,875**	21,777
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 2013, £12.0m (2012: £11.8m) 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 2013 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 2013 included premises and other administrative services.

Services provided to the Message Exchange Limited in the year ended 31 December 2013 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 2013 and 2012.

	Sales to related parties		Purchases to related parties		Amounts owed by related parties		Amounts owed to related parties	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Associates:								
Ins-sure Holdings Limited	**286**	277	**4,695**	816	**4**	4	**460**	–
Xchanging Claims Services Limited	**99**	107	**6**	36	**3**	41	**–**	5
Joint venture:								
The Message Exchange Limited	**–**	–	**958**	942	**–**	25	**69**	75

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. DISCLOSURE OF RELATED PARTY TRANSACTIONS CONTINUED

Michael Watson, a member of Council from February 2013, is also a Director of Flectat Limited which benefited from undertakings given by the Council in 2013 to meet unpaid cash calls. Amounts paid under these undertakings during the period are disclosed in note 19.

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

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 2013 amounted to £26.7m (31 December 2012: £24.4m).

(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 cash flow 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:

	2013 £000	2012 £000
Guarantees provided by the Society:		
USA: US$1,500,000 (2012: US$1,500,000)	**906**	923

In respect of all contingent liabilities disclosed as at 31 December 2013, no provision has been made in the Society financial statements.

FIVE YEAR SUMMARY

	2013 £000	Restated 2012 £000	2011 £000	2010 £000	2009 £000
Operating income	**216,521**	212,666	215,085	210,193	195,043
Central Fund contributions	**105,953**	104,959	94,693	100,858	99,687
General insurance net premium income	**7**	4	523	1,463	6,992
Other group income	**3,111**	2,395	6,598	215,822	52,048
Total income	**325,592**	320,024	316,899	528,336	353,770
Central Fund claims and provisions (incurred)/released	**(17,758)**	(26,447)	(15,283)	34,245	19,586
Gross insurance claims (incurred)/released	**(20,326)**	(11,695)	22,717	11,602	(6,714)
Insurance claims recoverable from reinsurers	**20,385**	11,801	1,492	4,864	302
Other group operating expenses:					
Employment (including pension costs)	**(102,487)**	(98,128)	(116,415)	(92,464)	(92,030)
Premises	**(46,051)**	(40,660)	(44,009)	(42,755)	(39,056)
Legal and professional	**(17,002)**	(14,070)	(19,707)	(18,835)	(19,089)
Systems and communications	**(23,353)**	(22,826)	(27,965)	(27,920)	(21,936)
Other	**(30,938)**	(29,992)	(40,486)	(32,509)	(67,951)
Total other group operating expenses	**(219,831)**	(205,676)	(248,582)	(214,483)	(240,062)
Operating surplus	**88,062**	88,007	77,243	364,564	126,882
Finance costs					
Deficit on subordinated debt repurchase	**(15,162)**	–	–	–	–
Other	**(55,642)**	(62,198)	(64,370)	(66,143)	(69,345)
Finance income					
Surplus on subordinated debt repurchase	**–**	–	4,248	1,470	36,205
Other	**60,359**	114,855	90,369	131,436	79,555
Realised/unrealised exchange (losses)/gains on borrowings	**(6,126)**	6,107	5,428	7,954	23,003
Share of profits of associates	**6,843**	5,945	4,927	5,084	3,363
Surplus before tax	**78,334**	152,716	117,845	444,365	199,663
Tax charge	**(13,987)**	(34,169)	(28,495)	(121,752)	(56,596)
Surplus for the year	**64,347**	118,547	89,350	322,613	143,067

MANAGING AGENTS AND SYNDICATES

The table shows the key characteristics for managing agents and syndicates active as at 31 December 2013. In 2013, Lloyd's wrote gross premiums of £26,106m.

Managing agent	Managed syndicate(s)	2013 GWP* £m	2012 GWP* £m	Owned share of syndicate(s) %
ACE Underwriting Agencies Limited	2488	371	352	100%
Advent Underwriting Limited	0780	135	158	100%
AEGIS Managing Agency Limited	1225	367	371	100%
Amlin Underwriting Limited	2001	1,472	1,470	100%
	6106	36	36	0%
AmTrust at Lloyd's Limited	0044	9	7	100%
	1206	183	194	100%
Antares Managing Agency Limited	1274	246	197	91%
ANV Syndicate Management Limited	1861	155	142	100%
	1969	121	104	0%
ANV Syndicates Limited	0779	26	26	21%
	5820	129	129	18%
Arch Underwriting at Lloyd's Ltd	2012	158	169	100%
Argenta Syndicate Management Limited	1110	103	67	0%
	2121	239	255	52%
Argo Managing Agency Limited	1200	425	375	89%
Ark Syndicate Management Limited	4020	359	341	100%
	6105	13	8	0%
Ascot Underwriting Limited	1414	625	654	100%
Aspen Managing Agency Limited	4711	279	267	100%
Asta Managing Agency Limited	1910	204	262	0%
	1945	59	44	0%
	2015	124	82	0%
	2357	9	–	0%
	2525	39	35	0%
	2526	53	43	0%
	4242	80	75	0%
Atrium Underwriters Limited	0609	380	353	25%
Barbican Managing Agency Limited	1955	279	220	100%
	6113	23	–	0%
Beaufort Underwriting Agency Limited	0318	149	163	91%
Beazley Furlonge Limited	0623	240	231	7%
	2623	1,093	1,045	100%
	3622	13	13	100%
	3623	134	113	100%
	6107	19	9	50%
Brit Syndicates Limited	2987	1,183	1,089	100%
Canopius Managing Agents Limited	0260	67	47	92%
	0958	172	231	61%
	4444	704	648	90%
	6115	71	–	100%
Capita Managing Agency Limited	2232	96	69	0%
Cathedral Underwriting Limited	2010	273	285	58%
	3010	27	29	100%
Catlin Underwriting Agencies Limited	2003	1,911	1,836	100%
	2088	49	48	0%
	3002	10	10	100%
	6111	108	71	0%
	6112	38	32	100%
Chaucer Syndicates Limited	1084	888	906	98%
	1176	27	28	56%
Chubb Managing Agent Limited	1882	81	79	100%

Managing agent	Managed syndicate(s)	2013 GWP* £m	2012 GWP* £m	Owned share of syndicate(s) %
Equity Syndicate Management Limited	0218	406	449	66%
Faraday Underwriting Limited	0435	234	277	100%
Hardy (Underwriting Agencies) Limited	0382	291	290	100%
HCC Underwriting Agency Limited	4141	87	91	100%
Hiscox Syndicates Limited	0033	823	825	73%
	3624	306	245	100%
	6104	43	44	0%
Liberty Syndicate Management Limited	4472	1,268	1,107	100%
Managing Agency Partners Limited	2791	261	307	21%
	6103	21	27	7%
Markel Syndicate Management Limited	1400	166	198	100%
	3000	369	386	100%
Marketform Managing Agency Limited	2468	186	179	70%
Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited	3210	343	302	100%
Montpelier at Lloyd’s Limited	5151	150	155	100%
Munich Re Underwriting Limited	0457	511	494	100%
Navigators Underwriting Agency Limited	1221	235	231	100%
Newline Underwriting Management Limited	1218	106	116	100%
Novae Syndicates Limited	2007	608	612	97%
Pembroke Managing Agency Limited	4000	273	226	100%
	6110	41	19	0%
QBE Underwriting Limited	0386	449	444	70%
	2999	1,118	1,155	100%
R&Q Managing Agency Limited	1897	75	51	8%
	1991	5	–	39%
R. J. Kiln & Co. Limited	0308	31	30	50%
	0510	1,169	1,153	55%
	0557	30	34	0%
	1880	237	240	100%
Renaissance Re Syndicate Management Limited	1458	141	98	100%
S.A. Meacock & Company Limited	0727	70	93	16%
Shelbourne Syndicate Services Limited	2008	25	194	100%
Sportscover Underwriting Limited	3334	88	87	100%
Starr Managing Agents Limited	1919	289	255	100%
Talbot Underwriting Limited	1183	698	681	100%
Torus Underwriting Management Limited	1301	148	82	82%
Travelers Syndicate Management Limited	5000	331	320	100%
W. R. Berkley Syndicate Management Limited	1967	136	116	100%
XL London Market Limited	1209	307	321	100%
All other syndicates and RITC adjustment		(23)	148	
Total		26,106	25,500	

As at 31 December 2013

* See Glossary on page 148.

Name changes and managing agent changes during 2013 or after:
Syndicate 1301, previously managed by Chaucer Syndicates Limited, transferred to Torus Underwriting Management Limited
Syndicate 1400, previously managed by Alterra at Lloyd’s Limited, transferred to Markel Syndicate Management Limited
Jubilee Managing Agency changed to ANV Syndicates Limited
Montpelier Underwriting Agencies Limited changed to Montpelier at Lloyd’s Limited
Sagicor at Lloyd’s Limited changed to AmTrust at Lloyd’s Limited
Syndicate 6110, managed by Pembroke Managing Agency Limited, has been redesignated as syndicate 2014 for the 2014 year of account and onwards

The following syndicates ceased trading at 31 December 2013:
Markel Syndicate Management Limited 1400
Amlin Underwriting Limited 6106

As at 25 March 2014 the following syndicates commenced trading for the 2014 year of account:
Asta Managing Agency Limited 1686
Asta Managing Agency Limited 1729
Asta Managing Agency Limited 6117
Barbican Managing Agency Limited 6118
Catlin Underwriting Agencies Limited 6119

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.

Capacity
In relation to a member, it is the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate it is the aggregate of each member's capacity allocated to that syndicate.

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

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

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

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

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

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

Financial Conduct Authority (FCA)
On 1 April 2013, the UK financial services regulatory regime saw the Financial Services Authority split into the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA). The FCA supervises the conduct of the UK financial services industry.

Franchise Board
The board established by the Council with responsibility for creating and maintaining a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised. This includes setting the Risk Management Framework and profitability targets for the market.

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

Gross Written Premiums (GWP)
Written insurance premiums, gross of reinsurance and acquisition costs.

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

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

Member (of the Society)
A person admitted to 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)
On 1 April 2013, the UK financial services regulatory regime saw the Financial Services Authority split into the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA). The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

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

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

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

Service company
A service company means an approved coverholder that (a) is associated with a managing agent by reason of it being a wholly owned subsidiary of the managing agent; or being a wholly owned subsidiary of the managing agent's holding company; or such other matters as the Franchise Board may determine in any particular case or generally; and (b) will be authorised by its associated managing agent to enter into contract(s) of insurance to be underwritten only by members of a syndicate managed by the associated managing agent or an insurance company which is a member of the same corporate group.

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.

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 sub-ordinate 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 or 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.

NOTES

NOTES

The cover and text pages of this report are printed on Amadeus 50% recycled Silk, a recycled paper containing 50% recovered waste, 50% virgin fibre and is certified as an FSC® mixed sources grade. Amadeus 50% recycled Silk is manufactured to the certified environmental management system ISO 14001. Designed and produced by Addison Group www.addison-group.net. Printed by Park Communications Ltd FSC® C001785.

Lloyd's One Lime Street London EC3M 7HA
Telephone +44 (0)20 7327 1000
www.lloyds.com
Follow us on Twitter @LloydsofLondon