LLOYD'S

Annual Report

2021

Sharing risk to create a braver world

Lloyd's is the world's leading insurance and reinsurance marketplace. We help to create a braver world by protecting what matters most to our customers, helping them to recover in times of need and building resilience through sharing of risk.

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Strategic Report

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The strategic report provides a comprehensive view of how we fulfil our purpose of sharing risk to create a braver world through our four strategic priorities; performance, digitalisation, culture and purpose.

At a Glance

Our purpose

Everything Lloyd's does is underpinned by one unifying purpose: sharing risk to create a braver world. Our purpose speaks to the aspiration and impact of the market and is as true today as it was in Edward Lloyd's coffee shop back in 1688.

Our strategic priorities at a glance

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

Performance

In 2021, the Lloyd's market reported a strong return to profitability, with an overall profit of £2,277m before tax (2020: loss of £887m) and a combined ratio of 93.5% (2020: 110.3%; 97.0% excluding COVID-19 losses). The market is exceptionally well capitalised with the central solvency ratio increasing to 388% (2020: 209%). Lloyd's strong performance has been driven by our continued focus on portfolio management action, demonstrated by a 3.0% reduction in the attritional loss ratio (51.9% in 2020 reducing to 48.9% in 2021). Our focus on sustainable, profitable performance continues through 2022, and will be supported by the implementation of our new, principles-based oversight framework and delivering a differentiated approach to syndicate business planning.

Digitalisation

Blueprint Two continues to be at the heart of the Future at Lloyd's, striving to digitalise the Lloyd's market. The programme is focused on establishing clear and accurate data through the use of market-wide data standards, open market and delegated authority placement, and claims management, underpinned by effective digital processing. In doing so, we will deliver tangible efficiencies to the market, including reduced cost and complexity of doing business at Lloyd's.

Purpose

We have placed Environment, Social, Governance (ESG) at the heart of everything we do. In 2021, we committed to be net zero by 2050 and were invited to lead the Insurance Task Force, part of HRH The Prince of Wales's Sustainable Markets Initiative. The Task Force brings together global insurance leaders and firms to drive and accelerate the transition of our industry towards a resilient, net zero economy. We aim to lead the market by continuing to develop sustainable practices in 2022.

Culture

In 2021, we continued our commitment in building a solid foundation to create a diverse, inclusive and high-performing culture across the Society and the market. We met our short-term target of female representation in the board and executive committees and further reduced the gender pay gap. We also kept the momentum to establish a diverse workforce by setting an ambition for one in three new hires in the market and the Society to come from an ethnic minority background. We have also continued our work on social mobility in 2021 and were recognised as a Top 75 employer in the latest UK Social Mobility Employer index.

Our Performance: Financial key performance indicators

Gross written premium
£39,216m
2020: £35,466m

Profit before tax
£2,277m
2020: Loss before tax of £887m

Combined ratio
93.5%
2020: 110.3% (97.0% excluding COVID-19)

Attritional loss ratio
48.9%
2020: 51.9%

Expense ratio
35.5%
2020: 37.2%

Underwriting profit
£1,741m
2020: Underwriting loss of £2,676m including COVID-19 losses

Investment income
£948m
2020: £2,268m

Net resources
£36,553m
2020: £33,941m

Pre-tax return on capital
6.6%
2020: (2.8%)

Central solvency coverage ratio
388%
2020: 209%

Market-wide solvency coverage ratio
177%
2020: 147%

Read more about our performance in the 'Market Results' and 'Society Report' section. The above metrics include alternative performance measures; see page 174 for definitions.

Chairman's Statement

Our mission at Lloyd's is to help society create a braver world: building resilience against the unforeseen and building confidence in the everyday.

So in a year where we were forced to work through another 12 months of COVID-19, alongside the continued warming of our climate and, as I write this statement, a conflict in Ukraine; it's fair to say we have needed resilience more than ever.

Our thoughts continue to be with the people of Ukraine as they respond to the damage and disruption caused by Russia's invasion into their lands. We've been working to help governments, regulators and businesses in the UK and around the world implement the sanctions we hope can speed the end of this conflict, and we will continue to deploy our market's expertise, relationships and resources behind that goal.

Both COVID-19 and the conflict in Ukraine remind us how the risk landscape has changed. One began as a health risk, the other as a political hazard; yet both have evolved into global crises with far-reaching economic, environmental, and humanitarian consequences. The message is clear: no longer can we view our interests and risks in isolation to others; we must see them as an interwoven web of interests, dependencies, and impacts. This idea underpins our market's work to help society manage and mitigate risk and is the driving principle behind our purpose.

Sharing risk to create a braver world

Recent years have placed fresh demands on what society expects from businesses. The services we provide, the way we protect and invest people's money and assets – these are essential functions forming just one part of the fabric of a functioning society.

Insurance products have always played a vital role in helping people and businesses thrive. By pooling our risk with others, we enable more confident and informed decisions about the future. It's why our purpose at Lloyd's is 'sharing risk to create a braver world'; because we want to help people break new ground and make bolder decisions.

To perform this critical role in society, we must first be in a good position ourselves. That's why our focus on sustainable growth is essential: a healthy, future-proofed organisation will be better equipped to invest, innovate, and improve its offering to society – over a period of decades, not just quarters. Doing the right thing and setting oneself up for future success usually demands a degree of compromise, cost, and contemplation in the near term: which is why 2021 was, for Lloyd's, the year of short-term groundwork to sustain long-term growth.

This was certainly true across our four areas of strategic focus in 2021: financial performance, digital transformation, purpose, and culture.

Short-term groundwork, long-term growth

2021 saw us continue the important work of bringing our market's performance up – and the cost of doing business down – by focusing on underwriting discipline, digitalisation, and a new principles-based approach to market oversight. This has required some degree of intervention, and an even greater degree of discussion with our market partners, however the end product is a higher quality marketplace with a reduced regulatory burden; one that is 'match fit' to grow and compete in a complex and uncertain world. Our 2021 results, covered in more detail later, testify to this much improved and encouraging performance.

Supporting our market's evolution, we continued our digital transformation through Blueprint Two to make Lloyd's a better, faster, cheaper place to do business. The work has involved diving into the weeds of our platforms and processes as a market; the first time in 20 years we've considered an overhaul of the Lloyd's market on this scale. This difficult, foundational work has put us in a position to launch an end-to-end roadmap for our digital journey, offering the market greater clarity on how and when these changes will be delivered. They are changes that will set the market up for sustainable growth for decades to come.

As we grappled with what it means to live out our purpose in 2021, our efforts doubled around the climate challenge and supporting the transition to a low carbon economy. We focused on our own emissions, the footprint of our investments and the exposure of our market; but we also worked to mitigate the societal impacts. As Chair of the Sustainable Markets Initiative Insurance Task Force, convened by HRH The Prince of Wales, we continued the important work of bringing our industry together to develop the solutions that will make our world more resilient to the impacts of climate change. It was a year of challenging conversations and forward investment, but that essential groundwork will help us sustain an increasingly swift and secure transition in the coming decades.

Finally, we embarked on the crucial task of building a more inclusive culture for the Corporation, market, and society. As this report outlines, this included progress in promoting gender and ethnic diversity within our market, alongside a clear need to do more in the coming years to shift the dial. Following our apology in 2020 for the role of the Lloyd's market in the slave trade, 2021 saw us begin the complex undertaking of untangling our history as an organisation. We have since announced an exciting collaboration with Johns Hopkins University, which will expand our search into our archives while seeking to amplify those voices and communities who historically have been excluded from the conversation.

Towards a braver future

2021 was certainly not an easy year: from performance and digitalisation, to climate change and culture change, we sought to grapple with the difficult issues that must be addressed to help our market and society move forward. Putting this essential groundwork in place has been the right thing to do and is an essential part of building a sustainable, resilient marketplace that can drive growth and innovation for decades to come.

Our strong financial performance in 2021 and our progress against our purpose represent encouraging returns on our investment in this foundational work. We expect further benefits will become more visible and valuable as we go further and faster on all fronts in the years ahead.

In the meantime, we will continue to play our part in supporting the people of Ukraine, whose courage and ideals should inspire us all to work towards a braver world.

Bruce Carnegie-Brown
Chairman, Lloyd's

"No longer can we view our interests and risks in isolation to others – we must see them as an interwoven web of interests, dependencies and impacts. This idea underpins our market's work to help society manage and mitigate risk, and is the driving principle behind our purpose."

Bruce Carnegie-Brown,
Chairman, Lloyd's

"We are currently living through a period of heightened risk, not seen or experienced for 75 years. Insurance has a critical role to play. Lloyd's is the only global marketplace for insurance and reinsurance: enabling business to flow, supporting the interconnectedness of international trade, and providing organisations with the confidence to make decisions needed to thrive in a volatile world."

John Neal,
CEO, Lloyd's

Chief Executive's Statement

At the time of writing, we are shocked and saddened by events in Ukraine, which dominate both our news coverage and our discussions across the Lloyd's market. Though we're yet to see and understand the full extent of the economic and human cost, it is clear the impacts will extend from Ukraine to all corners of the world.

Our thoughts, sympathy, and support are with the people of Ukraine. We salute your courage in the face of unimaginable danger, and it has reminded us what true bravery looks like. We will continue working with the Lloyd's market, colleagues, governments, regulators and others to help bring a swift and peaceful resolution to the conflict, while providing support to those affected.

The situation has once again highlighted how connected our world is. After the global shock of the pandemic, we're now watching a regional conflict trigger global market volatility in the short-term, and political, economic and environmental instability in the medium-term. Global challenges such as these require global responses. Governments around the world responded to COVID-19 by injecting trillions of dollars into the economy, while businesses moved to help their customers manage the disruption. On climate change, we have now built a consensus, hard-fought by activists and early adopters, that significant investment is needed by both governments and businesses to finance a transition great enough to shift the dial on global warming. Ukraine enters that fray, promising to alter the political tectonic plates and respective relationships of the world's superpowers and alliances.

We are currently living through a period of heightened risk, not seen or experienced for 75 years. Insurance has a critical role to play. Lloyd's is the only global marketplace for insurance and reinsurance: enabling business to flow, supporting the interconnectedness of international trade, and providing organisations with the confidence to make decisions needed to thrive in a volatile world.

Our progress in 2021 delivers on that responsibility. Every business needs a plan, but the best businesses demonstrate strong performance against that plan.

Executing Our Plans

Sustainable performance

2021 saw the Lloyd's marketplace return to both growth and profitability. Gross written premiums grew by 11% to £39.2bn, reporting a profit before tax of £2.3bn, while our resources continued to grow by 8% and the central solvency coverage ratio was 388%. We released central resources to support this growth where it is right and appropriate to do so. We paid out almost £20bn in claims, including reported claims arising from the pandemic, and from elevated catastrophe exposures in the US and Europe.

Importantly, we delivered on our promise to return the market to sustainable underwriting profit. The combined ratio of 93.5% demonstrates significant improvement (2020: 110.3%, 97.0% excluding COVID-19 claims), and the attritional loss ratio of 48.9% has seen similar improvement (2020: 51.9%). The expense ratio has also continued to reduce from 37.2% in 2020 to 35.5% in 2021, with the Future at Lloyd's programme central to our long-term objective of reducing total acquisition and administration costs across the market. These results evidence our continuous improvement and portfolio management approach in action and position the market for sustainable and profitable growth in the years ahead.

Digital transformation

Our plans to digitalise the Lloyd's market moved to the 'build' phase in 2022, owing to the strong foundations laid in 2021. We are clear that success is defined by our ability to prove that we are better in the way we process, place and manage transactions. That we are faster, with timelines for policy issuance and technical processes reduced from weeks to minutes and claims lead times significantly reduced. We will also make it cheaper to do business, with processing costs reduced by at least 40%. The roadmap we have recently published through the Blueprint Two Interactive Guide sets out how and when we will achieve these objectives, and how the market can prepare themselves to adopt and implement the solutions.

Purpose-led leadership

We believe insurance plays a key role in unlocking economic and social progress, creating conditions in which people can lend, spend and save. This is the case on climate change, where we're honoured to be chairing the Insurance Task Force of HRH The Prince of Wales's Sustainable Markets Initiative, which seeks to promote a transition to net zero that works for everyone. Through Futureset, we're leading the discussion on systemic risk and how insurers can counter and support businesses in the face of a more challenging risk landscape, whether from economic challenges, disease or the aftermath of war.

Inclusive culture

Our industry has inclusion and social wellbeing at its core: insurance is built on the premise that the cooperation of many can protect the few. We must therefore continue to convene the discussion on diversity and inclusion, knowing that a broader, more diverse social base will create a stronger organisation. That means understanding the needs and expectations of our market; creating equal opportunities for all our colleagues; and taking action to improve the experiences of women, Black, Asian and Minority Ethnic colleagues while attracting, retaining and promoting a diverse pool of talent.

Looking Ahead

We are living in challenging times, yet we believe we have the resources, expertise and platform to drive sustainable growth while helping societies and communities respond to the challenges they face. The Lloyd's market has presented an exceptionally strong set of financial results, and arguably the strongest balance sheet Lloyd's has seen. With this sustainable foundation, we'll continue to provide leadership on the crucial topics of climate change and social inclusion.

We could not meet the responsibilities we do without the hard work and dedication of all our people, and I'd like to recognise their diligence and resilience in responding to a global pandemic and now a very real conflict on our doorstep.

As an industry, we stand ready and able to support businesses, communities and people in 2022 and beyond. Insurance has a critical role to play, offering the products and services so vitally needed to respond to a more complex and costly risk landscape, while holding the assets that can support society's response to new and emerging risks.

We look forward to working with our partners to support bolder, braver decisions in the coming year.

John Neal
CEO, Lloyd's

Who we are

Lloyd's business model

Lloyd's is the world's leading insurance and reinsurance marketplace. Since our beginnings in Edward Lloyd's coffee shop back in 1688, we have been at the forefront of the industry, with over 300 years of history providing risk solutions and insights for our customers.

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

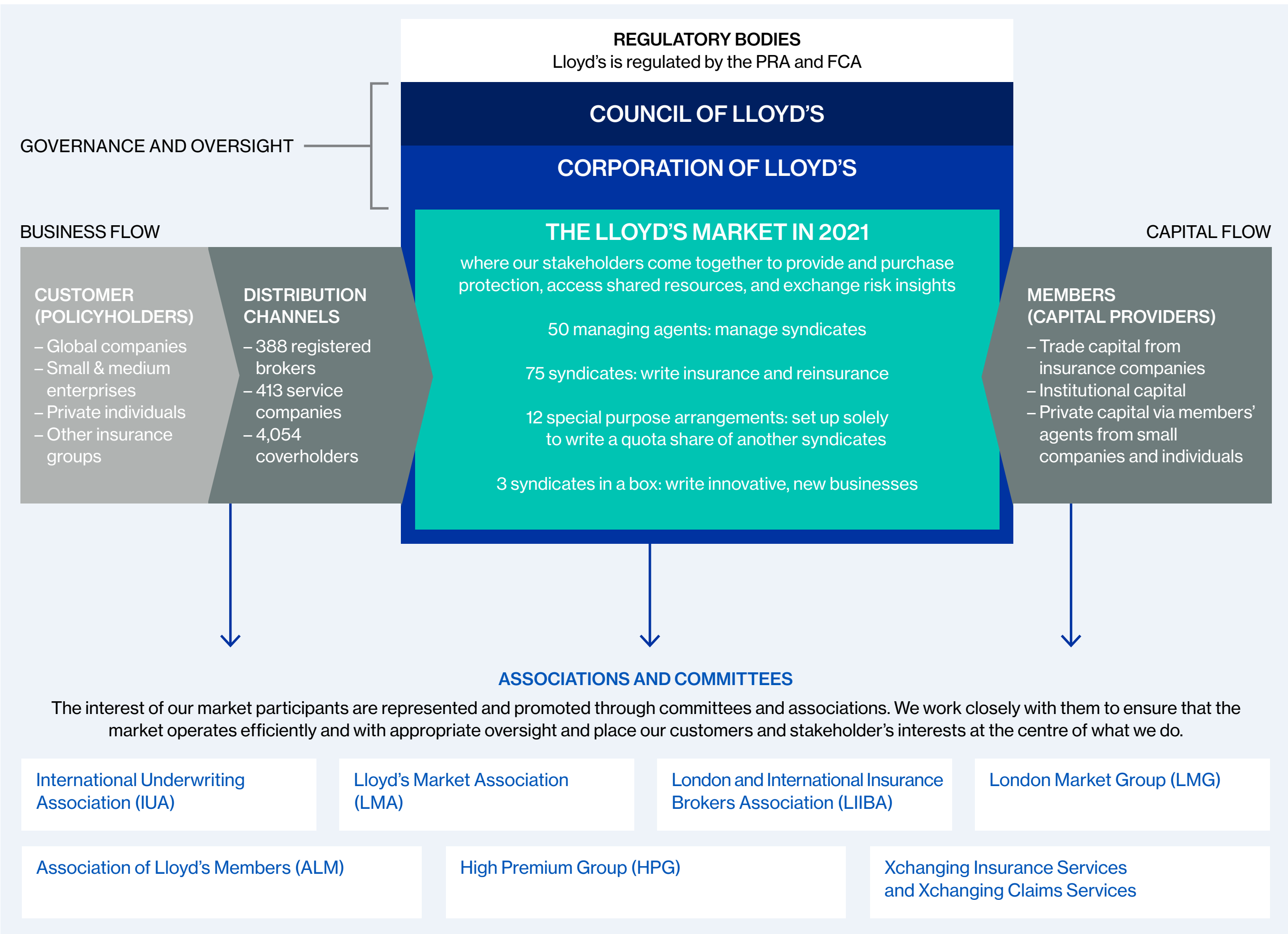
The interest of our market participants is represented and promoted by market associations and committees. They are established by our key stakeholders including underwriters, brokers, managing agents and capital providers.

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

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

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

See below table for Lloyd's flow of business and capital with our key stakeholders shown.



Our Purpose

Sharing risk to create a braver world

Our customers are drivers of the global economy, and our purpose is to support them, sharing risks to create a world where they can operate with resilience and confidence. Lloyd's is in a unique position within the insurance industry, offering multiple benefits to our stakeholders:

- We offer the efficiencies of shared resources and capital to serve customers across different territories and scale
- We are a governing body providing oversight and shared standards to the market to maintain a competitive and secure insurance and reinsurance marketplace
- We aim to serve as an accelerator for product and solution innovation, providing various platforms to the market such as the Lloyd's Lab and Futureset as well as research on different risks. Please refer to Purpose in Our Strategy section

Lloyd's purpose for our stakeholders

Lloyd's, as the world's largest specialist insurance market and global distribution network, serves a unique purpose to our stakeholders:

- Customers, ensuring we provide them with the products and services they need, and being there when claims arise
- Distributors, offering the capacity to place specialty risks on behalf of their clients
- Managing agents, providing access to attractive insurance risks from around the world
- People, creating a culture in which every employee can fulfil their full potential.

We see the following issues as key external challenges affecting our stakeholders:

External challenges and how Lloyd's can support stakeholders to navigate them

Macro-economic environment	We are living through a period of heightened risk, following the economic crisis of 2008, the effects of COVID-19, and the very real threat of climate change. As the global economy emerges from the pandemic, upwards inflationary pressures are significantly ahead of recent years, and are expected to further exacerbate as a result of increased geopolitical tensions. The conflict in Ukraine is resulting in large scale humanitarian suffering, potentially impacting the global supply chain, energy and commodity markets and movement of capital. Lloyd's is closely monitoring the situation and we are in regular dialogue with global governments, regulators and our market participants to understand the potential impact and respond to government action. From an insurance standpoint, the resulting pressure on price and the affordability issues for customers must be balanced with the risk of near-term price adequacy and long-term reserve resilience. Both are closely monitored as part of our ongoing oversight of the market in which customer value and conduct are key areas of focus to ensure that our customers receive the right outcomes. We will also transition from minimum standards to principles-based oversight framework, which will allow us to identify the areas of greatest materiality and differentiate our approach based on the individual characteristics of each syndicate.
Systemic risks	Systemic risks are high impact, catastrophic events that may have detrimental impacts to multiple economies and territories. These risks are the most difficult to quantify, understand and protect against their consequences, as they often hit multiple industries, countries and billions of people simultaneously. Examples of systemic risks may include pandemics, climate change, large-scale cyber-attacks and geopolitical risk. In 2021, major economic losses continued to stem from events that were systemic in nature. These include ransomware attacks against Colonial Pipeline and the Irish Health Executive, the COVID-19 pandemic, and extreme weather events, such as Winter Storm Uri, Storm Ida and the European floods. It is important for the insurance industry to prepare against the impacts of such risks through adequate exposure management, while mitigating the risk to customers through appropriate protections. Lloyd's is playing an important role to help the industry understand and assess the impact of systemic risks by generating innovative insights and insurance products through Futureset, the Sustainable Markets Initiative Insurance Task Force and Lloyd's Lab.
Talent and culture	The pandemic has given people time to reflect on their relationship with their employers. Coupled with the changing skills required by companies (such as digital capabilities), strong competition for the best talent is developing in many economies around the world. Creating a diverse, inclusive and collaborative culture has become essential in attracting the best talent and ensuring the long-term success of any business. Lloyd's is committed to creating a diverse, inclusive and high-performing culture for both our market and the Society. In 2021 we built a solid foundation for this transformation by keeping our momentum in achieving gender balance and levelling the playing field for ethnic minority colleagues.
Data and digitalisation	The increase in the availability of data and analytical capabilities has had a profound impact on the insurance industry, providing both challenge and opportunity. The ability to collect, process and analyse quality data has become an important factor to ensure the competitiveness of insurance organisations, and this trend will only become stronger. The benefits of having the right data capability can potentially result in better risk assessments and efficiency gains through automation. Ultimately the benefit can be reached to customers in various forms such as affordable protection and faster claims settlement. As a global insurance and reinsurance market, Lloyd's is committed to ensuring that complete, quality data flows easily and efficiently through our marketplace.

Further details on each of the above and how Lloyd's is responding are included in Our Strategy section in this report.

Our Purpose continued

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

There has been significant focus during 2021 on ensuring that progress is made on our four strategic priorities. Each presents both an opportunity and a risk to Lloyd's objectives. The table below sets out how Lloyd's is managing principal current and emerging risks associated to the four strategic priorities. The status of these risks is monitored by the Risk Committee and the Council.

Risk	Mitigation
Performance Market performance will remain a key focus area in 2022. The benefits of the remediation action taken by the market over recent years is demonstrated in Lloyd's 2021 results and reflected in financial strength ratings. Rate improvements have continued over 2021 and are expected to last into 2022. While this is welcome, ensuring price adequacy is critical to market performance.	The Risk Management function continues critically to challenge oversight, including syndicate business plan and capital agreement, to ensure decisions are in line with the Council's risk appetite. This includes proactively monitoring the extent to which the market is delivering to plan and ensuring that syndicates are taking appropriate action to drive remediation where required. An enhanced market oversight framework, transitioning from minimum standards to principles-based, was launched to the market at the end of 2021. The focus for 2022 will be on implementing and embedding the new approach which, in addition to providing a modern and robust framework for oversight, will make it easier and more cost-effective to operate in the Lloyd's market.
Digitalisation The Future at Lloyd's envisions a data-focused, automated and cost-efficient insurance marketplace, making it better, faster and cheaper for all participants to do business at Lloyd's. While implementing the Future at Lloyd's will mitigate strategic threats and improve the overall risk profile, the execution risk of delivering the programme remains inherently a key area of focus.	Blueprint 2 delivery is complex with identified dependencies on a small number of key third 3rd parties as well as co-ordination and management of Lloyd's own "in house" internal teams. Risk Management is therefore working closely with senior stakeholders to ensure that risks, for example those associated with the delivery of the DXC Joint Venture, and the ongoing responsibilities for risks and controls once in steady state "run" are understood and appropriately managed.
Purpose Sustainability, climate and inclusion are at the heart of Lloyd's purpose. 2021 was a transformational year for us in respect to climate change. In June, we announced that Lloyd's had been invited to lead HRH The Prince of Wales's Sustainable Markets Initiative Insurance Task Force collectively to advance the world's progress towards a resilient, net-zero economy. Work is well underway to deliver against the Task Force objectives and Lloyd's will continue to play a leading role in convening the global insurance industry.	While there is inherent complexity and uncertainty in how the future climate pathway will develop, Lloyd's has controls and processes in place to manage and mitigate the exposures as they emerge, including a robust syndicate business plan and capital setting process, and an annual review of reserves. Lloyd's participated in the Bank of England's Climate Biennial Exploratory Scenario (CBES), where ten managing agents carried out the exercise to consider the impact of deterministic scenarios prescribed by the PRA across physical risk, transition risk and litigation risk. Market guidance and best practice has been shared with the market on establishing an ESG strategy, including sustainable underwriting and responsible investment, and all managing agents are expected to produce a fit for purpose ESG strategy during 2022. The new ESG Committee of Council will continue to oversee progress against this strategic priority.
Culture Creating an inclusive culture is a strategic imperative for the Lloyd's market. Failing to do so will stifle the innovation we need and prevent the marketplace from attracting the most talented people. Our enhanced, principles-based framework for market oversight details Lloyd's culture expectations of market firms.	Risks continue to reduce with delivery of additional controls and activities to create an inclusive, diverse culture. Culture has been embedded into the new principles-based market oversight framework combining quantitative and qualitative data into an overall assessment of culture. In addition, the Culture Survey measures a range of dimensions for individuals in the market, including inclusion and whistleblowing for individuals in the market. Outputs from both measurement and oversight will provide areas of strategic focus and inform the development of a Lloyd's Culture Strategy in 2022. Lloyd's Corporation has embedded values in our performance management system and is enhancing our diversity data and reporting capabilities. Newly implemented culture risk appetites are monitored by the Risk Management function and demonstrate that while progress is being made, culture change will take time and requires continuous long-term focus.
Geo-political risk The Russian invasion of Ukraine will have short, medium, and long-term impacts on both Lloyd's performance and balance sheet. The primary sources of risk relate to underwriting exposure arising from sanctions, exposure within investment portfolios and the impact on operations. There is a high degree of uncertainty around the eventual outcomes at this point and we continue to monitor the situation closely.	Lloyd's direct premium derived from Russia and Ukraine is significantly less than 1% of total GWP. Indirect underwriting exposures arise mainly across the aviation, marine, trade credit and political risk lines of business. Our assessment of the potential financial impact is ongoing and we are actively working with the Lloyd's market to continue our assessment of the situation. We are also working closely with governments and regulators across the world to ensure we interpret and enact sanctions requirements at pace, together with other legal and regulatory obligations. Our investments and assets under management are largely fixed income and our strategic asset allocation has limited direct exposure to the crisis; our indirect exposures are also minimal and both direct and indirect exposures account for less than 1% of total invested assets across the chain of security. The situation is fast evolving, and in order to respond swiftly to developments, we have set up an executive response group that meets daily to monitor the situation and respond to government actions. The group is continually assessing the operational impact upon the Society and Lloyd's market and remains in close consultation and communication with market participants. At this early stage, it is difficult to assess the full financial impact of this crisis, however there are no indications that this will impact the Lloyd's market or the Society of Lloyd's ability to satisfy regulatory capital requirements or meet their financial obligations.

Our Strategy

Our strategic priorities:

We have four key strategic priorities that will enable us to deliver the values to our stakeholders as shown in Our Purpose section.

Performance

At Lloyd's, we remain committed to delivering sustainable, profitable performance. The remediation work we have undertaken in partnership with the market, including a requirement for all syndicates to produce logical, realistic and achievable business plans, is bearing fruit and is demonstrated in a strong 2021 full year result.

Our key achievements in 2021

Lloyd's has delivered a strong set of full year results for 2021, reporting an overall profit of £2,277m before tax (2020: loss of £887m) and a combined ratio of 93.5% (2020: 110.3%, 97.0% excluding COVID-19 losses). The market has delivered a solid underwriting profit; a testament to our continued focus on achieving sustainable, profitable performance.

Gross written premiums have grown to £39,216m (2020: £35,466m) which, when adjusted for foreign exchange movements and new entrants to the market, represent growth of 14.4%. The expense ratio has also shown favourable movement, falling to 35.5% (2020: 37.2%). The Future at Lloyd's transformation programme remains central to our long-term objective of reducing the cost of doing business at Lloyd's.

Through the annual business planning process, we differentiated our approach to syndicates based on their historical performance and their ability to deliver against plan. Exposure growth was supported for syndicates with a proven track record of stable underwriting performance, while perennial underperforming syndicates were subject to increased scrutiny and oversight through the process.

In 2021, the market demonstrated resilience to the challenges presented by the ongoing pandemic, allowing us to expand our focus on other critical areas such as cyber resilience and Environmental, Social and Governance (ESG).

For further details on performance refer to the 2021 Highlights section on pages 16 to 26.

Our plans for 2022

Our focus on sustainable, profitable performance will continue through 2022, ensuring that syndicates deliver on their business plans and demonstrate robust underwriting discipline and portfolio management capability.

Through our differentiated approach to syndicate management, we will support the ambitions of our best performing syndicates, while reducing unsustainable business across the poorest performing syndicates. We will do this through maintaining oversight of the market across core areas including underwriting and pricing, outwards reinsurance, capital, reserving and conduct.

In 2022, Lloyd's oversight will transition from minimum standards to be principles-based, allowing us to differentiate our approach based on the characteristics and performance metrics of each syndicate. This allows us to identify and focus on the areas of greatest materiality and deliver a proportional approach to oversight.

Alongside the ongoing monitoring of syndicate performance against their business plans, we will also monitor areas of potential concern such as cyber, non-natural catastrophe events including the COVID-19 pandemic and the changing economic environment. Our oversight work in 2022 will also continue to focus on a number of key areas including cyber resilience, customer value and conduct, ESG and culture, as well as new and emerging risks.

The Russian invasion of Ukraine will have short, medium, and long-term impacts on Lloyd's performance and balance sheet. Indirect underwriting exposures arise mainly across the aviation, marine, trade credit and political risk lines of business. Our assessment of the potential financial impact is ongoing and we are actively working with the Lloyd's market to continue our assessment of the situation.

At this early stage, it is difficult to assess the full financial impact of this crisis, however there are no indications that this will impact the Lloyd's market or the Society of Lloyd's ability to satisfy regulatory capital requirements or meet their financial obligations.

Digitalisation

The Future at Lloyd's strategy envisions a data-focused, automated, and cost-efficient insurance marketplace. Through Blueprint Two, we are building digital solutions for the market, making it better, faster and cheaper for all participants to do business at Lloyd's.

Our key achievements in 2021

The signing of the contract between DXC Technology, the International Underwriting Association (IUA) and Lloyd's, with the support of the LMA, marked a pivotal moment in realising our strategy. Through delivery of the contract, the technology infrastructure underpinning the London market will be significantly transformed for the first time in 20 years.

We have also made significant strides in our effort to ensure the market holds the data needed to drive efficient processing through placement to claims and settlement. In 2021, we conducted two market-wide consultations on the Core Data Record (CDR) which denotes the critical transactional information that will need to be collected. Finalising the open market North American property version of the CDR in June, we defined the data requirements for insurance and facultative reinsurance placed through the open market for all classes and territories for consultation.

We also released a new platform for our delegated authority business, which represents nearly 40% of the premium written at Lloyd's. This allows the market participants to manage contracts covering new businesses, amendments to a policy (termed as 'endorsement') and renewals. We have also launched an in-built validation tool to reduce errors, a digital contract builder to speed up the process and a Faster Claims Payment (FCP) pilot to pave the way for innovating how claims are settled, within minutes, rather than days.

Our plans for 2022

2022 is a critical year as we work with market participants to drive transformative change. The second edition of the Interactive Guide charts the progress towards delivery of the solutions for the digital marketplace outlined in Blueprint Two. It also includes a roadmap detailing dates and key actions organisations need to take to implement and benefit from the changes.

Our Strategy continued

Through the joint venture with DXC and the IUA, we aim to deliver a single digital solution for the market to automate processes that support placement, policy creation, claims management and accounting. This is designed to significantly reduce production lead times, drive efficiency and reduce cost for our market participants.

On a foundation of complete and accurate data, we will continue to enhance our two core businesses: open market and delegated authority. For open market, we plan to take a final version of the CDR in Q1 2022 to the Data Council, the cross-market body governing the data standards for the market. The Data Council is chaired by the Chief Executive of the LMA, and sits as part of the LMG. In the first half of 2022, these standards will be integrated into a revised version of the Market Reform Contract (MRC) known as the intelligent MRC (iMRC) which will form the new market standard. This too will be subject to approval by the Data Council.

Pending approval by the Data Council, we will also use the CDR to develop the standard we expect to apply to treaty and delegated business in early 2022, and we will look at the data needed for claims. This will ensure we have a single standard across the whole London market for automated downstream processing.

We will continue to release tools for our delegated authority business to build an end-to-end digital solution for managing the full lifecycle of a binder; from contract registration to endorsements and renewals. Both initiatives are key to making contracting easier, automating processes and removing manual checking required today by ensuring right-first-time data, ultimately making it better, faster and cheaper for our market participants to do business and for customers to gain cover at Lloyd's.

We recognise that it will take time for the market to adopt the solutions into their own organisations; our focus will be on market engagement and adoption to create the insurance marketplace of the future.

Purpose

Everything we do at Lloyd's is underpinned by our purpose of sharing risk to create a braver world. In a year marked by the continued impacts of the COVID-19 pandemic and the need for urgent global action to address the climate emergency, delivering our purpose has remained front and centre.

Our key achievements in 2021

In 2021 Lloyd's set the foundation to embed sustainability across the Society and market. We launched Lloyd's Futureset, our new global platform committed to driving collective action to tackle some of the biggest threats to the global economy, focusing on systemic and climate risk.

Having joined the United Nations Net Zero Insurance Alliance (NZIA), we have committed to transition all our operational emissions to net zero by 2025 and the investments from our £3bn Central Fund to net zero by 2050, redirecting capital flow to green investments. We have also announced our ambition to reach a net zero underwriting position for the Lloyd's market by 2050.

To support those ambitions, and the commitments set out in our 2020 ESG Report, we have engaged in extensive consultation with the market, brokers, governments, regulatory authorities, NGOs and other key stakeholders, to develop further our ESG strategy and approach. Lloyd's ESG guidance was published in October 2021, to support the market in establishing their own ESG frameworks and strategies, including a set of minimum requirements to be implemented in 2023.

To drive forward climate action across the global insurance industry, we were invited to lead HRH The Prince of Wales's Sustainable Markets Initiative Insurance Task Force. Established in April, the Task Force delivered several key initiatives in 2021. These include launching a disaster resilience framework for climate-vulnerable countries and promotion of the wide-ranging insurance support available for decarbonisation and climate innovation at COP26.

Our plans for 2022

With the establishment of Lloyd's new ESG Committee of the Council, we will continue to strengthen and drive forward our sustainability priorities in 2022.

These include leading the Sustainable Markets Initiative Insurance Task Force to initiate a pilot programme for the disaster resilience framework in a priority developing country, as well as encouraging sustainable practices across the global insurance industry supply chain. Through Lloyd's Futureset, we will launch new analysis into major systemic risks and their potential impact on different businesses and sectors, to help drive better industry and policymaker understanding and preparedness.

As our customers' needs evolve, we will be ready to work with them to respond to the developing risks as they transition to net zero. We will continue to innovate through the Lloyd's Lab with a 2022 cohort focusing on themes including climate change, decarbonisation and supply chain as well as keeping pace with changing societal demands. For example, in February 2022, we launched an innovative fertility treatment insurance that represents the embedded digital distribution of a new type of insurance product.

Lloyd's will continue to work towards a sustainable market-wide underwriting and investment approach, with a portfolio of customers and businesses that support our ambition to achieve net zero by 2050.

As part of the Sustainable Markets Initiative Insurance Task Force, we aim to develop an open source framework to evidence, measure and track Lloyd's contribution to the transition. Our plan is to run a market pilot in 2022 to refine this approach before its market-wide implementation from 2023.

Culture

We are committed to creating a diverse, inclusive and high-performance culture across our market to attract and retain the best talent. The leaders in the market support the need for cultural change as evidenced by the large increase in the proportion of Boards and risk committees where culture is a set agenda item.

Our key achievements in 2021

In 2021 we continued our actions to drive long-term culture change in the Lloyd's market, with progress maintained on achieving gender balance. We met our short-term target of 20% female representation amongst members of the Council and executive committees, which has increased from 15%, and we remained steady at 29% of women in leadership positions against our target of 35% by December 2023. Increasing representation of women at the direct report to executive committee level is needed to make progress towards this target for the market.

As we strive to lead the market by example, the Society maintained gender parity, with 46% of leadership roles filled by women in 2021. We continue to make progress in closing the gender pay gap, with the Society reporting a mean gender pay gap of 18.6% in 2021, a decrease of 1.8% from 2020, and an overall reduction of 9.1% since 2017. We have also undertaken the global EDGE certification process, which is a leading business certification standard for gender equality. As the result, we achieved the silver accreditation, indicating that a good level of policy and practices are in place to support gender balance.

In 2021 we also continued our commitment to level the playing field and increase the representation of ethnic minority colleagues in the market. In September, we set an ambition for one in three new hires in the market and the Society to come from an ethnic minority background. To realise this ambition, the market may be required to change the talent practices to attract, hire, develop and retain a more diverse talent pool that better reflects the communities in which we operate.

The Society of Lloyd's remains focused on creating a diverse and inclusive organisation with 23% of our workforce and 31% of our new hires having an ethnic minority background. The ethnicity pay gap is 16.1% and remains consistent with a small increase of 0.3% compared with the previous year. Our long-term ethnicity plan supports our ambitions and is focused on data, talent attraction, talent management, external promotion, advocacy and engagement. In order to compliment this plan, we have continued to work on social mobility in 2021 and were recognised as a Top 75 Employer in the latest UK Social Mobility Employer Index.

Our plans for 2022

We have built solid foundations and commitment to transforming Lloyd's culture across the market over the last three years. In 2022 our plans are to continue this momentum by strengthening inclusion and devising strategies to engage and collaborate across the market.

We have embedded culture as a new dimension of the Lloyd's principles-based oversight, which will signal the importance of culture in performance and risk management. As we operationalise our new oversight framework in 2022, we will both challenge and support our market participants to actively foster diversity and inclusiveness. Furthermore, the enhanced data points on culture can help increase transparency of actions taken by our market participants and strengthen leadership accountability for outcomes, which is essential to driving change across the market.

At the Society, we are also strengthening our culture through refreshed values: we are brave, we are stronger together and we do the right thing. We have embedded the Lloyd's values into the organisation's performance management framework to ensure a focus on values throughout the year. We recognise the Society's culture is critical to how we work with the market in building an inclusive culture across their own organisations.

Sustainability

Our sustainability commitments

We believe our work on climate change and community engagement is interwoven with our purpose to share risk to create a braver world. In order to build a more sustainable, resilient and inclusive society, we must not just think about our own actions, but how we can partner with those around us to achieve mutually beneficial outcomes on the issues facing communities and society.

In 2021, we made strong progress in making Lloyd's more sustainable, resilient and inclusive. These activities are discharged by Lloyd's Council-level ESG Committee which combines the Culture Advisory Group and the ESG Advisory Group.

Lloyd's sustainability activities focus on three roles of the Corporation: our own operations, leading the market, and bringing people together to solve complex challenges. Below we have summarised the key initiatives and activities that support Lloyd's in achieving these three things.

Starting with ourselves

We will ensure that the Society transitions to net zero in three ways.

Reduce operational emissions in our London building by 2025

- Our progress has been strong with a 12.5% decrease in our global emissions per full-time employee since 2020
- As COVID-19 restrictions have eased, our 2021 total emissions increased marginally by 0.8%. We have begun implementing our carbon management plan to address this
- See our carbon emission table on the next page for detail

Transition all our operational and attributable greenhouse gas emissions to net zero by 2050

- We will set, publish and report against interim targets every five years to drive near-term action

Transition Central Fund investments to net zero by 2050

- We will set out measured intermediate targets in line with the principles of the Net Zero Asset Owner Alliance

Leading the market

We are committed on creating a forward-thinking regulatory environment for the Lloyd's market to collaboratively insure our customers' transition to net zero.

Lloyd's is driving this through three key actions:

1. Clear guidance on ESG Strategy development

- A guide was launched in 2021 to help managing agents develop a fit for purpose ESG strategy for the 2023 business planning cycle
- This will cover their underwriting, investments and governance operations
- The guide covers our expectations to consider when developing and embedding an ESG Strategy.

2. Advocate and support the market on net zero plans

- Lloyd's is committed to supporting all market participants to introduce and implement their own net zero plans
- These new formal expectations will be embedded into the new market oversight framework
- This will drive actions to help the market reach a net zero underwriting position by 2050 at the latest.

3. Sustainability Transparency and Reporting Regime

- Lloyd's is developing a regime to measure and report on the market's progress towards a net zero underwriting position
- The measurement framework will be piloted in 2022 with the expectation to be implemented from 2023 onwards
- The reporting regime will be aligned with and support the ambitions of the Net Zero Insurance Alliance and Partnership for Carbon Accounting Financials to develop a standardised methodology to measure and disclose the emissions.

Bringing people together

In 2021, we sought to mobilise our research, relationships and resources to bring leading voices together to drive action on climate change. As outlined in Our Strategy section, we are facilitating actions across the insurance industry through three key initiatives: Futureset, Lloyd's Lab and the Sustainable Markets Initiative Insurance Task Force.

> Since we opened, we have invited over 80 start-ups to take part, and through those teams, the Lloyd's Lab has:
>
> - Facilitated the creation of partnerships and new products
> - Enabled the delivery of COVID-19 vaccines to low and middle-income countries
> - Helped measure the carbon footprint of customers we insure
> - Demonstrated how insurance products can avert disasters before they happen
> - Connected the market to create products which pay out when businesses' critical cloud-based services go down, causing business interruption.
>
> Learn more about how the Lloyd's market enables innovative ideas and creates lasting partnerships on our website. www.lloyds.com/news-and-insights/lloyds-lab/lab-stories

Futureset

- Futureset is our new global platform committed to driving collective action to tackle some of the biggest threats to the global economy, focusing on systemic and climate risk
- In 2021, Futureset provided cutting-edge researches to help our customers prepare for the transition to a low carbon economy
- In the months leading up to the COP26, Futureset launched a Climate Action Campaign, exploring the risks, challenges and importance of decarbonisation.

Lloyd's Lab

- Lloyd's Lab is our incubator for insurance start-ups with the aim to help innovative ideas gain traction in the insurance marketplace
- In 2021, sustainability was a theme for the sixth cohort of the Lloyd's Lab. We welcomed three start-ups to find new solutions and technologies that will help the industry and wider society face challenges posed by climate change.

Sustainable Markets Initiative Insurance Task Force

- Through the Sustainable Markets Initiative Insurance Task Force, Lloyd's brought together leaders from the largest and most influential global insurance firms to drive progress in transitioning towards a resilient net zero economy
- There are four initial workstreams focusing on driving insurance product and services innovation, implementing sustainable processes across the insurance supply chain, establishing a public-private disaster resilience framework, and developing a framework for accelerating and scaling sustainable investment
- Lloyd's will continue to work with this important forum to develop innovative insurance solutions and drive action across the market.

Community engagement

In 2021 Lloyd's continued to support charitable initiatives across our global network.

Through our four partners (Lloyd's Charities Trust, Lloyd's Patriotic Fund, Lloyd's Tercentenary Research Fund and Lloyd's Benevolent Fund) we supported 60 charities assisting more than 47,000 beneficiaries. Many of these initiatives focused on promoting resilience and sustainability in communities located in developing economies.

Through the Lloyd's Community Programme, we worked with 58 market firms and 700 volunteers across the Corporation and the market. We contributed more than 3,000 hours to support our three social mobility partners: The Switch, SEO London and East London Business Alliance. We were also delighted to welcome 12 new Lloyd's University Bursary students who will be undertaking several internships in the market over the course of their university education.

With the COVID-19 pandemic still having an impact on our society, we continued working with Centrepoint, Trussell Trust, Mental Health Foundation, BLESMA and Kent Young Carers to deliver a lifeline to the most vulnerable in our society.

Through the Lloyd's Patriotic Fund (LPF), we continued the important work of supporting veterans through the difficult stage of transitioning from a military career to civilian life. Our charity partners, including RFEA, the Forces Employment Charity and Combat Stress, have been delivering LPF-funded programmes such as helping military spouses find employment and a ground-breaking occupational health research programme to address deep-rooted trauma in veterans.

Case study:
Lloyd's Charities Trust Partnership

"Natural disasters are a serious threat in Malawi, and the district of Chikwawa is especially prone to cyclical flooding which has been exacerbated by the impact of climate change. Unfortunately, our changing climate means such disasters becoming increasingly common, and therefore developing infrastructure that allows communities and families to be better able to withstand these events is essential.

Our partnership with Lloyd's Charities Trust has allowed us to develop a holistic programme in Chikwawa that has combined research, training, community engagement, and the construction of two rescue centres that especially vulnerable households can use to keep safe in the event of flooding.

More than 21,000 people have directly benefited from this project, with the rescue centres already having been used in January 2022 when the area experienced flooding once again."

Tum Kazunga
CEO Habitat for Humanity Great Britain

2021 carbon emissions		Total scope 1	Total scope 2 (location based)	Total scope 2 (market based)	Total scope 1+2 (location based)	Total scope 3	Grand total scope 1,2,3 (location based)	Grand total scope 1,2,3 (market based)	Carbon intensity location based (tCO_2e/ FTE)	Total energy usage (kWh)
2021 (tCO_2e)	**UK emissions**	**1,609**	**3,074**	**–**	**4,683**	**888**	**5,571**	**2,497**	**5.7**	**23,500,425**
	Global emissions (ex. UK)	**15**	**518**	**538**	**534**	**54**	**587**	**608**	**2.2**	**1,316,387**
2020 (tCO_2e)	UK emissions	1,300	3,493	–	4,792	841	5,633	2,141	6.6	22,847,153
	Global emissions (ex. UK)	11	409	432	420	50	470	493	1.9	932,695

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

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

2021 performance refers to reported location-based totals, which are the summation of the UK emissions and Global emissions (ex UK) displayed. The data is displayed in this manner to comply with the requirements of the SECR regulations.

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

This work is partially based on the country-specific CO2 emission factors developed by the International Energy Agency, © OECD/IEA 2021 but the resulting work has been prepared by Lloyd's and does not necessarily reflect the views of the International Energy Agency.

A more detailed statement on Lloyd's GHG emissions is available at: lloyds.com/ghgemissions.

Market Results

Contents

We've delivered a strong set of results, reporting an overall profit of £2.3bn before tax and a combined ratio of 93.5%. It's testament to our continued focus on achieving sustainable, profitable performance at Lloyd's.

2021 Highlights

Financial highlights

Lloyd's reported a profit of
£2,277m
(2020: a loss of £887m)

Combined ratio of
93.5%
(2020: 110.3%)

Gross written premium of
£39,216m
(2020: £35,466m)

Capital, reserves and subordinated loan notes stand at
£36,553m
(2020: £33,941m)

Gross written premium
(£m)

2017	33,591
2018	35,527
2019	35,905
2020	35,466
2021	**39,216**

Result before tax
(£m)

2017	(2,001)
2018	(1,001)
2019	2,532
2020	(887)
2021	**2,277**

Capital, reserves and subordinated loan notes (£m)

2017	27,560
2018	28,222
2019	30,638
2020	33,941
2021	**36,553**

Central assets
(£m)

2017	2,981
2018	3,211
2019	3,285
2020	3,308
2021	**3,073**

Return on capital*
(%)

2017	(7.3)
2018	(3.7)
2019	8.8
2020	(2.8)
2021	**6.6**

Combined ratio*
(%)

2017	114.0
2018	104.5
2019	102.1
2020	110.3
2021	**93.5**

The Pro Forma Financial Statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared as closely as possible with general insurance companies. The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL), the Society of Lloyd's financial statements and any central adjustments. Further information concerning the basis of preparation of the PFFS is set out on pages 35 and 36.

* The combined ratio and the return on capital are metrics that are consistently used to analyse financial performance in the Lloyd's market results and/or in the Society Report. These metrics (wherever used in this Annual Report) are Alternative Performance Measures (APMs), with further information available on pages 174 and 175.

Market results

The Lloyd's market reported an overall profit of £2,277m before tax in 2021 (2020: loss of £887m), with a combined ratio of 93.5% (2020: 110.3%). The underwriting result is a profit of £1,741m (2020: loss of £2,676m), representative of continued improvement in underlying performance, driven by portfolio remediation and favourable market conditions. Net investment income was £948m (2020: £2,268m) and other expenses, net of other income including foreign exchange were £412m (2020: £479m).

Underwriting result

The underwriting profit of £1,741m includes the impact of major claims and benefit from prior year releases. Major claims contributed 11.2% to the combined ratio, significantly less than the 23.0% in 2020, as both the severity and frequency of events were less in 2021; 2020 was also more significantly impacted by COVID-19 losses. Prior year releases benefited the combined ratio by 2.1% (2020: 1.8%), with releases reported across most lines of business, except for the casualty insurance and reinsurance lines which have reported some strengthening.

Adjusting for the contribution from major claims, the Lloyd's market reported an underlying combined ratio* of 82.3% for the 2021 financial year; a 5.0 percentage point improvement on the 87.3% reported for the 2020 financial year.

The main contributors to the improvement in the underlying combined ratio are the reduction in the attritional loss and expense ratios* which stand at 48.9% and 35.5% respectively, representing a 3.0 and 1.7 percentage point reduction from that reported for the 2020 financial year. The improvement in the attritional loss ratio is the result of the market's actions to drive sustainable profitable performance and continuing to sustain risk adjusted rate increases across a number of lines. The improvement in the market's expense ratio, which has reduced to 35.5% from 37.2% in 2020, is predominantly driven by a 2.1 percentage point improvement in the acquisition cost ratio. This is a continuation of the trend of a reducing expense ratio since 2017, with further reductions continuing to be expected from the Future at Lloyd's programme.

Gross written premiums increased 10.6% when compared with 2020, however excluding the impact of foreign exchange – mainly USD weakening against GBP – and growth from new syndicates, premium growth stands at 14.4%. The market has seen a period of sustained risk adjusted rate increases on renewal business, with the 16th consecutive quarter of positive rate movement being reported in the fourth quarter of 2021. Risk adjusted rate increases of 10.9% were reported in 2021 across all major lines of business and geographies. This was in addition to a net 3.5% increase in business volumes period on period, after allowing for volume growth where syndicates have demonstrated their ability to write business which contributes to sustainable profitable growth.

Investment review

The market reported net investment income of £948m in 2021, representing an investment return of 1.2% (2020: £2,268m, return of 2.9%).

Financial markets over 2021 were again dominated by the COVID-19 pandemic, as new variants caused further lockdowns resulting in market volatility. Equity markets managed a positive return for the year as a whole while fixed income markets fared worse due to rises in inflation expectations and higher bond yields.

The Lloyd's market prudent asset allocation, with the majority of the portfolio held in government bonds, highly rated corporate bonds and cash, supports the delivery of consistently robust returns.

Balance sheet strength

The Lloyd's market continues to be strongly capitalised with total capital, reserves and subordinated loan notes of £36,553m at 31 December 2021, a 7.7% increase from the £33,941m reported at 31 December 2020. The Lloyd's market solvency ratios – both central and market-wide solvency ratios – have strengthened since 31 December 2020.

The central solvency ratio has increased to 388% from 209% at 31 December 2020 and the market-wide solvency ratio has increased to 177% from 147% at 31 December 2020. These increases reflect reductions in the SCRs (driven by the modelled benefits of the Central Fund cover and refinements in the modelling of syndicate risks), and increases in the eligible assets.

During 2021, Lloyd's purchased cover for the Central Fund, which will increase the resilience of the Lloyd's market by further strengthening our capital position and commitment to pay claims and support further sustainable profitable growth across the Lloyd's market. The benefits of the cover have been taken account of in the Central Solvency Capital Requirement which has reduced from £2,085m as at 31 December 2020 to £1,250m as at 31 December 2021.

2021 Performance

Premium

Gross written premium for the year was £39,216m, compared with £35,466m in 2020.

The overall price change (taking into account terms and conditions) on renewal business was an increase of approximately 10.9%, which was above planning assumptions for the year. Positive price movements have been experienced for the past 16 consecutive quarters and across the majority of lines of business.

In addition to the pricing momentum, the market experienced volume increases in line with proposed business plans to expand into profitable lines of business. These volume increases have led to an increase in premium of 3.5%, compared with 2020.

US dollar denominated business continues to account for the majority of business written in the Lloyd's market. Weakening of US$ to GBP average rates of exchange has led to comparative reductions in premiums year on year.

Accident year ratio

The accident year ratio* excluding major claims has continued to improve, reducing to 84.4% (2020: 89.1%). Within this there has been a significant improvement in the attritional loss ratio, coupled with an improvement in the expense ratio. Prior year movements have had a slightly better impact on the results than in 2020.

Attritional loss ratio*: the attritional loss ratio continued to improve in 2021, reducing to 48.9% (2020: 51.9%). The sustained period of rate increases on renewal business and continued focus on strengthening underwriting discipline across the market have been the key drivers of this continued improvement.

Prior year development: Q4 2021 was the 16th consecutive year of prior year releases. The current year result has seen more benefit from prior year releases* at 2.1% of net earned premium (2020: 1.8%). There have been releases against all lines of business other than casualty and reinsurance.

In 2022, Lloyd's will continue to monitor reserves closely and act to ensure that adequate market discipline is being maintained in current challenging market conditions. Particularly on the longer-tailed lines, such as casualty, where there has been continued focus in recent years exacerbated by growing concerns over areas such as social inflation.

Expense ratio*: total operating expenses have reduced both in sterling amounts and as a percentage of net earned premium, to 35.5% (2020: 37.2%). Acquisition costs have accounted for the majority of the decrease, reducing to 24.0% of net earned premium from 26.1% in 2020; this is attributed to changes in mix of business through remediation as well as benefits from the better pricing environment. Administrative expenses have increased slightly in both sterling and as a percentage of net earned premium.

Major claims

Major claims for the market were £2,989m in 2021 (2020: £5,967m), net of reinsurance and including reinstatements payable and receivable.

Major losses for 2021 have arisen from three major CAT events, Hurricane Ida, US Winter Storm Uri and the European Floods with losses concentrated in property (D&F) and property treaty lines. COVID-19 loss estimates have remained stable and have had very little impact in the current year.

2021 also saw a decrease in the frequency of catastrophe loss activity with the Lloyd's market suffering insured losses from less than half the number of events experienced in 2020.

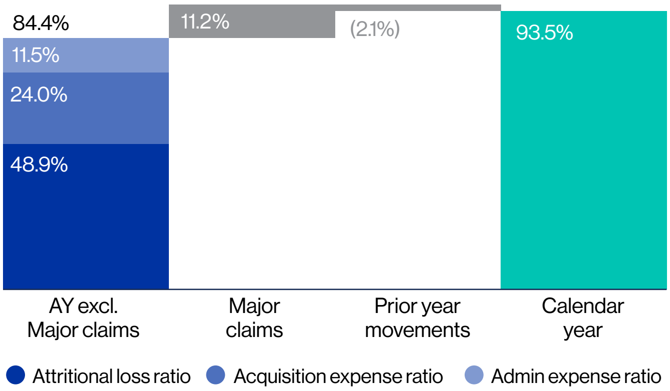
Major claims	% of net earned premium
2017	18.5
2018	11.6
2019	7.0
2020	23.0
2021	**11.2**
Five year average[1]	11.2
Ten year average[1]	10.2

Accident year ratio exc. major claims	%
2017	98.4
2018	96.8
2019	96.0
2020	89.1
2021	**84.4**
Five year average[1]	94.8
Ten year average[1]	93.1

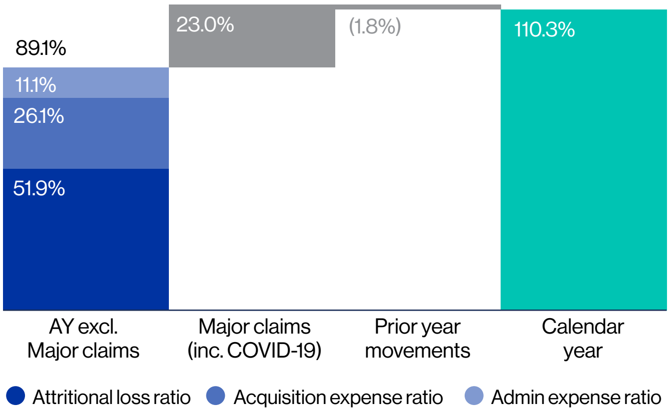
1. Weighted by net earned premium. Averages exclude impact of COVID-19.

* The accident year ratio, underlying combined ratio, attritional loss ratio, prior year release ratio and expense ratio are metrics that are consistently used to analyse financial performance in the Lloyd's market results and/or in the Society Report. These metrics (wherever used in this Annual Report) are Alternative Performance Measures (APMs), with further information available on page 174 and 175.

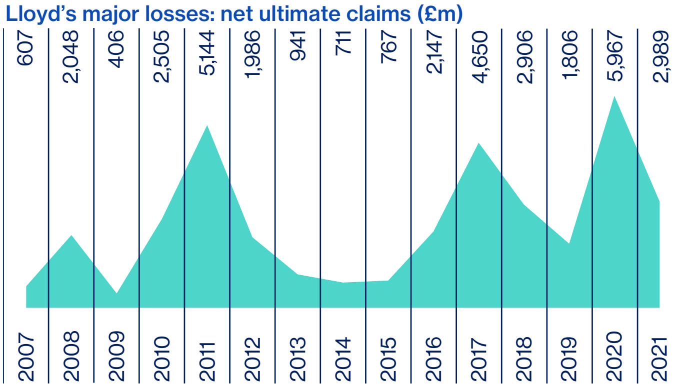
Contributors to combined ratio
2021 Combined ratio %



2020 Combined ratio %



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



Five year average: £3,662m; 15 year average: £2.290m. Indexed for inflation to 2021. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

Prior year reserve movement	% of net earned premium
2017	(2.9)
2018	(3.9)
2019	(0.9)
2020	(1.8)
2021	**(2.1)**

Years of account in run-off	Number of years
2017	5
2018	0
2019	3
2020	9
2021	**9**

Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remains extremely high, with 98% (2020: 98%) of all recoveries and reinsurance premium ceded being with reinsurers rated A- and above or supported by high-quality collateral assets.

Reinsurers' share of claims outstanding remains a material consideration for Lloyd's, equivalent to 61.7% of gross written premium or 72.3% of members' assets (2020: 60.6% of gross written premium or 70.1% of members' assets). There has been an increase in the overall reinsurance recoverables primarily due to catastrophe losses experienced during 2021 and the continuing use of retrospective reinsurance protections. This increase reflects the reinsurance risk transfer strategy of the Lloyd's market, the nature of loss events experienced during 2021 and risk mitigation actions being taken to assist in the management of legacy exposures. The level of ultimate reinsurance recoverables relating to COVID-19 losses has remained static during 2021. No negative settlement trends have been witnessed to date.

Lloyd's outward reinsurance premium spend for the 2021 calendar year was 27.5% (2020: 27.2%) of gross written premium, which reflects a relatively stable overall position in regard to the scale of reinsurance purchased. This level of reinsurance transfer remains within risk appetite.

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 2019 underwriting year of account reached closure at 31 December 2021. The 2019 pure underwriting year suffered losses from a number of catastrophic events, including Typhoons Hagibis and Faxai and Storm Dorian.

The 2019 pure underwriting year of account reported an underwriting loss that was partially offset by releases from 2018 and prior years, which were reinsured to close at the end of 2020. These releases amounted to £497m. Investment return on the 2019 underwriting year meant the total result was an overall loss of £953m (2018 underwriting year loss: £1,914m).

At the beginning of 2021, there were nine syndicates whose 2017 and 2018 underwriting years remained open. These run-off years reported an aggregate loss of £100m, including investment return, in 2021 (2020: loss of £2m). There were five syndicates whose 2017/2018 underwriting years remained open post 31 December 2021 in addition to four syndicates whose 2019 underwriting year has remained open. The total number of open underwriting years at 1 January 2022 remains as nine.

The results of the major lines of business are discussed in detail on pages 22 to 28.

Line of business:

Reinsurance – Property

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

2021 performance

Lloyd's gross written premium for 2021 was £7,385m (2020: £6,627m), an increase of 11.4%. Syndicates have shown greater focus on client selection and aggregate deployment, given higher frequency and severity of loss activity in recent years. The Lloyd's reinsurance property line reported an accident year ratio of 102.8% (2020: 112.8%).

Weather related disasters continued to dominate in 2021, with circa $120bn of industry insured natural peril losses reported. The US was most significantly impacted, with Hurricane Ida and Winter Storm Uri being key drivers of results in this line of business at Lloyd's. Other regions also experienced extreme events, most notably Bernd in central Europe, where flash flooding and extreme rainfall resulted in insured losses in Germany being greater than any other natural disaster on record.

Prior year movement

The prior year movement was a release of 3.9%, calculated as net movement in ultimates, as a percentage of net earned premium (2020: release of 2.8%). Releases are generally expected as claims estimates for older losses become more certain. Experience on prior years has been favourable overall. There have been reductions in ultimate claims on some historical catastrophe events such as Typhoon Jebi (2018), California Wildfires (2018), Typhoon Faxai (2019) and Typhoon Hagibis (2019). These movements have been partially offset by deteriorations on the larger 2020 catastrophe events, in particular, Hurricane Laura and Hurricane Sally.

Looking ahead

There still remains a surplus of capacity in the reinsurance market, although this year there was a marked reduction in available capacity, particularly for lower level and aggregate covers. Initial indications suggest that pricing levels at the 1st January 2022 varied significantly by region and whether or not loss impacted. However, overall there has been a continuation of positive rate momentum across most regions, which is expected to continue throughout the remainder of 2022 driven by increasing retro capacity costs, shifts in reinsurer risk appetite, inflation, near-term climatic considerations and a greater proportion of US loss affected business renewing later in the year.

Cyber clauses and communicable disease clauses have now been widely adopted by the market, providing enhanced clarity. Terms and conditions at 1 January remained largely unchanged, with the focus rather being on price and programme structure, a trend which is expected to continue in 2022.

Reinsurance – Casualty

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

2021 performance

Lloyd's gross written premium for 2021 was £4,440m (2020: £3,321m), an increase of 33.7%. The Lloyd's reinsurance casualty line reported an accident year ratio of 88.9% (2020: 113.0%).

The casualty treaty market in 2021 maintained the trends of the previous year with the market continuing to experience tightening policy coverage and price strengthening in distressed and high exposure accounts across most lines of business. Capacity has started to return on better performing portfolios, but not to the detriment of underwriting discipline.

Motor excess of loss business continues to perform below expectations and still plays a very small part of Lloyd's overall business.

Prior year movement

The prior year movement was a strengthening of 8.1% (2020: release of 2.3%). Despite 2021 being a year of relatively benign prior year claims experience for casualty reinsurance business, emerging trends such as social inflation are driving increased uncertainty on this line and some carriers have strengthened their reserves as a result of this.

Lloyd's continues to monitor casualty lines to ensure adequate provisions remain over all prior years. There is an increased level of oversight by Lloyd's and additional work being done by the market to monitor the robustness of reserves for this line during this period of heightened uncertainty.

Looking ahead

As we look ahead to 2022, Lloyd's will be specifically and closely monitoring social and economic inflation to develop better market understanding of the trend to ensure adequate and robust pricing and reserving in the market.

While new capacity coming to the market during 2021 has been observed, the expectation is that positive pricing will continue and that the availability of capital for poorer or more exposed accounts will remain constrained. Overall concerns with pricing maintaining parity with claims inflation will likely persist, and prudent risk selection and terms setting will remain fundamental to profitability in the coming year.

Reinsurance – Specialty

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

2021 performance

Gross written premium overall was £2,512m (2020: £2,211m), an increase of 13.6%. Gross written premium by sector within this specialty business was: Marine, Aviation and Transport £1,782m (2020: £1,506m), Energy £655m (2020: £702m), Life £75m (2020: £3m). The Lloyd's reinsurance specialty line reported an accident year ratio of 80.9% (2020: 101.1%).

Both marine and aviation lines have seen considerable improvement in market conditions in 2021 as a result of increasing pricing levels and remediated terms, in lieu of that an increase in appetite and capacity within Lloyd's has been noted. Concurrently claims inflation has been observed with unexpectedly large claim rewards emanating out of the US and losses susceptible to increased salvors costs. All energy lines also achieved an increase in pricing levels in 2021 and capacity remained sufficient in the line, to the benefit of the growing renewables market.

Prior year movement

The prior year movement was a strengthening of 0.2% (2020: release of 6.0%). The claims experience for this line has performed broadly in line with expectations over 2021. This line is predominantly marine, aviation and motor business, written on an excess of loss basis.

Marine reinsurance has seen mixed claims experience on prior years, with favourable movements within this line of business for Typhoon Jebi (2018) and Hurricane Sandy (2011), offset by deteriorations on Hurricane Irma (2017). Likewise, aviation has seen deteriorations on losses arising from the grounding of the Boeing 737 MAX fleet, partially offset by a lack of large loss activity on 2020 and 2021 accident years. 2020 year of account has performed favourably over 2021, due to benign claims experience resulting from a reduction in economic activity due to COVID-19.

Looking ahead

A continuation of positive pricing levels is anticipated in all lines albeit not to the extent achieved in recent years. Green initiatives within marine such as the poseidon principles will lead to greater emphasis on sustainable shipping. Aviation exposures are expected to return to pre-COVID-19 levels within the first half of the year as the travel industry recovers from the impact of the pandemic, as such premium levels are expected to increase in accord with that, however price increases will be tempered due to policy restructuring with regard to minimum and deposit premiums implemented during the pandemic. With respect to energy, the capacity for traditional oil and gas exposures is expected to remain stable, while some writers' appetites and go-forward portfolios may be impacted by ESG strategies and a clients energy transition outlook in regard to particular exposures eg thermal coal. Opportunity to write sustainable energy exposures is expected to be plentiful given the anticipated investment in wind, solar and battery farms globally.

Property

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

Business is written through the broker network with a significant proportion using the framework of coverholders (or managing general agencies) and other similar delegated authority arrangements.

2021 performance

Lloyd's gross written premium for 2021 was £9,587m (2020: £9,227m), an increase of 3.9%. The Lloyd's property line reported an accident year ratio of 104.7% (2020: 135.4%).

2021 was impacted by catastrophic losses, with Winter Storm Uri and Hurricane Ida having materially affected many syndicates writing business in US geographies. Elsewhere material events occurred across parts of central Europe, South Africa, Australia and Canada. As a result, while we are seeing positive benefits feeding through on the attritional loss ratios, the loss ratio catastrophe component remains under pressure and a challenge to the market delivering against its agreed performance plans for 2021.

We also observed further de-risking of catastrophe exposures by some syndicates and a continued refinement of some syndicates risk appetite, following a number of natural catastrophe losses in 2021.

Deal flow continued to remain reasonably robust through 2021 to London, albeit growing competition levels both in London and in global domestic markets, was more evident and we expect this to be a continuing factor, as we move into 2022 on the volume and nature of business.

Prior year movement

The prior year movement was a release of 9.9% (2020: release of 3.5%). Recent years of account have seen elevated levels of catastrophe losses worldwide, with the most impact seen for the direct and facultative lines of business. As a result of COVID-19, business interruption cover losses have impacted prior years, with losses suffered during the 2021 calendar year on property direct and facultative open market and binder business, in both US and non-US lines.

There has been deterioration on 2020 accident year catastrophe events during 2021. In particular, Hurricane Sally and Hurricane Zeta have been subject to adverse movements. Hurricane Ida has also impacted some carriers on the 2020 year of account. This has been offset by favourable movements on older catastrophe events such as Hurricanes Harvey, Irma and Maria (2017), Hurricane Florence (2018), Hurricane Michael (2018) and the 2017 and 2018 California Wildfire events.

In contrast to the increased catastrophe losses, attritional and large loss experience on property accounts have generally performed better than expected. This is particularly evident on direct and facultative US business and also on non-US open market business. Difference in conditions and power generation lines are also performing favourably to expectations.

Terrorism business continues to be cautiously reserved across the market, with favourable claims experience on recent prior years.

Looking ahead

Pricing levels for 2022 are expected to show continued positive movement and to build on actions taken during 2021 and prior years by the market. Higher reinsurance costs, inflationary pressures, together with climate uncertainties and availability of catastrophe aggregates are expected additionally to impact momentum in 2022 pricing levels. We anticipate greater competitive pressures in 2022 and syndicates will need to remain focused and disciplined to successfully execute and deliver upon their approved 2022 plans. This is of critical importance where material growth is being sought, and not to compromise the hard work done by the market in recent years.

Casualty

Lloyd's casualty market encompasses a number of lines of business. Principally general liability and professional lines. In addition, shorter tail lines such as cyber and accident & health represent a significant component of the total casualty book. The US remains the largest single market for Lloyd's casualty business followed by the UK, Canada and Australia.

2021 performance

Lloyd's gross written premium for 2021 was £10,360m (2020: £9,067m), an increase of 14.3%. The casualty market has seen significant pricing change in almost all lines of business, particularly cyber and directors' and officers' liability. Lloyd's casualty line reported an accident year ratio of 95.6% (2020: 105.2%).

During 2021, the market hardening continued while capacity remained stable overall. There has been a pronounced shift away from certain lines, exposures and occupations. In particular cyber lines saw significant repricing, with capacity also becoming more restricted for certain sectors. The increases seen on D&O over the past three years are starting to slow down but remain positive. Across most lines there has also been a marked decrease in average line sizes across most segments as carriers have sought to reduce volatility. While the market correction is significant with some lines, such as cyber, seeing material double digit pricing increases, the prevailing sentiment is that pricing adequacy remains in question, as the protracted soft market cycle has meant price changes starting from a low base and having to make up substantial ground on claims inflation during that period.

The significant focus on performance management and remediation has resulted in a continuation of the growth seen in the cyber insurance products into 2021, with the market outside the US expanding and also representing an increasing share of the overall market. Across other lines there was premium growth during the year as a result of continued price hardening, with underwriting discipline being maintained.

Losses in the contingency line of business, due to the impact of COVID-19, have slowed dramatically with almost all policies now excluding coverage. There are still some major events that include pandemic cover, as they are written many years in advance, however there is less likelihood of these policies incurring losses due to the vaccine roll out and the ability to run events with appropriate health and safety precautions.

Prior year movement

The prior year movement was a strengthening of 4.7% (2020: a strengthening of 5.1%).

During 2021, syndicates have strengthened their casualty reserves on prior years. Deteriorations have been reported on a number of casualty lines, most notably on financial lines such as directors & officers and professional indemnity insurance.

Cyber has also seen a rise in claims on recent years. In particular, the 2019 year of account has been materially adverse against expectations. The key area of concern for this line of business is the emergence of ransomware claims affecting cyber writers in the market, the prediction of which is hampered by the lack of experience for those accounts. This will continue to be a key focus for Lloyd's, given the limited experience available for this line.

Given the long term nature of the underlying policies and current macro view on concerns such as social inflation, we would generally expect a greater level of uncertainty in this line being factored into the reserves. There is an increased level of oversight by Lloyd's and additional work being done by the market to monitor the robustness of reserves for this line during this period of heightened uncertainty.

Looking ahead

As with casualty reinsurance, there has and continues to be a growing focus on social and economic inflation. While a lot of the focus has been in the US, other territories such as Australia and Canada are starting to see similar trends across all casualty lines. These territories and jurisdictions are experiencing an increase in active regulation and litigation. This has been accompanied by increased capacity for litigation funding driven to a large extent driven by persistent low interest rates.

Marine, Aviation and Transport

Marine business encompasses a wide variety of sub-lines where Lloyd's continues to be regarded as an industry leader, including hull, various marine war perils, marine liabilities, and specie and fine art; with cargo being the largest individual line. Further, more niche products are also written, including satellite pre-launch risks and construction related cargo perils including delay in start-up.

In aviation, Lloyd's writes across all main business sectors including airline, aerospace, general aviation, space and war. Airline (hull and liability) is the largest sector, but Lloyd's 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 and in-orbit risks.

2021 performance

Lloyd's gross written premium for 2021 was £2,909m (2020: £2,976m), a decrease of 2.3%. The Lloyd's marine, aviation and transport line reported an accident year ratio of 90.0% (2020: 98.2%).

Following on from recent years' remediation efforts in the Marine portfolio, including significant compound rate increase as well as tightening of wordings and conditions, both gross and net of reinsurance results are significantly improved upon where they were two or three years ago. While the double digit rate increases that we have been seeing are slowing, the rating environment remains positive going into 2022. One of the key indicators of the improved performance of the marine portfolio and the corrective actions taken by underwriters, is the improvement in attritional loss ratio.

Owing to COVID-19 there was a significant reduction in aviation exposures; however, as a part of remediation efforts within the line, minimum and deposit premiums were applied to the majority of business from 2020 onwards. As a result of corrective actions, reduction in exposure and improved rating environment, we have seen the gross loss ratio of the aviation line improve 45-50% for the years of 2020-21 compared with 2017-19. Currently performance for aviation business is well within plan on both a gross and net of reinsurance basis.

Prior year movement

The prior year movement was a release of 8.0% (2020: release of 8.5%).

On marine lines, there is a tendency for the view of claims to be held for a number of years to allow for inherent uncertainty and so releases are common. Overall, these lines of business have performed favourably against expectations over 2021, particularly on 2020 year of account with reduced economic activity due to COVID-19. Favourable experience has been evident on marine cargo and hull, with many carriers reporting benign claims experience on prior years. On marine liability, experience has been mixed across the market, with some carriers reporting favourable experience and others reporting deteriorations following late claims development on prior years. Recent years have seen higher than average catastrophe losses, which are known to drive property damage claims. However, some of the historical catastrophe losses have improved over 2020. In particular, there have been reductions on overall losses due to Hurricane Irma (2017). In contrast, there have been increases on some 2020 catastrophe events, such as the tornadoes affecting Tennessee.

On aviation lines, recent history has seen heavier large loss experience, arising mostly from losses relating to the grounding of the Boeing 737 MAX fleet and increased space losses in the 2019 year of account. However, there has been a small decrease in the ultimate position for the Boeing loss over 2021 and there has been limited large loss experience on the 2020 year of account. Aviation lines have also benefited from reduced economic activity due to COVID-19 on the 2020 year of account. Many carriers are reporting benign attritional claims experience as a result of reduced exposures due to the pandemic.

Looking ahead

After another year of significant rate rises, the pace of those rises is expected to slow for marine business; however, it is expected to remain positive with just single-digit, as opposed to double digit, increases. The demonstrably improved results from previous years has attracted more capacity to the market, both from new entrants into Lloyd's and also on company market paper. We are expecting to see in the region of 10% growth in exposure written into the marine portfolio at Lloyd's in 2022.

As aviation exposures are expected to be coming back online after the slow down for COVID-19 throughout 2020-2021, both gross and net of reinsurance ratios are planned to increase slightly from the last two years. In a similar vein to marine, aviation has seen an increase in capacity and following on from the very high double digit compound rate increases over recent years and significantly improved results. However, the effects of the invasion of Ukraine may further impact the aviation line.

Energy

The Lloyd's energy line includes a variety of onshore and offshore property and liability products; ranging from construction to exploration, production, refining and distribution. This incorporates both the oil and gas industry and the growing energy renewables sector.

2021 performance

Gross written premium for the Lloyd's energy line in 2021 was £1,262m (2020: £1,265m), a decrease of 0.2%. The Lloyd's energy line reported an accident year ratio of 98.0% (2020: 99.2%).

The pricing environment across all Energy property and casualty lines remained positive throughout 2021. There does remain a disparity between the upstream and downstream lines, given the differing fortunes of recent years, however that gap closed significantly during the year in regard to the percentage of pricing increases being implemented. Downstream lines, along with power, continued to report double digit price increases, albeit to a lesser degree than in 2020, in comparison with lower single digit for upstream property and exploration and production exposures. Once again despite an active Atlantic windstorm season, the Gulf of Mexico remained relatively unscathed and energy lines have once again benefited from a benign year in regard to natural catastrophe losses with the exception of Winter Storm Uri in the US very early in the year.

Prior year movement

The prior year movement was a release of 6.5% (2020: release of 8.2%). The energy line of business has seen continued prior year reserve releases over 2021. This line contains a mix of contracts that give rise to claims that are settled on both a short-term and long-term time horizon. Both the short-term and long-term lines have performed favourably. There has been limited movement on historical catastrophe events, with the exception of Hurricane Laura (2020), where losses have deteriorated. Given that the energy lines are also exposed to isolated large losses, large margins for uncertainty tend to be held and released in benign years. For long-term contracts, these margins can be held for a number of years. Reductions in claims estimates for these large losses and the release of unused margin is expected to drive releases at a market level. This is evident across the market with insurers reporting releases on incurred but not reported (IBNR) following benign claims experience on prior year of account with respect to both specific events and attritional claims.

Looking ahead

While a deceleration of increasing pricing levels is expected in 2022, the forecast remains positive for pricing and no weakening of terms and conditions are anticipated. The remedial actions taken by the market in respect of downstream property and casualty will see yet more capacity return in 2022, with pricing and terms and conditions vastly improved from pre-2019. Fortunately, despite an abundance of available capacity the competitive upstream market remains relatively stable in terms of underwriting disciplines.

Substantial developments globally in the renewable energy sector will provide Lloyd's energy underwriters with increased opportunity in 2022. In light of poor underwriting profitability to date, particularly in offshore wind, the market will need to remediate on terms and pricing and it is anticipated that markets entering the space will need to learn from the lessons of the past to navigate the sector sustainably and profitably. Lloyd's has implemented risk codes specific to renewable energy written at Lloyd's and will for the first time be able to capture and attain direct oversight of the size, growth and underwriting performance of these exposures as a subset of broader energy and power generation portfolios.

For 2022 the nuclear line of business will see the effects of the Paris/Brussels conventions with additional heads of cover, increasing property damage limits and longer liability periods being factored into placements. Lloyd's futureset continues to work closely with the Lloyd's energy markets and policyholders to identify new and emerging trends and technologies, as well as insurance gaps, in support of a policyholder's energy transition.

Motor

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

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

2021 performance

Gross written premium in 2021 was £713m (2020: £720m), a decrease of 1.0%. The Lloyd's motor line reported an accident year ratio of 101.0% (2020: 95.5%).

Following a number of years of competitive pricing, international motor has continued to see positive trends with more price strengthening during 2021, as well as a focus on increased deductibles and tightening of terms and conditions.

In the UK, the pricing levels achieved during 2021 are under pressure from competitors with a continued focus on performance management and remediation by Lloyd's.

Prior year movement

The prior year movement was a release of 7.2% of net earned premium (2020: release of 2.2%). This is driven by favourable claims experience against expectation for both UK and overseas motor, possibly driven by reduced economic activity due to COVID-19.

Looking ahead

While current indications have shown recent improvements in the performance of international motor, there remains uncertainty as to whether current pricing levels are sufficient and whether enough consideration has been given to further development of longer tail risks in particular in a rising inflationary environment. Lloyd's will therefore continue to monitor motor performance closely.

Reinsurance

Property	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2017	5,991	134.3	(4.0)	130.3	(1,260)
2018	6,440	121.1	(4.9)	116.2	(672)
2019	6,405	106.5	(0.3)	106.2	(258)
2020	6,627	112.8	(2.8)	110.0	(441)
2021	**7,385**	**102.8**	**(3.9)**	**98.9**	**54**

Casualty	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2017	2,223	103.9	(1.8)	102.1	(39)
2018	2,541	99.7	(3.6)	96.1	78
2019	2,960	102.4	1.7	104.1	(94)
2020	3,321	113.0	(2.3)	110.7	(288)
2021	**4,440**	**88.9**	**8.1**	**97.0**	**99**

Specialty	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2017	2,346	110.3	(8.5)	101.8	(31)
2018	2,089	101.9	(11.0)	90.9	138
2019	2,053	108.6	(2.8)	105.8	(82)
2020	2,211	101.1	(6.0)	95.1	73
2021	**2,512**	**80.9**	**0.2**	**81.1**	**336**

2021 Highlights continued

Insurance

Property

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2017	8,965	131.5	(3.9)	127.6	(1,757)
2018	9,687	114.0	(3.6)	110.4	(700)
2019	9,586	101.5	(1.7)	99.8	12
2020	9,227	135.4	(3.5)	131.9	(2,104)
2021	**9,587**	**104.7**	**(9.9)**	**94.8**	**336**

Casualty

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2017	8,464	103.7	(0.6)	103.1	(189)
2018	9,094	103.9	(1.0)	102.9	(183)
2019	9,459	103.8	1.9	105.7	(390)
2020	9,067	105.2	5.1	110.3	(688)
2021	**10,360**	**95.6**	**4.7**	**100.3**	**(17)**

Marine, Aviation and Transport

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2017	3,193	117.7	0.8	118.5	(480)
2018	3,152	116.2	(0.9)	115.3	(392)
2019	2,802	113.3	(4.8)	108.5	(199)
2020	2,976	98.2	(8.5)	89.7	239
2021	**2,909**	**90.0**	**(8.0)**	**82.0**	**388**

Energy

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2017	1,253	107.7	(21.1)	86.6	105
2018	1,404	105.6	(18.2)	87.4	113
2019	1,500	107.5	(10.2)	97.3	27
2020	1,265	99.2	(8.2)	91.0	79
2021	**1,262**	**98.0**	**(6.5)**	**91.5**	**71**

Motor

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2017	1,057	114.4	7.9	122.3	(188)
2018	1,037	101.8	(3.1)	98.7	12
2019	1,053	100.6	(1.8)	98.8	11
2020	720	95.5	(2.2)	93.3	48
2021	**713**	**101.0**	**(7.2)**	**93.8**	**35**

Statement of Council's Responsibilities

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

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

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

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

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

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

Pro Forma Financial Statements

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

Society of Lloyd's Group Financial Statements

The Group financial statements of the Society comprise the Group annual financial statements of the Society and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates and joint ventures.

Report of PricewaterhouseCoopers LLP to the Council on the 2021 Pro Forma Financial Statements

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2021 Lloyd's Pro Forma Financial Statements

Opinion

In our opinion the Council of Lloyd's has prepared the Lloyd's Pro Forma Financial Statements (the 'PFFS') for the financial year ended 31 December 2021, defined below, in all material respects in accordance with the basis of preparation set out in note 2.

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

What we have assured

The PFFS, which are prepared by the Council of Lloyd's, comprise: the pro forma balance sheet as at 31 December 2021, the pro forma profit and loss account, the pro forma statement of comprehensive income, and the pro forma statement of cash flows for the year then ended, and notes to the financial statements.

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

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Lloyd's Annual Report within which the PFFS for the year ended 31 December 2021 are included.

What a reasonable assurance engagement involves

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

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

The PFFS have been compiled by aggregating financial information reported in syndicate returns and annual accounts, which have been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported, a central market adjustment to reflect the impact of additional risks deemed to exist at the market level, members' funds at Lloyd's (FAL) and the books and records of the Society of Lloyd's (the Society). Our work in respect of the syndicate returns and annual accounts did not involve assessing the quality of the syndicate audits or performing any audit procedures over the financial or other information of the syndicates or provided by the managing agents of the syndicates.

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

– obtaining an understanding of how the Council of Lloyd's has compiled the PFFS from the audited syndicate annual returns and accounts, the Society of Lloyd's books and records and Members' Funds at Lloyd's;

– checking (on a sample basis) that the financial information included in the PFFS was correctly extracted from the syndicate annual accounts and the Society of Lloyd's books and records;

– evaluating evidence to support the existence and valuation of Members' Funds at Lloyd's; and

– evaluating the evidence supporting the adjustments made in the preparation of the PFFS and obtaining evidence that the PFFS have been prepared in accordance with the basis of preparation set out in the PFFS notes.

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

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

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

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

This report including our conclusions has been prepared solely for the Council of Lloyd's in accordance with our engagement letter dated 17 December 2021 (the "instructions"). Our examination has been undertaken so that we might state to the Council of Lloyd's those matters which we are required to state in this report in accordance with the instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
London
24 March 2022

Pro Forma Profit and Loss Account

(For the year ended 31 December 2021)

Technical account	Note	2021 £m	2021 £m	2020 £m	2020 £m
Gross written premiums	9		39,216		35,466
Outward reinsurance premiums			(10,777)		(9,640)
Premiums written, net of reinsurance			28,439		25,826
Change in the gross provision for unearned premiums		(2,223)		78	
Change in the provision for unearned premiums, reinsurers' share		441		(28)	
			(1,782)		50
Earned premiums, net of reinsurance	9		26,657		25,876
Allocated investment return transferred from the non-technical account			48		1,042
			26,705		26,918
Claims paid					
Gross amount		19,931		21,422	
Reinsurers' share		(6,722)		(6,506)	
			13,209		14,916
Change in provision for claims					
Gross amount		3,214		6,075	
Reinsurers' share		(983)		(2,062)	
			2,231		4,013
Claims incurred, net of reinsurance	9		15,440		18,929
Net operating expenses	9, 11		9,476		9,623
Balance on the technical account for general business			1,789		(1,634)
Non-technical account					
Balance on the technical account for general business			1,789		(1,634)
Investment return on syndicate assets		113		1,231	
Notional investment return on members' funds at Lloyd's	6	841		949	
Investment return on Society assets		(6)		88	
Total investment return	12		948		2,268
Allocated investment return transferred to the technical account			(48)		(1,042)
			900		1,226
Gain/(loss) on exchange			66		(105)
Other income	7		91		92
Other expenses	7		(569)		(466)
Result for the financial year before tax			**2,277**		(887)

All operations relate to continuing activities.

Pro Forma Statement of Comprehensive Income

(For the year ended 31 December 2021)

Statement of other comprehensive income	**2021 £m**	2020 £m
Result for the year	2,277	(887)
Currency translation differences	(19)	49
Other comprehensive (losses)/gains in the syndicate annual accounts	(14)	12
Remeasurement gain/(loss) on pension liabilities after tax in the Society accounts	72	(40)
Total comprehensive income/(loss) for the year	**2,316**	(866)

Pro Forma Balance Sheet

(As at 31 December 2021)

Investments	Note	£m	2021 £m	£m	2020 £m
Financial investments	13		72,977		69,478
Deposits with ceding undertakings			720		71
Reinsurers' share of technical provisions					
Provision for unearned premiums	18	4,076		3,588	
Claims outstanding	18	24,208		21,485	
			28,284		25,073
Debtors					
Debtors arising out of direct insurance operations	14	10,322		8,796	
Debtors arising out of reinsurance operations	15	9,023		8,730	
Other debtors		970		1,162	
			20,315		18,688
Other assets					
Tangible assets		25		28	
Cash at bank and in hand	16	10,957		10,473	
Other		43		79	
			11,025		10,580
Prepayments and accrued income					
Accrued interest and rent		91		98	
Deferred acquisition costs	18	4,528		4,148	
Other prepayments and accrued income		215		168	
			4,834		4,414
Total assets			**138,155**		128,304
Capital, reserves and subordinated loan notes					
Members' funds at Lloyd's	6	31,272		30,959	
Members' balances	17	2,208		(326)	
Members' assets (held severally)			33,480		30,633
Central reserves (mutual assets)		2,277		2,513	
Total capital and reserves			35,757		33,146
Subordinated loan notes	2, 4		796		795
Total capital, reserves and subordinated loan notes			**36,553**		33,941
Technical provisions					
Provision for unearned premiums	18	19,074		16,743	
Claims outstanding	18	67,800		64,364	
			86,874		81,107
Deposits received from reinsurers			1,734		727
Creditors					
Creditors arising out of direct insurance operations	20	871		1,423	
Creditors arising out of reinsurance operations	21	8,115		6,834	
Other creditors including taxation		2,538		2,886	
Senior debt	2, 4	299		299	
			11,823		11,442
Accruals and deferred income			1,171		1,087
Total capital, reserves and liabilities			**138,155**		128,304

Approved by the Council on 23 March 2022 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Pro Forma Statement of Cash Flows

(For the year ended 31 December 2021)

	Note	2021 £m	2020 £m
Result for the financial year before tax		2,277	(887)
Increase in gross technical provisions		5,659	4,797
Increase in reinsurers' share of gross technical provisions		(3,390)	(1,602)
Increase in debtors		(1,654)	(343)
Increase in creditors		552	287
Movement in other assets/liabilities		51	(180)
Investment return		(948)	(2,268)
Depreciation, amortisation and impairment charge		18	33
Tax refund/(paid)		26	(33)
Foreign exchange		(34)	129
Other		47	133
Net cash inflows from operating activities		2,604	66
Investing activities			
Purchase of equity and debt instruments		(40,931)	(32,110)
Sale of equity and debt instruments		37,343	31,304
Purchase of derivatives		(455)	(621)
Sale of derivatives		406	608
Investment income received		610	887
Other		(432)	(378)
Net cash outflows from investing activities		(3,459)	(310)
Financing activities			
Net losses collected from members		2,109	1,461
Net capital transferred (out of)/into syndicate premium trust funds		(1,296)	333
Interest paid on subordinated and senior loan notes		(46)	(42)
Senior debt issuance	2	–	299
Net movement in members' funds at Lloyd's		206	(270)
Other		(4)	61
Net cash inflows from financing activities		969	1,842
Net increase in cash and cash equivalents		114	1,598
Cash and cash equivalents at 1 January		12,734	11,128
Exchange differences on cash and cash equivalents		(1)	8
Cash and cash equivalents at 31 December	22	**12,847**	12,734

Notes to the Pro Forma Financial Statements

1. The Pro Forma Financial Statements

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

2. Basis of preparation

General

The PFFS have been prepared by aggregating audited financial information reported in syndicate returns and annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's (the Society) on pages 117 to 170. The Council considers the environment in which the Society of Lloyd's and Lloyd's market participants are operating and any associated risks which could have an impact on the reasonableness of financial information presented in the PFFS. Where the Council considers it appropriate, central adjustments may be included in the PFFS to reflect the impact of any additional risks, as deemed necessary in preparing the PFFS. Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the PFFS; the going concern and viability statement of the Society is included within the Society Report on page 108.

The Aggregate Accounts report the audited results for calendar year 2021 and the financial position at 31 December 2021 for all life and non-life syndicates that transacted business during the year. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 9). The Aggregate Accounts are reported as a separate document and can be viewed at [www.lloyds.com/annualresults2021]. In order to provide more meaningful information in the Aggregate Accounts and PFFS, the Society has required syndicates to report certain disclosures presented on a consistent basis, which may vary from presentation included in the individual syndicates' annual accounts.

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

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

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

(a) Aggregation

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

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

Inter-syndicate loans

The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £334m (2020: £212m). These amounts have been eliminated from those amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the PFFS.

Special Purpose Arrangements (SPA)

The Aggregate Accounts include the results and assets of the SPA (see Glossary on page 176). Due to the nature of the SPA, the quota share of the host syndicates' business is reported as gross written premiums in both the host syndicate and the SPA annual accounts. This leads to an overstatement of the original premiums written by the whole Lloyd's market. To provide users of the PFFS with a more meaningful presentation of the market's figures, all the transactions arising from the insurance contracts between the SPA and host syndicates have been eliminated. The key impact of this elimination is that gross written premium is reduced by £772m (2020: £659m). The elimination does not affect the PFFS result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

Transactions between syndicates and the Society

– Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate returns and as income in the Society's financial statements.
– Syndicate loans to the Central Fund are reported as assets in the syndicate returns and as equity in the Society financial statements. Interest on the loans is reported as investment income in syndicate returns and as a reduction to equity in the Society's financial statements.
– Technical insurance related transactions and balances existing between the syndicates and the subsidiaries of the Society are reported in both the syndicate returns and in the Society's financial statements.

– Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls, and do not have the resources to meet those cash calls, are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate returns include those members' results and at the balance sheet date will report the outstanding liability within members' balances.
– Loans funding statutory overseas deposits are reported as assets within the syndicate returns and as liabilities in the Society financial statements.

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

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

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

(c) Statement of changes in equity

Where Lloyd's is not the investment manager for FAL, actual changes are not available and therefore a statement of changes in equity has not been included. However, a statement of changes in members' balances has been included in note 17, which, along with the Society's Group statement of changes in equity (on page 120), represents the changes in equity of the other components of the PFFS.

(d) Taxation

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

(e) Related party transactions

Individual syndicates or their members do not disclose details of insurance and/or reinsurance transactions with other (non-related) syndicates or members within the market. Therefore, analysis and/or disclosure of these transactions within the Lloyd's market in the PFFS is not possible. Other than the disclosures made in note 24, a more detailed related party transaction note is therefore not included within the PFFS. The annual accounts of each syndicate or member provide, where appropriate, the required disclosures on related parties. The related party transactions of the Society are disclosed in note 29 on page 170 of the Society financial statements.

Members' funds at Lloyd's (FAL)

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

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

Subordinated loan notes

In accordance with the terms of the Society's subordinated loan notes, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves and subordinated loan notes' in the pro forma balance sheet. Note 24(ii) to the Society financial statements on page 167 provides additional information.

Senior debt

Unsecured senior debt of £300m was issued by the Society on 21 January 2020, increasing liabilities. The debt has been issued to finance the investment in the Future at Lloyd's strategy. Note 24(i) to the Society financial statements on page 167 provides additional information.

Society financial statements

The PFFS include the results and net assets reported in the financial statements of the Society of Lloyd's (after appropriate adjustments to convert to UK GAAP), comprising the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates.

3. Accounting policies notes

Sources of significant accounting judgements and estimation uncertainty

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

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

- Claims provisions and related recoveries are the most significant accounting estimate in preparing the PFFS, in particular for losses incurred but not reported. Variances between the estimated and actual cost of settling claims impacts claims incurred, net of reinsurance and the balance on the technical account for general insurance. Total gross outstanding claims at 31 December 2021 is £67,800m (2020: £64,364m). The total estimate as at 31 December 2021, net of reinsurers' share, is £43,592m (2020: £42,879m) and is included within the pro forma balance sheet (see note 3(a) and note 18);
- Estimated premium income, in particular estimates for premiums written under delegated authority agreements, is a significant estimate. Variances between the estimated premium income and actual received impact gross written premiums and provisions for unearned premium (see note 3(a) and note 9);
- Valuation of investments requires a degree of estimation, in particular for valuations based on models and inputs other than those observable in the market ('level 3' of the fair value hierarchy). The estimation uncertainty impacts the carrying value of financial investments, which is the largest PFFS asset class, however, a relatively small proportion is valued at 'level 3' of the fair value hierarchy (see note 3(a) and note 13); and
- Notional investment return on FAL is an estimate based on yields from indices for each type of asset held. The estimation uncertainty affects the notional investment return presented separately in the profit and loss account and the carrying value of member's funds at Lloyd's on the balance sheet (see note 2(b), note 3(b) and note 6).

(a) Aggregate accounts

General

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

Premiums written

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

Unearned premiums

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

Outward reinsurance premiums

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

Claims provisions and related recoveries

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

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

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

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the line of business, the claims experience for the year and the current security rating of the reinsurers involved. Statistical techniques are used to assist in making these estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The directors of each syndicate's managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them.

3. Accounting policies notes continued

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

Additional information on insurance risk is disclosed in note 4.

Discounted claims provisions

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

Unexpired risks provision

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

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

Acquisition costs

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

Foreign currencies

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

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

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

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

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

Investments

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

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

Syndicate investment return

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

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

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

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

Tangible assets

Tangible assets relate to plant and equipment and the Lloyd's Collection, with additional detail disclosed in note 2 to the Society of Lloyd's financial statements on page 122.

Taxation

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

Operating expenses

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

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

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

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

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

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

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

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

(c) Society of Lloyd's (the Society)
The accounting policies adopted in the Society of Lloyd's financial statements are set out on pages 122 to 127. Adjustments have been made to the information incorporated into the PFFS where the Council have considered there to be material accounting policy differences between the existing international financial reporting standards as issued by the International Accounting Standards Board ('IFRS as issued by the IASB') accounting policies and the recognition and measurement requirements of UK GAAP.

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

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

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

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

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

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

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

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

4. Risk management continued

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a several basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR that reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, the Society applies a capital uplift to the member's capital requirement to determine the ECA. The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2021 was 35% (2020: 35%) of the member's SCR 'to ultimate'.

Solvency Capital Requirement (Solvency II basis)

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

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

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

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

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

The Lloyd's Internal Model

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

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

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

Details of the major risk components are set out below.

Insurance risk

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

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

Underwriting risk

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

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

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

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

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

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

Reserving risk

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

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

There are currently few specific reserving issues, and the main perceived risks relate to macro influences resulting in heightened economic pressure: this includes the situation as the global economy emerges from COVID-19 restrictions, rising geo-political tensions, inflationary pressures, and continued uncertainty over social inflation trends. The Society analyses reserve developments at line of business and syndicate levels quarterly; and briefs the market on issues it considers need to be taken into account. However, it is anticipated that given the uncertainty from macroeconomic sources and interaction they may have, it will become more challenging to estimate and allow for the impacts of this in the best estimate reserves at Syndicate level. A central adjustment has been made to reflect the very different nature of these uncertainties this year. Case-specific claim reserves should make financial provision at reported loss levels, without prejudice to coverage. Legal advisers', underwriters' and loss adjusters' judgement are used to set the estimated case reserves. Reserving processes use a variety of statistical analyses such as projections of historical loss development patterns, with results adjusted for expert judgement. Lloyd's syndicates have significant exposure to volatile lines of business that carry material inherent risk that the ultimate claims settlement will vary from previous assessments of reserves.

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

Credit risk

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

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

Catastrophe risk

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

Notes to the Pro Forma Financial Statements continued

(For the year ended 31 December 2021)

4. Risk management continued

Lloyd's MWSCR

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

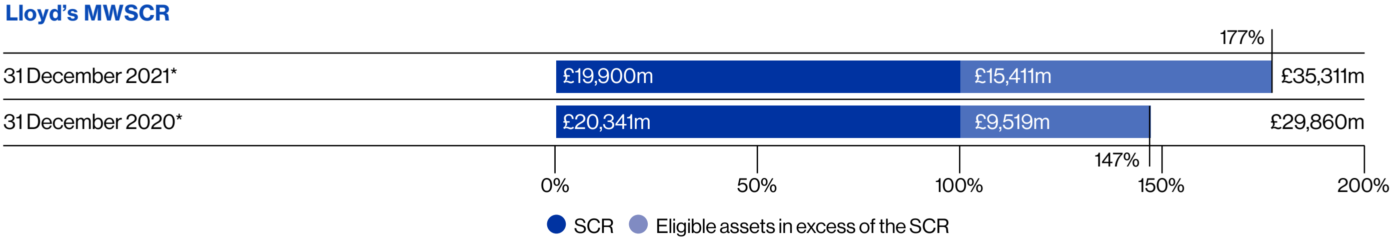
	31 December 2021* SCR £m	31 December 2020* SCR £m
Reserving risk	7,550	7,790
All other (attritional) underwriting risk	7,822	8,248
Catastrophe risk	802	1,357
Market risk	2,304	2,389
Reinsurance credit risk	728	836
Operational risk	431	893
Pension risk	35	40
MWSCR before adjustments	19,672	21,553
Foreign exchange adjustment	228	(1,212)
MWSCR	**19,900**	20,341

* Represents the position based on solvency returns which have not been reviewed by independent auditors; this may differ from the final 2021 submissions.

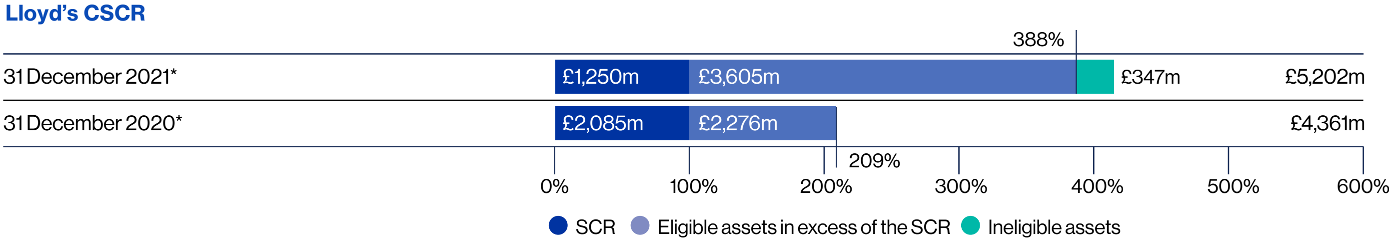
Solvency Capital Requirement coverage

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

Lloyd's MWSCR



Lloyd's CSCR



* Represents the position based on solvency returns which have not been reviewed by independent auditors; this may differ from the final 2021 submissions.

The central solvency ratio has increased to 388% from 209% at 31 December 2020 and the market-wide solvency ratio has increased to 177% from 147% at 31 December 2020. These increases reflect reductions in the SCRs (driven by the modelled benefits of the Central Fund insurance coverage and refinements in the modelling of syndicate risks), and increases in the eligible assets. Please refer to page 19 for further details.

In addition to the quarterly reporting to the PRA, internal risk appetites have been set to monitor the coverage of the MWSCR and CSCR as part of the risk management framework in place at Lloyd's. During 2021, the solvency coverage ratios for both the MWSCR and the CSCR were in excess of internal risk appetites and regulatory requirements.

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

Solvency cover ratios	MWSCR coverage	CSCR coverage
31 December 2021*	**177%**	**388%**
31 December 2020*	147%	209%
Risk appetite for solvency cover ratio	125%	200%

* Represents the position based on solvency returns which have not been reviewed by independent auditors; this may differ from the final 2021 submissions.

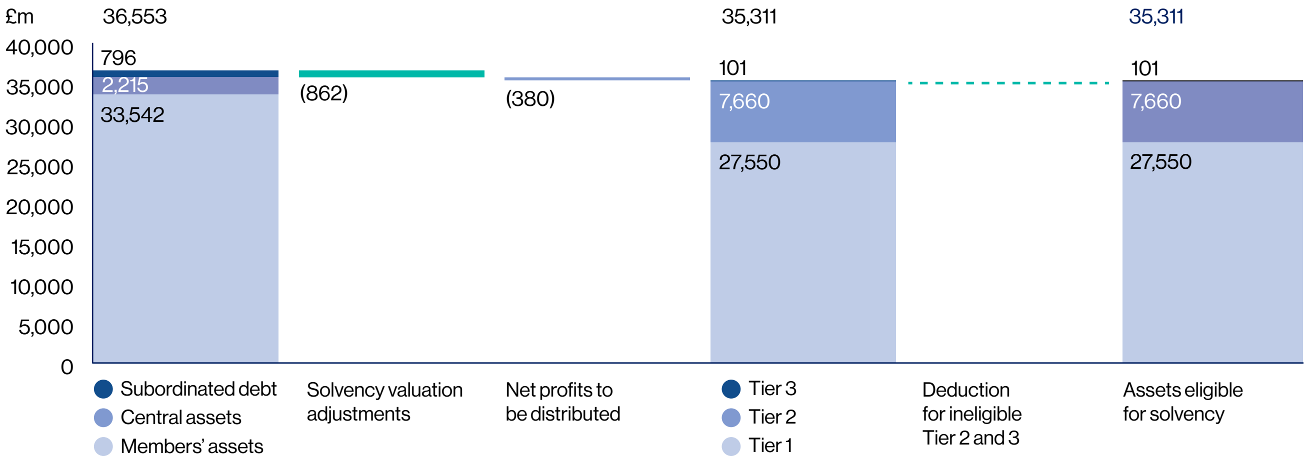
Assets eligible for solvency

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

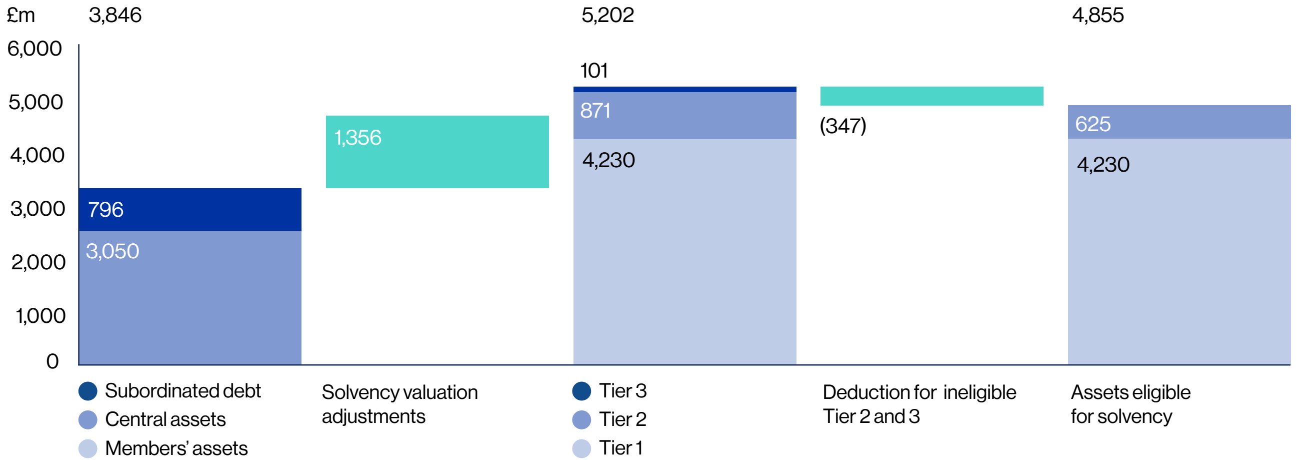
The eligibility of assets to cover the SCR under Solvency II is determined by a tiering test. Tier 1 assets are fully available to cover the SCR, while Tier 2 and Tier 3 assets in aggregate can cover up to 50% of the SCR. The majority of the assets available to cover the MWSCR are Tier 1. A proportion of members' FAL is provided in the form of letters of credit which are classed as Tier 2 assets, restricting their ability to cover the MWSCR. However, given the total value of these instruments at 31 December 2021 is less than 50% of the SCR, there are no unrestricted assets. These letters of credit are callable on demand and when called, the proceeds, namely cash, would qualify as Tier 1 assets.

The capital tiering rules also apply to the coverage of the central SCR. The inclusion of the subordinated debt and deferred tax asset results in Lloyd's available Tier 2 and 3 central capital of £972m (2020: £1,022m). Given the total Tier 2 and 3 central capital is greater than the maximum allowance – 50% of the SCR – there is an eligibility restriction of £347m.

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



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



* Represents the position based on solvency returns which have not been reviewed by independent auditors; this may differ from the final 2021 submissions.

4. Risk management continued

Claims development table

The tables below illustrate the development of the estimates of earned ultimate cumulative claims for syndicates in aggregate after the end of the underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non-sterling balances have been converted using 2021 year end exchange rates to aid comparability. As these tables are on an underwriting year basis, there is an apparent jump from figures for the end of the underwriting year to one year later, as a large proportion of premiums are earned in the year of account's second year of development.

Gross

Underwriting year	2011 and prior years £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	**2021 £m**	Total £m
At end of underwriting year		8,265	7,098	7,273	7,027	8,659	16,510	13,564	10,143	11,512	14,555	
One year later		13,456	13,397	13,843	14,545	18,886	26,679	24,763	22,443	20,904		
Two years later		13,748	13,576	14,711	15,396	20,392	28,579	27,092	22,973			
Three years later		13,506	13,260	14,561	16,355	21,109	28,733	27,165				
Four years later		13,475	13,046	15,574	16,542	21,363	28,861					
Five years later		13,316	13,470	15,626	16,774	21,610						
Six years later		13,846	13,550	15,676	16,744							
Seven years later		13,977	13,501	15,602								
Eight years later		13,938	13,416									
Nine years later		13,944										
Cumulative payments		12,851	12,285	13,776	14,038	17,197	22,467	18,213	11,551	6,963	2,887	
Estimated balance to pay	4,254	1,093	1,131	1,826	2,706	4,413	6,394	8,952	11,422	13,941	**11,668**	67,800

Net

Underwriting year	2011 and prior years £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	**2021 £m**	Total £m
At end of underwriting year		6,285	5,887	5,880	5,631	6,725	9,552	8,991	7,505	8,273	10,938	
One year later		10,693	11,007	11,202	11,548	14,158	16,750	16,748	16,159	14,692		
Two years later		10,878	11,131	11,657	12,093	15,025	18,149	18,203	15,910			
Three years later		10,809	10,759	11,542	12,224	15,445	18,240	17,960				
Four years later		10,529	10,577	11,596	12,504	15,361	18,011					
Five years later		10,425	10,702	11,780	12,580	15,347						
Six years later		10,621	10,654	11,824	12,386							
Seven years later		10,622	10,619	11,628								
Eight years later		10,568	10,497									
Nine years later		10,475										
Cumulative payments		9,776	9,788	10,512	10,813	12,795	14,242	12,644	8,545	5,219	2,467	
Estimated balance to pay	2,549	699	709	1,116	1,573	2,552	3,769	5,316	7,365	9,473	**8,471**	43,592

Financial risk

Credit risk

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

As discussed on page 41, the market's principal credit risk is that the reinsurance purchased to protect the syndicates' gross losses does not respond as expected. Syndicates are also exposed to credit risk in their premium debtors. Credit risk in respect of premium debt is controlled through broker approval and regular monitoring of premium settlement performance. Syndicates and members are exposed to credit risks in their investment portfolios. PRA and Lloyd's investment guidelines are designed to mitigate credit risk by ensuring diversification of holdings.

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

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

2021	**Neither past due nor impaired £m**	**Past due £m**	**Impaired £m**	**Total £m**
Debt securities	50,929	–	–	50,929
Participation in investment pools	2,921	–	–	2,921
Loans with credit institutions	4,777	–	–	4,777
Deposits with credit institutions	4,487	–	–	4,487
Derivative assets	28	–	–	28
Other investments	114	–	–	114
Reinsurers' share of claims outstanding	24,214	–	(6)	24,208
Cash at bank and in hand, including letters of credit and bank guarantees	10,957	–	–	10,957
Total	**98,427**	–	**(6)**	**98,421**

2020	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Debt securities	47,764	–	–	47,764
Participation in investment pools	2,799	–	–	2,799
Loans with credit institutions	5,503	–	–	5,503
Deposits with credit institutions	4,185	–	–	4,185
Derivative assets	116	–	–	116
Other investments	113	–	–	113
Reinsurers' share of claims outstanding	21,492	–	(7)	21,485
Cash at bank and in hand, including letters of credit and bank guarantees	10,473	–	–	10,473
Total	92,445	–	(7)	92,438

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

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

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

4. Risk management continued

The table below provides information regarding the credit risk exposure at 31 December 2021 by classifying assets according to the credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as other. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated. This table is the sum of assets neither past due nor impaired.

2021	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	15,190	11,981	12,437	6,471	4,850	50,929
Participation in investment pools	161	175	92	29	2,464	2,921
Loans with credit institutions	19	481	334	7	3,936	4,777
Deposits with credit institutions	1,742	571	816	357	1,001	4,487
Derivative assets	–	1	2	–	25	28
Other investments	3	3	2	–	106	114
Reinsurers' share of claims outstanding	293	6,557	15,309	143	1,912	24,214
Cash at bank and in hand	563	576	9,609	77	132	10,957
Total credit risk	**17,971**	**20,345**	**38,601**	**7,084**	**14,426**	**98,427**

2020	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	12,882	11,031	12,696	6,214	4,941	47,764
Participation in investment pools	104	98	63	10	2,524	2,799
Loans with credit institutions	31	43	630	19	4,780	5,503
Deposits with credit institutions	1,823	578	735	290	759	4,185
Derivative assets	–	1	3	–	112	116
Other investments	5	2	–	–	106	113
Reinsurers' share of claims outstanding	415	4,797	13,782	288	2,210	21,492
Cash at bank and in hand	902	633	8,713	70	155	10,473
Total credit risk	16,162	17,183	36,622	6,891	15,587	92,445

Liquidity risk

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

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

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

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

2020	No stated maturity £m	0-1 yrs £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Claims outstanding	–	21,947	22,617	10,135	9,665	64,364
Derivatives	–	43	2	7	1	53
Deposits received from reinsurers	560	119	36	8	4	727
Creditors	1,449	8,827	612	40	162	11,090
Other liabilities	15	98	1	–	–	114
Subordinated loan notes	–	–	–	497	298	795
Senior debt	–	–	–	–	299	299
Total	2,024	31,034	23,268	10,687	10,429	77,442

Market risk – overview

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

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

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

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

Market risk comprises three types of risk:

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

4. Risk management continued

Currency risk

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

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

2021	**Sterling £m**	**US dollar £m**	**Euro £m**	**Canadian $ £m**	**Australian $ £m**	**Other £m**	**Total £m**
Financial investments	10,993	48,120	3,084	6,596	1,681	2,503	72,977
Reinsurers' share of technical provisions	4,641	20,650	1,353	1,105	466	69	28,284
Insurance and reinsurance receivables	3,085	14,287	775	604	501	93	19,345
Cash at bank and in hand	2,431	6,630	731	431	411	323	10,957
Other assets	835	4,789	513	278	132	45	6,592
Total assets	**21,985**	**94,476**	**6,456**	**9,014**	**3,191**	**3,033**	**138,155**
Technical provisions	15,912	57,035	5,542	5,269	2,343	773	86,874
Insurance and reinsurance payables	1,430	6,564	390	384	194	24	8,986
Other liabilities	2,371	3,427	254	272	88	126	6,538
Total liabilities	**19,713**	**67,026**	**6,186**	**5,925**	**2,625**	**923**	**102,398**
Total capital and reserves	**2,272**	**27,450**	**270**	**3,089**	**566**	**2,110**	**35,757**

2020	Sterling £m	US dollar £m	Euro £m	Canadian $ £m	Australian $ £m	Other £m	Total £m
Financial investments	10,816	46,197	2,741	6,036	1,753	1,935	69,478
Reinsurers' share of technical provisions	4,085	18,134	1,338	949	484	83	25,073
Insurance and reinsurance receivables	2,667	12,884	912	540	395	128	17,526
Cash at bank and in hand	2,627	6,023	737	358	398	330	10,473
Other assets	903	3,981	486	205	127	52	5,754
Total assets	21,098	87,219	6,214	8,088	3,157	2,528	128,304
Technical provisions	15,034	52,601	5,614	4,673	2,229	956	81,107
Insurance and reinsurance payables	1,033	6,172	434	309	179	130	8,257
Other liabilities	3,329	2,147	182	207	54	(125)	5,794
Total liabilities	19,396	60,920	6,230	5,189	2,462	961	95,158
Total capital and reserves	1,702	26,299	(16)	2,899	695	1,567	33,146

Sensitivity analysis

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

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

2020	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	462	3,092
Weakening of US dollar	(378)	(2,530)
Strengthening of euro	(42)	2
Weakening of euro	34	(2)

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

Interest rate risk

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

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

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

2020	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(427)	(614)
- 50 basis points	410	597

4. Risk management continued

Equity price risk

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

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

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

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

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

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

2020	Impact on result before tax £m	Impact on members' balances £m
5% increase in equity markets	99	263
5% decrease in equity markets	(99)	(263)

Concentration risk

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

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

Further analysis of premiums, claims, expenses and underwriting result by line of business is included within note 9 of the PFFS, with commentary on the performance of each line of business included on pages 22 to 28.

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

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

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

5. Prior year reserves
Movements in reserves are based upon estimated cost of claims as at 31 December 2021, taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in estimates are reflected in the technical account of the year in which they occur. The aggregate of the prior year surpluses/deficiencies is a net surplus of £552m (2020: surplus of £461m). Surpluses have been reported across all lines of business except casualty and reinsurance reflecting favourable claims development compared with projections.

6. Members' funds at Lloyd's
The valuation of members' FAL in the balance sheet totals £31,272m (2020: £30,959m). The notional investment return on FAL included in the non-technical profit and loss account totals £841m (2020: £949m).

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

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

		Proportion of FAL		Investment return	
Investment type	Index	**2021 %**	2020 %	**2021 %**	2020 %
UK equities	FTSE All share	4.5	4.0	16.8	(8.4)
UK government bonds	UK Gilts 1-3 years	6.4	5.0	(1.1)	0.8
UK corporate bonds	UK Corporate 1-3 years	2.7	3.7	(1.0)	1.3
UK deposits managed by Lloyd's	Return achieved	4.3	5.2	0.1	0.3
UK deposits managed externally including letters of credit	GBP LIBID 1 month	6.6	7.1	(0.1)	0.0
US equities	S&P 500 Index	10.9	8.0	25.5	16.8
US government bonds	US Treasuries 1-5 years	17.8	17.0	(1.2)	3.9
US corporate bonds	US Corporate 1-5 years	24.0	25.3	(0.8)	5.3
US deposits managed by Lloyd's	Return achieved	7.7	9.7	0.1	0.7
US deposits managed externally including letters of credit	USD LIBID 1 month	15.1	15.0	(0.2)	0.4

7. Society of Lloyd's (the Society)

The results of the Group financial statements of the Society included in the profit and loss account are a profit of £426m (2020: a profit of £413m) in the technical account and a loss of £442m (2020: a loss of £373m) in the non-technical account.

Other income of £91m (2020: £92m) contains £94m (2020: £99m) of Society income, offset by £3m (2020: £7m) of other charges reported by the market while other expenses £569m (2020: £466m) is entirely driven by Society results.

8. Aggregation of results and net assets

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

Profit and loss account	**2021 £m**	2020 £m
Result per syndicate annual accounts	1,719	(1,876)
Adjusted Result of the Society	(283)	40
Notional investment return on members' funds at Lloyd's	841	949
Result for the financial year before tax	**2,277**	(887)

Capital and reserves	**2021 £m**	2020 £m
Net assets per syndicate annual accounts	2,250	(288)
Adjusted Net assets of the Society	2,235	2,475
Members' funds at Lloyd's	31,272	30,959
Total capital and reserves	**35,757**	33,146

Transactions between syndicates and the Society, which have been reported within both the syndicate annual accounts and the Society financial statements, have been eliminated in the adjusted society results to arrive at the PFFS disclosures, as set out in note 2.

9. Segmental analysis

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

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

2020	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Under-writing result £m
Reinsurance	12,159	8,616	(6,352)	(2,920)	(656)
Casualty	9,067	6,688	(4,615)	(2,761)	(688)
Property	9,227	6,605	(5,893)	(2,816)	(2,104)
Marine, Aviation and Transport	2,976	2,322	(1,172)	(911)	239
Energy	1,265	877	(451)	(347)	79
Motor	720	719	(410)	(261)	48
Life	52	49	(36)	(20)	(7)
Total from syndicate operations	35,466	25,876	(18,929)	(10,036)	(3,089)
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society				413	413
PFFS premiums and underwriting result	35,466	25,876	(18,929)	(9,623)	(2,676)
Allocated investment return transferred from the non-technical account					1,042
Balance on the technical account for general business					(1,634)

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

	2021 £m	2020 (restated)* £m
United Kingdom	24,261	22,879
EU member states	2	2
Rest of the World	616	426
Total	**24,879**	23,307

*Restated to be consistent with the basis of the 2021 disclosure.

10. Life business

The PFFS include the results of all life and non-life syndicates transacting business during 2021. 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

	2021 £m	2020 £m
Acquisition costs	8,724	8,439
Change in deferred acquisition costs	(377)	234
Administrative expenses	2,303	2,177
Reinsurance commissions and profit participation	(1,174)	(1,227)
Total	**9,476**	9,623

Total commissions on direct insurance business accounted for in the year amounted to £5,650m (2020: £5,508m).

12. Investment return

Interest and similar income	2021 £m	2020 £m
From financial instruments designated as at fair value through profit or loss	1,444	1,608
From available for sale investments	30	32
Dividend income	27	22
Interest on cash at bank	26	29
Other interest and similar income	(8)	21
Investment expenses	(53)	(52)
Total	**1,466**	1,660
Other income from investments designated as at fair value through profit or loss		
Realised (losses)/gains	(102)	188
Unrealised (losses)/gains	(411)	394
Other relevant (losses)/income	(5)	26
Total	**(518)**	608
Total investment return	**948**	2,268

13. Financial investments

	2021 £m	2020 £m
Shares and other variable yield securities	9,721	8,998
Debt securities and other fixed income securities	50,929	47,764
Participation in investment pools	2,921	2,799
Loans and deposits with credit institutions	9,264	9,688
Other investments	142	229
Total financial investments	**72,977**	69,478

Disclosures of fair values in accordance with the fair value hierarchy

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

The fair value hierarchy includes the following classifications:

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

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

2021	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Assets held at amortised cost £m	Total £m
Shares and other variable yield securities	5,301	3,346	1,073	9,720	1	9,721
Debt and other fixed income securities	18,831	32,087	11	50,929	–	50,929
Participation in investment pools	2,633	287	1	2,921	–	2,921
Loans and deposits with credit institutions	5,278	3,080	146	8,504	760	9,264
Other investments	10	22	110	142	–	142
Total assets	**32,053**	**38,822**	**1,341**	**72,216**	**761**	**72,977**
Derivative liabilities	(5)	5	(3)	(3)	–	(3)
Total liabilities	**(5)**	**5**	**(3)**	**(3)**	**–**	**(3)**

2020	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Assets held at amortised cost £m	Total £m
Shares and other variable yield securities	4,436	3,775	785	8,996	2	8,998
Debt and other fixed income securities	16,447	31,309	8	47,764	–	47,764
Participation in investment pools	2,500	297	2	2,799	–	2,799
Loans and deposits with credit institutions	6,051	2,979	30	9,060	628	9,688
Other investments	21	99	109	229	–	229
Total assets	29,455	38,459	934	68,848	630	69,478
Derivative liabilities	(8)	(44)	(1)	(53)	(15)	(68)
Total liabilities	(8)	(44)	(1)	(53)	(15)	(68)

14. Debtors arising out of direct insurance operations

	2021 £m	2020 £m
Due within one year	10,168	8,718
Due after one year	154	78
Total	**10,322**	8,796

15. Debtors arising out of reinsurance operations

	2021 £m	2020 £m
Due within one year	8,663	8,373
Due after one year	360	357
Total	**9,023**	8,730

16. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £6,792m (2020: £6,586m).

17. Members' balances

	2021 £m	2020 £m
Balance at 1 January	(326)	(242)
Result for the year per syndicate annual accounts	1,719	(1,876)
Losses collected in relation to distribution on closure of the 2018 (2017) underwriting year	1,150	967
Advance distributions from open underwriting years	(11)	(16)
Cash calls requested (but not yet paid)	970	510
Net movement on funds in syndicate (see note below)	(1,296)	333
Exchange gains	32	(1)
Other	(30)	(1)
Balance at 31 December	**2,208**	(326)

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account, with reference to policies incepting in that year of account. Members' balances represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and members' funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of 2022.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. These funds are known as funds in syndicate (FIS). At 31 December 2021, there was £3,797m (2020: £5,005m) of FIS within members' balances. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as 'net movement on funds in syndicate'.

18. Technical provisions and deferred acquisition costs

(a) Provisions for unearned premiums

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

2020	Gross £m	Reinsurers' share £m	Net £m
At 1 January	17,143	3,700	13,443
Premiums written in the year	35,466	9,640	25,826
Premiums earned in the year	(35,544)	(9,668)	(25,876)
Exchange movements	(322)	(84)	(238)
At 31 December	16,743	3,588	13,155

(b) Deferred acquisition costs

	2021 £m	2020 £m
At 1 January	4,148	4,404
Change in deferred acquisition costs	377	(234)
Exchange movements	31	(63)
Other	(28)	41
At 31 December	**4,528**	4,148

(c) Claims outstanding

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

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

2020	Gross £m	Reinsurers' share £m	Net £m
At 1 January	59,655	19,897	39,758
Claims paid during the year	(21,422)	(6,506)	(14,916)
Claims incurred during the year	27,497	8,568	18,929
Exchange movements	(1,237)	(366)	(871)
Other	(129)	(108)	(21)
At 31 December	64,364	21,485	42,879

19. Discounted claims

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

The claims have been discounted as follows:

	Average discounted rates		Average mean term of liabilities	
Line of business	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Motor (third party liability)	2.17	1.84	26.70	30.14
Motor (other lines)	3.00	3.00	4.57	5.59
Third party liability	3.03	3.44	23.73	21.74

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

The claims provisions before discounting are as follows:

	Before discounting		Effect of discounting		Discounted provision	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Total claims provisions	1,347	1,293	307	(309)	1,040	984
Reinsurers' share of total claims	817	433	189	(66)	628	367

20. Creditors arising out of direct insurance operations

	2021 £m	2020 £m
Due within one year	867	1,410
Due after one year	4	13
Total	**871**	1,423

21. Creditors arising out of reinsurance operations

	2021 £m	2020 £m
Due within one year	7,591	6,573
Due after one year	524	261
Total	**8,115**	6,834

22. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	2021 £m	2020 £m
Cash at bank and in hand	10,957	10,473
Short-term deposits with credit institutions	1,758	2,513
Overdrafts	132	(252)
Total	**12,847**	12,734

Of the cash and cash equivalents, £368m (2020: £720m) is held in regulated bank accounts in overseas jurisdictions.

23. Five year summary

Results	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Gross written premiums	39,216	35,466	35,905	35,527	33,591
Net written premiums	28,439	25,826	25,659	25,681	24,869
Net earned premiums	26,657	25,876	25,821	25,178	24,498
Result attributable to underwriting	1,741	(2,676)	(538)	(1,130)	(3,421)
Result for the year before tax	2,277	(887)	2,532	(1,001)	(2,001)
Assets employed					
Cash and investments	83,934	79,951	73,193	71,240	67,902
Net technical provisions	58,590	56,034	53,201	54,924	51,087
Other net assets	10,413	9,229	9,852	11,112	9,952
Capital and reserves	35,757	33,146	29,844	27,428	26,767
Statistics					
Combined ratio (%)	93.5	110.3	102.1	104.5	114.0
Return on capital (%)	6.6	(2.8)	8.8	(3.7)	(7.3)

24. Related party transactions

The annual accounts of each syndicate provide, where appropriate, the required disclosures on related parties. Syndicate level disclosures are specific to that syndicate and its managing agent. For 2021, there were no material related party transactions conducted outside normal market conditions reported in the syndicate annual accounts requiring disclosure. The related party transactions of the Society are disclosed in note 29 on page 170.

25. Events after the reporting period

Invasion of Ukraine

The Russian invasion of Ukraine will have short, medium, and long-term impacts on both Lloyd's performance and balance sheet. The primary sources of risk relate to underwriting exposure arising from sanctions, exposure within investment portfolios and the impact on operations. There is a high degree of uncertainty around the eventual outcomes at this point and we continue to monitor the situation closely.

Lloyd's direct premium derived from Russia and Ukraine is less than 1% of total GWP. Indirect underwriting exposures arise mainly across the aviation, marine, trade credit and political risk lines of business. Our assessment of the potential financial impact is ongoing and we are actively working with the Lloyd's market to continue our assessment of the situation. We are also working closely with governments and regulators across the world to ensure we interpret and enact sanctions requirements at pace, together with other legal and regulatory obligations.

Our investments and assets under management are largely fixed income and our strategic asset allocation has limited direct exposure to the crisis; our indirect exposures are also minimal and both direct and indirect exposures account for less than 1% of total invested assets across the chain of security.

The situation is fast evolving, and in order to respond swiftly to developments, we have set up an executive response group that meets daily to monitor the situation and respond to government actions. The group is continually assessing the operational impact upon the Society and Lloyd's market and remains in close consultation and communication with market participants.

At this early stage, it is difficult to assess the full financial impact of this crisis, however there are no indications that this will impact the Lloyd's market or Society of Lloyd's ability to satisfy regulatory capital requirements or meet their financial obligations.

Society Report

Contents

The products and services available from the Lloyd's market support the world's economic growth, helping nations, businesses and communities improve their resilience and recover faster from disasters.

Financial Highlights

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Operating result					
Corporation operating income	372	384	358	352	351
Central Fund income	143	127	125	149	125
Total income	515	511	483	501	476
Group operating expenses	(512)	(410)	(422)	(362)	(306)
Operating surplus[1]	3	101	61	139	170
Finance costs	(62)	(59)	(51)	(39)	(55)
Finance income[2]	52	2	151	93	62
Share of profits of associates and joint ventures	9	12	9	9	10
Surplus before tax	2	56	170	202	187
Tax credit/(charge)	3	(10)	(33)	(39)	(31)
Surplus for the year	**5**	46	137	163	156
Balance sheet					
Net assets	3,050	3,023	2,601	2,417	2,188
Movement in net assets %	0.9%	16.2%	7.6%	10.5%	9.6%
Solvency					
Eligible central own funds to meet Central SCR	4,855	4,361	3,574	3,494	3,445
Central SCR	(1,250)	(2,085)	(1,500)	(1,400)	(1,600)
Excess of eligible central own funds over the Central SCR	**3,605**	2,276	2,074	2,094	1,845
Solvency coverage ratio %	388%	209%	238%	250%	215%

The solvency ratio is reported under the Solvency II legislative requirements. The 2021 position is an estimate of the amount which will be finalised in April 2022 for submission to the PRA. The solvency figures in the table above are before independent auditor review. Prior year figures are the estimates reported in the prior year Annual Report.

1. The operating surplus is a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is an Alternative Performance Measure (APM), with further information available on page 174.
2. The Society's investments, mostly held within the Central Fund, returned £52m or +1.0% during 2021 (2020: £2m, +0.1%). Excluding the impact of a £58m foreign exchange gain in 2021 (2020: foreign exchange loss of £86m), underlying investment returns generated a loss of £6m or -0.1% in 2021 (2020: £87m or +2.1%).

Council Statement

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

While not subject to the Act, the Council seeks to comply with best practice with regard to Lloyd’s Annual Report. Accordingly, the Council has elected to include a statement describing how the Council has had regard to the matters set out in paragraph 3.2 of the Constitutional Arrangements Byelaw, which is the Lloyd’s equivalent of section 172(1) of the Act.

Stakeholders and our engagement

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

Members

The AGM is an annual opportunity for Council members and the Executive to engage with the members of the Society. In addition, the Society consults throughout the year with members and the market on strategic initiatives which in 2021 included the Future at Lloyd's transformation, the new oversight Principles for doing business at Lloyd's, and changes to the Membership & Underwriting Conditions and Requirements.

The Council recognises the need to act fairly between different members and categories or classes of members who may have different interests. The composition of the Council includes six elected market representatives (three external and three working members). The presence of elected market representatives enables the independent nominated members of the Council to gain an understanding of the views of key stakeholders in the Lloyd’s market.

Other stakeholders

In addition to members, the Society's key stakeholders are our people, customers, managing agents, brokers, suppliers, global governments and regulators, and the communities in which we operate. The products and services available from the Lloyd’s market support the world’s economic growth, and help nations, businesses and communities improve their resilience to, and recover faster from, disasters. Lloyd’s purpose and strategy therefore helps customers protect themselves from the emerging risks facing the world, including technological and environmental changes.

Engagement with our stakeholders is undertaken in a variety of ways, ranging from regular engagement discussion panels, surveys, and consultations as appropriate.

Lloyd’s is dual regulated and engages with both the PRA and the FCA on a frequent basis. This interaction is increased by the role that Lloyd’s plays in overseeing the market, but generally takes one of the following forms:

– Regular planned engagement with certain SMFs (a person designated to perform a designated senior manager function)
– Regular planned engagement with senior management in relation to strategy
– Regular planned engagement with the Regulatory Engagement team regarding the overall relationship between the regulator and Lloyd’s
– Project or programme driven interaction, instigated either by Lloyd’s or by the FCA/PRA
– Ad hoc interaction in response to issues.

Council are kept advised of key matters with the regulators through reports from the Chief Risk Officer at Risk Committee meetings and Council meetings. Core monitoring tools such as the Firm Evaluation Letter and the annual Periodic Summary Meeting Review Letter (PSM) are reported on specifically and actions taken against them, subject to appropriate governance and reporting. Regulatory views are considered in the deliberations of the Council and shape the response to them.

Long Term Impact

Throughout 2021, the Council focused on four key areas that will have a long-term impact on the Lloyd’s market and drove our 2021 priorities. These were:

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

1. Performance

The Society aspires to world-class underwriting performance and strong performance management and will maintain the highest standards to protect customers and the market’s reputation. In December 2021, following close consultation and engagement with the market associations and approval by the Council, the Society published new oversight Principles for doing business at Lloyd's as part of an enhanced Oversight Framework. The new Principles will replace the current Minimum Standards and will be phased in through 2022.

The Society entered into arrangements for the protection of Lloyd’s Central Fund, in situations where the Central Fund makes payments to cover members’ liabilities. The new structure supports sustainable, profitable long-term market growth. It will also provide increased protection for Lloyd's customers and the market against severe tail end events and further improve the quality and financial strength of Lloyd's balance sheet.

For further information, please refer to Our Strategic Priorities, Performance paragraph, within the Strategic Report (starting on page 2) and note 18(b) to the Society’s Group financial statements.

2. Digitalisation

Digitalising the Lloyd's ecosystem depends on market input, feedback and adoption. Throughout 2021 and into 2022, the focus is on the execution of our Blueprint Two solutions, including the conclusion of the joint venture between DXC Technology, the market associations and Lloyd's following the signature of new Heads of Terms in May 2021. The joint venture will be responsible for building the digital ‘engine room’ that will power the future Lloyd's and London market.

Following the launch of the first version of the Core Data Record (CDR) in May of 2021, Lloyd’s launched a market wide consultation to seek input and feedback on the first iteration of the CDR to assist its development. In November, Lloyd's opened a consultation on the extension of the CDR to all risk classes and territories, inviting market wide consultation, including by way of a short survey, specific feedback and discussions with market organisations. The final CDR will be taken to a Data Council – a cross-market body convened under the Lloyd's Market Group, with representatives from all market stakeholders and chaired by the CEO of the LMA. The Data Council began meetings from January 2022 to approve the new data standards and drive adoption of a data-first mindset.

As more of the solutions are developed and delivered, we will continue our strong engagement with both the Lloyd's and the broader London market, supporting them as we transition to a digital marketplace.

The Council approved the DXC Heads of Terms with a sub-group of the Council, approving the final contract to confirm the joint venture. The Council received updates on the development and delivery of the Blueprint Two solutions at each of its meetings in 2021.

For further information, please refer to Our Strategic Priorities, Digitalisation paragraph, within the Strategic Report (starting on page 2).

3. Purpose
The introduction of our new purpose pillar for 2021 has sustainability, climate and inclusion at its heart. In June 2021, we announced that Lloyd's had been invited to lead HRH The Prince of Wales Sustainable Markets Initiative (SMI) Insurance Task Force. In addition to delivering against the objectives of the Task Force, Lloyd's continues to play a leading role in convening the insurance industry in relation to the G20, COP26 and beyond.

Lloyd's was pleased to attend the COP26 summit in Glasgow, during which the Disaster Resilience Framework (the 'Framework') was launched as part of the SMI Insurance Task Force initiative for climate-vulnerable countries. The Framework is designed to proactively protect countries most exposed to rising sea levels and extreme weather events.

In November 2021, the Council approved the merger of the Culture Advisory Group (CAG) and the Environmental, Social & Governance Advisory Group to create the Environmental, Social & Governance Committee (ESG), to become a formal committee of the Council, with effect from 1 January 2022.

The new ESG Committee is chaired by Lord Mark Sedwill and includes members of the Council, market representatives and external subject matter experts drawn from the existing CAG and ESG Advisory Groups.

The Council received ESG and Culture updates regularly throughout 2021.

For further information, please refer to the ESG paragraph within the Corporate Governance Report (starting on page 67).

4. Culture
Lloyd's Culture Dashboard was published in September 2021, building on the first dashboard published in 2020, which began to benchmark collective progress towards a more inclusive marketplace. The 2021 Culture Dashboard was informed by data gathered from Lloyd's market policies and practices return and identified that progress on achieving gender balance across the market was being maintained. This continues to be an ongoing objective for the market with a particular focus on increasing female representation among direct reports of Executive Committees. In addition, and building on the foundations of our 2020 commitments, a long-term plan to support and develop ethnic minority talent was developed, including an ambition that a third of all new hires across the market and Corporation should come from ethnic minority backgrounds (targeted across all levels of organisations), as well mandating the collection of ethnicity data, in order to have the right data to measure progress. This ambition was set with guidance from the CAG and following consultation with the market.

For further details please refer to Our Strategy, Culture paragraph, within the Strategic Report (starting on page 2) and the CAG paragraph, within the Corporate Governance Report (starting at page 67).

Council decisions and their impact on stakeholders

We place great importance on considering the needs of all our stakeholders in our decision making. The following table sets out several decisions taken by the Council during 2021 and how the views of our stakeholders were considered.

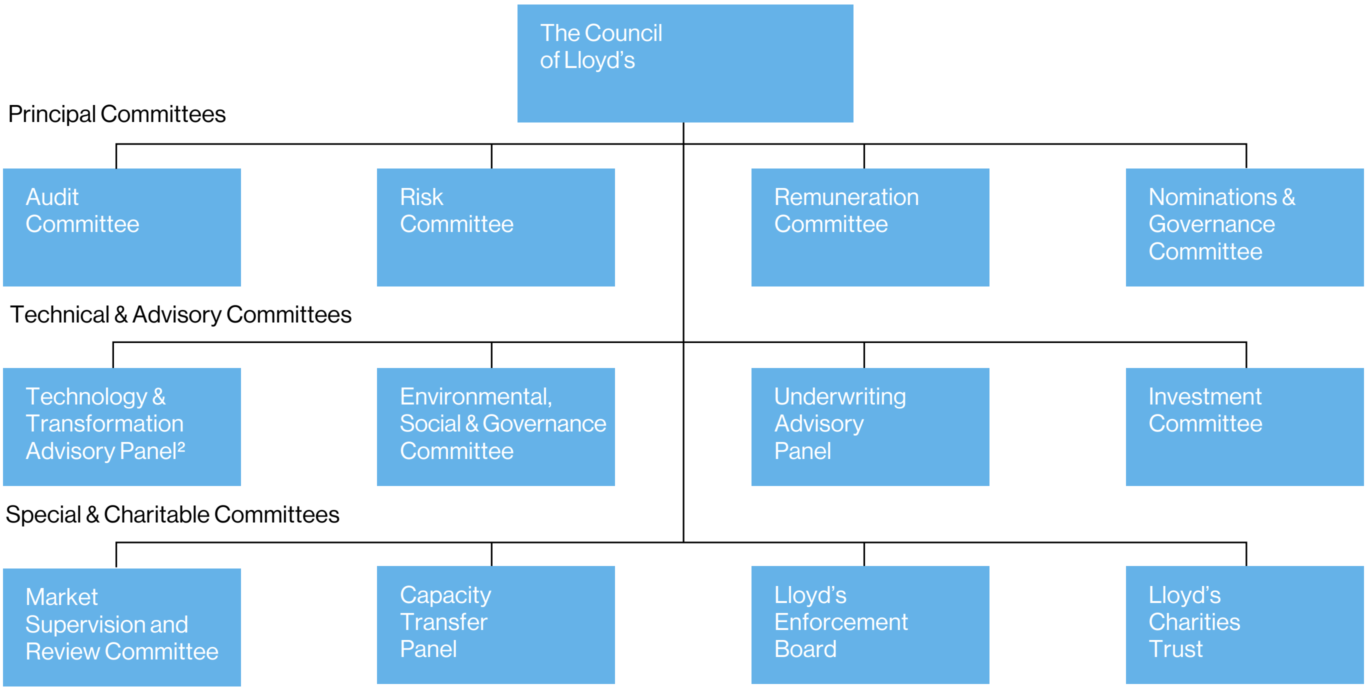
Decision	How we took stakeholders into account	Long-term implications
Oversight principles for doing business at Lloyd's	In November, the Council approved the new oversight Principles for undertaking business at Lloyd's. The Principles were developed in consultation with the market via engagement with the Lloyd's Market Association (LMA) as well as the PRA and the FCA. Taking into account feedback, an interim period of adjustment was incorporated into the implementation plan to allow the market to familiarise themselves with the new Principles and to allow risk assessments to be undertaken ahead of implementation. Specific working groups were established to assist with implementation.	The new Principles will strengthen Lloyd's oversight, focusing on oversight outcomes and facilitating the development of new business models, products, strategies and internal processes.
Enhancing our proposition for members and capital providers	During 2021, the Council has overseen an initiative to simplify the rules around managing Funds at Lloyd's. Following a pre-consultation with members' agents, the market and member associations, a formal consultation process was conducted from November 2020 to January 2021, with the objective of streamlining, standardising and creating greater transparency and predictability. Following feedback from members, we entered detailed discussions with an LMA-convened working group, with representatives from the LMA, members' agents and managing agents, to arrive at a revised set of proposals. The new Membership & Underwriting Conditions and Requirements (M&URs) were then published in September and came into force on 1 January 2022. As a reflection of the dynamic nature of the process, following further discussions with members' agents, revisions to the new M&URs were then published in October, with adjustments made to the application of the asset allocation rules and counterparty exposure limits that form part of the strategic asset allocation.	By listening to our stakeholders and enabling a dynamic consultation process, the resulting proposals are agreeable to the vast majority of members as well as to their long-term benefit.
The Future at Lloyd's	Lloyd's understands that this is an important journey for the market and its customers. A first edition Blueprint Two Interactive Guide was published in November 2020. A second edition was published in early 2022. The guides set out important information, including how the market can prepare for the changes ahead. This helps our market participants, people and suppliers understand what needs to be done in terms of change management to ensure they realise the potential benefits of the Future at Lloyd's. The success of the Future at Lloyd's will be dependent on the input, feedback and continuing support of these stakeholders. We are therefore working with them closely to ensure we are building the right solutions and sharing our progress on a regular basis. The Technology & Transformation Committee (TTC) considered the Future at Lloyd's programme in detail at its meetings throughout 2021. The TTC membership included subject matter experts and market representatives and reported directly into the Council. Lloyd's regularly keeps its employees updated on the Future at Lloyd's through regular engagement, including monthly updates and ongoing communications. There is also a Future at Lloyd's hub for employees to visit with information and resources, including a stakeholder toolkit.	The Future at Lloyd's solutions will offer market participants the opportunity to innovate in the way they serve their customers, and operate more efficiently, at a lower cost base – better, faster, cheaper.

Council Statement continued

Decision	How we took stakeholders into account	Long-term implications
ESG Strategy	Following the publication of Lloyd's ESG Report in December 2020, Lloyd's engaged in extensive consultation with the market, governments, regulatory authorities, brokers, NGOs and other key stakeholders, to further develop its ESG strategy and approach leading to the publication of market guidance and best practice for establishing an ESG framework in October 2021. Under Lloyd's leadership, during 2021, the SMI Task Force has started to develop a thesis of an open source climate transition measurement framework, which Lloyd's will test and refine via a market pilot in 2022, to ensure that the approach is fit for purpose for our market before wider implementation of a 'Sustainability, Transparency and Reporting' regime from 2023 onwards, which will enable us to track our journey over the years ahead. In February 2021, Lloyd's also launched Futureset, a global platform and community dedicated to driving greater societal and economic resilience to the world's most challenging risks, with this work continuing into 2022.	Lloyd's ESG strategy is aimed at ensuring everything we do is rooted in supporting better long-term outcomes for all of our stakeholders; from the types of risks underwritten by the market and where we invest our capital through to how we care for the wellbeing of our employees and contribute to the communities and countries in which we operate.

Corporate Governance

Organisational Chart[1]



1. Organisational chart as of 23 March 2022
2. Please refer to the Technology & Transformation Committee paragraph for further information

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

Please see Committee Structure above.

The Council

	Members during 2021	Meetings attended (9 meetings held in total during 2021)
Chair	Bruce Carnegie-Brown	9/9
Nominated Members	Angela Crawford-Ingle	8/9
	Andy Haste[1]	7/8
	Fiona Luck	9/9
	Neil Maidment	9/9
	Lord Mark Sedwill[2]	0/0
	John Sununu	9/9
External Members	Jeffery Barratt	9/9
	Karen Green	8/9
	Michael Watson[3]	9/9
Working Members	Andrew Brooks	8/9
	Victoria Carter[4]	9/9
	Dominic Christian	8/9
Executive Directors of the Council	Burkhard Keese	9/9
	John Neal	9/9
	Patrick Tiernan[5]	6/6

Notes:
1. Andy Haste ceased as a member of the Council (and in his role as Senior Independent Deputy Chairman) with effect from 31 October 2021, due to the completion of his nine year term on the Council. Mr Haste was therefore eligible to attend eight Council meetings during 2021.
2. Lord Mark Sedwill was appointed to the Council, with effect from 3 December 2021, as a nominated member in the role of Senior Independent Deputy Chairman. Lord Sedwill attended one 2021 Council meeting as an observer.
3. Michael Watson ceased as a member of the Council, with effect from 31 January 2022, due to the completion of his nine year term on the Council. Munich Re Capital Limited, represented by Mr Dominick Hoare, was elected as a member of the Council, with effect from 1 February 2022.
4. Victoria Carter was appointed as Deputy Chair of Lloyd's, with effect from 1 September 2021.
5. Patrick Tiernan was appointed to the Council on 4 May 2021. Mr Tiernan was therefore eligible to attend six Council meetings during 2021.

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

The day to day powers and functions of the Council are carried out by the Society's Executive Committee – the Chief Executive Officer, Chief Financial Officer, Chief of Markets, Chief Operations Officer, Chief Risk Officer, Chief People Officer, General Counsel and Company Secretary, and Chief Marketing and Communications Officer. The Chief of Markets joined the Society in May 2021.

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

Governing body: the Council

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

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

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

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

Governance Policies and Constitutional Requirements

The Governance Policies

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

The Constitutional Requirements

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

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

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

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

Council Membership

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

Council members are not subject to annual re-election and this is a departure from Provision 18 of the Corporate Governance Code 2018 (the 'Code'). The composition and appointment/election processes for Council members are prescribed by the Lloyd's Act 1982. In accordance with the Lloyd's Act: (i) the external and working members of Council are subject to direct election by the Lloyd's market; (ii) nominated members are appointed by a Special Resolution of the Council (see below).

In the elections for working members, voting operates on a one member, one vote basis.

In the elections for external members, voting entitlement is based on the member's allocated underwriting capacity as determined under the Constitutional Arrangements Byelaw (No. 2 of 2010).

Working and external members of the Council are elected generally for terms of three years.

Under the Special Resolution procedure (s.2(1) Lloyd's Act 1982) which is required, among other things, for the appointment of nominated members, separate majorities are required of: (a) the working members of Council, and (b) the other members of Council combined. This procedure and the composition of the Nominations & Governance Committee (see below) ensures sufficient representation of the members of the Society and the market in relation to key appointments.

Nominated members are usually appointed for three year terms which can be renewed.

Nominated members may be regarded, for the purposes of the Code, as independent members of Council, with the exception of the Chairman and the Executive Directors of the Council who are included within their number. The Chairman was considered independent on appointment. The independent nominated members are: Angela Crawford-Ingle, Fiona Luck, Neil Maidment, Lord Mark Sedwill and John Sununu. Neil Maidment recuses himself from discussions relating to Beazley, a Lloyd's managing agent, to manage the risk of a conflict of interest arising owing to his deferred bonuses and shareholding following his retirement from that firm in 2018.

The majority of the Council is non-executive, but as the elected market representatives are not considered to be independent, the composition of the Council deviates from Provision 11 of the Code, in that independent nominated members do not form a majority. This departure from the Code is appropriate, as the composition of the Council is tailored to the Society and the Lloyd's market, having resulted from an extensive consultation with members of the Society, market participants and associations, and the Society's regulators, during the 2020 Board and Council merger, and meets the requirements of the Lloyd's Act 1982 (which do not apply to other companies). The presence of working and external members of the Council enables the independent nominated members to gain an understanding of the views of key stakeholders in the Lloyd's market.

Pursuant to paragraph 5.27 of the Constitutional Arrangements Byelaw (No. 2 of 2010), for a person to serve as a non-executive member of the Council for a period of more than nine years in aggregate, there must have been a three year break after the completion of their first nine years. No current non-executive members of the Council have served for more than nine years in aggregate.

Chairman and Deputy Chairs

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

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

The Chairman is contracted to work three days a week but commits as much time as is necessary to undertake the role. The Council acknowledges that the Chairman has other commitments outside Lloyd's and is satisfied that these can be accommodated with the Chair position of Lloyd's. For the purposes of the Code, the Chairman was considered to be independent upon his appointment. Lord Mark Sedwill, (a nominated member), was appointed Senior Independent Deputy Chairman (the Society's equivalent of the senior independent director), with effect from 3 December 2021, replacing Mr Andy Haste (who stepped down from Council on 31 October 2021, after nine years' service).

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

Council Meetings

The Council met on nine occasions in 2021. The meetings of the Council are structured to allow open discussion. At each meeting the Council receives certain regular reports – for example, a written report from the Chief Executive Officer and updates from the Principal Committees. The Chief Financial Officer and Chief of Markets also produce reports for the Council. Members of the Executive Committee also attend Council meetings, as appropriate. Private sessions are held regularly by the Chairman at the end of Council meetings without the Executive being present.

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

Key Council Decisions

Please refer to the Council Statement at page 63.

Principal Committees of the Council

Nominations & Governance Committee

	Members during 2021	Meetings attended (4 meetings held in total during 2021)
Chair	Bruce Carnegie-Brown	4/4
Council Members	Jeffery Barratt	4/4
	Victoria Carter	4/4
	Dominic Christian	4/4
	Andy Haste[1]	3/3
	Fiona Luck	4/4

Notes:
1. Andy Haste ceased as a member of the Nominations & Governance Committee with effect from 31 October 2021. Mr Haste was therefore eligible to attend three meetings during 2021. Lord Mark Sedwill was appointed as a member of the Nominations & Governance Committeee with effect from 1 January 2022.

The Nominations & Governance Committee is responsible for keeping under review the governance arrangements and leadership needs of the Society and its subsidiaries. Its functions include making recommendations to the Council on the appointment of the Chairman, Chief Executive Officer, new nominated Council members, key members of the Executive, members of Council committees and the Secretary to the Council. The Committee is also responsible for succession planning arrangements for these positions. The Committee seeks to ensure that the members of the Council and its committees have an appropriate combination of skills, knowledge, experience and diversity, and have sufficient time to fulfil their Lloyd's roles. For further information on the members of Council, please see www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.

The Committee is chaired by the Chairman of Lloyd's and its remaining members are drawn from the Council. As three of the Committee's six members are elected representatives of the Lloyd's market, the Committee's composition does not comply with Provision 17 of the Code in that independent nominated members do not form a majority. This composition is consistent with a commitment made by the Council to members of the Society and the market in the consultation process relating to the Board/Council merger that took place in 2020, and is designed to ensure appropriate representation of members and the market in relation to key appointments. No Executive Director of the Council is eligible to be a member of the Committee.

The Committee reports to the Council on its proceedings after each meeting, and on all matters relating to the exercise of its duties and powers. A written report is submitted to the Council annually.

The Committee made the following major recommendations to the Council during 2021:

- to re-elect Andy Haste as the Senior Independent Deputy Chairman and Dominic Christian as Deputy Chairman, and to elect Victoria Carter as Deputy Chair;
- to appoint Lord Mark Sedwill as Senior Independent Deputy Chairman upon the departure of Andy Haste;
- to make a number of appointments to Council committees and other bodies, including:
  - the appointment of Fiona Luck as Chair of the Remuneration Committee upon the departure of Andy Haste;
  - the appointment of Lord Mark Sedwill as Chair of the new ESG Committee and as a member of the Nominations & Governance Committee and the Risk Committee;
  - the appointment as members of the ESG Committee of Fiona Luck, Ingrid Holmes, Kamel Hothi, Brian Dow, Moses Ojeisekhoba, Sheila Cameron, Jane Warren, Rebekah Clement, David Sansom, Jo Scott, Fiona Luck and Dominick Hoare (with effect from the commencement of his term of office as an elected member of the Council on 1 February 2022);
  - the appointment of Dominick Hoare as a member of the Audit Committee (also with effect from the commencement of his term of office as a Council member);
  - the appointment of Eleanor Bucks, Paul Stanworth, Madeleine King and Emily Penn as members of the Investment Committee (Madeleine King did not subsequently join the Investment Committee);
  - the appointment of Emma Woolley as a member of the Technology & Transformation Committee;
  - the appointment of Sir Mark Havelock-Allan QC, an existing member of the Market Supervision and Review Committee (MSARC), as the Chair of MSARC with effect from the departure of Jo Rickard (following the conclusion of her nine year term);
  - the appointment of Ali Malek QC and Rob Anarfi as members of the Lloyd's Enforcement Board (LEB), with Mr Malek subsequently becoming chairman of the LEB upon the departure of Lord Carlile QC (following his 11 year term);
  - the appointment of Neil Maidment as Chair of the Capacity Transfer Panel upon the departure of Andy Haste;
  - the appointment of Nicole Verheyen, Angela Crawford-Ingle, Peter Etzenbach and Patrick Tiernan as non-executive directors of Lloyd's Insurance Company SA; and
  - the appointment of Nathan Hambrook-Skinner and Catherine Scullion as trustees of Lloyd's Tercentenary Research Fund.

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

Searches

The Committee undertook a search for a replacement for Andy Haste, Senior Independent Deputy Chairman, who stepped down following the completion of a maximum nine year term on the Council in October 2021. The Committee was assisted in this search by external search consultants Russell Reynolds Associates (who have no connection to the Society). Following the search process, Lord Mark Sedwill was appointed as Senior Independent Deputy Chairman of Lloyd's on 3 December 2021.

Succession planning

Effective succession plans are in place for key positions and are reviewed at least annually by the Committee.

In the course of the year, the Committee carried out an evaluation of the skills, knowledge, experience and diversity on the Council and considered and approved emergency succession planning arrangements for the Chairman.

Diversity

The Society's success is integrally linked to the diverse composition of its people and the promotion of an inclusive culture. The Committee considers candidates from a wide range of backgrounds on merit and against objective criteria, taking care that prospective appointees have enough time available to devote to the position. The Committee is very focused on the need for recent and relevant experience in the appointments it recommends and is equally focused on increasing the diversity of the membership of the Council and its committees. During the year, the Committee reviewed and reaffirmed the Council's Diversity Policy (which was first set in September 2020, on the recommendation of the Committee). Under this policy, the Council places great emphasis on ensuring that its membership reflects diversity in its broadest sense; and a target has been set that by the end of 2023 a minimum of 33% of the Council should be female and/or from an ethnic minority background. To comply with this policy, Council has set itself a target of:

- a minimum of two of the six elected market representatives and two of the six independent Nominated members of Council being female; and
- at least one member of Council being from an ethnic minority background.

In July 2020, targets were set for the Lloyd's market of 35% female representation in leadership posts across the market by 31 December 2023 (Board, Executive Committee, Executive Committee direct reports); at least 20% female representation on Boards and Executive Committees combined by 31 December 2023; and a commitment to achieve parity by 2030. For the current Council composition, please refer to the table above.

Remuneration Committee

	Members during 2021	Meetings attended (10 meetings held in total during 2021)
Chair	Andy Haste[1]	9/9
	Fiona Luck[2]	10/10
Council Members	Bruce Carnegie-Brown	8/10
	Dominic Christian	6/10
	Karen Green	9/10
	John Sununu	8/10
	Michael Watson[3]	9/10

Notes:
1. Andy Haste ceased as Chair of the Remuneration Committee with effect from 31 October 2021.
2. Fiona Luck was appointed as Chair of the Remuneration Committee with effect from 1 November 2021.
3. Michael Watson ceased as member of the Remuneration Committee with effect from 31 January 2022.

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

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

The Committee's full report is on pages 82- 94. The Committee reports to the Council on its proceedings after each meeting, and on all matters relating to its duties and powers and makes recommendations to the Council on any area within its remit where action or improvement is needed. The Committee submits a written report to the Council annually.

Until 31 October 2021, the Committee was chaired by Andy Haste. Since that date, the Committee has been chaired by Fiona Luck. The Chairman is a member of the Committee and its remaining members are drawn from the Council. As three of the Committee's six members are elected market representatives, the Committee's composition does not comply with Provision 32 of the Code in that it is not comprised entirely of independent members. The Committee's composition is deemed appropriate notwithstanding its departure from the Code. Council has done this to maximise the pool of skills and experience available to it when appointing the members of the Committee. No Executive Director of the Council is eligible to be a member of the Committee.

Audit Committee

	Members during 2021	Meetings attended (10 Meetings held in total during 2021)
Chair	Angela Crawford-Ingle	10/10
Council Members	Jeffery Barratt	10/10
	Neil Maidment	9/10
	John Sununu	7/10
	Michael Watson[1]	8/10

Notes:
1. Michael Watson ceased as a member of the Audit Committee with effect from 31 January 2022. Dominick Hoare was his successor with effect from 1 February 2022.

The Audit Committee's role is to assist the Council in discharging its responsibilities for monitoring the integrity of the Society's financial reporting, assessing the effectiveness of the systems of internal control of the Society and monitoring the effectiveness, independence and objectivity of the internal and external auditors. The Committee's functions in 2021 included reviewing the Society's and the market's Pro Forma annual and interim financial statements, the syndicate aggregate accounts and the Lloyd's Solvency and Financial Condition Report to the PRA.

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

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

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

During 2021, the Audit Committee was chaired by an independent nominated member of the Council and its remaining members comprised of two external members of the Council and two independent nominated members of the Council. As two of the Committee's five members are elected market representatives, the Committee's composition does not comply with Provision 24 of the Code in that it is not comprised entirely of independent members. The Committee's composition is deemed appropriate notwithstanding its departure from the Code. Council has done this to maximise the pool of skills and experience available to it when appointing the members of the Committee. No Executive Director of the Council is eligible to be a member of the Committee.

The Audit Committee's full report is on pages 95-98.

Risk Committee[1]

	Members during 2021	Meetings attended (9 meetings held in total during 2021)
Chair	Neil Maidment	9/9
Council Members	Andrew Brooks	9/9
	Victoria Carter	9/9
	Angela Crawford-Ingle	8/9
	Karen Green	7/9
	Fiona Luck	9/9

Notes:
1. Lord Mark Sedwill was appointed as a member of the Risk Committee with effect from 1 January 2022.

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

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

The Risk Committee's full report is on pages 100-102.

Technical & Advisory Committees
Technology & Transformation Committee (TTC)

	Members during 2021	Meetings attended (8 meetings held in total during 2021)
Chair	Andy Haste[1]	7/7
	Bruce Carnegie-Brown[2]	8/8
Council Members	Neil Maidment	8/8
Market Representatives	Sheila Cameron	8/8
	Laurie Davison[3]	4/4
	Matthew Wilson	7/8
	Emma Woolley[4]	3/3
Subject Matter Experts (SMEs)	Mike Bracken[5]	6/8
	Nigel Hinshelwood[6]	7/8
Executive Members	John Neal	8/8
	Jennifer Rigby	8/8
	Patrick Tiernan[7]	5/5

Notes:
1. Andy Haste ceased as Chair of the TTC with effect from 31 October 2021. Therefore, Mr Haste was eligible to attend seven meetings during 2021.
2. Bruce Carnegie-Brown was appointed as interim Chair of the TTC with effect from 1 November 2021.
3. Laurie Davidson ceased as a member of the TTC with effect from 24 May 2021. Therefore, Ms Davidson was eligible to attend four meetings.
4. Emma Woolley was appointed to the TTC with effect from 8 September 2021. Therefore, Ms Woolley was eligible to attend three meetings.
5. Mike Bracken ceased as a member of the TTC with effect from 31 December 2021.
6. Nigel Hinshelwood ceased as a member of the TTC with effect from 31 December 2021.
7. Patrick Tiernan was appointed a member of the TTC with effect from 6 May 2021. Therefore, Mr Tiernan was eligible to attend five meetings.

The TTC's remit covered oversight of the Future at Lloyd's programme. Until 31 October 2021 the TTC was chaired by Andy Haste. From 1 November 2021 until the closure of the TTC on 23 March 2022, the TTC was chaired on an interim basis by Bruce Carnegie-Brown. TTC's remaining members comprised Council members, market representatives, external subject matter experts, and Corporation Executives. The TTC reported to the Council on its proceedings after each meeting and submitted an annual activity report to the Council.

As the Future at Lloyd's programme moves firmly into the crucial and adoption phase of Blueprint Two; and following the announcement of a new operational structure in place for the programme, the governance structures in place to oversee the programme and the Joint Venture were also refreshed at the start of 2022. Tailored structures to maximise market engagement have been integrated into the programme, including the Data Council and the Technology & Transformation Board, and a new Joint Delivery Advisory Committee ('JDAC') was created to ensure a joined-up approach to communications, delivery and adoption strategies for the market. The JDAC is chaired by Lloyd's Market Transformation Director, and its members include the Joint Venture Chair plus representatives of the LMA, PPL, IUA, LIIBA and the Future at Lloyd's programme. Following the creation of the JDAC, the Council took the decision to close the TTC with effect from 23 March 2022, with the Council taking a more direct role in overseeing the delivery of the Future at Lloyd's programme. To support the Council, a new Technology & Transformation Advisory Panel ('TTA') was established, comprising of senior market practitioners drawn from both the underwriting and broking communities to enable the sharing of market insights into developments in the delivery of the programme and Joint Venture.

Investment Committee[5]

	Members during 2021	Meetings attended (5 meetings held in total during 2021)
Chair	Karen Green	5/5
Council Members	Michael Watson[1]	5/5
SMEs	Mark Allan	5/5
	Philip Matthews[2]	5/5
	Reeken Patel	4/5
	Sacha Sadan[3]	3/3
Executive Members	Eleanor Bucks[4]	0/0
	Burkhard Keese	5/5
	John Neal	5/5

Notes:
1. Michael Watson ceased as member of the Investment Committee with effect from 31 January 2022.
2. Phillip Matthews ceased as member of the Investment Committee with effect from 31 December 2021.
3. Sacha Sadan ceased as member of the Investment Committeee with effect from 15 June 2021. Therefore, Mr Sadan was eligible to attend three meetings of the Committee.
4. Eleanor Bucks, Chief Investment Officer, was appointed as a member of the Investment Committee with effect from 24 November 2021 (after the Committee's last meeting of the year).
5. Two additional SME members were appointed to the Investment Committee with effect from 1 January 2022. They are Paul Stanworth and Emily Penn.

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

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

The Investment Committee is required to obtain the approval of the Council before making any decisions which may materially affect the financial risks applying to the Society or Lloyd's market entities.

Culture Advisory Group (CAG)[1]

	Members during 2021	Meetings attended (4 meetings held in total during 2021)
Chair	Fiona Luck	4/4
Council Members	Dominic Christian	2/4
Market Representatives	Sheila Cameron	4/4
	Christopher Croft	2/4
	Claire Lebecq[2]	1/1
	Dave Matcham	1/4
	Caroline Wagstaff[3]	1/3
SMEs	John Amaechi	1/4
	Brian Dow	4/4
	Jayne-Anne Gadhia	2/4
	Kamel Hothi	4/4
	Moses Ojeisekhoba[4]	2/2
	Debbie Ramsay	4/4
Executive Members	Sara Gomez[5]	0/0
	Julia Tyson[6]	4/4

Notes:
1. The Chair and all CAG members ceased as Chair/members of the CAG with effect from 31 December 2021, at which point the CAG and ESG Groups were merged (see below).
2. Claire Lebecq ceased as a member of the CAG with effect from 23 February 2021 and was therefore eligible to attend one meeting.
3. Caroline Wagstaff was appointed as a member of the CAG with effect from 14 February 2021. Ms Wagstaff was therefore eligible to attend three meetings.
4. Moses Ojeisekhoba was appointed as a member of the CAG with effect from 1 March 2021 and was therefore eligible to attend two meetings.
5. Sara Gomez was appointed as a member of the CAG with effect from 1 December 2021. Ms Gomez was not eligible to attend any meetings.
6. Julia Tyson ceased as a member of the CAG with effect from 30 November 2021.

The CAG was established as part of the Society's comprehensive action plan to drive long-term culture change in the market. The CAG's role was to provide thought leadership, advice and guidance on delivering the actions agreed by the Council to ensure improvement of the culture across the Lloyd's market. Culture formed a key section of the agenda at 2021 Council meetings, with reports provided on the work of the CAG and of the alignment of the Future at Lloyd's strategy to the Society's Culture.

The CAG submitted a written report to Council each quarter.

The Society also has a formal workforce advisory panel, the Employee Engagement Group (EEG), comprising of an executive sponsor and representatives from the Society's workforce. The EEG collates and discusses the views of the workforce in relation to the Society as an employer and communicates those views to the executive. It also comments on policy development and change initiatives at the Society, the latter in conjunction with a network of change champions from across the workforce.

Environmental, Social & Governance Advisory Group
(ESG Group)[1]

	Members during 2021	Meetings attended (4 meetings held during 2021)
Chair	Bruce Carnegie-Brown	4/4
Council Members	John Sununu	3/4
Market Representatives	Adrian Cox[2]	1/2
	Dominick Hoare	4/4
	Jane Warren	4/4
	Emma Woolley	3/4
SMEs	Ingrid Holmes	3/4
	Peta Kilian	3/4
Executive Members	David Sansom	3/4
	Jo Scott	1/4
	Hannah-Kate Smith	3/4
	Patrick Tiernan[3]	3/3

Notes:
1. The Chair and members of the ESG Group ceased as Chair/members of ESG Group with effect from 31 December 2021, at which point the ESG Group merged with the CAG (see below).
2. Adrian Cox ceased as a member of the ESG Group with effect from 31 August 2021. Mr Cox was therefore eligible to attend two meetings.
3. Patrick Tiernan was appointed as a member of the ESG Group with effect from 6 May 2021. Mr Tiernan was therefore eligible to attend three meetings.

The ESG Group's role was to provide advice to the Council and the Executive to enable environmental, social and governance integration for the Lloyd's market. For further information, please refer to the Council Statement, starting on page 63.

Enviromental, Social & Governance Committee (the ESG Committee)

With effect from 1 January 2022, the CAG and ESG Advisory Groups were merged to create the ESG Committee. The merger was undertaken to align the managing, monitoring and reporting on the Corporation's and Market's ESG policies. The ESG Committee is chaired by Lord Mark Sedwill, the Senior Independent Deputy Chairman of Lloyd's. The remaining members are largely drawn from the CAG and ESG Group and comprise: two Council members; two Market Representatives; four Subject Matter Experts; and four Executive members.

Special and Charitable Committees
Capacity Transfer Panel (the 'Panel')

	Members during 2021	Meetings attended (no meetings were held in 2021)
Chair	Andy Haste[1]	–
	Neil Maidment[2]	–
SMEs	Richard Boys-Stones	–
	Margaret Chamberlain	–
Other Non-Executive Committee Members	Sheila Cameron	–
	Lady Rona Delves Broughton	–
	Alan Lovell	–
	Paul Swain	–

Notes:
1. Andy Haste ceased as Chair of the Panel with effect from 31 October 2021.
2. Neil Maidment was appointed as Chair of the Panel with effect from 1 November 2021.

The Panel was established principally to exercise the Council's powers in relation to syndicate minority buyouts and mergers. There was no business that necessitated a meeting of the Panel in 2021.

The Panel submits a written report to the Council annually and may submit additional reports on matters of material concern, as and when necessary.

The members of the Panel are appointed by the Council. Until 31 October, the Panel was chaired by Andy Haste. Since 1 November 2021, the Panel has been chaired by Neil Maidment. Other members of the Panel are neither Council members, nor employees of the Society.

Market Supervision and Review Committee (MSARC)

	Members during 2021	Meetings attended (3 meetings held in total during 2021)
Chair	Jo Rickard[1]	3/3
	Sir Mark Havelock-Allan[2]	3/3
SMEs	Nick Marsh[3]	3/3
	Tammy Richardson	3/3
	Julian James	3/3

Notes:
1. Jo Rickard ceased as Chair of the MSARC with effect from 31 December 2021.
2. Sir Mark Havelock-Allan was appointed as Chair of MSARC with effect from 1 January 2022.
3. Although attending all three meetings of the year, Nick Marsh recused himself for a recurring item at each meeting due to a potential conflict of interest.

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

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

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

Corporate Governance and The Code

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

Terms of reference and appointment terms

There are terms of reference for the Council and their committees (including the Audit, Risk, Nominations & Governance and Remuneration Committees). There are also terms of reference for the Chairman, Deputy Chairs (including the Senior Independent Deputy Chairman) and the Chief Executive Officer. The terms of reference provide a clear division of responsibilities between the leadership of the Council and the Executive leadership of the Society. All of the aforementioned terms of reference are available to view on www.Lloyds.com.

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

Non-Executive external appointments (additional to the positions held at the Society), require the approval of the Chairman and/or Secretary to the Council rather than the Council as a whole and this is a departure from Provision 15 of the Code. Changes to non-executive portfolios of Council members are regularly reviewed by the Nominations & Governance Committee and the Council is therefore satisfied that the process in place is appropriate.

Annual General Meeting

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

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

Indemnities

The Society has given indemnities to a number of its subsidiary undertakings, and the directors thereof, in respect of any claims or actions which may be brought against them, or any future operating losses incurred by them in connection with the companies' activities. The Society has also given indemnities to and has agreed to cover certain specific costs that may be incurred by members of the Council, its committees and directors of certain subsidiaries, the Society's employees, and certain individuals and organisations who have been asked to carry out or provide services to the Society or on behalf of, or for the benefit of, its members.

Council and committee assessments

In accordance with the UK Corporate Governance Code, an external and independent evaluation of the performance of the Council and its principal committees is undertaken every three years. In intervening years an internal assessment is undertaken. In all cases, feedback is sought from non-executive directors on the operation and dynamics of the Council.

In late 2018/early 2019, YSC Consulting (YSC) undertook an independent external review, and their principal conclusion was that the governance arrangements between the Council and the Board were effective, but not efficient, as a result of which the Society decided to create a single governing body for the Lloyd's market. On 1 June 2020, the merger of Board and Council took effect to increase efficiencies in the Society's governance structure.

To obtain an early assessment of the improvements generated by the move to a unitary governance structure, the Society brought forward the next external evaluation and engaged with the same providers, YSC, to enable a direct comparison. The external review was undertaken at the end of 2020/early 2021. The review was undertaken through observations of the Council and selected committees (Remuneration, Audit, Risk, Nominations & Governance and Investment) and discussions with Council members, Executive Committee members and other senior leaders of the Society.

The overall conclusion of the 2020/21 review (which was reported to members of the Society at the AGM) was that there was a noticeable improvement in both the efficiency and effectiveness of governance at Lloyd's across almost all measures. The improvements were primarily driven by (i) the move to a unitary governance structure and (ii) changes in the Executive Team. The review identified areas for discussion including increasing the efficiency of Council meetings and the maturing of relationships within the Council following both the Board/Council merger and remote working during the pandemic.

The Council discussed the findings of the review at its meeting in May 2021 and continued that discussion at the Council Strategy Day in July. The recommendations for improvement were taken forward under the guidance of the Chairman and Secretary to the Council during 2021.

In late 2021/early 2022, an internal assessment of the Council and selected committees (Remuneration, Audit, Risk, Nominations & Governance and Investment) took place. The assessment was based on the results of the questionnaires issued to the members of those bodies. The principal conclusion of the assessment was that the governance arrangements were working effectively with the actions taken in response to the previous year's review continuing to generate improvements following implementation during the course of 2021. The key actions from the 2021/2 internal assessment were for the Executive to maintain its focus on improving the quality and timeliness of materials submitted to Council and its Committees and for the Nominations & Governance Committee's annual succession planning review to include (i) a discussion led by the Senior Independent Deputy Chairman on succession planning for the Chairman and (ii) consideration of succession planning for key committees, including the Audit Committee, where specific skills are required. The recommendations for improvement will be taken forward under the guidance of the Chairman and the Secretary to the Council during 2022.

Engagement and assessment

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

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

Training

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

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

Independent professional advice

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

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

Conflicts of interest

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

The Code

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

1. Board Leadership and Company Purpose

Principles	Explanation (* denotes a deviation)
A	– Council Statement, starting at page 63. – Corporate Governance Report, starting at page 67, including the following paragraphs: Governing body: the Council; the Constitutional Requirements; and Society's governance structure.
B	– Strategic Report, starting at page 2, Our Purpose paragraph/section. – Council Statement, starting at page 63. – Corporate Governance Report, starting at page.67, including the CAG and ESG Advisory Group paragraphs.
C	– Corporate Governance Report, starting at page 67, including the following paragraphs: Governing body; the Council; Terms of Reference; Audit Committee; and Risk Committee. – Audit Committee Report, starting at page 95. – Risk Committee Report, starting at page 100.
D	– Council Statement, starting at page 63. – Corporate Governance Report, starting at page 67, including the following paragraphs/sections: AGM; Attendance tables showing composition of Council (and its Committees and Advisory Groups) and CAG. – Strategic Report, starting at page 2, Lloyd's Purpose for our stakeholders' paragraph.
E	– Corporate Governance Report, starting at page 67, including the following paragraphs Training, CAG and ESG. – Risk Committee Report, starting at page 100. – Audit Committee Report, starting at page 95. – Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
Provisions	**Explanation (* denotes a deviation)**
1-8	– Council Statement, starting at page 63. – Corporate Governance Report, starting at page.67, including the following paragraphs: Nominations & Governance Committee; CAG; ESG; TTC; Training; Council Membership; Governance Policies; and Conflicts of Interest. – Strategic Report, starting at page 2, including the following paragraphs: Our Strategic priorities; Who we are; Lloyd's Business Model; Our Plans for 2022; External challenges table; and Our Sustainability Commitment. – Remuneration Report, starting at page 82, Wider Society employees' paragraph. – Risk Committee Report, starting at page 100. – Audit Committee Report, starting at page 95, Responsibilities of the Audit Committee and Internal Control paragraphs.

2. Division of Responsibilities

Principles	Explanation (* denotes a deviation)
F	– Corporate Governance Report, starting at page 67, including the following paragraphs: Chairman and Deputy Chairs; Council Membership; Council Meetings; and Engagement & Assessment. – Terms of Reference www.lloyds.com/about-lloyds/governance-and-management
G	– Corporate Governance Report, starting at page 67, including the following paragraphs: Council Membership; Council Attendance tables, Nominations & Governance Committee; and Terms of reference and appointment terms. – Terms of Reference www.lloyds.com/about-lloyds/governance-and-management
H	– Corporate Governance Report, starting at page 67, including the following paragraphs/sections: Nominations & Governance Committee; Attendance tables of Committees and Advisory Groups; Conflicts of Interest; Council Meetings; Engagement and Assessment; and Council and Committee assessments.
I	– Corporate Governance Report, starting at page 67, including the following paragraphs: Terms of reference and appointment terms; Council and Committee assessments; Governance Policies; and Training. – Terms of Reference www.lloyds.com/about-lloyds/governance-and-management
Provisions	**Explanation (* denotes a deviation)**
9-10 12-14 16	– Corporate Governance Report, starting at page 67, including the following paragraphs/sections: Chairman and Deputy Chairs; Council meetings; Council attendance table (and further attendance tables throughout the report);

		Council membership; Engagement and assessment; Governing body: the Council; Nominations & Governance Committee; Terms of Reference and appointment terms; and Independent professional advice. – Council biographies www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds – Executive biographies www.lloyds.com/about-lloyds/governance-and-management/executive-committee – Terms of Reference https://www.lloyds.com/about-lloyds/governance-and-management – Remuneration Report at page 82.
*11	*	Corporate Governance Report, starting at page 67, Council Membership paragraph.
*15	*	Corporate Governance Report, starting at page 67, Terms of Reference and appointment terms paragraph.

3. Composition, Succession and Evaluation

Principles	Explanation (* denotes a deviation)
J	– Corporate Governance Report, starting at page 67, including the following paragraphs: Nominations & Governance Committee; Council Membership; Governing body: the Council; and Terms of reference and appointment terms. – Terms of Reference www.lloyds.com/about-lloyds/governance-and-management
K	– Corporate Governance Report, starting at page 67, Nominations & Governance Committee and Council Membership paragraphs. – Council biographies www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.
L	– Corporate Governance Report, starting at page 67, Engagement & Assessment and Council and Committee assessments paragraphs.

Provisions	Explanation (* denotes a deviation)
*17	* Corporate Governance Report, starting at page 67, Nominations & Governance Committee paragraph. – Corporate Governance Report, starting at page 67, Conflict of Interest paragraph. – Remuneration Report, starting at page 82, Bonus out-turns for 2021 table. – Nominations & Governance Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
*18	* Corporate Governance Report, starting at page 67, Council Membership paragraph.
19-23	– Council Statement at page 63. – Corporate Governance Report, starting at page 67, including the following paragraphs: Chairman and Deputy Chairs; Council Membership; Nominations & Governance Committee (including the Searches, Succession Planning and Diversity sub paragraphs); and Council and committee assessments. – Council biographies https://www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds. – Strategic Report, starting at page 2, Our Strategic Priorities, Culture paragraph.

4. Audit, Risk and Internal Control

Principles	Explanation (* denotes a deviation)
M	– Corporate Governance Report, starting at page 67, Audit Committee and Risk Committee paragraphs. – Audit Committee Report, starting at page 95, Responsibilities of the Audit Committee and Primary activities and key areas of focus during the year paragraphs. – Risk Committee Report, starting at page 100, Responsibilities of the Risk Committee and Key areas of focus during the year paragraphs. – Audit and Risk Committee Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
N	– Audit Committee Report, starting at page 95, Financial reporting and external audit paragraph.
O	– Corporate Governance Report, starting at page 67, Audit Committee and Risk Committee paragraphs. – Audit Committee Report, starting at page 95, Internal Control and Internal Audit paragraphs. – Risk Committee Report, starting at page 100, Internal Control paragraph. – Strategic Report, starting at page 2, Our Strategic Priorities paragraph. – Strategic Report, starting at page 2, including Our Purpose paragraph/section and the table setting out how Lloyd's is managing principal risks.

Provisions	Explanation (* denotes a deviation)
***24**	* Corporate Governance Report, starting at page 67, Audit Committee paragraph. – Corporate Governance Report, starting at page 67, Nominations and Governance Committee paragraph. – Audit Committee Report, starting at page 95, Composition of the Audit Committee and Internal Control paragraphs. – Council biographies www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.
25-31	– Council Statement, starting at page 63. – Corporate Governance Report, starting at page 67, Audit Committee and Risk Committee paragraphs. – Audit Committee Report, starting at page 95, including the following paragraphs: Statement by the Chair of the Audit Committee; Responsibilities of the Audit Committee; Primary activities and key areas of focus during the year; Financial reporting and external audit; Internal Control; and Internal Audit. – Strategic Report, starting at page 2, Our Purpose paragraph/section and table setting out how Lloyd's is managing principal risks. – Risk Committee Report, starting at page 100, including the following paragraphs: Responsibilities of the Risk Committee; Key areas of focus during the year; Risk Management Framework. – Audit Committee and Risk Committee Terms of Reference www.lloyds.com/about-lloyds/governance-and-management. – Market Results, Statement of Council's responsibilities for preparation and approval of PFFS at pages 16-35. – Society Report, starting at page 60, Going Concern and viability paragraphs at page 108 and Liquidity Risk paragraph at page 107.

5. Remuneration

Principles	Explanation (* denotes a deviation)
P	– Corporate Governance Report, starting at page 67, Remuneration Committee paragraph. – Remuneration Report, starting at page 82, including the following paragraphs: Statement by the Chair of the Remuneration Committee; the Remuneration Policy principles; and Remuneration Policy. – Remuneration Committee Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
Q	– Remuneration Report, starting at page 82, including the following paragraphs: Remuneration Policy principles; Remuneration Policy; and Compliance Statement. – Remuneration Committee Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.
R	– Corporate Governance Report, starting at page 67, The Constitutional Requirements paragraph. – Remuneration Report. starting at page 82, including the following paragraphs: the Remuneration Policy principles; Remuneration Policy; Compliance Statement; and Summary of remuneration policy and out-turns for 2021 table. – Remuneration Committee Terms of Reference www.lloyds.com/about-lloyds/governance-and-management.

Provisions	Explanation (* denotes a deviation)
***32**	* Corporate Governance Report, starting at page 67, Remuneration Committee paragraph. – Corporate Governance Report, starting at page 67, Council Membership paragraph and Remuneration Committee attendance table.

	– Remuneration Report, starting at page 82, Details of the Remuneration Committee and their fees paragraph.
33-37 & 39-40	– Remuneration Committee Terms of Reference www.lloyds.com/about-lloyds/governance-and-management. – Remuneration Report, starting at page 82, including the following paragraphs: Details of the Remuneration Committee, advisers to the Committee and their fees; the Remuneration for the Chairman and members of the Council who are not employees of the Society; the Remuneration Policy paragraph; Annual Remuneration Report; Malus and clawback; Service Contracts; and Wider Society Employees. – Corporate Governance Report, starting at page 67, Remuneration Committee and Constitutional Requirements paragraphs.
***38**	* Remuneration Report, starting at page.82, Pensions and Benefits section of the table summarising the Remuneration policy and out-turns for 2021. – Remuneration Report, starting at page 82, Pensions paragraph.
***41**	* Remuneration Report, starting at page 82, including the following paragraphs: Compliance with UK Corporate Governance Code 2018; Remuneration Policy; and Ethnicity and Culture at Lloyd's. – Strategic Report. starting at page 2, including the following paragraphs: Our Strategic Priorities; Culture; – Remuneration Report; Wider Society Employees; and Key Remuneration decisions and Incentive Out-turns.

Report of the Remuneration Committee

This report is based upon the principles of the Directors' remuneration reporting regulations for UK-listed companies, and the UK Corporate Governance Code. The Code and regulations are directed at companies listed on the London Stock Exchange, whereas Lloyd's is a market of many separate and competing trading entities. Nonetheless, the Council supports their principles insofar as they can be applied to the governance of the Society and has chosen to broadly follow the disclosure principles in this report.

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

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

Statement by Chair of the Remuneration Committee

This is my first Remuneration Committee's report as Chair of the Committee, having taken over the role from Andy Haste on 31 October 2021. Andy chaired the Remuneration Committee from 2012, during which time he made an exceptional contribution during a ten year period of significant challenge and change for the market. I would like to take this opportunity to thank him on behalf of the Committee.

The Society's Remuneration Policy seeks to reward Individuals who contribute to the success of the Corporation and the Lloyd's market and the principles align to the Society's purpose and values, and the successful delivery of the Society's long-term strategy.

Following the challenges of 2020, Lloyd's financial performance has shown significant improvement in 2021. We have continued our focus on achieving sustainable, long-term profitability for the market and our progress is evidenced by profit before tax of £2.3bn (2020: loss of £0.9bn) and a combined ratio of 93.5% (2020: 110.3%).

During the year we have made considerable progress against our four strategic pillars of performance, digitalisation, purpose and culture – each of which remains crucial to our future success. The introduction of our new purpose pillar has sustainability, climate and inclusion at its core.

Lloyd's has continued to support our customers in their most critical time of need, as the impacts of the pandemic continue to be felt across multiple industries. Alongside this, we have also placed a heightened focus on the culture of our people in order to forge an inclusive, innovative environment – one that attracts, retains and develops the best talent.

Remuneration policy principles

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

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

  For 2022, as in 2021, a Transformation Incentive Plan will operate for key roles that are critical to the successful execution of the ambitious Blueprint Two programme and the sustainability of the Lloyd's platform for the future (see page 88);
- **Alignment to the Lloyd's market** – A significant element of remuneration is based on the performance of the Lloyd's market. This encourages an attitude of commercial partnership with the market and aligns the interests of participants with capital providers. This alignment means that the payment under the market element was £nil in 2017, 2018 and 2020. Market and Society risk adjustment metrics also apply to this element;
- In order to provide a balanced approach to performance measurement and reflect the focus of the Society and its drive for improved efficiencies and transformation in the Lloyd's market, Profit Before Tax and Combined Operating Ratio are key metrics used to measure market performance; and
- **Solvency II** – We continue to operate appropriate features such as long-term deferral for Solvency II staff and risk adjustment.

The remuneration policy is set out on pages 91 to 93.

Key remuneration decisions and incentive out-turns

Salaries

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

John Neal was appointed in October 2018 on a salary of £650,000. No salary increases were awarded in 2019 or 2020. In 2021, an increase of 2.0% was made, in line with the average increase for all employees. The Committee carefully considered the appropriate salary for the Chief Executive Officer. Taking into account his performance in the role and positioning against the market data an increase of 5.6% was considered appropriate and awarded with effect from 1 April 2022.

The Chief of Markets was appointed in May 2021 on a salary of £500,000. He received a salary increase of 2.0% with effect from 1 April 2022.

With effect from 17 January 2022, the role of Chief Financial Officer was materially expanded to include key operational and technology functions of the Corporation, following a wider restructuring and the continued development of the Future at Lloyd's strategy. As Chief Financial Officer & Chief Operating Officer, in addition to his current CFO responsibilities, the expanded remit includes leadership of key areas such as Global Operations, Group Technology and Procurement.

To reflect his significantly expanded responsibilities, as well as his performance in the CFO role, Burkhard Keese's salary was increased from £475,000 to £550,000.

Incentive out-turns

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

The Society made strong progress against its key strategic priorities in 2021, which is reflected in the Individual Performance Awards (see page 86).

Executive directors' incentive awards are also aligned to market performance. The Lloyd's market recorded profit before tax of £2.3bn (2020: loss of £0.9bn) and the combined ratio was 93.5% (2020: 110.3%) which resulted in a Market Award for Executive Directors (see page 88). Payment under the Market Award was £nil in 2017, 2018 and 2020.

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

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

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

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

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

The awards made in 2021 have expired with no vesting. Awards will be made in 2022 and further information is provided on pages 88 and 89.

Wider Society employees

The Remuneration Committee reviews policies which apply to all employees across the Society and is regularly updated on key areas of the Lloyd's Culture Dashboard, designed to drive the market towards a more inclusive environment and deliver cultural change. During 2021, the Committee considered progress in key areas such as gender and ethnicity pay gaps and employee engagement.

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

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

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

Ethnicity and culture at Lloyd's

In 2021, as part of Lloyd's considerations for the future and focus on the wider employee experience, our approach to ethnicity and culture has evolved. After committing to taking meaningful and measurable action to help improve the experience of BAME talent in the Lloyd's market, we have implemented various new initiatives. In January 2021, we launched the Accelerate programme for 15 future leaders, focused on developing Black, Asian and Minority Ethnic talent.

During 2021, Lloyd's voluntarily published its Ethnicity Pay Gap for the first time, to further support the launch of our long-term ethnicity action plan. As part of its commitment towards breaking down barriers, Lloyd's is looking to set challenging ethnicity targets, after mandating data collection among our staff to accelerate the effort.

Fiona Luck

Remuneration Committee Chair
23 March 2022

Compliance statement

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

For the purposes of this report, Executive Directors refers to John Neal (Chief Executive Officer), Burkhard Keese (Chief Financial Officer & Chief Operating Officer) and Patrick Tiernan (Chief of Markets). Patrick Tiernan was appointed as Chief of Markets effective from 4 May 2021 and became an Executive Director from this time. Directors are not involved in deciding their own remuneration outcome.

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

Summary of remuneration policy and out-turns for 2021

The following table provides a summary of how our remuneration policy was implemented in 2021. The remuneration policy is provided on pages 91 to 94.

Salary

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

From 1 April 2021, annual salaries were as follows:

- Chief Executive Officer: £663,000
- Chief Financial Officer: £475,000
- Chief of Markets: £500,000 (from 4 May 2021)

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

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

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

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

Further details of performance are provided on pages 86 to 88. A summary of the out-turns for 2021 is provided below.

	Individual Performance Award		Market Award	
	Maximum opportunity (% of salary)	2021 out-turn (% of salary)	Maximum opportunity (% of salary)	2021 out-turn (% of salary)
John Neal: Chief Executive Officer	100%	66%	50%	50%
Burkhard Keese: Chief Financial Officer	100%	74%	50%	50%
Patrick Tiernan: Chief of Markets	100%	75%	50%	50%

Risk underpin

In 2021, all awards under the Lloyd's Incentive Plan were subject to a risk underpin. The Committee assessed performance against a range of Society and market risk and compliance metrics and decided to apply a downward adjustment to a number of performance awards across the Society.

Deferral

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

Transformation Incentive Plan

The 2021 awards have expired with no vesting.

In 2022 awards will be made with a maximum opportunity of 100%. Awards will be performance tested and vest following 31 December 2022. Payment of any vested awards will be made in three tranches in the three years following the end of the performance period, subject to employment at the time of vesting. Further information is provided on pages 88 and 89.

Pension and benefits

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

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

Annual remuneration report

This part of the report sets out the annual remuneration for 2021 and a summary of how the policy will apply for 2022.

Single total figure of remuneration

The total remuneration receivable in respect of qualifying services for each person who served as a member of Board or Council during the year is shown below. Further details on annual bonus and Market Awards are shown on pages 86 to 88.

	Salary/ fees		Other benefits[1]		Annual bonus		Market Award		Pension benefit[2]		Total fixed		Total variable		Total	
	2021 £000	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Chairman of the Council																
Bruce Carnegie-Brown	623	600	2	1	–	–	–	–	–	–	623	600	2	1	625	601
Executive Directors																
John Neal	660	650	72	71	436	480	332	–	99	98	784	772	815	527	1,599	1,299
Burkhard Keese	469	450	29	19	352	575	238	–	70	68	561	536	597	576	1,158	1,112
Patrick Tiernan[3]	336	–	588	–	375	–	250	–	50	–	399	–	1,200	–	1,599	–

	Fees		Expenses[1]		Total	
	2021 £000	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Working members						
Andrew Brooks	78	61	–	–	78	61
Dominic Christian	84	75	–	–	84	75
Victoria Carter[4]	87	68	–	–	87	68
External members						
Jeffery Barratt	79	62	8	2	87	64
Karen Green	95	78	–	–	95	78
Michael Watson	86	66	–	–	86	66
Nominated members						
Andy Haste[5]	120	131	–	–	120	131
Angela Crawford-Ingle[6]	118	86	–	–	118	86
Fiona Luck[7]	108	106	8	–	116	106
John Sununu	86	58	3	4	89	62
Lord Mark Sedwill[8]	17	–	–	–	17	–
Neil Maidment[9]	106	100	–	–	106	100

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

1. Other benefits and expenses include items such as benefit allowances (all Executive Directors receive a benefit supplement of 3% of salary) other taxable benefits and taxable business expenses. These include travel costs met by Lloyd's, including any tax due under HMRC regulations. These travel costs are provided in accordance with the Society's policy and to enable Executive Directors and the Council members to undertake responsibilities most efficiently while travelling. Other taxable business expenses include business related membership fees and hotels.
2. The Chief Executive Officer, Chief Financial Officer and Chief of Markets received a pension supplement of 15% of salary, in line with the pension available to the wider workforce.
3. Patrick Tiernan was appointed as Chief of Markets and member of the Council with effect from 4 May 2021. Mr Tiernan was appointed to the Technology & Transformation Committee, the Environmental, Social and Governance Advisory Group, and the Underwriting Advisory Panel, with effect from 6 May 2021. A payment was awarded to Mr Tiernan as part of the employment contract terms and is reflected in Other benefits.
4. Victoria Carter was appointed as Deputy Chair of Lloyd's with effect from 1 September 2021.
5. Andy Haste ceased as a member of the Council (and in his role as Senior Independent Deputy Chairman) with effect from 31 October 2021 due to the completion of a nine year term. Mr Haste also ceased as a member of the Nominations & Governance Committee, the Remuneration Committee, and the Technology and Transformation Committee, with effect from 31 October 2021. The prior year amount for Mr Haste has been restated to allow for the increase in fees awarded with effect from 1 June 2020.
6. Angela Crawford-Ingle was appointed as non-Executive Director to the Board of Directors of Lloyd's Insurance Company S.A. (LIC) and to the LIC Audit and Risk Committee with effect from 14 July 2021. Ms Crawford-Ingle will be paid in Euros for the LIC appointments and at 31 December 2021 had not yet received payment. The fees due have been reflected in the table above and the exchange rate used to translate the LIC fees to Sterling is the rate at 31 December.
7. Fiona Luck was appointed as Chair of the Remuneration Committee with effect from 1 November 2021.
8. Lord Mark Sedwill was appointed to the Council with effect from 3 December 2021 as a Nominated Member in the role of Senior Independent Chairman.
9. Neil Maidment was appointed as Chair of the Capacity Transfer Panel with effect from 1 November 2021.

Salary

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

Salaries effective from 1 April 2022 are as follows:

	2022 Base salaries £000	Increase on 2021
John Neal: Chief Executive Officer	700	5.6%
Burkhard Keese: Chief Financial Officer & Chief Operating Officer (with effect from 17 January 2022)	550	15.8%
Patrick Tiernan: Chief of Markets	510	2.0%

John Neal was appointed in October 2018 on a salary of £650,000. No salary increases were awarded in 2019 or 2020. In 2021, an increase of 2% was made, in line with the average increase for all employees. The Committee carefully considered the appropriate salary for the Chief Executive Officer. Taking into account his performance in the role and positioning against the market data, an increase of 5.6% was considered appropriate and awarded with effect from 1 April 2022.

With effect from 17 January 2022, the role of Chief Financial Officer was materially expanded to include key operational and technology functions of the Corporation, following a wider restructuring and the continued development of the Future at Lloyd's strategy. As Chief Financial Officer & Chief Operating Officer, in addition to his current CFO responsibilities, the expanded remit includes leadership of key areas such as Global Operations, Group Technology and Procurement. To reflect his significantly expanded responsibilities as well as his performance in the CFO role, Burkhard Keese's salary was increased from £475,000 to £550,000.

The average increase awarded to all employees was 3.1%

Annual bonus (Individual Performance Award)

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

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

The following table sets out the performance framework and weightings for 2021 awards.

2021 awards – performance framework and weightings

Performance metric	Performance and Risk Management	Digitalisation	Purpose	Culture	Individual Performance
Weighting	24.5%	24.5%	7%	14%	30%

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

Bonus out-turns for 2021

The following table sets out performance achievements against the KPIs set in respect of 2021.

Performance and Risk Management	Digitalisation	Purpose	Culture
– Strong underlying performance in normalised combined ratio, and enhanced execution of Enhanced Capital & Planning Group (CPG) process; – Support profitable growth of Light Touch syndicates, targeted action on High Touch syndicates; – Enhanced differentiation on a macro basis between stronger and weaker performers, and on a micro basis (eg cyber) granting plan approval for 2022; – Strong progress in development of global distribution and new entrant strategy with planned execution in 2022; – Strong activities around thought leadership publication and continued sponsoring of innovation through Futureset activities; – Delivery of new target operating model including revised minimum standards; – Improved control framework and continued development of strong relationships with regulators including FCA and PRA.	– Strong progress made in data and placement standards (iMRC and Core Data Record) and the establishing of the Data Council; – Launch of Virtual Room, Digital Gateway and supporting governance framework; – Development of the Blueprint Two Interactive Guide for the market.	– Well established ESG Advisory Group creating stronger guidance and leadership; – Development of credible Sustainability Model which is in use (and referenced with regulators and rating agencies), on which we are able to measure our progress across 12 key measures; – Centre of Excellence established (including Lloyd's Lab), with focus on climate and future systemic risk; – Significant progress around Futureset and SMI related activities.	Culture Advisory Group and associated initiatives including: – Improved succession plans in place for all Executive Committee and Executive Leadership Group roles; – Progress made on gender diversity target; – Implementation of ethnicity target; – Market adoption of Culture Toolkit Corporation culture and dashboard improvements; – Cultural values defined and initiation of roll out broadly to the Corporation.

Taking into account an overall assessment of the above achievements, as well as individual performance and Society risk, the Committee determined the following annual bonus payments in respect of 2021:

Role	Maximum	Out-turn
John Neal: Chief Executive Officer	100% of salary	66% of salary
Burkhard Keese: Chief Financial Officer	100% of salary	74% of salary
Patrick Tiernan: Chief of Markets	100% of salary	75% of salary

The Award made to the Chief of Markets was partially pro-rated for time served during the year.

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

Market Award

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

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

All employees of the Society, including international offices, were eligible to participate in the Market Award for 2021 on the basis set out below:

- Market Awards are calculated by reference to Profit before Tax and combined ratio (weighted equally) for each financial year;
- Market Awards are subject to a risk underpin; and
- 40% of the Market Award is deferred for three years.

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

The maximum opportunity for Executive Directors is 50% of salary. Market Awards are subject to a personal performance underpin. The performance out-turns are before the impact of central adjustments made in preparing the Pro Forma financial statements, as described in note 2 on page 35.

2021 Market Award – out-turn

2021 Market Award– performance metric	Threshold (20% of maximum)	Target (50% of maximum)	Maximum (100% of maximum)	2021 performance out-turn	2021 Market Award out-turn (% of salary)
Profit Before Tax element (50% weighting)	£500m	£1.2bn	£2.5bn	£2.5bn	25%
Combined ratio element (50% weighting)	100%	98%	94%	92.5%	25%
Total Market Award payout (as a % of salary)					50%

Transformation Incentive Plan

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

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

The 2021 awards have expired with no vesting.

For 2022 further awards will be made under the Transformation Incentive Plan which will operate as follows:

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

2022 award – performance metrics

2022 award lead indicators	Underpin/lag indicators
Roadmap and Build solutions for Blueprint Two 2022-2024	Awards will only vest subject to the following conditions being met: – At the end of the vesting year, Lloyd's normalised (normalised for large risk and catastrophe loss) combined ratio (CR) does not exceed 98.5%; and – Lloyd's key financial strength rating with Standard & Poor's remains at a minimum of A+. Vesting may be deferred by 12 months and the underpin tests reapplied in the following year in the event that performance underpins are not met.
CDR and iMRC to the point of placement at Gateway	
Deliver sequences of the DXC Build Contract on time and on budget	
FERN2 contracts and Market Acceptance Testing – 40% savings in servicing costs to be achieved	
Plan for Open Market Claims and the solutions for Faster Claims Payments	
Solution for DCOM and connectivity for DDM – central data store for Premium, Claims and Risk data	
Effectiveness of the new programme for governance and communciation	

Pensions

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

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

Chief of Markets (appointment from 4 May 2021)

In January 2021, it was announced that Patrick Tiernan would join the Society as Chief of Markets and he commenced employment on 4 May 2021. He was appointed on a salary of £500,000, with a pension cash supplement of 15% of salary (in line with the maximum contribution available to wider Society employees) and a benefits allowance of 3% of salary. Incentive awards for the Chief of Markets are in line with other Executive Directors, as set out on page 84.

As disclosed in the 2020 Annual Report and in line with Lloyd's remuneration policy, the Committee approved the buy-out of annual bonus and restricted share awards forfeited on leaving his previous employer. In determining the buy-out awards, the Committee applied additional discounts and extended time horizons compared with the awards lapsed. Buy-out awards are subject to satisfactory performance in the role and continued employment, as well as malus and clawback provisions in line with Lloyd's policy.

Service contracts

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

	Appointment date	Unexpired term as at 31 December 2021	Notice period
Bruce Carnegie-Brown	1 June 2020	1 year and 5 months	12 months
John Neal	15 October 2018	rolling 1 year	12 months
Burkhard Keese	1 April 2019	rolling 6 months	6 months
Patrick Tiernan	4 May 2021	rolling 6 months	6 months

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

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

Additional disclosures

Ten year Chief Executive Officer remuneration

		CEO single figure of total remuneration £000	Annual bonus award as a percentage of maximum opportunity	Market Award/LPP award as a percentage of maximum opportunity
2021	John Neal	1,599	66%	100%
2020	John Neal	1,299	74%	0%
2019	John Neal	1,594	92%	38%
2018*	John Neal	167	NA	NA
2018*	Inga Beale	1,304	75%	0%
2017	Inga Beale	1,304	76%	0%
2016	Inga Beale	1,525	75%	63%
2015	Inga Beale	1,531	81%	63%
2014	Inga Beale	1,494	74%	95%
2013	Richard Ward	1,795	75%	65%
2012	Richard Ward	1,759	75%	55%

* Inga Beale stepped down on 13 October 2018 and John Neal took up the appointment on 15 October 2018. John Neal was not awarded a bonus in 2018 as his joining date was after the date for eligibility.

Percentage change in remuneration

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

	Salary/Fees[1]	Benefits[2]	Bonus[3]
Chief Executive remuneration	2%	(65)%	1%
Chief Financial Officer remuneration	4%	14%	(39)%
Chief of Markets remuneration	100%	100%	100%
Non-Executive Council member remuneration (average)	(15)%	196%	NA
Average of all Society employees	2%	2%	0%

1. The increase in Chief of Market's remuneration is due to the 2021 employment start date. The decrease in Non-Executive Council member's remuneration is due to the merger of the Board with the Council in 2020.
2. The Chief Executive Officer's Benefits in 2020 largely relate to travel expenses (including tax thereon) and other employment related expenses, which may fluctuate between periods. The same is applicable to Non-Executive Council members in 2021.
3. The increase in Chief of Market's bonus is due to the 2021 employment start date. The decrease in the Chief Financial Officer bonus is due to the one off award paid in 2020.

Relative importance of spend on pay

	2021 £m	2020 £m	% change
Corporation operating income	372	384	(3)%
Total remuneration – all employees	166	141	18%

Corporation operating income excludes income relating to the Central Fund. 2020 remuneration is restated to exclude items such as employer's social security costs, net interest on defined benefit pension liability, Non-Executive remuneration and recruitment fees.

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

The current Chair, Bruce Carnegie-Brown, was appointed on 15 June 2017. The Council and Nominations & Governance Committee approved his reappointment for a further term of three years from 1 June 2020. The Chair fee is £630,000.

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

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

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

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

Within the policy for remuneration approved by the Council, the Remuneration Committee is responsible for setting the total individual remuneration package for the Chairman, the Chief Executive Officer, each Executive Director, any other senior direct reports of the Chief Executive Officer and such other members of the executive management (including those designated as Solvency II staff for remuneration purposes, and individual consultants) as it is designated to consider.

As at 31 December 2021, the Remuneration Committee comprised six members – five members of the Council and the Chair. The Committee was chaired by Andy Haste (a Nominated member of Council and Senior Independent Deputy Chair) from November 2012 to 31 October 2021. Fiona Luck has been a member of the Remuneration Committee since 2018 and was appointed as Remuneration Committee Chair from 1 November 2021.

The Remuneration Committee met ten times in 2021. The attendance record is set out in the Corporate Governance Report on page 68. The Committee's terms of reference are available on www.Lloyds.com and on request from the Secretary to the Council.

The Remuneration Committee was assisted by its remuneration consultants, Deloitte LLP, who adhere to the Code of Conduct for executive remuneration consultants. Deloitte LLP was appointed by the Remuneration Committee and their services are periodically reviewed by the Committee to ensure that these remain relevant and provide the assistance required. Deloitte LLP adheres to working practices which have been agreed with the Remuneration Committee Chair, for the purpose of maintaining independence, and the Committee is satisfied that the advice received from Deloitte LLP was objective and independent. Total fees paid in respect of advice and services to assist the Remuneration Committee amounted to £146,720 for the year and are determined by the scope of the services and the services agreement. Deloitte LLP also provided other services to the Society during the year including the co-sourced Internal Audit resource; Technology and Project Management advisory and support services; and Risk, Regulatory, Specialist and Tax advisory services.

At the request of the Remuneration Committee, the Chief Executive Officer and Chief People Officer regularly attend Remuneration Committee meetings. Other senior Executives, for example, the Chief Risk Officer, are invited to attend for specific agenda items from time to time.

Neither the Chairman, nor the Executive Directors, nor any other Director, plays a part in any discussion about his or her own remuneration.

Compliance with UK Corporate Governance Code 2018

Use of discretion

The Remuneration Report explains that a discretionary risk underpin applies to incentive out-turns and sets out if a downward risk underpin has been applied when such a decision is made. The Remuneration Report also details the circumstances where the Committee retains the discretion to apply malus or clawback to awards. The extent to which discretion has been applied to remuneration outcomes and the reasons why are not disclosed (this is a departure from Provision 41 of the Code).

In accordance with Part 3 of the Constitutional Arrangements Byelaw (No. 2 of 2010), the Society's Directors are required to exercise independent judgement and act in good faith to promote the success of the Society having regard to a number of factors, including (but not limited to) the likely consequences of the decision in the long term and the need for the Society to have regard to the interests of its employees. Therefore, it is not considered appropriate to incorporate the extent to which discretion has been applied to the remuneration outcomes and the reasons why, within the Remuneration Report over and above that already covered.

Provision 40 and 41

The Remuneration Report contains clear and concise information and sufficient information is contained overall within the Remuneration Report to give external stakeholders a good understanding on how executive director remuneration policy and practices are determined. It is considered that the inclusion of descriptions following specific wording from Provision 40 could potentially duplicate and dilute the information contained within the report. Therefore a description (with examples) of how the Remuneration Committee has addressed the factors in Provision 40 of the Code are not incorporated in the Remuneration Report under the specific headings identified in the Code and this is a departure from Provision 41 of the Code.

Lloyd's is not subject to the directors' remuneration reporting regulations for UK-listed companies, and therefore is not required to publish CEO and Executive Director to employee pay ratios (and this is a departure from Provision 41 of the Code). However, the Committee reviews and considers gender and ethnicity pay gaps, as explained in both this Report and the Strategic Report.

Remuneration Policy

The Society is not required to comply with the Directors' remuneration reporting regulations, including the requirement for a binding remuneration policy for Executive Directors, as these only apply to UK-listed companies. Nonetheless, in line with good practice, this part of the report sets out the key features of the Society's remuneration policy. Note that this is in a shortened format compared with the regulatory requirements. The policy is not legally binding, and the Committee reserves the right to amend the policy at any time.

Council approves the Remuneration Policy rather than any shareholders because the Society does not have shareholders (this is a departure from Provision 41 of the Code). Elected representatives sit on Council and therefore engagement is undertaken with external stakeholders when remuneration discussions come before Council.

Remuneration policy

<table>
<tr><td colspan="2">Base salary</td><td>– Salaries set to appropriately recognise responsibilities and must be broadly market competitive;
– Generally reviewed annually by the Remuneration Committee; and
– No maximum salary increase; however, any increases will generally reflect the approach to all employee salary increases. Exceptions, in certain circumstances, may be made, for example to reflect a new appointment, change in role/adoption of additional responsibilities, changes to market practice or the development of the individual in the role.</td></tr>
<tr><td rowspan="2">Lloyd's Incentive Plan</td><td>Individual performance award (annual bonus)</td><td>Performance measures
– Individual Performance Awards paid by reference to performance against a balanced scorecard of strategic objectives and KPIs during the year; and
– Individual awards are subject to a risk underpin. The Committee will assess performance against Society risk and compliance metrics and may apply a downward adjustment, where appropriate.
Maximum
– Current individual maximums are 100% of salary for Executive Directors.
Operation
– 40% of the total Lloyd's Incentive Plan award will be deferred for three years and paid in April of the fourth financial year following the end of the performance period. This will apply to relevant Solvency II staff above the proportionality threshold; and
– The Committee may apply malus and clawback to individual awards (see below).</td></tr>
<tr><td>Market Award (formerly LPP)</td><td>Performance measures
– Market Awards directly linked to Lloyd's market profitability in the year, subject to a minimum threshold of £500m. From 2019, Market Awards are subject to the achievement of Profit Before Tax and combined ratio metrics; and
– Market Awards are subject to a risk underpin. The Committee will assess performance against market based risk and compliance metrics and may apply a downward adjustment, where appropriate;
– The Market element is also subject to individual performance.
Maximum
– Current individual maximums are 50% of salary for Executive Directors.
Operation
– 40% of the total Lloyd's Incentive Plan award will be deferred for three years and paid in April of the fourth financial year following the end of the performance period. This will apply to relevant Solvency II staff above the proportionality threshold; and
– The Committee may apply malus and clawback to Market Awards (see below).</td></tr>
<tr><td colspan="2">Transformation Incentive Plan</td><td>Performance measures
– Awards are made to a group of key roles who have a material impact on the development and execution of the Future at Lloyd's strategy. Performance metrics are directly aligned to the success of the Blueprint Two programme.
– Lead indicators will be underpinned by profitability and financial strength of the Lloyd's marketplace. Vesting may be deferred by 12 months and the underpin tests reapplied in the following year, in the event that performance underpins are not met.
Current individual maximum awards are 100% of salary for Executive Directors.
– Awards will be made in 2022 and 2023, and will be performance tested and vest following 31 December 2022 and 31 December 2023 respectively
– Payment of any vested awards will be made in three tranches in the three years following the end of the performance period, subject to employment at the time of vesting; and
– Awards will be subject to Lloyd's malus and clawback provisions, and the risk underpin adjustment applicable to the Lloyd's Incentive Plan.</td></tr>
<tr><td colspan="2">Pension</td><td>– Executive Directors will receive a pension contribution of 15% of salary.</td></tr>
<tr><td colspan="2">Benefits</td><td>– Benefits may include private medical insurance, life insurance and a season ticket loan facility;
– Relocation benefits may be offered in certain circumstances; and
– Executive Directors receive a benefits cash allowance of 3% of salary.</td></tr>
</table>

Remuneration policy

Approach to remuneration on recruitment	The following broad principles would apply when agreeing the components of a remuneration package upon the recruitment of a new Executive Director: – Any package will be sufficient to attract Executive Directors of the calibre required to deliver Lloyd's strategic priorities; – Typically, the individual will be transitioned onto an ongoing remuneration package that is in line with the remuneration policy above; – The Committee may, on appointing an Executive Director, need buy-out terms or remuneration arrangements forfeited on leaving a previous employer. The terms of any buy-out would be determined taking into account the terms of the forfeited awards and the overriding principle will be that any replacement buy-out award should be of comparable commercial value to the awards that have been forfeited with comparable time horizons; – The Committee retains the flexibility to make additional awards for the purpose of recruitment where there is a strong rationale to do so; and – Where an Executive Director is appointed from within the organisation, the normal policy is that any legacy arrangements would be honoured in line with the original terms and conditions.
Approach to remuneration on termination	The following broad principles would apply when determining the termination arrangements for an Executive Director: – If an Executive Director works out his or her notice period, he or she will be entitled to payment as normal during the period of notice. Alternatively, the Society reserves the right to terminate the employment by making a payment in lieu of notice; – In these circumstances, the Society's policy is that the outgoing employee would be entitled to receive an amount equal to base salary only in respect of his or her notice period. The sum may be paid in monthly instalments at the Society's discretion and may be reduced to reflect alternative income; – If an Executive Director leaves the Society's employment on or before the date on which an annual bonus award would otherwise have been paid, they will not be entitled to that annual bonus award. However, the Remuneration Committee may determine that the Executive Director may receive a bonus in respect of the financial year of cessation based on performance in the year; – If an Executive Director leaves the Society's employment on or before the date on which a Market Award would otherwise have been paid, they will not be entitled to that Market Award. However, the Remuneration Committee may determine that the Executive Director may receive a Market Award in respect of the financial year of cessation based on performance in the year; and – If an Executive Director leaves the Society's employment on or before the date on which a Transformation Incentive award would otherwise have been paid, they will be entitled to that award, provided that they were in employment at the date the Transformation Incentive award vested.

Malus and clawback

For incentive awards in respect of 2014 and subsequent years, malus and clawback provisions apply.

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

For the Chief Executive Officer, the circumstances in which malus and clawback may be applied are broader and include, but are not limited to, employee misconduct or the performance indicators relied on by the Committee being found to be materially different to those previously considered by the Committee (whether or not involving any culpability on the part of the individual), or deliberate or negligent failure in risk management for which the Chief Executive Officer was solely or in part responsible. The clawback period is indefinite for the Chief Executive Officer.

Fiona Luck
Remuneration Committee Chair
23 March 2022

Report of the Audit Committee

Statement by Chair of Audit Committee

I am pleased to present the Report of the Audit Committee for the year ended 31 December 2021. The report explains the work of the Committee during the year and the key role played by the Committee in overseeing the integrity of the Society's financial reporting and internal control environment. The report comprises the following sections:

- Composition of the Audit Committee
- Responsibilities of the Audit Committee
- Primary activities and key areas of focus during the year
- Financial reporting and external audit
- Internal control
- Internal audit.

Our principal aim is to assist the Council in discharging its responsibilities for monitoring the integrity of the Society's financial reporting, assessing the effectiveness of the systems of internal control of the Society and monitoring the effectiveness, independence and objectivity of the internal and external auditors.

The terms of reference of the Audit Committee can be found on www.lloyds.com.

Angela Crawford-Ingle
Chair, Audit Committee
23 March 2022

Composition of the Audit Committee

The Committee is chaired by Angela Crawford-Ingle, a nominated member on the Council. The Committee's remaining members are drawn from the Council. At the end of 2021, the Audit Committee comprised of two external members of the Council and three independent nominated members of the Council. The Chair of the Audit Committee is also a member of the Risk Committee and the Chair of the Risk Committee is a member of the Audit Committee. Reports on the activities of the Risk Committee are provided to the Audit Committee. The arrangements in place enhance the collaboration between the two committees as some responsibilities can overlap and impact on the other's work.

The Council requires the Committee to operate effectively and efficiently and its members to have a balance of skills and experience to enable it to fulfil its responsibilities in a robust and independent manner. Members of the Committee have varied and extensive experience as executives/non-executives in international insurance, reinsurance and asset management sectors, as well as audit, risk and prudential regulation.

The Council has determined that, by virtue of their professional backgrounds, the members of the Committee collectively have the competence and skills required to discharge the responsibilities of the Committee as set out in its terms of reference. In addition, the Council consider that Angela Crawford-Ingle has the recent and relevant financial experience required to Chair the Committee.

Committee member attendance in 2021, biographical details and experience of the members of the Committee and its reports to the Council are explained in the Audit Committee paragraph in the Corporate Governance Report and at www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.

The Chair of the Committee meets informally with and has open lines of communication with the Executive Committee, Head of Internal Audit, external auditors and senior management to discuss topical issues and the operations of the Society. These meetings provide an opportunity for any matters to be raised confidentially.

The Committee received appropriate technical updates and presentations throughout the year on financial reporting, accounting policy and regulatory developments.

Responsibilities of the Audit Committee

The Audit Committee is a committee of the Council.

The Audit Committee:

- Has responsibility for overseeing the Society's system of internal control, including financial reporting control and for reviewing its effectiveness:
  - The Committee ensures that a bi-annual report on the financial controls and an annual internal control report is undertaken
  - The Committee is responsible for ensuring that the Internal Audit team has the appropriate resources and budget, for approving the appointment and reappointment of the external auditors, and for overseeing the effectiveness of the interactions with the external auditors
  - The Committee reviews reports from the internal and external auditors on aspects of internal control and appropriate action is taken in response.
- Has a primary role to assist the Council in fulfilling its oversight responsibilities over financial reporting. The Audit Committee's functions in 2021 included providing oversight of the Society Report and the Society and market's Pro Forma financial statements (annual and interim), the syndicate aggregate accounts and the Lloyd's Solvency and Financial Condition Report to the PRA
- Has a role to ensure that appropriate arrangements are in place by which employees may, in confidence, raise concerns relating to possible impropriety relating to the Society, in matters of financial reporting or other matters. The Chair of the Committee is also the Whistleblowing Champion and has responsibility for ensuring the integrity, independence and effectiveness of Lloyd's policies and procedures for whistleblowing.

Primary activities and key areas of focus during the year

The Committee's primary responsibilities are the oversight of:

- ensuring that the Stategic Report, the Society Report and the Society and market's Pro Forma financial statements (hereinafter referred to as 'Lloyd's Annual Report' where appropriate) when taken as a whole, is fair, balanced and understandable
- the key themes, structure and integrity of the interim and annual reports, including the Society's and market's Pro Forma financial statements
- the review of the appropriateness of significant accounting estimates and judgements
- the effectiveness and independence of the external auditors
- the appointment/reappointment or removal of the external auditors
- the fees of the external auditors
- the Society's relationship with the external auditors
- the effectiveness of the internal control framework, including financial reporting control
- the effectiveness of systems and controls in relation to whistleblowing
- the internal audit function.

The Committee met ten times during the year. The key areas of focus during the year are highlighted below.

- The Lloyd's Insurance Company S.A. (hereinafter referred to as 'Lloyd's Europe' and 'LIC' interchangeably) Control Environment: The Committee reviewed the implementation of the long term control environment and worked with a number of stakeholders (including the LIC team and External Audit) to assess data flow, systems and controls to ensure that appropriate processes and controls are in place, including reconciliation processes as part of year end and interim reporting.
- Lloyd's Europe operating model: The Committee received updates on the implementation of the European operating model, including the transfer of subsidiaries from the Corporation to LIC.
- Viability statement and going concern: Consideration of the viability statement and the confirmation of the continuing status of the Society as a going concern as part of the annual and interim reporting processes (including the impact from major claims in the Lloyd's market).
- Internal Audit: During 2021, 21 audits were undertaken by Internal Audit. Audit topics included a post implementation review of the LIC operating model, a review of the effectiveness of the Future at Lloyd's programme structure and the development of an enhanced oversight framework, and activity undertaken to meet regulatory expectations in respect of Operational Resilience.

  In addition to the delivery of the 2021 Plan, Internal Audit focused on several other key areas in 2021, including:

  - The Head of Internal Audit developed an annual Internal Control Opinion ('Control Opinion'); and
  - The selection of a vendor (Protiviti) to undertake an External Quality Assessment (EQA).
- Solvency II Pillar 3 reporting for the market and the Society: The Committee reviewed the ongoing capital and solvency position of the Society. They also considered the reporting requirements and governance arrangements for Solvency II Pillar 3 reporting for both the market and the Society by reviewing and approving the Solvency and Financial Condition Report (SFCR) and Regular Supervisory Report (RSR) for the year ending 31 December 2020 for submission to the PRA;
- The review of the Society's and the market's Pro Forma annual and interim financial statements and related disclosures and the syndicate aggregate accounts (on the basis of preparation as an aggregation of the Lloyd's market results). The key areas of judgement were considered by the Committee, in approving the respective financial statements, specifically:
  - (i) insurance and reinsurance contract assets and liabilities: considered the reasonableness of key assumptions and methodology over the valuation of assets and liabilities
  - (ii) valuation of financial investments (including Funds At Lloyd's): considered the basis upon which the reasonable fair valuation of financial investments was determined and the methodology and assumptions supporting the notional investment return on Funds At Lloyd's
  - (iii) provisions: considered any changes to the methodology and key assumptions supporting the estimation of the material provisions reported on the statement of financial position
  - (iv) estimation of net pension liabilities: assessed the reasonableness and consistency of the key assumptions which impact the valuation of the net pension liabilities
  - (v) capitalisation of software development costs: considered the approach and reasonableness supporting the capitalisation, including the review performed of previously capitalised costs under cloud computing arrangments
  - (vi) the basis of preparation of the market Pro Forma financial statements.

Financial reporting and external audit

A key focus of the Committee is its work in assisting the Council in ensuring that the Lloyd's Annual Report, when taken as a whole, is fair, balanced and understandable. The Committee has considered the key messages being communicated in the Annual Report, as well as the information provided to the Committee throughout the year. The Committee, having completed its review, has recommended to the Council that, when taken as a whole, the 2021 Strategic Report, Society Report and Society and market's Pro Forma financial statements is fair, balanced and understandable and provides the information necessary to assess the Society's position and performance, business model and strategy.

During the year, the Committee has continued to keep abreast of any significant and emerging accounting developments. The Society has decided to move to UK GAAP with effect from 1 January 2022. The Society considers UK GAAP to be a more suitable financial reporting basis for the Society than IFRS. It will bring the basis of reporting in line with the market reporting, is widely recognised and understood by readers of accounts.

The Committee places great importance on the quality, effectiveness and independence of the external audit process and monitors and reviews the objectivity and independence of the external auditors.

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

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

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

Overall, the Committee is satisfied with the performance of the Society's external auditors, PricewaterhouseCoopers LLP. The Committee has concluded that there has been appropriate focus by the external auditor and that the external auditor has provided robust challenge throughout the audit process.

The Society's last audit tender was in relation to the audit of the 2013 year end. PricewaterhouseCoopers LLP were appointed as a result of that tender and their first audit was undertaken for the 2013 financial year. PricewaterhouseCoopers LLP were reappointed at the Society's 2021 AGM. The audit will be put out to tender in line with required practice. In discharging its responsibilities for approving the terms of engagement of the external auditors and monitoring the external auditors' independence, the Committee oversees the engagement of the external auditors for non-audit services. This includes having in place a policy to govern the non-audit services that may be provided to the Society by the external auditors and setting out the circumstances in which the external auditors may be permitted to undertake non-audit services. All non-audit services require approval from the Committee and must be justified and, if appropriate, tendered before approval.

A breakdown of the fees paid to the external auditors for non-audit work is set out in note 7 to the Society financial statements (within the Society report). Significant non-audit engagements undertaken by the external auditors in 2021 include services pursuant to legislation (work undertaken on the Aggregate Accounts and regulatory returns) and the Society and market's Pro Forma financial statements.

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

Internal control

The Council has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Council has delegated responsibility to the Audit Committee for reviewing the effectiveness of the system of internal control and monitoring the risk and internal controls framework of the Society.

On behalf of the Council, the Committee also ensures a bi-annual assessment of the effectiveness of the internal controls over financial reporting takes place. This is undertaken in conjunction with year-end and interim reporting.

The Committee also considers the adequacy of the group's risk management arrangements in the context of the Society's business and strategy. This is achieved in a number of ways, including the Committee's approval of the Internal Control Policy.

Reporting on the effectiveness of the control environment is co-ordinated by the Internal Audit function who undertakes independent, objective assurance services designed to improve the organisation's operations.

Reporting on the broader control environment is provided by delivery of an approved Internal Audit plan comprised of risk based Internal audit reviews performed across the business with the outcomes being reported to management, the Executive Committee and to the Audit Committee.

An annual Control Opinion provides an assessment of the control environment based on prior Internal audit reviews, regular interactions with both management and the Risk Management function and interactions with other stakeholders, including the Corporation's External Auditors and regulators.

Reports and updates on specific control issues were received throughout the year. Specific issues considered were:

- Lloyd's operated a revised process this year, under which the Committee reviewed the most recent bi-annual assessment of the effectiveness of the internal controls over financial reporting, and alongside this considered the adequacy of the group's overall risk management and control arrangements as coordinated by Risk Management, and reviewed the annual Control Opinion provided by Internal Audit. These three aspects support the Committee's conclusion that for 2021, the internal control environment was effective with some areas identified for improvement relating to operational controls, with action plans in place from management to address these
- the Committee reviewed internal audit reports, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions
- the Committee reviewed the external auditors' controls observation report
- the Committee considered the findings from the review of the financial reporting processes and controls related to the Society's subsidiary, Lloyd's Europe. The Chair of the Audit Committee was also appointed as a member of the LIC Board and LIC Audit and Risk Committee (appointed in July 2021)
- the Committee worked with Internal Audit, Corporation staff and Lloyd's Europe personnel, to ensure that appropriate controls were implemented across a range of processes relating to both Lloyd's Europe and the wider Overseas Network
- the Committee reviewed an annual report on the effectiveness and operation of the Society's whistleblowing systems and controls (which include having a Whistleblowing policy and appropriate channels in place (e.g. Whistleblowing helpline) to ensure employees may, in confidence, raise concerns as detailled above). The Committee also received quarterly updates on whistleblowing throughout the year explaining developments and enhancements to the 'arrangements', such as testing, training and awareness. The first attestation in connection with Whistleblowing systems and controls was provided to the PRA on 31 March 2021 supported by an audit assessing the arrangements to be effective.

Based on the Committee's assessment of internal control, the Committee concluded that the Society's system of internal control continues to provide reasonable (although not absolute) assurance against material misstatement or loss.

Internal Audit

The Internal Audit function provides the Committee and Executive Committee with independent and objective assurance on the effectiveness of internal control and risk management across the Society and its subsidiaries. The Head of Internal Audit has a direct reporting line to the Chair of the Committee with an administrative reporting line to the Chief Executive Officer. The use of the Internal Audit is governed by the Audit Charter, which sets out the authority, scope, and remit of the Internal Audit function.

Internal Audit submits a risk based annual plan of work for the Audit Committee's review and approval. This considers an independent view of the risks facing the Corporation, as well as other factors such as strategic initiatives, emerging risks, and change. The annual plan is regularly reviewed by the Committee and updated as necessary to ensure appropriate focus on the key risks. For 2021, the Committee was satisfied that appropriate resources were in place.

Internal Audit's remit only extends to the Society of Lloyd's and, as such, it does not undertake internal audit reviews of market participants. However, given the Corporation's role in providing market oversight activity, Internal Audit does undertake reviews of the mechanisms in place to ensure this oversight is both appropriate and proportionate. This includes regular reviews of the approach taken by the Market's oversight function in its close and continuous monitoring of syndicates, other oversight activities (such as ad hoc and thematic reviews), and the role of the Capital & Planning Group (CPG) and the annual business planning/capital return approval cycles.

The Committee satisfies itself as to the quality, experience and expertise of the Internal Audit function through regular interaction with the Head of Internal Audit. The performance of Internal Audit is also subject to ongoing assessment and to an annual formal evaluation that is achieved through assessment of the results of feedback and questionnaires completed by the Executive Committee, where appropriate, and departments that have been subject to an internal audit, in addition to the Committee members' own views. In accordance with best practice, internal Audit is also subject to an EQA at least every five years. An EQA took place in Q4 2021, the conclusion of which was that Internal Audit 'generally conforms' with the Chartered Institute of Internal Auditors International Professional Practices Framework (IPPF) Standards and Code of Ethics (the Standards).

While Internal Audit relies on co-sourced support, it is increasing its internal technical skills and, during the course of 2021, three new team members were recruited, further reducing the function's dependency on external co-sourced support. Accordingly, it is concluded that Internal Audit has the skills and resources needed to complete the Internal Audit plan.

Report of the Lloyd's Members' Ombudsman

Report by Simon Cooper, Lloyd's Members' Ombudsman

I am pleased to present the Annual Report of the Lloyd's Members' Ombudsman to the Council of Lloyd's for the year ended 31 December 2021.

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

Complaints received

During 2021 I dealt with two complaints.

I reported on the first complaint in May 2021 and on the second complaint in July 2021. In both cases, I found that the allegations of maladministration on the part of the Society were not made out, and the complaints were therefore dismissed.

Costs

The expenses incurred by my office amounted to £14,000.

Report of the Risk Committee

Statement by Chair of Risk Committee

I am pleased to present the Report of the Risk Committee for the year ended 31 December 2021. The report explains the work of the Committee during the year and the key role played by the Committee in assisting the Council in its oversight duties in respect of managing the risk of the Corporation and in overseeing the Lloyd's Market. The report comprises the following sections:

– Composition of the Risk Committee
– Responsibilities of the Risk Committee
– Key areas of focus during the year
– Internal control
– Risk Management Framework.

Our principal aim is to assist the Council in discharging its responsibilities for overseeing the identification of and control by the management of material risks to the objectives of Lloyd's. This encompasses the processes undertaken by management to identify, evaluate and mitigate the material risks to the objectives including, but not limited to, insurance risk, investment risk, credit risk, liquidity risk, operational risk, and regulatory risk.

The terms of reference of the Risk Committee can be found on lloyds.com.

Neil Maidment
Chair, Risk Committee
23 March 2022

Composition of the Risk Committee

The Committee is chaired by Neil Maidment, a Nominated member of the Council. The Committee's remaining members are drawn from the Council. At the end of 2021, the Committee comprised of three external members of the Council and three Non-Executive Nominated members of the Council.

The Chair of the Risk Committee is a member of the Audit Committee and the Chair of the Audit Committee is a member of the Risk Committee and updates from each committee are provided as required. The arrangements in place enhance the collaboration between the two committees.

The Council requires the Committee to operate effectively and efficiently and its members to have a balance of skills and experience to enable it to fulfil its responsibilities in a robust and independent manner. Members of the Committee have varied and extensive commercial experience, including as executives in the international insurance, reinsurance and asset management sectors, as well as audit and risk.

Council has determined that, by virtue of their professional backgrounds, the members of the Committee collectively have the competence and skills required to discharge the responsibilities of the Committee, as set out in its terms of reference. In addition, the Council consider that Neil Maidment has the recent and relevant experience required to Chair the Committee.

Biographical details and experience of the current members of the Committee, members' attendance at meetings in 2021 and the reports it makes to the Council are shown in the Risk Committee paragraph in the Corporate Governance Report and at lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.

The Chair of the Committee meets informally and has open lines of communication with the Chief Executive Officer, Chief Risk Officer and other members of the Executive Committee and senior management, to discuss topical issues and the operations and risk profile of the Society. These meetings provide an opportunity for any matters to be raised confidentially.

Responsibilities of the Risk Committee

The Risk Committee is a committee of the Council. The Committee:

– has primary responsibility for assisting the Council in overseeing the processes undertaken by management to identify, evaluate and mitigate, material risks to the objectives of Lloyd's, including, but not limited to, the insurance risk, investment risk, credit risk, liquidity risk, operational risks, regulatory risk, strategic and emerging risks
– reviews management reports regarding oversight of any heightened or material risks, or any material breaches of risk limits and the adequacy of proposed action. This includes the Chief Risk Officer report, Own Risk and Solvency Assessment (ORSA) and the Risk and Control Self-Assessment (RCSA)
– reviews management's assessment of emerging and strategic risks, including climate change
– reviews, at least annually, the Society's risk appetite and risk limits and makes recommendations as to their appropriateness to the Council. The Committee oversees the impact of sustainability and climate change on the Lloyd's Risk Appetite Framework
– reviews and annually recommends to the Council for approval the ORSA report which considers the current and future risk profile
– reviews and makes recommendations to the Council on the appropriateness of the design and methodologies associated with the Lloyd's Internal Model (LIM), including model changes, stress and scenario testing and the results of the independent validation of the LIM
– reviews and makes recommendations to the Council regarding Lloyd's regulatory and economic capital requirements
– reviews management's proposals for the risk management framework, policies and associated internal control and make recommendations as to its adoption or otherwise
– reviews and approves the Corporation's annual Risk Plan and monitors the progress against the plan respectively
– reviews and approves the Corporation's annual Financial Crime and Compliance Plan and monitors the progress against the plan respectively. The Committee ensures that appropriate arrangements are in place to ensure that the Corporation's activities are in compliance with relevant laws and regulations
– reviews and recommends to the Council for approval the Money Laundering Reporting Officer's (MLRO) Annual Report
– reviews the Corporation's annual market oversight plan determining the oversight of the market based on current and prospective risks
– reviews and approves the CRO's qualitative advice to the Remuneration Committee on risk weightings to be applied to variable remuneration of senior management.

Key areas of focus during the year

The Committee met nine times during the year. The key areas of focus during the year are highlighted below:

- COVID-19: The Committee monitored the Corporation's resilience to the impact of the COVID-19 pandemic and ensured that its impact on Lloyd's risk profile continued to be assessed, monitored, and managed.
- Market oversight and underwriting performance: The Committee monitored the performance of the market against risk appetites, key risks associated with the business planning process and implementation of the new principle based supervisory framework.
- Future at Lloyd's: The Committee ensured that the impacts the Future at Lloyd's workstreams have on Lloyd's risk profile are well understood and execution risks associated with delivery are being managed.
- Lloyd's Europe: The Committee monitored actions undertaken by management to deliver ongoing improvements to the control environment to mitigate the operational, legal and regulatory risks associated with embedding a recently established legal entity. The Committee, alongside the Audit Committee, received regular updates throughout the year and supported the operating model changes.
- Climate change: The Committee considered management's proposals to integrate climate change into the risk framework.
- Risk and control self-assessment and accountability: The Committee monitored management's actions to embed enhancements to the risk framework and driving accountability for the management of risk across the business. The Committee considered the CRO report on notable risk issues for the Remuneration Committee to make any necessary adjustments to the variable remuneration of senior management.
- Capital and Central Fund: The Committee ensured a robust and a high-quality Major Model Change Application was submitted to the PRA in 2021 and considered management's proposals on the longer-term plans to manage central capital.

The Committee also considered its annual agenda items to satisfy its responsibilities. This included;

- 2021 Regulatory and Economic Capital
- Policy approvals, such as Internal Control, Risk Management and Compliance Policies
- Quarterly ORSA reports from management, which included monitoring against risk appetite, heightened risk updates, strategic and emerging risks, risk and control self-assessment conclusions, control failure reporting, Financial Crime and Compliance management information, and capital and solvency updates.

Internal Control

The Council has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Council has delegated to the Risk Committee the responsibility for monitoring the identification of, and control by management, of material risks to the objectives of Lloyd's. The Executive Committee is responsible for the implementation and maintenance of the internal control system and for instilling a strong internal control environment across the Society.

The internal control system provides the foundation for the safe and sound operation of the business, ensuring compliance with relevant laws and regulations and the safeguarding of assets. The system is designed to reduce, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Central to the internal control system is the 'three lines of defence' model. Each person at the Society is part of the 'three lines of defence', which protects the Society and its employees.

- First Line – Front line business functions: responsible for the operation of the business, owning the risk of carrying out responsibilities correctly and for establishing, monitoring, and maintaining effective internal controls within their areas of responsibility, as well as adhering to firm wide controls as set out in corporate policies and procedures
- Second Line – Risk Management, Financial Crime and Compliance: specialised and independent functions responsible for oversight, ensuring business is conducted correctly and operating a framework which ensures risks are identified, assessed, and adequately managed in line with the Corporation's risk appetite
- Third Line – Internal Audit: an independent assurance function responsible for reviewing that business is conducted in accordance with relevant processes and controls (please refer to the Audit Committee report for further information).

Control profile reporting is provided to the Executive Risk Committee, Risk Committee and Audit Committee.

Report of the Risk Committee continued

Risk Management Framework

In accordance with the guidance of the UK Corporate Governance Code on internal control and Solvency II requirements, there is an established Risk Management Framework which facilitates the ongoing process for identifying, evaluating and managing significant business, operational, financial, compliance and other risks affecting the Society.

The Council manages exposure to these risks by setting and monitoring a risk appetite framework – how much risk is acceptable and what actions should be taken when appetites are exceeded.

The Risk Appetite Framework articulates the level of risk believed to be acceptable and desirable for the Society through a series of risk appetite statements and metrics.

The framework starts with Lloyd's purpose: Sharing risk to create a braver world. To deliver on this purpose, the Society sets three risk objectives to be continuously met: a sustainability objective, a solvency objective, and an operational objective. These risk objectives reflect the Council's view of the acceptable risk faced by Lloyd's and provide the three pillars of the risk appetite framework.

Within each pillar, there are several risk categories with metrics that define the amount of risk that the Council is willing to take. These metrics represent the key elements that could result in the risk objectives not being achieved for the pillar.

The metrics are monitored on an ongoing basis and reported to the Risk Committee each quarter in the ORSA report alongside any get to green actions if a threshold has been breached.

The Risk Management Framework includes several risk assessment techniques, which are tailored to specific risk areas. This includes the risk and control self-assessment (RCSA) process to reassess existing risks and identify any new risks. A bi-annual RCSA attestation process in place where risk owners attest to the assessment of their risks and effectiveness of mitigating controls.

The risk governance structure, which includes the Risk Committee, provides clear independent challenge to the risk takers within the Society and enables tailored risk management operating models, rather than a one-size-fits-all platform. The Risk Committee oversees, challenges and, where appropriate, escalates issues using management information from the Risk Management and Internal Control Frameworks, including via reports such as the Own Risk and Solvency Assessment (ORSA), details of the operating and regulatory environment and capital management reports.

A key objective of the Society's risk governance structure is to provide assurance to the Council that risks facing the Society are identified and managed in accordance with the approved policies and risk appetite.

Appropriate corporate policies and procedures are in place, with reviews being undertaken as appropriate in accordance with the Lloyd's Compliance Policy Framework and regulatory requirements.

Financial Review

This review should be read in conjunction with the financial statements of the Society on pages 117 to 170 and the Strategic Report on pages 2 to 15. The Strategic Report sets out the strategic priorities for both the Society and the Lloyd's market as a whole.

Operating surplus

The Society achieved an operating surplus for the year of £3m (2020: surplus of £101m). The operating surplus is set out below:

	2021 Total £m	2020 Total £m
Total income	515	511
Gross written premiums	2,732	5,978
Outward reinsurance premiums	(2,732)	(5,978)
Group operating expenses	(512)	(410)
Operating surplus	**3**	101

The Society

Total income for the Society increased to £515m in 2021 (2020: £511m). The increase was driven by Central Fund and member subscriptions income which increased due to increases in premium written by the market.

The increase in Central Fund and member subscriptions income is partially offset by a reduction in market modernisation levy income recognised as the levy is no longer charged. A residual amount of levy income has been earned in the current year. Overseas operating charges are consistent with the prior year.

Gross written premiums recognised is lower than the comparative period last year, which included £3,831m for the Part VII transfer of Syndicates' EEA insurance business, completed on 30 December 2020. Excluding the Part VII transfer, GWP has increased during the year from increased premium volumes and rate increases. All business underwritten through the Corporation is 100% reinsured to Lloyd's Syndicates.

Group operating expenses have increased to £512m (2020: £410m). This is mainly due to the acquisition of cover for the Central Fund and increased project expenses (including the Future at Lloyd's and the related impact of the contract between DXC Technology, the International Underwriting Association and Lloyd's), amortisation of capitalised assets brought into use, employment costs and professional fees.

There was no charge in the current or prior period in respect of claims arising within the Central Fund and no payments were made in respect of insolvent corporate members in the current or prior period.

Investment performance

	2021 £m	2020 £m
Finance income	52	2
Finance costs	(62)	(59)
Net finance income	**(10)**	(57)

The Society's investments, mostly held within the Central Fund, generated an investment result of £52m or a return of +1.0% during 2021 (2020: £2m, +0.1%). Excluding exchange rate movements, the investment result was a loss of £6m, reflecting a return of -0.1% (2020: £87m or +2.1%).

The Central Fund investment portfolio generated a positive return, including foreign exchange effects, of +1.6% benefiting from the portfolio's allocation to growth assets. The allocation to investment grade fixed income assets had an overall negative performance in 2021, as US Treasuries and UK Gilts both suffered annual losses for the first time since 2013. The Society's currency policy, which aims to preserve the solvency strength of the Central Fund by holding US dollars, resulted in mark to market gains from the US dollar strengthening against sterling over the year. Investment return was therefore higher when including foreign exchange impacts.

Financial markets over 2021 were again dominated by the COVID-19 pandemic. Most of the developed world began the year in lockdown, before the roll-out of the vaccine programmes allowed economies to reopen and provided a boost to the continuing recovery. Emergence of the Delta and Omicron variants have led to increased volatility in markets. Moreover, the continuing surge in inflation was also a result of the pandemic as demand outstripped supply, which remained constrained by COVID-19 related disruptions. Even with this background, equities again managed a positive return for the year as a whole. Fixed income markets fared worse due to the 'reflation' narrative pushing yields higher in Q1, inflation concerns continuing throughout the year, and finally the hawkish shift from the major central banks in Q4.

Taxation

A tax credit of £3m (2020: tax charge of £10m) on the surplus before tax of £2m (2020: £56m) has been recognised in the income statement for the year ended 31 December 2021. A tax charge of £4m (2020: tax credit of £16m) has been recognised in other comprehensive income. Further details are set out in note 12.

Movement in net assets

	2021 £m	2020 £m
Net assets at 1 January	3,023	2,601
Surplus for the year	5	46
Actuarial gain on pension schemes	76	(56)
Currency translation differences	(31)	16
Tax (charge)/credit on other comprehensive income	(4)	16
Issuance of syndicate loans	–	404
Dividends paid on syndicate loans	(19)	(4)
Net assets at 31 December[1]	**3,050**	3,023

1. The net assets of the Central Fund are included within the above amounts and at 31 December 2021 were £2,986m (2020: £2,957m).

Pension schemes

Lloyd's pension scheme

On an IFRS basis, the Lloyd's pension scheme valuation at 31 December 2021 was a deficit of £102m (2020: deficit of £183m) before allowance for a deferred tax asset of £26m (2020: £35m).

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

	2021 £m	2020 £m
Pension deficit as at 1 January	(183)	(137)
Pension expense recognised in the Group income statement	(3)	(3)
Employer contributions	11	11
Remeasurement effects recognised in the Group statement of other comprehensive income	73	(54)
Pension deficit as at 31 December	**(102)**	(183)

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

The triennial funding valuation as at 30 June 2019, undertaken by Willis Towers Watson, was completed during 2020. The total market value of the Scheme's assets at the date of the valuation was £810m and the total value of accrued liabilities was £889m, showing a funding deficit of £79m. These figures exclude both liabilities and the related assets in respect of money purchase Additional Voluntary Contributions (AVCs). A recovery plan, agreed by the Trustees, is in place.

Overseas pension schemes

The actuarial valuations of the overseas pension schemes at 31 December 2021 resulted in a deficit of £4m (2020: deficit of £4m). Further details are provided in note 13.

Solvency

Total assets for solvency purposes are set out below. The 2021 position is an estimate of the amount which will be finalised in April 2022 alongside Lloyd's Solvency and Financial Condition Report. The figures are calculated on a Solvency II basis. The solvency figures in the table below are unaudited:

	2021 £m	2020 £m
Central assets at 31 December	3,050	3,023
Subordinated debt	796	795
Total	3,846	3,818
Solvency valuation adjustments	1,356	543
Available central own funds to meet the Central Solvency Capital Requirement (SCR)	5,202	4,361
Excess central own funds not eligible to meet the Central SCR	(347)	–
Eligible central own funds available to meet the Central SCR	4,855	4,361
Central SCR	1,250	2,085
Central solvency ratio	**388%**	209%

The Central SCR covers central risks of the Society. This includes the risk that members may have insufficient capital to meet their losses. The Central SCR may be covered only by central eligible own funds of the Society.

The solvency valuation adjustments above include items such as valuation differences arising and assets being disallowed, due to the valuation principles used in Solvency II. It also includes recognition of the callable layer, which may be taken from member level capital to strengthen central resources.

The eligibility of assets to count towards the solvency coverage is also subject to tiering restrictions. All Tier 1 assets count fully towards the solvency coverage assessment. However, Tier 2 and Tier 3 assets may only count up to a maximum of 50% of the SCR. The inclusion of the Tier 2 subordinated debt issued means that Lloyd's Tier 2 and 3 central capital exceeded 50% of the Central SCR by £347m as at 31 December 2021 (2020: £nil).

Based on central own funds eligible to meet the Central SCR of £4.9bn (2020: £4.4bn), the estimated solvency ratio is 388% (2020: 209%). In setting contribution levels, account is taken of the Central SCR to ensure that Lloyd's is prudently, but competitively capitalised.

The central solvency ratio reported above is based on the solvency capital requirements (SCR), which have been calculated using the latest approved version of the Lloyd's Internal Model. The decrease in the SCR is driven by the modelled benefit of the Central Fund cover, refinements in the modelling of syndicate level volatility and updates for 2022 exposures and economic conditions, which reflect significant market growth and increased profitability from favourable emerging experience and interest rate rises.

Cash flows and liquidity

Cash and cash equivalents increased during the year ended 31 December 2021 by £9m to £1,183m (2020: £1,174m). Cash balances are maintained at appropriate levels to meet the short-term operating expenses of the Society. Any surplus cash balances are invested and are included as financial investments within the Group statement of financial position.

The Corporation's free cash balances[1] are regularly monitored. Free cash represents the amounts, both at bank and on deposit, held in the UK and available to the Corporation to meet operating expenses, including those of overseas operations, excluding any balances held in respect of insurance and arbitration activities. Free cash balances at 31 December 2021 were £268m (2020: £460m).

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

Central Fund investment strategy

Central Fund investment strategy is considered in three parts.

The role of the Central Fund, the third link in the chain of security, is to support central solvency by adding an additional set of assets to pay a member's insurance liabilities once that member's Premium Trust Fund (PTF) and Funds at Lloyd's (FAL) have been exhausted. Acceptable levels of investment risk are taken on to grow the value of the Central Fund in line with market exposure.

In order to achieve this objective, a proportion of assets is assigned to meet liquidity needs, based on a prudent estimate of net cash flows. These assets are commingled with other liquid assets of Society companies and invested in bank deposits and other short-term securities, with maturities of up to 12 months. The objective is to optimise income, for a low level of risk, while ensuring that all cash flow requirements are met as they fall due.

A majority of assets are invested in fixed interest securities of a high credit quality and typically medium-term maturities. The financial risk exposures represented by subordinated debt securities issued by the Society are considered when determining the disposition of fixed interest investments. The return objective is to optimise investment return in the longer term while maintaining overall financial risk within defined limits.

A proportion of assets are invested in equities and other return seeking asset classes, also with an aim to optimise investment return in the longer term without exceeding defined risk tolerances. These investments are diversified among different asset classes to help manage risk, and third-party investment managers are retained to manage these investments within clearly defined investment parameters specified by the Society. Equity investments currently include global developed and emerging market equities. Investments in other growth assets include multi-asset credit.

During 2021, the Corporation considered a re-risking of the Central fund following a de-risking exercise which was undertaken as part of a capital management exercise in 2020, underpinned by the positive impact of the Central Fund insurance contract on the central solvency ratio and contingent on the approval of the Major Model Change application to the Prudential Regulation Authority (PRA). With the Council's authority, the Investment Committee approved the introduction of an interim SAA of 80% core assets / 20% growth assets with effect from 1 January 2022.

It is the intention of the Investment Committee to incorporate private assets in the Central Fund portfolio as part of this implementation.

Financial risk management and treasury policies

Overview

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

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

Credit risk

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

Trade and other receivables

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

Financial investments

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

Insurance contract assets

Insurance contract assets are all recoverable from Lloyd's syndicates. All syndicates benefit from the Lloyd's chain of security, therefore credit risk for insurance contract assets is concentrated with the Society of Lloyd's. The Society monitors the underwriting profitability of syndicates by responding to the risk appetite of the market, adjusting business planning for future years.

Guarantees

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

1. Free cash balances are a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is an Alternative Performance Measure (APM), with further information available on page 174.

Liquidity risk

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

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

The Society had no committed borrowing facilities as at 31 December 2021 or 2020. Details of the senior loan notes placed by the Society are included in note 24(i).

The Society has a strong free cash balance at 31 December 2021 of £268m (2020: £460m), with additional holdings in short-term investments, making the Society's liquidity very strong.

The Society has not experienced any liquidity constraints or inability to settle its obligations when due as a consequence of the current economic environment, brought about by the COVID-19 pandemic.

Market risk

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

The position is reviewed regularly by the Investment Committee. Investments are actively monitored on a fair value basis and all investments are designated as fair value through profit or loss, other than statutory insurance deposits and short term and security deposits which are held at amortised cost.

As part of the strategy to mitigate these risks in relation to the equity portfolio of investments, the Society has entered into a number of equity futures hedges.

In response to the impact of COVID-19 on the financial markets, the Society reduced its exposure to risk assets in the Central Fund investment portfolio to mitigate the impact of market volatility and to lower market risk.

The valuation of the Lloyd's Pension Scheme requires significant judgement and is significantly impacted by short-term market movements. In particular, the increase in market bond yields during the period has led to a decrease in the actuarial value of Scheme liabilities at 31 December 2021. Further details, including sensitivity analysis, are included in note 13.

Foreign currency risk

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

Foreign currency exposures arising from overseas investments are considered together with any foreign currency liabilities of the Society, as well as the underlying currency mix of the Central Solvency Capital Requirement, of which a high proportion is US dollar based. Net foreign currency exposures arising are managed through the use of forward foreign exchange contracts.

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

The has been no change to the Society's strategy in the current economic environment brought about by the COVID-19 pandemic. The Society continues to closely monitor exposure to foreign currency transactions, along with the use of forward foreign exchange contracts to mitigate a portion of the investment exposure governed by Lloyd's risk appetite. As a result of this strategy, the Society has a significant US dollar exposure. As the US dollar strengthened against sterling, the Society recorded a gain on foreign exchange of £58m, increasing the investment return for the period.

Interest rate risk

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

Short-term assets held by the Society may be significant at certain times. These are invested in money market instruments of up to 12 months' duration with the objective of maximising current income while meeting liquidity requirements.

Interest rate risk arising from the requirement to make fixed rate coupon payments in respect of the Society's senior and subordinated debt, and discretionary fixed rate coupon payments in respect of the Society syndicate loans, is considered in conjunction with the market risk arising on the Society's investments.

As part of the strategy to mitigate these risks, the Society has entered into a number of interest rate swap contracts.

Capital management

The Society monitors its capital to ensure that it maintains sufficient assets for both operational and solvency purposes. Further disclosures regarding financial instruments are provided in note 18 and 20. Further details regarding solvency are given on page 105.

Charitable expenditure

The Society incurred £5m of charitable expenditure during the year. £4m was in relation to Futureset (2020: £1m), formally launched in February 2021, initially as a result of structural issues highlighted by COVID-19, and aims to provide a global platform and community to create and share risk insight, expertise and solutions to the insurance market's most challenging problems. The remaining £1m was donated to Lloyd's Charities Trust for the Lloyd's Market Awards (2020: £1m).

Related party transactions

Except for disclosures made in note 29, no related party had material transactions with the Society in 2021.

Going concern and viability statement

Assessment of prospects

The Lloyd's business model and strategy are central to an understanding of its prospects and details can be found on pages 8 to 15. The strategy is subject to ongoing monitoring and development.

The prospects of the Lloyd's market, including the Society, are primarily assessed through the annual strategic review and planning process. The output of the review is a strategic plan to deliver any recommendations. The review is led by the Chief Executive Officer through the Executive Committee and all relevant departments are involved. The Council participate fully in the process and part of their role is to consider whether the strategic plan continues to take appropriate account of the external environment and meets the needs of the market.

The review determines a set of medium-term targets, key performance indicators for the current year and activities to deliver on those metrics. The latest three year strategic plan (Lloyd's Strategy 2022 to 2024) was approved in November 2021 following completion of the latest review cycle. As part of the planning process, a financial budget for 2022 and financial assumptions for 2023 and 2024 were prepared for the Society.

Assessment of viability

The Council receives quarterly reports from the Risk Committee on the key risks and risk appetites, including the Society's own risk and solvency assessment as well as stress testing resilience to severe yet plausible scenarios. The principal risks and material uncertainties that would threaten the business model, future performance, liquidity or solvency of the Lloyd's market as a whole are set out on page 10. In addition, the financial statements include notes on investment strategy, financial risk management, treasury policies and sensitivity analysis.

The Lloyd's capital structure is set out in the link provided on page 177 and Lloyd's is required to maintain solvency on a continuous basis. The solvency position of each member, and thus of Lloyd's as a whole, is monitored on a regular basis. Council considers biannually management's assessment of the current solvency position and the forecast position over a three year period, including resilience of central assets to meet the Central SCR.

Viability statement

While the members of the Council have no reason to believe that the Society will not be viable over a longer period, the period over which the assessment is based is the three year period to 31 December 2024, being the period considered under the strategic plan, including the detailed budgets prepared, and the solvency projections of the Society.

The members of the Council believe that the Society is well placed to manage its business risks successfully, having taken into account the current economic outlook, and confirm that they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2024.

Going concern

After making enquiries, the members of the Council consider it appropriate to adopt the going concern basis in preparing the Society's financial statements.

Statement as to disclosure of information to auditors

Having made enquiries, the Council confirms that:

– to the best of each Council member's knowledge and belief there is no information relevant to the preparation of the Society Report of which the Society's auditors are unaware; and

– each Council member has taken all the steps a Council member might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Society's auditors are aware of that information.

Outlook

Central assets, which exclude subordinated liabilities, are expected to remain over £3bn in 2022. Following its meeting on 23 March 2022, the Council gave no further Undertakings to corporate members to use the New Central Fund to discharge the liability of members with unpaid cash calls who do not have the resources to meet those calls. After taking account of the expiry of unutilised Undertakings, the net movement in Undertakings is £nil (see note 5). The operating expenses for the Corporation (excluding organisational transformation costs) and its subsidiaries are budgeted to be £344m in 2022*.

The Russian invasion of Ukraine will have short, medium and long term impacts on both Lloyd's performance and balance sheet. For the Society, there are operational as well as financial impacts, all of which are being actively monitored and appropriate plans are in place. Our consideration of the risks to the business and our responses are set out on page 10 in the Strategic Report. As referred to in note 30 of the Society's financial statements, Events after the reporting period, the Society's investments are largely fixed income and the strategic asset allocation has limited direct exposure to the crisis.

Transition to UK GAAP

The Council have decided to move from IFRS to UK GAAP as it considers it to be a more appropriate basis for financial reporting for the Society than IFRS. It will bring the basis of reporting in line with market reporting in the Pro Forma financial statements, is widely recognised and understood by readers of accounts, and it improves the efficiency of the Society's reporting processes.

* Budgeted operating expenses is a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is an Alternative Performance Measure (APM), with further information available on page 174.

Statement of the Council's Responsibilities for the Financial Statements

The Council is responsible for preparing the Group financial statements in accordance with byelaws made under Lloyd's Act 1982, and international financial reporting standards as issued by the International Accounting Standards Board ('IFRS as issued by the IASB').

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

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

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

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

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

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

Report on the audit of the financial statements

Opinion

In our opinion, the Society of Lloyd's Group financial statements:

– give a true and fair view of the state of the Group's affairs as at 31 December 2021 and of its result and cash flows for the year then ended;

– have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and

– have been prepared in accordance with the requirements of the Council byelaws made under the Lloyd's Act 1982.

We have audited the financial statements, included within the Lloyd's Annual Report 2021 (the "Annual Report"), which comprise: the Group Statement of Financial Position as at 31 December 2021; the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity and the Group Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Society of Lloyd's in the period under audit.

Our audit approach

Overview

Audit scope

– We performed full scope audit procedures over three reporting units for the Society of Lloyd's Group audit being the Central Fund, the Corporation of Lloyd's and Lloyd's Insurance Company S.A. (LIC). For certain other reporting units, we performed audit procedures over specified financial statement line item balances. For the remaining reporting units that were not inconsequential, analytical procedures were performed by the Group engagement team.

Key audit matters

– Valuation of the provision for insurance claims in LIC.

– Valuation of estimated premium income included within LIC revenue.

– Valuation, accuracy, presentation and disclosure of the DXC transaction.

– Valuation of the Lloyd's Pension Scheme gross liabilities.

Materiality

– Overall materiality: £71,100,000 (2020: £50,000,000) based on 0.5% of total assets.

– Performance materiality: £53,300,000 (2020: £37,500,000).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The DXC transaction is a new key audit matter this year. The impact of COVID-19 and the Part VII transfer received into LIC, which were key audit matters last year, are no longer included. The effects of the pandemic, and its impact on the Society of Lloyd's and its performance, has reduced significantly in the year relative to prior year and the Part VII transfer occurred in the prior year only. The valuation of the provision for insurance claims and the valuation of estimated premium income included within LIC have been raised as Key Audit Matters. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of the provision for insurance claims in LIC	
See notes 2(g) and 6 of the Society Report for disclosures of related accounting policies, judgements and estimates. The insurance contract liabilities balance of £6,873m (2020: £7,095m) includes provision for insurance claims (£5,654m, 2020: £6,021), the majority of which relate to LIC. Certain key data sources, methods and assumptions have a material impact on the valuation of the provision for insurance claims and therefore required more attention from us.	Our work over the provision for insurance claims in LIC was performed by our local component audit team and actuarial specialists with input and oversight from the Group engagement team. We performed walkthroughs and tested controls in place with respect to the valuation of the provision for insurance claims. We supplemented this work with tests of detail. Specifically, we: – Reviewed and tested the reconciliation of reserving data; – Tested the completeness and accuracy of data used in the actuarial projections; – Independently developed a point estimate in respect of the provision for insurance claims related to higher risk cohorts and compared our estimates to those booked by management. In all cases where significant differences were identified we obtained satisfactory explanations; and – For those cohorts which were not subject to the independent re-projection work above, we tested the methodologies and assumptions used by management. The results of our procedures indicated that the valuation of the provision for insurance claims in LIC were supported by the evidence we obtained.
Valuation of estimated premium income included within LIC revenue	
See notes 2(g) and 4 of the Society Report for disclosures of related accounting policies, judgements and estimates. Gross written premiums of £2,732m (2020: £5,978m) include estimated premium income. The gross written premium is largely comprised of LIC revenue which amounts to £2,659m (2020: £5,886m). The Group recognises a material amount of estimated premium income through LIC in its financial statements using an actuarial technique applied to historic premium data. The valuation of estimated premium income in LIC is therefore subject to a number of significant assumptions which required attention from us.	Our work over estimated premium income in LIC was performed by our local component audit team with input and oversight from the Group engagement team. Specifically, we: – Updated our understanding of the controls in place to establish estimated premium income and tested the controls as appropriate; – Evaluated and tested the methodology and key assumptions used by management in setting estimated premium income; and – Independently developed a point estimate in respect of estimated premium income and compared our estimates to those booked by management. In all cases where significant differences were identified we obtained satisfactory explanations. The results of our procedures indicated that the valuation of the estimated premium income included within LIC's reported revenue was supported by the evidence we obtained.

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

Key audit matter	How our audit addressed the key audit matter
Valuation, accuracy, presentation and disclosure of the DXC transaction	
See notes 2(p), 7 and 19(b) of the Society Report for disclosures of related accounting policies, judgements and estimates. During December 2021 the Society of Lloyd's signed a contract with DXC Technology and the International Underwriting Association (IUA) in an agreement to build solutions to digitalise, streamline and fully automate processing for the Lloyd's and London market. Prepayments and accrued income of £85m (2020: £19m) and Group operating expenses of £512m (2020: £410m) include amounts paid related to this contract. This contract is a significant transaction for the Society, therefore, the accounting treatment and related disclosures were determined as requiring attention from us.	Our work over the DXC transaction focused on obtaining an understanding of the transaction, including obtaining the signed contracts, and assessing the related accounting treatment. Specifically, we: – Inspected the signed contracts and evaluated the accounting policy being applied; – Engaged with our PwC valuations specialists to evaluate, of the amount paid to DXC, how much should be expensed and how much should be capitalised as a prepayment for the provision of future services. This involved assessing the methodology applied and evaluating the reasonableness of the key assumptions; and – Evaluated the relevant disclosures associated with this transaction. The results of our procedures indicated that the valuation, accuracy, presentation and disclosure of the DXC transaction were supported by the evidence we obtained.
Valuation of the Lloyd's Pension Scheme gross liabilities	
See notes 2(k) and 13 of the Society Report for disclosures of related accounting policies, judgements and estimates. The Society of Lloyd's operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme. The gross liabilities of the scheme total £1,036m (2020: £1,089m). Certain key assumptions have a material impact in determining the valuation of the Lloyd's Pension Scheme gross liabilities and therefore were subject to more audit attention from us. We focused on these key assumptions which included the discount rate; inflation; and post-retirement life expectancy.	We used our actuarial experts to evaluate the key assumptions used to value the Lloyd's Pension Scheme gross liabilities. This included comparison of Lloyd's assumptions to our own independent expectations based on our knowledge of the Lloyd's Pension Scheme and current market conditions. Specifically, we: – Evaluated the discount rate used in the valuation of the Lloyd's Pension Scheme gross liabilities against our expectations, taking into account the duration of the pension liability and investment market conditions at 31 December 2021; – Tested the retail and consumer price inflation rates used in the valuation of the Lloyd's Pension Scheme gross liabilities, taking into account the duration of the pension liability and market expectations at 31 December 2021; and – Assessed whether the post-retirement life expectancy assumptions were in line with the recent mortality experience of the Lloyd's Pension Scheme and with assumptions made by comparable UK companies, and whether there is an appropriate allowance for how rates of mortality may change in the future. The results of our procedures indicated that the assumptions used in the valuation of the Lloyd's Pension Scheme gross liabilities were supported by the evidence we obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which it operates.

The Society of Lloyd's financial statements are a consolidation of a number of reporting units. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, and from other PwC network firms operating under our instruction. For the audit of the Society of Lloyd's financial statements, all audit procedures were performed centrally by the Group engagement team with the exception of the audits of the financial information of Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited. Where the work was performed by a component auditor, we determined the level of involvement we needed to have in the audit work at that reporting unit to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. In our role as Group auditors, we exercised oversight of work performed by component auditors, including performing the following procedures: maintained an active dialogue with reporting component audit teams throughout the year, including involvement in the risk assessment process during the planning phase of the audit; worked closely with the reporting component audit teams to develop detailed work plans in key areas of focus for the audit; attended meetings with local management; and performed detailed reviews of the reporting component audit teams working papers; and attended meetings with local management.

For each reporting unit, we determined whether we required an audit of their complete financial information or whether specified procedures for particular balances would be sufficient. Audit procedures were performed over the complete financial information for the Corporation of Lloyd's, the Central Fund and Lloyd's Insurance Company S.A. reporting units to address the key audit matters identified above. Additionally, we identified Lloyd's Insurance Company (China) Limited and Additional Securities Limited, where certain account balances were considered to be significant in size in relation to the Society of Lloyd's and scoped our audit to include detailed testing of those account balances. For the remaining reporting units that were not inconsequential, analytical procedures were performed by the Group engagement team.

Together, the reporting units where we performed our audit work accounted for 90% of the Society of Lloyd's total assets and 79% surplus before tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£71,100,000 (2020: £50,000,000).
How we determined it	0.5% of total assets, rounded down to the nearest £1 million.
Rationale for benchmark applied	We have identified the key financial statement users as rating agencies, syndicate members, policyholders and regulators, who will be primarily concerned with the overall asset position of the Society of Lloyd's, as those assets provide financial security for the market. Therefore, we have assessed that it is appropriate to use an asset-based benchmark for the materiality determination for the 31 December 2021 year end audit.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £35,000,000 and £65,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level of probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £53,300,000 (2020: £37,500,000) for the Group financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1,200,000 (2020: £1,200,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Council's assessment of the Group's ability to continue to adopt the going concern basis of accounting included:

- Validating management's analysis and supporting documentation as it related to the Society of Lloyd's going concern;
- Assessing management's scenarios whereby they considered plausible downside sensitivities;
- Performing further sensitivity analysis on management's going concern assessment and assessing the impact on the Society of Lloyd's capital, solvency and liquidity positions; and
- Assessing the disclosures made in the financial statements in respect of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Council's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's ability to continue as a going concern.

In relation to the Council's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Council's statement in the financial statements about whether the Council considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Council with respect to going concern are described in the relevant sections of this report.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Council is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Council members' remuneration

The Society of Lloyd's voluntarily prepares a Report of the Remuneration Committee in accordance with the provisions of the Companies Act 2006. The Council requested that we audit the part of the Report of the Remuneration Committee specified by the Companies Act 2006 to be audited as if the Society of Lloyd's were a quoted company.

In our opinion, the part of the Report of the Remuneration Committee to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

ISAs (UK) require us to review the Council's statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Society of Lloyd's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Council's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Council's statement in the financial statements about whether it considered it appropriate to adopt the going concern basis of accounting in preparing them, and its identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Council's explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate; and
- The Council's statement as to whether it has a reasonable expectation that the Society of Lloyd's will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Council's statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the Council's process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Council's statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the Council's statement relating to the Society of Lloyd's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the Council for the financial statements

As explained more fully in the Statement of the Council's Responsibilities for the financial statements, the Council is responsible for the preparation of the Financial Statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Council is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK, European, US and China regulatory principles, such as those governed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Lloyd's Act 1982. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate the Group's results and management bias applied in establishing material accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- discussions with management, the Audit Committee, Head of Internal Audit, senior management involved in the Risk and Compliance function and the Group's legal function, including consideration of known or suspected instances of non-compliance with laws, regulations and fraud, and assessment of matters reported on the Group's whistleblowing helpline and management's investigation of such matters;
- evaluation of management's internal controls designed to prevent and detect irregularities, including the controls around related party transactions;
- reading key correspondence with the Group's regulators, including for example, the Prudential Regulation Authority and the Financial Conduct Authority, in relation to compliance with laws and regulations;
- testing and challenging, where appropriate, the assumptions and judgements made by management in their significant accounting estimates, for example, in relation to the valuation of the provision for insurance claims, the valuation of Lloyd's Pension Scheme gross liabilities, and the valuation of estimated premium income recognised;
- identifying and testing journal entries, in particular, any journal entries posted with unusual account combinations including those affecting revenue, expenses, post-close entries, or journals posted by employees outside of the finance function;
- reviewing internal audit reports so far as they related to non-compliance with laws and regulations and fraud; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

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

Use of this report

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

Other required reporting

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

- we have not obtained all the information and explanations we require for our audit;
- proper accounting records have not been maintained by the Society; and
- certain disclosures of the Council's remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members in July 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is nine years, covering the years ended 31 December 2013 to 31 December 2021.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 March 2022

Group Income Statement

(For the year ended 31 December 2021)

	Note	2021 £m	2020 £m
Corporation operating income		372	384
Central Fund income		143	127
Gross written premiums	4, 6	2,732	5,978
Outward reinsurance premiums	4, 6	(2,732)	(5,978)
Total income	4	**515**	511
Gross insurance claims and insurance expenses incurred	6	(1,818)	(5,824)
Insurance claims and expenses recoverable from reinsurers	6	1,818	5,824
Group operating expenses	3, 7	(512)	(410)
Operating surplus		**3**	101
Finance costs	9	(62)	(59)
Finance income	9	52	2
Share of profits of associates and joint ventures	11	9	12
Surplus before tax		**2**	56
Tax credit/(charge)	12	3	(10)
Surplus for the year		**5**	46

Group Statement of Comprehensive Income

(For the year ended 31 December 2021)

	Note	2021 £m	2020 £m
Surplus for the year		5	46
Other comprehensive income/(expense)			
Remeasurement gain/(loss) on pension liabilities	13	73	(54)
Share of remeasurement gain/(loss) on associate pension liabilities	13	3	(2)
Tax (charge)/credit relating to items that will not be reclassified	12	(4)	16
Currency translation differences		(31)	16
Net other comprehensive surplus/(deficit) for the year		**41**	(24)
Total comprehensive income for the year		**46**	22

Group Statement of Financial Position

(As at 31 December 2021)

	Note	2021 £m	2020 £m
Assets			
Intangible assets	14	58	54
Lloyd's collection	15	15	15
Plant and equipment	15	10	13
Right-of-use asset	16	135	155
Deferred tax asset	12	57	56
Tax receivable		–	29
Investment in associates and joint ventures	11	36	24
Insurance contract assets	6	6,873	7,095
Loans recoverable	17	28	32
Financial investments at fair value through profit and loss	18	2,690	2,676
Financial investments at amortised cost	18	1,568	1,433
Trade and other receivables due within one year	19(a)	1,609	1,713
Prepayments and accrued income	19(b)	85	19
Derivative financial instruments	20	13	21
Cash and cash equivalents	21	1,183	1,174
Total assets		**14,360**	14,509
Equity and liabilities			
Equity			
Accumulated reserve	22(a)	2,526	2,468
Translation reserve	22(b)	(5)	26
Revaluation reserve	22(c)	15	15
Syndicate loans	23	514	514
Total equity		**3,050**	3,023
Liabilities			
Senior and subordinated debt	24	1,095	1,094
Insurance contract liabilities	6	6,873	7,095
Pension liabilities	13	106	187
Provisions	25	53	66
Loans funding statutory insurance deposits		807	805
Trade and other payables	26	2,094	1,929
Accruals and deferred income		124	124
Lease liability	16	138	154
Derivative financial instruments	20	20	32
Total liabilities		**11,310**	11,486
Total equity and liabilities		**14,360**	14,509

The financial statements on pages 117 to 170 were approved and authorised by the Council on 23 March 2022 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Group Statement of Changes in Equity

(For the year ended 31 December 2021)

	Note	Accumulated reserve £m	Translation reserve £m	Revaluation reserve £m	Syndicate loans £m	Total equity £m
At 1 January 2020		2,466	10	15	110	2,601
Syndicate loans		–	–	–	404	404
Dividend paid on syndicate loans		(4)	–	–	–	(4)
Surplus for the year		46	–	–	–	46
Net other comprehensive (deficit)/surplus for the year		(40)	16	–	–	(24)
At 31 December 2020	22, 23	2,468	26	15	514	3,023
Dividend paid on syndicate loans		(19)	–	–	–	(19)
Surplus for the year		5	–	–	–	5
Net other comprehensive surplus/(deficit) for the year		72	(31)	–	–	41
At 31 December 2021	22, 23	**2,526**	**(5)**	**15**	**514**	**3,050**

Group Statement of Cash Flows

(For the year ended 31 December 2021)

	Note	2021 £m	2020 £m
Cash generated from operations	27	249	33
Tax refunded/(paid)		26	(33)
Net cash generated from operating activities		**275**	–
Cash flows from investing activities			
Purchase of intangible assets	14	(19)	(66)
Purchase of plant and equipment	15	–	(4)
Purchase of financial investments	18	(4,142)	(3,074)
Receipts from the sale of financial investments	18	4,102	3,183
Increase in short-term deposits	18	(132)	(148)
Dividends received from associates and joint ventures	11	–	14
Investment in joint venture	11	–	(7)
Interest received		28	37
Dividends received	9	5	5
Settlement of derivative contracts		(21)	(54)
Net cash used in investing activities		**(179)**	(114)
Cash flows from financing activities			
Syndicate loans	23	–	404
Senior loan note issuance		–	299
Interest paid on senior debt		(8)	(4)
Interest paid on subordinated notes		(38)	(38)
Dividend paid on syndicate loans		(19)	(4)
Increase in borrowings for statutory insurance deposits		2	115
Lease payments	16	(24)	(25)
Net cash (used in)/generated from financing activities		**(87)**	747
Net increase in cash and cash equivalents		9	633
Effect of exchange rates on cash and cash equivalents		–	8
Cash and cash equivalents at 1 January		1,174	533
Cash and cash equivalents at 31 December	21	**1,183**	1,174

Notes to the Financial Statements

(For the year ended 31 December 2021)

1. Basis of preparation and consolidation

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

The Society's main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The Group financial statements of the Society comprise the financial statements of the Society and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interest in associates and joint ventures as at each reporting date. Subsidiary undertakings are consolidated from the date of their acquisition, being the date on which the Society obtains control, and continue to be consolidated until the date that such control ceases. The Group financial statements are prepared using consistent accounting policies. All intra-Group balances and transactions are eliminated in full.

The Group financial statements have been prepared in accordance with international financial reporting standards as issued by the International Accounting Standards Board ('IFRS as issued by the IASB') and on a historic cost basis, except for financial assets and liabilities at fair value through profit or loss and the Lloyd's Collection, which are measured at fair value.

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

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

2. Principal accounting policies

Summary of significant accounting policies

This section provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent that they have not been superseded by accounting policies adopted, due to amendments to accounting standards that became effective from 1 January 2021 (see note 2(r)). The policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Critical accounting estimates and assumptions

In preparing the financial statements, significant estimates and judgements are made in respect of some of the items reported.

The main areas of accounting judgement on policy application are:

- Revenue – income recognition – some judgement has been applied in determining when service obligations have been completed (see note 2(j)); and
- Provisions – judgement is required to determine whether estimated future 1986 building repair and maintenance expenses require provision (see note 25, Lease cost provision).

Information about the main accounting assumptions made by the Society about the future, and other sources of estimation uncertainty at the end of the reporting period, that could result in material misstatement of the carrying amount of assets and liabilities in the next financial year, are provided in the following sections:

- Employee benefits – defined benefit pension scheme – significant assumptions are made to estimate the actuarial value of scheme liabilities (see note 2(k) and note 13, Principal actuarial assumptions in respect of IAS 19); and
- Insurance and reinsurance contracts – liabilities and reinsurance assets – significant assumptions are made to estimate insurance contract liabilities and assets, in particular, the provision for insurance claims, including claims incurred but not reported (see note 2(g) and note 6, Provision for insurance claims).

(b) Plant and equipment

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

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

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

(c) Intangible assets

Intangible assets recognised by the Society consist of software development assets. Costs incurred in acquiring and developing computer software are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable asset of value. Software development is held at cost less accumulated amortisation and any impairment in value. Capitalised software is amortised on a straight line basis over its expected useful life. Computer software typically has an expected useful life of up to seven years, although a longer lifetime may be determined for certain business systems.

(d) Lloyd's Collection

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

(e) Investment in associates and joint ventures

An associate is an entity in which the Society has significant influence, and which is not a subsidiary undertaking or joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Society's investments in associates and joint ventures are accounted for under the equity method of accounting.

Under the equity method, the investments in associates and joint ventures are carried in the Group statement of financial position at cost plus post-acquisition changes in the Society's share of net assets of the associates and joint ventures. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Society determines whether it is necessary to recognise any additional impairment loss with respect to the Society's net investment in an associate or joint venture. The Group income statement reflects its share of the results of operations of associates and joint ventures. The Society's share of associates' other comprehensive income is recognised in the Group statement of comprehensive income.

(f) Impairment of non-financial assets

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

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

(g) Insurance and reinsurance contracts

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

Insurance and reinsurance contracts are defined as those containing significant insurance risk which arises if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expired.

The Society's policy for measuring balances for insurance contracts issued by overseas subsidiaries is to apply the valuation technique used in the issuing entity's local statutory or regulatory reporting. Therefore, for insurance contracts issued by Lloyd's Insurance Company (China) Limited (Lloyd's China), balances are calculated in accordance with the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP). For insurance contracts issued by, or transferred to Lloyd's Insurance Company S.A. (Lloyd's Europe), balances are calculated in accordance with Belgian Generally Accepted Accounting Principles (Belgian GAAP). There are no differences between PRC GAAP, Belgian GAAP and IFRS as issued by the IASB that have a material impact on the Society financial statements.

Gross premiums and outward reinsurance premiums are presented on a written basis in the Group income statement as we believe this provides relevant information on the volume of insurance business underwritten during the period. Gross written premiums are recognised on the date of inception of the contract as the total estimated premiums receivable. Gross written premiums include the impact of the difference between the estimated premium recognised in previous periods and actual income received.

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

Reinsurance contracts

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

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Society may not receive all amounts due to it under the terms of the contract and this can be measured reliably.

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

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

Insurance premiums

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

Outward reinsurance premiums

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

Insurance claims

Claims incurred in insurance related activities consist of claims and claims handling expenses paid during the year together with the movement in outstanding claims. Outstanding claims are the estimated final cost of all claims incurred, but not settled, at the reporting date, including claims incurred but not reported. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are reflected within the Group financial statements of later years when differences between provision and subsequent settlement become apparent. Note 6 provides further details of how insurance claims are estimated.

Outstanding claims reserves include a risk margin. A liability adequacy test is undertaken annually. The test undertaken meets the minimum requirements of paragraph 16 of IFRS 4; refer to note 6 for details.

2. Principal accounting policies continued

(h) Financial assets

Financial assets classification

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

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

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

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Society's financial assets at amortised cost include short term and security deposits, statutory insurance deposits, loans recoverable and trade and other receivables due within one year.

Financial assets at fair value through profit or loss include financial assets held for trading, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. This category includes government fixed interest securities, corporate securities, emerging market investments, equities, hedge funds, multi-asset investments and loan investments.

Initial recognition

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

Subsequent measurement

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

- Financial instruments at fair value through profit or loss are carried in the Group statement of financial position at fair value. Gains and losses arising from changes in their fair value are included in the Group income statement in the period in which they arise. When financial assets are interest bearing, interest calculated using the effective interest method is recognised in the Group income statement; and
- Where financial instruments are carried at amortised cost, the value is computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Society has transferred its right to receive cash flows from the asset and has substantially transferred all the risks and rewards; or
- The Society has assumed an obligation to pay the received cash flows in full and has substantially transferred all the risks and rewards; or
- The Society has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset; and
- The Society considers control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third-party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

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

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

Expected credit losses of financial assets

The Society recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Society expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, allowance is made for credit losses that result from default events that are possible within the next 12 months (12 month expected credit losses). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (lifetime expected credit losses).

For trade receivables and insurance contract assets, the Society applies a simplified approach in calculating expected credit losses. Therefore, the Society does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Society has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Society considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Society may also consider a financial asset to be in default when internal or external information indicates that the Society is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Society. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(i) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, at fair value through profit or loss, loans and borrowings or as payables, as appropriate, and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Society. Gains or losses on liabilities held for trading are recognised in the Group income statement.

Loans and borrowings and payables

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Group income statement when the liabilities are derecognised, as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the Group income statement. This category generally applies to interest bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Group income statement.

Syndicate loans

These comprise loans issued to strengthen the Society's central resources and facilitate the injection of capital into Lloyd's Europe.

The amount collected was based on a percentage of the syndicate gross written premium forecast. The loans are treated as equity as there is no contractual obligation to settle the loans and the Society may elect not to settle at its sole discretion (other than on liquidation). Further details on syndicate loans can be found in note 23.

(j) Revenue

The Society supports the market to underwrite risks through its trading rights and distribution network. It also ensures that the market remains well capitalised and provides services to enable the market's efficient operation. Revenue consists of members' subscriptions, various market charges and Central Fund contributions.

Revenue from contracts with customers is recognised when services are transferred to the customer, at an amount that reflects the consideration to which the Society expects to be entitled in exchange for those services.

- Members' subscriptions, market charges and other services are recognised in the period for which the service is provided. These are recognised on a basis that reflects the timing, nature and value of the benefits provided;
- Central Fund contributions from members underwriting in the year are recognised in the period for which the service is provided;
- Other income is recognised on a basis that reflects the timing, nature and value of the benefits provided; and
- Reinsurance commissions are earned on premiums earned by Lloyd's Europe and on premiums written by Lloyd's China.

For members' subscriptions, market charges and other services, and Central Fund contributions, the period for which the service is provided is the financial year and performance obligations are generally satisfied within the financial year. Revenue arising in respect of members' subscriptions and Central Fund contributions are calculated by applying a percentage to the forecast gross written premiums of each syndicate underwriting year.

Where performance obligations are not satisfied in the financial year, revenue is recognised based on the extent to which service obligations are completed. Judgement has been applied in determining revenue recognised for the year.

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

(k) Employee benefits

The Society accounts for pensions and similar benefits (principally income protection due to ill health) under IAS 19 Employee Benefits. The Society operates a number of defined benefit pension schemes in which obligations are measured at discounted present value using the projected unit credit method, while plan assets are recorded at fair value. Judgement is required in determining the economic and demographic assumptions underpinning the estimated actuarial value of scheme liabilities. These judgements are based on observable historic data and in many cases, publicly available information. The operating and financing income and costs of the scheme are recognised in the Group income statement. Service costs, financing income (expected return on plan assets) and costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in full in the Group statement of comprehensive income in the period in which they occur.

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

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

2. Principal accounting policies continued

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

(l) Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date.

(m) Central Fund claims and provisions

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

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

Recoveries in respect of Undertakings previously given are credited to the Group income statement when contractually committed to be received.

(n) Leases

The lease liabilities in relation to property are measured at the present value of the remaining minimum lease payments. Lease liabilities are discounted at the Society's incremental borrowing rate. Having conducted sensitivity analysis, the Society has applied a single portfolio incremental borrowing rate of 5.1% (2020: 5.1%), being the assessed weighted average incremental borrowing rate, to all lease liabilities.

The Society recognises a right-of-use asset in the Group statement of financial position, representing its right to use the underlying asset. The right-of-use asset is measured as the lease liability plus lease payments made before or at the commencement date, and restoration costs. A depreciation expense is recognised in the Group income statement, together with an interest expense calculated using the Society's weighted-average incremental borrowing rate.

Practical expedients applied

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

- The application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The use of hindsight when determining the lease term if the contracts contain options to extend or terminate the lease;
- The exclusion of initial direct costs from the measurement of the right-of-use asset;
- IFRS 16 has only been applied to contracts that were previously classified as leases;
- The Society has based its assessment of whether a lease is onerous by applying IAS 37 immediately before the date of initial application; and
- The Society has also adopted the ongoing practical expedient of expensing the lease payments for contracts with a duration of 12 months or less and contracts for which the underlying asset is of a low value to the Group income statement on a straight line basis over the lease term.

Lease portfolio

The Society's lease portfolio encompasses property in the UK, Europe, Asia and the Americas. The 1986 Building is the material component of the portfolio and accounts for 87% (2020: 85%) of the right-of-use net book asset value. The 1986 Building has a lease duration of 35 years.

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

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

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

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

Extension and termination options

The lease term determined by the Society comprises:

– Non-cancellable period of lease contracts covered by an option to extend the lease, if the Society is reasonably certain to exercise that option; and

– Periods covered by an option to terminate the lease, if the Society is reasonably certain that it will not exercise that option.

Variable lease payments

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

(o) Foreign currency and derivative instruments foreign currency translation

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction, or an average rate for the period in which recorded. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date. Translation differences on monetary items are taken to the Group income statement.

The results and financial position of overseas Society operations are translated into pounds sterling as follows:

(i) Assets and liabilities are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at the average exchange rate for the year; and

(iii) Any resulting exchange differences are recognised in the Group statement of comprehensive income.

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

(p) Prepaid assets

Prepayments are recognised at historic cost when the right to receive services or goods has been established. Where services or goods are to be received over a period exceeding a year, then prepayments are expensed in the income statement on a straight-line basis over the period of the contract. Where amounts are considered to be not recoverable, the prepaid assets are written down to the recoverable amounts.

(q) Finance income

– Finance income includes realised and unrealised gains and losses on financial instruments (including the impact of changes in foreign exchange rates);

– Interest receivable is recognised on a time apportioned basis using the effective interest method. Any unwinding of discount is recognised as interest income; and

– Dividend income from equity investments is included in the Group income statement on the ex-dividend date.

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

The Society has not adopted any new IFRS standards for the period beginning 1 January 2021. The Society adopted the following amendments with effect from 1 January 2021:

– Interest rate benchmark reform phase 2 - amendments to IFRS 9 Financial instruments, IAS 39 Financial instruments, recognition and measurement, IFRS 7 Financial instruments (disclosures), IFRS 4 Insurance Contracts and IFRS 16 Leases. Provides temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced; and

– COVID-19 related rent concessions – amendments to IFRS 16 Leases. Extends the optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification.

The Society's accounting policies have been updated to reflect these changes. Implementation of the above amendments to existing standards has had no impact on the Group financial statements.

(s) New standards, interpretations and amendments to existing standards issued but not yet implemented

After careful consideration, the Society has decided that UK GAAP is a more suitable basis than IFRS for its Group financial statements and intends to transition to UK GAAP with effect from 1 January 2022. The necessary restatements will be included in the Society's 2022 Interim Financial Statements.

3. Segmental analysis

Segmental information is presented in respect of the Society's business segments. The primary business segments are based on the Society's management and internal reporting structure.

Intra-segment pricing is determined on an arm's-length basis. Segmental results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

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

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

The Society's primary business segments are as follows:

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

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

Information by business segment	Note	2021 Corporation of Lloyd's £m	2021 Lloyd's Central Fund £m	2021 Society total £m
Segment income				
Total income	4	**372**	**143**	**515**
Segment operating expenses				
Gross insurance claims and insurance expenses incurred	6	(1,818)	–	(1,818)
Insurance claims and expenses recoverable from reinsurers	6	1,818	–	1,818
Group operating expenses:				
Employment (including pension costs)	8	(194)	–	(194)
Premises		(43)	–	(43)
Legal and professional	7	(126)	(1)	(127)
Systems and communications		(59)	–	(59)
Other		(37)	(52)	(89)
Total Group operating expenses		**(459)**	**(53)**	**(512)**
Total segment operating expenses		**(459)**	**(53)**	**(512)**
Total segment operating (deficit)/surplus		**(87)**	**90**	**3**
Finance costs	9	(19)	(43)	(62)
Finance income	9	8	44	52
Share of profits of associates and joint ventures	11	9	–	9
Segment (deficit)/surplus before tax		**(89)**	**91**	**2**
Tax credit	12			3
Surplus for the year				**5**
Segment assets and liabilities				
Insurance contract assets	6	6,873	–	6,873
Financial investments at fair value through profit and loss	18	504	2,186	2,690
Financial investments at amortised cost		959	609	1,568
Cash and cash equivalents		764	419	1,183
Other assets		1,355	634	1,989
Segment assets		**10,455**	**3,848**	**14,303**
Deferred tax asset	12	57	–	57
Tax receivable		17	(17)	–
Total assets		**10,529**	**3,831**	**14,360**
Insurance contract liabilities	6	6,873	–	6,873
Other segment liabilities		3,592	845	4,437
Total liabilities		**10,465**	**845**	**11,310**
Total equity		**64**	**2,986**	**3,050**
Other segment information				
Capitalised tangible and intangible asset additions	14, 15	19	–	19
Depreciation	15	(3)	–	(3)
Amortisation of intangible assets	14	(12)	–	(12)
Impairment of tangible and intangible assets	14, 15	(3)	–	(3)
Average number of UK employees (permanent and contract)		1,089	–	1,089
Average number of overseas employees (permanent and contract)		267	–	267
Average number of total employees (permanent and contract)		**1,356**	**–**	**1,356**

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

3. Segmental analysis continued

Information by business segment continued	Note	2020 Corporation of Lloyd's £m	2020 Lloyd's Central Fund £m	2020 Society total £m
Segment income				
Total income	4	384	127	511
Segment operating expenses				
Gross insurance claims and insurance expenses incurred	6	(5,824)	–	(5,824)
Insurance claims and expenses recoverable from reinsurers	6	5,824	–	5,824
Group operating expenses:				
Employment (including pension costs)	8	(161)	–	(161)
Premises		(41)	–	(41)
Legal and professional	7	(113)	(1)	(114)
Systems and communications		(44)	–	(44)
Other		(49)	(1)	(50)
Total Group operating expenses		(408)	(2)	(410)
Total segment operating expenses		(408)	(2)	(410)
Total segment operating(deficit)/surplus		(24)	125	101
Finance costs	9	(18)	(41)	(59)
Finance income	9	(4)	6	2
Share of profits of associates and joint ventures	11	12	–	12
Segment (deficit)/surplus before tax		(34)	90	56
Tax charge	12			(10)
Surplus for the year				46

Segment assets and liabilities				
Insurance contract assets	6	7,095	–	7,095
Financial investments at fair value through profit and loss	18	533	2,143	2,676
Financial investments at amortised cost		1,026	407	1,433
Cash and cash equivalents		606	568	1,174
Other assets		1,367	679	2,046
Segment assets		10,627	3,797	14,424
Deferred tax asset	12	56	–	56
Tax receivable		25	4	29
Total assets		10,708	3,801	14,509
Insurance contract liabilities	6	7,095	–	7,095
Other segment liabilities		3,547	844	4,391
Tax liabilities		–	–	–
Total liabilities		10,642	844	11,486
Total equity		66	2,957	3,023
Other segment information				
Capitalised tangible and intangible asset additions	14, 15	72	–	72
Depreciation	15	(3)	–	(3)
Amortisation of intangible assets	14	(3)	–	(3)
Impairment of tangible and intangible assets	14, 15	(27)	–	(27)

Average number of UK employees (permanent and contract)		967	–	967
Average number of overseas employees (permanent and contract)		245	–	245
Average number of total employees (permanent and contract)		1,212	–	1,212

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

4. Revenue from contracts with customers

Disaggregated revenue information

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

	Corporation of Lloyd's		Lloyd's Central Fund		Society Total	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Type of service						
Members' subscriptions, net of rebate	141	128	–	–	141	128
Market charges and other services						
Market charges	157	168	–	–	157	168
Market modernisation levy	1	19	–	–	1	19
Reinsurance commission	65	57	–	–	65	57
Other charges	8	12	–	–	8	12
Central Fund income	–	–	143	127	143	127
Total revenue from contracts with customers	**372**	384	**143**	127	**515**	511

	Corporation of Lloyd's		Lloyd's Central Fund		Society Total	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Geographical markets						
UK	250	270	143	127	393	397
Europe	75	56	–	–	75	56
China	15	17	–	–	15	17
Other	32	41	–	–	32	41
Total revenue from contracts with customers	**372**	384	**143**	127	**515**	511

The table below analyses insurance premiums by geographical segment:

2021 £m	**UK**	**Europe**	**China**	**Other**	**Total**
Gross written premiums	–	2,659	73	–	2,732
Outward reinsurance premiums	–	(2,659)	(73)	–	(2,732)
Net insurance premiums	–	–	–	–	–

2020 £m	UK	Europe	China	Other	Total
Gross written premiums	–	5,886	92	–	5,978
Outward reinsurance premiums	–	(5,886)	(92)	–	(5,978)
Net insurance premiums	–	–	–	–	–

4. Revenue from contracts with customers continued
Disaggregated revenue information continued
Timing of revenue recognition

	Corporation of Lloyd's		Lloyd's Central Fund		Society Total	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Services transferred over time	372	384	–	–	372	384
Services transferred at a point in time	–	–	143	127	143	127
Total revenue from contracts with customers	**372**	384	**143**	127	**515**	511

Central Fund contributions from members and Corporation of Lloyd's subscriptions
During the year, members paid to the Corporation (members' subscriptions) and to the Central Fund (Central Fund contributions from members) 0.36% and 0.35%, respectively of their syndicate forecast gross written premium (2020: 0.36% and 0.35%, respectively). Central Fund contributions in the first three years of membership are charged at 1.4% of syndicate forecast gross written premium. The £143m (2020: £127m) Central Fund contributions from members and £141m (2020: £128m) members' subscriptions included in the Group income statement are based on the 2021 syndicate business forecast. There has been £nil Central Fund income related to recoveries in respect of Undertakings previously given by the Central Fund in the current or prior period.

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

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

Market modernisation levy
In addition to the above, in 2019 and prior years a levy was charged to fund the costs of market modernisation, charged at 0.07% of gross written premiums. Where performance obligations are not satisfied in the financial year, revenue is recognised based on the extent to which service obligations are completed. Judgement has been applied in recognising revenue with reference to market modernisation services which demonstrably are not completed. This has led to the continued deferral of £10m (2020: £11m) of income at the reporting date. No market modernisation levy was charged in 2020 or 2021.

5. Central Fund claims and provisions incurred
The Council grants Undertakings within financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls, (see note 2(m) for further information). Unutilised Undertakings as at 31 December 2021 were £nil (2020: £nil).

6. Insurance activities
Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited
Lloyd's Insurance Company S.A. (Lloyd's Europe) and Lloyd's Insurance Company (China) Limited (Lloyd's China) are the principal insurance businesses of the Society. Lloyd's Europe and Lloyd's China are wholly owned subsidiary undertakings of the Society. The companies' principal activity is to provide reinsurance of non-life business and direct non-life insurance in the European and Chinese insurance markets, respectively. Lloyd's syndicates participate in Lloyd's Europe and Lloyd's China business by means of retrocession agreements.

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

Part VII transfer of EEA Lloyd's market business

On 30 December 2020, Lloyd's Insurance Company S.A. (Lloyd's Europe) assumed the EEA non-life insurance business written in Lloyd's market between 1993 and 2020, which were transferred pursuant to Part VII of the Financial Services and Markets Act 2000 (Part VII). The value of the liabilities transferred was £3,831m. Lloyd's Europe received a cash consideration of the same amount from the syndicates. These liabilities were subsequently reinsured to syndicates on the same day. The reinsurance premium paid was of the same amount of £3,831m. Consequently, there was no gain or loss arising on the transaction. The cash consideration received is presented as 'gross written premium' and the reinsurance paid is included in 'outward reinsurance premiums' in the comparative information for the year ended 31 December 2021, which reflects the economic substance of the transaction. Claims provisions are estimated at each reporting period, with changes recorded within gross insurance claims and insurance expenses incurred, and insurance claims and expenses recoverable from reinsurers, respectively, in the income statement. The Part VII transfer included premiums due in respect of the transferred business. Premiums due include estimates for policies written through third parties, where limited information was available on business underwritten. Variances between estimated premium and actual premiums received for insurance and outward reinsurance contracts are recorded as gross written premium and outward reinsurance premiums respectively.

Total gross and reinsurers' share of insurance claims and insurance expenses incurred

	2021 £m	2020 £m
Insurance claims		
Gross claims		
Claims paid	(1,246)	(411)
Net change in gross provision for claims	(35)	(4,959)
Total gross claims	(1,281)	(5,370)
Acquisition costs	(537)	(454)
Total gross insurance claims and insurance expenses incurred	**(1,818)**	(5,824)
Europe	(1,746)	(5,752)
China	(72)	(72)

Claims recoverable from reinsurers		
Claims recovered from reinsurers	1,246	411
Net change in reinsurers share of provision for claims	35	4,959
Total claims recoverable from reinsurers	1,281	5,370
Acquisition costs recovered from reinsurers	537	454
Total insurance claims and expenses recoverable from reinsurers	**1,818**	5,824
Europe	1,746	5,752
China	72	72

Gross insurance claims and insurance expenses incurred and insurance claims and expenses recoverable from reinsurers include 2020 and prior underwriting year EEA business transferred under the Part VII agreement on 30 December 2020.

6. Insurance activities continued

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

Insurance contract assets and liabilities are analysed as follows:

	2021 Insurance contract liabilities £m	2021 Reinsurer's share of liabilities £m	2021 Net £m	2020 Insurance contract liabilities £m	2020 Reinsurer's share of liabilities £m	2020 Net £m
Provision for claims reported	2,489	(2,489)	–	2,535	(2,535)	–
Provision for IBNR claims	3,165	(3,165)	–	3,486	(3,486)	–
Total provision for insurance claims	5,654	(5,654)	–	6,021	(6,021)	–
Provision for unearned premiums	1,219	(1,219)	–	1,074	(1,074)	–
At 31 December	**6,873**	**(6,873)**	**–**	7,095	(7,095)	–

Insurance contract assets and liabilities include 2020 and prior underwriting year EEA business transferred under the Part VII agreement on 30 December 2020.

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

	2021 Provision for insurance claims £m	2021 Reinsurer's share of liabilities £m	2021 Net £m	2020 Provision for insurance claims £m	2020 Reinsurer's share of liabilities £m	2020 Net £m
At 1 January	6,021	(6,021)	–	990	(990)	–
Claims incurred/(released)	1,281	(1,281)	–	1,667	(1,667)	–
Claims (paid)/recoveries (see below)	(1,246)	1,246	–	(411)	411	–
Part VII transfer of outstanding claims	–	–	–	3,702	(3,702)	–
Effect of exchange rates	(402)	402	–	73	(73)	–
At 31 December	**5,654**	**(5,654)**	**–**	6,021	(6,021)	–

The provision for insurance claims includes 2020 and prior underwriting year business transferred under the Part VII agreement on 30 December 2020. Claims incurred consist of claims and claims handling expenses paid during the year, together with the change in provision for outstanding claims. Full provision is made, on the basis of available information, for the estimated ultimate cost of claims notified, but not settled, as at the date of the statement of financial position, after taking into account handling costs and settlement trends. A provision for claims incurred but not reported is also established as at that date on a statistical basis. The provision also reflects claims settlement expenses and anticipated reinsurance and other recoveries. The provision for outstanding claims is based on information available at the reporting date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are recorded in the Group income statements of later years.

Claims development table

The table below shows the development of claims over a period of time on a gross basis. The claims development table shows the cumulative incurred claims, including both notified and incurred but not reported claims for each successive year, together with cumulative claims at the current reporting date.

	2016 and prior £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Total £m
At end of underwriting year	370	103	77	902	4,671	828	
One year later	416	161	105	1,615	4,850	–	
Two years later	415	172	97	1,408	–	–	
Three years later	417	170	100	–	–	–	
Four years later	339	180	–	–	–	–	
Current estimate of cumulative claims	339	180	100	1,408	4,850	828	7,705
Cumulative payments to date	(312)	(146)	(73)	(543)	(922)	(55)	(2,051)
Total provision for insurance claims	27	34	27	865	3,928	**773**	**5,654**

As the Lloyd's Europe and Lloyd's China insurance liabilities are 100% reinsured and comprise the vast majority of the Society's insurance business, the Society has not prepared a claims development table on a net basis.

The claims development table above includes claims relating to the 2020 and prior underwriting year EEA business transferred under the Part VII agreement on 30 December 2020. All liabilities transferred are included within the 2020 underwriting year.

Provision for unearned premiums

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

	2021 Provision for unearned premiums £m	2021 Reinsurer's share of liabilities £m	2021 Net £m	2020 Provision for unearned premiums £m	2020 Reinsurer's share of liabilities £m	2020 Net £m
At 1 January	1,074	(1,074)	–	888	(888)	–
Premiums written	2,732	(2,732)	–	2,147	(2,147)	–
Part VII transfer premiums recognised	–	–	–	3,831	(3,831)	–
Premiums earned	(2,484)	2,484	–	(5,808)	5,808	–
Acquisition costs deferred	(24)	24	–	(36)	36	–
Effect of exchange rates	(79)	79	–	52	(52)	–
At 31 December	**1,219**	**(1,219)**	**–**	1,074	(1,074)	–

Provision for unearned premiums includes 2020 and prior underwriting year EEA business transferred under the Part VII agreement on 30 December 2020.

Insurance risk

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

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

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

	2021 %	2020 %
Property insurance	8	9
Agricultural insurance	1	1
Credit insurance	4	4
Engineering insurance	1	1
Marine insurance	20	19
Liability insurance	13	13
Accident and Health insurance	9	9
Aviation insurance	5	5
Energy insurance	6	7
Financial products	24	23
Other	9	9
	100	100

Non-insurance risks

In addition to the risks which are set out in the Financial Risk Management section on pages 161 to 165, Lloyd's Europe and Lloyd's China are also subject to the following risks:

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

6. Insurance activities continued

Credit risk

Lloyd's Europe and Lloyd's China are exposed to credit risks primarily associated with insurance and reinsurance arrangements with its insurance counterparties. The most significant credit risk is the recoverability of the Society's reinsurance assets receivable from syndicates under the 100% reinsurance agreements. Credit risk is minimised by actively monitoring the creditworthiness of counterparties and reviewing the pattern of aged debt across the portfolio to ensure this is managed proactively. Judgement is required in determining expected credit losses on the current reinsurance assets. Expected credit losses are calculated and recognised as described in note 2(h).

Significant accounting estimates

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

Provision for insurance claims

When calculating the provision for insurance claims, the estimate is based on the expected ultimate cost of claims reported and incurred, but not reported claims at the balance sheet date.

For Lloyd's Europe, the ultimate claim cost including claims expense reserves is determined using actuarial techniques based primarily on historical experience; and actual claims experience. Significant judgement is required in applying these actuarial techniques in order to calculate the expected ultimate claims and expenses. Changes in individual underlying judgements for one or more lines of business have had a relatively insignificant impact on the valuation of insurance contract liabilities as a whole. A combined approach is taken with the provisions for the business transferred through the Part VII agreement calculated using the same techniques as for the business originally written through LIC. An explicit allowance is also derived for specific claims which are thought to require an additional incurred, but not reported allowance, notably required for COVID-19, primarily using ultimate claims estimates provided by the syndicates. Any change in estimated ultimate claims and expenses has a net nil impact on net assets given all risks are 100% reinsured.

For Lloyd's China, the ultimate claim cost is determined based on historical experience; the expected loss ratio provided by the syndicates; and actual claims experience. Claims expense reserves are calculated with reference to actual claims expenses and future developing trends by line of business. Significant judgement is required in assessing the expected loss ratios provided by syndicates to determine whether the provision for insurance claims held for prior underwriting years is reasonable. Changes in loss ratios for one or more lines of business have had a relatively insignificant impact on the valuation of insurance contract liabilities as a whole. Any change in the estimated ultimate loss ratio has a net nil impact on net assets given all risks are 100% reinsured.

For Lloyd's China only, outstanding claims reserves are calculated taking the time value of money into account. The discount rate used is the same as that used for the calculation of the unexpired risk reserve.

Risk margin

Risk margin is the reserves provided for the uncertainty of estimated future cash flows. Judgement is required for the computation of a view of the uncertainty in the claims reserves from which a risk margin percentage is set, based on management judgement. For Lloyd's Europe, a risk margin of 6.3% (2020: 6.3%) is applied to the incurred claims reserve on a best estimate basis. No risk margin is applied to the unearned premium reserve, in accordance with Belgian regulatory reporting requirements. Judgement is required as to whether historic claims data reflect the uncertainty of Lloyd's Europe future cash flows. The risk margin is included within the provision for IBNR claims reported.

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

Unexpired risk reserve

The main assumptions used in the calculation of the Lloyd's China unexpired risk reserve relate to the loss ratio, expenses and the discount rate. Lloyd's Europe assesses the profitability of underwriting and whether an unexpired risk reserve is required. The reserve is currently immaterial as loss ratios generally indicate underwriting is not loss-making.

- Loss ratio: the Lloyd's China insurance loss ratio is calculated by making estimates with reference to the historical experience of loss ratios in the London insurance market; the expected loss ratio provided by syndicates; and the Corporation's actual claims experience;
- Expenses: in determining expense assumptions, estimates are made based on analysis of future development trends. For Lloyd's China only, inflation is taken into account where applicable. The assumptions set for the inflation rate are consistent with those used for determining the discount rate; and
- Discount rate: for Lloyd's China only, the discount rate used to calculate the unexpired risk reserve is based on the market rate corresponding to the term and risk of liabilities. Discount rates are determined with reference to the 750-day moving average bond yield curve, taking liquidity, taxation and other factors into account. The discount rate assumption is affected by certain factors, such as future macroeconomics and capital markets and is therefore subject to uncertainty. No allowance for the time value of money is made by Lloyd's Europe in line with the basis of its local regulatory reporting.

7. Group operating expenses

	Note	2021 Corporation of Lloyd's £m	2021 Lloyd's Central Fund £m	2021 Total £m
Group operating expenses include:				
Employment costs	8	194	–	194
Legal and professional fees				
Professional fees, including legal fees and related costs		124	1	125
Audit fees payable to the Group's auditors for the audit of the Group's annual accounts		1	–	1
Fees payable to the Group's auditors and its associates for other services		1	–	1
Total legal and professional fees		**126**	**1**	**127**
Charitable donations		**5**	–	**5**

	Note	2020 Corporation of Lloyd's £m	2020 Lloyd's Central Fund £m	2020 Total £m
Group operating expenses include:				
Employment costs	8	161	–	161
Legal and professional fees				
Professional fees, including legal fees and related costs		111	1	112
Audit fees payable to the Group's auditors for the audit of the Group's annual accounts		1	–	1
Fees payable to the Group's auditors and its associates for other services		1	–	1
Total legal and professional fees		113	1	114
Charitable donations		15	–	15

Other services payable to the Group's auditors, PricewaterhouseCoopers LLP, include audit of the accounts of subsidiaries, audit-related assurance services (such as work undertaken on the Aggregate Accounts, Pro Forma Financial Statements and regulatory returns) and other assurance services.

8. Employment

	Note	2021 £m	2020 £m
Salaries and wages (including bonus)		132	101
Pension costs	13	13	13
Social security costs		19	12
Contract and agency employees		12	17
Other employment costs		18	18
Total employment costs		**194**	161

The emoluments of the Chairman, Chief Executive Officer and members of the Council are included in the Report of the Remuneration Committee on page 85. The number of employees is disclosed in note 3.

9. Finance costs and income

	2021 Corporation of Lloyd's £m	2021 Lloyd's Central Fund £m	2021 Total £m
Finance costs			
Interest payable on financial liabilities measured at amortised cost	(8)	(38)	(46)
Lease liability interest	(7)	–	(7)
Amortisation of issue costs and discount	–	(1)	(1)
Other finance costs	(4)	(4)	(8)
Total finance costs	**(19)**	**(43)**	**(62)**
Finance income			
Bank interest received	1	1	2
Dividends received	–	5	5
Unrealised investment gains/(losses) designated at fair value through profit or loss and amortised cost	38	5	43
Realised investment gains/(losses) designated at fair value through profit or loss and amortised cost	(35)	32	(3)
Interest and similar income	4	20	24
Unrealised fair value movement of derivative contracts held for trading	–	4	4
Realised fair value movement of derivative contracts held for trading	–	(21)	(21)
Decrease in the valuation of loans recoverable designated at amortised cost	–	(2)	(2)
Total finance income	**8**	**44**	**52**
Net finance (costs)/income	**(11)**	**1**	**(10)**

Other returns on investments designated at fair value through profit and loss and amortised cost include £2m (2020: £2m) of interest income from financial investments held at amortised cost.

	2020 Corporation of Lloyd's £m	2020 Lloyd's Central Fund £m	2020 Total £m
Finance costs			
Interest payable on financial liabilities measured at amortised cost	(8)	(38)	(46)
Lease liability interest	(8)	–	(8)
Amortisation of issue costs and discount	–	(1)	(1)
Other finance costs	(2)	(2)	(4)
Total finance costs	(18)	(41)	(59)
Finance income			
Bank interest received	4	2	6
Dividends received	–	5	5
Unrealised investment gains/(losses) designated at fair value through profit or loss and amortised cost	(24)	(81)	(105)
Realised investment gains/(losses) designated at fair value through profit or loss and amortised cost	12	65	77
Interest and similar income	4	26	30
Unrealised fair value movement of derivative contracts held for trading	–	(20)	(20)
Realised fair value movement of derivative contracts held for trading	–	8	8
Decrease in valuation of loans recoverable designated at amortised cost	–	1	1
Total finance income	(4)	6	2
Net finance costs	(22)	(35)	(57)

10. Investments in subsidiary undertakings

Subsidiaries are those entities over which the Society directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. The basis by which subsidiaries are consolidated in the Group financial statements is outlined in the basis of preparation in note 1.

The following subsidiaries principally affected the Group's financial position and results for the year ended 31 December 2021, as set out in the Society Group income statement.

Company name	Nature of business	Registered Address and Country of incorporation
Additional Securities Limited	Provision of deposits overseas on behalf of Lloyd's underwriters to comply with local insurance regulations	One Lime Street, London EC3M 7HA England and Wales
Centrewrite Limited	Authorised UK insurance company assisting resigned members of the Society with participations on run-off syndicates to end their affairs at Lloyd's	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Finance Company Limited	Provides additional flexibility regarding the capital structure of Lloyd's Insurance Company S.A. (Lloyd's Europe)	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Housing Support Limited	General commercial company	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Members Agency Services Limited	Acted as members' agent for run-off affairs. The company was dissolved on 2 November 2021	n/a – Entity has been dissolved
Syndicate Underwriting Management Limited	Provided insurance run-off and related administration services before disposing of business in 1998. The company was dissolved on 26 October 2021	n/a – Entity has been dissolved
Lloyd's Australia Limited	In relation to the Society's activities within Australia, the company undertakes certain regulatory compliance and market development activities	Suite 1603, Level 16, 1 Macquarie Place, Sydney NSW 2000, Australia
Lloyd's Canada Inc.	In relation to the Society's activities within Canada, the company undertakes certain regulatory compliance and market development activities within Canada	200 Bay Street, Suite 2930 PO Box 51, Toronto, Ontario, M5J 2J2
Lloyd's Cyprus Limited	In relation to the Society's activities within Cyprus, the company acted as legal representative for regulatory requirements. The company was merged into Lloyd's Insurance Company S.A. on 30 July 2021	n/a – Entity has been dissolved
Lloyd's Escritorio de Representacao no Brasil Ltda.	In relation to the Society's activities within Brazil , the company undertakes certain regulatory compliance and market development activities	Avenida Almirante Barroso 52, Sala2401, CEP 20031-918 – Rio de Janerio, RJ – Brazil
Lloyd's France SAS	In relation to the Society's activities within France, the company undertook certain regulatory compliance and market development activities. The company was merged into Lloyd's Insurance Company S.A. on 30 July 2021	n/a – Entity has been dissolved
Lloyd's Iberia Representatives S.L.U.	In relation to the Society's activities within Spain, the company undertook certain regulatory compliance and market development activities. The company was merged into Lloyd's Insurance Company S.A. on 30 July 2021	n/a – Entity has been dissolved
Lloyd's Insurance Company (China) Limited	In relation to the Society's activities within China, the company provides bespoke services to support business development and underwriting. The entity is an authorised insurance company	30th Floor Shanghai Tower, 501 Middle Yincheng Road, Pudong New Area, Shanghai 200120, China
Lloyd's Insurance Company S.A.	In relation to the Society's activities within Europe, the company provides bespoke services to support business development and underwriting. The entity ensures that Lloyd's policyholders across the European Economic Area can continue to access the underwriting expertise and financial security of the Lloyd's market, despite the United Kingdom's exit from the European Union. The entity is an authorised insurance company and is the holding company of various other European subsidiaries of the Society	Bastion Tower – Floor 14 5 Place du Champ de Mars, 1050 Bruxelles, Belgium

10. Investments in subsidiary undertakings continued

Company name	Nature of business	Registered Address and Country of incorporation
Lloyd's Ireland Representative Limited	In relation to the Society's activities within Ireland, the company undertook certain regulatory compliance and market development activities. The majority of the company's assets and liabilities were transferred to Lloyd's Insurance Company S.A. on 31 July 2021. The company is currently in liquidation	7/8 Wilton Terrace Dublin 2
Lloyd's Japan Inc.	In relation to the Society's activities within Japan, the company provides bespoke services to support business development and underwriting	Tokyo Club Building 6F 3-Chome-2-6 Kasumigaseki Chiyoda-ku, Tokyo 100-0013 Japan
Lloyd's Labuan Limited	In relation to the Society's activities within Malaysia, the company is licensed to carry on business as underwriting manager	Brumby Centre, Lot 42, Jalan Muhibbah, 87000 Labuan F.T, Malaysia
Lloyd's Limited	In relation to the Society's activities within Dubai, the company undertakes certain regulatory compliance and market development activities within Dubai	Unit 4A, Floor 5, Gate Village 8, DIFC, Dubai, United Arab Emirates
Lloyd's Netherlands Representative B.V.	In relation to the Society's activities within the Netherlands, the company undertook certain regulatory compliance and market development activities. The majority of the company's assets and liabilities were transferred to Lloyd's Insurance Company S.A. on 31 July 2021. The company is currently in liquidation	Beurs-World Trade Center, Beursplein 37, P.O Box 30196, 3001 DD Rotterdam, The Netherlands
Lloyd's Malta Limited	In relation to the Society's activities within Malta, the company acted as legal representative for regulatory requirements. The company was merged into Lloyd's Insurance Company S.A. on 31 August 2021	n/a – Entity has been dissolved
Lloyd's of London (Asia) Pte Ltd	In relation to the Society's activities within Singapore (and the wider region), the company provides bespoke services to support business development and underwriting	138 Market Street, #03-01 CapitaGreen, Singapore 048946
Lloyd's of London (Representative Office) Greece Single Member SA	In relation to the Society's activities within Greece, the company acts as a fiscal representative	25A Boukourestiou Street, 106 71 Athens, Greece
Lloyd's Polska sp. z o.o.	In relation to the Society's activities within Poland, the company undertook certain regulatory compliance and market development activities. The company was merged into Lloyd's Insurance Company S.A. on 30 July 2021	n/a – Entity has been dissolved
Lloyd's South Africa (Proprietary) Ltd	In relation to the Society's activities within South Africa, the company undertakes certain regulatory compliance and market development activities	15th floor, The Forum 2 Maude Street, Sandton, 2146 South Africa
Lloyd's America Holdings Inc. Lloyd's America Inc.	In relation to the Society's activities, the company provides certain services in the United States	280 Park Avenue, 25th Floor, New York, NY 10017
Lloyd's Kentucky Inc.	Serves as the attorney-in-fact for Underwriters writing licensed insurance business in Kentucky and the US Virgin Islands. Provides compliance support for licensed business. the US Finance Team is also employed by Lloyd's Kentucky, Inc	200 W. Main St. Frankfort, Kentucky KY 40601-1806
Lloyd's Illinois Inc.	Serves as the attorney-in-fact for Underwriters writing licensed insurance business in Illinois. Provides compliance support for licensed business, as well as operational and IT support services in the Americas	181 W Madison Street, Suite 3870 Chicago, Illinois 60602

The main territory of operation of subsidiaries incorporated in England and Wales is the UK. For overseas subsidiaries, the principal country of operation is the same as the country of incorporation. All operating subsidiaries have a 31 December year end reporting date with the exception of Lloyd's Japan Inc., with the year end reporting date of 31 March. All operating subsidiaries are 100% owned by the Society with the exception of Lloyd's Escritorio de Representacao no Brasil Ltda., which is 99.99% owned. All other operating subsidiaries are 100% directly owned by the Society with the exception of Lloyd's Insurance Company S.A., which is 99% owned by the Society and 1% owned by Lloyd's Finance Company Limited.

10. Investments in subsidiary undertakings continued

Restrictions

Lloyd's operates in more than 200 territories around the world and uses a number of different operating models depending upon local regulatory requirements. Different countries operate different regulatory regimes and, in some cases, these may place certain restrictions on the use of capital and assets that are held within those countries, including capital of RMB 1bn (2020: RMB 1bn) within Lloyd's Insurance Company (China) Limited and €553m (2020: €553m) in Lloyd's Insurance Company S.A. Lloyd's proactively manages its international asset base to ensure that any such restrictions have a minimal impact upon the utilisation of capital and investments or upon the operations of the Corporation.

Dormant subsidiaries

During the financial year, the Society had, or continues to have, an interest in the following dormant subsidiaries. These subsidiaries are all 100% owned by the Society and have not actively traded for the year ended 31 December 2021.

Company name	Registered Address and Country of incorporation
Additional Underwriting Agencies (No. 5) Limited *(dissolved on 11 May 2021)*	n/a – Entity has been dissolved
Additional Underwriting Agencies (No. 9) Limited	One Lime Street, London EC3M 7HA England and Wales
Additional Underwriting Agencies (No. 10) Limited	One Lime Street, London EC3M 7HA England and Wales
Bankside Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Barder & Marsh Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
CI de Rougemont (Nominees) Limited	One Lime Street, London EC3M 7HA England and Wales
CMA (CT&W) Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Crowe Agency Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Cuthbert Heath Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Devonshire Underwriting Agencies Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
EHW (Nominees) Limited	One Lime Street, London EC3M 7HA England and Wales
EWC (Nominees) Limited	One Lime Street, London EC3M 7HA England and Wales
GP Eliot (Nominees) Limited	One Lime Street, London EC3M 7HA England and Wales
Gammell Kershaw Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
GTUA Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Habit Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Hayter Brockbank Shipton Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Higgins Brasier Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's America Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Nominees Director Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Nominees Secretary Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd's of London (Cassidy Members) Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London (Claremount) Nominees Limited	One Lime Street, London EC3M 7HA England and Wales

10. Investments in subsidiary undertakings continued
Dormant subsidiaries continued

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

Dormant subsidiaries continued

Company name	Registered Address and Country of incorporation
Lloyd's.com Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Information Services Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Life Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's List Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London Press Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Recoveries Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Shelf Company 1 Limited	One Lime Street, London EC3M 7HA England and Wales
Lutine Nominees & Insurance Limited	One Lime Street, London EC3M 7HA England and Wales
Sharedealer Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London Limited	One Lime Street, London EC3M 7HA England and Wales

All subsidiary undertakings are included in the consolidated Society Report. The proportions of the voting rights in the subsidiary undertakings held directly by the Society do not differ from the proportion of the ordinary shares held. With the exception of £1 preference share for Lloyd's Building Limited, the Society does not have any preference shares of subsidiary undertakings included in the Group.

11. Investment in Associates and Joint Ventures

The Society has the following significant holdings which have been included as investments in associates and joint ventures.

Company Name	Registered Address and Country of incorporation	Proportion of equity capital held	Nature of business
Associates			
Ins-sure Holdings Limited	Royal Pavilion, Wellesley Road, Aldershot, Hampshire GU11 1PZ England and Wales	25%	Provision of premiums and claims accounting and settlement, policy production and ancillary insurance services principally to the London insurance market
Xchanging Claims Services Limited	Royal Pavilion, Wellesley Road, Aldershot, Hampshire GU11 1PZ England and Wales	50%	Provision of claims and recoveries services
Joint Ventures			
London Market Operations and Strategic Sourcing Limited	One Lime Street, London EC3M 7HA England and Wales	Limited by guarantee 33%	A centralised capability to source and manage outsourced market services for the London insurance market
Placing Platform Limited	One Lime Street, London EC3M 7HA England and Wales	Limited by guarantee 36%	Advance the implementation of digital trading in the Lloyd's market

On 26 May 2020, the Society made a £6.6m investment in Placing Platform Limited (PPL) to continue to advance the implementation of digital trading in the Lloyd's market. It is accounted for as an investment in a joint venture using the equity method. The investment is recognised at cost and is assessed for impairment annually. The carrying value is adjusted to reflect the Society's share of PPL profit or loss.

The issued share capital of Ins-sure Holdings Limited is £4,000. There are three classes of shares. The Society holds 1,000,000 B shares of 0.1p each that have the right to participate in 25% of any profits available for distribution.

The issued share capital of Xchanging Claims Services Limited is £4,001. There are three classes of shares. The Society holds 1,000 A shares of £1 each and 2,001 C shares of £1 each. The A and C shares have the following rights with respect to dividends:

- The A shares participate in 50% of any profits available for distribution after taking account of the dividend rights outlined above; and
- The C shares carry a right to a fixed cumulative preference dividend of 5%, calculated on the paid-up nominal capital and a variable participating dividend in priority to the payment of any dividend to the holders of the A and B shares.

The wholly owned subsidiaries of Xchanging Claims Services Limited are LCO Marine Limited and LCO Non-Marine & Aviation Limited; and for Ins-sure Holdings Limited are Ins-sure Services Limited, London Processing Centre Limited and LPSO Limited.

Investments in Associates and Joint Ventures

	2021 £m	2020 £m
At 1 January	24	21
Acquisition of shares in associates and joint ventures	–	7
Share of operating profits	11	15
Share of tax on profit on ordinary activities	(2)	(3)
Total share of profits of associates and joint ventures	9	12
Share of actuarial gain/(losses) on pension liability	3	(2)
Dividends received	–	(14)
At 31 December	**36**	24

Summarised statement of financial position

Summary of financial information for associates and joint ventures:

	Ins-sure Holdings Limited As at 31 December		Xchanging Claims Services Limited As at 31 December		Placing Platform Limited As at 31 December		London Market Operations and Strategic Sourcing Limited As at 31 December	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020* £m	**2021 £m**	2020 £m
Current assets								
Debtors	13	15	4	4	6	1	1	1
Current income tax asset	2	–	–	–	–	–	–	–
Prepayments and accrued income	–	–	–	–	6	6	3	–
Cash at bank and in hand	56	35	20	11	14	17	4	3
Total current assets	71	50	24	15	26	24	8	4
Non-current assets								
Intangible assets	19	25	–	–	9	–	–	–
Right-of-use assets	1	1	–	–	–	–	–	–
Deferred tax assets	1	4	–	–	–	–	–	–
Pension asset	7	–	1	1	–	–	–	–
Total non-current assets	28	30	1	1	9	–	–	–
Current liabilities								
Creditors falling due within one year	27	25	9	7	2	–	5	2
Current income tax liabilities	–	3	–	1	1	1	–	–
Provisions	–	–	–	–	–	–	3	2
Total current liabilities	27	28	9	8	3	1	8	4
Non-current liabilities								
Creditors falling due after more than one year	1	1	–	–	–	–	–	–
Pension liability	–	5	–	–	–	–	–	–
Total non-current liabilities	**1**	6	**–**	–	**–**	–	**–**	–
Net assets	71	46	16	8	32	23	–	–

* Restated to align to published financial statements

Summarised statement of comprehensive income

	Ins-sure Holdings Limited		Xchanging Claims Services Limited		Platform Placing Limited		London Market Operations and Strategic Sourcing Limited	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m*	**2021 £m**	2020 £m
Revenues	83	88	31	32	28	19	21	8
Operating costs	(63)	(64)	(21)	(20)	(17)	(10)	(21)	(8)
Operating profit	20	24	10	12	11	9	–	–
Tax on profit on ordinary activities	(4)	(4)	(2)	(2)	(2)	(2)	–	–
Profit for the financial year	16	20	8	10	9	7	–	–
Other comprehensive income/(expense)	9	(5)	–	–	–	–	–	–
Total comprehensive income	**25**	15	**8**	10	**9**	7	–	–

* The results for PPL are from the date of acquisition.

12. Taxation
(a) Tax charge

	2021 £m	2020 £m
Current tax:		
Corporation tax based on profits for the year at 19% (2020: 19%)	(4)	(1)
Foreign tax suffered	(2)	(2)
Total current tax	(6)	(3)
Deferred tax:		
Origination and reversal of timing differences		
Current year	8	(9)
Prior year	1	2
Tax credit/(charge) recognised in the Group income statement	**3**	(10)
Analysis of tax (charge)/credit recognised in the Group statement of comprehensive income:		
Tax credit on syndicate loan interest	4	–
Tax (charge)/credit on actuarial gain/(loss) on Group pension liabilities	(8)	16
Tax (charge)/credit recognised in the Group statement of comprehensive income	(4)	16
Total tax (charge)/credit recognised in the Group statement of comprehensive income	**(1)**	6

(b) Reconciliation of effective tax rate

	2021 £m	2020 £m
Surplus on ordinary activities before tax	2	56
Expected tax at the current rate	–	(11)
Overseas tax	(1)	–
Expenses not deductible for tax purposes	(2)	(2)
Share of profits of associates and joint ventures	2	2
Deferred tax adjustment relating to change in tax rate	3	(2)
Deferred tax prior year adjustments	1	2
Other	–	1
Tax credit/(charge)	**3**	(10)

(c) Deferred tax

	2021 Balance at 1 January £m	2021 Income statement £m	2021 Statement of comprehensive income £m	2021 Balance at 31 December £m
Plant and equipment	14	–	–	14
Losses provided	4	10	–	14
Pension liabilities	35	(1)	(8)	26
Other employee benefits	2	–	–	2
Provisions	1	–	–	1
Total deferred tax asset	**56**	**9**	**(8)**	**57**

In 2021 there were no unrecognised deductible temporary differences (2020: £nil).

Deferred tax assets and liabilities are measured at the tax rate that will apply to the period when an asset is expected to be realised or a liability is expected to be settled. The applicable rate is that which has been enacted or substantively enacted by the balance sheet date.

The deferred tax asset is based on a Corporation tax rate of 19-25% depending on when an asset is expected to unwind (2020: 19%). The UK Corporation tax rate is set to increase to 25% from 1 April 2023.

	2020 Balance at 1 January £m	2020 Income statement £m	2020 Statement of comprehensive income £m	2020 Balance at 31 December £m
Plant and equipment	13	1	–	14
Losses provided	6	(2)	–	4
Pension liabilities	24	(5)	16	35
Other employee benefits	2	–	–	2
Provisions	2	(1)	–	1
Total deferred tax asset	47	(7)	16	56

13. Pension schemes

Lloyd's operates a number of defined benefit and defined contribution pension schemes. In the UK, employees are entitled to join a Group Personal Pension Plan, and there is also a closed defined benefit scheme. Other schemes have been established for certain employees based overseas.

These schemes are generally funded by the payment of contributions to separately administered funds.

Defined benefit and defined contribution pension schemes

The pension deficits of the defined benefit schemes at 31 December 2021 are as follows:

	2021 £m	2020 £m
Lloyd's Pension Scheme	102	183
Overseas pension schemes	4	4
Total schemes deficit	**106**	187

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

	2021 £m	2020 (restated)* £m
Group income statement		
Lloyd's Pension Scheme	(3)	(3)
Overseas pension schemes	(2)	(3)
Other pension contributions	(9)	(8)
Total	**(14)**	(14)
Group statement of comprehensive income		
Lloyd's Pension Scheme	73	(54)
Share of associates' and joint ventures' pension	3	(2)
Total	**76**	(56)

* Restated to reflect correct cost.

Lloyd's Group Personal Pension Plan

UK employees are eligible to join the Lloyd's Group Personal Pension Plan, which is administered by Aviva. The Group Personal Pension Plan was introduced in 2013, when the defined benefit pension scheme was closed to new members. The amount charged to the Group income statement in respect of Lloyd's Group Personal Pension Plan is £9m (2020: £8m).

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

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 manages and administers the Scheme; it is primarily responsible for ensuring that members are paid the correct benefits at the correct time, and that there are sufficient Scheme assets to pay benefits as they fall due.

The Lloyd's Pension Scheme closed to new members in 2013 and closed to future accrual for existing members on 30 June 2018. Existing members of the Scheme at that time were enrolled into the Group Personal Pension Plan for future pension benefits.

Scheme contributions and funding valuation

UK legislation requires the funding position of the Scheme to be assessed at least every three years by an independent qualified actuary. Following closure of the Scheme to future benefit accrual, there are no regular monthly contributions paid to the Scheme. However, where a funding deficit is identified, a recovery plan will be agreed between the Society and the Trustees, setting out the contributions required to meet the deficit.

The Trustee has completed a formal actuarial valuation of the Scheme as at 30 June 2019, using the projected unit credit method. The total market value of the Scheme's assets at the 2019 valuation was £810m, and the total value of accrued liabilities was £889m showing a funding deficit of £79m. These figures exclude both liabilities and the related assets in respect of money purchase Additional Voluntary Contributions (AVCs). A recovery plan is in place and has been agreed with the Trustees.

Discretionary pension increases – treatment for funding purposes

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

Guaranteed minimum pension equalisation

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

For the valuation as at 31 December 2021, the allowance for 0.4% of the pension liabilities has been retained.

Information about the risks of the Scheme to the Society

The ultimate cost of the Scheme to the Society will depend upon actual future events rather than the assumptions made. Many of the assumptions made may not be borne out in practice and, as such, the cost of the Scheme may be higher or lower than disclosed. In general, the risk to the Society is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to the Society is higher than expected. This could result in a higher deficit disclosed and therefore higher recovery contributions required from the Society. This may also affect the Society's ability to grant discretionary benefits or other enhancements to members.

13. Pension schemes continued

Information about the risks of the Scheme to the Society continued

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

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

The Scheme's investment strategy

The Scheme's investment strategy apportions the Scheme's assets into two portfolios. The risk-reducing portfolio, currently amounting to 56% of the total assets, is invested in bonds, structured with the intention of generating cash flows that match, as far as possible, those required to meet a proportion of the Scheme's obligations. The return-seeking portfolio is intended to generate returns, which over the long term, will fund the remainder of the Scheme's obligations. This portfolio is invested in a range of assets including passive and active equities, property and infrastructure.

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

Principal actuarial assumptions in respect of IAS 19

Judgement is required in determining the appropriateness of the basis of assumptions underpinning the estimated actuarial value of scheme liabilities. The demographic assumptions that are the most financially significant are those relating to the life expectancy of retired members.

The mortality table used for the purposes of the IAS 19 valuation as at 31 December 2021 is as follows:

- 94% of SAPS S3 light tables for male members (2020: 94%);
- 93% SAPS S3 light tables for female members (2020: 93%);
- 103% of SAPS S3 light tables for dependants of male members (2020: 103%);
- 90% of SAPS S3 tables for dependants of female members (2020: 90%).

with allowance for future improvements in line with the Continuous Mortality Investigation's (CMI) published 2018 core projection model with 1.25% per annum long-term improvements and an initial addition parameter of 0.5% per annum (also applicable to 2020).

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 (2020: 29 years to 30 years); and
- For non-pensioners currently aged 45: ranging from 30 years to 32 years (2020: 30 years to 31 years).

The other major financial assumptions used by the actuary as at 31 December 2021 for the purposes of IAS 19 were:

	2021 % per annum	2020 % per annum	2019 % per annum	2018 % per annum	2017 % per annum
General salary and wage inflation	N/A	N/A	N/A	N/A	4.2
Rate of increase in pensions in payment					
6 April 1997 to 5 April 2005	3.0	2.8	2.8	3.1	3.1
Post 5 April 2005	2.0	1.9	1.9	2.2	2.2
Increases to final salary deferred pensions					
Benefits accrued before April 2009	2.9	2.4	2.2	2.2	2.2
Benefits accrued from April 2009	2.5	2.4	2.2	2.2	2.2
CARE* revaluation in service and in deferment, and increase in payment	2.0	1.9	1.9	2.2	2.2
Discount rate	1.9	1.5	2.0	2.9	2.4
Price inflation					
Retail Price Inflation (RPI)	3.3	2.9	2.9	3.2	3.2
Consumer Price Inflation (CPI)	2.9	2.4	2.2	2.2	2.2

* Career average revalued earnings.

Principal actuarial assumptions in respect of IAS 19 continued

An allowance is made for members commuting 20% (2020: 20%) of their pension on retirement, using the factors in use at the respective date.

The notional fund

For IAS 19 purposes, the Society recognises the cost of discretionary increases to pre-6 April 1997 benefits in payment, when there is a constructive liability to make such increases. The Society provided £10m in 2007, and a further £20m in 2011, to meet the expected cost of future discretionary increases. This amount has been notionally segregated from the Scheme's other assets (the 'notional fund') and its investment performance will be tracked on the assumption that it is invested in the same way as the Scheme's other assets.

The notional fund will be used to facilitate the award of future discretionary pension increases when the Society carries out its annual review of pensions in accordance with the Scheme's Definitive Trust Deed. As long as there is a notional fund set aside for this purpose, discretionary increases will continue to be considered. As at 31 December 2021, the value of the notional fund was £23m (2020: £22m).

Sensitivity of pension obligation to changes in assumptions

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

- An increase of 1% per annum in the discount rate as at 31 December 2021, would result in a reduction to the pension liabilities at that date of around 15% (2020: 17%) or approximately £160m (2020: £180m); a corresponding 1% per annum decrease would increase liabilities at that date by around 20% (2020: 21%) or approximately £210m (2020: £230m);
- An increase of 1% per annum in the assumption for future inflation (both Retail Price Index and Consumer Price Index) as at 31 December 2021, which would increase future expectations of pension increases and deferred revaluation, would result in an increase in the pension liabilities at that date of around 7% (2020: 7%), or approximately £73m (2020: £80m). A corresponding 1% per annum decrease would reduce liabilities at that date by around 7% (2020: 8%) or approximately £75m (2020: £90m);
- A change in the mortality assumptions could have a significant impact on the pension liability. For instance, if members aged 60 were instead expected to live for one year longer, with all other members' life expectancies increasing by a proportionate amount, then the liability as at 31 December 2021 would be 3% higher (2020: 4%), or approximately £34m (2020: £40m). Similarly, if members aged 60 were instead expected to live for one year less, then the liability would be around 3% lower (2020: 3%), or approximately £30m (2020: £30m).

Total market value of assets and actuarial value of Scheme liabilities

Amounts for the current and previous years were:

Asset/(liability) analysis of the Scheme	**2021 Fair value £m**	2020 Fair value £m	2019 Fair value £m	2018 Fair value £m	2017 Fair value £m
Bonds					
Corporate bonds	29	33	37	33	137
Index linked bonds	482	469	410	374	142
Equities					
UK equities	27	25	33	29	33
Overseas (excluding UK) equities	241	230	244	224	342
Property	57	51	53	85	97
Diversified income credit	43	43	41	–	–
Infrastructure	–	–	20	16	16
Hedge funds	43	38	–	–	–
Cash and net current assets	12	17	22	12	29
Total market value of assets	934	906	860	773	796
Actuarial value of Scheme liabilities	(1,036)	(1,089)	(997)	(860)	(957)
Net defined benefit liability	**(102)**	(183)	(137)	(87)	(161)

All of the Scheme's assets are quoted in an active market apart from hedge funds and property (2021: £100m; 2020 £89m). The Scheme is not currently invested in any of the Society's own assets. Approximately 94% (2020: 94%) of the Scheme's liabilities relate to final salary members and 6% (2020: 6%) relates to CARE members.

13. Pension schemes continued

Total market value of assets and actuarial value of Scheme liabilities continued

Changes in fair value of plan assets were:

	2021 £m	2020 £m
Fair value of Scheme assets at 1 January	906	860
Expected return on Pension Scheme assets	13	17
Employer contributions	11	11
Benefits paid	(28)	(28)
Actuarial gain on Scheme assets	32	47
Administrative expenses	–	(1)
Fair value of Scheme assets at 31 December	**934**	906

Changes in the present value of the defined benefit obligations are:

	2021 £m	2020 £m
Actuarial value of Scheme liabilities at 1 January	1,089	997
Interest cost on Pension Scheme liabilities	16	19
Current service cost (net of employee contributions)	–	1
Benefits paid and administrative expenses	(28)	(29)
Experience losses/(gain) arising in Scheme liabilities	4	(1)
Change in assumptions underlying the present value of the Scheme liabilities		
Financial assumption change	(45)	102
Actuarial value of Scheme liabilities at 31 December	**1,036**	1,089

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

	2021 £m	2020 £m
Current service cost	–	1
Net interest on net defined benefit liability	3	2
Total operating charge	**3**	3

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

	2021 £m	2020 £m
Experience (losses)/gains arising on Scheme liabilities	(4)	1
Changes in the assumptions underlying the present value of the Scheme liabilities		
Financial assumption change	45	(102)
Actuarial gain/(loss) arising during period	41	(101)
Actuarial gain on Scheme assets	32	47
Remeasurement effects recognised in the Group statement of comprehensive income	**73**	(54)

Maturity profile of Defined Benefit Obligation

The Scheme is maturing over time, with 38% of the members in the Scheme, at the 30 June 2019 valuation date, being retired members and with an approximate duration of the Scheme's liabilities of around 19 years.

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

	£m
Expected benefit payments during year ending 31 December 2022	30
Expected benefit payments during year ending 31 December 2023	31
Expected benefit payments during year ending 31 December 2024	34
Expected benefit payments during year ending 31 December 2025	35
Expected benefit payments during year ending 31 December 2026	36
Expected benefit payments during period 1 January 2027 to 31 December 2031	192
Expected benefit payments during period 1 January 2032 to 31 December 2036	197
Expected benefit payments from 1 January 2037 onwards	951

Overseas pension schemes

The Society operates a number of defined benefit schemes for qualifying employees based overseas. The actuarial valuations of these pension schemes at 31 December 2021 resulted in a deficit of £4m (2020: £4m).

	2021 £m	2020 £m
Value of assets	2	2
Actuarial value of scheme liabilities	(6)	(6)
Net defined benefit liability	**(4)**	(4)

Defined contribution plans

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

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

The total expense recognised in the Group income statement of £2m (2020: £3m), represents contributions payable to these schemes by the Society at pricing levels specified in the rules of these schemes.

14. Intangible assets
Software development

	Asset available for use £m	Asset in development £m	Total £m
Cost			
At 1 January 2020	19	4	23
Additions	14	53	67
At 31 December 2020	33	57	90
Additions	11	8	19
Other movements*	29	(29)	–
At 31 December 2021	**73**	**36**	**109**
Amortisation			
At 1 January 2020	(7)	–	(7)
Amortisation charge for the year	(3)	–	(3)
At 31 December 2020	(10)	–	(10)
Amortisation charge for the year	(12)	–	(12)
At 31 December 2021	**(22)**	**–**	**(22)**
Impairment			
At 1 January 2020	–	–	–
Impairment charge for the year	–	(26)	(26)
At 31 December 2020	–	(26)	(26)
Impairment charge for the year	(3)	–	(3)
At 31 December 2021	**(3)**	**(26)**	**(29)**
Net book value at 31 December 2021	**48**	**10**	**58**
Net book value at 31 December 2020	23	31	54

* Other movements relate to the transfer of intangible assets from in development to available for use.

Impairment losses

Impairment reviews are undertaken annually for the assessment of carrying value of assets. In addition, reviews were performed of previously capitalised costs under cloud computing arrangements and those which were no longer deemed capitalisable were amortised fully during the year. As part of the assessment, £3m (2020: £26m), of the intangible assets were impaired during the year.

Amortisation and impairment charges are recognised within Group operating expenses in the income statement.

15. Tangible assets
Plant and equipment

	Furniture and fittings £m	Computer and specialised equipment £m	Total £m
Cost			
At 1 January 2020	37	25	62
Additions	4	1	5
Disposals	(19)	(11)	(30)
At 31 December 2020	22	15	37
Disposals	(1)	–	(1)
At 31 December 2021	**21**	**15**	**36**
Depreciation and impairment			
At 1 January 2020	(29)	(20)	(49)
Depreciation charge for the year	(2)	(1)	(3)
Disposals	18	11	29
Impairment	(1)	–	(1)
At 31 December 2020	(14)	(10)	(24)
Depreciation charge for the year	(2)	(1)	(3)
Disposals	1	–	1
At 31 December 2021	**(15)**	**(11)**	**(26)**
Net book value at 31 December 2021	**6**	**4**	**10**
Net book value at 31 December 2020	8	5	13

Impairment losses
Impairment reviews are undertaken annually of the recoverability of the carrying value of plant and equipment assets held. As part of this review, £nil of tangible assets were impaired during the year (2020: £1m).

Lloyd's Collection
The Lloyd's Collection represents various paintings, antiques and artefacts. A desktop valuation was conducted by Gurr Johns Limited, valuers and fine art consultants, in January 2021. The collection was valued at £15m on the basis of open market auction value, assuming all items are not sold at the same time, taking into account the nature, age, condition and quality of each chattel. The Lloyd's Collection is valued every three years, unless there is any indication of impairment.

16. Leases
The Society's lease portfolio encompasses property in the UK, Europe, Asia and the Americas. The 1986 Building is the material component of the portfolio and accounts for 87% (2020: 85%) of the right-of-use net book asset value. The remaining portfolio is made up of numerous other leases, the next largest being Lloyd's of London (Asia) PTE Ltd., and New York office leases representing 4% (2020: 6%) and 3% (2020: 3%) of the portfolio, respectively. The Society sub-leases parts of the 1986 Building for which it receives an income.

Leases typically run from three to five years, with the only material exception being the 1986 Building, which has a lease duration of 35 years.

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

16. Leases continued

Right-of-use asset

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

	1986 Building £m	Other £m	Total £m
At 1 January 2020	144	12	156
Additions	–	20	20
Depreciation charge for the year	(13)	(8)	(21)
At 31 December 2020	131	24	155
Additions	–	1	1
Depreciation charge for the year	(13)	(8)	(21)
At 31 December 2021	**118**	**17**	**135**

Lease liabilities

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

	1986 Building £m	Other £m	Total £m
At 1 January 2020	140	12	152
Additions	–	20	20
Interest	7	1	8
Payments	(17)	(8)	(25)
Impact of change in foreign exchange rates	–	(1)	(1)
At 31 December 2020	130	24	154
Additions	–	1	1
Interest	6	1	7
Payments	(17)	(7)	(24)
Impact of change in foreign exchange rates	–	–	–
At 31 December 2021	**119**	**19**	**138**

Non-cancellable lease rental payables are as follows:			
At 31 December 2021			
Current	17	7	24
Non-current (between 1 and 5 years)	67	11	78
Non-current (greater than 5 years)	65	4	69
At 31 December 2020			
Current	10	6	16
Non-current (between 1 and 5 years)	47	13	60
Non-current (greater than 5 years)	73	5	78

Expenses recognised in Income statement

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

	2021 £m	2020 £m
Depreciation expense of right-of-use asset	21	21
Interest expense on lease liabilities	7	8
Total amount recognised in the Group income statement	**28**	29

The Society had total cash outflows for leases of £24m in 2021 (2020: £25m).

The Society has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Society's business needs. Management exercises significant judgement in determining whether these extensions and termination options are reasonably certain to be exercised. The most significant lease in this regard is the 1986 Building. There is an option to terminate the lease in 2026. There has been no management decision to exercise the break before the end of the lease in 2031.

Group as a lessor

The Society has entered into operating leases for the 1986 Building and other property leases. The amounts receivable as at 31 December 2021 are:

	2021 1986 Building £m	**2021 Other £m**	**2021 Total £m**
Non-cancellable lease rentals are receivable as follows:			
Within one year	4	4	8
After one year but not more than five years	1	4	5

	2020 1986 Building £m	2020 Other £m	2020 Total £m
Non-cancellable lease rentals are receivable as follows:			
Within one year	5	4	9
After one year but not more than five years	2	7	9

17. Loans recoverable

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

	2021 £m	2020 £m
At 1 January	32	34
Recoveries during the year	(2)	(3)
Movement recognised during the year	(2)	1
At 31 December	**28**	32

18. Financial investments

	Note	**2021 £m**	2020 £m
Financial investments at amortised cost			
Statutory insurance deposits		810	807
Short-term and security deposits		758	626
Total financial investments at amortised cost	18(a)	1,568	1,433
Financial investments at fair value through profit and loss	18(b)	2,690	2,676
Financial investments		**4,258**	4,109

(a) Financial investments at amortised cost

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

Statutory insurance deposits include investments such as government bonds, treasury bills, letters of credit, call accounts, fixed-term deposits and cash deposits held in certain countries to satisfy local trading authorisation requirements. These are excluded from cash and cash equivalents, because these amounts are not available to finance the Society's day-to-day operations.

18. Financial investments continued
(a) Financial investments at amortised cost continued

Statutory insurance deposits	2021 Securities £m	2021 Deposits £m	2021 Total £m
Amortised cost at 1 January	117	690	807
Additions at cost	60	991	1,051
Disposal proceeds	(25)	(1,006)	(1,031)
Deficit on the sale and revaluation of investments	(4)	(13)	(17)
At 31 December	**148**	**662**	**810**

Statutory insurance deposits	2020* Securities £m	2020* Deposits £m	2020* (restated) Total £m
At 1 January	84	612	696
Additions at cost	41	940	981
Disposal proceeds	(12)	(878)	(890)
Surplus on the sale and revaluation of investments	4	16	20
At 31 December	117	690	807

* Prior year restated to align to current year presentation.

Analysis of statutory insurance deposits	2021 £m	2020 £m
AAA	1	1
AA	540	544
A	250	243
BBB	8	8
Other	11	11
Total of statutory insurance deposits	**810**	807

Analysis of short-term and security deposits	2021 £m	2020 (restated)* £m
AA	421	309
A	330	304
BBB	7	13
Total securities	**758**	626

* Prior year restated to align to current year presentation.

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

	2021 Corporation of Lloyd's £m	2021 Lloyd's Central Fund £m	2021 Total £m
Market value at 1 January	533	2,143	2,676
Additions at cost	347	2,634	2,981
Disposal proceeds	(340)	(2,621)	(2,961)
(Deficit)/surplus on the sale and revaluation of investments	(36)	30	(6)
Fair value at 31 December	**504**	**2,186**	**2,690**
Analysis of securities:			
Listed securities			
Fixed interest:			
Government	291	1,161	1,452
Corporate securities	213	439	652
Total fixed interest	504	1,600	2,104
Emerging markets	–	75	75
Global equities	–	357	357
Multi-asset	–	62	62
Total listed securities	**504**	**2,094**	**2,598**
Unlisted securities			
Hedge funds	–	15	15
Loans and advances*	–	77	77
Total unlisted securities	**–**	**92**	**92**
Fair value	**504**	**2,186**	**2,690**
Analysis of securities:			
AAA	115	249	364
AA	166	801	967
A	41	298	339
BBB	170	252	422
Other	12	586	598
Total securities	**504**	**2,186**	**2,690**

* During the year, the Society entered into arrangements and other connected transactions with Constellation IC Limited (Constellation) and a panel of other reinsurers, to provide protection for Lloyd's Central Fund, in situations where the Central Fund makes payments to cover members' liabilities. Constellation is an incorporated cell of White Rock Insurance (Guernsey) ICC Limited and both entities are registered and domiciled in Guernsey and authorised by the Guernsey Financial Services Commission. The Society has no shareholding interest in either entity.

The programme incepted on 1 January 2021 and has an initial fixed duration of five years (with a possible extension to hold collateral for up to a further three years to cover adverse claims development). The Society retains the first £600m of claims payable. The total amount of cover provided by the programme is £650m, with layers provided by Constellation and a panel of reinsurers. The layer covered by Constellation of £450m is 100% collateralised for the five year term. Constellation has been funded by loans, including £80m from the Society, which has been disclosed in note 18(b) and note 20(d), Financial Investments. The loan is classified and measured at fair value through profit and loss, in accordance with the Society's accounting policy for financial assets in accordance with IFRS 9 Financial Instruments. Interest income is accrued on the loan.

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

	2020 Corporation of Lloyd's £m	2020 Lloyd's Central Fund £m	2020 Total £m
Fair value at 1 January	210	2,578	2,788
Additions at cost	417	1,741	2,158
Disposal proceeds	(104)	(2,250)	(2,354)
Surplus on the sale and revaluation of investments	10	74	84
Fair value at 31 December	533	2,143	2,676
Analysis of securities:			
Listed securities			
Fixed interest:			
Government	300	1,127	1,427
Corporate securities	233	429	662
Total fixed interest	533	1,556	2,089
Emerging markets	–	71	71
Global equities	–	435	435
Total listed securities	533	2,062	2,595
Unlisted securities			
Hedge funds	–	13	13
Multi-asset	–	68	68
Loans and advances	–	–	–
Total unlisted securities	–	81	81
Fair value	533	2,143	2,676

Analysis of securities:			
AAA	127	466	593
AA	160	543	703
A	62	356	418
BBB	184	195	379
Other	–	583	583
Total securities	533	2,143	2,676

19(a). Trade and other receivables due within one year

	2021 £m	2020 £m
Due within one year		
Trade (net of allowance for expected credit losses)	1	2
Insurance and reinsurance receivables	1,508	1,618
Reinsurance commission receivable	43	35
Interest receivable	13	15
VAT receivable	18	6
Overseas office deposits	2	3
Amounts due from underwriters	3	3
Other receivables	21	31
Total trade and other receivables	**1,609**	1,713

19(b). Prepayments and accrued income

	2021 £m	2020 £m
Prepayments	79	11
Accrued income	6	8
Total prepayments and accrued income	**85**	19

Note: Prepayments include amounts paid for services which will be received after more than one year from the balance sheet date of £55m.

20. Financial risk management objectives and policies

The Society's risk management of investment operations is predominantly controlled by the Lloyd's Treasury and Investment Management department under policies approved by the Investment Committee. The department identifies, evaluates and hedges financial risks in close cooperation with the Society's operating units. The Council provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Explanations of the Society's financial instrument risk management objectives, policies, strategy and the impact of the COVID-19 pandemic are set out in the discussion of the Society's financial risk management and treasury policies on pages 106 to 107 of the Financial Review.

(a) Fair values and credit risk

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

The fair value (based on the quoted offer prices) of subordinated debt is £888m (2020: £936m) against a carrying value measured at amortised cost of £796m (2020: £795m). All other financial instruments are either held at fair value, amortised cost or at an amount that approximates fair value.

At the reporting date there were no significant concentrations of credit risk, other than insurance contract assets, which are all recoverable from Lloyd's syndicates. All syndicates benefit from the Lloyd's chain of security, therefore credit risk for insurance contract assets is concentrated with the Society of Lloyd's. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, in the Group statement of financial position.

Expected credit losses

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

– Statutory insurance deposits;

– Debt instruments carried at amortised cost; and

– Cash and cash equivalents.

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

20. Financial risk management objectives and policies continued
(a) Fair values and credit risk continued
Trade receivables
The ageing of trade receivables as at 31 December 2021 and 2020 was as follows:

	2021 Gross £m	**2021 Impairment £m**	**2021 Net £m**	2020 Gross £m	2020 Impairment £m	2020 Net £m
1-30 days	–	–	–	1	–	1
Past due 31-120 days	1	–	1	1	–	1
Total	**1**	**–**	**1**	2	–	2

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

(b) Sensitivity analysis
Foreign currency exposure
Currency risk is the risk that the sterling value of the Society's assets and liabilities will fluctuate, due to changes in foreign exchange rates. The Society's exposure to the risk of changes in the foreign exchange rates relates primarily to changes in the fair value of foreign currency denominated investments and forward contracts. Further details on foreign currency risk can be found on page 107.

The majority of foreign exchange exposures arising from investments denominated in foreign currencies are managed via a foreign exchange hedging programme. The Society also hedges against the portion of the capital requirement denominated in US dollars, in excess of US dollar holdings. As a result, the Society has remaining net exposures to foreign currencies and the sterling value of the Society's investments may be affected by movements in exchange rates relating to these exposures. At 31 December 2021, a 10% rise or fall in the value of sterling, against all other currencies, would have reduced/increased the surplus before tax by £323m (2020: £336m). This analysis is presented net of foreign exchange hedges and assumes that all other variables remain constant. In practice, actual results may differ.

Debt securities sensitivities
The value of the Society's investments in debt securities is affected by changes in the level of yields, as determined by the financial markets. As at 31 December 2021, a consistent increase or decrease of 100 basis points in the yields applicable to all relevant securities would have reduced/increased the surplus before tax by approximately £53m (2020: £50m). Relevant securities include investment grade sovereign and corporate bonds, floating rate notes and interest rate swaps. This analysis assumes that all other variables, in particular, foreign currency exchange rates, remain constant. In practice, actual results may differ. Further details on market risk can be found on page 107.

Equity price risk
Equity price risk is the risk that the market values of equity investments fall. At 31 December 2021, a 15% fall or rise in the value of all the Society's equity investments would have reduced/increased the surplus before tax by approximately £40m (2020: £39m). This analysis is presented net of equity futures and hedges assumes that all other variables, in particular, foreign currency exchange rates, remain constant. In practice, actual results may differ. Further details on market risk can be found on page 107.

(b) Sensitivity analysis continued

Liquidity risk

The table below summarises the maturity profile of the Society's non-derivative financial liabilities as at 31 December 2021, based on undiscounted contractual cash flows:

As at 31 December 2021	Note	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Senior notes	24(i)	299	(437)	(8)	(8)	(24)	(397)
Subordinated loan notes	24(ii)	796	(959)	(38)	(38)	(568)	(315)
Loans funding statutory insurance deposits		807	(807)	(807)	–	–	–
Trade and other payables	26	1,961	(1,961)	(1,961)	–	–	–
Total		**3,863**	**(4,164)**	**(2,814)**	**(46)**	**(592)**	**(712)**

As at 31 December 2020	Note	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Senior notes	24(i)	299	(445)	(8)	(8)	(24)	(405)
Subordinated loan notes	24(ii)	795	(996)	(38)	(38)	(591)	(329)
Loans funding statutory insurance deposits		805	(805)	(805)	–	–	–
Trade and other payables	26	1,929	(1,929)	(1,929)	–	–	–
Total		3,828	(4,175)	(2,780)	(46)	(615)	(734)

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

(c) Derivative financial instruments

The Society enters into forward currency contracts to manage exposures to fluctuation of exchange rates and to provide a currency conversion service to the Lloyd's market. The Society's derivative financial instruments are categorised as fair value hierarchy Level 2.

Forward currency contracts are settled gross; notional amounts are a close proxy for gross cash flow amounts. The fair value and notional amounts of forward currency contracts, all of which mature within one year, are analysed as follows:

	2021 Assets		2021 Liabilities	
As at 31 December	Fair value £m	Notional £m	Fair value £m	Notional £m
Currency conversion service	1	187	1	187
Other forward foreign exchange contracts	11	930	12	931
Interest rate swaps	1	296	5	296
Equity futures	–	168	2	168
Total	**13**	**1,581**	**20**	**1,582**

	2020 Assets		2020 Liabilities	
As at 31 December	Fair value £m	Notional £m	Fair value £m	Notional £m
Currency conversion service	2	202	2	202
Other forward foreign exchange contracts	13	1,134	15	1,136
Interest rate swaps	6	336	10	336
Equity futures	–	244	5	244
Total	21	1,916	32	1,918

20. Financial risk management objectives and policies continued

(d) Fair value hierarchy

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

Level 1

Inputs to Level 1 fair values are quoted prices in active markets for identical assets. An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples are listed debt securities in active markets, listed equities in active markets, listed deposits held with credit institutions in active markets.

Level 2

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (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 or low volatility hedge funds where tradeable net asset values are published.

Level 3

Inputs to Level 3 fair values are inputs that are unobservable for the asset. Unobservable inputs have been used to measure fair value where observable inputs are not available, allowing for situations where there is little or no market activity. Unobservable inputs reflect assumptions that the Society considers that market participants would use in pricing the asset and have been based on a combination of independent third-party evidence and internally developed models. During 2021, a new loan asset was categorised at Level 3, (no assets categorised at Level 3 in 2020). An unrealised loss of £2m was recognised within finance income in respect of level 3 investments. Further details are provided in note 18(b).

	Note	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m	2021 Total £m
Financial assets at fair value through profit or loss					
Fixed income securities		1,452	652	–	2,104
Equity investments		357	75	–	432
Multi-asset		–	62	–	62
Loans and advances		–	–	77	77
Unlisted securities		–	15	–	15
Total financial investments	18	1,809	804	77	2,690
Derivative financial instruments					
Currency conversion service		–	1	–	1
Other forward foreign exchange contracts		–	11	–	11
Interest rate swaps		–	1	–	1
Total derivative financial instruments	20(c)	–	13	–	13
Total financial assets at fair value through profit or loss		**1,809**	**817**	**77**	**2,703**
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	1	–	1
Other forward foreign exchange contracts		–	12	–	12
Interest rate swaps		–	5	–	5
Equity futures		–	2	–	2
Total derivative financial instruments	20(c)	–	20	–	20
Total financial liabilities at fair value through profit or loss		**–**	**20**	**–**	**20**

(d) Fair value hierarchy continued

	Note	2020 Level 1 £m	2020 Level 2 £m	2020 Total £m
Financial assets at fair value through profit or loss				
Fixed income securities		1,427	662	2,089
Equity investments		435	71	506
Unlisted securities		–	81	81
Total financial investments	18	1,862	814	2,676
Derivative financial instruments				
Currency conversion service		–	2	2
Other forward foreign exchange contracts		–	13	13
Interest rate swaps		–	6	6
Equity futures		–	–	–
Total derivative financial instruments	20(c)	–	21	21
Total financial assets at fair value through profit or loss		1,862	835	2,697
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Currency conversion service		–	2	2
Other forward foreign exchange contracts		–	15	15
Interest rate swaps		–	10	10
Equity futures		–	5	5
Total derivative financial instruments	20(c)	–	32	32
Total financial liabilities at fair value through profit or loss		–	32	32

Unlisted securities

Fair values are determined using a pricing hierarchy structure for valuation purposes. The valuation principles employed are to provide the most accurate valuations, while also working to provide independent valuations. The pricing process employs a hierarchy that utilises numerous third-party sources in a tiered system.

Where estimates are used to value unlisted securities, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data, where possible. While such valuations are sensitive to estimates, at year end, changing one or more of the assumptions to reasonably possible alternative assumptions is unlikely to result in a significant change in fair value.

21. Cash and cash equivalents

	2021 £m	2020 £m
Cash at banks	758	535
Short-term deposits	425	639
Total cash and cash equivalents	**1,183**	1,174

Cash at banks earns interest at floating rates, based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Society, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £1,183m (2020: £1,174m).

22. Equity

(a) Accumulated reserves

	2021 £m	2020 £m
Attributable to:		
Corporation of Lloyd's	26	25
Central Fund	2,500	2,443
Total accumulated reserves	**2,526**	2,468

(b) Translation reserve

The translation reserve of £(5)m (2020: £26m) is used to record foreign exchange gains and losses recognised in other comprehensive income, as a result of translating the results and financial position of Group entities that have a functional currency different from the presentation currency.

(c) Revaluation reserve

The revaluation reserve of £15m (2020: £15m) is used to record increases in the fair value of the Lloyd's Collection and decreases to the extent that such decreases relate to the amount previously recognised in the Group statement of comprehensive income.

23. Syndicate loans

	2021 £m	2020 £m
2020 Syndicate loan (November)	285	285
2020 Syndicate loan (June)	119	119
2019 Syndicate loans	110	110
Principal loan balance	**514**	514

Syndicate loans may be repaid in full or in part, at the discretion of the Society, only after a period of five years has elapsed. The interest rate on the loans is based on a risk-free rate with an allowance for credit spread. The Council may elect to defer or cancel payment of all or any interest. Interest is only recognised once the holder's right to receive payment is confirmed. At 31 December 2021, the cumulative interest to date, not yet confirmed, totals £19m (31 December 2020: £9m).

Syndicate loans are accounted for as an equity instrument in the Society's financial statements and as such, any interest paid to loan holder's is recognised as a dividend payment and recorded as a reduction in equity. A dividend payment of £19m (2020: £4m) was made during the year.

24. Senior and Subordinated debt

i) Senior notes

	2021 £m	2020 £m
Details of loans payable wholly or partly after more than five years:		
2.48% senior debt of £60m maturing January 2030 (Sterling 2020)	60	60
2.48% senior debt of £40m maturing January 2031 (Sterling 2020)	40	40
2.61% senior debt of £70m maturing January 2035 (Sterling 2020)	70	70
2.81% senior debt of £130m maturing January 2045 (Sterling 2020)	130	130
Less issue costs and discount on issue to be charged/unwound in future years	(1)	(1)
Total	**299**	299

ii) Subordinated notes

	2021 £m	2020 £m
Details of loans payable wholly or partly after more than five years:		
4.875% subordinated notes of £300m maturing 7 February 2047 (Sterling 2017 Notes)	300	300
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	500	500
Total subordinated notes issued	800	800
Less issue costs to be charged in future years	(3)	(3)
Less discount on issue to be unwound in future years	(1)	(2)
Total	**796**	795

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

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

The Sterling 2017 notes issued on 7 February 2017 mature on 7 February 2047 and bear interest at a fixed rate of 4.875% per annum, until (but excluding) 7 February 2027, payable annually in arrears on 7 February in each year, and thereafter at a floating rate of interest calculated using a compounded daily SONIA interest rate plus a credit adjustment spread and margin, payable quarterly in arrears.

In February 2022, the subordinated notes were delisted from the Main Market of the London Stock Exchange and relisted on the London Stock Exchange's International Securities Market.

25. Provisions

	2021 Lease cost provision £m	2021 Other provisions £m	2021 Total £m
Balance at 1 January	57	9	66
Charged in the year	4	3	7
Utilised in the year	(17)	(3)	(20)
Balance at 31 December	**44**	**9**	**53**

	2020 Lease cost provision £m	2020 Other provisions £m	2020 Total £m
Balance at 1 January	67	13	80
Charged in the year	2	–	2
Utilised in the year	(12)	(4)	(16)
Balance at 31 December	57	9	66

Lease cost provision

The lease cost provision represents the Society's obligations in respect of the contractual capital expenditure and dilapidation cost under fully repairing leases. Under the 1986 Building lease, the Society has obligations to the lessor to repair, maintain and cleanse the building throughout the duration of the lease, and to bring the building back to its original condition at the end of the lease. The Society reviews annually the estimated cost of satisfying the obligations under the lease. Third-party experts are engaged to help identify and validate required repair or maintenance and to estimate the cost of work required. The estimated costs for all repairs that have been evidenced, as required under the lease, are fully provided for.

The value of the lease cost provision is calculated with reference to the costs which are expected to be incurred during the remainder of the lease term. The value of the provision is not sensitive to the timing of expenditure during the lease term.

Other provisions

Other provisions include: restructuring provision, provision for obligations under an onerous lease and Income Assistance Scheme.

Restructuring provision

The provision is calculated using assumptions regarding the average salary and length of service of potentially impacted employees and is therefore sensitive to changes in these assumptions.

Obligations under onerous lease

A provision is made for obligations under an operating lease when the physically separable part of a property is taken out of use by the Society and the unavoidable costs of meeting the obligations under the lease exceed the economic benefits expected to be received.

The provision is calculated using future lease payments as per the lease contract discounted at the Society's long-term borrowing rate and is therefore sensitive to changes in this assumption.

Income Assistance Scheme

The Income Assistance Scheme was effective from 1 January 2010 and replaced both the Hardship Income Top-up Scheme and the Income and Housing Support Scheme. The Income Assistance Scheme is permanent and replaces the discretionary nature of the previous schemes and guarantees ongoing payment of income assistance to eligible members of the previous schemes until the full undertaking has been utilised, other than in the event that Lloyd's faces severe financial stress.

The provision covers expected future payments under the Income Assistance Scheme. The Names covered by the scheme receive quarterly payments until: (a) death (or a spouse's death, depending upon the individual arrangements agreed); (b) earlier settlement of the debt by the Name; or (c) default by the Name of their contractual obligations. The value of the provision is therefore sensitive to the factors above, as well as changes in inflation rates.

26. Trade and other payables

	2021 £m	2020 £m
Due within one year		
Trade and other payables	125	107
Insurance and reinsurance payables	1,914	1,771
Market charges repayable	26	23
Taxation and social security	6	5
Arbitration awards	2	2
Interest payable on subordinated loan notes	17	17
Interest payable on senior debt	4	4
Total trade and other payables	**2,094**	1,929

27. Cash generated from operations

	Note	2021 £m	2020 £m
Surplus before tax		2	56
Net finance expense	9	10	57
Share of profits of associates and joint ventures	11	(9)	(12)
Operating surplus		**3**	101
Adjustments for:			
Amortisation of intangible assets	14	12	3
Depreciation of plant and equipment	15	3	3
Depreciation of right-of-use asset	16	21	21
Impairment losses	14,15	3	27
Operating surplus before working capital changes		**42**	155
Changes in pension obligations		(8)	(7)
Increase in receivables		(278)	(5,700)
Increase in payables		504	5,599
Decrease in loans recoverable		2	–
Decrease in provisions		(13)	(14)
Cash generated from operations		**249**	33

28. Commitments

Capital expenditure commitments

Capital expenditure commitments contracted, but not provided for in the financial statements were £5m (2020: £5m).

29. Disclosure of related party transactions

The Group financial statements include the financial statements of the Society and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interests in its associates and joint ventures as listed in note 11.

Services provided to Ins-sure Holdings Limited Group in the year ended 31 December 2021, included operating systems support and development, and other administrative services.

Services provided to Xchanging Claims Services Limited Group in the year ended 31 December 2021, were primarily administrative services.

Services provided to London Market Operations & Strategic Sourcing Limited in the year ended 31 December 2021, were primarily fee collection services.

The Society made a £6.6m investment in Placing Platform Limited (PPL) in 2020, to continue to advance the implementation of digital trading in the Lloyd's market. It is accounted for as an investment in a joint venture using the equity method. The investment is recognised at cost. The carrying value is adjusted to reflect the Society's share of PPL profit or loss.

The following table provides the total value of transactions entered into with Society related parties for the relevant financial years, together with information regarding the outstanding balances at 31 December 2021 and 2020.

	Purchases from related parties		Sales to related parties		Amounts due from related parties		Amounts owed to related parties	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Associates:								
Ins-sure Holdings Limited	**1**	3	**–**	–	**–**	–	**–**	–
Xchanging Claims Services Limited	**–**	–	**–**	–	**–**	–	**–**	–
Joint ventures:								
London Market Operations & Strategic Sourcing Limited	**1**	3	**–**	–	**–**	–	**–**	–
Placing Platform Limited	**–**	–	**–**	–	**–**	–	**–**	–

Transactions with associates and joint arrangements are priced on an arm's-length basis.

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

30. Events after the reporting period

Invasion of Ukraine

The Russian invasion of Ukraine will have short, medium and long term impacts on both Lloyd's performance and balance sheet. The primary sources of risk relate to underwriting exposure arising from sanctions, exposure within investment portfolios and the impact on operations. There is a high degree of uncertainty around the eventual outcomes at this point and we continue to monitor the situation closely.

Lloyd's direct premium derived from Russia and Ukraine is less than 1% of total GWP. Indirect underwriting exposures arise mainly across the aviation, marine, trade credit and political risk lines of business. Our assessment of the potential financial impact is ongoing and we are actively working with the Lloyd's market to continue our assessment of the situation. We are also working closely with governments and regulators across the world to ensure we interpret and enact sanctions requirements at pace, together with other legal and regulatory obligations.

The Society's investments are largely fixed income and the strategic asset allocation has limited direct exposure to the crisis; our indirect exposures are also minimal and both direct and indirect exposures account for less than 1% of total invested assets across the chain of security.

The situation is fast evolving, and in order to respond swiftly to developments, we have set up an executive response group that meets daily to monitor the situation and respond to government actions. The group is continually assessing the operational impact upon the Society and Lloyd's market and remains in close consultation and communication with market participants.

At this early stage, it is difficult to assess the full financial impact of this crisis, however there are no indications that this will impact the Society's ability to satisfy regulatory capital requirements or meet its financial obligations.

Five-Year Summary

(For the year ended 31 December 2021)

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Corporation operating income	372	384	358	352	351
Central Fund income	143	127	125	149	125
Gross written premiums	2,732	5,978	2,466	176	253
Outward reinsurance premiums	(2,732)	(5,978)	(2,466)	(176)	(253)
Total income	515	511	483	501	476
Gross insurance claims and insurance expenses incurred	(1,818)	(5,824)	(1,302)	(189)	(212)
Insurance claims and expenses recoverable from reinsurers	1,818	5,824	1,302	189	212
Other Group operating expenses					
Employment (including pension costs)	(194)	(161)	(173)	(164)	(138)
Premises	(43)	(41)	(99)	(55)	(52)
Legal and professional	(127)	(114)	(73)	(51)	(37)
Systems and communications	(59)	(44)	(39)	(43)	(33)
Other	(89)	(50)	(38)	(49)	(46)
Total other Group operating expenses	(512)	(410)	(422)	(362)	(306)
Operating surplus	3	101	61	139	170
Finance costs	(62)	(59)	(51)	(39)	(55)
Finance income	52	2	151	93	62
Share of profits of associates and joint ventures	9	12	9	9	10
Surplus before tax	2	56	170	202	187
Tax credit/(charge)	3	(10)	(33)	(39)	(31)
Surplus for the year	**5**	46	137	163	156

Other Information

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Alternative Performance Measures (APMs)

The following metrics, which are consistently used to analyse financial performance in the Lloyd's market results and/or in the Society Report, are considered to be Alternative Performance Measures (APMs) as defined in the European Securities and Markets Authority Guidelines (ESMA Guidelines) on Alternative Performance Measures.

Metric	Applicable part of the Annual Report	Definition	Reason for use
Combined ratio	Market Results	Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	Combined ratio is used to measure the profitability of the underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Expense ratio	Market Results	Expense ratio is a measure of the level of expenses associated with underwriting activity. It is the ratio of net operating expenses to earned premiums net of reinsurance.	Expense ratio is used to measure the level of expenses associated with underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market expenses to its peers.
Underwriting result	Market Results	Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.	Underwriting result is used to measure the profitability of the underwriting activity across the Lloyd's market.
Underlying combined ratio	Market Results	Underlying combined ratio is a measure of the profitability of the underwriting activity excluding major claims. It is the ratio of net operating expenses plus claims incurred, excluding major claims, to earned premium net of reinsurance.	Underlying combined ratio is used to measure the profitability of the underwriting activity of the Lloyd's market, excluding the impact of major claims.
Accident year ratio	Market Results	Accident year ratio is a measure of the profitability of the underwriting activity attributable to the current financial year. It is the ratio of net operating expenses plus claims incurred net of reinsurance, before prior year releases, to earned premium net of reinsurance.	Accident year ratio is used to measure the profitability of the underwriting activity of the Lloyd's market attributable to the current financial year.
Attritional loss ratio	Market Results	Attritional loss ratio is a measure of residual insurance claims as a percentage of earned premiums net of reinsurance. Attritional insurance claims are calculated as total claims less major losses and movements in prior year claims reserves.	Attritional loss ratio is used to measure the profitability of general underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Prior year release ratio	Market Results	Prior year release ratio is a measure of assessing prior year movements in claims reserves. This is calculated as a percentage of earned premiums net of reinsurance.	Prior year release ratio is used to determine the adequacy of reserves across the Lloyd's market and the benefit of reserve margin to be considered within the combined ratio. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Major claims ratio	Market Results	Major claims ratio is a measure of significant loss events which have impacted the profitability of underwriting activity. This is calculated as the sum of major claims in the market as a percentage of earned premiums net of reinsurance.	Major claims ratio is used to measure the impact of significant loss events against the underwriting performance of the market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Return on capital	Market Results	Return on capital is a measure of overall profitability. It is the ratio of result for the year before tax to the average of opening and closing total capital and reserves.	Return on capital ratio is used to measure the overall profitability and value creating potential of the Lloyd's market.
Investment return	Market Results and Society Report	Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average of opening and closing financial investments and cash at bank and in hand.	Investment return ratio is used to measure the performance of the portfolio of investments and cash balances held across the Lloyd's market.

Metric	Applicable part of the Annual Report	Definition	Reason for use
Budgeted operating expenses	Society Report	Operating expenses are budgeted on an annual basis as part of a Corporation-wide exercise. These are calculated on an IFRS basis using a bottom up approach, consolidating figures across the different countries and departments within the Corporation.	The annual budget is a key part of the financial control process within the Corporation and provides an estimate of expected future cost levels.
Free cash balances	Society Report	Free cash represents the amounts, both at bank and on deposit, held in the UK and overseas, excluding any balances held in respect of insurance and arbitration activities.	Provides a measure of the cash resources available to the Corporation to meet operating expenses.
Operating surplus	Society Report	The operating surplus is calculated as income from members (including subscriptions, Central Fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.	The operating surplus provides an indication of how the Society's income covers its cost base. This also provides a comparison of whether Central Fund contributions cover the cost of claims arising on the fund.
Solvency coverage ratio	Market Results and Society Report	Under the Solvency II regime, Lloyd's monitors the amount of eligible capital available to cover its market-wide SCR (MWSCR) and central SCR (CSCR). This is calculated as total eligible capital as a percentage of the respective solvency capital requirements.	Solvency coverage ratios are used to ensure that the society and its members hold sufficient capital to meet Lloyd's regulatory capital requirements, as well as to ensure Lloyd's solvency risk appetites are satisfied.

Glossary of Terms and Useful Links

Set out below is a guide to insurance and Lloyd's-related terms. These are not precise definitions but are included to provide assistance to readers as to the general meaning of terms commonly used in the Lloyd's market. Formal definitions are set out in the Definitions Byelaw.

Accident year ratio A measure of the profitability of the underwriting activity attributable to the current financial year. The accident year ratio is calculated as net operating expenses and net incurred losses (paid and reserves) for claims occurring in the year as a proportion of net premiums earned during the year. It excludes movements during the calendar year on claims, expenses and premium estimates for previous years.

Active underwriter A person employed by a managing agent with principal authority to accept insurance and reinsurance risks on behalf of the members of a syndicate.

Binding authority An agreement between a Lloyd's managing agent and a coverholder under which the Lloyd's managing agent delegates its authority to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate.

Budgeted operating expenses Operating expenses are budgeted on an annual basis as part of a Corporation wide exercise. These are calculated on an IFRS basis using a bottom up approach, consolidating figures across the different countries and departments within the Corporation.

Callable layer Central Fund assets may be supplemented by a 'callable layer' of up to 5% of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds.

Central assets The net assets of the Society including the Central Fund, but excluding the subordinated debt liability and the callable layer.

Central Fund The fund financed by (among other things) contributions from Lloyd's members and administered by the Council primarily as a fund for the protection of policyholders, and includes both the Old Central Fund and the New Central Fund.

Central SCR The Lloyd's Central Solvency Capital Ratio is calculated to cover all of the risks facing the Society and the Central Fund at a 99.5% confidence level over a one year time horizon.

Combined ratio A measure of an insurer's underwriting profitability based on the ratio of net incurred claims plus net operating expenses to net earned premiums. A combined ratio of 100% is breakeven (before taking into account investment returns). A ratio less than 100% is an underwriting profit.

Corporate member A company incorporated with limited liability, a Scottish limited partnership or a limited liability partnership, admitted to membership of the Society.

Corporation The Corporation of Lloyd's provides the licences and other facilities that enable business to be underwritten on a worldwide basis by managing agents acting on behalf of members.

Council The Council, created by Lloyd's Act 1982, 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.

Economic Capital Assessment The level of capital required to meet Lloyd's financial strength, licence and rating objectives.

Financial Conduct Authority (FCA) The FCA supervises the conduct of the UK financial services industry. Lloyd's, managing agents, members' agents and Lloyd's brokers are regulated by the FCA.

Free cash balances Free cash represents the amounts, both at bank and on deposit, held in the UK and overseas, excluding any balances held in respect of insurance and arbitration activities.

Funds at Lloyd's (FAL) Capital lodged and held in trust at Lloyd's as security for the policyholders and to support a member's overall underwriting business.

Integrated Lloyd's Vehicle (ILV) An arrangement in which a syndicate's capital is wholly provided by corporate members that are under the same ownership and control as the syndicate's managing agent.

Investment return Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average financial investments and cash at bank and in hand.

Lines of business Refers to the product segmental split disclosed in the Pro Forma Financial Statements.

Managing agent An underwriting agent responsible for managing a syndicate, or multiple syndicates.

Major claims Major claims encompass both natural and non-natural catastrophe losses. For the purpose of the PFFS this amounts to loss codes reported by the market, in aggregate, in excess of £20m net of reinsurance.

Market-wide SCR The Market-Wide Solvency Capital Ratio is calculated to cover all of the risks arising on the syndicate activity, members' capital provided at Lloyd's and the Society taken together at a 99.5% confidence level over a one year time horizon.

Member (of the Society) A person admitted to the membership of the Society.

Members' agent An underwriting agent appointed by a member to provide services and perform duties including advising the member on which syndicates he should participate.

Name A member of the Society who is an individual and who trades on an unlimited basis.

New Central Fund The New Central Fund constituted by and governed by the New Central Fund Byelaw (No. 23 of 1996).

Non-technical account Under UK GAAP the profit and loss account must be divided between the technical account and the non-technical account. Reported in the latter is all investment return, although an element will be reanalysed to the technical account, and any income and expenses that do not arise directly from the entity's underwriting activity.

Operating surplus The operating surplus is calculated as income from members (including subscriptions, central fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.

Premiums trust funds (PTF) The premiums and other monies that members receive in respect of their underwriting at Lloyd's are held by their managing agents in trust for them subject to the discharge of their underwriting liabilities.

The premiums trust funds comprise a sterling fund, Lloyd's American Trust Fund, Lloyd's Dollar Trust Funds, Lloyd's Canadian Trust Fund and the Lloyd's Asia trust funds (which cover general business written through coverholders in Singapore). These premiums trust funds are available to fund overseas regulatory deposits, claims, return premiums, underwriting expenses and any profit that is payable to the member after providing for all future liabilities.

Price changes on renewal business This is calculated as current year insurance premium less prior year insurance premium as a proportion of prior year insurance premium, where the policy coverage and wording is held consistent.

Prior years' reserve movements This is calculated as movements in reserves established for claims that occurred in previous accident years.

Prudential Regulation Authority (PRA) The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. Lloyd's and managing agents are regulated by the PRA.

Realistic Disaster Scenarios (RDS) A series of scenarios, both natural and man-made, which are used to assess the market's risk profile to a variety of different catastrophes to enable better risk management practices within Lloyd's.

Reinsurance to close (RITC) A reinsurance agreement under which members of a syndicate for a year of account to be closed are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.

Reinsurance to close (RITC) syndicate A syndicate set up solely to underwrite the Reinsurance to Close of other syndicates.

Return on capital Return on capital is a measure of overall profitability. It is the ratio of results for the year before tax to the average of opening and closing total capital and reserves.

Service company A wholly owned subsidiary of either a managing agent or of a managing agent's holding company and which is authorised to enter into contracts of insurance for members of its associated syndicate and/or associated insurance companies.

Solvency ratio The measure of an insurer's solvency based on the ratio by which the net assets for solvency purposes exceed the solvency requirement.

Special Purpose Arrangement (SPA) A syndicate set up solely to underwrite a quota share reinsurance of another syndicate's business for a year of account.

Syndicate A member, or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.

Syndicate allocated capacity In relation to a syndicate the aggregate of the member's syndicated premium limits of all the members for the time being of the syndicate.

Syndicate in a box A member, or group of members, underwriting insurance business at Lloyd's, which has met certain criteria for adjusted participation and entry requirements for the first three years of underwriting.

Technical account Under UK GAAP the profit and loss account must be divided between the technical account and the non-technical account. The technical account reports the results of the underwriting activity, premiums less claims, less expenses and also includes an element of the investment return reanalysed from the non-technical account.

Underwriting result A measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.

Year of account The year to which a risk is allocated and to which all premiums and claims in respect of that risk are attributed. The year of account of a risk is usually determined by the calendar year in which the risk incepts. A year of account is normally closed by reinsurance to close at the end of 36 months.

Useful Links

To find out more information on Lloyd's, visit:

– What is Lloyd's	lloyds.com/whatislloyds
– Lloyd's market structure	lloyds.com/thelloydsmarket
– Lloyd's Corporation	lloyds.com/corporation
– Lloyd's capital structure and chain of security	lloyds.com/capitalstructure
– Lloyd's market structure	lloyds.com/governance
– Lloyd's ESG Report	lloyds.com/about-lloyds/responsible-business/esg-report
– Full glossary of terms	lloyds.com/glossary

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www.lloyds.com/annualresults2021