Solvency and Financial Condition Report

31 December 2020

Lloyd’s Solvency and Financial Condition Report – 31 December 2020

Overview

Lloyd’s Solvency and Financial Condition Report (SFCR) as at 31 December 2020 has been prepared in accordance with Article 51 of the Solvency II Directive (2009/138/EC), Articles 290 to 298 of the Commission Delegated Regulation (EU) 2015/35, and Section 3 of the PRA Rulebook Solvency II Firms: Reporting Instrument 2015.

This SFCR is prepared in respect of ‘the association of underwriters known as Lloyd’s’ (‘Lloyd’s’), the supervised undertaking as referred to in Annex III of Directive 2009/138/EC. Further information on the structure of Lloyd’s, and the basis of preparation of the SFCR, is described in the Summary.

Lloyd’s SFCR contains the quantitative templates as specified by the Commission Delegated Regulation (EU) 2015/2452.

Further information

Additional information regarding Lloyd’s may be found within Lloyd's Annual Report 2020 and Aggregate Accounts 2020. These reports are available from Lloyd’s website: https://www.lloyds.com/about-lloyds/investor-relations/financial-performance/financial-results/annual-results-2020

The Lloyd’s Annual Report includes the Pro Forma Financial Statements (PFFS), which 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 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). The Annual Report also includes the financial statements of the Society of Lloyd’s, comprising the financial position and performance of the Corporation of Lloyd’s and the Central Fund.

The Aggregate Accounts set out an aggregation of all audited syndicate annual accounts including the audited results for calendar year 2020 and the financial position as at 31 December 2020 of all syndicates which transacted business during 2020.

Where relevant, references to these documents are made in the SFCR.

Governing body's statement in respect of the SFCR

We, the Council, acknowledge our responsibility for preparing the SFCR of Lloyd's as at 31 December 2020 in all material respects in accordance with the PRA Rules and Solvency II Regulations as applicable to Lloyd's.

We are satisfied that:

a) throughout the financial year in question, Lloyd's has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to Lloyd's; and

b) it is reasonable to believe that Lloyd's has continued so to comply and will continue so to comply in future.

For and on behalf of the Council

__________________________ John Neal, Chief Executive Officer

__________________________ Burkhard Keese, Chief Financial Officer

8 April 2021

Contents

Summary

What Lloyd's is
Lloyd's is the world's leading insurance and reinsurance marketplace. Through the collective intelligence and risk-sharing expertise of the market's underwriters and brokers, Lloyd's helps to create a braver world.

The Lloyd's market provides the leadership and insight to anticipate and understand risk, and the knowledge to develop relevant, new and innovative forms of insurance for customers globally.

It offers the efficiencies of shared resources and services in a marketplace that covers and shares risks from more than 200 territories, in any industry, at any scale.

And it promises a trusted, enduring partnership built on the confidence that Lloyd's protects what matters most: helping people, businesses and communities to recover in times of need.

Lloyd's began with a few courageous entrepreneurs in a coffee shop. Three centuries later, the Lloyd's market continues that proud tradition, sharing risk in order to protect, build resilience and inspire courage everywhere.

Lloyd's writes a wide range of classes of business in a variety of geographical areas. This is highlighted in the below table which provides a Lloyd's class breakdown of gross written premium by region:

2020

	US and Canada	Other Americas	United Kingdom	Rest of Europe	Central Asia & Asia Pacific	Rest of the World	**Total for all Regions**
Reinsurance	23%	70%	34%	50%	40%	62%	**35%**
Property	35%	9%	22%	13%	19%	10%	**26%**
Casualty	27%	12%	28%	22%	31%	14%	**25%**
Marine, aviation & transport	8%	7%	6%	13%	7%	10%	**8%**
Energy	5%	1%	2%	2%	2%	2%	**4%**
Motor	2%	1%	8%	-	1%	2%	**2%**
Total GWP	**53%**	**6%**	**12%**	**15%**	**10%**	**4%**	**100%**

2019

	US and Canada	Other Americas	United Kingdom	Rest of Europe	Central Asia & Asia Pacific	Rest of the World	**Total for all Regions**
Reinsurance	21%	69%	29%	43%	39%	61%	**32%**
Property	35%	10%	25%	16%	20%	10%	**27%**
Casualty	29%	12%	27%	23%	31%	13%	**26%**
Marine, aviation & transport	7%	7%	6%	13%	7%	9%	**8%**
Energy	6%	1%	3%	4%	2%	4%	**4%**
Motor	2%	1%	10%	1%	1%	3%	**3%**
Total GWP	**52%**	**6%**	**14%**	**14%**	**10%**	**4%**	**100%**

Lloyd's Market Structure

Members – providing the capital
The capital to underwrite policies is provided by members of Lloyd's. This capital is backed by many of the world's major insurance groups, listed companies, individuals and limited partnerships, with corporate groups providing the majority of the capital for the Lloyd's market.

Syndicates – writing the insurance
A Lloyd's syndicate is formed by one or more members joining together to provide capital and accept insurance risks. Most syndicates write a range of classes of business, but many will have areas of specific expertise. Syndicates are, technically, set up on an annual basis. In practice, they usually operate from year to year with members having the right, but not the obligation, to participate in syndicates the following year. This continuity of capital backing the syndicates means they function like permanent insurance operations. Each syndicate sets its own appetite for risk, develops a business plan, arranges its reinsurance protection and manages its exposures and claims.

At 31 December 2020 there were 90 active (i.e. participating on the 2020 year of account) syndicates at Lloyd's including two Syndicates In a Box writing innovative new business.

Managing agents – managing the syndicates
A managing agent is a company set up to manage one or more syndicates on behalf of the members. Managing agents have responsibility for employing underwriters, overseeing their underwriting and managing the infrastructure and day-to-day operations.

At 31 December 2020 there were 50 managing agents at Lloyd's.

Policyholders – transferring risk
Policyholders include businesses, organisations, other insurers and individuals from around the world who seek to mitigate the impact of potential risks. Policyholders may access the Lloyd's market via a broker, coverholder or service company.

Brokers – distributing business
Lloyd's is a broker market in which strong relationships, backed by deep expertise, play a crucial part. Brokers facilitate the risk transfer process between policyholders and underwriters. Much of this business involves face to face negotiations between brokers and underwriters.

At 31 December 2020 there were 350 broking firms introducing business to Lloyd's.

Coverholders – offering local access to Lloyd's
A managing agent may also authorise third parties to accept insurance risks directly on behalf of its syndicates. These businesses, known as coverholders, form a vital distribution channel, offering a local route to Lloyd's in many territories around the world.

At 31 December 2020 there were 4,030 approved coverholder office locations.

Service companies

A service company operates like a coverholder but is 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.

At 31 December 2020 there were 427 service companies at Lloyd's, with the majority in the UK and the US.

Members' agents – supporting the members

Members' agents provide advice and administrative services to members, including assisting with syndicate selection.

At 31 December 2020, there were three members' agents at Lloyd's.

Society of Lloyd's – supporting the market

The Society oversees the Lloyd's market. It provides the market's infrastructure, including services to support its efficient running, and protects and maintains its reputation.

The Society's role includes:

- managing and protecting Lloyd's network of international licences;
- agreeing syndicates' business plans and evaluating performance against those plans. Syndicates are required to underwrite only in accordance with their agreed business plans. If they fail to do so, Lloyd's can take a range of actions including, as a last resort, stopping a syndicate underwriting;
- monitoring syndicates' compliance with Lloyd's minimum standards; and
- continuing to raise standards and improve performance across two main areas:
  - overall risk and performance management of the market; and
  - maintaining and developing the market's attractiveness to capital providers, distributors and clients, while preserving its diversity.

The Society's Executive Committee exercises the day-to-day powers and functions of the Council of Lloyd's.

At 31 December 2020 the Society and its subsidiaries had 1,305 staff.

Financial highlights

The Lloyd's Market reported an overall loss of £887m in 2020 (2019: profit of £2,532m). The result is comprised of net investment income of £2,268m and underwriting losses of £2,676m, which has been driven by £3,433m of claims arising from the COVID-19 pandemic. The reported combined ratio is 110.3%, however excluding losses from the COVID-19 pandemic the combined ratio is 97.0%, which is an improvement on 2019 – 102.1%.

	2020	2019
	£m	£m
Underwriting result	(2,676)	(538)
Investment return	2,268	3,537
(Loss) on exchange	(105)	(54)
Other income	92	59
Expenses (other than technical account operating expenses)	(466)	(472)
Total	**(887)**	**2,532**

Whilst the Lloyd's Market has reported underwriting losses for 2020, the impact of COVID-19 overshadows the improvement in underlying performance.

Major claims have contributed 23.0% to the combined ratio (2019: 7.0%), with COVID-19 related claims accounting for a significant portion at 13.3%. The Lloyd's Market also continued its trend of prior year releases, contributing positively to the combined ratio with a benefit of 1.8% (2019: 0.9%). There have been prior year releases across all classes of business, except the casualty class which reported strengthening.

Adjusting the combined ratio for the contributions from major claims, the Lloyd's Market reported an underlying accident year ratio of 87.3%; an improvement on the 95.1% for the 2019 financial year. The 2020 accident year ratio is now in line with the target for the Lloyd’s Market.

The main contributor to the improvement in the underlying accident year ratio is the reduction in the attritional loss ratio which stands at 51.9%, representing a 5.4 percentage point reduction from the ratio reported for 2019. The improvement in the attritional loss ratio is the result of sustained risk adjusted rate increases on renewal business and the Market's actions to drive sustainable profitable performance. There has also been an improvement in the Market's expense ratio which has reduced to 37.2% from 38.7% in 2019.

The Lloyd's Market gross written premiums have decreased 1.2% when compared to 2019. Whilst the Market has seen a period of sustained risk adjusted rate increases on renewal business - which stood at 10.8% for 2020 - volume reductions in the period of 12.0% have offset this benefit. Volume reductions reflect the continued focus on driving sustainable profitable performance which has resulted in several syndicates exiting or re-underwriting certain lines of business and curbing risk appetites in poor performing lines. Risk adjusted rate increases on renewal business have been experienced across all major lines and geographies.

The Market’s investments generated income of £2,268m (2019: £3,537m), equivalent to a return of 2.9% on invested assets (2019: 4.8%).

As at 31 December 2020, Lloyd’s net total resources – capital, reserves and subordinated loan notes – amounted to £33,941m (31 December 2019: £30,638m). Central assets amounted to £2,513m (31 December 2019: £2,491m). Lloyd’s ratings remain at A+ (strong) with Standard and Poor’s, AA- (very strong) with Fitch Ratings, and A (excellent) with A.M. Best.

Lloyd’s risk profile

At Lloyd’s, the risk profile originates from both syndicates and at central level.

Syndicates are the source of the majority of risks. They source all 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 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, pension fund risk; market risk on central assets; and the risk of member default.

Solvency Capital Requirement (Solvency II basis)
The Solvency Capital Requirement (SCR) represents the amount of capital required to withstand up to 1 in 200-year losses over a one-year time horizon. Given Lloyd's unique structure there are two SCRs which are monitored under the Solvency II regime:

- The Lloyd's market wide SCR (MWSCR) is calculated to cover all the risks of 'the association of underwriters known as Lloyd's', i.e. 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 the capital of the component parts of the market taken together is available to meet the MWSCR.

- The Lloyd's central SCR (CSCR) is calculated in respect of only the risks facing the Corporation and 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 Lloyd'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 which has been approved by the PRA. Individual syndicates also derive SCRs from their own internal models which are subject to approval by the Lloyd'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.

Lloyd's Internal Model
The approved Lloyd's Internal Model (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; 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 Lloyd'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 class of business, allocated to syndicates and through to members to assess the level of capital required by the market and centrally to meet up to 1 in 200-year losses over the one-year time horizon.

Lloyd's solvency ratios and capital

Lloyd's solvency position is summarised below:

	Dec 2020	Dec 2019
	£m	£m
Market wide solvency		
Lloyd's MWSCR	20,341	17,870
Eligible capital	29,860	27,877
Lloyd's solvency ratio	147%	156%
Central solvency		
Central SCR	2,085	1,500
Eligible central capital	4,361	3,574
Lloyd's central solvency ratio	209%	238%

The market wide solvency ratio at 31 December 2020 is 147% (2019: 156%). The solvency ratio has declined over 2020 as a result of the increase in the market wide SCR. The market wide SCR has increased as a result of a growth in exposure for the 2021 capital year as well as model updates in response to COVID-19 across all key risk drivers including economic conditions and claims volatility. This is offset by an increase in eligible own funds due to an increase in members' Funds at Lloyd's following the November 2020 coming into line and a reassessment of how the own funds of Lloyd's subsidiaries contributes to the calculation of market wide own funds.

The central solvency ratio has decreased over this period as a result of the increase in the central SCR. The increase in the Central SCR is predominantly driven by model updates in response to COVID-19 across all key risk drivers including economic conditions and claims volatility. This is compounded by a low interest rate environment and exposure growth. This is offset by an increase in eligible own funds following the issue of further tranches of syndicate loans to the Central Fund and a reassessment of the treatment of Lloyd's investment in its subsidiaries.

In the current year solvency ratios have benefited from a change in treatment in respect of the Society's investments in its insurance undertakings. Previously the full value of the Society's investments in its insurance undertakings were deducted in arriving at own funds for the both the central and market solvency ratios. For central solvency Lloyd's investments in its subsidiaries have been included in own funds at their Solvency II net asset value. For market wide solvency, the assets and liabilities of the subsidiaries have been aggregated in the market wide balance sheet (after eliminating for transactions between the Society and the syndicates), less a deduction in respect of the subsidiaries operational risk, which is not included in the market wide SCR.

A summary of Lloyd's market wide capital ('own funds') by tier is set out below.

31 December 2020	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
Syndicate assets	(4,218)			(4,218)
Members' funds at Lloyd's (FAL)	24,372	6,576		30,948
Society assets:				
Subordinated debt		919		919
Deferred tax			102	102
Balance of net assets	2,109			2,109
Total own funds available to meet the SCR	**22,263**	**7,495**	**102**	**29,860**
Lloyd's SCR				**20,341**
'Excess' own funds not eligible to meet SCR	-	-	-	-
Total market wide own funds eligible to meet the SCR	**22,263**	**7,495**	**102**	**29,860**
Lloyd's market wide solvency ratio				**147%**

31 December 2019	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
Syndicate assets	(2,501)			(2,501)
Members' funds at Lloyd's (FAL)	20,741	6,772		27,513
Society assets:				
Subordinated debt		891		891
Deferred tax			47	47
Balance of net assets	1,927			1,927
Total own funds available to meet the SCR	**20,167**	**7,663**	**47**	**27,877**
Lloyd's SCR				**17,870**
'Excess' own funds not eligible to meet SCR	-	-	-	-
Total market wide own funds eligible to meet the SCR	**20,167**	**7,663**	**47**	**27,877**
Lloyd's market wide solvency ratio				**156%**

The eligibility of assets to count towards the solvency coverage is subject to tiering restrictions. All Tier 1 assets count fully towards the solvency coverage assessment. However, Tier 2 and Tier 3 assets are only eligible up to a maximum of 50% of the SCR. A significant portion of the members' FAL are in the form of letters of credit (LOCs), which are classified as Tier 2 assets under Solvency II. At 31 December 2020 the amount of ineligible Tier 2 and Tier 3 capital was £nil (2019: £nil).

These LOCs are callable on demand and when called, the proceeds, namely cash, would qualify as Tier 1 assets. Under these circumstances, any amounts previously restricted would become fully eligible.

The central own funds available to cover the central SCR are summarised below:

31 December 2020	Tier 1	Restricted Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m	£m
Society assets:					
Subordinated debt			919		919
Deferred tax				102	102
Balance of net assets	2,107	416			2,523
Callable layer	817				817
Total central own funds available to meet the SCR	**2,924**	**416**	**919**	**102**	**4,361**
Central SCR*					**2,085**
'Excess' central own funds not eligible to meet central SCR	-	-	-	-	-
Total central own funds eligible to meet the SCR	**2,924**	**416**	**919**	**102**	**4,361**
Central solvency ratio					**209%**

31 December 2019	Tier 1	Restricted Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m	£m
Society assets:					
Subordinated debt			891		891
Deferred tax				47	47
Balance of net assets	1,927	89			2,016
Callable layer	808				808
Total central own funds available to meet the SCR	**2,735**	**89**	**891**	**47**	**3,762**
Central SCR*					**1,500**
'Excess' central own funds not eligible to meet central SCR	-	-	141	47	188
Total central own funds eligible to meet the SCR	**2,735**	**89**	**750**	**-**	**3,574**
Central solvency ratio					**238%**

Callable layer

The Society has the right to make a call on members of up to 3% of members' premium limits ("callable contributions"). The callable contributions can be drawn from members' premiums trust funds without the members' consent. This would result in the transfer of Tier 1 capital from syndicate funds to central resources. The value assigned to the callable layer has been reduced to reflect that part of the callable layer which would not be available in a stressed situation at the central SCR level of confidence.

Syndicate loans to the Central Fund

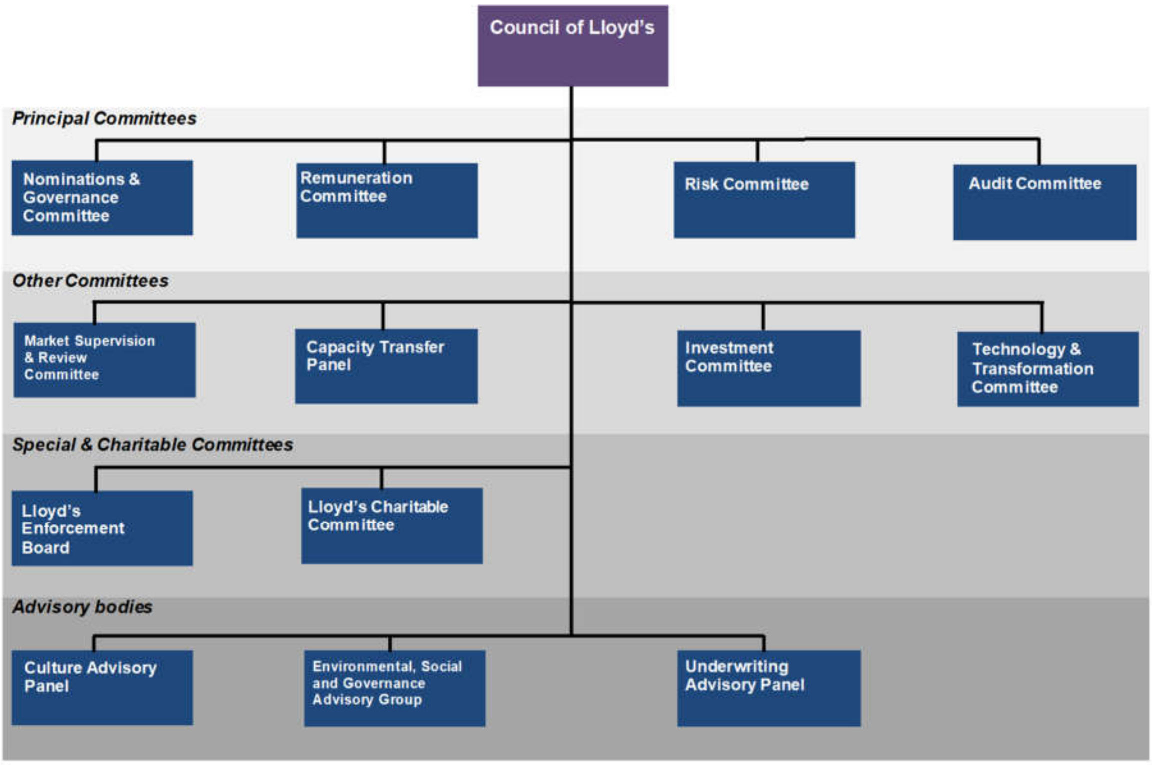
During 2019 and 2020 the Society issued capital in the form of syndicate loans to the Central Fund ("syndicate loans") from members participating on the 2019 and 2020 years of account. This gives rise to total restricted Tier 1 capital of £416m as at 31 December 2020 (2019: £89m).

Coverage of the central SCR with eligible central own funds

The capital tiering rules also apply to the coverage of the central SCR. The inclusion of the Tier 2 subordinated debt increases Lloyd's Tier 2 and 3 central capital to £1,021m. Up to £1,043m – 50% of £2,085m - of this is eligible in the solvency calculation.

Lloyd's governance structure

The structure of the principal governing bodies of Lloyd's is summarised in the chart below:



The Council of Lloyd's

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

The Board and Council merger

With effect from 1 June 2020, following consultation with members of the Society and the Lloyd's market, the Board merged into the Council and a revised Council was established (see below).

The Council is responsible for the day-to-day oversight of Lloyd's and thus constitutes Lloyd's Administrative, Management or Supervisory Body (AMSB).

Basis of preparation of the SFCR

The basis of preparation of the Lloyd's SFCR has been selected so that the financial position of Lloyd's is presented on a basis to most appropriately reflect the structure of Lloyd's.

The SFCR includes the aggregate of returns submitted from syndicates (the relevant 'Lloyd's templates' as referred to in the PRA Rulebook Solvency II Firms: Reporting

Instrument 2015' (PRA 2015/23)), members' Funds at Lloyd's (FAL) and in respect of the Society of Lloyd's, including the Corporation and Central Fund.

The Lloyd's templates report the Pillar 3 information for calendar year 2020 and the financial position at 31 December 2020 for all syndicates which transacted business during the year. The data therein which contributes to the audited section of the SFCR is the subject of an audit opinion by the auditor of each syndicate.

The capital provided by members is generally held centrally as FAL. The data included within the SFCR in relation to FAL is provided by the Corporation. The data therein which contributes to the audited section of the SFCR is the subject of a reasonable assurance engagement by PwC as the auditor of Lloyd's.

Data in respect of the Society of Lloyd's is also provided by the Corporation. Again, the data therein which contributes to the audited section of the SFCR is the subject of a reasonable assurance engagement by PwC.

The balance sheet (S.02.01) and summary of own funds (S.23.01) in the SFCR aggregate the assets held at syndicate level, members' assets held as FAL and the central resources of the Society. Overall, the SFCR aggregates the results and resources of the Society and its members. The SFCR may, therefore, be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is as closely as possible comparable with general insurance companies.

A. Business and Performance

A.1 Business

Name and legal form of undertaking
Lloyd's is a society incorporated by the Lloyd's Act 1871, whose principal place of business is at One Lime Street, London EC3M 7HA.

The 'association of underwriters known as Lloyd's' is the legal form of the undertaking as defined in Annex III of the Solvency II Directive (2009/138/EC).

Supervisory authority responsible for financial supervision
The supervisory authority of Lloyd's is the Prudential Regulation Authority (PRA), which was created as part of the Bank of England by the Financial Services Act (2012). The registered office of the PRA is as follows:

Prudential Regulation Authority
8 Lothbury
London
EC2R 7HH

External auditor of the undertaking
The independent auditors of Lloyd's are:

PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London
SE1 2RT

Holders of qualifying holdings of the undertaking
There are no qualifying holdings applicable to Lloyd's.

Legal structure of group
Lloyd's does not belong to a group.

Material lines of business and geographical areas
Lloyd's writes a wide range of classes of business in a variety of geographical areas. This is highlighted in the below table which provides a Lloyd's class breakdown of gross written premium by region:

2020

	US and Canada	Other Americas	United Kingdom	Rest of Europe	Central Asia & Asia Pacific	Rest of the World	**Total for all Regions**
Reinsurance	23%	70%	34%	50%	40%	62%	**35%**
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Energy	5%	1%	2%	2%	2%	2%	**4%**
Motor	2%	1%	8%	-	1%	2%	**2%**
Total GWP	**53%**	**6%**	**12%**	**15%**	**10%**	**4%**	**100%**

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Property	35%	10%	25%	16%	20%	10%	**27%**
Casualty	29%	12%	27%	23%	31%	13%	**26%**
Marine, aviation & transport	7%	7%	6%	13%	7%	9%	**8%**
Energy	6%	1%	3%	4%	2%	4%	**4%**
Motor	2%	1%	10%	1%	1%	3%	**3%**
Total GWP	**52%**	**6%**	**14%**	**14%**	**10%**	**4%**	**100%**

Significant events during the reporting period
Major claims for the market were £5,967m in 2020 (2019: £1,806m), net of reinsurance and including reinstatements payable and receivable.

COVID-19 losses of £3,433m accounted for nearly 60% of the major claims, with the remainder mostly attributed to losses from catastrophe events in 2020.

COVID-19 related losses have impacted a number of lines of business across the Market. The majority of the losses are concentrated in four lines of business – Contingency, Property (D&F), Property Treaty and Political Risk, Credit & Financial Guarantee – and originate from the US, which accounts for approximately 44% of the estimate by geographical location. The COVID-19 loss estimate includes amounts which are directly attributable to individual contracts as well as allowances for the impact of the wider economic conditions which have been caused by the pandemic. The incurred losses reported in 2020 are approximately 94% of the current estimates of the total expected losses to the Lloyd's Market from the pandemic.

Catastrophe losses accounted for the majority of £2,534m in other major claims. 2020 saw an increase in the frequency of catastrophe loss activity with the Lloyd's Market suffering insured losses from more than 40 events. The largest losses related to Hurricanes Laura, Sally, Zeta, Delta and Isaias; Iowa derecho; the tornadoes in Tennessee; the explosion in the Port of Beirut; and the worldwide protests against racial injustice.

On 30 December 2020, Lloyd's Insurance Company S.A (Lloyd's Brussels) 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 Brussels 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. Further details can be found in Note 9 on page 142 of Lloyd's annual report 2020.

A.2 Underwriting performance

The Lloyd's result for 2020 is described and analysed in detail in pages 34 to 44 '2020 Highlights' of Lloyd's Annual Report 2020. This provides a qualitative and quantitative description of the result at an aggregate level and by material line of business.

The overall underwriting result is summarised below:

	2020	2019
	£m	£m
Net premiums earned	25,876	25,821
Net claims incurred	(18,929)	(16,361)
Net operating expenses	(9,623)	(9,998)
Total	**(2,676)**	**(538)**
Combined ratio	110.3%	102.1%

The underwriting result by material line of business is summarised below:

	2020	2019
	£m	£m
Reinsurance	(656)	(434)
Property	(2,104)	12
Casualty	(688)	(390)
Marine, aviation & transport	239	(199)
Energy	79	27
Motor	48	11
Life	(7)	1
Sub-total	**(3,089)**	**(972)**
Transactions between syndicates and the Society	413	434
Total	**(2,676)**	**(538)**

A summary of business by major geographical location is set out in section A.1 above.

Whilst the Lloyd's Market has reported underwriting losses for 2020, the impact of COVID-19 overshadows the improvement in underlying performance.

Major claims have contributed 23.0% to the combined ratio (2019: 7.0%), with COVID-19 related claims accounting for a significant portion at 13.3%. The Lloyd's Market also continued its trend of prior year releases, contributing positively to the combined ratio with a benefit of 1.8% (2019: 0.9%). There have been prior year releases across all classes of business, except the casualty class which reported strengthening.

Adjusting the combined ratio for the contributions from major claims, the Lloyd's Market reported an underlying accident year ratio of 87.3%; an improvement on the 95.1% for the 2019 financial year. The 2020 accident year ratio is now in line with the target for the Lloyd’s Market.

The main contributor to the improvement in the underlying accident year ratio is the reduction in the attritional loss ratio which stands at 51.9%, representing a 5.4 percentage point reduction from the ratio reported for 2019. The improvement in the attritional loss ratio is the result of sustained risk adjusted rate increases on renewal business and the Market's actions to drive sustainable profitable performance. There has also been an improvement in the Market's expense ratio which has reduced to 37.2% from 38.7% in 2019.

The Lloyd's Market gross written premiums have decreased 1.2% when compared to 2019. Whilst the Market has seen a period of sustained risk adjusted rate increases on renewal business - which stood at 10.8% for 2020 - volume reductions in the period of 12.0% have offset this benefit. Volume reductions reflect the continued focus on driving sustainable profitable performance which has resulted in several syndicates exiting or re-underwriting certain lines of business and curbing risk appetites in poor performing lines. Risk adjusted rate increases on renewal business have been experienced across all major lines and geographies.

A.3 Investment Performance

The investment performance for Lloyd's for 2020 is summarised below:

	2020	2019
	£m	£m
Interest and similar income:		
From financial investments designated as at fair value though profit or loss	1,608	2,433
From available for sale investments	32	36
Dividend income	22	30
Interest on cash at bank	29	52
Other interest and similar income	21	39
Investment expenses	(52)	(58)
Total	**1,660**	**2,532**
Other income from investments designated as at fair value through profit or loss:		
Net realised gains/(losses)	188	251
Net unrealised gains/(losses)	394	723
Other relevant income	26	31
Total	**608**	**1,005**
Total investment return	**2,268**	**3,537**

The Market's investments generated income of £2,268m (2019: £3,537m), equivalent to a return of 2.9% on invested assets (2019: 4.8%).

2020 was an overall positive year for investments despite the losses incurred in the first quarter. Most equity markets generated a strong level of return for the calendar year with large gains coming over the last three quarters of the year. In fixed interest markets, the aggressive easing of monetary policy drove a reduction in risk free yields resulting in capital gains for government bonds. Corporate bonds, along with risk markets, suffered large losses early in the year but ended 2020 with above average returns.

Further information on the investment performance is provided on page 35 of Lloyd's Annual Report 2020.

Net gains on investments of £12m (2019: gains of £14m) were recognised directly in equity.

Lloyd's has limited exposure to securitised assets and other asset backed securities throughout the Chain of Security. As at 31 December 2020, exposure to these assets totalled £4,883m (2019: £4,097m).

A.4 Performance of other activities

Other items contributing to the loss of £887m (2019: profit of £2,532m) were loss on exchange of £105m (2019: loss £54m) and other income of £92m (2019: £59m), less other expenses of £466m (2019: £472m). Other income related primarily to Society income, largely market charges and charges to members. The other expenses were primarily in respect of Society operating expenses, for which the increase was driven by the investment in strategic initiatives such as Future at Lloyd's and other strategic programmes.

Leases

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

Additional information on lease cost provisions and operating lease commitments for the Society is set out in notes 16 and 25 of the Society accounts at pages 165 to 167 and 178 of Lloyd's Annual Report 2020 respectively.

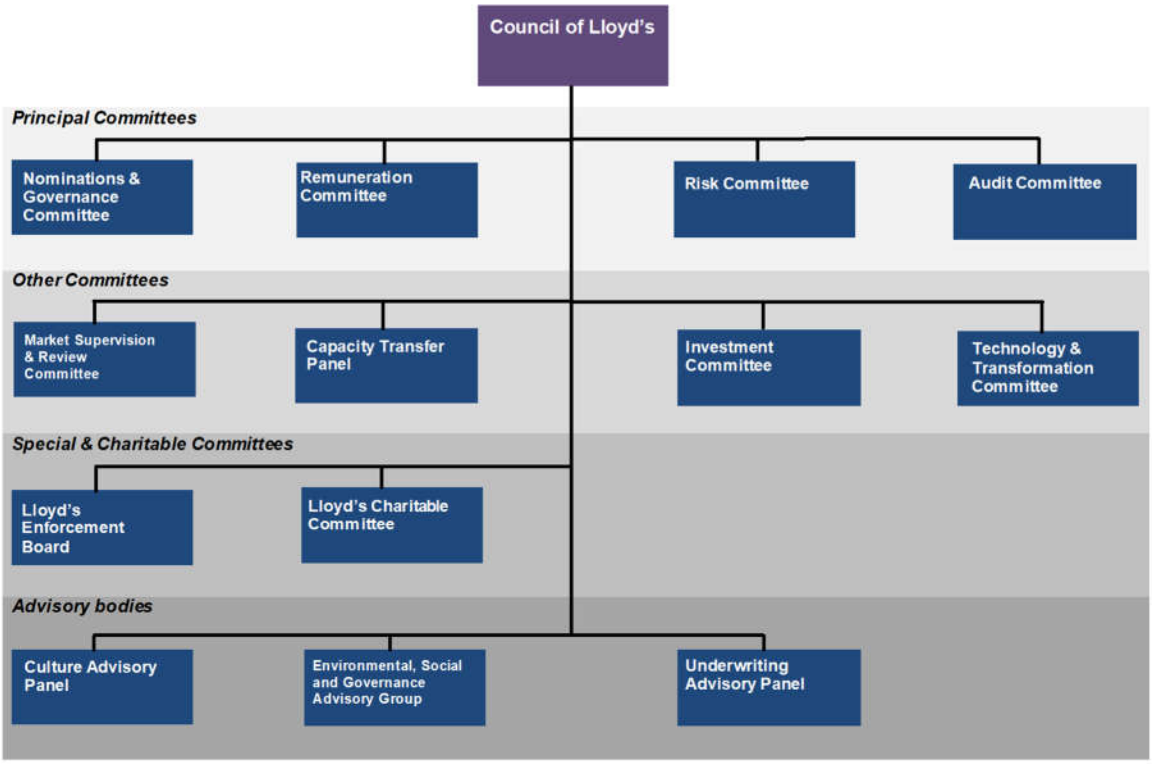
A.5 Any other information

There is no other material information to disclose.

B System of Governance

B.1 General information on the system of governance

Structure, roles and responsibilities
The structure of the principal governing bodies of Lloyd's is summarised in the chart below:



The Board and Council merger

With effect from 1 June 2020, Board and Council merged and a revised Council was established (as set out below). The merger took place after extensive consultation and with the unanimous support of the members of both the Council and Board and with wide support from the market and members. The merger was discussed with the PRA and FCA.

The Council of Lloyd's
Under Lloyd's Act 1982, the Council of Lloyd's undertakes the management and superintendence of the affairs of the Society and the power to regulate and direct the business of insurance at Lloyd's.

The Council comprises a maximum of 15 members, split between t three working, three external and six independent Nominated members and three Executive Nominated members. The current Council membership comprises of 14 members with two executive members. The incoming Chief of Markets will take up his appointment to the Council when he joins the Society. The majority of the Council composition is Non-Executive however the elected market representatives, which are required by Lloyd's Act 1982, are not considered to be independent. The departure from the Code is appropriate as the composition of 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 2019, and meets the requirements of Lloyd's Act 1982 (which do not apply to other companies).

The Chairman and Deputy Chairmen are elected annually by the Council from among its members.

Certain functions are reserved to the Council including:

- The making, amendment or revocation of byelaws;
- The setting of Central Fund contribution rates; and
- Appointing the Chairman and Deputy Chairmen of Council.

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

Until 1 June 2020 the Council delegated authority for the day-to-day management of the market to the Board. The Board was able, in turn, to sub-delegate authority to the Chief Executive Officer and through him to the Society's executive. On 1 June 2020 the Board dissolved, and the Council resumed responsibility for the day to day to management of the market. The Council has delegated authority to carry out specified functions to committees including the Remuneration and Nominations & Governance Committees and the Executives, as summarised below.

<u>The Board</u>
The Council established the Board as from 1 January 2003. It was merged into the Council with effect from 1 June 2020. Specific functions delegated to the Board up to 31 May 2020 included:

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

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

The Board's committees, the Chief Executive Officer, the executive and employees acted in accordance with the Board Limitations and in accordance with the strategy, policy and principles set by the Board. Matters reserved to the Board included:

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

With effect from 31 May 2020 the Board dissolved.

The Board held three scheduled meetings in 2020 including one joint meeting with the Council.

Board meetings were structured to allow open discussion. At each scheduled meeting, the Board received certain regular reports – for example, a written report from the Chief Executive Officer.

Main Committees of the Council

Nominations & Governance Committee

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 Council and its committees have a combination of skills, experience and knowledge. For further information on the skills, experience and knowledge of the Council members, please see https://www.lloyds.com/about-lloyds/governance-andmanagement/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 the Code provision that a majority of members of the Committee should be independent. 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 and is designed to ensure appropriate representation of members and the market in relation to key appointments. No executive member of the Council is eligible to be a member of the Committee.

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

Remuneration Committee

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

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

The Remuneration Committee is chaired by the Senior Independent Deputy Chairman. The Chairman is a member of the Committee and its remaining members are drawn from the Council.

The Remuneration Committee reports to the Council on its proceedings after each meeting, and on all matters relating to its duties and powers, and makes recommendations to the Council on any area within its remit where action or improvement is needed.

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

As three of the Committee's seven members are connected to members of the Lloyd's market, the Committee's composition does not comply with the Code provision that the members of the Committee should be independent. The Council has chosen not to follow the Code provision on this point, in order to maximise the pool of skills and experience available to it when appointing the members of the Committee. No executive member of the Council is eligible to be a member of the Committee.

Technology & Transformation Committee

The Technology & Transformation Committee (TTC) has a remit covering oversight of the Society's transformation and innovation strategies, including the Future at Lloyd's programme.

The TTC is chaired by the Senior Independent Deputy Chairman. The Chairman is a member of the TTC, and its remaining members are: the Chief Executive Officer, the Chief Operating Officer, one independent nominated member of the Council, two former independent non-executive members of the Board, the Chief Executive Officer of the Lloyd's Market Association and two other representatives of the Lloyd's market.

The Committee submits an annual report to the Council. It also reports to the Council on its proceedings after each meeting

Audit Committee

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 2020 included reviewing Lloyd's annual and interim financial statements, the syndicate aggregate accounts and the Lloyd's Solvency and Financial Condition Report to the PRA.

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

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

The Audit Committee submits an annual report to the Council. It also 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 is chaired by Angela Crawford-Ingle, an independent non-executive member (of the Board from 14 January 2020 until 31 May 2020 and of Council with effect from 1 June 2020 when Board and Council merged). Prior to 1 June 2020, the Committee's remaining members were drawn from both the Board and Council. From 1 June 2020, the Committee's remaining members are drawn from the Council. At the end of 2020 the Audit Committee comprised of two external members of the Council and three Non-Executive nominated members of the Council (including the

Chair). As two of the Committee's five members are connected to members of the Lloyd's market, the Committee's composition does not comply with the Code provision that the members of the Committee should be independent. The Council has chosen not to follow the Code provision on this point, in order to maximise the pool of skills and experience available to it when appointing the members of the Committee. No executive member of the Council is eligible to be a member of the Committee.

Risk Committee
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 was chaired by Patricia Jackson, an independent non-executive member of the Board until 31 May 2020. The Committee is now chaired by Neil Maidment, an independent non-executive member of the Board until 31 May 2020 and of the Council with effect from 1 June 2020 when Board and Council merged. The other members of the Committee are drawn from the Council. Other individuals including the Chief Executive Officer, Chief Risk Officer and Chief Financial Officer are regular attendees, with others invited to attend all or part of any meeting as and when deemed appropriate by the Committee or its Chair.

The Committee submits an annual report to the Council. It also reports to the Council on its proceedings after each meeting.

Market Supervision and Review Committee
The Market Supervision and Review Committee (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 to inform the Council of any matters of material concern as and when required. The members of MSARC are appointed by the Council and are neither Council members, nor employees of the Society. MSARC is chaired by Jo Rickard, a practising lawyer.

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

The members of the Panel are appointed by the Council. The Panel is chaired by the Senior Independent Deputy Chairman, and the other members of the Panel are neither Council members, nor employees of the Society.

Investment Committee
The Investment Committee sets the investment objectives and parameters of centrally managed assets and is responsible for reviewing performance against these. In addition, it monitors the investment operations of the Treasury and Investment Management department in respect of all funds under its management

and approves all investment counterparties. It may also make more general recommendations concerning investment activity at Lloyd's.

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

The members of the Committee are appointed by the Council. The Committee was chaired by the Senior Independent Deputy Chairman until 31 May 2020 and by Albert Benchimol from 1 June to 30 November 2020. The Committee Is now chaired by Karen Green with effect from 2 December. The Chief Executive Officer and Chief Financial Officer are members of the Committee. The Chair and one other member are members of the Council. The remaining members of the Committee are neither Council members, nor employees of the Society

Culture Advisory Group ('CAG')
The CAG was established as part of the Society's response to the Market Culture Survey conducted in 2019. The CAG's role is 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. The CAG submits a written report to Council each quarter.

The CAG is chaired by Fiona Luck, an independent nominated member of the Council. Its remaining members are: a working member of Council; the Chief Human Resources Officer; representatives from the Lloyd's market and subject matter experts. The CAG's members are appointed on behalf of the Council.

The Environmental, Social & Governance Strategy Group ('ESG')
The ESG was established on 2 December 2020. Its first meeting was held on 15 December 2020. The ESG's role is to provide advice to the Council and the Executive to enable Environmental, Social and Governance integration for the Lloyd's market.

The ESG is chaired by the Chairman of Lloyd's. The Chief Risk Officer and Chief Marketing and Communication Officer are members of the Group. The remaining members are: two members of Council; a representative of the Corporation; three subject matter experts; and two representatives of the Lloyd's Market with relevant experience

Material changes in the system of governance that have taken place over the reporting period

With effect from 1 June 2020, the revised Council was established. All the committees of the Board became committees of the revised Council on the same date and matters that were reserved to the Board were reserved to the revised Council. Further information on Lloyd's system of governance may be found on pages 79 to 90 of Lloyd's Annual Report 2020.

Information on the remuneration policy

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

Lloyd's Total Reward approach is supported by the following practices:
- The approach looks beyond base salary to the value of the total reward package in meeting the needs of employees;
- Lloyd's recognises and rewards superior performance; and
- Lloyd's remuneration practices are designed to promote and reward sound and effective risk management.

The Society operates a balanced approach to performance measurement. The annual performance bonus is linked to Lloyd's key strategic objectives and KPIs are set each year which support the delivery of Lloyd's long-term vision. Lloyd's Market Award Bonus is directly linked to the profitability of the Lloyd's market to encourage an attitude of commercial partnership with the market and align the interests of participants with capital providers.

The Society's executive remuneration policy
The structure of total compensation for the CEO and executive directors is designed to support the strategic priorities and reflect the market oversight role of the Society.

Lloyd's reward policy is designed to facilitate the future success of the Society by ensuring that the executive package may be sufficient to attract executive directors of the calibre required to deliver the Society's strategic priorities. It seeks to ensure that no more than is necessary is paid on recruitment, while taking into account a highly competitive and global market for talent.

All of Lloyd's executive remuneration practices are designed to protect the brand and reputation of Lloyd's and to promote sound and effective risk management. Incentives (annual performance bonus and market award) are subject to a potential downward adjustment if risk management practices and standards are not considered to have been sufficiently met.

To ensure the long-term sustainability of the Lloyd's brand and reputation, the Society operates malus and clawback provisions on all incentives to ensure that senior executives act responsibly and in the long-term interests of the Society.

Summary of executive remuneration policy for 2020
Salary - Salaries are set to appropriately recognise responsibilities and be broadly market competitive. For 2020, salaries are set as follows: CEO: £650,000;
Chief Financial Officer: £450,000; and Performance Management Director: £510,000 (until his departure on 31 May 2020).

Lloyd's Incentive Plan comprises of individual performance and market elements.

Lloyd's Individual Performance Bonus - The discretionary annual bonus links reward to specific and measurable targets aligned with Lloyd's strategy. For 2020, annual bonus maximums (as a % of salary) for the CEO, Chief Financial Officer and Performance Management Director are 100%. Annual bonus awards are subject to a 'risk underpin'. The Remuneration Committee will assess performance against risk and compliance metrics and may apply a downward adjustment where appropriate.

Lloyd’s market award bonus - this offers an incentive which is directly linked to the profitability of the Lloyd’s market. 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 (PBT) and Combined Operating Ratio (COR) are key metrics used to measure market performance. For the CEO and executive directors, a maximum cap of 50% of salary applies and awards are subject to a ‘risk underpin’. The Remuneration Committee will assess performance against risk and compliance metrics and may apply a downward adjustment where appropriate.

A portion of the combined total award may be deferred for three years, to meet the PRA guidance to defer at least 40% of total variable pay.

Pension - The CEO, CFO and Chief of Markets are eligible to be members of the Group Personal Pension (GPP) Plan (or equivalent), which is a defined contribution plan. All executive directors receive a cash allowance of 15% of base salary.

Variable components of remuneration for all Society employees

Lloyd’s variable component of remuneration consists of the following elements within one bonus framework:

- individual performance bonus
- market performance award bonus

Individual performance bonus

The annual bonus is a discretionary annual bonus plan which links reward to specific and measurable targets aligned with Lloyd’s strategy. All Society employees are eligible for a discretionary annual bonus, based on performance against objectives and individual key performance indicators for the year.

Any employee who performs below role expectations will not receive an individual performance bonus.

Market performance bonus

The market element bonus is available to all employees and has been designed to meet strategic objectives by enabling the Society to offer an incentive which is directly linked to the profitability of the Lloyd’s market and will therefore encourage an attitude of commercial partnership with the market and align the interests of participants with capital providers; and will provide a competitive reward and therefore assist Lloyd’s in attracting and retaining the talented individuals required to develop and support future strategy.

Awards are calculated by reference to profit on ordinary activities before tax (PBT), as reported in the pro forma financial statements in the Lloyd’s Annual Report for each financial year, and Combined Ratio (weighted equally) for each financial year subject to minimum threshold levels.

Deferred pay components are included within the remuneration provision under the market award bonus as an additional incentive to encourage employee recruitment and retention.

No market award bonus will be paid to individuals rated as ‘inconsistent performers’ or those who are performing below role expectations.

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

The current Lloyd's Chairman was appointed effective 15 June 2017 and his fee was £600,000pa. No increases have been awarded since that date. The Chairman was reappointed for a further three year term from 1 June 2020 and acknowledging that no fee increase had been awarded since 2017, as well as the scope and time commitment of the role, the fee was increased to £630,000 effective from 1 April 2021. Fees up to 1 June 2020 for Council and Board members were £38,500 and £62,000 per annum respectively. Post-merger of the Board into the Council, fees for Council were bought into line with the fees previously payable to Board members, in recognition of the increase in responsibilities and time commitment. Fees are also payable in respect of membership of a number of Council and Board committees, including ad hoc committees established to consider specific issues requiring a significant time commitment.

Further information on Lloyd's remuneration policy is set out in pages 93 to 107 of Lloyd's Annual Report 2020.

Material transactions during the reporting period with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body

There were no relevant material transactions during the reporting period.

B.2 Fit and proper requirements

Requirements for skills, knowledge and expertise

Lloyd's has a regulatory obligation to ensure that all relevant persons remain fit and proper at all times, in accordance with the requirements of the Senior Managers and Certification Regime ("SM&CR").

The Lloyd's Fit and Proper Policy sets out the steps which Lloyd's will take to assess an individual's fitness and propriety against the following considerations:

- honesty, integrity and reputation;
- competence and capability;
- financial soundness; and
- personal characteristics.

Where disciplinary action has been taken against a person within scope of SM&CR, the policy considers the impact on the assessment of the person's fitness and propriety. The requirement to notify the PRA and FCA when disciplinary action has been taken against a person for a Conduct Rule breach is outlined in the policy.

The following individuals are within scope of the Fit and Proper policy:
- all persons carrying out a Senior Manager Function;
- all persons carrying out a Certified Function;
- notified Non-Executive-Directors;
- any other Key Function Holder ("KFH"); or
- anyone carrying out an activity which has the potential to cause significant harm.

In relation to the Council, the Nominations & Governance Committee is responsible for recommending appointments for Nominated members of the Council.

Given that 6 of the 15 members of Council are required by Lloyd's Act 1982 to be elected by members of the Society it is not possible or appropriate for the Nominations & Governance Committee to have specific obligations in respect of the balance of expertise and experience represented on Council. However, the Committee conducts an at least annual review of the structure, size and composition (including skills, knowledge & experience) of the Council. Before making any recommendation regarding candidates for appointment the Nominations & Governance Committee uses its best endeavours to evaluate the balance of skills, knowledge, experience and diversity on the Council and, in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

In relation to Society employees, candidates are recruited though Lloyd's recruitment process which comprises competency-based interviews to enable Lloyd's to assess whether a candidate has the appropriate skills, knowledge and experience for the particular role in question.

<u>Process for assessing fitness and propriety</u>
The process for assessing the fitness and propriety of the persons who effectively run the Society or have other key functions is described in the Fit and Proper Policy which sets out how Lloyd's performs the necessary fitness and propriety checks prior to appointment and periodically thereafter for the various categories of roles to which the policy applies.

In summary, the Chairman meets each Non-Executive member of the Council once a year to appraise their performance. The Senior Independent Deputy Chairman also seeks the views of the Council on the performance of the Chairman and the Executive.

The Remuneration Committee reviews the performance of the Chairman, Chief Executive Officer and the Executive Committee. The Chief Financial Officer is responsible for reviewing the performance of the Lloyd's Chief Actuary through Lloyd's Performance Appraisal Process. The Audit Committee is responsible for annually reviewing the performance of the Head of Internal Audit and the results of this review are shared by the Chair of the Audit Committee with the CEO who jointly agree remuneration. Other employees who are either key function holders or performers are assessed through Lloyd's performance appraisal process. These reviews take into account the FCA/PRA requirements for fitness and propriety and conduct.

B.3 Risk management system including the own risk and solvency assessment

<u>Risk management system</u>
The Lloyd's Risk Management Policy describes its overall framework and approach for the management of risk, including the risk strategy, the internal governance arrangements, tools, processes and reporting procedures.

The Lloyd's Risk Management Framework ('the framework') ensures that the identification, assessment, monitoring and management of all material risks affecting the Society takes place on an ongoing basis. The framework includes a number of risk assessment techniques, which are tailored to specific risk areas.

<u>Lloyd's Risk Management Framework</u>
Lloyd's adopts a consistent approach in managing its risks through a risk and control self-assessment process, which is conducted on an ongoing basis, supported by a

formal a bi-annual attestation process through which risk owners attest to the effective management of risks and controls. This process re-assesses the existing risks and identifies any new risks. It evaluates the performance of key controls and also seeks to monitor the action plans in place to help manage risks.

The framework also enables Lloyd's to undertake a forward-looking assessment of risk, building capital consideration into decision making processes. An Own Risk and Solvency Assessment (ORSA) is performed at least annually, bringing together key risk, capital and solvency management information on a more formal basis for the Council on a current and future basis.

Implementation of risk management system

The management of all risks is, first and foremost, the responsibility of each employee and department at Lloyd's and decisions taken across the business have the potential to impact the risk profile of Lloyd's to a greater or lesser degree.

The Risk Management Function is responsible for establishing an effective risk framework and providing a secondary check and balance to ensure the range of risks taken by Lloyd's are well understood, effectively managed and in line with Lloyd's overall strategy and risk appetite. This objective is achieved through operation of the risk management framework.

The risk governance structure comprises the Executive Risk Committee and the Risk Committee. These provide clear independent challenge to the risk takers at Lloyd's. The risk committees oversee, challenge and where appropriate escalate issues using appropriate management information sourced from the risk management and internal control frameworks, such as the various risk and control assessments, details of the operating and regulatory environment and capital management reports.

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

ORSA process

The ORSA process is a key element of the risk management framework of Lloyd's. It incorporates a series of processes which ensure an appropriate level and quality of capital is maintained to support the risks taken within Lloyd's on a current and future basis in light of the Lloyd's strategy set by the Council. The key focus of the ORSA is to continually assess Lloyd's own view of the risks faced and associated economic capital needs to meet its strategic goals.

The ORSA draws on existing ongoing oversight activities used to manage market and Society risk (including the risk and control assessment process, business plan and capital approval), the member capital setting processes and the determination of a central capital requirement.

ORSA frequency, review and approval

'Business as usual' basis

The ORSA is an ongoing, continuous process which aligns to the Lloyd's business cycle. As such, the activities of the ORSA are performed through the course of the year. The risk profile is assessed on a quarterly and annual basis. The risk profile is presented to the Council quarterly (in summary version) in the quarterly ORSA report and annually (detailed version) in the annual ORSA report.

Ad-hoc basis

Following the occurrence of a significant event, the activities within the ORSA may be revisited to ensure that they are still valid and to assess any potential impact on the level of economic capital and the own funds necessary to meet solvency requirements. Certain trigger events may require all activities within the ORSA process to be revisited, however, less material events may only trigger the review of some ORSA components.

In April 2020, an ad-hoc ORSA was triggered following development of COVID-19. The ad-hoc ORSA was reported to the Council, articulating which risks were considered to be heightened and what actions were underway to manage the risks.

Governance

Following the merger of the Board into the Council the Council has overall responsibility for the review and approval of the ORSA process and report.

The Council will make key decisions and review and approve key outputs through the ORSA report but shall sub-delegate the day-to-day oversight and operation of the ORSA process to the relevant committee and function teams as detailed in the Lloyd's ORSA Policy.

Determination of own solvency needs and interaction of capital management activities with the risk management system

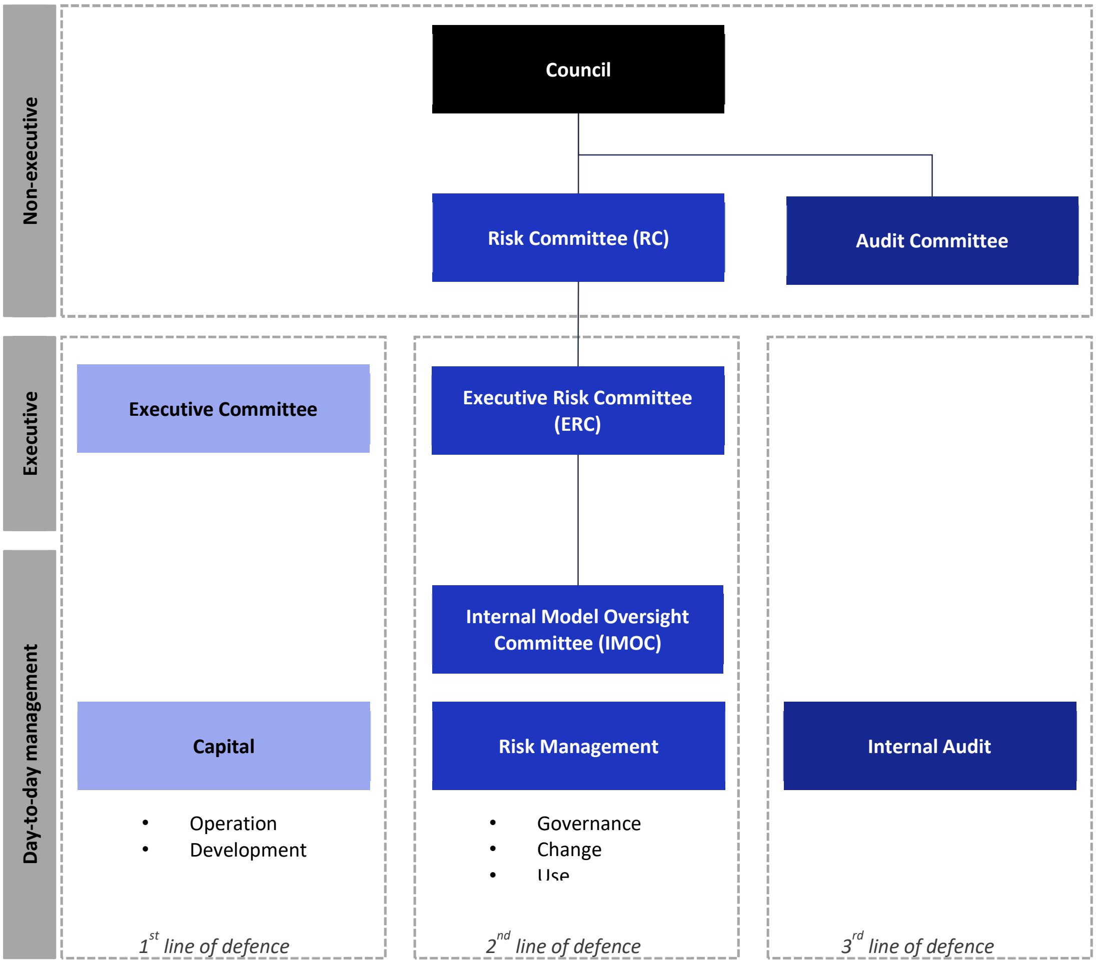
The outcome of the ORSA process is formally documented within the ORSA report. The ORSA report details how Lloyd's has completed its own solvency assessment given its risk profile. Furthermore, it is used to present the results of the various, inter-linked ORSA processes, illustrating the dependencies between strategy, risk, capital and solvency. It provides all the key information which has been assessed and the conclusions reached as part of the ORSA process to provide management with a suitable platform for appropriate oversight and for future strategy setting.

Governance over the Lloyd's Internal Model (LIM)

Following the merger of the Board into the Council the LIM is owned by the Council, which relies on the LIM outputs for key decision-making activities. The Council delegates day-to-day duties to the Risk Committee to ensure that the design, operation and validation of the LIM are appropriate.

Lloyd's has embedded the structure set out below to ensure effective governance and oversight of the operation, validation and change of the LIM and to ensure that the internal model continues to appropriately reflect the risk profile of the Society.

The Governance framework highlighted below identifies those ultimately responsible for ensuring effective governance of the LIM and satisfying themselves that the operation, change and validation activities are performed in alignment with their respective policies as well as the components involved in the business as usual (BAU) operation and use activities of the LIM, change management processes and the regular cycle of internal model validation.



Internal model validation

Validation is a key regulatory requirement and seeks to ensure that the LIM is both fit for purpose and that its outputs can be relied upon to make key strategic decisions across the Society. A successful validation is one of the key requirements for maintaining internal model approval.

The validation activity, owned by Risk Management, covers all the risk categories and associated processes of the LIM, both on a quantitative and qualitative basis:

- Quantitative validation:
  - Attritional claims;
  - Catastrophe risk (as modelled in the Lloyd's Catastrophe Model, LCM);
  - Reinsurance credit risk;
  - Operational risk (Society and Syndicate);
  - Additional Central Fund (ACF); and
  - Market risk (with investment risk modelled in the Lloyd's Investment Risk Model, LIRM)
  - Aggregations & dependencies
- Qualitative validation:
  - Model scope;
  - Model use;
  - Governance of the model;
  - Operational risk (qualitative components of Society operational risk)
  - Documentation; and
  - Systems & IT for the LIM

The validation process is performed over a three-year cycle. The purpose of the three-year cycle is to:

- Ensure validation activity is spread throughout the year;
- Allow a risk-based validation approach with majority of activity focused on the material risk areas;
- Ensure validation activity is directed at the areas which have been subject to change, e.g. methodology changes to ensure continuous model development or parameter updates to reflect changes to risk profile; and
- Allow targeted, in-depth validation activity into thematic areas.

The three-year validation cycle is implemented through four categories of tests:

1. **Core tests**: these are validation tests which are run annually, regardless of any risk profile or model changes. The suite of core tests covers all areas of the model but will be focused on the material areas;
2. **Extended tests**: these are considered as extensions of the core tests, which are only necessary to run once within a validation cycle, assuming it has not been subject to either model or risk profile changes;
3. **Additional tests**: additional testing carried out in response to breaches of certain triggers; and
4. **Deep dives**: targeted, in-depth validation reviews.

Validation at Lloyd's is a continuous and iterative process. A validation plan detailing the timings of the process will be considered and agreed prior to each three-year validation cycle and reviewed and updated annually. Any validation actions agreed throughout the cycle are fed back into the design, operation and development of the internal model and reflected in the validation plan.

Lloyd's approach to the LIM validation ensures independence throughout the validation process. This is designed to ensure that the Validation is separated from ownership of and interest in the LIM or its constituent components. This is demonstrated through clear allocation of roles and responsibilities to the Primary Validators (e.g. component owners) and the Independent Validator.

The Independent Validator is responsible for defining the scope and coverage of the validation including specifying the validation tests to be performed with the Primary Validator responsible for specifying the validation tests to be performed and for conducting some of these tests. The Primary Validator is responsible for interpreting the test results and scoring them. This requires the Primary Validator to have the appropriate level of expertise to interpret the results and provide robust challenge.

The above process is supported by clear and transparent recording of results and the escalation of issues to the Independent Validator, Internal Model Oversight Committee, Risk Committee and the Council, if required.

In addition, if no suitable internal resource can be found to validate certain aspects of the model component(s) / LIM, external resources can be brought in to support the process.

B.4 Internal control system

<u>Internal control system</u>
An effective system of internal control is a critical component of a successful business: it provides the foundation for the safe and sound operation of a business,

ensuring compliance with relevant laws and regulations and the safeguarding of assets.

Internal control at Lloyd’s comprises a set of continually operating processes involving the Council, as Lloyd’s AMSB, senior management and all levels of personnel who by acting together ensure that the specific goals and objectives of Lloyd’s are met and that a strong control culture is prevalent across the business.

An effective internal control system is key to embedding responsibility for risk management across the business and supporting the attainment of overall business strategy. The internal control system is designed to reduce, rather than eliminate, and identify ways to mitigate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

Following the merger of the Board into the Council, the Council has responsibility for the Society’s system of internal control and for reviewing its effectiveness. The Audit Committee monitors and reviews the effectiveness of the system of internal control, providing biannual reports to the Council. 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 and market.

Lloyd’s 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 Internal Control Policy describes the way in which the key components of the Lloyd’s internal control system act together to ensure assurance processes are operationalised and risk oversight is applied. This policy describes key processes such that Lloyd’s can consistently demonstrate:

- Effectiveness and efficiency of operations;
- Compliance with applicable laws, regulations and administrative provisions; and
- Availability and reliability of financial and non-financial information.

<u>Implementation of the Financial Crime and Compliance function</u>
The Financial Crime and Compliance, part of the Risk & Regulatory function, focuses on:

- Managing regulatory engagement with the PRA and FCA
- Overseeing the Policy Governance Framework of the Society
- Owning and operating certain Compliance Policies, including Conflicts of Interest, Fit and Proper, Gifts and Hospitality and Whistleblowing
- Financial Crime and Compliance Monitoring and reporting on the Society’s regulatory compliance;
- Advising the Society on financial crime risk management;
- Monitoring the Market’s compliance with MS10;
- Acting as part of the Second Line of Defence, as part of the Risk Management function and interacting with Internal Audit as the Third Line of Defence.

The Financial Crime and Compliance function reports periodically, including on progress against Financial Crime and Compliance Plan, to the Executive Risk Committee and the Risk Committee.

B.5 Internal audit function

Implementation of the internal audit function
The Purpose, Authority and Responsibility of the Internal Audit function is defined within the Internal Audit Charter and Operating Standards. Internal Audit's mission is to provide reliable independent and objective assurance to the Audit Committee and Executive Committee on the adequacy, effectiveness and sustainability of the system of internal control.

The primary scope of Internal Audit's activities is the examination and evaluation of the adequacy and effectiveness of the systems of risk management, internal control and governance processes for the Society of Lloyd's and its subsidiaries. In addition to this, Internal Audit's scope includes review of:

- compliance with policies, procedures, laws and regulations;
- reliability and integrity of information;
- means of safeguarding, verifying and accounting for assets;
- economic and efficient use of resources; and
- the accomplishment of strategic objectives.

To ensure adequate audit coverage of the Company's systems and controls an "audit universe" and risk based annual plan is prepared by Internal Audit. The audit universe and annual Plan are developed independently by Internal Audit with full reference to:

- the Executive Committee's and senior management views of the key risks facing the business;
- expectations and issues raised by the regulator;
- the Risk Management team, to ensure all relevant risks are addressed in a plan that forms part of a value adding assurance framework; and
- Internal Audit's discussions with the external auditor.

The Plan is submitted to the Executive Committee for discussion and input prior to being presented to the Audit Committee for review and approval.

Independence of the internal audit function
The Internal Audit Charter and Operating Standards establish the framework in which the internal audit function operates. This includes affirming the independence of the internal audit function, stating that internal audit must be independent from management at all times to be effective in executing its work freely and objectively, including:

- The Head of Internal Audit has a direct reporting line, with direct and unlimited access, to the Chair of the Audit Committee and a secondary reporting line to the Chief Executive Officer;
- The Audit Committee is responsible for the approval of Internal Audit's annual Plan and the overall budget;
- Internal Audit is authorised to review all areas of Lloyd's and has full, free, and unrestricted access to all activities, records, property, and personnel necessary to complete their work including correspondence with regulators and Council and Committees meeting minutes;
- Internal Audit is authorised to allocate resources, set frequencies, select areas, determine audit scopes and apply audit tools and techniques, and to

obtain the necessary assistance and specialised services within or outside Lloyd's to accomplish its objectives;
- Internal Audit reports with significant findings will be reported in full to the Audit Committee;
- Internal Audit has the right to be informed by management, on a timely basis, of any significant control failures identified by management or the external auditor; and
- The Head of Internal Audit has the right to attend and observe all or part of Executive Committee meetings and any other key management decision making forums where they would have the appropriate standing, access and authority to challenge the Executive.

Internal Auditors have no direct responsibility or authority over any operating activities reviewed and should not relieve others of their responsibilities. Internal Audit are specifically prohibited from performing management activities, including:

- performing operational duties, including operation of policies and procedures;
- initiating or approving accounting transactions; and
- undertaking consulting engagements, specifically, those engagements where the primary aim includes process improvement, implementation of systems, or advising on operating practices (e.g. benchmarking).

In addition to Lloyd's in-house internal auditors, additional resource and specialist subject-matter experts are provided as required using a flexible co-source agreement. These additional resources report directly to the Head of Internal Audit. The Audit Committee keeps under review the relationship with co-source providers and the procedures to ensure appropriate independence of the internal audit function is maintained.

B.6 Actuarial function

The Actuarial Function is a mandatory key function introduced by the Solvency II legislation. The Lloyd's Actuarial Function (LAF) carries out a number of activities during each year, both qualitative and quantitative. Lloyd's unique structure means that any requirements in respect of the Actuarial Function apply at both syndicate level and at the overall Society level. Syndicates are therefore required to have their own Actuarial Functions (SAFs) and part of the role of the LAF is to ensure these individual SAFs maintain the required standards.

The accountabilities and governance of the LAF are outlined in its Terms of Reference. The LAF and SAFs have a defined set of tasks which must be performed to adhere to the regulations as set out in the Solvency II Directive. These are to:

- Coordinate the calculation of technical provisions including:
  - Ensuring the use of appropriate methods and assumptions;
  - Ensuring sufficiency and quality of data; and
  - Comparing best estimates against experience;
- Express an opinion on the overall underwriting policy;
- Express an opinion on the adequacy of reinsurance arrangements;
- Contribute to the effective implementation of the risk management system with particular regard to risk modelling and ORSA; and -
- Report at least annually to the Council on the results of this work; identify deficiencies where they exist; and make recommendations to address these.

The LAF meets the requirements by:

- Providing an appropriate framework (e.g. issuing guidance, standards and requirements) for syndicates to operate:
- Requiring submissions of SAF reports and other documentation which demonstrates Syndicate compliance;
- Monitoring compliance against this framework;
- Performing top-down and bottom-up market oversight on reserving;
- Complying centrally through its own activities used to monitor the market; and
- Reporting to the Lloyd's Council at least annually on the work of the LAF, including compliance of the SAF, and making recommendations to address any identified deficiencies.

The LAF is primarily resourced by the Market Reserving and Capital team. The work of the LAF is continuous over the course of the year. The requirements relating to technical provisions encompass the calculation exercise of these undertaken by the LAF and oversight of SAF calculations. Measures of SAF oversight include review of SAF reports together with other quantitative and qualitative information submitted to Lloyd's. Together these exercises are designed to highlight any potential issues with the level of technical provisions for the market and take appropriate action to remedy these.

The requirement to provide opinions on reinsurance and underwriting is satisfied at individual syndicate and Society level. At the Society level this involves collaborations with other areas of the Society with primary oversight responsibility for underwriting and reinsurance.

Contribution to the risk management process and the ORSA includes the LAF work with respect to the Lloyd's Internal Model. Evidence of similar contribution is also required from SAFs.

The LAF provides a written report to the Council, on an annual basis, documenting all the tasks that it has undertaken, results, identifying any deficiencies and giving recommendations as to how such deficiencies should be remedied. The LAF also receives reports from all SAFs on an annual basis, covering the areas outlined above.

B.7 Outsourcing

Description of outsourcing policy

Lloyd's has established an Outsourcing Policy to provide a clear overview of the processes, controls and reporting procedures in place to ensure that the outsourcing of its functions or activities does not adversely affect Lloyd's or the Market's risk profile, or Lloyd's ability to meet regulatory responsibilities.

Lloyd's performs many activities necessary for the operation of its business, including providing services required in support of the efficient running of the Lloyd's Market. In some instances, it may be considered more cost effective to utilise the services of an external supplier with the necessary expertise. In these circumstances, Lloyd's may enter into an outsourcing arrangement with a third-party supplier.

Outsourcing arrangements result in a shift from direct to indirect operational control of the activity and have the potential to increase the exposure of Lloyd's to operational risk. The Council, as Lloyd's AMSB, remains fully responsible for any activity or function outsourced and must ensure that Lloyd’s does not outsource any activity which will unduly raise its exposure to operational risk.

Strong governance and management oversight over the outsourcing process, combined with assurance provided by regular management information, are essential controls for managing outsourcing risk and understanding the impact of outsourcing on Lloyd’s business.

Outsourcing of critical or important operational functions or activities
Lloyd’s is currently utilising several suppliers to undertake critical activities on its behalf. Details of the activities they provide and the jurisdictions they operate in are shown in the table below:

Services Provided	Jurisdiction
Regular and bespoke data and reporting – claims & premiums processing	United Kingdom
Managed Services – IT Application & Facilities Management	United Kingdom
Settlements & Trust Fund operations	United Kingdom
Software provider of systems to exchange business information with syndicates	China
Insurance Transaction Services	Canada
Provider of fund management systems	United Kingdom

B.8 Any other information

Assessment of adequacy of the system of governance
In accordance with the UK Corporate Governance Code, an external and independent evaluation of the performance of the Council, Audit, Remuneration and Nominations & Governance Committees is undertaken every three years. The last external evaluation was undertaken by YSC Consulting and took place at the end of 2018. The next external evaluation was due to be undertaken at the end of 2021. However, due to the merger of the Board into the Council this review has been brought forward and is being conducted during Q1/2 2021. The review is being conducted by YSC Consulting with the report due in May 2021.

Any other material information
There is no other material information to report.

C Risk profile

Overview

At Lloyd’s, the risk profile originates from both syndicates and at central level.

Syndicates are the source of the majority of risks. They source all 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, market risk on central assets and pension fund risk.

Solvency Capital Requirement (Solvency II basis)

The Solvency Capital Requirement (SCR) represents the amount of capital required to withstand up to a 1 in 200-year loss event over a 12-month time horizon. Given Lloyd’s unique structure there are two SCRs which are monitored under the Solvency II regime:

- The Lloyd’s market wide SCR (MWSCR) is calculated to cover all the risks of ‘the association of underwriters known as Lloyd’s’, i.e. 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 the capital of the component parts of the market taken together is available to meet the MWSCR.

- The Lloyd’s central SCR (CSCR) is calculated in respect of only the risks facing the Corporation and 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 Lloyd’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 which has been approved by the PRA. Individual syndicates also derive SCRs from their own internal models which are subject to approval by the Lloyd’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.

Lloyd’s Internal Model

The Lloyd’s Internal Model (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 Lloyd'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 class of business, allocated to syndicates and through to members to assess the level of capital required by the market and centrally to meet up to 1 in 200-year losses over the one-year time horizon.

Lloyd's MWSCR
The MWSCR is broken down into the various risk components at 31 December 2020 as shown below.

	2020	2019
	£m	£m
Reserving risk	7,790	7,392
All other (attritional) underwriting risk	8,248	7,422
Catastrophe risk	1,357	1,476
Operational risk	893	780
Reinsurance credit risk	836	659
Market risk	2,389	507
Pension risk	40	10
MWSCR before adjustments	**21,553**	**18,246**
Foreign exchange adjustment	(1,212)	(376)
MWSCR	**20,341**	**17,870**

Lloyd's central SCR
The central SCR at 31 December 2020 is £2,085m (2019: £1,500m).

C.1 Insurance Risk (including underwriting 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; and
(iii) catastrophe risk.

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

Underwriting strategy is agreed by the Council 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.

The Society does not seek to eradicate the inherent risks of insurance risk from the market but to ensure that they are managed within a commercial and prudent underwriting environment. The key processes that provide assurance to the Council include:

- Reviewing and agreeing syndicate business plans and capital;
- Quarterly performance monitoring;
- Minimum standards compliance;
- New entrant approval;
- Risk governance; and
- Risk appetite monitoring.

<u>Reserving risk</u>
Reserving risk arises where the reserves established in the balance sheet are not adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate reserves for known or Incurred but Not Reported claims (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.

Syndicates set reserves and obtain an annual Statement of Actuarial Opinion ("SAO"). The SAO is produced under the guidance of the UK Actuarial Profession; the Lloyd's Actuary has close access to the relevant committees in the UK professional body and is able to ensure that the guidance is kept in line with Lloyd's objectives.

Additional reserve monitoring exercises undertaken by Lloyd's include:

- Market-level reserving exercise to highlight potential areas of concern on reserving by class of business and year of account;
- Allocation of the IBNR from this reserving exercise to syndicate by class of business and year of account to highlight syndicates with potential areas of concern on reserving;
- Relative Reserve analysis, comparing reserve strength between syndicates;
- IBNR burn analysis;
- Large loss monitoring; and
- Meeting Lloyd's Reserving Minimum Standards.

These reserve monitoring exercises feed into Lloyd's syndicate reserving oversight framework as a series of risk metrics to assist in categorising syndicates to determine reserving oversight activities for the forthcoming calendar year.

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.

Lloyd's Realistic Disaster Scenarios (RDS) stress test the aggregation of risks at both an individual syndicate level and for the market as a whole. The event scenarios are regularly reviewed to ensure they represent material catastrophe risks.

C.2 Market risk

Market risk is the risk that the values of financial instruments will fluctuate because of movements in foreign currency, interest rates or asset values. Syndicate assets are held in premium trust funds (PTFs) and are subject to the asset rules contained in the PRA's handbook. Market risk can arise in respect of the investments held by syndicates and centrally in respect of capital provided by members and assets held by the Society including the Central Fund.

Market risk represents the risk that movements in financial markets will affect the financial position of the Society. Market risks arising from the disposition of the Society's investments are monitored against defined parameters using Value at Risk (VAR) methodology. The position is reviewed regularly by the Investment Committee. Investments are actively monitored on a fair value basis and all investments are designated as fair value through profit or loss.

Managing agents manage asset risk through their investment strategy. There is greater oversight of market risk in light of the volatile economic climate, which includes the monitoring of Investment Management Minimum Standards. Assets are monitored across the full Lloyd's 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 Lloyd's on a quarterly basis, including credit rating analysis of fixed income portfolios.

Market risk comprises three types of risk:
(a) currency risk;
(b) interest rate risk; and
(c) equity price risk.

Currency risk
Managing agents must identify the main currencies in which each syndicate transacts its business. For the market overall, the US dollar is the largest currency exposure.

Assets are then held in each of those currencies to match the relevant liabilities. Managing agents must ensure that assets match liabilities and take corrective action where a mismatch arises. Lloyd's also reviews the matching of assets to liabilities at the syndicate level as well as at the market level.

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. In general, Lloyd's operates a generally conservative investment strategy with material cash and short dated bonds portfolios, which gives rise to low levels of interest rate risk exposure.

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). 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. Financial assets and liabilities may be exposed to equity price risk. 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.

C.3 Credit risk

Credit risk represents the risk of financial loss if a counterparty, or the issuer of a security, fails to meet its contractual obligations. The assets of syndicates, members' capital and Society assets are exposed to credit risk.

The market's principal credit risk is that the reinsurance purchased to mitigate gross losses does not respond as expected. This can occur because reinsurers are unable to settle their 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. Managing agents are expected to regularly monitor and assess the security of, and exposure to, each reinsurer, intermediary and any collateral arrangements that support their reinsurance protections. Reinsurance credit risk is subject to quarterly review by Lloyd's.

Society assets are also exposed to credit risk. With regard to credit investments, Lloyd's performs further credit analysis and does not solely rely on external credit ratings as an indicator of investment eligibility. This includes a top-down approach (macroeconomic environment and cyclical outlook) and a bottom-up approach (business fundamentals, issuer analysis and security analysis).

C.4 Liquidity risk

Liquidity risk arises where there are insufficient funds to meet liabilities, particularly claims. This may affect assets held by syndicates, provided as members' capital and held by the Society.

Managing agents are expected to manage the cash needs of their syndicates on an ongoing basis and to avoid becoming forced sellers of assets. They are required to have an asset liability matching (ALM) policy which describes how they manage any duration risk arising from a mismatch between syndicate investments and policyholder liabilities. Generally, syndicates have a high concentration of liquid assets, namely cash and government securities.

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.

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

C.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is modelled using a scenario analysis approach, generating operational loss scenarios in conjunction with business teams. This may arise at syndicate level and centrally.

Managing agents manage these risks through internal compliance monitoring and the use of detailed procedure manuals. Lloyd's sets minimum standards to be applied by agents and monitors to ensure these are met.

Syndicate SCRs calculated with internal models are also required to include a capital requirement in respect of operational risks. The methodology used will be different for each syndicate (as operations are different) but all syndicates are obliged to include their operational risk exposures within their internal model.

In addition, elements of operational risk which arise as a result of syndicate operations but are not felt to be adequately captured in their internal models are modelled centrally. This is known as Additional Central Fund (ACF) risk.

C.6 Other material risks

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 which may adversely impact the global licence network. Lloyd's is actively working with the market to assist and adapt to the changes in the UK regulatory architecture, in particular the increased focus on conduct risk by the FCA; managing agents are now expected to comply with the Lloyd's Conduct Minimum Standards. Similarly, Lloyd's monitors global political trends and is taking action at both a Society and market level in response to a growing geopolitical risk facing companies operating around the world.

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 which could impact Lloyd's, for example arising from the activities of a parent company of a syndicate or managing agent. Whilst, by its nature, group risk is difficult to control, the Society mitigates the potential impact of group risk through the implementation of controls, including Lloyd's minimum standards, mitigating any material impairment to Lloyd's brand, reputation or strategic priorities.

Concentration risk
Lloyd's 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 Lloyd's monitor concentrations across the following areas: region-perils, class of business, geographical location, and method of distribution in insurance and investment counterparties, amongst others. Whilst syndicates define the type of business that they write, at the market level Lloyd's seeks to avoid inappropriate concentration of premium sources, monitoring concentration of business in poorly performing classes, and material sources of premium by method of placement as well as coverholder concentration, which feature in risk appetite 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 class of business impacted, with different levels of the requirements placed on syndicates, which forms part of Lloyd's oversight role of the market.

Climate change risks
Lloyd's is currently considering the impact climate change will have on the risk profile. While climate risk isn't considered to be a risk category in itself, it may increase the frequency and severity of losses within the existing risk categories described in C.1 – 5.

Prudent person principle
In accordance with Article 132 of Directive 2009/138/EC, all assets at Lloyd's are invested in accordance with the prudent person principle.

Syndicate level assets
Managing agents, as trustees, are responsible for the investment of their own syndicate PTFs. The members of the syndicate are the primary bearers of financial risk. Managing agents identify planned investment risk within the SCR and members are required to provide sufficient capital to support this risk. PTF investments must be managed in accordance with PRA requirements under the Prudent Person Principle. PTF investments must also comply with the Membership & Underwriting Requirements (M&URs) issued by Lloyd's. Syndicates must submit information on investment returns and dispositions to Lloyd's quarterly.

Syndicate investment data is analysed and assessed by Lloyd's quarterly. Where a concern is identified at syndicate level, Lloyd's may consider the issue in the context of the syndicate's overall operations. Lloyd's may engage with the managing agent to identify whether appropriate risk limits have been exceeded and, if so, may require investment dispositions to be amended, or more typically that additional capital be provided by members, as appropriate.

When reviewing syndicate submissions, Lloyd's will have regard to its defined risk appetites. These specify that overall market risk (across all syndicates) should not exceed 20% of total syndicate risk, reflecting that the Lloyd's market is primarily structured to take on and manage insurance risks, not investment risk. Wherever an individual syndicate plans or adopts more than 20% market risk, this is subject to specific review and approval by Lloyd's.

Lloyd’s also considers periodically whether any additional rules should be adopted for prudential reasons beyond the PRA requirements of the Prudent Person Principle.

If Lloyd’s identifies that in aggregate, syndicates are exposed to inappropriate levels of investment risk, it may constrain the investment dispositions of all syndicates and amend the M&URs.

Member level capital (FAL)
Each member of Lloyd’s is responsible for the investment of their own FAL and is the primary bearer of the resulting financial risk. Lloyd’s acts as trustee and custodian of FAL assets and reviews all transactions in advance of approving them for settlement. All FAL investments must comply with the PRA requirements under the Prudent Person Principle; additionally, they must also comply with the Lloyd’s M&URs.

FAL investment dispositions are analysed quarterly by Lloyd’s. Where concerns are identified, Lloyd’s may engage with members to understand risk strategies and may require that investment dispositions be amended. Where members do not comply with such requirements Lloyd’s, in its capacity as trustee, may intervene to amend investment dispositions. Lloyd’s may also require a member to maintain additional assets within their FAL if that member’s FAL investments exceed defined risk limits. If Lloyd’s identifies risks which are unacceptable when considering all FAL assets, or all FAL and PTF assets together, it may, in extremis, adjust permitted investments for all participants by amending the M&URs.

Lloyd’s also considers periodically whether any additional rules should be adopted for prudential reasons beyond the PRA requirements of the Prudent Person Principle.

Central resources
Lloyd’s complies with the Prudent Person Principle in respect of central resources by ensuring that:

- Lloyd’s does not invest in investments that are not admitted to trading on a regulated financial market or in complex products which are difficult to value. Neither does it invest in investments which are not traded or traded on a non-regular basis.
- Derivatives are only permitted to facilitate risk management and not speculation. Lloyd’s use of derivatives is currently limited to forward foreign exchange contracts and interest rate swaps. Effective risk transfer is obtained by transacting both these derivatives under Master International Swaps and Derivatives Association (ISDA) agreements with the derivative counterparties. Considerations of how the quality, security, liquidity and profitability of the Central Fund portfolio is improved without significant impairment of any of these features is made by the Lloyd’s Investment Committee. Approved procedures have been implemented in line with this risk policy to monitor the performance of these derivatives and against defined risk limits.
- Before investing in securitised assets, the Society ensures that Lloyd’s interests and the interests of the originator or sponsor concerning securitised assets are well understood and aligned. All securitised assets must meet Solvency II eligibility criteria.

Stress testing

Lloyd’s seeks to continuously identify and examine Stress and Scenario Tests (SSTs) which may have an adverse impact on the business model to ensure potential risks are clearly understood, monitored effectively and adequate controls are in place.

The outcomes/conclusions of the SSTs form an integral part of the overall risk management system and act as a prompt to senior management to take action across a range of areas such as: implementing changes to the LIM, re-evaluating risk appetites, reviewing the application of Franchise Guidelines, business plan decisions for syndicates and capital management decisions (e.g. setting Economic Capital). The results of these, as reflected in the ORSA process, inform Lloyd’s management in terms of making decisions with regard to member level and central capital strategy over the medium term.

Further information on stress tests, sensitivity analysis and the outcomes of these are provided in respect of the Lloyd’s market at pages 66 and 67, and for the Society on page 172 of the Lloyd's Annual Report 2020.

C.7 Any other information

As reported on R0790 of template S.23.01 as shown in Appendix 1, the total of Expected Profit In Future Premiums (EPIFP) as at 31 December 2020 amounted to £4,224m (2019: £3,616m).

The Society and the market responded well to the immediate impacts of COVID-19. During the ‘first wave’ of the pandemic in April 2020, an out-of-cycle (or ‘ad-hoc’) own risk and solvency assessment (ORSA) was carried out to ensure that risks from COVID-19 were adequately considered and decisions were taken to manage the impact. This included the development of a COVID-19 risk dashboard for ongoing monitoring.

While noting that COVID-19 has been the first truly global loss event experienced by the market, with impacts across the risk profile and both sides of the balance sheet, there was a positive response to immediate impacts of the crisis – core activities continue to operate effectively as business continuity plans were successfully implemented across both the Society and the market. Thanks to steps taken at the beginning of the crisis, which included a controlled de-risking of the Central Fund portfolio and establishment of an accelerated coming into line process for the market, Lloyd’s has also remained well capitalised.

While the pandemic’s impact on the risk profile continues to be monitored and Lloyd’s remains within all risk appetites, there is considerable uncertainty over what the eventual outcomes from COVID-19 may be. A number of steps have been taken, and continue to be taken, to actively monitor and manage the key areas of uncertainty, including:

- Careful scrutiny of syndicate capital plans to ensure appropriate allowance for the risk environment;
- Engaging with syndicates whose reserves are most likely to be impacted by direct and indirect impacts of COVID-19 and with the highest exposure to key classes of business;
- Discussions with the market to drive consistency and clarity in how they are allowing for potential recessionary impacts;
- Additional data collection from the market to allow 2021 business plans to be reassessed in light of full year 2020 results, alongside further top-down scenario testing to stress the 2021 business plan;
- Assessing a range of COVID-19 stress scenarios in order to test the resilience of the market, and

- Further consideration of the arrangements to transition back to a new normal working environment through 2021, including people, infrastructure and technology aspects.

Additional information on risk management at Lloyd’s may be found at note 4 of the market results (pages 56 to 68) and pages 171 and 175 with respect to the Society within the Lloyd's Annual Report 2020.

D Valuation for Solvency Purposes

Sections/items indicated with an asterisk (*) are not subject to reasonable assurance.

A comparison of Lloyd's UK GAAP and Solvency II balance sheets is summarised in the following table:

31 December 2020	UK GAAP	Change	Solvency II
Assets	£m	£m	£m
Deferred tax assets	56	46	102
Intangible assets	54	(54)	-
Investments	69,361	1,313	70,674
Loans and mortgages	117	(37)	80
Property, plant & equipment held for own use	13	142	155
Reinsurers' share of technical provisions	25,073	(9,233)	15,840
Deferred acquisition costs	4,148	(4,148)	-
Deposits to cedants	71	104	175
Insurance and reinsurance receivables	17,526	(14,778)	2,748
Receivables (trade, not insurance)	1,162	65	1,227
Cash and cash equivalents	10,473	(7,734)	2,739
Any other assets	250	3,630	3,880
Total assets	**128,304**	**(30,684)**	**97,620**
Liabilities			
Technical provisions	81,107	(81,107)	-
- Best estimate	-	61,534	61,534
- Risk margin*	-	3,903	3,903
Provisions other than technical provisions	69	102	171
Pension benefit obligations	187	-	187
Deposits from reinsurers	727	(47)	680
Deferred tax liabilities	-	-	-
Derivatives	53	20	73
Debts owed to credit institutions	543	37	580
Insurance and reinsurance payables	8,257	(5,908)	2,349
Payables (trade, not insurance)	2,087	(202)	1,885
Subordinated liabilities	-	919	919
Any other liabilities	1,333	316	1,649
Total liabilities	**94,363**	**(20,433)**	**73,930**
Net excess of assets over liabilities	**33,941**	**(10,251)**	**23,690**

31 December 2019	UK GAAP	Change	Solvency II
Assets	£m	£m	£m
Deferred tax assets	47	-	47
Intangible assets	16	(16)	-
Investments	63,445	1,296	64,741
Loans and mortgages	117	(14)	103
Property, plant & equipment held for own use	13	143	156
Reinsurers' share of technical provisions	23,597	(9,440)	14,157
Deferred acquisition costs	4,404	(4,404)	-
Deposits to cedants	38	143	181
Insurance and reinsurance receivables	17,270	(12,179)	5,091
Receivables (trade, not insurance)	929	73	1,002
Cash and cash equivalents	9,631	(7,421)	2,210
Any other assets	371	(53)	318
Total assets	**119,878**	**(31,872)**	**88,006**
Liabilities			
Technical provisions	76,798	(76,798)	-
- Best estimate	-	54,804	54,804
- Risk margin*	-	3,696	3,696
Provisions other than technical provisions	80	6	86
Pension benefit obligations	140	1	141
Deposits from reinsurers	880	167	1,047
Deferred tax liabilities	-	-	-
Derivatives	26	640	666
Debts owed to credit institutions	285	-	285
Insurance and reinsurance payables	8,153	(6,143)	2,010
Payables (trade, not insurance)	2,378	(518)	1,860
Subordinated liabilities	-	891	891
Any other liabilities	500	438	938
Total liabilities	**89,240**	**(22,816)**	**66,424**
Net excess of assets over liabilities	**30,638**	**(9,056)**	**21,582**

A qualitative description of the reasons for differences between UK GAAP and Solvency II is set out at section D.1 (assets), D.2 (technical provisions) and D.3 (liabilities other than technical provisions).

D.1 Assets

Valuation of assets including differences between Solvency II and UK GAAP

Overview
Lloyd's requires each syndicate to prepare a Solvency II balance sheet in accordance with Solvency II valuation rules.

Members' FAL are valued at fair value and thus comply with Solvency II valuation principles.

Assets and liabilities of the Society of Lloyd's are valued in accordance with UK GAAP except where this is not appropriate under Solvency II principles. Adjustments are made as necessary to reflect Solvency II valuation principles. Assets and liabilities of the Society's subsidiaries are included on a line by line basis, after eliminating for transactions between the Society and the syndicates.

Recognition
Assets are recognised only when economic benefits are expected to be received in future.

Under Solvency II, future cash flows relating to insurance and reinsurance contracts are included in the measurement of technical provisions. However, overdue cash flows are treated as insurance receivables in the balance sheet. This is the same principle that Lloyd's has applied in the recognition of insurance receivables. Lloyd's has applied similar principles as those applied for insurance receivables in assessing recognition of reinsurance receivables. Amounts recoverable from reinsurers relating to claims paid have been included in the balance sheet as reinsurance receivables.

Derecognition
Assets are derecognised once they have been transferred to a third party i.e. substantially all risks and rewards are transferred.

Valuation methodology
Assets are valued at fair value and Solvency II allows two approaches in determining the value of assets i.e. mark to market, and where this is not feasible, mark to model.

Deferred tax assets
Deferred tax assets relate solely to the Society of Lloyd's. This is because syndicates account for their results gross of tax. Tax is assessed at member level and is outside of the scope of the Lloyd's financial statements. Deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised. Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the reporting date.

Investments
Most of Lloyd's investments i.e. premium trust funds, FAL and Central Fund assets are fixed income investments. These are mainly government bonds and corporate bonds. In addition, significant amounts of equities are held, particularly within members' FAL and the Central Fund. Solvency II requires investments to be valued at their fair value.

Information of the valuation of investments for the purposes of the financial statements may be found on pages 71 and 72 of the Lloyd's Annual Report 2020. There are no material differences in the valuation of investments for Solvency II and UK GAAP. However, the allocation of accrued interest has been included within the relevant investment assets rather than in 'Any other assets'.

Government bonds
These are valued at market value i.e. based on quoted prices. These bonds are regularly traded and hence their prices are easily obtained. These prices are

obtained from the custodians. However, where these are not considered current, a tradable quote from a broker is sought.

Corporate bonds
Most of the corporate bonds are of very high quality i.e. BBB rating and above. These bonds are regularly traded and hence their prices are easily obtained. Similar to the government bonds, these are valued at market value, based on the quoted prices provided by the custodians. Similar to government bonds, where prices from custodians are deemed not to be fresh, a tradable quote from a broker is sought.

Equity and investment funds
Equity investments held by Lloyd's are mainly listed and hence their prices are readily available. These are valued at market value based on the quoted prices provided by custodians.

Loans and mortgages
These consist of the following:

- Loans and mortgages to individuals – relating to recoverable Central Fund loans made to hardship members; and
- Other loans and mortgages – relating to syndicate investment assets classified as loans and mortgages other than 'Loans and mortgages to individuals' and 'Loans on policies'.

These are initially recognised in the financial statements at amortised cost. There are no material differences in the valuation of the 'loans and mortgages' held by Lloyd's for Solvency II compared with UK GAAP.

Property, Plant and equipment held for own use
Right of use assets in respect of the Society's operating leases are recognised on the Society's Solvency II balance sheet. Right of use assets are not recognised on the PFFS UK GAAP balance sheet.

Deposits to cedants
These are deposits relating to reinsurance accepted business. Solvency II requires that all assets should be measured at fair value. However, book value as per UK GAAP may be used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material. Consequently, the UK GAAP value is reported in the Solvency II balance sheet.

Insurance and reinsurance receivables
Solvency II requires that all assets should be measured at fair value. Hence, these are valued at fair value by discounting expected cash flows using a risk-free rate. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material.

While determining the valuation amount, Lloyd's has considered the recoverability of these balances; hence the amount recognised in the balance sheet is net of expected losses as a result of default.

Under Solvency II, future cash flows relating to insurance and reinsurance contracts are included in the measurement of technical provisions, excluding overdue cash flows which remain as insurance receivables in the balance sheet and there are no material differences in the valuation of the overdue amounts for Solvency II and UK GAAP.

Receivables (trade, not insurance)
Solvency II requires that all assets should be measured at fair value. However, receivables may be recognised at their book value using UK GAAP where these assets crystallise within one year; in this case no discounting is applied as this would be immaterial.

Cash and cash equivalents
'Cash and cash equivalents' comprise of cash in hand and demand deposits, together with short term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of change in value. These are short term investments with a maturity period of three months or less from the date of acquisition.

Cash in hand and demand deposits are valued at the amount held at the end of the year plus accrued interest at the end of the year, where applicable.

The value of letters of credit, guarantees and life policies provided within FAL, which represent ancillary own funds (see section E.1 below), and which are included in 'cash and cash equivalents' in the table in section D are excluded from the Solvency II balance sheet but are recognised at their Solvency II valuation as ancillary own funds in the own funds template.

Any other assets
These include items such as prepayments and other assets. Solvency II requires that all assets should be measured at fair value. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material. Consequently, the UK GAAP value is reported in the Solvency II balance sheet.

D.2 Technical provisions

Solvency II technical provisions by material line of business
The tables below summarise the Solvency II technical provisions for the market by high-level class of business:

31 December 2020

Class	Gross best estimate	Net best estimate	Risk margin*	Total net technical provisions including risk margin
	£bn	£bn	£bn	£bn
Accident & Health	3.69	2.74	0.20	2.94
Aviation	1.85	0.91	0.08	0.99
Casualty Financial & Professional Lines	13.54	9.14	0.47	9.61
Casualty Other	13.54	10.05	0.62	10.67
Casualty Treaty	4.31	3.66	0.16	3.82
Energy	3.69	2.28	0.23	2.51
Marine	5.54	6.85	0.43	7.28
Property (Direct & Facultative)	6.77	5.48	0.31	5.79
Property Treaty	5.54	2.74	1.33	4.07
Specialty Other	3.06	1.84	0.07	1.91
Total	**61.53**	**45.69**	**3.90**	**49.59**

31 December 2019

Class	Gross best estimate	Net best estimate	Risk margin*	Total net technical provisions including risk margin
	£bn	£bn	£bn	£bn
Accident & Health	1.64	1.45	0.10	1.55
Aviation	1.77	1.11	0.07	1.18
Casualty Financial & Professional Lines	11.23	7.95	0.46	8.41
Casualty Other	12.4	9.09	0.62	9.71
Casualty Treaty	3.9	3.40	0.12	3.52
Energy	3.67	2.41	0.22	2.63
Marine	5.5	4.53	0.42	4.95
Property (Direct & Facultative)	6.09	4.67	0.32	4.99
Property Treaty	5.94	4.10	1.21	5.31
Specialty Other	2.66	1.94	0.15	2.09
Total	**54.80**	**40.65**	**3.69**	**44.34**

A summary of technical provisions by Solvency II line of business is provided in Appendix 1 on templates S.12.01 and S.17.01.

<u>Calculation of technical provisions</u>
The technical provisions are calculated in line with the prescribed Solvency II requirements as per Articles 76 to 86 of Directive 2009/138/EC. In particular, the value of technical provisions correspond to the current amount insurance and reinsurance undertakings would have to pay if they were to transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance

undertaking. The calculation of technical provisions makes use of and is consistent with information provided by the financial markets and generally available data on underwriting risks (market consistency).

The technical provisions are calculated by syndicates in accordance with Lloyd's Technical Provisions Guidance November 2019. The calculations are undertaken by individual syndicates with the calculation basis and assumptions made at this level. Across the market the following bases, methods and assumptions are most relevant:

- Provisions for future claims are the most material element of the technical provisions;
- Provisions for future claims are based on standard actuarial techniques for estimation of non-life insurance liabilities;
- Assumptions relating to run-off patterns and loss ratios are material to the calculation of future claims provisions;
- Risk-free rates used in discounting best estimate technical provisions as provided by the PRA are used with no adjustment;
- With regard to contract boundaries all contracts to which the syndicate is legally obliged are included and each existing contract, including reinsurance, is considered in its own right; and
- Reinsurance recoveries are calculated based on consideration of the inwards exposures and the reinsurance in place, including the impact of any claims experience to date.

The calculations are undertaken by individual syndicates with the calculation basis and assumptions made at this level. This includes the consideration of homogenous risk groupings used for the valuation, which will vary between syndicates based on the consideration of the specific syndicate risk profile.

Level of uncertainty associated with the value of technical provisions*

Provisions for future claims are the most material and uncertain element of the technical provisions. The associated uncertainty of these provisions is assessed by all syndicates and also by the Society, using both quantitative techniques and qualitative commentary on sources of uncertainty. Consideration of the uncertainty is undertaken for each syndicate as part of their reserving processes. This will focus on the areas of particular uncertainty specific to each syndicate and involves statistical reserving techniques, sensitivity and scenario testing and consideration of large reserves associated with individual losses. This information is received and reviewed by Lloyd's as part of SAO and Actuarial Function reporting. Centrally the Lloyd's Actuarial Function assesses the uncertainty in aggregate market provisions via the same methodologies. Further assessment of quantitative uncertainty in the technical provisions is made as part of internal modelling at syndicate and Society level.

In addition to the quantification provided in the LIM, Lloyd's also monitors sources of uncertainty using the Statement of Actuarial Opinion (SAO) process. Each syndicate is required to provide an opinion, given by an actuary with an appropriate Practising Certificate, on reserve sufficiency. As part of this opinion any key sources of uncertainty are required to be highlighted and quantified. These uncertainties are highlighted in the solvency opinions by wordings; the wordings are comprised of an ascending order scale from 1 to 4 with respect to reserve uncertainty. The large loss wordings for 2020 year-end are a combination of COVID-19, Typhoon Hagibis, Hurricane Laura, Hurricane Sally and various other major events in recent history. The uncertainty associated with these provisions is considered as part of syndicate capitalisation.

Valuation differences of technical provisions by material line of business between Solvency II and UK GAAP

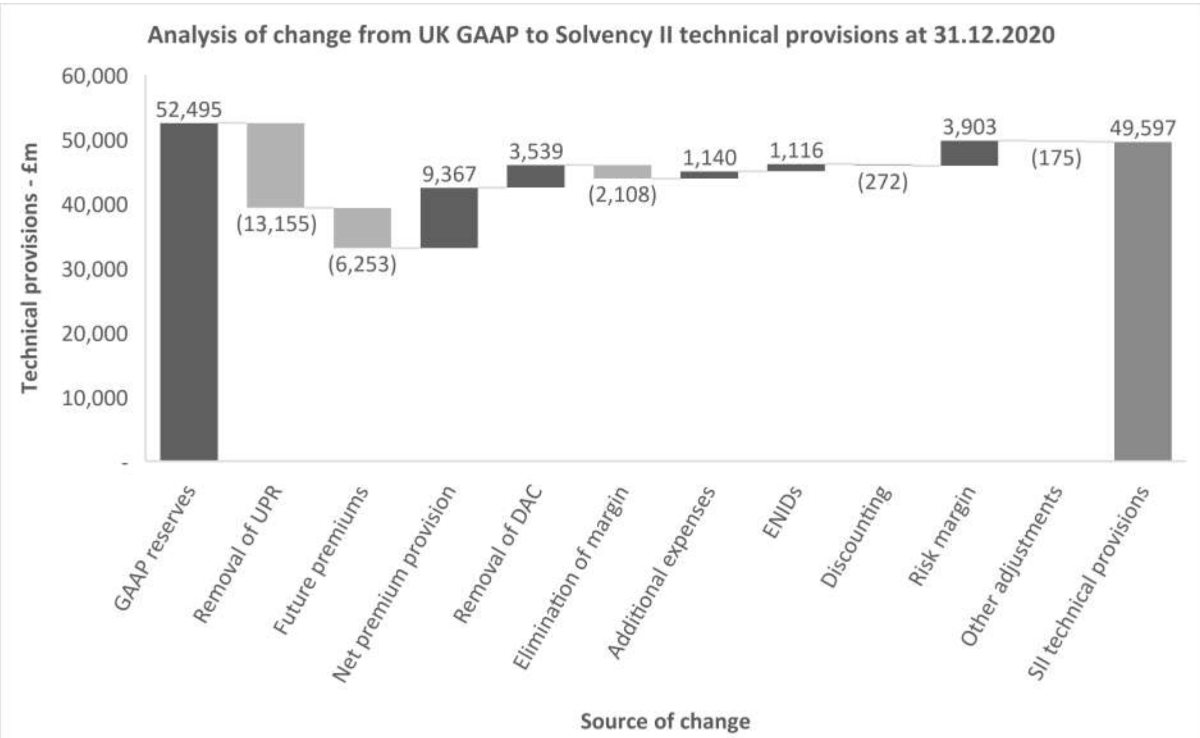
The technical provisions on a Solvency II basis are calculated in line with Solvency II requirements. There are a number of significant differences between this calculation basis and the UK GAAP basis underlying the financial statements.

The material differences in the bases are summarised below:

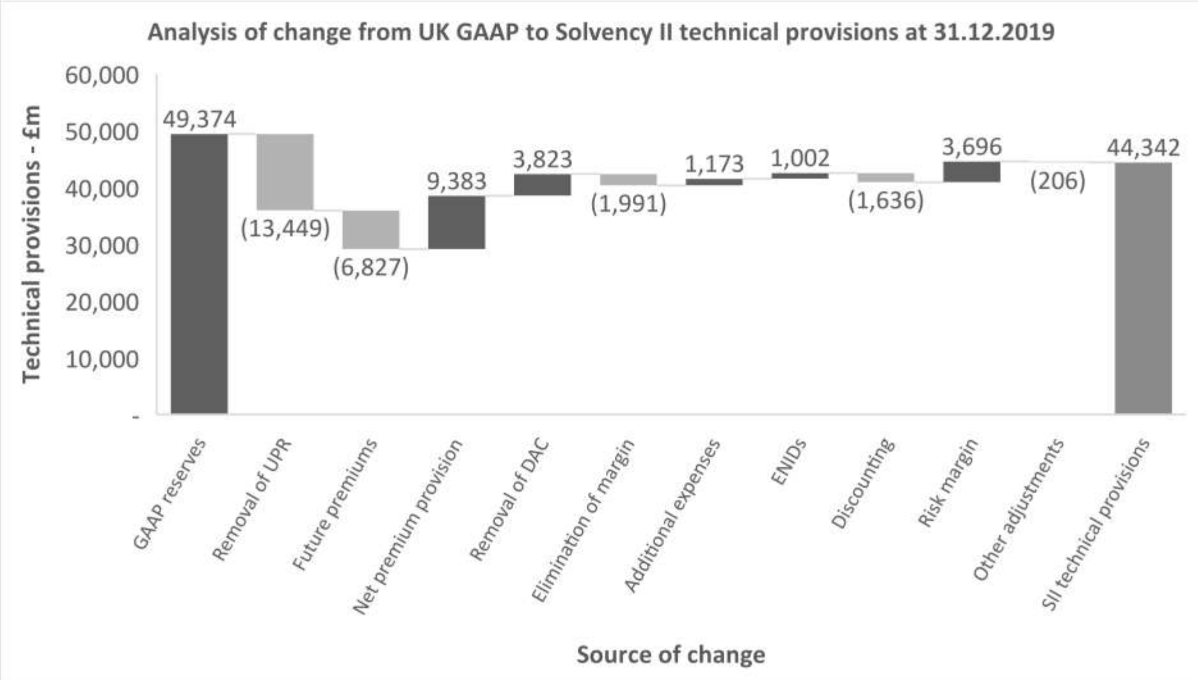
- Removal of the requirements to hold an unearned premium reserve (UPR) and to allow for other non-monetary items;
- Movement to a cashflow basis for valuation of both gross business and outwards reinsurance. This means that future premium income from contracts that are contractually bound at 31 December is introduced into the technical provisions;
- The claims associated with the unearned business must also now be included, in place of the UPR provision;
- Removal of any implicit or explicit margins within technical provisions to give a “true best estimate” for solvency purposes, defined as the mean of the full range of all possible future outcomes;
- Inclusion of all expenses incurred in running-off the existing business, rather than only those relating to cost of claims administration;
- Introduction of the valuation of very low probability extreme events including latent claims, referred to as “Events not in Data” (ENIDs);
- Introduction of discounting of all reserves at risk-free rates, rather than discounting being related to expected investment income and only being allowable on particular claim types; and
- Inclusion of a risk margin sufficient to cover the expected cost of transfer of the obligations.

The impacts of the above changes are summarised in the charts below:

31 December 2020



31 December 2019



For Lloyd's the most material impact relates to the inclusion of future premium, though this is offset to an extent by future claims.

<u>The UK GAAP and Solvency II net technical provisions by material line of business are summarised below:</u>

31 December 2020

Class	UK GAAP net technical provisions	Solvency II net technical provisions including risk margin*
	£bn	£bn
Accident & Health	3.11	2.94
Aviation	1.04	0.99
Casualty Financial & Professional Lines	9.86	9.61
Casualty Other	10.90	10.67
Casualty Treaty	4.15	3.82
Energy	3.11	2.51
Marine	5.19	7.28
Property (Direct & Facultative)	6.23	5.79
Property Treaty	5.19	4.07
Specialty Other	3.12	1.91
Total	**51.90**	**49.59**

31 December 2019

Class	UK GAAP net technical provisions	Solvency II net technical provisions including risk margin*
	£bn	£bn
Accident & Health	1.89	1.55
Aviation	1.48	1.18
Casualty Financial & Professional Lines	9.01	8.41
Casualty Other	10.36	9.71
Casualty Treaty	3.70	3.52
Energy	2.94	2.63
Marine	5.60	4.95
Property (Direct & Facultative)	5.45	4.99
Property Treaty	4.98	5.31
Specialty Other	3.39	2.09
Total	**48.80**	**44.34**

<u>Matching adjustment (per Article 77b of Directive 2009/138/EC)</u>
Lloyd's does not permit the use of the matching adjustment by syndicates in the setting of technical provisions.

<u>Volatility adjustment (per Article 77d of Directive 2009/138/EC)</u>
Lloyd's does not permit the use of the volatility adjustment by syndicates in the setting of technical provisions.

<u>Transitional risk-free interest rate-term structure (per Article 308c of Directive 2009/138/EC)</u>
Lloyd's does not permit the use of the transitional risk-free interest rate-term structure by syndicates in the setting of technical provisions.

<u>Transitional deduction (per Article 308d of Directive 2009/138/EC)</u>
Lloyd's does not permit the use of the transitional deduction by syndicates in the setting of technical provisions.

<u>Recoverables from reinsurance contracts and special purpose vehicles</u>
The technical provisions are calculated gross, with reinsurance calculated separately under the same Solvency II principles. All existing and planned future reinsurance purchasing related to the gross provisions is included in the technical provision calculation and associated recoveries resulting from consideration of the expected value of all possible future outcomes is considered. As part of consideration of reinsurance recoveries an allowance for non-payment is also required.

<u>Any material changes in assumptions for calculating technical provisions</u>
There are no material changes to the assumptions compared to those used at the previous year-end.

D.3 Liabilities other than technical provisions

<u>Valuation of other liabilities including differences between Solvency II and UK GAAP</u>
A quantitative summary by major class is provided at the start of section D above.

Provisions other than technical provisions
These are liabilities of uncertain timing or amount (excluding liabilities reported under 'Pension benefit obligations').

There are no material differences in the valuation of 'provisions other than technical provisions' for Solvency II and UK GAAP.

Pension benefit obligations
Lloyd's operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme which is a defined benefit scheme. Other schemes have been established for certain employees based overseas. These have been valued in accordance with IAS19 Employee Benefits.

Additional information in respect of pension scheme obligations may be found in note 13 'Pension schemes' in the Society accounts, on pages 158 to 163 of Lloyd's Annual Report 2020.

Deposits from reinsurers
These are syndicate related amounts received from reinsurers or deducted by the reinsurer according to the reinsurance contract.

Solvency II requires that all assets should be measured at fair value. Hence, these are valued at fair value by discounting expected cash flows using a risk-free rate. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material.

Financial liabilities, other than debts owed to credit institutions
Solvency II requires that lease liabilities arising from operating leases are recognised on the Solvency II balance sheet, consistent with the treatment under IFRS 16 - Leases. These liabilities are not recognised on the UK GAAP balance sheet.

Deferred tax liabilities
Deferred tax liabilities relate solely to the Society of Lloyd's. This is because syndicates account for their results gross of tax. Tax is assessed at member level and is outside of the scope of the Lloyd's financial statements. Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the reporting date.

Derivatives
Derivatives have been valued at fair value for Solvency II purposes, which is consistent with UK GAAP.

Debts owed to credit institutions
This includes the Society's senior debt as well as syndicate level debts.

The Society's senior debt is restated to the fair value in accordance with Solvency II valuation principles. In the UK GAAP balance sheet the debt is carried at amortised cost.

Syndicate related debts include mortgages, loans, and bank overdrafts owed to credit institutions (excluding bonds held by credit institutions).

Solvency II requires that all such liabilities should be measured at fair value. Hence, these are valued at fair value by discounting expected cash flows using a risk-free rate. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material.

Insurance & reinsurance payables
Solvency II requires that all liabilities should be measured at fair value. Hence, these are valued at fair value by discounting expected cash flows using a risk-free rate. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are payable within one year or amounts payable in more than one year are not material.

Payables (trade, not insurance)
Solvency II requires that all assets should be measured at fair value. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material.

Subordinated liabilities
As at 31 December 2020, Lloyd's had two subordinated debt issues in place. Please refer to section E.1 for more details.

In the financial statements, using UK GAAP, the subordinated debt is initially recognised at fair value, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, the subordinated debt is subsequently recorded at amortised cost using the effective interest rate over the period to the earliest option date. Amortised cost is calculated after taking into account issue costs and issue discount.

However, the subordinated liabilities have been revalued at fair value for Solvency II purposes.

In the UK GAAP column of the table shown in section D above, the amount of the subordinated debt liability has been derecognised in accordance with the approach taken in Lloyd's Pro Forma Financial Statements on page 49 of the Lloyd's Annual Report 2020. The subordinated debt liability is recognised at fair value in the Solvency II column and then derecognised at this valuation on the own funds template.

Any other liabilities
Solvency II requires that all liabilities should be measured at fair value. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material.

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

Additional information on lease cost provisions and operating lease commitments for the Society is set out in notes 16 and 25 of the Society accounts at pages 165 to 167 and 178 of Lloyd's Annual Report 2020 respectively.

D.4 Alternative methods for valuation

As described in section D.1 above, Lloyd’s uses market value i.e. based on quoted prices from custodians to value investments such as government and corporate bonds. However, where these are not considered current, a tradable quote from a broker is sought.

D.5 Any other information

There is no other material information to disclose.

E Capital Management

Sections/items indicated with an asterisk (*) are not subject to reasonable assurance.

E.1 Own funds

Lloyd's market wide SCR and central SCR*
The Society and the Lloyd's market are regulated by the PRA in accordance with the requirements of the Solvency II regime as 'the association of underwriters known as Lloyd's'.

Lloyd's must calculate and cover two SCRs, given the unique structure of Lloyd's: the Lloyd's market wide SCR and the central SCR. Under the Solvency II regime, it must then ensure that each SCR is covered by eligible capital.

The Lloyd's market wide SCR ("MWSCR") is calculated to cover all the risks of 'the association of underwriters known as Lloyd's', i.e. 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 the capital of the component parts of the market taken together are available to meet the MWSCR.

The Lloyd's central SCR ("central SCR") is calculated in respect of only the risks facing the Corporation and 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 Lloyd's rigorous capital setting rules. In such an event, assets from the Central Fund can, at the discretion of the Council, be made available to ensure that policyholders' claims are met. Only eligible capital held by the Society may be used to cover the central SCR.

The MWSCR and central SCR are both calculated in accordance with the Lloyd's Internal Model (LIM) which was last approved by the PRA December 2018.

The quantitative reporting templates presented in appendix 1 reflect the market wide balance sheet and solvency position.

Objectives, policies and processes for managing own funds
Lloyd's sets medium and long term financial objectives in accordance with among other things, its business objectives, the underwriting environment, broader economic conditions as well as the UK and global regulatory environment and future developments. As part of this work, Lloyd's sets risk appetites in terms of coverage of market wide and central regulatory solvency and economic capital requirements. The calibration of these is reviewed regularly by senior management. This is articulated through Lloyd's risk management strategy and appetite and, in particular, the Medium-Term Capital Management Plan (MTCMP) and ORSA report. Lloyd's Capital Management Policy has been designed to ensure that these objectives, once set, can be complied with through capital management. The coverage of the regulatory and economic target capital requirements is assessed on at least a quarterly basis.

The MTCMP is prepared to assist Lloyd's management in ensuring that it has sufficient capital centrally and across the Lloyd's market, in terms of both quantity and quality (tiering) to be able to meet its current and projected regulatory and economic capital requirements in the medium term (over a three-year horizon). There have been no material changes to Lloyd's processes for managing own funds during 2020.

Ensuring minimum Tier 1 levels to cover the Lloyd's SCR
Under Solvency II, the SCR must be covered by at least 50% Tier 1 capital. As agreed with the PRA, this test applies to the Lloyd's SCR, which covers the 1 in 200-year loss to the 'association of underwriters known as Lloyd's' (as calculated using the LIM 'capital burn' test), as well applying a similar test to the central SCR which addresses the central capital requirement of the Society.

Most own funds at Lloyd's are Tier 1 but as described below letters of credit (LOCs), guarantees and life policies provided as members' FAL, and the dated subordinated debt issued in 2014 and 2017, constitute Tier 2 assets. The deferred tax asset is classified as Tier 3.

Lloyd's has implemented a policy whereby each member's capital requirement must be covered by at least 50% Tier 1 capital in order to align members' capital requirements with Solvency II regulations. Lloyd's monitors the composition of its capital in terms of amount and quality on an ongoing basis. If coverage of this test becomes marginal, then Lloyd's has in place procedures to require members which make the greatest use of Tier 2 capital within their FAL to substitute part of this with Tier 1 capital.

The coverage of the SCR by Tier 1 capital (as reported on template S.23.01 in Appendix 1) is summarised below:

	Dec 2020	Dec 2019
	£m	£m
Lloyd's SCR*	20,341	17,870
Tier 1 capital	22,263	20,167
Tier 1 capital %	109%	113%

The tiering test also applies to the central SCR. Lloyd's applies similar procedures to monitor the quality of central capital in this respect.

Coverage of the SCR by Tier 1 capital decreased during 2020 as a result of an increase in the SCR compared to 2019, partially offset by an increase in tier 1 capital.

Own funds classified by tier
A summary of Lloyd's own funds is set out below. The total own funds available to meet the Lloyd's SCR agrees to template S.23.01 R0500:

31 December 2020	Tier 1	Tier 2	Tier 3	Total
Syndicate assets	(4,218)			(4,218)
Members' funds at Lloyd's (FAL)	24,372	6,576		30,948
Society assets: Subordinated debt Deferred tax Balance of net assets	 2,109	 919	 102	 919 102 2,109
Total own funds available to meet the SCR	**22,263**	**7,495**	**102**	**29,860**
Lloyd's SCR*				**20,341**
'Excess' own funds not eligible to meet SCR	-	-	-	-
Total market wide own funds eligible to meet the SCR	**22,263**	**7,495**	**102**	**29,860**
Lloyd's market wide solvency ratio				**147%**

31 December 2019	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
Syndicate assets	(2,501)			(2,501)
Members' funds at Lloyd's (FAL)	20,741	6,772		27,513
Society assets: Subordinated debt Deferred tax Balance of net assets	 1,927	 891	 47	 891 47 1,927
Total own funds available to meet the SCR	**20,167**	**7,663**	**47**	**27,877**
Lloyd's SCR*				**17,870**
'Excess' own funds not eligible to meet SCR	-	-	-	-
Total market wide own funds eligible to meet the SCR	**20,167**	**7,663**	**47**	**27,877**
Lloyd's market wide solvency ratio				**156%**

Total **available** own funds as at 31 December 2020 compared with 31 December 2019 are summarised below:

	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
31 December 2020	22,263	7,495	102	29,860
31 December 2019	20,167	7,663	47	27,877

Total own funds increased from 31 December 2019 to 31 December 2020 as a result of an increase in member's funds at Lloyd's, an increase in the value of the subordinated debt and a reassessment of how the own funds of Lloyd's subsidiaries contributes to the calculation of market wide own funds. This was offset by a decrease in syndicate level own funds.

Syndicate assets
Syndicate assets are the aggregated own funds of all syndicates, net of anticipated profit releases and ring-fenced funds. All syndicate assets are held in the form of on balance sheet items and meet the criteria of Tier 1 basic own funds.

Members' FAL
FAL provided in the form of cash and investments constitute on balance sheet items and meet the criteria of Tier 1 basic own funds.

A significant proportion of FAL is provided in ancillary own funds, in particular 'letters of credit and guarantees which are held in trust for the benefit of insurance creditors by an independent trustee and provided by credit institutions authorised in accordance with Directive 2006/48/EC' which are classified as Tier 2 ancillary own funds in accordance with Article 96 (2) of the Solvency II Directive.

Whilst letters of credit are considered Tier 2 own funds for solvency purposes and are subject to restriction on coverage of the solvency capital requirement, when called upon they are fully converted into cash which is Tier 1 own funds. In addition, prior to Lloyd's accepting a letter of credit into FAL, a robust assessment of the creditworthiness of the respective financial institution is performed, considering both qualitative and quantitative factors.

As described below, these ancillary own funds are subject to prior approval by the PRA and are reported as Tier 2 ancillary own funds in accordance with the valuation rules provided by the PRA's approval.

Society assets
As at 31 December 2020 Lloyd's had two subordinated debt issues in place:

- The Sterling 2014 Notes issued in October 2014 – classified as Tier 2 basic own funds under Solvency II.
- The Sterling 2017 Notes issued in February 2017 – also classified as Tier 2 basic own funds under Solvency II.

All other Society assets are classified as Tier 1 basic own funds, with the exception of deferred tax assets which are Tier 3 basic own funds.

Reconciliation reserve
The amount of the reconciliation reserve reported at R0760 of template S.23.01 (Appendix 1) is £(7,114)m (2019: £(5,191)m). This is comprised of:

	Dec 2020		Dec 2019	
	£m	£m	£m	£m
Syndicate balances per PFFS[1] before deducting:	(326)		(242)	
- Solvency II valuation adjustments	(2,567)		(1,265)	
- Members' funds in syndicate (within R0730)	(5,005)		(4,616)	
- Foreseeable distributions (R0720)	(918)		(534)	
- Ring-fenced funds (within R0740)*	(407)		(461)	
		(9,223)		(7,118)
FAL per PFFS[1] before deducting	30,959		27,595	
- Ancillary own funds at UK GAAP valuation	(6,587)		(6,853)	
- Other FAL (within R0730)	(24,372)		(20,742)	
		-		-
Society net resources per PFFS[1] before deducting	3,308		3,285	
- Solvency II valuation adjustments	(178)		(47)	
- Subordinated debt (at fair value)	(919)		(891)	
- Deferred tax asset (within R0730)	(102)		(47)	
- Ring-fenced funds (within R0740)*	-		(373)	
		2,109		1,927
Total		(7,114)		(5,191)

[1] Pro Forma Financial Statements, page 49 of Lloyd's Annual Report 2020

Coverage of the Lloyd's SCR with eligible own funds

In accordance with Solvency II rules, the SCR must be covered with at least 50% Tier 1 own funds. Accordingly, the amount of available Tier 2 and Tier 3 own funds which exceeds 50% of the SCR is not eligible to cover the SCR and cannot be calculated as such in the solvency calculation.

This has the potential to impact the Lloyd's solvency ratio calculation as a large part of Lloyd's capital is provided by ancillary own funds which are treated as Tier 2 capital for Solvency II purposes. However, these are assets callable on demand. When called, the proceeds, namely cash, would qualify as Tier 1 capital. Under these circumstances, any amount of Tier 2 capital represented by these assets ineligible to meet the SCR (since they exceed the 50% tiering limit for Tier 2 and Tier 3 Capital set by Solvency II) would then become fully eligible. As at 31 December 2020 the amount of ineligible Tier 2 and Tier 3 capital was £nil (2019: £nil).

Own funds available to meet the Central SCR

31 December 2020	Tier 1	Restricted Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m	£m
Society assets:					
Subordinated debt			919		919
Deferred tax				102	102
Balance of net assets	2,107	416			2,523
Callable layer*	817				817
Total central own funds available to meet the SCR	**2,924**	**416**	**919**	**102**	**4,361**
Central SCR*					**2,085**
‘Excess’ central own funds not eligible to meet central SCR	-	-	-	-	-
Total central own funds eligible to meet the SCR	**2,924**	**416**	**919**	**102**	**4,361**
Central solvency ratio					**209%**

31 December 2019	Tier 1	Restricted Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m	£m
Society assets:					
Subordinated debt			891		891
Deferred tax				47	47
Balance of net assets	1,927	89			2,016
Callable layer*	808				808
Total central own funds available to meet the SCR	**2,735**	**89**	**891**	**47**	**3,762**
Central SCR*					**1,500**
‘Excess’ central own funds not eligible to meet central SCR	-	-	141	47	188
Total central own funds eligible to meet the SCR	**2,735**	**89**	**750**	**-**	**3,574**
Central solvency ratio					**238%**

Callable layer*
The Society has the right to make a call on members of up to 3% of members' premium limits ("callable contributions"). The callable contributions can be drawn from members' premiums trust funds without the members' consent. This would result in the transfer of Tier 1 capital from syndicate funds to central resources. The value assigned to the callable layer has been reduced to reflect that part of the callable layer which would not be available in a stressed situation at the central SCR level of confidence.

Coverage of the central SCR with eligible central own funds
The capital tiering rules also apply to the coverage of the central SCR. The inclusion of the Tier 2 subordinated debt increases Lloyd's Tier 2 and 3 central capital to

£1,021m. Up to £1,043m – 50% of £2,085m - of this is eligible in the solvency calculation.

<u>Eligible amount of basic own funds to cover Minimum Capital Requirement, classified by tiers</u>

The table below sets out Lloyd's eligible basic own funds to meet the MCR. The total agrees to template S.23.01 R0550:

31 December 2020	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
Syndicate assets	(4,218)			(4,218)
Members' funds at Lloyd's	24,372			24,372
Society assets: Subordinated debt Balance of net assets excluding deferred tax	 2,109	 919		 919 2,109
Total basic own funds eligible to meet the MCR	**22,263**	**919**		**23,182**

31 December 2019	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
Syndicate assets	(2,501)			(2,501)
Members' funds at Lloyd's	20,741			20,741
Society assets: Subordinated debt Balance of net assets excluding deferred tax	 1,927	 891		 891 1,927
Total basic own funds eligible to meet the MCR	**20,167**	**891**		**21,058**

<u>Differences between equity as shown in the financial statements and the excess of assets over liabilities for solvency purposes</u>

31 December 2020	Synds	FAL	Soc[1]	Total
	£m	£m	£m	£m
Capital, reserves and subordinated debt Per PFFS balance sheet (UK GAAP basis)[2]	(326)	30,959	3,308	33,941
<u>Solvency II adjustments:</u>				
Syndicate valuation adjustments	(2,567)			(2,567)
FAL valuation adjustments re ancillary own funds		(6,587)		(6,587)
Society valuation adjustments			(178)	(178)
Recognition of subordinated debt liability at fair value (subsequently derecognised on S.23.02 own funds template)			(919)	(919)
Solvency II excess of assets over liabilities (S.02.01.02 R1000)	**(2,893)**	**24,372**	**2,221**	**23,690**

31 December 2019	Synds	FAL	Soc[1]	Total
	£m	£m	£m	£m
Capital, reserves and subordinated debt Per PFFS balance sheet (UK GAAP basis)[2]	(242)	27,595	3,285	30,638
Solvency II adjustments:				
Syndicate valuation adjustments	(1,265)			(1,265)
FAL valuation adjustments re ancillary own funds		(6,853)		(6,853)
Society valuation adjustments			(47)	(47)
Recognition of subordinated debt liability at fair value (subsequently derecognised on S.23.02 own funds template)			(891)	(891)
Solvency II excess of assets over liabilities (S.02.01.02 R1000)	**(1,507)**	**20,742**	**2,347**	**21,582**

[1] Society: Corporation and Central Fund (including subordinated debt)
[2] Lloyd's Pro Forma Financial Statements, page 49 of Lloyd's Annual Report 2020

Syndicate valuation adjustments
A key difference from the valuation basis for the financial statements (i.e. UK GAAP basis) compared to Solvency II is the valuation of technical provisions. This involves moving from the 'prudent undiscounted best estimate' basis of valuation used in UK GAAP to a market consistent basis of valuation based on a probability weighted best estimate (therefore stripping out surplus reserves held in syndicate accounts) less discounting for the time value of money, with a risk margin applied on top. In addition, there are differences arising due to the recognition of contract boundaries and reinsurance costs.

Other valuation differences may arise in respect of investments (measured at fair value rather than amortised cost) and recognising the fair value of debtors and creditors due after one year (by discounting them where material for the time value of money).

In addition, the managing agent profit commission must be recalculated as if it was charged on the Solvency II result.

As at 31 December 2020 the net valuation differences in this respect amounted to a negative adjustment of £(2,567)m (2019: £(1,265)m).

FAL valuation adjustments regarding ancillary own funds (AOF)
FAL treated as ancillary own funds does not appear on the Solvency II balance sheet but instead the eligible amount in line with the valuation rules applied by the PRA is reflected in the own funds template S.23.02.
Accordingly, £6,587m (2019: £6,853m) (in accordance with their UK GAAP valuations) has been derecognised on the Solvency II balance sheet:

AOF item	Dec 2020	Dec 2019
	£m	£m
Letters of credit and guarantees in accordance with Article 96 (2) of Directive 2009/138/EC	6,566	6,830
Life policies	21	23
Total	**6,587**	**6,853**

<u>Society valuation adjustments</u>
The reduction to Society assets for solvency purposes is summarised below:

Item	Dec 2020	Dec 2019
	£m	£m
Lloyd's investments (Nelson collection) (due to uncertainty over fair value)	15	15
Plant & machinery (as not valued on a 'fair value' basis)	13	13
Intangible assets (not eligible under Solvency II)	54	16
Provision for Centrewrite MCR (as Centrewrite's assets are included in the aggregate Society accounts)	3	3
Senior debt valuation difference	37	-
IFRS 16 adjustment	4	-
Valuation of investment in subsidiaries	98	-
Deferred tax effect of Solvency II valuation differences	(46)	-
Total	**178**	**47**

In previous years the Society's investments in its subsidiaries in China and Brussels were reduced to nil in the assessment of own funds as they were deemed to be akin to ring-fenced funds. This treatment has been reassessed for the 2020 year end and the net assets of these subsidiaries are included in the market wide balance Solvency II balance sheet, to match the associated risk related to these entities which has historically been included in the market-wide SCR. As a result, the amount of capital covering the subsidiaries' operational risk has not been included in the market wide own funds.

For central solvency, the Society's investment in these subsidiaries are no longer reduced to nil but have been included in own funds at their net asset value on a Solvency II basis in accordance with Article 13 of the Solvency II Delegated Acts.

Had this change been adopted in previous years both the market-wide and central solvency ratios would have been greater than the amounts reported historically.

<u>Subordinated debt</u>
The Lloyd's Pro Forma Financial Statements (see page 49 of Lloyd's 2020 annual report) derecognise the liability in respect of the subordinated debt in arriving at the £3,308m (2019: £3,285m) net resources reported above. This liability is recognised at the fair value of £919m (2019: £891m) in the Solvency II balance sheet before being subsequently derecognised at that value in the own funds template S.23.02.

The subordinated debt is comprised of the Sterling 2014 Notes and Sterling 2017 Notes.

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

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

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

Basic own fund items subject to transitional arrangements referred to in Articles 308b(9) and 308b(10) of Directive 2009/138/EC
As at 31 December 2020 Lloyd's does not have any own fund items subject to transitional arrangements.

Ancillary own funds – amount, method and counterparty details for items referred to in points (a), (b) and (c) of Article 89(1) of Directive 2009/138/EC
A significant proportion of Lloyd's own funds are provided in the form of ancillary own funds (AOF) provided within members' FAL.

AOF are subject to prior supervisory approval before they may be treated as available capital under Solvency II. Consistent with this, Lloyd's submitted an application to the PRA for approval of AOF in November 2020. The PRA subsequently granted approval of this application on 18 December 2020, amounting in total to £6,872m. The approval, including the conditions of subsequent valuations of AOF, was published in the PRA's written notice 00002311. The approval applies until 31 December 2024. This approval replaces a previous approval in this respect granted by the PRA in June 2020.

As set out in the written notice, the PRA provided approval in respect of 1,254 letters of credit, bank guarantees and insurance company guarantees ('guarantee items'), and 102 life policy items. Details of each counterparty are not disclosed in the written notice or the SFCR as they represent confidential arrangements between the member concerned and the counterparty providing the AOF instrument.

If any of the AOF items are called they would be converted into cash, a Tier 1 basic own funds item.

The table below summarises Lloyd's AOF and the valuation of these as at 31 December 2020 consistent with the valuation rules contained within the PRA's most recent approval of these. These amounts appear on template S.23.01 provided in Appendix 1.

Tier 2	Dec 2020	Dec 2019
	£m	£m
Letters of credit and guarantees in accordance with Article 96 (2) of Directive 2009/138/EC	6,556	6,750
Life policies	20	22
Total ancillary own funds	**6,576**	**6,772**

Letters of credit and guarantees in accordance with Article 96 (2) of Directive 2009/138/EC

Certain members provide capital in the form of letters of credit and guarantees held in trust by Lloyd's to support FAL. This form of capital is consistent with 'letters of credit and guarantees which are held in trust for the benefit of insurance creditors by an independent trustee and provided by credit institutions authorised in accordance with Directive 2006/48/EC' (which is treated as Tier 2 capital per Article 96 (2) of the Directive).

Letters of Credit (LOCs)

LOCs provided as FAL are in a Lloyd's standard form, and constitute a clean, irrevocable and unconditional standby credit which can be drawn down on demand. No substantive alterations to the form of the LOC can be made without consultation and notification to the PRA/FCA. Lloyd's has made conditions and requirements which must be met in order for a LOC to be admissible for FAL.

The parties to the LOC are Lloyd's (as beneficiary) and the approved credit institution. If the LOC has been confirmed by a UK credit institution (which would be the case if the issuing bank is outside of the UK) then Lloyd's contractual relationship will be with the confirming bank; if the LOC is not confirmed (because the issuing bank is in the UK), then Lloyd's contractual relationship will be with the issuing bank. Either way, both parties to the LOC will be in the UK. Moreover, all LOCs must be governed by English law and subject to the jurisdiction of the English court, as per the M&URs and the wording of the standard form LOC itself.

Some LOCs are provided on a syndicated basis, in which case Lloyd's would call on the agent bank. The contractual relationship is as described above.

Guarantees

Guarantees provided as FAL are in a Lloyd's prescribed form, which cannot be changed without consultation with and notification to the PRA/FCA. Lloyd's has made conditions and requirements which must be met in order for a guarantee to be admissible for FAL. The process for drawing on a guarantee is slightly different to that for a LOC – the wording of the guarantee states that a demand can be made any time after the Principal (i.e. the member) is in default under the Security and Trust Deed under which the guarantee is held. The Principal would be in default if a demand for payment under the Trust Deed has been made and not met in accordance with its terms.

The parties to the guarantee are Lloyd's (as beneficiary) and the issuing entity.

In order to issue a guarantee an entity must be approved by Lloyd's – the criteria for approval include (inter alia) that a guarantee must be issued or confirmed out of London (although elsewhere in the UK (e.g. Manchester) has also been accepted). As with LOCs, this is a Lloyd's requirement and the wording of the guarantee itself states that the guarantee is subject to English law and the exclusive jurisdiction of the English court.

Sometimes a joint guarantee is provided in which case Lloyd's would call on the agent bank. The contractual relationship is as described above.

Life policies

Certain members provide FAL in the form of life policies. Lloyd's sets out conditions for these to be eligible as FAL. These include that the policy is assigned to Lloyd's, which is achieved through the execution by the member of a Deed of Assignment in favour of Lloyd's. Notice of the assignment is then given by Lloyd's to the life company which issued the policy, and acknowledgement of the same requested from the life company.

As a result of the assignment, the owner of the policy – as far as the life company is concerned – is Lloyd's. The relevant parties to the arrangement are therefore Lloyd's and the life company.

The life policies will be subject to the law of the jurisdiction in which they were issued, which in most cases will therefore be English law. In each case, Lloyd's requires the life company to advise which local jurisdiction the company is governed to transact life assurance business, and also to confirm that it is authorised to transact such business in the UK. The deed of assignment by which the policies are transferred to Lloyd's ownership are governed by English law and jurisdiction, and the assignment will have been acknowledged by the life company, and as such there are no concerns as to whether Lloyd's has properly acquired the benefit of them.

Syndicate loans to the Central Fund
The Society has issued three tranches of syndicate loans to the Central Fund ("syndicate loans"). Such capital items are subject to prior supervisory approval before they may be treated as available capital under Solvency II. The PRA has granted Lloyd's approval to classify the syndicate loans as restricted Tier 1 capital as set out in the following table.

Tranche	**Amount of rT1 capital approved collected**	**Net amount included in Central own funds**	**PRA written notice reference number**
29 March 2019	£110m	£89m	5082589
26 June 2020	£120m	£97m	5508334
6 November 2020	£284m	£230m	00001850
Total	**£514m**	**£416m**	

Other than on the winding-up of the Society, it has no obligation to repay any syndicate loan at any time. The Society may, at the discretion of the Council, only once a period of at least five years has elapsed after the date of collection of the syndicate loan for any year of account, or at any later point in time, repay the whole or any part of any syndicate loan in respect of that year of account at such time or times as the Council thinks fit provided its market wide and central SCRs are exceeded by an appropriate margin and subject to the approval of the PRA.

Interest is payable on the syndicate loans at the discretion of the Council. Where an interest payment is cancelled by the Council the Society has no obligation to pay that interest.

The syndicate loans are subordinated to:
- all other obligations of the Society except those which are expressed to rank equally with or in subordination to syndicate loans; and
- the payment of any underwriting liabilities of members (or former members of Lloyd's or the estates of deceased members of Lloyd's) for which the Central Fund or other assets of the Society may at any time, in the discretion of the Council, be applied;
- but rank in priority to the distribution of any remaining assets of the Society to members of the Society in their capacity as members of the Society.

The Society shall have no liability to repay any syndicate loan or to pay any interest on an syndicate loan, including any repayment or payment of interest previously promised by the Society, where there is non-compliance with the Society's market wide or central SCR, or where redemption or payment of interest would lead to such non-compliance.

Items deducted from own funds and significant restrictions affecting availability and transferability of own funds

Foreseeable distributions
The amount of £918m (2019: £534m) reported on R0720 'Foreseeable dividends, distributions and charges' on template S.23.01 represents the net amount available to be distributed to inactive Lloyd's members in the capital tests. The capital test calculates the amount of funds that each member needs to hold at Lloyd's to cover its capital requirement and any underwriting liabilities. Only any excess over this amount is available for distribution to the member.

Ring fenced funds*
Ring fenced funds arise where an asset is not considered to be freely available to meet all liabilities and thus must be deducted from available own funds.

Lloyd's has conducted a review of syndicate overseas trust funds to assess whether any constitute a ring-fenced fund. Where this conclusion has been reached, they are excluded from available own funds to meet the Lloyd's SCR. The amount in total in this respect is £407m (2019: £461m) as reported on R0740 at template S.23.01 in Appendix 1.

In previous years Lloyd's investments in its subsidiaries in China and Brussels were considered to be ring-fenced funds. This treatment has been reassessed and is no longer applied from the 2020 year-end as there are no restrictions which would prevent the realisation the Society's investments in China or Brussels if needed to extinguish any liabilities.

Restriction to availability of Syndicate loan capital
The syndicate loans are deemed to be hybrid capital instruments which generate a tax charge on write down. In accordance with Supervisory Statement 3/15, the maximum tax charge generated on write-down must be deducted in calculating central own funds to reflect the reduced loss absorbency of the loans. At 31 December 2020 the current rate of tax was 19% and deduction amounted to £98m (2019: £21m). Therefore, the net contribution to central own funds at 31 December 2020 from the syndicate loans amounted to £416m (2019: £89m).

E.2 Solvency Capital Requirement* and Minimum Capital Requirement

Amount of Solvency Capital Requirement* and Minimum Capital Requirement
The table below shows the total SCR and MCR as at 31 December 2020.

	Dec 2020	Dec 2019
	£m	£m
Lloyd's MWSCR*	20,341	17,870
Lloyd's MCR	8,818	8,042
Central SCR*	2,085	1,500

The final amounts of the Lloyd's MWSCR and central SCR are subject to supervisory assessment.

Solvency Capital Requirement split by risk categories*
The table below shows the risk categories that make up the Lloyd's MWSCR:

Component description	Dec 2020	Dec 2019
	£m	£m
Reserving risk	7,790	7,392
All other (attritional) underwriting risk	8,248	7,422
Catastrophe risk	1,357	1,476
Operational risk	893	780
Reinsurance credit risk	836	659
Market risk	2,389	507
Pension risk	40	10
MWSCR before adjustments	**21,553**	**18,246**
Foreign exchange adjustment	(1,212)	(376)
MWSCR	**20,341**	**17,870**

An analysis of the Lloyd's SCR by component as agreed with the PRA is provided at template S.25.03 (see Appendix 1).

Simplified calculations used in standard formula
Lloyd's SCR is calculated using an internal model thus this is not applicable to Lloyd's.

Undertaking specific parameters used in standard formula
Lloyd's SCR is calculated using an internal model thus this is not applicable to Lloyd's.

Option provided for in third subparagraph of Article 51(2) of Directive 2009/138/EC
Lloyd's SCR is calculated using an internal model thus this is not applicable to Lloyd's.

Impact of undertaking specific parameters required in accordance with Article 110 of Directive 2009/138/EC
Lloyd's SCR is calculated using an internal model thus this is not applicable to Lloyd's.

Inputs to calculate the Minimum Capital Requirement
The Lloyd's Minimum Capital Requirement has been calculated in accordance with the input elements as specified on template S.28.02 (see Appendix 1).

Changes to the SCR* and MCR during the reporting period
The MWSCR*, central SCR* and MCR as at 31 December 2020 and 31 December 2019 are summarised below:

	Dec 2020	Dec 2019
	£m	£m
MWSCR*	20,341	17,870
Central SCR*	2,085	1,500
MCR	8,818	8,042

The increase in SCRs since the previous year-end is driven by controlled market growth and changes in response to the COVID-19 pandemic, in particular the reflection of changes in economic conditions over 2020 to ensure the current risk profile is reflected.

The MCR is calculated formulaically based on premiums and technical provisions. The MCR has increased over 2020 as a result of the increase in net technical provisions during 2020.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Lloyd’s has not used this in the calculation of the SCR.

E.4 Differences between the standard formula and any internal model used*

Uses of Lloyd’s Internal Model (LIM)
The table below lists out the various purposes of the LIM.

Capital setting	
1. Calculate Regulatory Capital Requirements & support regulatory reporting requirements (including ORSA)	The LIM is used to calculate the regulatory capital requirements under Solvency II. The LIM is used to calculate the Lloyd’s Society SCR for: 1) the market as a whole; known as "Market Wide SCR" calculation, and; 2) the Central Fund only; known as "Central SCR" calculation. The Council output is a breakdown of the SCR’s by risk type on a diversified and undiversified basis – however additional levels of granularity are sometimes used when interrogating the model or providing specific output for other model users. The LIM is also used to support the regulatory reporting requirements, where the use of output of the model is used to satisfied Solvency II Pillar 3 requirements (supervisory reporting and disclosure). The capital and solvency position of Lloyd’s (as per the LIM output) are reported in the annual and quarterly Lloyd’s Society Own Risk and Solvency Assessment (ORSA) report. The ORSA is an ongoing process within Lloyd's and contributed to by several Functions, culminating in quarterly annual reports to the Risk Committee and Council. It incorporates a series of processes which ensure an appropriate level and quality of capital is maintained to support the risks taken within Lloyd’s on a current and future basis, in light of Lloyd’s strategy set by the Council.
2. Setting economic capital at a central level	The LIM is used to calculate the Economic Capital Requirements for Lloyd’s at a central level. The central Economic Capital Requirement is calculated using the Central SCR, to ultimate, as a base. A series of buffers and allowances are then added/subtracted.
Risk quantification & monitoring	
3. Market event impact analysis	The LIM is used to estimate the potential effect of a market event to the London Market. This analysis also produces various natural catastrophe related risk appetite metrics which are presented as part of the ORSA.

4. Support monitoring of Lloyd's Society risk appetites	Lloyd's risk appetites are an articulation of the level of risk-taking which the Council deems to be acceptable for Lloyd's. The risk appetite framework is the key tool used to monitor Lloyd's risk profile at a market and Society level. Risk appetite statements have been defined for each material risk area and are split according to whether they are Market or Society risks. All risk appetite metrics are reported to the Risk Committee and Council as part of the quarterly or annual ORSA. A number of the risk appetite metrics are produced using output from the LIM and use varying levels of granularity in LIM output, from high level SCR figures to individual risk type output (e.g. underwriting risk)
5. Stress and Scenario Testing	The stress and scenario testing ('SST') is used as a means of validating the model and also form part of the annual ORSA. The scenarios demonstrate the resilience of the market and Lloyd's ability to withstand financial impact. Experts across the business determine the impact and return period of the scenarios on a best effort basis which is then compared against outputs from the LIM. Included within SST, is a forward-looking assessment of the central SCR which looks at a range of plausible market conditions over the next three years
6. Monitor and manage risk aggregations (catastrophe exposures)	The LCM provides a probabilistic view of Lloyd's Catastrophe risk, estimating Lloyd's gross, net and final net (net plus reinstatements) loss to the material natural catastrophes for the Lloyd's Market. This is used to monitor the aggregate Market catastrophe risk and to assist in the review of syndicate's compliance within Lloyd's Minimum standards with respect to Exposure Management. Various catastrophe related risk appetite metrics are presented as part of the quarterly ORSA.
7. Monitor and manage investment risk for Central Fund assets	Central Fund (CF) assets are invested centrally by Treasury & Investment Management (LTIM) and LIRM is one of the primary tools used to support the management of investment risk for this portfolio. The CF risk appetite is expressed in the form of a value at risk (VAR) budget. LIRM is used to calculate VAR on a monthly basis, allowing LTIM to monitor and report on asset risk against appetite. Various risk appetite metrics related to the central fund assets are presented as part of the quarterly ORSA.
8. Manage operational risk	This use supports two main areas: 1) Operational risk scenarios approved by the Executive Risk Committee (ERC) informs the central Lloyd's SCR 2) Oversight of Society operational risk by the ERC.
Strategic business decisions	
9. Strategic business decisions	The LIM will support strategic business decision making for the Society of Lloyd's such as informing capital management strategies.

<u>Scope of internal model in terms of business units and risk categories</u>
The scope of Lloyd's internal model can be categorised into three areas:

- Syndicate risks;
- Member risks; and
- Society risks.

Syndicate risks
Syndicates are the source of the majority of risks. They are the source of all the insurance business; manage the bulk of the asset portfolios; hold the majority of the counterparty exposures; and conduct most of the operational day-to-day operational activity.

The syndicate risks include:

- Insurance risk;
  - Reserve risk;
  - Underwriting risk;
  - Natural catastrophe risk (“catastrophe risk”);
  - All other risks (“attritional risk”);
- Market risk;
  - On syndicate assets (including credit risk on Premiums Trust Funds);
  - On syndicate liabilities;
- Credit risk;
- Syndicate operational risk; and
- Liquidity risk.

Member risks
Members provide capital (FAL), in a variety of forms to support syndicates’ risks; and present asset related risks which are dependent on characteristics of assets used to meet their FAL. Members are exposed to market risk (including credit risk) on FAL.

Society risks
Central level risks include:

- Member deficits – arising from syndicate risks including Additional Central Fund risk (ACF);
- Central operational risk;
- Market risk (including credit risk) on central assets; and
- Pension fund risk resulting in deficit requiring funding from central assets.

Integration of the techniques to integrate any partial internal model with the standard formula
The LIM is a full internal model so this is not applicable.

Methods used for the calculation of the probability distribution forecast and the Solvency Capital Requirement
The LIM includes components and processes that are material to the risk and capital calculation within Lloyd’s. It consists of three main component models:

- Capital Calculation Kernel (CCK);
- Lloyd’s Catastrophe Model (LCM); and
- Lloyd’s Investment Risk Model (LIRM).

The main element of the LIM is the Capital Calculation Kernel (CCK) which drives the capital calculation. It is a fully integrated Monte-Carlo simulation based stochastic model. The model is run with 100,000 simulations to ensure stability of results.

The CCK represents the entire Lloyd’s marketplace and models all material quantifiable risk types that the market is exposed to. These risks are modelled using Monte-Carlo simulation methods and are drawn together using the structure of the Lloyd’s market. This allows the impacts of these risks to be quantified for different entities in the market place, namely syndicates, members and Central Fund.

The CCK builds a specific representation of each syndicate from the ground up using a generic structure, within a framework of dependency which determines how much diversification there is within and between syndicates. The generic structure calculates stochastic technical provisions, P&L, and balance sheet for the end of the 12-month period 'on risk'. The CCK then models how risk flows through the "chain of security", i.e. from syndicates to members to the Central Fund.

Insurance risk is modelled separately for attritional risk and natural catastrophe risk. For attritional risks, insurance losses are simulated by class of business and allocated to insurance risk for each syndicate after allowing for syndicate level volatility (SLV - previously known as syndicate noise). SLV is an additional random factor applied to allow for diversification between syndicates and the syndicates' class of business experience which will be more volatile compared to the market as a whole. As a result, syndicates will have different results and higher volatility than the market.

The catastrophe risk is defined by simulated losses imported from the LCM. SLV is not applied to natural catastrophe losses as the LCM captures syndicate variability and differences between syndicates directly. The LCM's core purpose is to take syndicate Exceedance Probability (EP) curves and produce an aggregated Lloyd's view of natural catastrophe risk. The LCM aggregates losses across scenarios and applies loadings to ensure complete coverage of risks (e.g. uplifts for European windstorm clustering, secondary uncertainty and non-modelled risks) to produce the aggregated Lloyd's market view. For each simulation in the CCK, a scenario is picked at random for each of the five major perils, plus Rest of the World ("RoW") risks.

The LIRM models market risks as part of the LIM and consists of three core sub-components:

- Economic Scenario Generator (ESG) - an external model provided by Willis Towers Watson, which produces consistent stochastic scenarios of economic and financial variables;
- Asset Model - defines assets to be modelled, re-investment rules of the assets and calculates the distribution of total return for defined assets; and
- Portfolio Model - defines asset portfolios by combining modelled assets.

Once all loss types are aggregated in the LIM, if syndicate losses exceed Premiums Trust Funds (PTF) then the excess is allocated to members. If member losses exceed their FAL then the excess becomes a loss to the Central Fund. Risks relating to the Central Fund which are not considered at syndicate level are also added (operational, market risk on central assets and pension risk) to produce a central capital requirement.

<u>Differences between standard formula and internal model</u>
The LIM is a fully-integrated stochastic model. This method of calculating capital requirements is fundamentally different to the standard formula approach of deterministically combining stresses.

The LIM considers the unique nature and structure of the Lloyd's Market and the detailed risks to which it is exposed, which the standard formula is not able to do. This includes:

- Insurance Risk - Profit in plan: The standard formula makes no allowance for any expected profits in business plans (which can be significant);

- Catastrophe Risk: Allowance for catastrophe risk uses a combination of shocks and scenarios in the standard formula which is significantly less sophisticated than the LIM (and syndicate internal models);
- Market risk: The LIM (and most syndicates) use Economic Scenario Generators (ESGs) to determine their market risk compared to the shocks applied to assets and own funds in the standard formula;
- Diversification: the standard formula gives credit for diversification within each syndicate only (across class, geographical area and risk component). The LIM models the diversification across the market both within and between syndicates which have different exposures; and
- Structure: The Standard Formula does not capture the unique capital structure of Lloyd's and cannot provide a Central Fund capital requirement.

Risk measure and time-period used in the internal model
As set out in Article 101(3) of Directive 2009/138/EC, the SCR calculated using the internal model corresponds to the 99.5th Value-at-Risk over a one-year period.

Nature and appropriateness of data used in the internal model
The LIM uses various sources of data; this data is both internal (based on analyses performed by Lloyd's) and external. Data used within the internal model is subject to the Lloyd's Data Quality Management Policy which requires checks and controls to be applied to the data. The purpose of this policy is to allow data owners to attest that it is accurate, appropriate and complete.

Data is subject to an annual audit of all controls and any associated risks arising from its use.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement*

Lloyd's has met the Lloyd's SCR, central SCR and MCR throughout the reporting period.

E.6 Any other information

There is no other material information to disclose.

Appendix 1

S.02.01.02

Balance sheet

All figures shown in GBP '000

		Solvency II
		C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	-
Deferred tax assets	R0040	102,124
Pension benefit surplus	R0050	-
Property, plant & equipment held for own use	R0060	154,792
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	70,674,263
Property (other than for own use)	R0080	-
Holdings in related undertakings, including participations	R0090	24,628
Equities	R0100	2,678,901
Equities - listed	R0110	2,514,751
Equities - unlisted	R0120	164,150
Bonds	R0130	52,954,972
Government Bonds	R0140	23,858,176
Corporate Bonds	R0150	24,340,257
Structured notes	R0160	4,253
Collateralised securities	R0170	4,752,286
Collective Investments Undertakings	R0180	13,306,807
Derivatives	R0190	135,171
Deposits other than cash equivalents	R0200	1,563,712
Other investments	R0210	10,072
Assets held for index-linked and unit-linked contracts	R0220	-
Loans and mortgages	R0230	79,746
Loans on policies	R0240	-
Loans and mortgages to individuals	R0250	64,313
Other loans and mortgages	R0260	15,433
Reinsurance recoverables from:	R0270	15,839,570
Non-life and health similar to non-life	R0280	15,691,400
Non-life excluding health	R0290	15,227,412
Health similar to non-life	R0300	463,988
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	148,170
Health similar to life	R0320	27,570
Life excluding health and index-linked and unit-linked	R0330	120,600
Life index-linked and unit-linked	R0340	-
Deposits to cedants	R0350	174,817
Insurance and intermediaries receivables	R0360	2,748,116
Reinsurance receivables	R0370	3,430,248
Receivables (trade, not insurance)	R0380	1,226,918
Own shares (held directly)	R0390	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	-
Cash and cash equivalents	R0410	2,738,780
Any other assets, not elsewhere shown	R0420	450,640
Total assets	**R0500**	97,620,014

Liabilities		
Technical provisions – non-life	R0510	64,951,461
Technical provisions – non-life (excluding health)	R0520	62,153,695
Technical provisions calculated as a whole	R0530	-
Best Estimate	R0540	58,454,595
Risk margin	R0550	3,699,100
Technical provisions - health (similar to non-life)	R0560	2,797,766
Technical provisions calculated as a whole	R0570	-
Best Estimate	R0580	2,628,174
Risk margin	R0590	169,592
Technical provisions - life (excluding index-linked and unit-linked)	R0600	485,659
Technical provisions - health (similar to life)	R0610	46,787
Technical provisions calculated as a whole	R0620	-
Best Estimate	R0630	44,297
Risk margin	R0640	2,490
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	438,872
Technical provisions calculated as a whole	R0660	-
Best Estimate	R0670	407,047
Risk margin	R0680	31,825
Technical provisions – index-linked and unit-linked	R0690	-
Technical provisions calculated as a whole	R0700	-
Best Estimate	R0710	-
Risk margin	R0720	-
Other technical provisions	R0730	
Contingent liabilities	R0740	-
Provisions other than technical provisions	R0750	170,510
Pension benefit obligations	R0760	186,852
Deposits from reinsurers	R0770	680,205
Deferred tax liabilities	R0780	-
Derivatives	R0790	73,197
Debts owed to credit institutions	R0800	579,933
Financial liabilities other than debts owed to credit institutions	R0810	154,416
Insurance & intermediaries payables	R0820	1,084,875
Reinsurance payables	R0830	1,264,151
Payables (trade, not insurance)	R0840	1,885,388
Subordinated liabilities	R0850	919,281
Subordinated liabilities not in Basic Own Funds	R0860	-
Subordinated liabilities in Basic Own Funds	R0870	919,281
Any other liabilities, not elsewhere shown	R0880	1,494,018
Total liabilities	**R0900**	73,929,946
Excess of assets over liabilities	**R1000**	23,690,068

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Premiums, claims and expenses by line of business

S.05.01.02.01

Z Axis:
VG/Statutory accounts
DI/Year to Date

Non-Life (direct business/accepted proportional reinsurance and accepted non-proportional reinsurance)
All figures shown in GBP '000

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110	189,947	612,504	118,876	391,831	398,709	3,691,186	8,266,299	8,220,229	674,913	71,892	10,830	306,239					22,953,455
Gross - Proportional reinsurance accepted	R0120	51,907	169,632	14,948	193,262	23,497	1,087,129	2,171,421	1,241,924	255,523	3,260	3,021	61,107					5,276,631
Gross - Non-proportional reinsurance accepted	R0130													287,596	1,435,795	1,259,597	4,974,707	7,957,695
Reinsurers' share	R0140	54,641	127,764	22,181	120,450	49,392	1,167,431	2,855,099	2,609,797	295,035	32,214	59	235,148	60,961	350,816	377,947	1,936,380	10,295,315
Net	R0200	187,213	654,372	111,643	464,643	372,814	3,610,884	7,582,621	6,852,356	635,401	42,938	13,792	132,198	226,635	1,084,979	881,650	3,038,327	25,892,466
Premiums earned																		
Gross - Direct Business	R0210	218,605	655,237	128,185	430,132	411,950	3,779,435	8,307,890	7,989,586	723,949	66,821	12,326	360,837					23,084,953
Gross - Proportional reinsurance accepted	R0220	50,886	178,510	13,815	174,502	36,592	1,026,617	2,124,073	1,128,933	274,058	3,670	5,925	66,456					5,084,037
Gross - Non-proportional reinsurance accepted	R0230													309,315	1,478,522	1,216,563	5,001,617	8,006,017
Reinsurers' share	R0240	53,680	138,245	25,526	100,268	60,599	1,175,928	2,888,538	2,470,149	288,347	27,110	123	214,288	59,399	364,660	373,311	2,018,341	10,258,512
Net	R0300	215,811	695,502	116,474	504,366	387,943	3,630,124	7,543,425	6,648,370	709,660	43,381	18,128	213,005	249,916	1,113,862	843,252	2,983,276	25,916,495
Claims incurred																		
Gross - Direct Business	R0310	170,876	517,203	90,373	279,215	232,981	2,012,776	5,933,094	6,103,514	647,910	15,501	7,122	2,390,243					18,400,808
Gross - Proportional reinsurance accepted	R0320	44,585	178,479	9,675	82,784	33,122	607,700	1,656,890	921,381	212,569	3,041	5,523	411,940					4,167,689
Gross - Non-proportional reinsurance accepted	R0330													294,520	1,136,618	944,291	2,743,402	5,118,831
Reinsurers' share	R0340	42,531	207,176	30,066	69,733	48,741	804,450	2,322,473	2,563,201	301,323	17,819	106	1,159,801	73,086	387,061	399,265	618,624	9,045,456
Net	R0400	172,930	488,506	69,982	292,266	217,362	1,816,026	5,267,511	4,461,694	559,156	723	12,539	1,642,382	221,434	749,557	545,026	2,124,778	18,641,872
Changes in other technical provisions																		
Gross - Direct Business	R0410	-	-	-	-	-	-	-	-	-	-	-	-					-
Gross - Proportional reinsurance accepted	R0420	-	-	-	-	-	-	-	-	-	-	-	-					-
Gross - Non- proportional reinsurance accepted	R0430													-	-	-	-	-
Reinsurers' share	R0440	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	R0500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses incurred	R0550	149,100	383,546	58,715	182,249	185,657	1,542,692	3,171,581	2,727,643	299,436	36,754	6,879	139,509	90,346	324,292	298,939	1,067,206	10,664,544
Other expenses	R1200																	55,056
Total expenses	R1300																	10,719,600

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Z Axis:
VG/Statutory accounts
DI/Year to Date

Life
All figures shown in GBP '000

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life-reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	-	-	-	52,131	-	-	-	2,597	54,728
Reinsurers' share	R1420	-	-	-	6,371	-	-	-	148	6,519
Net	R1500	-	-	-	45,760	-	-	-	2,449	48,209
Premiums earned										
Gross	R1510	-	-	-	58,810	-	-	-	4,544	63,354
Reinsurers' share	R1520	-	-	-	10,364	-	-	-	- 9	10,355
Net	R1600	-	-	-	48,446	-	-	-	4,553	52,999
Claims incurred										
Gross	R1610	-	-	-	36,508	3,017	20,308	-	1,415	61,248
Reinsurers' share	R1620	-	-	-	2,014	468	10,888	-	- 208	13,162
Net	R1700	-	-	-	34,494	2,549	9,420	-	1,623	48,086
Changes in other technical provisions										
Gross	R1710	-	-	-	-	-	-	-	-	-
Reinsurers' share	R1720	-	-	-	-	-	-	-	-	-
Net	R1800	-	-	-	-	-	-	-	-	-
Expenses incurred	R1900	-	-	-	20,091	129	12	-	1,741	21,973
Other expenses	R2500									- 2
Total expenses	R2600									21,971

S.05.02.01

Premiums, claims and expenses by country

S.05.02.01.01 | **S.05.02.01.02** | **S.05.02.01.03**

Home Country - non-life obligations | **Top 6 countries (by amount of gross premiums written) - non-life obligations** | **Total Top 6 and home country - non-life obligations**

All figures shown in GBP '000

		Home country - United Kingdom	USA	Belgium	Canada	Australia	Bermuda	Japan	Total Top 6 and home country
		C0080	C0090	C0091	C0092	C0093	C0094	C0094	C0140
Premiums written									
Gross - Direct Business	R0110	8,953,293	8,378,661	160,087	1,353,398	787,239	82,137	62,374	19,777,189
Gross - Proportional reinsurance accepted	R0120	1,213,824	1,541,713	1,318,460	41,054	43,168	256,253	91,323	4,505,795
Gross - Non-proportional reinsurance accepted	R0130	2,176,239	3,110,018	96,679	190,679	161,400	297,732	197,533	6,230,280
Reinsurers' share	R0140	3,699,907	3,659,485	318,041	365,302	276,304	210,917	101,404	8,631,360
Net	R0200	8,643,449	9,370,907	1,257,185	1,219,829	715,503	425,205	249,826	21,881,904
Premiums earned									
Gross - Direct Business	R0210	9,019,261	8,172,190	158,252	1,290,561	782,572	73,885	70,046	19,566,767
Gross - Proportional reinsurance accepted	R0220	1,145,045	1,377,559	1,196,333	44,652	50,505	283,387	91,501	4,188,982
Gross - Non-proportional reinsurance accepted	R0230	2,092,985	3,199,725	90,665	168,187	235,219	299,208	204,963	6,290,952
Reinsurers' share	R0240	3,631,580	3,684,976	274,109	351,163	282,738	207,455	109,432	8,541,453
Net	R0300	8,625,711	9,064,498	1,171,141	1,152,237	785,558	449,025	257,078	21,505,248
Claims incurred									
Gross - Direct Business	R0310	7,528,601	6,866,090	84,267	756,886	558,947	63,094	39,142	15,897,027
Gross - Proportional reinsurance accepted	R0320	1,211,096	1,340,113	629,544	36,517	32,763	340,925	23,791	3,614,749
Gross - Non-proportional reinsurance accepted	R0330	1,417,716	2,148,321	42,220	98,746	104,683	245,222	117,368	4,174,276
Reinsurers' share	R0340	3,763,618	3,140,404	140,646	274,049	250,910	228,157	11,085	7,808,869
Net	R0400	6,393,795	7,214,120	615,385	618,100	445,483	421,084	169,216	15,877,183
Changes in other technical provisions									
Gross - Direct Business	R0410	-	-	-	-	-	-	-	-
Gross - Proportional reinsurance accepted	R0420	-	-	-	-	-	-	-	-
Gross - Non-proportional reinsurance accepted	R0430	-	-	-	-	-	-	-	-
Reinsurers' share	R0440	-	-	-	-	-	-	-	-
Net	R0500	-	-	-	-	-	-	-	-
Expenses incurred	R0550	3,614,638	3,638,270	409,006	474,872	283,033	59,912	72,732	8,552,463
Other expenses	R1200								
Total expenses	R1300								8,552,463

S.05.02.01.04 | **S.05.02.01.05** | **S.05.02.01.06**

Home Country - life obligations | **Top 5 countries (by amount of gross premiums written) - life obligations** | **Total Top 5 and home country - life obligations**

All figures shown in GBP '000

		Home country - United Kingdom	USA	Norway	Italy	Mexico	Switzerland	Total Top 5 and home country
		C0220	C0230	C0231	C0232	C0233	C0234	C0280
Premiums written								
Gross	R1410	41,836	6,952	84	-	-	99	48,971
Reinsurers' share	R1420	5,058	802	11	-	-	14	5,885
Net	R1500	36,778	6,150	73	-	-	85	43,086
Premiums earned								
Gross	R1510	48,183	8,159	86	-	-	99	56,527
Reinsurers' share	R1520	7,016	1,812	12	-	-	14	8,854
Net	R1600	41,167	6,347	74	-	-	85	47,673
Claims incurred								
Gross	R1610	47,088	8,918	112	(367)	-	(421)	55,330
Reinsurers' share	R1620	12,334	607	(148)	(80)	-	(52)	12,661
Net	R1700	34,754	8,311	260	(287)	-	(369)	42,669
Changes in other technical provisions								
Gross	R1710	-	-	-	-	-	-	-
Reinsurers' share	R1720	-	-	-	-	-	-	-
Net	R1800	-	-	-	-	-	-	-
Expenses incurred	R1900	17,130	2,336	67	38	-	102	19,673
Other expenses	R2500							(2)
Total expenses	R2600							19,671

S.12.01.02

Life and Health SLT Technical Provisions

All figures shown in GBP '000

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to	Accepted reinsurance	**Total (Life other than health insurance, incl. Unit-Linked)**	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010	-	-			-			-	-	-	-			-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020	-	-			-			-	-	-	-			-	-	-
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	R0030	-		-	-		44,587	-	270,884	91,576	407,047		-	-	44,297	-	44,297
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	-		-	-		(6,813)	-	127,670	(257)	120,600		-	-	27,570	-	27,570
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090	-		-	-		51,400	-	143,214	91,833	286,447		-	-	16,727	-	16,727
Risk Margin	R0100	-	-			4,545			20,063	7,217	31,825	-			2,490	-	2,490
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	R0110	-	-			-			-	-	-	-			-	-	-
Best estimate	R0120	-		-	-		-	-	-	-	-		-	-	-	-	-
Risk margin	R0130	-	-			-			-	-	-	-			-	-	-
Technical provisions - total	R0200	-	-			49,132			290,947	98,793	438,872	-			46,787	-	46,787

S.17.01.02
Non-Life Technical Provisions
All figures shown in GBP '000

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	**Total Non-Life obligation**
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060	12,316	14,844	17,862	77,904	43,398	54,199	640,263	1,186,400	157,479	3,247	2,558	233,737	(7,711)	58,264	(24,711)	(230,021)	2,240,028
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	(1,835)	(29,147)	(11,660)	24	(1,329)	(293,270)	(646,944)	(148,984)	(39,159)	439	46	13,616	(11,902)	(34,971)	(106,468)	(588,283)	(1,899,827)
Net Best Estimate of Premium Provisions	R0150	14,151	43,991	29,522	77,880	44,727	347,469	1,287,207	1,335,384	196,638	2,808	2,512	220,121	4,191	93,235	81,757	358,262	4,139,855
Claims provisions																		
Gross	R0160	151,057	840,730	659,430	983,636	269,850	6,003,911	9,531,038	22,110,177	1,180,414	51,911	1,098	2,227,742	939,646	5,199,960	2,430,625	6,261,516	58,842,741
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	12,226	165,918	215,191	402,338	51,413	1,653,009	2,892,368	6,973,189	376,690	12,797	90	769,446	125,197	964,387	804,476	2,172,492	17,591,227
Net Best Estimate of Claims Provisions	R0250	138,831	674,812	444,239	581,298	218,437	4,350,902	6,638,670	15,136,988	803,724	39,114	1,008	1,458,296	814,449	4,235,573	1,626,149	4,089,024	41,251,514
Total Best estimate - gross	R0260	163,373	855,574	677,292	1,061,540	313,248	6,058,110	10,171,301	23,296,577	1,337,893	55,158	3,656	2,461,479	931,935	5,258,224	2,405,914	6,031,495	61,082,769
Total Best estimate - net	R0270	152,982	718,803	473,761	659,178	263,164	4,698,371	7,925,877	16,472,372	1,000,362	41,922	3,520	1,678,417	818,640	4,328,808	1,707,906	4,447,286	45,391,369
Risk margin	R0280	13,173	51,746	44,624	79,875	27,481	385,007	625,159	1,409,311	115,560	3,130	427	80,401	60,049	411,804	138,193	422,752	3,868,692
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	R0290	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Best estimate	R0300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk margin	R0310	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Technical provisions - total																		
Technical provisions - total	R0320	176,546	907,320	721,916	1,141,415	340,729	6,443,117	10,796,460	24,705,888	1,453,453	58,288	4,083	2,541,880	991,984	5,670,028	2,544,107	6,454,247	64,951,461
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	10,391	136,771	203,531	402,362	50,084	1,359,739	2,245,424	6,824,205	337,531	13,236	136	783,062	113,295	929,416	698,008	1,584,209	15,691,400
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	166,155	770,549	518,385	739,053	290,645	5,083,378	8,551,036	17,881,683	1,115,922	45,052	3,947	1,758,818	878,689	4,740,612	1,846,099	4,870,038	49,260,061

S.19.01.21

Non-life insurance claims

All figures shown in GBP '000

S.19.01.21.01

Gross Claims Paid (non-cumulative) - Development year (absolute amount)

		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											593,547
N-9	R0160	1,950,163	3,961,969	3,212,974	1,835,504	1,108,207	693,469	543,520	392,473	215,957	105,187	
N-8	R0170	1,577,978	3,835,554	2,679,369	1,531,966	993,854	687,805	529,720	319,225	219,134		
N-7	R0180	1,456,025	3,734,779	2,950,291	1,433,423	878,988	715,562	469,970	340,693			
N-6	R0190	1,017,621	3,747,941	2,935,794	1,945,705	1,135,677	1,259,138	612,553				
N-5	R0200	844,482	3,972,466	3,313,911	1,827,971	1,333,253	1,004,670					
N-4	R0210	1,233,759	5,027,157	4,476,804	2,474,181	1,704,778						
N-3	R0220	2,746,495	8,041,634	5,535,652	3,216,124							
N-2	R0230	1,932,354	7,953,236	4,876,745								
N-1	R0240	1,282,302	5,547,924									
N	R0250	1,787,348										

S.19.01.21.02

Gross Claims Paid (non-cumulative) - Current year, sum of years (cumulative). Total Non-Life Business

		In Current year	Sum of years (cumulative)
		C0170	C0180
Prior	R0100	593,547	593,547
N-9	R0160	105,187	14,019,423
N-8	R0170	219,134	12,374,605
N-7	R0180	340,693	11,979,731
N-6	R0190	612,553	12,654,429
N-5	R0200	1,004,670	12,296,753
N-4	R0210	1,704,778	14,916,679
N-3	R0220	3,216,124	19,539,905
N-2	R0230	4,876,745	14,762,335
N-1	R0240	5,547,924	6,830,226
N	R0250	1,787,348	1,787,348
Total	R0260	20,008,703	121,754,981

S.19.01.21.03

Gross undiscounted Best Estimate Claims Provisions - Development year (absolute amount)

		0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0350
Prior	R0100											4,081,943
N-9	R0160	0	0	0	153,809	132,556	1,725,407	1,512,417	1,303,174	1,071,594	944,397	
N-8	R0170	0	0	240,864	222,783	3,038,655	2,235,247	1,828,395	1,421,051	1,190,269		
N-7	R0180	0	338,702	299,799	3,778,195	3,065,206	2,380,386	1,799,927	1,419,646			
N-6	R0190	247,386	516,123	6,262,313	4,313,132	4,171,562	2,674,037	2,098,401				
N-5	R0200	339,883	8,341,359	6,565,516	5,497,918	4,250,847	3,460,709					
N-4	R0210	5,561,745	10,945,738	8,384,318	6,460,869	5,121,452						
N-3	R0220	10,925,582	14,066,572	10,819,120	8,067,472							
N-2	R0230	9,063,950	13,131,141	11,341,595								
N-1	R0240	6,607,118	14,379,380									
N	R0250	7,605,108										

S.19.01.21.04

Gross discounted Best Estimate Claims Provisions - Current year, sum of years (cumulative). Total Non-Life Business

		Year end (discounted data)
		C0360
Prior	R0100	3,967,530
N-9	R0160	929,132
N-8	R0170	1,175,816
N-7	R0180	1,402,241
N-6	R0190	2,077,219
N-5	R0200	3,430,191
N-4	R0210	5,082,686
N-3	R0220	8,012,750
N-2	R0230	11,269,895
N-1	R0240	14,295,090
N	R0250	7,541,371
Total	R0260	59,183,921

S.23.01.01
Own funds
All figures shown in GBP '000

S.23.01.01.01

Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	-	-		-	
Share premium account related to ordinary share capital	R0030	-	-		-	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	29,377,387	29,377,387		-	
Subordinated mutual member accounts	R0050	-		-	-	-
Surplus funds	R0070	-	-			
Preference shares	R0090	-		-	-	-
Share premium account related to preference shares	R0110	-		-	-	-
Reconciliation reserve	R0130	(7,114,444)	(7,114,444)			
Subordinated liabilities	R0140	919,281		-	919,281	-
An amount equal to the value of net deferred tax assets	R0160	102,124				102,124
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	-	-	-	-	-
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	-				
Deductions						
Deductions for participations in financial and credit institutions	R0230	-	-	-	-	-
Total basic own funds after deductions	R0290	23,284,348	22,262,943	-	919,281	102,124
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	-			-	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	-			-	
Unpaid and uncalled preference shares callable on demand	R0320	-			-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	-			-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	6,555,527			6,555,527	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	-			-	-
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	-			-	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	-			-	-
Other ancillary own funds	R0390	19,995			19,995	-
Total ancillary own funds	R0400	6,575,522			6,575,522	-
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	29,859,870	22,262,943	-	7,494,803	102,124
Total available own funds to meet the MCR	R0510	23,182,224	22,262,943	-	919,281	-
Total eligible own funds to meet the SCR	R0540	29,859,870	22,262,943	-	7,494,803	102,124
Total eligible own funds to meet the MCR	R0550	23,182,224	22,262,943	-	919,281	-
SCR	R0580	20,341,000				
MCR	R0600	8,818,453				
Ratio of Eligible own funds to SCR	R0620	1.4680				
Ratio of Eligible own funds to MCR	R0640	2.6288				

S.23.01.01.02

Reconciliation reserve

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	23,690,068
Own shares (held directly and indirectly)	R0710	-
Foreseeable dividends, distributions and charges	R0720	918,001
Other basic own fund items	R0730	29,479,511
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	407,000
Reconciliation reserve	R0760	(7,114,444)
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	7,947
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	4,216,271
Total Expected profits included in future premiums (EPIFP)	R0790	4,224,218

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

All figures shown in GBP '000

S.25.03.01.01

Component-specific information

Unique number of component	Components Description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
10300I	Other interest rate risk	(106,284)
10400I	Equity risk	2,621,598
10700I	Spread risk	3,044,557
10900I	Currency risk	9,724,260
11000I	Other market risk	3,070,163
19900I	Diversification within market risk	(10,155,334)
20100I	Type 1 counterparty risk (reinsurance credit risk)	1,369,894
20310I	Other counterparty risk (asset default)	1,259,020
29900I	Diversification within counterparty risk	(1,011,463)
30000I	Total life underwriting risk (sum of syndicate's life SCRs)	-
40800I	Health NSLT medical expenses	189,881
40900I	Health NSLT income protection	449,738
41000I	Health NSLT worker's compensation	239,528
41100I	Health NSLT non-proportional reinsurance	403,640
49900I	Diversification within health underwriting risk	(324,829)
50150I	Premium risk	8,143,940
50210I	Reserve risk	13,387,871
50300I	Non-life catastrophe risk : natural (i.e. meteorological and geological)	7,856,800
59900I	Diversification within non-life underwriting risk	(11,192,093)
70100I	Operational risk	759,615
80100I	Other risks including pension risk, ACF, and FX adjustment	384,631

S.25.03.01.02

Calculation of Solvency Capital Requirement

		C0100
Total undiversified components	R0110	30,115,133
Diversification	R0060	(11,115,133)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)	R0160	
Solvency capital requirement excluding capital add-on	R0200	19,000,000
Capital add-ons already set	R0210	1,341,000
Solvency capital requirement	R0220	20,341,000
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	20,341,000
Total amount of Notional Solvency Capital Requirement for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

S.28.02.01
Minimum Capital Requirement - Both life and non-life insurance activity
All figures shown in GBP '000
S.28.02.01.01

MCR components

		MCR components	
		Non-life activities	Life activities
		$MCR_{(NL, NL)}$ Result	$MCR_{(NL, L)}$Result
		C0010	C0020
Linear formula component for non-life insurance and reinsurance obligations	R0010	8,796,833	

S.28.02.01.02
Z Axis:
VG/Solvency II

Background information

		Background information			
		Non-life activities		Life activities	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
Medical expense insurance and proportional reinsurance	R0020	157,358	219,363		
Income protection insurance and proportional reinsurance	R0030	721,241	607,356		
Workers' compensation insurance and proportional reinsurance	R0040	474,061	149,372		
Motor vehicle liability insurance and proportional reinsurance	R0050	659,957	493,372		
Other motor insurance and proportional reinsurance	R0060	272,805	375,092		
Marine, aviation and transport insurance and proportional reinsurance	R0070	4,714,926	3,457,770		
Fire and other damage to property insurance and proportional reinsurance	R0080	7,973,433	7,345,796		
General liability insurance and proportional reinsurance	R0090	16,484,287	6,743,236		
Credit and suretyship insurance and proportional reinsurance	R0100	1,026,320	644,044		
Legal expenses insurance and proportional reinsurance	R0110	42,762	55,353		
Assistance and proportional reinsurance	R0120	3,520	15,330		
Miscellaneous financial loss insurance and proportional reinsurance	R0130	1,681,698	197,244		
Non-proportional health reinsurance	R0140	820,869	244,111		
Non-proportional casualty reinsurance	R0150	4,329,884	1,174,805		
Non-proportional marine, aviation and transport reinsurance	R0160	1,708,031	964,739		
Non-proportional property reinsurance	R0170	4,451,117	3,045,513		

S.28.02.01.03

Linear formula component for life insurance and reinsurance obligations

		Non-life activities	Life activities	
		$MCR_{(L, NL)}$ Result	$MCR_{(L, L)}$ Result	
		C0070	C0080	
Linear formula component for life insurance and reinsurance obligations	R0200		21,620	VG/Solvency II
		LE/Non-life activity	LE/Life activity	

S.28.02.01.04
Z Axis:
VG/Solvency II

Total capital at risk for all life (re)insurance obligations

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0090	C0100	C0110	C0120
Obligations with profit participation - guaranteed benefits	R0210				
Obligations with profit participation - future discretionary benefits	R0220				
Index-linked and unit-linked insurance obligations	R0230				
Other life (re)insurance and health (re)insurance obligations	R0240			304,301	
Total capital at risk for all life (re)insurance obligations	R0250				21,757,381

S.28.02.01.05
Z Axis:
VG/Solvency II

Overall MCR calculation

		C0130
Linear MCR	R0300	8,818,453
SCR	R0310	20,341,000
MCR cap	R0320	9,153,450
MCR floor	R0330	5,085,250
Combined MCR	R0340	8,818,453
Absolute floor of the MCR	R0350	3,338
Minimum Capital Requirement	R0400	8,818,453

S.28.02.01.06
Z Axis:
VG/Solvency II

Notional non-life and life MCR calculation

		Non-life activities	Life activities
		C0140	C0150
Notional linear MCR	R0500	8,796,833	21,620
Notional SCR excluding add-on (annual or latest calculation)	R0510	-	-
Notional MCR cap	R0520	8,796,833	21,620
Notional MCR floor	R0530	-	-
Notional Combined MCR	R0540	8,796,833	21,620
Absolute floor of the notional MCR	R0550	-	-
Notional MCR	R0560	8,796,833	21,620

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of Relevant elements of the Solvency Financial Condition Report under Pillar 3 of Solvency II for the association of underwriters known as Lloyd's as at 31 December 2020

Opinion

In our opinion, the Council of Lloyd's has prepared the information subject to assurance in the Relevant elements of the Solvency Financial Condition Report (as defined below) under Pillar 3 of Solvency II for the association of underwriters known as Lloyd's ('Lloyd's') as at 31 December 2020, in all material respects in accordance with the reporting basis of preparation (the 'Lloyd's basis of preparation').

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

What we have assured

Except as noted in Appendix 1, we have assured the 'Relevant elements of the Solvency and Financial Condition Report', which is prepared by the Council of Lloyd's and comprises:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Lloyd's as at 31 December 2020 ('the Narrative Disclosures subject to reasonable assurance'), which include both Market Wide and Central Solvency disclosures; and

- Lloyd's templates S.02.01.02, S.12.01.02, S.17.01.02, S.23.01.01 and S.28.02.01 ('the Templates subject to reasonable assurance'), which include Market Wide Solvency disclosures only.

The Relevant elements of the Solvency and Financial Condition Report specific to the Market Wide Solvency disclosures have been compiled by aggregating:

i) financial information extracted from the corresponding Solvency II information included in syndicates' Annual Solvency Returns by the managing agent of each syndicate, which have been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported;
ii) Society of Lloyd's financial information extracted from the Society of Lloyd's IFRS financial statements and adjusted for presentation and classification differences between IFRS and Solvency II, in line with the Lloyd's basis of preparation; and
iii) Funds at Lloyd's financial information extracted from the Lloyd's Pro Forma Financial Statements and adjusted for presentation and classification differences between the basis of preparation of the PFFS and Solvency II, in line with the Lloyd's basis of preparation.

Our work in respect of the Annual Solvency Returns 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.

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Professional standards applied and level of assurance

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' ("ISAE 3000 (Revised)"), issued by the International Auditing and Assurance Standards Board (IAASB).

Our examination in respect of the Central Solvency disclosures has consisted principally of:

- obtaining an understanding of the process used by the Council of Lloyd's to compile the Relevant elements of the Solvency and Financial Condition Report from the financial records of the Society of Lloyd's; and

- checking (on a sample basis) that the financial information included in the Relevant elements of the Solvency and Financial Condition Report for the Society of Lloyd's was correctly extracted from the Society of Lloyd's IFRS financial statements, and that adjustments were made by Lloyd's for presentation and classification differences between IFRS and Solvency II, in line with the Lloyd's basis of preparation.

Our examination in respect of the Market Wide Solvency disclosures has consisted principally of:

- obtaining an understanding of the process used by the Council of Lloyd's to compile the Relevant elements of the Solvency and Financial Condition Report from the financial records of the Society of Lloyd's, relating to Funds at Lloyd's and from the audited syndicate Annual Solvency Returns, prepared by the managing agent of each syndicate;

- checking (on a sample basis) that the financial information included in the Relevant elements of the Solvency and Financial Condition Report for syndicates was correctly extracted from the audited syndicate Annual Solvency Return;

- checking (on a sample basis) that the financial information included in the Relevant elements of the Solvency and Financial Condition Report for the Society of Lloyd's was correctly extracted from the Society of Lloyd's IFRS financial statements, and that adjustments were made by Lloyd's for presentation and classification differences between IFRS and Solvency II, in line with the Lloyd's basis of preparation;

- checking (on a sample basis) that the financial information included in the Relevant elements of the Solvency and Financial Condition Report relating to Funds at Lloyd's was correctly extracted from the Lloyd's Pro Forma Financial Statements (the 'PFFS'), and that adjustments were made by Lloyd's for presentation and classification differences between the basis of preparation of the PFFS and Solvency II, in line with the Lloyd's basis of preparation; and

- evaluating evidence (on a sample basis) to support the completeness and accuracy of management's reconciliation of the Ancillary Own Funds in the Relevant elements of the

Solvency and Financial Condition Report to the amounts approved by the PRA in its letter to Lloyd's dated 18 December 2020.

Other Information

We are not required to assure, nor have we assured and as a consequence do not express an opinion on the 'Other Information' which comprises:

- Information contained within the Relevant elements of the Solvency and Financial Condition Report relating to, or derived from, the Market Wide Solvency Capital Requirement and Central Solvency Capital Requirement, as identified in Appendix 1 to this report;
- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report; and
- Lloyd's templates S05.01.02, S05.02.01, S.19.01.21 and S.25.03.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (the 'Governing body's statement in respect of the SFCR' or 'the Responsibility Statement').

To the extent the information subject to assurance in the Relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

Lloyd's has authority to calculate its Market Wide Solvency Capital Requirement and Central Solvency Capital Requirement using an internal model ('the Model') approved by the Prudential Regulation Authority (the 'PRA') in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to assure the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Our assurance procedures do not extend to information in respect of earlier periods or to any other information included in the Lloyd's Solvency and Financial Condition Report within which the Relevant elements of the Solvency and Financial Condition Report as at 31 December 2020 are included.

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms, we are required to read the Other Information (as defined above) and consider whether it is materially inconsistent with the Relevant elements of the Solvency and Financial Condition Report and our knowledge obtained in:

- the reasonable assurance engagements over the Lloyd's 2020 Solvency and Financial Condition Report and the Lloyd's 2020 Pro Forma Financial Statements (Market Wide Solvency disclosures); and
- the reasonable assurance engagement over the Lloyd's 2020 Solvency and Financial Condition Report and the 2020 audit of the Society of Lloyd's Financial Statements (Central Solvency disclosures).

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 in this regard.

Our Independence and Quality Control

In carrying out our work, 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 also 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 responsibilities of the Council of Lloyd's and Our responsibilities

The purpose of the Solvency and Financial Condition Report is to allow the Council of Lloyd's to report the solvency position of the association of underwriters known as Lloyd's in accordance with the requirements of Solvency II.

The Council of Lloyd's is responsible for the preparation of the Solvency and Financial Condition Report, including its basis of preparation, in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Approval of items of ancillary own funds (Market Wide Solvency disclosures only);
- Approval to classify syndicate loans to the Central Fund as restricted Tier 1 capital (Central Solvency disclosures only);
- Approval to use a full internal model (Market Wide and Central Solvency disclosures); and
- Modification of External Audit rule 4.1 for Lloyd's to obtain a reasonable assurance opinion in accordance with ISAE 3000 (Revised) (Market Wide and Central Solvency disclosures).

The Council of Lloyd's is also responsible for designing and implementing an appropriate basis of preparation for this purpose and for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion about whether the preparation of the Relevant elements of the Solvency and Financial Condition Report has been performed by the Council of Lloyd's on the basis set out in Lloyd's basis of preparation.

Intended users and purpose

This report including our opinion has been prepared solely for the Council of Lloyd's in accordance with our engagement letter dated 04 September 2020 (the "instructions") to assist the Council of Lloyd's to comply with its obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
09 April 2021

Appendix 1 – Relevant elements of the Solvency and Financial Condition Report that are not subject to reasonable assurance

The Relevant elements of the Solvency and Financial Condition Report that are not subject to reasonable assurance comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

- The following elements of template S.12.01.02:
  - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0110 to R0130 – Amount of the transitional on Technical Provisions

- The following elements of template S.17.01.02:
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0290 to R0310 – Amount of the transitional on Technical Provisions

- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

- The following elements of Company template S.28.02.01:
  - Row R0310: SCR

- Elements identified as 'not subject to reasonable assurance'.