LLOYD'S

Annual Report

2020

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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. Lloyd’s protects what matters most: helping to recover in times of need by sharing risk to protect, build resilience and inspire courage everywhere.

At a Glance

Lloyd's reports an overall loss of £0.9bn, driven by £3.4bn of major claims related to the COVID-19 pandemic. Underlying underwriting performance has shown significant improvement through strong rate increases across all classes and continued focus on underwriting discipline.

Operating highlights

The Lloyd's market paid out £21.4bn of gross claims in 2020 and has been able to meet these substantial commitments without impacting on our total resources, which remain strong at £33.9bn.

Investment income made a positive contribution to the result with an investment return* of 2.9% (2019: 4.8%).

Gross written premium

£35,466m

(2019: £35,905m)

Loss before tax

(£887m)

(2019: profit of £2,532m)

Combined ratio*

110.3%

(2019: 102.1%)

Combined ratio (exc COVID-19)

97.0%

(2019: 102.1%)

Underwriting profit (exc COVID-19)

£757m

(2019: loss of £538m)

Investment income

£2,268m

(2019: £3,537m)

Pre-tax return on capital*

(2.8)%

(2019: 8.8%)

Net resources

£33,941m

(2019: £30,638m)

Central solvency coverage ratio

209%

(2019: 238%)

Market-wide solvency coverage ratio

147%

(2019: 156%)

Lloyd’s line of business breakdown by region

- US & Canada **53%**
- Other Americas **6%**
- UK **12%**
- Rest of Europe **15%**
- Central Asia & Asia Pacific **10%**
- Rest of the World **4%**

	US and Canada	Other America	UK	Rest of Europe	Central Asia & Asia Pacific	Rest of World	Total
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%

Lloyd’s capital providers by source and location (%)

- US Insurance industry **17.3%**
- Bermudian Insurance industry **14.9%**
- UK Insurance industry **14.6%**
- Rest of world insurance industry **10.5%**
- Japan insurance industry **10.2%**
- European insurance industry **9.6%**
- Private capital—limited & unlimited **9.2%**
- Worldwide non-insurance **8.3%**
- Middle/Far East insurance industry **5.4%**

The combined ratio is the ratio of net incurred claims and net operating expenses to net earned premiums. The overall combined ratio includes central adjustments in the technical account in respect of transactions between syndicates and the Society as described in notes 2 and 8 to the PFFS (pages 51, 52 and 69). The combined ratios and results for individual lines of business (pages 38 to 44) do not include these adjustments as the market commentary for each line of business reflects trading conditions at syndicate level as reported in syndicate annual accounts. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business have been reported in the segmental analysis, note 9 on page 70.

* The combined ratio, the expense ratio, the return on capital and Solvency coverage ratio are metrics that are consistently used to analyse financial performance in the Lloyd's market results and/or in the Society Report. These metrics (wherever used in this Annual Report) are Alternative Performance Measures (APMs), with further information available on page 184.

Chairman's Statement

Lloyd's has shown it can withstand the effects of an unexpected and unprecedented disaster.

Bruce Carnegie-Brown
Chairman, Lloyd's

2020 has been a year like no other, with the impacts of COVID-19 having devastating consequences for businesses, communities and the global economy. Despite the challenges that the pandemic has presented, Lloyd's has shown that it can withstand the effects of an unexpected and unprecedented disaster, whilst working with governments and organisations around the world to identify how we can learn from the past year to reduce the impact of potential future systemic risks.

Operationally, we were able to adapt quickly to change, made possible by the work underway as part of our Future at Lloyd's strategy. Despite having to close the Underwriting Room for much of the year – the first time in Lloyd's history – we were able to continue to underwrite business effectively and pay claims promptly due to our emergency protocol procedures and our work to move many of our systems online. We launched the Virtual Room in September, successfully enabling brokers and underwriters to connect online, and we now have over 50 organisations signed up; and thanks to the hard work and dedication of our technical teams to implement new systems and processes, Society employees were able to work successfully from home and deliver against all of our priorities.

Our robust financial strength means we have been able to pay £21.4bn in gross claims to support our customers. Whilst COVID-19 accounted for the majority of our major claims, natural catastrophe events also had a significant impact. In 2020, Lloyd's net resources increased by 10.8% to £33.9bn, reflecting our strong balance sheet and a central solvency ratio of 209%.

In a challenging year for the market, Lloyd's significantly improved its underlying performance, with the combined ratio improving to 97.0% in 2020, excluding COVID-19 claims, as a result of sustained improvement in the attritional loss ratio. This progress is attributable to the market's commitment to better underwriting discipline, supported by increases in pricing across all classes of business.

Alongside our performance progress, Lloyd's made significant progress in driving culture change across our market, including setting publicly accountable gender targets, as well as committing to a series of actions to improve the experience of Black, Asian and Minority Ethnic colleagues and to build a more inclusive environment for those working in the market.

However, we can and will do more. The events of 2020 have accelerated critical conversations, commitments and actions across businesses, economies and society to tackle some of the most challenging and urgent issues we collectively face. As the world slowly emerges from the impacts of the COVID-19 pandemic, it does so with an enormous opportunity to take positive action to build back better.

In December, we published our first market-wide Environmental, Social and Governance (ESG) report, with an ambition to integrate sustainability into all of Lloyd's business activities; from playing our part in the global transition to net zero through the risks we share and the investments we make, to the way in which we support societal progress more broadly. This report sets out how Lloyd's will build on the critical role we play, in alignment with the United Nations Sustainable Development Goals and in support of the principles set out in the Paris Agreement. Importantly, for the first time we have set targets for responsible underwriting and investment to help accelerate society's transition from fossil fuel dependency towards renewable energy sources.

As the world continues to digitalise rapidly and economies begin to rebuild in the aftermath of the COVID-19 pandemic, innovation to deliver better products and services for our customers has never been more important. To that end, the Lloyd's Lab went from strength to strength, working with InsurTechs to provide some of the capabilities needed to protect us in the future. This included exploring the application of an epidemic tracker to better evaluate and underwrite pandemic risk and solutions to help close the insurance gap for systemic risks. Alongside this, our Product Innovation Facility focused on developing products to respond to an accelerated shift towards intangible-driven business models during the pandemic.

In July, we approved and supported the launch of our first public-private syndicate set up to insure the storage and transportation of a COVID-19 vaccine to emerging economies, as well as the launch of Lloyd's Global Health Risk Facility (GHRF) which is intended to make billions of dollars of insurance coverage available, together with risk mitigation services to help protect and support the global distribution of COVID-19 vaccines as well as critical health commodities.

Crucial to all of this is the digitalisation of the market. During the past year we have been able to develop the thinking behind the ambition of Blueprint One and lay the foundations to support the next phase of transformation, which was published in November in Blueprint Two. Blueprint Two outlines the delivery plan to build the most advanced insurance marketplace in the world and sets out tangible solutions that will radically shift the market to a digital ecosystem, powered by data and technology – ultimately delivering greater efficiency and better value for our customers.

We completed the merger of the Council and Franchise Board in June, allowing us to combine robust and accountable governance with the ability to make swift decisions when necessary; the importance of which has been highlighted throughout the COVID-19 pandemic. During the year several people left both Board and Council, mainly as a result of the merger. Albert Benchimol, Robert Childs, Dominick Hoare and Christian Noyer left the Council and Mike Bracken, Mark Cloutier, Charles Franks, Jon Hancock, Nigel Hinshelwood, Patricia Jackson and Richard Keers left the Franchise Board. I would like to thank them all for their service to Lloyd's over many years. We welcomed Angela Crawford-Ingle to the Franchise Board in January, and she is now a member of Council.

I would also like to thank all members of the Society staff and all members of the market for their hard work and flexibility throughout the year, to ensure that the market remained open for business to support our customers during this exceptional time.

One of the positive things that has come out of 2020 has been to reinforce the value of what we do. Our role in helping businesses and communities get back on their feet following a disaster and build resilience to the challenges the future will bring has never been more vital. That is why we are committed to making further progress against our four priorities of culture transformation, the digitalisation of our market, the return to long-term sustainable performance, and delivering on our purpose of sharing risk to create a braver world.

Bruce Carnegie-Brown
Chairman, Lloyds

Chief Executive's Statement

Lloyd's can be proud of the strength and resilience it has demonstrated in the face of the COVID-19 pandemic.

John Neal
Chief Executive Officer

As the world begins to recover from one of the most challenging periods in living memory, Lloyd's can be proud of the strength and resilience it has demonstrated in the face of the COVID-19 pandemic, as well as the unwavering commitment to our people, our customers, and the communities in which we serve.

Throughout 2020 Lloyd's has provided critical financial support to our customers, who have trusted us to be there in their time of need – and we have done so at pace, with gross COVID-19 claims paid expected to reach £6.2bn. Alongside our customers we have taken care of our people as they have navigated their way through the many challenges of remote working, in addition the market adapting to digital trading and ways of working almost overnight. We were delighted to provide almost 200 charitable organisations with a £15m package of support to ensure they were able to deliver vital services to those in need.

While 2020 will forever be remembered as the 'year of COVID-19', the market has suffered threats from two other fronts: the first has been the uncertainty and turmoil driven by Brexit; the second being a significant increase in the number of natural catastrophe events. 2020 was the fifth largest catastrophe year on record, with twenty-eight insured events costing more than £1bn each. By way of comparison, in 2017 (the year of Hurricanes Harvey, Irma and Maria), there were eighteen of these insured events.

Notwithstanding these challenges we have made strong progress against our three strategic priorities of performance, digitalisation and culture. Notably, the market has proven its ability to take action to improve performance and we can see the impacts of those efforts through the significant turnaround in our underlying underwriting performance. With the publication of Blueprint Two, our two-year digitalisation programme to deliver the Future at Lloyd's, we have already reached a number of key milestones in our ambition to become the world's most advanced insurance marketplace. We have also made encouraging strides in our commitment to transform our shared culture, with this year's survey results demonstrating positive, action-led change.

Returning to long-term sustainable profitability

Having embarked on a three-year journey to improve underwriting performance, Lloyd's 2020 results demonstrate solid year-on-year progress. Our strong underlying underwriting performance is a testament to the performance management and underwriting action taken by both the Society and the market over the past three years, and we are really starting to see the impact of that action flow through the Lloyd's portfolio.

While Lloyd's has reported an aggregated loss of £0.9bn, this was driven by incurred COVID-19 losses of £3.4bn, adding 13.3% to the market's combined operating ratio of 110.3%. Alongside COVID-19, the busy natural catastrophe season amounted to an additional £2.5bn of major claims. Despite those challenges, the market's combined ratio has shown substantial improvement over the past three years, dropping to 97.0% in 2020, excluding COVID-19 claims. This represents a 5.1 percentage point improvement on 2019 (102.1%) and a 7.5 percentage point improvement on 2018 (104.5%). We are further encouraged by a 5.4 percentage point improvement in the attritional loss ratio when compared with 2019, which has dropped to 51.9%.

Gross written premiums of £35.5bn represent a 1.2% reduction over the same period in 2019. Favourable market conditions, driven by accelerated positive rate throughout 2020, saw the market achieve an average risk adjusted rate increase of 10.8%. This was offset by a 12.0% reduction in business volumes across the market, reflecting the market's continued focus on the quality of the business it underwrites.

The 2020 expense ratio saw a 1.5% improvement dropping to 37.2% (2019: 38.7%), and will remain a key area of focus, with the Blueprint Two programme central to tackling operating expenses across the market.

In 2020, the market's net resources increased by 10.8% to £33.9bn as at 30 December 2020 (2019: £30.6bn), reinforcing the exceptional strength of Lloyd's balance sheet with a central solvency ratio of 209%. Our exceptional financial strength prompted Fitch Ratings to reaffirm its AA- (Very Strong) rating and remove the negative watch. This sits alongside our A+ (Strong) rating with Standard & Poor's, and A (Excellent) with A.M. Best.

Delivering on our commitments and ambitions

The pandemic highlighted the importance of our ambition to digitalise the marketplace, and 2020 saw substantial progress made on the next phase of our Future at Lloyd's journey with the publication of Blueprint Two in November. Despite scaling back some activities and re-focusing our key priorities due to COVID-19, we delivered a substantial number of improvements for the market. This included: streamlining the claims process to support customers; automating lower value claims transactions; establishing the virtual Underwriting Room; and launching our new Funds at Lloyd's portal. The comprehensive programme detailed in Blueprint Two intends to deliver revolutionary change for the market, ensuring it is digital from start to finish, with data at the core.

It is imperative that we evolve the culture of the Lloyd's market and in 2020 we fulfilled all of our 2019 culture commitments; from launching the Lloyd's Culture Dashboard and publishing the market culture toolkit, to setting gender targets and running our annual culture survey for a second time. The results of the survey demonstrate notable progress in the experience of women working in the Lloyd's market over the past 18 months following targeted action to drive change at pace. We also saw improvements across the four priority areas that we originally identified as foundational to driving cultural change: gender balance, speaking up, wellbeing and leadership. That said, we must take action to improve the experience of Black, Asian and Minority Ethnic colleagues and ensure that we attract and nurture talent from every community. Culture change is hard, but we've made good progress in our collective efforts to drive gender parity and have shown that by working together we can accelerate the cultural transformation of the Lloyd's market.

Building back braver

Looking ahead to 2021, it is clear that our purpose of sharing risk to create a braver world has never been more important. That is why we are placing 'purpose' as our fourth strategic pillar alongside performance, digitalisation and culture. Fundamentally, it means ensuring our market is set up for long term sustainability, that we continue to innovate new products and services, and that we continue to build the trust of our customers.

As the world shifts from the tangible to the intangible, amid rapid digitalisation and economies rebuilding in the aftermath of the pandemic, we must build back not only better, but braver, with sustainability at the core of our decisions and actions. In December 2020, we published Lloyd's first Environmental, Social and Governance (ESG) Report, setting out our plan to transition to a more sustainable (re)insurance marketplace. The report builds on Lloyd's existing ESG work with a comprehensive market-wide strategy that aligns with the United Nations Sustainable Development Goals and supports the principles set out in the Paris Agreement. Importantly, we have made a number of underwriting and investment commitments to support the global transition to net zero.

While we work towards a much greener future, Lloyd's has a unique position and opportunity to bring together communities, businesses, insurers and governments. In 2020 we committed £15m in seed capital investment to build and launch Futureset, our new global platform dedicated to driving greater societal and economic resilience in the face of an increasingly uncertain future. Throughout 2021, Futureset will focus on the landscape of systemic risk, as well as examining the growing global risks brought about by climate change – and most importantly, driving the delivery of sustainable solutions.

Finally, I would like to thank our people for their hard work and dedication during an extremely challenging period. I am proud of the way they have adapted to their changing circumstances while continuing to deliver progress against our three strategic priorities.

As we look back on 2020, we can be proud of the way Lloyd's has stood up and demonstrated its resilience through an incredibly difficult period. We are in a strong position to weather the ongoing impact of the pandemic and we must continue to understand how we can take positive action to help society get back on its feet, and to ensure our market remains sustainable for the long-term.

John Neal
Chief Executive Officer

Strategic Report

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Our Purpose

Sharing risk to create a braver world

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.

How we deliver on our purpose

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

The Lloyd's market has been at the forefront of its industry for more than 300 years, pioneering new forms of protection for a rapidly changing world. Collectively, the Lloyd's market enables innovative ideas, shares insight and creates lasting partnerships to make a tangible difference for our customers, helping to create a braver, more resilient world.

From start-ups to small and medium-sized enterprises, national governments and multinational corporations, our customers are the people driving the global economy; and they rely on the specialism, strength and security of the Lloyd's market to help them protect what matters most. The Lloyd's market has helped customers around the world withstand shock, recover and rebuild, and we are proud to continue that essential service today.

Our business model

Our unique market has an unrivalled concentration of specialist insurance expertise, and every day 50 leading insurance companies, 350 registered Lloyd's brokers and a global network of more than 4,000 local coverholders operate in and bring business to the Lloyd's market.

The business written at Lloyd's is brought by brokers and coverholders to specialist syndicates, operated by managing agents, who price and underwrite risks. Much of the (re)insurance capacity available at Lloyd's is provided on a subscription basis – where syndicates of Lloyd's underwriters join together to underwrite risks and programmes. Combined with the choice, flexibility and financial certainty of the market, this makes Lloyd's the world's leading insurance platform.

But in an unpredictable global climate, Lloyd's underwriters must also rely on their experience and industry knowledge to cast light into the darkness ahead. Behind the Lloyd's market is the Society of Lloyd's, not itself an insurer but an independent organisation and regulator that acts to protect and maintain the market's reputation and provides services and original research, reports and analysis to the industry's knowledge base.

Under one globally trusted name, the Lloyd's market and the Society of Lloyd's share risk to protect our stakeholders' interests, promote economic growth and create a braver world.

Our impact on society

Lloyd's has a long track record in contributing to the communities in which we operate and, crucially, helping them to recover from disaster. We are proud of the enduring role we play in protecting society from some of the greatest threats, and in doing so supporting economic growth and societal prosperity. Over the past decade the Lloyd's market has paid £145bn of claims to our customers in their time of need, as well as the insurance and reinsurance critical to propelling the advancement of people, businesses and communities around the world.

Lloyd's is also a significant engine for the UK's economy. The London (re)insurance market, of which Lloyd's represents two thirds of business written in London, employs 47,000 people and makes up 1.7% of the UK's gross domestic product.

Business flow

Customers
- Global commercial organisations, such as FTSE 250 and Fortune 500 companies
- Small and medium-sized enterprises
- Individuals
- Other insurance groups

Distribution channels
- 350 brokers: distributing business
- 427 service company locations
- 4,030 coverholder locations: offering local access to Lloyd's

The market

- 50 managing agents: managing syndicates
- 76 syndicates: writing insurance and reinsurance
- 12 special purpose arrangements: set up solely to write a quota share of another syndicate
- 2 syndicates in a box: writing innovative, new business

Gross written premiums:	
2020	**£35.5bn**
2019	£35.9bn
2018	£35.5bn

Capital and reserves:	
2020	**£33.9bn**
2019	£30.6bn
2018	£28.2bn

Capital flow

Capital providers (members)
- Trade capital: insurance companies from around the world
- Institutional capital: such as pension funds and private equity
- Private capital (via members' agents): such as small companies and individuals

The Society – supporting the market

Note: All figures are as at 31 December 2020. Capital and reserves of £33.9bn comprised members' assets held severally of £30.6bn, mutual assets of £2.5bn and subordinated debt of £0.8bn. For further information on the Lloyd's market visit: lloyds.com/about-lloyds

How we create value for our stakeholders

A market fuelled by possibility

Lloyd's is the world's largest specialist insurance market and global distribution network, competing to share risk whatever the size, location, industry or complexity in order to provide outstanding service for our customers. Built for an interconnected economy, Lloyd's insures people, businesses and communities in more than 200 countries and territories through a unique flow of business, and can develop tailor-made policies for customers in every sector, covering more than 60 lines of insurance and reinsurance.

Protection you can rely on

We take pride in doing what's right, paying all valid claims. For more than three centuries the security of Lloyd's has protected what matters most to people, businesses and communities and helped them recover in times of need. We are committed to being an inclusive global market that treats our people and customers with dignity and respect.

Our unique capital structure provides the financial strength that backs all insurance policies written at Lloyd's and the common security that underpins the market's strong ratings and global licence network. Lloyd's central assets, which include the Central Fund, are available, at the discretion of the Council, to meet any policyholder's valid claim that cannot be met from the resources of any member. With more than £33.9bn net resources backing Lloyd's policies and competitive financial strength ratings, our stakeholders have confidence that we will be there to meet all valid claims.

Solutions from the best minds in the market

A Lloyd's policy benefits from the combined expertise of an entire market, not just a single company. Our market combines the specialist knowledge and resources of 90 underwriting operations and 350 brokers and uses this collective expertise, professionalism and judgement to protect stakeholders' interests.

With this unrivalled depth and breadth of insurance expertise, Lloyd's is the leading marketplace for protecting against new and emerging risks. Together our underwriters and brokers create innovative, responsive solutions to the most unique challenges. We embrace new challenges, create new products and champion new solutions – no matter how specialist or complex the risk.

A partner for the long term

The trusted relationships which underpin our marketplace are one of our greatest strengths. Our community of experts working to best serve our customers, enable us to share risk. The long-term relationships between customers, brokers and underwriters, built on mutual trust, create the collaborative spirit which enables our market to create innovative solutions and work together in the best interests of our stakeholders.

Insight and leadership to build resilience

Lloyd's has always been an intelligence network and we continue to convene and lead the global (re)insurance industry. Our insight, experience and judgement inform decision making, enable innovation and ensure our stakeholders stay resilient and ahead. Lloyd's latest research and reports provide insights into emerging risk issues and innovations to help our underwriters, brokers and customers understand and better manage risk.

An ecosystem of opportunity

As a marketplace, Lloyd's provides access to economies of scale through consistent standards, single regulatory interface and shared business services. The global risk landscape is changing at pace and our customers operate in a complex and fast-changing world. Lloyd's is building the world's most technologically advanced insurance marketplace, offering our stakeholders the widest range of risk solutions and services to help them face these new risks with confidence. Our competitive environment, central oversight and capital efficiencies improve performance, unlock new opportunities and enable the best possible outcomes for our stakeholders.

Our strategy: how we preserve value

Lloyd's strategy is to maintain and enhance the value we offer to our many stakeholders:

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

We are creating a market which attracts new risks, new customers and new forms of capital, and which will provide a superior experience while operating at materially lower costs. When we achieve this, the market will be bigger and more relevant, through:

- Offering even better solutions for our customers' risks;
- Simplifying the process of accessing products and services at Lloyd's;
- Reducing the cost of doing business at Lloyd's; and
- Continuing to build an inclusive and innovative culture that attracts the most talented people to Lloyd's.

By delivering against our four strategic pillars and effectively managing our Tier 1 risks, we will realise these aims, enhance the value we offer our stakeholders and ensure that this is sustained over the long term. Our strategic pillars are:

- **Performance:** continuing our work to deliver first-class underwriting;
- **Digitalisation:** our Future at Lloyd's strategy to build the world's most advanced insurance marketplace and deliver the widest range of products and services to our customers;
- **Culture:** building a diverse, inclusive and high-performing culture in the Society and the market in which everyone feels safe, valued and respected, and that reflects the global markets we work in; and
- **Purpose:** strengthening the market's performance, capital and financial credibility, putting sustainability at the heart of our operations and embedding trust and the reputation of Lloyd's around the world through thought and action leadership.

Further details on our delivery against these pillars in 2020, and our priorities for 2021, can be found on pages 15 to 17.

Our Purpose continued

Non-financial information statement

The Society aims to comply with the requirements contained in sections 414CA and 414CB of the Companies Act 2006 and related guidance on the Strategic Report issued by The Financial Reporting Council Limited.

Reporting requirement	Page reference to our approach
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Human rights	19
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Non-financial KPIs	22-23

External Environment

A year like no other

2020 brought more changes than many could have imagined: from the global public health crisis and its heavy toll on communities, businesses and mental health, to the increasing imperative to address climate change and a defining moment in social justice. For the insurance industry, supporting our colleagues, clients and communities to rebuild our economies and businesses and get back to growth was a key area of focus. The challenges of 2020 prove that helping to create a fairer, more resilient society is more important than ever.

The world economy

COVID-19 has resulted in the sharpest and deepest contraction in economic activity since the Great Depression of the 1930s. National lockdowns, travel and sanitary restrictions have led to entire sectors of the economy being forced to close. Global GDP is estimated to have declined by around 3.5% in 2020, a significantly larger contraction than the global financial crisis in 2009. It is notable that, with the exception of China, emerging economies have been impacted harder than developed economies – underscoring the impact of the pandemic on the poorest.

Although global growth is showing signs of recovery, it is very dependent on minimising potential future pandemic outbreaks. The IMF predicts global growth of 5.5% in 2021. Any forecast is bound to be uncertain: delays in vaccine roll-outs, new viral strains and renewed lockdowns are significant risks. However, faster than expected vaccination programmes and/or improved treatments would allow economies to recover much more quickly.

Fiscal and monetary policies around the world have been deployed to cushion the effects of the pandemic and will continue to adjust to reflect its impact on economies. Global fiscal stimulus resulted in government debt increasing by $12tn in 2020 to over 100% of GDP, the highest since World War II.

Geopolitical trends

Geopolitics will remain a key feature impacting the overall business environment and growth. Under the Biden presidency, the United States is likely to be more interventionist, including in health and climate change. Upcoming elections in 2021 and 2022, particularly in Germany and France, could have far-reaching consequences for the future of Europe post-Brexit.

Diversity and equality

The pandemic has notably caused most economic hardship to the poorest in society and has had a particular impact on the wellbeing and mental health of people. There is increasing concern that people from Black, Asian and Minority Ethnic backgrounds are being disproportionately impacted by COVID-19. Alongside this, the killings of George Floyd, Breonna Taylor, Ahmaud Arbery and others gave rise to social unrest across the United States and led to communities around the world rallying for social and racial justice. This resulted in government, industry and public figures taking fresh steps to respond to these concerns and create an environment free from injustice.

The global insurance industry has been actively pursuing policies to promote diversity and inclusion, but more work is still needed.

Climate

The challenges of climate change were brought into sharp focus in 2020. The average temperature was 1.02 degrees Celsius above the 1951-1980 baseline, the joint warmest on record.

COVID-19 has resulted in the postponement of the 26th session of the Conference of the Parties (COP26) to the United Nations Framework Convention on Climate Change until November 2021, when leaders from around the world will be reporting back on progress since the 2015 Paris Agreement – with an aspiration that new decisions will be taken on how to deliver lower carbon emissions.

The global insurance industry recognises its key role in the climate challenge and facilitating the carbon transition through the phasing out of fossil fuels, more rapid adoption of renewables and moving to clean transport – as well as through its investment in green energy and clean industries.

Accelerating digital transformation

Digitalisation, the use of data, and data-driven insights have played a key role in driving the modernisation of the industry and reducing administration costs. COVID-19 presented significant challenges to insurer operations, prompting an overnight shift to remote working and virtual customer engagement. The sudden imperative was to accelerate digitalisation and enhance virtual operations, delivering transformation in one year that originally might have taken three to five years. These changes, which required digital connectivity and ease of remote access, have generated new exposures for the industry and our policyholders, particularly in terms of cyber risk and business interruption.

Changing customer needs

COVID-19 has shifted customers' perceptions and demand for insurance. Research carried out by Lloyd's in 2020 showed that some customer attitudes towards insurance had deteriorated, with the perception that some business interruption policies have not performed as expected during the pandemic. This has been highlighted by legal challenges seen in a number of countries.

Customers expressed short-term priorities around ensuring clarity of insurance cover and business resilience to future waves of the pandemic and safeguarding their employees and customers. In the long term, customers want more flexible insurance, greater protection for their global supply chains and rising cyber risk exposures, and advice on how to mitigate and protect against future systemic risks. Some larger companies said they were increasingly self-insuring through captives.

In 2021, it will be important for insurers to rebuild customers' trust in insurance through simplification of products. Customers will also be looking for assurances that the new risks they face are considered by insurers.

The insurance industry response to COVID-19

Following COVID-19 the global insurance industry has been undergoing a process of adjustment and modernisation, driven by the overriding need for sustainable and profitable growth.

Pricing in the London market continues to harden in response to changes in risk exposures and increased casualty losses. Despite this, there are a number of important challenges including the uncertainty over the ultimate costs of COVID-19 related claims, the pandemic's recessionary impact on the sector, and low investment yields.

We estimate that the global insurance industry will pay around US$203bn in claims and due to a reduction in asset values as a result of COVID-19. Although this is a significant figure, providing cover for systemic risks such as pandemics, global cyber-attacks or destructive solar storm ultimately requires financial resources far in excess of the global non-life (re)insurance industry's US$2tn asset pool. Insurers will therefore need to find solutions in partnership with governments to ensure that customers and society are better protected against future systemic shocks.

Our Strategy

We started 2020 with three strategic pillars: to continue our progress on returning to sustainable, profitable, market-leading underwriting performance; to implement our Future at Lloyd's digitalisation strategy for the long-term success of the market; and to build a diverse and inclusive culture.

These overarching priorities of performance, digitalisation, culture, together with a new 'purpose' pillar, remain paramount and drive everything we do across Lloyd's.

Performance

Progress during 2020

2020 was a difficult year, but the market made good progress and improved underlying performance, notably in reducing attritional losses.

While 2021 planning presented unique challenges for all those involved, we managed to make this year's process more effective than the last. Our improved underlying performance demonstrates the progress we've made in getting back to delivering sustainable profitability over the long term.

These foundations have given Lloyd's a great platform for 2021 and we must continue to manage the market's performance on a sustainable basis. Refer to the 2020 Highlights section of the Market Results for further detail on performance.

Priorities for 2021

Soon to be overseen by Patrick Tiernan, our incoming Chief of Markets, market performance remains a key priority in 2021, with continued focus on sound business planning, underwriting discipline and strong portfolio management to enable a return to a sustainable profitable market. At the end of a year where COVID-19 presented us with new and unique challenges, it will come as no surprise that much of our planned oversight during 2021 is in response to the current uncertain environment.

During 2021 we will adopt a more dynamic approach to our core oversight activities across a number of areas including underwriting, outward reinsurance, capital, reserving, investments and conduct. Our oversight will need to be flexible to respond to the emerging COVID-19 environment, and data received through regular performance returns will identify trends and areas for increased or additional oversight.

Our differentiated approach to oversight will continue to play a key role in providing the best performing syndicates the space to grow, while at the same time reducing unsustainable business across the poorest performing classes and syndicates. We expect syndicates to meet their calendar year plans, and their ability to do so will form part of the overall assessment of syndicate performance.

It is also important that we don't lose sight of the areas of non-financial risk. Our oversight work in 2021 will focus on a number of key non-financial areas including financial crime, cyber resilience, conduct, Environmental, Social and Governance (ESG), and culture.

Digitalisation

Progress during 2020

In September 2019, we published our vision for the Future at Lloyd's in Blueprint One. The world is now a very different place and despite great adversity, the market has responded well and has proven its resilience in remarkable ways. The pandemic has demonstrated that we can adapt and do things differently and has increased our ambition for what the market can achieve. With that in mind, we have pushed ahead with the same underlying concepts to digitalise the Lloyd's market and maintained the ambition laid out in Blueprint One, while also refocusing and adapting our approach, informed by extensive research, consultation and feedback.

Despite the challenges that 2020 presented, we delivered a huge number of improvements for the market, including streamlining the claims process to help customers during COVID-19, launching a catastrophe reporting portal to save reporting effort, and launching a new pilot for the automation of lower value transactions for settlement which is providing insight on behaviours, risk appetite and design for the claims digital solution.

We worked closely with the market to deliver the Virtual Room, a digital platform that allows market participants to maintain their connection to the Lloyd's community from wherever they are following the temporary closure of the Underwriting Room in 2020. Extensive research was used to shape the proposition through more than 100 customer interviews with market participants to deeply understand their pain points and challenges with the initial remote working period. The Virtual Room was launched to coincide with the re-opening of the physical Lloyd's underwriting room on 1 September 2020 and was delivered within six weeks.

We also: removed the need for rekeying data by building new application programming interfaces (APIs) that enable data to flow to and from brokers' and carriers' placement systems; worked extensively with the Lloyd's Market Association (LMA) and managing agents on potential new Lead Follow standards; and agreed and finalised Lloyd's stake in the London market's electronic placing platform (PPL).

We developed syndicate in a box from a concept encouraging new, accretive and innovative business in Blueprint One to a full operating model, and have now fully approved three syndicates in a box: Carbon syndicate 4747 and Munich Re innovation syndicate 1840, which both launched in 2020, and Ascot Parsyl syndicate 1796 launching in 2021. Syndicates Jet 2019 and Victor 2288 started underwriting in 2020. Ki, a fully digital algorithmically-driven 'follow only' syndicate developed by Brit and Google Cloud was approved In 2020, and commenced underwriting from January 2021.

We revisited all our plans around our capital work in light of market feedback and the COVID-19 pandemic. It was agreed this work should be paused to allow the programme and the market to focus on the areas where it could provide the most benefit in the immediate future. We have since launched our new digital portal for members, members' agents and investment managers which provides quick and easy access to Funds at Lloyd's data, and have simplified the rules around managing Funds at Lloyd's.

In January 2021, we received regulatory approval for our new multi insurance special purpose vehicle (ISPV), London Bridge Risk PCC Ltd. This will make it easier for investors to access the Lloyd's market and provides a new platform to improve the ease and transparency of managing capital.

Priorities for 2021

In November 2020, we published our second Future at Lloyd's blueprint, setting out the delivery plan for the next phase of our strategy[1].

Blueprint Two is the foundation for our market's digital transformation and it sets out a two-year plan to deliver a set of tangible solutions that will radically shift the market to a digital ecosystem, powered by data and technology – ultimately delivering

1. For more information on Blueprint Two and to read the full blueprint, please visit: futureat.lloyds.com

better value at a lower cost for our customers. This will include complete and accurate data, a modern digital architecture providing data orchestration and a unified experience for the participants of the market, and a set of services that link the lifecycle of transactions from placement through accounting, payment, endorsements, claims, renewals and reporting.

2021 will therefore be a year of execution. We will strive to deliver the services outlined in Blueprint Two for priority lines of business and processes over the course of the year and into 2022.

In 2021, our focus will be on taking an open market risk from a single line of business to the point of bind and through the new Digital Gateway, ready for digital processing. Additionally, we will be testing post-bind digital processing capabilities, digitalising the management of open market claims from first notification to payment, and rolling out the delegated authority solution from support and onboarding through to placement and data capture.

The focus of 2022 will be on enhancing the products built in 2021 and rolling this out across additional classes, markets and geographies. There will be a specific focus on the sequencing of the roll-out which will be flexed based on market research and feedback, as per our 'test and learn' approach.

It is essential that the solutions set out in Blueprint Two work for the whole of the market, so from the outset we will work in close consultation and collaboration with all segments of the market and our chosen service providers who will support the development and running of the technology components.

The Future at Lloyd's will be digital from start to finish, providing a highly intuitive user experience with data at its core. Capturing complete and accurate data at the point insurance transactions are entered into will unlock a myriad of benefits for policyholders, brokers and insurers. The improvements outlined in Blueprint Two are a product of extensive market research, feedback and collaboration. They aim to deliver significant operational efficiencies, making it simpler and more efficient for market participants to trade, with an estimated aggregate reduction of £800m in operating costs for brokers, underwriters and business partners. This total is based on research carried out with a sample of managing agents and brokers, looking at their current processes and costs and working out how much these reduce if they adopt all the Future at Lloyd's solutions. By eliminating non-value add administrative activity, these efficiencies will enable the market to give more focus to value adding activities, such as product development, innovation and risk mitigation to improve customer outcomes.

Culture

Progress during 2020

Transforming Lloyd's culture is a strategic imperative for the future success of our marketplace – one which is powered by the intellect of its people, who together create our shared culture and our shared future. To get there, we need to be brave in our actions to accelerate change and be transparent in how we measure our progress and hold ourselves to account.

In 2019, we launched a comprehensive programme of actions to drive long-term culture change in the Lloyd's market. This included forming the Lloyd's Culture Advisory Group and launching a Speaking Up campaign, as well as setting business conduct standards that we expect everyone who works in Lloyd's market to adhere to.

In 2020, we fulfilled all of our 2019 commitments by setting gender targets and publishing the Lloyd's Culture Dashboard[2], which benchmarks the market's starting point and is intended to transparently track Lloyd's collective progress towards a much more inclusive environment. We also launched a Culture Toolkit[3] providing practical tools, techniques and advice to support the market in its efforts to move towards a more inclusive, diverse and high-performing culture.

To improve the gender balance in leadership roles across the market, the Society has set a short-term target of 35% female representation in leadership positions and 20% in Executive and Board positions across the market by the end of 2023. This sits alongside a medium-term ambition for parity over the next decade. Importantly, in the Society we have achieved parity during 2020, with 47% of our leadership roles being filled by women. In October 2020, we set a diversity policy for Lloyd's Council stating that a minimum of 33% of the Council should be female and/or from a Black, Asian or Minority Ethnic background by the end of 2023.

At Lloyd's we believe in creating a healthy working environment and culture that enables positive wellbeing across the market. The impact of lockdown measures and an extended period working from home, together with concerns about COVID-19, will be impacting all of our people in many different ways. During 2020, we have placed an increased focus on our people's wellbeing and put new policies and practices in place to support them as they adapted to the new environment. This included an additional five days' leave for those working around caring responsibilities, adapting our focus on flexible working, increasing the time available for volunteering, organising webinars focusing on mental health and wellbeing, developing a new information hub and providing financial support for employees to purchase the equipment they need to work at home effectively and safely.

As part of our commitment to improve market data and measure progress, we ran our annual market culture survey for the second time in October. Following a challenging year, the results of the survey demonstrate that the actions being taken by Lloyd's are delivering positive and measurable change, with improvements across all four of our priority areas: gender balance, speaking up, wellbeing and leadership. In particular, the second culture survey highlights notable progress in the experience of women working in the Lloyd's market over the past 18 months, following targeted action to drive change at pace, including the setting of gender targets.

However, the survey has also highlighted areas for ongoing and concentrated focus, including continued focus on wellbeing across the market and improving the experience of Black, Asian and Minority Ethnic talent as a top priority.

Priorities for 2021

Our actions to date have placed culture firmly on the agenda for the Lloyd's market and form the foundation of our ongoing initiatives and commitment to build a more inclusive environment. While we have put in place a series of actions to accelerate change, it is abundantly clear that we have much work to do and we must be impatient in our resolve to get there.

We will continue to accelerate our approach in leading the market on all aspects of inclusion and diversity. Alongside these measures, and against the backdrop of the current and future working environment, we will maintain a strong focus on wellbeing and transparently measure progress against all our priority areas through the Culture Dashboard.

2. Lloyd's Culture Dashboard is available at: lloyds.com/about-lloyds/future-culture-at-lloyds/culture-dashboard
3. The Culture Toolkit can be accessed at: lloyds.com/about-lloyds/future-culture-at-lloyds/toolkit

We are committed to improving the experience of Black, Asian and Minority Ethnic talent in our market, by taking meaningful and measurable action to level the playing field and increasing the representation of Black, Asian and Minority Ethnic colleagues, particularly across leadership roles. To support this, we will focus on improving the collection of ethnicity data and other characteristics to enable the market to fully understand its starting point and set a market target for ethnicity from Q2 2021. This follows our five initial actions to help improve the experience of Black, Asian and Minority Ethnic talent across the market, published in June 2020.

There is a long way to go, but we are determined that we can, and will, create a culture in the Lloyd's market in which everybody can flourish.

Purpose

We are defined by our purpose and now is the time to act. That purpose is sharing risk to create a braver world. It is our reason for existing, a guidepost for our strategy, and an articulation of why what we do matters and the value we bring to customers and to society. So, reflecting on the events of recent years, we intend to highlight this as a fourth strategic pillar and in doing so ensure that our purpose is central to everything we do.

Progress during 2020

For individuals, businesses and communities the impact of COVID-19 has been significant and many are now navigating the process of recovery.

While our primary duty as an industry and as a market is to pay our customers' claims, these are unprecedented times that call for a more concerted market response. To support our customers through this process we asked what they need to help protect them from risks over the short, medium and long term. Based on this feedback, and together with our Global and London Advisory Committees, which include a number of the world's largest insurers, we proposed new solutions and insurance structures in our report *Supporting global recovery and resilience for customers and economies: the insurance response to COVID-19*. We are now developing these solutions in partnership with the global insurance industry, regulators and governments.

In addition, we committed a £15m package of support for charitable organisations responding to the pandemic and set aside a further £15m in seed capital to build resource and capability to better understand, model and create products that better protect customers against future systemic risks, including pandemics. In 2020, the Lloyd's Innovation Lab began working with insurtechs that can provide some of these capabilities, including exploring the application of an epidemic tracker to better evaluate and underwrite pandemic risk and solutions to help close the insurance gap for systemic risks. Alongside this, our Product Innovation Facility is focusing on innovating products to respond to an accelerated shift towards intangible-driven business models in response to COVID-19.

In July, we approved and supported the launch of our first public-private syndicate set up to insure the storage and transportation of a COVID-19 vaccine to emerging economies and well as the launch of Lloyd's Global Health Risk Facility (GHRF), which will make billions of dollars of insurance coverage available, together with risk mitigation services to help protect and support the global distribution of COVID-19 vaccines as well as critical health commodities.

In September, we launched our report *Building simpler insurance products to better protect customers*, addressing the urgency with which the global insurance industry must invest and focus on clarifying and simplifying its products.

We finished 2020 with the publication of our first Environmental, Social and Governance (ESG) strategy. The report details our ambitions to fully integrate sustainability into all our business activities and represents an important milestone on the journey towards building a more sustainable future. Further detail on our ESG strategy is available on page 18.

Priorities for 2021

Our new strategic pillar will encompass three important strands of activity.

The first is our long-term value proposition, with a focus on: delivering sustainable, profitable growth; strengthening the market's performance, capital and financial credibility; enhancing our value proposition to customers and global stakeholders; creating an inclusive and high-performing culture; and building the most advanced insurance marketplace in the world.

The second strand of activity is innovation – something that Lloyd's has always been renowned for, but for which we must continue to nurture, develop and promote. In 2021, we will continue to enhance our innovation capabilities through the launch of Futureset, a global platform and community, working alongside Lloyd's Lab and Product Innovation Facility to create and share risk insight, intelligence and expertise, build understanding and act as a catalyst for industry, government and societal action to develop greater resilience.

This will also encapsulate Lloyd's ESG strategy, which places sustainability at the heart of everything we do, as well as our broader approach to climate change. In 2021 we will explore how we can work with the UK Government to support their ten-point plan for a Green Industrial Revolution and the lead up to the 26th UN Climate Change Conference of the Parties (COP26) in November 2021. COP26 is going to be an important moment in 2021, and Lloyd's plans to be a proactive contributor to the debate.

The third strand is our global brand and reputation. Lloyd's has a leading position and brand in the global insurance market and our fourth pillar will renew our focus on communicating and living our purpose. The action we've taken on responding to COVID-19, changing culture and developing ESG goals over the past two years has embedded the trust and reputation of Lloyd's around the world, and with this enhanced focus we can do more, including strengthening our cooperation with governments, banks and other bodies globally.

Responsible Business

We want to be known as a responsible business leader, operating in a way that makes those who work for us and with us feel proud of what we do and how we do it. We have been working on our Environmental, Social and Governance (ESG) strategy throughout 2020 and outlined our ambition to integrate sustainability into all of Lloyd's business activities in our first ESG report, which was published in December 2020[4].

Our ESG commitments

In our first ESG report, we committed to engaging widely with stakeholders across the Lloyd's market to further develop and operationalise our ESG strategy, policies and processes. We will develop a framework to help insurance businesses in our market integrate ESG principles into their business activities over the next 18 months. Below is a summary of our ambition statements.

Sustainable insurance

To encourage product innovation we have introduced a new allowance of 2% of gross written premiums for new innovative and sustainable products in addition to syndicates' business-as-usual plans. Lloyd's managing agents will be asked to provide no new insurance cover in respect of thermal coal-fired power plants, thermal coal mines, oil sands or new Arctic energy exploration activities from 1 January 2022 and not to renew insurance coverages after 1 January 2030. This also applies to companies with business models that derive at least 30% of their revenues from these activities from 1 January 2030.

Responsible investment

The Society will allocate 5% of the Central Fund to impact investments by 2022. We will phase out new investments in thermal coal-fired power plants, thermal coal mines, oil sands and new Arctic energy exploration activities by the Lloyd's market and the Society by 1 January 2022 and existing investments by the end of 2025. This includes phasing out existing investments in respect of companies with business models that derive at least 30% of their revenues from these activities by the end of 2025.

Responsible operations

We will ensure that the Society is net zero carbon emissions for our operations by 2025 and publish a roadmap to support that ambition. The Society will work with the Lloyd's market in 2021 to support their own implementation of net zero carbon emission plans and will explore the potential to develop a Lloyd's market-wide carbon offset project.

Customers

We will set up a customer working group to explore how we can make our insurance contracts simpler and easier to understand. We will continue to explore how our open source frameworks could be leveraged and applied globally to offer customers greater protection against future systemic risks. We will improve our customer satisfaction monitoring and continue to regularly review how we can improve our customers' experiences through product oversight and governance and through promoting best practice.

People and culture

We will work to achieve our phase one target of 35% female representation in leadership positions across the Lloyd's market by 31 December 2023. We will set a target for Black, Asian and Minority Ethnic representation in leadership positions in the Lloyd's market in Q2 2021. We will continue to reduce the Society's gender pay gap, and work to ensure that Lloyd's market Boards and Executive Committees combined will have at least 20% female representation by 31 December 2023.

Sustainable Development Goals (SDGs)

Our ESG commitments have been developed in line with the United Nations Sustainable Development Goals (SDGs) and in support of the principles set out in the Paris Agreement. While all 17 SDGs are relevant to our business, we are prioritising six that align best to our core business activities, priorities and purpose. These are:

We are committed to gender equality and equal opportunities for employees at all levels, in terms of employment throughout the market and through our investments.

We have invested significantly to support clean and affordable energy, including modelling climate change risk and insuring customers in the renewable energy sector.

We provide insurance that supports inclusive and sustainable economic growth, and we are committed to protecting human rights within our market, supply chains and business partners.

We have a proud history of innovation, with highlights including the first motor policy through to the sharing economy and low carbon technology. We provide critical insurance to support the success of industries around the world, as well as resilient and green infrastructure.

We are experts in helping businesses and communities, and therefore the cities they live and work in, reduce their risks and become more resilient.

Improving society's understanding of climate change and its impacts is one of our key priorities. We are a founding member of ClimateWise.

Community

We will continue to work with all businesses in our market to engage them with our community work and support our network of more than 200 community champions. We will strengthen our relationships with charity partners to help them raise more funds, provide business support and increase their risk management skills.

4. Our full ESG report can be accessed at: lloyds.com/about-lloyds/responsible-business/esg-report

Our COVID-19 response

In 2020, we focused on helping charities respond to the immediate and long-term needs of communities dealing with the impacts of COVID-19 by committing £15m to charitable organisations and funds. This included:

- £5m to the Association of British Insurers' COVID-19 Support Fund, which is providing £100m to the National Emergencies Trust in the UK;
- £3m fund for charities nominated by Society staff globally;
- £2m to support new and existing charity partners in the UK best placed to respond to the pandemic;
- £2m for local organisations supported by the Society's global offices; and
- £1m to Lloyd's Charities Trust's Market Charity Awards that recognise and celebrate the voluntary and fundraising work of individuals from across the Lloyd's market.

We have held the remaining funds in reserve to support future needs relating to the pandemic. So far, our COVID-19 response fund has helped 197 charities and their beneficiaries. We also worked with our existing partners to develop virtual volunteering activities and supported them with unrestricted donations to help them adapt during COVID-19, and donated £282,000 worth of food and masks to support community groups in London during the pandemic.

Community

Community involvement is at the heart of our values at Lloyd's. Over the next five years, our ambition is to create measurable positive outcomes by running one of the leading community engagement programmes in the insurance industry. To achieve this, we use our global network of some 200 countries and territories worldwide to build resilient communities, manage risk and promote innovation and empower individuals to reach their potential.

As part of our community work, we manage three independent charities and a volunteer programme. These charities are the Lloyd's Charities Trust, Lloyd's Patriotic Fund and Lloyd's Tercentenary Research Foundation. We also work with the Lloyd's Benevolent Fund, established in 1829, which provides financial assistance to individuals working in the market who have faced exceptional circumstances. All charities have their own trustees made up from professionals across the Lloyd's market, external experts or from academia.

In 2020, through the Society, Lloyd's charities and our COVID-19 response fund, we donated £13.9m, supporting 313 organisations globally. In addition, 700 volunteers from the market and Society gave their time and support more than 1,800 people in our local communities in London through our formal programmes.

Lloyd's Charities Trust continued its partnership with Habitat for Humanity Great Britain with the aim of helping those most vulnerable in society become more resilient to disasters, particularly in Malawi. Lloyd's Patriotic Fund launched its new partnership with Combat Stress and RFEA (the Forces' Employment Charity) in March 2020 and over the next three years will help military families adjust to civilian life. We also extended some of the training and development available to insurance businesses in our market to our charity partners meaning seven organisations received free support on how to put in place inclusive hiring practices.

Our approach to building sustainable communities: Edutainment in Africa

Those most affected by climate change are often the most vulnerable. As part of our work to build more resilient communities, Lloyd's Africa partnered with global humanitarian and development organisation Mercy Corps to raise awareness of the benefits of insurance for smallholder farmers in East Africa.

Taking an edutainment approach (education delivered in an engaging way), key messages about the value of insuring crops and livestock were delivered through the farm makeover TV show *Shamba Shape Up*. The show is popular with smallholder farmers and their families, with each episode reaching 2.5m households in Kenya alone, with 60% of the viewers female. The show also aired in Tanzania, increasing the initiative's outreach.

People and culture

Human rights and modern slavery

We fully support the principles set out in the United Nations Universal Declaration of Human Rights and the International Labour Organization core labour standards. We respect the dignity and rights of each individual who works for us and with us.

As a global business, we recognise that respect for human rights is fundamental. We are committed to ensuring that there is no modern slavery or human trafficking taking place in our supply chains or in any part of our business. We continue to implement appropriate policies to support our commitment to act ethically and with integrity in all our business relationships.

We continued our approach in 2020 to include a supplier performance and risk management framework and spot-check audits on some of our critical suppliers to ascertain their compliance with the modern slavery legislation.

Financial crime

The Society is committed to ensuring the market it oversees, any associated parties and the Society itself has robust systems, policies and controls in place to minimise the risk of any acts of financial crime. The Society's Financial Crime policy ensures that the Society, including all jurisdictions in which it operates, is aware of the '6 Pillars' of financial crime risk, namely money laundering/terrorist financing, sanctions, bribery and corruption, tax evasion facilitation, fraud and market abuse/insider dealing. Through its oversight of the market, the Society lays down financial crime-related minimum standards, which it expects the market to implement accordingly. The Society also supports the market in its compliance with financial crime prevention requirements and tests the effectiveness of both the Society and the market's management of financial crime risks.

Whistleblowing

The Society has undertaken extensive work to strengthen its whistleblowing arrangements. Multiple channels are available for all employees to raise any concerns, and investigations are handled by specially designated individuals in the Financial Crime and Compliance team. The Annual Whistleblowing report was prepared and delivered to the Audit Committee in November 2020, and preparations are under way for the first attestation further to the Voluntary Notice of Requirement published by the PRA in December 2019.

Employee policies

The Society has a number of policies, standards and practices to ensure we treat all colleagues with fairness, respect and consistency, and provide them with the necessary support to be the best they can be at work. We have a code of conduct, human rights policy and speaking up policy, which are available to employees.

The Society is proud of its market-leading family care policies that are designed to provide employees with the support they need to enjoy happy and healthy working and home lives, whatever that looks like for them. In response to COVID-19 we have placed an increased focus on our people's wellbeing and put new policies and practices in place, including an additional five days' leave for those working around caring responsibilities and providing financial support for employees to purchase the equipment they need to work at home effectively and safely.

Our Diversity and Inclusion policy is designed to ensure that all employees understand the importance of equality and diversity. A Reasonable Adjustment policy sets out the general principles and procedures for all employees to follow and discuss reasonable adjustments, so that employees with disabilities are not disadvantaged compared with people who are not disabled.

Living Wage employer

As part of our commitment to being a responsible business, the Society is part of the Living Wage campaign. Our commitment to the initiative means that all Society employees, including those working for our sub-contractors, are guaranteed a fair wage that accurately reflects the cost of living.

Diversity and inclusion

To embrace diversity in gender, gender identity, race, ethnicity, sexual orientation, age, ability or disability, background and religion, the Society and the market work in partnership through the Inclusion@Lloyd's steering group and other diversity and inclusion networks. In 2020, we launched our Ethnicity in the Workplace guide, highlighting the experience of Black, Asian and Minority Ethnic colleagues using personal stories and data collected more than 900 employees market-wide. 2020 was our sixth year of sponsoring the Dive In Festival for diversity and inclusion in insurance. Spread across three days, events took place in 35 countries and attracted more than 30,000 participants. This year, the festival concentrated on the importance of the collaborative action of local voices to create a global impact on inclusion. The theme of authenticity and perspective encourages participants to think about the aspects of diversity and inclusion that enable us to bring our whole selves and our unique experiences to bear on our shared challenges.

Gender pay gap

The Society reported a gender pay gap of 20.3% (mean) in its 2020 Gender Pay Gap Report, a decrease from 23.6% in 2019. This gap represents the difference between the average pay for a man in the Society, compared with the average pay for a woman. The gender pay gap is different to equal pay, which is men and women being paid the same for the same work or work of equal value, and which we review on an annual basis as part of our compensation review process. The Society does not believe it has an equal pay issue.

Like many financial services firms, we employ broadly equal numbers of men and women at entry levels, but this representation does not extend to senior levels. Addressing the gender pay gap requires commitment at both the senior levels and investment in our future generation of leaders. To help redress the balance, in addition to expanding our family care policies, our Lloyd's Advance development programme for women aims to develop future women leaders through targeted development, mentoring, sponsorship and networking. In 2020, we saw two cohorts of women successfully complete the Advance programme, with additional cohorts announced for 2021. Our commitment is to an enhanced gender balanced plan to meaningfully close the gender pay gap.

Ethnicity pay gap

As part of our commitment to improving the experience for Black, Asian and Minority Ethnic colleagues, this year we have voluntarily reported our overall ethnicity pay gap for 2020. The Society reported an ethnicity pay gap of 12.1% mean and 5.1% median. In addition, the Society has also opted to further report our pay gaps for Black (24.9% mean; 17.9% median), Asian (8.0% mean; 4.0% median) and Mixed/Multiple Ethnic background (4.7% mean; -0.7% median) colleagues.

In June 2020, the Society apologised for the role played by Lloyd's in the 18th and 19th century slave trade. In acknowledging our own history, we committed to focusing on the following actions to improve the experience of Black, Asian and Minority Ethnic colleagues:

1. Invest in programmes to attract, retain and develop Black, Asian and Minority Ethnic talent in the Lloyd's market, including launching our 'Accelerate' Programme – a modular programme to develop Ethnic Minority Future Leaders across the market.
2. Review our employee and partner policies, as well as our organisational artefacts, to ensure that they are explicitly non-racist.
3. Commit to education and research. We will educate our colleagues and continue our research into the experiences of Black, Asian and Minority Ethnic professionals working in insurance, and share what we learn with the market.
4. Provide financial support to charities and organisations promoting opportunity and inclusion for Black, Asian and Minority Ethnic groups.
5. Develop a long-term action plan in collaboration with our Culture Advisory Group, Black, Asian and Minority Ethnic colleagues and white allies who will inform our journey and hold us to account.

2020 Society employee segmentation figures

UK	**1,040**
Non-UK	**265**

	Executive Team	Head of Function	Manager	Professional/Technician	Administrative	Total
Female	3	21	171	232	243	670
Male	4	38	258	231	103	634
Non-binary	0	0	1	0	0	1
Total	**7**	**59**	**430**	**463**	**346**	**1,305**

Responsible operations

Procurement

The Society's mission is to deliver an effective and sustainable approach to all third-party sourcing and supplier management, while achieving maximum value, minimising risk and driving efficiencies to invest in the future.

We are committed to the highest professional standards and ethics, and we expect the same high standards from the suppliers and any third-party sub-contractors that we work with. Our aim is to work collaboratively with our supply chain partners towards a responsible business approach. As part of our tender vetting process, suppliers are asked questions to assess their position on all responsible business activities outlined in our ESG commitment. Suppliers are also asked to sign up to Lloyd's Supplier Code of Conduct.

Environment

In 2020, we set a target for the Society to be net zero carbon emissions by 2025 and we will work with the Lloyd's market to support their own pathways to achieving net zero. We have identified a carbon management plan to decarbonise Lloyd's operations to meet our net zero ambitions. We are exploring developing a Lloyd's market-wide carbon offset project as part of our 2025 net zero ambitions.

We have continued the focus on reducing our energy consumption and associated carbon emissions from our London headquarters, given the majority of our emissions are from the UK. We have:

- Reduced our office space through our refurbishment;
- Fully installing LED lights and recycling 98% of the office waste removed through the refurbishment;
- Upgraded the boiler and chiller controls;
- Completed a sustainability assessment of all new office space acquired;
- Implemented the environmental management system ISO 14001; and
- Engaged our staff in a biodiversity campaign as part of World Environment Day.

In 2020, we continued to reduce our emissions on a total global basis from 8,363 tonnes of carbon dioxide equivalent (tCO_2e) in 2019 to 6,104 tCO_2e in 2020 – a reduction of 27%. We have reduced our total global emissions per full time employee (FTE) by 24% from 7.3 tCO_2e/FTE in 2019 to 5.6 tCO_2e /FTE in 2020. COVID-19 has impacted our carbon emissions due to significantly reduced flights, business travel and staff commute (falling by an average of 80% across all three categories), reduced use of Lloyd's office space (reducing our electricity usage at One Lime Street by 24%) and a reduction in demand for electricity through our data centres (emissions reducing by 14%). Estimations of the carbon emissions of employees working from home as a result of COVID-19 have not been included. During 2021 and beyond, we will review this if the trend of increased homeworking continues. We will also minimise the impact of our air travel emissions by offsetting them to fund community projects that remove greenhouse gas emissions.

Lloyd's energy and carbon disclosures for reporting year 1 January – 31 December 2020

		Total scope 1	Total scope 2 (location based)	Total scope 2 (market based)	Total scope 1 + 2 (location based)	Total scope 3	Grand total scope 1, 2, 3 (location based)	Grand total scope 1, 2, 3 (market based)	Carbon intensity location based (tCO_2e/ FTE)	Total energy usage (kWh)
2020 (tCO_2e)	**UK emissions**	**1,300**	**3,493**	**–**	**4,792**	**841**	**5,633**	**2,141**	**6.6**	**22,847,153**
	Global emissions (ex. UK)	**11**	**409**	**432**	**420**	**50**	**470**	**493**	**1.9**	**932,695**
2019 (tCO_2e)	UK emissions	1,312	4,578	–	5,890	1,739	7,629	3,051	8.4	26,248,211
	Global emissions (ex. UK)	–	642	670	642	92	734	762	3.0	1,511,863

We are aware of the reporting obligations under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. We have also for the second year measured and published our upgraded energy and carbon reporting to comply with the Streamlined Energy and Carbon Reporting guidance March 2019. We report on all material global emissions in scope 1 and 2, plus selected scope 3 emissions, using an operational control approach. The methodology used to compile our Greenhouse Gas (GHG) emissions inventory is in accordance with the requirements of the following standards: the WRI GHG Protocol Corporate Standard (revised version) and Defra's Environmental Reporting Guidelines: including Streamlined Energy and Carbon Reporting requirements (March 2019). 2020 performance refers to reported location-based totals, which are the summation of the UK emissions and Global emissions (ex UK) displayed. Scope 1 emissions includes natural gas, company cars, other fuels, refrigerants; Scope 2 includes electricity; Scope 3 includes employee cars, flights, public transport, commute, paper, waste, water, data centres, and transmission and distribution. Energy reporting includes kWh from scope 1, scope 2 and scope 3 employee cars only. This work is partially based on the country-specific CO_2 emission factors developed by the International Energy Agency, © OECD/IEA 2020 but the resulting work has been prepared by Lloyd's and does not necessarily reflect the views of the International Energy Agency. A more detailed statement on Lloyd's GHG emissions is available at: lloyds.com/ghgemissions

Key Performance Indicators

The Council uses a number of metrics, financial and non-financial, to measure the performance of the Lloyd's market as indicators of sustainability and progress against our strategy. Some of these measures are used on a recurring basis while some are specific to activities undertaken in that year. This year we have introduced a new Key Performance Indicator (KPI) to support our purpose strategic pillar.

Performance

Achievement in 2020

The Lloyd's market reported a pre-tax loss of £887m in 2020 (2019: a profit of £2,532m) and a combined ratio of 110.3% (2019: 102.1%). We made good progress and improved underlying performance in both our combined ratio and expense ratio. Despite the significant insured losses booked due to the COVID-19 pandemic, our capital position has strengthened since 31 December 2019. During the second quarter of 2020 Lloyd's members injected additional capital to ensure the estimated losses arising from the COVID-19 pandemic were adequately covered.

Result before tax Includes an aggregation of syndicate results, the result of the Society and notional investment return on members' funds at Lloyd's.	**2020: (£0.9bn)** 2019: £2.5bn 2018: (£1.0bn)	
Combined ratio[1] Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	**2020: 110.3%** 2019: 102.1% 2018: 104.5%	
Expense ratio[1] The ratio of net operating expenses to earned premiums net of reinsurance. Reducing the cost of doing business at Lloyd's is one of our strategic aims.	**2020: 37.2%** 2019: 38.7% 2018: 39.2%	
Return on capital[1] The ratio is used to measure the overall profitability and value creating potential of the Lloyd's market.	**2020: (2.8%)** 2019: 8.8% 2018: (3.7%)	
Solvency coverage ratio (MWSCR and CSCR)[1, 2] Under the Solvency II regime Lloyd's monitors the amount of eligible assets available to cover its market-wide SCR (MWSCR) and central SCR (CSCR). These amounts are expressed as a percentage of the requirements.	**MWSCR** **2020: 147%** 2019: 156% 2018: 149%	**CSCR** **2020: 209%** 2019: 238% 2018: 249%

1. The combined ratio, the expense ratio, the return on capital and Solvency coverage ratio are metrics that are consistently used to analyse financial performance in the Lloyd's market results and/or in the Society Report. These metrics (wherever used in this Annual Report) are Alternative Performance Measures (APMs), with further information available on page 184.
2. Please see note 4 of the market results on pages 56 to 60 for further details regarding Lloyd's solvency position.

Digitalisation

Achievement in 2020

Based on feedback from the market and in light of the economic and operational challenges posed by COVID-19, we sharpened our focus for Future at Lloyd's during 2020, significantly scaling back our activities to focus on key market delivery priorities. We prioritised three areas that would deliver the most impact and value to market participants. this included: improving electronic placement, enhancing Delegated Authority services and claims process improvements. We also made progress building out the data and technology requirements needed to support these focus areas. In November 2020, we published Blueprint Two, setting out the delivery plan for the next phase of our strategy

Future at Lloyd's Execution and market adoption of Future at Lloyd's deliverables.	**2021: Delivery of year one Blueprint Two solutions** – First release of the data and placement standards – Launch of next generation placement platform – Release of initial placement support services – Roll-out of delegated authority solutions – First release of the Digital Spine and the Digital Gateway – First release of the Data Store and supporting governance – Test new claims solution for open market claims and deliver delegated authority claims process improvements

Culture

Achievement in 2020

In 2019, we launched a comprehensive programme of actions to drive long-term culture change in the Lloyd's market. These included forming the Lloyd's Culture Advisory Group and launching a Speaking Up campaign, as well as setting business conduct standards that we expect everyone who works in Lloyd's market to adhere to. During 2020, we fulfilled all of our 2019 commitments and achieved gender parity for leadership positions in the Society.

Deliver on our plan to improve the culture of the Lloyd's market

Build on the existing inclusion activity and oversight responsibilities, introduce a robust action plan addressing the key themes from the Lloyd's culture survey and measure and monitor progress through clear and robust metrics.

2021: Build on culture improvements in the Society and across the market

- Develop high-performance leadership in the Society
- Progress against market gender targets
- Implement ethnicity target for the market
- Increase market adoption of Lloyd's Culture Toolkit

Purpose

Achievement in 2020

In 2020, we established a reputation and satisfaction pulse study as a regular check of Lloyd's brand health and stakeholder experience. This reported a net promoter score of +8 and a satisfaction score of +6.5 out of 10. Having benchmarked our performance against stakeholders' expectations in 2020, we will continue to monitor these measures in 2021. In 2020, we set a target for the Society to be net zero carbon emissions by 2025 and we will work with the Lloyd's market to support their own pathways to achieving net zero. In 2020, we continued to reduce our emissions on a total global basis.

Deliver our purpose through all our business activities

Enhanced focus on sustainability, innovation, and our global brand and reputation to ensure Lloyd's continually delivers on our purpose, sharing risk to create a braver world.

2021: Establish Purpose as our fourth strategic pillar

- Promote the global insurance industry's role in supporting customers' decarbonisation pathway, in the lead up to COP26
- Delivery of the 2021 commitments as outlined in our ESG strategy
- Continue to enhance our innovation capabilities, through the launch of Futureset
- Enhance Lloyd's global brand and reputation through our collaboration with governments, banks and communities around the world
- Improvement against net promoter score and satisfaction benchmarks

Risk Management

Our risk framework

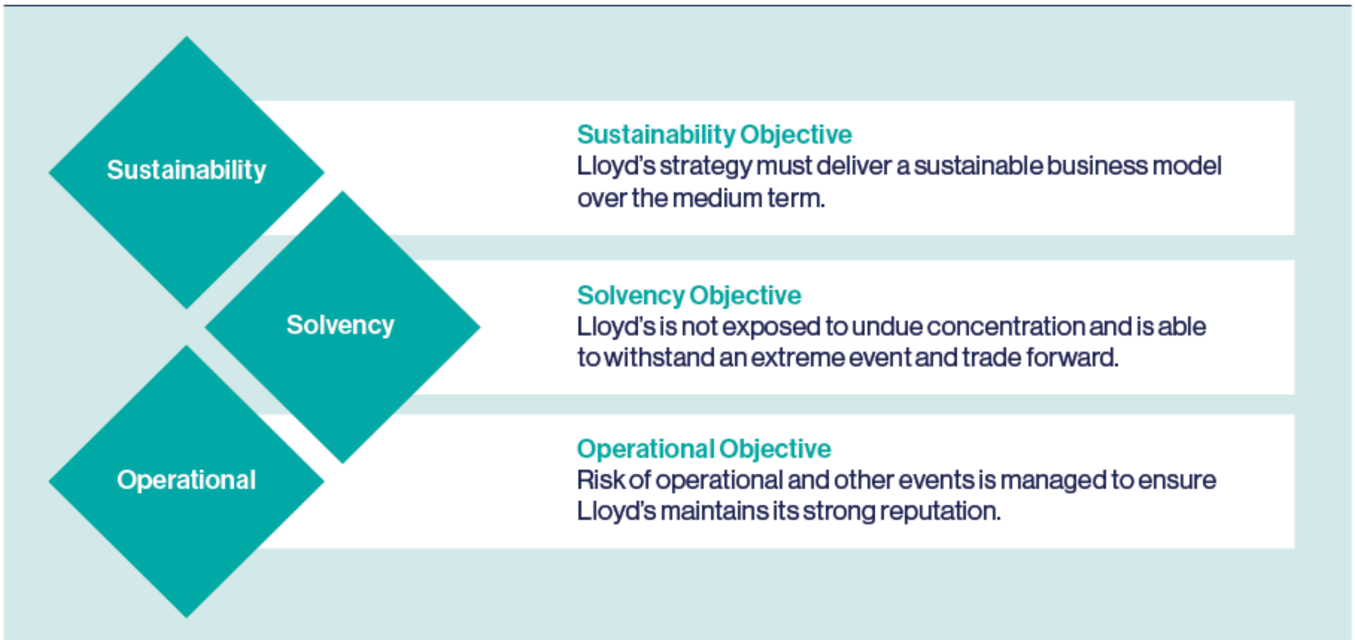
The Lloyd's Risk Management Framework ensures that the identification, assessment, monitoring and management of all material risks affecting the Society takes place on an ongoing basis.

Risk appetite

The Council manages exposure to these risks by setting and monitoring a risk appetite framework – how much risk is acceptable and what actions should be taken when appetites are exceeded.

The framework starts with Lloyd's purpose: Sharing risk to create a braver world. To deliver on this purpose, the Society sets three risk objectives to be continuously met: a sustainability objective, a solvency objective and an operational objective. These risk objectives reflect the Council's view of the acceptable risk faced by Lloyd's and provides the three pillars of the risk appetite framework.

Within each pillar, there are a number of risk categories with metrics that define the amount of risk that the Council is willing to take. These metrics represent the key elements that could result in the risk objectives not being achieved for the pillar. The metrics are monitored on an ongoing basis and reported to the Council each quarter alongside any get to green actions if a threshold has been breached.



Risk and control self-assessments

Alongside the risk appetite framework, Lloyd's adopts a consistent approach in managing its risks through a process known as the risk and control self-assessment process, which is conducted on a biannual basis. This process reassesses 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 process also enables Lloyd's to undertake a more forward-looking assessment of risk.

Own Risk and Solvency Assessment (ORSA)

The ORSA process is a key element of the risk management framework of Lloyd's and is performed at least annually. 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 risks (including risk appetites, the risk and control assessment process, business plan and capital approval).

Framework enhancements

Lloyd's continued to strengthen its risk framework during 2020. Recent investment in resource and technical expertise is enabling our second line oversight functions to be more proactive, performing deep dives into areas of heightened risk and forming an independent view.

We have made enhancements to several of our risk processes and tools, including:

- Risk and control assessment process: an improved process designed to drive accountability and reduce incidents;
- Technology: the implementation of a new Governance, Risk and Compliance system;
- Financial crime: an enhancement to Lloyd's assessment of its exposure to financial crime;
- Reserving: end to end validation of the Reserving team's projection of reserves and technical provisions by the second line Risk function; and
- Further embedding the Risk function's role in business plan and capital setting: providing independent analysis to test the effectiveness of the process and ensure delivery of outcomes aligned with risk appetite.

These improvements are expected to continue into 2021. Progress is already being made on the following areas:

– Market oversight: a continued shift to a more risk-based and differentiated approach to supervision of the market. An Oversight Design Authority (ODA), chaired by the Head of Risk Management, has been constituted to oversee the redesign of the market oversight operating model and monitor its effectiveness;
– Market oversight: development of a simpler and principles-based approach to minimum standards;
– Operational resilience: the implementation and maintenance of the operational resilience framework;
– Cyber resilience: roll out of the Cyber Improvement Programme within the Society and enhancement to the Lloyd's Minimum Standards to further strengthen cyber resilience across the market;
– Liquidity: improvements to the liquidity management framework to ensure Lloyd's meets enhanced regulatory requirements;
– Risk culture: ensuring that an overarching culture of risk awareness and accountability continues to be embedded across the business globally; and
– Climate risk: ensuring that the financial risks from climate change are understood and being monitored within the risk framework.

These enhancements leave the Society well prepared to manage the risks from COVID-19 or any other risk events in the near future.

Key risk areas

The impact of COVID-19 has been unprecedented. As a risk event, it has caused global economic uncertainty and social restrictions that continue into 2021. While recent progress in the development and roll out of vaccines provides hope for transition and recovery, the ongoing risks are not being underestimated and 2021 may be even more challenging as the economic and social impacts continue.

Although it has dominated the headlines, COVID-19 is not the only risk to Lloyd's. There has been significant focus during 2020 on ensuring that progress is made on Lloyd's strategic priorities (Performance, Digitalisation, Culture and Purpose), noting that each present both an opportunity and a risk to our objectives.

Risk	Mitigation
COVID-19 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 of key risk impacts such as on underwriting profitability, investments and capital, as well as operational impacts including increased cyber and conduct risks. 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 all areas of the risk profile continues to be monitored through the risk appetite framework 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 lines 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 financial 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.
Performance Market performance will remain a key risk area in 2021. The benefits of the remediation action taken over recent years has begun to more substantially materialise; improvements in underlying performance in Lloyd's interim results led to successful removal of negative watch from Fitch. The rating momentum has continued over 2020 and is expected to continue into 2021. While rate improvements are welcome, ensuring rate adequacy is critical to market performance. Not least because of the impact COVID-19 and the ensuring economic uncertainty will have on performance for the current and prior years of account.	Following completion of the pilot in 2021, our Best Practice Pricing Framework will be rolled-out to the market to address the gap in price adequacy and promote best practice in pricing and portfolio management. The Risk function continues to critically challenge oversight, including business plan and capital approval, to ensure decisions are in line with the Council's risk appetite. This includes more proactively monitoring the extent to which the market is delivering to plan and ensuring that the business is taking appropriate action to drive remediation where required. Looking forward, the Society is rethinking its market oversight operating model, ensuring alignment with its future ambitions and benefiting its members and the market as a whole by making it easier and more cost-effective to operate in the market. A review of the existing oversight model was undertaken in 2020, with phase one recommendations already implemented.

Risk	Mitigation
Digitalisation The publication of Blueprint Two in November 2020 follows on the foundations set by Blueprint One and provides a more tangible, detailed and targeted view of the programme's priorities over the next two years. The scope and detail of our second Blueprint allowed for a significantly more focused assessment of the risks and challenges. While implementing the Future at Lloyd's will mitigate strategic threats and improve the overall risk profile, the execution risk of delivering the programme remains inherently a key area of focus.	Risk management has worked closely with a number of senior stakeholders to identify key execution, transition and end-state risks which could potentially impact the programme. Risks are regularly reviewed at all levels of governance, with an appropriate degree of independent challenge from the Risk Management function. Delivering Blueprint Two represents a complex challenge, with many streams of work and cross-functional dependencies; high-quality risk management will therefore be an essential prerequisite to a successful delivery.
Culture Creating an inclusive culture is a strategic imperative for the Lloyd's market. Failing to do so will stifle the innovation we need and prevent Lloyd's from attracting the most talented people in the world. Alongside progress towards a more inclusive environment, it is critical that an overarching culture of risk awareness and accountability continues to be embedded across the business globally. This will lead to increased clarity of ownership and accountability for monitoring, managing and reporting risks. The Society made significant progress during 2020, with the launch of the Lloyd's Culture Dashboard, the publication of the Culture Toolkit and setting gender targets for senior leadership roles for the first time. This is all being done with guidance and leadership from the independent Culture Advisory Group, set up in 2020 and chaired by a Non-Executive Director, to ensure Lloyd's is taking the right actions to effect sustainable and measurable progress	From the outset, a risk assessment, facilitated by the Risk function and presented to the Risk Committee in February 2020, identified three areas of risk: execution, behaviour and data. Across each of these risk areas, a number of current and additional controls were identified (for example, this included activity such as developing the annual market-wide culture survey and the introduction of the Culture Advisory Group). Where refinement or additional development of controls was required, this was incorporated into project delivery. The risk assessment reflected the fact that many controls and activities are driving culture change which will take some time and requires continuous, long-term focus. The results of our most recent culture survey showed a number of key improvements, with women in particular having a better experience than in the previous year's survey. There is still a long way to go; 2020 brought recognition to the inequality that Black, Asian and Minority Ethnic groups have experienced over many years. Our culture survey results have highlighted the urgency with which change is required for to improve opportunities and experiences Black, Asian and Minority Ethnic colleagues at Lloyd's, and we are in the process of setting ethnicity targets to accelerate that change.
Purpose A fourth priority area on Purpose has been established for 2021 and Lloyd's will ensure that the risks to making progress in this area are a focus within the risk framework. As the Council sets out its ambitions for the future, whether it be around climate change or diversity targets, risks to the delivery of those ambitions will be monitored and managed.	Lloyd's published its first ESG Report in December 2020, containing a number of ambition statements for how the Society and the market will contribute to a sustainable future. Lloyd's is working closely with the market to develop further guidance to support the commitments in the report. These initiatives are expected to protect and improve the strength of the Lloyd's brand, and the Risk Committee is now able to monitor this via a Net Promoter Score metric that has been incorporated into the risk appetite framework.

Council Statement

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

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

The Council has a duty to act in the interests of the Society's members. All decisions have been taken in the clear and certain knowledge that the Council must take material action to ensure the long-term interests of the Society's members are protected. Our governance is therefore designed to ensure that we take into account the views of members and broader stakeholders. In November 2019, to enable more efficient and swifter decision-making, we announced our decision to merge the Council and the Franchise Board (the 'Board') effective from 1 June 2020, following consultation with, and widespread support from, members of the Society and the market. The Council's external and working members are elected by the market, meaning six of the 15 members of the new Council directly represent the views of members.

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

Throughout 2020, the Council focused on four areas that will have a long-term impact on the Lloyd's market and linked with our 2020 priorities. These were:

1. Continuing our activity to deliver first-class underwriting;
2. Delivering our strategy for digitalisation through the Future at Lloyd's;
3. Continuing to enhance the market's culture, ESG and sustainable business model; and
4. Managing Lloyd's response to COVID-19.

The Council aspires to world-class underwriting performance and strong performance management, and will maintain the highest standards to protect customers and the market's reputation. During 2020, we continued to take action through our robust oversight regime to improve underwriting performance. Further details of our oversight approach are set out on page 15. It is gratifying to see that these efforts continue to improve the market's underlying performance, and this work is continuing through 2021, which will be in the long-term interest of our members.

In September 2019, we set our vision for the Future at Lloyd's – our strategy to digitalise the Lloyd's market – in Blueprint One. Despite the challenges that COVID-19 has presented, the Future at Lloyd's has made significant progress over 2020, culminating in the publication of Blueprint Two, which outlines the details and our plan to deliver the second phase of the Future at Lloyd's. This work will be funded by the debt we raised in early 2020.

Blueprint Two helps our market participants, people and suppliers understand what needs to be done over the next two years in terms of change management to ensure they realise the full benefits of the next phase of Future at Lloyd's developments. Its success will be dependent on the input, feedback and continuing support of these stakeholders. We are therefore working with them closely to ensure we are building the right solutions in the first place and sharing our progress on a regular basis. The Future at Lloyd's now has 18 market engagement groups representing the view of more than 400 market participants and has established a research pool to help develop our new solutions through short, sharp, focused research sessions.

The Council is confident that the solutions that are being delivered in 2021 and 2022 will provide a more attractive future for market firms and employees, enable new investment opportunities for members and provide customers and wider society with a greater choice of insurance products and services that meet their risk needs. Further details on the Future at Lloyd's can be found on pages 15 and 16.

Building the most advanced insurance marketplace in the world will require new skills and ways of working to be successful, and the employees working in the Lloyd's market and Society are its most important asset. It is therefore vital that they are able to operate in a safe, secure and inclusive environment that attracts the best talent and allows it to develop and contribute.

Last year, we announced an action plan developed in collaboration with the managing agent and broker associations, the Lloyd's Market Association (LMA) and the London and International Brokers' Association (LIIBA), to ensure a safe and inclusive working environment in the marketplace. We are pleased to say that in 2020 we delivered on the commitments that we made and continued to respond to feedback from our people, including setting gender targets, launching a Culture Dashboard to provide transparency and an honest marker of our collective progress and enhancing the Society's family care policies. These form the foundation of our ongoing initiatives and commitment to build a more inclusive environment. Further details on the actions taken can be found on pages 16 and 17. The Council continues to advocate for our desired culture. Throughout 2020, culture has been a standing agenda item at Council meetings and in October we introduced a Council Diversity Policy setting out Lloyd's approach to achieving a diverse and inclusive governance body. Elected Council members are also personally subject to the culture initiatives as they are themselves working members of the Lloyd's market.

For 2021, the Council has introduced a fourth strategic pillar, aimed at embedding Lloyd's purpose across the Society and market's activities. This refinement to Lloyd's strategy was the product of an outward engagement programme conducted by the Chairman and Chief Executive from September to December 2020. The aim of this engagement was to understand stakeholders' perspectives on changes to market conditions as a result of COVID-19, as well as Lloyd's progress against our strategic pillars.

Lloyd's purpose and leadership has been highlighted through our response to COVID-19. Lloyd's has focused first on helping our customers cope with the immediate aftermath of the crisis by paying claims, donating funds, and offering flexible terms and conditions. We focused on helping charities respond to the immediate and long-term needs of communities dealing with the impacts of COVID-19 by committing £15m to charitable organisations and funds.

However, the pandemic has exposed the limitations of existing insurance solutions for systemic risks of this scale and dented the reputation of the insurance industry as a whole. In response, the Council launched a series of initiatives to help our customers and wider society to recover from the devastating impacts of COVID-19, and to help the insurance industry adapt to unparalleled new challenges brought about by the pandemic. As a marketplace which brings together many different stakeholders, Lloyd's is uniquely placed to convene the industry and lead the global dialogue to help rebuild trust around the insurance industry's response. Lloyd's consulted extensively with customers and its Global and London Advisory Committees, which include a number of the world's largest insurers and brokers, and engaged governments, regulators, industry bodies in 25 countries to develop and leverage these initiatives around the world. Lloyd's also engaged with industry and customer bodies to develop a series of recommendations for the industry to simplify insurance product design and delivery, for the benefit of its customers, which will be implemented at Lloyd's during 2021.

Council decisions and their impact on stakeholders

We place great importance on considering the needs of all our stakeholders in our decision making. The following table sets out a number of decisions taken by the Council during 2020 and how the views of our stakeholders were taken into account.

Decision	How we took stakeholders into account	Long-term implications
Future culture at Lloyd's	The Council established an independent Culture Advisory Group (CAG) as part of a comprehensive action plan to drive long-term culture change in the Lloyd's market. Chaired by Fiona Luck, Lloyd's Council member and Non-Executive Director responsible for talent and culture, the group will provide guidance and thought leadership to support the programme of actions to address the four key themes that emerged from Lloyd's 2019 culture survey findings namely: gender balance, speaking up, wellbeing and leadership. The Group subsequently added an additional area of focus: improving the experience and representation of Black, Asian and Minority Ethnic talent in the market. The CAG membership includes leading experts with experience of successful culture transformation and market representatives including the Chief Executive Officers (CEOs) of the LMA, LIIBA, the London Market Group (LMG), the International Underwriting Association (IUA), and the Chair of Inclusion@Lloyd's. The Group's inaugural meeting took place in January 2020, with meetings held on a quarterly basis. The CAG commissioned a second market-wide culture survey, which ran during November 2020, to help understand the working cultures that exist across the Lloyd's market, including standards of behaviour and conduct, and to inform further action.	Transforming Lloyd's culture is a strategic imperative for the future success of our marketplace – one which is powered by the intellect of its people, who together create our shared culture and future. The action plan supported by the CAG is aimed at making the most of the world-renowned talent we have in the market and also bringing in new, world-leading talent and skills.

Decision	How we took stakeholders into account	Long-term implications
The Future at Lloyd's	The Council has established a Technology & Transformation Committee (TTC), chaired by Andy Haste, Council member and Senior Independent Deputy Chairman, and overseen by Lloyd's Council, to ensure the necessary in-depth oversight of the Future at Lloyd's programme. Success in delivering Blueprint Two will only be possible if our market's managing agents, brokers and coverholders continue to work collaboratively with Lloyd's and influence the development of solutions over time. The TTC has therefore established for each area within the Future at Lloyd's: – An advisory group: consisting of senior market representatives and Lloyd's collaborating on the direction and priorities of activities and managing the plans and budgets; – Working groups: consisting of market practitioners who understand the current technology, process and issues to help shape the design and implementation of future technology and ways of working; and – Research panels: consisting of senior and practitioner level market individuals providing insight and direction. In addition, in order to promote engagement with the market the TTC has established a COO Advisory Board made up of managing agent and broker Chief Operating Officers, and the CEOs of the LMA, LIIBA and the IUA. The Future at Lloyd's will also continue to engage with market firms on a one-to-one basis, to help firms understand the specific impacts on them and what they can do to prepare for change.	The Future at Lloyd's solutions will offer market participants the opportunity to innovate in the way they serve their customers, and operate more efficiently, at a lower cost base – better, faster, cheaper. Collaboration with market participants, using an iterative test and learn approach to the development process will ensure that new services and transition plans to be developed can progress in the optimal way for market participants. By considering future adoption at every stage of the process, we can make the right decisions based around the cost and long-term benefit for our stakeholders.
Enhancing our proposition for members and capital providers	In 2020, the Council has overseen a series of initiatives improve the ease and transparency of managing capital at Lloyd's, including: – Development of a new digital portal for members, agents and investment managers: early sight of the portals was given to members' agents and large corporate members in late Spring prior to the design being approved. A pre-letter went to all members and the market in the summer with a video showing the screens and functionality. Further correspondence with members and a video to launch the new service were also provided at end of October. A number of demonstrations of the portal were given to members' agents and Direct Corporate members during the summer of 2020. – Simplifying the rules around managing Funds at Lloyd's: A pre-consultation was held with members' agents and the LMA to take initial feedback prior to the launch of a formal consultation on the proposals. The proposed formal consultation period was also lengthened as a result of these discussions. The formal consultation, which concluded in January 2021, was a dynamic process with members and their representatives, with changes suggested and adopted throughout to take into account feedback on issues which would otherwise have arisen for our members. This communication strategy will be adopted for the rest of the roll-out of new functionalities and services. – The launch of Lloyd's multi Insurance Special Purpose Vehicle (ISPV): A series of interviews was undertaken with investors, managing agents, members' agents, brokers and investment houses, as well as the LMA and Association of Lloyd's Members (ALM), before Lloyd's pre-application discussions with the PRA and FCA. Based on the feedback received through stakeholder engagement, standardised documentation and processes have been developed, designed to make the process quicker, more tax transparent and to streamline the approach to regulatory approval for investors. Throughout 2020, we continued to keep key stakeholders updated through direct engagement and this is a process that has been repeated following the announcement of the approval.	The provision of new digital portals will remove manual intervention, improve service and reduce costs, making investing at Lloyd's more attractive. Members will be able to use Lloyd's new ISPV to manage their capital requirements by attracting new classes of investors such as pension funds, whilst benefiting from reduced set-up times and lower transactional costs. The dynamic consultation process we have followed in developing these elements of our proposition mean that the final proposals are agreeable to the vast majority of members as well as to their long-term benefit.

Decision	How we took stakeholders into account	Long-term implications
ESG strategy	Following feedback from, and in consultation with, our market, Lloyd's has committed to phasing out insurance coverage for thermal coal-fired power plants and, thermal coal mines, oil sands and new Arctic energy exploration activities from 1 January 2022, as well as the cessation of renewals for these types of businesses from 2030 onwards. The announcement of these targets follows feedback from and in-depth discussion with our stakeholders including the LMA, the IUA, LIIBA, and the Chartered Insurance Institute (CII). Throughout the process of devising our ESG strategy, we have regularly met with senior stakeholders, the insurance associations. To reflect the priority of this work, the Council have set up a new ESG Advisory Group, led by the Chairman of Lloyd's and reporting into the Council. It is made up of representatives from our market and external specialists. Together they provide expert advice and practical guidance, as well as ensuring that we achieve our targets.	Lloyd's ESG strategy is aimed at ensuring everything we do is rooted in supporting better long-term outcomes for all of our stakeholders; from the types of risks underwritten by the market and where we invest our capital through to how we care for the wellbeing of our employees and contribute to the communities and countries in which we operate. The 2030 deadline is to support policyholders as they make the phased transition away from these energy sources. We believe these deadlines reflect our commitment to phasing out insurance provision for unsustainable energy risks over the coming years. We will engage widely with stakeholders across the Lloyd's market in 2021 and beyond to further develop and operationalise our ESG strategy, policies and processes, including responsible underwriting and investment.

Market Results

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2020 Highlights

Financial highlights

Lloyd's reported a loss of £887m
(2019: a profit of £2,532m)

Combined ratio of 110.3%
(2019: 102.1%)

Gross written premium of £35,466m
(2019: £35,905m)

Capital, reserves and subordinated loan notes stand at £33,941m
(2019: £30,638m)

Gross written premium
(£m)

2016	29,862
2017	33,591
2018	35,527
2019	35,905
2020	**35,466**

Result before tax
(£m)

2016	2,107
2017	(2,001)
2018	(1,001)
2019	2,532
2020	**(887)**

Capital, reserves and subordinated loan notes (£m)

2016	28,597
2017	27,560
2018	28,222
2019	30,638
2020	**33,941**

Central assets
(£m)

2016	2,879
2017	2,981
2018	3,211
2019	3,285
2020	**3,308**

Return on capital*
(%)

2016	8.1
2017	(7.3)
2018	(3.7)
2019	8.8
2020	**(2.8)**

Combined ratio*
(%)

2016	97.9
2017	114.0
2018	104.5
2019	102.1
2020	**110.3**

The Pro Forma Financial Statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared as closely as possible with general insurance companies. The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. Further information concerning the basis of preparation of the PFFS is set out on pages 51 and 52.

* The combined ratio, the expense ratio, the return on capital and Solvency coverage ratio are metrics that are consistently used to analyse financial performance in the Lloyd's market results and/or in the Society Report. These metrics (wherever used in this Annual Report) are Alternative Performance Measures (APMs), with further information available on page 184.

Market results

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%.

Underwriting result

While 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 lines of business, except the casualty line, 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 with 2019. While 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.

Investment review

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.

The market's investment income is comprised of returns on syndicate premium trust funds and the Society's investment portfolio and a notional investment return on members' Funds at Lloyd's.

Syndicate premium trust funds account for the majority of the market's investment income. Overall, syndicate investments generated income of £1,231m, a return of 2.8% (2019: £1,667m, 4.0%). The return was driven by the strong performance on corporate bonds and equity and growth assets. The notional investment return on members' funds at Lloyd's, derived from the investment disposition of members' funds at Lloyd's and the returns on relevant market indices, was £949m or 3.2% on the related assets (2019: £1,657m, 5.9%). Government and corporate bonds accounted for the majority of the return, with equities having a lesser impact. The Society's investment portfolio generated income of £88m, a return of 2.2% (2019: £213m, 5.6%). The investment performance of the Society's investment portfolio is discussed on page 114.

Balance sheet strength

The Lloyd's market continues to be strongly capitalised with total capital, reserves and subordinated loan notes of £33,941m at 31 December 2020, an increase from the £30,638m reported at 31 December 2019.

The Lloyd's market's solvency ratios – the market-wide and the central solvency ratios – continue to be above risk appetite and regulatory requirements. The market-wide solvency ratio was 147% and the central solvency ratio was 209% at 31 December 2020. These reflect increases in members' assets, including their Funds at Lloyd's – as members injected additional capital to cover their funding shortfalls and losses arising from COVID-19 – and increases in the net assets of the Society of Lloyd's, offset by increases in capital requirements driven by responses to COVID-19 across all key risk drivers.

2020 Highlights continued

2020 Performance

Premium

Gross written premium for the year was £35,466m, compared with £35,905m in 2019.

The overall price change (taking into account terms and conditions) on renewal business was an increase of approximately 10.8%, which was above planning assumptions for the year and better than 2019. Positive price movements have been experienced for the past 13 consecutive quarters and across the majority of lines of business.

Despite the pricing momentum, the market experienced volume reductions following some syndicates exiting certain lines of business, or curbing risk appetites in poor performing lines of business and portfolios heavily impacted by COVID-19. These volume reductions have led to an overall decrease in premium of 1.2%, compared with 2019.

US dollar denominated business continues to account for the majority of business written in the Lloyd's market. However, a stable US$ to GBP average rate of exchange has led to minimal impact of foreign exchange on the change in reported premiums.

Accident year ratio

The accident year ratio* has continued to improve, reducing to 87.3% (2019: 95.1%). Within this there has been a significant improvement in the attritional loss ratio, coupled with an improvement in the expense ratio. Prior year movements have had a more beneficial impact on the results than in 2019.

Attritional loss ratio: the attritional loss ratio continued to improve in 2020, reducing to 51.9% (2019: 57.3%). The sustained period of rate increases on renewal business and continued focus on strengthening underwriting discipline across the market have been the key drivers of this continued improvement. While lower claims frequencies have been evident across certain lines as a result of the COVID-19 pandemic, this has not had a material impact on the business written in the Lloyd's market.

Prior year development: this was the 16th consecutive year of prior year releases. The current year result has seen greater benefit from prior year releases at 1.8% of net earned premium (2019: 0.9%). There have been releases against all lines of business other than casualty, which saw a strengthening of £0.3bn.

Within the net prior year release there has been some strengthening against estimates for previous years' catastrophe events: Hurricane Irma, the 2019 Typhoons Hagibis and Faxai and Typhoon Jebi.

In 2021, Lloyd's will continue to monitor reserves closely and act to ensure that adequate market discipline is being maintained in current challenging market conditions. Particularly on the longer-tailed lines, such as casualty, where there has been continued focus in recent years exacerbated by growing concerns over areas such as social inflation.

Expense ratio*: total operating expenses have reduced both in sterling amounts and as a percentage of net earned premium, to 37.2% (2019: 38.7%). Acquisition costs have accounted for the majority of the decrease, reducing to 26.1% of net earned premium from 27.5% in 2019; this is attributed to changes in business mix. Administrative expenses, while reporting a slight increase in sterling, has remained stable as a percentage of net earned premium. The extended period of lockdown due to the ongoing COVID-19 pandemic has led to savings across a number of expense lines, however, these have been offset by a number of one-off items in the year, including the costs of preparing offices for reoccupation.

Major claims

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.

Major claims	% of net earned premium
2016	9.1
2017	18.5
2018	11.6
2019	7.0
2020	**23.0**
Five year average[1]	10.1
Ten year average[1]	10.5

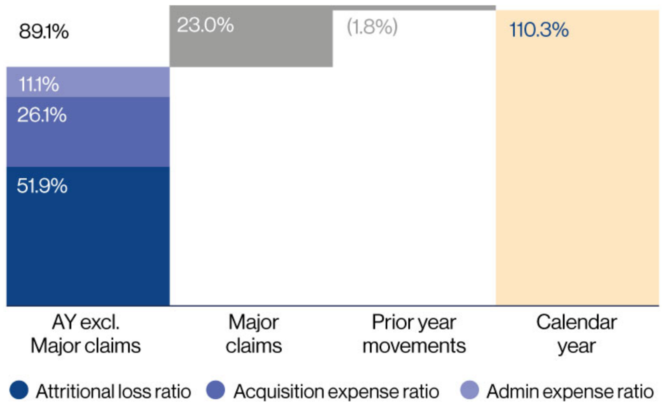
Accident year ratio excl. prior year releases	%
2016	93.9
2017	98.4
2018	96.8
2019	96.0
2020	**89.1**
Five year average[1]	94.8
Ten year average[1]	93.1

1. Weighted by net earned premium.

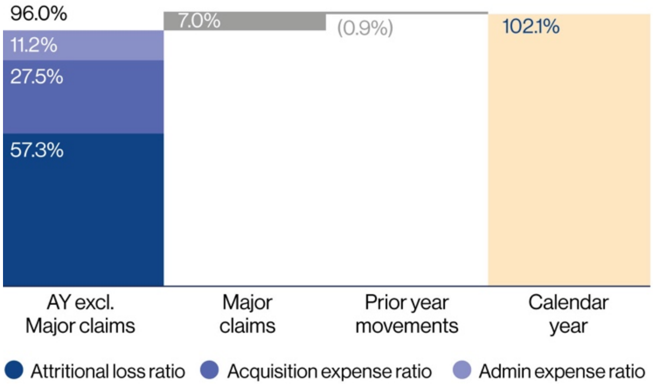
* The accident year ratio and expense ratio are metrics that are consistently used to analyse financial performance in the Lloyd's market results and/or in the Society Report. These metrics (wherever used in this Annual Report) are Alternative Performance Measures (APMs), with further information available on page 184.

Contributors to combined ratio

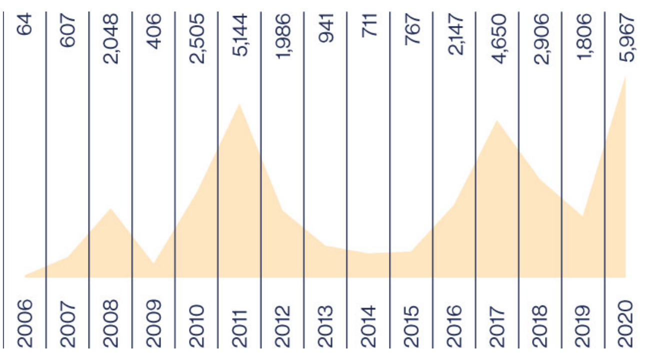
2020 Combined ratio %



2019 Combined ratio %



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



Five year average: £2,514m; 15 year average: £2,142m. Indexed for inflation to 2020. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

Prior year reserve movement	% of net earned premium
2016	(5.1)
2017	(2.9)
2018	(3.9)
2019	(0.9)
2020	**(1.8)**

Years of account in run-off	Number of years
2016	6
2017	5
2018	0
2019	3
2020	**9**

Reinsurance protection

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

Reinsurers' share of claims outstanding remains a material consideration for Lloyd's, equivalent to 60.6% of gross written premium or 70.1% of members' assets (2019: 55.4% of gross written premium or 72.7% of members' assets). There has been an increase in the overall reinsurance recoverables due to the catastrophe and COVID-19 losses experienced during 2020 and due to the continued use of retrospective reinsurance protections. This increase reflects the reinsurance risk transfer strategy of the Lloyd's market, the nature of loss events experienced during 2020 and risk mitigation actions being taken to assist in the management of legacy exposures. No negative settlement trends have been witnessed to date.

Lloyd's outward reinsurance premium spend for both the 2020 financial and underwriting year of account was 27.2% (2019: 28.5%) of gross written premium, which reflects a relatively stable overall position in regard to the scale of reinsurance purchased. This level of reinsurance transfer remains within risk appetite.

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

Under Lloyd's three-year accounting policy for final distribution of each underwriting year of account, the 2018 underwriting year of account reached closure at 31 December 2020. The 2018 pure underwriting year suffered losses from a number of catastrophic events, including Hurricanes Florence and Michael; California wildfires and Typhoon Jebi.

The 2018 pure underwriting year of account reported an underwriting loss that was partially offset by releases from 2017 and prior years, which were reinsured to close at the end of 2019. These releases amounted to £311m. Investment return on the 2018 underwriting year meant the total result was an overall loss of £1,914m (2017 underwriting year loss: £2,414m).

At the beginning of 2020, there were three syndicates whose 2017 underwriting years remained open. These run-off years reported an aggregate loss of £2m, including investment return, in 2020 (2019: no run-off years). There were six syndicates whose 2018 underwriting years remained open post 31 December 2020 taking the total number of open underwriting years at 1 January 2021 to nine.

The results of the major lines of business are discussed in detail on pages 38 to 44.

Line of business:

Reinsurance – Property

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

2020 performance

Lloyd's gross written premium for 2020 was £6,627m (2019: £6,405m), an increase of 3.5%. Syndicates have shown greater focus on client selection and aggregate deployment, given higher frequency and severity of loss activity in recent years. The Lloyd's reinsurance property line reported an accident year ratio of 112.8% (2019: 106.5%).

2020 was a record-breaking year for natural disasters, with more storms in the North Atlantic than ever before, as well as many other catastrophic events occurring globally. While individually the insured losses from 2020 natural disasters were less severe than some experienced in prior years, reinsurers have still accrued meaningful losses. Additionally, COVID-19 losses are expected to impact this line of business, although there are several primary policy and reinsurance treaty wording issues to be resolved.

Prior year movement

The prior year movement was a release of 2.8% (2019: 0.3%). Releases are generally expected for more recent years as claims estimates for losses become more certain. This occurs when margin being held for potential catastrophes is not utilised and as claims estimates for losses become more certain. Experience on prior years has been favourable overall, partially offset by deteriorations on some historical catastrophe events. Hurricane Irma (2017), Typhoon Jebi (2018), Hurricane Michael (2018), Storm Dorian (2019), Typhoon Faxai (2019) and Typhoon Hagibis (2019) have all been subject to deteriorations in ultimate losses during 2020. However, some syndicates have seen favourable movements on these losses and the market has made releases for the 2017 Californian wildfires.

Looking ahead

Despite the numerous catastrophe losses in the past four years, there remains a surplus of capacity in the reinsurance market. Initial indications suggest that pricing levels at January 2021 were generally below market expectations, but loss affected business pricing was at or above expected levels. Pricing adequacy may improve as 2021 progresses, with a large proportion of loss affected business still to renew, but it seems unlikely that any pricing changes related to COVID-19 will be fully incorporated for some time in this sector.

Cyber clauses and Communicable Disease clauses have been widely adopted by the market during the second half of 2020, providing enhanced clarity. This trend is expected to continue into 2021.

Reinsurance – Casualty

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

2020 performance

Lloyd's gross written premium for 2020 was £3,321m (2019: £2,960m), an increase of 12.2%. The Lloyd's reinsurance casualty line reported an accident year ratio of 113.0% (2019: 102.4%).

The casualty treaty market in 2020 saw an acceleration of the trends of the previous year as the market experienced reducing capacity, tightening policy coverage and significant price strengthening in distressed and high exposure accounts across most lines of business. While US Workers' Compensation remained competitive, concerns are emerging over the COVID-19 impact and in particular presumption laws being brought in some states of the US.

Motor excess of loss business continues to perform below expectations and the sought after relief from a winding back of the Ogden rate to -0.25% in 2019, which was maintained in 2020 (from the previous level of -0.75%), has not had as significant an impact as hoped.

Prior year movement

The prior year movement was a release 2.3% (2019: strengthening of 1.7%). Despite 2020 being a year of relatively benign prior year claims experience for casualty reinsurance business, emerging trends such as social inflation are driving increased uncertainty on this line. The US casualty treaty business has performed slightly better than expected, whereas non-US casualty has been in line with expectations. Personal accident excess of loss has also been broadly in line with expectations.

Lloyd's continues to monitor casualty lines to ensure adequate provisions remain over all prior years. There is an increased level of oversight and the additional work being done by the market to monitor the robustness of reserves for this line. Given the high level of margin held to cover the uncertain, long-term nature of the underlying policies, we would generally expect some releases to come through on the older years.

Looking ahead

As we look ahead to 2021 Lloyd's will be specifically and closely monitoring social inflation to develop better market understanding of the trend to ensure adequate and robust pricing and reserving in the market. A tranche of that work will explore how the trend might develop in future years and whether social inflationary trends can be anticipated.

While new capacity coming to the market during 2020 has been observed, the expectation is that positive pricing will continue and that the availability of capital for poorer or more exposed accounts will remain constrained. Overall concerns with pricing maintaining parity with claims inflation will likely persist, and prudent risk selection and terms setting will remain fundamental to profitability in the coming year.

Reinsurance – Specialty

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

2020 performance

Gross written premium overall was £2,211m (2019: £2,053m), an increase of 7.7%. Gross written premium by sector within this specialty business was: Marine, Aviation and Transport £1,506m (2019: £1,414m), Energy £702m (2019: £633m), Life £3m (2019: £6m). The Lloyd's reinsurance specialty line reported an accident year ratio of 101.1% (2019: 108.6%).

Despite general hardening of the marine market, the pricing increase has been more modest in marine reinsurance. Anecdotal evidence suggests that there is an expectation that larger increases were attained during the end of year reinsurance renewal season. However, the capacity remained relatively unchanged, therefore, price increases might be less than expected.

Prior year movement

The prior year movement was a release of 6.0% (2019: release of 2.8%). The claims experience for this line has performed broadly in line with expectations over 2020. This line is predominantly marine, aviation and motor business, written on an excess of loss basis. Given that claims experience is largely driven by isolated claim events, prudent reserves tend to be held and released in years with less claims activity.

Marine reinsurance has seen mixed experience on prior years, with favourable movements within this line of business for Hurricane Irma (2017), Hurricane Sandy (2011) and World Trade Centre (2001) offset by deteriorations on Typhoon Jebi on the 2018 year and Storm Dorian on the 2019 year. Likewise, aviation has seen increased large loss activity on more recent years over 2020 with major losses arising from the grounding of the Boeing 737 MAX fleet and within the space account, thereby impacting the reinsurance market. Motor reinsurance has generally performed favourably against expectations, although there have been increases in losses on the 2019 Storm Dorian event, impacting motor excess of loss lines.

Looking ahead

There are signs of price strengthening in the sector in 2021, following a challenging 2020 result, which further compounded the losses made in the catastrophe impacted 2018 and 2019 results. There may also be additional impetus following Lloyd's performance improvement planning – the effects of which may fall beyond the lines immediately included in that review.

Catastrophic incidents involving the Boeing 737 MAX, which led to the worldwide grounding of the fleet, experienced a material increase in reserve late in 2020 and that has further reinforced the Aviation XL pricing environment for 2021.

Property

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

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

2020 performance

Lloyd's gross written premium for 2020 was £9,227m (2019: £9,586m), a decrease of 3.7%. The Lloyd's property line reported an accident year ratio of 135.4% (2019: 101.5%).

2020 has been characterised by the impact of COVID-19 on business interruption covers. In addition, we have seen an abnormally high frequency of natural weather catastrophe events. Hurricanes Laura, Delta, Sally and Zeta particularly impacting the various lines. Beyond these, we have also seen significant severe storm activity, hailstorms and US wildfire events to further challenge overall performance.

Additionally, social unrest observed within the USA during 2020 has globally impacted some syndicates results more than others. This has caused some underwriters to review their appetite and approach to writing such perils going forward.

Despite the high frequency of events, individual losses often meant reinsurance recoveries fell below expected levels. Such losses largely falling within syndicates' own retentions and impacting overall performance.

More positively, early signs suggest underwriting actions in tackling attritional losses in recent years are starting to deliver material benefits. These improvements are expected to continue in 2021.

Deal flow remained strong in 2020 despite the challenges brought about by COVID-19 from an operational perspective.

Prior year movement

The prior year movement was a release of 3.5% (2019: release of 1.7%). Recent years of account have seen elevated levels of catastrophe losses worldwide, with most impact seen for the direct and facultative lines of business. As a result of COVID-19, business interruption cover losses have impacted prior years with 2020 calendar year exposure on property direct and facultative open market and binder business, in both US and non-US lines.

There has been further deterioration on prior year catastrophe events during 2020. In particular, Hurricane Irma (2017), Hurricane Michael (2018) and Storm Dorian (2019) have been subject to adverse movements, partially offset by favourable movements on Californian Wildfire events in the 2017 year. In contrast to the increased catastrophe losses, attritional and large loss experience on property accounts have generally performed better than expected. This is particularly evident on direct and facultative US binder business and also, but to a lesser extent, on non-US binder and open market business. Difference in conditions and power generation lines are also performing favourably to expectations.

Terrorism business continues to be prudently reserved across the market, with favourable experience on most prior years and particularly on 2018 and 2019 underwriting years.

2020 Highlights continued

Looking ahead
Pricing levels for 2021 are expected to show further material movement and continue to build on actions taken during 2020 and prior by the market. Higher reinsurance costs in 2021 are also likely to further support continued momentum in pricing levels. Movement in terms and conditions are also anticipated to be a feature of 2021, as underwriters continue to remediate poorer performing accounts or as part of pricing negotiations. Underwriting discipline remains critical for syndicates to successfully execute and deliver upon their approved 2021 plans, given the anticipated levels of available business in 2021.

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

2020 performance
Lloyd's gross written premium for 2020 was £9,067m (2019: £9,459m), a decrease of 4.1%. This was despite significant pricing change in almost all lines of business, particularly Directors' and Officers' liability. Lloyd's casualty line reported an accident year ratio of 105.2% (2019: 103.8%).

During 2020, the market began to accelerate prior years hardening while capacity remained stable overall. There has been a pronounced shift away from certain lines, exposures and occupations. In particular D&O saw significant repricing, with capacity also becoming more restricted for certain sectors. Across most lines there has also been a marked decrease in average line sizes across most segments as carriers have sought to reduce volatility. While the market correction is significant, with some lines seeing double-digit pricing increases, the prevailing sentiment is that pricing adequacy remains in question, as the protracted soft market cycle has meant price changes starting from a low base and having to make up substantial ground on claims inflation during that period.

The growth in cyber insurance products continued into 2020 with the market outside the US expanding and also representing an increasing share of the overall market. Across other lines there was premium growth during the year as a result of price hardening towards the end of the year, particularly in some of the professional lines.

As anticipated, due to the impact of COVID-19, contingency has suffered unprecedented losses because of subsequent event cancellations. It is expected that losses will continue to be incurred as the pandemic continues.

Prior year movement
The prior year movement was a strengthening of 5.1% (2019: a strengthening of 1.9%).

During 2020, Lloyd's have shared market level insights and views of casualty lines with the market. In response, syndicates appear to have shifted their views in line with this by strengthening their casualty reserves. Despite the market strengthening, at an aggregate level, casualty loss experience has been favourable to Lloyd's expectations. However, a number of lines have performed adverse to expectations driven by large losses including on directors' and officers' non-US, non-US financial institutions and professional indemnity US business. US medical malpractice continues to perform adversely, further compounded by increases in losses with regard to medical beneficiaries.

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

Given the long-term nature of the underlying policies and macro view on concerns such as social inflation, we would generally expect a greater level of uncertainty in this line being factored the reserves.

Looking ahead
As with casualty reinsurance, there has been a growing focus on social inflation. While a lot of the focus has been in the US, other territories such as Australia and Canada are starting to see similar trends across all casualty lines. These territories and jurisdictions have all seen trends of increasingly active regulation and litigation. This has been accompanied by increased capacity for litigation funding driven to a large extent by persistent low interest rates. A general public desensitisation to litigation and jury awards has also led to ever increasing severity of claims. While the primary market has already started to see restrictions in appetite and demand for increased deductibles, in 2021 there is likely to be an increased focus on the structure and pricing of excess placements.

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

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

2020 performance

Lloyd's gross written premium for 2020 was £2,976m (2019: £2,802m), an increase of 6.3%. The Lloyd's marine, aviation and transport line reported an accident year ratio of 98.2% (2019: 113.3%).

Following long-term sub-optimal performance, marine continues to go through an extensive remediation process, which has included several significant market participants reducing book sizes, and others choosing to withdraw completely, yacht, for example, has reduced in terms of gross written premium by over 50% since 2018. Through these measures and the resulting contraction in capacity, a significant pricing improvement has been seen across the portfolio, but most notably in the two largest lines of cargo and hull.

Attritional claims in hull have reduced, but it is yet to be seen if this is due to a hardening market, a decrease in voyages owing to COVID-19, or a combination of the two factors.

War breach premiums have meaningfully increased due to increased tensions in the Middle East, however, annual war premium remains one of the most competitive sub-lines within the marine portfolio. With a new US regime, it remains to be seen how international sanctions will evolve and the subsequent effects this may have on war breach premiums.

Aviation experienced a year outside of expectation given the impact of the global pandemic on travel and tourism. Reduced activity in airline and general aviation, with a bulk of aircraft fleets grounded for extended periods, led to significantly less loss activity in comparison to prior years.

Unprofitable prior year performance drove a corrective pricing environment across all aviation product lines throughout 2020. Business placed and renewed in the second half of 2020 saw reduced exposure compared with previous years, given the limited air travel and reduced passenger footfall.

In order to lessen the impact of this reduced exposure, in the face of unaltered policy limits, the market in many cases installed minimum premiums in 2020 placements.

Prior year movement

The prior year movement was a release of 8.5% (2019: release of 4.8%).

On marine lines, there is a tendency for the view of claims to be held for a number of years to allow for any uncertainty and so releases are common. Overall, these lines of business have performed favourably against expectations over 2020, despite heightened large loss activity impacting both property damage and liability within this line. Recent years have seen higher than average catastrophe losses, which are known to drive property damage claims. However, some of the historical catastrophe losses have improved over 2020. In particular there has been reductions on overall losses due to Hurricanes Harvey, Irma and Maria (2017), especially with respect to cargo business. In contrast, Storm Dorian (2019) losses have increased, particularly impacting marine hull. Favourable experience has been evident on marine cargo and hull, with many carriers reporting benign claims experience on prior years.

On aviation lines, recent history has seen heavier large loss experience, arising mostly from losses relating to the grounding of the Boeing 737 MAX fleet and increased space losses in 2019 year of account. The Boeing loss has increased over 2020, impacting general aviation and aviation products/airport liabilities. Given the heightened uncertainty on recent years, larger margins are generally being held and reserving estimates increased to cover these emerging claims.

Looking ahead

Marine underwriters are not reporting any expectation of the hardening market to slow. There has been a substantial shift away from lineslip and binder driven portfolios in the marine market, which has led to greater underwriting oversight. This trend looks set to continue throughout 2021.

The immediate future is rather unsettled in the aviation sector in light of the ongoing pandemic and financial impact on the client base. A return to pre-pandemic levels of activity and exposure is not expected in 2021.

Lloyd's aviation underwriters endeavour to support Lloyd's policyholders throughout this difficult period while maintaining strict underwriting discipline, corrective pricing and improved risk selection in an attempt to drive profitable underwriting results.

Regarding the client base and inherent exposures, increased consolidation is anticipated given financial pressures on airlines, which could lead to greater concentration of client exposures.

Energy

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

2020 performance

Gross written premium for the Lloyd's energy line in 2020 was £1,265m (2019: £1,500m), a decrease of 15.7%. The Lloyd's energy line reported an accident year ratio of 99.2% (2019: 107.5%).

The direction of travel in the pricing environment across all energy lines has been positive throughout 2020. Downstream product lines continue to benefit the most, fuelled by the high frequency of large loss activity globally in the downstream lines in prior years. This has been further reinforced by industry losses in Asia in 2020. From a whole account perspective this has been balanced somewhat by continued benign large and catastrophic loss activity in upstream lines. Upstream being the largest part of the overall energy account in terms of risk count, written premium and exposure.

Prior year movement

The prior year movement was a release of 8.2% (2019: 10.2%). The energy line of business has seen continued prior year reserve releases over 2020. This line contains a mix of contracts that give rise to claims that are settled on both a short-term and long-term time horizon. Both the short-term and long-term lines have performed broadly in line with expectations, with the short-term lines benefiting from releases on older catastrophe losses, such as on Hurricanes Harvey, Irma and Maria (2017). However, some historical catastrophe losses have deteriorated since year-end 2019, with large adverse movements on the Transocean Deepwater Horizon (2010) and Petrobras (2001) explosion events. There have also been a number of releases due to reductions in other large losses or lower claims activity than expected. Given that the energy line is also exposed to isolated large losses, large margins for uncertainty tend to be held and released in benign years. For long-term contracts, these margins can be held for a number of years. Reductions in claims estimates for these large losses and the release of unused margin is expected to drive releases at a market level.

Looking ahead

In downstream energy, both property and liability, it is expected that the market in 2021 will continue to build upon the underwriting discipline and price increases implemented in 2019 and 2020.

Upstream energy remains in a state of relative stability in terms of pricing, conditions and underwriting appetite. This is driven by the continued absence of large operational losses, coupled with a benign wind season in areas of high energy asset exposure accumulations, such as in the Gulf of Mexico, despite the significant increase in named windstorms experienced in 2020.

Given the pandemic impact on the oil and gas sector client retentions are increasing and business interruption values (based on production estimates annually) are down on prior years. Thereby decreasing the exposures and premium in the product lines.

Energy renewables, predominantly offshore wind, experienced an increase in submissions at Lloyd's through 2020 and given the global energy transition this trend is expected to continue in 2021, with the support of the Corporation, as outlined in our ESG report.

Motor

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

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

2020 performance

Gross written premium in 2020 was £720m (2019: £1,053m), a decrease of 31.6%. The Lloyd's motor line reported an accident year ratio of 95.5% (2019: 100.6%).

Following a number of years of competitive pricing, international motor has continued to see positive trends with more price strengthening during 2020, as well as a focus on increased deductibles and tightening of terms and conditions.

In the UK, it remains unclear whether pricing levels achieved during 2020 will be sufficient to address challenging underwriting conditions brought about by the change in the Ogden discount rate during 2019.

However, during 2020 the impact of COVID-19 has resulted in a significant shift in exposure, particularly for standard comprehensive motor policies, where the number of vehicles on the road has decreased during the various lockdown measures both in the UK, but also in other territories where standard third-party liability cover is provided.

Prior year movement

The prior year movement was a release of 2.2% of net earned premium (2019: 1.8%). This is driven by favourable claims experience against expectation for both UK and overseas motor.

Looking ahead

While current indications have shown recent improvements in the performance of international motor, there remains uncertainty as to whether current pricing levels are sufficient and whether enough consideration has been given to further development of longer tail risks. While there has been a general shift away from liability risks towards property damage only, particularly in North America, there is still some exposure which could cause further deterioration.

In the UK, the reforms relating to whiplash claims, as outlined in the Civil Liability Act 2018, have been delayed further from 2020 until May 2021 so any impact this will have on loss ratios will not be understood for some time.

COVID-19 has significantly reduced claims numbers, although this has fluctuated within the various lockdowns. How this aligns with the reduction in income (following policy cancellations and rebates on premium etc) remains to be seen.

Reinsurance

Property		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2016	5,022	101.2	(9.4)	91.8	299
	2017	5,991	134.3	(4.0)	130.3	(1,260)
	2018	6,440	121.1	(4.9)	116.2	(672)
	2019	6,405	106.5	(0.3)	106.2	(258)
	2020	**6,627**	**112.8**	**(2.8)**	**110.0**	**(441)**

Casualty		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2016	2,096	105.2	(7.1)	98.1	33
	2017	2,223	103.9	(1.8)	102.1	(39)
	2018	2,541	99.7	(3.6)	96.1	78
	2019	2,960	102.4	1.7	104.1	(94)
	2020	**3,321**	**113.0**	**(2.3)**	**110.7**	**(288)**

Specialty		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2016	2,290	101.9	(14.2)	87.7	216
	2017	2,346	110.3	(8.5)	101.8	(31)
	2018	2,089	101.9	(11.0)	90.9	138
	2019	2,053	108.6	(2.8)	105.8	(82)
	2020	**2,211**	**101.1**	**(6.0)**	**95.1**	**73**

2020 Highlights continued

Insurance

Property

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	7,988	106.6	(3.2)	103.4	(202)
2017	8,965	131.5	(3.9)	127.6	(1,757)
2018	9,687	114.0	(3.6)	110.4	(700)
2019	9,586	101.5	(1.7)	99.8	12
2020	**9,227**	**135.4**	**(3.5)**	**131.9**	**(2,104)**

Casualty

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	7,131	102.9	(0.2)	102.7	(146)
2017	8,464	103.7	(0.6)	103.1	(189)
2018	9,094	103.9	(1.0)	102.9	(183)
2019	9,459	103.8	1.9	105.7	(390)
2020	**9,067**	**105.2**	**5.1**	**110.3**	**(688)**

Marine, Aviation and Transport

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	3,097	108.2	(5.9)	102.3	(58)
2017	3,193	117.7	0.8	118.5	(480)
2018	3,152	116.2	(0.9)	115.3	(392)
2019	2,802	113.3	(4.8)	108.5	(199)
2020	**2,976**	**98.2**	**(8.5)**	**89.7**	**239**

Energy

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	1,110	106.4	(13.8)	92.6	59
2017	1,253	107.7	(21.1)	86.6	105
2018	1,404	105.6	(18.2)	87.4	113
2019	1,500	107.5	(10.2)	97.3	27
2020	**1,265**	**99.2**	**(8.2)**	**91.0**	**79**

Motor

	Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
2016	1,047	108.8	2.6	111.5	(103)
2017	1,057	114.4	7.9	122.3	(188)
2018	1,037	101.8	(3.1)	98.7	12
2019	1,053	100.6	(1.8)	98.8	11
2020	**720**	**95.5**	**(2.2)**	**93.3**	**48**

Statement of Council's Responsibilities

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

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

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

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

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

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

Pro Forma Financial Statements

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

Society of Lloyd's Group Financial Statements

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

Report of PricewaterhouseCoopers LLP to the Council on the 2020 Pro Forma Financial Statements

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2020 Lloyd's Pro Forma Financial Statements

Opinion

In our opinion the Council of Lloyd's has prepared the Lloyd's Pro Forma Financial Statements (the "PFFS") for the financial year ended 31 December 2020, defined below, in all material respects in accordance with the basis of preparation set out in note 2.

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

What we have assured

The PFFS, which are prepared by the Council of Lloyd's, comprise: the pro forma balance sheet as at 31 December 2020, the pro forma profit and loss account, the pro forma statement of other comprehensive income, and the pro forma statement of cash flows for the year then ended, and notes to the financial statements.

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

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Lloyd's Annual Report within which the PFFS for the year ended 31 December 2020 are included.

What a reasonable assurance engagement involves

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

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

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

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

- obtaining an understanding of how the Council of Lloyd's has compiled the PFFS from the audited syndicate annual returns and accounts, the Society of Lloyd's books and records and Members' Funds at Lloyd's;
- checking (on a sample basis) that the financial information included in the PFFS was correctly extracted from the syndicate annual accounts and the Society of Lloyd's books and records;
- evaluating evidence to support the existence and valuation of Members' Funds at Lloyd's; and
- evaluating the evidence supporting the adjustments made in the preparation of the PFFS and obtaining evidence that the PFFS have been prepared in accordance with the basis of preparation set out in the PFFS notes.

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

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

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

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

This report including our conclusions has been prepared solely for the Council of Lloyd's in accordance with our engagement letter dated 4 September 2020 (the "instructions"). Our examination has been undertaken so that we might state to the Council of Lloyd's those matters which we are required to state in this report in accordance with the instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
London
30 March 2021

Pro Forma Profit and Loss Account

(For the year ended 31 December 2020)

Technical account	Note	2020 £m	2020 £m	2019 £m	2019 £m
Gross written premiums	9		35,466		35,905
Outward reinsurance premiums			(9,640)		(10,246)
Premiums written, net of reinsurance			25,826		25,659
Change in the gross provision for unearned premiums		78		186	
Change in the provision for unearned premiums, reinsurers' share		(28)		(24)	
			50		162
Earned premiums, net of reinsurance	9		25,876		25,821
Allocated investment return transferred from the non-technical account			1,042		1,371
			26,918		27,192
Claims paid					
Gross amount		21,422		22,991	
Reinsurers' share		(6,506)		(7,133)	
			14,916		15,858
Change in provision for claims					
Gross amount		6,075		1,083	
Reinsurers' share		(2,062)		(580)	
			4,013		503
Claims incurred, net of reinsurance	9		18,929		16,361
Net operating expenses	9, 11		9,623		9,998
Balance on the technical account for general business			(1,634)		833
Non-technical account					
Balance on the technical account for general business			(1,634)		833
Investment return on syndicate assets		1,231		1,667	
Notional investment return on members' funds at Lloyd's	6	949		1,657	
Investment return on Society assets		88		213	
Total investment return	12	2,268		3,537	
Allocated investment return transferred to the technical account		(1,042)		(1,371)	
			1,226		2,166
Loss on exchange			(105)		(54)
Other income	7		92		59
Other expenses	7		(466)		(472)
Result for the financial year before tax	8		**(887)**		2,532

All operations relate to continuing activities.

Pro Forma Statement of Comprehensive Income

(For the year ended 31 December 2020)

Statement of other comprehensive income		2020 £m	2019 £m
Result for the year	8	(887)	2,532
Currency translation differences		49	31
Other comprehensive gains in the syndicate annual accounts		12	14
Remeasurement loss on pension liabilities in the Society accounts		(40)	(49)
Total comprehensive (loss)/income for the year		**(866)**	2,528

Pro Forma Balance Sheet

(As at 31 December 2020)

Investments	Note	£m	2020 £m	£m	2019 £m
Financial investments	13		69,478		63,562
Deposits with ceding undertakings			71		38
Reinsurers' share of technical provisions					
Provision for unearned premiums	18	3,588		3,700	
Claims outstanding	18	21,485		19,897	
			25,073		23,597
Debtors					
Debtors arising out of direct insurance operations	14	8,796		9,014	
Debtors arising out of reinsurance operations	15	8,730		8,256	
Other debtors		1,162		929	
			18,688		18,199
Other assets					
Tangible assets		28		28	
Cash at bank and in hand	16, 22	10,473		9,631	
Other		79		140	
			10,580		9,799
Prepayments and accrued income					
Accrued interest and rent		98		110	
Deferred acquisition costs	18	4,148		4,404	
Other prepayments and accrued income		168		169	
			4,414		4,683
Total assets			**128,304**		119,878
Capital, reserves and subordinated loan notes					
Members' funds at Lloyd's	6	30,959		27,595	
Members' balances	17	(326)		(242)	
Members' assets (held severally)		30,633		27,353	
Central reserves (mutual assets)		2,513		2,491	
Total capital and reserves	8		**33,146**		29,844
Subordinated loan notes	2		795		794
Total capital, reserves and subordinated loan notes			**33,941**		30,638
Technical provisions					
Provision for unearned premiums	18	16,743		17,143	
Claims outstanding	18	64,364		59,655	
			81,107		76,798
Deposits received from reinsurers			727		880
Creditors					
Creditors arising out of direct insurance operations	20	1,423		1,402	
Creditors arising out of reinsurance operations	21	6,834		6,751	
Other creditors including taxation		2,886		2,378	
Senior debt	2	299		–	
			11,442		10,531
Accruals and deferred income			1,087		1,031
Total capital, reserves and liabilities			**128,304**		119,878

Approved by the Council on 30 March 2021 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Pro Forma Statement of Cash Flows

(For the year ended 31 December 2020)

	Note	2020 £m	2019 (restated) £m
Result for the financial year before tax		(887)	2,532
Increase/(decrease) in gross technical provisions		4,797	(869)
Increase in reinsurers' share of gross technical provisions		(1,602)	(410)
Increase in debtors		(343)	(192)
Increase in creditors		287	402
Movement in other assets/liabilities		(180)	618
Investment return		(2,268)	(3,537)
Depreciation		33	6
Tax paid		(33)	(69)
Foreign exchange		129	576
Other		133	110
Net cash flows from operating activities		66	(833)
Investing activities			
Purchase of equity and debt instruments		(32,110)	(37,871)
Sale of equity and debt instruments		31,304	36,856
Purchase of derivatives		(621)	(721)
Sale of derivatives		608	736
Investment income received		887	1,060
Other		(378)	30
Net cash flows from investing activities		(310)	90
Financing activities			
Net profits or losses paid to members		1,461	963
Net capital transferred into/(out of) syndicate premium trust funds		333	(405)
Interest paid on subordinated and senior loan notes		(42)	(38)
Senior debt issuance	2	299	–
Net movement in members' funds at Lloyd's		(270)	(1,156)
Other		61	174
Net cash flows from financing activities		1,842	(462)
Net increase/(decrease) in cash and cash equivalents		1,598	(1,205)
Cash and cash equivalents at 1 January		11,128	12,395
Exchange differences on cash and cash equivalents		8	(62)
Cash and cash equivalents at 31 December	22	**12,734**	11,128

Note: Refer to note 3(a) for details of the restatement of the 2019 comparative amounts.

Notes to the Pro Forma Financial Statements

1. The Pro Forma Financial Statements

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

2. Basis of preparation

General

The PFFS have been prepared by aggregating audited financial information reported in syndicate returns and annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's (the Society) on pages 127 to 180. Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the PFFS; the going concern and viability statement of the Society is included within the Society Report on page 118.

The Aggregate Accounts report the audited results for calendar year 2020 and the financial position at 31 December 2020 for all life and non-life syndicates that transacted business during the year. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 9). The Aggregate Accounts are reported as a separate document and can be viewed at www.lloyds.com/annualresults2020. In order to provide more meaningful information in the Aggregate Accounts and PFFS, the Society has required syndicates to report certain disclosures presented on a consistent basis, which may vary from presentation included in the individual syndicates' annual accounts.

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

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

– Use of the aggregation basis to prepare the PFFS;

– Notional investment return on members' funds at Lloyd's;

– The statement of changes in equity;

– Taxation; and

– Related party transactions.

(a) Aggregation

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

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

Inter-syndicate loans

The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £212m (2019: £127m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the PFFS (note 8).

Special Purpose Arrangements (SPA)

The Aggregate Accounts include the results and assets of the SPA (see Glossary on page 185). Due to the nature of the SPA, the quota share of the host syndicates' business is reported as gross written premiums in both the host syndicate and the SPA annual accounts. This leads to an overstatement of the original premiums written by the whole Lloyd's market. To provide users of the PFFS with a more meaningful presentation of the market's figures, all the transactions arising from the insurance contracts between the SPA and host syndicates have been eliminated. The key impact of this elimination is that gross written premium is reduced by £659m (2019: £568m). The elimination does not affect the PFFS result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

Transactions between syndicates and the Society

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

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

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

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

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

(c) Statement of changes in equity

Where Lloyd's is not the investment manager for FAL, actual changes are not available and therefore a statement of changes in equity has not been included. However, a statement of changes in members' balances has been included in note 17, which, along with the Society's group statement of changes in equity (on page 130), represents the changes in equity of the other components of the PFFS.

(d) Taxation

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

(e) Related party transactions

Individual syndicates or their members do not disclose details of insurance and/or reinsurance transactions with other (non-related) syndicates or members within the market. Therefore, analysis and/or disclosure of these transactions within the Lloyd's market in the PFFS is not possible. Other than the disclosures made in note 24, a more detailed related party transaction note is therefore not included within the PFFS. The annual accounts of each syndicate or member provide, where appropriate, the required disclosures on related parties. The related party transactions of the Society are disclosed in note 29 on page 180 of the Society financial statements.

Members' funds at Lloyd's (FAL)

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

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

Subordinated loan notes

In accordance with the terms of the Society's subordinated loan notes, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves and subordinated loan notes' in the pro forma balance sheet. Note 24 to the Society financial statements on page 177 provides additional information.

Senior debt

Unsecured senior debt of £300m was issued by the Society on 21 January 2020, increasing liabilities. The debt has been issued to finance the investment in the Future at Lloyd's strategy. Note 24 to the Society financial statements on page 177 provides additional information.

Society financial statements

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

Part VII transfer of EEA Lloyd's market business

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 £3,381m. Lloyd's Brussels received a cash consideration of the same amount from the syndicates.

These liabilities were subsequently reinsured by 100% quota share to syndicates on the same day. The reinsurance premium paid was of the same amount of £3,381m. Consequently, there was no gain or loss arising on the transaction.

The technical insurance-related transactions and balances arising from the transaction have been eliminated in the PFFS and therefore there is no impact on the PFFS, including the segmental analysis by line of business presented in note 9.

3. Accounting policies notes

Sources of significant accounting judgements and estimation uncertainty

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

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

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

The most critical accounting estimate included within the balance sheet is the estimate for outstanding claims. The total estimate, on a gross basis, as at 31 December 2020 is £64,364m (2019: £59,655m). The total estimate, net of reinsurers' share, as at 31 December 2020 is £42,879 m (2019: £39,758m) and is included within the pro forma balance sheet.

(a) Aggregate accounts

General

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

Premiums written

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

Unearned premiums

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

Outward reinsurance premiums

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

Claims provisions and related recoveries

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

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

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

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

3. Accounting policies notes continued

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

Additional information on insurance risk is disclosed in note 4.

Discounted claims provisions

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

Unexpired risks provision

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

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

Acquisition costs

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

Foreign currencies

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

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

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

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

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

Investments

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

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

Syndicate investment return

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

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

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

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

Tangible assets

Tangible assets relate to plant and equipment and the Lloyd's Collection, with additional detail disclosed in note 2 to the Society of Lloyd's financial statements on page 132.

Taxation

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

Operating expenses

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

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

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

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

Comparative disclosures
Certain comparative balances have been reclassified to be consistent with current year presentation.

Prior year restatement
The Pro Forma Cash Flow Statement 2019 comparative amounts have been restated for changes in presentation and correction of presentational errors. The effect of the adjustments have no net impact on the net decrease in cash and cash equivalents or the cash and cash equivalents balance in the Pro Forma Balance Sheet.

Cash flows for derivative purchase or sale transactions have been restated to be presented on a net basis to reflect the actual cash flows. This results in a decrease in cash outflows/inflows from the purchase/sale of derivatives of £4,000m. The net impact on net cash flows from investing activities is £nil.

Cash inflows from investment income received of £890m has been restated to correct for a misclassification within foreign exchange losses. Foreign exchange losses of £62m have also been reclassified from other cash flows from operations, resulting in a net decrease in foreign exchange losses of £828m. Net cash flows generated from operating activities decrease and net cash flows from investing activities increase by £890m as a result.

Increases in debtors and creditors have been restated to eliminate balances between the Society and syndicates. Increases in insurance contract assets and liabilities of £1,531m and insurance payables to syndicates and premium receivables of £1,054m have been eliminated. The result is a reduction in the increase in debtors and creditors of £2,585m respectively. The impact on net cash flows from operating activities is £nil.

	2019 £m	Adjustment £m	2019 (restated) £m
Increase in debtors	(2,777)	2,585	(192)
Increase in creditors	2,987	(2,585)	402
Foreign exchange	1,404	(828)	576
Other	172	(62)	110
Net cash flows from operating activities	57	(890)	(833)
Investment income received	170	890	1,060
Purchase of derivatives	(4,721)	4,000	(721)
Sale of derivatives	4,736	(4,000)	736
Net cash flows from investing activities	(800)	890	90

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

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

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

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

(c) Society of Lloyd's (the Society)
The accounting policies adopted in the Society of Lloyd's financial statements are set out on pages 132 to 137. Adjustments have been made to the information incorporated into the PFFS where the Council have considered there to be material accounting policy differences between the existing international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union accounting policies and the recognition and measurement requirements of UK GAAP.

4. Risk management

Governance framework

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

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

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

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

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

The principal committees of the Council are the Nominations and Governance Committee, the Remuneration Committee, the Audit Committee, the Risk Committee, the Market Supervision and Review Committee, the Innovation Investment Committee, the Capacity Transfer Panel, the Investment Committee and the Technology & Transformation Committee.

Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a several basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR that reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, the Society applies a capital uplift to the member's capital requirement to determine the ECA. The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2020 was 35% (2019: 35%) of the member's SCR 'to ultimate'.

Solvency Capital Requirement (Solvency II basis)

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

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

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

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

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

The Lloyd's Internal Model

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

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

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

Details of the major risk components are set out below.

Insurance risk

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

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

Underwriting risk

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

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

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

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

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

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

Reserving risk

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

4. Risk management continued

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

Case-specific claim reserves should make financial provision at reported loss levels, without prejudice to coverage.

Legal advisers', underwriters' and loss adjusters' judgement are used to set the estimated case reserves.

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

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

Credit risk

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

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

Catastrophe risk

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

Lloyd's MWSCR

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

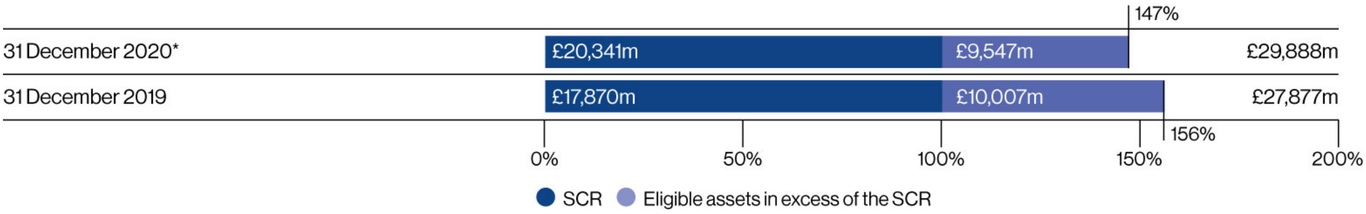
	31 December 2020* SCR £m	31 December 2019 SCR £m
Reserving risk	7,790	7,392
All other (attritional) underwriting risk	8,248	7,422
Catastrophe risk	1,357	1,476
Market risk	2,389	507
Reinsurance credit risk	836	659
Operational risk	893	780
Pension risk	40	10
MWSCR before adjustments	21,553	18,246
Foreign exchange adjustment for movement in H2 2020 (H2 2019)	(1,212)	(376)
MWSCR	20,341	17,870

* SCR is not subject to audit.

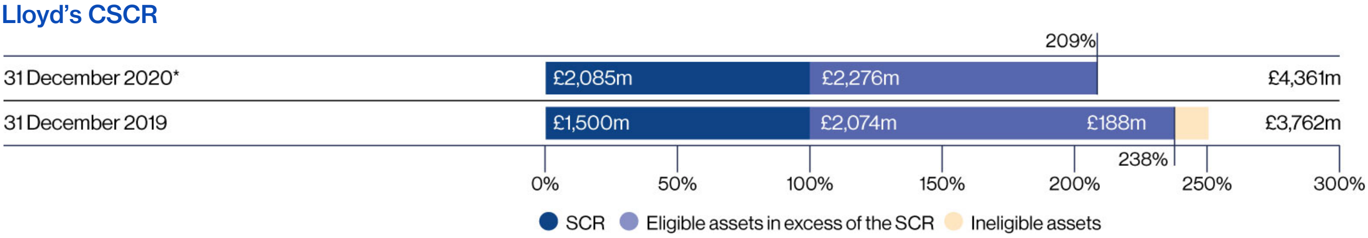
Solvency Capital Requirement coverage

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

Lloyd's MWSCR



Lloyd's CSCR



* Represents the position based on the unaudited solvency returns, which may differ from the final audited 2020 submissions.

In addition to the quarterly reporting to the PRA, internal risk appetites have been set to monitor the coverage of the MWSCR and CSCR as part of the risk management framework in place at Lloyd's. During 2020, the solvency coverage ratios for both the MWSCR and the CSCR were in excess of internal risk appetites and regulatory requirements.

– MWSCR: The Society aims to hold market capital sufficient to provide financial security to policyholders and capital efficiency to members. Members are required to put up funds to meet their ECA, which is set as their SCR (on an ultimate view of risk) plus an uplift of 35%. The Society does not require excess capital to be held above this level and considers that the risk appetite of 125% of SCR gives an appropriate buffer following diversification benefits. In the event that the capital put up by a member falls below their ECA through losses incurred or an increase in their risk profile, additional funds must be deposited. If members do not recapitalise, their authority to continue to trade is restricted to the level of their available capital or ultimately fully withdrawn and they cease trading. Such action would then reduce their risk and the aggregate MWSCR; and

– CSCR: All policies written at Lloyd's are supported by central assets managed by the Society, which underpin the financial strength ratings of the Lloyd's market and its international licence network. Accordingly, the risk appetite for 200% CSCR coverage reflects the prudent approach to maintaining adequate central assets to meet a 1 in 200 year event and be in position to continue to write new business.

4. Risk management continued

Solvency cover ratios	MWSCR coverage	CSCR coverage
31 December 2020	147%	209%
31 December 2019	156%	238%
Risk appetite for solvency cover ratio	125%	200%

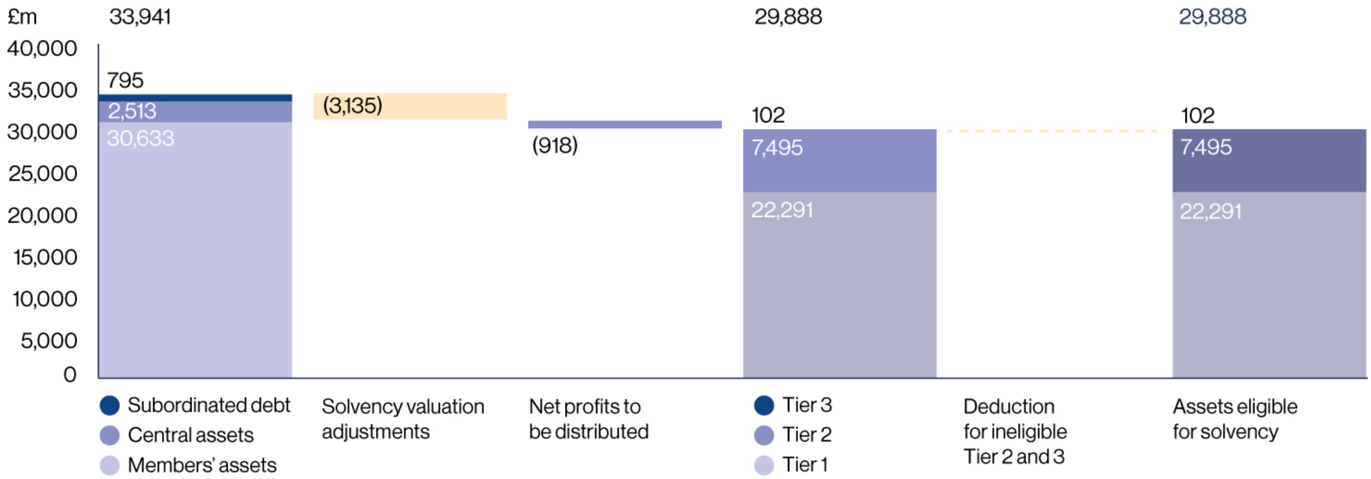
* Based on the unaudited solvency returns.

Assets eligible for solvency

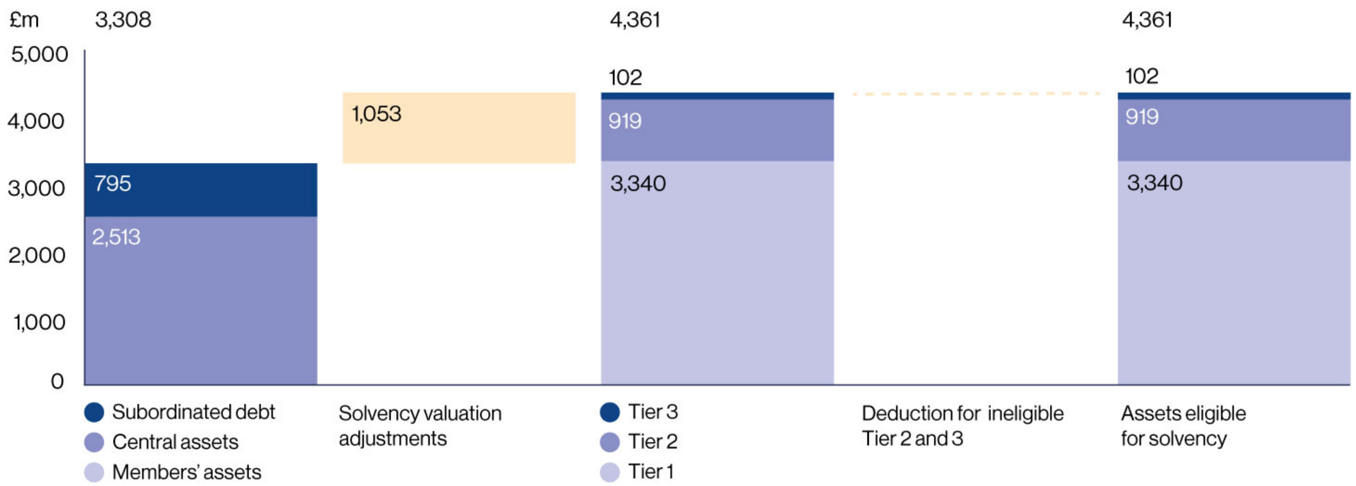
The assets of the syndicates, members' FAL and the Society all contribute towards coverage of the MWSCR, after adjustments to value items in accordance with Solvency II valuation principles. Members' assets are however not fungible. The Society assets and callable layer, in the chain of security, are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

The eligibility of assets to cover the SCR under Solvency II is determined by a tiering test. Tier 1 assets are fully available to cover the SCR while Tier 2 and Tier 3 assets in aggregate can cover up to 50% of the SCR. The majority of the assets available to cover the MWSCR are Tier 1. A proportion of members' FAL is provided in the form of letters of credit which are classes as Tier 2 assets, restricting their ability to cover the MWSCR. However, given the total value of these instruments at 31 December 2020 is less than 50% of the SCR, there are no unrestricted assets. These letters of credit are callable on demand and when called, the proceeds, namely cash, would qualify as Tier 1 assets.

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



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



* Per 31 December 2020 balance sheet. Other amounts represent the position based on the unaudited solvency returns, which may differ from the final audited 2020 submissions.

Claims development table

The tables below illustrate the development of the estimates of earned ultimate cumulative claims for syndicates in aggregate after the end of the underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non-sterling balances have been converted using 2020 year end exchange rates to aid comparability. As these tables are on an underwriting year basis there is an apparent jump from figures for the end of the underwriting year to one year later as a large proportion of premiums are earned in the year of account's second year of development.

The claims development information disclosed has increased from nine years to ten years in 2020.

Gross

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	**2020 £m**	Total £m
At end of underwriting year		9,131	8,206	7,055	7,225	6,980	8,592	16,288	13,404	10,129	11,400	
One year later		14,917	13,358	13,308	13,753	14,447	18,765	26,298	24,519	22,337		
Two years later		15,027	13,591	13,494	14,609	15,291	20,276	28,157	26,879			
Three years later		14,998	13,415	13,182	14,476	16,026	21,000	28,608				
Four years later		15,066	13,381	12,972	15,362	16,427	21,201					
Five years later		14,920	13,227	13,277	15,536	16,633						
Six years later		14,825	13,622	13,469	15,540							
Seven years later		15,312	13,879	13,419								
Eight years later		15,722	13,841									
Nine years later		15,695										
Cumulative payments		14,722	12,596	11,960	13,340	13,111	15,913	20,115	14,871	6,800	1,714	
Estimated balance to pay	3,953	973	1,245	1,459	2,200	3,522	5,288	8,493	12,008	15,537	**9,686**	64,364

Net

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	**2020 £m**	Total £m
At end of underwriting year		7,369	6,245	5,859	5,854	5,722	6,663	9,418	9,015	7,497	8,187	
One year later		11,915	10,652	10,946	11,042	11,494	14,063	16,520	16,813	16,132		
Two years later		11,931	10,791	10,968	11,615	12,017	14,928	17,821	18,324			
Three years later		11,841	10,637	10,707	11,497	12,395	15,339	18,153				
Four years later		11,869	10,465	10,524	11,793	12,403	15,238					
Five years later		11,485	10,360	10,609	11,722	12,437						
Six years later		11,416	10,510	10,592	11,709							
Seven years later		11,619	10,543	10,532								
Eight years later		11,741	10,487									
Nine years later		11,718										
Cumulative payments		10,999	9,575	9,499	10,190	10,116	11,926	12,734	10,864	5,500	1,233	
Estimated balance to pay	2,598	719	912	1,033	1,519	2,321	3,312	5,419	7,460	10,632	**6,954**	42,879

4. Risk management continued
Financial risk
Credit risk

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

As discussed on page 58, the market's principal credit risk is that the reinsurance purchased to protect the syndicates' gross losses does not respond as expected. Syndicates are also exposed to credit risk in their premium debtors. Credit risk in respect of premium debt is controlled through broker approval and regular monitoring of premium settlement performance. Syndicates and members are exposed to credit risks in their investment portfolios. PRA and Lloyd's investment guidelines are designed to mitigate credit risk by ensuring diversification of holdings.

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

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

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

2019	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Debt securities	44,208	–	–	44,208
Participation in investment pools	2,484	–	–	2,484
Loans with credit institutions	3,780	–	–	3,780
Deposits with credit institutions	3,855	–	–	3,855
Derivative assets	95	–	–	95
Other investments	85	–	–	85
Reinsurers' share of claims outstanding	19,903	–	(6)	19,897
Cash at bank and in hand, including letters of credit and bank guarantees	9,631	–	–	9,631
Total	84,041	–	(6)	84,035

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

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

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

The table below provides information regarding the credit risk exposure at 31 December 2020 by classifying assets according to the credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as other. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated. This table is the sum of assets neither past due nor impaired.

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

2019	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	12,196	11,154	10,946	5,956	3,956	44,208
Participation in investment pools	89	93	35	6	2,261	2,484
Loans with credit institutions	151	142	152	133	3,202	3,780
Deposits with credit institutions	1,740	487	521	251	856	3,855
Derivative assets	–	2	2	–	91	95
Other investments	7	6	–	–	72	85
Reinsurers' share of claims outstanding	521	4,251	12,828	228	2,075	19,903
Cash at bank and in hand	216	1,403	7,388	193	431	9,631
Total credit risk	14,920	17,538	31,872	6,767	12,944	84,041

Liquidity risk

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

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

4. Risk management continued

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

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

2019	No stated maturity £m	0-1 yrs £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Claims outstanding	1	19,640	21,026	9,656	9,332	59,655
Derivatives	8	15	4	1	–	28
Deposits received from reinsurers	641	177	47	10	5	880
Creditors	699	8,908	697	55	144	10,503
Other liabilities	13	71	–	–	–	84
Subordinated loan notes	–	–	–	496	298	794
Senior debt	–	–	–	–	–	–
Total	1,362	28,811	21,774	10,218	9,779	71,944

Market risk – overview

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

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

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

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

Market risk comprises three types of risk:

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

Currency risk

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

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

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

2019	Sterling £m	US dollar £m	Euro £m	Canadian $ £m	Australian $ £m	Other £m	Total £m
Financial investments	10,273	42,435	2,687	5,144	1,721	1,302	63,562
Reinsurers' share of technical provisions	4,089	16,942	1,278	842	334	112	23,597
Insurance and reinsurance receivables	2,813	12,784	754	435	343	141	17,270
Cash at bank and in hand	2,958	5,191	558	333	317	274	9,631
Other assets	847	4,052	481	264	147	27	5,818
Total assets	20,980	81,404	5,758	7,018	2,862	1,856	119,878
Technical provisions	14,871	49,040	5,542	4,251	1,838	1,256	76,798
Insurance and reinsurance payables	1,403	5,836	360	337	131	86	8,153
Other liabilities	2,711	2,039	(1)	226	56	52	5,083
Total liabilities	18,985	56,915	5,901	4,814	2,025	1,394	90,034
Total capital and reserves	1,995	24,489	(143)	2,204	837	462	29,844

4. Risk management continued

Sensitivity analysis

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

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

2019	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	616	2,886
Weakening of US dollar	(504)	(2,361)
Strengthening of euro	(47)	(13)
Weakening of euro	38	11

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

Interest rate risk

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

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

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

2019	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(359)	(542)
- 50 basis points	344	527

Equity price risk

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

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

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

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

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

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

2019	Impact on result before tax £m	Impact on members' balances £m
5% increase in equity markets	98	285
5% decrease in equity markets	(98)	(285)

Concentration risk

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

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

Further analysis of premiums, claims, expenses and underwriting result by line of business is included within note 9 of the PFFS, with commentary on the performance of each line of business included on pages 38 to 44. Analysis of premium by geographical region is included both within note 9 of the PFFS (which details where contracts were concluded) as well as within the Lloyd's line of business breakdown by region analysis in the '2020 At a Glance' section at the beginning of the Annual Report. Analysis of capital providers by source and location is also included in the '2020 At a Glance' section of the Annual Report. Analysis of investments held within the market is disclosed in note 13 of the PFFS.

4. Risk management continued

Regulatory risk

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

Operational risk

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

Group risk

Group risk is the risk of loss resulting from risk events arising within a related entity. While Lloyd's is not a group, the Society monitors potential risks that could impact Lloyd's, for example arising from the activities of a parent company of a syndicate or managing agent. While, by its nature, group risk is difficult to control, the Society mitigates 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.

5. Variability

Movements in reserves are based upon best estimates as at 31 December 2020 taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimate are reflected in the technical account of the year in which they occur. The aggregate of the prior year surpluses/deficiencies is a net surplus of £461m (2019: surplus of £232m). Surpluses have been reported across all classes of business except casualty reflecting favourable claims development compared to projections.

6. Members' funds at Lloyd's (FAL)

The valuation of members' FAL in the balance sheet totals £30,959m (2019: £27,595m). The notional investment return on FAL included in the non-technical profit and loss account totals £949m (2019: £1,657m).

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

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

		Proportion of FAL		Investment return	
Investment type	Index	**2020 %**	2019 %	**2020 %**	2019 %
UK equities	FTSE All share	4.0	4.4	(8.4)	17.4
UK government bonds	UK Gilts 1-3 years	5.0	2.9	0.8	0.6
UK corporate bonds	UK Corporate 1-3 years	3.7	4.7	1.3	1.0
UK deposits managed by Lloyd's	Return achieved	5.2	4.3	0.3	0.8
UK deposits managed externally including letters of credit	GBP LIBID 1 month	7.1	10.1	0.0	0.5
US equities	S&P 500 Index	8.0	8.7	16.8	27.9
US government bonds	US Treasuries 1-5 years	17.0	16.8	3.9	3.8
US corporate bonds	US Corporate 1-5 years	25.3	26.4	5.3	5.9
US deposits managed by Lloyd's	Return achieved	9.7	7.1	0.7	2.3
US deposits managed externally including letters of credit	USD LIBID 1 month	15.0	14.6	0.4	2.1

7. Society of Lloyd's (the Society)

The results of the Group financial statements of the Society included in the profit and loss account are a profit of £413m (2019: a profit of £434m) in the technical account and a loss of £373m (2019: a loss of £249m) in the non-technical account.

Other income of £92m (2019: £59m) contains £99m of Society income, offset by £7m of other charges reported by the market. Whilst other expenses £466m (2019: £472m) is entirely driven by Society results.

8. Aggregation of results and net assets

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

Profit and loss account	**2020 £m**	2019 £m
Result per syndicate annual accounts	(1,876)	690
Result of the Society	50	137
Taxation charge in the Society financial statements	10	33
Notional investment return on members' funds at Lloyd's	949	1,657
Movement in Society income not accrued in syndicate annual accounts	(20)	15
Result for the financial year before tax	**(887)**	2,532

Capital and reserves	**2020 £m**	2019 £m
Net assets per syndicate annual accounts	(276)	(209)
Net assets of the Society	3,027	2,601
Elimination of syndicate loans	(514)	(110)
Members' funds at Lloyd's	30,959	27,595
Unpaid cash calls reanalysed from debtors to members' balances	(12)	(11)
Society income receivable not accrued in syndicate annual accounts	(38)	(22)
Total capital and reserves	**33,146**	29,844

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

9. Segmental analysis

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

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

2019	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Underwriting result £m
Reinsurance	11,418	7,841	(5,566)	(2,709)	(434)
Property	9,586	6,815	(3,817)	(2,986)	12
Casualty	9,459	6,793	(4,177)	(3,006)	(390)
Marine, Aviation and Transport	2,802	2,343	(1,567)	(975)	(199)
Energy	1,500	1,008	(580)	(401)	27
Motor	1,053	955	(613)	(331)	11
Life	87	66	(41)	(24)	1
Total from syndicate operations	35,905	25,821	(16,361)	(10,432)	(972)
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society				434	434
PFFS premiums and underwriting result	35,905	25,821	(16,361)	(9,998)	(538)
Allocated investment return transferred from the non-technical account					1,371
Balance on the technical account for general business					833

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

	2020 £m	2019 £m
United Kingdom	22,983	25,043
EU member states	2	26
Rest of the World	426	380
Total	**23,411**	25,449

10. Life business

The PFFS include the results of all life and non-life syndicates transacting business during 2020. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 9).

11. Net operating expenses

	2020 £m	2019 £m
Acquisition costs	8,439	8,977
Change in deferred acquisition costs	234	138
Administrative expenses	2,177	2,155
Reinsurance commissions and profit participation	(1,227)	(1,272)
Total	**9,623**	9,998

Total commissions on direct insurance business accounted for in the year amounted to £5,508m (2019: £6,057m).

12. Investment return

Interest and similar income	2020 £m	2019 £m
From financial instruments designated as at fair value through 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		
Realised gains	188	251
Unrealised gains	394	723
Other relevant income	26	31
Total	**608**	1,005
Total investment return	**2,268**	3,537

13. Financial investments

	2020 £m	2019 £m
Shares and other variable yield securities	8,998	9,055
Debt securities and other fixed income securities	47,764	44,208
Participation in investment pools	2,799	2,484
Loans and deposits with credit institutions	9,688	7,635
Other investments	229	180
Total financial investments	**69,478**	63,562

Disclosures of fair values in accordance with the fair value hierarchy

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

The fair value hierarchy includes the following classifications:

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

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

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

2019	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Assets held at amortised cost £m	Total £m
Shares and other variable yield securities	4,493	3,836	723	9,052	3	9,055
Debt and other fixed income securities	14,971	29,225	12	44,208	–	44,208
Participation in investment pools	2,297	180	7	2,484	–	2,484
Loans and deposits with credit institutions	4,374	2,745	26	7,145	490	7,635
Other investments	14	92	74	180	–	180
Total assets	26,149	36,078	842	63,069	493	63,562
Derivative liabilities	(3)	(23)	(1)	(27)	–	(27)
Total liabilities	(3)	(23)	(1)	(27)	–	(27)

14. Debtors arising out of direct insurance operations

	2020 £m	2019 £m
Due within one year	8,718	8,938
Due after one year	78	76
Total	**8,796**	9,014

15. Debtors arising out of reinsurance operations

	2020 £m	2019 £m
Due within one year	8,373	7,625
Due after one year	357	631
Total	**8,730**	8,256

16. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £6,586m (2019: £6,856m).

17. Members' balances

	2020 £m	2019 £m
Balance at 1 January	(242)	(1,472)
Result for the year per syndicate annual accounts	(1,876)	690
Losses collected in relation to distribution on closure of the 2017 (2016) underwriting year	967	83
Advance distributions from open underwriting years	(16)	(40)
Cash calls requested (but not yet paid)	510	920
Net movement on funds in syndicate (see note below)	333	(405)
Exchange gains	(1)	36
Other	(1)	(54)
Balance at 31 December	**(326)**	(242)

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account with reference to policies incepting in that year of account. Members' balances represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and members' funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of 2021.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. These funds are known as funds in syndicate (FIS). At 31 December 2020 there was £5,005m (2019: £4,616m) of FIS within members' balances. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as 'net movement on funds in syndicate'.

18. Technical provisions

(a) Provisions for unearned premiums

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

2019	Gross £m	Reinsurers' share £m	Net £m
At 1 January	17,868	3,853	14,015
Premiums written in the year	35,905	10,246	25,659
Premiums earned in the year	(36,091)	(10,270)	(25,821)
Exchange movements	(539)	(129)	(410)
At 31 December	17,143	3,700	13,443

(b) Deferred acquisition costs

	2020 £m	2019 £m
At 1 January	4,404	4,680
Change in deferred acquisition costs	(234)	(138)
Exchange movements	(63)	(129)
Other	41	(9)
At 31 December	**4,148**	4,404

(c) Claims outstanding

2020	Gross £m	Reinsurers' share £m	Net £m
At 1 January	59,655	19,897	39,758
Claims paid during the year	(21,422)	(6,506)	(14,916)
Claims incurred during the year	27,497	8,568	18,929
Exchange/other movements	(1,366)	(474)	(892)
At 31 December	**64,364**	**21,485**	**42,879**

2019	Gross £m	Reinsurers' share £m	Net £m
At 1 January	60,450	19,541	40,909
Claims paid during the year	(22,991)	(7,133)	(15,858)
Claims incurred during the year	24,074	7,713	16,361
Exchange/other movements	(1,878)	(224)	(1,654)
At 31 December	59,655	19,897	39,758

19. Discounted claims

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

The claims have been discounted as follows:

	Average discounted rates		Average mean term of liabilities	
Line of business	**2020 %**	2019 %	**2020 years**	2019 years
Motor (third party liability)	1.84	1.80	30.14	28.52
Motor (other lines)	3.00	2.98	5.59	5.84
Third party liability	3.44	2.74	21.74	22.66

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

The claims provisions before discounting are as follows:

	Before discounting		Effect of discounting		Discounted provision	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Total claims provisions	1,293	1,353	(309)	(338)	984	1,015
Reinsurers' share of total claims	433	422	(66)	(68)	367	354

20. Creditors arising out of direct insurance operations

	2020 £m	2019 £m
Due within one year	1,410	1,345
Due after one year	13	57
Total	**1,423**	1,402

21. Creditors arising out of reinsurance operations

	2020 £m	2019 £m
Due within one year	6,573	6,392
Due after one year	261	359
Total	**6,834**	6,751

22. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	2020 £m	2019 £m
Cash at bank and in hand	10,473	9,631
Short term deposits with credit institutions	2,513	1,798
Overdrafts	(252)	(301)
Total	**12,734**	11,128

Of the cash and cash equivalents, £720m (2019: £320m) is held in regulated bank accounts in overseas jurisdictions.

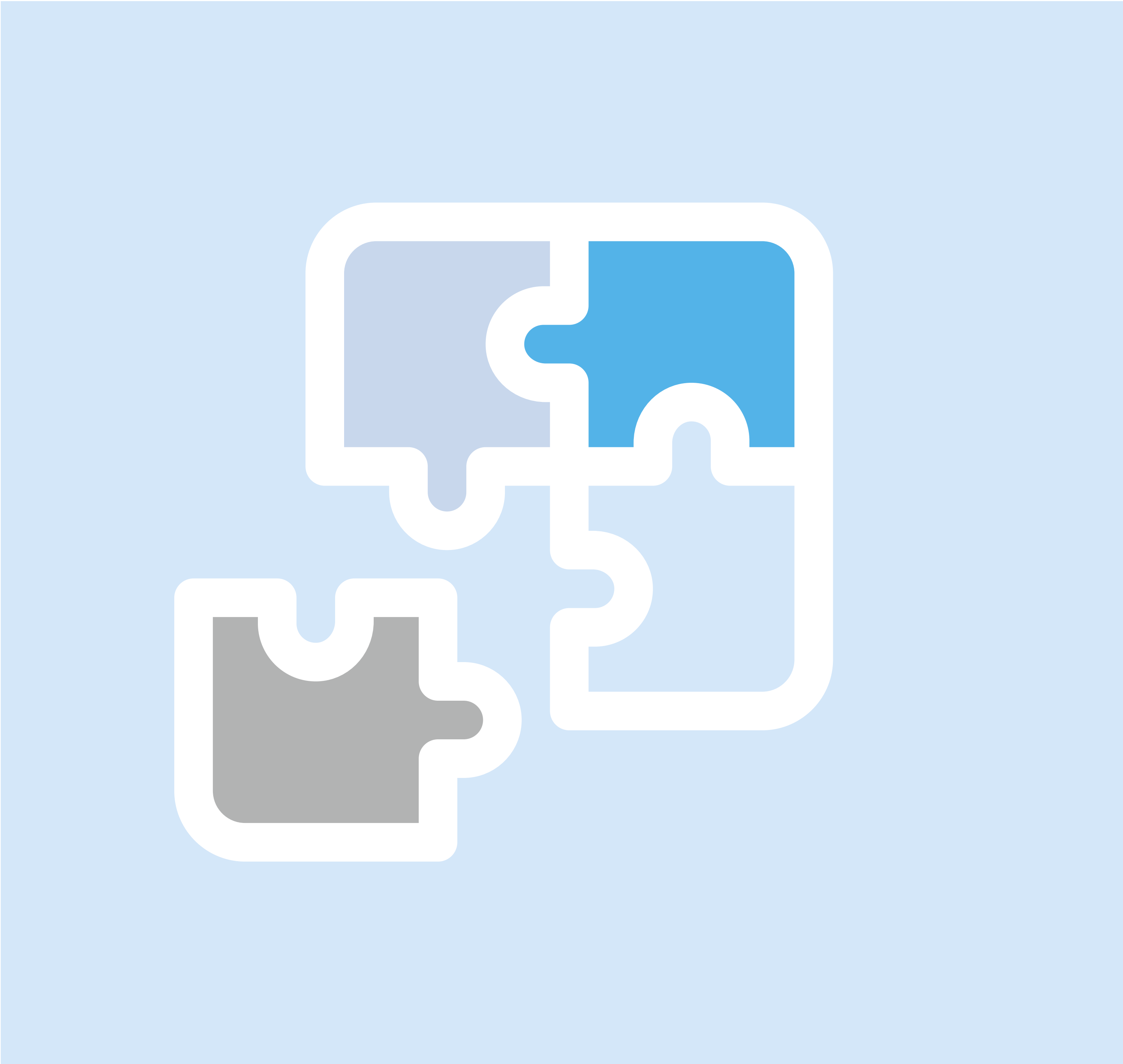
23. Five year summary

Results	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Gross written premiums	35,466	35,905	35,527	33,591	29,862
Net written premiums	25,826	25,659	25,681	24,869	23,066
Net earned premiums	25,876	25,821	25,178	24,498	22,660
Result attributable to underwriting	(2,676)	(538)	(1,130)	(3,421)	468
Result for the year before tax	(887)	2,532	(1,001)	(2,001)	2,107
Assets employed					
Cash and investments	79,951	73,193	71,240	67,902	67,646
Net technical provisions	56,034	53,201	54,924	51,087	49,875
Other net assets	9,229	9,852	11,112	9,952	9,943
Capital and reserves	**33,146**	29,844	27,428	26,767	27,714
Statistics					
Combined ratio (%)	110.3	102.1	104.5	114.0	97.9
Return on capital (%)	(2.8)	8.8	(3.7)	(7.3)	8.1

24. Related party transactions

The annual accounts of each syndicate provide, where appropriate, the required disclosures on related parties. Syndicate level disclosures are specific to that syndicate and its managing agent. For 2020, there were no material related party transactions conducted outside normal market conditions reported in the syndicate annual accounts requiring disclosure. The related party transactions of the Society are disclosed in note 29 on page 180.

Society Results



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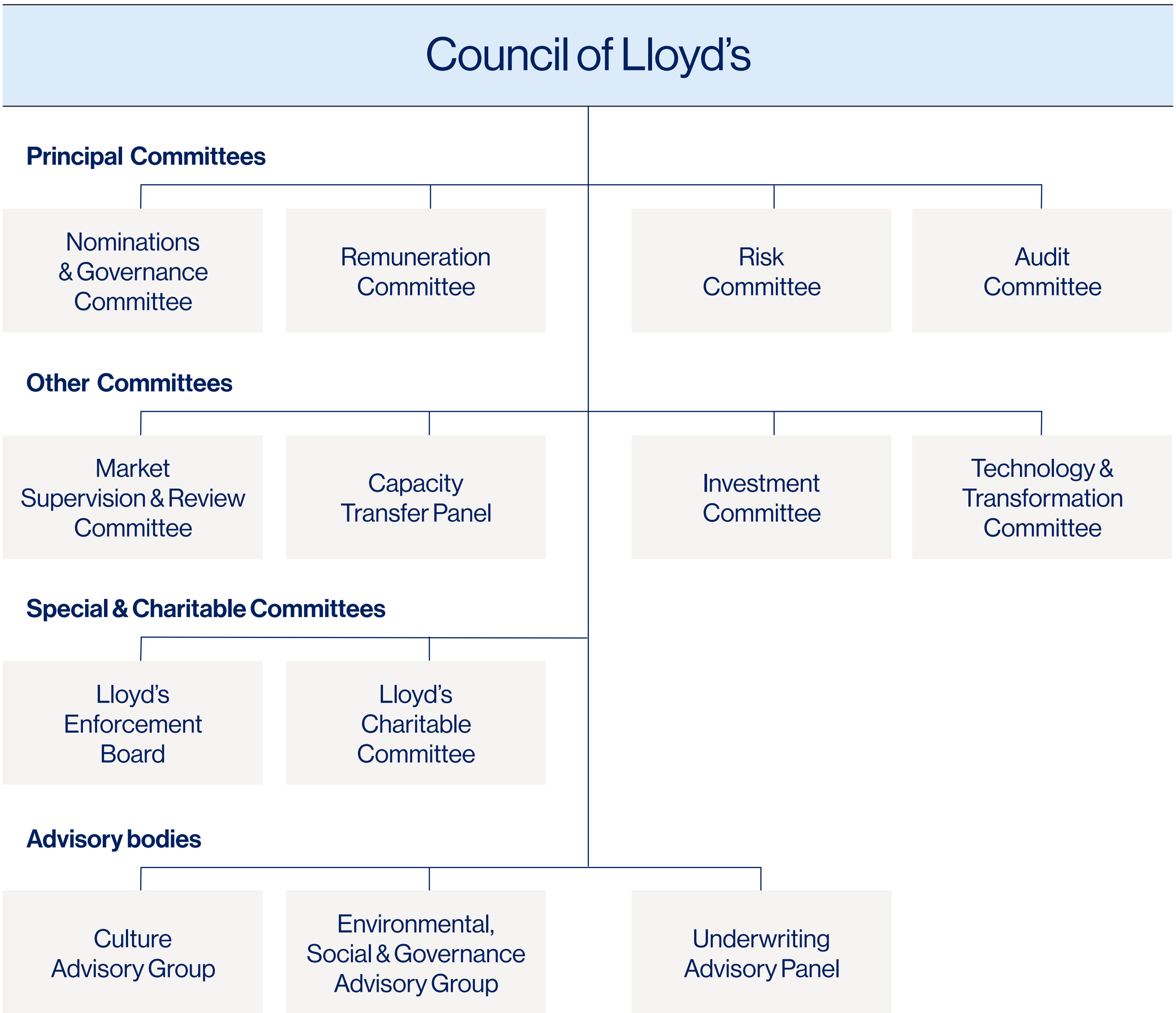
Financial Highlights

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Operating result					
Corporation operating income	384	358	352	351	332
Central Fund income	127	125	149	125	120
Total income	511	483	501	476	452
Central Fund claims and provisions incurred	–	–	–	–	(8)
Group operating expenses	(410)	(422)	(362)	(306)	(307)
Operating surplus[1]	101	61	139	170	137
Finance costs	(59)	(51)	(39)	(55)	(54)
Finance income[2]	2	151	93	62	314
Share of profits of associates and joint ventures	12	9	9	10	8
Surplus before tax	56	170	202	187	405
Tax charge	(10)	(33)	(39)	(31)	(75)
Surplus for the year	**46**	137	163	156	330
Balance sheet					
Net assets	3,023	2,601	2,417	2,188	1,996
Movement in net assets %	16.2%	7.6%	10.5%	9.6%	13.2%
Solvency					
Eligible central own funds to meet Central SCR	4,361	3,574	3,494	3,445	3,433
Central SCR	(2,085)	(1,500)	(1,400)	(1,600)	(1,600)
Excess of eligible central own funds over the Central SCR	**2,276**	2,074	2,094	1,845	1,833
Solvency coverage ratio %	209%	238%	250%	215%	215%

The solvency ratio is reported under the Solvency II legislative requirements, which came into force on 1 January 2016. The 2020 position is an estimate of the amount which will be finalised in April 2021 for submission to the PRA. The solvency figures in the table above are unaudited. Prior year figures are the estimates reported in the prior year Annual Report.

1. The operating surplus is a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is an Alternative Performance Measure (APM), with further information available on page 184.
2. The Society's investments, mostly held within the Central Fund, returned £2m or less than 1% during the year (2019: £151m, 3.6%). Excluding the impact of a £86m foreign exchange loss in 2020 (2019: foreign exchange loss of £62m), underlying investment returns generated a positive return of £87m or 2.1% in 2020 (2019: £213m or 5.0%).

Corporate Governance



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

Please see Committee Structure above.

The Council

The Council is the governing body of the Society of Lloyd's ('Society') and has ultimate responsibility for overall management of the market.

Prior to 1 June 2020, the Council delegated many of its functions to the Board, whose members were appointed by the Council and came from both within and outside the Lloyd's market. 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. From 1 June 2020, all the committees of the Board became committees of the revised Council. The day-to-day powers and functions of the Council are carried out by the Society's Executive Committee – the Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, Chief Risk Officer, Chief Human Resources Officer, General Counsel and Company Secretary, and Chief Marketing and Communications Officer. The Performance Management Director left the Society on 31 May 2020. A new role of the Chief of Markets was created and a candidate was appointed in January 2021. Lloyd's is regulated by the PRA and FCA, which have direct supervision of managing agents and monitor capital, solvency and conduct. The Society is active in managing risk within the market to ensure that Lloyd's central assets, brand, licences and reputation remain protected.

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

Governing body: the Council

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

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

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

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.

Membership

Following the merger, which took effect on 1 June 2020, the Council was reconstituted. Some existing Council members were re-appointed to the Council. Some Board members were appointed to the Council. The Council comprises a maximum of 15 members, split between three working, three external, 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 biographical details of the current members of the Council can be found at https://www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.

Nominated members are usually appointed for three-year terms which can be renewed. They may be regarded, for the purposes of the Code, as independent members of Council, with the exception of the Chairman and the Executive Directors who are included within their number. The independent nominated members are: Andy Haste, Fiona Luck, Neil Maidment, Angela Crawford-Ingle, and John Sununu. Neil Maidment recuses himself from discussions relating to Beazley, a Lloyd's managing agent, where a conflict of interest is identified owing to his deferred bonuses and shareholding following his retirement from that firm in 2018.

Working and external members of the Council are elected by the working and external members of the Society, generally for terms of three years. In the elections for working members, voting operates on a one member, one vote basis. In the elections for external members, voting entitlement is based on the member's allocated underwriting capacity as determined under the Constitutional Arrangements Byelaw (No. 2 of 2010). The Society has not adopted the Code provision that all Council members should be subject to annual re-election. The composition and appointment/election process for the Council members are derived from and are in compliance with Lloyd's Act 1982. The external and working members of Council are subject to direct election by the Lloyd's market. Nominated members are appointed by a Special Resolution of the Council, which of course includes those external and working members who have been elected by the market. Under the Special Resolution procedure separate majorities are required of (a) the working members of the Council and (b) the other members of the Council combined.

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

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

Chairman and Deputy Chairmen

In accordance with the Lloyd's Act 1982, the Chairman and Deputy Chairmen of Lloyd's are elected annually by Special Resolution of the Council from among its members. If the Chairman is not a working member of the Society then at least one of the Deputy Chairmen must be. At the date of this report there are two Deputy Chairmen, Andy Haste (Nominated member) and Dominic Christian (working member).

The Chairman's principal responsibility is to create the conditions to ensure the overall effectiveness of the Council. The Chairman is contracted to work three days a week but commits as much time as is necessary to undertake the role. The Council acknowledges that the Chairman has other commitments outside Lloyd's (see https:// www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds) and is satisfied that these can be accommodated with the Chairmanship of Lloyd's. For the purposes of the Code, the Chairman was considered to be independent upon his appointment.

Andy Haste (a Nominated member) was appointed Senior Independent Deputy Chairman (the Society's equivalent of the senior independent director) with effect from 1 November 2012. Mr Haste will be stepping down from Council after nine years' service in October 2021. The Nominations & Governance Committee is undertaking a search for Mr Haste's replacement. Please refer to the Nominations & Governance Committee section for further information.

Meetings

The Council met on ten occasions in 2020. One of these was a joint meeting with the Board. The meetings of the Council are structured to allow open discussion. At each meeting the Council receives certain regular reports – for example, a written report from the Chief Executive Officer and updates from the principal committees. Private sessions are held regularly by the Chairman at the end of Council meetings without the Executive members being present.

A table showing Council members' attendance at Council and Committee meetings which they were eligible to attend is set out on pages 86 to 87.

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

Governance Policies and Constitutional Requirements

The Governance Policies

Until 1 June, among other matters, the Governance Policies were intended to ensure clarity around the role of the Council and to establish a structured relationship with the Board.

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

The Constitutional Requirements

The Constitutional Requirements, as set out in the Constitutional Arrangements Byelaw (No. 2 of 2010), align, so far as appropriate, the Society's governance arrangements with the Companies Act 2006. They include provisions concerning the duties and responsibilities of Council members. These same duties also applied to members of the Board before it was dissolved and apply to the members of Council committees.

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

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

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

Board

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.

Membership and meetings

With effect from 31 May 2020, the Board was 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.

A table showing Board members' attendance at Board and Committee meetings which they were eligible to attend is set out on pages 86 and 87.

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-and-management/council-of-lloyds.

The Committee is chaired by the Chairman of Lloyd's and its remaining members are drawn from the Council. As three of the Committee's six members are elected representatives of the Lloyd's market the Committee's composition does not comply with 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 Committee meets at least twice annually and otherwise at the discretion of its Chairman or as directed by the Council. The Committee held five meetings in 2020. A table showing Committee members' attendance at Committee meetings is set out on pages 86 and 87.

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

The Committee made the following major recommendations to the Council during 2020:

- to (re-)elect Andy Haste as the Senior Independent Deputy Chairman and Robert Childs and Dominic Christian as Deputy Chairmen (Robert Childs stepped down from this role on the merger of the Board into the Council on 1 June 2020);
- the selection and appointment of the Nominated members and members of Council committees following the merger of the Board into the Council with effect from 1 June 2020;
- to make or renew a number of appointments including:
  - Patricia Jackson – independent Non-Executive Director of the Board and Chair of the Risk Committee (for the period 1 January 2020 until the merger of the Board into the Council on 1 June);
  - Mark Cloutier – member of the Nominations & Governance Committee (for the period 1 January 2020 until the merger of the Board into the Council on 1 June 2020);
  - Karen Green – member of the Remuneration Committee and Chair of the Investment Committee;
  - Michael Watson – member of the Audit and Investment Committees;
  - Nick Marsh and Tammy Richardson – members of the Market Supervision and Review Committee;
  - to appoint Andrew Carrier as Chairman of the Lloyd's Tercentenary Research Foundation (LTRF) and of Holly Hedgeland, Nicola Haines and Susan Kay as Trustees of the LTRF;
  - to appoint Raza Hussan and Ola Jacob Raji as Trustees of the Lloyd's Charities Trust;
  - to appoint Matthew Wilson and Laurie Davison to the Technology & Transformation Committee; and
  - to appoint Sheila Cameron as an LMA Nominee Member of the Capacity Transfer Panel.

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

Searches

Following the departure of Jon Hancock from his role as Performance Management Director in May 2020, the Committee undertook a search for a new Chief of Markets. The Committee was supported initially by external search consultants, MWM Limited, and subsequently by The Sapphire Partnership. Patrick Tiernan was appointed as Chief of Markets on 22 January 2021 and appointed to the Council at its meeting on 4 February 2021.

The Committee is also undertaking a search for a replacement for Mr Andy Haste, Senior Independent Deputy Chairman, who is due to step down following the completion of a maximum nine-year term on the Council in October 2021. The Committee is being assisted in this search by external search consultants Russell Reynolds Associates with a brief to find a candidate with the ability to assume Mr Haste's SID responsibilities as well as his chairmanship of the Technology & Transformation Committee and also to improve the diversity of the Council.

None of the external search agents used have any connection to the Society.

Succession planning

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

To address heightened risk caused by the pandemic, the Committee considered and approved emergency succession arrangements for the Chairman and the CEO and also considered the future skills, knowledge and experience likely to be needed by the Council and the Executive. The Committee's work on succession planning has informed the design of the profiles for the recruitment of new members of the Council and its Committees and to the Corporation's executive team.

Diversity

The Committee considers candidates on merit and against objective criteria, taking care that prospective appointees have enough time available to devote to the position. The Committee is very focused on the need for recent and relevant experience in the appointments it recommends and is equally focused on increasing the diversity of the membership of the Council and its committees. Following the publication of market-wide gender targets in July 2020, and Lloyd's commitment to set a similar target for ethnicity in Q2 2021, in September 2020, on the recommendation of the Committee, the Council set a new Diversity Policy for Lloyd's Council. Under this policy a target has been set that by the end of 2023, a minimum of 33% of the Council should be female and/or from a non-white background. To comply with this policy, Council has set itself a target of:

- a minimum of two of the six elected market representatives and two of the six independent Nominated members of Council being female; and
- at least one member of Council will be from a non-white background.

In July 2020, targets were set for the market of: 35% female representation in leadership posts across the market by 31 December 2023 (Board, Executive Committee, Executive Committee direct reports); at least 20% female representation on Boards and Executive Committees combined, by 31 December 2023; and a commitment to achieve parity by 2030.

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. Please refer to the Remuneration Report for details of the Council remuneration.

The Remuneration Committee meets at least twice a year and otherwise at the discretion of its Chairman or as directed by the Council. The Committee met on eight occasions in 2020. A table showing Committee members' attendance at Committee meetings is set out on pages 86 and 87. The Committee's full report is on pages 93 to 107.

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.

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. 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 ('TTC')

The 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.

The Committee met on eight occasions in 2020. A table showing the Committee members' attendance at Committee meetings is set out on pages 86 and 87.

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 auditors 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, all of the Committees members were 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.

The Committee met on four occasions in 2020. A table showing Committee members' attendance at Committee meetings is set out on pages 86 and 87.

The Audit Committee's full report is on pages 108 to 111.

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.

The Committee met on eight occasions in 2020. A table showing the Committee members' attendance at Committee meetings is set out on pages 86 and 87.

Market Supervision and Review Committee ('MSARC')

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

MSARC submits a written report to the 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. MSARC met on four occasions in 2020. A table showing MSARC members' attendance at MSARC meetings is set out on pages 86 and 87.

Capacity Transfer Panel (the '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. The Panel met on two occasions in 2020.

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 2020. 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.

The Committee met on seven occasions in 2020. A table showing Committee members' attendance at Committee meetings is set out on pages 86 and 87.

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 Advisory 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 ESG. 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.

Terms of reference and appointment terms

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

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

Annual General Meeting

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

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

Indemnities

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

Council and committee assessments

In accordance with the UK Corporate Governance Code, an external and independent evaluation of the performance of the Council, 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 principal conclusion of the assessment was that the governance arrangements were effective but not efficient. The evaluation identified areas for discussion including increasing efficiencies between the two governing bodies and the Executive. On 1 June 2020, the merger of Board and Council took effect to increase efficiencies in the Society's governance structure.

In order to obtain an early assessment of the improvements generated by the merger of the Board into the Council the next external evaluation (due at the end of 2021) was brought forward to the first quarter of 2021. The evaluation was conducted by YSC Consulting in order to enable a direct comparison with the position at the time of their previous review in 2018/19. The review has been undertaken through observations by YSC Consulting of the Council and selected committees and discussions with Council members, Executive Committee members and other senior leaders of the Society.

At the date of this report the conclusions from the YSC follow-up evaluation are not available. The findings of the YSC evaluation will be reported at the Society's AGM in May 2021.

In years where an external evaluation is not undertaken, the Secretary to the Council conducts an assessment of the Council and its principal committees based on questionnaires issued to the members of these bodies.

Individual assessment

The Chairman meets each Non-Executive Director and each 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. These views are conveyed to the Chairman by the Senior Independent Deputy Chairman.

Training and induction

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

Independent professional advice

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

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

Conflicts of interest

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

	Council[1]	The Board[1]	Nominations & Governance Committee	Remuneration Committee	Audit Committee	Risk Committee	Technology & Transformation Committee	Investment Committee	MSARC[2]	Capacity Transfer Panel
Chairman of the Council of Lloyd's										
Bruce Carnegie-Brown[3]	10/10	3/3	5/5	7/8			8/8			
Executive Directors of the Council										
Jon Hancock[4]		3/3								
Burkhard Keese[5]	8/8	3/3						7/7		
John Neal[6]	10/10	3/3					8/8	5/7		
Non-Executive Council members Working members										
Andrew Brooks[7]	10/10					5/5				
Dominic Christian[8]	9/10		5/5	7/8						
Vicky Carter[9]	10/10		5/5			5/5				
External members										
Albert Benchimol[10]	9/9				2/2			3/3		
Jeffery Barratt[11]	10/10		3/3		2/2					
Robert Childs[12]	2/2		2/2							
Karen Green[13]	10/10			7/8		7/8		2/3		
Dominick Hoare[14]	9/10									
Michael Watson[15]	9/10			4/5	4/4					
Nominated members										
Angela Crawford-Ingle[16]	8/8	3/3			4/4	5/5				
Andy Haste[17]	10/10		5/5	8/8			8/8	4/4		2/2
Neil Maidment[18]	8/8	3/3			2/2	8/8	8/8			
Christian Noyer[19]	2/2									
Fiona Luck[20]	7/8	3/3	5/5	7/8		8/8				
John Sununu[21]	9/10			5/5	0/0					
Non-Executive Franchise Board members										
Mark Cloutier[22]		3/3	0/5		1/2					
Charles Franks[23]		2/3				2/3				
Patricia Jackson[24]		3/3			2/2	3/3				
Richard Keers[25]					0/0					
Other Non-Executive Committee members										
Mark Allan								6/7		
Richard Boys-Stones										1/2
Mike Bracken[26]		3/3					8/8			
Laurie Davison[27]							2/2			
Lady Rona Delves Broughton										2/2
Sheila Cameron[28]							8/8			1/1
Margaret Chamberlain										2/2
Julian James									4/4	
David Gittings[29]										0/0
Paul Greensmith[30]							2/2			
Sir Mark Havelock-Allan									4/4	

	Council[1]	The Board[1]	Nominations & Governance Committee	Remuneration Committee	Audit Committee	Risk Committee	Technology & Transformation Committee	Investment Committee	MSARC[2]	Capacity Transfer Panel
Nigel Hinshelwood[31]		0/3				1/3	7/8			
Alan Lovell										2/2
Nick Marsh[32]									2/4	
Philip Matthews								7/7		
Reeken Patel								6/7		
Tammy Richardson[33]									4/4	
Jo Rickard									4/4	
Sacha Sadan								7/7		
Paul Swain										1/2
Matthew Wilson[34]							5/5			
Other Executive Committee Members										
Jennifer Rigby[35]							8/8			

Notes
1. The Board merged into the Council with effect from 1 June 2020.
2. Market Supervision and Review Committee.
3. Bruce Carnegie-Brown was appointed as a member of the Technology & Transformation Committee with effect from 20 February 2020. Mr Carnegie-Brown ceased as Chair of the Board on its dissolution on 31 May 2020.
4. Jon Hancock ceased as the Performance Management Director of Lloyd's and as a member of the Board with effect from 31 May 2020.
5. Burkhard Keese was appointed as a member of the Council with effect from 1 June 2020. Mr Keese ceased as a member of the Board on its dissolution on 31 May 2020.
6. John Neal was appointed as a member of the Technology & Transformation Committee with effect from 20 February 2020. Mr Neal ceased as a member of the Board on its dissolution on 31 May 2020.
7. Andrew Brooks was appointed as a member of the Risk Committee with effect from 1 June 2020. Mr Brooks was re-elected as a member of the Council following Council elections with effect from 1 December 2020.
8. Dominic Christian was appointed as a member of the Remuneration Committee with effect from 1 January 2020 and was elected as a Deputy Chairman of Lloyd's with effect from 5 February 2020. Mr Christian was re-elected as a member of the Council following Council elections with effect from 1 December 2020.
9. Vicky Carter was appointed as a member of the Risk Committee with effect from 1 June 2020. Ms Carter was re-elected as a member of the Council following Council elections with effect from 1 December 2020.
10. Albert Benchimol was appointed as Chair of the Investment Committee and a member of the Audit Committee with effect from 1 June 2020. Mr Benchimol ceased as a member of the Council, the Chair of the Investment Committee and a member of the Audit Committee with effect from 30 November 2020 following the Council elections.
11. Jeffery Barratt was appointed as a member of the Nominations & Governance Committee and a member of the Audit Committee with effect from 1 June 2020. Mr Barratt was re-elected as a member of the Council following Council elections with effect from 1 December 2020.
12. Robert Childs ceased as a member of the Council and a member of the Nominations & Governance Committee with effect from 31 May 2020.
13. Karen Green ceased as a member of the Council with effect from 31 May 2020. Ms Green was appointed as a Special Adviser to the Council and attended meetings in that capacity with effect from 1 June 2020. Ms Green was re-elected as a member of the Council following the Council elections with effect from 1 December 2020. Ms Green was appointed as Chair of the Investment Committee with effect from 2 December 2020.
14. Dominick Hoare ceased as a member of the Council with effect from 31 May 2020 and was appointed as a Special Adviser to the Council and attended meetings in that capacity with effect from 1 June 2020. Mr Hoare ceased as a Special Adviser to the Council with effect from 30 November 2020.
15. Michael Watson was appointed as a member of the Remuneration Committee with effect from 1 June 2020 and as a member of the Investment Committee with effect from 2 December 2020.
16. Angela Crawford-Ingle was appointed as an Independent Non-Executive Director of the Board with effect from 1 January 2020 and as Chair of the Audit Committee with effect from 14 January 2020. Ms Crawford-Ingle ceased as a member of the Board on its dissolution on 31 May 2020. Ms Crawford-Ingle was appointed as a member of the Council and a member of the Risk Committee with effect from 1 June 2020.
17. Andy Haste was appointed as Chair of the Technology & Transformation Committee with effect from 20 February 2020. Mr Haste ceased as Chair of the Investment Committee with effect from 31 May 2020.
18. Neil Maidment was appointed as member of the Technology & Transformation Committee with effect from 20 February 2020 and as Chair of the Risk Committee with effect from 1 June 2020. Mr Maidment ceased as a member of the Board on its dissolution on 31 May 2020 and was appointed as a member of the Council and a member of the Audit Committee with effect from 1 June 2020.
19. Christian Noyer ceased as a member of the Council with effect from 31 May 2020.
20. Fiona Luck ceased as a member of the Board on its dissolution on 31 May 2020 and was appointed as a member of the Council with effect from 1 June 2020.
21. John Sununu was appointed as a member of the Remuneration Committee with effect from 1 June 2020 and as a member of the Audit Committee with effect from 2 December 2020.
22. Mark Cloutier ceased as a member of the Board, a member of the Nominations & Governance Committee and a member of the Audit Committee with effect from 31 May 2020.
23. Charles Franks ceased as a member of the Board and a member of the Risk Committee with effect from 31 May 2020.
24. Patricia Jackson ceased as Chair of the Risk Committee and as a member of the Board and a member of the Audit Committee with effect from 31 May 2020.
25. Richard Keers ceased as Chair of the Audit Committee with effect from 14 January 2020.
26. Mike Bracken was appointed to the Technology & Transformation Committee with effect from 20 February 2020. Mr Bracken ceased as a member of the Board and a member of the Technology & Transformation Committee with effect from 31 May 2020. Mr Bracken was appointed as a Special Adviser to the Technology & Transformation Committee with effect from 1 June 2020.
27. Laurie Davison was appointed to the Technology & Transformation Committee with effect from 15 October 2020.
28. Sheila Cameron was appointed as a member of the Technology & Transformation Committee with effect from 20 February 2020 and as a member of the Capacity Transfer Panel with effect from 2 December 2020.
29. David Gittings ceased as a member of the Capacity Transfer Panel with effect from 31 May 2020.
30. Paul Greensmith was appointed to the Technology & Transformation Committee with effect from 20 February 2020 and ceased as a member of the Committee with effect from 21 April 2020.
31. Nigel Hinshelwood was appointed as a member of the Technology & Transformation Committee with effect from 20 February 2020. Mr Hinshelwood ceased as a member of the Board, a member of the Risk Committee and Technology & Transformation Committee with effect from 31 May 2020. Mr Hinshelwood was appointed as a Special Adviser to the Technology and Transformation Committee with effect from 1 June 2020.
32. Nick Marsh recused himself from the MSARC meetings held on 12 August 2020 and 11 November 2020 due to conflict of interests.
33. Tammy Richardson was appointed as a member of the MSARC with effect from 1 February 2020.
34. Matthew Wilson was appointed to the Technology & Transformation Committee with effect from 16 June 2020.
35. Jennifer Rigby was appointed as a member of the Technology & Transformation Committee with effect from 20 February 2020.

Compliance with the UK Corporate Governance Code 2018

The Council is committed to the principle of good corporate governance and supports the application of the principles of the UK Corporate Governance Code (https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code) ('the Code').

The Code requires disclosure of how the provisions of the Code have been complied with and an explanation of any divergences. An internal assessment has been undertaken and is set out below.

Except where expressly stated below, the Society has complied throughout the reporting period with the Code insofar as its provisions can be applied to the governance of a society of members and a market of separate and competing entities. Please refer to the Strategic Report, the Remuneration Report and the Corporate Governance Report for further information.

1. Board Leadership and Company Purpose

The Principles:

a) The Council is the governing body of the Society. Section 3(1) of Lloyd's Act 1982 provides that 'There shall be a Council of Lloyd's'. The Society's governance structure is contained within this report. For further information please see the 'Governing body: the Council' and the 'Constitutional Requirements' paragraphs within the Corporate Governance section and the Society's s.172 Statement (pages 80, 81 and 28).

b) The Society's Purpose is 'sharing risk to create a braver world'. In November 2020, with the full support of the Council, the Society published its second Blueprint, which sets out the delivery plan for the next phase of its strategy to build the most advanced marketplace in the world. In January 2020, the Council established an independent Culture Advisory Group ('CAG') as part of a comprehensive action plan to drive long-term culture change in the market. Throughout 2020 culture has formed a key section of the agenda at each Council meeting, with reports provided on the work of the CAG and of the alignment of the Future at Lloyd's strategy to the Society's culture.

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

   For further information, please see the 'Culture Advisory Group' paragraph within the Corporate Governance report and the Strategic Report at pages 84 and 8.

c) Under the Society's Terms of Reference certain functions are reserved to the Council (for further information please see 'the Governing body: the Council' paragraph at page 80). The Council has delegated authority to carry out specified functions to its committees, including the Audit and Risk Committees. For further information, please refer to the committee headings at page 83.

   A framework of established controls is in place and is outlined in the Internal Control Statement and the report of the Audit Committee, (please see pages 91 and 108). Furthermore, appropriate collaboration has been established between the Audit and Risk Committees with the Chair of the Audit Committee being a member of the Risk Committee and vice versa and between the Council and the committees through the reports provided by each committee to the Council after each meeting.

d) The AGM is an annual opportunity for Council members and the Executive to engage with members of the Society. Effective engagement has also been achieved through the inclusion of market members including representatives of market associations on Council committees and advisory groups (including the TTC, the CAG, ESG Advisory Group and the Underwriting Advisory Panel) and through market-wide consultations on several projects undertaken in 2020, including (but not limited to) development of Blueprint Two and the Council/Board merger. For further information, please refer to the 'AGM' paragraph and the Strategic Report at pages 84 and 8.

e) The functions of the Audit Committee include ensuring that appropriate arrangements are in place by which employees may, in confidence, raise concerns relating to possible impropriety relating to the Society, in matters of financial reporting or other matters.

   Training is provided annually to the Council and to all Corporation employees to support the embedding of these arrangements. For further information on the Audit Committee, please refer to the Audit Committee Report at page 108.

2. Division of Responsibilities

The Principles:

f) The Chairman's role and responsibilities are defined by the Lloyd's Act 1982, the Constitutional Arrangements Byelaw and the terms of reference for the Chairman and Deputy Chairmen, all of which are published on Lloyds.com. The Chairman leads the Council and is responsible for its overall effectiveness in directing the Society. Please see the 'Chairman and Deputy Chairmen' and 'Membership' and 'Meetings' and 'Individual Assessment' paragraphs at pages 80 and 85 for further information.

g) The composition of the Council is prescribed by the Lloyd's Act 1982 and the Constitutional Arrangements Byelaw. Please refer to the Council 'Membership' paragraph at page 80 for information on the current Council membership. The Council's composition ensures that no one individual or a small group of individuals dominate the Council's decision making. Please refer to the 'Nominations & Governance Committee' and the 'Terms of reference and appointment terms' paragraphs at pages 81 to 82 and page 84 for further clarification as to how this principle is observed.

h) The Nominations & Governance Committee takes care that prospective appointees have enough time available to devote to the positions they are being considered for. In support of this, please refer to the attendance records at pages 86 to 87.

   A Conflict of Interest register is maintained by the Secretary to the Council (please refer to the 'Conflicts of Interest' heading at page 85 for more information).

   Non-Executive Directors have the opportunity to provide constructive challenge, strategic guidance, specialist advice and hold management to account. This is enabled through the attendance of the Executive at Council meetings; by the feedback sought from Non-Executive Directors on the operation and dynamics of the Council as part of the annual governance effectiveness review; and through the Chairman's ongoing dialogue with the Non-Executive Directors. Please refer to the Corporate Governance Report for further information.

i) The Council and its committees are supported by processes and resources, including (but not limited to) the Terms of Reference, the Governance Policies, the Guide to Committee Members, all of which were refreshed during 2020 following the Board/Council merger, and by annual evaluations (which are conducted by an independent external party every three years). For further information, please refer to the paragraphs 'Terms of reference and appointment terms' and 'Council and committee assessments' at page 84.

The Provisions:
Provision 11: The Council comprises six independent Nominated members, six elected market representatives and three executive directors. The majority 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 the Council is tailored to the Society and the Lloyd's market, having resulted from an extensive consultation with members of the Society, market participants and associations, and the Society's regulators during 2019, and meets the requirements of Lloyd's Act 1982 (which do not apply to other companies).

Provision 15: The Society complies save that approval for additional Non-Executive appointments to be undertaken by existing Council members requires the approval of the Chairman and/or Secretary to the Council rather than the Council as a whole.

3. Composition, Succession and Evaluation

The Principles:

j) Appointments to the Council are subject to formal, rigorous and transparent procedures led by the Nominations & Governance Committee, which considers candidates based on merit and objective criteria.

Effective succession plans are in place for key positions, please refer to the Nominations & Governance Committee paragraph at page 81 for further information. Please also refer to the Council 'Membership' and 'Governing body: the Council' paragraphs at page 80 and the Council biographies which can be found at https://www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds, for a note of the current membership of the Council.

The Society's success is integrally linked to the diverse composition of its people and the promotion of an inclusive culture. Please refer to the 'Diversity' paragraph within the Nominations & Governance Committee section of the Corporate Governance report at page 82.

k) The Council and its committees have a combination of skills, experience and knowledge which is kept under annual review by the Nominations & Governance Committee. Limits on the length of service on Council apply. For further information on Council membership and how it is refreshed, please refer to the 'Membership' section under the 'Governing body: the Council' at page 80. Please also refer to the Council biographies which can be found at https://www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.

l) Please refer to the 'Council and committee assessments' and 'Individual assessments' at pages 84 and 85 for further details.

The Provisions:
Provision 17: The Society complies save that a majority of the members of the Nominations & Governance Committee are not independent. Three of the six members of the Nominations & Governance Committee are elected representatives of the market. 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.

Provision 18: Council members are not subject to annual re-election. The composition and appointment/election processes for Council members are prescribed by the Lloyd's Act 1982. In accordance with that Act; (i) the external and working members of Council are subject to direct election by the Lloyd's market; (ii) Nominated members are appointed by a Special Resolution of the Council (which of course includes those external and working members who have been elected by the market). Under the Special Resolution procedure separate majorities are required of (a) the working members of Council and (b) the other members of Council combined. This procedure, and the commitment made in relation to the composition of the Nominations & Governance Committee (see above) ensures sufficient representation of the members of the Society and the market in relation to key appointments.

4. Audit, Risk and Internal Control

The Principles:

m) The Society has formal and transparent policies and procedures in place to ensure the independence and effectiveness of internal and external audit functions and to satisfy itself on the integrity of financial and narrative statements. The Council is supported by and has delegated authority to carry out specified functions to the Audit Committee and Risk Committee. For information as to the Audit Committee's and Risk Committee's roles, please refer to the committee headings at page 83 and the 'Report of the Audit Committee' at page 108.

n) The Society presents a fair, balanced and understandable assessment of the Society's position and prospects. Please refer to the Audit Committee's statement under the paragraph 'Financial reporting and external audit' at page 110.

o) The Council, with the support of the Risk Committee and Audit Committee has established procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Society is willing to take in order to achieve its long-term strategic objectives. For further information on the framework and procedures in place, please refer to the 'Internal Control Statement' at page 91, the 'Internal Control' paragraph within the Audit Committee report at page 110 and the Risk Committee paragraph within the Corporate Governance section of the report at page 83. Please refer to the Strategic Report at page 8 for the Society's long-term strategic objectives.

The Provisions:
Provision 24: The Society complies save that the Audit Committee is comprised of both independent Nominated members and elected market representatives. Please refer to the 'Audit Committee' paragraph and the Audit Committee report at pages 83 and 108 and the Council biographies which can be found at https://www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.

The Audit Committee's composition is deemed appropriate notwithstanding its departure from the Code. Council has done this to maximise the pool of skills and experience available to it when appointing the members of the Committee.

5. Remuneration

The Principles:

p) The Remuneration Committee reviews and recommends the framework and policy for the remuneration of the Chairman of Lloyd's, the Chief Executive Officer, the Executive Directors, any other direct reports of the Chief Executive Officer and such other members of the executive management or other persons as appropriate, to the Council (including Solvency II employees). The framework and policy support strategy and the long-term sustainable success of the Society. Please refer to the Remuneration report at 93 for further detail.

The Society's Remuneration Policy seeks to reward individuals who contribute to the success of the Corporation and the Lloyd's market. Please refer to the Remuneration report at page 93 for a summary of the principles that underpin the Remuneration Policy. The principles align to the Society's purpose and values, and the successful delivery of the Society's long-term strategy.

q) The procedure for developing policy on Executive, Director and Senior management remuneration is established and transparent. This is demonstrated by the Remuneration Policy in place which is described within the Remuneration report at page 93. Directors are not involved in deciding their own remuneration outcome. Please refer to the Remuneration Committee's Terms of Reference.

r) Part 3 of the Constitutional Arrangements Byelaw (No. 2 of 2010) requires the Society's Directors to exercise independent judgement and the Remuneration Committee's Terms of Reference and Remuneration Policy provide further direction on the circumstances that must be considered when authorising remuneration outcomes. Please refer to the Remuneration Committee's Terms of Reference and the Remuneration report at 93.

The Provisions:
Provision 32: The Society complies save that the Remuneration Committee is comprised of both independent Non-Executive Directors and elected market representatives. Please refer to the 'Remuneration Committee' paragraph under the Corporate Governance section at page 82 and the Council biographies which can be found at https://www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.

The Remuneration Committee's composition is deemed appropriate notwithstanding its departure from the Code. Council has done this to maximise the pool of skills and experience available to it when appointing the members of the Committee.

Provision 38: Workforce arrangements are carefully considered. Please refer to the 'Wider Corporation Employees' paragraph within the Remuneration Report at page 94. The pension consequences and associated costs of basic salary increases and any other changes in pensionable remuneration, or contribution rates are not relevant; all employees including Directors have access to the same pension arrangements that do not vary by age.

Provision 41: The Society complies with Provision 41 except where set out below:

- Council approves the Remuneration Policy rather than any Shareholders because the Society does not have Shareholders. Elected representatives sit on Council and therefore engagement is undertaken with external stakeholders when Remuneration discussions come before Council;
- Pay ratios are not contained within the Remuneration Report. The approach on gender and ethnicity pay gap is explained in the Remuneration Committee's Chair Statement;
- A description (with examples) of how the Remuneration Committee has addressed the factors in Provision 40 are not incorporated in the Remuneration Report under the specific headings identified. The Remuneration Report contains clear and concise information, and to include descriptions following specific wording from Provision 40 could potentially duplicate and dilute the information contained within the report. Sufficient information is contained overall within the Remuneration Report to give external stakeholders a good understanding on how executive director remuneration policy and practices are determined; and
- The extent to which discretion has been applied to remuneration outcomes and the reasons why are not disclosed. The Remuneration Report explains that a discretionary risk underpin is applied to remuneration considerations and sets out if a downward risk underpin has been applied when such a decision is made. The Remuneration report also details the circumstances where the Committee retains the discretion to clawback awards. In accordance with Part 3 of the Constitutional Arrangements Byelaw (No. 2 of 2010), the Society's Directors are required to exercise independent judgement and act in good faith to promote the success of the Society having regard to a number of factors, including (but not limited to) the likely consequences of the decision in the long term and the need for the Society to have regard to the interests of its employees. Therefore, it is not considered appropriate to incorporate the extent to which discretion has been applied to the remuneration outcomes and the reasons why, within the Remuneration Report over and above that already covered.

Internal Control Statement

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.

The internal control system provides the foundation for the safe and sound operation of the business, ensuring compliance with relevant laws and regulations and the safeguarding of assets. The system is designed to reduce, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. Central to the internal control system is the 'three lines of defence' model. Each person at the Society is part of the 'three lines of defence', which protects the Society and its employees.

– First Line – Front line business functions: responsible for the operation of the business; and owning the risk of carrying out our responsibilities correctly;
– Second Line – Financial Crime, Compliance and Risk Management: specialised and independent functions responsible for oversight: Ensuring business is conducted correctly; and
– Third Line – Internal Audit: an independent assurance function responsible for reviewing that business is conducted in accordance with relevant processes and controls.

In accordance with the guidance of the UK Corporate Governance Code on internal control and Solvency II requirements, there is an established, ongoing process for identifying, evaluating, and managing significant business, operational, financial, compliance and other risks. The Society has a Whistleblowing Policy whereby any staff member, consultant or contracted worker may take up matters that concern them through a dedicated external independent helpline, an internal dedicated mailbox or via the Whistleblowers' Champion who is a Non-Executive Council member. The Compliance function test the global Whistleblowing helpline channels on a regular basis and the global Policy is reviewed and updated on an annual basis. Global mandatory training (with the exception of European staff) is updated and deployed each year to maintain staff awareness of the identification of whistleblowing concerns and how to speak up using the available channels.

Associate and joint venture companies, Ins-sure Holdings Limited, Xchanging Claims Services Limited, Platform Placing Limited and London Market Operations and Strategic Sourcing Limited, are not considered part of the Group for the purposes of applying the UK Corporate Governance Code.

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

Management structure

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

There is a clearly defined organisation structure with terms of reference agreed for the Chief Executive Officer and all directors that sets out, inter alia, their functions and powers, authority to act and limitations on authority. This reflects the Senior Managers and Certification Regime which requires all Senior Management Function ('SMF') holders to agree and sign a Statement of Responsibility confirming their role and responsibilities. Role profiles are required to ensure that all employees (including those who do not hold a SMF) are aware of their role and responsibilities, as agreed with their line manager.

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

The Society maintains an independent and objective Internal Audit function that reports functionally to the Chair of the Audit Committee and administratively to the Chief Executive Officer. The Head of Internal Audit is supported by two internal senior managers, an In-house team of Internal Auditors, and Deloitte LLP ('Deloitte'), who provide additional skills and resources as required under a co-source arrangement. The Head of Internal Audit was appointed with effect from 1 March 2020.

Identification and evaluation of business risks

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

The Framework includes a number of risk assessment techniques, which are tailored to specific risk areas and these are discussed in further detail in the Strategic Report on page 8.

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

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

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

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

Internal Control Statement continued

The 'Lloyd's Compliance Policy' defines the remit, role and responsibilities of the Society's Financial Crime & Compliance Department, which Includes the Compliance function (made up of the Compliance Advisory team, the Regulatory Engagement team, and compliance responsibilities of the Monitoring & Assurance team):

- Defining realistic and measurable objectives for the function in order to support both the Council and the CRO in discharging their compliance risk management duties;
- Defining the various roles the Compliance function must assume in order to realise its objectives;
- Describing the scope of the Compliance function in providing challenge and oversight to risks which may materialise;
- Outlining the specific responsibilities of the Compliance function in order to realise its objectives; and
- Outlining the role of the Compliance function in achieving the goal of integrated assurance within the Society.

The Compliance function undertakes a programme of activities each year in order to carry out the role and responsibilities outlined in the Policy. These activities include provision of compliance monitoring, challenge and assurance relating to PRA and FCA requirements. The Compliance function reports to the Risk Committee.

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

Information and financial reporting systems

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

Report of the Remuneration Committee

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

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

Statement by Chair of the Remuneration Committee

I am pleased to present the Remuneration Committee's report for 2020 on the following pages.

2020 has been an exceptionally challenging period for our people, our customers, and for economies around the world. The pandemic has underlined the importance of the Future at Lloyd's and we have sharpened our focus to prioritise development in key areas that will deliver the most impact and value to the market and our customers in 2021. We continued to successfully conduct business and to pay out millions of pounds in claims to our customers impacted by the global pandemic.

Within Lloyd's, we continue to monitor how best we can look after the wellbeing of our people whilst serving our customers and the market. Lloyd's moved quickly to ensure the safety and wellbeing of our colleagues, enabling working from home for the vast majority of our staff within government and regulatory guidelines.

During the year we have made considerable progress against our three strategic priorities of performance, strategy and culture – each of which remain crucial to our future success. In November 2020, we announced Blueprint Two, the second phase of our ambitious Future at Lloyd's strategy focused on executing digital transformation across the market.

A loss was recorded for the Lloyd's market in the period of £0.9bn (2019: profit of £2.5bn) with a combined ratio of 110.3% (2019: 102.1%).

Remuneration policy principles

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

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

  For 2021 and 2022, a Transformation Incentive Plan will operate for key roles that are critical to the successful execution of the ambitious Blueprint Two programme and the sustainability of the Lloyd's platform for the future (see page 100);
- **Alignment to the Lloyd's market** – A significant element of remuneration is based on the performance of the Lloyd's market. This encourages an attitude of commercial partnership with the market and aligns the interests of participants with capital providers. This alignment means that the payment under the market element was £nil for both 2017 and 2018, and is £nil for 2020. Market and Society risk adjustment metrics also apply to this element;
- In order to provide a balanced approach to performance measurement and reflect the focus of the Society and its drive for improved efficiencies and transformation in the Lloyd's market, Profit Before Tax and Combined Operating Ratio are key metrics used to measure market performance; and
- **Solvency II** – We continue to operate appropriate features such as long-term deferral for Solvency II staff and risk adjustment.

The remuneration policy is set out on pages 105 and 106.

Key remuneration decisions and incentive out-turns

Salaries

No salary increases have been awarded to the Chief Executive Officer and Chief Financial Officer since their appointment.

An increase of 2% was awarded to the Chief Executive Officer with effect from 1 April 2021. This is the first increase to salary since his appointment in October 2018 and is in line with the average increase for wider employees.

The Committee carefully considered the appropriate salary for the Chief Financial Officer, taking into account his development in role and performance, and positioning against market data. The Committee awarded an increase of 5.6% to £475,000 with effect from 1 April 2021. This is the first increase to salary since his appointment in April 2019 and it is expected that any future increases will be in line with those made to wider employees.

Incentive out-turns

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

The Society made good progress against its key strategic priorities in 2020, which is reflected in the Individual Performance Awards (see page 98).

The Lloyd's market recorded a loss of £0.9bn (2019: profit of £2.5bn) and the combined ratio was 110.3% (2019: 102.1%) which resulted in a Market Award of £nil for Executive Directors (see page 99).

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

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

Chair fee

Bruce Carnegie-Brown was appointed as Chair on 15 June 2017, on an annual fee of £600,000. No increases have been awarded since that date.

His first term of office ended in 2020, and the Council and Nominations Committee approved a recommendation for reappointment for a further term of three years from 1 June 2020.

Acknowledging that no fee increase has been awarded since 2017, as well as the scope and time commitment of the role through a period of transformation, a 5% increase was approved to £630,000 effective from 1 April 2021.

No further review is expected for the duration of the current term.

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

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

The Committee considered how the remuneration framework can motivate and retain key roles that are critical to the successful execution of the ambitious Blueprint Two programme and the sustainability of the Lloyd's platform for the future.

For 2021 and 2022, a Transformation Incentive Plan will operate for a group of key roles who have a material impact on the development and execution of the programme. Performance metrics are directly aligned to the success of Blueprint Two and will be underpinned by profitability and financial strength of the Lloyd's marketplace. The Plan is an additional incentive, separate to Lloyd's existing incentive plan.

Further information is provided on page 105.

Key management changes – new Chief of Markets and departing Director

In January 2021, it was announced that Patrick Tiernan will join the Society as Chief of Markets. Patrick will commence employment on 4 May 2021 and was appointed on a salary of £500,000. His cash benefits allowance, pension and incentive arrangements are in line with other Executive Directors. Further details of his joining arrangements, including a buy-out award from his previous employment, are set out on page 102.

Jon Hancock, former Performance Management Director, was due to step down on 31 March 2020. In order to provide senior leadership support during a challenging time, Jon agreed to defer his planned leaving date until 31 May 2020. We would like to thank Jon for his commitment to the market and the Society. Further details of his leaving arrangements are set out on page 102.

Wider Society employees

The Remuneration Committee reviews policies which apply to all employees across the Society and is regularly updated on key areas of the Lloyd's Culture Dashboard, designed to drive the market towards a more inclusive environment and deliver cultural change.

During 2020, the Committee considered progress in key areas such as gender and ethnicity pay gaps and employee engagement. In 2021, Lloyd's will voluntarily publish its Ethnicity Pay Gap for the first time, to further support the launch of our long-term ethnicity action plan.

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

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

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

Andy Haste
Chairman, Remuneration Committee
16 March 2021

Compliance statement

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

For the purposes of this report, Executive Directors refers to John Neal (Chief Executive Officer) and Burkhard Keese (Chief Financial Officer) – Directors who are current members of the Council. Jon Hancock, Performance Management Director, stepped down on 31 May 2020. Patrick Tiernan was appointed as Chief of Markets effective from 4 May 2021 and becomes an Executive Director from this time.

Summary of remuneration policy and out-turns for 2020

The following table provides a summary of how our remuneration policy was implemented in 2020. The remuneration policy is provided on pages 105 and 106.

Salary

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

For 2020, annual salaries were as follows:

– Chief Executive Officer: £650,000
– Chief Financial Officer: £450,000
– Performance Management Director: £510,000 (stepped down on 31 May 2020)

Lloyd's Incentive Plan (Individual Performance Award)

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

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

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

Further details of performance are provided on page 99. A summary of the out-turns for 2020 is provided below.

	Individual Performance Award		Market Award	
	Maximum opportunity (% of salary)	2020 out-turn (% of salary)	Maximum opportunity (% of salary)	2020 out-turn (% of salary)
John Neal: Chief Executive Officer	100%	74%	50%	0%
Burkhard Keese: Chief Financial Officer	100%	82%	50%	0%

Jon Hancock stepped down as Performance Management Director on 31 May 2020. As a leaver due to resignation, and in line with Lloyd's policy, he was not eligible for Individual and Market Awards for 2020.

As previously disclosed, the Chief Financial Officer was eligible to receive a recruitment award of up to 50% of salary, subject to achievement of specified KPIs during both 2019 and 2020. A 2020 award of 45.7% of salary was approved by the Committee reflecting achievements against specific KPIs during the year.

In 2020, the Committee determined that the 2019 award of 26.25% of salary would vest in one year, subject to continued performance. Both the 2019 and 2020 award will be paid in April 2021.

Risk underpin

In 2020, all awards under the Lloyd's Incentive Plan were subject to a risk underpin. The Committee assessed performance against a range of Society and market risk and compliance metrics and decided to apply a downward adjustment to a number of performance awards across the Society.

Deferral

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

Pension and benefits

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

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

Annual remuneration report

This part of the report sets out the annual remuneration for 2020 and a summary of how the policy will apply for 2021.

Single total figure of remuneration

The total remuneration receivable in respect of qualifying services for each person who served as a member of Board or Council during the year is shown below. Further detail on annual bonus and Market Awards is shown on pages 98 and 99.

Council merger with the Board

With effect from 1 June 2020 the Board merged with the Council and a revised Council was established.

	Salary/ fees		Other benefits[1]		Annual bonus		Market Award		Pension benefit[2]		Total fixed		Total variable		Total	
	2020 £000	2019 £000	**2020 £000**	2019* £000	**2020 £000**	2019* £000	**2020 £000**	2019 £000	**2020 £000**	2019* £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000
Chairman of the Council																
Bruce Carnegie-Brown[3,20]	600	600	1	6	–	–	–	–	–	–	600	600	1	6	601	606
Executive Directors																
John Neal[4,20]	650	650	71	112	480	600	–	124	98	98	772	773	527	811	1,299	1,584
Burkhard Keese[5,20]	450	338	19	48	575	295	–	64	68	51	536	402	576	394	1,112	796
Jon Hancock[6,20]	274	510	8	21	–	–	–	–	32	77	314	607	–	1	314	608

* 2019 Other benefits and Annual bonus restated for Burkhard Keese to reflect recruitment award in Annual bonus previously presented in Other benefits. John Neal 2019 pension restated.

	Salary/fees		Other benefits[1]		Total	
	2020 £000	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000
Working members						
Andrew Brooks[7]	61	39	–	–	61	39
Dominic Christian[8]	75	46	–	–	75	46
Karen Green[9]	78	70	–	–	78	70
Victoria Carter[10]	68	41	–	–	68	41
External members						
Albert Benchimol[11]	57	35	–	–	57	35
Dominick Hoare[12]	53	53	–	–	53	53
Jeffery Barratt[13]	62	39	2	6	64	45
Michael Watson[14]	66	48	–	–	66	48
Robert Childs[15]	24	58	–	–	24	58
Nominated members						
Andy Haste[16]	129	89	–	–	129	89
Christian Noyer[17]	16	38	–	22	16	60
John Sununu[18]	58	35	4	11	62	46
Board Non-Executive Directors[19]						
Angela Crawford-Ingle[20,21]	86	–	–	–	86	–
Charles Franks[20,22]	32	80	–	–	32	80
Fiona Luck[20,23]	106	94	–	1	106	95
Mark Cloutier[20,24]	33	79	–	–	33	79
Mike Bracken[20,25]	48	73	–	–	48	73
Neil Maidment[20,26]	100	75	–	–	100	75
Nigel Hinshelwood[20,27]	54	87	–	1	54	88
Patricia Jackson[20,28]	38	92	–	–	38	92

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

Table notes

1. Other benefits include items such as benefit allowances (all Executive Directors receive a benefit supplement of 3% of salary) other taxable benefits and taxable business expenses. These include travel costs met by Lloyd's, including any tax due under HMRC regulations. These travel costs are provided in accordance with the Society's policy and to enable Executive Directors to undertake responsibilities most efficiently while travelling. Other taxable business expenses include business-related membership fees and hotels.
2. The Chief Executive Officer, Chief Financial Officer and Performance Management Director received a pension supplement of 15% of salary, in line with the pension available to the wider workforce.
3. Bruce Carnegie-Brown (Chairman of Lloyd's) was appointed as a member of the Technology & Transformation Committee with effect from 20 February 2020 and a member of the Environmental, Social & Governance Strategy Group which was created on 2 December 2020.
4. John Neal (Chief Executive Officer) was appointed as a member of the Technology & Transformation Committee with effect from 20 February 2020.
5. Burkhard Keese (Chief Financial Officer) was appointed as a member of the Council with effect from 1 June 2020.
6. Jon Hancock (Performance Management Director) ceased as the Performance Management Director of Lloyd's with effect from 31 May 2020.
7. Andrew Brooks was appointed as a member of the Risk Committee with effect from 1 June 2020.
8. Dominic Christian was appointed as a member of the Remuneration Committee with effect from 1 January 2020 and was elected as a Deputy Chairman of Lloyd's with effect from 5 February 2020.
9. Karen Green ceased as a member of the Council with effect from 31 May 2020. Ms Green was appointed as a Special Adviser to the Council and attended meetings in that capacity with effect from 1 June 2020. Ms Green was appointed as Chair of the Investment Committee with effect from 2 December 2020.
10. Victoria Carter was appointed as a member of the Risk Committee with effect from 1 June 2020.
11. Albert Benchimol was appointed as Chair of the Investment Committee and a member of the Audit Committee with effect from 1 June 2020. Mr Benchimol ceased as a member of the Council, the Chair of Investment Committee and a member of the Audit Committee with effect from 30 November 2020.
12. Dominick Hoare ceased as a member of the Council with effect from 31 May 2020 and was appointed as a Special Adviser to the Council and attended meetings in that capacity with effect from 1 June 2020. Mr Hoare ceased as a Special Adviser to the Council with effect from 30 November 2020 and appointed as a member of the Environmental, Social & Governance Strategy Group upon its creation on 2 December 2020.
13. Jeffery Barratt was appointed as a member of the Nominations & Governance Committee and a member of the Audit Committee with effect from 1 June 2020.
14. Michael Watson was appointed as a member of the Remuneration Committee with effect from 1 June 2020 and as a member of the Investment Committee with effect from 2 December 2020.
15. Robert Childs ceased as a member and Deputy Chairman of the Council and a member of the Nominations & Governance Committee with effect from 31 May 2020.
16. Andy Haste was appointed as Chair of the Technology & Transformation Committee with effect from 20 February 2020. Mr Haste ceased as Chair of the Investment Committee with effect from 31 May 2020.
17. Christian Noyer ceased as a member of the Council with effect from 31 May 2020.
18. John Sununu was appointed as a member of the Remuneration Committee with effect from 1 June 2020 and as a member of the Audit Committee with effect from 2 December 2020. Mr Sununu was appointed as a member of the Environmetal, Social & Governance Strategy Group upon its creation on 2 December 2020.
19. The Board merged into the Council with effect from 1 June 2020.
20. Ceased as a member of the Board upon its dissolution on 31 May 2020.
21. Angela Crawford-Ingle was appointed as an Independent Non-Executive Director of the Board with effect from 1 January 2020 and as Chair of the Audit Committee with effect from 14 January 2020. Ms Crawford-Ingle was appointed as a member of the Council and a member of the Risk Committee with effect from 1 June 2020.
22. Charles Franks ceased as a member of the Risk Committee with effect from 31 May 2020.
23. Fiona Luck was appointed as a member of the Council with effect from 1 June 2020.
24. Mark Cloutier ceased as a member of the Nominations & Governance Committee and a member of the Audit Committee with effect from 31 May 2020.
25. Mike Bracken was appointed to the Technology & Transformation Committee with effect from 20 February 2020. Mr Bracken ceased as a member of the Technology & Transformation Committee with effect from 31 May 2020. Mr Bracken was appointed as a Special Adviser to the Technology & Transformation Committee with effect from 1 June 2020.
26. Neil Maidment was appointed as member of the Technology & Transformation Committee with effect from 20 February 2020 and as Chair of the Risk Committee with effect from 1 June 2020. Mr Maidment was appointed as a member of the Council and a member of the Audit Committee with effect from 1 June 2020.
27. Nigel Hinshelwood was appointed as a member of the Technology & Transformation Committee with effect from 20 February 2020. Mr Hinshelwood ceased as a member of the Risk Committee and Technology & Transformation Committee with effect from 31 May 2020. Mr Hinshelwood was appointed as a Special Adviser to the Technology & Transformation Committee with effect from 1 June 2020.
28. Patricia Jackson ceased as Chair of the Risk Committee and as a member of the Audit Committee with effect from 31 May 2020.

Salary

The annual salaries of the Executive Directors take into account a range of factors, including increases for all employees across the Society, and are reviewed by the Remuneration Committee annually. No salary increases have been awarded to the Chief Executive Officer and Chief Financial Officer since their appointment in October 2018 and April 2019 respectively.

Following careful consideration by the Committee, salaries effective from 1 April 2021 are as follows:

	2021 Base salaries £000	Increase on 2020
John Neal: Chief Executive Officer	663	2.0%
Burkhard Keese: Chief Financial Officer	475	5.6%

The average increase awarded to all employees was 2%.

The Committee carefully considered the appropriate salary for the Chief Financial Officer, taking into account his development in role and performance, and positioning against market data. It is expected that any future increases will be in line with those made to wider employees.

In January 2021, it was announced that Patrick Tiernan will join the Society as Chief of Markets. Patrick will commence employment on 4 May 2021 and was appointed on a salary of £500,000.

Annual bonus (Individual Performance Award)

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

The Committee reviews strategic and operational objectives and KPIs at the start of the financial year, to ensure that they are stretching and aligned to the Society's strategic objectives. The following table sets out the performance framework and weightings for 2020 awards.

Strategic Initiatives	Performance and Risk Management	Leadership and Culture	Individual Performance
25%	25%	20%	30%

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

Bonus out-turns for 2020

The following table sets out performance achievements against the KPIs set in respect of 2020.

Digitalisation	Performance and Risk Management	Culture
– Three areas prioritised to deliver the most impact and value to market participants: improving electronic placement, enhanced Delegated Authority services and claims process improvements; – Progress achieved on building out the data and technology requirements needed to support these focus areas; – Development of Virtual Underwriting Room; – Published Blueprint Two in November 2020, setting out the delivery plan for the next phase of our strategy; and – Fully approved three 'syndicates in a box'.	– Improved underlying performance in combined ratio and expense ratio; – Strengthened capital position, with Lloyd's members injecting additional capital in Q2 2020; – Differentiated oversight approach to activities with weaker and stronger performers through introduction of Light, Standard and High touch segments; – Fitch reaffirmed rating of AA- (very strong) and removed negative watchlist. Standard & Poor (A+) and A.M. Best (A) ratings maintained; and – Improved Corporation processes and systems to reduce operating cost delivered in line with targets.	– Delivered on all 2019 commitments on culture, including publication of Culture toolkit, adoption of which has been supported by extensive market engagement; – Market wide gender targets set to achieve parity within the decade and 35% at leadership levels by 2023; – Lloyd's Council diversity policy published, including a target that by the end of 2023, a minimum of 33% of the Council should be female and/or of Black, Asian and Minority Ethnic background; – Significant reorganisation of key business units; and – Executive Leadership Group created in 2020 to sponsor change programmes in 2021.

Taking into account an overall assessment of the above achievements, as well as individual performance and Society risk, the Committee determined the following annual bonus payments in respect of 2020:

Role	Maximum	Out-turn
John Neal: Chief Executive Officer	100% of salary	74% of salary
Burkhard Keese: Chief Financial Officer	100% of salary	82% of salary

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

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

Market Award

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

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

All employees of the Society, including international offices, were eligible to participate in the Market Award for 2020 on the basis set out below:

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

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

The maximum opportunity for Executive Directors is 50% of salary. Market Awards are subject to a personal performance underpin.

2020 Market Award – out-turn

2020 Market Award–performance metric	Threshold (20% of maximum)	Target (50% of maximum)	Maximum (100% of maximum)	2020 performance out-turn	2020 Market Award out-turn (% of salary)
Profit Before Tax element (50% weighting)	£400m	£1.5bn	£3bn	–	0%
Combined ratio element (50% weighting)	100.5%	98.5%	96.5%	–	0%
Market Award payout (as a % of salary)	0%	0%	0%	–	0%

Chief Financial Officer – Recruitment Award

Burkhard Keese was appointed as Chief Financial Officer with effect from 1 April 2019. As disclosed in the 2019 remuneration report, the Chief Financial Officer was eligible to receive a recruitment award of up to 50% of salary subject to achievement of specified KPIs in both 2019 and 2020.

2019 award – Following consideration of performance against KPIs in the year, the Committee determined that an award of 26.25% of salary would vest in one year, subject to continued performance. This award will be paid in April 2021.

2020 award – Following consideration of performance against specific KPIs in 2020, the Committee determined that an award of 45.7% of salary would vest. This award will be paid in April 2021.

Transformation Incentive Plan

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

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

- For 2021 and 2022, a Transformation Incentive Plan will operate for a group of key roles who have a material impact on the development and execution of the programme. Performance metrics are directly aligned to the success of Blueprint Two in three key areas – Processing, Technology and Data Standards (Lead Indicators) – and will be underpinned by profitability and financial strength of the Lloyd's marketplace. The plan is an additional incentive, separate to Lloyd's existing incentive plan;
- Lead indicators will be underpinned by profitability and financial strength of the Lloyd’s marketplace. Vesting may be deferred by 12 months and the underpin tests reapplied in the following year, in the event that performance underpins are not met;
- Awards will be made in 2021 and 2022, with a two year performance period. Payment of any vested awards will made in the two years following the end of the performance period, subject to continued employment at the time of vesting; and
- Awards will be subject to Lloyd’s malus and clawback provisions, and the risk underpin adjustment applicable to the Lloyd’s Incentive Plan.

For 2021, awards will be made to selected participants, with a maximum value of 20% to 100% of base salary. Executive Directors will receive a maximum award of 100% of salary.

Performance metrics

2021 Award	Lead Indicators	Underpin/lag indicators
Processing	Implementation of new solutions for open market and delegated authority business such that the solutions will be processing 70% of both Lloyd's GWP and Lloyd's contracts.	Awards will only vest subject to the following underpins being met: – At the end of each vesting year (2022 for the 2021 award), Lloyd's normalised (normalised for large risk and cat claims) combined ratio (CR) does not exceed 98.5%; and – Lloyd's key financial strength rating with Standard & Poor's remains at a minimum of A+. Vesting may be deferred by 12 months and the underpin tests reapplied in the following year, in the event that performance underpins are not met.
Technology	Development of new technology and processes to underpin the claims life cycle at Lloyd's. These will most notably include the first notification of loss, claims routing and claims orchestration. These developments should comprise 50% of Lloyd's total claims volumes, including a reduction of 20% in the claims 'time to settle' analysis.	
Data standards	New data standards and technology offerings must be adopted by a minimum of 80% of the market constituency.	

All three Lead Indicators will be equally weighted and assessed independently. Threshold vesting of 20% of maximum applies for the achievement of 80% of the Lead Indicator target. Full vesting for meeting or exceeding the Lead Indicator target, with straight-line vesting in between threshold and maximum.

Pensions

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

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

Newly appointed Chief of Markets

In January 2021, it was announced that Patrick Tiernan will join the Society as Chief of Markets. Patrick will commence employment on 4 May 2021. His remuneration package is as follows:

- Salary – £500,000 (former Performance Management Director salary: £510,000);
- Pension cash supplement – 15% of salary, in line with the maximum contribution available to wider Society employees;
- Benefits allowance – 3% of salary;
- Maximum Individual Performance Award – 100% of salary. Performance will be assessed against a balanced scorecard framework;
- Maximum Market Award – 50% of salary;
- Transformation Incentive Plan maximum award of 100% of salary in 2021. See page 105; and
- Buy-out awards – In line with Lloyd's remuneration policy, the Committee approved the buy-out of annual bonus and restricted share awards forfeited on leaving his previous employer. In determining the buy-out awards, the Committee applied additional discounts and extended time horizons compared with the awards lapsed.

In respect of the 2020 annual bonus award forfeited, a buy-out award of £360,000 was approved, calculated by reference to average historical actual bonus payouts, subject to additional performance confirmation. The award will be delivered in line with the time horizons of the award forfeited, with one third deferred over three years.

In respect of restricted share awards forfeited, the buy-out was made at a discount to the market value of shares forfeited on resignation and will be delivered in four payments from 2021 to 2024, reflecting longer time horizons than the original awards (payments equal to 61% of salary in 2021, and 43% of salary in 2022, 2023 and 2024). The market value was calculated by reference to a three month average share price to the date of resignation, with a discount applied to later awards forfeited.

Buy-out awards are subject to satisfactory performance in the role and continued employment, as well as malus and clawback provisions in line with Lloyd's policy.

Departing Directors and Executives

Former Performance Management Director (Jon Hancock)

Jon Hancock stepped down as Performance Management Director on 31 May 2020. As a leaver due to resignation, and in line with Lloyd's policy, he was not eligible for Individual and Market Awards for 2020. There was no payment made in lieu of notice.

Service contracts

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

	Appointment date	Unexpired term as at 31 December 2020	Notice period
Bruce Carnegie-Brown	1 June 2020	2 years and 5 months	12 months
John Neal	15 October 2018	rolling 1 year	12 months
Burkhard Keese	1 April 2019	rolling 6 months	6 months

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

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

Additional disclosures

Ten year Chief Executive Officer remuneration

		CEO single figure of total remuneration £000	Annual bonus award as a percentage of maximum opportunity	Market Award/LPP award as a percentage of maximum opportunity
2020	John Neal	1,298	74%	0%
2019	John Neal	1,594	92%	38%
2018*	John Neal	167	NA	NA
2018*	Inga Beale	1,304	75%	0%
2017	Inga Beale	1,304	76%	0%
2016	Inga Beale	1,525	75%	63%
2015	Inga Beale	1,531	81%	63%
2014	Inga Beale	1,494	74%	95%
2013	Richard Ward	1,795	75%	65%
2012	Richard Ward	1,759	75%	55%
2011	Richard Ward	1,499	90%	0%

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

Percentage change in remuneration

The table below sets out details of the change in remuneration between 2019 and 2020.

	Salary/Fees[1]	Benefits[2]	Bonus[3]
Chief Executive remuneration	0%	-24%	-34%
Chief Financial Officer remuneration	33%	-13%	60%
Non-Executive Council member remuneration (average)	52%	0%	NA
Average of all Society employees	2%	2%	2%

1. The increase in Chief Financial Officer remuneration is due to 2019 pro-rated amount compared with a 2020 full year.
2. The Chief Executive Officer's Benefits largely relate to travel expenses (including tax thereon) and other employment related expenses, which may fluctuate between periods. The Chief Financial Officer's 2019 Benefit's relate to relocation expenses not incurred in 2020.
3. A Market Award was not given in 2020. The lack of Market Award for the Chief Financial Officer was offset by a full year's Individual Performance Award and Recruitment Award compared to the pro-rated amounts in 2019.
4. Non-Executive Council member remuneration increased following the merger of the Board with Council. Most significantly the Council member's fee increased from £38.5k to £62.5k. Non-Executive Council members are not eligible for a Market Award or Individual Performance Award.

Relative importance of spend on pay

	2020 £m	2019 restated £m	% change
Corporation operating income	384	358	7%
Total remuneration – all employees	141	134	5%

Corporation operating income excludes income relating to the Central Fund. 2019 remuneration is restated to exclude items such as employer's social security costs, net interest on defined benefit pension liability, Non-Executive remuneration and recruitment fees.

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

The current Chair, Bruce Carnegie-Brown, was appointed on 15 June 2017, on an annual fee of £600,000. No increases have been awarded since that date. The Chair's first term of office ended in 2020, and the Council and Nominations & Governance Committee approved a recommendation for his reappointment for a further term of three years from 1 June 2020.

Acknowledging that no fee increase has been awarded since 2017, as well as the scope and requirements of the role through a period of transformation, a 5% increase was approved to £630,000 effective from 1 April 2021.

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

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

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

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

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

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

The Remuneration Committee met eight times in 2020. The attendance record is set out in the Corporate Governance report on pages 86 and 87. The Committee's terms of reference are available on lloyds.com and on request from the Secretary to the Council.

The Remuneration Committee was assisted by its remuneration consultants, Deloitte LLP, who adhere to the Code of Conduct for executive remuneration consultants. Deloitte LLP was appointed by the Remuneration Committee and their services are periodically reviewed by the Committee to ensure that these remain relevant and provide the assistance required. Deloitte LLP adheres to working practices which have been agreed with the Remuneration Committee Chair, for the purpose of maintaining independence, and the Committee is satisfied that the advice received from Deloitte LLP was objective and independent. Total fees paid in respect of advice and services to assist the Remuneration Committee amounted to £129,930 for the year and are determined by the scope of the services and the services agreement. Deloitte LLP also provided other services to the Society during the year including the co-sourced Internal Audit resource; Technology and Project Management advisory and support services; and Risk, Regulatory, Specialist and Tax advisory services.

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

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

Remuneration Policy

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

Remuneration policy

<table>
<tr><td colspan="2">Base salary</td><td>– Salaries set to appropriately recognise responsibilities and must be broadly market competitive;
– Generally reviewed annually by the Remuneration Committee; and
– No maximum salary increase; however, any increases will generally reflect the approach to all employee salary increases. Exceptions, in certain circumstances, may be made, for example to reflect a new appointment, change in role/adoption of additional responsibilities, changes to market practice or the development of the individual in the role.</td></tr>
<tr><td rowspan="2">Lloyd's Incentive Plan</td><td>Individual performance award (annual bonus)</td><td>Performance measures
– Individual Performance Awards paid by reference to performance against a balanced scorecard of strategic objectives and KPIs during the year; and
– Individual awards are subject to a risk underpin. The Committee will assess performance against Society risk and compliance metrics and may apply a downward adjustment where appropriate.
Maximum
– Current individual maximums are 100% of salary for Executive Directors.
Operation
– 40% of the total Lloyd's Incentive Plan award will be deferred for three years and paid in April of the fourth financial year following the end of the performance period. This will apply to relevant Solvency II staff above the proportionality threshold; and
– The Committee may apply malus and clawback to individual awards (see below).</td></tr>
<tr><td>Market Award (formerly LPP)</td><td>Performance measures
– Market Awards directly linked to Lloyd's market profitability in the year, subject to a minimum threshold of £100m. From 2019, Market Awards are subject to the achievement of Profit Before Tax and combined ratio metrics; and
– Market Awards are subject to a risk underpin. The Committee will assess performance against market-based risk and compliance metrics and may apply a downward adjustment where appropriate;
– The Market element is also subject to individual performance.
Maximum
– Current individual maximums are 50% of salary for Executive Directors.
Operation
– 40% of the total Lloyd's Incentive Plan award will be deferred for three years and paid in April of the fourth financial year following the end of the performance period. This will apply to relevant Solvency II staff above the proportionality threshold; and
– The Committee may apply malus and clawback to Market Awards (see below).</td></tr>
<tr><td colspan="2">Transformation Incentive Plan</td><td>Performance measures
– For 2021 and 2022, awards will be made to a group of key roles who have a material impact on the development and execution of the Future at Lloyd's strategy. Performance metrics are directly aligned to the success of the Blueprint Two programme in three key areas – Processing, Technology and Data Standards (Lead Indicators); and
– Lead indicators will be underpinned by profitability and financial strength of the Lloyd's marketplace. Vesting may be deferred by 12 months and the underpin tests reapplied in the following year, in the event that performance underpins are not met.
Maximum
– Current individual maximum awards are 100% of salary for Executive Directors.
Operation
– Awards will be made in 2021 and 2022, with a two year performance period. Payment of any vested awards will made in the two years following the end of the performance period, subject to continued employment at the time of vesting; and
– Awards will be subject to Lloyd's malus and clawback provisions, and the risk underpin adjustment applicable to the Lloyd's Incentive Plan.</td></tr>
</table>

Pension	– Executive Directors will receive a pension contribution of 15% of salary.
Benefits	– Benefits may include a benefits cash allowance, private medical insurance, life insurance and a season ticket loan facility; – Relocation benefits may be offered in certain circumstances; and – Executive Directors will receive a benefits cash allowance of 3% of salary.

Remuneration policy

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

Malus and clawback

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

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

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

Andy Haste
Chairman, Remuneration Committee
16 March 2021

Report of the Audit Committee

Statement by Chair of Audit Committee

I am pleased to present the Report of the Audit Committee for the year ended 31 December 2020. The report explains the work of the Committee during the year and the key role played by the Committee in overseeing the integrity of the Society's financial reporting and internal control environment. The report comprises the following sections:

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

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

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

Angela Crawford-Ingle
Chair, Audit Committee

30 March 2021

Composition of the Audit Committee

Since 14 January 2020, the Committee has been chaired by Angela Crawford-Ingle, an independent Non-Executive Director on the Board from 14 January 2020 until 31 May 2020 and a Nominated member on the Council with effect from 1 June 2020 (when Board and Council merged, and the Council was reconstituted). 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. The Chair of the Audit Committee is also a member of the Risk Committee. Mr Maidment is the Chair of the Risk Committee and a member of the Audit Committee. An update from the Risk Committee is presented to the Audit Committee at each meeting to enhance collaboration between the two committees as some responsibilities can overlap and impact on the other's work.

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

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

Biographical details and experience of the current members of the Committee and members' attendance at meetings in 2020 are shown in the Corporate Governance report on pages 86 and 87 and at https://www.lloyds.com/about-lloyds/governance-and-management/council-of-lloyds.

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

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

The Committee received technical updates throughout the year from senior management and the external auditors on developments in financial reporting, accounting policy and regulatory developments. These technical updates included the accounting treatment and disclosure of the Part VII transfer of EEA insurance liabilities in the pro forma financial statements and the Society's financial statements and the incorporation of Financial Reporting Council guidance on reporting considering the COVID-19 pandemic.

Responsibilities of the Audit Committee

Prior to 1 June 2020, the Audit Committee reported to the Board. From 1 June it became a committee of the Council.

The Audit Committee:

– Has responsibility for overseeing the Society's system of internal control, including financial reporting control and for reviewing its effectiveness:
  – The Committee provides biannual internal control reports to the Council, including on the effectiveness of key financial reporting controls;
  – The Committee is responsible for ensuring that the Internal Audit team has the appropriate resources and budget, for approving the appointment and reappointment of the external auditors, and for overseeing the effectiveness of the interactions with the external auditors;
  – The Committee reviews reports from the internal and external auditors on aspects of internal control and appropriate action is taken in response; and
  – The Committee submits an annual report to Council in respect of its activities during each financial year. The Committee also reports to the Council on the Committee's proceedings after each meeting. Additional reports are submitted to the Council on matters of material interest as and when necessary.
– Has a primary role to assist the Council in fulfilling its oversight responsibilities over financial reporting. The Audit Committee's functions in 2020 included providing oversight of Lloyd's annual and interim financial statements, the syndicate aggregate accounts, and the Lloyd's Solvency and Financial Condition Report to the PRA.

Primary activities and key areas of focus during the year

The Committee's primary responsibilities are the oversight of:

- the key themes, structure and integrity of the interim and annual reports, including the Society's financial statements and the market pro forma financial statements;
- the review of the appropriateness of significant accounting estimates and judgements;
- the effectiveness and independence of the external auditors;
- the appointment/reappointment or removal of the external auditors;
- the fees of the external auditors;
- the Society's relationship with the external auditors;
- the effectiveness of the internal control framework, including financial reporting control;
- the effectiveness of systems and controls in relation to whistleblowing; and
- the internal audit function.

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

- the Part VII transfer and the Society Report and the primary statements: On 30 December 2020 certain general insurance EU business was transferred from Lloyd's members to Lloyd's Insurance Company S.A. (hereinafter referred to as 'Lloyd's Brussels' and 'LIC' interchangeably) under a Part VII transfer scheme to ensure that the transferring business can be compliantly managed after Brexit, including in relation to the payment of claims. The Part VII transfer included a transfer of reserves in respect of the transferring business. The Committee considered the proposal on how to reflect the Part VII transfer within the Society Report and the pro forma financial statements. It also considered the information to be supplied alongside the Society Report to assist stakeholders in understanding the impact upon the Society's business;
- Lloyd's Brussels and the control environment: The Committee liaised with the LIC Audit Committee to monitor the review of the premium data and the financial statement close process by Lloyd's Europe. The Committee received updates and supported ongoing investigations on a regular basis, including consideration of the potential accounting impact on the Society financial statements. Control weaknesses resulting in reporting difficulties were identified. Short-term controls were implemented, and investigations continue to support longer-term solutions;
- consideration of the viability statement and the confirmation of the continuing status of the Society as a going concern as part of the annual and interim reporting processes (taking into account COVID-19 analysis and sensitivity analysis, including the impact from major claims in the Lloyd's market);
- the operation and effectiveness of the Society's whistleblowing arrangements. The Committee oversaw the introduction of the Whistleblower Escalation Group to support the current reporting line for whistleblowing reports. The Committee supported a review of the arrangements by receiving regular updates on the whistleblowing activity and supported an Internal Audit conducted on the whistleblowing operation and controls in place. The outcome was that the key processes and controls have been assessed and key controls have been considered, clarified and enhanced where appropriate but overall the processes and controls have been assessed as effective;
- Internal Audit: The Committee recruited and worked with the new Head of Internal Audit to reshape the function. This included recruitment activity to reduce reliance on external providers and to ensure the right blend of in-house/outsourced resources. During 2020, 17 audits were undertaken by Internal Audit, with no significant ratings identified from those audits. Audit topics included change assurance activity in respect of two strategic programmes (The Future at Lloyd's and the Part VII transfer), as well as audits of the Society's redesigned Financial Crime Framework, the effectiveness of the 2nd Line of Defence (Risk) and the 2020 Syndicate Business Planning approval process.

  The Committee supported a request to refocus the 2020 Audit Plan following the emergence of the COVID-19 pandemic. This activity was designed to ensure that emerging key risk areas were focused on. This included an audit of the Corporation's operational resilience capabilities (including assessment of the progress made by the Operations function in pivoting from the design of a conceptual Operational Resilience Framework to providing regular, risk-based reporting to the Corporation Executive Committee) and a review of the Corporation's response to the pandemic, focusing on Group Technology. While both areas highlighted opportunities for enhancements, the overall outcomes were positive;
- Solvency II Pillar 3 reporting for the market and the Society: the Audit Committee reviewed the ongoing capital and solvency position of the Society, including knowledge that a capital add-on had been agreed with the PRA in August 2020. They also considered the reporting requirements and governance arrangements for Solvency II Pillar 3 reporting for both the market and the Society by reviewing and approving the Solvency and Financial Condition Report (SFCR) and Regular Supervisory Report (RSR) for the year ending 31 December 2019 for submission to the PRA;
- the review of the Society's and market's pro forma annual and interim financial statements and related disclosures and the syndicate aggregate accounts (on the basis of preparation as an aggregation of the Lloyd's market results). The key areas of judgement were considered by the Committeee, in approving the respective financial statements, specifically:
  - (i) estimation of net pension liabilities: assessed the reasonableness and consistency of the key assumptions which impact the valuation of the net pension liabilities;
  - (ii) valuation of financial investments: considered the basis upon which the reasonable fair valuation of financial investments was determined and the methodology and assumptions supporting the notional investment return on Funds At Lloyd's;
  - (iii) provisions: considered any changes to the methodology and key assumotions supporting the estimation of the material provisions reported on the statement of financial position; and
  - (iv) the basis of preparation of the market pro forma financial statements including the valuation of Funds at Lloyd's investments and the notional investment return thereon.

Financial reporting and external audit

A key focus of the Committee is its work in assisting the Council in ensuring that the Annual Report, when taken as a whole, is fair, balanced and understandable. The Committee has considered the key messages being communicated in the Annual Report, as well as the information provided to the Committee throughout the year. The Committee, having completed its review, has recommended to the Council that, when taken as a whole, the 2020 Annual Report is fair, balanced and understandable and provides the information necessary to assess the Society's position and performance, business model and strategy (this statement also complies with the 2018 UK Corporate Governance Code).

During the year, the Committee has continued to keep abreast of significant and emerging accounting developments, in particular changes to International Financial Reporting Standards relating to insurance accounting and due to COVID-19.

The Committee places great importance on the quality, effectiveness and independence of the external audit process and monitors and reviews the objectivity and independence of the external auditors.

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

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

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

Overall the Committee is satisfied with the performance of the Society's external auditors, PricewaterhouseCoopers LLP. The Committee has concluded that while there has been appropriate focus by the external auditors there is room for improvement in the level of scepticism and challenge exercised in the audits of certain overseas subsidiaries.

The Society's last audit tender was in relation to the audit of the 2013 year end. PricewaterhouseCoopers LLP were appointed as a result of that tender and their first audit was undertaken for the 2013 financial year. PricewaterhouseCoopers LLP were reappointed at the Society's 2020 AGM. The audit engagement will be put out to tender no later than 31 December 2022. In discharging its responsibilities for approving the terms of engagement of the external auditors and monitoring the external auditors' independence, the Committee oversees the engagement of the external auditors for non-audit services. This includes having in place a policy to govern the non-audit services that may be provided to the Society by the external auditors, setting out the circumstances in which the external auditors may be permitted to undertake non-audit services. All non-audit services require approval from the Committee and must be justified and, if appropriate, tendered before approval.

A breakdown of the fees paid to the external auditors for non-audit work is set out in note 7. Significant non-audit engagements undertaken by the external auditors in 2020 include services pursuant to legislation (work undertaken on the Aggregate Accounts and regulatory returns) and the pro forma financial statements.

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

Internal control

The Council has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Council has delegated to the Audit Committee responsibility for reviewing the effectiveness of the system of internal control and monitoring the risk and internal controls framework of the Society.

On behalf of the Council, the Committee conducts a biannual assessment of the effectiveness of the internal controls framework, including the controls related to the financial reporting process. The Committee also considers the adequacy of the Group's risk management arrangements in the context of the Society's business and strategy.

In carrying out its biannual assessments during 2020, the Committee considered reports from the Chief Financial Officer, Chief Risk Officer, Chief Accountant, Head of Internal Audit, other senior management, and also from the external auditors. Reports and updates on specific control issues were received throughout the year. Specific issues considered were:

– the Committee reviewed reports from the Risk Committee on a number of matters including COVID-19 and the Future at Lloyd's. Throughout the year, the Committee was updated on key risks;
– the Committee reviewed internal audit reports, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions;
– the Committee reviewed the external auditors' controls observation report and management's assessment of the internal control environment, including reports on any control failures during the period and status of progress against previously agreed actions;
– the Committee considered the findings from the review of the financial reporting processes and controls related to the Society's subsidiary, Lloyd's Insurance Company S.A. (Lloyd's Brussels). There were significant deficiencies identified in Lloyd's Brussels, however, these were not material to the Society's consolidated financial statements. A comprehensive remediation plan has been prepared and is being implemented to strengthen the financial reporting processes and controls in Lloyd's Brussels;
– the Committee reviewed an annual report on the effectiveness and operation of the Society's whistleblowing systems and controls; and
– the Committee also reviewed specific updates on the Society's whistleblowing controls, Lloyd's Brussels and the Part VII transfer.

Based on the Committee's assessment of internal control, the Committee concluded that the Society's system of internal control continues to provide reasonable (although not absolute) assurance against material misstatement or loss.

Internal Audit

The Internal Audit function provides the Committee and Executive Committee with independent and objective assurance on the effectiveness of internal control and risk management across the Society and its subsidiaries. The incumbent Head of Internal Audit was appointed in March 2020. The Head of Internal Audit has a direct reporting line to the Chair of the Committee with an administrative reporting line to the Chief Executive Officer.

The use of Internal Audit is governed by the Charter and Operating Standards, which set out the authority, scope and remit of the Internal Audit function. Internal Audit submits a risk-based annual plan of work for the Audit Committee's review and approval. This considers an independent view of the risks facing the Corporation, as well as other factors such as strategic initiatives, emerging risks and change. The annual plan is regularly reviewed by the Committee and is updated as necessary to ensure appropriate focus on the key risks. For 2020, the Committee was satisfied that appropriate resources were in place.

Internal Audit's remit only extends to the Society of Lloyd's and, as such, it does not undertake internal audit reviews of market participants. However, given the Corporation's role in providing market oversight activity, Internal Audit does undertake reviews of the mechanisms in place to ensure this oversight is both appropriate and proportionate. This includes regular reviews of the market's function close and continuous monitoring of syndicates, other oversight activities (such as ad hoc and thematic reviews), and the role of the Capital & Planning Group ('CPG') and the annual business forecast/capital return approval cycles.

The Committee satisfies itself as to the quality, experience and expertise of the Internal Audit function through regular interaction with the Head of Internal Audit. The performance of Internal Audit is also subject to ongoing assessment and to an annual formal evaluation that is achieved through assessment of the results of feedback and questionnaires completed by the Executive Committee and departments that have been subject to an internal audit, in addition to the Committee members' own views.

Report of the Lloyd's Members' Ombudsman

Report by Simon Cooper, Lloyd's Members' Ombudsman

I am pleased to present the Annual Report of the Lloyd's Members' Ombudsman to the Council of Lloyd's for the year ended 31 December 2020.

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

Complaints received

During 2020 I dealt with three complaints.

I reported on the first complaint in July 2020 and on the second complaint in October 2020. In both cases, I found that the allegations of maladministration on the part of the Society were not made out, and the complaints were therefore dismissed.

I received the third complaint in December 2020, and my investigation of that complaint was ongoing as at 31 December 2020.

Costs

The expenses incurred by my office amounted to £17,025.

Financial Review

This review should be read in conjunction with the financial statements of the Society on pages 127 to 181 and the Strategic Report on pages 8 to 31. The Strategic Report sets out the strategic priorities for both the Society and the Lloyd's market as a whole.

Operating surplus

The Society achieved an operating surplus for the year of £101m (2019: surplus of £61m). The operating surplus by business segment is set out below:

	Corporation of Lloyd's £m	Lloyd's Central Fund £m	2020 Total £m	2019 Total £m
Total income	384	127	511	483
Gross written premiums	5,978	–	5,978	2,466
Outward reinsurance premiums	(5,978)	–	(5,978)	(2,466)
Group operating expenses	(408)	(2)	(410)	(422)
Operating surplus	**(24)**	**125**	**101**	61

Corporation of Lloyd's

Total income for the Corporation increased by £26m to £384m (2019: £358m). There were no changes to the underlying charging basis or rates for members' subscriptions and overseas operating charges, which continue to be the main sources of income. Members' subscriptions are based on syndicates' planned gross written premiums for the 2020 underwriting year, which in aggregate were higher than 2019 premiums, leading to a £5m increase in income. Income was recognised in respect of the market modernisation levy collected in 2019 and prior years, reflecting TOM funds utilised during the year. This led to a £23m increase in income compared with last year, but has a net nil impact on the Corporation's operating surplus.

The Part VII transfer of EEA insurance liabilities was completed on 30 December 2020, which led to the recognition of gross written premium of £3,831m. As with all business written through Lloyd's Insurance Company S.A. (Lloyd's Brussels) and Lloyd's Insurance Company China Limited (Lloyd's China), the transferred liabilities are 100% reinsured to Lloyd's syndicates. Excluding the Part VII transfer, gross written premiums decreased to £2,147m (2019: £2,466m). The decrease reflects both a planned reduction in underwriting by both Lloyd's Brussels and Lloyd's China and a reduction in prior year estimated premium income from the first year of Lloyd's Brussels underwriting in 2019. To finance the increased capital requirements of Lloyd's Brussels, £404m of syndicate loans were issued during the year.

Corporation operating expenses have decreased by £14m to £408m (31 December 2019: £422m). An exceptional provision of £51m was recognised in 2019 for repair and maintenance of the 1986 building. Further reductions of £7m in premises expenses, including savings from reduced rent on overseas office lease renewals, and lower bonus expenses (£14m) were also realised. These reductions are largely offset by a £48m increase in project expenses, including Future at Lloyd's and the Part VII transfer and a £13m increase in charitable donations in response to the COVID-19 pandemic.

Central Fund

Total income for the Central Fund increased slightly to £127m (31 December 2019: £125m). Central Fund contributions contined to be charged at a rate of 0.35% (1.4% for new syndicates) of syndicates' planned gross written premium. There was no charge in the current or prior period in respect of claims arising within the Central Fund and no payments were made in respect of insolvent corporate members in the current or prior period.

Investment performance

	2020 £m	2019 £m
Finance income	2	151
Finance costs	(59)	(51)
Net finance income	**(57)**	100

The Society's investments, mostly held within the Central Fund, generated income of £2m or a return of less than 1% during 2020 (2019: £151m, 3.6%). Excluding exchange rate movements, investment income was £87m, reflecting a return of 2.1% (2019: £213m or 5.0%).

The Central Fund investment portfolio generated a positive return, excluding foreign exchange effects, benefiting from the portfolio de-risking exercise during the year. The Society's currency policy, which aims to preserve the solvency strength of the Central Fund by holding US dollars, resulted in mark to market losses from US dollar weakening against sterling at the end of the year. Investment return was therefore lower when including foreign exchange impacts.

Markets rebounded during the year following the initial volatility and turmoil in the markets witnessed over March 2020 as the COVID-19 pandemic spread across the globe. Equities again generated a positive return for the year as a whole. Action taken by Central Bankers across the world to cut interest rates and restart or increase asset purchases, and positive vaccine developments led to a reduction in the risk-free rate resulting in recovery of initial capital losses on government bonds.

Taxation

A tax charge of £10m (2019: £33m) on the surplus before tax of £56m (2019: £170m) has been recognised for the year ended 31 December 2020. Further details are set out in note 12.

Movement in net assets (£m)

Net assets at 1 January 2020	2,601
Surplus for the year	46
Actuarial loss on pension schemes	(56)
Currency translation differences	16
Tax credit on other comprehensive income	16
Issuance of syndicate loans	404
Dividends paid on syndicate loans	(4)
Net assets at 31 December 2020[1]	**3,023**

1. The net assets of the Central Fund are included within the above amounts and at 31 December 2020 were £2,957m (2019: £2,483m).

Pension schemes

Lloyd's pension scheme

On an IFRS basis, the Lloyd's pension scheme valuation at 31 December 2020 was a deficit of £183m (31 December 2019: deficit of £137m) before allowance for a deferred tax asset of £35m (2019: £24m).

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

	2020 £m	2019 £m
Pension deficit as at 1 January	(137)	(87)
Pension expense recognised in the Group income statement	(3)	(2)
Employer contributions	11	11
Remeasurement effects recognised in the Group statement of comprehensive income	(54)	(59)
Pension deficit as at 31 December	**(183)**	(137)

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

The triennial funding valuation as at 30 June 2019, undertaken by Willis Towers Watson, was completed during the year. The total market value of the Scheme's assets at the date of the valuation was £810m and the total value of accrued liabilities was £889m, showing a funding deficit of £79m. These figures exclude both liabilities and the related assets in respect of money purchase Additional Voluntary Contributions (AVCs). A recovery plan, agreed by the Trustees, is in place.

Overseas pension schemes

The actuarial valuations of the overseas pension schemes at 31 December 2020 resulted in a deficit of £4m (2019: deficit of £3m). Further details are provided in note 13.

Solvency

Total assets for solvency purposes are set out below. The 2020 position is an estimate of the amount which will be finalised in April 2021 alongside Lloyd's Solvency and Financial Condition Report. The figures are calculated on a Solvency II basis. The solvency figures in the table below are unaudited:

	2020 £m	2019 £m
Central assets at 31 December	3,023	2,601
Subordinated debt	795	794
Total	3,818	3,395
Solvency valuation adjustments	543	367
Available central own funds to meet the Central Solvency Capital Requirement (SCR)	4,361	3,762
Excess central own funds not eligible to meet the Central SCR	–	(188)
Eligible central own funds available to meet the Central SCR	4,361	3,574
Central SCR	2,085	1,500
Central solvency ratio	**209%**	238%

The Central SCR covers central risks of the Society. This includes the risk that members may have insufficient capital to meet their losses. The Central SCR may be covered only by central eligible own funds of the Society.

The solvency valuation adjustments above include items such as valuation differences arising and assets being disallowed due to the valuation principles used in Solvency II. It also includes recognition of the callable layer, which may be taken from member level capital to strengthen central resources.

The eligibility of assets to count towards the solvency coverage is also subject to tiering restrictions. All Tier 1 assets count fully towards the solvency coverage assessment. However, Tier 2 and Tier 3 assets may only count up to a maximum of 50% of the SCR. The inclusion of the Tier 2 subordinated debt issued means that Lloyd's Tier 2 and 3 central capital exceeded 50% of the Central SCR by £nil as at 31 December 2020 (2019: £188m).

Based on central own funds eligible to meet the Central SCR of £4.4bn (2019: £3.6bn), the estimated solvency ratio is 209% (2019: 238%). In setting contribution levels, account is taken of the Central SCR to ensure that Lloyd's is prudently but competitively capitalised.

The central solvency ratio reported above is based on the solvency capital requirements (SCR) which has been calculated using the latest approved version of the Lloyd's Internal Model. The changes to economic conditions in the first six months of 2020 resulted in Lloyd's applying for a voluntary add-on to the approved model SCR output to ensure the current risk profile is reflected. The add-on is £0.4bn to the central SCR and was effective from 26 August 2020, the date of the PRA's approval. For central solvency, the collection of syndicate loans issued during the year offsets the capital injection into Lloyd's Brussels. The decrease in the central SCR reflects the strengthening of the pound against the dollar, however does not reflect the benefit of the de-risking of the central fund.

Brexit

The Brexit Withdrawal Agreement was signed between the UK and the EU in January 2020 and this included provision for a transition period lasting until 31 December 2020. Throughout the transition period, the Executive Committee and senior management of the Society continued to work to assess the risks that could have arisen at the end of the transition period and to minimise their impact on the Society, the Lloyd's market and its policyholders, as well as to seek optimal operating conditions.

This work included completing the Part VII transfer and continuing to call for the EU to make positive determinations on reinsurance equivalence and data adequacy with respect to the UK. As the EU processes for reinsurance equivalence and data adequacy decisions have not yet been completed, Lloyd's has modified its approaches where necessary to enable operations to continue largely unaffected. Despite this continuity, we continue to see value in reinsurance equivalence and data adequacy for their harmonising and streamlining effects on our processes.

On 25 November 2020, Lloyd's received final approval from the High Court of England and Wales to transfer EEA non-life business written by the Lloyd's market between 1993 and 2020 to Lloyd's Insurance Company S.A. (Lloyd's Europe). The transfer took effect on 30 December 2020. The transfer ensures that pre-existing non-life EEA policies written by the Lloyd's market will be serviced by Lloyd's Europe following the end of the Brexit transition period on 31 December 2020.

Lloyd's Europe is a Solvency II compliant insurance company authorised and regulated by the National Bank of Belgium and regulated by the Financial Services and Markets Authority to write non-life risks across all markets within the EEA. The company started writing business incepting from 1 January 2019. As well as its capitalisation of EUR 553m, all LIC policies are 100% reinsured to Lloyd's syndicates and therefore backed by Lloyd's unique Chain of Security capital structure, providing excellent financial security to policyholders. The company has the same financial strength ratings as the Society.

Cash flows and liquidity

Cash and cash equivalents increased during the year ended 31 December 2020 by £641m to £1,174m (2019: £533m). Cash balances are maintained at appropriate levels to meet the short-term operating expenses of the Society. Any surplus cash balances are invested and are included as financial investments within the Group statement of financial position.

The Corporation's free cash balances[1] are regularly monitored. Free cash represents the amounts, both at bank and on deposit, held in the UK and available to the Corporation to meet operating expenses, including those of overseas operations, excluding any balances held in respect of insurance and arbitration activities. Free cash balances at 31 December 2020 were £460m (2019: £289m).

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

Central Fund investment strategy

Central Fund investment strategy is considered in three parts.

A proportion of assets is assigned to meet liquidity needs, based on a prudent estimate of net cash flows. These assets are commingled with other liquid assets of Society companies and invested in bank deposits and other short-term securities, with maturities of up to 12 months. The objective is to optimise income, for a low level of risk, while ensuring that all cash flow requirements are met as they fall due.

A majority of assets are invested in fixed interest securities of a high credit quality and typically medium-term maturities. The financial risk exposures represented by subordinated debt securities issued by the Society are considered when determining the disposition of fixed interest investments. The return objective is to optimise investment return in the longer term while maintaining overall financial risk within defined limits.

A proportion of assets are invested in equities and other return seeking asset classes, also with an aim to optimise investment return in the longer term without exceeding defined risk tolerances. These investments are diversified among different asset classes to help manage risk, and third-party investment managers are retained to manage these investments within clearly defined investment parameters specified by the Society. Equity investments currently include global developed and emerging market equities. Investments in other growth assets include multi-asset credit and hedge funds.

Financial risk management and treasury policies

Overview

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

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

1. Free cash balances are a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is an Alternative Performance Measure (APM), with further information available on page 184.

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

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

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

Insurance contract assets
Insurance contract assets are all recoverable from Lloyd's syndicates. All syndicates benefit from the Lloyd's chain of security, therefore credit risk for insurance contract assets is concentrated with the Society of Lloyd's. The Society monitors the underwriting profitability of syndicates by responding to the risk appetite of the market, adjusting business planning for future years.

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

There have been no instances arising which have led to the write-down of receivables as a result of the current economic environment brought about by the COVID-19 pandemic. Regular interaction is maintained with the regulatory bodies and the government to ensure Lloyd's continues to operate correctly and efficiently in the current business market.

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

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

The Society had no committed borrowing facilities as at 31 December 2020 or 2019. Details of the senior loan notes placed by the Society are included in note 24(i).

The Society has a strong free cash balance at 31 December 2020 of £460m (31 December 2019: £289m), with additional holdings in short-term investments, making the Society's liquidity very strong. In January 2020, the Society successfully issued £300m of senior debt to finance the investment in the Future at Lloyd's, and in June and November, £119m and £285m respectively of syndicate loans were raised, further strengthening the Society's central resources. Further details are included in note 2. As a result, and in part due to the de-risking of the Central Fund investment portfolio, the Society's cash and cash equivalents have increased to £1,174m (31 December 2019: £533m).

The Society has not experienced any liquidity constraints or inability to settle its obligations when due as a consequence of the current economic environment brought about by the COVID-19 pandemic.

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

The position is reviewed regularly by the Investment Committee. Investments are actively monitored on a fair value basis and all investments are designated as fair value through profit or loss, other than statutory insurance deposits and short-term and security deposits which are held at amortised cost.

As part of the strategy to mitigate these risks in relation to the equity portfolio of investments, the Society has entered into a number of equity futures hedges.

In response to the impact of COVID-19 on the financial markets, the Society reduced its exposure to risk assets in the Central Fund investment portfolio to mitigate the impact of market volatility and to lower market risk.

The valuation of the Lloyd's Pension Scheme requires significant judgement and is significantly impacted by short-term market movements. In particular, the reduction in market bond yields during the period has led to an increase in the actuarial value of Scheme liabilities at 31 December 2020. Further details, including sensitivity analysis, are included in note 13.

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

Foreign currency exposures arising from overseas investments are considered together with any foreign currency liabilities of the Society, as well as the underlying currency mix of the Central Solvency Capital Requirement, of which a high proportion is US dollar based. Net foreign currency exposures arising are managed through the use of forward foreign exchange contracts.

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

The has been no change to the Society's strategy in the current economic environment brought about by the COVID-19 pandemic. The Society continues to closely monitor exposure to foreign currency transactions, along with the use of forward foreign exchange contracts to mitigate a portion of the investment exposure governed by Lloyd's risk appetite. As a result of this strategy, the Society has a significant US dollar exposure. As sterling strengthened against the US dollar, the Society recorded a loss on foreign exchange of £85m, reducing the investment return for the period.

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

Short-term assets held by the Society may be significant at certain times. These are invested in money market instruments of up to 12 months' duration with the objective of maximising current income while meeting liquidity requirements.

Interest rate risk arising from the requirement to make fixed rate coupon payments in respect of the Society's senior and subordinated debt, and discretionary fixed rate coupon payments in respect of the Society syndicate loans, is considered in conjunction with the market risk arising on the Society's investments.

As part of the strategy to mitigate these risks, the Society has entered into a number of interest rate swap contracts.

Capital management
The Society monitors its capital to ensure that it maintains sufficient assets for both operational and solvency purposes. Further disclosures regarding financial instruments are provided in note 20. Further details regarding solvency are given on page 115.

Charitable donations
In response to COVID-19 the Society has committed £15m in charitable donations. To date £13m has been donated: £5m to the Association of British Insurers' COVID-19 Support Fund, £3m for charities nominated by Corporation staff globally, £2m to support new and existing charity partners in the UK best placed to respond to the pandemic, £2m for local organisations supported by the Corporation's global offices and £1m to Lloyd's Charities Trust for the Lloyd's Market Awards. The remaining funds are held in reserve to support future needs relating to the pandemic.

Related party transactions
Except for disclosures made in note 29, no related party had material transactions with the Society in 2020.

Going concern and viability statement
Assessment of prospects
The Lloyd's business model and strategy are central to an understanding of its prospects and details can be found on pages 10 to 31. The strategy is subject to ongoing monitoring and development.

The prospects of the Lloyd's market, including the Society, are primarily assessed through the annual strategic review and planning process. The output of the review is a strategic plan to deliver any recommendations. The review is led by the Chief Executive Officer through the Executive Committee and all relevant departments are involved. The Council participate fully in the process and part of their role is to consider whether the strategic plan continues to take appropriate account of the external environment and meets the needs of the market.

The review determines a set of medium-term targets, key performance indicators for the current year and activities to deliver on those metrics. The latest three-year strategic plan (Lloyd's Strategy 2021 to 2023) was approved in December 2020 following completion of the latest review cycle. As part of the planning process, a financial budget for 2021 and financial assumptions for 2022 and 2023 were prepared for the Society.

Assessment of viability
The Council receive quarterly reports from the Risk Committee on the key risks and risk appetites, including the Society's own risk and solvency assessment as well as stress testing resilience to severe yet plausible scenarios. The principal risks and material uncertainties that would threaten the business model, future performance, liquidity or solvency of the Lloyd's market as a whole are set out on pages 10 to 31. In addition, the financial statements include notes on investment strategy, financial risk management, treasury policies and sensitivity analysis.

The Lloyd's capital structure is set out in the link provided in page 186 and Lloyd's is required to maintain solvency on a continuous basis. The solvency position of each member, and thus of Lloyd's as a whole, is monitored on a regular basis. Council considers biannually management's assessment of the current solvency position and the forecast position over a three-year period, including resilience of central assets to meet the Central SCR.

Viability statement
While the members of the Council have no reason to believe that the Society will not be viable over a longer period, the period over which the assessment is based is the three-year period to 31 December 2023, being the period considered under the strategic plan, including the detailed budgets prepared, and the solvency projections of the Society.

The members of the Council believe that the Society is well placed to manage its business risks successfully, having taken into account the current economic outlook, and confirm that they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2023.

Going concern
After making enquiries, the members of the Council consider it appropriate to adopt the going concern basis in preparing the Society's financial statements.

The Society has considered the possible financial implications of the ongoing disruption caused by COVID-19 in determing the strategic plan. This included considering possible reductions in operating income and additional provision for charges to the Central Fund. The strategic plan, together with de-risking the Central Fund investment portfolio, sensitivity analysis of the pension obligations to market movements and other financial risks arising from the COVID-19 pandemic, have been considered in making the going concern assessment. Both the forecast solvency and liquidity position of the Society have taken these factors into account.

Statement as to disclosure of information to auditors
Having made enquiries, the Council confirms that:

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

Outlook

Central assets, which exclude subordinated liabilities, are expected to remain over £3bn in 2021. Following its meeting on 30 March 2021, the Council gave no further Undertakings to corporate members to use the New Central Fund to discharge the liability of members with unpaid cash calls who do not have the resources to meet those calls. After taking account of the expiry of unutilised Undertakings, the net movement in Undertakings is £nil (see note 5). The operating expenses for the Corporation (excluding organisational transformation costs) and its subsidiaries are budgeted to be £303m in 2021*.

The Society will continue to invest in its strategic programmes, particularly the Future at Lloyd's for which £300m of funding was raised in 2020. Completion of the insurance business transfer of EEA business to Lloyd's Brussels in 2020 (as described in the Brexit section above) will be followed by a programme to reconsider the Lloyd's Europe operating model in 2021.

* Budgeted operating expenses is a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is an Alternative Performance Measure (APM), with further information available on page 184.

Statement of the Council's responsibilities for the financial statements

The Council is responsible for preparing the Group financial statements in accordance with byelaws made under Lloyd's Act 1982 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

– Select suitable accounting policies and then apply them consistently;
– Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
– Provide additional disclosures when compliance with the specific requirements in international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Society's financial position and financial performance;
– Make judgements and accounting estimates that are reasonable and prudent; and
– State that the Society has complied with international financial reporting standards, subject to any material departures disclosed and explained in the Group financial statements.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable it to ensure that the Group financial statements comply with Article 4 of the IAS Regulation. As the Society's subordinated debt is admitted to trading in a regulated market in the European Union, Council has elected to comply with Article 4, which requires Group financial statements to be prepared in conformity with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The Council is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

Report on the audit of the financial statements

Opinion

In our opinion, the Society of Lloyd's group financial statements (the 'financial statements'):

- give a true and fair view of the state of the group's affairs as at 31 December 2020 and of its surplus and cash flows for the year then ended;
- have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union; and
- have been prepared in accordance with the requirements of the Council byelaws made under the Lloyd's Act 1982.

We have audited the financial statements, included within the Annual Report, which comprise: the Group Statement of Financial Position as at 31 December 2020; the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity and the Group Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Society of Lloyd's in the period under audit.

Our audit approach

Overview

Audit scope

- We performed full scope audit procedures over three reporting units for the Society of Lloyd's Group audit being the Central Fund, the Corporation of Lloyd's and Lloyd's Insurance Company S.A. For certain other reporting units, we performed audit procedures over specified financial statement line item balances. For the remaining reporting units that were not inconsequential, analytical procedures were performed by the Group engagement team.

Key audit matters

- Assumptions used in the valuation of the Lloyd's Pension Scheme liabilities
- Part VII transfer received into Lloyd's Insurance Company S.A.
- Recognition of gross written premium within Lloyd's Insurance Company S.A.
- Impact of COVID-19

Materiality

- Overall materiality: £50,000,000 (2019: £39,300,000) based on 0.5% of total assets, excluding the impact of the Part VII transfer to Lloyd's Insurance Company S.A. of EEA non-life insurance business written in the Lloyd's market between 1993 and 2020, rounded down to the nearest £1 million.
- Performance materiality: £37,500,000.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK, European, US and China regulatory principles, such as those governed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Lloyd's Act 1982. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate the Group's results and management bias applied in establishing material accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- discussions with management, the Audit Committee, internal audit, senior management involved in the Risk and Compliance function and the group's legal function, including consideration of known or suspected instances of non-compliance with laws, regulations and fraud, and assessment of matters reported on the Group's whistleblowing helpline and management's investigation of such matters;
- evaluation of management's internal controls designed to prevent and detect irregularities, including the controls around related party transactions;
- reading key correspondence with the Group's regulators, including for example, the Prudential Regulation Authority and the Financial Conduct Authority, in relation to compliance with laws and regulations;
- testing and challenging, where appropriate, the assumptions and judgements made by management in their significant accounting estimates, for example, in relation to the valuation of pension scheme liabilities, the Part VII transfer received into Lloyd's Insurance Company S.A and the recognition of gross written premium within Lloyd's Insurance Company S.A.;
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations including those impacting revenue, backdated and post close entries, or

journals posted by senior management;

- reviewing internal audit reports so far as they related to non-compliance with laws and regulations and fraud; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The Part VII transfer received into Lloyd's Insurance Company S.A. and the recognition of gross written premium within Lloyd's Insurance Company S.A. are new key audit matters this year. Investment valuation, which was a key audit matter last year, is no longer included because of the de-risking of the Central Fund portfolio during the year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Assumptions used in the valuation of the Lloyd's Pension Scheme liabilities (refer also to note 13 to the financial statements)	
The Society of Lloyd's operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme. The net liabilities of the scheme total £183 million at 31 December 2020 (2019: £137 million net liabilities). Certain key assumptions have a material impact in determining the valuation of the pension scheme liabilities and therefore were subject to more audit attention from us. We focused on these key assumptions which included the discount rate; inflation; and post-retirement life expectancy.	We used our actuarial experts to evaluate the key assumptions used to value the Lloyd's Pension Scheme. This included comparison of Lloyd's assumptions to our own independent expectations based on our knowledge of the Lloyd's Pension Scheme and current financial market conditions. We found the following: – the discount rate used in the valuation of the Lloyd's Pension Scheme liability was consistent with our expectations, taking into account the duration of the pension liability and investment market conditions at 31 December 2020; – the retail and consumer price inflation rates used in the valuation of the Lloyd's Pension Scheme liability were consistent with our expectations, taking into account the duration of the pension liability and market expectations at 31 December 2020; and – the post-retirement life expectancy assumptions were in line with the recent mortality experience of the Lloyd's Pension Scheme and with assumptions made by comparable UK companies, and contain an appropriate allowance for how rates of mortality may change in the future. The results of our procedures indicated that the assumptions used in the valuation of the Lloyd's Pension Scheme liability were supported by the evidence we obtained.
Part VII transfer received into Lloyd's Insurance Company S.A. (refer also to note 6 to the financial statements)	
The Lloyd's Part VII transfer was a key milestone in the overall Lloyd's Brexit solution. The Part VII moved European insurance policies, written in the Lloyd's market between 1993 and 2020, from the underlying syndicates, to Lloyd's Insurance Company S.A ('LIC') in Belgium. LIC then reinsured those policies 100% back to the syndicates. This helps achieve Brexit compliance by ensuring that European insurance policies are being administered by an EU regulated insurance company. The Part VII transfer and reinsurance back took place as back to back transactions, with equal and opposite cash transactions, on 30 December 2020. As a significant complex one-off transaction the Part VII transfer was subject to more audit attention from us.	Our work over the Part VII transfer was performed by our local component audit team with input and oversight from the Group engagement team. Our work focussed on understanding the underlying data analysis performed by management, the execution of the transfer and the resulting financial bookings. These procedures included: – performing an end to end walkthrough of the data gathering and reconciliation exercise to arrive at the policy data set to be transferred; – examining the data inputs to the underlying data analysis, including obtaining assurance over the completeness and accuracy of the inputs; – detailed examination of the reconciliation performed to check for the accurate completion of this exercise and assessment of judgements taken in the final definition and valuation of the policies being transferred; – audit of the actuarial valuation exercise to define the total reserves, including incurred but not reported losses, attaching to the transferring policies as at the date of transfer; and – vouching, on a total basis, cash settlements between Lloyd's Insurance Company S.A. and the syndicates as at the date of transfer. The results of our procedures indicated that the valuation of the Part VII transfer and the associated accounting was supported by the evidence we obtained.

Key audit matter	How our audit addressed the key audit matter
Recognition of gross written premium within Lloyd's Insurance Company S.A. (refer also to note 6 to the financial statements)	
Auditing standards include a rebuttable presumption that there is a significant risk of fraud in revenue recognition in all businesses, and we determined that there was a significant risk of fraud in respect of gross written premium recognised within Lloyd's Insurance Company S.A. We determined the key risk in this area to be around the judgemental aspects of estimated premium income, especially following changes made by management in the year in respect of the methodology used to derive gross written premium including premium estimates.	Our work over premium and premium estimates in Lloyd’s Insurance Company S.A. was performed by our local component audit team with input and oversight from the Group engagement team. Our work focused on understanding the changes made by management in the year in respect of the methodology used to derive gross written premium, including estimated premiums, recognised by Lloyd’s Insurance Company S.A. Specifically, we have: – examined the revised methodology and assessed the appropriateness of the underlying data and sources of information used for determining gross written premiums, including estimated premiums; – examined management’s documentation and reporting to those charged with governance in respect to the revised methodology and the conclusions, checking for consistency with our understanding of the approach taken and the detailed steps performed; – tested the application of the revised methodology, including agreeing the appropriateness of key inputs and source data, on a sample basis, and re-performing key reconciliations where appropriate; – engaged with our actuarial specialist team to support our assessment of management’s revised methodology in respect of premium estimates; – obtained management’s final analysis of the accounting impact of the revised methodology and considered the implications for previously reported balances; and – verified that the resulting changes in the accounting for, and recognition of, gross written premium, including premium estimates have been appropriately reflected in the underlying financial books and records. The results of our procedures indicated that the revised methodology applied in determining Lloyd’s Insurance Company S.A’s gross written premium and the associated premium estimates, were supported by the evidence we obtained.
Impact of COVID-19 (see discussion throughout the Annual Report for additional detail on management's response to the pandemic)	
The impact of COVID-19 on the Society of Lloyd’s has been wide ranging. In addition to responding to the operational challenges brought about by remote working, management have assessed the impact of the pandemic on the Society of Lloyd’s ability to continue as a going concern.	In response to the key areas identified as being impacted by COVID-19, we performed additional procedures to assess the implications upon the control environment that arose from the impact of the pandemic, including making inquiries of management regarding the operation of controls. We assessed the results of this work for any indication of fraud or error resulting from remote working. We also obtained management's going concern assessment which also considered the impact of COVID-19 on the Society of Lloyd’s. The procedures performed in respect of going concern, and the results of those procedures, are set out in the “Conclusion relating to going concern” section below. The results of our procedures indicated that the impacts of COVID-19 have been understood, appropriately managed by management and disclosed within the financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which it operates.

The Society of Lloyd’s financial statements are a consolidation of a number of reporting units. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, and from other PwC network firms operating under our instruction. For the audit of the Society of Lloyd’s financial statements, all audit procedures were performed centrally by the group engagement team with the exception of the audits of the financial information of Lloyd's Insurance Company S.A. and Lloyd’s Insurance Company (China) Limited. Where the work was performed by a component auditor, we determined the level of involvement we needed to have in the audit work at that reporting unit to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. In our role as Group auditors, we exercised oversight of work performed by component auditors including performing the following procedures: maintained an active dialogue with reporting component audit teams throughout the year, including involvement in the risk assessment process during the planning phase of the audit; worked closely with the reporting component audit teams to develop detailed work plans in key areas of focus for the audit; attended meetings with local management; and performed detailed reviews of the reporting component audit teams working papers; and attended meetings with local management.

For each reporting unit we determined whether we required an audit of their complete financial information or whether specified procedures for particular balances would be sufficient. Audit procedures were performed over the complete financial information for the

Corporation of Lloyd's, the Central Fund and Lloyd's Insurance Company S.A. reporting units to address the key audit matters identified above. Additionally, we identified Lloyd's Insurance Company (China) Limited and Additional Securities Limited, where certain account balances were considered to be significant in size in relation to the Society of Lloyd's and scoped our audit to include detailed testing of those account balances. For the remaining reporting units that were not inconsequential, analytical procedures were performed by the Group engagement team.

Together, the reporting units where we performed our audit work accounted for greater than 90% of the Society of Lloyd's total assets and surplus before tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£50,000,000 (2019: £39,300,000).
How we determined it	0.5% of total assets, excluding the impact of the Part VII transfer to Lloyd's Insurance Company S.A. of EEA non-life insurance business written in the Lloyd's market between 1993 and 2020, rounded down to the nearest £1 million.
Rationale for benchmark applied	We have identified the key financial statement users as rating agencies, syndicate members, policyholders and regulators, who will be primarily concerned with the overall asset position of the Society of Lloyd's, as those assets provide financial security for the market. Therefore, we have assessed that it is appropriate to use an asset based benchmark for the materiality determination for the 31 December 2020 year end audit. We have adjusted the total assets benchmark to exclude the impact of the Part VII transfer to Lloyd's Insurance Company S.A. of EEA non-life insurance business written in the Lloyd's market between 1993 and 2020. Given that the additional assets in respect of the Part VII transfer are matched by a corresponding increase in insurance liabilities we did not feel that this should lead to a higher materiality as there has not been a significant change to the Society of Lloyd's risk profile.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £13,200,000 and £45,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £37,500,000 for the group financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1,200,000 (2019: £1,200,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Council's assessment of the group's ability to continue to adopt the going concern basis of accounting included:

– Validating management's analysis and supporting documentation as it related to the Society of Lloyd's going concern;
– Assessing management's scenarios whereby they considered plausible downside sensitivities;
– Performing further sensitivity analysis on management's going concern assessment and assessing the impact on the Society of Lloyd's capital, solvency and liquidity positions; and
– Assessing the disclosures made in the financial statements in respect of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Council's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's ability to continue as a going concern.

In relation to the Council's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Council's statement in the financial statements about whether the Council considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Council with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Council is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Council members' remuneration

The Society of Lloyd's voluntarily prepares a Report of the Remuneration Committee in accordance with the provisions of the Companies Act 2006. The Council requested that we audit the part of the Report of the Remuneration Committee specified by the Companies Act 2006 to be audited as if the Society of Lloyd's were a quoted company.

In our opinion, the part of the Report of the Remuneration Committee to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

ISAs (UK) require us to review the Council's statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Society of Lloyd's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Council's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Council's statement in the financial statements about whether it considered it appropriate to adopt the going concern basis of accounting in preparing them, and its identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Council's explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate; and
- The Council's statement as to whether it has a reasonable expectation that the Society of Lloyd's will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Council's statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the Council's process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Council's statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the Council's statement relating to the Society of Lloyd's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Council for the financial statements

As explained more fully in the Statement of the Council's responsibilities for the financial statements, the Council is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Council is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

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

– we have not obtained all the information and explanations we require for our audit;

– proper accounting records have not been maintained by the Society of Lloyd's; or

– certain disclosures of Council's remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members in July 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 December 2013 to 31 December 2020.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
8 April 2021

Group Income Statement

(For the year ended 31 December 2020)

	Note	2020 £m	2019 £m
Corporation operating income		384	358
Central Fund income		127	125
Gross written premiums	4, 6	5,978	2,466
Outward reinsurance premiums	4, 6	(5,978)	(2,466)
Total income	3, 4	**511**	483
Gross insurance claims and insurance expenses incurred	6	(5,824)	(1,302)
Insurance claims and expenses recoverable from reinsurers	6	5,824	1,302
Group operating expenses	3, 7	(410)	(422)
Operating surplus		**101**	61
Finance costs	9	(59)	(51)
Finance income	9	2	151
Share of profits of associates and joint ventures	11	12	9
Surplus before tax		**56**	170
Tax charge	12	(10)	(33)
Surplus for the year		**46**	137

Group Statement of Comprehensive Income

(For the year ended 31 December 2020)

	Note	2020 £m	2019 £m
Surplus for the year		46	137
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Remeasurement loss on pension liabilities	13	(54)	(59)
Share of remeasurement loss on associate pension liabilities		(2)	–
Tax credit relating to items that will not be reclassified	12	16	10
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		16	(14)
Net other comprehensive deficit for the year		**(24)**	(63)
Total comprehensive income for the year		**22**	74

Group Statement of Financial Position

(As at 31 December 2020)

	Note	2020 £m	2019 £m
Assets			
Intangible assets	14	54	16
Lloyd's collection	15	15	15
Plant and equipment	15	13	13
Right-of-use asset	2, 16	155	156
Deferred tax asset	12	56	47
Tax receivable		29	–
Investment in associates and joint ventures	11	24	21
Insurance contract assets	3, 6	7,095	1,878
Loans recoverable	17	32	34
Financial investments at fair value through profit and loss	18	2,676	2,788
Financial investments at amortised cost	18	1,433	1,174
Trade and other receivables due within one year	19	1,713	1,145
Prepayments and accrued income		19	12
Derivative financial instruments	20	21	25
Cash and cash equivalents	21, 27	1,174	533
Total assets		**14,509**	7,857
Equity and liabilities			
Equity			
Accumulated reserve	22	2,468	2,466
Translation reserve	22	26	10
Revaluation reserve	22	15	15
Syndicate loans	2, 23	514	110
Total equity		**3,023**	2,601
Liabilities			
Senior and subordinated debt	24	1,094	794
Insurance contract liabilities	3, 6	7,095	1,878
Pension liabilities	13	187	140
Provisions	25	66	80
Loans funding statutory insurance deposits		805	690
Trade and other payables	26	1,929	1,372
Accruals and deferred income		124	136
Tax payable		–	1
Lease liability	2, 16	154	152
Derivative financial instruments	20	32	13
Total liabilities		**11,486**	5,256
Total equity and liabilities		**14,509**	7,857

Approved and authorised by the Council on 8 April 2021 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Group Statement of Changes in Equity

(For the year ended 31 December 2020)

	Note	Accumulated reserve £m	Translation reserve £m	Revaluation reserve £m	Syndicate loans £m	Total equity £m
At 1 January 2019		2,378	24	15	–	2,417
Syndicate loans		–	–	–	110	110
Surplus for the year		137	–	–	–	137
Net other comprehensive deficit for the year		(49)	(14)	–	–	(63)
At 31 December 2019	22	2,466	10	15	110	2,601
Syndicate loans	2, 23	–	–	–	404	404
Dividend paid on syndicate loans		(4)	–	–	–	(4)
Surplus for the year		46	–	–	–	46
Net other comprehensive (deficit)/surplus for the year		(40)	16	–	–	(24)
At 31 December 2020	22	**2,468**	**26**	**15**	**514**	**3,023**

Group Statement of Cash Flows

(For the year ended 31 December 2020)

	Note	2020 £m	2019 £m
Cash generated from operations	27	33	145
Tax paid		(33)	(69)
Net cash generated from operating activities		–	76
Cash flows from investing activities			
Purchase of intangible assets	14	(66)	(12)
Purchase of plant and equipment	15	(4)	(5)
Purchase of financial investments	18	(3,074)	(2,110)
Receipts from the sale of financial investments	18	3,183	1,834
Increase in short-term deposits	18	(148)	(10)
Dividends received from associates and joint ventures	11	14	7
Investment in joint venture	2	(7)	–
Interest received		37	52
Dividends received	9	5	7
Settlement of derivative contracts		(54)	(9)
Net cash used in investing activities		**(114)**	(246)
Cash flows from financing activities			
Syndicate loans	2, 23	404	110
Senior loan note issuance		299	–
Interest paid on senior debt		(4)	–
Interest paid on subordinated notes		(38)	(38)
Dividend paid on syndicate loans		(4)	–
Increase in borrowings for statutory insurance deposits		115	65
Lease payments	2, 16	(25)	(27)
Net cash generated from financing activities		**747**	110
Net increase/(decrease) in cash and cash equivalents		633	(60)
Effect of exchange rates on cash and cash equivalents		8	(8)
Cash and cash equivalents at 1 January		533	601
Cash and cash equivalents at 31 December	21	**1,174**	533

Notes to the Financial Statements

(For the year ended 31 December 2020)

1. Basis of preparation and consolidation

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

The Society's main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The Group financial statements of the Society comprise the financial statements of the Society and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interest in associates and joint ventures as at each reporting date. Subsidiary undertakings are consolidated from the date of their acquisition, being the date on which the Society obtains control, and continue to be consolidated until the date that such control ceases. The Group financial statements are prepared using consistent accounting policies. All intra-Group balances and transactions are eliminated in full.

The Group financial statements have been prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and on a historic cost basis, except for financial assets and liabilities at fair value through profit or loss and the Lloyd's Collection, which are measured at fair value.

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

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

2. Principal accounting policies

Summary of significant accounting policies

This section provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent that they have not been superseded by accounting policies adopted due to amendments to accounting standards that became effective from 1 January 2020 (see note 2(p)). The policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Critical accounting estimates and assumptions

In preparing the financial statements, significant estimates and judgements are made in respect of some of the items reported.

The main areas of accounting judgement on policy application are:

– Revenue – income recognition – some judgement has been applied in determining when service obligations have been completed, in particular with respect to the market modernisation levy (see note 2(j) and note 4, Market modernisation levy); and

– Provisions – judgement is required to determine whether estimated future 1986 building repair and maintenance expenses require provision (see note 25, Lease cost provision).

Information about the main accounting assumptions made by the Society about the future, and other sources of estimation uncertainty at the end of the reporting period, that could result in material misstatement of the carrying amount of assets and liabilities in the next financial year are provided in the following sections:

– Employee benefits – defined benefit pension scheme – significant assumptions are made to estimate the actuarial value of scheme liabilities (see note 2(k) and note 13, Principal actuarial assumptions in respect of IAS 19); and

– Insurance and reinsurance contracts – liabilities and reinsurance assets – significant assumptions are made to estimate insurance contract liabilities and assets, in particular the provision for insurance claims, including claims incurred but not reported (see note 2(g) and note 6, Provision for insurance claims).

(b) Plant and equipment

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

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

– Furniture and fittings are depreciated over seven to 25 years according to the estimated useful life of the asset;

– Computer and specialised equipment are depreciated over two to 15 years according to the estimated useful life of the asset; and

– Equipment on hire or lease is depreciated over the period of the lease.

(c) Intangible assets

Intangible assets recognised by the Society consist of software development assets. Costs incurred in acquiring and developing computer software are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable asset of value. Software development is held at cost less accumulated amortisation and any impairment in value. Capitalised software is amortised on a straight-line basis over its expected useful life. Computer software typically has an expected useful life of up to seven years, although a longer lifetime may be determined for certain strategic market systems.

(d) Lloyd's Collection

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

(e) Investment in associates and joint ventures

An associate is an entity in which the Society has significant influence, and which is not a subsidiary undertaking or joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Society's investments in associates and joint ventures are accounted for under the equity method of accounting.

Under the equity method, the investments in associates and joint ventures are carried in the Group statement of financial position at cost plus post-acquisition changes in the Society's share of net assets of the associates and joint ventures. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Society determines whether it is necessary to recognise any additional impairment loss with respect to the Society's net investment in an associate or joint venture. The Group income statement reflects its share of the results of operations of associates and joint ventures. The Society's share of associates' other comprehensive income is recognised in the Group statement of comprehensive income.

(f) Impairment of non-financial assets

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

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

(g) Insurance and reinsurance contracts

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

Insurance and reinsurance contracts are defined as those containing significant insurance risk which arises if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expired.

The Society's policy for measuring balances for insurance contracts issued by overseas subsidiaries is to apply the valuation technique used in the issuing entity's local statutory or regulatory reporting. Therefore, for insurance contracts issued by Lloyd's Insurance Company (China) Limited (Lloyd's China), balances are calculated in accordance with the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP). For insurance contracts issued by, or transferred to Lloyd's Insurance Company S.A. (Lloyd's Brussels), balances are calculated in accordance with Belgian Generally Accepted Accounting Principles (Belgian GAAP). There are no differences between PRC GAAP, Belgian GAAP and International Financial Reporting Standards that have a material impact on the Society financial statements.

Gross premiums and outward reinsurance premiums are presented on a written basis in the Group income statement as we believe this provides relevant information on the volume of insurance business underwritten during the period. Gross written premiums are recognised on the date of inception of the contract as the total estimated premiums receivable. Gross written premiums include the impact of the difference between estimated premium recognised in previous periods and actual income received.

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

Reinsurance contracts

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

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Society may not receive all amounts due to it under the terms of the contract and this can be measured reliably.

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

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

Insurance premiums

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

Outward reinsurance premiums

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

Insurance claims

Claims incurred in insurance related activities consist of claims and claims handling expenses paid during the year together with the movement in outstanding claims. Outstanding claims are the estimated final cost of all claims incurred but not settled at the reporting date, including claims incurred but not reported. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are reflected within the Group financial statements of later years when differences between provision and subsequent settlement become apparent. Note 6 provides further details of how insurance claims are estimated.

Outstanding claims reserves include a risk margin. A liability adequacy test is undertaken annually, the test undertaken meets the minimum requirements of paragraph 16 of IFRS 4; refer to note 6 for details.

(h) Financial assets

Financial assets classification

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

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

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

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Principal accounting policies continued

(h) Financial assets continued

The Society's financial assets at amortised cost includes short term and security deposits, statutory insurance deposits, loans recoverable and trade and other receivables due within one year.

Financial assets at fair value through profit or loss include financial assets held for trading, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. This category includes government fixed interest securities, corporate securities, emerging market investments, equities, hedge funds, multi-asset investments and loan investments.

Initial recognition

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

Subsequent measurement

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

– Financial instruments at fair value through profit or loss are carried in the Group statement of financial position at fair value. Gains and losses arising from changes in their fair value are included in the Group income statement in the period in which they arise. When financial assets are interest bearing, interest calculated using the effective interest method is recognised in the Group income statement; and

– Where financial instruments are carried at amortised cost, the value is computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

– The rights to receive cash flows from the asset have expired; or

– The Society has transferred its right to receive cash flows from the asset and has substantially transferred all the risks and rewards; or

– The Society has assumed an obligation to pay the received cash flows in full and has substantially transferred all the risks and rewards; or

– The Society has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset; and

– The Society considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third-party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

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

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

Expected credit losses of financial assets

The Society recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Society expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, allowance is made for credit losses that result from default events that are possible within the next 12 months (12 month expected credit losses). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (lifetime expected credit losses).

For trade receivables and insurance contract assets, the Society applies a simplified approach in calculating expected credit losses. Therefore, the Society does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Society has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Society considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Society may also consider a financial asset to be in default when internal or external information indicates that the Society is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Society. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(i) Financial liabilities
Initial recognition and measurement

Financial liabilities are classified, at initial recognition, at fair value through profit or loss, loans and borrowings or as payables, as appropriate, and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Society. Gains or losses on liabilities held for trading are recognised in the Group income statement.

Loans and borrowings and payables

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Group income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the Group income statement. This category generally applies to interest bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Group income statement.

Syndicate loans

Syndicate loans to the Central Fund were issued on 26 June 2020 and 6 November 2020, increasing equity by £119m and £285m respectively (2019: £110m). The loan issue strengthened the Society's central resources and facilitated the injection of capital to Lloyd's Brussels.

The amount collected is based on a percentage of the syndicate gross written premium forecast. The loans are treated as equity as there is no contractual obligation to settle the loans and the Society may elect not to settle at its sole discretion (other than on liquidation). Further details on syndicate loans can be found in note 23.

(j) Revenue

The Society supports the market to underwrite risks through its trading rights and distribution network. It also ensures that the market remains well capitalised and provides services to enable the market's efficient operation. Revenue consists of members' subscriptions, various market charges and Central Fund contributions.

Revenue from contracts with customers is recognised when services are transferred to the customer, at an amount that reflects the consideration to which the Society expects to be entitled in exchange for those services.

- Members' subscriptions, market charges and other services are recognised in the period for which the service is provided. These are recognised on a basis that reflects the timing, nature and value of the benefits provided;
- Central Fund contributions from members underwriting in the year are recognised in the period for which the service is provided;
- Interest receivable is recognised on a time apportioned basis using the effective interest method. Any unwinding of discount is recognised as interest income;
- Dividend income from equity investments is included in the Group income statement on the ex-dividend date; and
- Other income is recognised on a basis that reflects the timing, nature and value of the benefits provided
- Reinsurance commissions are earned on premiums earned by Lloyd's Brussels and on premiums written by Lloyd's China.

For members' subscriptions, market charges and other services, and Central Fund contributions, the period for which the service is provided is the financial year and performance obligations are generally satisfied within the financial year. Revenue arising in respect of members' subscriptions, the market modernisation levy and Central Fund contributions are calculated by applying a percentage to the forecast Gross written premiums of each syndicate underwriting year.

Where performance obligations are not satisfied in the financial year, revenue is recognised based on the extent to which service obligations are completed. Judgement has been applied in determining revenue recognised for the year.

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

(k) Employee benefits

The Society accounts for pensions and similar benefits (principally income protection due to ill health) under IAS 19 Employee Benefits. The Society operates a number of defined benefit pension schemes in which obligations are measured at discounted present value using the projected unit credit method, while plan assets are recorded at fair value. Judgement is required in determining the economic and demographic assumptions underpinning the estimated actuarial value of scheme liabilities. These judgements are based on observable historic data and in many cases, publicly available information. The operating and financing income and costs of the scheme are recognised in the Group income statement. Service costs, financing income (expected return on plan assets) and costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in full in the Group statement of comprehensive income in the period in which they occur.

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

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

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

(l) Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

2. Principal accounting policies continued

(l) Taxation continued

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date.

(m) Central Fund claims and provisions

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

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

Recoveries in respect of Undertakings previously given are credited to the Group income statement when contractually committed to be received.

(n) Leases

The Society recognises lease liabilities in relation to property previously classified as 'operating leases' under IAS 17 Leases. These liabilities are measured at the present value of the remaining minimum lease payments. Lease liabilities are discounted at the Society's incremental borrowing rate. Having conducted sensitivity analysis, the Society has applied a single portfolio incremental borrowing rate of 5.1% (2019: 5.1%), being the assessed weighted average incremental borrowing rate, to all lease liabilities.

The Society recognises a right-of-use asset in the Group statement of financial position, representing its right to use the underlying asset. The right-of-use asset is measured as the lease liability plus lease payments made before or at the commencement date, and restoration costs. A depreciation expense is recognised in the Group income statement, together with an interest expense calculated using the Society's weighted-average incremental borrowing rate.

Practical expedients applied

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

- The application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The use of hindsight when determining the lease term if the contracts contain options to extend or terminate the lease;
- The exclusion of initial direct costs from the measurement of the right-of-use asset;
- IFRS 16 has only been applied to contracts that were previously classified as leases;
- The Society has based its assessment of whether a lease is onerous by applying IAS 37 immediately before the date of initial application; and
- The Society has also adopted the ongoing practical expedient of expensing the lease payments for contracts with a duration of 12 months or less and contracts for which the underlying asset is of a low value to the Group income statement on a straight-line basis over the lease term.

Lease portfolio

The Society's lease portfolio encompasses property in the UK, Europe, Asia and the Americas. The 1986 Building is the material component of the portfolio and accounts for 85% (2019: 88%) of the right-of-use net book asset value. The 1986 Building has a lease duration of 35 years.

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

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

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

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

Extension and termination options

The lease term determined by the Society comprises:

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

Variable lease payments

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

(o) Foreign currency and derivative instruments foreign currency translation

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction or an average rate for the period in which recorded. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date. Translation differences on monetary items are taken to the Group income statement.

The results and financial position of overseas Society operations are translated into pounds sterling as follows:

(i) Assets and liabilities are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at the average exchange rate for the year; and

(iii) Any resulting exchange differences are recognised in the Group statement of comprehensive income.

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

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

The Society has not adopted any new IFRS standards for the period beginning 1 January 2020. The Society adopted the following amendments with effect from 1 January 2020:

– Definition of material – amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors: amends the definition of material to ensure consistency across IFRSs;
– Revised conceptual framework for financial reporting: the revised conceptual framework does not result in any immediate change to IFRS, but will be used in setting future standards;
– Definition of a business – amendments to IFRS 3 Business Combinations: changes the definition of a business combination, and hence transactions that are accounted for as asset acquisitions;
– Interest rate benchmark reform amendments to IFRS 9 Financial instruments, IAS 39 Financial instruments, recognition and measurement and IFRS 7 Financial instruments (disclosures): provides temporary relief from applying specific hedge accounting requirements to hedge relationships directly affected by Inter-bank Offering Rates reform; and
– COVID-19 related rent concessions – amendments to IFRS 16 Leases: provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification.

The Society's accounting policies have been updated to reflect these changes. Implementation of the above amendments to existing standards has had no impact on the Group financial statements.

(q) New standards, interpretations and amendments to existing standards issued but not yet implemented

IFRS 17 – Insurance contracts

IFRS 17 Insurance contracts was issued in May 2017 as replacement for IFRS 4, Insurance contracts. Amendments to IFRS 17 were issued in June 2020. The effective date of the standard is 1 January 2023.

Implementation of IFRS 17 is expected to have a material impact on the Society's consolidated financial statements, driven by the insurance operations in Belgium, Lloyd's Insurance Company S.A. and China, Lloyd's Insurance Company (China) Limited. However, as the business is fully reinsured, the impact on the operating result and results for the year is not expected to be material.

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

3. Segmental analysis

Segmental information is presented in respect of the Society's business segments. The primary business segments are based on the Society's management and internal reporting structure.

Intra-segment pricing is determined on an arm's-length basis. Segmental results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

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

The Society's primary business segments are as follows:

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

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

3. Segmental analysis continued

Information by business segment	Note	2020 Corporation of Lloyd's £m	2020 Lloyd's Central Fund £m	2020 Society total £m
Segment income				
Total income	4	**384**	**127**	**511**
Segment operating expenses				
Gross insurance claims and insurance expenses incurred	6	(5,824)	–	(5,824)
Insurance claims and expenses recoverable from reinsurers	6	5,824	–	5,824
Group operating expenses:				
Employment (including pension costs)	8	(161)	–	(161)
Premises		(41)	–	(41)
Legal and professional	7	(113)	(1)	(114)
Systems and communications		(44)	–	(44)
Other		(49)	(1)	(50)
Total Group operating expenses		**(408)**	**(2)**	**(410)**
Total segment operating expenses		**(408)**	**(2)**	**(410)**
Total segment operating (deficit)/surplus		**(24)**	**125**	**101**
Finance costs	9	(18)	(41)	(59)
Finance income	9	(4)	6	2
Share of profits of associates and joint ventures	11	12	–	12
Segment (deficit)/surplus before tax		**(34)**	**90**	**56**
Tax charge	12			(10)
Surplus for the year				**46**
Segment assets and liabilities				
Insurance contract assets	6	7,095	–	7,095
Financial investments at fair value through profit and loss	18	533	2,143	2,676
Financial investments at amortised cost		1,026	407	1,433
Cash and cash equivalents		606	568	1,174
Other assets		1,367	679	2,046
Segment assets		**10,627**	**3,797**	**14,424**
Deferred tax	12	56	–	56
Tax Debtor		25	4	29
Total assets		**10,708**	**3,801**	**14,509**
Insurance contract liabilities	6	(7,095)	–	(7,095)
Other segment liabilities		(3,547)	(844)	(4,391)
Total liabilities		**(10,642)**	**(844)**	**(11,486)**
Total equity		**66**	**2,957**	**3,023**
Other segment information				
Capitalised tangible and intangible asset additions	14, 15	72	–	72
Depreciation	15	(3)	–	(3)
Amortisation of intangible assets	14	(3)	–	(3)
Impairment of tangible and intangible assets	14, 15	(27)	–	(27)
Average number of UK employees (permanent and contract)		967	–	967
Average number of overseas employees (permanent and contract)		245	–	245
Average number of total employees (permanent and contract)		**1,212**	**–**	**1,212**

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

3. Segmental analysis continued

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

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

Average number of UK employees (permanent and contract)		980	–	980
Average number of overseas employees (permanent and contract)		300	–	300
Average number of total employees (permanent and contract)		1,280	–	1,280

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

4. Revenue from contracts with Customers

Disaggregated revenue information

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

	Corporation of Lloyd's		Lloyd's Central Fund		Society Total	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Type of service						
Members' subscriptions, net of rebate	128	119	–	–	128	119
Market charges and other services						
Market charges	168	190	–	–	168	190
Market modernisation levy	19	(4)	–	–	19	(4)
Reinsurance commission	57	37	–	–	57	37
Other charges	12	16	–	–	12	16
Central Fund income	–	–	127	125	127	125
Total revenue from contracts with customers	**384**	358	**127**	125	**511**	483

	Corporation of Lloyd's		Lloyd's Central Fund		Society Total	
	2020 £m	2019 restated* £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Geographical markets						
UK	270	237	127	125	397	362
Rest of Europe	56	63	–	–	56	63
China	17	22	–	–	17	22
Other	41	36	–	–	41	36
Total revenue from contracts with customers	**384**	358	**127**	125	**511**	483

* Rest of Europe restated to include all European operations of the Group other than UK operations.

Note: In addition to Central Fund contributions, Central Fund income includes £nil (2019: £2m) of recoveries to the Central Fund and other income.

Revenue recognised from previously satisfied performance obligations is £nil (2019: £12m). This represents the adjustment to members' subscriptions, market modernisation levy and Central Fund contributions based on final premiums written for the year of account.

The table below analyses insurance premiums by geographical segment:

2020 £m	**UK**	**Europe**	**China**	**Other**	**Total**
Gross written premiums	–	5,886	92	–	5,978
Outward reinsurance premiums	–	(5,886)	(92)	–	(5,978)
Net insurance premiums	**–**	**–**	**–**	**–**	**–**

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

4. Revenue from contracts with customers continued
Disaggregated revenue information continued
Timing of revenue recognition

	Corporation of Lloyd's		Lloyd's Central Fund		Society Total	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Services transferred over time	384	358	–	–	384	358
Services transferred at a point in time	–	–	127	125	127	125
Total revenue from contracts with customers	**384**	358	**127**	125	**511**	483

Central Fund contributions from members and Corporation of Lloyd's subscriptions
During the year, members paid to the Corporation (members' subscriptions) and to the Central Fund (Central Fund contributions from members) 0.36% and 0.35% respectively of their syndicate forecast gross written premium (2019: 0.36% and 0.35% respectively). Central Fund contributions in the first three years of membership are charged at 1.4% of syndicate forecast gross written premium. The £127m (2019: £125m) Central Fund contributions from members and £128m (2019: £125m) members' subscriptions included in the Group income statement are based on the final amounts retained by the Central Fund and the Corporation respectively. Central Fund income includes market settlement recoveries of £nil (2019: £2m), which represent continuing debt recoveries from the 1996 Reconstruction and Renewal settlement, and recoveries in respect of Undertakings previously given by the Central Fund.

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

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

Market modernisation levy
In addition to the above, in 2019 and prior years a levy was charged to fund the costs of market modernisation, charged at 0.07% of gross written premiums. Where performance obligations are not satisfied in the financial year, revenue is recognised based on the extent to which service obligations are completed. Judgement has been applied in recognising revenue with reference to market modernisation services which demonstrably are not completed. This has led to the continued deferral of £11m (2019: £30m) of income at the reporting date. No market modernisation levy was charged in 2020.

5. Central Fund claims and provisions incurred
The Council grants Undertakings within financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls (see note 2(m) for further information). Unutilised Undertakings as at 31 December 2020 were £nil (2019: £nil).

6. Insurance activities

Part VII transfer of EEA Lloyd's market business

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.

The cash consideration received is presented as 'gross written premium' and the reinsurance paid is included in 'outward reinsurance premiums', which reflects the economic substance of the transaction. Gross and outward reinsurance premiums are earned in accordance with the Group accounting policy, and a proportion remains unearned at year end. Claims provisions are estimated at each reporting period, with changes recorded within gross insurance claims and insurance expenses insurance claims and expenses recoverable from reinsurers respectively in the income statement. The Part VII transfer included premiums due in respect of the transferred business. Premiums due include estimates for policies written through third parties, where limited information is available on business underwritten. Variances between gross and reinsurers' estimated premium and actual premiums received are recorded as Gross written premium and Outward reinsurance premiums.

The impact of the Part VII transfer and subsequent reinsurance to syndicates on the Society's income statement is summarised below:

	2020 £m
Gross written premium	3,831
Outward reinsurance premium	(3,831)
Total income	–
Gross insurance claims and insurance expenses incurred	(3,883)
Insurance claims and expenses recoverable from reinsurers	3,883
Operating surplus	–

The impact of the Part VII transfer and subsequent reinsurance to syndicates on the Society's statement of financial position is summarised below:

	2020 £m
Insurance contract assets	3,831
Trade and other receivables	483
Total assets	**4,314**
Insurance contract liabilities	(3,831)
Trade and other payables	(483)
Total liabilities	**(4,314)**

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

Lloyd's Insurance Company S.A. (Lloyd's Brussels) and Lloyd's Insurance Company (China) Limited (Lloyd's China) are the principal insurance businesses of the Society. Lloyd's Brussels and Lloyd's China are wholly owned subsidiary undertakings of the Society. The companies' principal activity is to provide reinsurance of non-life business and direct non-life insurance in the European and Chinese insurance markets respectively. Lloyd's syndicates participate in Lloyd's Brussels' and Lloyd's China's business by means of retrocession agreements.

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

	2020 £m	2019 £m
Insurance claims		
Gross claims		
Claims paid	(411)	(198)
Net change in gross provision for claims	(4,959)	(753)
Total gross claims	(5,370)	(951)
Acquisition costs	(454)	(351)
Total gross insurance claims and insurance expenses incurred	**(5,824)**	(1,302)
Europe	(5,752)	(1,140)
China	(72)	(162)

	2020 £m	2019 £m
Claims recoverable from reinsurers		
Claims recovered from reinsurers	411	198
Net change in reinsurers share of provision for claims	4,959	753
Total claims recoverable from reinsurers	5,370	951
Acquisition costs recovered from reinsurers	454	351
Total insurance claims and expenses recoverable from reinsurers	**5,824**	1,302
Europe	5,752	1,140
China	72	162

Gross insurance claims and insurance expenses incurred and insurance claims and expenses recoverable from reinsurers include 2020 and prior underwriting year EEA business transferred under the Part VII agreement on 30 December 2020.

6. Insurance activities continued

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

Insurance contract assets and liabilities are analysed as follows:

	2020 Insurance contract liabilities £m	2020 Reinsurer's share of liabilities £m	2020 Net £m	2019 Insurance contract liabilities £m	2019 Reinsurer's share of liabilities £m	2019 Net £m
Provision for claims reported	2,535	(2,535)	–	227	(227)	–
Provision for IBNR claims	3,486	(3,486)	–	763	(763)	–
Total provision for insurance claims	6,021	(6,021)	–	990	(990)	–
Provision for unearned premiums	1,074	(1,074)	–	888	(888)	–
At 31 December	**7,095**	**(7,095)**	**–**	1,878	(1,878)	–

Insurance contract assets and liabilities include 2020 and prior underwriting year EEA business transferred under the Part VII agreement on 30 December 2020.

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

	2020 Provision for insurance claims £m	2020 Reinsurer's share of liabilities £m	2020 Net £m	2019 Provision for insurance claims £m	2019 Reinsurer's share of liabilities £m	2019 Net £m
At 1 January	990	(990)	–	265	(265)	–
Claims incurred/(released)	1,667	(1,667)	–	951	(951)	–
Claims (paid)/recoveries (see below)	(411)	411	–	(198)	198	–
Part VII transfer of outstanding claims	3,702	(3,702)	–	–	–	–
Effect of exchange rates	73	(73)	–	(28)	28	–
At 31 December	**6,021**	**(6,021)**	**–**	990	(990)	–

The provision for insurance claims includes 2020 and prior underwriting year business transferred under the Part VII agreement on 30 December 2020. Claims incurred consist of claims and claims handling expenses paid during the year, together with the change in provision for outstanding claims. Full provision is made, on the basis of available information, for the estimated ultimate cost of claims notified but not settled as at the date of the statement of financial position, after taking into account handling costs and settlement trends. A provision for claims incurred but not reported is also established as at that date on a statistical basis. The provision also reflects claims settlement expenses and anticipated reinsurance and other recoveries. The provision for outstanding claims is based on information available at the reporting date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are recorded in the Group income statements of later years.

Claims development table

The table below shows the development of claims over a period of time on a gross basis. The claims development table shows the cumulative incurred claims, including both notified and incurred but not reported claims for each successive year, together with cumulative claims at the current reporting date.

	2016 and prior £m	2017 £m	2018 £m	2019 £m	2020 £m	Total £m
At end of underwriting year	370	103	77	902	4,671	
One year later	416	161	105	1,615		
Two years later	415	172	97			
Three years later	417	170				
Four years later	339					
Current estimate of cumulative claims	339	170	97	1,615	4,671	6,892
Cumulative payments to date	(300)	(134)	(61)	(326)	(50)	(871)
Total provision for insurance claims	39	36	36	1,289	**4,621**	**6,021**

As the Lloyd's Brussels and Lloyd's China insurance liabilities are 100% reinsured and comprise the vast majority of the Society's insurance business, the Society has not prepared a claims development table on a net basis.

The claims development table above includes claims relating to the 2020 and prior underwriting year EEA business transferred under the Part VII agreement on 30 December 2020. All liabilities transferred are included within the 2020 underwriting year.

Provision for unearned premiums

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

	2020 Provision for unearned premiums £m	2020 Reinsurer's share of liabilities £m	2020 Net £m	2019 Provision for unearned premiums £m	2019 Reinsurer's share of liabilities £m	2019 Net £m
At 1 January	888	(888)	–	82	(82)	–
Premiums written	2,147	(2,147)	–	2,466	(2,466)	–
Part VII transfer premiums recognised	3,831	(3,831)	–	–	–	–
Premiums earned	(5,808)	5,808	–	(1,422)	1,422	–
Acquisition costs deferred	(36)	36	–	(211)	211	–
Effect of exchange rates	52	(52)	–	(27)	27	–
At 31 December	**1,074**	**(1,074)**	**–**	888	(888)	–

Provision for unearned premiums includes 2020 and prior underwriting year EEA business transferred under the Part VII agreement on 30 December 2020.

Insurance risk

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

– Occurrence risk – the possibility that the number of risk events is different from expectation;

– Severity risk – the possibility that the cost of risk events is different from expectation; and

– Development risk – the possibility that there is a change in required reserves before the end of the contract.

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

	2020 %	2019 %
Property insurance	9	9
Agricultural insurance	1	1
Credit insurance	4	4
Engineering insurance	1	2
Marine insurance	19	20
Liability insurance	13	13
Accident and Health insurance	9	8
Aviation insurance	5	5
Energy insurance	7	7
Financial products	23	22
Other	9	9
	100	100

Non-insurance risks

In addition to the risks which are set out in the Financial Risk Management section on pages 116 to 118, Lloyd's Brussels and Lloyd's China are also subject to the following risks:

– Credit risk: there is a risk that a syndicate may be unable to fulfil its reinsurance obligations, in which case Lloyd's Brussels or Lloyd's China could potentially be exposed to a loss; and

– Regulatory risk: as overseas underwriting companies, Lloyd's Brussels or Lloyd's China are subject to the requirements of the local regulator and could be subject to penalties if these regulations are not satisfied.

Management do not consider that Lloyd's Brussels or Lloyd's China is subject to insurance risk after the 100% reinsurance.

6. Insurance activities continued

Credit risk

Lloyd's Brussels and Lloyd's China are exposed to credit risks primarily associated with insurance and reinsurance arrangements with its insurance counterparties. The most significant credit risk is the recoverability of the Society's reinsurance assets receivable from syndicates under the 100% reinsurance agreements. Credit risk is minimised by actively monitoring the creditworthiness of counterparties and reviewing the pattern of aged debt across the portfolio to ensure this is managed proactively. Judgement is required in determining expected credit losses on the current reinsurance assets. Expected credit losses are calculated and recognised as described in note 2(h).

Significant accounting estimates

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

Provision for insurance claims

When calculating the provision for insurance claims, the estimate is based on the expected ultimate cost of claims reported and incurred but not reported claims at the balance sheet date.

For Lloyd's Brussels, the ultimate claim cost including claims expense reserves is determined using actuarial techniques based primarily on historical experience; and actual claims experience. Significant judgement is required in applying these actuarial techniques in order to calculate the expected ultimate claims and expenses. Changes in individual underlying judgements for one or more classes of business has a relatively insignificant impact on the valuation of insurance contract liabilities as a whole. A combined approach is taken with the provisions for the business transferred through the Part VII agreement calculated using the same techniques as for the business originally written through LIC. An explicit allowance is also derived for specific claims which are thought to require an additional incurred but not reported allowance, notably required for COVID-19, primarily using ultimate claims estimates provided by the syndicates. Any change in estimated ultimate claims and expenses has a net nil impact on net assets given all risks are 100% reinsured.

For Lloyd's China, the ultimate claim cost is determined based on historical experience; the expected loss ratio provided by the syndicates; and actual claims experience. Claims expense reserves are calculated with reference to actual claims expenses and future developing trends by class of business. Significant judgement is required in assessing the expected loss ratios provided by syndicates to determine whether the provision for insurance claims held for prior underwriting years is reasonable. Changes in loss ratios for one or more lines of business has a relatively insignificant impact on the valuation of insurance contract liabilities as a whole. Any change in the estimated ultimate loss ratio has a net nil impact on net assets given all risks are 100% reinsured.

For Lloyd's China only, outstanding claims reserves are calculated taking the time value of money into account. The discount rate used is the same as that used for the calculation of the unexpired risk reserve.

Risk margin

Risk margin is the reserves provided for the uncertainty of estimated future cash flows. Judgement is required for the computation of a view of the uncertainty in the claims reserves from which a risk margin percentage is set based on management judgement. For Lloyd's Brussels, a risk margin of 6.3% (2019: 4.5%) is applied to the incurred claims reserve on a best estimate basis. No risk margin is applied to the unearned premium reserve in accordance with Belgian regulatory reporting requirements. Judgement is required as to whether historic claims data reflects the uncertainty of Lloyd's Brussels future cash flows. The risk margin is included within the provision for IBNR claims reported.

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

Unexpired risk reserve

The main assumptions used in the calculation of the Lloyd's China unexpired risk reserve relate to the loss ratio, expenses and the discount rate. Lloyd's Brussels assesses the profitability of underwriting and whether an unexpired risk reserve is required. The reserve is currently immaterial as loss ratios generally indicate underwriting is not loss-making.

- Loss ratio: the Lloyd's China insurance loss ratio is calculated by making estimates with reference to the historical experience of loss ratios in the London insurance market; the expected loss ratio provided by syndicates; and the Corporation's actual claims experience.
- Expenses: in determining expense assumptions, estimates are made based on analysis of future development trends. For Lloyd's China only, inflation is taken into account where applicable. The assumptions set for the inflation rate are consistent with those used for determining the discount rate.
- Discount rate: for Lloyd's China only, the discount rate used to calculate the unexpired risk reserve is based on the market rate corresponding to the term and risk of liabilities. Discount rates are determined with reference to the 750-day moving average bond yield curve, taking liquidity, taxation and other factors into account. The discount rate assumption is affected by certain factors, such as future macroeconomics and capital markets and is therefore subject to uncertainty. No allowance for the time value of money is made by Lloyd's Brussels in line with the basis of its local regulatory reporting.

7. Group operating expenses

	Note	**2020 Corporation of Lloyd's £m**	**2020 Lloyd's Central Fund £m**	**2020 Total £m**
Group operating expenses include:				
Employment costs	8	161	–	161
Legal and professional fees				
Professional fees, including legal fees and related costs		111	1	112
Audit fees payable to the Group's auditors for the audit of the Group's annual accounts		1	–	1
Fees payable to the Group's auditors and its associates for other services		1	–	1
Total legal and professional fees		**113**	**1**	**114**
Charitable donations		15	–	15

	Note	2019 Corporation of Lloyd's £m	2019 Lloyd's Central Fund £m	2019 Total £m
Group operating expenses include:				
Employment costs	8	173	–	173
Legal and professional fees				
Professional fees, including legal fees and related costs		70	1	71
Audit fees payable to the Group's auditors for the audit of the Group's annual accounts		1	–	1
Fees payable to the Group's auditors and its associates for other services		1	–	1
Total legal and professional fees		72	1	73
Charitable donations		1	–	1

Other services payable to the Group's auditors, PricewaterhouseCoopers LLP include audit of the accounts of subsidiaries, audit-related assurance services (such as work undertaken on the Aggregate Accounts, Pro Forma Financial Statements and regulatory returns) and other assurance services.

8. Employment

	Note	**2020 £m**	2019 £m
Salaries and wages (including performance related bonus)		105	98
Lloyd's Performance Plan (excluding social security costs)		(5)	10
Lloyd's Pension Scheme costs	13	3	2
Other pension costs		10	9
Social security costs		12	14
Severance costs		1	3
Contract and agency employees		17	23
Other employment costs		18	14
Total employment costs		**161**	173

The emoluments of the Chairman, Chief Executive Officer and members of the Council and Board (before merger into the Council) are included in the Report of the Remuneration Committee on pages 96 and 97. The number of employees is disclosed in note 3.

9. Finance costs and income

	2020 Corporation of Lloyd's £m	2020 Lloyd's Central Fund £m	2020 Total £m
Finance costs			
Interest payable on financial liabilities measured at amortised cost	(8)	(38)	(46)
Lease liability interest	(8)	–	(8)
Amortisation of issue costs and discount	–	(1)	(1)
Other finance costs	(2)	(2)	(4)
Total finance costs	**(18)**	**(41)**	**(59)**
Finance income			
Bank interest received	4	2	6
Dividends received	–	5	5
Other returns on investments designated at fair value through profit or loss and amortised cost	(8)	10	2
Unrealised fair value movement of forward contracts held for trading	–	(20)	(20)
Realised fair value movement of forward contracts held for trading	–	8	8
Increase in valuation of loans recoverable designated at amortised cost	–	1	1
Total finance income	**(4)**	**6**	**2**

Other returns on investments designated at fair value through profit and loss and amortised cost include £2m (2019: £2m) of interest income from financial investments held at amortised cost.

	2019 Corporation of Lloyd's £m	2019 Lloyd's Central Fund £m	2019 Total £m
Finance costs			
Interest payable on financial liabilities measured at amortised cost	–	(38)	(38)
Lease liability interest	(8)	–	(8)
Amortisation of issue costs and discount	–	(1)	(1)
Other finance costs	(1)	(3)	(4)
Total finance costs	(9)	(42)	(51)
Finance income			
Bank interest received	7	5	12
Dividends received	–	7	7
Other returns on investments designated at fair value through profit or loss and amortised cost	(3)	158	155
Unrealised fair value movement of forward contracts held for trading	(3)	(9)	(12)
Realised fair value movement of forward contracts held for trading	2	(11)	(9)
Decrease in valuation of loans recoverable designated at amortised cost	–	(2)	(2)
Total finance income	3	148	151

10. Investments in subsidiary undertakings

Subsidiaries are those entities over which the Society directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. The basis by which subsidiaries are consolidated in the Group financial statements is outlined in the basis of preparation in note 1.

The following subsidiaries principally affected the Group's financial position and results for the year ended 31 December 2020, as set out in the Society Group income statement.

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

10. Investments in subsidiary undertakings continued

Company name	Nature of business	Registered Address and Country of incorporation
Lloyd's Labuan Limited	Licensed to carry on business as underwriting manager in Malaysia	Brighton Place, Ground Floor U0123-U0215 Jalan Bahasa 87014 Labuan F.T, Malaysia
Lloyd's Limited	Provides administrative and management services on behalf of the Society and participants of Lloyd's insurance market	Dubai International Financial Centre Office 301, Precinct Building 2 DIFC, Dubai, United Arab Emirates
Lloyd's Malta Limited	Acts as a local general representative of the Society and those underwriting members of Lloyd's who transact insurance business in Malta	171, Old Bakery Street, Valletta VLT 1455, Malta
Lloyd's Netherlands Representative B. V.	Acts as representative office of Lloyd's underwriters and the Society	Beursplein 37 Kant. H20.02 t/m H20.04 3011 AA Rotterdam, Netherlands
Lloyd's of London (Asia) Pte Ltd	Provides support for business development, administration and co-ordination services to the Society and Lloyd's managing agents. Also provides administrative functions for Lloyd's underwriters and acts as a liaison with the relevant regulatory authorities in Singapore	138 Market Street, #05-01 CapitaGreen, Singapore 048946
Lloyd's of London (Representative Office) Greece Single Member SA	Acts as general and fiscal representative of Lloyd's underwriters in Greece	25A Boukourestiou Street, 106 71 Athens, Greece
Lloyd's Polska Sp. z o.o.	Provides administrative and management services on behalf of the Society and participants of Lloyd's insurance market	ul. Emilii Plater 53 . 00-113 Warszawa, Poland
Lloyd's South Africa (Proprietary) Ltd	Provision of administration function on behalf of the Society and Lloyd's underwriters in South Africa	15th floor, The Forum 2 Maude Street, Sandton South Africa
Lloyd's America Ltd.	Parent Company of Lloyd's America Holding Inc.	One Lime Street, London EC3M 7HA England and Wales
Lloyd's America Holdings Inc. Lloyd's America Inc.	Provision of services to the Society and its brokers and customers in North America	42 West 54th St., 14th Floor New York, NY 10019
Lloyd's Kentucky Inc.	Provision of services to the Society and its brokers and customers in North America	200 W. Main St. Frankfort, Kentucky KY 40601-1806
Lloyd's Illinois Inc.	Provision of services to the Society and its brokers and customers in North America	181 W Madison Street, Suite 3870 Chicago, Illinois 60602

The main territory of operation of subsidiaries incorporated in England and Wales is the UK. For overseas subsidiaries, the principal country of operation is the same as the country of incorporation. All operating subsidiaries have a 31 December year end reporting date with the exception of Lloyd's Japan Inc. with the year end reporting date of 31 March. All operating subsidiaries are 100% owned with the exception of Lloyd's Escritorio de Representacao no Brasil Ltda. which is 99.99% owned by the Society and Lloyd's Insurance Company S.A. which is 99% directly owned by the Society and 1% indirectly owned via Lloyd's Finance Company Limited.

Restrictions

Lloyd's operates in more than 200 territories around the world and uses a number of different operating models depending upon local regulatory requirements. Different countries operate different regulatory regimes and, in some cases, these may place certain restrictions on the use of capital and assets that are held within those countries, including capital of RMB 1bn (2019: RMB 1bn) within Lloyd's Insurance Company (China) Limited (LICCL) and €553m (2019: €300m) in Lloyd's Insurance Company S.A. Lloyd's proactively manages its international asset base to ensure that any such restrictions have a minimal impact upon the utilisation of capital and investments or upon the operations of the Corporation.

Dormant subsidiaries

The Society has an ongoing interest in the following dormant subsidiaries. These subsidiaries are all 100% owned by the Society and they have not actively traded for the year ended 31 December 2020.

Company name	Registered Address and Country of incorporation
Additional Underwriting Agencies (No. 9) Limited	One Lime Street, London EC3M 7HA England and Wales
Additional Underwriting Agencies (No. 10) Limited	One Lime Street, London EC3M 7HA England and Wales
Bankside Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Barder & Marsh Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
CI de Rougemont (Nominees) Limited	One Lime Street, London EC3M 7HA England and Wales
CMA (CT&W) Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Crowe Agency Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Cuthbert Heath Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Devonshire Underwriting Agencies Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
EHW (Nominees) Limited	One Lime Street, London EC3M 7HA England and Wales
EWC (Nominees) Limited	One Lime Street, London EC3M 7HA England and Wales
GP Eliot (Nominees) Limited	One Lime Street, London EC3M 7HA England and Wales
Gammell Kershaw Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
GTUA Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Habit Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Hayter Brockbank Shipton Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Higgins Brasier Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Nominees Director Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Nominees Secretary Limited	One Lime Street, London, EC3M 7HA England and Wales
Lloyd's of London (Cassidy Members) Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London (Claremount) Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London (Harrison Brothers) Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London (Murray Lawrence) Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London (Octavian) Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London (R J Kiln) Nominees Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London (Sedgwick) Nominees Limited	One Lime Street, London EC3M 7HA England and Wales

10. Investments in subsidiary undertakings continued
Dormant subsidiaries continued

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

Dormant subsidiaries continued

Company name	Registered Address and Country of incorporation
Lloyd's List Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London Press Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Recoveries Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's Shelf Company 1 Limited	One Lime Street, London EC3M 7HA England and Wales
Lutine Nominees & Insurance Limited	One Lime Street, London EC3M 7HA England and Wales
Sharedealer Limited	One Lime Street, London EC3M 7HA England and Wales
Lloyd's of London Limited	One Lime Street, London EC3M 7HA England and Wales

All subsidiary undertakings are included in the consolidated Society Report. The proportions of the voting rights in the subsidiary undertakings held directly by the Society do not differ from the proportion of the ordinary shares held. With the exception of £1 preference share for Lloyd's Building Limited, the Society does not have any preference shares of subsidiary undertakings included in the Group.

11. Investments in Associates and Joint Ventures

The Society has the following significant holdings which have been included as investments in associates and joint ventures.

Company Name	Registered Address and Country of incorporation	Proportion of equity capital held	Nature of business
Associates			
Ins-sure Holdings Limited	Royal Pavilion, Wellesley Road, Aldershot, Hampshire GU11 1PZ England and Wales	25%	Provision of premiums and claims accounting and settlement, policy production and ancillary insurance services principally to the London insurance market
Xchanging Claims Services Limited	Royal Pavilion, Wellesley Road, Aldershot, Hampshire GU11 1PZ England and Wales	50%	Provision of claims and recoveries services
Joint Ventures			
London Market Operations and Strategic Sourcing Limited	One Lime Street, London EC3M 7HA England and Wales	Limited by guarantee 33%	A centralised capability to source and manage outsourced market services for the London insurance market
Placing Platform Limited	One Lime Street, London EC3M 7HA England and Wales	Limited by guarantee 36%	Advance the implementation of digital trading in the Lloyd's market

On 26 May 2020, the Society made a £6.6m investment in Placing Platform Limited (PPL) to continue to advance the implementation of digital trading in the Lloyd's market. It is accounted for as an investment in a joint venture using the equity method. The investment is recognised at cost and is assessed for impairment annually. The carrying value is adjusted to reflect the Society's share of PPL profit or loss.

The issued share capital of Ins-sure Holdings Limited is £4,000. There are three classes of shares. The Society holds 1,000,000 B shares of 0.1p each that have the right to participate in 25% of any profits available for distribution.

The issued share capital of Xchanging Claims Services Limited is £4,001. There are three classes of shares. The Society holds 1,000 A shares of £1 each and 2,001 C shares of £1 each. The A and C shares have the following rights with respect to dividends:

- The A shares participate in 50% of any profits available for distribution after taking account of the dividend rights outlined above; and
- The C shares carry a right to a fixed cumulative preference dividend of 5% calculated on the paid-up nominal capital and a variable participating dividend in priority to the payment of any dividend to the holders of the A and B shares.

11. Investments in Associates and Joint Ventures continued

The wholly owned subsidiaries of Xchanging Claims Services Limited are LCO Marine Limited and LCO Non-Marine & Aviation Limited; and for Ins-sure Holdings Limited are Ins-sure Services Limited, London Processing Centre Limited and LPSO Limited.

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

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

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

Investments in Associates and Joint Ventures

	2020 £m	2019 £m
At 1 January	21	19
Acquisition of shares in associates and joint ventures	7	–
Share of operating profits	15	12
Share of tax on profit on ordinary activities	(3)	(3)
Total share of profits of associates and joint ventures	12	9
Share of actuarial losses on pension liability	(2)	–
Dividends received	(14)	(7)
At 31 December	**24**	21

Summarised statement of financial position

Summary of financial information for associates and joint ventures:

	Ins-sure Holdings Limited As at 31 December		Xchanging Claims Services Limited As at 31 December		Placing Platform Limited As at 31 December		London Market Operations and Strategic Sourcing Limited As at 31 December	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Current assets								
Debtors	15	19	4	4	1	–	1	–
Prepayments and accrued income	–	–	–	–	5	–	–	–
Cash at bank and in hand	35	43	11	24	17	–	3	4
Total current assets	50	62	15	28	23	–	4	4
Non-current assets								
Intangible assets	25	29	–	–	6	–	–	–
Right-of-use assets	1	–	–	–	–	–	–	–
Deferred tax assets	4	3	–	–	–	–	–	–
Pension asset	–	–	1	1	–	–	–	–
Total non-current assets	30	32	1	1	6	–	–	–
Current liabilities								
Creditors falling due within one year	(25)	(37)	(7)	(12)	(2)	–	(2)	(1)
Current income tax liabilities	(3)	(1)	(1)	(2)	(2)	–	–	–
Provisions	–	–	–	–	–	–	(2)	(3)
Total current liabilities	(28)	(38)	(8)	(14)	(4)	–	(4)	(4)
Non-current liabilities								
Creditors falling due after more than one year	(1)	–	–	–	–	–	–	–
Pension liability	(5)	–	–	–	–	–	–	–
Total non-current liabilities	(6)	–	–	–	–	–	–	–
Net assets	**46**	56	**8**	15	**25**	–	**–**	–

Summarised statement of comprehensive income

	Ins-sure Holdings Limited		Xchanging Claims Services Limited		Platform Placing Limited		London Market Operations and Strategic Sourcing Limited	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m***	2019 £m	**2020 £m**	2019 £m
Revenues	88	89	32	31	19	–	8	8
Operating costs	(64)	(65)	(20)	(21)	(10)	–	(8)	(8)
Operating profit	24	24	12	10	9	–	–	–
Tax on profit on ordinary activities	(4)	(4)	(2)	(2)	(2)	–	–	–
Profit for the financial year	20	20	10	8	7	–	–	–
Other comprehensive expense	(5)	(2)	–	–	–	–	–	–
Total comprehensive income	**15**	18	**10**	8	**7**	–	**–**	–

* The results for PPL are from the date of acquisition.

The Message Exchange Limited (TMEL) and Structured Data Capture Limited (SDC) were joint ventures of the Corporation in 2019 until they entered into an agreement for the sale of their business and assets to the London Market Operations and Strategic Sourcing Limited.

In 2019, the net assets for both TMEL and SDC was £nil. The net operating profit was also £nil (SDC: Revenue £1m, Operating Cost (£1m)).

12. Taxation

(a) Tax charge

	2020 £m	2019 £m
Current tax:		
Corporation tax based on profits for the year at 19% (2019: 19%)	(1)	(35)
Foreign tax suffered	(2)	(4)
Total current tax blue as for other totals	(3)	(39)
Deferred tax:		
Origination and reversal of timing differences		
Current year	(9)	5
Prior year	2	1
Tax charge recognised in the Group income statement	**(10)**	(33)
Analysis of tax charge recognised in the Group statement of comprehensive income:		
Tax credit on actuarial loss on Group pension liabilities	16	10
Tax credit recognised in the Group statement of comprehensive income	16	10
Total tax credit recognised in the Group statement of comprehensive income	**6**	(23)

(b) Reconciliation of effective tax rate

	2020 %	2020 £m	2019 %	2019 £m
Surplus on ordinary activities before tax		56		170
Expected tax at the current rate	19.0%	(11)	19.0%	(33)
Expenses not deductible for tax purposes	4.6%	(2)	1.0%	(2)
Overseas tax	1.1%	–		
Share of profits of associates and joint ventures	(4.3%)	2	(0.9%)	2
Deferred tax adjustment relating to change in tax rate	2.8%	(2)	0.5%	(1)
Deferred tax prior year adjustments	(3.9%)	2	(0.3%)	1
Other	(1.5%)	1	–	–
Tax charge	**17.8%**	**(10)**	19.3%	(33)

(c) Deferred tax

	2020 Balance at 1 January £m	2020 Income statement £m	2020 Statement of comprehensive income £m	2020 Balance at 31 December £m
Plant and equipment	13	1	–	14
Losses provided	6	(2)	–	4
Pension liabilities	24	(5)	16	35
Other employee benefits	2	–	–	2
Provisions	2	(1)	–	1
Total deferred tax asset	**47**	**(7)**	**16**	**56**

In 2020 there were no unrecognised deductible temporary differences (2019: nil).

Deferred tax assets and liabilities are measured at the tax rate that will apply to the period when an asset is expected to be realised or a liability is expected to be settled. The applicable rate is that which has been enacted or substantively enacted by the balance sheet date.

The deferred tax asset is based on a corporation tax rate of 19% (2019: 17%). The reduction of the UK corporation tax rate to 17% from 1 April 2020 announced in the 2016 Budget on 16 March 2016 and substantively enacted in September 2016 has not become effective. The corporation tax rate will remain at 19% for the financial years beginning 1 April 2020 and 1 April 2021 as announced in the Budget on 11 March 2020 and substantially enacted on 17 March 2020.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be immaterial.

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

13. Pension schemes

Lloyd's operates a number of defined benefit and defined contribution pension schemes. In the UK, employees are entitled to join a Group Personal Pension Plan, and there is also a closed defined benefit scheme. Other schemes have been established for certain employees based overseas.

These schemes are generally funded by the payment of contributions to separately administered funds.

Defined benefit and defined contribution pension schemes

The pension deficits of the defined benefit schemes at 31 December 2020 are as follows:

	2020 £m	2019 £m
Lloyd's Pension Scheme	(183)	(137)
Overseas pension schemes	(4)	(3)
Total schemes deficit	**(187)**	(140)

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

	2020 £m	2019 £m
Group income statement		
Lloyd's Pension Scheme	3	2
Overseas pension schemes	3	2
Other pension contributions	5	7
Total	**11**	11
Group statement of comprehensive income		
Lloyd's Pension Scheme	54	59
Share of associate's pension	2	–
Total	**56**	59

Lloyd's Group Personal Pension Plan

UK employees are eligible to join the Lloyd's Group Personal Pension Plan, which is administered by Aviva. The Group Personal Pension Plan was introduced in 2013, when the defined benefit pension scheme was closed to new members. The amount charged to the Group income statement in respect of Lloyd's Group Personal Pension Plan is £5m (2019: £7m).

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

The contribution matrix for the Group Personal Pension Plan is:

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

The cap on Lloyd's contribution is 15%.

Lloyd's Pension Scheme

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

The Lloyd's Pension Scheme closed to new members in 2013 and closed to future accrual for existing members on 30 June 2018. Existing members of the Scheme at that time were enrolled into the Group Personal Pension Plan for future pension benefits.

Scheme contributions and funding valuation

UK legislation requires the funding position of the Scheme to be assessed at least every three years by an independent qualified actuary. Following closure of the Scheme to future benefit accrual, there are no regular monthly contributions paid to the Scheme. However, where a funding deficit is identified, a recovery plan will be agreed between the Society and the Trustees, setting out the contributions required to meet the deficit.

The Trustee has completed a formal actuarial valuation of the Scheme as at 30 June 2019 using the projected unit credit method. The total market value of the Scheme's assets at the 2019 valuation was £810m, and the total value of accrued liabilities was £889m showing a funding deficit of £79m. These figures exclude both liabilities and the related assets in respect of money purchase Additional Voluntary Contributions (AVCs). A recovery plan is in place and has been agreed with the Trustees.

Discretionary pension increases – treatment for funding purposes

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

Guaranteed minimum pension equalisation

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

For the valuation as at 31 December 2020 the allowance for 0.4% of the pension liabilities has been retained.

Information about the risks of the Scheme to the Society

The ultimate cost of the Scheme to the Society will depend upon actual future events rather than the assumptions made. Many of the assumptions made may not be borne out in practice and as such the cost of the Scheme may be higher or lower than disclosed. In general, the risk to the Society is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to the Society is higher than expected. This could result in a higher deficit disclosed and therefore higher recovery contributions required from the Society. This may also impact the Society's ability to grant discretionary benefits or other enhancements to members.

13. Pension schemes continued

Information about the risks of the Scheme to the Society continued

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

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

The Scheme's investment strategy

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

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

Principal actuarial assumptions in respect of IAS 19

Judgement is required in determining the appropriateness of the basis of assumptions underpinning the estimated actuarial value of scheme liabilities. The demographic assumptions that are the most financially significant are those relating to the life expectancy of retired members. The mortality table used for the purposes of the IAS 19 valuation as at 31 December 2020 was 94% of SAPS S3 light tables for male members and 93% SAPS S3 light tables for female members, 103% of SAPS S3 light tables for dependants of male members and 90% of SAPS S3 tables for dependants of female members with allowance for future improvements in line with the Continuous Mortality Investigation's (CMI) published 2019 core projection model with 1.25% per annum long-term improvements and an initial addition parameter of 0.5% per annum (2019: 94% of SAPs S3 light tables for male members and 93% SAPs S3 light tables for female members, 103% of SAPs S3 light tables for dependants of male members and 90% of SAPs S3 tables for dependants of female members with allowance for future improvements in line with the Continuous Mortality Investigation's (CMI) published 2018 core projection model with 1.25% per annum long-term improvements and an initial addition parameter of 0.5% per annum).

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

– For pensioners currently aged 60: ranging from 29 years to 30 years (2019: 29 years to 30 years); and
– For non-pensioners currently aged 45: ranging from 30 years to 31 years (2019: 30 years to 31 years).

The other major financial assumptions used by the actuary as at 31 December 2020 for the purposes of IAS 19 were:

	2020 % per annum	2019 % per annum	2018 % per annum	2017 % per annum	2016 % per annum
General salary and wage inflation	N/A	N/A	N/A	4.2	4.4
Rate of increase in pensions in payment					
6 April 1997 to 5 April 2005	2.8	2.8	3.1	3.1	3.2
Post 5 April 2005	1.9	1.9	2.2	2.2	2.3
Increases to final salary deferred pensions					
Benefits accrued before April 2009	2.4	2.2	2.2	2.2	2.4
Benefits accrued from April 2009	2.4	2.2	2.2	2.2	2.4
CARE* revaluation in service and in deferment, and increase in payment	1.9	1.9	2.2	2.2	2.3
Discount rate	1.5	2.0	2.9	2.4	2.6
Price inflation					
Retail Price Inflation (RPI)	2.9	2.9	3.2	3.2	3.4
Consumer Price Inflation (CPI)	2.4	2.2	2.2	2.2	2.4

*Career average revalued earnings.

Principal actuarial assumptions in respect of IAS 19 continued
An allowance is made for members commuting 20% (2019: 20%) of their pension on retirement using the factors in use at the respective date.

The notional fund
For IAS 19 purposes, the Society recognises the cost of discretionary increases to pre-6 April 1997 benefits in payment when there is a constructive liability to make such increases. The Society provided £10m in 2007 and a further £20m in 2011 to meet the expected cost of future discretionary increases. This amount has been notionally segregated from the Scheme's other assets (the 'notional fund') and its investment performance will be tracked on the assumption that it is invested in the same way as the Scheme's other assets.

The notional fund will be used to facilitate the award of future discretionary pension increases when the Society carries out its annual review of pensions in accordance with the Scheme's Definitive Trust Deed. As long as there is a notional fund set aside for this purpose, discretionary increases will continue to be considered. As at 31 December 2020, the value of the notional fund was £22m (2019: £21m).

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

- An increase of 1% per annum in the discount rate as at 31 December 2020 would result in a reduction to the pension liabilities at that date of around 17% (2019: 16%) or approximately £180m (2019: £160m); A corresponding 1% pa decrease would increase liabilities at that date by around 21% (2019: 21%) or approximately £230m (2019: £210m).
- An increase of 1% per annum in the assumption for future inflation (both Retail Price Index and Consumer Price Index) as at 31 December 2020, which would increase future expectations of pension increases and deferred revaluation, would result in an increase in the pension liabilities at that date of around 7% (2019: 8%) or approximately £80m (2019: £80m). A corresponding 1% pa decrease would reduce liabilities at that date by around 8% (2019: 8%) or approximately £90m (2019: £80m).
- A change in the mortality assumptions could have a significant impact on the pension liability. For instance, if members aged 60 were instead expected to live for one year longer, with all other members' life expectancies increasing by a proportionate amount, then the liability as at 31 December 2020 would be 4% higher (2019: 3%), or approximately £40m (2019: £30m). Similarly, if members aged 60 were instead expected to live for one year less, then the liabiilty would be around 3% lower (2019: 3%), or approximately £30m (2019: £30m).

Total market value of assets and actuarial value of Scheme liabilities
Amounts for the current and previous years were:

Asset/(liability) analysis of the Scheme	**2020 Fair value £m**	2019 Fair value £m	2018 Fair value £m	2017 Fair value £m	2016 Fair value £m
Bonds					
Corporate bonds	33	37	33	137	135
Gilts	469	410	374	142	141
Equities					
UK equities	25	33	29	33	41
Overseas (excluding UK) equities	230	244	224	342	284
Property	51	53	85	97	91
Diversified income credit	43	41	–	–	–
Infrastructure	–	20	16	16	15
Hedge funds	38	–	–	–	–
Cash and net current assets	17	22	12	29	23
Total market value of assets	906	860	773	796	730
Actuarial value of Scheme liabilities	(1,089)	(997)	(860)	(957)	(958)
Net defined benefit liability	**(183)**	(137)	(87)	(161)	(228)

All of the Scheme's assets are quoted in an active market apart from hedge funds and property (2020: £89m; 2019 £53m). The Scheme is not currently invested in any of the Society's own assets. Approximately 94% (2019: 94%) of the Scheme's liabilities relate to final salary members and 6% (2019: 6%) relates to CARE members.

13. Pension schemes continued

Total market value of assets and actuarial value of Scheme liabilities continued

Changes in the present value of the defined benefit obligations are:

	2020 £m	2019 £m
Actuarial value of Scheme liabilities at 1 January	997	860
Interest cost on Pension Scheme liabilities	19	24
Current service cost (net of employee contributions)	1	–
Benefits paid and administrative expenses	(29)	(30)
Experience gain arising in Scheme liabilities	(1)	(1)
Change in assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	–	31
Financial assumption change	102	113
Actuarial value of Scheme liabilities at 31 December	**1,089**	997

Changes in fair value of plan assets were:

	2020 £m	2019 £m
Fair value of Scheme assets at 1 January	860	773
Expected return on Pension Scheme assets	17	22
Employer contributions	11	11
Benefits paid	(28)	(30)
Actuarial gain on Scheme assets	47	84
Administrative expenses	(1)	–
Fair value of Scheme assets at 31 December	**906**	860

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

	2020 £m	2019 £m
Experience gains arising on Scheme liabilities	1	1
Changes in the assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	–	(31)
Financial assumption change	(102)	(113)
Actuarial loss arising during period	**(101)**	(143)
Actuarial gain on Scheme assets	47	84
Remeasurement effects recognised in the Group statement of comprehensive income	**(54)**	(59)

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

	2020 £m	2019 £m
Current service cost	1	–
Net interest on net defined benefit liability	2	2
Total operating charge	**3**	2

Maturity profile of Defined Benefit Obligation

The Scheme is maturing over time, with 38% of the members in the Scheme at the 30 June 2019 valuation date being retired members and with an approximate duration of the Scheme's liabilities of around 19 years.

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

	£m
Expected benefit payments during year ending 31 December 2021	29
Expected benefit payments during year ending 31 December 2022	30
Expected benefit payments during year ending 31 December 2023	31
Expected benefit payments during year ending 31 December 2024	33
Expected benefit payments during year ending 31 December 2025	35
Expected benefit payments during period 1 January 2026 to 31 December 2030	186
Expected benefit payments during period 1 January 2031 to 31 December 2035	192
Expected benefit payments from 1 January 2036 onwards	942

Overseas pension schemes

The Society operates a number of defined benefit schemes for qualifying employees based overseas. The actuarial valuations of these pension schemes at 31 December 2020 resulted in a deficit of £4m (2019: £3m).

	2020 £m	2019 £m
Value of assets	2	2
Actuarial value of scheme liabilities	(6)	(5)
Net defined benefit liability	**(4)**	(3)

Defined contribution plans

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

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

The total expense recognised in the Group income statement of £4m (2019: £3m) represents contributions payable to these schemes by the Society at pricing levels specified in the rules of these schemes.

14. Intangible assets
Software development

	£m
Cost	
At 1 January 2019	11
Additions	12
At 31 December 2019	23
Additions	67
At 31 December 2020	**90**
Amortisation	
At 1 January 2019	(5)
Amortisation charge for the year	(2)
At 31 December 2019	(7)
Amortisation charge for the year	(3)
At 31 December 2020	**(10)**
Impairment	
At 1 January 2020 and 31 December 2019	–
Impairment charge for the year	(26)
At 31 December 2020	**(26)**
Net book value at 31 December 2020	**54**
Net book value at 31 December 2019	16

Impairment losses
Impairment reviews are undertaken annually for the assessment of the carrying value of assets. As part of the assessment £26m (2019: £nil) of the intangible assets were impaired during the year. All of these assets were initially recognised in the current period and largely relate to Future at Lloyd's development around the initiatives outlined in Blueprint Two published in November 2020. Each of the initiatives have been designed on the basis that assets created could generate their own revenue stream in the future. However, decisions on the future Corporation business model have yet to be made to estimate reliably future cash flows from use of the assets. As a result, the recoverable amount of assets in development as at 31 December 2020 is assessed as £nil. The impairment of these assets will be reviewed for evidence of possible reversal at each reporting date.

Amortisation and impairment charges are recognised within Group operating expenses in the income statement.

15. Tangible assets
Plant and equipment

	Furniture and fittings £m	Computer and specialised equipment £m	Total £m
Cost			
At 1 January 2019	37	22	59
Additions	4	3	7
Disposals	(4)	–	(4)
At 31 December 2019	37	25	62
Additions	4	1	5
Disposals	(19)	(11)	(30)
At 31 December 2020	**22**	**15**	**37**
Depreciation and impairment			
At 1 January 2019	(28)	(19)	(47)
Depreciation charge for the year	(3)	(1)	(4)
Disposals	2	–	2
At 31 December 2019	(29)	(20)	(49)
Depreciation charge for the year	(2)	(1)	(3)
Disposals	18	11	29
Impairment	(1)	–	(1)
At 31 December 2020	**(14)**	**(10)**	**(24)**
Net book value at 31 December 2020	**8**	**5**	**13**
Net book value at 31 December 2019	8	5	13

Impairment losses
Impairment reviews are undertaken annually of the recoverability of the carrying value of plant and equipment assets held. As part of this review, £1m of tangible assets were impaired during the year (2019: £nil).

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

16. Leases
The Society's lease portfolio encompasses property in the UK, Europe, Asia and the Americas. The 1986 Building is the material component of the portfolio and accounts for 85% (2019: 88%) of the right-of-use net book asset value. The remaining portfolio is made up of numerous other leases, the next largest being Lloyd's of London (Asia) PTE Ltd. and New York office leases representing 6% (2019: 2%) and 3% (new in 2020) of the portfolio respectively. The Society sub-leases parts of the 1986 Building for which it receives an income.

Leases typically run from three to five years, with the only material exception being the 1986 Building, which has a lease duration of 35 years.

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

16. Leases continued

Right-of-use asset

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

	1986 Building £m	Other £m	Total £m
At 1 January 2019	–	–	–
Initial recognition	157	22	179
Depreciation charge for the year	(13)	(10)	(23)
At 31 December 2019	144	12	156
Additions	–	20	20
Depreciation charge for the year	(13)	(8)	(21)
At 31 December 2020	**131**	**24**	**155**

Lease liabilities

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

	1986 Building £m	Other £m	Total £m
At 1 January 2019	–	–	–
Initial recognition	(150)	(21)	(171)
Interest	(7)	(1)	(8)
Payments	17	10	27
At 31 December 2019	(140)	(12)	(152)
Additions	–	(20)	(20)
Interest	(7)	(1)	(8)
Payments	17	8	25
Impact of change in foreign exchange rates	–	1	1
At 31 December 2020	**(130)**	**(24)**	**(154)**
Non-cancellable lease rental payables are as follows:			
Current	10	6	16
Non-current (between 1 and 5 years)	47	13	60
Non-current (greater than 5 years)	73	5	78

Expenses recognised in Income statement

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

	2020 £m	2019 £m
Depreciation expense of right-of-use asset	21	23
Interest expense on lease liabilities	8	8
Total amount recognised in the Group income statement	**29**	31

The Society had total cash outflows for leases of £25m in 2020 (2019: £27m).

The Society has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Society's business needs. Management exercises significant judgement in determining whether these extensions and termination options are reasonably certain to be exercised. The most significant lease in this regard is the 1986 Building. There is an option to terminate the lease in 2026. There has been no management decision to exercise the break before the end of the lease in 2031.

Group as a lessor

The Society has entered into operating leases for the 1986 Building and other property leases. The amounts receivable as at 31 December 2020 are:

	2020 1986 Building £m	2020 Other £m	2020 Total £m
Non-cancellable lease rentals are receivable are as follows:			
Within one year	5	4	9
After one year but not more than five years	2	7	9
More than five years	–	–	–

The increase in the 'Other' category relates to the new Singapore lease with lessor agreements running from 2020 to 2023.

	2019 1986 Building £m	2019 Other £m	2019 Total £m
Non-cancellable lease rentals are receivable are as follows:			
Within one year	5	1	6
After one year but not more than five years	2	–	2
More than five years	–	–	–

17. Loans recoverable

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

	2020 £m	2019 £m
At 1 January	34	36
Recoveries during the year	(3)	–
Movement recognised during the year	1	(2)
At 31 December	**32**	34

18. Financial investments

	Note	2020 £m	2019 £m
Financial investments at amortised cost			
Statutory insurance deposits		807	696
Short-term and security deposits		626	478
Total financial investments at amortised cost	18(a)	1,433	1,174
Financial investments at fair value through profit and loss	18(b)	2,676	2,788
Financial investments		**4,109**	3,962

(a) Financial investments at amortised cost

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

Statutory insurance deposits include investments such as government bonds, treasury bills, letters of credit, call accounts, fixed term deposits and cash deposits held in certain countries to satisfy local trading authorisation requirements. These are excluded from cash and cash equivalents because these amounts are not available to finance the Society's day-to-day operations.

18. Financial investments continued

(a) Financial investments at amortised cost continued

Statutory insurance deposits	2020 Securities £m	2020 Deposits £m	2020 Total £m
Amortised cost at 1 January	11	685	696
Additions at cost	8	908	916
Disposal proceeds	(12)	(817)	(829)
Surplus on the sale and revaluation of investments	–	24	24
At 31 December	**7**	**800**	**807**

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

Analysis of statutory insurance deposits	2020 £m	2019 £m
AAA	1	1
AA	544	414
A	243	261
BBB	8	8
Other	11	12
Total of statutory insurance deposits	**807**	696

Analysis of short-term and security deposits	2020 £m	2019 £m
AAA	–	11
AA	6	146
A	607	209
BBB	13	108
Other	–	4
Total securities	**626**	478

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

	2020 Corporation of Lloyd's £m	2020 Lloyd's Central Fund £m	2020 Total £m
Market value at 1 January	210	2,578	2,788
Additions at cost	417	1,741	2,158
Disposal proceeds	(104)	(2,250)	(2,354)
(Deficit)/surplus on the sale and revaluation of investments	10	74	84
Fair value at 31 December	**533**	**2,143**	**2,676**
Analysis of securities at year end:			
Listed securities			
Fixed interest:			
Government	300	1,127	1,427
Corporate securities	233	429	662
Total fixed interest	533	1,556	2,089
Emerging markets	–	71	71
Global equities	–	435	435
Total listed securities	**533**	**2,062**	**2,595**
Unlisted securities			
Hedge funds	–	13	13
Multi-asset funds	–	68	68
Total unlisted securities	**–**	**81**	**81**
Fair value	**533**	**2,143**	**2,676**
Analysis of securities:			
AAA	127	466	593
AA	160	543	703
A	62	356	418
BBB	184	195	379
Other	–	583	583
Total securities	**533**	**2,143**	**2,676**

18. Financial investments continued

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

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

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

19. Trade and other receivables due within one year

	2020 £m	2019 £m
Due within one year		
Trade (net of allowance for expected credit losses)	2	4
Insurance and reinsurance receivables	1,618	1,065
Reinsurance commission receivable	35	33
Interest receivable	15	16
VAT receivable	6	7
Overseas office deposits	3	3
Amounts due from underwriters	3	3
Other receivables	31	14
Total trade and other receivables	**1,713**	1,145

20. Financial risk management objectives and policies

The Society's risk management of investment operations is predominantly controlled by the Lloyd's Treasury and Investment Management department under policies approved by the Investment Committee. The department identifies, evaluates and hedges financial risks in close cooperation with the Society's operating units. The Council provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Explanations of the Society's financial instrument risk management objectives, policies, strategy and the impact of the COVID-19 pandemic are set out in the discussion of the Society's financial risk management and treasury policies on pages 116 to 118 of the Financial Review.

(a) Fair values and credit risk

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

The fair value (based on the quoted offer prices) of subordinated debt is £936m (2019: £908m) against a carrying value measured at amortised cost of £795m (2019: £794m). All other financial instruments are either held at fair value, amortised cost or at an amount that approximates fair value.

At the reporting date there were no significant concentrations of credit risk, other than insurance contract assets, which are all recoverable from Lloyd's syndicates. All syndicates benefit from the Lloyd's chain of security, therefore credit risk for insurance contract assets is concentrated with the Society of Lloyd's. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, in the Group statement of financial position.

Expected credit losses

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

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

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

Trade receivables

The ageing of trade receivables as at 31 December 2020 and 2019 was as follows:

	2020 Gross £m	2020 Impairment £m	2020 Net £m	2019 Gross £m	2019 Impairment £m	2019 Net £m
1-30 days	1	–	1	3	–	3
Past due 31-120 days	1	–	1	1	–	1
Total	**2**	**–**	**2**	4	–	4

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

20. Financial risk management objectives and policies continued

(b) Sensitivity analysis

Foreign currency exposure

Currency risk is the risk that the sterling value of the Society's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Society's exposure to the risk of changes in the foreign exchange rates relates primarily to changes in the fair value of foreign currency denominated investments and forward contracts. Further details on foreign currency risk can be found on page 117.

The majority of foreign exchange exposures arising from investments denominated in foreign currencies are managed via a foreign exchange hedging programme. The Society also hedges against the portion of the capital requirement denominated in US dollars, in excess of US dollar holdings. As a result, the Society has remaining net exposures to foreign currencies and the sterling value of the Society's investments may be impacted by movements in exchange rates relating to these exposures. At 31 December 2020, a 10% rise or fall in the value of sterling, against all other currencies, would have reduced/increased the surplus before tax by £336m (2019: £288m). This analysis is presented net of foreign exchange hedges and assumes that all other variables remain constant. In practice, actual results may differ.

Debt securities sensitivities

The value of the Society's investments in debt securities is affected by changes in the level of yields, as determined by the financial markets. As at 31 December 2020, a consistent increase or decrease of 100 basis points in the yields applicable to all relevant securities would have reduced/increased the surplus before tax by approximately £50m (2019: £45m). Relevant securities include investment grade sovereign and corporate bonds, floating rate notes and interest rate swaps. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ. Further details on market risk can be found on page 117.

Equity price risk

Equity price risk is the risk that the market values of equity investments fall. At 31 December 2020, a 15% fall or rise in the value of all the Society's equity investments would have reduced/increased the surplus before tax by approximately £39m (2019: £79m). This analysis is presented net of equity futures hedges assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ. Further details on market risk can be found on page 117.

(b) Sensitivity analysis continued
Liquidity risk
The table below summarises the maturity profile of the Society's non-derivative financial liabilities as at 31 December 2020 based on undiscounted contractual cash flows:

As at 31 December 2020	Note	**Carrying amount £m**	**Contractual cash flows £m**	**Within 1 year £m**	**1-2 years £m**	**2-5 years £m**	**More than 5 years £m**
Senior notes	24(i)	299	(445)	(8)	(8)	(24)	(405)
Subordinated loan notes	24(ii)	795	(996)	(38)	(38)	(591)	(329)
Loans funding statutory insurance deposits		805	(805)	(805)	–	–	–
Trade and other payables	26	1,929	(1,929)	(1,929)	–	–	–
Total		**3,828**	**(4,175)**	**(2,780)**	**(46)**	**(615)**	**(734)**

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

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

(c) Derivative financial instruments
The Society enters into forward currency contracts to manage exposures to fluctuation of exchange rates and to provide a currency conversion service to the Lloyd's market. The Society's derivative financial instruments are categorised as fair value hierarchy Level 2.

Forward currency contracts are settled gross; notional amounts are a close proxy for gross cash flow amounts. The fair value and notional amounts of forward currency contracts, all of which mature within one year, are analysed as follows:

	2020 Assets		**2020 Liabilities**	
As at 31 December	**Fair value £m**	**Notional £m**	**Fair value £m**	**Notional £m**
Currency conversion service	2	202	(2)	(202)
Other forward foreign exchange contracts	13	1,134	(15)	(1,136)
Interest rate swaps	6	336	(10)	(336)
Equity futures	–	244	(5)	(244)
Total	**21**	**1,916**	**(32)**	**(1,918)**

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

Further details regarding the senior and subordinated notes can be found in note 24 on page 177.

20. Financial risk management objectives and policies continued

(d) Fair value hierarchy

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

Level 1

Inputs to Level 1 fair values are quoted prices in active markets for identical assets. An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples are listed debt securities in active markets, listed equities in active markets, listed deposits held with credit institutions in active markets.

Level 2

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

Level 3

Inputs to Level 3 fair values are inputs that are unobservable for the asset. Unobservable inputs have been used to measure fair value where observable inputs are not available, allowing for situations where there is little or no market activity. Unobservable inputs reflect assumptions that the Society considers that market participants would use in pricing the asset and have been based on a combination of independent third-party evidence and internally developed models. There are no assets categorised at Level 3 in either 2020 or 2019.

	Note	2020 Level 1 £m	2020 Level 2 £m	2020 Total £m
Financial assets at fair value through profit or loss				
Fixed income securities		1,427	662	2,089
Equity investments		435	71	506
Unlisted securities		–	81	81
Total financial investments	18	1,862	814	2,676
Derivative financial instruments				
Currency conversion service		–	2	2
Other forward foreign exchange contracts		–	13	13
Interest rate swaps		–	6	6
Equity futures		–	–	–
Total derivative financial instruments	20(c)	–	21	21
Total financial assets at fair value through profit or loss		**1,862**	**835**	**2,697**
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Currency conversion service		–	(2)	(2)
Other forward foreign exchange contracts		–	(15)	(15)
Interest rate swaps		–	(10)	(10)
Equity futures		–	(5)	(5)
Total derivative financial instruments	20(c)	–	(32)	(32)
Total financial liabilities at fair value through profit or loss		**–**	**(32)**	**(32)**

(d) Fair value hierarchy continued

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

Unlisted securities

Fair values are determined using a pricing hierarchy structure for valuation purposes. The valuation principles employed are to provide the most accurate valuations, while also working to provide independent valuations. The pricing process employs a hierarchy that utilises numerous third-party sources in a tiered system. The standard pricing hierarchy includes the following independent pricing vendors: FT Interactive Data, Reuters, Barclays Indices, Citigroup Indices, Merrill Lynch Indices, SNP (Standard & Poor's), MarkIt/LoanX – senior secured loans, Broker/Dealer Pricing, Fair Value/Model Pricing and Spread Pricing.

Where estimates are used to value unlisted securities, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, at year end changing one or more of the assumptions to reasonably possible alternative assumptions is unlikely to result in a significant change in fair value.

21. Cash and cash equivalents

	2020 £m	2019 £m
Cash at banks	535	285
Short-term deposits	639	248
Total cash and cash equivalents	**1,174**	533

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Society, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £1,174m (2019: £533m).

22. Equity

Accumulated reserves

	2020 £m	2019 £m
Attributable to:		
Corporation of Lloyd's	1	72
Central Fund	2,443	2,373
Associates and joint ventures	24	21
Total accumulated reserves	**2,468**	2,466

Translation reserve

The translation reserve of £26m (2019: £10m) is used to record foreign exchange gains and losses recognised in other comprehensive income as a result of translating the results and financial position of Group entities that have a functional currency different from the presentation currency.

Revaluation reserve

The revaluation reserve of £15m (2019: £15m) is used to record increases in the fair value of the Lloyd's Collection and decreases to the extent that such decreases relate to the amount previously recognised in the Group statement of comprehensive income.

23. Syndicate loans

	2020 £m	2019 £m
2020 Syndicate loan (November)	285	–
2020 Syndicate loan (June)	119	–
2019 Syndicate loans	110	110
Principal loan balance	**514**	110

Syndicate loans may be repaid in full or in part, at the discretion of the Society, only after a period of five years has elapsed. The interest rate on the loans is based on a risk-free rate with an allowance for credit spread. The Council may elect to defer or cancel payment of all or any interest. Interest is only recognised once the holders' right to receive payment is confirmed. At 31 December 2020, the cumulative interest to date, not yet confirmed, totals £9m (31 December 2019: £3m).

Syndicate loans are accounted for as an equity instrument in the Society's financial statements and as such any interest paid to loan holders is recognised as a dividend payment and recorded as a reduction in equity. A dividend payment of £4m (2019: £nil) was made during the year.

24. Senior and Subordinated notes

i) Senior notes

	2020 £m	2019 £m
Details of loans payable wholly or partly after more than five years:		
2.48% senior debt of £60m maturing January 2030 (Sterling 2020)	60	–
2.48% senior debt of £40m maturing January 2031 (Sterling 2020)	40	–
2.61% senior debt of £70m maturing January 2035 (Sterling 2020)	70	–
2.81% senior debt of £130m maturing January 2045 (Sterling 2020)	130	–
Less issue costs and discount on issue to be charged/unwound in future years	(1)	–
Total	**299**	–

To ensure funding is available to meet the near and medium-term cash requirements of the Future at Lloyd's, the Society took advantage of the low interest rate environment and placed £300m of senior debt on 21 January 2020, thereby avoiding any increase in market levies.

ii) Subordinated notes

	2020 £m	2019 £m
Details of loans payable wholly or partly after more than five years:		
4.875% subordinated notes of £300m maturing 7 February 2047 (Sterling 2017 Notes)	300	300
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	500	500
Total subordinated notes issued	800	800
Less issue costs to be charged in future years	(3)	(4)
Less discount on issue to be unwound in future years	(2)	(2)
Total	**795**	794

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

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

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

25. Provisions

	2020 Lease cost provision £m	2020 Other provisions £m	2020 Total £m
Balance at 1 January	67	13	80
Charged in the year	2	–	2
Utilised in the year	(12)	(4)	(16)
Balance at 31 December	**57**	**9**	**66**

	2019 Lease cost provision £m	2019 Other provisions £m	2019 Total £m
Balance at 1 January	8	12	20
Charged in the year	60	4	64
Utilised in the year	(1)	(3)	(4)
Balance at 31 December	67	13	80

Lease cost provision

The lease cost provision represents the Society's obligations in respect of the contractual capital expenditure and dilapidation cost under fully repairing leases. Under the 1986 Building lease, the Society has obligations to the lessor to repair, maintain and cleanse the building throughout the duration of the lease, and to bring the building back to its original condition at the end of the lease. The Society reviews annually the estimated cost of satisfying the obligations under the lease. Third-party experts are engaged to help identify and validate required repair or maintenance and to estimate the cost of work required. The estimated costs for all repairs that have been evidenced as required under the lease are fully provided for. During 2019, further information was obtained from third parties to verify that significant repair and maintenance work was required under the lease, much of which has been undertaken during 2020 or planned for 2021.

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

Other provisions

Other provisions include: restructuring provision £5m (2019: £7m), provision for obligations under an onerous lease £3m (2019: £3m), Income Assistance Scheme £1m (2019: £1m) and other risks and charges: £nil (2019: £2m).

Restructuring provision

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

The provision is calculated using assumptions regarding the average salary and length of service of potentially impacted employees and is therefore sensitive to changes in these assumptions.

Obligations under onerous lease

A provision is made for obligations under an operating lease when the physically separable part of a property is taken out of use by the Society and the unavoidable costs of meeting the obligations under the lease exceed the economic benefits expected to be received.

The provision is calculated using future lease payments as per the lease contract discounted at the Society's long-term borrowing rate and is therefore sensitive to changes in this assumption.

Income Assistance Scheme

The Income Assistance Scheme was effective from 1 January 2010 and replaced both the Hardship Income Top-up Scheme and the Income and Housing Support Scheme. The Income Assistance Scheme is permanent and replaces the discretionary nature of the previous schemes and guarantees ongoing payment of income assistance to eligible members of the previous schemes until the full undertaking has been utilised, other than in the event that Lloyd's faces severe financial stress.

The provision covers expected future payments under the Income Assistance Scheme. The Names covered by the scheme receive quarterly payments until (a) death (or a spouse's death depending upon the individual arrangements agreed), (b) earlier settlement of the debt by the Name or (c) default by the Name of their contractual obligations. The value of the provision is therefore sensitive to the factors above as well as changes in inflation rates.

26. Trade and other payables

	2020 £m	2019 £m
Due within one year		
Trade and other payables	107	101
Insurance and reinsurance payables	1,771	1,223
Market charges repayable	23	25
Taxation and social security	5	4
Arbitration awards	2	2
Interest payable on subordinated loan notes	17	17
Interest payable on senior debt	4	–
Total trade and other payables	**1,929**	1,372

27. Cash generated from operations

	Note	2020 £m	2019 £m
Surplus before tax		56	170
Net finance expense/(income)	9	57	(100)
Share of profits of associates and joint ventures	11	(12)	(9)
Operating surplus		**101**	61
Adjustments for:			
Amortisation of intangible assets	14	3	2
Depreciation of plant and equipment	15	3	4
Depreciation of right-of-use asset	16	21	23
Impairment losses	14,15	27	–
Operating surplus before working capital changes		**155**	90
Changes in pension obligations		(7)	(9)
Increase in receivables		(5,700)	(2,584)
Increase in payables		5,599	2,588
(Decrease)/increase in provisions		(14)	60
Cash (used in)/generated from operations		**33**	145

28. Commitments

Capital expenditure commitments

Capital expenditure commitments contracted but not provided for in the financial statements were £5m (2019: £1m).

29. Disclosure of related party transactions

The Group financial statements include the financial statements of the Society and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interests in its associates and joint ventures as listed in note 11.

Services provided to Ins-sure Holdings Limited Group in the year ended 31 December 2020 included operating systems support and development, and other administrative services.

Services provided to Xchanging Claims Services Limited Group in the year ended 31 December 2020 were primarily administrative services.

Services provided to London Market Operations & Strategic Sourcing Limited in the year ended 31 December 2020 were primarily fee collection services.

The Society made a £6.6m investment in Placing Platform Limited (PPL) to continue to advance the implementation of digital trading in the Lloyd's market. It is accounted for as an investment in a joint venture using the equity method. The investment is recognised at cost. The carrying value is adjusted to reflect the Society's share of PPL profit or loss.

The following table provides the total value of transactions entered into with Society related parties for the relevant financial years together with information regarding the outstanding balances at 31 December 2020 and 2019.

	Purchases from related parties		Amounts owed to related parties	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Associates:				
Ins-sure Holdings Limited	3	4	–	–
Joint ventures:				
Placing Platform Limited	–	–	–	–
London Market Operations & Strategic Sourcing Limited	3	2	–	–
Structured Data Capture Limited	–	1	–	–

Transactions with associates and joint arrangements are priced on an arm's-length basis. There were no sales to related parties during the current or prior year, and no amounts owed by related parties as at 31 December 2020 and 2019.

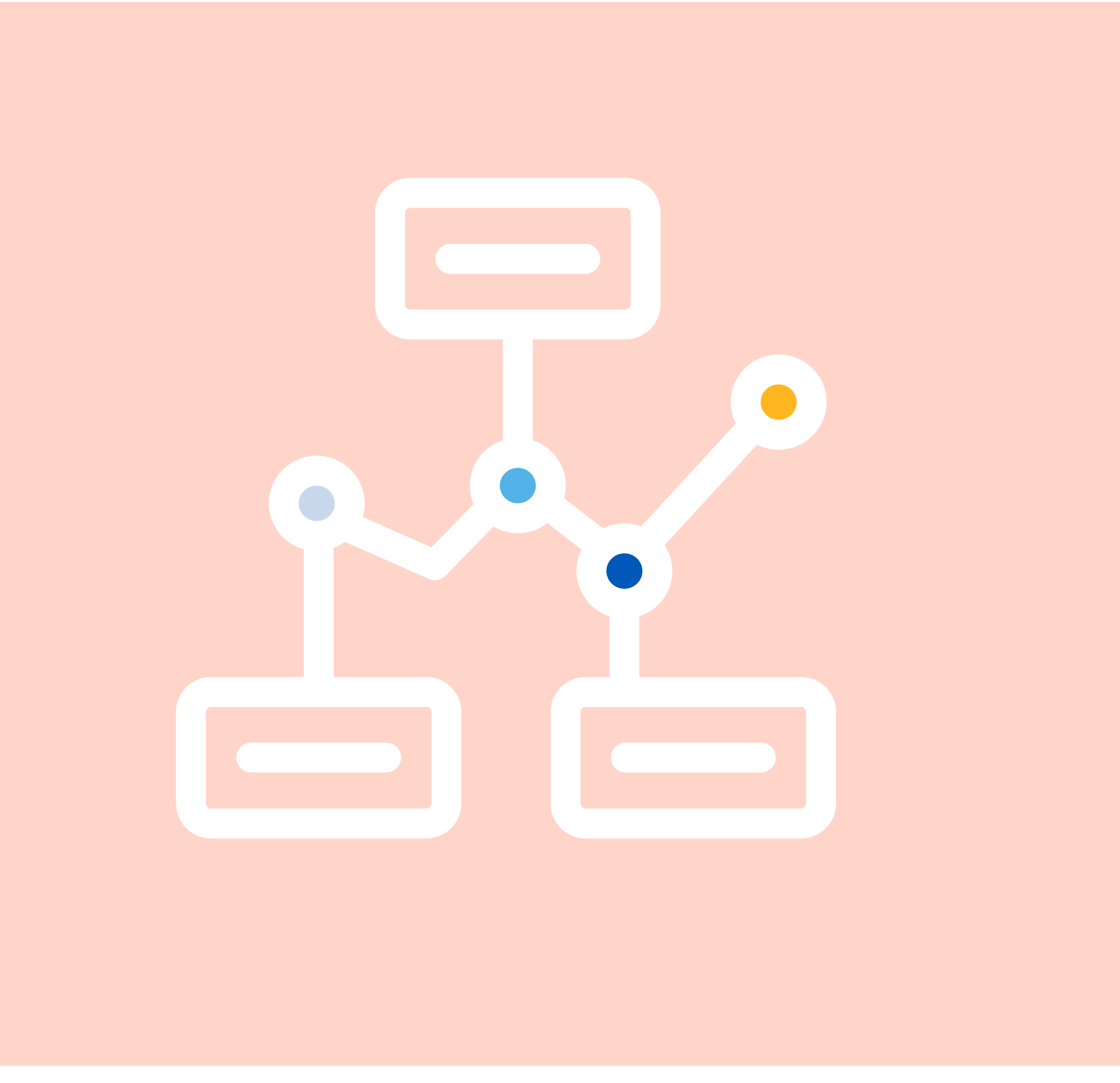
In the normal course of business, the Society may enter into transactions with Lloyd's market businesses in which members of Council may have an interest.

Five-Year Summary

(For the year ended 31 December 2020)

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Corporation operating income	384	358	352	351	332
Central Fund income	127	125	149	125	120
Gross written premiums	5,978	2,466	176	253	238
Outward reinsurance premiums	(5,978)	(2,466)	(176)	(253)	(238)
Total income	511	483	501	476	452
Central Fund claims and provisions incurred	–	–	–	–	(8)
Gross insurance claims and insurance expenses incurred	(5,824)	(1,302)	(189)	(212)	(200)
Insurance claims and expenses recoverable from reinsurers	5,824	1,302	189	212	200
Other Group operating expenses					
Employment (including pension costs)	(161)	(173)	(164)	(138)	(147)
Premises	(41)	(99)	(55)	(52)	(50)
Legal and professional	(114)	(73)	(51)	(37)	(34)
Systems and communications	(44)	(39)	(43)	(33)	(36)
Other	(50)	(38)	(49)	(46)	(40)
Total other Group operating expenses	(410)	(422)	(362)	(306)	(307)
Operating surplus	101	61	139	170	137
Finance costs	(59)	(51)	(39)	(55)	(54)
Finance income	2	151	93	62	314
Share of profits of associates and joint ventures	12	9	9	10	8
Surplus before tax	56	170	202	187	405
Tax charge	(10)	(33)	(39)	(31)	(75)
Surplus for the year	**46**	137	163	156	330

Other Information



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Alternative Performance Measures (APMs)

The following metrics, which are consistently used to analyse financial performance in the Lloyd's market results and/or in the Society Report, are considered to be Alternative Performance Measures (APMs) as defined in the European Securities and Markets Authority Guidelines (ESMA Guidelines) on Alternative Performance Measures.

Metric	Applicable part of the Annual Report	Definition	Reason for use
Combined ratio	Market Results	Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	Combined ratio is used to measure the profitability of the underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Expense ratio	Market Results	Expense ratio is a measure of the level of expenses associated with underwriting activity. It is the ratio of net operating expenses to earned premiums net of reinsurance.	Expense ratio is used to measure the level of expenses associated with underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market expenses to its peers.
Underwriting result	Market Results	Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.	Underwriting result is used to measure the profitability of the underwriting activity across the Lloyd's market.
Accident year ratio	Market Results	Accident year ratio is a measure of the profitability of the underwriting activity attributable to the current financial year. It is the ratio of net operating expenses plus claims incurred net of reinsurance and prior year releases to earned premium net of reinsurance.	Accident year ratio is used to measure the profitability of the underwriting activity of the Lloyd's market attributable to the current financial year.
Return on capital	Market Results	Return on capital is a measure of overall profitability. It is the ratio of result for the year before tax to the average of opening and closing total capital and reserves.	Return on capital ratio is used to measure the overall profitability and value creating potential of the Lloyd's market.
Investment return	Market Results and Society Report	Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average of opening and closing financial investments and cash at bank and in hand.	Investment return ratio is used to measure the performance of the portfolio of investments and cash balances held across the Lloyd's market.
Budgeted operating expenses	Society Report	Operating expenses are budgeted on an annual basis as part of a Corporation-wide exercise. These are calculated on an IFRS basis using a bottom up approach, consolidating figures across the different countries and departments within the Corporation.	The annual budget is a key part of the financial control process within the Corporation and provides an estimate of expected future cost levels.
Free cash balances	Society Report	Free cash represents the amounts, both at bank and on deposit, held in the UK and overseas, excluding any balances held in respect of insurance and arbitration activities.	Provides a measure of the cash resources available to the Corporation to meet operating expenses.
Operating surplus	Society Report	The operating surplus is calculated as income from members (including subscriptions, Central Fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.	The operating surplus provides an indication of how the Society's income covers its cost base. This also provides a comparison of whether Central Fund contributions cover the cost of claims arising on the fund.
Solvency coverage ratio	Market Results and Society Report	Under the Solvency II regime Lloyd's monitors the amount of eligible capital available to cover its market-wide SCR (MWSCR) and central SCR (CSCR). This is calculated as total eligible capital as a percentage of the respective solvency capital requirements.	Solvency coverage ratios are used to ensure that the society and its members hold sufficient capital to meet Lloyd's regulatory capital requirements, as well as to ensure Lloyd's solvency risk appetites are satisfied.

Glossary of Terms and Useful Links

Set out below is a guide to insurance and Lloyd's-related terms. These are not precise definitions but are included to provide assistance to readers as to the general meaning of terms commonly used in the Lloyd's market. Formal definitions are set out in the Definitions Byelaw.

Accident year ratio A measure of the profitability of the underwriting activity attributable to the current financial year. The accident year ratio is calculated as net operating expenses and net incurred losses (paid and reserves) for claims occurring in the year as a proportion of net premiums earned during the year. It excludes movements during the calendar year on claims, expenses and premium estimates for previous years.

Active underwriter A person employed by a managing agent with principal authority to accept insurance and reinsurance risks on behalf of the members of a syndicate.

Binding authority An agreement between a Lloyd's managing agent and a coverholder under which the Lloyd's managing agent delegates its authority to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate.

Budgeted operating expenses Operating expenses are budgeted on an annual basis as part of a Corporation-wide exercise. These are calculated on an IFRS basis using a bottom up approach, consolidating figures across the different countries and departments within the Corporation.

Callable layer Central Fund assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds.

Central assets The net assets of the Society including the Central Fund, but excluding the subordinated debt liability and the callable layer.

Central Fund The fund financed by (among other things) contributions from Lloyd's members and administered by the Council primarily as a fund for the protection of policyholders, and includes both the Old Central Fund and the New Central Fund.

Central SCR The Lloyd's Central Solvency Capital Ratio is calculated to cover all of the risks facing the Society and the Central Fund at a 99.5% confidence level over a one year time horizon.

Combined ratio A measure of an insurer's underwriting profitability based on the ratio of net incurred claims plus net operating expenses to net earned premiums. A combined ratio of 100% is breakeven (before taking into account investment returns). A ratio less than 100% is an underwriting profit.

Corporate member A company incorporated with limited liability, a Scottish limited partnership or a limited liability partnership, admitted to membership of the Society.

Corporation The Corporation of Lloyd's provides the licences and other facilities that enable business to be underwritten on a worldwide basis by managing agents acting on behalf of members.

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

Coverholder A firm either in the UK or overseas that is authorised by a managing agent under the terms of a binding authority to enter into contracts of insurance to be underwritten by members of a syndicate managed by the managing agent. A Lloyd's broker may act as a coverholder.

Economic Capital Assessment The level of capital required to meet Lloyd's financial strength, licence and rating objectives.

Financial Conduct Authority (FCA) The FCA supervises the conduct of the UK financial services industry. Lloyd's, managing agents, members' agents and Lloyd's brokers are regulated by the FCA.

Free cash balances Free cash represents the amounts, both at bank and on deposit, held in the UK and overseas, excluding any balances held in respect of insurance and arbitration activities.

Funds at Lloyd's (FAL) Capital lodged and held in trust at Lloyd's as security for the policyholders and to support a member's overall underwriting business.

Integrated Lloyd's Vehicle (ILV) An arrangement in which a syndicate's capital is wholly provided by corporate members that are under the same ownership and control as the syndicate's managing agent.

Investment return Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average financial investments and cash at bank and in hand.

Managing agent An underwriting agent responsible for managing a syndicate, or multiple syndicates.

Market-wide SCR The Market-Wide Solvency Capital Ratio is calculated to cover all of the risks arising on the syndicate activity, members' capital provided at Lloyd's and the Society taken together at a 99.5% confidence level over a one year time horizon.

Member (of the Society) A person admitted to the membership of the Society.

Members' agent An underwriting agent appointed by a member to provide services and perform duties including advising the member on which syndicates he should participate.

Name A member of the Society who is an individual and who trades on an unlimited basis.

New Central Fund The New Central Fund constituted by and governed by the New Central Fund Byelaw (No. 23 of 1996).

Non-technical account Under UK GAAP the profit and loss account must be divided between the technical account and the non-technical account. Reported in the latter is all investment return, although an element will be reanalysed to the technical account, and any income and expenses that do not arise directly from the entity's underwriting activity.

Operating surplus The operating surplus is calculated as income from members (including subscriptions, central fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.

Glossary of Terms and Useful Links continued

Premiums trust funds (PTF) The premiums and other monies that members receive in respect of their underwriting at Lloyd's are held by their managing agents in trust for them subject to the discharge of their underwriting liabilities.

The premiums trust funds comprise a sterling fund, Lloyd's American Trust Fund, Lloyd's Dollar Trust Funds, Lloyd's Canadian Trust Fund and the Lloyd's Asia trust funds (which cover general business written through coverholders in Singapore). These premiums trust funds are available to fund overseas regulatory deposits, claims, return premiums, underwriting expenses and any profit that is payable to the member after providing for all future liabilities.

Prior years' reserve movements This is calculated as movements in reserves established for claims that occurred in previous accident years.

Prudential Regulation Authority (PRA) The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. Lloyd's and managing agents are regulated by the PRA.

Realistic Disaster Scenarios (RDS) A series of scenarios, both natural and man-made, which are used to assess the market's risk profile to a variety of different catastrophes to enable better risk management practices within Lloyd's.

Reinsurance to close (RITC) A reinsurance agreement under which members of a syndicate for a year of account to be closed are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.

Reinsurance to close (RITC) syndicate A syndicate set up solely to underwrite the Reinsurance to Close of other syndicates.

Return on capital Return on capital is a measure of overall profitability. It is the ratio of results for the year before tax to the average of opening and closing total capital and reserves.

Service company A wholly owned subsidiary of either a managing agent or of a managing agent's holding company and which is authorised to enter into contracts of insurance for members of its associated syndicate and/or associated insurance companies.

Solvency ratio The measure of an insurer's solvency based on the ratio by which the net assets for solvency purposes exceed the solvency requirement.

Special Purpose Arrangement (SPA) A syndicate set up solely to underwrite a quota share reinsurance of another syndicate's business for a year of account.

Spread syndicate A syndicate whose capital is provided by a number of different members, including those that have separate ownership and control, to the syndicate's managing agent.

Spread vehicle A corporate member underwriting on a number of different syndicates.

Syndicate A member, or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.

Syndicate allocated capacity In relation to a syndicate the aggregate of the member's syndicated premium limits of all the members for the time being of the syndicate.

Technical account Under UK GAAP the profit and loss account must be divided between the technical account and the non-technical account. The technical account reports the results of the underwriting activity, premiums less claims, less expenses and also includes an element of the investment return reanalysed from the non-technical account.

Traditional syndicate A syndicate whose members underwrite insurance business at Lloyd's for the current year of account and which is neither a SPA syndicate nor an RITC syndicate.

Underwriting result Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.

Year of account The year to which a risk is allocated and to which all premiums and claims in respect of that risk are attributed. The year of account of a risk is usually determined by the calendar year in which the risk incepts. A year of account is normally closed by reinsurance to close at the end of 36 months.

Useful Links

To find out more information on Lloyd's, visit:

– What is Lloyd's	lloyds.com/whatislloyds
– Lloyd's market structure	lloyds.com/thelloydsmarket
– Lloyd's Corporation	lloyds.com/corporation
– Lloyd's capital structure and chain of security	lloyds.com/capitalstructure
– Lloyd's market governance	lloyds.com/governance
– Full glossary of terms	lloyds.com/glossary

Sharing risk
to create a
braver world

www.lloyds.com/annualresults2020