LLOYD'S

2019

Annual Report

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.

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At a glance

Lloyd's returned to a pre-tax profit of £2.5bn in 2019, representing an improvement of £3.5bn on the previous year, and delivered an 8.8% return on capital. Lloyd's positive result is underpinned by strong performance across investments, alongside sustained rate increases and improving underwriting discipline.

Operating highlights

- **The Lloyd's market paid out £23.0bn of gross claims in 2019 and has been able to meet these substantial commitments without impacting on our total resources, which remain strong at £30.6bn.**
- **The high investment result helps contribute to a healthy return on capital of 8.8% (2018: (3.7%)), boosted by strong performance across equity and bond asset classes.**

Profit before tax

£2,532m

(2018: loss of £1,001m)

Combined ratio*

102.1%

(2018: 104.5%)

Pre-tax return on capital*

8.8%

(2018: (3.7%))

Gross written premium

£35,905m

(2018: £35,527m)

Investment return*

£3,537m

(2018: £504m)

Net resources

£30,638m

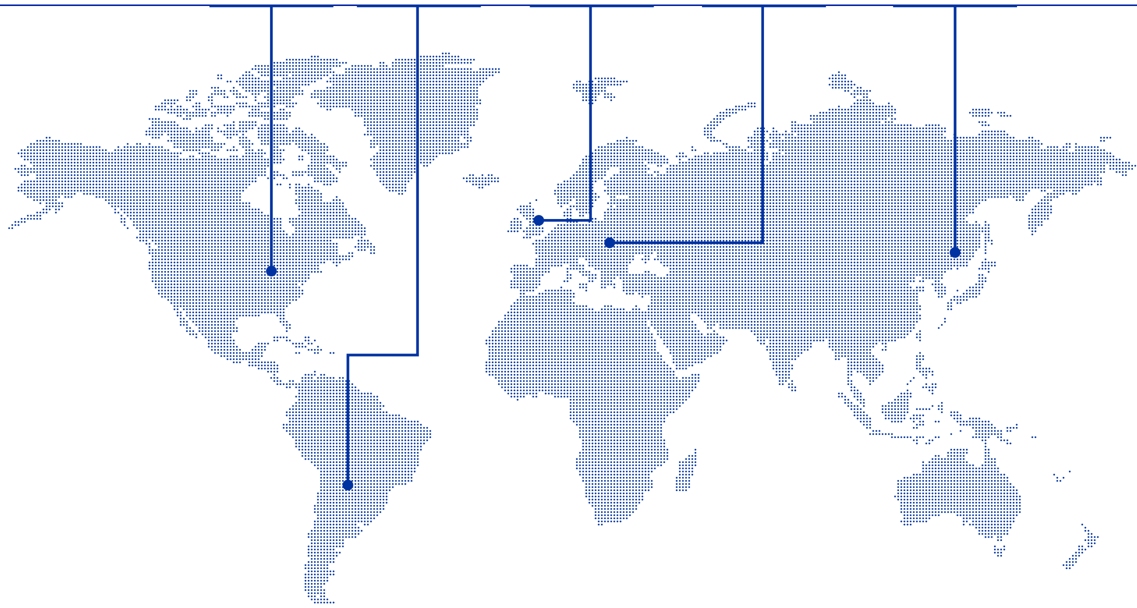
(2018: £28,222m)

Lloyd's underwriting result and combined ratio by line of business

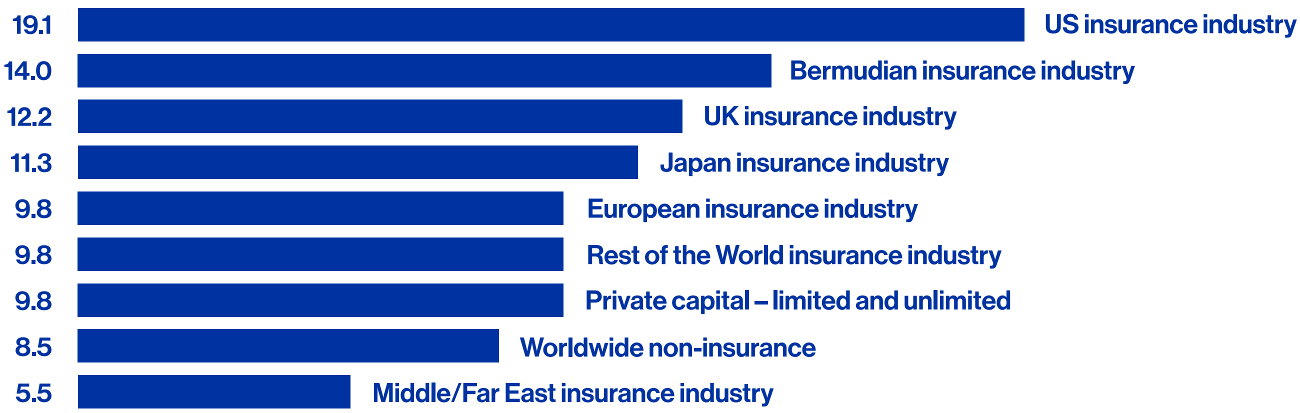
	Underwriting result by line of business*	Combined ratio by line of business*
Reinsurance	(£434m)	105.5%
Property	£12m	99.8%
Casualty	(£390m)	105.7%
Marine, Aviation and Transport	(£199m)	108.5%
Energy	£27m	97.3%
Motor	£11m	98.8%
Life	£1m	98.4%

Lloyd's line of business breakdown by region

	US and Canada	Other America	UK	Europe	Central Asia & Asia Pacific	Rest of the World	Total
	52%	**6%**	**14%**	**14%**	**10%**	**4%**	
Reinsurance	21%	69%	29%	43%	39%	61%	32%
Property	35%	10%	25%	16%	20%	10%	27%
Casualty	29%	12%	27%	23%	31%	13%	26%
Marine, Aviation & Transport	7%	7%	6%	13%	7%	9%	8%
Energy	6%	1%	3%	4%	2%	4%	4%
Motor	2%	1%	10%	1%	1%	3%	3%



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



The combined ratio (for the market and by line of business) 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 42, 43 and 59). The combined ratios and results for individual lines of business 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 underwriting result and combined ratio tables include the results of all life and non-life syndicates transacting business during 2019. 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 60.

* The combined ratio, the return on capital, the investment return and the underwriting result 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 176.

Chairman's Statement

Now, more than ever, our customers need us to support them through these challenging times.

Bruce Carnegie-Brown
Chairman

The beginning of 2020 has proved exceptionally difficult as COVID-19 spreads rapidly around the world with devastating consequences for families, communities and the global economy.

Although the fast-moving global development of COVID-19 will create challenges for the Lloyd's market and the Corporation, with respect to the management of its operations, its assets and its liabilities, Lloyd's is well prepared to respond and adapt to ensure our customers and business partners are supported.

The Corporation has put in place remote working arrangements to enable the market to function as usual, supported by the digital placement platform known as PPL alongside the implementation of Lloyd's emergency trading protocol. With respect to the assets held by Lloyd's for the payment of claims, the value of these assets has been subject to the significant volatility experienced by financial markets globally. The Corporation is monitoring these changes in asset value and has a plan in place to mitigate risks to the asset portfolio. The Corporation is also well advanced in gathering and assessing the market's liability for claims including asking the market to report on expected losses connected to the impact of COVID-19, as we do for any potential large loss event.

Against this backdrop, now more than ever our customers need us to be ready to support them through these challenging times.

At Lloyd's, we are laying the foundations to do this more effectively. By focusing on performance management, modernising the market and creating a market culture that will attract the best and brightest talent, we are making the market more resilient, more successful and better placed to meet our customers' needs.

Our robust financial strength means we can pay claims, even in exceptional circumstances. In 2019, Lloyd's net resources increased by 9% to £30.6bn, reflecting our very strong balance sheet and a central solvency ratio of 238%.

Lloyd's returned to profit in 2019 with earnings of £2.5bn against a loss of £1.0bn in 2018. In a challenging market for the insurance industry, Lloyd's marginally improved its underwriting performance as a result of improving pricing in all classes of business and improved underwriting disciplines in the market. We also benefitted from a much-improved investment return.

Against this backdrop of recovery, Lloyd's launched an ambitious strategy, the Future at Lloyd's, with the aim of building the most advanced marketplace in the world. The strategy, which we will begin to deliver from Q2 2020, was designed after close consultation with Lloyd's stakeholders to benefit everyone who works with us including, most importantly, our customers. The Future at Lloyd's, together with our two other 2019 priorities of performance and culture, are setting the market up for success and we will continue to focus on these three priorities throughout 2020.

There were several other highlights in 2019. These include:

– Lloyd's Europe (formerly Lloyd's Brussels), which started trading on 2 November 2018, has proved the value of getting ahead of Brexit by making sure we can underwrite European business, whatever the outcome of the UK's negotiations with the European Union on a future trading relationship.
– The Lloyd's Lab, which continues to prove its worth with more than 500 applications to join from around the world. Three cohorts were selected by the market during the year, featuring 35 InsurTech companies that have been mentored by dozens of people in the market. Most importantly, it has reinvigorated Lloyd's reputation for innovation in the insurance industry. The fourth cohort begins on 27 April and will be focusing on several themes, including new products and markets, and cyber.
– Lloyd's purpose, which once again demonstrated its value to society by helping thousands of businesses and communities prepare for and recover from disasters by offering advice on how to mitigate risks and by paying claims. Globally, the Lloyd's market paid more than £23bn in claims in 2019.
– Lloyd's work as a responsible business: in 2019, through the Corporation and our charities, we donated nearly £1m, supporting 184 organisations. In addition, 3,000 volunteers from across the market gave their time to support people in our local communities through Lloyd's Community Programme.
– Lloyd's governance: we announced the decision to merge Board and Council, effective from 1 June 2020, to enable more efficient decision-making while retaining robust and accountable governance.

During the year, several people left both Board and Council. Richard Pryce, Richard Keers and John Parry, who also stepped down as Chief Financial Officer, left the Board. Sir David Manning, Matthew Fosh, Simon Beale, Julian James, Neil Maidment and Philip Swatman left the Council. I would like to thank them all for their service to Lloyd's over many years.

In their place we welcomed John Sununu, Albert Benchimol and Vicky Carter to Council, while Neil Maidment was appointed to the Board as a non-executive director. Burkhard Keese also joined the Board and succeeded John Parry as Chief Financial Officer.

This year also saw the passing of Sir David Rowland, one of the great servants of the Lloyd's market and a former Chairman. I am very pleased we were able to rename the Boston Room as the Sir David Rowland Room to commemorate his contribution to Lloyd's. We also held the first in a series of memorial lectures in his name, delivered by Charles Roxburgh.

Last year, through the Future at Lloyd's, we set in motion one of the most ambitious strategies for change in Lloyd's history, we kept up our relentless focus on underwriting performance and began to change the culture of the market.

It is essential we carry on working to deliver these three priorities because, in combination, they will form the foundation of a modern, dynamic and resilient market, one that is always there to provide world-class insurance products and services to our customers, whatever circumstances they face.

Bruce Carnegie-Brown
Chairman, Lloyd's

Chief Executive's Statement

Our 2019 result shows encouraging progress with a significant return to profit, underpinned by strong performance, sustained rate increases and improving underwriting discipline.

John Neal
Chief Executive Officer

The insurance needs of our customers are changing rapidly. Evolving threats from cyber, the increasing importance of intangible assets, more frequent and severe natural catastrophes, and the emerging impacts of COVID-19 all point to an increasing need for the insurance industry to better support customers.

In 2019, to respond to these needs, we set three strategic priorities for the Lloyd's market – performance, strategy and culture – which will set ourselves and our customers up for success.

Although there has been a high degree of turbulence in the financial markets over recent weeks, the exceptional strength of Lloyd's balance sheet gives us the confidence that we can meet the challenges we face, and particularly support our customers and business partners in their time of need.

Improving performance

Last year we continued our rigorous, industry-leading approach to drive improved underwriting performance. This included implementing a risk-based approach to business planning and market oversight, taking positive action to ensure the market can deliver long-term, sustainable profit. That included our so-called Decile-10 approach to remediate the worst performing sectors as part of 2019 business planning, and in parallel applying those uncompromising standards and objectives for 2020 business planning to drive consistent and continuing combined ratio improvements.

Lloyd's 2019 result demonstrates encouraging progress with a significant return to profit, underpinned by strong performance across our investments, alongside sustained rate increases and improving underwriting discipline.

In 2019 Lloyd's achieved a 2019 profit before tax of £2.5bn, an improvement of £3.5bn on 2018, and a healthy return on capital of 8.8%. The combined ratio improved by 2.4 percentage points to 102.1%, down from 104.5% in 2018.

Gross written premiums for 2019 totalled £35.9bn, marginally up from £35.5bn in 2018. This equates to a reduction in GWP of 2.6% after eliminating positive foreign exchange rate movements and is underpinned by a risk adjusted rate increase of 5.4%. Furthermore, the 2019 underlying accident year ratio (exclusive of major claims) improved to 96.0% (2018: 96.8%). These encouraging developments show our performance agenda is beginning to drive better underwriting and pricing discipline in the Lloyd's market.

The 2019 operating expense ratio of 38.7% represented only a marginal improvement from 2018's 39.2% and remains a key area of focus in 2020.

Lloyd's net resources increased by 9% to £30.6bn, reflecting our exceptionally strong balance sheet and a central solvency ratio of 238%. Our financial strength prompted reaffirmations of our ratings by AM Best and Fitch, with Standard & Poor's revising their outlook from "negative" to "stable".

Transforming the market

During 2019 we spoke to many hundreds of customers, distributors, carriers and capital providers to find out what they valued about the market and where it could be improved. The result is a strategy – The Future at Lloyd's – which will transform Lloyd's into the most advanced insurance marketplace in the world. 2019 and the early part of 2020 have been spent designing and planning what is a complex multi-year transformation which will build on the collaborative efforts of the market to date to create better solutions for our customers' needs and easier access to the market at significantly lower cost.

People & culture

To succeed, Lloyd's has to be an inclusive marketplace attracting the most talented people in the world in a culture that is exciting, inclusive and diverse. To help us achieve this, in 2019 we set out a comprehensive campaign of targeted actions to tackle the challenges laid out in full in the independent Lloyd's annual culture survey, including establishing a Culture Advisory Group of leading experts with experience of successful cultural transformation. We also set standards of business conduct and launched a campaign to encourage more people to speak up against unacceptable behaviour.

Looking ahead

We are publishing this report at a challenging time where COVID-19 will test our people, our customers, our partners, our governments, and our own organisation. We are confident in our ability to meet the challenges we face and particularly support our business partners and customers in their time of need (page 13 gives more detail).

Despite the current challenges, we will continue our focus on underwriting performance to achieve an improved underlying combined ratio in 2020. Our differentiated approach to oversight will continue to play a key role in enabling the best performing syndicates the space to grow, while at the same time rooting out unsustainable business across the poorest performing classes and syndicates. We will continue our focus on challenging and reducing the cost of doing business in the market, both in the immediate 2020 short term and in the longer term via The Future at Lloyd's

The Future at Lloyd's is a multi-year transformation, and we have created a plan to provide regular delivery of value starting in 2020 and beyond. We have announced investment in the next generation PPL as part of the complex risk platform; a new digital onboarding solution for Coverholder business will be delivered as part of the Lloyd's risk exchange; and we will accelerate process improvements to claims. In addition, we will progress a number of 'foundational' initiatives to lay the groundwork for the ultimate Future at Lloyd's ecosystem – data and technology architecture, lead/follow, and middle and back office transformation. I would encourage everyone to learn more by visiting our microsite, futureatlloyds.com.

In 2020 we will continue to accelerate progress to create an inclusive and diverse culture built on shared values that attracts the most talented people in the world. This will include running the second market-wide culture survey to inform and guide our actions together with developing and rolling out a culture dashboard to measure tangible progress. We will also work with the market associations to define the workforce needs of the future market, and we will use the Future of Lloyd's as a model office to role model and share new ways of operating.

The world is changing, and the expectations of our key stakeholders – our customers, our employees, the regulators and others – are ever more demanding. We have work to do in the short and the long term to ensure we can continue to provide that support, especially as we move through these unprecedented times. I believe that Lloyd's has unique advantages and an unrivalled ability to support the people, businesses and countries around the world – our customers – and I am excited to be part of its transformation.

John Neal
Chief Executive Officer

In 2019 we set a new strategic direction for the Lloyd's market, the Future at Lloyd's, to build the most advanced insurance marketplace in the world and provide more value to our customers.

Strategic Report

Contents

Lloyd's – an overview

Who we are

Lloyd's is the world's leading insurance and reinsurance marketplace. Throughout our 332-year history, the Lloyd's market has innovated pioneering coverage for different risks, responding to the needs of its customers. From the first motor and satellite policies to today's cover for cyber and sharing economy risks, the Lloyd's market has always provided, and continues to provide, the confidence to help our customers thrive in a changing world.

Lloyd's business model

With our trading rights and distribution network of international hubs, brokers, coverholders and service companies, the market underwrites risks from around the world through Lloyd's syndicates. Members (capital providers) put up their capital and share in the risks and rewards of the syndicates they support.

A Lloyd's syndicate is formed by one or more members joining together to provide capital and accept insurance risks. Most syndicates write a range of business lines across multiple areas of expertise. Each syndicate sets its own appetite for risk, develops a business plan, arranges its reinsurance protection and manages its exposures and claims.

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

Lloyd's is a brokered market in which strong business relationships, backed by deep risk expertise, play a crucial part. Brokers facilitate the risk transfer process between customers and underwriters. Much of this business involves face to face negotiation, supported by electronic placement.

Syndicates can also authorise third parties, known as coverholders to underwrite business on their behalf locally around the world. Service companies are wholly owned by a managing agent or a related group company and are authorised to write insurance for members of the associated syndicate.

The Lloyd's market is supported by the Society through its remit of performance management oversight and regulation, maintaining the licence network, promoting the brand globally, and providing common infrastructure and shared services.

Our purpose

Lloyd's strategy is underpinned by our purpose: **Sharing risk to create a braver world**. The purpose speaks to the impact and aspiration of the market and is as true today as it was when Edward Lloyd started what became Lloyd's in a coffee shop in 1688.

How we deliver on our purpose

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

Today, Lloyd's offers customers a unique value proposition. We provide insurance and reinsurance in more than 200 countries and territories worldwide through our global licence network. Customers have access to unrivalled broking and underwriting expertise with a reputation for solving difficult risk transfer problems in one marketplace. The market is built on trusted relationships and mutual respect to best serve our customers.

Lloyd's insight, experience and judgment continue to inform decision-making across the industry. The 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.

We pay billions of pounds in claims each year, which gives customers confidence to place their business with us. All of this is supported by a flow of capital providers and large, multiplatform insurance carriers, that are attracted by specialist risk capabilities and opportunities in the Lloyd's market.

As a marketplace, Lloyd's provides consistent standards and shared services that improve performance and unlock new opportunities.

Business flow

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

Distribution channels
- 335 brokers: distributing business
- 366 service company locations
- 3,950 coverholder locations: offering local access to Lloyd's

The market

54 managing agents – managing syndicates

80 syndicates – writing insurance and reinsurance directly

13 special purpose arrangements – set up solely to write a quota share of another syndicate

Gross written premiums:		Capital and reserves:	
2019	£35.9bn	2019	£30.6bn
2018	£35.5bn	2018	£28.2bn
2017	£33.6bn	2017	£27.6bn

Capital flow

Members (capital providers)
- 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

For further information on the Lloyd's market visit: lloyds.com/about-lloyds

Note: All figures are as at 31 December 2019. Capital and reserves of £30.6bn comprised members' assets held severally of £27.3bn, mutual assets of £2.5bn and subordinated debt of £0.8bn.

Lloyd's has a globally recognisable brand and is proud of its reputation for paying all valid claims in a timely and efficient manner. The society is committed to being an inclusive global market that treats its people and customers with dignity and respect while promoting an entrepreneurial and innovative culture.

How we benefit our stakeholders

Lloyd's strategy is to maintain and enhance the value it offers to its 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 insurance risk from around the world; and
- **Capital providers,** giving the opportunity to invest in different types of insurance risk.

How we benefit society

Lloyd's is part of the broader London insurance market, writing more than half of its total premium. The London insurance market employs approximately 50,000 people and represents about a quarter of the City of London's gross domestic product.

Lloyd's also wants to be known as a responsible business leader, operating in a way that makes those who work in the Lloyd's market feel proud of their contribution. Our approach underpins our goals to support global economic growth, and help nations, businesses and communities improve resilience to, and recover faster from, disasters.

Lloyd's also plays its part globally in supporting the communities in which it operates and in taking a lead on wider social and environmental issues. Lloyd's is a founding member of the ClimateWise initiative, a collaborative endeavour by insurers to drive action on climate change. In 2020 we will be reporting against the United Nations Global Compact and sustainability development goals for the first time allowing us to align our vision, culture and operations with the world's largest corporate responsible business initiative.

Our priorities in 2019

Lloyd's strategy has concentrated on meeting the most pressing challenges facing Lloyd's to ensure the long term profitability of the market. These were:

- Performance: continuing our work to deliver first-class underwriting;
- Strategy: we developed the 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; and
- Culture: we continue to build a diverse and inclusive culture in the Society and the market in which everyone feels safe, valued and respected, and that reflects our global customer base.

Further details on these priorities can be found on pages 15 and 16 .

Good progress was made in each of these areas in 2019, but more work is necessary. This is why they continue to be our main focus in 2020.

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
Business model	10
Key risks	13-14
Environmental and social matters	17-18
Anti-corruption and anti-bribery matters	17
Human rights	18
Employees	18
Non-financial KPIs	20

Our capital structure

Lloyd's capital structure, often referred to as the chain of security, gives excellent financial security to policyholders and capital efficiency for members. Our 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. The chain of security is designed to ensure the Lloyd's market remains well capitalised even after losses caused by extreme events.

Lloyd's ratings as at 31 December 2019

A+	Standard & Poor's: A+ (Strong)
AA-	Fitch Ratings: AA- (Very Strong)
A	A.M. Best: A (Excellent)

For further information visit: lloyds.com/investor-relations

Lloyd's chain of security

Several assets		
First Link	Syndicate level assets £52,849m	
Second Link	Members' funds at Lloyd's £27,595m	
Mutual assets		
Third Link	Central Fund £2,483m Corporation £118m Subordinated debt/securities £794m	Callable layer £977m

External Environment

The insurance sector as a whole is facing the same set of opportunities and challenges.

Today, customers' insurance needs are changing faster than ever. They face new threats to new types of tangible and intangible assets in new geographies. Customers tell us we need to develop new products and services that can keep pace with their needs and protect their businesses.

This changing demand is set against the backdrop of the march of technology and data analytics that are disrupting traditional insurance business models.

This is an opportunity for our industry, but one we will only grasp if we develop new business models, embrace new technology and foster innovation to give customers the products and services they need.

The insurance gap

Despite the increasing threat of new risks such as cyber attacks, and traditional perils such as windstorms, insurance buying is not keeping pace. Less than half of the world's exposure to natural disasters in 2019 was covered by insurance. In 2017, Lloyd's estimated total economic losses from a mass cyber attack would cost more than US$50bn, yet the value insured was less than one-fifth of that.

Across the industry, we see a similar story. We estimate that over the past decade, commercial insurance penetration as a percentage of global GDP has hardly changed, going from 1% in 2008 to 0.9% in 2019. Intangible assets account for an increasing proportion of an organisation's value and are vulnerable to new risks such as cyber attack and reputation damage, which require fundamentally different insurance products.

The fast-changing risk landscape makes it difficult for businesses to track and make decisions about their risk exposures. Even when they are aware of their exposure, customers cannot always find the insurance products and services they need: one 2019 annual risk survey shows that of the top 20 risks identified by risk managers only two are considered fully insurable.

Closing this insurance gap means protecting our customers better from these threats. The challenge our sector faces is that although people need more cover, they are not buying it. Insurance has always followed risk but as threats emerge faster, insurance must react more quickly to ensure customers get the protection they need.

An expensive industry

Our industry needs to get closer to end customers and reduce costs across the distribution chain in areas where it is not adding value. Acquisition and administration costs are high and are reducing more slowly than those in other sectors.

While many complex products are inherently costly to transact, the sector has not stripped out other costs by modernising systems and processes quickly enough. Acquisition costs can also be high even for more commoditised products. Slow modernisation of internal systems and legacy IT infrastructure mean administration costs remain high.

Large corporations are increasingly retaining risk on their own balance sheets because it is more efficient. And often when corporations do want to transfer risk, they cannot always do so. Uncertainty around risk exposure and aggregation, pricing and risk appetite impact the coverage that insurers are willing to offer.

An influx of capital

In recent years new capital has become increasingly attracted to the insurance market, drawn by the relatively high, uncorrelated returns in a low interest rate environment. Third-party (alternative) capital makes up about 15% of reinsurance capital.

New capital has increased price competition over the past few years, which is good news for our customers, and a great opportunity for insurers to better serve their customers and offer more coverage. As a capital-dependent industry, insurers must make it easier for new forms of capital to attach to risk, thereby offering customers better value.

Talent

The demographics in our industry have been changing and we are facing a talent shortage. The average age of the insurance workforce in 2019 was 39, an increase of 2.5 years on 2015, while the proportion under 30 has fallen to 13%. Firms must begin recruiting and developing the next generation of individuals, who will become the leaders and experts of the future. Unfortunately, research has shown that only 4% of younger job seekers have a desire to work in the insurance industry.

The industry will struggle to recruit top talent unless we can define and communicate more appealing employee value propositions to candidates and create an inclusive culture in which everyone is respected and valued.

Responding to the challenges

The issue is clear: either carry on with business as usual and risk becoming less relevant, as customers see decreasing value in what insurance offers, or change and realise the multiple opportunities afforded by the new risk landscape. Building greater trust with customers, supercharging innovation to deliver products and services more closely aligned to their needs and reducing policy costs will go a long way towards achieving this ambition.

The Lloyd's market is exposed to the same challenges as the rest of the insurance and reinsurance industry. As a marketplace of competing businesses which in partnership are focused on providing an outstanding service for our customers, we are uniquely placed to seize the opportunity to make a powerful collective response through our Future at Lloyd's strategy.

Lloyd's Key Risks and Risk Appetite

The Society identifies and assesses key risks which could have a significant impact on the Lloyd's business. The Board manages exposure to these risks by setting and monitoring a risk appetite framework. 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:

– Sustainability: Lloyd's strategy must deliver a sustainable business model over the medium term;
– Solvency: Management of financial risks ensures that Lloyd's is able to withstand an extreme event and trade forward; and
– Operational: The risk of operational and other events is managed to ensure Lloyd's maintains its strong reputation.

These risk objectives reflect the Board's view of the acceptable risk faced by Lloyd's and provide the three pillars of the risk appetite framework. Within each pillar, a number of metrics define the amount of risk that the Society is willing to take. These metrics represent the key elements that could result in the risk objectives not being achieved for that pillar. The metrics are monitored on an ongoing basis and reported to the Board each quarter alongside any "get to green" actions if a threshold has been breached.

Lloyd's purpose:	Lloyd's purpose is sharing risk to create a braver world. The Society acts to create and maintain a competitive, innovative and secure market.		
	Pillar: Sustainability Underwriting profitability; Reserving; Catastrophe exposure; Reinsurance; Syndicate capability; Attractiveness of the Lloyd's market	**Pillar: Solvency** Investment; Liquidity; Capital	**Pillar: Operational** Regulatory, legal and tax compliance; Operational effectiveness; Financial crime and sanctions; Cyber resilience and data loss protection; Conduct
Risk appetite statements:	**Risk objective:** Lloyd's strategy must deliver a sustainable business model over the medium term	**Risk objective**: Management of financial risks ensures that Lloyd's is not exposed to undue concentration and is able to withstand an extreme event and trade forward	**Risk objective:** Risk of operational and other events is managed to ensure Lloyd's maintains its strong reputation

COVID-19

The COVID-19 pandemic is a post-balance sheet event causing global economic uncertainty and social restrictions which are directly impacting the Lloyd's market. Until further notice, the majority of the Society's employees are working remotely, the Underwriting Room has been closed and the emergency trading protocols have been successfully implemented. This is having a direct impact on risks within all three pillars of the Society's risk objectives.

All the impacts on the Lloyd's risk profile from the pandemic are being regularly monitored, which includes an assessment of whether the controls currently in place are adequate to mitigate the evolving risks. Controls in place to manage the increased risk include:

– Lloyd's has set up a dedicated contact point to provide our policyholders with assistance and to help them find the right person to process a claim;
– Daily Catastrophe Group and Executive Committee meetings held to consider development of the global pandemic and implement business continuity actions in line with government advice;
– Emergency trading protocols have been invoked in conjunction with the wider market including the closure of the Underwriting Room and with Society personnel working remotely;
– Ongoing monitoring of the impact on Lloyd's assets and liabilities, claims, and solvency position with planned management actions in place to respond; and
– Regular engagement with the market and regulators via several forums.

Lloyd's Key Risks and Risk Appetite *continued*

Other key risks under management are:

Key risk and impact on Lloyd's	Mitigation
Market performance Risk that Lloyd's businesses suffer losses or erode their capital base due to a failure to respond to changing market conditions.	– Action to address the underlying market profitability following years of below average underwriting profitability. – Close monitoring and challenge of syndicates' performance against approved business plans. – Ensuring syndicates writing newer lines of business, such as cyber, can demonstrate they have the skills and expertise to do so. – Continue to closely monitor and respond to the market risk appetite measures.
Executing the Future at Lloyd's strategy Risk that Lloyd's sees its long-term attractiveness suffer by failing to respond to emerging issues such as the rising cost of distribution and rapidly evolving technologies such as AI and robotics.	– Publication of the Blueprint One: Update in February 2020, following an intensive period of consultation, design, and planning, setting out the Future at Lloyd's key priorities and foundational activities. – Strong central governance to manage delivery risks associated with the Future at Lloyd's, including the Technology and Transformation Committee, overseen by Lloyd's Board and Council. – A robust risk and assurance framework in place, including the role of an independent Quality Assurance partner.
Creating a more inclusive culture Risk of failure to deliver a culture of integrity, respect and inclusion, across the Lloyd's market.	– Lloyd's first market-wide culture survey conducted. Activity underway to deliver the resultant action plan that will address the four key themes which emerged from the survey: gender balance; speaking up; wellbeing; and leadership. – Independent Culture Advisory Group established consisting of market participants and leading culture transformation experts to deliver long-term culture change in the Lloyd's market by ensuring that we are taking the right actions to effect sustainable and measurable progress.

There are other current and emerging risks considered to be heightened for 2020, including:

- Cyber risk: Enhancements made to the control environment to mitigate the risk of loss as a result of a direct malicious electronic attack or through exposure to aggregations of risk via the policies written by Lloyd's businesses.
- Operational resilience: Response to regulatory consultation and project established to validate Lloyd's operational resilience framework and identify areas requiring improvement. The Society's oversight of the third parties who provide services to the market is an area of focus.
- Brexit: While the impact of Brexit has been significantly mitigated by the establishment of the Lloyd's Brussels insurance company, there continue to be a number of projects underway to minimise the impact of Brexit on Lloyd's customers, including the programme to deliver the Part VII transfer.
- Interest rate environment: The low levels of interest rates will reduce the forward-looking expected returns on assets invested across the Chain of Security, potentially reducing the return available to capital providers. The Society's oversight of investment strategies across the market will be an area of focus.
- Climate change: Alongside other environmental, social and governance topics, assessing the impact of climate change on the Society and the market is a focus for 2020, with specific risk appetite metrics and stress tests in development.

Priorities in 2019

The Future at Lloyd's

2019 was an exciting time as we began our journey to create a new vision for Lloyd's: **to be the most customer-obsessed and advanced insurance marketplace, with the widest range of products and services**.

Stakeholder consultation

On 1 May we published our prospectus on the Future at Lloyd's. This marked the beginning of a formal consultation exercise on our ambitions for the Lloyd's market. These are to:

- Offer even better solutions for our customers' risks;
- Simplify the process of accessing products and services at Lloyd's;
- Reduce the cost of doing business; and
- Build an inclusive and innovative culture that attracts leading talent to Lloyd's.

During the consultation process we received thousands of responses. We received feedback from our online survey, and we held more than 300 interviews and other events, which helped us identify six transformative solutions to achieve our vision.

Blueprint One

Feedback received from the consultation shaped the contents of our first blueprint which we published on 30 September 2019. This set out:

- Our strategic intent, describing how the Lloyd's market of the future will look;
- Our current thinking on the six solutions, and the foundations needed to support them, informed by our consultation; and
- Details of the delivery plans for each solution.

The six solutions are:

- Complex risk platform: a digital, end to end platform that complements face to face negotiation to submit, quote, bind, issue, endorse and renew complex risks for insurance and reinsurance business;
- Lloyd's risk exchange: a Lloyd's digital exchange that connects to existing systems or provides a new user interface and enables instant search, quote, bind and issue for less complex risks, improving the speed of placement and customer experience;
- Claims solution: a digital solution that triages and routes claims, automates decision-making for the simplest claims, and assists complex claim handling, underpinned by a new claims orchestration platform, that together deliver an improved customer experience;
- Capital solution: a new end to end journey for investing at Lloyd's with simpler, nimbler rules and processes and new structured investment opportunities, supported by a new capital platform, improving the experience of existing members and attracting new alternative capital providers;
- Syndicate in a box: a new way to bring innovative new syndicates into the Lloyd's market and give them the best chance of success; and
- Services hub: the services hub is at the centre of Lloyd's future value proposition, building on existing capabilities and providing new, innovative services that offer value to market participants, customers and competitive advantage for Lloyd's.

Transition

After the publication of Blueprint One, we spent six months preparing for the first delivery phase of the Future at Lloyd's. Achievements during the transition period included setting up the Future at Lloyd's governance structure, putting in place the resources to deliver the various workstreams and securing the finance for the strategy.

Into 2020 – Phase 1 delivery

This year the hard work of building the Future at Lloyd's solutions begins. In our Blueprint One: Update, launched online in February 2020, we have set ourselves clear delivery goals. We will measure our success against our progress towards these goals and adapt our plans as necessary along the way.

Changing the way the Lloyd's market operates is a challenging undertaking. The Future at Lloyd's is an ambitious strategy that will make us more efficient, more diverse and more valuable to our customers, so we can continue to fulfil our purpose: **Sharing risk to create a braver world**.

Creating our future culture

Lloyd's is committed to creating an inclusive marketplace that attracts the most talented people in the world, within and beyond the insurance industry. To achieve this, in 2019 we set out a comprehensive programme of actions to drive long-term culture change in the Lloyd's market.

In March 2019, we announced an action plan developed in collaboration with the managing agent and broker associations, LMA and LIIBA, in response to reports of inappropriate behaviour in our marketplace. This initial five-point action plan included a wide-ranging set of actions aimed at ensuring a safe and inclusive working environment in the marketplace. The actions included:

- Provision of an independent bullying and harassment support line set up to provide confidential advice and support for those experiencing inappropriate behaviour at work, helping them decide on their next steps;
- Strengthening Lloyd's sanctions for any individuals found to have behaved inappropriately, including fixed period and life bans;
- A comprehensive review of policies and practices across the Lloyd's market, with a view to identifying and sharing best practice;
- Provision of training focused on prevention, as well as reporting and supporting those who have been subjected to inappropriate behaviour; and
- Commissioning the Banking Standards Board (BSB) to conduct an independent, market-wide annual culture survey to help understand the working cultures that exist across the Lloyd's market, including standards of behaviour and conduct, and to inform further action.

The BSB survey took place in May 2019 and was the largest culture survey ever conducted in the insurance sector. The findings of that survey painted a more complex picture of the culture challenges that exist in the Lloyd's market, informing a targeted set of signature actions to address the key themes that emerged and further accelerate culture change across the marketplace. The measures include:

Priorities in 2019 *continued*

- Setting up an independent Culture Advisory Group comprised of leading experts with experience of successful cultural transformation, to provide expert advice and robust challenge to help ensure that Lloyd's is taking the right actions to effect sustainable and measurable change;
- A Gender Balance Plan: setting clear and measurable targets for improving the representation of women at senior levels within the Lloyd's market;
- Setting Standards of Business Conduct: requiring every person and every organisation operating in the Lloyd's market to act with integrity, be respectful and always speak up;
- Introducing a Culture Dashboard: to closely monitor progress in the Lloyd's market against key indicators of a healthy culture;
- Launching a campaign to encourage more people to speak up against unacceptable behaviour; and
- An enhanced focus on wellbeing with a market-wide campaign in 2020 to raise awareness of personal resilience and mental health, with an expanded programme of workshops, events and resources.

We will continue to build on these actions throughout 2020, including running the second market-wide culture survey to inform and guide our actions, to ensure we continue to drive long-lasting cultural transformation.

In tandem, we are also focused on building an increasingly diverse range of skills and experiences to develop customer-centric solutions as we build the Future at Lloyd's. This includes a strategic workforce plan to support the people and capability requirements across the priorities and solutions set out in Blueprint One, together with implementing new ways of working including a mix of agile and traditional approaches.

Managing market performance

Market oversight remains a strategic priority for the Society. In 2019 we focused on our journey to return the market to a position of sustainable, profitable performance including consideration of Lloyd's solvency; operational risk; and our brand and reputation. The Society adopts a risk-based approach to managing the market, which means our oversight is balanced and is proportionate to risks faced.

The Society aims to minimise any duplication of work undertaken by the Prudential Regulation Authority and the Financial Conduct Authority, and for the regulators to take comfort from the oversight undertaken at Lloyd's. The Society also considers managing agents' own group oversight activities, with a view to ensuring the right risks are receiving attention from the right people.

Strong oversight is about establishing a framework that enhances the ability of syndicates to do business, while ensuring good customer outcomes. We continue to evolve our risk-based approach, focusing efforts on matters of greatest concern and where our intervention can really make a difference.

By adopting this approach, the Society recognises the diversity and complexity of the many different practitioners in the Lloyd's market. Our account management structure also ensures that engagement with managing agents is structured, cohesive and commercially effective.

Developments in 2019

Through the 2018 and 2019 business planning cycles, the Society's priority was the need to address underwriting performance across the market. Performance improvement plans were requested from all managing agents that had to demonstrate a logical, realistic route to sustainable profit. Plans were required for specific lines of business and, in some cases, whole syndicates. In addition, all syndicates had to Identify their poorest performing portfolios of business, known as Decile 10, and demonstrate plans to return the portfolio to profit.

Further developments were made for the 2020 planning cycle, including the refinement of the process itself. The high level plan submission was removed in favour of strategic business discussions with managing agents, and a phased approach to plans was adopted, resulting in a slicker process. This also had the benefit of reducing the length of the planning season by two months.

The Society piloted its Light Touch oversight approach for the best performing syndicates.

The 2020 planning objective continued our focus on delivering sustainable profit, by improving or removing the poorest performing lines of business (Decile 10) while encouraging growth in the most profitable lines (Deciles 1 and 2).

Although the action taken over the last three planning cycles is delivering performance improvements, there is still more to do and we continue to maintain our focus of delivering sustainable, profitable growth across the market. The Society and the market will continue to build on the successes through 2020 as we strive to achieve world class underwriting performance at Lloyd's for the benefit of our customers.

Responsible Business

The Society plays its part globally in supporting the communities in which it operates and in taking a lead on wider social and environmental issues. We want to be known as a responsible business leader, operating in a way that makes those who work for us feel proud of their contribution to what we do and how we do it. In 2018 Lloyd's signed up to the United Nations Global Compact, the world's largest corporate sustainability initiative.

Community

The Society not only has its own responsible business initiatives but also manages three independent charities and a community volunteer programme supported by the Lloyd's market in London. All three charities have their own trustees made up from professionals across the Lloyd's market and academia: Lloyd's Charities Trust, Lloyd's Patriotic Fund and Lloyd's Tercentenary Research Foundation.

In 2019 through the Society and our charities we donated nearly £1m supporting 184 organisations. We launched strategic long-term charity partnerships and completed our partnerships with RedR, Build Change and Wizz-Kidz. For example, since 2012 Lloyd's Charities Trust has supported RedR UK, which specialises in building the capacity of individuals and organisations working in humanitarian response. Through our partnership, we have been able to impact 3,383 aid workers responding to humanitarian crises, increasing their professionalism and effectiveness in their life saving roles. In addition, 3,000 volunteers from across the market gave their time to support people in our local communities through Lloyd's Community Programme.

Environment

The Society recognises that Its global operations have an environmental impact and we are committed to monitoring and reducing our emissions year on year. In 2019, we have continued to reduce our emissions on a total global basis from 9,732 tCO_2e in 2018 to 8,363 tCO_2e in 2019 – a reduction of 14%. We have reduced our total global emissions per full time employee (FTE) by 23% from 9.4 tCO_2e/FTE in 2018 to 7.3 tCO_2e/FTE in 2019.

Given the majority (91%) of our emissions are from the UK, our energy and carbon reduction activities are focused on our London headquarters. We have: replaced heat pumps and variable speed drives in the air handling units in our building conditioning systems; commissioned LED lighting replacements as part of our Better Working Environment project; installed eco-friendly urinals producing water savings of over 50% since installation; and switched our petrol car for hybrid in our post room operations.

Financial crime

The Society is committed to ensuring the market it oversees, any associated parties, and the Society itself have robust systems, policies and controls in place to minimise the risk of any acts of financial crime. The 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 continues to strengthen the whistleblowing arrangements it uses, through the development of procedures to ensure that employees are suitably equipped to handle reported concerns and through increasing the range of communication methods available to make disclosures. These methods include a web-based reporting system and a reporting app which may be used on a smart phone or tablet. More than 1,000 employees completed whistleblowing training during the year with others completing more specialised training.

The Prudential Regulation Authority (PRA) published a Voluntary Notice of Requirements relating to the Society's whistleblowing systems and controls on 23 December 2019. This Notice related to shortfalls in the Society's whistleblowing systems and controls resulting in a failure, communicated to the PRA on 15 February 2019, to provide an anonymous whistleblowing channel for Society employees between 1 October 2017 and 25 February 2019. It is noted that other whistleblowing avenues were available for Society employees over this period. Set out in this notice, the PRA requires the Whistleblowers' Champion to attest to the soundness of the systems and controls on an annual basis for each of the calendar years 2020, 2021 and 2022.

Three concerns were reported to the Society during 2019. These included concerns about data usage and employee conduct. The investigations undertaken resulted in further actions being agreed and taken to strengthen the Society's procedures.

Lloyd's energy and carbon disclosures 2019

		Total scope 1	Total scope 2	Total scope 1 + 2 (location based)	Total scope 3	Grand total scope 1, 2, 3 (location based)	Carbon intensity location based (tCO_2e/FTE)	Total energy usage (kWh)
2019 (tCO_2e)	**UK emissions**	**1,312**	**4,578**	**5,890**	**1,739**	**7,629**	**8.4**	**26,248,211**
	Global emissions (ex. UK)	**–**	**642**	**642**	**92**	**734**	**3.0**	**1,511,863**
2018 (tCO_2e)	UK emissions	1,702	5,253	6,955	1,886	8,841	11.0	28,339,592
	Global emissions (ex. UK)	17	768	785	106	891	3.9	1,933,550

We are aware of the reporting obligations under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. As such, this year we have upgraded our energy and carbon reporting to meet these new requirements and increase the transparency with which we communicate about our environmental impact to our stakeholders. 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). 2019 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.
A more detailed statement on Lloyd's GHG emissions is available at: lloyds.com/ghgemissions

Responsible procurement

The Society's procurement 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 human rights, environmental and social issues. Suppliers are also asked to sign up to Lloyd's Supplier Code of Conduct.

Responsible investment strategy

The Society's investment philosophy focuses on generating long term, sustainable capital growth for Central Fund assets. The approach to responsible investment is built upon three core pillars:

- Protecting the Central Fund assets by considering environmental, social and governance risks;
- Promoting responsible business practices in companies through activities such as corporate engagement and shareholder action; and
- Providing capital to support a sustainable future, through investments in green and social impact bonds and by excluding investments in coal focused companies.

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 Organisation 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.

In 2019 our approach has included the implementation of 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.

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 which 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. Further enhancements will include additional rights to bereavement leave and entitlement as per changes to statutory law.

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 2019 two market guides were launched to support organisations, on diversity data collection and on supporting Trans and Non-Binary Inclusion.

2019 was our fifth year of sponsoring the Dive In Festival for diversity and inclusion in insurance. Spread across three days, events took place in 32 countries and more than 60 cities. This year's theme was #InclusionImpact. Its mission is to enable people to achieve their potential by raising awareness of the business case, and promoting positive action, for diversity in all its forms.

Gender pay gap

The Society reported a gender pay gap of 23.6% (mean) in its 2019 Gender Pay Gap Report, an increase from the 2018 figure of 19.9%. 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, however we recognise that changes within our executive team during the reporting period will have had a direct impact on our 2019 figures.

Like many financial services firms, we employ fairly equal numbers of men and women at the 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 2019 we saw two cohorts of women successfully complete the Advance programme with additional cohorts announced for 2020. Our commitment is to an enhanced gender balanced plan to meaningfully close the gender pay gap.

2019 Society employee segmentation figures

UK	905
Non-UK	242

	Executive Team	Head of Function	Manager	Professional/Technician	Administrative	Total
Female	2	13	166	209	221	611
Male	5	35	215	190	91	536
Total	**7**	**48**	**381**	**399**	**312**	**1,147**

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.

Market performance

Result before tax Includes an aggregation of syndicate results, the result of the Society and notional investment return on members' funds at Lloyd's.	**2019: £2.5bn** 2018: (£1.0bn) 2017: (£2.0bn)	
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.	**2019: 102.1%** 2018: 104.5% 2017: 114.0%	
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.	**2019: 38.7%** 2018: 39.2% 2017: 39.5%	
Return on capital[1] The ratio is used to measure the overall profitability and value creating potential of the Lloyd's market.	**2019: 8.8%** 2018: (3.7%) 2017: (7.3%)	
Solvency Capital Requirement (MWSCR and CSCR)[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** **2019: 156%** 2018: 149% 2017: 144%	**CSCR** **2019: 238%** 2018: 249% 2017: 215%

1. The combined ratio, the expense ratio and the return on capital are metrics that are consistently used to analyse financial performance in the Lloyd's Market Results and/or in the Society Report. These metrics (wherever used in this Annual Report) are Alternative Performance Measures (APMs), with further information available on page 176.
2. Please see note 4 on pages 49 and 50 for further details regarding Lloyd's solvency position.

Key Performance Indicators *continued*

Market strategy

Strategic direction A new strategic direction is set for Lloyd's supported by market participants.	A prospectus was issued setting out Lloyd's aims, followed by Blueprint One. 70% of respondents to our online survey believe the proposals will deliver the Future at Lloyd's aims.
Customer net promoter score A net promoter score, as well as other metrics, will be used to assess the impact of the strategy, and Lloyd's performance generally, for our customers.	A benchmark score will be set in 2020 as a base from which to track Lloyd's performance during the implementation of the Future at Lloyd's strategy.
Offering better customer solutions Lloyd's will improve its capability to write innovative products.	The Lloyd's market has established the product innovation facility designed to: speed up (re)insurance product development; test new technologies and methods of distribution; and provide cover for today's new and emerging risks.

Culture

Conduct a market-wide culture survey In collaboration with the Lloyd's Market Association and the London & International Insurance Brokers Association, undertake an independent and market-wide survey informing further action in building an inclusive culture for the Lloyd's market.	Lloyd's undertook a market-wide survey receiving 6,003 responses from across the market. Results, along with the introduction of Standards of Business Conduct, were published to address the key themes arising from the Lloyd's culture survey.
Introduce a plan to improve the culture of the Lloyd's market Building on the existing inclusion activity and oversight responsibilities, introduce a robust action plan addressing the key themes from the Lloyd's culture survey and introduce clear and robust metrics to measure and monitor future progress.	Lloyd's has identified gender, speaking up, wellbeing and leadership as four key priority areas to focus on improving the culture of the Lloyd's market. Lloyd's has put in place a wide-ranging set of actions to address these priority areas and created an advisory group comprising market and specialist practitioners to guide the programme.

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 its members. All decisions have been taken in this clear and certain knowledge that the Council must take material action to ensure the long-term interests of the market's members are protected.

During the year the Council focused on three areas that will have a long-term impact on the Lloyd's market and which were our priorities in 2019. These were:

1. Define and initiate a new strategy for the market, the Future at Lloyd's;
2. Enhance the market's culture; and
3. Continue our activity to deliver first-class underwriting.

The Future at Lloyd's strategy is a consequence of two consultations of unprecedented scale, covering insurance carriers, distributors, capital providers, Society employees, and most importantly the market's customers. This was essential for Council to understand both what is valued, and how the market should evolve. The first consultation was instrumental in setting our new purpose, **Sharing risk to create a braver world**, and in shaping the prospectus, issued in May, which set out our aims for improving the value we provide to our different stakeholders. The second consultation on the prospectus document was successful in building consensus around these aims and the things we should do to achieve our vision for building the most advanced insurance marketplace in the world. We issued Blueprint One in September, the first blueprint of several that will set out our plans for delivering our vision.

The Council is encouraged that the new strategy has received overwhelming support from the Lloyd's market. We believe it will provide a more attractive future for market firms and employees, enable new investment opportunities for members and provide customers with more choice of insurance products and services that can meet their changing risk needs. Further details on the Future at Lloyd's can be found on page 15.

The Council is aware of the challenges which embarking on this journey presents for the market. 2019 saw us make a good start, setting out what needs to be done and laying the groundwork to get ourselves ready to begin delivering. This has included resourcing the different workstreams and raising £300m of senior debt to fund the transformation. Execution of the strategy will be dependent on many factors, and especially the continuing support of market participants and key suppliers, both existing and new. We are maintaining our programme of engagement to ensure that the views of our many different stakeholders are heard and are accommodated into our plans wherever possible.

The Council believes Lloyd's purpose and strategy supports the wider society and the environment through the development and offering of products that meet the emerging risks facing the world, including from technological and environmental change.

Lloyd's wants to be known as a responsible business leader, operating in a way that makes those who work for us feel proud of their contribution. Our approach underpins our goals to support global economic growth, and help nations, businesses and communities improve resilience to, and recover faster from, disasters. Please refer to page 17 for further details of the Society's approach in the community.

Lloyd's reputation is built on expertise. 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. Creating an inclusive marketplace is a priority for us and crucial to Lloyd's long-term success.

In March, we announced an action plan developed in collaboration with the managing agent and broker associations, Lloyd's Market Association and London & International Insurance Brokers' Association, to ensure a safe and inclusive working environment in the marketplace. We carried out the largest culture survey ever conducted in the insurance sector to understand employees' views. The independent market-wide survey was commissioned in the wake of reports of sexual harassment in the Lloyd's market, and following the results of the survey a further series of measures were put in place to accelerate culture change across the marketplace. Further details on the actions taken can be found on pages 15 and 16.

The Council believes that the actions we are taking will address the issues that have surfaced. Improving our culture and creating a more diverse marketplace will help us to maintain our reputation for insurance expertise and ensure that we attract the right skills and capabilities to deliver the Future at Lloyd's.

We aspire to world-class underwriting performance and strong performance management. We will maintain the highest standards to protect customers and the market's reputation. During 2019 we continued to take action through our robust market oversight regime to improve the underwriting performance, in the wake of prior year below average performance. Many in the market, and wider insurance industry recognised and were supportive of the leading position we took to instil a more prudent and measured approach to underwriting. Further details of our oversight approach are set out on page 16.

It is gratifying to see that our efforts to improve performance are beginning to have effect. And the good work is continuing in 2020 to put the market on a firmer footing, which will be in the long-term interest of our members.

To help deliver success, the Council took the decision, following consultation with the membership and across the market, to amend Lloyd's governance framework. This will involve the merging of the Council and Board from June 2020, to create a single governing body. This will assist with efficient and swift decision-making, necessary to meet the challenges of a fast-changing world. Further information on this new framework can be found on page 75.

Market Results

Contents

Lloyd's 2019 result demonstrates encouraging progress with a significant return to profit, underpinned by strong performance across our investments, alongside sustained rate increases and improving underwriting discipline. Lloyd's net resources increased by 9% to £30.6bn reflecting our strong balance sheet and a central solvency ratio of 238%. Our exceptional financial strength prompted reaffirmations of our ratings by AM Best and Fitch, with Standard & Poor's revising its outlook from "negative" to "stable".

2019 Highlights

Financial highlights

- **Lloyd's reported a profit of £2,532m (2018: a loss of £1,001m)**
- **Combined ratio of 102.1% (2018: 104.5%)**
- **Gross written premium of £35,905m (2018: £35,527m)**
- **Capital, reserves and subordinated loan notes stand at £30,638m (2018: £28,222m)**

Gross written premium (£m)

2015	26,690
2016	29,862
2017	33,591
2018	35,527
2019	**35,905**

Result before tax (£m)

2015	2,122
2016	2,107
2017	(2,001)
2018	(1,001)
2019	**2,532**

Capital, reserves and subordinated debt and securities (£m)

2015	25,098
2016	28,597
2017	27,560
2018	28,222
2019	**30,638**

Central assets (£m)

2015	2,645
2016	2,879
2017	2,981
2018	3,211
2019	**3,285**

Return on capital* (%)

2015	9.1
2016	8.1
2017	(7.3)
2018	(3.7)
2019	**8.8**

Combined ratio* (%)

2015	90.0
2016	97.9
2017	114.0
2018	104.5
2019	**102.1**

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 42 and 43.

* The return on capital and combined 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 176.

Market results

The Lloyd's market reported a pre-tax profit of £2,532m in 2019 (2018: a loss of £1,001m) and a combined ratio of 102.1% (2018: 104.5%). This result represents a £3,533m improvement to profit since 2018.

During 2019, premium levels have increased by 1.1%. Stable or increased pricing levels continued with favourable price movements experienced across all lines of business. The Lloyd's market experienced a weighted average increase in prices on renewal business of approximately 5.4% in 2019. In addition, several syndicates exited or severely curbed their risk appetites in poor-performing lines, as Lloyd's began to ramp up its activity to support the market in closing the performance gap. This resulted in volume reductions of approximately 8.0%. Looking at these pricing increases and volume reductions together, there is an underlying reduction in premium volumes of 2.6% on like-for-like business. Foreign exchange movements and growth from new syndicates contribute an additional 3.7% growth, resulting in the overall premium growth of 1.1%.

2019 again saw some significant catastrophic losses for the insurance industry and so too for the Lloyd's market, with notable losses in the second half of 2019 including Typhoons Faxai and Hagibis (in Japan) as well as Hurricane Dorian (impacting the Bahamas). Insured losses arising from catastrophic events cost the Lloyd's market £1.8bn, net of reinsurance, in 2019 (2018: £2.9bn) and added 7.0% to the combined ratio (2018: 11.6%). The impact of these major events on the Lloyd's market result was offset slightly by prior year releases of £232m (2018: £976m), representing a 0.9% (2018: 3.9%) improvement to the combined ratio, however these releases are at a reduced level when compared to previous years.

Investment return was £3,537m (2018: £504m), a return of 4.8% (2018: 0.7%), reflecting a buoyant year in financial markets. Equity investments achieved exceptional gains and bond investments also performed well driving a strong investment result.

Foreign exchange had a negative impact on the result with a moderate £54m loss reported in 2019 (2018: a loss of £8m). This reflected the impact of most major currencies (closing rates) weakening against sterling in 2019.

Net resources, reflecting a strong and resilient balance sheet have continued to increase, and these stand at £30.6bn (2018: £28.2bn).

The Pro Forma Financial Statements (PFFS) aggregates the results of the syndicate annual accounts, notional investment return on members' funds at Lloyd's and the Society's financial statements. The basis of preparation of the PFFS is set out in note 2 on pages 42-43.

Looking ahead

Similarly to 2019, the 2020 planning cycle was challenging for the Lloyd's market, with significant effort placed on performance improvement activities against poor-performing lines of business and syndicates. A strong portfolio management led approach was taken, with improvement activities balanced by profitable growth, in syndicates and lines of business with a track record of delivering plan and a sustainable and profitable performance.

As a result of these actions, the market plans to grow in 2020, mainly driven by the positive pricing environment, and to continue to improve planned levels of profit. To continuously improve performance, it is essential to maintain underwriting discipline in the implementation of business plans which are logical, realistic and achievable and to continue to reduce expense ratios.

Positive pricing momentum is likely to continue in to 2020, with the majority of lines of business expected to maintain current positive pricing trends.

The COVID-19 pandemic has created turbulence in financial markets and economic uncertainty which will impact individuals and businesses. The full impact of this on the insurance industry, including the Lloyd's market, is uncertain. Our initial assessment has identified those lines of business most likely to be impacted, however the full extent of the losses and the impact upon pricing will become clearer as the year progresses. We will regularly monitor developments in this area and take appropriate actions as needed. Our consideration of the risks to the business and our responses are set out on page 13 of our Strategic Report. Note 25, events after the reporting period, also provides further detail on the quantitative assessment of the impact to our central solvency and market-wide solvency coverage.

2019 Highlights *continued*

2019 performance
Premium

Gross written premium for the year increased to £35,905m, compared with £35,527m in 2018.

The overall price change (taking into account terms and conditions) on renewal business was an increase of approximately 5.4%, which was slightly above planning assumptions for the year and better than 2018. This increase was largely driven by catastrophe impacted lines, but the pricing momentum has been gathering in the majority of lines of business. Although improving overall, absolute pricing levels are still challenging in some lines of business, which have struggled to deliver a positive result.

Volume reductions, as expected following several syndicates exiting certain lines of business, or curbing risk appetites in poor-performing lines resulted in a reduction to premium of 8.0%, compared to 2018.

US dollar denominated business continues to account for the largest share of business at Lloyd's. The average exchange rate in 2019 was US$1.28: £1 compared with US$1.34: £1 in 2018. The US dollar and other currency movements have increased premiums as reported in converted sterling by 3.5%.

The above movements, together with some growth from new syndicates (of 0.2%) results in the 1.1% increase to premium since 2018.

Accident year ratio

The accident year ratio*, excluding major claims, has continued to show signs of improvement with a further reduction to 96.0% (2018: 96.8%). Within this there has been improvement in the attritional loss ratio and expense ratio; there has been a reduction in the level of favourable prior year reserve development.

Attritional loss ratio: The attritional loss ratio continued to show signs of improvement in 2019, reducing to 57.3% (2018: 57.6%). The most recent underwriting year, 2019, has seen notable improvement through the effects of better underwriting discipline and a sustained period of rate increases on renewal business. This improvement has been offset by deterioration seen on the attritional loss ratio on the more developed underwriting years, 2017 and 2018.

Prior year development: This was the 15th consecutive year of prior year releases. The current year result has seen less benefit from prior year releases at 0.9% of net earned premium (2018: 3.9%). During the course of 2019, many syndicates have strengthened reserve estimates to take into consideration the increased level of uncertainty in certain lines of business, notably casualty for which strengthening has been reported across the market in aggregate. In addition, there has also been material strengthening reported in relation to estimates for Typhoon Jebi, consistent with the experience across the wider property and casualty industry. Prior year development on the other lines of business were considered to be at more normal levels.

* 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 176.

In 2020, 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*: In 2019, administrative expenses have decreased in both sterling amounts and as a percentage of net earned premium, to 11.2% (2018: 11.9%). The reduction in administrative expenses is driven by cost management initiatives across the market as well as the impact of class closures as the market continues to improve underwriting discipline. The acquisition costs ratio has increased slightly to 27.5% (2018: 27.3%) however this is attributed to changes in business mix. Reducing the overall operating expenses will remain an important area of focus in 2020 as part of the Future at Lloyd's strategy.

Major claims

Major claims for the market were £1,806m in 2019 (2018: £2,906m), net of reinsurance and including reinstatements payable and receivable. Total industry insured losses for the catastrophe events of 2019 are estimated to be US$56bn.

The first half of 2019 experienced a low level of catastrophic activity. In the second half of 2019 the largest insured natural catastrophe event to impact the result was Typhoon Hagibis, which struck Japan and caused extensive flood and wind damage. This event was the second major typhoon loss event to impact Japan during 2019, with Typhoon Faxai occurring one month earlier. Hurricane Dorian was an extremely destructive category 5 storm which caused extensive damage and devastated parts of the Bahamas. Other notable events included US and Australian wildfires and Chilean riots.

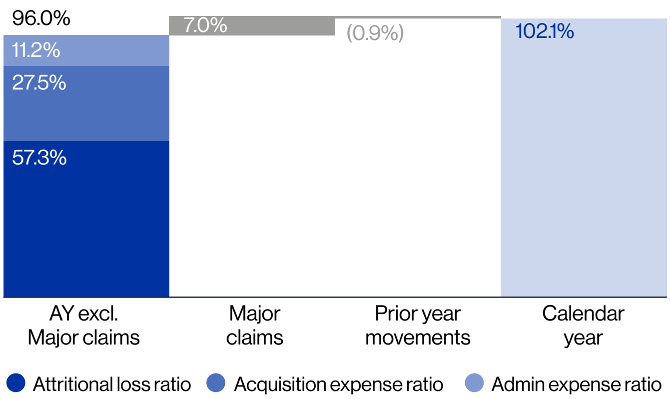
Major claims	% of net earned premium
2015	3.5
2016	9.1
2017	18.5
2018	11.6
2019	**7.0**
Five year average[1]	9.6
Ten year average[1]	10.2

Accident year ratio excl. major claims	%
2015	94.4
2016	93.9
2017	98.4
2018	96.8
2019	**96.0**
Five year average[1]	96.0
Ten year average[1]	93.1

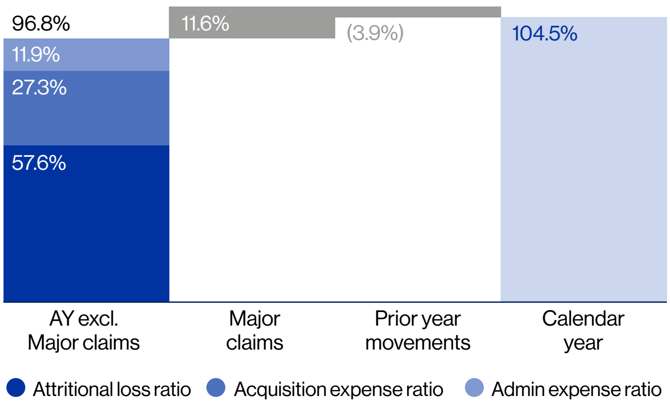
1. Weighted by net earned premium.

Contributors to combined ratio

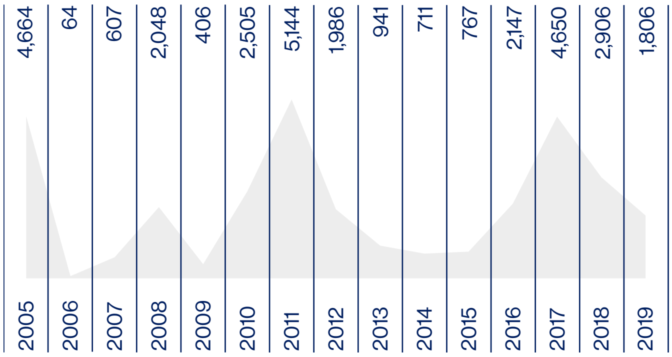
2019 Combined ratio %



2018 Combined ratio %



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



Five year average: £2,266m; 15 year average: £2,115m. Indexed for inflation to 2019. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

Prior year reserve movement	% of net earned premium
2015	(7.9)
2016	(5.1)
2017	(2.9)
2018	(3.9)
2019	**(0.9)**

Years of account in run-off	Number of years
2015	4
2016	6
2017	5
2018	0
2019	**3**

Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remains extremely high, with 98.6% 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 55.4% of gross written premium/72.7% of members' assets). There has been an increase in the overall reinsurance recoverables due to the catastrophe losses experienced during 2019 and due to an increase in the 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 2019 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 will be monitoring this closely in 2020 as part of our normal market oversight procedures.

Lloyd's outward reinsurance premium spend for both the 2019 financial and underwriting year of account was 28.5% (2018: 27.7%) of gross written premium, which reflects a small increase in 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 2017 underwriting year of account reached closure at 31 December 2019. After a long period of relatively benign major loss activity, the cost of major claims to the Lloyd's market in 2017 was the third highest since 2003. The largest insured event was Hurricane Irma, which devastated large parts of the Caribbean and US Gulf States, and was the second of three major Atlantic hurricanes. The others being Hurricane Harvey, causing significant damage to Texas, and Hurricane Maria causing widespread damage in the Caribbean. As a result, the 2017 underwriting year of account reported an underwriting loss. The 2017 underwriting year loss was offset partially by the addition of releases from prior years totalling £704m on the 2016 and prior reinsurance to close (RITC) (2015 and prior: £896m), which meant the year closed with an overall loss of £2,414m (2016 underwriting year loss: £855m).

There were no run-off years in existence at the beginning of 2019, so there was no contribution to the 2017 result from run-off years (2018: run-off years contributed a surplus of £7m to the 2016 year of account). At the end of 2019, three syndicates did not close the 2017 year of account.

The results of the major lines of business are discussed in detail on pages 28-35.

Investment review

2019 was a markedly positive year for investments. Equities generated a particularly strong level of return for the calendar year with other risk assets also performing well. In fixed interest markets, the easing of monetary policy drove a reduction in risk free yields resulting in capital gains for government bonds. Corporate bond returns were further enhanced by credit spread narrowing, in line with the trajectory of other risk assets. In terms of foreign exchange movements, sterling was volatile versus most other major currencies, but strengthened versus US dollars by the end of the year.

The market's investments generated a return of £3,537m (2018: £504m), or 4.8% (2018: 0.7%), a considerable improvement on the previous year and also well above the five-year average. In terms of key drivers, the major allocation to corporate bond investments benefitted from strong performance in this asset class and the very strong performance on equity risk assets also made a notable contribution although the allocation remained conservative over the year.

Syndicate premium trust fund assets form the largest element of investment assets at Lloyd's. Managing agents have responsibility for the investment of these assets, which are used to meet insurance claims as they become payable. The aggregate asset disposition reflects the balanced but conservative investment policy pursued by agents. Cash and high quality, shorter duration, fixed interest investments constitute a majority core share while return seeking equity and growth assets account for a moderate allocation at less than 10%.

Overall, syndicate investments returned £1,667m, or 4.0% in 2019 (2018: £333m, 0.8%). Investment return was materially higher this year driven by strong performance on corporate bonds as well as equity and growth assets. Investments are valued at mark to market prices and unrealised gains and losses are included within reported investment returns.

Members' capital is generally held centrally at Lloyd's. A proportion of this capital is maintained in investment assets and managed at members' discretion. A notional investment return on members' capital of £1,657m, or 5.9% (2018: £178m, 0.7%) has been included in the Pro Forma Financial Statements (PFFS). This is based on the investment disposition of the relevant assets and market index returns. Return on this pool of assets was significantly higher by comparison with previous years with its allocation to equity and growth assets driving investment gains.

The investment return on Lloyd's central assets is also included in the PFFS. This was a gain of £213m or 5.6% in 2019 (2018: loss of £7m, -0.2%). The investment performance of central assets is discussed on page 106.

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.

2019 performance

Lloyd's gross written premium for 2019 was £6,405m (2018: £6,440m), a decrease of 0.5%. Despite improved pricing adequacy on property treaty and facultative contracts, there has been greater scrutiny around risk selection given recent consecutive years of higher than average loss activity and adverse development of some prior year losses beyond expectations. Additionally, 2019 gross written premium has a lower level of reinstatement premium than 2018. The Lloyd's reinsurance property line reported an accident year ratio of 106.5% (2018: 121.1%).

2019 was another year in which globally, natural disasters at times dominated the headlines. Many of these events resulted in meaningful losses to the reinsurance market, but in aggregate were not to the same scale of those experienced in either 2017 or 2018.

Prior year movement

The prior year movement was a release of 0.3% (2018: 4.9%). Releases are generally expected for more recent years, when margin being held for potential catastrophes is not utilised and as claims estimates for losses become more certain over time. The market has made releases overall for the 2017 hurricane events (in particular, Hurricanes Harvey and Maria) as well as for the 2017 and 2018 Californian wildfires. The total release is lower than in previous years, driven mostly by deterioration seen for Typhoon Jebi on the 2018 year.

Looking ahead

Despite above average catastrophe losses in 2017 and 2018 and a number of large catastrophic events in 2019, there remains a surplus of capacity in the market although there is an increased focus on client selection. Initial indications suggest that pricing levels at January 2020 were generally below market expectations, but this was dependent on geographic region and whether or not the business was loss affected. Pricing adequacy may improve as 2020 progresses, with a large proportion of loss affected business still to renew.

Reinsurance – Casualty

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

2019 performance

Lloyd's gross written premium for 2019 was £2,960m (2018: £2,541m), an increase of 16.5%. The Lloyd's reinsurance casualty line reported an accident year ratio of 102.4% (2018: 99.7%).

2019 saw the casualty treaty market begin to restrict capacity and achieve price strengthening across most lines of business. While US Workers Compensation remained competitive, for the other lines this marked a shift from previous years. For motor excess of loss business, syndicates had largely expected some relief as a result of expected changes to the Ogden discount rate during 2019. Most syndicates had expected this to increase to at least 0% with some hoping it could be up to 1%. However, the shift from -0.75% to just 0.25% meant that the impact was not as significant. As most treaty business renews at the start of the calendar year, syndicates were not able to react and may have had to wait until 2020 renewals.

Prior year movement

The prior year movement was a strengthening of 1.7% (2018: release of 3.6%). Despite 2019 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. Furthermore, the global casualty treaty business has performed worse than expectation overall, with the US territory generally seeing the heaviest claims experience. Therefore, the fact that this line has strengthened in aggregate is in line with expectations.

Lloyd's continues to monitor casualty lines to ensure adequate provisions remain over all prior years. The strengthening for this line is within expectations, reflecting the 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 offsetting releases to come through on the older years.

Looking ahead

During 2019, there has been growing concern around social inflation and the impact this may have on reserve adequacy in prior years. This is likely to result in significant reassessment of appetite, particularly in the US and other litigious jurisdictions.

Increasingly high jury awards are being seen in the US, Canada and Australia and there are signs that the market is starting to tighten capacity as a result. There is continued concern that these increases are unlikely to be sufficient to keep up with claims inflation, but it appears that greater scrutiny is being undertaken during renewal negotiations resulting in tighter controls around limits.

Reinsurance – Specialty

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

2019 performance

Gross written premium overall was £2,053m (2018: £2,089m), a reduction of 1.7%. Gross written premium by sector within this specialty business was: Marine, Aviation and Transport £1,414m (2018: £1,451m), Energy £633m (2018: £624m), Life £6m (2018: £14m). The Lloyd's reinsurance specialty line reported an accident year ratio of 108.6% (2018: 101.9%).

Following the Lürssen Shipyard loss in 2018, which was heavily reinsured within the marine excess of loss market, the expectation was that prices would measurably increase. However, the segment continued to attract a high level of capacity and the price increases achieved were relatively modest.

Prior year movement

The prior year movement was a release of 2.8% (2018: release of 11.0%). The claims experience for this line has performed broadly in line with expectations over 2019. 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 for the Lürssen Shipyard loss offset by the increased incidence of large losses and exposure to Typhoon Jebi on the more recent years. Likewise, aviation has seen increased large loss activity on more recent years over 2019 with major losses arising from the grounding of the Boeing 737 MAX fleet and within the space account impacting the reinsurance market. In contrast, motor reinsurance has generally performed favourably against expectations. Most benefit has been seen for UK business due in part to the change in Ogden discount rate with a rate of -0.25% being used from July 2019.

Given the increased incidence of large losses on the marine and aviation lines, larger margins for uncertainty are generally being held and reserving estimates increased to cover the uncertainty around emerging claims. Therefore, the overall strengthening in the market is not unexpected.

The claims experience for this line has been favourable compared with expectations over the 2019 year. This line is predominantly marine, aviation and energy business written on an excess of loss basis. Given that claims experience is largely driven by isolated claim events, e.g. the Jim Beam warehouse fire, prudent reserves tend to be held and released in years with less claims activity. In addition to the general release of prudence over time, the marine line can also be impacted by global natural catastrophes and non-modelled losses (such as wildfire).

Looking ahead

There are signs of price strengthening in the sector in 2020 following a challenging 2019 result, which further compounded the losses made in the catastrophe impacted 2017 and 2018 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.

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.

2019 performance

Lloyd's gross written premium for 2019 was £9,586m (2018: £9,687m), a decrease of 1.0%. The Lloyd's property line reported an accident year ratio of 101.5% (2018: 114.0%).

2019 loss experience was more benign than observed in recent years, although not without a number of natural catastrophe events. The largest of which were Hurricane Dorian, Typhoons Faxai and Hagibis together with an extreme Australian wildfire season.

Additionally, significant hailstorm and thunderstorm activity also occurred, particularly in the US, whilst regional social unrest within Chile during the second half of 2019 additionally impacted overall performance for some syndicates.

Performance improvement actions across poor performing accounts, along with appetite and capacity changes within London and a number of domestic and international carriers resulted in a more favourable operating environment through 2019. This helped to drive a continued firming of both policy terms, conditions and pricing levels as the year progressed.

2019 exposures showed modest contraction in most lines of business, driven by continuing impacts of remedial actions with syndicates, who often exited or reduced lines. These reductions however in part have been offset by stronger pricing levels for both new and renewing business.

Prior year movement

The prior year movement was a release of 1.7% (2018: release of 3.6%). Recent years of account have seen elevated levels of catastrophe losses worldwide, with most impact seen for the direct and facultative lines of business. In particular, the 2018 year has been impacted by the heightened uncertainty around the ultimate claims cost for Typhoon Jebi. In addition to increased catastrophe losses, there is evidence that attritional and large loss experience is worsening in some areas of this account. Although these non-catastrophe losses are isolated, focus will continue to be placed on them to ensure that market reserves remain adequate.

Looking ahead

2019 saw significant market activity driven by an increased focus on portfolio management and clear evidence of a firming market, which is expected to remain a feature for 2020. In order for syndicates to achieve the planned outcomes for 2020, underwriters will need to continue to focus on the execution and delivery of plans together with ongoing underwriting discipline for both existing and new accounts.

Casualty

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

2019 performance

Lloyd’s gross written premium for 2019 was £9,459m (2018: £9,094m), an increase of 4.0% This increase was largely driven by further growth in cyber, warranty and indemnity business and US directors and officers’ liability. Lloyd’s casualty line reported an accident year ratio of 103.8% (2018: 103.9%). While there is still substantial capacity in the casualty market, there is evidence that throughout 2019 this has started to become more restricted. Most lines are now starting to see price strengthening with increasing pressure towards the end of the year. However, years of suppressed price increases, often below claims inflation assumptions, mean that there remains uncertainty around whether these are sufficient to achieve pricing adequacy.

The growth in cyber insurance products continued into 2019 as new customers respond to high profile cyber breaches. 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. This has also resulted in the rate of growth in some lines beginning to slow compared with more recent years. Niche and heavy industrial occupations continue to see more focused underwriting, not just in terms of pricing but also in relation to reviews of programme structure and policy terms.

Prior year movement

The prior year movement was a strengthening of 1.9% (2018: a release of 1.0%).

Claims experience for this line has performed in line with expectations over 2019. However, selected casualty lines continued to receive additional oversight. This is appropriate given that their longer emergence period leads to greater uncertainty when compared to property lines, which have shorter periods of exposure. In particular, there are concerns over the estimation of claims reserves for the directors and officers, general liability and medical malpractice lines of business.

As a result of the additional oversight, several casualty lines have seen increases in their reserves over 2019. Despite reserve increases seen for some focus areas of this account, the fact that experience has generally been stable at a total level and that the market tends to hold large margins for uncertainty for a number of years means continued releases are not unexpected. In addition to the above lines, cyber has also seen a rise in claims on recent years related to ransomware and other cyber attacks. This is will continue to be a key focus for Lloyd's given the limited experience available for this line.

In 2020, Lloyd's will continue to monitor the adequacy of market-wide casualty reserves, ensuring that we engage with managing agents writing material casualty business. This increased level of oversight is warranted given the current tough market conditions and the fact that it will take many years to confirm whether any adjustments to these reserves are sufficient.

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 included within 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 increasing regulation and litigation. This has been accompanied by increased capacity for litigation funding. A general public desensitisation to litigation and jury awards has 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 2020 there is likely to be an increased focus on excess placements.

As the market in all casualty lines becomes more restricted following years of growth, often through delegated underwriting arrangements, there appears to be significant signs of stabilisation. This is likely to continue across the board as syndicates attempt to recalibrate pricing against changing inflation assumptions.

Marine, Aviation and Transport

A diverse mix of marine business is placed at Lloyd's who are regarded as industry leaders in the sector. Business lines such as cargo, hull and marine liability are the main drivers of the whole line performance, notwithstanding the share of marine war, yacht, fine art and specie.

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 (e.g. 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.

2019 performance

Lloyd's gross written premium for 2019 was £2,802m (2018: £3,152m), a decrease of 11.1%. The Lloyd's marine, aviation and transport line reported an accident year ratio of 113.3% (2018: 116.2%).

Following a challenging 2018, the 2019 business planning season included extensive performance improvement activity, specifically in hull, yacht and cargo lines. A number of syndicates elected to withdraw either partially or fully from certain marine lines, explaining the written premium decrease for the year. The above implied an improved pricing and underwriting performance environment that gathered momentum throughout 2019.

Cargo showed the clearest evidence of positive market remediation and stabilisation. Hull, however, remains under significant strain despite an improving performance environment. The recent increase in tensions within the Middle East has impacted war written premiums and this will continue into early 2020.

Due to the ongoing challenging conditions in the aviation market a small portion of insurers elected to withdraw or reduce their appetite and capacity in the sector in 2019. There were fewer large losses in 2019 in comparison with prior years. Nevertheless, the 2019 results continued to be impacted by the frequency and cost of attritional claims eroding premium and deductible levels.

Whilst airline and general aviation have previously been the main lines contributing to the negative result, aviation excess of loss and space have endured a difficult 2019. Loss activity coupled with the decline in industry capacity levels, caused by consolidation and market withdrawals, driven by the sustained poor performance, have led to a positive pricing environment in 2019 across all sectors.

Prior year movement

The prior year movement was a release of 4.8% (2018: release of 0.9%).

These lines of business have performed broadly in line with expectations over 2019, despite heightened large loss activity impacting both property damage and liability within this line. In addition, recent years have seen higher than average catastrophe losses, which are known to drive property damage claims. However, some of these catastrophe losses have become more certain over 2019, resulting in offsetting reserve releases being seen. Despite experience being in line with expectations overall, 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, experience has been in line with expectations. 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. Given the heightened uncertainty on recent years, larger margins are generally being held and reserving estimates increased to cover these emerging claims.

Looking ahead

During 2020, it is expected that the marine market will be highly selective, both on individual risk and also at segment level, with the preference for more open market placements enabling greater opportunity to control risk selection. 2020 is expected to be a year of performance improvement for many market participants. The trajectory to sustainable profit is positive but not embedded, the momentum needs to be maintained.

Safety in the aviation sector is likely to continue to improve, higher aircraft repair costs and the increasing values of engines and airframes will continue to drive higher levels of attrition, with increased values not being matched by a commensurate increase in deductibles.

Notwithstanding the rise in general pricing levels in 2019, industry claims are still likely to materially exceed premiums in a normal loss year. Strict adherence to underwriting discipline regarding risk selection, exposure management controls and rigorous portfolio management remain essential in order to generate positive returns.

Energy

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

2019 performance

Gross written premium for the Lloyd's energy line in 2019 was £1,500m (2018: £1,404m), an increase of 6.8%. The Lloyd's energy line reported an accident year ratio of 107.5% (2018: 105.6%).

The direction of travel in the pricing environment across all energy lines has been positive through 2019. Downstream property and liability have benefited the most, fuelled by continued large loss activity in the downstream lines through 2018 and 2019, specifically in the US refining sector. From a whole account perspective this has been balanced somewhat by benign large and catastrophic loss activity in upstream lines, which is 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 10.2% (2018: 18.2%). The energy line of business has seen continued prior year reserve releases over 2019. 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. 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, the market is showing improved underwriting discipline and price increases are gathering momentum as underwriters react to adverse large loss experience in the last few years. Steps are also being taken to implement improved and tighter terms and conditions, in light of unrelenting losses and volatility in claims values.

Upstream energy remains in a state of relative stability in terms of pricing, conditions and underwriting appetite. This is mainly driven by an absence of large losses, coupled with a benign wind season in areas of high energy asset exposure accumulations, such as in the Gulf of Mexico.

While there has been a trend of increasing limits of indemnity in the sector due to the increasing magnitude of some of the offshore complexes, there is adequate capacity in the market to accommodate these large placements.

Motor

Lloyd's motor market primarily covers UK private car, commercial and fleet business. Private car represents around 35% of Lloyd's UK motor premium and includes niche motor risks. Lloyd's commercial and fleet business is very diverse, ranging from light commercial vehicles and taxis to buses and heavy haulage.

International motor is also written; a large proportion emanates from North America, including private auto and static risks such as dealers open lot.

2019 performance

Gross written premium in 2019 was £1,053m (2018: £1,037m), an increase of 1.5%. The Lloyd's motor line reported an accident year ratio of 100.6% (2018: 101.8%).

Underwriting conditions in the UK motor market continue to be challenging. This has been further exacerbated by the 2019 Ogden discount rate review with general expectation that the new rate would be 0% or higher, when in fact it was set at -0.25%.

The international motor market has seen some positive signs during 2019, with an increasing trend of higher deductibles, which have been kept historically low for a number of years. This should have a positive impact on attritional losses.

Price strengthening has started to pick up as a result of capacity tightening.

Prior year movement

The prior year movement was a release of 1.8% of net earned premium (2018: 3.1%). This is driven by favourable claims experience for both UK and overseas motor. UK motor business has benefited from the Lord Chancellor's announcement in July 2019 to change the Ogden discount rate from -0.75% to a rate of -0.25%, which has reduced the amount insurers pay out for severe bodily injury claims.

Looking ahead

With the updated Ogden discount rate now agreed for five years, this should bring some more certainty around reserves and allow syndicates to implement and updated pricing strategy going forward. At the end of 2018, the Civil Liability Bill received royal assent. While this Bill specifically deals with the Ogden discount rate, the proposed amendment to the current rate was announced in the middle of 2019. The Civil Liability Bill also introduced reforms which are aimed at reducing fraudulent whiplash claims. These reforms will not be introduced until 2020, so it is unlikely to have any material impact on loss ratios for some time. However, claimant reaction to the changing environment may bring about new claims trends in motor and casualty lines.

Overseas motor continues to see refinement of appetite, with syndicates moving away from liability risks, particularly in the US. In particular, some own damage programmes in the US have benefited from local price strengthening on liability risk, which has filtered through to own damage as well.

Reinsurance

Property		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	4,627	87.4	(11.1)	76.3	794
	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)**

Casualty		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	1,797	103.9	(3.9)	100.0	0
	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	(3.7)	96.1	78
	2019	**2,960**	**102.4**	**1.7**	**104.1**	**(94)**

Specialty		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	2,169	106.0	(12.7)	93.3	110
	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)**

Insurance

Property		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	6,893	94.1	(4.0)	90.1	501
	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**

Casualty		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	5,764	104.5	(4.4)	100.1	(5)
	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)**

Marine, Aviation and Transport		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	2,832	106.9	(12.4)	94.5	127
	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)**

Energy		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	1,414	97.3	(21.3)	76.0	247
	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**

Motor		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	1,120	109.5	(7.5)	102.0	(17)
	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**

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.

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 (as below).

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.

Report of PricewaterhouseCoopers LLP to the Council on the 2019 Pro Forma Financial Statements

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2019 Lloyd's Pro Forma Financial Statements

Conclusion

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 2019, 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: a pro forma profit and loss account, a pro forma statement of other comprehensive income, a pro forma balance sheet, a pro forma statement of cash flows, and notes 1-25.

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

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Lloyd's Annual Report within which the PFFS for the year ended 31 December 2019 are included.

What a reasonable assurance engagement involves

We performed a reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information', issued by the International Auditing and Assurance Standards 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. 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 in part from an aggregation of financial information extracted from the balance sheet and profit and loss account included in syndicate annual returns and accounts by the managing agent of each syndicate, which has been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported. Our work did not involve assessing the quality of those audits or performing any audit procedures over the financial information of the syndicates.

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

- obtaining an understanding of how the Council of Lloyd's has compiled the PFFS from the audited syndicate annual returns and accounts, the audited Society of Lloyd's Group Financial Statements 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 returns and accounts and the Society of Lloyd's Financial Statements;
- 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 consider 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 the preparation and approval of the PFFS in accordance with the basis of preparation set out in note 2. The purpose of the PFFS is to allow the financial results of Lloyd's and its members and their net assets taken together to be compared as closely as possible with the financial reports of general insurance companies.

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

This report including our conclusions has been prepared solely to the Council of Lloyd's in accordance with our engagement letter dated 28 February 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
26 March 2020

Pro Forma Profit and Loss Account

(For the year ended 31 December 2019)

Technical account	Note	2019 £m	2019 £m	2018 £m	2018 £m
Gross written premiums	9		35,905		35,527
Outward reinsurance premiums			(10,246)		(9,846)
Premiums written, net of reinsurance			25,659		25,681
Change in the gross provision for unearned premiums		186		(789)	
Change in the provision for unearned premiums, reinsurers' share		(24)		286	
			162		(503)
Earned premiums, net of reinsurance			25,821		25,178
Allocated investment return transferred from the non-technical account			1,371		367
			27,192		25,545
Claims paid					
Gross amount		22,991		19,666	
Reinsurers' share		(7,133)		(5,682)	
			15,858		13,984
Change in provision for claims					
Gross amount		1,083		4,895	
Reinsurers' share		(580)		(2,441)	
			503		2,454
Claims incurred, net of reinsurance			16,361		16,438
Net operating expenses	11		9,998		9,870
Balance on the technical account for general business			833		(763)
Non-technical account					
Balance on the technical account for general business			833		(763)
Investment return on syndicate assets		1,667		333	
Notional investment return on members' funds at Lloyd's	6	1,657		178	
Investment return on Society assets		213		(7)	
	12	3,537		504	
Allocated investment return transferred to the technical account		(1,371)		(367)	
			2,166		137
(Loss)/profit on exchange			(54)		(8)
Other income			59		34
Other expenses			(472)		(401)
Result for the financial year before tax	8		2,532		(1,001)

All operations relate to continuing activities.

Pro Forma Statement of Comprehensive Income

(For the year ended 31 December 2019)

Statement of other comprehensive income	2019 £m	2018 £m
Result for the year	2,532	(1,001)
Currency translation differences	31	(65)
Other comprehensive gains/(losses) in the syndicate annual accounts	14	(3)
Remeasurement (losses)/gains on pension assets/liabilities in the Society accounts	(49)	61
Total comprehensive income/(loss) for the year	2,528	(1,008)

Pro Forma Balance Sheet

(As at 31 December 2019)

Investments	Note	£m	2019 £m	£m	2018 £m
Financial investments	13		63,562		60,363
Deposits with ceding undertakings			38		35
Reinsurers' share of technical provisions					
Provision for unearned premiums	18	3,700		3,853	
Claims outstanding	18	19,897		19,541	
			23,597		23,394
Debtors					
Debtors arising out of direct insurance operations	14	9,014		9,673	
Debtors arising out of reinsurance operations	15	8,256		7,478	
Other debtors		929		1,016	
			18,199		18,167
Other assets					
Tangible assets		28		27	
Cash at bank and in hand	16, 22	9,631		10,877	
Other		140		125	
			9,799		11,029
Prepayments and accrued income					
Accrued interest and rent		110		123	
Deferred acquisition costs	18	4,404		4,680	
Other prepayments and accrued income		169		217	
			4,683		5,020
Total assets			119,878		118,008
Capital, reserves and subordinated debt					
Members' funds at Lloyd's	6	27,595		26,483	
Members' balances	17	(242)		(1,472)	
Members' assets (held severally)		27,353		25,011	
Central reserves (mutual assets)		2,491		2,417	
	8		29,844		27,428
Subordinated debt	2		794		794
Total capital, reserves and subordinated debt			30,638		28,222
Technical provisions					
Provision for unearned premiums	18	17,143		17,868	
Claims outstanding	18	59,655		60,450	
			76,798		78,318
Deposits received from reinsurers			880		169
Creditors					
Creditors arising out of direct insurance operations	20	1,402		1,325	
Creditors arising out of reinsurance operations	21	6,751		6,552	
Other creditors including taxation		2,378		2,484	
			10,531		10,361
Accruals and deferred income			1,031		938
Total liabilities			119,878		118,008

Approved by the Council on 24 March 2020 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 2019)

	Note	2019 £m	2018 £m
Result for the financial year before tax		2,532	(1,001)
(Decrease)/increase in gross technical provisions		(869)	6,113
(Increase)/decrease in reinsurers' share of gross technical provisions		(410)	(2,918)
(Increase)/decrease in debtors		(2,777)	(2,120)
Increase/(decrease) in creditors		2,987	943
Movement in other assets/liabilities		618	(424)
Investment return		(3,537)	(504)
Depreciation		6	9
Tax received		(69)	(34)
Foreign exchange		1,404	(809)
Other		172	(113)
Net cash flows from operating activities		57	(858)
Investing activities			
Purchase of equity and debt instruments		(37,871)	(40,927)
Proceeds from sale of equity and debt instruments		36,856	41,316
Purchase of derivatives		(4,721)	(3,078)
Proceeds from sale of derivatives		4,736	3,070
Investment income received		170	653
Other		30	(538)
Net cash flows from investing activities		(800)	496
Financing activities			
Net funds received from/(paid to) members		963	(851)
Net capital transferred (out of)/into syndicate premium trust funds		(405)	825
Interest paid on subordinated notes		(38)	(38)
Net movement in members' funds at Lloyd's		(1,156)	(1,451)
Other		174	104
Net cash flows from financing activities		(462)	(1,411)
Net (decrease)/increase in cash and cash equivalents		(1,205)	(1,773)
Cash and cash equivalents at 1 January		12,395	14,113
Exchange differences on cash and cash equivalents		(62)	55
Cash and cash equivalents at 31 December	22	11,128	12,395

Notes to the Pro Forma Financial Statements

(For the year ended 31 December 2019)

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 118-172. 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 110.

The Aggregate Accounts report the audited results for calendar year 2019 and the financial position at 31 December 2019 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 lloyds.com/annualreport2019. 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, with the exception of the following items:

- 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 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 £127m (2018: £125m). 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 177). 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 £568m (2018: £643m). 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 121) 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 balance sheet 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 172 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 debt

In accordance with the terms of the Society's subordinated debt, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in "capital, reserves and subordinated debt" in the pro forma balance sheet. Note 24 to the Society financial statements on page 170 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 prepared in accordance with UK GAAP, comprising the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates.

3. Accounting policies notes

Sources of significant accounting judgements and estimation uncertainty

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

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

- Claims provisions and related recoveries (including provision for outstanding claims) (see note 3(a) and note 18);
- Premiums written (estimates for premiums written under delegated authority agreements) (see note 3(a) and note 9);
- Investments (valuations based on models and unobservable inputs) (see note 3(a) and note 13); and
- Notional investment return on FAL (estimate based on yields from indices for each type of asset held) (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 2019 is £59,655m (2018: £60,450m). The total estimate, net of reinsurers' share, as at 31 December 2019 is £39,758m (2018: £40,909m) 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.

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.

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 123.

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.

3. Accounting policies notes *continued*

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.

(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 123-129. 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 EU adopted International Financial Reporting Standards (IFRS) 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 normally has six working, six external and six nominated members. The working and external members are elected by Lloyd's members. The Chairman and Deputy Chairmen are elected annually by the Council from among its members. All members are approved by the PRA.

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

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

The principal committees of the Council are the Nominations and Governance Committee and the Remuneration Committee.

The principal committees of the Board are the Audit Committee, the Risk Committee, the Market Supervision and Review Committee, the Capacity Transfer Panel and the Investment Committee.

On 7 November 2019 it was announced that the Board would merge into the Council, with effect from 1 June 2020. Further details are provided on page 75 in the Corporate Governance Report.

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 2019 was 35% (2018: 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", i.e. those arising on syndicate activity, members' capital provided at Lloyd's and the Society taken together, at a 99.5% confidence level over a one year time horizon as provided for in Solvency II legislation. All of the capital of the component parts of the market taken together are available to meet the MWSCR.

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.

4. Risk management *continued*

Details of the major risk components are set out below.

Insurance risk

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

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

Underwriting risk

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

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

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

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

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

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

Reserving risk

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

Lloyd's current level of aggregate market reserves remains robust and the continued level of overall reserve releases are supported by underlying claims experience being more favourable than expected. This will not necessarily translate to all syndicates. There are currently few specific reserving issues and the main perceived risks relate to macro influences 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.

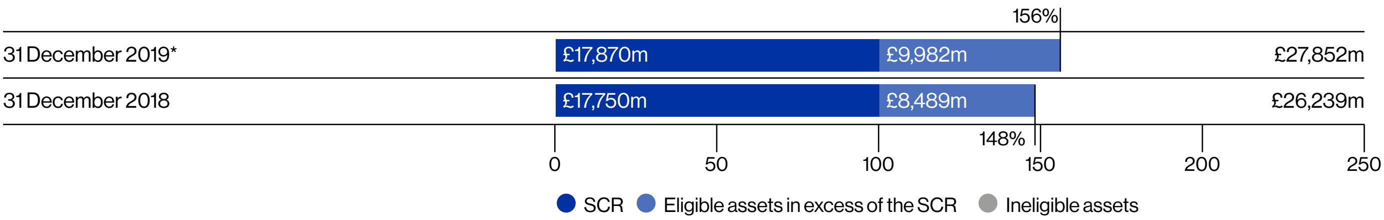
	31 December 2019* SCR £m	31 December 2018 SCR £m
Reserving risk	**7,392**	6,705
All other (attritional) underwriting risk	**7,422**	5,865
Catastrophe risk	**1,476**	2,972
Market risk	**507**	501
Reinsurance credit risk	**659**	597
Operational risk	**780**	739
Pension risk	**10**	22
MWSCR before adjustments	**18,246**	17,401
Foreign exchange adjustment for movement in H2 2019 (H2 2018)	**(376)**	349
MWSCR	**17,870**	17,750

* SCR is not subject to audit.

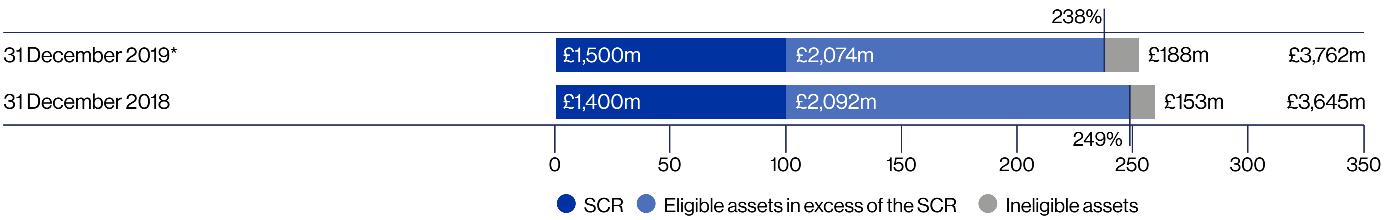
Solvency Capital Requirement coverage

Coverage of the MWSCR and CSCR is an ongoing and continuous requirement and the Society reports the results of its solvency test – i.e. 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 2019 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 2019, 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.
- 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 2019*	**156%**	**238%**
31 December 2018	149%	250%
Risk appetite for solvency cover ratio	125%	200%

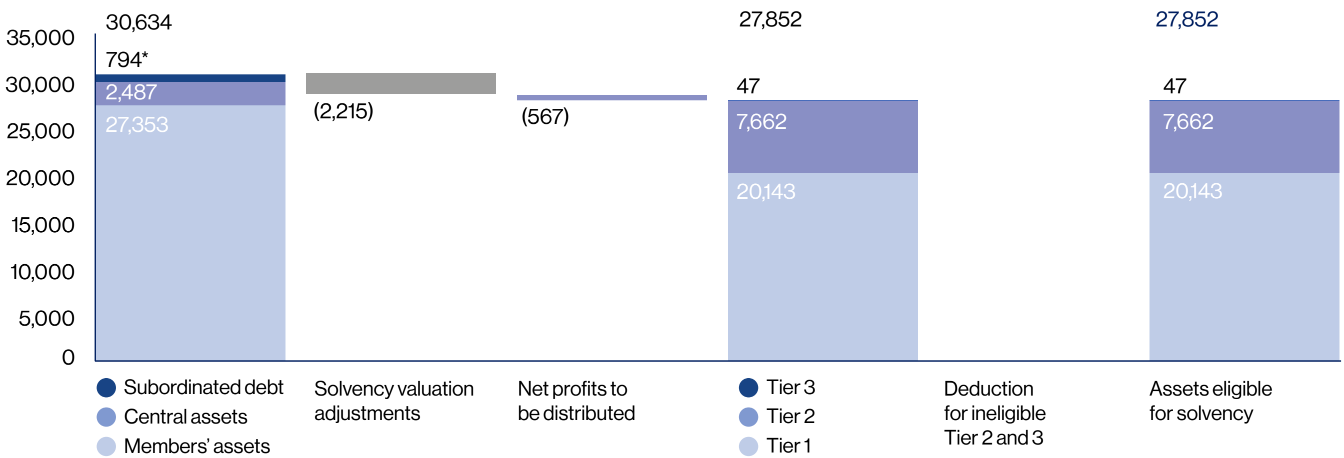
* Based on the unaudited solvency returns.

Assets eligible for solvency

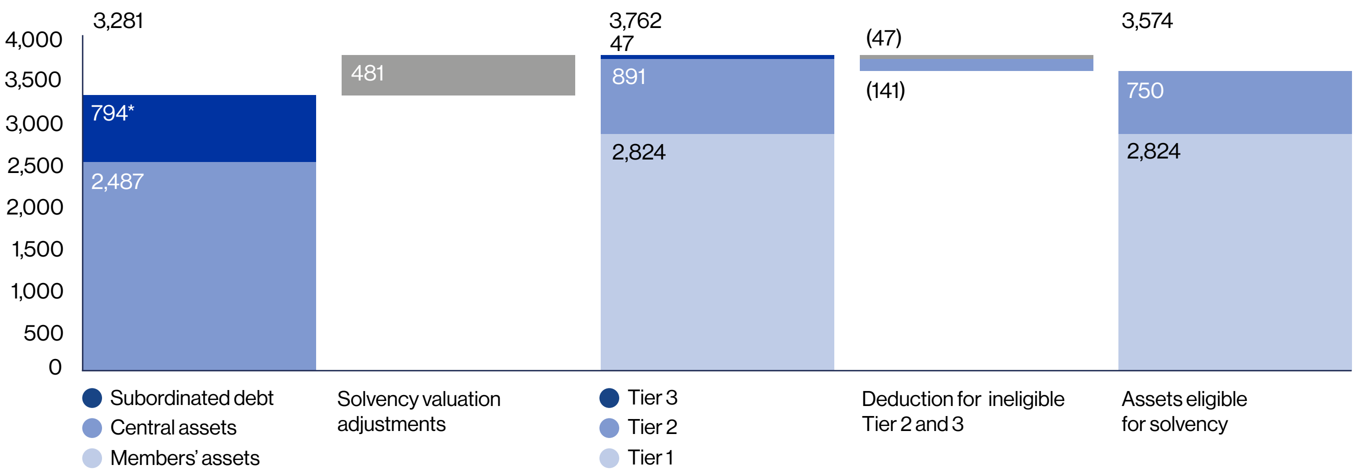
The assets of the syndicates, members' FAL and the Society all contribute towards coverage of the MWSCR, after adjustments to value items in accordance with Solvency II valuation principles. Members' assets are however not fungible. The Society assets and callable layer, in the chain of security, are 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. However, a proportion of members' FAL is provided in the form of letters of credit which are classed as Tier 2 assets, restricting their ability to cover the MWSCR and resulting in a lower solvency cover ratio. These letters of credit are callable on demand and when called, the proceeds, namely cash, would qualify as Tier 1 assets. Under these circumstances, the amounts previously restricted would become fully eligible.

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 2019 balance sheet. Other amounts represent the position based on the unaudited solvency returns, which may differ from the final audited 2019 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 2019 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.

Advantage has been taken of the transitional rules of FRS 103 that permit the stepped increase in disclosure of claims development information. The claims development information disclosed will be 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**	Total £m
At end of underwriting year		9,059	8,281	7,129	7,287	7,046	8,809	16,624	13,505	**10,322**	
One year later		15,308	13,623	13,615	14,063	14,724	19,341	27,226	24,982		
Two years later		15,416	13,904	13,792	14,877	15,584	20,883	29,096			
Three years later		15,280	13,667	13,439	14,750	16,343	21,623				
Four years later		15,233	13,608	13,229	15,705	16,758					
Five years later		15,053	13,455	13,547	15,830						
Six years later		14,968	13,860	13,743							
Seven years later		14,961	14,129								
Eight years later		14,945									
Cumulative payments		13,870	12,547	11,811	12,952	12,295	14,579	17,240	10,017	**1,222**	
Estimated balance to pay	4,760	1,075	1,582	1,932	2,878	4,463	7,044	11,856	14,965	**9,100**	59,655

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**	Total £m
At end of underwriting year		7,563	6,272	5,959	5,971	5,641	6,943	9,992	9,204	**7,612**	
One year later		12,172	10,842	11,144	11,276	11,724	14,489	17,454	17,105		
Two years later		12,190	10,995	11,209	11,833	12,277	15,410	18,803			
Three years later		12,023	10,828	10,828	11,715	12,647	15,846				
Four years later		12,068	10,631	10,762	12,012	12,685					
Five years later		11,643	10,559	10,834	11,949						
Six years later		11,616	10,682	10,821							
Seven years later		11,574	10,724								
Eight years later		11,552									
Cumulative payments		10,720	9,541	9,423	9,957	9,603	11,116	11,597	7,419	**1,075**	
Estimated balance to pay	3,112	832	1,183	1,398	1,992	3,082	4,730	7,206	9,686	**6,537**	39,758

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 48, 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.

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

2018	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Debt securities	41,679	–	–	41,679
Participation in investment pools	2,254	–	–	2,254
Loans with credit institutions	3,994	–	–	3,994
Deposits with credit institutions	3,806	–	–	3,806
Derivative assets	37	–	–	37
Other investments	43	–	–	43
Reinsurers' share of claims outstanding	19,549	–	(8)	19,541
Cash at bank and in hand, including letters of credit and bank guarantees	10,877	–	–	10,877
Total	82,239	–	(8)	82,231

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

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

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

The table below provides information regarding the credit risk exposure at 31 December 2019 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.

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**

2018	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	11,900	9,988	10,543	5,421	3,827	41,679
Participation in investment pools	128	131	36	7	1,952	2,254
Loans with credit institutions	613	88	171	151	2,971	3,994
Deposits with credit institutions	1,740	570	502	248	746	3,806
Derivative assets	–	–	8	–	29	37
Other investments	9	1	–	–	33	43
Reinsurers' share of claims outstanding	616	3,791	12,752	107	2,283	19,549
Cash at bank and in hand	250	1,751	7,973	383	520	10,877
Total credit risk	15,256	16,320	31,985	6,317	12,361	82,239

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.

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 debt	–	–	–	496	298	794
Total	1,362	28,811	21,774	10,218	9,779	71,944

2018	No stated maturity £m	0-1 yrs £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Claims outstanding	2	19,619	22,149	9,428	9,252	60,450
Derivatives	–	31	–	–	–	31
Deposits received from reinsurers	26	104	30	7	2	169
Creditors	788	8,317	963	145	117	10,330
Other liabilities	1	36	3	1	–	41
Subordinated debt	–	–	–	–	794	794
Total	817	28,107	23,145	9,581	10,165	71,815

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:

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**

2018	Sterling £m	US dollar £m	Euro £m	Canadian $ £m	Australian $ £m	Other £m	Total £m
Financial investments	9,743	40,258	2,640	5,061	1,758	903	60,363
Reinsurers' share of technical provisions	3,903	17,055	1,354	688	236	158	23,394
Insurance and reinsurance receivables	2,869	12,399	935	425	269	254	17,151
Cash at bank and in hand	3,360	6,072	724	323	134	264	10,877
Other assets	1,416	3,770	615	257	100	65	6,223
Total assets	21,291	79,554	6,268	6,754	2,497	1,644	118,008
Technical provisions	15,169	50,449	6,280	3,829	1,590	1,001	78,318
Insurance and reinsurance payables	1,311	5,532	573	286	103	72	7,877
Other liabilities	2,834	1,872	(139)	156	40	(378)	4,385
Total liabilities	19,314	57,853	6,714	4,271	1,733	695	90,580
Total capital and reserves	1,977	21,701	(446)	2,483	764	949	27,428

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.

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

2018	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	421	2,586
Weakening of US dollar	(345)	(2,116)
Strengthening of euro	(85)	(44)
Weakening of euro	70	36

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.

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

2018	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(344)	(484)
- 50 basis points	339	479

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).

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)**

2018	Impact on result before tax £m	Impact on members' balances £m
5% increase in equity markets	106	281
5% decrease in equity markets	(106)	(281)

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 Board. 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 Board. Managing agents controlling more than 10% of overall market gross written premium are also subject to Board review. Any reported metrics outside of appetite are reported to and discussed by the Risk Committee and the Board. 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 28-35. 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 "2019 At a Glance" section at the beginning of the Annual Report. Analysis of capital providers by source and location is also included in the "2019 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

Calendar year movements in reserves are based upon best estimates as at 31 December 2019, 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 surplus of £232m (2018: £976m). The surplus arises across all lines of business, except for the casualty and life lines of business, reflecting favourable claims development compared with projections in these lines.

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

The valuation of members' FAL in the balance sheet totals £27,595m (2018: £26,483m). The notional investment return on FAL included in the non-technical profit and loss account totals £1,657m (2018: £178m).

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	2019 %	2018 %	2019 %	2018 %
UK equities	FTSE All share	4.4	4.1	17.4	(9.9)
UK government bonds	UK Gilts 1-3 years	2.9	2.1	0.6	0.1
UK corporate bonds	UK Corporate 1-3 years	4.7	4.4	1.0	0.2
UK deposits managed by Lloyd's	Return achieved	4.3	4.6	0.8	1.8
UK deposits managed externally including letters of credit	GBP LIBID 1 month	10.1	12.1	0.5	0.3
US equities	S&P 500 Index	8.7	8.1	27.9	(2.7)
US government bonds	US Treasuries 1-5 years	16.8	15.5	3.8	1.5
US corporate bonds	US Corporate 1-5 years	26.4	25.5	5.9	1.2
US deposits managed by Lloyd's	Return achieved	7.1	5.8	2.3	7.7
US deposits managed externally including letters of credit	USD LIBID 1 month	14.6	17.8	2.1	1.7

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 £434m (2018: £460m) in the technical account and a loss of £249m (2018: a loss of £266m) in the non-technical account.

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	2019 £m	2018 £m
Result per syndicate annual accounts	690	(1,373)
Result of the Society	137	163
Taxation charge in the Society financial statements	33	39
Notional investment return on members' funds at Lloyd's	1,657	178
Movement in Society income not accrued in syndicate annual accounts	15	(8)
Result for the financial year before tax	**2,532**	(1,001)

Capital and reserves	2019 £m	2018 £m
Net assets per syndicate annual accounts	(209)	(1,475)
Net assets of the Society	2,601	2,417
Elimination of syndicate loans	(110)	–
Members' funds at Lloyd's	27,595	26,483
Unpaid cash calls reanalysed from debtors to members' balances	(11)	40
Society income receivable not accrued in syndicate annual accounts	(22)	(37)
Total capital and reserves	**29,844**	27,428

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 market commentary.

2019	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Under-writing 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

2018	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Under-writing result £m
Reinsurance	11,070	7,650	(5,524)	(2,582)	(456)
Property	9,687	6,692	(4,319)	(3,073)	(700)
Casualty	9,094	6,363	(3,696)	(2,850)	(183)
Marine, Aviation and Transport	3,152	2,564	(1,872)	(1,084)	(392)
Energy	1,404	897	(392)	(392)	113
Motor	1,037	940	(607)	(321)	12
Life	83	72	(28)	(28)	16
Total from syndicate operations	35,527	25,178	(16,438)	(10,330)	(1,590)
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society				460	460
PFFS premiums and underwriting result	35,527	25,178	(16,438)	(9,870)	(1,130)
Allocated investment return transferred from the non-technical account					367
Balance on the technical account for general business					(763)

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

	2019 £m	2018 £m
United Kingdom	25,043	24,063
Other EU member states	26	38
Rest of the World	380	356
	25,449	24,457

10. Life business

The PFFS include the results of all life and non-life syndicates transacting business during 2019. 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

	2019 £m	2018 £m
Acquisition costs	8,977	9,033
Change in deferred acquisition costs	138	(171)
Administrative expenses	2,155	2,270
Reinsurance commissions and profit participation	(1,272)	(1,262)
	9,998	9,870

Total commissions on direct insurance business accounted for in the year amounted to £6,057m (2018: £6,100m).

12. Investment return

Interest and similar income	2019 £m	2018 £m
From financial instruments designated as at fair value through profit or loss	2,433	836
From available for sale investments	36	39
Dividend income	30	48
Interest on cash at bank	52	50
Other interest and similar income	39	30
Investment expenses	(58)	(45)
Total	2,532	958
Other income from investments designated as at fair value through profit or loss		
Realised gains/(losses)	251	(17)
Unrealised gains/(losses)	723	(464)
Other relevant income/(losses)	31	27
Total	1,005	(454)
Total investment return	3,537	504

13. Financial investments

	2019 £m	2018 £m
Shares and other variable yield securities	9,055	8,550
Debt securities and other fixed income securities	44,208	41,679
Participation in investment pools	2,484	2,254
Loans and deposits with credit institutions	7,635	7,800
Other investments	180	80
	63,562	60,363

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 (i.e. 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.

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
Borrowings	–	–	–	–	–	–
Derivative liabilities	(3)	(23)	(1)	(27)	–	(27)
Total liabilities	(3)	(23)	(1)	(27)	–	(27)

2018	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	3,546	4,229	774	8,549	1	8,550
Debt and other fixed income securities	14,087	27,572	20	41,679	–	41,679
Participation in investment pools	2,013	222	19	2,254	–	2,254
Loans and deposits with credit institutions	4,232	3,400	168	7,800	–	7,800
Other investments	9	46	25	80	–	80
Total assets	23,887	35,469	1,006	60,362	1	60,363
Borrowings	(4)	–	(14)	(18)	–	(18)
Derivative liabilities	(10)	(20)	(1)	(31)	–	(31)
Total liabilities	(14)	(20)	(15)	(49)	–	(49)

14. Debtors arising out of direct insurance operations

	2019 £m	2018 £m
Due within one year		
Policyholders	**–**	1
Intermediaries	**8,938**	9,569
Due after one year		
Policyholders	**–**	–
Intermediaries	**76**	103
Total	**9,014**	9,673

15. Debtors arising out of reinsurance operations

	2019 £m	2018 £m
Due within one year	**7,625**	6,659
Due after one year	**631**	819
Total	**8,256**	7,478

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 £6,856m (2018: £8,012m).

17. Members' balances

	2019 £m	2018 £m
Balance at 1 January	(1,472)	–
Result for the year per syndicate annual accounts	690	(1,373)
Losses collected/(profits paid) in relation to distribution on closure of the 2016 (2015) underwriting year	83	(1,656)
Advance distributions from open underwriting years	(40)	(29)
Cash calls requested (but not yet paid)	920	834
Net movement on funds in syndicate (see note below)	(405)	825
Exchange gains/(losses)	36	(50)
Other	(54)	(23)
Balance at 31 December	(242)	(1,472)

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 2020.

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 2019 there was £4,616m (2018: £5,053m) 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

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

2018	Gross £m	Reinsurers' share £m	Net £m
At 1 January	16,377	3,372	13,005
Premiums written in the year	35,527	9,846	25,681
Premiums earned in the year	(34,738)	(9,560)	(25,178)
Exchange movements	702	195	507
At 31 December	17,868	3,853	14,015

(b) Deferred acquisition costs

	2019 £m	2018 £m
At 1 January	4,680	4,304
Change in deferred acquisition costs	(138)	171
Exchange movements	(129)	173
Other	(9)	32
At 31 December	4,404	4,680

(c) Claims outstanding

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

2018	Gross £m	Reinsurers' share £m	Net £m
At 1 January	54,893	16,811	38,082
Claims paid during the year	(19,666)	(5,682)	(13,984)
Claims incurred during the year	24,561	8,123	16,438
Exchange/other movements	662	289	373
At 31 December	60,450	19,541	40,909

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	2019 %	2018 %	2019 years	2018 years
Motor (third party liability)	1.80	2.41	28.52	26.12
Motor (other lines)	2.98	2.98	5.84	2.29
Third party liability	2.74	2.57	22.66	22.45

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	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Total claims provisions	1,353	1,429	(338)	(333)	1,015	1,096
Reinsurers' share of total claims	422	398	(68)	(63)	354	335

20. Creditors arising out of direct insurance operations

	2019 £m	2018 £m
Due within one year	1,345	1,322
Due after one year	57	3
	1,402	1,325

21. Creditors arising out of reinsurance operations

	2019 £m	2018 £m
Due within one year	6,392	5,884
Due after one year	359	668
	6,751	6,552

22. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	2019 £m	2018 £m
Cash at bank and in hand	9,631	10,877
Short term deposits with credit institutions	1,798	1,731
Overdrafts	(301)	(213)
	11,128	12,395

Of the cash and cash equivalents, £320m (2018: £326m) is held in regulated bank accounts in overseas jurisdictions.

23. Five year summary

Results	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Gross written premiums	35,905	35,527	33,591	29,862	26,690
Net written premiums	25,659	25,681	24,869	23,066	21,023
Net earned premiums	25,821	25,178	24,498	22,660	20,565
Result attributable to underwriting	(538)	(1,130)	(3,421)	468	2,047
Result for the year before tax	2,532	(1,001)	(2,001)	2,107	2,122
Assets employed					
Cash and investments	73,193	71,240	67,902	67,646	56,900
Net technical provisions	53,201	54,924	51,087	49,875	41,578
Other net assets	9,852	11,112	9,952	9,943	8,894
Capital and reserves	29,844	27,428	26,767	27,714	24,216
Statistics					
Combined ratio (%)	102.1	104.5	114.0	97.9	90.0
Return on capital (%)	8.8	(3.7)	(7.3)	8.1	9.1

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 2019, 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 172.

25. Events after the reporting period

COVID-19 pandemic

The recent volatility in financial markets has impacted the valuation of the investment portfolios of the Society of Lloyd's and the syndicates operating within the Lloyd's market. Whilst there is still a significant degree of uncertainty, having considered the positions within the financial markets up to 19 March 2020, our estimates indicate that our central solvency ratio and the market-wide solvency ratio continue to be above our risk appetites – our central solvency ratio is estimated to be 205%* and the market-wide solvency ratio is estimated to be 146%*. A further 220 basis points widening of credit spreads and 26% fall in equity values would result in a more material impact to both our central solvency ratio and the market-wide solvency ratio, however, both would continue to be in excess of regulatory requirements.

The impact of current economic uncertainty on individuals and businesses could also lead to policyholder claims across a number of classes. At this early stage of development, it is difficult to assess the financial impact of any potential claims on either technical provisions or capital requirements. However, taking into consideration current laws and regulations we do not expect these to impact the Society of Lloyd's and Lloyd's market ability to satisfy regulatory solvency requirements.

*These ratios are unaudited.

Managing Agents and Syndicates

Managing Agent	Managed Syndicate(s)	2019 GWP* £m	2019 Result £m	2019 Combined ratio* %
AEGIS Managing Agency Limited	1225	653	32	97%
Allied World Managing Agency Limited	2232	219	(19)	121%
Antares Managing Agency Limited	1274	473	22	101%
Apollo Syndicate Management Limited	1969	409	3	102%
	1971	67	(1)	108%
	6133	52	9	73%
Arch Underwriting at Lloyd's Ltd	2012	224	22	91%
Argenta Syndicate Management Limited	2121	458	(9)	105%
	6134	51	(6)	116%
Argo Managing Agency Limited	1200	561	(27)	109%
	1910	289	(1)	103%
	6117	77	(1)	100%
Ark Syndicate Management Limited	3902	89	9	90%
	4020	277	8	100%
Ascot Underwriting Limited	1414	689	32	96%
Aspen Managing Agency Limited	4711	379	(57)	139%
Asta Managing Agency Limited	1729	139	(3)	106%
	1892	8	–	99%
	1897	27	(30)	165%
	1980	148	(28)	139%
	2525	82	8	90%
	2689	115	(12)	112%
	2786	146	(22)	121%
	3268	119	1	100%
	4242	201	(19)	120%
	5886	205	(12)	110%
	6123	33	–	101%
	6126	1	(3)	325%
	6131	6	(2)	151%
Atrium Underwriters Limited	609	591	70	90%
AXIS Managing Agency Limited	1686	893	(51)	113%
	2007	194	8	100%
	6129	10	(15)	273%
Barbican Managing Agency Limited	1856	107	(2)	105%
	1955	357	3	102%
	6118	19	1	105%
	6132	51	–	102%
Beazley Furlonge Limited	623	407	22	99%
	2623	1,855	129	99%
	3622	26	1	95%
	3623	114	1	109%
	5623	28	–	103%
	6050	–	–	–
	6107	58	(5)	115%
Brit Syndicates Limited	2987	1,771	71	98%
	2988	110	(10)	111%
Canopius Managing Agents Limited	44	27	(1)	106%
	1206	(1)	(1)	128%
	1861	661	(24)	107%

Managing Agents and Syndicates *continued*

Managing Agent	Managed Syndicate(s)	2019 GWP* £m	2019 Result £m	2019 Combined ratio* %
Canopius Managing Agents Limited (continued)	4444	**1,364**	5	103%
	5820	**5**	(3)	111%
Capita Managing Agency Limited	1110	**60**	–	102%
	1492	**134**	8	94%
Catlin Underwriting Agencies Limited	2003	**2,091**	36	110%
	3002	**50**	3	90%
	6111	**(1)**	2	90%
Charles Taylor Managing Agency Limited	1884	**27**	(20)	151%
Chaucer Syndicates Limited	1084	**1,025**	79	94%
	1176	**28**	22	28%
	2088	**123**	(5)	109%
	6130	**(1)**	2	72%
Chubb Underwriting Agencies Limited	2488	**488**	102	94%
Cincinnati Global Underwriting Agency Limited	318	**167**	24	88%
Coverys Managing Agency Limited	1975	**39**	(8)	126%
	1991	**163**	(9)	109%
	3330	**–**	(6)	(4,613%)
Endurance at Lloyd's Limited	551	**329**	(7)	109%
ERS Syndicate Management Limited	218	**360**	14	100%
Faraday Underwriting Limited	435	**448**	24	100%
Hamilton Managing Agency Limited	1947	**58**	(2)	105%
	2014	**177**	(2)	107%
	3334	**130**	(24)	134%
	4000	**302**	(3)	105%
	6125	**24**	(4)	127%
Hardy (Underwriting Agencies) Limited	382	**316**	11	99%
HCC Underwriting Agency Ltd	4141	**146**	8	97%
Hiscox Syndicates Limited	33	**1,602**	(19)	108%
	3624	**320**	(21)	112%
	6104	**47**	(51)	217%
Lancashire Syndicates Limited	2010	**223**	5	99%
	3010	**101**	5	91%
Liberty Managing Agency Limited	4472	**1,322**	129	108%
Managing Agency Partners Limited	2791	**224**	52	75%
	6103	**21**	14	32%
Markel Syndicate Management Limited	3000	**543**	3	108%
MS Amlin Underwriting Limited	2001	**2,085**	69	103%
Munich Re Syndicate Limited	457	**569**	33	97%
Navigators Underwriting Agency Limited	1221	**359**	(55)	126%
Neon Underwriting Limited	2468	**435**	(45)	118%
Nephila Syndicate Management Limited	2357	**376**	(72)	138%
Newline Underwriting Management Limited	1218	**175**	39	95%
QBE Underwriting Limited	386	**346**	25	104%
	2999	**1,222**	109	94%
RenaissanceRe Syndicate Management Limited	1458	**685**	(3)	106%
RiverStone Managing Agency Ltd	780	**34**	12	82%
	3500	**431**	12	97%
S.A. Meacock & Company Limited	727	**75**	5	106%
Sirius International Managing Agency Limited	1945	**97**	(16)	120%
Starr Managing Agents Limited	1919	**306**	(14)	127%

Managing Agent	Managed Syndicate(s)	2019 GWP* £m	2019 Result £m	2019 Combined ratio* %
StarStone Underwriting Limited	1301	175	(32)	131%
	2008	586	97	141%
Talbot Underwriting Ltd	1183	772	70	95%
The Channel Managing Agency Limited	2015	252	(19)	113%
Tokio Marine Kiln Syndicates Limited	308	5	–	101%
	510	1,450	134	90%
	557	17	13	22%
	1880	319	(19)	111%
Travelers Syndicate Management Limited	5000	370	(108)	136%
Vibe Syndicate Management Limited	5678	179	(17)	118%
W R Berkley Syndicate Management Limited	1967	263	17	88%
Market level SPA, RITC and aggregation adjustments (note 2, note 8)		(1,608)	–	
Total		35,905	690	

*Refer to glossary on page 177 for further information.

The following syndicates ceased trading at 31 December 2019:

Asta Managing Agency Limited 1897
Asta Managing Agency Limited 1980
Hamilton Managing Agency Limited 2014
Chaucer Syndicates Limited 2088
Hamilton Underwriting Limited 3334
Vibe Syndicate Management Limited 5678
Asta Managing Agency Limited 6123

As at 24 March 2020 the following syndicates commenced trading for the 2020 year of account:

Munich Re Syndicate Limited 1840
Asta Managing Agency Limited 2288

Society Report

Lloyd's financial strength gives customers the confidence that the market will always be ready to provide expert risk advice and world-class products – as well as pay claims – whatever the circumstances they face.

Contents

Financial Highlights

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Operating result					
Corporation operating income	**358**	352	351	332	239
Central Fund income	**125**	149	125	120	111
Total income	**483**	501	476	452	350
Central Fund claims and provisions incurred	**–**	–	–	(8)	–
Group operating expenses	**(422)**	(362)	(306)	(307)	(259)
Operating surplus[1]	**61**	139	170	137	91
Finance costs	**(51)**	(39)	(55)	(54)	(54)
Finance income[2]	**151**	93	62	314	43
Share of profits of associates and joint ventures	**9**	9	10	8	7
Surplus before tax	**170**	202	187	405	87
Tax charge	**(33)**	(39)	(31)	(75)	(13)
Surplus for the year	**137**	163	156	330	74
Balance sheet					
Net assets	**2,601**	2,417	2,188	1,996	1,763
Movement in net assets %	**7.6%**	10.5%	9.6%	13.2%	4.1%
Solvency					
Eligible central own funds to meet Central SCR	**3,574**	3,494	3,445	3,433	3,162
Central SCR	**(1,500)**	(1,400)	(1,600)	(1,600)	(1,450)
Excess of eligible central own funds over the Central SCR	**2,074**	2,094	1,845	1,833	1,712
Solvency ratio %	**238%**	250%	215%	215%	218%

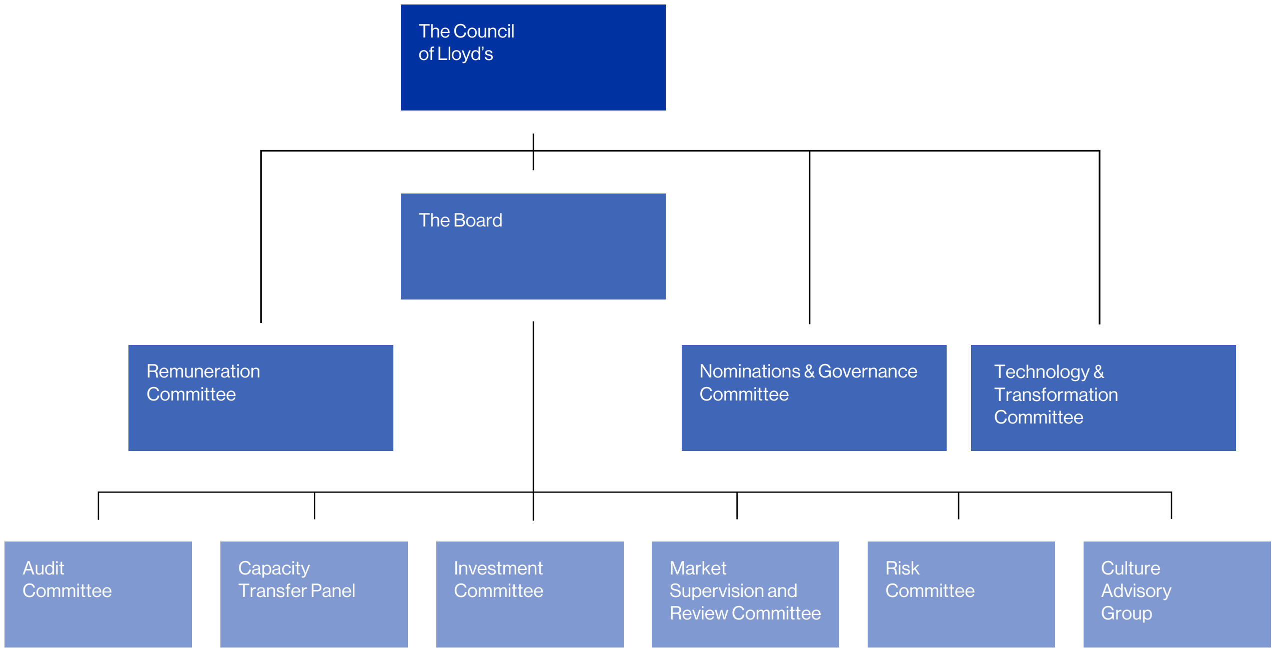
The solvency ratio is reported under the Solvency II legislative requirements, which came into force on 1 January 2016. The 2019 position is an estimate of the amount which will be finalised in April 2020 for submission to the PRA. The solvency figures in the table above are unaudited. Prior year figures 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 176.
2. The Society's investments, mostly held within the Central Fund, returned £151m or 3.6% during the year (2018: £93m, 2.4%). Excluding the impact of a £62m foreign exchange loss in 2019 (2018: foreign exchange gain of £100m), as Sterling was volatile against most other major currencies but strengthened against the US Dollar, underlying investment returns were higher, returning a gain of £213m or 5.02% in 2019 (2018: £7m loss or -0.2%).

Corporate Governance

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

Committee structure



The Council and Board

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

The day-to-day powers and functions of the Council and Board 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, Performance Management Director and Chief Marketing and Communications Officer.

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.

The Council is committed to the principle of good corporate governance and supports the application of the principles of the UK Corporate Governance Code ("the Code"), in so far as they can be applied to the governance of a society of members and a market of separate and competing entities. The current version of the Code (published in July 2018) applies to accounting periods beginning on or after 1 January 2019. It places increased emphasis on relationships between companies, shareholders and stakeholders. It also promotes the importance of establishing a corporate culture that promotes integrity, values diversity and is aligned with company purpose and strategy. The Code requires disclosure of how the provisions of the Code have been complied with and an explanation, appropriate to individual circumstances, of any divergences from the Code. An internal assessment has been undertaken and the areas of divergence from the Code are explained in this report. Examples of where the Code is not applied by the Society include where the Code specifically refers to shareholders or equity shares of a company, or where the committee composition recommendations of the Code are not compatible with the Society's governance structure.

The members of the Council and Board are listed on pages 81 to 86. Details of the Executive Committee can be found at: https://www.lloyds.com/about-lloyds/governance-and-management/executive-team. The Society also has a formal workforce advisory panel, the Employee Engagement Group (EEG), comprising two executive sponsors (the Chief Human Resources Officer and the General Counsel) 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. The EEG will play a key role in relation to the Society's 2020 staff survey, by advertising the survey to colleagues, analysing the responses received and holding the executive to account on the delivery of the resulting action plan.

On 7 November 2019 it was announced that the Board would merge into the Council, with effect from 1 June 2020. The impact of this change is discussed below.

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.

The Council has delegated authority for the day-to-day management of the market to the Board. The Board is able, in turn, to sub-delegate authority to the Chief Executive Officer and through him to the Society's executive. In addition, the Council has delegated authority to carry out specified functions to committees including the Remuneration and Nominations & Governance Committees, as summarised below.

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

Membership

The Council comprises a maximum of 18 members, split between six working, six external and six nominated members. The biographical details of the current members of the Council (as at 24 March 2020) are listed on pages 82 and 83.

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

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

The Society has not adopted the Code provision that all Council members should be subject to annual re-election. Twelve of the seats on the Council are subject to direct election by the Lloyd's market, and holding an election for all of these seats every year would represent a significant interruption to the business of the Council.

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.

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. One of the Chairman and Deputy Chairmen must be a working member of the Council. Until 31 December 2019 this position was filled by Simon Beale, who stepped down from the Council on that date. Since 5 February 2020 the position has been filled by Dominic Christian.

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 page 82) 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.

Meetings

The Council met on six occasions in 2019. Two of these were joint meetings with the Board. It also held a joint offsite with the Board in New York focusing on the major strategic challenges facing Lloyd's and their impact on Lloyd's current strategy. 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 oral updates from the principal committees.

A table showing Council members' attendance at Council and Committee meetings which they were eligible to attend is set out on pages 79 and 80.

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

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

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

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

The Constitutional Requirements

The Constitutional Requirements, 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 apply to members of the Board and the other committees of the Society.

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

- the likely consequences of any decision in the long term; 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.

Specific functions delegated to the Board include:

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

The Board has reserved to itself a list of specific functions and powers that only it may deal with. The Board may 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 must act in accordance with the Board Limitations and in accordance with the strategy, policy and principles set by the Board.

Matters reserved to the Board include:

- setting the policy and principles relating to the supervision, regulation and direction of the business of insurance at Lloyd's (the Market Supervision Framework), in compliance with PRA and FCA requirements;
- considering and approving Lloyd's risk appetite (both at 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

Biographical details of the members of the Board as at 24 March 2020 are listed on pages 85 and 86. At the end of 2019, the Board comprised:

- the Chairman of Lloyd's (who was also the Chairman of the Board);
- the Chief Executive Officer, the Performance Management Director and the Chief Financial Officer;
- three non-executives connected with the Lloyd's market; and
- six independent Non-Executive Directors.

The presence of market-connected Non-Executive Directors enables the independent non-executives to gain an understanding of market practitioner views and perspectives. Neil Maidment, an independent Non-Executive Director of the Board, recuses himself from any discussion related to Beazley, a Lloyd's managing agent from which he retired in 2018, owing to his deferred bonuses and shareholding.

The Board held eight scheduled meetings in 2019 including two joint meetings with the Council. It also held a joint offsite with the Council in New York focusing on the major strategic challenges facing Lloyd's and their impact on Lloyd's current strategy.

Board meetings are structured to allow open discussion. At each scheduled meeting, the Board receives certain regular reports – for example, a written report from the Chief Executive Officer. The Board papers and minutes are made available to members of the Council.

A table showing Board members' attendance at Board and Committee meetings which they were eligible to attend is set out on pages 79 and 80.

Merging the Board into the Council

In May 2019 the Council and Board launched a consultation with members and other participants in the Lloyd's market on a proposal to merge the Board into the Council to create a single governing body for the Society and the Lloyd's market.

The proposal had the unanimous support of the members of both the Council and Board and received wide support from the market and members with over 90% of respondents in favour of the merger. The merger was approved by the Council and Board and will take effect from 1 June 2020. The merger has been discussed with the PRA and FCA, who have confirmed they have no objections to the planned changes in principle.

With effect from 1 June 2020, the revised Council will comprise fifteen members. In order to achieve a balance of independent and market members, the Council will comprise six independent nominated members (including the Chairman), three executive nominated members (the Chief Executive Officer, Chief Financial Officer and Performance Management Director), three elected working members and three elected external members. The revised Council will therefore have a significantly increased proportion of independent members.

It is planned that the current committees of the Board will become committees of the revised Council from 1 June 2020, and that matters that are currently reserved to the Board will be reserved to the revised Council.

Main Committees of the Council

Nominations & Governance Committee

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

The Committee meets at least twice annually and otherwise at the discretion of its Chairman or as directed by the Council. The Committee reports to the Council and Board 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.

In addition to the annual exercise of making recommendations with respect to the composition of Council and Board committees (together with any other necessary changes in composition during the year), the Committee made the following major recommendations to the Council during 2019:

– to re-elect Andy Haste as the Senior Independent Deputy Chairman and Simon Beale and Robert Childs, nominated representative of Hiscox Dedicated Member Limited, as Deputy Chairmen (Simon Beale subsequently stepped down as a member and Deputy Chairman of the Council on 31 December 2019);
– to elect John Sununu as a nominated member of the Council for a three-year term with effect from 6 February 2019;
– to re-appoint Richard Keers as an independent Non-Executive Director of the Board and Chair of the Audit Committee for a further term of one year with effect from 1 June 2019 (Richard Keers subsequently stepped down with effect from 14 January 2020); and
– to appoint Angela Crawford-Ingle as an independent Non-Executive Director of the Board and Chair of the Audit Committee for a term of three years to replace Richard Keers, with effect from 14 January 2020.

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

The Committee was assisted by external search consultants Russell Reynolds and Sapphire Partners for the appointments of John Sununu and Angela Crawford-Ingle respectively. The external search agents had no connection to the Society.

To assist with succession planning, the Committee also considered the future skills, knowledge and experience likely to be needed by the Council following the merger with the Board in June 2020.

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 its membership especially with respect to the appointment of female Board members. It is difficult to establish diversity targets for the Council, given that it is currently two-thirds elected, but diversity of candidates offering themselves for election is encouraged. Candidates for appointed positions are selected on merit and with due regard to the benefits of diversity in its broadest sense. In addition, the Board, with the support of the Committee, established a target of 30% of the Board being female by 2020 in line with current market practice. Three of the 12 Board members as at the date of this report (25%) are female.

The Committee is chaired by the Chairman of Lloyd's and its remaining members are drawn from both the Council and the Board. As four 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 a majority of 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 or Board is eligible to be a member of the Committee.

The Committee held three meetings in 2019. A table showing Committee members' attendance at Committee meetings is set out on pages 79 and 80.

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

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

The Remuneration Committee is chaired by the Senior Independent Deputy Chairman. The Chairman is a member of the Committee and its remaining members are drawn from both the Council and the Board. 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 or Board is eligible to be a member of the Committee.

The Committee met on six occasions in 2019. A table showing Committee members' attendance at Committee meetings is set out on pages 79 and 80. The Committee's full report is on pages 89 to 100.

Technology & Transformation Committee

The Technology & Transformation Committee (TTC), which first met in early March 2020, has a remit covering oversight of the Society's transformation and innovation strategies, including the Future at Lloyd's programme. The TTC is the successor body to the Innovation Investment Committee, a former committee of the Board which is described below.

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, three non-executive members of the Board and two representatives of the Lloyd's Market Association.

Main Committees of the Board

Audit Committee

The Audit Committee's role is to ensure that the financial activities of Lloyd's are subject to independent review and audit. The Committee's functions in 2019 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 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 Board. It also reports to the Council and the Board on its proceedings after each meeting. Additional reports are submitted to the Council and/or the Board on matters of material interest as and when necessary. The minutes of Committee meetings are submitted to the Board and the Council.

The Audit Committee was chaired by Richard Keers, an independent non-executive member of the Board, until 14 January 2020. The Committee is now chaired by Angela Crawford-Ingle, an independent non-executive member of the Board. Its remaining members are drawn from both the Council and the Board. As two of the Committee's four 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 Board 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 or Board is eligible to be a member of the Committee.

The Committee met on four occasions in 2019. A table showing Committee members' attendance at Committee meetings is set out on pages 79 and 80.

The Audit Committee's full report is on pages 101 to 103.

Risk Committee

The Risk Committee's role is to assist the Board and Council in their 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 and the Audit Committee.

During 2019, the Risk Committee was chaired by Patricia Jackson, an independent non-executive member of the Board. The other members of the Committee are drawn from both the Council and the Board. Other individuals including the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer and Performance Management Director 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 Board. It also reports to the Council and the Board on its proceedings after each meeting. The minutes of Committee meetings are submitted to the Board and the Council.

The Committee met on nine occasions in 2019. A table showing the Committee members' attendance at Committee meetings is set out on pages 79 and 80.

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 Board annually and may submit additional reports to inform the Board of any matters of material concern as and when required.

The members of MSARC are appointed by the Board and are neither Council members, Board members nor employees of the Society. The chairman of MSARC is Jo Rickard, a practising lawyer. MSARC met on five occasions in 2019. A table showing MSARC members' attendance at MSARC meetings is set out on pages 79 and 80. Very sadly, in September 2019, Reg Hinkley, a long-standing member of MSARC (and before that of the Council) passed away. His contributions to MSARC will be greatly missed.

Capacity Transfer Panel

The Capacity Transfer Panel was established principally to exercise the Council's powers in relation to minority buyouts and mergers. The Panel meets at the discretion of its Chairman.

The Panel submits a written report to the Board 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, Board members nor employees of the Society. The Panel did not meet in 2019.

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 Board 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 Board 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 Board. The Committee is chaired by the Senior Independent Deputy Chairman, and the Chief Executive Officer and Chief Financial Officer are members of the Committee. The other members of the Committee are neither Council members, Board members nor employees of the Society. The Committee met on four occasions in 2019. A table showing Committee members' attendance at Committee meetings is set out on pages 79 and 80.

Innovation Investment Committee

The Innovation Investment Committee was responsible for the development and implementation of investment strategies identified by the Lloyd's Lab. In doing so, the Committee aimed to promote an innovative culture within the market and increase the rate of adoption of new technologies and initiatives. The Committee met on three occasions in 2019. A table showing Committee members' attendance at Committee meetings is set out on pages 79 and 80. The remit of the Committee was significantly expanded at the end of 2019 and it became the Technology & Transformation Committee, a committee of the Council (described above).

Culture Advisory Group

The Culture Advisory Group was formed in 2019 as part of the Society's response to the Market Culture Survey conducted earlier in the year. Its first meeting was held on 30 January 2020. The Group's role is to provide thought leadership, advice and guidance on delivering the actions agreed by the Board and Council to ensure improvement of the culture across the Lloyd's market.

The Group is chaired by Fiona Luck, an independent non-executive member of the Board, and its other members are key representatives from the Lloyd's market and subject matter experts. The Group's members are appointed by the Board on the recommendation of the Nominations & Governance Committee.

Terms of reference and appointment terms

There are terms of reference for the Council, Board 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. 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 Board and 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.

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

In accordance with the UK Corporate Governance Code, an external and independent evaluation of the performance of the Council, Board, Audit, Remuneration and Nominations & Governance Committees is undertaken every three years. The last external evaluation was undertaken by YSC Consulting and took place at the end of 2018. The next external evaluation is due to be undertaken at the end of 2021.

The Secretary to the Council conducted an assessment of the Council, the Board and their principal committees at the start of 2020. The assessment was based on the results of questionnaires issued to the members of these bodies.

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

Among the other major findings were:

- Whilst the current governance arrangements are effective, the merger of the Board into the Council in June 2020 will significantly improve the efficiency and accountability of the arrangements, including clarifying the Council's role in developing and overseeing the delivery of Lloyd's strategy;
- Having focused in 2019 on rebuilding the Executive Committee (and the executive leadership team and their capabilities) and on the merger of the Board into the Council, a broader discussion on executive, non-executive and Chairman's succession is now due and will be led by the Nominations & Governance Committee in H2 2020;
- The importance of Lloyd's risk governance structure continuing to evolve and develop in line with new risks arising including in relation to risks arising from the Future at Lloyd's programme.

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

Individual assessment

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

Training and induction

All new members of the Council and Board 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 and Board also receive ongoing briefings from management and external advisers on new developments that are relevant to the business of Lloyd's.

Independent professional advice

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

In addition, members of the Council and Board have access to the advice of the Secretary to the Council, who is responsible for advising the Council and the Board 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, Board and their committees is maintained by the Secretary to the Council and is available for inspection by members of the Society.

Attendance record

	Council	The Board	Nominations & Governance Committee	Remuneration Committee	Audit Committee	Capacity Transfer Panel[1]	Innovation Investment Committee[2]	Investment Committee	MSARC[3]	Risk Committee
Chairman of the Council of Lloyd's										
Bruce Carnegie-Brown	6/6	8/8	3/3	6/6						
Executive directors										
Jon Hancock		8/8								
Burkhard Keese[4]		5/8					1/3	3/4		
Shirine Khoury-Haq[5]							1/3			
John Neal	6/6	8/8						3/4		
John Parry[6]		2/8						1/4		
Jennifer Rigby[7]							1/3			
Non-executive Council members Working members										
Simon Beale[8]	6/6		2/3							
Andrew Brooks	5/6									
Dominic Christian[9]	6/6		2/3							
Victoria Carter[10]	6/6		1/3							
Karen Green[11]	6/6			4/6			3/3			8/9
Julian James[12]									4/4	
External members										
Albert Benchimol[13]	5/6									
Jeffery Barratt	6/6									
Robert Childs	5/6		3/3							
Matthew Fosh[14]										
Dominick Hoare[15]	5/6						3/3			
Philip Swatman[16]				1/6						
Michael Watson	6/6				4/4					
Nominated members										
Andy Haste	5/6		2/3	6/6				4/4		
Sir David Manning[17]	4/6		1/3							
Christian Noyer	5/6									
John Sununu[18]	6/6									
Non-executive Franchise Board members										
Mike Bracken[19]		8/8					3/3			
Mark Cloutier		6/8	2/3		4/4					
Charles Franks[20]		8/8								8/9
Nigel Hinshelwood[21]		7/8					2/3			7/9
Patricia Jackson		8/8			4/4					7/9
Richard Keers[22]		5/8			4/4					
Fiona Luck[23]		8/8	2/3	5/6						9/9
Neil Maidment[24]		8/8								9/9
Richard Pryce[25]		6/8		6/6						

	Council	The Board	Nominations & Governance Committee	Remuneration Committee	Audit Committee	Capacity Transfer Panel[1]	Innovation Investment Committee[2]	Investment Committee	MSARC[3]	Risk Committee
Other Committee members										
Mark Allan[26]								3/4		
Martin Bride[27]								1/4		
Edward Creasy									3/4	
Sir Mark Havelock-Allan[28]									4/4	
Reg Hinkley[29]									4/4	
Nick Marsh									2/4	
Philip Matthews								3/4		
Reeken Patel[30]								1/4		
Jo Rickard									4/4	
Sacha Sadan								4/4		
Jayne Styles[31]								1/4		

Notes

1. The Capacity Transfer Panel did not meet during 2019.
2. The Innovation Investment Committee was dissolved with effect from 31 October 2019.
3. Market Supervision and Review Committee.
4. Burkhard Keese was appointed as the Chief Financial Officer and as a member of the Board, Innovation Investment Committee and Investment Committee with effect from 1 April 2019. He ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
5. Shirine Khoury-Haq ceased as the Chief Operations Officer and as a member of the Innovation Investment Committee with effect from 29 March 2019.
6. John Parry ceased as the Chief Financial Officer with effect from 1 April 2019 and ceased as a member of the Board, Investment Committee and Innovation Investment Committee with effect from 26 April 2019.
7. Jennifer Rigby was appointed as the Chief Operations Officer on an interim basis with effect from 1 April 2019 and then on a permanent basis with effect from 1 July 2019. Jennifer was appointed as a member of the Innovation Investment Committee with effect from 1 April 2019. She ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
8. Simon Beale ceased as a member of the Council and Nominations & Governance Committee with effect from 31 December 2019.
9. 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.
10. Victoria Carter was elected as a member of the Council with effect from 1 February 2019 and was appointed as a member of the Nominations & Governance Committee with effect from 26 March 2019.
11. Karen Green ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
12. Julian James ceased as a member of the Council with effect from 31 January 2019 and was appointed to the MSARC with effect from 4 February 2019.
13. Albert Benchimol was elected as a member of the Council with effect from 1 February 2019.
14. Matthew Fosh ceased as a member of the Council with effect from 31 January 2019.
15. Dominick Hoare ceased as member and chair of the Innovation Investment Committee with effect from 31 October 2019.
16. Philip Swatman ceased as a member of the Council and as a member of the Remuneration Committee with effect from 31 January 2019.
17. Sir David Manning ceased as a member of the Nominations & Governance Committee with effect from 26 March 2019 and as a member of the Council with effect from 31 August 2019.
18. John Sununu was appointed as a nominated member of the Council with effect from 6 February 2019.
19. Mike Bracken ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
20. Charles Franks ceased as a member of the Nominations & Governance Committee with effect from 26 March 2019.
21. Nigel Hinshelwood ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
22. Richard Keers ceased as an independent non-executive director of the Board and as chair of the Audit Committee and a member of the Risk Committee with effect from 14 January 2020.
23. Fiona Luck was appointed to the Nominations & Governance Committee with effect from 26 March 2019.
24. Neil Maidment ceased as a member of the Council with effect from 31 January 2019 and was appointed as an independent non-executive director of the Board with effect from 1 February 2019.
25. Richard Pryce ceased as an independent non-executive director of the Board and as a member of the Remuneration Committee with effect from 31 December 2019.
26. Mark Allan was appointed to the Investment Committee with effect from 1 April 2019.
27. Martin Bride ceased as a member of the Investment Committee with effect from 14 March 2019.
28. Sir Mark Havelock-Allan was appointed to the MSARC with effect from 4 February 2019.
29. Reg Hinkleyceased as a member of the MSARC with effect from 2 September 2019.
30. Reeken Patel was appointed to the Investment Committee with effect from 31 October 2019.
31. Jayne Styles ceased as a member of the Investment Committee with effect from 1 April 2019.

The Council

A. Bruce Carnegie-Brown

Nominated member
Appointed 15 June 2017
Chairman of Lloyd's
Chairman of the Nominations & Governance Committee
Member of the Remuneration Committee
Member of the Technology & Transformation Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Bruce Carnegie-Brown was appointed Chairman in June 2017. He is a Vice-Chairman of Banco Santander and a non-executive director of Santander UK Group Holdings plc and Santander UK plc. He is also Chairman of Cuvva, a digital motor insurance start-up. He was Chairman of Moneysupermarket Group from 2014 to 2019, a non-executive director of JLT Group plc from 2016 to 2017, Non-Executive Chairman of Aon UK Ltd from 2012 to 2015, Senior Independent Director of Close Brothers Group plc from 2006 to 2014, Senior Independent Director of Catlin Group Ltd from 2010 to 2014 and Chief Executive for Marsh UK and Europe from 2003 to 2006. He previously worked at JP Morgan for 18 years in a number of senior roles and was Managing Partner of 3i Group plc's Quoted Private Equity Division from 2007 to 2009. He is President of the Chartered Management Institute.

B. John Neal

Nominated member
Appointed 15 October 2018
Chief Executive Officer
Member of the Investment Committee
Member of the Technology & Transformation Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

John Neal was appointed Chief Executive Officer in October 2018. He was previously Group Chief Executive Officer of QBE, a global insurance and reinsurance business with a significant Lloyd's footprint. In this role, he was responsible for running a A$14bn gross written premium (GWP) business with over 14,000 employees in 37 countries. He refocused QBE's business around commercial and specialty lines, disposing of non-core portfolios and reducing costs by over A$350m. Before becoming Chief Executive Officer, he held a number of roles at QBE including Chief Underwriting Officer and Chief Operations Officer of the firm's European operations.

Prior to this, he led a management buyout of Ensign to establish a dedicated Lloyd's Managing Agency. As Chief Executive Officer of Ensign, he grew GWP to $300m to create the leading specialist commercial motor underwriter in the UK. He also worked at Bankside Managing Agency, where he was the youngest active underwriter at Lloyd's. He started his career at the Crowe Underwriting Agency, where over the course of a decade he grew UK GWP from £3m to £100m.

C. Albert Benchimol

(Representative of AXIS Corporate Capital UK Ltd)
External member
Elected 1 February 2019

Albert Benchimol is currently President and Chief Executive Officer of AXIS Capital Holdings Limited, a position he has held since 2012. He joined the company in 2011 as Chief Financial Officer. He formerly served as Executive Vice President and Chief Financial Officer of PartnerRe Ltd. for a 10-year period, and was also Chief Executive Officer of PartnerRe Ltd.'s Capital Markets Group business unit from 2007 to 2010. Albert spent several years working for Reliance Group Holdings and for the Bank of Montreal in Montreal, Toronto and New York. He received a Bachelor of Science degree in Physiology and Immunology from McGill University in Montreal, and earned a Master's in Business Administration at the same university. Albert is Chairman of the Association of Bermuda Insurers and Reinsurers and is also on the Board of Overseers of the School of Risk Management, Insurance and Actuarial Science at St John's University in addition to being a member of the Insurance Development Fund Steering Committee. He speaks French and Spanish.

D. Andrew Brooks

Working member
Elected 1 February 2017

Andrew Brooks is Chief Executive Officer of Ascot Group and Ascot Underwriting Ltd and a member of both boards. He joined Ascot Underwriting at its inception in 2001 and was promoted to Chief Underwriting Officer in 2005 and Chief Executive Officer in 2008. He was also appointed CEO of the newly formed Ascot Group in 2017. He has worked in the Lloyd's market since 1983 and is currently a member of the London Market Group Board and Chairman of the Lloyd's Market Association. He is ACII qualified.

E. Andy Haste*

Nominated member
Appointed 1 November 2012
Senior Independent Deputy Chairman of Lloyds
Chairman of the Remuneration Committee
Chairman of the Investment Committee
Member of the Nominations & Governance Committee
Chairman of the Capacity Transfer Panel
Chairman of the Technology & Transformation Committee

Andy Haste was Chairman of Wonga Group from July 2014 to August 2018. Since 2012 he has also been Senior Independent Deputy Chairman of Lloyd's. His previous roles include Senior Independent Director of ITV, a member of both its audit and nomination committees and chair of its remuneration committee, Group Chief Executive of RSA Insurance Group plc, Chief Executive of AXA Sun Life plc, director of AXA UK plc (life and pensions), President and Chief Executive Officer of GE Capital Global Consumer Finance, Western Europe and Eastern Europe and President and Chief Executive Officer of National Westminster Bank's US Consumer Credit Business (retail banking). He was also a member of the board of the Association of British Insurers from 2003 to 2011 and a Visiting Fellow at the Oxford University Centre for Corporate Reputation from 2008 to 2019.

F. Christian Noyer*

Nominated member
Appointed 2 November 2018

Christian was Governor of the Bank of France for twelve years until 2015. He is a member of the French Fiscal Council, and adviser to the French government on issues related to Brexit. He is also a non-executive director of several corporations, including Lloyd's Insurance Company SA (Brussels) and Power Corporation of Canada. During his 40-year career within international public finance, Christian held several high-profile positions including Vice-President of the European Central Bank, from when the institution was set up in 1998 to 2002, and President of the Bank for International Settlements between 2010 and 2015. He worked for the French Treasury for over 20 years and was appointed Director of the Treasury in 1993. He has been awarded the honours of Commandeur de la Légion d'Honneur and Commandeur des Arts et des Lettres in France. Christian also holds numerous prestigious international decorations including Commander of the National Order of the Lion of Senegal, the Spanish Great Cross of the Orden del Mérito Civil, Officier de l'Ordre National de la Valeur of Cameroun, and the Japanese Order of the Rising Sun gold and silver star.

G. Dominic Christian

Working member
Elected 1 February 2014
Deputy Chairman of Lloyd's
Member of the Nominations & Governance Committee
Member of the Remuneration Committee

Dominic Christian is Executive Chairman of Aon Benfield International. He is also Chief Executive Officer of Aon UK Ltd. He sits on Aon Group's executive committee. Previously he served as co-Chief Executive Officer of Aon Benfield and prior to this as a group board director of Benfield Group plc. He has nearly 32 years of experience as a Lloyd's broker. He was also Chairman of the Lloyd's Tercentenary Research Foundation until February 2019. He is a director of The Bermuda Society and the Juvenile Diabetes Research Foundation. He chairs the University of East Anglia's Campaign Advisory Board. He was the President of the Insurance Institute of London from 2015 to 2016 and is Chairman of ClimateWise and of the Sainsbury Centre for Visual Arts. He was elected Deputy Chairman of Lloyd's in February 2020.

H. Dominick Hoare

(Representative of Munich Re Capital Ltd)
External member
Elected 19 April 2017
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Dominick Hoare is Group Chief Underwriting Officer of Munich Re Syndicate Ltd and is also an executive director of both Munich Re Speciality Group Ltd and Munich Re Capital Ltd. He also holds various non-executive directorships of subsidiary companies of Munich Re Speciality Group Ltd. He has worked in the Lloyd's market since 1985 and has served on various Lloyd's underwriting committees including the Lloyd's Market Association Board.

I. Jeffery Barratt

(Representative of Nameco (No 1249) Ltd)
External member
Elected 1 February 2017

Jeffery Barratt is a lawyer and has been a member of Lloyd's since 1987. He is a director of the Association of Lloyd's Members. He was a partner at Norton Rose Fulbright for many years, specialising in project finance and financial law, and held a number of management positions within the firm. He has been actively involved in promoting the City's interests for a number of years and chaired TCUK Infrastructure and Energy executive board from 2013 to 2017. He was a non-executive director of the International Project Finance Association from 2011 to 2018. He sat on the London Council of the CBI from 2011 to 2018 and currently sits on its International Advisory Group. He was Chairman of the Cook Society in 2015 and 2016 and remains on its Committee. He actively supports a number of children's charities including the Dyspraxia Foundation, Snow-Camp, Beanstalk, Wooden Spoon and the Change Foundation. He is a qualified coach and mentor with ILM and mentors and coaches a number of senior executives.

J. John E Sununu*

Nominated member
Appointed 6 February 2019

John E Sununu represented New Hampshire in the United States Senate from 2003-2009. Previously, he served in the US House of representatives (1997-2003) and as Chief Financial Officer for privately held manufacturer Teletrol Systems. During his term in office, he was a member of the Senate Banking Committee, Senate Finance Committee, and Subcommittee on Science, Technology and Innovation. Since 2011 he has worked for international law firm Akin Gump Strauss & Hauer, where he provides strategic advice to energy, technology, telecommunications and financial services clients. He is a non-executive director of Boston Scientific, a publicly traded manufacturer of medical devices, where he chairs the nominations and governance committee and is a member of the audit committee. He also serves on the boards of Sorenson Communications and Afiniti, both privately held technology firms. Sununu holds bachelor's and master's degrees in Mechanical Engineering from Massachusetts Institute of Technology, and earned a Master of Business Administration from Harvard University.

K. Karen Green

Working member
Elected 1 February 2015
Member of the Remuneration Committee
Member of the Risk Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Karen Green is a non-executive director of Asta Managing Agency Ltd and was previously Deputy Chair of Aspen Managing Agency Ltd (AMAL) and prior to that Chief Executive Officer of Aspen UK, which included AMAL. She is a non-executive director of Phoenix Group Holdings and the Admiral Insurance Group. She previously worked as a principal with the global private equity firm MMC Capital Inc (now Stone Point Capital). Before this, she was a director at GE Capital in London, co-running the business development team responsible for mergers and acquisitions in Europe. She started her career as an investment banker with Baring Brothers and then Schroders. She is a member (and former chair) of the Development Council for the Almeida Theatre Company. She is also a Vice President of the Insurance Institute of London.

L. Robert Childs

(Representative of Hiscox Dedicated Corporate Member Ltd)
External member
Elected 1 February 2012
Deputy Chairman of Lloyd's
Member of the Nominations & Governance Committee

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

M. Michael Watson

(Representative of Flectat Ltd)
External member
Elected 1 February 2013
Member of the Audit Committee

Michael Watson is Executive Chairman of Canopius Group Limited, a private equity backed global specialty (re)insurance business with its principal operations at Lloyd's. He led the original management buyout of Canopius in 2003 and again in 2018. He has over 40 years' experience in commercial and investment banking, trade finance, stockbroking, life and non-life insurance, gained in London, Bermuda and New York. He is a chartered accountant and serves on the board of the Lloyd's Market Association and Weston Insurance Holdings Corporation.

N. Victoria Carter

Working member
Elected 1 February 2019
Member of the Nominations & Governance Committee

Victoria Carter has worked in the Lloyd's market for 40 years, starting her career in medicine and then moving to reinsurance broking in 1980. She joined Guy Carpenter in 2010 as Vice Chairman of International Operations and in 2019 became Chairman of Global Capital Solutions, International. She also holds positions on the company's executive committee and board. Prior to that, she was Chairman of UK and Europe at Towers Watson. In 1992, she founded Dunn & Carter Ltd, becoming the first female founder of a Lloyd's broking house. She is also the founder and driver of the Marsh & McLennan Rising Professionals Initiative, which initiated a market-wide networking and educational platform. Victoria is Chair of the Lloyd's Charities Trust and a board member of the Lloyd's Community Programme. She is also on the Court of the Worshipful Company of Insurers and a trustee of The Sick Children's Trust.

* Considered to be an independent Non-Executive Director

The Board

A. Bruce Carnegie-Brown

Chairman of the Board
Appointed 15 June 2017
Chairman of Lloyd's
Chairman of the Nominations & Governance Committee
Member of the Remuneration Committee
Member of the Technology & Transformation Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Biography on page 82.

B. John Neal

Executive Director
Appointed 15 October 2018
Chief Executive Officer
Member of the Investment Committee
Member of the Technology & Transformation Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Biography on page 82.

C. Charles Franks

Market-connected Non-Executive Director
Appointed 1 January 2012
Member of the Risk Committee

Charles Franks was, until 2019, Group Chief Executive Officer of Tokio Marine Kiln Group and of its Lloyd's managing agency, Tokio Marine Kiln Syndicates Ltd and insurance company Tokio Marine Kiln Insurance Ltd. Having joined Kiln in 1993, he became a director of R J Kiln in 1995 and was appointed Active Underwriter of the Marine division in 2001. He became Chief Executive of R J Kiln in 2007.

D. Fiona Luck

Independent Non-Executive Director
Appointed 1 March 2018
Member of the Nominations & Governance Committee
Member of the Risk Committee
Member of the Remuneration Committee
Chair of the Culture Advisory Group

Fiona Luck has more than 25 years' experience in insurance and reinsurance. She was a non-executive director of the Bermuda Monetary Authority from 2013 to 2018. Previously, she was non-executive director at Catlin Holdings Ltd and Allied World Holdings Ltd and, prior to that, spent a decade at XL Capital Ltd, in a variety of senior roles including Chief of Staff to the Chief Executive Officer and Executive Vice-President responsible for Strategy, Global HR, IT and Corporate Social Responsibility. She also worked for the ACE Group from 1996 to 1999 and was President and Chief Executive Officer of Marsh and McLennan's Bermuda operation from 1992 to 1996. She is a chartered accountant.

E. Burkhard Keese

Executive Director
Appointed 1 April 2019
Chief Financial Officer
Member of the Investment Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Burkhard Keese joined Lloyd's on 1 April 2019, following 14 years at Allianz Group. From 2012 to 2019 he was the Chief Financial Officer of Allianz Deutschland AG, Germany's largest insurer with over €34bn in premiums. Prior to this he was Executive Vice President and Chief Operating Officer of the global finance function of Allianz.

During his time as CFO of Allianz Deutschland AG, he successfully implemented the internal models for Solvency II, introduced a value-generating growth strategy and initiated several large transformation programmes. As the CFO of Allianz Germany, he was also responsible for the firm's €300bn investment portfolio.

F. Jon Hancock

Executive Director
Appointed 1 December 2016
Performance Management Director

Jon Hancock joined Lloyd's as Performance Management Director in December 2016. In this role, he has responsibility for performance management, capital setting and risk management across the market. Prior to this, he enjoyed a career of over 25 years at RSA Group, starting out as a marine underwriter in their Liverpool branch. In the years that followed, he worked across the UK and in the London market, and spent many years overseas. He held a variety of chief underwriting and chief risk officer roles in both developed and emerging markets, and was CEO for RSA's Asia & Middle East businesses. Before joining Lloyd's, his last role at the company was Managing Director of the UK Commercial and European Specialty Lines business and Global Relationship Director for the RSA Group.

G. Mark Cloutier

Market-connected Non-Executive Director
Appointed 1 April 2015
Member of the Audit Committee
Member of the Nominations & Governance Committee

Mark Cloutier was appointed Executive Chairman and Group Chief Executive Officer of Aspen with effect from 15 February 2019. Between January 2017 and December 2018 he was Executive Chairman of Brit Group, having previously been Chief Executive Officer. With over 35 years' experience working in the international insurance and reinsurance sector he holds a number of non-executive positions and has held a number of Chief Executive Officer and senior executive positions, including Chief Executive Officer of the Alea Group, Chief Executive Officer of Overseas Partners Re and President of E.W. Blanch Insurance Services Inc. He has worked in partnership with a number of leading private equity and institutional investors including Kohlberg Kravis Roberts (KKR), Fortress Investment Group, Apollo LP, CVC Capital Partners, Ontario Municipal Employees and Texas Teachers Retirement Services.

H. Mike Bracken

Independent Non-Executive Director
Appointed 1 March 2018
Member of the Technology & Transformation Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Mike Bracken was formerly Chief Digital Officer at the Co-op Group and prior to that he spent four years as the UK Government's Executive Director, Digital and also as Chief Data Officer. In this role he created the Government Digital Service, the organisation behind gov.uk and the transformation of mainstream government transactions. He is a member of the advisory board of the Inter-American Development Bank and a partner at the Public Digital Consultancy for Digital Transformation. He is a Visiting Professor at University College London.

I. Neil Maidment

Independent Non-Executive Director
Appointed 1 February 2019
Member of the Risk Committee
Member of the Technology & Transformation Committee

Neil Maidment has worked in the Lloyd's market for 35 years. He was previously a director of Beazley plc and was Chief Underwriting Officer of the company and Active Underwriter for its Lloyd's syndicates from 2008 to 2018. He was Chairman of the Lloyd's Market Association from 2016 to 2018 and served as an elected working member of the Council of Lloyd's during the same period.

The Board *continued*

J. Nigel Hinshelwood

Independent Non-Executive Director
Appointed 1 March 2018
Member of the Risk Committee
Member of the Technology & Transformation Committee
Member of the Innovation Investment Committee (until the Committee's dissolution on 31 October 2019)

Nigel Hinshelwood has over 27 years' experience in the financial services sector working across the UK and Europe, North and South America, the Middle East and Asia Pacific. He was most recently Head of HSBC UK and Deputy Chief Executive Officer of HSBC Bank plc. He had a 12-year career at HSBC, where he was a Group General Manager, in a variety of senior global roles including Global Head of Operations, Chief Operating Officer for Europe, Middle East and Africa, Head of HSBC Insurance Holdings and Head of Business Transformation. Prior to joining HSBC, he was a Partner at Ernst & Young (subsequently Cap Gemini Ernst & Young) where he held numerous positions including Head of Financial Services and Chief Executive Officer of Southeast Asia. He was also a Group General Manager with Unisys where he was responsible for the Financial Services practice in Asia Pacific.

He is Senior Independent Director of Lloyds Bank plc and Bank of Scotland plc. He is also an independent non-executive director and chairman of the risk committee of Nordea Bank Group.

K. Patricia Jackson

Independent Non-Executive Director
Appointed 30 March 2017
Chair of the Risk Committee
Member of the Audit Committee

Patricia Jackson is a non-executive director and chair of the risk committee of the digital challenger bank Atom, SMBC Nikko Capital Markets Ltd and BGL, which owns Compare The Market. She is a council member of the European Money and Finance Forum SUERF and an Adjunct Professor at the Imperial College Business School. From 2004 to 2013 she was a partner at EY and led the risk governance and financial regulation practice across EMEIA. Up until 2004 she was a senior official at the Bank of England and head of the Financial Industry and Regulation division. She represented the United Kingdom on the Basel Committee for Banking Supervision for seven years.

L. Angela Crawford-Ingle

Independent Non-Executive Director
Appointed 14 January 2020
Chair of the Audit Committee

Angela Crawford-Ingle is currently the Senior Independent Director and Chair of Audit Committee (previously Chair of Audit & Risk Committee) at River & Mercantile Group plc and non-executive director and audit committee chair at Openwork Ltd. She has over 30 years' experience as a senior partner at PwC in the financial services industry, specialising in insurance and asset management, and was until recently a non-executive director and chair of the audit and risk committees at Beazley plc and at Swinton Insurance.

Internal Control Statement

The Board, on behalf of 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 Board. 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.

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 Board member. Associate companies, Ins-sure Holdings Limited and Xchanging Claims Services Limited, are not dealt with as part of the Group for the purposes of applying the UK Corporate Governance Code.

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

Management structure

'Lloyd's Governance Arrangements: A Guide for Members of Lloyd's Committees', reviewed and updated in February 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 which sets out, inter alia, their functions and powers, authority to act and limitations on authority. This reflects the Senior Managers and Certification Regime which sets out requirements relating to senior management functions. Role profiles are required to ensure that employees are aware of their role and responsibilities and sets out the equivalent information, as agreed with their line manager.

The Society is committed to the highest standards of business conduct. Corporate policies and procedures are available to all employees and include the Code of Conduct, Compliance Policies, Employee Handbook, Health & Safety Policy, Information Security and Computer Usage Policy, Procurement Policy, Financial Crime Policies, Risk 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 and Deloitte LLP ("Deloitte"), who provide additional skills and resources as required under a co-source arrangement.

During the second half of 2019, an interim Head of Internal Audit was in place. This individual, a professional from Deloitte on secondment, was not responsible for monitoring the performance of Deloitte under the existing co-source arrangement with this responsibility being held by a member of the Society's Executive Committee.

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.

One such technique is the comprehensive risk and control assessment process, which is conducted on a regular basis. This review reassesses the existing risks and identifies any new or emerging risks. It evaluates the performance of key controls and also seeks to monitor the action plans in place to help manage risks. The Framework also enables the Society to undertake a more forward-looking assessment of risk, building capital consideration into the decision-making processes. An Own Risk and Solvency Assessment (ORSA) is performed every year, bringing together key risk, capital and solvency management information on a more formal basis for the Board on a current and future basis. While the ORSA is an annual process, the risk profile is reviewed by the Board Risk Committee on a quarterly basis.

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

The Board Risk Committee oversees, challenges and where appropriate escalates issues using appropriate management information sourced from the Risk Management and Internal Control Frameworks, such as the various risk and control assessments, details of the operating and regulatory environment and capital management reports. 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 Board 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 Board Risk Committee.

Internal Control Statement *continued*

A framework of regular self-certification, with targeted independent challenge has recently been put 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, Board Risk Committee, Board and the Audit 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.

The compliance function undertakes a programme of activities which include a plan of compliance activities which is in place for 2020. These activities include provision of compliance monitoring, challenge and assurance relating to PRA and FCA requirements. A short report on progress is included in reports received by the Board Risk Committee and plans are in place to expand compliance reporting to the Committee.

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 Board and Council. Monthly financial reports compare actual performance with the annual budget and management action is taken, where appropriate, when variances arise. Revised forecasts are prepared regularly.

Report of the Remuneration Committee

This report is based upon 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.

Statement by Chair of the Remuneration Committee

I am pleased to present the Remuneration Committee's report for 2019 on the following pages.

2019 was a critical year for Lloyd's, with key transformation initiatives announced by John Neal around performance, strategy and culture. These set out how the Lloyd's market can deliver sustainable, profitable growth while meeting the expectations of our customers and all our stakeholders in the future.

Business context

Profit before tax for the Lloyd's market in the period was £2.5bn (2018: a loss of £1.0bn) with an improved combined ratio of 102.1% (2018: 104.5%) and strong investment returns. We are pleased to be reporting a return to profitability in 2019, while recognising the importance of continued focus on performance management to maintain this momentum throughout future years.

Remuneration policy review

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. In 2018, remuneration packages for executives with Board member roles were rebalanced, with reduced emphasis on fixed pay (salary, pension and benefits), and a greater weighting on variable pay elements linked to measurable strategic key performance indicators (KPIs). Under this approach, incentives will continue to be set below market levels, reflecting the oversight role of the Society.
- Alignment to Lloyd's strategy – Individual performance awards will continue to be linked to the Society and individual KPIs. Performance will be assessed against a rigorous balanced scorecard of quantifiable metrics and will continue to be subject to risk adjustment.
- 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. 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 Ratio are key metrics used to measure market performance from 2019.
- 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 98 and 99.

Key remuneration decisions and incentive outturns

No salary increases were awarded for Executive Directors for 2019 or 2020.

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 strategic priorities in 2019, which is reflected in the individual performance awards (see page 93).

The Lloyd's Market Profit Before Tax was £2.5bn (2018: a loss of £1.0bn) and the Combined Ratio was 102.1% (2018: 104.5%) which resulted in a Market Award of 38% of maximum for executive directors (see page 94).

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.

Key management changes – departing Directors

John Parry stepped down on 26 April 2019. Further details of his leaving arrangements are set out on page 95.

UK Corporate Governance developments

The Committee has considered the new UK Corporate Governance Code and other regulatory changes which took effect from 1 January 2019. While some aspects are not applicable to the Society, the Committee considered how these principles can be applied to the Society in the areas of workforce remuneration, pensions and discretion.

Wider Society employees

The Remuneration Committee reviews policies which apply to all employees across the Society and is periodically updated on wider matters such as employee engagement, gender pay and diversity.

All employees in the Society are eligible to participate in the Society's incentive arrangements, and the framework is consistent across all employees in the Society.

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

In 2019 the Society carried out a review of reward and benefits across our global workforce. As a result of the review, I am pleased to report that from 2020 our market competitive UK family care and parental leave provisions will be extended globally. This aligns to our Future Culture ambition to create an inclusive marketplace for all.

The Society has also launched a Gender Balance Plan, with the intention to set clear measurable targets for improving the representation of women at senior levels (boards, executive and their direct reports) within the Lloyd's market.

Andy Haste
Chairman, Remuneration Committee
9 March 2020

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), Jon Hancock (Performance Management Director) and Burkhard Keese (appointed Chief Financial Officer on 1 April 2019) – i.e. Directors who are current members of the Board. "Former Chief Financial Officer" refers to John Parry, who stepped down as Chief Financial Officer on 26 April 2019.

Summary of remuneration policy and outturns for 2019

The following table provides a summary of how our remuneration policy was implemented in 2019. The remuneration policy is provided on pages 98 and 99.

Salary

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

For 2019, annual salaries were as follows:

- Chief Executive Officer: £650,000
- Chief Financial Officer: £450,000 (appointed 1 April 2019)
- Performance Management Director: £510,000
- Former Chief Financial Officer: £433,500 (stepped down on 26 April 2019)

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. From 2019, 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 93. A summary of the outturns for 2019 is provided below.

	Individual Performance Award		Market Award	
	Maximum opportunity (% of salary)	2019 outturn (% of salary)	Maximum opportunity (% of salary)	2019 outturn (% of salary)
Chief Executive Officer	100%	92%	50%	19%
Chief Financial Officer	100%	53%	50%	19%
Performance Management Director	100%	–	50%	–
Former Chief Financial Officer	50%	35%	50%	19%

The Chief Financial Officer and Former Chief Financial Officer's incentive awards were pro-rated for time spent in the role, resulting in an Individual Performance Award of 39.4% and 11.5% of salary respectively and Market Award of 14.3% and 6.1% of salary respectively.

Jon Hancock will step down as Performance Management Director during 2020. As a leaver due to resignation, and in line with Lloyd's policy, he will not be eligible for 2019 Individual and Market Awards.

As disclosed in the 2018 remuneration report, the Chief Financial Officer was also eligible to receive a recruitment award of up to 50% of salary subject to achievement of specified KPIs during 2019. 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.

Risk underpin

In 2019, 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 individual performance awards across the Society.

Deferral

40% of total incentives (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 receive 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 2019 and a summary of how the policy will apply for 2020.

Single total figure of remuneration

The total remuneration receivable in respect of qualifying services for each person who served as a Board Director or member of Council during the year is shown below. Further detail on annual bonus and market awards is shown on pages 93 and 94.

	Salary/fees		Other benefits[1]		Annual bonus		Market Award		Pension benefit[2]		Total	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Chairman of the Council												
Bruce Carnegie-Brown	**600**	600	**6**	–	**–**	–	**–**	–	**–**	–	**606**	600
Executive Directors												
Inga Beale[3]	**383**	715	**1**	5	**–**	405	**–**	–	**21**	179	**405**	1,304
Jon Hancock	**510**	510	**21**	15	**–**	250	**–**	–	**77**	112	**608**	887
Burkhard Keese[4]	**338**	–	**166**	–	**177**	–	**64**	–	**51**	–	**796**	–
John Neal	**650**	139	**112**	5	**600**	–	**124**	–	**108**	23	**1,594**	167
John Parry[5]	**155**	434	**5**	17	**49**	156	**26**	–	**31**	124	**266**	731

	Salary/fees		Other benefits[1]		Total	
Council	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Working members						
Simon Beale[6]	**58**	58	**–**	7	**58**	65
Andrew Brooks	**39**	39	**–**	–	**39**	39
Dominic Christian[7]	**46**	46	**–**	–	**46**	46
Karen Green[8]	**70**	65	**–**	–	**70**	65
Julian James[9]	**12**	39	**–**	–	**12**	39
Victoria Carter[10]	**41**	–	**–**	–	**41**	–
External members						
Jeffery Barratt	**39**	39	**6**	2	**45**	41
Albert Benchimol[11]	**35**	–	**–**	–	**35**	–
Robert Childs	**58**	58	**–**	–	**58**	58
Matthew Fosh[12]	**3**	39	**–**	–	**3**	39
Dominick Hoare[13]	**53**	47	**–**	–	**53**	47
Philip Swatman[14]	**5**	55	**–**	–	**5**	55
Michael Watson	**48**	48	**–**	–	**48**	48
Nominated members						
Andy Haste	**89**	89	**–**	–	**89**	89
Sir David Manning[15]	**30**	46	**–**	–	**30**	46
Christian Noyer	**38**	13	**22**	–	**60**	13
John Sununu[16]	**35**	–	**11**	–	**46**	–
Board Non-Executive Directors						
Mike Bracken[17]	**73**	58	**–**	–	**73**	58
Mark Cloutier	**79**	79	**–**	–	**79**	79
Charles Franks[18]	**80**	93	**–**	–	**80**	93
Nigel Hinshelwood[19]	**87**	69	**1**	–	**88**	69
Patricia Jackson	**92**	85	**–**	–	**92**	85
Fiona Luck[20]	**94**	64	**1**	–	**95**	64
Richard Keers[21]	**78**	78	**–**	–	**78**	78
Neil Maidment[22]	**75**	53	**–**	–	**75**	53
Richard Pryce[23]	**70**	70	**–**	–	**70**	70

	Salary/fees		Other benefits[1]		Total	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Former members of Council and Board						
Martin Read	**–**	59	**–**	1	**–**	60
Sir Andrew Cahn	**5**	66	**–**	–	**5**	66

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 whilst travelling. Other taxable business expenses include business-related membership fees and hotels. Burkhard Keese benefits include £118k recruitment award and c.£35k of relocation benefits (and tax thereon) provided during 2019 in relation to a change of location to London following his appointment as Chief Financial Officer.
2. The Chief Executive Officer, Chief Financial Officer and Performance Management Director receive a pension supplement of 15% of salary, in line with the pension available to the wider workforce.
3. Inga Beale ceased as Chief Executive Officer with effect from 13 October 2018, but remained as a Lloyd's employee for the remainder of her contractual notice.
4. Burkhard Keese was appointed as the Chief Financial Officer and as a member of the Board, Innovation Investment Committee (dissolved with effect from 31 October 2019) and Investment Committee with effect from 1 April 2019.
5. John Parry ceased as the Chief Financial Officer with effect from 1 April 2019 and ceased as a member of the Board, Investment Committee and Innovation Investment Committee with effect from 26 April 2019.
6. Simon Beale ceased as a member of the Council and Nominations & Governance Committee with effect from 31 December 2019.
7. 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 Feburary 2020.
8. Karen Green ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
9. Julian James ceased as a member of the Council with effect from 31 January 2019 and was appointed to the Market Supervision and Review Committeee with effect from 4 February 2019.
10. Victoria Carter was elected as a member of the Council with effect from 1 February 2019 and was appointed as a member of the Nominations & Governance Committee with effect from 26 March 2019.
11. Albert Benchimol was elected as a member of the Council with effect from 1 Feburary 2019.
12. Matthew Fosh ceased as a member of the Council with effect from 31 January 2019.
13. Dominick Hoare ceased as a chair of the Innovation Investment Committeee with effect from 31 October 2019.
14. Philip Swatman ceased as a member of the Council and as a member of the Remuneration Committee with effect from 31 January 2019.
15. Sir David Manning ceased as a member of the Nominations & Governance Committee with effect from 26 March 2019 and as a member of the Council with effect from 31 August 2019.
16. John Sununu was appointed as a nominated member of the Council with effect from 6 February 2019.
17. Mike Bracken ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
18. Charles Franks ceased as a member of the Nominations & Governance Committee with effect from 26 March 2019.
19. Nigel Hinshelwood ceased as a member of the Innovation Investment Committee with effect from 31 October 2019.
20. Fiona Luck was appointed to the Nominations & Governance Committee with effect from 26 March 2019.
21. Richard Keers ceased as an Independent Non-Executive Director of the Board and as Chair of the Audit Committee and a member of the Risk Committeee with effect from 14 January 2020.
22. Neil Maidment ceased as a member of the Council with effect from 31 January 2019 and was appointed as an Independent Non-Executive Director of the Board with effect from 1 February 2019.
23. Richard Pryce ceased as an Independent Non-Executive Director of the Board and as a member of the Remuneration Committeee with effect from 31 December 2019.

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. 2020 salaries are as follows:

	2020 Base salaries £000	**Increase on 2019**
Chief Executive Officer	**650**	**0%**
Performance Management Director	**510**	**0%**
Chief Financial Officer (appointed on 1 April 2019)	**450**	**0%**

The average increase awarded to all employees was 2%.

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 2019 awards.

Strategic Initiatives / Business Priorities	Leadership and Culture	Risk and Compliance	Individual Performance
(40%)	(20%)	(20%)	(20%)

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 outturns for 2019

The following table sets out performance achievements against the KPIs set in respect of 2019.

Strategic Initiatives/Business Priorities	Leadership and Culture	Risk and Compliance
Strategic vision – Extensive **market and stakeholder engagement** to inform Future at Lloyd's strategy. Strong **market collaboration** – Renewed Lloyds purpose and value proposition – **Future at Lloyds** Blueprint One published setting out the vision for a **digital marketplace**. Implementation planning underway – Raised **£300m of senior debt** to fund the early stages of the programme Operational efficiency – Set up **Brussels LIC** in readiness for Brexit – Integrated **global functional operating model** implemented in the Society – **Society savings** of £15m from procurement, operational excellence and reduction in contract staff Performance management – Introduced **Decile 10 risk-based oversight** approach, reducing underperforming lines and encouraging excellent performance – **Standard & Poor's rating** upgrade and A+ rating maintained.	Culture – **Market-wide culture survey** undertaken with 6,000 responses – **Five-point plan** to address market culture challenges and accelerate change – **Comprehensive action plan** developed for sustainable culture change – Commenced move towards **agile workplace** environment Leadership – Appointed **four new Executive team members** and succession plans created – **Leadership framework** developed and new incentive scheme implemented	– New Chief Risk Officer appointed Risk management – **Risk control framework** updated and strengthened – **SMCR regime** fully deployed

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 2019:

Role	Maximum	Outturn
Chief Executive Officer	100% of salary	92% of salary
Chief Financial Officer	100% of salary	53% of salary
Performance Management Director	100% of salary	–
Former Chief Financial Officer	50% of salary	35% of salary

Awards made to the Chief Financial Officer and Former Chief Financial Officer were pro-rated for time served during the year. This resulted in an Individual Performance Award of 39.4% and 11.5% of salary respectively.

Jon Hancock will step down as Performance Management Director during 2020. As a leaver due to resignation, and in line with Lloyd's policy, he will not be eligible for a 2019 Individual Performance Award.

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 2019 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".
- 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% paid one year later. For other employees, the market award is paid in full in April following the relevant financial year.

The performance targets for 2019 Market Awards, and related outturns, were as set out in the following table. For 2017 and 2018, no Market Award was payable.

Market award-performance metric	Threshold (20% of maximum)	Target (50% of maximum)	Maximum (100% of maximum)	2019 performance outturn	2019 Market Award outturn (% of salary)
Profit Before Tax element (50% weighting)	£400m	£1.7bn	£3.3bn	£2.5bn	19%
Combined Ratio element (50% weighting)	100.5%	98.5%	96.5%	102.1	0%
Market award payout (as a % of salary)	10%	25%	50%	19%	19%

The maximum opportunity for executive directors is 50% of salary. Awards made to the Chief Financial Officer and Former Chief Financial Officer were pro-rated for time served during the year, resulting in a Market Award of 14.3% and 6.1% of salary respectively.

Jon Hancock will step down as Performance Management Director during 2020. As a leaver due to resignation, and in line with Lloyd's policy, he will not be eligible for a 2019 Market Award.

Chief Financial Officer – Recruitment Award

Burkhard Keese was appointed as Chief Financial Officer with effect from 1 April 2019.

As disclosed in the 2018 remuneration report, the Chief Financial Officer was also eligible to receive a recruitment award of up to 50% of salary subject to achievement of specified KPIs during 2019. 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.

Pensions

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

The Former Chief Financial Officer, John Parry, was a member of the Lloyd's Pension Scheme, which closed to future accruals on 30 June 2018. The terms of the Scheme and details of accruals and contributions in the year are as follows:

Details of pension arrangements	Pension arrangements provide for a pension at normal retirement of two thirds base annual salary after 20 years' eligible service less any entitlement from previous pension arrangements and subject to a Scheme earnings cap of £160,800 from 6 April 2018. No further accrual post 1 July 2018.

John Parry also received a cash allowance of 20% of base salary. Details of his rights under the Lloyd's Pension Scheme and the transfer value of accrued pension benefits are set out below.

Scheme rights						Transfer value		
Salary sacrifice in year to 31 December 2019	Age at 31 December 2019	Increase in pension in year to 31 December 2019 £000	Increase in pension in year to 31 December 2019 – net of price inflation £000	Total accrued annual pension in year to 31 December 2019 £000	Normal retirement age	Transfer value of accrued pension as at 31 December 2018 £000	Transfer value of accrued pension as at 31 December 2019 £000	Movement in transfer value over the year less amounts salary sacrificed £000
–	56	2	–	77	60	1,613	1,825	212

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

From 1 July 2018, John Parry joined the Group Pension Plan on the same terms as other Executive Directors (i.e. capped annual contribution of £10,000). He continues to receive a cash allowance of 20% of base salary (up to 26 April 2019).

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 and, for John Parry, dependants' pensions.

Departing Directors and Executives

Former Chief Financial Officer (John Parry)

John Parry stepped down on 26 April 2019. He was eligible to receive individual performance and market awards in respect of performance achieved in 2019, pro-rated for time served in the role. Outstanding deferred bonus and market awards will be subject to normal deferral rules and will be delivered in line with ordinary payment dates.

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 2019	Notice period
Bruce Carnegie-Brown	15 June 2017	6 months	12 months
John Neal	15 October 2018	rolling 1 year	12 months
Burkhard Keese	1 April 2019	rolling 6 months	6 months
Jon Hancock	1 December 2016	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
2019	1,594	92%	38%
2018	1,304	76%	0%
2017	1,304	76%	0%
2016	1,525	75%	63%
2015	1,531	81%	63%
2014	1,494	74%	95%
2013	1,795	75%	65%
2012	1,759	75%	55%
2011	1,499	90%	0%
2010	1,750	90%	44%

Chief Executive Officer pay increase in relation to all employees

The table below sets out details of the change in remuneration for the Chief Executive Officer and all Society employees.

	CEO %	All employees %
Salary	–	2%
Other benefits[1]	N/A	2%
Annual bonus[2]	N/A	2%

1. The Chief Executive Officer's other benefits largely relate to travel expenses (including tax thereon) and other employment related expenses, which may fluctuate between periods.
2. The Chief Executive Officer was not eligible for an Annual bonus In 2018.

Relative importance of spend on pay

	2019 £m	2018 restated £m
Society operating income	358	352
Total remuneration – all employees	114	105

Society operating income excludes income relating to the Central Fund. 2018 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 and Board who are not employees of the Society

The Chairman's remuneration was not be increased in 2019. For 2020 his fee will remain unchanged at £600,000 per annum.

Fees for 2019 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 and Board committees, including ad hoc committees established to consider specific issues requiring a significant time commitment. Council, Board and committee fees will remain unchanged in the first half of 2020 and a revised fee structure will come into effect from 1 June 2020 when the Board is merged into the Council. The revised fee structure will include bringing 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 Directors 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 five members – two members of Council, two members of the Board 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 six times in 2019. The attendance record is set out in the Corporate Governance report on pages 79 and 80. 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. Deloitte LLP adheres to working practices which have been agreed with the Remuneration Committee Chairman, 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 £75,400 for the year. Deloitte LLP also provided other services to the Society during the year, including the co-sourced Internal Audit resource, risk and project management advice, other ad hoc assurance services and tax advice.

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

Neither the Chairman, nor the Executive Directors 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 to the regulatory requirements. The policy is not legally binding, and the Committee reserves the right to amend the policy at any time.

Report of the Remuneration Committee *continued*

Remuneration policy

Base salary		– Salaries set to appropriately recognise responsibilities and must be broadly market competitive. – Generally reviewed annually by the Remuneration Committee. – 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.
Lloyd's Incentive Plan	**Individual performance award (annual bonus)**	***Performance measures*** – Individual performance awards paid by reference to performance against a balanced scorecard of strategic objectives and KPIs during the year. – 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*** – From 2019 awards onwards, 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. – The Committee may apply malus and clawback to individual awards (see below).
	Market award (formerly LPP)	***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 will be subject to the achievement of Profit Before Tax and Combined Ratio metrics. – 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*** – From 2019 onwards, 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. – The Committee may apply malus and clawback to market awards (see below).
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. – 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 to "buy out" terms or remuneration arrangements forfeited on leaving a previous employer. The terms of any buy out would be determined taking into account the terms of the forfeited awards 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. – 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.

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
9 March 2020

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 2019. 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, financial controls and external audit
- Internal control
- Internal audit

Our principal aim is to assist the Council and Board in discharging their 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

24 March 2020

Composition of the Audit Committee

Until 14 January 2020 the Committee was chaired by Richard Keers, an independent non-executive director on the Board. Since 14 January 2020 the Committee has been chaired by Angela Crawford-Ingle, also an independent non-executive director on the Board. The Committee's remaining members are drawn from both the Council and the Board. At the end of 2019 the Audit Committee comprised one external member of the Council and three non-executive members of the Board.

The Council and Board require 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 and Board have determined that, by virtue of their previous experience gained in other organisations, the members of the Committee collectively have the competence and skills required to discharge the terms of reference and responsibilities of the Committee. In addition, the Council and Board consider that both Richard Keers and Angela Crawford-Ingle have 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 2019 are shown in the Corporate Governance report on pages 79 and 80.

The Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, 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 auditor, PricewaterhouseCoopers LLP. The Committee as a whole meets privately with each of the Head of Internal Audit and the external auditor.

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 auditor 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 auditor on developments in financial reporting, accounting policy and regulatory developments.

Responsibilities of the Audit Committee

The Audit Committee's primary role is to assist the Board in fulfilling its oversight responsibilities over financial reporting and controls. The Audit Committee's functions in 2019 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.

The Committee also has responsibility for overseeing the Society's system of internal control and for reviewing its effectiveness. The Committee provides biannual internal control reports to the Board.

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 auditor, and for overseeing the effectiveness of the interactions with the external auditor.

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

The Committee submits an annual report to the Board in respect of its activities during each financial year. The Committee also reports to the Council and the Board on the Committee's proceedings after each meeting. Additional reports are submitted to the Council and/or the Board on matters of material interest as and when necessary. The minutes of Committee meetings are submitted to the Board and the Council.

Primary activities and key areas of focus during the year

The Committee's primary activities 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 of the financial control framework;
- the effectiveness and independence of the external auditor;
- the appointment or removal of the external auditor;
- the appointment or removal of the external auditor;
- the fees of the external auditor;
- the Society's relationship with the external auditor;
- the fees of the external auditor;
- the Society's relationship with the external auditor;
- the effectiveness of the internal control framework; and
- the internal audit function.

The Committee met four times during the year. The key areas of focus during the year were:

- changes in annual report content and disclosure requirements and associated guidance issued by the Financial Reporting Council (including in relation to IFRS 16 and section 172 of the Companies Act 2006);
- the review of the Society's and market 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 basis of preparation of the market pro forma financial statements including the notional investment return on Funds at Lloyd's and the methodology for its calculation;
- 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;
- reporting requirements and governance arrangements for Solvency II Pillar 3 reporting for both the market and the Society;
- the operation and effectiveness of the Society's whistleblowing arrangements, including liaison between the Society and the Prudential Regulation Authority (PRA) following the Society's self-identification and disclosure to the PRA that aspects of its internal whistleblowing systems and controls had been ineffective for a period of time; and
- the rating methodology used for the Society's internal audits.

Financial reporting, financial controls and external audit

A key focus of the Committee is its work in assisting the Council and Board 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 Board and Council that, when taken as a whole, the 2019 Annual Report is fair, balanced and understandable and provides the information necessary to assess the Society's position and performance, business model and strategy.

During the year, the Committee has continued to keep abreast of significant and emerging accounting developments, in particular, changes to International Financial Reporting Standards relating to insurance accounting.

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 auditor.

The Committee assesses the effectiveness of the external auditor 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 auditor's findings, management's responses and stakeholder feedback.

In addition, the Committee performs a specific evaluation of the performance of the external auditor 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.

The Committee is satisfied with the performance of the Society's external auditor, PricewaterhouseCoopers LLP. The Committee has concluded that there has been appropriate focus by the external auditor and that the external auditor has provided robust challenge throughout the audit process.

In discharging its responsibilities for approving the terms of engagement of the external auditor and monitoring the external auditor's independence, the Committee oversees the engagement of the external auditor 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 auditor, setting out the circumstances in which the external auditor 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 auditor for non-audit work is set out in note 7. Significant non-audit engagements undertaken by the external auditor in 2019 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 auditor 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 auditor 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 Board, on behalf of the Council, has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Board 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 Board, the Committee carries out biannually an 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 2019, 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 auditor. Reports and updates on specific control issues were received throughout the year. Specific issues considered were:

– the Committee reviewed reports from the Risk Committee on developments to the Lloyd's Risk Framework. The Committee also considered the quarterly Own Risk & Solvency Assessment reports. Throughout the year, the Committee was updated on the key risks which are set out on pages 13 and 14;
– 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 auditor's controls observation report and management's assessment of the internal control environment, including reports on control failures during the period and status of progress against previously agreed actions;
– 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 America data systems, Lloyd's Brussels internal control and data systems, gifts and hospitality reporting, and the status of the Society's preparations in respect of Brexit.

Based on the Committee's assessment of internal control, the Committee concluded that the Society's system of internal control continues to provide reasonable (although not absolute) assurance against material misstatement or loss.

Internal audit

The Internal Audit function provides the Committee and Executive Committee with independent and objective assurance on the effectiveness of internal control and risk management across the Society and its subsidiaries. The Head of Internal Audit has a direct reporting line to the Chair of the Committee with an administrative reporting line to the Chief Executive Officer.

The use of 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 sets an annual plan of work which considers an independent view of the risks facing the Society, as well as other factors such as strategic initiatives, emerging risks and change. The annual plan is approved and regularly reviewed by the Committee and is updated as necessary to ensure appropriate focus on the key risks. For 2019, the Committee was satisfied that appropriate resources were in place.

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 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.

The Head of Internal Audit left the Society in July 2019, at which point an interim professional from Deloitte LLP ("Deloitte") was seconded. Deloitte provides co-sourced Internal Audit resource and had previously reported directly to the Head of Internal Audit. During the period of the secondment, the interim Head of Internal Audit was not responsible for monitoring the performance of Deloitte under the existing co-source arrangement, with this responsibility being held by a member of the Society's Executive Committee. Additionally, the secondee did not have the ability to approve services of Deloitte parties to the Society or the settlement of invoices.

To ensure the 2020 annual plan was both risk-based and aligned to the Society's key risks, the planning process included a top-down and bottom-up approach. As part of this process, the interim Head of Internal Audit, supported by two internal senior managers, met with members of the Committee (including the Chair) and all of the Society's executive. The annual plan therefore reflects areas of focus for both the Committee and the executive, including major change initiatives such as the Future at Lloyd's and risk culture. The plan was shared and discussed with the Executive Committee prior to review and approval by the Committee in November 2019. The Committee keeps under review the relationship with Deloitte and the procedures to ensure that appropriate independence of the Internal Audit function is maintained.

A permanent replacement for the departed Head of Internal Audit took up the role from March 2020.

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 2019.

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 2019 I dealt with one complaint. I reported on the complaint in September 2019 and dismissed the complaint because it was outside my jurisdiction.

Costs

The expenses incurred by my office amounted to £6,500.

Financial Review

This review should be read in conjunction with the financial statements of the Society on pages 118 to 172 and the Strategic Report on pages 10 to 21. These sections set 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 £61m (2018: surplus of £139m). The operating (deficit)/surplus by business segment is set out below:

	Corporation of Lloyd's £m	Lloyd's Central Fund £m	2019 Total £m	2018 Total £m
Total income	358	125	483	501
Gross written premiums	2,466	–	2,466	176
Outward reinsurance premiums	(2,466)	–	(2,466)	(176)
Group operating expenses	(422)	–	(422)	(362)
Operating (deficit)/surplus	(64)	125	61	139

Corporation of Lloyd's

Total income for the Corporation increased by £6m to £358m (2018: £352m). Within this, the overseas operating charge was higher, mainly as a result of the increase in the charge rate on 1 January 2019 to partially cover the increased cost of setting up Lloyd's Insurance Company S.A. ("Lloyd's Brussels") subsidiary in readiness for Brexit. The increase was to a large extent offset by a rebate to market participants resulting in a very small overall cost to the market. Members' subscription income reduced reflecting the shortage of premium income approved for the 2019 underwriting year; subscription rates were held steady for the second consecutive year. However, this reduction was dampened by lower rebates to market participants for the adoption of the electronic placing platform. Other income streams reported an overall net reduction due to increased revenue from User Pay services, offset by a reduction in market modernisation income due to the deferral of income in respect of services to be provided to the market in future modernisation programmes, in particular Future at Lloyd's.

Gross written premiums increased significantly following the commencement of underwriting by Lloyd's Brussels. All business underwritten through the company is 100% reinsured to Lloyd's Syndicates.

The Corporation's operating expenses have increased to £422m (2018: £350m). The Corporation continues to make investment in strategic initiatives such as the Future at Lloyd's and other strategic programmes, which have contributed to the increase in costs. Lloyd's Brussels has had a marginal impact on cost as it moved from set up to fully operational from 1 January 2019. Market modernisation expenses decreased ahead of the decision to wind down the programme ahead of the launch of the Future at Lloyd's. Operating expenses also include estimated costs of fulfilling the Society's obligations to repair and maintain the 1986 Building under the terms of the lease agreement. The increase in the provision in the current year reflects the significant investment required at this stage of the building's lifecycle.

In 2019 the Society has applied IFRS 16 Leases for the first time. As a result a right-of-use asset of £156m and a lease liability of £152m are recognised in the statement of financial position. Adoption of the standard had net £nil impact on the Society's net assets as at 1 January 2019, and a £4m decrease on the Society's operating surplus for the year.

Central Fund

Total income for the Central Fund decreased by £24m to £125m (2018: £149m). Contribution income decreased as a result of the reduction in the level of written premiums in the 2019 underwriting year, together with a reduction in income from new Syndicates at the higher charge rate. Significant recoveries were made in respect of Undertakings previously given by the Central Fund during 2018; these were lower in 2019. The rate of contribution for established Syndicates remained constant at 0.35% of gross written premiums (further details are given in note 4).

Central Fund claims and provisions were £nil for the year (2018: £nil). Undertakings to meet the liabilities of insolvent members to policyholders are approved at the discretion of the Council and are normally based on anticipated cash flow requirements of insolvent members in the following 12 months. No payments were made in respect of insolvent corporate members (2018: £nil).

Investment performance

	2019 £m	2018 £m
Finance income	151	93
Finance costs	(51)	(39)
	100	54

The Society's investments, mostly held within the Central Fund, returned £151m or 3.6% during the year (2018: £93m, 2.4%). Excluding exchange rate movements, investments returned £213m or 5.02% during the year (2018: loss of £7m or -0.2%).

The Central Fund investment portfolio generated a strong return, excluding foreign exchange effects, benefiting from its diversified asset base. 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 over the year. Investment return was therefore lower when including foreign exchange impacts.

2019 was a markedly positive year for investments. Equities generated a particularly strong level of return for the calendar year with other risk assets also performing well. In fixed interest markets, the easing of monetary policy drove a reduction in risk free yields resulting in capital gains for government bonds. Corporate bond returns were further enhanced by credit spread narrowing, in line with the trajectory of other risk assets.

Finance costs include interest arising on subordinated notes and following the implementation of IFRS 16, interest expense on the lease liability. The £12m increase in finance costs primarily relates to the new lease interest expense.

Taxation

A tax charge of £33m (2018: £39m) on the surplus before tax of £170m (2018: £202m) has been recognised for the year ended 31 December 2019. Further details are set out in note 12.

Movement in net assets (£m)

Net assets at 1 January 2019	2,417
Surplus for the year	137
Actuarial (loss)/gain on pension schemes	(59)
Currency translation differences	(14)
Tax credit/(charge) on other comprehensive income	10
Syndicate loans	110
Net assets at 31 December 2019[1]	**2,601**

1. The net assets of the Central Fund are included within the above amounts and at 31 December 2019 were £2,483m (2018: £2,184m).

Pension schemes

Lloyd's pension scheme

On an IFRS basis, the Lloyd's pension scheme valuation at 31 December 2019 was a deficit of £137m (31 December 2018: deficit of £87m) before allowance for a deferred tax asset of £24m (2018: £16m).

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

	2019 £m	2018 £m
Pension deficit as at 1 January	(87)	(161)
Pension expense recognised in the Group income statement	(2)	(12)
Employer contributions	11	15
Remeasurement effects recognised in the Group statement of comprehensive income	(59)	71
Pension deficit as at 31 December	**(137)**	(87)

The increase in the pension deficit was mainly due to a decrease in corporate bond yields and a change in demographic and 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 last triennial funding valuation as at 30 June 2016 was undertaken by Willis Towers Watson. The total market value of the Scheme's assets at the date of the valuation was £667m and the total value of accrued liabilities was £730m showing a funding deficit of £63m. 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. This has been kept under review as circumstances developed.

The Trustee is currently undertaking a formal actuarial valuation of the Scheme as at 30 June 2019. The statutory deadline for completing this actuarial valuation is 30 September 2020.

The Lloyd's Pension Scheme closed to new members in 2013 and closed to future accrual for existing members in 2018.

Overseas pension schemes

The actuarial valuations of the overseas pension schemes at 31 December 2019 resulted in a deficit of £3m (2018: deficit of £3m). Further details are provided in note 13.

Solvency

Total assets for solvency purposes are set out below. The 2019 position is an estimate of the amount which will be finalised in April 2020 for submission to the PRA. The figures are calculated on a Solvency II basis. The solvency figures in the table below are unaudited:

	2019 £m	2018 £m
Central assets at 31 December	**2,601**	2,417
Subordinated debt	**794**	794
Total	**3,395**	3,211
Solvency valuation adjustments	**367**	436
Available central own funds to meet the Central Solvency Capital Requirement (SCR)	**3,762**	3,647
Excess central own funds not eligible to meet the Central SCR	**(188)**	(153)
Eligible central own funds available to meet the Central SCR	**3,574**	3,494
Central SCR	**1,500**	1,400
Central solvency ratio	**238%**	250%

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 £188m as at 31 December 2019 (2018: £153m).

Based on central own funds eligible to meet the Central SCR of £3.6bn (2018: £3.5bn), the estimated solvency ratio is 238% (2018: 250%). In setting contribution levels, account is taken of the Central SCR to ensure that Lloyd's is prudently but competitively capitalised.

Brexit

The Society's solution to maintain access to markets in the European Economic Area (EEA) post-Brexit opened to new business at the start of 2019 and has already written significant volumes. Lloyd's Insurance Company SA (Lloyd's Brussels) is 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. Lloyd's Brussels is a Solvency II compliant insurance company with its own Board and Executive Committee. The Company started writing new business from 1 January 2019 and all policies are 100% reinsured to Lloyd's Syndicates. They are therefore backed by Lloyd's unique Chain of Security capital structure, providing excellent financial security to policyholders. As such the Company has the same financial strength ratings as the Society.

The Society is continuing with its plans to ensure that existing non-life EEA insurance (and where required reinsurance) policies written by the Lloyd's market can be serviced following the UK's withdrawal from the EU, including the payment of valid insurance claims. To achieve this, the Society is proposing to transfer all relevant non-life EEA business that has been written by the Lloyd's market between 1993 and 2020 to Lloyd's Brussels, before the end of 2020. This will be undertaken via an insurance business transfer under Part VII of the UK's Financial Services and Markets Act 2000.

The Executive Committee and senior management of the Society continue to work to assess Brexit risks, and minimise their impact on the Society, the Lloyd's market and its policyholders. There remain significant uncertainties surrounding Brexit transition, with unknown economic and political implications for the UK. The Society is monitoring developments closely and refining its plans to ensure delivery of the Lloyd's business model and strategy. In particular, it continues to call for a positive reinsurance equivalence determination with respect to the UK at the earliest opportunity during the transition period. This would harmonise reinsurance market access to EEA member states from the UK.

Cash flows and liquidity

Cash and cash equivalents decreased during the year ended 31 December 2019 by £68m to £533m (2018: £601m). 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 2019 were £289m (2018: £279m).

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 significant 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 which are reviewed regularly by the Investment Committee. Overall risk is managed within defined limits, specified by the Board. 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 176.

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 Board.

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.

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 Board.

The Society had no committed borrowing facilities as at 31 December 2019 (2018: nil).

Market risk

Market risk represents the risk that movements in financial markets will affect the financial position of the Society. Market risks arising from the disposition of the Society's investments are monitored against defined parameters using Value at Risk 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.

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 and the level of this risk is managed within defined parameters. Consequently, while some net foreign exchange exposures may accrue to the Society from time to time as a result of this activity, the level of such exposures is carefully monitored and is not significant in the context of its activities.

Foreign currency exposures arising from overseas investments are considered together with any foreign currency liabilities of the Society, as well as the underlying currency mix of the Central Solvency Capital Requirement, of which a high proportion is US dollar based. Net foreign currency exposures arising are managed through the use of forward foreign exchange contracts.

Separately, the Society provides a Currency Conversion Service (CCS) to participating Lloyd's syndicates, converting insurance premiums and claims between 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.

Interest rate risk

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

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

Interest rate risk arising from the requirement to make fixed rate coupon payments in respect of the Society subordinated loan notes, 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 107.

Related party transactions

Except for disclosures made in note 29, no related party had material transactions with the Society in 2019.

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 21. 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 Board and 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 2020 to 2022) was approved in December following completion of the latest review cycle. As part of the planning process, financial budgets were prepared for the Society for the three year period to 31 December 2022.

Assessment of viability

The Board and 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 21. 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 178 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. The Audit Committee considers biannually management's assessment of the current solvency position and the forecast position over a three-year period, including resilience of central assets to meet the Central 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 2022, 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 2022.

Going concern

After making enquiries, the members of the Council also consider it appropriate to adopt the going concern basis in preparing the Society's financial statements. These enquiries include assessment of the Society's forecast future net assets and free cash flow, including the potential Impact of solvency stress test scenarios.

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 stable at over £3bn in 2020. Following its meeting on 24 March 2020, 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 £324m in 2020*. Significant investment is also expected in respect of The Future at Lloyd's programme. In January 2020 £300m of debt was successfully issued to fund this programme (see note 30 to the Society financial statements). Completion of the insurance business transfer of EEA business to Lloyd's Brussels (as described in the Brexit section above) will increase the Lloyd's Brussels capital requirement and the Society plans to make resources available to satisfy these requirements.

The COVID-19 pandemic has created turbulence in financial markets and economic uncertainty which will impact individuals and businesses. For the Society of Lloyd's there are operational as well as financial impacts all of which are being actively monitored and appropriate plans are in place. Our consideration of the risks to the business and our responses are set out on page 13 of our Strategic Report. Note 30, Events after the reporting period, also provides further detail on the quantitative assessment of the impact to our central solvency coverage.

* 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 176.

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 (IFRS) as adopted by the European Union.

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

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

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 IFRS as adopted by 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 2019 and of its surplus and cash flows for the year then ended;
– have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
– have been prepared in accordance with the requirements of the Council 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 2019; the Group Income Statement and the Group Statement of Comprehensive Income, the Group Statement of Cash Flows, and the Group Statement of Changes in Equity 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 to the group.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the group in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

– Overall group materiality: £39.3 million (2018: £24.4 million), based on 0.5% of total assets.

– The three principal components of the Society of Lloyd's are considered to be the Central Fund, the Corporation of Lloyd's and Lloyd's Insurance Company S.A. These were fully scoped in for the purposes of the audit. For the remaining components, a group scoping exercise was undertaken to identify significant balances.

– Assumptions used in the valuation of the Lloyd's pension scheme;
– Investment valuation; and
– Impact of COVID-19 subsequent event.

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

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 and regulations of the FCA and PRA. 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 increase the revenue of the group, and management bias in accounting estimates such as the assumptions used in the estimate of revenue, the valuation of the pension scheme liability and investment valuation. 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 and regulation and fraud;
- Evaluation of management's internal controls designed to prevent and detect irregularities, in particular their controls around disclosure of related parties and associated transactions;
- Reading key correspondence with, reports to and meeting with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing internal audit reports so far as they related to non-compliance with laws and regulations and fraud;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations including those with revenue journals, backdated and post close entries, or journals posted by senior management;
- 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 and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

Key audit matter	How our audit addressed the key audit matter
Assumptions used in the valuation of the Lloyd's pension scheme	
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 whose net liabilities total £137m at 31 December 2019. Certain key assumptions have a material impact in determining 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. (Refer also to note 13 to the financial statements).	We used our actuarial experts to evaluate the key assumptions used to value the Lloyd's Pension Scheme. This included comparison of Lloyd's assumptions to our own independent expectations based on our knowledge of the Lloyd's Pension Scheme and current financial market conditions. We found the following: – the discount rate used in the valuation of the pension liability was consistent with our expectations, taking into account the duration of the pension liability and investment market conditions at 31 December 2019; – the retail and consumer price inflation rates used in the valuation of the pension liability were consistent with our expectations, taking into account the duration of the pension liability and market expectations at 31 December 2019; and – the post-retirement life expectancy assumptions were in line with the recent mortality experience of the Lloyd's Pension Scheme and with assumptions made by other UK companies, and contain an appropriate allowance for how rates of mortality may change in the future. We found the assumptions to be reasonable.

Independent Auditors' Report to the Members of the Society of Lloyd's *continued*

Key audit matter	How our audit addressed the key audit matter
Investment valuation	
We focused on this area because financial investments and derivative financial instruments represent 51% of the total assets of the Group, so the valuation of financial investments has a significant impact on the financial statements. This includes investments in the Society's portfolio held as statutory insurance deposits by Additional Securities Limited (ASL).	Our procedures to address this risk included: – Performed walkthroughs with management to understand the design of controls in this area. – Independently re-priced all bonds directly held by the Society at fair value; – Obtained investment manager confirmations for investments held within funds which provide comfort over valuation; and – Evaluated the design and tested the operating effectiveness of controls relating to the valuation of investments, including those at third party fund managers. Based on the above procedures, no material exceptions were found.
Impact of COVID-19 subsequent event	
As disclosed in note 30, 2020 began with the outbreak of a new strain of Coronavirus (COVID-19) in China, resulting in a global pandemic which is causing significant economic disruption. The situation at 31 December 2019 was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019, and it is therefore a non-adjusting event. Subsequent to the year end management have performed procedures to assess the financial and operational impacts of COVID-19 which include: – frequent monitoring of both the central solvency ratio and the market-wide solvency ratio; – review of the investment portfolio and developing a suitable de-risking plan to mitigate financial losses and the impact on solvency; – assessing the potential impact upon credit ratings and developing appropriate plans to protect current ratings; and – consideration of the possibility of increased policyholder claims across impacted classes of business. Management have not identified the need for asset impairments and are of the view that the Society and market will continue to meet their capital requirements and operate through this pandemic. They have concluded, therefore, that the Society continues to be a going concern. However, as the situation is rapidly evolving it is not possible to quantify the ultimate financial impact of the outbreak on the Society.	We assessed management's approach to the impact of COVID-19 on the Society and the financial statements by performing the following procedures: – reviewed Board and Council papers related to viability, going concern and COVID-19; – evaluated management's stress and scenario testing and challenged management's key assumptions. As the central solvency capital requirement and market wide solvency capital requirement are not subject to audit, we reviewed the controls and governance over the production of this information; – assessed the likelihood of any impact on the Society's credit rating and implications for going concern; – considered the underwriting impact on the Society and any implications for management's going concern assessment; and – assessed the adequacy of the disclosures made by management within the financial statements and checked consistency of these disclosures against our knowledge of the Society based on our audit. Based on the work performed and the evidence obtained, we consider the disclosure of the impact of COVID-19 in the financial statements to be appropriate.

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, or component auditors within PwC UK 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 auditors of the component 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; visited significant in-scope components and undertook a detailed review of audit 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, 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, and scoped our audit to include detailed testing of those account balances.

Together, the reporting units where we performed our audit work accounted for 99.5% of the Society’s total assets and 98.7% of the Society’s 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	£39.3 million (2018: £24.4 million).
How we determined it	0.5% of total assets.
Rationale for benchmark applied	We have identified the key financial statement users as rating agencies, syndicate members and policyholders who will be primarily concerned with the overall asset position of Lloyd's, as those assets act as a backstop for the market. This will include the quality of assets held by Lloyd's as well as its solvency. Therefore, we have assessed that it is appropriate to use an asset based benchmark for the materiality determination for the 31 December 2019 year end.

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 £13.9 million and £35.4 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.2 million (2018: £1.2 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
The Council has voluntarily included a statement in relation to going concern in accordance with provision 30 of the UK Corporate Governance Code (the ‘Code’) in the Financial Review section of the Society report. We agreed with the Council to report if we have anything material to add or draw attention to in respect of the Council’s statement about whether it is appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Council’s identification of any material uncertainties to the group’s ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group’s ability to continue as a going concern.

Independent Auditors' Report to the Members of the Society of Lloyd's *continued*

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Council is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

The Council's assessment of the prospects of the Society and of the principal risks that would threaten the solvency or liquidity of the Society

Under the terms of our engagement, we agreed to report to you if we have anything material to add or to draw attention to in relation to:

– the Council's confirmation on page 110 of the Annual Report, in accordance with provision 28 of the Code, that they have carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity;

– the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; and

– the Council's explanation on page 110 of the Annual Report, in accordance with provision 31 of the Code, as to how it has assessed the prospects of the Society, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to regarding the above responsibilities.

Other Code Provisions

Under the terms of our engagement, we agreed to report to you if we have anything material to add or to draw attention to in relation to:

– The statement given by the Council, on page 111, in accordance with provision 27 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's position and performance, business model and strategy is materially inconsistent with our knowledge of the group obtained in the course of performing our audit.

– The section of the Annual Report on page 101 to 103, as required by provision 26 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing material to add or to draw attention to regarding the above responsibilities.

Report of the Remuneration Committee

The Council is responsible for preparing the part of the report of the Remuneration Committee that has been described as audited in accordance with Schedule 8 Part 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "basis of preparation").

Under the terms of our engagement, we agreed to report to you whether, in our opinion, the part of the report of the Remuneration Committee that is described as audited has been properly prepared in accordance with the basis of preparation as described therein. In our opinion, the part of the report of the Remuneration Committee that is described as audited has been properly prepared in accordance with the basis of preparation as described therein.

Responsibilities for the financial statements and the audit

Responsibilities of the Council for the financial statements

As explained more fully in the Statement of the Council's Responsibilities for the financial statements set out on page 111, 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.

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'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 received all the information and explanations we require for our audit; or
– proper accounting records have not been maintained by the Society.

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 7 years, covering the years ended 31 December 2013 to 31 December 2019.

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 March 2020

Group Income Statement

(For the year ended 31 December 2019)

	Note	2019 £m	2018 £m
Corporation operating income		358	352
Central Fund income		125	149
Gross written premiums	4, 6	2,466	176
Outward reinsurance premiums	4, 6	(2,466)	(176)
Total income	3, 4	483	501
Gross insurance claims and insurance expenses incurred	6	(1,302)	(189)
Insurance claims and expenses recoverable from reinsurers	6	1,302	189
Group operating expenses	3, 7	(422)	(362)
Operating surplus		61	139
Finance costs	9	(51)	(39)
Finance income	9	151	93
Share of profits of associates and joint ventures	11	9	9
Surplus before tax		170	202
Tax charge	12	(33)	(39)
Surplus for the year		137	163

Group Statement of Comprehensive Income

(For the year ended 31 December 2019)

	Note	2019 £m	2018 £m
Surplus for the year		137	163
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement (losses)/gains on pension liabilities			
UK	13	(59)	71
Associates	11	–	1
Tax credit/(charge) relating to items that will not be reclassified	12	10	(12)
Items that may be reclassified subsequently to profit or loss			
Unrealised gains on revaluation of Lloyd's Collection	15	–	2
Currency translation differences		(14)	4
Net other comprehensive (deficit)/surplus for the year		(63)	66
Total comprehensive income for the year		74	229

Group Statement of Financial Position

(As at 31 December 2019)

	Note	2019 £m	2018 £m
Assets			
Intangible assets	14	16	6
Lloyd's Collection	15	15	15
Plant and equipment	15	13	12
Right-of-use asset	2, 16	156	–
Deferred tax asset	12	47	31
Investment in associates and joint ventures	11	21	19
Insurance contract assets	3, 6	1,878	347
Loans recoverable	17	34	36
Financial investments at fair value through profit and loss	18	2,788	2,486
Financial investments at amortised cost	18	1,174	1,097
Trade and other receivables due within one year	19	1,145	214
Prepayments and accrued income		12	36
Derivative financial instruments	20	25	11
Cash and cash equivalents	21, 27	533	601
Total assets		7,857	4,911
Equity and liabilities			
Equity			
Accumulated reserve	22	2,466	2,378
Translation reserve	22	10	24
Revaluation reserve	22	15	15
Syndicate loans	2, 23	110	–
Total equity		2,601	2,417
Liabilities			
Subordinated notes	24	794	794
Insurance contract liabilities	3, 6	1,878	347
Pension liabilities	13	140	90
Provisions	25	80	20
Loans funding statutory insurance deposits		690	625
Trade and other payables	26	1,372	507
Accruals and deferred income		136	70
Tax payable		1	31
Lease liability	2, 16	152	–
Derivative financial instruments	20	13	10
Total liabilities		5,256	2,494
Total equity and liabilities		7,857	4,911

Approved and authorised by the Council on 24 March 2020 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 2019)

	Note	Accumulated reserve £m	Translation reserve £m	Revaluation reserve £m	Syndicate loans £m	Total equity £m
At 1 January 2018		2,155	20	13	–	2,188
Surplus for the year		163	–	–	–	163
Net other comprehensive surplus for the year		60	4	2	–	66
At 31 December 2018	22	2,378	24	15	–	2,417
Syndicate loans	2, 23	–	–	–	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**

Group Statement of Cash Flows

(For the year ended 31 December 2019)

	Note	2019 £m	2018 £m
Cash generated from operations	27	145	221
Tax paid		(69)	(34)
Net cash generated from operating activities		76	187
Cash flows from investing activities			
Purchase of intangible assets	14	(12)	(6)
Purchase of plant and equipment	15	(5)	(3)
Purchase of financial investments	18	(2,110)	(2,265)
Receipts from the sale of financial investments	18	1,834	2,234
Increase in short-term and security deposits	18	(10)	(196)
Dividends received from associates	11	7	9
Interest received		52	46
Dividends received	9	7	5
Settlement of forward currency contracts	9	(9)	15
Net cash (used in)/generated from investing activities		(246)	(161)
Cash flow from financing activities			
Syndicate loans	2, 23	110	–
Interest paid on subordinated notes		(38)	(38)
Issue costs in relation to subordinated notes		–	(1)
Increase in borrowings for statutory insurance deposits		65	113
Lease payments	2, 16	(27)	–
Net cash generated from financing activities		110	74
Net (decrease)/increase in cash and cash equivalents		(60)	100
Effect of exchange rates on cash and cash equivalents		(8)	4
Cash and cash equivalents at 1 January		601	497
Cash and cash equivalents at 31 December	21	533	601

Notes to the Financial Statements

1. Basis of preparation and consolidation

In 1871, by Lloyd's Act 1871, the then existing association of underwriters was incorporated in the United Kingdom as the Society and Corporation of Lloyd's (the Society). Its activities are accordingly governed by statute and, since 1982, have been managed by the Council of Lloyd's (the Council) pursuant to Lloyd's Act 1982. Its principal place of business is at One Lime Street, London EC3M 7HA.

The Society's main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The Group financial statements of the Society comprise the financial statements of the Society and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interest in associates and joint ventures as at each reporting date. Subsidiary undertakings are consolidated from the date of their acquisition, being the date on which the Society obtains control, and continue to be consolidated until the date that such control ceases. The Group financial statements are prepared using consistent accounting policies. All intra Group balances and transactions are eliminated in full.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (as adopted by the European Union) (IFRS) 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 new standards that became effective from 1 January 2019 (see note 2(p)). The policies, except for those which have been superseded on 1 January 2019 (see note 2(q)), 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 accounting policies identified involving such assessments are:

- 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);
- Insurance and reinsurance contracts – liabilities and reinsurance assets – significant assumptions are made to estimate insurance contract liabilities and assets (see note 2(g) and note 6);
- Revenue – income recognition – judgement has been applied in determining when services obligations have been completed (see note 2(j)); and
- Provisions – judgement is required to determine whether estimated future 1986 building repair and maintenance expenses require provision (see note 25).

(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) Software development

The only intangible assets recognised are 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. 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 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 and Belgian GAAP 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 outwards 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; 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.

The Society's financial assets at amortised cost includes short term and security deposits, statutory insurance deposits, loans recoverable, trade and other receivables due within one year.

(h) Financial assets *continued*

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

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.

(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 when recoverability is agreed.

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 (i.e. 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.

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) 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 principal exchange rates were:

	2019 Average	2018 Average	2019 Closing	2018 Closing
US$	**1.28**	1.33	**1.32**	1.27
CAN$	**1.69**	1.73	**1.72**	1.74
RMB	**8.84**	8.82	**9.08**	8.71
EUR	**1.14**	1.13	**1.18**	1.11

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.

(o) Accounting policies superseded on 1 January 2019

Leases

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

(p) New standards, interpretations and amendments to existing standards that have been adopted by the Society

The Society adopted the following new IFRS which is effective by European Union endorsement for annual periods beginning on or after 1 January 2019:

– IFRS 16 Leases.

Details of the impact of this new accounting standards on the Society financial statements, as well as the significant new accounting policies adopted from 1 January 2019 are set out below.

In addition, the Society adopted the following interpretations and amendments to existing standards with effect from 1 January 2019:

– Annual improvements 2015 – 2017 Cycle;
– IFRIC 23 Uncertainty over Income Tax Treatments;
– Prepayment Features with Negative Compensation – Amendments to IFRS 9;
– Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28; and
– Plan Amendment, Curtailment and Settlement – Amendments to IAS 19.

These interpretations and amendments had no significant Impact on the Society financial statements.

(p) New standards, interpretations and amendments to existing standards that have been adopted by the Society *continued*

IFRS 16 Leases

IFRS 16 provides a single lessee accounting model, specifying how leases are measured, presented and disclosed. This standard replaces IAS 17 Leases.

The Society transitioned to IFRS 16 in accordance with the modified retrospective approach. Under this method comparative information has not been restated, as permitted under the transitional provisions in the standard. The reclassifications and adjustments arising from the new standard are therefore recognised in the opening balance sheet on 1 January 2019.

Under IFRS 16, 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%, 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. There is no impact on equity upon initial recognition. The change in the accounting policy led to the Society recognising £171m of lease liabilities and an increase of £5m in the provision for contractual repair obligations bringing this provision to £12m. This corresponds to £179m of right-of-use assets and a reduction in prepayments of £4m in the statement of financial position as at 1 January 2019.

There are immaterial reconciling items between the valuation of the lease commitments as at 31 December 2018 and 1 January 2019.

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; and
- The Society has based its assessment of whether a lease is onerous by applying IAS 37 immediately before the date of initial application.

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 88% of the right-of-use asset value. The remaining portfolio is made up of 41 other leases, the next largest being Lloyd's of London (Asia) PTE Ltd., which represents 2% of the total value. 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 exception of the 1986 Building, Kent Science Park and the premises in Chatham. The 1986 Building has a lease duration of 35 years, and Kent Science Park and Chatham both have lease durations of 15 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 assets 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.

(p) New standards, interpretations and amendments to existing standards that have been adopted by the Society *continued*

Syndicate loans

Syndicate loans to the Central Fund were issued on 29 March 2019, increasing equity by £110m. The loan issue will strengthen the Society's central resources and facilitate 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.

(q) New standards and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance contracts

IFRS 17 Insurance contracts was issued in May 2017 as replacement for IFRS 4 Insurance contracts. The exposure draft of proposed amendments to IFRS 17 was published at the end of June 2019. The proposed effective date of the standard is 1 January 2022.

Implementation of IFRS 17 is expected to have a material impact on the Society's consolidated statement of financial position, driven by the insurance operations in China, Lloyd's China, and the Society's new insurance subsidiary in Belgium, Lloyd's Brussels. However, as the business is fully reinsured, the impact on the operating surplus and surplus for the year is not expected to be material. In December 2019, the IASB Board tentatively agreed to finalise the proposed amendments to IFRS 17 included in the exposure draft. These are expected to further reduce the impact on the Society.

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 is 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 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.

3. Segmental analysis *continued*

Information by business segment	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 (deficit)/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 (deficit)/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				
Capital expenditure	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.

3. Segmental analysis *continued*

Information by business segment continued	Note	2018 Corporation of Lloyd's £m	2018 Lloyd's Central Fund £m	2018 Society total £m
Segment income				
Total income	4	352	149	501
Segment operating expenses				
Gross insurance claims and insurance expenses incurred	6	(189)	–	(189)
Insurance claims and expenses recoverable from reinsurers	6	189	–	189
Group operating expenses:				
Employment (including pension costs)	8	(164)	–	(164)
Premises		(55)	–	(55)
Legal and professional	7	(50)	(1)	(51)
Systems and communications		(43)	–	(43)
Other		(38)	(11)	(49)
Total Group operating expenses		(350)	(12)	(362)
Total segment operating expenses		(350)	(12)	(362)
Total segment operating surplus		2	137	139
Finance costs	9	–	(39)	(39)
Finance income	9	14	79	93
Share of profits of associates and joint ventures	11	9	–	9
Segment surplus before tax		25	177	202
Tax charge	12			(39)
Surplus for the year				163
Segment assets and liabilities				
Insurance contract assets	6	347	–	347
Financial investments at fair value through profit and loss	18	146	2,340	2,486
Financial investments at amortised cost		918	179	1,097
Cash and cash equivalents		439	162	601
Other assets		15	334	349
Segment assets		1,865	3,015	4,880
Tax assets	12	31	–	31
Total assets		1,896	3,015	4,911
Insurance contract liabilities	6	(347)	–	(347)
Other segment liabilities		(1,280)	(836)	(2,116)
Tax liabilities		(36)	5	(31)
Total liabilities		(1,663)	(831)	(2,494)
Total equity		233	2,184	2,417
Other segment information				
Capital expenditure	14, 15	9	–	9
Depreciation	15	5	–	5
Impairment of long-lived assets	14	4	–	4
Average number of UK employees (permanent and contract)		951	–	951
Average number of overseas employees (permanent and contract)		269	–	269
Average number of total employees (permanent and contract)		1,220	–	1,220

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	
	2019 £m	2018 (restated) £m	2019 £m	2018 £m	2019 £m	2018 (restated) £m
Type of service						
Members' subscriptions	125	128	–	–	125	128
Market charges and other services						
Market charges	190	185	–	–	190	185
Market modernisation levy	(4)	33	–	–	(4)	33
Reinsurance commission	37	3	–	–	37	3
Members' subscriptions rebate, net	(6)	(12)	–	–	(6)	(12)
Other charges	16	15	–	–	16	15
Central Fund income	–	–	125	149	125	149
Total revenue from contracts with customers	358	352	125	149	483	501
Geographical markets						
UK	237	296	125	149	362	445
Europe	34	–	–	–	34	–
China	22	21	–	–	22	21
Other	65	35	–	–	65	35
Total revenue from contracts with customers	358	352	125	149	483	501

Note: The segmental analysis of income is restated to disclose Reinsurance commission income separately from market charges to managing agents and syndicates and to separately disclose income from the Europe geographical segment.

The table below analyses insurance premiums by geographical segment:

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	–	–	–	–	–

Note: In addition to Central Fund contributions, Central Fund income includes £2m (2018: £24m) of recoveries to the Central Fund and other income.

2018 £m	UK	Europe	China	Other	Total
Gross written premiums	–	–	176	–	176
Outward reinsurance premiums	–	–	(176)	–	(176)
Net insurance premiums	–	–	–	–	–

Revenue recognised from previously satisfied performance obligations is £12m (2018: £14m). This represents the adjustment to members' subscriptions, market modernisation levy and Central Fund contributions based on final premiums written for the year of account.

4. Revenue from contracts with customers *continued*
Disaggregated revenue information *continued*
Timing of revenue recognition

Services transferred over time	**358**	352	**–**	–	**358**	352
Services transferred at a point in time	**–**	–	**125**	149	**125**	149
Total revenue from contracts with customers	**358**	352	**125**	149	**483**	501

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 (2018: 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 £123m (2018: £128m) Central Fund contributions from members and £125m (2018: £128m) 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 £2m (2018: £16m), which represent continuing debt recoveries from the 1996 Reconstruction and Renewal settlement, and recoveries in respect of Undertakings previously given by the Central Fund.

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.

In addition to the above, a levy was charged to fund the costs of market modernisation, the levy is calculated as 0.07% (2018: 0.09%) 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 deferral of £30m of income at the reporting date.

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.

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 2019 were nil (2018: nil).

6. Insurance activities
Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited
Lloyd's Insurance Company S.A. (Lloyd's 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's 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, whilst 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.

6. Insurance activities *continued*

Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited *continued*

	2019 £m	2018 £m
Insurance claims		
Gross claims		
Claims paid	(198)	(108)
Net change in gross provision for claims	(753)	(31)
Total gross claims	(951)	(139)
Acquisition costs	(351)	(50)
Total gross insurance claims and insurance expenses incurred	(1,302)	(189)
Europe	(1,140)	–
China	(162)	(189)

	2019 £m	2018 £m
Claims recoverable from reinsurers		
Claims recovered from reinsurers	198	108
Net change in reinsurers share of provision for claims	753	31
Total claims recoverable from reinsurers	951	139
Acquisition costs recovered from reinsurers	351	50
Total insurance claims and expenses recoverable from reinsurers	1,302	189
Europe	1,140	–
China	162	189

Insurance contract assets and liabilities are analysed as follows:

	2019 Insurance contract liabilities £m	2019 Reinsurer's share of liabilities £m	2019 Net £m	2018 Insurance contract liabilities £m	2018 Reinsurer's share of liabilities £m	2018 Net £m
Provision for claims reported	227	(227)	–	136	(136)	–
Provision for IBNR claims	763	(763)	–	129	(129)	–
Total provision for insurance claims	990	(990)	–	265	(265)	–
Unearned premiums	888	(888)	–	82	(82)	–
Insurance contract liabilities	1,878	(1,878)	–	347	(347)	–

The balances result from the commencement of Lloyd's Brussels underwriting from 1 January 2019 and the cumulative growth of the Lloyd's China platform over time and the duration of claims payments.

The movement in provision for insurance claims is analysed as follows:

	2019 Insurance contract liabilities £m	2019 Reinsurer's share of liabilities £m	2019 Net £m	2018 Insurance contract liabilities £m	2018 Reinsurer's share of liabilities £m	2018 Net £m
At 1 January	265	(265)	–	233	(233)	–
Claims incurred/(released)	951	(951)	–	139	(139)	–
Claims (paid)/recoveries (see below)	(198)	198	–	(108)	108	–
Effect of exchange rates	(28)	28	–	1	(1)	–
At 31 December	990	(990)	–	265	(265)	–

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, for Lloyd's China, 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.

6. Insurance activities *continued*

Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited *continued*

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.

	2015 and prior £m	2016 £m	2017 £m	2018 £m	**2019 £m**	**Total £m**
At end of underwriting year	253	117	103	77	**902**	
One year later	259	157	161	105		
Two years later	250	165	172			
Three years later	248	169				
Four years later	240					
Current estimate of cumulative claims	240	169	172	105	**902**	**1,588**
Cumulative payments to date	(220)	(135)	(117)	(38)	**(88)**	**(598)**
Total provision for insurance claims	20	34	55	67	**814**	**990**

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.

Provision for unearned premiums

The movement in provision for unearned premiums is analysed as follows:

	2019 Insurance contract liabilities £m	**2019 Reinsurer's share of liabilities £m**	**2019 Net £m**	2018 Insurance contract liabilities £m	2018 Reinsurer's share of liabilities £m	2018 Net £m
At 1 January	**82**	**(82)**	**–**	109	(109)	–
Premiums written	**2,466**	**(2,466)**	**–**	176	(176)	–
Premiums earned	**(1,422)**	**1,422**	**–**	(202)	202	–
Acquisition costs deferred	**(211)**	**211**	**–**	–	–	–
Effect of exchange rates	**(27)**	**27**	**–**	(1)	1	–
At 31 December	**888**	**(888)**	**–**	82	(82)	–

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 reserves before the end of the contract.

6. Insurance activities *continued*

Insurance Risk *continued*

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:

	2019 %	2018 %
Property insurance	**9**	32
Agricultural insurance	**1**	15
Credit insurance	**4**	4
Engineering insurance	**2**	11
Marine insurance	**20**	10
Special risk insurance	**–**	4
Liability insurance	**13**	15
Accident and Health insurance	**8**	–
Aviation insurance	**5**	–
Energy insurance	**7**	–
Financial products	**22**	–
Other	**9**	9
	100	100

Risks

In addition to the risks which are set out in the Financial Risk Management section on pages 108 and 109, 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 an overseas underwriting company, Lloyd's Brussels or Lloyd's China is subject to the requirements of the local regulator and could be subject to penalties if these regulations are not satisfied.

Management do not consider that Lloyd's Brussels or Lloyd's China is subject to insurance risk due to the fact that all business is 100% reinsured.

Risk margin

Risk margin is the reserves provided for the uncertainty of estimated future cash flows. As Lloyd's Brussels and Lloyd's China have insufficient cumulative historic data to perform an accurate computation of its risk margin, judgement is required. The margin for non-life business is determined based on an industry ratio. For Lloyd's Brussels, a risk margin of 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 industry ratios are reflective of the uncertainty of Lloyd's Brussels future cash flows.

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.

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 credit worthiness 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.

6. Insurance activities *continued*

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 do not currently calculate an unexpired risk reserve because the loss ratios used indicate no loss-making categories of business written.

(a) 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. As Lloyd's Brussels commenced underwriting from 1 January 2019, there is currently insufficient actual claims experience. Therefore, the Lloyd's Brussels loss ratios are based on a detailed assessment of historical experience of loss ratios in the Lloyd's market and business forecasts submitted by syndicates for business underwritten through Lloyd's Brussels. The loss ratios derived are then compared to the latest European insurance market data published by the European Insurance and Occupational Pension Authority (EIOPA).

(b) 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.

(c) 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.

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 is determined based on detailed assessment of historical loss ratios experienced in the Lloyd's market and syndicate business forecasts; compared to the latest European insurance market data published by EIOPA.

Since Lloyd's Brussels has no historical claims experience, determining the ultimate loss ratios is judgemental and relies on analysis of other relevant data that is available. The Lloyd's Market Capital & Reserving team analyse historical market loss ratios for all relevant classes of business written at Lloyd's to determine benchmark loss ratios by class of business. Lloyd's Brussels assess the benchmark loss ratios against the insurance sector's combined loss ratios as gathered by EIOPA in their 2019 Financial Stability Report, as well as Lloyd's Brussel's syndicate business forecast estimates to assess whether adjustments are required. A change to the loss ratio for an individual class 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, 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. 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. 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 classes 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.

7. Group operating expenses

	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		1	–	1
Other assurance services payable to PricewaterhouseCoopers LLP		1	–	1
Total legal and professional fees		**72**	**1**	**73**
Charitable donations		1	–	1

	Note	2018 Corporation of Lloyd's £m	2018 Lloyd's Central Fund £m	2018 Total £m
Group operating expenses include:				
Employment costs	8	164	–	164
Operating lease costs – Lloyd's 1986 building	2	17	–	17
Operating lease costs – other	2	9	–	9
Legal and professional fees				
Professional fees, including legal fees and related costs		48	1	49
Audit		1	–	1
Other assurance services payable to PricewaterhouseCoopers LLP		1	–	1
Total legal and professional fees		50	1	51
Charitable donations		1	–	1

Other assurance services payable to PricewaterhouseCoopers LLP include work undertaken on the Aggregate Accounts, Pro Forma Financial Statements and regulatory returns, in addition to actuarial and information technology services.

8. Employment

	Note	2019 £m	2018 £m
Salaries and wages (including performance related bonus)		98	91
Lloyd's Performance Plan (excluding social security costs)		10	–
Lloyd's Pension Scheme costs	13	2	12
Other pension costs		9	7
Social security costs		14	11
Severance costs		3	5
Contract and agency employees		23	25
Other employment costs		14	13
Total employment costs		**173**	164

The emoluments of the Chairman, Chief Executive Officer and members of the Council and Board are included in the Report of the Remuneration Committee on pages 91 and 92. The number of employees is disclosed in note 3.

9. Finance costs and income

	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)
Amortisation of issue costs and discount	–	(1)	(1)
Other finance costs	(9)	(3)	(12)
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	(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 fair value through profit and loss	–	(2)	(2)
Total finance income	3	148	151

	2018 Corporation of Lloyd's £m	2018 Lloyd's Central Fund £m	2018 Total £m
Finance costs			
Interest payable on financial liabilities measured at amortised cost	–	(38)	(38)
Amortisation of issue costs and discount	–	(1)	(1)
Total finance costs	–	(39)	(39)
Finance income			
Bank interest received	5	6	11
Dividends received	–	5	5
Other returns on investments designated at fair value through profit or loss	11	52	63
Unrealised fair value movement of forward contracts held for trading	(5)	4	(1)
Realised fair value movement of forward contracts held for trading	3	12	15
Total finance income	14	79	93

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 2019, 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 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 MemberSA	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 (2018: RMB 1bn) within Lloyd's Insurance Company (China) Limited (LICCL) and €300m (2018: €201m) 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 2019.

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
Lloyd’s of London (Spratt & White) 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 (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

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

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			
The Message Exchange Limited	One Lime Street, London, EC3M 7HA England and Wales	Limited by guarantee 25%	Provision of messaging infrastructure to the London insurance market
Structured Data Capture Limited	One Lime Street, London, EC3M 7HA England and Wales	Limited by guarantee 33%	Provision of standardisation of data capture across the London market
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

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

	2019 £m	2018 £m
At 1 January	19	18
Share of operating profits	12	12
Share of tax on profit on ordinary activities	(3)	(3)
Total share of profits of associates and joint ventures	9	9
Share of actuarial gains on pension liability	–	1
Dividends received	(7)	(9)
At 31 December	**21**	19

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		The Message Exchange Limited As at 31 December		Structured Data Capture Limited As at 31 December		London Market Operations and Strategic Sourcing Limited As at 31 December	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Current assets										
Debtors	19	21	4	4	–	–	–	–	–	–
Prepayments and accrued income	–	–	–	–	–	–	–	–	–	–
Cash at bank and in hand	43	36	24	28	–	–	–	–	4	2
Total current assets	62	57	28	32	–	–	–	–	4	2
Non-current assets										
Tangible fixed assets	–	–	–	–	–	–	–	–	–	–
Intangible assets	29	34	–	–	–	–	–	–	–	–
Deferred tax assets	3	3	–	–	–	–	–	–	–	–
Pension asset	–	–	1	1	–	–	–	–	–	–
Total non-current assets	32	37	1	1	–	–	–	–	–	–
Current liabilities										
Creditors falling due within one year	(37)	(41)	(12)	(17)	–	–	–	–	(1)	(2)
Current income tax liabilities	(1)	(4)	(2)	(2)	–	–	–	–	–	–
Provisions	–	(1)	–	–	–	–	–	–	(3)	–
Total current liabilities	(38)	(46)	(14)	(19)	–	–	–	–	(4)	(2)
Net assets	56	48	15	14	–	–	–	–	–	–

Summarised statement of comprehensive income

	Ins-sure Holdings Limited		Xchanging Claims Services Limited		The Message Exchange Limited		Structured Data Capture Limited		London Market Operations and Strategic Sourcing Limited	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Revenues	89	94	31	32	–	2	1	3	8	2
Operating costs	(65)	(65)	(21)	(22)	–	(2)	(1)	(3)	(8)	(2)
Operating profit	24	29	10	10	–	–	–	–	–	–
Tax on profit on ordinary activities	(4)	(7)	(2)	(2)	–	–	–	–	–	–
Profit for the financial year	20	22	8	8	–	–	–	–	–	–
Other comprehensive income	(2)	2	–	–	–	–	–	–	–	–
Total comprehensive income	18	24	8	8	–	–	–	–	–	–

12. Taxation

(a) Tax charge

	2019 £m	2018 £m
Current tax:		
Corporation tax based on profits for the year at 19% (2018: 19%)	(35)	(42)
Adjustments in respect of previous years	–	(12)
Foreign tax suffered	(4)	(4)
Total current tax	(39)	(58)
Deferred tax:		
Origination and reversal of timing differences		
Current year	5	8
Prior year	1	11
Tax charge recognised in the Group income statement	(33)	(39)
Analysis of tax charge recognised in the Group statement of comprehensive income:		
Tax credit/(charge) on actuarial loss on Group pension liabilities	10	(12)
Tax credit/(charge) recognised in the Group statement of comprehensive income	10	(12)
Total tax charge	(23)	(51)

(b) Reconciliation of effective tax rate

	2019 %	2019 £m	2018 %	2018 £m
Surplus on ordinary activities before tax		170		202
Expected tax at the current rate	19.0%	(33)	19.0%	(38)
Expenses not deductible for tax purposes	1.0%	(2)	1.3%	(3)
Overseas tax	–	–	(1.4%)	3
Share of profits of associates and joint ventures	(0.9%)	2	(0.9%)	2
Deferred tax adjustment relating to change in tax rate	0.5%	(1)	1.0%	(2)
Deferred tax prior year adjustments	(0.3%)	1	(5.6%)	11
Current tax prior year adjustments	–	–	5.9%	(12)
Tax charge	19.3%	(33)	19.3%	(39)

12. Taxation *continued*

(c) Deferred tax

	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**

In 2019 there were no unrecognised deductible temporary differences (2018: 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 corporation tax rates of 19% to 17% depending on when an asset is expected to unwind (2018: 19% to 17%). Reductions to the UK corporate tax rate to 19% from 1 April 2017 and 17% from 1 April 2020 were announced in the Budget 2016 on 16 March 2016 and substantively enacted in September 2016.

	2018 Balance at 1 January £m	2018 Income statement £m	2018 Statement of comprehensive income £m	2018 Balance at 31 December £m
Plant and equipment	5	1	–	6
Losses provided	–	6	–	6
Financial investments	(13)	13	–	–
Pension liabilities	29	(1)	(12)	16
Other employee benefits	2	(1)	–	1
Provisions	1	1	–	2
Other items	1	–	(1)	–
Total deferred tax asset	25	19	(13)	31

13. Pension schemes

The Society 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 2019 are as follows:

	2019 £m	2018 £m
Lloyd's Pension Scheme	(137)	(87)
Overseas pension schemes	(3)	(3)
Total schemes deficit	(140)	(90)

The amounts charged/(credited) to the Group income statement and Group statement of comprehensive income in respect of defined benefit plans and defined contribution plan, are as follows:

	2019 £m	2018 £m
Group income statement		
Lloyd's Pension Scheme	2	12
Overseas pension schemes	2	2
Other pension contributions	7	5
Total	11	19
Group statement of comprehensive income		
Lloyd's Pension Scheme	59	(71)
Total	59	(71)

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 £7m (2018: £5m).

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 was enhanced in 2018 and is now:

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%.

13. Pension schemes *continued*

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.

A formal actuarial valuation of the Scheme was carried out by Willis Towers Watson as at 30 June 2016 using the projected unit credit method. The total market value of the Scheme's assets at the 2016 valuation was £663m, and the total value of accrued liabilities was £726m showing a funding deficit of £63m. 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.

The Trustee is currently undertaking a formal actuarial valuation of the Scheme as at 30 June 2019. The statutory deadline for completing this actuarial valuation is 30 September 2020.

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 2019 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 2019 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 2018 core projection model with 1.25% per annum long-term improvements and an initial addition parameter of 0.5% per annum (2018: 110% of SAPs S1 light tables for males and 115% SAPs S1 light tables for females, with allowance for future improvements in line with CMI's 2017 core projections with 1.5% per annum trend improvement).

These assumptions are equivalent to expected longevity at age 60 approximately as follows:

- For pensioners currently aged 60: ranging from 29 years to 30 years (2018: 28 years to 29 years); and
- For non-pensioners currently aged 45: ranging from 30 years to 31 years (2018: 29 years to 30 years).

The other major financial assumptions used by the actuary as at 31 December 2019 for the purposes of IAS 19 were:

	2019 % per annum	2018 % per annum	2017 % per annum	2016 % per annum	2015 % per annum
General salary and wage inflation	N/A	N/A	4.2	4.4	4.2
Rate of increase in pensions in payment					
6 April 1997 to 5 April 2005	2.8	3.1	3.1	3.2	3.1
Post 5 April 2005	1.9	2.2	2.2	2.3	2.2
Increases to final salary deferred pensions					
Benefits accrued before April 2009	2.2	2.2	2.2	2.4	2.2
Benefits accrued from April 2009	2.2	2.2	2.2	2.4	2.2
CARE* revaluation in service and in deferment, and increase in payment	1.9	2.2	2.2	2.3	2.2
Discount rate	2.0	2.9	2.4	2.6	3.8
Price inflation					
Retail Price Inflation (RPI)	2.9	3.2	3.2	3.4	3.2
Consumer Price Inflation (CPI)	2.2	2.2	2.2	2.4	2.2

*Career average revalued earnings.

13. Pension schemes *continued*

Principal actuarial assumptions in respect of IAS 19 *continued*

An allowance is made for members commuting 20% (2018: 20%) of their pension on retirement using the factors in use at the respective date.

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 2019 the value of the notional fund was £21m (2018: £26m).

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 2019 would result in a reduction to the pension liabilities at that date of around 16% (2018: 20%) or approximately £160m (2018: £170m);
- An increase of 1% per annum in the assumption for future inflation (both RPI and CPI) as at 31 December 2019, 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 8% (2018: 10%) or approximately £80m (2018: £85m);
- 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 2019 would be 3% higher (2018: 3%), or approximately £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	2019 Fair value £m	2018 Fair value £m	2017 Fair value £m	2016 Fair value £m	2015 Fair value £m
Bonds					
Corporate bonds	37	33	137	135	127
Gilts	410	374	142	141	124
Equities					
UK equities	33	29	33	41	56
Overseas (excluding UK) equities	244	224	342	284	257
Property	53	85	97	91	86
Diversified income credit	41	0	0	0	0
Infrastructure	20	16	16	15	11
Cash and net current assets	22	12	29	23	13
Total market value of assets	860	773	796	730	674
Actuarial value of Scheme liabilities	(997)	(860)	(957)	(958)	(768)
Net defined benefit liability	**(137)**	(87)	(161)	(228)	(94)

All of the Scheme's assets are quoted in an active market. The Scheme is not currently invested in any of the Society's own assets. Approximately 94% (2018: 96%) of the Scheme's liabilities relate to final salary members and 6% (2018: 4%) 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:

	2019 £m	2018 £m
Actuarial value of Scheme liabilities at 1 January	860	957
Interest cost on Pension Scheme liabilities	24	23
Current service cost (net of employee contributions)	–	5
Employee contributions	–	1
Benefits paid	(30)	(30)
Experience (gains)/reductions arising in Scheme liabilities	(1)	10
Scheme amendments	–	3
Change in assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	31	(27)
Financial assumption change	113	(82)
Actuarial value of Scheme liabilities at 31 December	**997**	860

Changes in fair value of plan assets were:

	2019 £m	2018 £m
Fair value of Scheme assets at 1 January	773	796
Expected return on Pension Scheme assets	22	19
Employer contributions	11	15
Employee contributions	–	1
Benefits paid	(30)	(29)
Actuarial gain/(loss) on Scheme assets	84	(28)
Administrative expenses	–	(1)
Fair value of Scheme assets at 31 December	**860**	773

13. Pension schemes *continued*

Analysis of the amount recognised in the Group statement of comprehensive income

	2019 £m	2018 £m
Experience gains/(reductions) arising on Scheme liabilities	1	(10)
Changes in the assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	(31)	27
Financial assumption change	(113)	82
Actuarial (loss)/gain arising during period	(143)	99
Actuarial gain/(loss) on Scheme assets	84	(28)
Remeasurement effects recognised in the Group statement of comprehensive income	(59)	71

Analysis of the amount charged to the Group income statement (recognised in other Group operating expenses)

	2019 £m	2018 £m
Current service cost	–	5
Past service cost	–	3
Net interest on net defined benefit liability	2	4
Total operating charge	2	12

Maturity profile of Defined Benefit Obligation

The Scheme is maturing over time, with 38% of the members in the Scheme at the 30 June 2016 valuation date being retired members and with an approximate duration of the Scheme's liabilities of around 18 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 2020	29
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 period 1 January 2025 to 31 December 2029	182
Expected benefit payments during period 1 January 2030 to 31 December 2034	191
Expected benefit payments from 1 January 2035 onwards	971

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 2019 resulted in a deficit of £3m (2018: £3m).

Development of net balance sheet position	2019 £m	2018 £m
Value of assets	2	3
Actuarial value of scheme liabilities	(5)	(6)
Deficit in the scheme/net defined benefit liability	(3)	(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 £3m (2018: £2m) 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 2018	5
Additions	6
At 31 December 2018	11
Additions	12
Disposals	–
At 31 December 2019	**23**
Amortisation	
At 1 January 2018	(5)
Amortisation charge for the year	–
At 31 December 2018	(5)
Amortisation charge for the year	(2)
At 31 December 2019	**(7)**
Net book value at 31 December 2019	**16**
Net book value at 31 December 2018	6

Impairment losses

Impairment reviews are undertaken annually for the assessment of the carrying value of assets. As part of the assessment none of the intangible assets were impaired in 2019 and 2018.

15. Tangible assets

Plant and equipment

	Furniture and fittings £m	Computer and specialised equipment £m	Total £m
Cost			
At 1 January 2018	35	25	60
Additions	3	–	3
Disposals	(1)	(3)	(4)
At 31 December 2018	37	22	59
Additions	4	3	7
Disposals	(4)	–	(4)
At 31 December 2019	**37**	**25**	**62**
Depreciation and impairment			
At 1 January 2018	(22)	(20)	(42)
Depreciation charge for the year	(3)	(2)	(5)
Disposals	1	3	4
Impairment losses	(4)	–	(4)
At 31 December 2018	(28)	(19)	(47)
Depreciation charge for the year	(3)	(1)	(4)
Disposals	2	–	2
At 31 December 2019	**(29)**	**(20)**	**(49)**
Net book value at 31 December 2019	**8**	**5**	**13**
Net book value at 31 December 2018	9	3	12

15. Tangible assets *continued*

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, there were no impairments for plant and equipment in 2019 (2018: £4m).

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. This resulted in a revaluation gain of £2m in 2018. 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 88% of the right-of-use asset value. The remaining portfolio is made up of 41 other leases, the next largest being Lloyd's of London (Asia) PTE Ltd. representing 2% of the value. 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 exception of the 1986 Building, Kent Science Park and the premises in Chatham. The 1986 Building has a lease duration of 35 years, and Kent Science Park and Chatham both have lease durations of 15 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.

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**

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)**
Non-cancellable lease rental payables are as follows:			
Current	**10**	**8**	**18**
Non-current (between 1 and 5 years)	**45**	**2**	**47**
Non-current (greater than 5 years)	**85**	**2**	**87**

16. Leases *continued*

Expenses recognised in Income statement

The following are the amounts recognised in the Group income statement:

	2019 £m
Depreciation expense of right-of-use asset	23
Interest expense on lease liabilities	8
Total amount recognised in the Group income statement	**31**

The Society had total cash outflows for leases of £27m in 2019 (2018: £29m).

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 are options to terminate the lease in 2021 and 2026. Management are reasonably certain that these options will not be exercised and therefore the term of the lease for the 1986 Building is expected to extend to 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 2019 are:

	1986 Building £m	Other £m	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 fair value and relate solely to the revaluation of hardship, Limited Financial Assistance Agreement and legal assets. Gains and losses arising from changes in the fair value are included in the Group income statement in the period in which they arise. The revaluation process is carried out twice a year at both interim and year end.

	2019 £m	2018 £m
At 1 January	**36**	40
Fair value movement recognised during the year	**(2)**	(4)
At 31 December	**34**	36

18. Financial investments

	Note	**2019 £m**	2018 £m
Financial investments at amortised cost			
Statutory insurance deposits		**696**	629
Short term and security deposits		**478**	468
Total financial investments at amortised cost	18(a)	**1,174**	1,097
Financial investments at fair value through profit and loss	18(b)	**2,788**	2,486
Financial investments		**3,962**	3,583

(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	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**

Statutory insurance deposits	2018 Securities £m	2018 Deposits £m	2018 Total £m
At 1 January	12	474	486
Additions at cost	15	466	481
Disposal proceeds	(16)	(353)	(369)
Surplus on the sale and revaluation of investments	–	31	31
At 31 December	11	618	629

Analysis of statutory insurance deposits	2019 £m	2018 £m
AAA	1	1
AA	414	371
A	261	238
BBB	8	8
Other	12	11
Total securities	**696**	629

Analysis of short term and security deposits	2019 £m	2018 £m
AAA	11	20
AA	146	–
A	209	348
BBB	108	100
Other	4	–
Total securities	**478**	468

18. Financial investments *continued*

(b) Financial investments at fair value through profit and loss

	2019 Corporation of Lloyd's £m	2019 Lloyd's Central Fund £m	2019 Total £m
Market value at 1 January	146	2,340	2,486
Additions at cost	197	1,237	1,434
Disposal proceeds	(123)	(1,119)	(1,242)
Surplus/(deficit) 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 funds	–	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**

18. Financial investments *continued*
(b) Financial investments at fair value through profit and loss *continued*

	2018 Corporation of Lloyd's £m	2018 Lloyd's Central Fund £m	2018 Total £m
Fair value at 1 January	159	2,648	2,807
Transfers to amortised cost	(159)	(82)	(241)
Additions at cost	214	1,570	1,784
Disposal proceeds	(68)	(1,797)	(1,865)
Surplus on the sale and revaluation of investments	–	1	1
Fair value at 31 December	146	2,340	2,486
Analysis of securities at year end:			
Listed securities			
Fixed interest:			
Government	112	862	974
Corporate securities	34	644	678
Total fixed interest	146	1,506	1,652
Emerging markets	–	164	164
Global equities	–	249	249
Total listed securities	146	1,919	2,065
Unlisted securities			
Hedge funds	–	158	158
Multi-asset	–	263	263
Loan investments	–	–	–
Total unlisted securities	–	421	421
Fair value	146	2,340	2,486

Analysis of securities:			
AAA	36	386	422
AA	61	569	630
A	32	349	381
BBB	17	294	311
Other	–	742	742
Total securities	146	2,340	2,486

19. Trade and other receivables due within one year

	2019 £m	2018 £m
Due within one year		
Trade (net of allowance for expected credit losses)	4	1
Insurance and reinsurance receivables	1,065	177
Reinsurance commission receivable	33	–
Interest receivable	16	16
Taxation and social security	7	7
Overseas office deposits	3	3
Amounts due from underwriters	3	5
Other receivables	14	5
Total trade and other receivables	**1,145**	214

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 board of directors. The department identifies, evaluates and hedges financial risks in close cooperation with the Society's operating units. The Board 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 and strategies are set out in the discussion of the Society's financial risk management and treasury policies on pages 108 and 109 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 £908m (2018: £840m) against a carrying value measured at amortised cost of £794m (2018: £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.

20. Financial risk management objectives and policies *continued*

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 2019 and 2018 was as follows:

	2019 Gross £m	2019 Impairment £m	2019 Net £m	2018 Gross £m	2018 Impairment £m	2018 Net £m
1-30 days	3	–	3	–	–	–
Past due 31-120 days	1	–	1	1	–	1
Total	4	–	4	1	–	1

The Society's normal credit terms are 30 days. There was no movement in the £nil allowance for expected credit losses in respect of trade receivables during the year.

(b) Sensitivity analysis

Foreign currency exposure

Currency risk is the risk that the sterling value of the Society's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Society's exposure to the risk of changes in the foreign exchange rates relates primarily to revaluation of loans recoverable and changes in the fair value of foreign currency denominated investments and forward contracts. Further details on foreign currency risk can be found on page 109.

The majority of foreign exchange exposures arising from investments denominated in foreign currencies are managed via a foreign exchange hedging programme. However, some net exposures to foreign currencies remain and the sterling value of the Society's investments may be impacted by movements in exchange rates relating to these exposures. At 31 December 2019, a 10% rise or fall in the value of sterling, against all other currencies, would have reduced/increased the surplus before tax by £288m (2018: £277m (restated)). 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 2019, 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 £45m (2018: £35m (restated)). 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 109.

Equity price risk

Equity price risk is the risk that the market values of equity investments fall. At 31 December 2019, 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 £79m (2018: £62m). 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 109.

The comparative impact of changes in factors for the sensitivity analysis above has been restated to include the impact on Corporation investments as well as Central Fund investments.

20. Financial risk management objectives and policies *continued*

(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 2019 based on undiscounted contractual cash flows:

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
Subordinated loan notes	24	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)

As at 31 December 2018	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
Subordinated loan notes	24	794	(1,073)	(38)	(38)	(115)	(882)
Loans funding statutory insurance deposits		625	(625)	(625)	–	–	–
Trade and other payables	26	507	(507)	(507)	–	–	–
Total		1,926	(2,205)	(1,170)	(38)	(115)	(882)

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.

Forward currency contracts are settled gross; notional amounts are a close proxy for gross cash flow amounts. Further details regarding the subordinated notes can be found in note 24 on page 169.

(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.

Analysis of forward currency contracts	2019 £m	2018 £m
Outstanding forward foreign exchange gains	25	11
Outstanding forward foreign exchange losses	(13)	(10)

The fair value and notional amounts of forward currency contracts, all of which mature within one year, are analysed as follows:

	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)

	2018 Assets		2018 Liabilities	
As at 31 December	Fair value £m	Notional £m	Fair value £m	Notional £m
Currency conversion service	1	152	(1)	(152)
Other forward foreign exchange contracts	6	1,104	(8)	(1,105)
Interest rate swaps	4	220	(1)	(220)
Total	11	1,476	(10)	(1,477)

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 (i.e. as prices) or indirectly (i.e. derived from prices) and fair value is determined through the use of models or other valuation methodologies. Level 2 inputs include quoted prices for similar (i.e. not identical) assets in active markets, quoted prices for identical or similar assets in markets that are not active or in which little information is released publicly, unlisted deposits held with credit institutions in active markets 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 2019 or 2018.

	Note	2019 Level 1 £m	2019 Level 2 £m	2019 Total £m
Financial assets at fair value through profit or loss				
Listed securities		972	731	1,703
Equity investments		367	159	526
Fixed income absolute return fund		–	105	105
Unlisted securities		–	454	454
Total	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)**

20. Financial risk management objectives and policies *continued*

(d) Fair value hierarchy *continued*

	Note	2018 Level 1 £m	2018 Level 2 £m	2018 Total £m
Financial assets at fair value through profit or loss				
Listed securities		772	880	1,652
Equity investments		249	164	413
Unlisted securities		–	421	421
Total	18	1,021	1,465	2,486
Derivative financial instruments				
Currency conversion service		–	1	1
Other forward foreign exchange contracts		–	6	6
Interest rate swaps		–	4	4
Total derivative financial instruments	20(c)	–	11	11
Total financial assets at fair value through profit or loss		1,021	1,476	2,497
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Currency conversion service		–	(1)	(1)
Other forward foreign exchange contracts		–	(8)	(8)
Interest rate swaps		–	(1)	(1)
Total derivative financial instruments	20(c)	–	(10)	(10)
Total financial liabilities at fair value through profit or loss		–	(10)	(10)

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

	2019 £m	2018 £m
Cash at banks	285	314
Short term deposits	248	287
Total cash and cash equivalents	**533**	**601**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Society, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £533m (2018: £601m).

22. Equity

Accumulated reserves

	2019 £m	2018 £m
Attributable to:		
Corporation of Lloyd's	72	175
Central Fund	2,373	2,184
Associates and joint ventures	21	19
Total accumulated reserves	**2,466**	**2,378**

Translation reserve

The translation reserve of £10m (2018: £24m) 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 (2018: £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

	2019 £m	2018 £m
2019 Syndicate loans	110	–
Principal loan balance	**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 2019 the cumulative interest to date, not yet confirmed, totals £3m (31 December 2018: nil).

24. Subordinated notes

	2019 £m	2018 £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
	800	800
Less issue costs to be charged in future years	(4)	(4)
Less discount on issue to be unwound in future years	(2)	(2)
Total	794	794

Subordinated notes

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

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

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

25. Provisions

	2019 Income Assistance Scheme £m	2019 Lease cost provision £m	2019 Restructuring £m	2019 Obligations under onerous lease £m	2019 Other risks and charges £m	2019 Total £m
Balance at 1 January	2	8	7	3	–	20
Charged in the year	–	60	2	–	2	64
Utilised in the year	(1)	(1)	(2)	–	–	(4)
Balance at 31 December	1	67	7	3	2	80

	2018 Income Assistance Scheme £m	2018 Lease cost provision £m	2018 Restructuring £m	2018 Obligations under onerous lease £m	2018 Other risks and charges £m	2018 Total £m
Balance at 1 January	2	8	4	1	–	15
Charged/(released) in the year	–	5	5	2	–	12
Utilised in the year	–	(5)	(2)	–	–	(7)
Balance at 31 December	2	8	7	3	–	20

25. Provisions *continued*

Undertakings given to insolvent members

The Council grants, at its discretion, Undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. No new Undertakings were granted during 2018 or 2019.

The purpose of these Undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. For those corporate members in provisional liquidation, the Council, at its discretion, has also provided a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding-up commencing on the date of the provisional liquidation.

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.

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. Additional items have been identified that are currently in disrepair which add to the previous estimate. 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 is being undertaken during 2020 and 2021. This has led to total additions during the year of £60m to the provision held.

Restructuring provision

The provision is mainly in respect of obligations arising from the implementation of the Corporation's operating model programme, Setting Ourselves Up for Success.

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 Group and the unavoidable costs of meeting the obligations under the lease exceed the economic benefits expected to be received.

Sensitivities

Undertakings given to insolvent members

This provision is calculated with reference to the financial exposure that is expected to be borne by the Central Fund based upon forecast member losses. It is therefore sensitive to both the likelihood of these losses occurring as well as the potential value of the losses.

Income Assistance Scheme

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.

Lease cost provisions

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.

Restructuring provision

The provision is calculated using assumptions regarding the average salary and length of service of potentially impacted employees and is therefore sensitive to changes in these assumptions.

Obligations under onerous lease

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.

26. Trade and other payables

	2019 £m	2018 £m
Due within one year		
Trade and other creditors	101	105
Insurance and reinsurance payables	1,223	346
Market charges repayable	25	31
Taxation and social security	4	6
Arbitration awards	2	2
Interest payable on subordinated loan notes	17	17
Total trade and other payables	**1,372**	507

27. Cash generated from operations

	Note	2019 £m	2018 £m
Surplus before tax		170	202
Net finance income	9	(100)	(54)
Share of profits of associates and joint ventures	11	(9)	(9)
Operating surplus		61	139
Adjustments for:			
Amortisation of intangible assets	14	2	–
Depreciation of plant and equipment	15	4	5
Depreciation of right-of-use asset	16	23	–
Impairment losses	15	–	4
Interest on lease liability	16	8	–
Operating surplus before working capital changes		98	148
Changes in pension obligations		(9)	(3)
(Increase)/decrease in receivables		(2,584)	45
Increase in payables		2,580	27
Increase in provisions		60	4
Cash generated from operations		**145**	221

	Note	1 January 2019 £m	Cash flows £m	Non-cash changes £m	31 December 2019 £m
Subordinated notes	24	794	(1)	1	794
Loans funding statutory insurance deposits		625	65	–	690
Leases liability	16	171	(27)	8	152
Total		**1,590**	**37**	**9**	**1,636**

28. Commitments

Capital expenditure commitments

Capital expenditure commitments contracted but not provided for in the Financial Statements were £1m (2018: nil).

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 2019 included operating systems support and development, and other administrative services.

Services provided to Xchanging Claims Services Limited Group in the year ended 31 December 2019 were primarily administrative services.

London Market Operations & Strategic Sourcing Limited ("LMOSS"), a company limited by guarantee in which the Society holds a one third interest alongside the Lloyd's Market Association and the International Underwriting Association, was incorporated on 7 March 2018. The Company was set up to source and manage the market services used across the London Market. Services provided to LMOSS in the year ended 31 December 2019 were primarily fee collection services. Structured Data Capture Limited ("SDC") was set up to improve the efficiency of market reform contract processing and to implement standardisation of data capture across the market. 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.

Services provided to The Message Exchange Limited ("TMEL") in the year ended 31 December 2019 included the provision of messaging infrastructure. 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.

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 2019 and 2018.

	Purchases from related parties		Amounts owed to related parties	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Associates:				
Ins-sure Holdings Limited	**4**	2	**–**	1
Xchanging Claims Services Limited	**–**	–	**–**	–
Joint ventures:				
London Market Operations & Strategic Sourcing Limited	**2**	3	**–**	–
Structured Data Capture Limited	**1**	2	**–**	–
The Message Exchange Limited	**–**	2	**–**	–

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 2019 and 2018.

In the normal course of business, the Society may enter into transactions with Lloyd's market businesses in which members of Council and the Board may have an interest.

30. Events after the reporting period

Senior debt issue

To ensure funding is available to meet the near and medium-term cash requirements of the Future at Lloyd's, the Society has taken advantage of the low interest rate environment and placed £300m of senior debt on 21 January 2020, thereby avoiding any increase in market levies. The debt is placed with six different investors across four tranches, with maturity profiles ranging from 10 to 25 years. The average coupon rate is 2.6%.

COVID-19 pandemic

The recent volatility in financial markets has impacted the valuation of the investment portfolio of the Society of Lloyd's. Whilst there is still a significant degree of uncertainty, having considered the positions within the financial markets up to 19 March 2020 our estimates indicate that our central solvency ratio continues to be above our risk appetite. A further 220 basis points widening of credit spreads and 26% fall in equity values would result in a more material impact to our central solvency ratio. However, our central solvency coverage would continue to be in excess of regulatory requirements.

Five Year Summary

(For the year ended 31 December 2019)

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Corporation operating income	358	352	351	332	239
Central Fund income	125	149	125	120	111
Gross written premiums	2,466	176	253	238	104
Outward reinsurance premiums	(2,466)	(176)	(253)	(238)	(104)
Total income	483	501	476	452	350
Central Fund claims and provisions incurred	–	–	–	(8)	–
Gross insurance claims and insurance expenses incurred	(1,302)	(189)	(212)	(200)	(69)
Insurance claims and expenses recoverable from reinsurers	1,302	189	212	200	69
Other Group operating expenses					
Employment (including pension costs)	(173)	(164)	(138)	(147)	(126)
Premises	(99)	(55)	(52)	(50)	(40)
Legal and professional	(73)	(51)	(37)	(34)	(27)
Systems and communications	(39)	(43)	(33)	(36)	(26)
Other	(38)	(49)	(46)	(40)	(40)
Total other Group operating expenses	(422)	(362)	(306)	(307)	(259)
Operating surplus	61	139	170	137	91
Finance costs	(51)	(39)	(55)	(54)	(54)
Finance income	151	93	62	314	43
Share of profits of associates and joint ventures	9	9	10	8	7
Surplus before tax	170	202	187	405	87
Tax charge	(33)	(39)	(31)	(75)	(13)
Surplus for the year	137	163	156	330	74

Other Information

Other Information

Lloyd's is the world's specialist insurance and reinsurance market. Through the collective intelligence and strength of expert underwriters and brokers who share risk over more than 200 territories, Lloyd's helps to create a braver world.

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 of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred 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 the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums 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 Society.	The annual budget is a key part of the financial control process within the Society 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 Society 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.

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 Society.

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 break even (before taking into account investment returns). A ratio less than 100% is an underwriting profit.

Corporate member A company incorporated with limited liability, a Scottish limited partnership or a limited liability partnership, admitted to membership of the Society.

Corporation The Society 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.

Board The Board established by the Council with responsibility for creating and maintaining a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised. This includes setting the Risk Management Framework and profitability targets for the market.

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.

Glossary of Terms and Useful Links *continued*

Operating surplus The operating surplus is calculated as income from members (including subscriptions, central fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.

Premiums trust funds (PTF) The premiums and other monies that members receive in respect of their underwriting at Lloyd's are held by their managing agents in trust for them subject to the discharge of their underwriting liabilities.

The premiums trust funds comprise a sterling fund, Lloyd's American Trust Fund, Lloyd's Dollar Trust Funds, Lloyd's Canadian Trust Fund and the Lloyd's Asia trust funds (which cover general business written through coverholders in Singapore). These premiums trust funds are available to fund overseas regulatory deposits, claims, return premiums, underwriting expenses and any profit that is payable to the member after providing for all future liabilities.

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 result 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 an 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

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