LLOYD'S

Annual Report 2017

The challenge for Lloyd's is, as ever, to respond to change calmly, but with determination – applying the knowledge and expertise acquired over 330 years to the environment we find ourselves in today, and providing our customers with what they need to help them navigate their way through it.

Who We Are

Lloyd's is the world's specialist insurance and reinsurance market.

The business written at Lloyd's is brought to specialist syndicates, who price and underwrite risk, via brokers and coverholders.

Under its globally recognised name, the Society of Lloyd's acts both as the market's custodian and promoter and is backed by diverse global resources and a capital structure designed to ensure financial security. Lloyd's works with an international distribution network to increase the use of insurance — building the resilience of local communities and supporting global economic growth.

Led by expert brokers and underwriters operating in more than 200 territories, the Lloyd's market develops and distributes complex and critical insurance to help underwrite human progress.

With expertise developed over centuries, Lloyd's is an influential force in the insurance industry. Our vision is for Lloyd's to remain the market for specialist insurance and reinsurance, where the world takes its risks, facing future challenges head-on while grasping the opportunities of a fast-changing world.

At a Glance

The Lloyd's market experienced an exceptionally difficult year in 2017, driven by challenging market conditions and a significant impact from natural catastrophes.

Operating highlights

- 2017 has been an incredibly tough year for the Lloyd's market but our excellent capital strength demonstrates that Lloyd's remains in robust financial shape, going into 2018 in a strong and secure position.
- The Lloyd's market paid out £18.3bn of gross claims in 2017 and has been more than able to meet these substantial commitments without any significant impact on our total resources, which remain strong at £27.6bn.

Loss before tax
(£2,001m)
(2016: profit of £2,107m)

Gross written premium
£33,591m
(2016: £29,862m)

Combined ratio*
114.0%
(2016: 97.9%)

Investment return*
£1,800m
(2016: £1,345m)

Pre-tax return on capital *
(7.3%)
(2016: +8.1%)

Net resources
£27,560m
(2016: £28,597m)

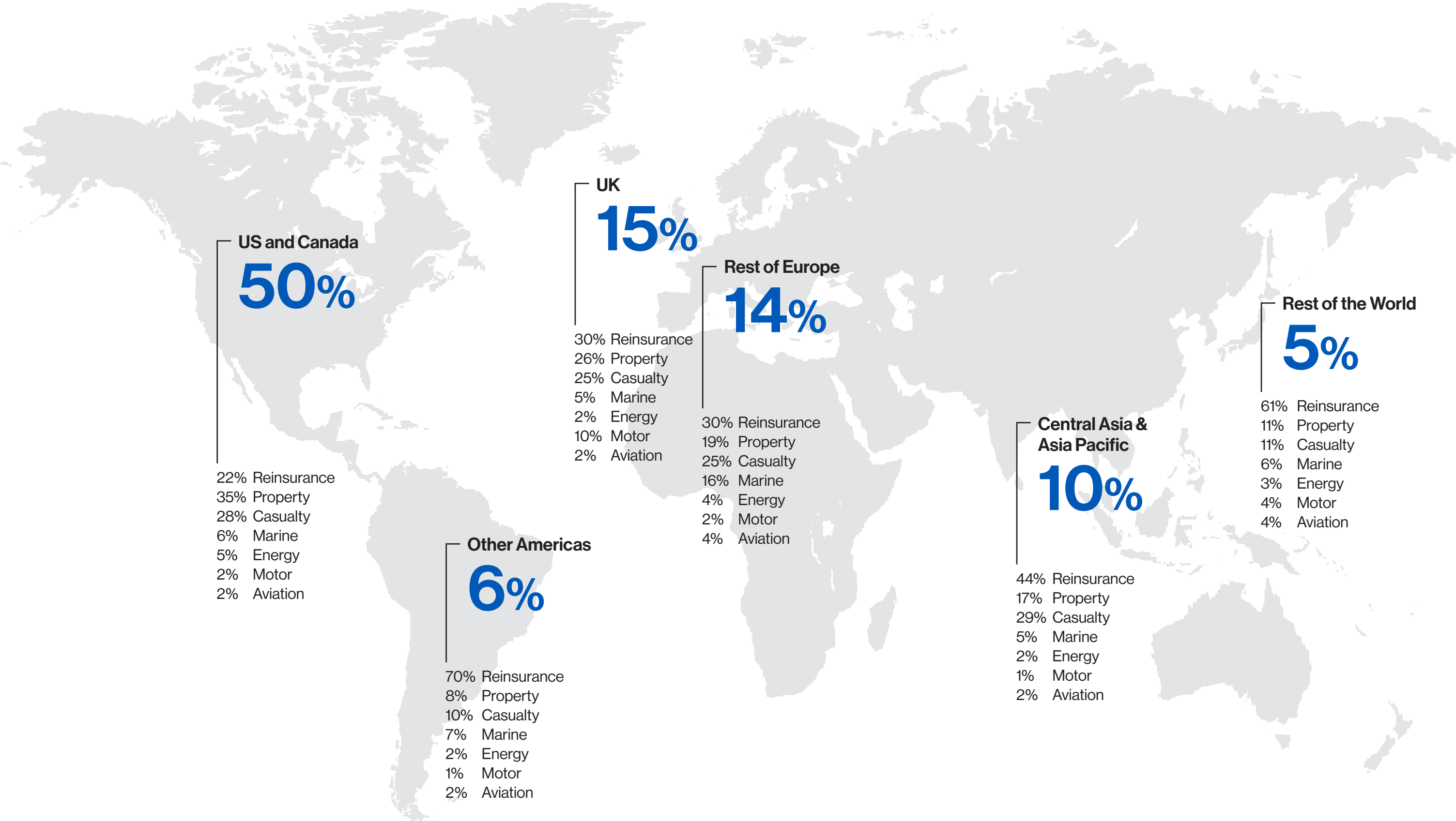
Underwriting result by line of business*

Reinsurance	(£1,330m)
Property	(£1,757m)
Casualty	(£189m)
Marine	(£469m)
Energy	£105m
Motor	(£188m)
Aviation	(£11m)
Life	(£24m)

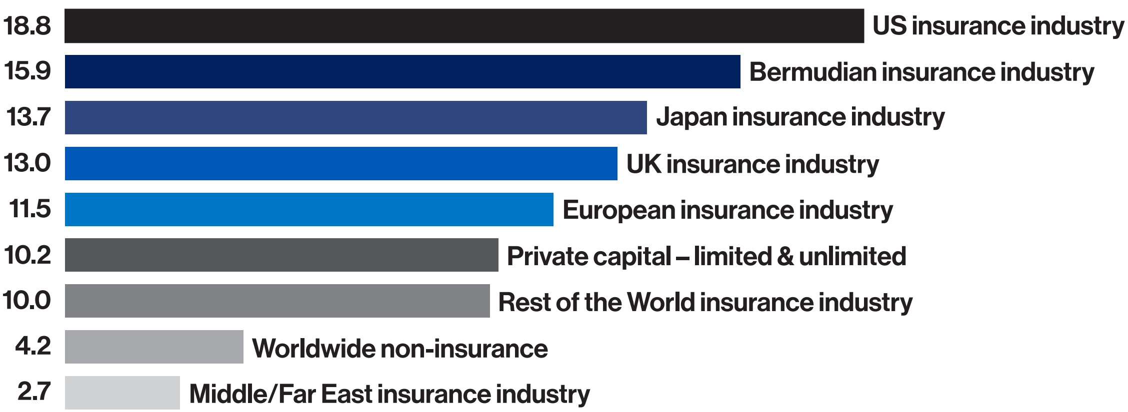
Combined ratio by line of business*

Reinsurance	117.2%
Property	127.6%
Casualty	103.1%
Marine	122.4%
Energy	86.6%
Motor	122.3%
Aviation	102.2%
Life	133.8%

Lloyd's lines of business breakdown by region



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 prior year movement represents the ratio of the surplus/deficit arising on reserves set at December 2016 to overall net earned premiums in calendar year 2017. 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 46 and 63). 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 2017. 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 64.

* The combined ratio, the return on capital, the investment return, the underwriting result and the accident year ratio are metrics that are consistently used to analyse financial performance in the Lloyd's Market Results and/or in the Society Report. These metrics (wherever used in this Annual Report) are Alternative Performance Measures (APMs), with further information available on page 174.

Chairman's Statement

After a number of relatively benign catastrophe years, the second half of 2017 demonstrated the precarious nature of the world in which we live.

In addition to Hurricanes Harvey, Irma and Maria, among other events, there were also devastating wildfires in California, an earthquake in Mexico, monsoon flooding in Bangladesh and a mudslide in Colombia.

The impact on communities and businesses has been immense, and the Lloyd's market is working hard to ensure we are paying claims to policyholders as quickly as possible. To date, the market has paid more than 50% by value of the claims notified in relation to Harvey, Irma and Maria, and is in the process of paying the rest.

The significant claims the market incurred this year have contributed to turning last year's £2.1bn profit into a £2bn loss in 2017. This is not a surprise. Last year it was clear that the benign claims environment was masking the impact of tough trading conditions and so it has proved.

Despite these losses, Lloyd's capital position remains strong. Our financial ratings remain at A (Excellent) from A.M. Best, A+ (Strong) from Standard & Poor's and AA- (Very Strong) from Fitch.

I expect 2018 to be another challenging year for Lloyd's and the Corporation continues to refine its strategy to address evolving market conditions.

Throughout this year we will focus on using a risk-based approach to ensure our oversight is appropriate in giving the right level of prudential protection and to help achieve sustainable growth; on modernising operations and services; and on exploring new ways in which we can use technology to improve access to Lloyd's.

This will include an Innovation Lab, which will enable new concepts and ideas to be tested in a fast-track, fast-fail environment with the support and active involvement of the Lloyd's market.

We continue to prioritise growing in our established markets. The US is our main market and contributes more than 40% of our premium, with 2017 seeing growth of 7% in excess and surplus lines and 2% in reinsurance.

We continue to advocate for an agreement between the UK and the EU which would allow us to continue to do business on the Continent as we do now. However, to prepare for an outcome which does not permit this, we are moving ahead with our plans

Strong financial ratings

A+ (Strong)
Standard & Poor's

AA- (Very Strong)
Fitch Ratings

A (Excellent)
A.M. Best

Total net resources

£27.6bn

The market's response to disasters continues to be exemplary and demonstrates the important social value of insurance.

An important role

The focus on paying claims in the second half of the year has provided us with an opportunity to advocate for the purpose of what we do, and to evidence Lloyd's important role in helping nations, businesses and communities to recover quickly post disaster and to reduce risks in the future. The market's response to these crises continues to be exemplary and demonstrates the important social value of insurance.

to establish a Lloyd's subsidiary in Brussels, which will provide access to Lloyd's for brokers and clients after the UK leaves the EU. Our subsidiary will be open for business from 1 January 2019.

The market's 2017 results are proof, if any were needed, that business as usual is not sustainable. As a result the market is embracing new ways of working, and I am confident the combination of our strategic focus and the market's proven ability to respond to challenging conditions will ensure Lloyd's continues to offer innovative and competitive solutions across all lines of business.

I want to thank the retiring Council and Board members who have served Lloyd's so well over many years. Fred Hu has stepped down from the Council, while Joy Griffiths has completed her term on the Board. I would like to extend a warm welcome to Mike Bracken, Nigel Hinshelwood, Patricia Jackson and Fiona Luck who have joined the Board. Patricia succeeds Joy as the chair of our Risk Committee.

Finally, I'd like to thank the Lloyd's market for the support I have received in my first year as Chairman. It is a privilege to be asked to serve the Lloyd's market in this role and I look forward to working with everyone in the market to deliver on our ambitions for its future success.

Bruce Carnegie-Brown
Chairman

Chief Executive's Statement

The Lloyd's market experienced an exceptionally difficult year in 2017 driven by challenging market conditions and a significant impact from natural catastrophes.

These factors mean that for the first time in six years Lloyd's is reporting a loss – the aggregated 2017 market result is a loss of £2bn.

The result reflects the market facing one of the costliest years for natural catastrophes in the past decade. The frequency and scale of the disasters that struck around the world saw major claims costing the Lloyd's market £4.5bn, more than double the previous year (2016: £2.1bn). It is in these moments that Lloyd's proves its value and its strength by paying claims. Overall, the Lloyd's market paid out £18.3bn in all claims (gross of reinsurance) during 2017.

The Lloyd's market has been more than able to meet these substantial commitments without any significant impact on our total resources which remain strong at £27.6bn.

The significant loss activity in the second half of 2017 generated a full year underwriting loss of £3.4bn (2016: £0.5bn profit), resulting in a combined ratio of 114.0% (2016: 97.9%).

While pricing remains under considerable pressure, gross written premiums have seen 6% growth, excluding the effect of foreign exchange movements, to £33.6bn (2016: £29.9bn). This is in line with Lloyd's continued focus on measured and sustainable growth, and is driven in part by the development of new products such as cyber and growth in the US. Net investment return increased to £1.8bn (2016: £1.3bn).

Although it has been a particularly difficult year, Lloyd's has lived up to its centuries old promise and purpose – to be there when it matters most, providing the financial support to enable businesses, governments, and most importantly people to recover and rebuild their lives as quickly as possible.

The Lloyd's market has earned the trust of its policyholders over the past 330 years, through world wars and revolutions through to some of the world's most destructive disasters and greatest innovations. Renowned for its ability to absorb risks from all around the world, provide pioneering solutions to some of the biggest, newest risks out there, and pay all valid claims, Lloyd's continues to enable human progress.

But we cannot take that trust for granted. Every day we have the opportunity to either earn trust, or lose it – depending on the decisions that are made at every level in the Lloyd's market.

Gross written premiums

£33.6bn

Net investment income

£1.8bn

Through a difficult year, our excellent capital strength demonstrates that Lloyd's remains in robust financial shape. With a leadership team actively addressing the challenges the Lloyd's market is faced with, we go into 2018 in a strong and secure position.

Gender Pay Gap

We are taking our gender pay gap (27.7%) extremely seriously. While our gap is nothing to be proud of, reporting on the gender pay gap is an important step forward in tackling this long-standing and systemic issue.

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. We do not believe we have an equal pay issue.

However, we review this on an annual basis as part of our compensation review process.

The Corporation already has in place initiatives and policies to redress the gender imbalance, but it is clear that we need to expedite progress. For 2018, we have committed to an additional four key actions, which can be found here; lloyds.com/genderpaygap in an endeavour to close the gender pay gap.

The Corporation must address two key challenges. The first is to speed up the adoption of the market's modernisation programme, which will digitise processes, reduce unsustainable expense ratios, and make Lloyd's more attractive to do business with.

While the London market has made great strides, investing time and money in the London Market Target Operating Model programme and delivering systems that work, adoption is not happening fast enough, particularly in the case of electronic placement. Without higher levels of adoption throughout the market we put our investment to date at risk and we are in danger of seeing administration costs rise even higher. It is for this reason that Lloyd's will be mandating the use of electronic placement on a phased basis over time. Unless the market moves together it will not reap the benefits and reduce administration costs. Electronic placement will support face to face negotiation, further increase efficiency in the market, reduce back office costs and most importantly, improve customer service.

The Lloyd's Market Association has been a valuable partner as we lead and drive through such major transformation. We are also grateful to the brokers and the International Underwriting Association (IUA) representing the non-Lloyd's carriers, in terms of the significant support and leadership shown in the London market modernisation efforts.

Lloyd's continues to be an active member of the London Market Group (LMG) and is proud that a Lloyd's syndicate was the first to make use of the Insurance Linked Securities (ILS) regulations, a key initiative of the LMG.

The second challenge is to increase the talent diversity of the Lloyd's market and the Corporation, including senior leadership. We need to attract the best talent from around the world if we are to continue to innovate and provide customers with the products they need in today's fast-changing risk landscape. That is why we are working hard on closing the Corporation's gender pay gap.

For the Corporation, 2017 also involved reorganising ourselves to ensure that we are fit-for-purpose, with cost-efficient, streamlined services. As part of our reorganisation, it did mean that we had to say goodbye to a number of employees, all of whom have contributed to Lloyd's success over the years and decades. I want to thank them for their service and wish each of our leavers every success.

Although 2017 has been an incredibly tough year for the Lloyd's market, our excellent capital strength demonstrates that Lloyd's remains in robust financial shape. With a leadership team actively addressing the challenges the Lloyd's market is faced with, I'm confident that we go into 2018 in a strong and secure position.

Inga Beale
Chief Executive Officer

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Strategic Report

The purpose of insurance is to provide individuals and organisations with the confidence to undertake endeavours they might otherwise avoid. Our vision for Lloyd's is to be the market for specialist insurance and reinsurance, where the world takes its risk.

Over the coming year we will focus on using risk-based market oversight to help achieve sustainable growth, on modernising operations and services, and on exploring new ways in which we can use technology to improve access to Lloyd's.

Lloyd's Purpose and Vision

Purpose and vision

Throughout history, human progress has gone hand in hand with risk taking. From the smallest idea to the largest expedition, risk is an ever-present factor. Properly quantified and managed, risk should not be a barrier to success.

The role of insurance is to transfer risk, providing individuals and organisations with the confidence to undertake endeavours that might otherwise be avoided. The Lloyd's market achieves this by offering innovative, bespoke insurance products for our customers that allow them to grow their business in the knowledge that they are protected from the uncertainties of the world. In this way, **Lloyd's enables human progress.**

We have a vision for Lloyd's to be the market for specialist insurance and reinsurance, where the world takes its risk.

The Lloyd's market enables its policyholders, whether individuals, companies or governments, to take risks with the confidence that their insurance policies have sound financial backing, and that their claims will be dealt with fairly and quickly.

Lloyd's market is supported by the Corporation whose purpose is to create and maintain a competitive, innovative and secure market. Its dedicated people serve to protect and promote the interests of the market and its policyholders, provide valued services to market participants and advance the interests of capital providers over the long term.

Lloyd's business model

With our trading rights and distribution network of international hubs, brokers, coverholders and service companies, the market is able to underwrite risks from around the world through Lloyd's syndicates. Members (the capital providers) put up their capital and share in the risks and rewards of the syndicates they support. All insurance policies are underpinned by Lloyd's central assets including the Central Fund, which is designed to ensure that the market remains well capitalised even under extreme events and helps Lloyd's to maintain its reputation for paying all valid claims.

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 broker market in which strong business relationships, backed by deep expertise, play a crucial part. Brokers facilitate the risk transfer process between policyholders and underwriters. Much of this business involves face to face negotiation.

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 enter into contracts of insurance for members of the associated syndicate.

Lloyd's business model

Business flow

Policyholders – transferring risk

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

Distribution channels

- 287 Brokers: distributing business
- 381 Service Company locations
- 3,797 Coverholder locations: offering local access to Lloyd's

The market

56 Managing Agents – managing syndicates

83 Syndicates – writing insurance and reinsurance directly

12 Special Purpose Arrangements set up solely to write a quota share of another syndicate

Gross written premiums:	
2017	£34bn
2016	£30bn
2015	£27bn

Capital and reserves:	
2017	£28bn
2016	£29bn
2015	£25bn

Capital flow

Members (the 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 Corporation – supporting the market

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

Note: All figures are as at 31 December 2017. Capital and reserves of £27.6bn was split among Members' assets held severally of £24.6bn, mutual assets of £2.2bn and subordinated debt and securities of £0.8bn.

Value generation

Lloyd's strategy is to maintain and enhance the benefits of placing business and operating at Lloyd's, thereby ensuring Lloyd's policyholders are provided with valued products and services. As such these benefits are also our strategic priorities. They are summarised below.

Customers and Distribution – Lloyd's takes its duty to its policyholders very seriously. We connect to them in more than 200 territories through our distribution network and international hubs, supported by a global network of representatives with extensive local knowledge.

Operations and Services – Centrally provided services means the Lloyd's market benefits from economies of scale, while a single infrastructure supports its efficient operation. For example, the Corporation provides central cash settlement to market participants and advises of regulatory changes that may have an impact on underwriting decisions.

Capital – Lloyd's capital framework, under which insurance commitments are underpinned by a Central Fund, is efficient and flexible. It enables a single market financial strength rating for all policies issued from Lloyd's – from Standard & Poor's, Fitch Ratings and A.M. Best.

Brand – Lloyd's has a globally recognisable brand and is proud of its reputation for paying all valid claims in a timely and efficient manner.

Talent – The Lloyd's market is a recognised centre of specialist underwriting, claims and analytics expertise. This expertise supports a wide range of insurance and reinsurance products, often developed to meet complex and challenging customer needs.

Market Oversight – The Corporation monitors individual managing agents and syndicates, and aggregate market exposures, to improve performance at Lloyd's and to help ensure all valid claims will be paid. We do this through a proportionate and robust market oversight regime consistent with an entrepreneurial and innovative culture.

Benefits to society

Lloyd's is part of the broader London insurance market, which employs more than 50,000 people and represents over a quarter of the City of London's gross domestic product.

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. For example, Lloyd's continues to be an active member of the ClimateWise initiative, a collaborative endeavour by insurers to drive action on climate change.

The challenges facing the Lloyd's market

Each year the Corporation assesses how to refine Lloyd's strategy given the external environment and current market conditions – what can be done centrally for the benefit of the market as a whole. There are a number of challenges to which we must respond in the short term to ensure the long term profitability of the Lloyd's market:

— Lloyd's market share has remained steady in recent years, but emerging market premium growth has been slower than anticipated due to challenging market conditions;
— Market oversight is often viewed as overly burdensome and not sufficiently supportive of profitable business opportunities;
— The Lloyd's market's expense ratio is higher than that of its competitors; and
— Modernisation and use of technology and data are coming late.

Our response

In the following sections we have outlined our plans for meeting these challenges, together with our annual key performance indicators (KPIs) and medium term targets, to further enhance the value we generate. In brief, our focus for 2018 will be on:

— Making market oversight more risk based;
— Finishing delivery of phase 1 of the London Market Target Operating Model and encouraging adoption of services by the market that yield business process efficiencies;
— Making our new EU subsidiary in Brussels operational by the end of 2018; and
— Launching pilot initiatives to make it cheaper and easier for customers to reach Lloyd's, and developing ways to encourage innovation across the Lloyd's market.

External Environment and Risk

We cannot ignore the challenges the market is facing – we must embrace change.

Hilary Weaver
Chief Risk Officer

Our strategy responds to the challenges posed by macroeconomic and industry conditions. Our response is outlined in the following sections, looking at each of our strategic priorities in turn.

The world economy in 2017

Demand for insurance tends to follow global gross domestic product growth trends, and the global economy continued to strengthen in 2017 with emerging markets leading the way. Developed economies also showed signs of improvement, with growth estimates for both the US and the Euro area rising to 2.3%, while the growth estimate for the UK is 1.7%. This trend has positive implications for insurance demand.

World inflationary pressure remained relatively stable as oil price rises in 2016 were not repeated through most of 2017. The UK bucked this trend as the pound depreciated following the 2016 Brexit vote, resulting in higher consumer prices. World interest rates remained low, perpetuating the low investment returns we have come to expect and the drive to decrease operating costs.

An uncertain world

We are in an era of heightened geopolitical risk and uncertainty, with growing trends towards re-examining the benefits of globalisation. This has resulted in democratic shocks, military tensions and social unrest. These trends may increase the likelihood of conflicts and civil disorder and there are signs of increasing awareness and demand for political risk coverage.

Following the financial crisis, many voters in Europe and the US blamed free trade and the global economy for falling living standards, leading to more protectionist policies. Some aspects of US tax reform may be viewed as an example of this, with the US government introducing policies to protect home industries from foreign competition.

Protectionism will ultimately slow global growth, impacting all countries, although developing economies will be the most vulnerable. Lloyd's is not immune from this and the recent US tax reform could make reinsuring US risks more expensive for some carriers.

The UK's Brexit vote left many businesses with a decision to make about how they will do business outside the single market after March 2019. At Lloyd's we took the decision to act early and transparently to ensure that our market had certainty, announcing our intention to establish our Lloyd's Brussels subsidiary. Since then we have been actively negotiating the practicalities that this entails for a market of independent businesses.

Environment

Industrialisation combined with a growing population has resulted in rising levels of CO_2 and other greenhouse gas emissions that cause global warming. Global risks are changing and the potential consequences are severe. Increased frequency and severity of major weather events mean that climate change has increased the risks and costs of insurance.

Climate change leads to increases in precipitation variability, giving rise to more extreme cycles of flooding and drought in semi-arid and arid regions. Many of the world's large cities are located on coasts, and sea level rises threaten a significant proportion of the world's population. Water scarcity and related food insecurity are already a major global geopolitical risk aggravated by climate change, and could lead to further instability.

In the second half of 2017 hurricanes Harvey, Irma and Maria, along with other catastrophes, caused tragic destruction and loss of life. Lloyd's is proud to have already paid insured losses in the region of $3.5bn and expects to pay more to help alleviate some of this devastation. As a result, 2017 was above the Lloyd's long term average for claims from major losses. While this has affected profitability, the market is well prepared for such losses and there is no indication that they have affected our solvency. As at year end the market was capitalised at 144% of its solvency capital requirement, which was well within risk appetite.

Technology

Consumer behaviours and the ways in which businesses operate are changing rapidly. In other industries businesses are delivering their products and services through online platforms. We need to keep pace with these changes. While the most complex risks will continue to benefit from face-to-face negotiation, simpler risks can already be written digitally.

Regulation

The regulatory landscape continues to evolve rapidly as a result of national, regional and global debates. The UK regulatory authorities propose the application of the Senior Managers and Certification Regime to insurance firms by the end of this year. EU legislation, in the forms of the General Data Protection Regulation and the Insurance Distribution Directive, are also both due to enter into force in 2018, and will necessitate significant operational changes. The EU's 2018 review of the Solvency II regime, in which the industry has been very active during the last two years, will likely result in European Commission proposals to reform aspects of the regime, including reforms to component parts of the standard formula for the calculation of the Solvency Capital Requirement.

At global level, the International Association of Insurance Supervisors continues to take forward its work on a Common Framework for Internationally Active Groups, on a global insurance capital standard and on how insurance risks to the global financial system should be identified and countered. Meantime, individual countries continue to effect changes to their own prudential and conduct regimes. Lloyd's follows all relevant debates that can materially impact the Lloyd's market and contributes its views.

2017 saw the introduction in the UK of a new regulatory and tax framework for insurance linked securities (ILS). This includes the ability to establish protected cell company structures, enabling a streamlined approach for the arrangement of multiple ILS deals, allowing the UK insurance industry to compete more effectively with other jurisdictions that offer this capability. ILS is already an established form of risk transfer. We welcome the Government's efforts to make the UK more competitive in issuing ILS and look forward to helping it develop at Lloyd's.

Outlook for 2018

The new UK ILS regulation will, if anything, increase the already abundant supply of insurance capital. This is likely to mean that prices remain low for many risks, so we need to remain vigilant to ensure that the prices charged for them are proportionate to the risk.

We expect this price pressure to result in a continued effort to cut costs. The current environment creates an impetus to evolve and do things differently that is not always there during profitable periods.

We have already begun implementing changes to help the market grow more efficiently through the London Market Target Operating Model, which should see a reduction in the cost of writing business at Lloyd's. That said there are challenges – and the risk for us in 2018 is in adoption of the new technology by the market.

Intangible assets have never been more highly valued. Reputation and brand can result in huge profit margins, but in an age of instant communication they can very quickly be damaged. We expect to see more products seeking to protect these risks. At Lloyd's our range of cyber insurance products is one example of cover for such risks as reputational harm arising from a cyber incident.

The way firms conduct their business, and ultimately how they protect their policyholders, will come under increased scrutiny as customer and social expectations evolve. Lloyd's sets standards for conduct and monitors the market to ensure policyholders are treated fairly at all times. This will need to be a continued focus.

The prevailing conditions give rise to a number of risks and challenges that shape our plans, described later in this report, to deliver our strategy. The most critical risks are highlighted for focus through Lloyd's risk framework. A summary of these risks is provided with an overview of the mitigating actions currently in place.

Lloyd's Key Risks and Risk Appetite

Lloyd's key risks

Each year the Corporation identifies the key risks which could have a significant impact on Lloyd's business, and the mitigating actions required to reduce or eliminate the risk.

Key risk and impact on Lloyd's	Mitigation
Market conditions Lloyd's businesses suffer losses or erode their capital base due to inappropriate underwriting in challenging market conditions or failure in management controls.	— Syndicate business plan and capital approval processes enable consistent and robust challenge to premium growth and ensure loss ratios are realistic given the market underwriting conditions and managing agents' capabilities. — Close monitoring of syndicates' performance against approved business plans to ensure they do not materially deviate from approved plans or, where they do, that the changes are acceptable. — Market oversight framework detailing annual review activity includes reserve adequacy and performance reviews of selected lines of business. — Continue to closely monitor and respond to the market risk appetite measures.
Catastrophe risk Lloyd's businesses suffer losses or erode their capital base through material aggregations of risks or insufficient monitoring processes.	— Continue to closely monitor and respond to the market risk appetite measures. — Managing agents constantly monitor exposures around the world in accordance with Lloyd's minimum standards. — Monitoring and identification of emerging risks. — Market oversight framework detailing annual review activity includes exposure management processes and reinsurance arrangements.
Brexit A loss of passporting rights to the European Single Market could lead to a reduction in business written or business written at Lloyd's from the single market will be more expensive.	— Continue to lobby government and actively participate with other insurance and City organisations. — Operationalise the Brussels subsidiary to ensure customers based in the European Union are able to access the Lloyd's market as seamlessly as possible. — Regular communications issued to the market and wider industry.
Supervision of the Lloyd's market Lloyd's businesses fail to comply with relevant laws and regulations, suffer losses or erode their capital base due to a failure in the Corporation's oversight of the market.	— Market oversight framework with risk based categorisation of agents and account management structure. — Minimum standards set and monitored across the market for prudential and conduct risks.
Major change programmes Failure to deliver the desired process, technology and organisational change or maintain operational resilience at a Corporation and market level could mean that placing business in the Lloyd's market is inefficient, costly and no longer attractive.	— Strong central governance to manage delivery risks associated with change programmes in the Corporation and for the market. — Detailed project risk assessments. — Contingency plans for the failure of key processes or outsource providers to ensure a recovery of services or workaround processes at the Corporation and in the market.
Cyber risk Lloyd's suffers a systemic loss as a result of a malicious electronic attack or through exposure to both known and silent aggregations of risk via the policies written by its businesses.	— Cyber Essentials accreditation obtained by the Corporation and managing agents. — Ongoing participation with industry bodies to maintain awareness of changing cyber risks and thought leadership reports on cyber scenarios. — Monitoring of risks against Lloyd's cyber risk appetite. — Market oversight framework detailing annual review activity to include exposure/aggregation and reserve/capital adequacy.

Key risk and impact on Lloyd's	Mitigation
Significant regulatory and tax changes and compliance Lloyd's sees its competitive position weaken, suffers regulatory penalties or disadvantageous capital position in achieving new territories or maintaining existing territories.	— Continue to lobby to influence the evolution of UK, European and global regulatory and tax frameworks to maintain the competitive position of the market. — Ongoing assurance programme for the conduct risk minimum standard. — Monitoring Solvency II compliance at Lloyd's, with programme for delivering major model change. — Monitoring and preparing for global data regulatory requirements.
Threats to the business model Lloyd's sees its long term profitability suffer by failing to respond to emerging issues such as the cost of distribution and the application of rapidly evolving technology to insurance.	— Lloyd's strategy responds to business model threats. — Market modernisation programme. — Investment in innovation.

Risk appetite

At Lloyd's, the Board manages exposure to risk by setting and monitoring a risk appetite framework. In 2017, the Board enhanced this framework to simplify and focus on the key risks to the strategy. The framework starts with the Corporation's overall purpose: to create and maintain a competitive, innovative and secure market.

In order to deliver on this purpose, there are considered to be three risk objectives which need 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 small number of metrics define the amount of risk that Lloyd's 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.

Corporation purpose:	Under our trusted name, the Corporation acts to create and maintain a competitive, innovative and secure market. Our dedicated people serve to protect and promote the interests of the market and its policyholders, provide valued services to market participants and advance the interests of capital providers over the long term.		
	Pillar: Sustainability Strategic, Group, Insurance, Credit	**Pillar: Solvency** Market, Liquidity	**Pillar: Operational** Reputation, Legal, Regulatory, Conduct
Risk appetite statements:	**Risk objective:** Lloyd's strategy must deliver a sustainable business model over the medium term **Statement:** The rolling average five year combined ratio should be less than the five year target	**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 **Statement:** Losses under a 1-in-200 event should not erode the Central Fund to below the Solvency Capital Requirement	**Risk objective:** Risk of operational and other events is managed to ensure Lloyd's maintains its strong reputation **Statement:** Activities from the market and at the Corporation should be managed to avoid significant reputational damage

Market Oversight

We are enabling syndicates to achieve the best returns they can for their capital providers.

Jon Hancock
Performance Management Director

Rationale and approach

The nature of Lloyd's, as a market of independent businesses backed by the Central Fund, requires the Corporation to play an active oversight role. This role covers performance management, capital setting and risk management. It is important that market oversight is valued by all stakeholders and is supportive of sustainable profitable growth and innovation, while managing the risk of impact on the Central Fund and protecting policyholders' interests. The Corporation must act in the best interests of Lloyd's as a whole, which requires us to be robust and thorough in challenging managing agents' business plans and operations to ensure they meet our expectations. The Corporation achieves this by not only monitoring individual syndicate and aggregate market performance and exposure, but also through approval and oversight of coverholders.

The principles underpinning the Corporation's oversight role are that:

— It should be risk based, with focus on poor performers and those that represent material risk to the Society;
— It is built on minimum standards to which managing agents adhere;
— It must be clear and transparent so that all stakeholders understand what we do, why we do it and the reasons behind the decisions taken; and
— It must be proportionate, neither too light touch nor unduly burdensome.

The Corporation recognises that supervision activity takes place by other parties: the firms themselves, their parent companies (in many cases), and by the Prudential Regulation Authority and the Financial Conduct Authority as well as by regulators in overseas jurisdictions. It remains a key objective for us to be as efficient as possible in our oversight and to minimise duplication with work undertaken by these parties.

2017 developments

Market conditions remained challenging in 2017. In what was one of the heaviest natural catastrophe loss years in recent times, the Lloyd's market incurred relatively high major claims, as would be expected given the portfolio written.

Higher attritional loss ratio and continued high acquisition costs reinforce our relentless focus on all component parts of the combined ratio and our drive to improve underlying performance.

Following the industry 'market turning event' dry run exercise in 2016, we issued guiding principles to the market in early 2017, setting out a framework on both crisis management and the business opportunities that would likely follow. Many syndicates took the opportunity to resubmit their 2018 business plans after the Q3 catastrophes, in the expectation that market conditions would improve.

We introduced a new account management approach for both oversight and development activity, that we anticipate will lead to more structured, cohesive and commercially intelligent outcomes for our managing agents.

Performance against 2017 KPIs

2017 KPI	Outcome
No new Central Fund dependent members other than as a result of a significant event.	Achieved
Lloyd's 2017 combined ratio was better than that of its competitor group.	Not achieved due to claims from natural disasters in Q3

Direction for 2018

We will continue with our plans to reinforce our risk based approach to market oversight, ensuring that we spend our time in the right places.

We will seek to remove duplication of effort experienced by our managing agents where this is feasible, without compromising Lloyd's security. We will also seek to make the syndicate capital and planning process more efficient and more focused on poor performers and high risk businesses.

We will continue to focus on any areas of underperformance, ensuring the underlying business performance is robust.

2018 plans

- Undertake ongoing oversight responsibilities including:
  - Carry out the 2019 Syndicate Business Planning and Capital Setting process, ensuring robust review and challenge;
  - Undertake the targeted portfolio reviews of underperforming classes and segments;
  - Deliver a range of thematic reviews to identify cross-market risks and opportunities; and
  - Monitor performance of managing agents and syndicates against plans and Lloyd's minimum standards.
- Embed the new oversight manager function into the Corporation's interactions with managing agents.
- Clarify with all stakeholders, including regulators and group companies, how we can improve effectiveness and reduce duplication of effort.
- Further enhance the syndicate capital and planning process to make it more efficient and transparent.

2018 KPIs

- No new Central Fund dependent members other than as a result of a significant event.
- No managing agent issues resulted in a financial or reputational loss to Lloyd's that should have been prevented or mitigated through the market oversight framework.

End 2020 target

- Lloyd's oversight is effective in managing risk in the market.

Strategic objective

- Enable market participants to thrive and achieve superior operating returns through a risk based performance framework.

Customers and Distribution

We will make it cheaper and easier to write business at Lloyd's, enabling profitable growth.

Vincent Vandendael
Chief Commercial Officer

Rationale and approach

The global market access priority has been renamed "Customers and Distribution" to reflect a change in focus from new licence development towards enhancing access to policyholders through a range of means. Trading rights are often an important first step in finding new customers, but we will also look to maximise those markets where we already have a customer base. Meanwhile, defending our access in key markets remains important and our plans for Brexit will continue to be a major focus in 2018. New markets may be considered where market demand exists and the timing is appropriate.

Achieving true global access to markets requires a strengthening of our distribution channels and ensuring that these are cost-effective in accessing Lloyd's customers. This involves building excellent relations with our distribution partners and ensuring that Lloyd's is the place where they want to do business. As part of this, we will explore new ways in which we can use technology to improve access to Lloyd's.

Lloyd's will build on its reputation for meeting customers' various, and sometimes unique, needs through continuous efforts to provide new innovative products. However, innovation does not stop there, and Lloyd's will seek opportunities to capitalise on advances in technology that will improve efficiencies in the market and add value for its customers.

2017 developments

Following approval in January for onshore reinsurance underwriting capability in India, we completed our registration of Lloyd's India office in time for the April renewal season.

In March, Board and Council approved the business case for a Lloyd's European subsidiary in our preferred jurisdiction. We submitted a regulatory application for Lloyd's Brussels with the National Bank of Belgium in October.

Approval was given for Lloyd's to trade from the Casablanca Finance City in Morocco, via coverholders and service companies.

Coverholder strategy work began with the focus in 2017 on the US. Also a Consortia guide was developed and shared on lloyds.com.

Performance against 2017 KPIs

2017 KPI	Outcome
Gained at least one new licence/trading right.	Achieved
Alternative market access strategy for the EU developed and implementation underway.	Achieved
Delivered key insights on the broker distribution channel.	Achieved
Delivered innovation process which covers the product life cycle.	Achieved

Direction for 2018

Completing our readiness for Brexit will be our priority in 2018.

In addition, as part of our focus on distribution, we shall begin to explore new ways in which we can use technology to improve access to Lloyd's.

2018 plans

- Obtain Lloyd's Brussels licence and establish passporting licences for all EEA member states and branch licences.
- Lloyd's Brussels to be made operational by July 2018 and supported by a marketing campaign.
- Establish the Lloyd's Innovation Lab.
- Develop the business cases and launch pilots that will offer improved access to the Lloyd's market.

2018 KPIs

- Lloyd's Brussels is ready to write business from 1 January 2019.
- Three ideas developed through the Innovation Lab, one of which is suitable to be taken forward for implementation for the benefit of the Lloyd's market.

End 2020 targets

- Lloyd's share of the combined global reinsurance and commercial insurance markets is at least 4.5%.
- Lloyd's has explored differing distribution channel options that lead to a reduction in the market's overall expense ratio.
- Lloyd's reputation for innovation is demonstrably enhanced and ranks at least as high as that of 'best in class' (re)insurance companies in the 2020 Lloyd's brand reputation index.

Strategic objective

- Maximise business opportunities by developing our licences and distribution channels and by delivering innovative solutions that meet the needs of customers.

Operations and Services

The London Market Target Operating Model is delivering what the market said it needed. Now we need further adoption.

Shirine Khoury-Haq
Chief Operating Officer

Rationale and approach

While technological change and automation is disrupting the insurance industry generally, Lloyd's also faces distinct challenges as its expense ratio remains materially higher than that of its competitors. We must adapt in order to remain relevant. Placing and processing business must be made easier and more efficient in order to make Lloyd's more attractive; both in London and in local markets.

I am proud to say that the London Market Target Operating Model (LM TOM) programme was designed and delivered by our market for our market. This involved working collaboratively with managing agents, brokers, company market carriers and the Corporation to build an industry leading infrastructure and service proposition covering London, Lloyd's international operations and delegated authority business.

Economies of scale by providing services centrally for the benefit of the Lloyd's market is a common theme, not just for the LM TOM programme but also for the services that the Corporation offers to the Lloyd's market. Enhancing and building on these services is important for delivering a successful market within which participants can not only compete for business, but also compete collectively as the world's leading (re)insurance market.

2017 developments

Implementation and adoption of key parts of the LM TOM was a major feature of 2017. Placing Platform Ltd (PPL), the electronic trading platform, was rolled out to Marine, Property and Casualty business lines during the year. A major upgrade to the platform's software went live in October.

Central Services Refresh Programme (CSRP), another key pillar of the LM TOM with the aim of eliminating London specific accounting and settlement processes, has delivered premiums and claims processing capability.

In the Delegated Authorities workstream, coverholders were generally audited just once, which resulted in 1,500 fewer audits in 2017. 96% of managing agents adopted our audit management tool. We implemented data standards for the first time ever in our market and centralised compliance gathering. All of this serves to make our market easier to do business with. In addition, work has commenced on a service (DA SATS) to eliminate unnecessary bordereaux transmission work for coverholders. This will be delivered in 2018.

We delivered a structured data capture capability to enable automated extraction of risk data for all lines of business and implemented a data glossary for coverholders. Both initiatives have realised rapid adoption across our market.

We also embraced new ideas. We carried out a blockchain pilot around the claims process to understand how this technology could be applied to the London market.

While the technical delivery has been effective, our 2018 goals are to focus on adoption, particularly for electronic trading and CSRP.

Performance against 2017 KPIs

2017 KPI	Outcome
Delivered 2017 LM TOM milestones for all major workstreams.	Largely achieved, but CSRP and PPL adoption fell below targets
Corporation Operating Model implemented and actual savings in the Corporation's like for like activities of at least £10m achieved.	Achieved

Direction for 2018

Finishing the current set of LM TOM initiatives and securing further market adoption remains the key priority. Adoption of the enhanced services provided by the LM TOM is not happening fast enough. Unless the market moves together it will not reap the benefits and reduce costs. Without higher levels of adoption throughout the market we put our investment to date at risk and we are in danger of seeing administration costs rise further.

It is for this reason, and at the request of the Lloyd's managing agents, company market and brokers, that Lloyd's is proposing to mandate the use of electronic placement on a phased basis over time. That mandate is still a work in progress and the rest of the market is working with the Lloyd's Market Association and Lloyd's to ensure that it will drive the behaviours we want.

Building on the savings made in 2017, the Corporation will continue to explore ways to improve its own efficiency, while clarifying the services that it offers to the market. The Corporation will also embed the new account manager model for the way it interacts with managing agents.

2018 plans

- Work with software providers to integrate market firms into the Central Services Refresh Programme.
- Complete Placement Platform Limited roll-out.
- Work with market firms to ensure adoption of the LM TOM.
- Revise the Corporation's service offering to the market following customer feedback.

2018 KPIs

- LM TOM adoption targets in Q4 2018:
  - 30% of open market risks per managing agent bound through PPL;
  - 12 market firms on-boarded to the CSRP service;
  - 20% of binders processed through Delegated Authority Data Submission, Access and Transformation Service;
  - 97% of coverholder audits coordinated through the audit system;
  - All coverholders subject to the compliance oversight service; and
  - 15% of Market Reform Contracts and additional documents processed through the Structured Data Capture service.
- Revised Lloyd's Service Catalogue, incorporating market feedback, made available to managing agents under a suitable financial and service management framework.

End 2020 target

- LM TOM phase 1 has reduced Lloyd's market expenses by £145m cumulatively by 2020 (assessed by estimated savings based on take-up from the LM TOM blueprint business case).

Strategic objective

- Use data and technology effectively, enabling easy market access and superior service for customers.

Capital

The capital advantages of operating at Lloyd's remain a competitive differentiator and the model has been proven again in 2017.

John Parry
Chief Financial Officer

Rationale and approach

Lloyd's capital structure offers three key advantages

- Efficiency – because there is a mutual layer of capital backing all policies written at Lloyd's, less capital needs to be held by businesses themselves for a given portfolio of risks than would be the case if they wrote that portfolio outside Lloyd's. Capital held centrally is also used to support business written in other countries.
- Sufficiency – Lloyd's capital is maintained at a level that demonstrates Lloyd's ability to absorb the impact of a market-changing event. This is reflected in our financial strength ratings and our capital sufficiency supports the flow of business into the market.
- Flexibility – some funds can be posted at Lloyd's through letters of credit, meaning that companies can deploy group capital efficiently.

Lloyd's strategy is to maintain these advantages and ensure that Lloyd's continues to be attractive to all types of capital provider, including non-traditional insurance capital, providing them with excellent returns.

2017 developments

Lloyd's successfully issued £300m of subordinated debt to further strengthen its central assets. Assets available to cover Central Solvency Capital requirement (CSCR) remain in excess of our risk appetite (200% of CSCR).

An intensive piece of work to prepare our Solvency II major model change application took place during the first half of the year. The application was submitted at the end of May and approval was received from the Prudential Regulation Authority (PRA) in December.

A major multi-year project has begun to re-platform our internal model. A vendor was chosen to build the new platform and work is underway.

Approximately £3bn of additional capital was provided to restore capital resources to the level before the Q3 2017 loss events and to cover changes in capital requirements for 2018 underwriting. No syndicate has ceased trading due to the natural catastrophes and there was zero impact on the Central Fund.

All three rating agencies affirmed their rating, although both Standard & Poor's and Fitch's outlook is currently negative based on loss estimates for the Q3 catastrophes and Lloyd's sustainable operating performance. We are also looking at the quality of capital we hold and announced transitional arrangements on letters of credit that are Tier 2 capital under Solvency II.

Performance against 2017 KPIs

2017 KPI	Outcome
Lloyd's Solvency II internal model 'major model change' application approved by the PRA.	Achieved
Lloyd's financial strength ratings remained on a par with its competitor group.	Achieved

Direction for 2018

It has been two years since the introduction of Solvency II. While this is now a business as usual reality, ensuring that our Internal Model continues to accurately reflect Lloyd's risks and maintaining regulatory approval are major tasks, and will involve another major model change application in 2018. In addition, under Solvency II there is a limit on the amount of Tier 2 capital that insurers may count towards their solvency requirement and we shall be considering measures to increase the proportion of Lloyd's capital assets that are eligible for solvency.

Although the losses suffered by the market as a result of the major events during Q3 2017 had no impact on the Central Fund, we cannot be complacent. In 2018 we shall be looking at ways in which we can make the market even more secure for the protection of our customers.

2018 plans

— Determine and model options for structuring a new layer of protection for the Central Fund.

— Consider measures to increase the proportion of Lloyd's capital assets that are eligible for solvency.

— Deliver Lloyd's 2018 major model change application.

— Review long term capital deployment and balance of mutual versus several assets.

2018 KPIs

— Lloyd's Solvency II internal model 'major model change' application approved by the PRA.

— Reduce the amount of Tier 2 assets that are ineligible for meeting our solvency capital requirement.

End 2020 target

— Lloyd's insurer financial strength ratings remained competitive.

Strategic objective

— Protect customers with efficient and flexible capital, strong solvency coverage and ratings, while providing excellent returns to investors.

Lloyd's chain of security

Several assets		
First Link	Syndicate level assets £51,086m	
Second Link	Members' funds at Lloyd's £24,579m	
Mutual assets		
Third Link	Central Fund £2,043m Corporation £145m Subordinated debt/securities £793m	Callable layer £963m

Lloyd's ratings as at 31 December 2017

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

Responsible investment strategy

The insurance sector has an important role to play helping the world transition to a low carbon economy. That is why the Corporation has implemented a coal exclusion policy as part of its responsible investment strategy for the Central Fund. We will be divesting of, and screening out, investments in companies heavily associated with coal for those assets that we hold in segregated portfolios.

For further information on Lloyd's ratings and the chain of security visit; lloyds.com/investorrelations

Talent

The wealth of talented individuals is a key enabler of business in Lloyd's. We will continue to focus on enhancing the diversity and skills of this talent pool.

Annette Andrews
Human Resources Director

Rationale and approach

Big and complicated risks are drawn to Lloyd's, attracting the world's best insurance talent, which in turn attracts big and complicated risks – Lloyd's perpetuates this virtuous circle. This arises in part through the clustering benefits of the London insurance market. The whole market has an interest in ensuring that relevant skills, knowledge and experience are acquired and developed in order to reinforce this differentiator.

We need to attract the best talent from all backgrounds. Inclusion is good for business and remains a priority. We take an inclusive approach to attracting, developing and retaining talent for the market. The Corporation and market continue to work in partnership on a number of initiatives, including Inclusion@Lloyd's, Learning Week and Wellbeing. The objective is to widen perspectives, enhance the profile of the market and to share best practice.

2017 developments

During 2017, the Corporation has continued to build the content and usage of Lloyd's online development portal (Lloyd's University), and to make the content available to the market. This has included using it for the first time as the vehicle by which complaints handling training was successfully completed for the market online.

The fifth annual Learning Week at Lloyd's (where the Corporation hosts speakers on a range of topics for the market) took place in June and, for the second year running, we collaborated with the Lloyd's Market Association to design a comprehensive programme. Nearly 1,800 people attended sessions across London, Chatham and via Webinar.

The 2017 Dive In festival (where Lloyd's celebrates diversity in all its forms) took place in September. Events were held across the world, in 17 countries. The festival continues to grow in terms of remit and profile.

Succession plans have been put in place for all the Corporation's Senior Insurance Manager Regime roles.

Performance against 2017 KPIs

2017 KPI	Outcome
The percentage of female senior employees in the Corporation increased by 2 percentage points in 2017.	Not achieved. An increase of 1.6ppts was attained.

Direction for 2018

Focus will be placed on the following:

— Continue to grow the content and usage of the Lloyd's University, including the launch of the Lloyd's University Career Management Centre to support employees' focus on their personal development and to plan career paths;
— Development of the executive leadership population, including piloting a leadership programme;
— A refreshed future leaders programme for the market;
— Dive In festival;
— A global learning week, in conjunction with the Lloyd's Market Association; and
— Wellbeing events for the market throughout the year.

2018 plans

— Career path modelling introduced and piloted.
— Continue to support and coordinate the Inclusion@Lloyd's group.
— Launch a diversity and inclusion scorecard.

2018 KPIs

— The percentage of female senior employees in the Corporation increased by two percentage points.
— Lloyd's University usage is expanded to a further ten companies.
— Adoption by at least 25% of Inclusion@Lloyd's charter signatories of the diversity and inclusion scorecard.

End 2020 target

— The Lloyd's market is recognised as 'best-in-class' for its talent and underwriting expertise in the 2020 Lloyd's brand reputation index.

Strategic objective

— Attract talented people to a global market renowned for its professionalism, expertise and inclusion.

Gender pay gap

The Corporation reported a gender pay gap of 27.7% (mean) in its 2017 Gender Pay Gap Report. This gap represents the difference between the average pay for a man in the Corporation, 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. The Corporation does not believe it has an equal pay issue. However, we review this on an annual basis as part of our compensation review process.

The Corporation's gender pay gap is driven by two key factors:

– A higher proportion of men in senior roles; and

– A higher proportion of women who work part-time.

Lloyd's is committed to redressing the gender imbalance, and this will take a long term approach. That is why we have a well-established programme of initiatives aimed at attracting more women, and enabling them to develop and thrive at each stage of their career.

Please visit lloyds.com/genderpaygap for more information on our commitments and action towards closing the Corporation's gender pay gap.

Stonewall equality index

Each year organisations take part in the Stonewall Workplace Equality Index, looking to assess their achievements and progress on LGBT inclusion in the workplace. We are proud to announce that the Corporation scores have again increased in 2018, placing us at 199 out of 434 (up from 236 out of 439 in 2017). This demonstrates our commitment to having a diverse and inclusive culture.

2017 Corporation employee segmentation figures

UK	797
Non-UK	197

	Executive Team	Head of Function	Manager	Professional/ Technician	Administrative	Total
Female	4	10	125	229	157	525
Male	4	29	196	170	70	469
Total	**8**	**39**	**321**	**399**	**227**	**994**

Brand

Lloyd's brand is built on paying claims. To maintain the brand, we will keep paying all valid claims as quickly and efficiently as possible.

Jo Scott
Head, Brand & Communications

Rationale and approach

Lloyd's brand is globally recognised and highly valued both within the insurance industry and broader society. The Lloyd's market is renowned for working with nations, businesses and communities to help them reduce risk before disasters strike and for paying billions in claims to help them recover after catastrophes. In 2017 we paid out £18.3bn in claims, gross of reinsurance, worldwide.

A strong global brand and positive reputation make Lloyd's more attractive to policyholders and brokers, attracting new business into the market, and make Lloyd's more appealing for investors and the best talent.

In today's competitive global market it is incumbent upon the Corporation to seek opportunities to promote and protect the brand for the benefit of the market.

2017 developments

In May, the Corporation updated its brand guidelines for use by Corporation employees and market firms including underwriters, service companies, brokers, coverholders and Lloyd's agencies around the world. This has ensured a more consistent brand experience for all stakeholders.

The Corporation's innovation team published a number of emerging risk reports to help the market better understand the implications of new risks and to drive Lloyd's reputation for thought leadership.

The marketing and communications team published a cyber white paper, 'Counting the Cost', that gained widespread media coverage and made a compelling case for insurance to be part of businesses' cyber risk mitigation strategies.

The claims campaign was launched. This campaign provided marketing materials for brokers and information for policyholders on the Lloyd's market claims operation, using case studies to bring the process to life and making the case for the social value of insurance.

Lloyds.com was overhauled including an improved navigational structure that makes information on our global network more visible.

The Corporation was heavily involved in 'London Makes it Possible', the market-wide campaign to promote London as the leading global hub for insurance.

Performance against 2017 KPIs

2017 KPI	Outcome
Thought leadership content downloads increased by 5% and achieved average click through rate of 6% for e-marketing.	Achieved
Number of international visitors to lloyds.com and other campaign related sites increased by 10%.	Not achieved. A 3% increase over 2016 was attained
Published a Responsible Business Framework for the Lloyd's market and Corporation.	Not achieved
Reduced the Corporation's total reported greenhouse gas emissions.	Achieved

Direction for 2018

We will continue to run targeted campaigns, including a further one on claims, which promote the market to policyholders and influencers in key territories. We will carry out another global brand survey to monitor the health of the Lloyd's brand.

We will publish further thought leadership in the form of emerging risk reports and an updated City Risk Index, which quantifies the risk to gross domestic product from 22 threats to more than 250 cities around the world.

We will create the Corporation's first ever responsible business strategy and report on progress against a series of responsible business targets. We will also work with the Lloyd's Market Association to create a responsible business framework for the market.

2018 plans

— Deliver a campaign to promote the market's ability to process and pay claims quickly and easily.

— Effective investigation of complaints to achieve appropriate outcomes for policyholders.

— Education of managing agents and coverholders to improve complaint handling within the market.

2018 KPIs

— For first party claimants on open market business, reduced average time taken between first notification of loss and settlement by 5%.

— The percentage of decisions on policyholder complaints upheld by the Financial Ombudsman Service over 2018 was at least 0.5ppts lower than the industry average.

End 2020 targets

— Lloyd's brand is globally admired and is attractive to all stakeholders. The Lloyd's brand reputation index will be at least equal to that of 'best-in-class' (re)insurance companies.

— Lloyd's combined ratio is better than that of its competitor group over the three year period to end 2020.

Strategic objective

— Be a marketplace that is attractive to global customers and market participants, respected for its approach to business.

Lloyd's greenhouse gas (GHG) emissions 2017

	Scope 1 (tonnes CO_2e)	Scope 2 (tonnes CO_2e)	Scope 3 (tonnes CO_2e)	Out of scopes (tonnes CO_2e)	Lloyd's total 2017 GHG emissions (tonnes CO_2e)	Lloyd's total 2016 GHG emissions (tonnes CO_2e)
UK	1,756	6,498	2,916	<1	**10,170**	12,392
International offices	17	703	118	–	**837**	1,186
Lloyd's 2017 total GHG reported emissions					**11,007**	**13,578**

Lloyd's total reported GHG emissions from our business activities in 2017 were 11,007 tonnes of CO_2e, a decrease of 19% against 2016, which were driven by reductions in electricity and air travel emissions. In the UK a 5% fall in electricity consumption, plus continued decarbonisation of the UK grid electricity reflecting in a lower conversion factor issued by Defra, saw electricity emissions fall 19% overall. Total mileage flown by Lloyd's staff fell by 59% in 2017, we continue to offset our air travel emissions by buying carbon credits for renewable energy projects through Natural Capital Partners. Scope 1 emissions rose by 11%, caused largely by increases in natural gas and fuel oil usage in the UK. We also continued to improve the accuracy of our international reporting, with 75% of employees outside the UK now included within reporting offices, up from 69% in 2016.

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

3

Market Results

The Lloyd's market experienced an exceptionally difficult year in 2017, driven by challenging market conditions and a significant impact from natural catastrophes. It is in these moments that Lloyd's proves its value and strength, being able to more than meet its substantial commitments without any significant impact on its total resources.

Lloyd's has lived up to its centuries old promise and purpose – to be there when it matters most, providing the financial support to enable businesses, governments and most importantly people, to recover and rebuild their lives as quickly as possible.

2017 Highlights

Financial highlights

- Lloyd's reported a loss of £2,001m (2016: a profit of £2,107m)
- Combined ratio of 114.0% (2016: 97.9%)
- Gross written premium of £33,591m (2016: £29,862m)
- Capital, reserves and subordinated loan notes stand at £27,560m (2016: £28,597m)

Gross written premium (£m)

2013	25,615
2014	25,259
2015	26,690
2016	29,862
2017	**33,591**

Result before tax (£m)

2013	3,205
2014	3,016
2015	2,122
2016	2,107
2017	**(2,001)**

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

2013	21,107
2014	23,413
2015	25,098
2016	28,597
2017	**27,560**

Central assets (£m)

2013	2,384
2014	2,578
2015	2,645
2016	2,879
2017	**2,981**

Return on capital* (%)

2013	16.2
2014	14.1
2015	9.1
2016	8.1
2017	**(7.3)**

Combined ratio* (%)

2013	86.8
2014	88.4
2015	90.0
2016	97.9
2017	**114.0**

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 included on page 46.

*The return on capital and the 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 174.

The Lloyd's market reported a pre-tax loss of £2,001m in 2017 (2016: a profit of £2,107m) and a combined ratio of 114.0% (2016: 97.9%). The deterioration in the result is primarily driven by the major claims activity in 2017, specifically the natural catastrophe events which occurred in the third and fourth quarters. The market continued to benefit from favourable investment return, increasing to £1,800m (2016: £1,345m) in 2017. Investment return was 2.7% (2016: 2.2%), the improvement being driven by the strong performance from high quality fixed interest assets.

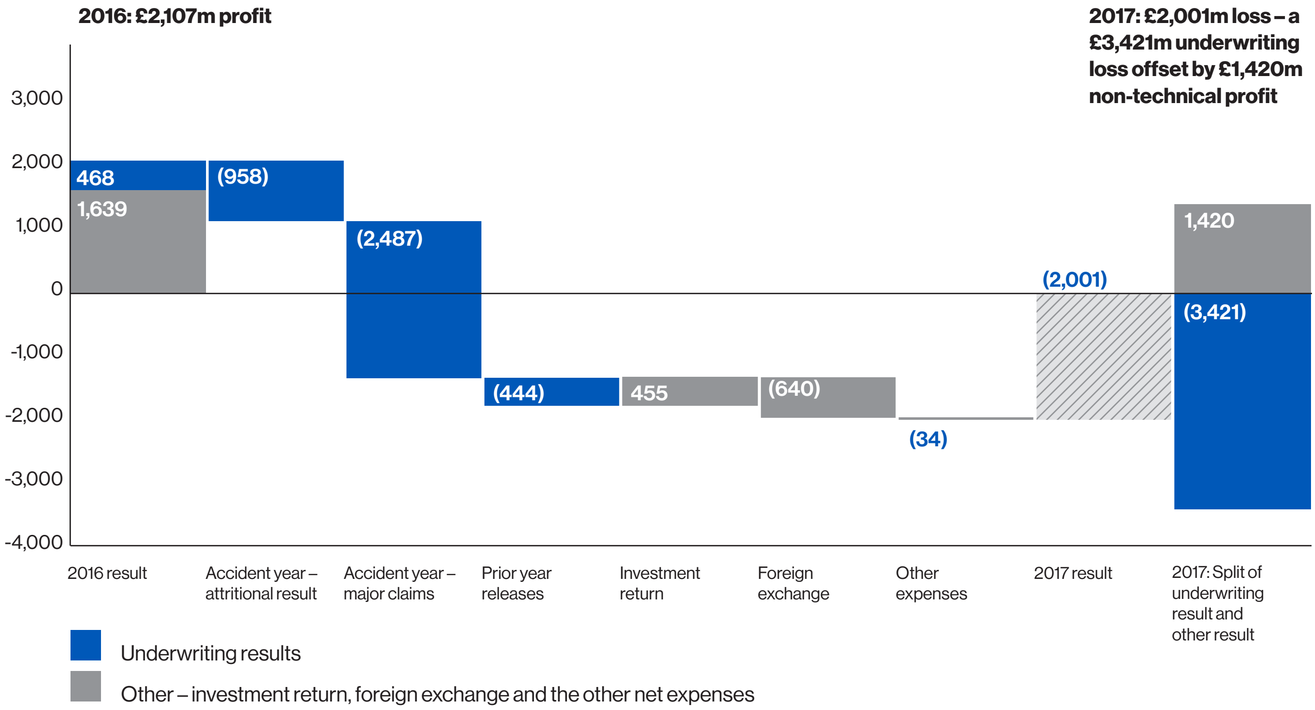
Market conditions remained challenging in 2017, with all lines of business reporting accident year losses for 2017; four lines of business had prior year releases, however only one line of business, energy, reported an overall profit.

The underwriting result continued to benefit from prior year releases, albeit at a lower level than in recent years. Prior year releases amounted to £706m (2016: £1,150m) improving the combined ratio by 2.9% (2016: 5.1%). The reserving methodology for setting initial loss estimates varies between syndicates. There are a significant number that reserve especially prudently, which contributes to the observed trend of relatively high accident year ratios, which reduce over time as they book releases from reserves.

Continued downward pressure on pricing was again experienced across the market in 2017, albeit within planning assumptions, driven by the availability of capital and the relatively benign catastrophe experience over the past few years. However, overall pricing levels stabilised in the second half of the year, driven by property and casualty insurance lines. Notwithstanding the significant catastrophe losses in 2017, capacity remains abundant. Profitable growth opportunities continued to be difficult, driven by the challenging market conditions.

There has been a slow down in the rate at which expenses have been increasing relative to growth in premium, resulting in a small improvement in the expense ratio. However, the Lloyd's market's expenses continue to be higher, as a proportion of net earned premium, than those of our competitor group, particularly in relation to acquisition costs, reflecting Lloyd's more extensive distribution chain. This will continue to be an area of focus in 2018 with plans to realise some of the benefits of the London Market Target Operating Model (LM TOM), and pilot initiatives to make it cheaper and easier to write business at Lloyd's (see pages 20 to 21).

Drivers of market result – change from 2016 to 2017 (£m)



2017 Highlights

A foreign exchange loss has been reported in 2017 as sterling has marginally strengthened against the US dollar throughout 2017, reversing the significant foreign exchange gain reported in 2016, when sterling weakened significantly post the referendum result. Approximately 66% of the business written across the market is denominated in US dollars.

Looking ahead

Following a costly year in terms of natural catastrophes (with latest industry insured loss estimates as high as US$140bn), there continues to be attention on pricing levels in those lines affected. In other lines unaffected by these catastrophic events, there are signs that pricing may be turning.

The continuing supply of risk-taking capital globally is likely to act as a constraint on the scale of price increases in 2018. It is estimated that reinsurance capacity at year end 2017 is actually slightly up on 2016 (ie this did not reduce post the catastrophe events in the second half of 2017), and some of this increase is due to additional capital from non-traditional providers.

Despite some improvement in pricing levels post Hurricanes Harvey, Irma and Maria, it is crucial that this does not mask the need to close the performance gap in many other lines, particularly those sensitive to attrition, and to correct pricing for exposures assumed.

The macroeconomic environment shows no signs yet of becoming less challenging. The parlous state of world politics and fragile global economics require careful monitoring and a nimble, and pro-active, underwriting response. Aside from the conundrum posed by Brexit, the recent US tax changes, increasing global protectionism and continued violent extremism remain key topics to watch.

2017 performance

Gross written premium for the year increased to £33,591m compared with £29,862m in 2016. US dollar denominated business continues to account for the largest share of business at Lloyd's. The average exchange rate in 2017 was US$1.29: £1 compared with US$1.35: £1 in 2016. The US dollar and other currency movements have increased premiums as reported in converted sterling by 6%. Adjusting for the impact of exchange rate movements, the increase in gross written premium was 6%.

The overall price change (taking into account terms and conditions) on renewal business was a decrease of 2%. This was slightly lower than planning assumptions. Aside from pricing reductions, which slowed/stabilised in the second half of the year, some weakening in other terms and conditions and the widening of coverage was evident. During the year, there continued to be growth in most lines, although the rate of growth slowed throughout the year. The main exceptions being aviation and energy, where further contraction was evident.

The underlying accident year ratio, excluding major claims, was 98.4% (2016: 93.9%) with underlying claims inflation, deductible erosion and the general weakening of pricing and other terms and conditions largely contributing to the year on year increase.

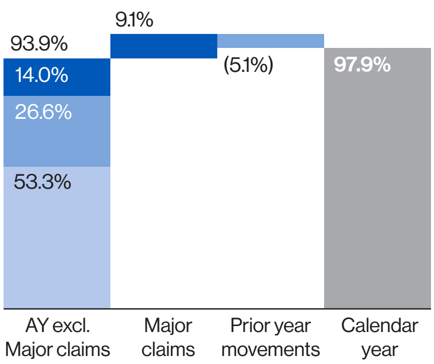
Major claims	% of net earned premium
2013	4.4
2014	3.4
2015	3.5
2016	9.1
2017	**18.5**
Five year average[1]	8.3
Ten year average[1]	10.2

1 Weighted by net earned premium.

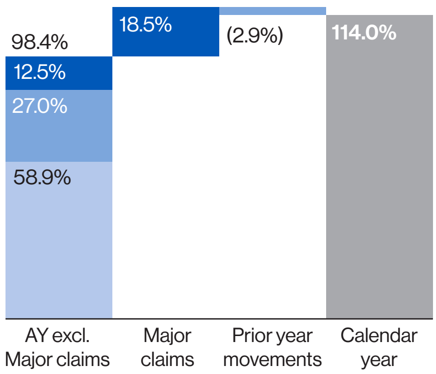
Accident year ratio excl. major claims	%
2013	90.4
2014	93.1
2015	94.4
2016	93.9
2017	**98.4**
Five year average[1]	96.1
Ten year average[1]	91.5

Contributors to combined ratio

2016 Combined ratio %



2017 Combined ratio %



Attritional loss ratio | Acquisition expense ratio | Admin expense ratio

Major claims

For the Lloyd's market, major claims were £4,539m in 2017 (2016: £2,052m), net of reinsurance and including reinstatements payable and receivable. Total insured losses for the catastrophe events of 2017 are estimated to be US$135.6bn.

After a long period of relatively benign major loss activity, the cost of major claims to the Lloyd's market in 2017 is the third highest since 2003, in today's terms.

The largest insured natural catastrophe event was Hurricane Irma. This event, which devastated large parts of the Caribbean and US Gulf states, notably Florida, was the second of three major Atlantic hurricanes to hit the industry in the third quarter. The others being Hurricane Harvey, which caused significant wind and flood damage in Texas, and Hurricane Maria which, again, caused widespread damage in the Caribbean.

The market also incurred significant claims from the wildfires in northern California in October and in southern California in December. Other notable catastrophe events included the Mexican earthquakes, Cyclone Debbie, which caused damage and flooding in Australia, wildfires in Chile and a frequency of severe convective storm events in the US.

Prior year movement

The combined ratio has been improved by 2.9% (2016: 5.1%) through prior year releases. The release represents 1.9% (2016: 3.8%) of net claims reserves brought forward at 1 January.

This was the 13th successive year of prior year releases. In each of these years, the level of release has been significantly influenced by actual experience. In 2017, aggregate attritional claims emergence was below projected levels. This favourable development was experienced across a number of lines of business and years of account. However, some instances of reserve strengthening have been experienced, particularly on property business, due to increased estimates for large claims.

Although the contribution of prior year movement to the overall result remains significant, it does represent a reduction in release compared with recent years. The level of release is influenced by both claims experience and the reserving approach of the market.

With regard to the reserving approach, a number of managing agents adopt prudent initial held reserves. In the absence of poor claims experience these would be expected to result in future releases.

Estimates for major catastrophe events from recent years have also proved to be adequate. However, while still favourable compared with expectation, experience has been closer to projections than in recent years, and this will drive a reduction in the level of release.

Lloyd's continues to engage with managing agents writing material casualty business in order to test reserving assumptions in further detail. In 2018, 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.

The actual level of claims payments ultimately made compared with the provisions held is an area of inherent uncertainty. Oversight of this area is a key focus for Lloyd's to ensure that the processes underlying these estimates are robust, provisions are adequate and any release of provision is appropriate.

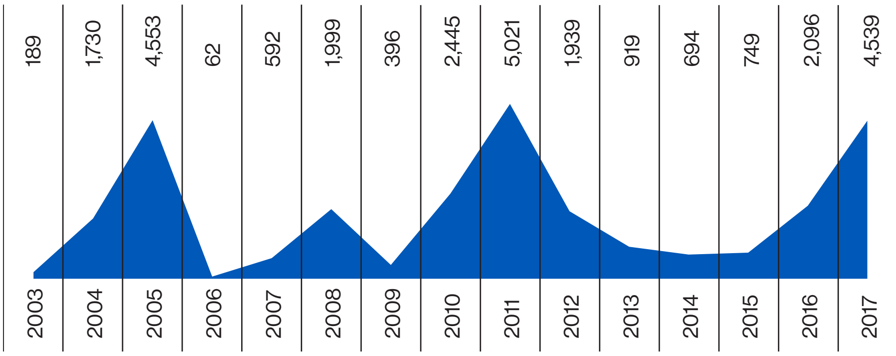
Prior year reserve movement

% of net earned premium	
2013	(8.0)
2014	(8.1)
2015	(7.9)
2016	(5.1)
2017	**(2.9)**

Years of account in run-off

Number of years	
2013	6
2014	4
2015	4
2016	6
2017	**6**

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



Five year average: £1,799m; 15 year average: £1,862m. Indexed for inflation to 2017.
Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

Reinsurance Protection

The credit quality of the Lloyd's market's reinsurance protections remain extremely high, with more than 98% of all recoveries and reinsurance premium ceded being with reinsurers rated 'A-' and above, or supported by high quality collateral assets. Reinsurers' share of claims outstanding remains a material consideration for Lloyd's (equivalent to 50% of gross written premium/68% of members' assets). There has been a material year on year growth in the scale of overall reinsurance recoverables due to the North American natural catastrophe losses experienced in the second half of 2017. This increase reflects the reinsurance risk transfer strategy of the Lloyd's market and the nature of these recent loss events. No negative settlement trends have been witnessed to date. Lloyd's will be monitoring

2017 Highlights

this closely in 2018 as part of our normal market oversight procedures. Lloyd's outward reinsurance premium spend for 2017 is 26% of gross written premium, which reflects a modest year on year 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 2015 account reached closure at 31 December 2017. 2015 witnessed some sizeable risk losses, notably in the aviation sector. However, aggregate major claims and insured catastrophe losses were below the long term average. As a result, the 2015 pure year of account was able to report a good underwriting profit. The 2015 pure year profit was also boosted by the addition of releases from prior years totalling £919m on the 2014 and prior reinsurance to close (RITC) (2013 and prior: £1,031m), which meant the year closed with an overall profit of £1,620m (2014 pure year profit: £2,856m).

Six years of account were in run-off at the beginning of 2017. Three of these were closed at the end of 2017. However, three syndicates were unable to close their 2015 year of account at the year end and, therefore, the number of open years remains at six.

In aggregate, run-off years reported a surplus of £8m including investment return (2016: deficit of £35m).

The results of the major lines of business are discussed in detail on pages 34 to 38.

Investment review

Equity and other risk assets delivered another year of strong investment return in 2017. Financial market stability was supported by an increasingly positive economic environment and particularly low levels of volatility.

Developed market monetary policy continued to be tightened with central banks in the US, Canada and UK raising interest rates. Credit spreads on corporate bond investments tightened in line with the general risk-on sentiment whilst returns on sovereign bonds were weaker as expectation of higher interest rates led to some increase in yields.

The market's investments generated a return of £1,800m (2016: £1,345m), or 2.7%, showing improvement on the previous year and also above the five year average. Primary drivers included an allocation, albeit conservative, to equity and risk assets as well as a large allocation to investment grade corporate bonds.

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 whilst return seeking equity and growth assets account for a moderate allocation at around 15%.

Overall, syndicate investments returned £907m, or 2.2% in 2017 (2016: £810m, 2.0%). Investment return was moderately higher this year driven by solid corporate bond returns as well as strong performance in 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 £722m, or 3.1% (2016: £363m, 1.8%) 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 strong by comparison with previous years, driven by its allocation to equity and growth assets.

The investment return on Lloyd's central assets is also included in the PFFS. This was £171m or 5.0% in 2017 (2016: £172m, 5.6%). The investment performance of central assets is discussed on pages 107 to 108.

Results summary

Lloyd's reported a loss before tax for the financial year of £2,001m (2016: a profit of £2,107m) and a combined ratio of 114.0% (2016: 97.9%). The PFFS aggregates the results of the syndicate annual accounts, notional investment return on funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. The basis of preparation of the PFFS is set out in note 2 on pages 46 to 47. The syndicate annual accounts reported an aggregate loss of £2,908m (2016: a profit of £1,353m).

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.

2017 performance

Lloyd's gross written premium for 2017 was £5,991m (2016: £5,022m), an increase of 19.3%. This growth was largely due to reinstatement premiums on property treaty business following Hurricanes Harvey, Irma and Maria, and US dollar exchange rate movements. The Lloyd's reinsurance property line reported an accident year ratio of 134.3% (2016: 101.2%).

2017 was a year when natural catastrophe losses were in the headlines. Not forgetting the human impact in terms of fatalities, disruption and loss of homes and properties, these losses inevitably had an impact on the insurance market.

The pricing levels for property treaty and facultative placements improved immediately following Hurricanes Harvey, Irma and Maria and other losses in 2017.

Prior year movement

The prior year movement was a release of 4.0% (2016: 9.4%). Case reserves and specific provisions for known catastrophes have remained stable, with a release of catastrophe loads within previous held reserves.

Looking ahead

The catastrophic events of 2017 have led to an increase in pricing levels. However, there remains a surplus of capacity in the market and it is possible that we have seen a dampening of the reinsurance cycle. This will inevitably have an impact on the market's ability to grow premium volumes in the sector beyond price increases.

Reinsurance – Casualty

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

2017 performance

Lloyd's gross written premium for 2017 was £2,223m (2016: £2,096m), an increase of 6.1%. The Lloyd's reinsurance casualty line reported an accident year ratio of 103.9% (2016: 105.2%).

Treaty performance has been affected by the impact of the Ogden discount rate decision, particularly on underlying motor portfolios. As most treaty business renews at the start of the calendar year, the quantum of the change in discount rate announced in February 2017 was not anticipated and factored into the pricing levels at renewal.

Prior year movement

The prior year movement was a release of 1.8% (2016: 7.1%). There is particular reserving uncertainty on casualty lines. Lloyd's monitoring of these lines continues to indicate adequate provisions remain over all prior years.

This line contains motor excess of loss where there has been continued deterioration due to the Ogden discount rate announced in February 2017. In addition the non-marine casualty treaty line has been impacted by a number of large losses, such as the Grenfell Tower fire.

Looking ahead

Understanding any further changes to the framework for calculating the Ogden discount rate applicable for personal injury claims will be the key performance driver for the line, absent any other extraneous factors.

Reinsurance – Specialty

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

2017 performance

Gross written premium by sector was: Marine £1,166m (2016: £1,127m), Energy £749m (2016: £689m), Aviation £415m (2016: £454m) and Life £16m (2016: £20m). The Lloyd's reinsurance specialty line reported an accident year ratio of 110.3% (2016: 101.9%).

There continues to be a frequency of large facultative reinsurance losses in most specialty sectors. On the treaty side, marine excess of loss reinsurers were impacted by cargo and yacht losses following Hurricanes Harvey, Irma and Maria.

Capacity remained more than ample in most sectors, and this led to further downward pressure on pricing until the final quarter renewals.

Prior year movement

The prior year movement was a release of 8.5% (2016: 14.2%). This line is exposed to individual large losses though specific provisions are held to cover the emergence of these on more recent years of account. Releases emerge where the full quantum of these specific provisions is not required.

Looking ahead

With the improvement currently being seen in property treaty pricing levels, it is possible that some capacity will be redeployed away from specialty reinsurance.

2017 combined ratio by line of business

	Accident year	Prior year reserve movement	Calendar year
Reinsurance	121.7%	(4.5%)	117.2%
Property	131.5%	(3.9%)	127.6%
Casualty	103.7%	(0.6%)	103.1%
Marine	121.8%	0.6%	122.4%
Energy	107.7%	(21.1%)	86.6%
Motor	114.4%	7.9%	122.3%
Aviation	100.6%	1.6%	102.2%
Life	132.4%	1.4%	133.8%

2017 Highlights

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 mainly 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.

2017 performance

Lloyd's gross written premium for 2017 was £8,965m (2016: £7,988m), an increase of 12.2%, with movements in US dollar exchange rates contributing towards this growth. The Lloyd's property line reported an accident year ratio of 131.5% (2016: 106.6%).

Excess global capacity together with broadening of risk appetites from domestic markets continued to drive pricing reductions throughout the first part of 2017 although at a reducing level compared with more recent years. As a result of significant loss activity during the second half of the year, positive price changes were observed during the last few months of the year.

The growth in overall premium income was driven primarily by US and non-US binding authority business with some contraction noted in open market business. Other lines were largely flat or saw some contraction in premium levels. Terrorism, the main exception, continued to see premium growth as additional opportunities were presented to Lloyd's, a leading market in this class, despite a continued reduction in pricing levels and a number of loss events.

Pressure continued through the year on terms and conditions with coverage for losses arising out of cyber, in particular increasingly under property contracts. As pricing reductions slowed, pressure on coverage sub-limits, deductibles and coverage in general continued. However, going into 2018, these appear to have now seen some reversal as some underwriters seek to tighten coverage levels.

Results for 2017 had already been under pressure ahead of the second half, driven mainly by attritional activity. The catastrophe activity in 2017 further stressed the property result. Moreover, these losses have highlighted the extent to which lack of catastrophe losses and reserve releases have been otherwise subsidising attritional and large loss elements, and in many cases pricing inadequacies in more recent years' results for many.

Prior year movement

The prior year movement was a release of 3.9% (2016: 3.2%). In line with other recent years for this short-tailed business, there has been generally stable development in relation to estimates for known losses. Loss experience has been slightly unfavourable due to greater attrition and large loss developments.

Looking ahead

Following the significant natural catastrophe losses in 2017 and a marginal year for many in 2016, corrective action on pricing levels and some tightening of terms and conditions is now being seen. While this is expected to continue through 2018, such increases may fall below the necessary levels to address pricing adequacy concerns.

With the availability of global reinsurance capacity largely intact despite the events of 2017, early signs are that the scale of price increases have been more constrained than some syndicates anticipated. Underwriters will need to maintain a proactive approach to managing the performance gap and this will involve some difficult decisions regarding existing accounts or indeed the appropriateness of some new accounts. Expense and acquisition pressures will continue to be a challenge.

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 followed by the United Kingdom, Canada and Australia.

2017 performance

Lloyd's gross written premium for 2017 was £8,464m (2016: £7,131m), an increase of 18.7%. This increase was largely due to US dollar exchange rate movements and further growth in cyber and warranty and indemnity business. The Lloyd's casualty line reported an accident year ratio of 103.7% (2016: 102.9%).

The wider casualty market in 2017 remained replete with capacity. This suppressed price increases, keeping them below widely agreed-upon claims inflation assumptions. This continuing trend is disappointing given that accident year results are loss making.

The year on year growth was significantly driven by the dollar-sterling exchange rate, however, there was additionally some organic growth in certain lines, particularly cyber products, which are expected to continue to develop, addressing rapidly evolving exposures with many insureds being first-time buyers leading to further predicted growth. There was some organic premium growth in other traditional lines driven by insureds experiencing higher turnover, wage rolls and fee income, reflecting a slowly improving economic environment. Elsewhere in certain other casualty lines some market participants have recently cut back or exited, causing the overall growth in casualty business to slow.

Prior year movement

The prior year movement was a release of 0.6% (2016: a release of 0.2%).

Casualty has been a particular focus for reserve oversight in 2017 and will continue to be closely monitored over the year ahead. This focus arose as a result of concerns around reserve strength of more recent years, though these are confined to particular underlying segments within the line.

Accident and Health has suffered particularly poor experience with a number of large losses impacting the 2016 year. This is in addition to the relatively high level of inherent uncertainty of casualty reserves in this long-tailed line, particularly under challenging market conditions.

Looking ahead

The casualty market's performance is highly correlated with both economic and legal conditions. Despite the economic climate having improved since the late 2000s there remains certain sectors within financial and professional lines that are more exposed to the global fragile recovery with the potential to cause volatility in results.

Whilst the legal and regulatory environment varies across territories and jurisdictions, there is a general trend of increasing regulation and litigiousness in many regions of the world and in some territories fuelled by third-party litigation funding, which may lead to an increase in the frequency and severity of claims. Additionally, increases in inflation will put more pressure on attritional loss ratios for open claims as well as future years of account.

The global cyber insurance market continues to expand, with high profile breaches and evolving legislation, driving increased demand. A significant proportion of the business written is US domiciled, however growth rates in Europe are expected to increase with the adoption of the General Data Protection Regulation in May 2018. Lloyd's writes approximately a third of the global market share and pioneered many of the original products in this line and remains at the leading edge of product development by providing innovative, bespoke and risk transfer solutions in both standalone products or with coverage embedded or blended with traditional product lines. Risk aggregation and monitoring tools were introduced to understand and manage the exposures to cyber risk across the Lloyd's market; these will be enhanced further in 2018.

Generally, the market in all casualty lines remains highly competitive, with many participants seeking to expand their books, often through delegated underwriting arrangements. With no lack of appetite among insurers for casualty business, pricing levels have been challenging, but now show some signs of stabilization which is expected to continue further in 2018.

Marine

A diverse mix of marine business is placed at Lloyd's who are regarded as industry leaders in the line. Principal lines of business include cargo, hull, marine liability, specie and fine art.

2017 performance

Lloyd's gross written premium for 2017 was £2,506m (2016: £2,470m), an increase of 1.5%. The Lloyd's marine line reported an accident year ratio of 121.8% (2016: 108.4%).

A competitive environment persisted in marine lines of business where capacity, despite some withdrawals, remained high. This was reflected in the pricing environment which saw similar reductions to the prior year in most lines. This trend was somewhat reversed following the three major hurricanes of the third quarter especially in the lines more severely affected by losses.

Income was broadly similar to 2016 levels with increases in some lines offset by reduction in others. Performance for 2017 was already under stress across the major lines of business in the first half of the year, mainly driven by attritional losses. The effects of Hurricanes Harvey, Irma and Maria added severely to margin pressure, especially in the cargo and yacht lines.

Prior year movement

The prior year movement was a strengthening of 0.6% (2016: a release of 2.2%).

2017 experience in this line has been less favourable than in recent years and was at the level expected for exposures of this type.

Looking ahead

Anecdotally there are suggestions the hurricane activity has acted as the catalyst for underlying price improvement, however, it remains to be seen whether the price firming seen towards the back end of 2017 into 2018 is sustained throughout 2018.

Despite less than favourable performance in the major sectors over successive years, driven largely by compounded price erosion, capacity remains high and syndicates resolve looks as though it will be tested.

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.

2017 performance

Gross written premium for the Lloyd's energy line in 2017 was £1,253m (2016: £1,110m), an increase of 12.9%. The Lloyd's energy line reported an accident year ratio of 107.7% (2016: 106.4%).

The growth in premium was impacted by a strengthening US dollar exchange rate in the first half of the year, compared with the period prior to the UK referendum result in 2016, when a substantial proportion of energy business incepts.

While there was further price erosion, the reductions in major upstream and downstream property lines were marginally less than in the prior year. The oil price continued to recover but was not yet at a level to encourage a largescale increase in offshore exploration and production. For both offshore and onshore, record levels of capacity were maintained meaning competition remained intense in those lines. There were signs of a price reduction slowdown as the year entered the final quarter, notably in onshore property.

2017 Highlights

Current year performance was affected by onshore property, which saw high loss activity levels, similar to 2016, underscored by the explosion at the ADNOC facility in Abu Dhabi. Power generation also suffered from the effects of Hurricanes Harvey, Irma and Maria. However, offshore property benefited from another relatively benign year of loss activity and this combined with the effects of favourable prior year loss movements produced an overall satisfactory performance in energy lines.

Prior year movement

The prior year movement was a release of 21.1% (2016: 13.8%). This line continues to generate reserve releases across both the property and liability sectors. The level of reserve releases is supported by favourable development on known claims.

Looking ahead

For upstream energy the oil price needs to recover further if income levels are to stabilise in the line.

With no contraction in available capacity for either offshore or onshore property competition is expect to remain. However, with prior year loss deterioration for offshore property and high loss activity in 2017 and 2016 for onshore property, conditions may exist for a hardening pricing environment in the short to medium term.

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 emanating from North America, including private auto and static risks such as dealers open lot.

2017 performance

Gross written premium in 2017 was £1,057m (2016: £1,047m), an increase of 1.0%. The Lloyd's motor line reported an accident year ratio of 114.4% (2016: 108.9%).

Underwriting conditions in the UK motor market continue to be challenging. While the market has seen pricing levels increase in 2017 following the Ogden discount rate change in February 2017, this has not been sufficient to correct performance which continues to be disappointing. International motor also continues to perform poorly.

Prior year movement

The motor line saw prior year strengthening of 7.9% of net earned premium (2016: strengthening of 2.6%).

There is uncertainty on the level of reserves for the UK motor insurance market being materially impacted by any change in the Ogden discount rate, which has led to some deterioration over the year. The previous Lord Chancellor has announced that there may be a further change in the Ogden discount rate to between 0% and +1%, however to date this has not materialised. This is following the reduction to the discount rate to -0.75% announced in February 2017, which increased the expected value of claims on prior years. The continued review of the process for setting the rate increases the uncertainty associated with future claims values. The incidence of claims settled as periodic payment orders (PPOs) also affects the level of uncertainty within this line, and this may be expected to vary as a result of the Ogden discount rate change.

Looking ahead

The Ogden discount rate is currently subject to review by the Justice Secretary but any potential changes are not expected to be announced soon. Premiums will continue to be inflated to cater for the -0.75% rate for the near future and the consequent increase of reinsurance costs.

Future whiplash reforms should improve attritional loss experience when they are introduced in 2018 but the market could see a short term increase in claim volumes from claimant solicitors keen to take advantage of the existing regime. Further, the rising cost of repair, driven by continued advancements in vehicle technology will remain a challenge for insurers in all territories.

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 (for example, 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.

2017 performance

Gross written premium was £687m (2016: £627m), an increase of 9.6%. The Lloyd's aviation line reported an accident year ratio of 100.6% (2016: 106.9%).

2017 was an exceptionally light year for major loss activity with the airline sector having one of the safest years on record in terms of fatalities despite rising exposures. Notwithstanding this sustained and improving safety trend, it was still not a good year for insurers as rising attrition and price reductions continued to thwart profitability.

While overall pricing declined again in 2017, market conditions were more stable in the second half of the year with some evidence of an upturn in pricing in the final quarter, a key renewal period for many of the world's major airlines.

Prior year movement

The prior year movement was a strengthening of 1.6% (2016: a release of 22.2%).

The experience for this class has been broadly in line with expected over 2017, reflected in the small strengthening over the year.

Looking ahead

Improving safety and two years of relatively benign major loss activity have done little to curb the continuation of disappointing results. Exposure growth looks set to continue for the next few years, driven particularly by the emerging economies. Combined with more advanced technology and costs of repair, this will continue to drive higher levels of attrition, absent an increase in deductibles.

While market conditions in all aviation lines are more stable, with capacity readily available and little sign yet of a marked withdrawal, they are likely to remain challenging for insurers in 2018. Strict adherence to underwriting discipline and rigorous application to actively managing the insurance portfolio are required in order to generate positive returns.

Reinsurance

Property	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2013	4,930	2013	76.8	2013	846
	2014	4,472	2014	77.0	2014	801
	2015	4,627	2015	76.3	2015	794
	2016	5,022	2016	91.8	2016	299
	2017	5,991	2017	130.3	2017	(1,260)

Casualty	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2013	1,698	2013	88.3	2013	165
	2014	1,779	2014	87.6	2014	187
	2015	1,797	2015	100.0	2015	0
	2016	2,096	2016	98.1	2016	33
	2017	2,223	2017	102.1	2017	(39)

Specialty	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2013	2,349	2013	81.8	2013	310
	2014	2,237	2014	86.5	2014	225
	2015	2,169	2015	93.3	2015	110
	2016	2,290	2016	87.7	2016	216
	2017	2,346	2017	101.8	2017	(31)

2017 Highlights

Insurance

Property	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2013	6,103	2013	85.0	2013	681
	2014	6,274	2014	87.7	2014	558
	2015	6,893	2015	90.1	2015	501
	2016	7,988	2016	103.4	2016	(202)
	2017	8,965	2017	127.6	2017	(1,757)

Casualty	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2013	4,850	2013	98.8	2013	47
	2014	4,959	2014	98.1	2014	74
	2015	5,764	2015	100.1	2015	(5)
	2016	7,131	2016	102.7	2016	(146)
	2017	8,464	2017	103.1	2017	(189)

Marine	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2013	2,195	2013	95.4	2013	84
	2014	2,140	2014	95.2	2014	84
	2015	2,245	2015	94.2	2015	108
	2016	2,470	2016	106.2	2016	(129)
	2017	2,506	2017	122.4	2017	(469)

Energy	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2013	1,668	2013	83.0	2013	201
	2014	1,532	2014	83.4	2014	181
	2015	1,414	2015	76.0	2015	247
	2016	1,110	2016	92.6	2016	59
	2017	1,253	2017	86.6	2017	105

Motor	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2013	1,184	2013	108.6	2013	(87)
	2014	1,213	2014	106.6	2014	(71)
	2015	1,120	2015	102.0	2015	(17)
	2016	1,047	2016	111.5	2016	(103)
	2017	1,057	2017	122.3	2017	(188)

Aviation	Gross written premium	£m	Combined ratio	%	Underwriting result	£m
	2013	562	2013	81.4	2013	90
	2014	581	2014	102.7	2014	(10)
	2015	587	2015	95.7	2015	19
	2016	627	2016	84.7	2016	71
	2017	687	2017	102.2	2017	(11)

Statement of Council's Responsibilities and Report of PricewaterhouseCoopers LLP to the Council on the 2017 Pro Forma Financial Statements

Statement of Council's responsibilities

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

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

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

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council

Report on the preparation of the 2017 Lloyd's Pro Forma Financial Statements

Conclusion

In our opinion the Council has prepared the Lloyd's Pro Forma Financial Statements (the "PFFS") for the financial year ended 31 December 2017, 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 to 24.

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 2017 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 Board.

We applied the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. We apply International Standard on Quality Control (UK) 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 accounts by the managing agent of each syndicate, which has been submitted to the Council 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 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 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.

Responsibilities for the PFFS and the reasonable assurance engagement

Our responsibilities and those of the Council

The Council 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 on the basis set out in note 2.

This report including our conclusions has been prepared solely to the Council in accordance with our engagement letter dated 7 December 2017 (the "instructions"). Our examination has been undertaken so that we might state to the Council those matters which we are required to state in this report in accordance with the instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
London
20 March 2018

Pro Forma Profit and Loss Account

(For the year ended 31 December 2017)

Technical account	Note	2017 £m	2017 £m	2016 £m	2016 £m
Gross written premiums	9		33,591		29,862
Outward reinsurance premiums			(8,722)		(6,796)
Premiums written, net of reinsurance			24,869		23,066
Change in the gross provision for unearned premiums		(847)		(723)	
Change in the provision for unearned premiums, reinsurers' share		476		317	
			(371)		(406)
Earned premiums, net of reinsurance			24,498		22,660
Allocated investment return transferred from the non-technical account			732		713
			25,230		23,373
Claims paid					
Gross amount		18,292		13,913	
Reinsurers' share		(3,634)		(2,431)	
			14,658		11,482
Change in provision for claims					
Gross amount		9,768		2,861	
Reinsurers' share		(6,176)		(1,356)	
			3,592		1,505
Claims incurred, net of reinsurance			18,250		12,987
Net operating expenses	11		9,669		9,205
Balance on the technical account for general business			(2,689)		1,181
Non-technical account					
Balance on the technical account for general business			(2,689)		1,181
Investment return on syndicate assets		907		810	
Notional investment return on members' funds at Lloyd's	6	722		363	
Investment return on Society assets		171		172	
	12	1,800		1,345	
Allocated investment return transferred to the technical account		(732)		(713)	
			1,068		632
(Loss)/profit on exchange			(62)		578
Other income			42		77
Other expenses			(360)		(361)
Result for the financial year before tax	8		**(2,001)**		**2,107**

All operations relate to continuing activities.

Pro Forma Statement of Comprehensive Income

(For the year ended 31 December 2017)

Statement of other comprehensive income	Note	2017 £m	2016 £m
Result for the year		(2,001)	2,107
Currency translation differences		(69)	389
Other comprehensive losses in the syndicate annual accounts		(2)	–
Remeasurement gains/(losses) on pension assets/liabilities in the Society accounts		41	(111)
Total comprehensive (loss)/income for the year	8	**(2,031)**	**2,385**

Pro Forma Balance Sheet

(As at 31 December 2017)

Investments	Note	2017 £m	2017 £m	2016 £m	2016 £m
Financial investments	13		55,765		55,354
Deposits with ceding undertakings			18		20
Reinsurers' share of technical provisions					
Provision for unearned premiums	18	3,372		3,110	
Claims outstanding	18	16,811		11,310	
			20,183		14,420
Debtors					
Debtors arising out of direct insurance operations	14	8,882		8,881	
Debtors arising out of reinsurance operations	15	5,921		5,043	
Other debtors		734		926	
			15,537		14,850
Other assets					
Tangible assets		31		31	
Cash at bank and in hand	16, 22	12,137		12,292	
Other		72		81	
			12,240		12,404
Prepayments and accrued income					
Accrued interest and rent		104		106	
Deferred acquisition costs	18	4,304		4,278	
Other prepayments and accrued income		245		170	
			4,653		4,554
Total assets			**108,396**		**101,602**
Capital, reserves, subordinated debt and securities					
Members' funds at Lloyd's	6	24,579		21,703	
Members' balances	17	–		4,015	
Members' assets (held severally)		24,579		25,718	
Central reserves (mutual assets)		2,188		1,996	
	8		26,767		27,714
Subordinated debt	2		793		495
Subordinated perpetual capital securities	2		–		388
Total capital, reserves, subordinated debt and securities			**27,560**		**28,597**
Technical provisions					
Provision for unearned premiums	18	16,377		16,548	
Claims outstanding	18	54,893		47,747	
			71,270		64,295
Deposits received from reinsurers			111		109
Creditors					
Creditors arising out of direct insurance operations	20	955		772	
Creditors arising out of reinsurance operations	21	5,929		4,670	
Other creditors including taxation		1,781		2,415	
			8,665		7,857
Accruals and deferred income			790		744
Total liabilities			**108,396**		**101,602**

Approved by the Council on 20 March 2018 and signed on its behalf by

Bruce Carnegie-Brown Chairman **Inga Beale** Chief Executive Officer

Pro Forma Statement of Cash Flows

(For the year ended 31 December 2017)

	Note	2017 £m	2016 £m
Result for the financial year before tax		(2,001)	2,107
Increase/(decrease) in gross technical provisions		7,714	10,737
(Increase)/decrease in reinsurers' share of gross technical provisions		(5,930)	(3,231)
(Increase)/decrease in debtors		(1,920)	(3,538)
Increase/(decrease) in creditors		1,596	2,540
Movement in other assets/liabilities		66	(645)
Investment return		(1,800)	(1,345)
Depreciation		8	10
Tax paid		(51)	(48)
Foreign exchange		1,057	(3,563)
Other		(6)	2
Net cash flows from operating activities		**(1,267)**	**3,026**
Investing activities			
Purchase of equity and debt instruments		(38,462)	(41,931)
Sale of equity and debt instruments		39,631	41,594
Purchase of derivatives		(69)	(41)
Sale of derivatives		28	25
Investment income received		801	779
Other		171	(116)
Net cash flows from investing activities		**2,100**	**310**
Financing activities			
Net profits paid to members		(1,711)	(2,217)
Net capital transferred into/(out of) syndicate premium trust funds		774	(138)
Sale of debt securities		298	–
Redemption of subordinated notes		(392)	–
Interest paid on subordinated notes		(53)	(53)
Net movement in members' funds at Lloyd's		(123)	827
Other		21	(30)
Net cash flows from financing activities		**(1,186)**	**(1,611)**
Net (decrease)/increase in cash and cash equivalents		**(353)**	**1,725**
Cash and cash equivalents at 1 January		14,631	12,566
Exchange differences on cash and cash equivalents		(165)	340
Cash and cash equivalents at 31 December	22	**14,113**	**14,631**

Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

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 on pages 120 to 169. 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 pages 112 to 113.

The Aggregate Accounts report the audited results for calendar year 2017 and the financial position at 31 December 2017 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/financialresults. 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 of Lloyd's. 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 of Lloyd's 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 £122m (2016: £135m). 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 inside back cover). Due to the nature of the SPA, the quota share of the host syndicate's 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 £589m (2016: £552m). 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 annual accounts and as income in the Society financial statements.

- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls, and do not have the resources to meet those cash calls, are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate annual accounts for calendar year 2017 and earlier years include those members' results and at the balance sheet date will report the outstanding liability within members' balances.
- Loans funding statutory overseas deposits are reported as assets within the syndicate annual accounts and as liabilities in the Society financial statements.

(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 123), 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 directly responsible for tax payable on their syndicate results and investment income on FAL. For consistency, the results of the Society are also included pre-tax in the profit and loss account. The balance sheet 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 26 on page 168 of the Society Report.

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. 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 and securities

In accordance with the terms of the Society's subordinated debt and securities, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves and subordinated debt and securities' in the pro forma balance sheet. Note 21 to the Society financial statements on page 164 provides additional information.

Society of Lloyd's financial statements

The PFFS include the results and net assets reported in the consolidated financial statements of the Society of Lloyd's 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.

Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

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 Funds at Lloyd's 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, net of reinsurers' share, as at 31 December 2017 is £38,082m (2016: £36,437m) 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 inception date of the policy and the final settlement of the claim, the outstanding claims provisions are discounted to take account of the expected investment income receivable between inception and settlement 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. Notwithstanding this, a number of syndicates are now using US dollar functional currency for their reporting. 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.

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

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

Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

3. Accounting policies notes continued

Operating expenses

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

Profit commission

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

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

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 their 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 accounting policies adopted in the Society of Lloyd's financial statements are set out on pages 120 to 169. No adjustments have been made to the information incorporated into the PFFS as the Council do not consider there to be any material accounting policy differences between the existing 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 of Lloyd's 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.

Capital management objectives, policies and approach

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) 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, Lloyd's 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 overall and member level only respectively, not at 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 Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting member 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, Lloyd's applies a capital uplift to the member's capital requirement to determine the Economic Capital Assessment (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 2017 was 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 12 month horizon. Given Lloyd's unique structure there are two SCRs that are monitored under the Solvency II regime:

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

The Lloyd's central SCR (CSCR) is calculated in respect of only the risks facing the Society and the Central Fund at the same confidence level and time horizon used to calculate the MWSCR.

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

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

The MWSCR and CSCR are derived from the Lloyd's Internal Model (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 Lloyd's Capital and Planning Group. The appropriateness of each syndicate's internal model, including changes thereto and the reasonableness of the key assumptions are assessed as part of Lloyd'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 Corporation, allowing for the unique capital structure of Lloyd's. The LIM consists of three main components: the Lloyd's Investment Risk Model (LIRM), which simulates economic variables and total assets returns; the Lloyd's Catastrophe Model (LCM), which models catastrophe risk using syndicates' views of risk; and the Capital Calculation Kernel (CCK), which is the main element of the LIM where all other risks are simulated and all risks are combined.

Syndicates calculate their own SCR, however, the market wide and central capital requirements are derived from Lloyd's parameterisation at a whole market level to build a view of total market capital requirements from the ground up using market level assumptions. The LIM uses a methodology whereby losses from insurance and other risks are simulated by 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.

Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

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 Corporation for approval each year. Approval of business plans – and setting the capital requirements needed to support these plans – is the key control the Corporation uses to manage underwriting risk.

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

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

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

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

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 Claims (IBNR). These shortfalls can arise from inadequate reserving processes or from the naturally uncertain progress of insurance events.

Lloyd's current level of aggregate market reserves remains robust and the continued level of overall reserve releases are supported by underlying claims experience being more favourable than expected. This will not necessarily translate to all syndicates. There are currently few specific reserving issues and the main perceived risks relate to macro influences such as inflation or changes in legislation, or prescribed levels of payout. Lloyd's 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 Corporation. 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 syndicate's 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 Corporation has developed a suite of Realistic Disaster Scenarios to measure syndicate level and aggregate market exposure to both natural catastrophes and man-made losses. These are monitored frequently and syndicates 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

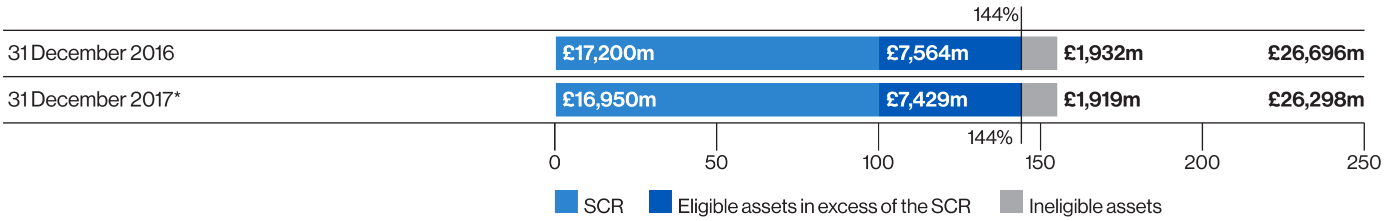
The MWSCR is broken down into the various risk components as shown below.

	31 December 2017* SCR £m	31 December 2016 SCR £m
Reserving risk	6,183	3,421
All other (attritional) underwriting risk	5,733	6,008
Catastrophe risk	3,923	5,129
Market risk	181	293
Reinsurance credit risk	523	885
Operational risk	728	645
Pension risk	14	23
MWSCR before adjustments	**17,285**	**16,404**
Foreign exchange adjustment for movement in H2 2017 (H2 2016)	(335)	796
MWSCR	**16,950**	**17,200**

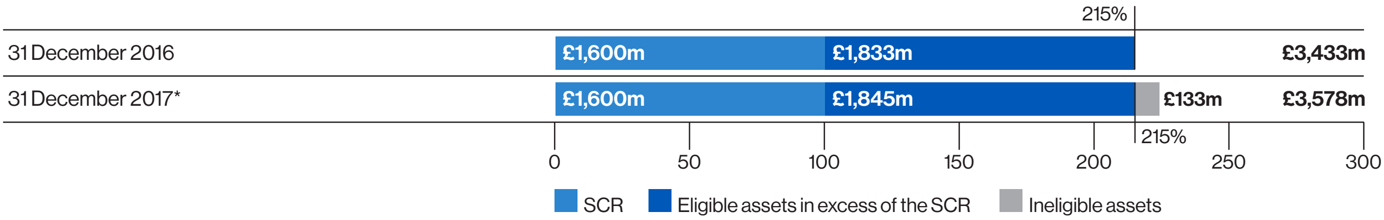
Solvency Capital Requirement coverage

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

Lloyd's MWSCR



Lloyd's CSCR



* Represents the position based on the unaudited solvency returns, which may differ from the final audited 2017 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 2017, 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 capital sufficient to provide financial security to policyholders and capital efficiency to investors (or '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%. Lloyd's 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, 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.

Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

4. Risk management continued

Solvency cover ratios	MWSCR coverage	CSCR coverage
31 December 2017*	144%	215%
31 December 2016	144%	215%
Risk appetite for solvency cover ratio	125%	200%

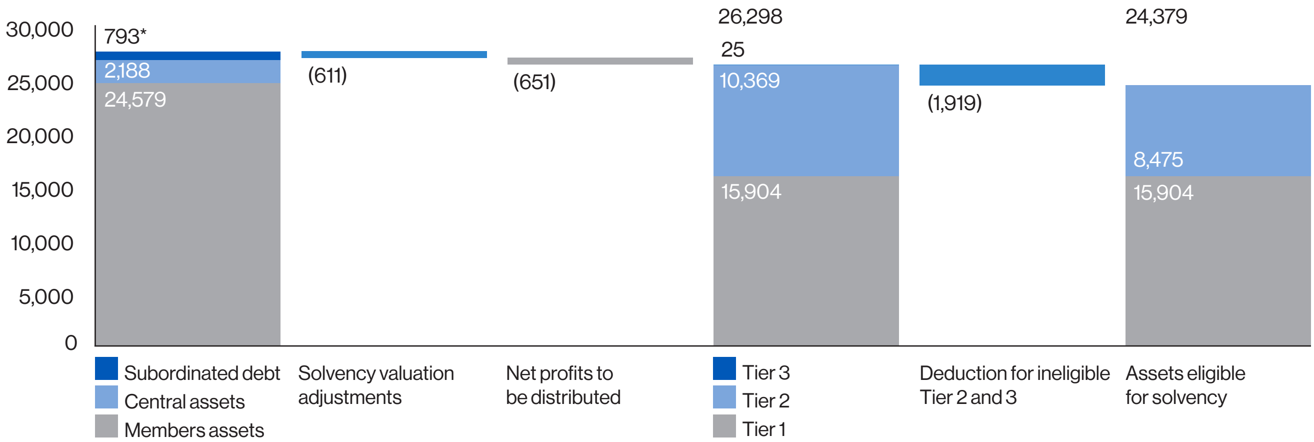
* Based on the unaudited solvency returns.

Assets eligible for solvency

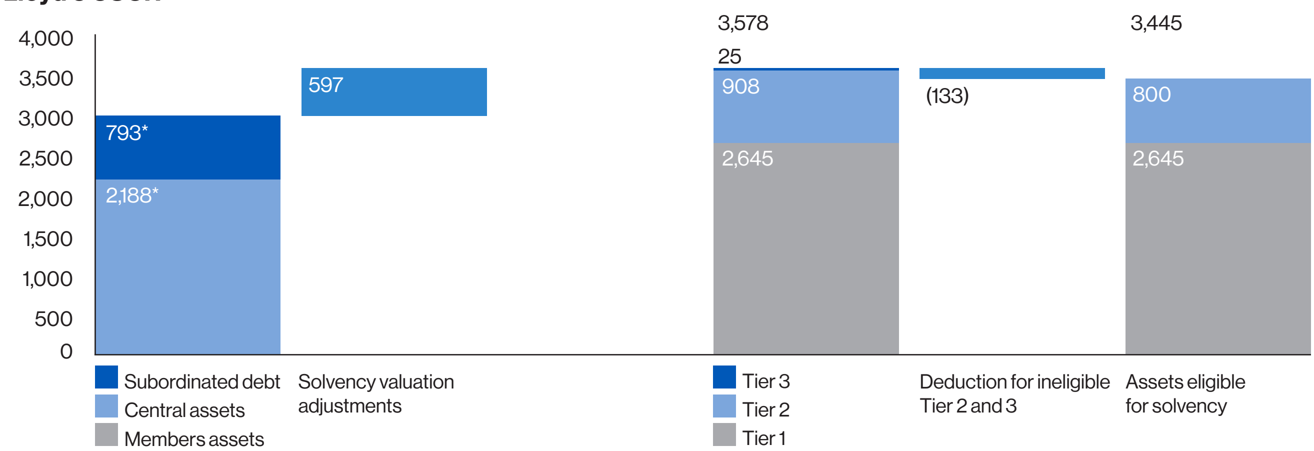
The assets of the syndicates, members' FAL and the Society of Lloyd's all contribute towards coverage of the MWSCR, after adjustments to value items in accordance with Solvency II valuation principles. The Society of Lloyd's assets and callable layer, in the chain of security, are available to cover the central SCR.

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 (LOCs) which are classed as Tier 2 assets, restricting their ability to cover the MWSCR and resulting in a lower solvency cover ratio. These LOCs 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



Lloyd's CSCR



* Per 31 December 2017 balance sheet. Other amounts represent the position based on the unaudited solvency returns, which may differ from the final audited 2017 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 2017 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 seven years to ten years over the period 2018-2020.

Gross

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	**2017 £m**	Total £m
At end of underwriting year		9,791	8,936	7,619	7,806	7,503	8,649	**16,707**	
One year later		16,271	14,395	14,313	14,949	15,744	19,459		
Two years later		16,469	14,875	14,709	15,974	16,629			
Three years later		16,499	14,652	14,408	15,866				
Four years later		16,467	14,654	14,170					
Five years later		16,315	14,501						
Six years later		16,204							
Cumulative payments		(14,326)	(11,782)	(10,706)	(10,557)	(8,885)	(6,752)	**(2,829)**	
Estimated balance to pay	7,194	1,878	2,719	3,464	5,309	7,744	12,707	**13,878**	**54,893**

Net

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	**2017 £m**	Total £m
At end of underwriting year		7,941	6,891	6,331	6,388	6,389	7,134	**9,747**	
One year later		12,989	11,672	11,978	12,195	13,107	14,934		
Two years later		13,018	11,970	12,140	12,870	13,720			
Three years later		13,041	11,827	11,866	12,801				
Four years later		13,071	11,644	11,677					
Five years later		12,763	11,546						
Six years later		12,532							
Cumulative payments		(11,117)	(9,421)	(8,943)	(8,862)	(7,653)	(5,727)	**(2,212)**	
Estimated balance to pay	5,060	1,415	2,125	2,734	3,939	6,067	9,207	**7,535**	**38,082**

Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

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 52, the market's principal credit risk is that the reinsurance purchased to protect the syndicate's 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.

2017	**Neither past due nor impaired £m**	**Past due £m**	**Impaired £m**	**Total £m**
Debt securities	37,193	–	4	**37,197**
Participation in investment pools	2,118	–	–	**2,118**
Loans with credit institutions	1,050	–	–	**1,050**
Deposits with credit institutions	5,791	–	–	**5,791**
Derivative assets	75	–	–	**75**
Other investments	60	–	–	**60**
Reinsurers' share of claims outstanding	16,811	–	–	**16,811**
Cash at bank and in hand, including letters of credit and bank guarantees	12,137	–	–	**12,137**
Total	**75,235**	**–**	**4**	**75,239**

2016	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Debt securities	38,213	–	3	**38,216**
Participation in investment pools	1,863	–	–	**1,863**
Loans with credit institutions	904	–	–	**904**
Deposits with credit institutions	5,115	–	–	**5,115**
Derivative assets	56	–	–	**56**
Other investments	67	–	–	**67**
Reinsurers' share of claims outstanding	11,289	21	–	**11,310**
Cash at bank and in hand, including letters of credit and bank guarantees	12,292	–	–	**12,292**
Total	**69,799**	**21**	**3**	**69,823**

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 2017 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.

2017	**Rated AAA £m**	**Rated AA £m**	**Rated A £m**	**Rated BBB £m**	**Other £m**	**Total £m**
Debt securities	9,379	10,143	9,514	4,827	3,330	**37,193**
Participation in investment pools	187	66	130	8	1,727	**2,118**
Loans with credit institutions	473	76	126	54	321	**1,050**
Deposits with credit institutions	1,592	554	508	257	2,880	**5,791**
Derivative assets	–	1	5	5	64	**75**
Other investments	33	5	–	–	22	**60**
Reinsurers' share of claims outstanding	278	3,868	10,781	40	1,844	**16,811**
Cash at bank and in hand	176	2,207	8,811	478	465	**12,137**
Total credit risk	**12,118**	**16,920**	**29,875**	**5,669**	**10,653**	**75,235**

2016	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	10,168	11,473	9,377	4,352	2,843	**38,213**
Participation in investment pools	360	127	108	6	1,262	**1,863**
Loans with credit institutions	164	209	102	18	411	**904**
Deposits with credit institutions	1,462	644	394	221	2,394	**5,115**
Derivative assets	–	5	12	1	38	**56**
Other investments	6	11	29	–	21	**67**
Reinsurers' share of claims outstanding	126	3,185	7,032	60	886	**11,289**
Cash at bank and in hand	152	1,775	9,333	654	378	**12,292**
Total credit risk	**12,438**	**17,429**	**26,387**	**5,312**	**8,233**	**69,799**

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. They are required to match the duration of their syndicates' investments with the liabilities to policyholders. Generally, syndicates have a high concentration of liquid assets, namely cash and government securities.

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

Notes to the Pro Forma Financial Statements

(As at 31 December 2017)

4. Risk management continued

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

2017	No stated maturity £m	0-1 yr £m	1-3yr £m	3-5yr £m	>5 yr £m	Total £m
Claims outstanding	1	18,410	19,890	8,328	8,264	**54,893**
Derivatives	–	20	–	–	–	**20**
Deposits received from reinsurers	31	61	12	7	–	**111**
Provisions for other risks and charges	1	–	–	–	–	**1**
Creditors	757	6,805	792	153	930	**9,437**
Other creditors	6	33	–	–	–	**39**
Total	**796**	**25,329**	**20,694**	**8,488**	**9,194**	**64,501**

2016	No stated maturity £m	0-1 yr £m	1-3yr £m	3-5yr £m	>5 yr £m	Total £m
Claims outstanding	31	15,192	16,704	7,638	8,182	**47,747**
Derivatives	–	69	4	–	3	**76**
Deposits received from reinsurers	64	31	13	1	–	**109**
Provisions for other risks and charges	1	–	–	–	–	**1**
Creditors	1,418	5,682	609	160	794	**8,663**
Other creditors	–	16	–	–	–	**16**
Total	**1,514**	**20,990**	**17,330**	**7,799**	**8,979**	**56,612**

Market risk – overview

Market risk is the risk that the value of financial instruments will fluctuate because of movements in foreign currency, interest rates or asset values. Syndicate assets are held in premium trust funds and are subject to the asset rules contained in the PRA's handbook. Managing agents manage asset risk through their investment strategy.

There is greater oversight of market risk in light of the volatile economic climate, which includes the monitoring of Investment Management Minimum Standards. Lloyd's Financial Risk Committee monitors assets across the full chain of security to ensure the asset disposition of the market and Corporation remains appropriate, closely monitoring global economic and market trends.

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

Market risk comprises three types of risk:

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

Currency risk

Managing agents must identify the main currencies in which each syndicate transacts its business. For the market overall, the US dollar is the largest currency exposure. Assets are then held in each of those currencies to match the relevant liabilities. Managing agents must ensure that assets match liabilities and take corrective action where a mismatch arises. Lloyd's also reviews the matching of assets to liabilities at the syndicate level as well as at the market level. In addition, many members seek to match their capital disposition by currency against their peak exposures. At 31 December 2017, 67% (2016: 69%) of all capital deployed at Lloyd's was provided in US dollars.

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

2017	**Sterling £m**	**US dollar £m**	**Euro £m**	**Canadian $ £m**	**Australian $ £m**	**Other £m**	**Total £m**
Financial investments	10,257	35,675	2,890	4,804	1,595	544	**55,765**
Reinsurers' share of technical provisions	3,443	14,977	876	611	225	51	**20,183**
Insurance and reinsurance receivables	2,547	10,598	774	453	228	203	**14,803**
Cash at bank and in hand	4,511	6,107	765	237	221	296	**12,137**
Other assets	1,238	3,704	472	258	84	(248)	**5,508**
Total assets	**21,996**	**71,061**	**5,777**	**6,363**	**2,353**	**846**	**108,396**
Technical provisions	13,942	46,286	5,089	3,785	1,506	662	**71,270**
Insurance and reinsurance payables	1,011	5,078	363	302	68	62	**6,884**
Other liabilities	1,770	1,846	(1)	21	10	(171)	**3,475**
Total liabilities	**16,723**	**53,210**	**5,451**	**4,108**	**1,584**	**553**	**81,629**
Total capital and reserves	**5,273**	**17,851**	**326**	**2,255**	**769**	**293**	**26,767**

2016	Sterling £m	US dollar £m	Euro £m	Canadian $ £m	Australian $ £m	Other £m	Total £m
Financial investments	9,509	36,373	2,656	4,717	1,508	591	**55,354**
Reinsurers' share of technical provisions	3,108	9,585	755	654	209	109	**14,420**
Insurance and reinsurance receivables	2,424	9,958	739	451	199	153	**13,924**
Cash at bank and in hand	4,399	6,369	826	190	194	314	**12,292**
Other assets	1,663	3,250	540	246	78	(165)	**5,612**
Total assets	**21,103**	**65,535**	**5,516**	**6,258**	**2,188**	**1,002**	**101,602**
Technical provisions	12,922	40,578	4,854	3,627	1,508	806	**64,295**
Insurance and reinsurance payables	1,029	3,769	274	250	65	55	**5,442**
Other liabilities	2,038	2,060	(16)	135	18	(84)	**4,151**
Total liabilities	**15,989**	**46,407**	**5,112**	**4,012**	**1,591**	**777**	**73,888**
Total capital and reserves	**5,114**	**19,128**	**404**	**2,246**	**597**	**225**	**27,714**

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(As at 31 December 2017)

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) 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.

2017	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	257	811
Weakening of US dollar	(211)	(663)
Strengthening of euro	(18)	21
Weakening of euro	15	(17)

2016	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	342	1,922
Weakening of US dollar	(280)	(1,572)
Strengthening of euro	(15)	49
Weakening of euro	13	(40)

The impact on 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 result before tax and equity of the effects of changes in interest rates.

2017	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(351)	(445)
– 50 basis points	347	440

2016	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(406)	(502)
– 50 basis points	408	504

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 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 result before tax and changes in fair value of available for sale financial assets that are equity instruments).

2017	**Impact on result before tax £m**	**Impact on members' balances £m**
5% increase in equity markets	107	280
5% decrease in equity markets	(107)	(280)

2016	Impact on result before tax £m	Impact on members' balances £m
5% increase in equity markets	106	251
5% decrease in equity markets	(106)	(251)

Concentration risk

Lloyd's closely monitors concentrations of risk across the market and tests risk exposure against clearly defined risk appetites as established by the Board. Specialist supervisory teams across Lloyd's 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 Lloyd's seek 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 Lloyd's oversight role of the market.

Within the 2017 Annual Report, 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 34 to 41. 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 '2017 At a Glance' section at the beginning of the Annual Report. Analysis of capital providers by source and location is also included in the '2017 At a Glance' section of the Annual Report. Analysis of investments held within the market is disclosed in note 13 of the PFFS.

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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 Corporation closely monitors changes that may adversely impact the global licence network. Lloyd's is actively working with the market to assist and adapt to the changes in the UK regulatory architecture, in particular the increased focus on conduct risk by the Financial Conduct Authority; managing agents are now expected to comply with the Lloyd's Conduct Minimum Standards. Similarly, Lloyd's monitors global political trends and is taking action at both a Corporation and market 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. Lloyd's 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 Corporation 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 Corporation 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 2017, 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 £706m (2016: £1,150m). The surplus arises across the reinsurance, property, casualty and energy lines of business, reflecting favourable claims development compared with projections. There were deficiencies in the marine, motor, aviation and life lines of business.

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

The valuation of members' FAL in the balance sheet totals £24,579m (2016: £21,703m). The notional investment return on FAL included in the non-technical profit and loss account totals £722m (2016: £363m).

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

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

		Proportion of FAL		Investment return	
Investment type	Index	**December 2017 %**	December 2016 %	**2017 %**	2016 %
UK equities	FTSE All share	**4.9**	4.4	**12.0**	15.2
UK government bonds	UK Gilts 1-3 years	**2.1**	2.6	**(0.6)**	1.2
UK corporate bonds	UK Corporate 1-3 years	**5.0**	4.9	**(0.4)**	1.5
UK deposits managed by Lloyd's	Return achieved	**3.8**	2.9	**0.5**	1.6
UK deposits managed externally including letters of credit	GBP LIBID 1 month	**18.5**	19.9	**0.0**	0.2
US equities	S&P 500 Index	**9.9**	8.9	**19.7**	9.5
US government bonds	US Treasuries 1-5 years	**12.8**	12.4	**0.5**	0.6
US corporate bonds	US Corporate 1-5 years	**17.8**	14.6	**1.9**	1.6
US deposits managed by Lloyd's	Return achieved	**5.1**	5.2	**3.7**	1.5
US deposits managed externally including letters of credit	USD LIBID 1 month	**20.1**	24.2	**0.8**	0.2

7. Society of Lloyd's

The results of the Group financial statements of the Society included in the profit and loss account are a profit of £442m (2016: £378m) in the technical account and a loss of £257m (2016: a profit of £26m) 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	**2017 £m**	2016 £m
Result per syndicate annual accounts	(2,908)	1,353
Result of the Society	156	330
Central Fund claims and provisions incurred in Society financial statements	–	8
Syndicate prior year adjustment treated as current year in PFFS	–	(13)
Taxation charge in Society financial statements	31	75
Notional investment return on members' funds at Lloyd's	722	363
Movement in Society income not accrued in syndicate annual accounts	(2)	(9)
Result for the financial year before tax	**(2,001)**	**2,107**

Other comprehensive income	**2017 £m**	2016 £m
Result for the financial year	(2,001)	2,107
Foreign currency movements	(69)	389
Other comprehensive losses per syndicate annual accounts	(2)	–
Other comprehensive income/(losses) of the Society	41	(111)
Total comprehensive (loss)/income for the year	**(2,031)**	**2,385**

Capital and reserves	**2017 £m**	2016 £m
Net assets per syndicate annual accounts	(1)	4,011
Net assets of the Society	2,188	1,996
Central Fund claims and provisions	–	1
Members' funds at Lloyd's	24,579	21,703
Unpaid cash calls reanalysed from debtors to members' balances	30	30
Society income receivable not accrued in syndicate annual accounts	(29)	(27)
Total capital and reserves	**26,767**	**27,714**

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.

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(As at 31 December 2017)

9. Segmental analysis

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

2017	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Underwriting result £m
Reinsurance	10,560	7,751	(6,498)	(2,583)	**(1,330)**
Property	8,965	6,367	(5,137)	(2,987)	**(1,757)**
Casualty	8,464	6,082	(3,558)	(2,713)	**(189)**
Marine	2,506	2,092	(1,674)	(887)	**(469)**
Energy	1,253	783	(277)	(401)	**105**
Motor	1,057	843	(723)	(308)	**(188)**
Aviation	687	509	(320)	(200)	**(11)**
Life	99	71	(63)	(32)	**(24)**
Total from syndicate operations	**33,591**	**24,498**	**(18,250)**	**(10,111)**	**(3,863)**
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society				442	**442**
PFFS premiums and underwriting result	**33,591**	**24,498**	**(18,250)**	**(9,669)**	**(3,421)**
Allocated investment return transferred from the non-technical account					**732**
Balance on the technical account for general business					**(2,689)**

2016	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Underwriting result £m
Reinsurance	9,408	7,154	(3,805)	(2,801)	**548**
Property	7,988	5,859	(3,431)	(2,630)	**(202)**
Casualty	7,131	5,343	(3,139)	(2,350)	**(146)**
Marine	2,470	2,075	(1,317)	(887)	**(129)**
Energy	1,110	795	(371)	(365)	**59**
Motor	1,047	893	(666)	(330)	**(103)**
Aviation	627	464	(209)	(184)	**71**
Life	81	77	(49)	(36)	**(8)**
Total from syndicate operations	**29,862**	**22,660**	**(12,987)**	**(9,583)**	**90**
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society				378	**378**
PFFS premiums and underwriting result	**29,862**	**22,660**	**(12,987)**	**(9,205)**	**468**
Allocated investment return transferred from the non-technical account					**713**
Balance on the technical account for general business					**1,181**

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

	2017 £m	2016 £m
United Kingdom	**22,651**	20,128
Other EU member states	**29**	31
Rest of the World	**351**	295
	23,031	**20,454**

10. Life business

The PFFS include the results of all life and non-life syndicates transacting business during 2017. 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

	2017 £m	2016 £m
Acquisition costs	8,645	7,539
Change in deferred acquisition costs	(239)	(196)
Administrative expenses	2,307	2,464
Reinsurance commissions and profit participation	(1,044)	(602)
	9,669	**9,205**

Total commissions on direct insurance business accounted for in the year amounted to £5,773m (2016: £4,968m).

12. Investment return

Interest and similar income	2017 £m	2016 £m
From financial instruments designated as at fair value through profit or loss	1,356	961
From available for sale investments	35	22
From financial instruments designated as held to maturity	1	1
Dividend income	37	49
Interest on cash at bank	23	16
Other interest and similar income	35	32
Investment expenses	(72)	(54)
Total	**1,415**	**1,027**

Other income from investments designated as at fair value through profit or loss	2017 £m	2016 £m
Realised gains/(losses)	261	7
Unrealised gains/(losses)	89	265
Other relevant income/(losses)	35	46
Total	**385**	**318**

Total investment return	**1,800**	**1,345**

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13. Financial investments

	2017 £m	2016 £m
Shares and other variable yield securities and units in unit trusts	9,474	9,133
Debt securities and other fixed income securities	37,197	38,216
Participation in investment pools	2,118	1,863
Loans and deposits with credit institutions	6,841	6,019
Other	135	123
	55,765	**55,354**

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.

2017	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	3,797	4,865	811	9,473	1	9,474
Debt and other fixed income securities	12,094	25,022	81	37,197	–	37,197
Participation in investment pools	1,875	211	32	2,118	–	2,118
Loans and deposits with credit institutions	3,325	3,333	181	6,839	2	6,841
Other investments	6	100	29	135	–	135
Total investments	**21,097**	**33,531**	**1,134**	**55,762**	**3**	**55,765**
Loans recoverable	–	–	43	43	–	43
Total assets	**21,097**	**33,531**	**1,177**	**55,805**	**3**	**55,808**
Borrowings	(11)	–	–	(11)	–	(11)
Derivative liabilities	(1)	(19)	–	(20)	–	(20)
Total liabilities	**(12)**	**(19)**	**–**	**(31)**	**–**	**(31)**

Loans recoverable represent loans made to hardship members by the Central Fund, with further details disclosed in the Society Report (note 2(j) and note 15).

2016	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	4,938	3,636	559	9,133	–	9,133
Debt and other fixed income securities	11,813	26,304	84	38,201	15	38,216
Participation in investment pools	1,628	196	39	1,863	–	1,863
Loans and deposits with credit institutions	3,215	2,652	150	6,017	2	6,019
Other investments	16	103	4	123	–	123
Total investments	**21,610**	**32,891**	**836**	**55,337**	**17**	**55,354**
Loans recoverable	–	–	43	43	–	43
Total assets	**21,610**	**32,891**	**879**	**55,380**	**17**	**55,397**
Borrowings	(15)	–	–	(15)	–	(15)
Derivative liabilities	(15)	(59)	(2)	(76)	–	(76)
Total liabilities	**(30)**	**(59)**	**(2)**	**(91)**	**–**	**(91)**

14. Debtors arising out of direct operations

	2017 £m	2016 £m
Due within one year		
— Policyholders	1	10
— Intermediaries	8,781	8,759
Due after one year		
— Policyholders	–	–
— Intermediaries	100	112
Total	**8,882**	8,881

15. Debtors arising out of reinsurance operations

	2017 £m	2016 £m
Due within one year	5,245	4,705
Due after one year	676	338
Total	**5,921**	5,043

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 £9,463m (2016: £9,586m).

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(As at 31 December 2017)

17. Members' balances

	2017 £m	2016 £m
Balance at 1 January	4,015	4,613
Result for the year per syndicate annual accounts	(2,908)	1,353
Distribution on closure of the 2014 (2013) year of account	(2,670)	(2,061)
Advance distributions from open years of account	(60)	(163)
Movement in cash calls	1,019	7
Net movement on Funds in Syndicate (see note below)	774	(138)
Exchange (losses)/gains	(116)	439
Other	(54)	(35)
Balance at 31 December	**–**	4,015

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account with reference to policies incepting in that year of account. Members' balances represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of 2018.

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 2017 there was £4,076m (2016: £3,315m) 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

2017	Gross £m	Reinsurers' share £m	Net £m
At 1 January	16,548	3,110	13,438
Premiums written in the year	33,591	8,722	24,869
Premiums earned in the year	(32,744)	(8,246)	(24,498)
Exchange movements	(1,018)	(214)	(804)
At 31 December	**16,377**	**3,372**	**13,005**

2016	Gross £m	Reinsurers' share £m	Net £m
At 1 January	13,723	2,368	11,355
Premiums written in the year	29,862	6,796	23,066
Premiums earned in the year	(29,139)	(6,479)	(22,660)
Exchange movements	2,102	425	1,677
At 31 December	**16,548**	**3,110**	**13,438**

(b) Deferred acquisition costs

	2017 £m	2016 £m
At 1 January	4,278	3,585
Change in deferred acquisition costs	239	196
Exchange movements	(232)	437
Other	19	60
At 31 December	**4,304**	**4,278**

(c) Claims outstanding

2017	Gross £m	Reinsurers' share £m	Net £m
At 1 January	47,747	11,310	36,437
Claims paid during the year	(18,292)	(3,634)	(14,658)
Claims incurred during the year	28,060	9,810	18,250
Exchange/other movements	(2,622)	(675)	(1,947)
At 31 December	**54,893**	**16,811**	**38,082**

2016	Gross £m	Reinsurers' share £m	Net £m
At 1 January	38,833	8,610	30,223
Claims paid during the year	(13,913)	(2,431)	(11,482)
Claims incurred during the year	16,774	3,787	12,987
Exchange/other movements	6,053	1,344	4,709
At 31 December	**47,747**	**11,310**	**36,437**

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	**2017 %**	2016 %	**2017 years**	2016 years
Motor (third party liability)	2.46	2.90	24.55	12.19
Motor (other classes)	3.00	–	2.60	–
Third party liability	2.32	3.55	22.96	22.40

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

The claims provisions before discounting are as follows:

	Before discounting		Effect of discounting		Discounted provision	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Total claims provisions	1,649	1,757	(430)	(455)	1,219	1,302
Reinsurers' share of total claims	549	449	(78)	(51)	471	398

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20. Creditors arising out of direct insurance operations

	2017 £m	2016 £m
Due within one year	953	758
Due after one year	2	14
	955	**772**

21. Creditors arising out of reinsurance operations

	2017 £m	2016 £m
Due within one year	5.332	4,407
Due after one year	597	263
	5,929	**4,670**

22. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	2017 £m	2016 £m
Cash at bank and in hand	12,137	12,292
Short term deposits with credit institutions	2,146	2,517
Overdrafts	(170)	(178)
	14,113	**14,631**

Of the cash and cash equivalents, £548m (2016: £428m) is held in regulated bank accounts in overseas jurisdictions.

23. Five year summary

Results	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Gross written premiums	**33,591**	29,862	26,690	25,259	25,615
Net written premiums	**24,869**	23,066	21,023	20,006	20,231
Net earned premiums	**24,498**	22,660	20,565	19,499	19,725
Result attributable to underwriting	**(3,421)**	468	2,047	2,253	2,605
Result for the year before tax	**(2,001)**	2,107	2,122	3,016	3,205
Assets employed					
Cash and investments	**67,902**	67,646	56,900	54,889	51,494
Net technical provisions	**51,087**	49,875	41,578	40,025	38,355
Other net assets	**9,952**	9,943	8,894	7,664	7,247
Capital and reserves	**26,767**	**27,714**	**24,216**	**22,528**	**20,386**
Statistics					
Combined ratio (%)	**114.0**	97.9	90.0	88.4	86.8
Return on capital (%)	**(7.3)**	8.1	9.1	14.1	16.2

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 2017, 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 26 on page 168 of the Society Report.

Managing Agents and Syndicates

Managing Agent	Managed Syndicate(s)	**2017 GWP* £m**	2016 GWP* £m	Percentage of capacity owned by group
Advent Underwriting Limited	780	210	190	100%
AEGIS Managing Agency Limited	1225	462	377	100%
Allied World Managing Agency Ltd	2232	204	164	100%
AmTrust Syndicates Limited	44	18	14	100%
	1206	212	238	100%
	1861	284	259	100%
	5820	231	251	100%
Antares Managing Agency Limited	1274	418	338	100%
Apollo Syndicate Management Limited	1969	234	215	57%
Arch Underwriting at Lloyd's Ltd	2012	200	179	100%
Argenta Syndicate Management Limited	2121	346	281	52%
Argo Managing Agency Limited	1200	553	514	93%
	1910	341	200	100%
	6117	101	46	0%
Ark Syndicate Management Limited	3902	76	–	100%
	4020	278	312	100%
Ascot Underwriting Limited	1414	681	573	100%
Aspen Managing Agency Limited	4711	397	404	100%
Asta Managing Agency Limited	1729	98	87	100%
	1897	138	113	100%
	2357	266	128	100%
	2525	55	50	0%
	2689	60	–	100%
	2786	114	59	100%
	4242	157	137	100%
	5886	100	–	66%
	6123	14	14	0%
	6126	42	28	0%
Atrium Underwriters Limited	609	467	413	26%
AXIS Managing Agency Limited	1686	308	216	100%
	2007	989	901	100%
	6129	63	40	0%
Barbican Managing Agency Limited	1856	91	85	100%
	1955	444	313	100%
	6118	133	78	0%
Beaufort Underwriting Agency Limited	318	157	137	91%
Beazley Furlonge Limited	623	338	293	9%
	2623	1,538	1,333	100%
	3622	18	17	100%
	3623	219	195	100%
	6050	16	15	0%
	6107	47	36	0%
Brit Syndicates Limited	2987	1,596	1,412	100%
	2988	60	–	100%
Canopius Managing Agents Limited	4444	1,138	1,064	85%
Capita Managing Agency Limited	1492	88	43	100%
Cathedral Underwriting Limited	2010	211	191	58%
	3010	42	41	100%

Managing Agents and Syndicates

Managing Agent	Managed Syndicate(s)	**2017 GWP* £m**	2016 GWP* £m	Percentage of capacity owned by group
Catlin Underwriting Agencies Limited	2003	2,365	2,070	100%
	2088	155	99	100%
	3002	34	19	100%
	6111	54	142	0%
Charles Taylor Managing Agency Limited	1884	89	76	2%
Chaucer Syndicates Limited	1084	950	781	100%
	1176	31	28	57%
	6130	20	7	0%
Chubb Underwriting Agencies Limited	2488	460	408	100%
Coverys Managing Agency Limited	1110	23	245	100%
	1991	125	103	0%
Endurance at Lloyd's Limited	5151	319	236	100%
ERS Syndicate Management Limited	218	376	406	67%
Faraday Underwriting Limited	435	378	275	100%
Hamilton Underwriting Limited	3334	109	62	100%
Hardy (Underwriting Agencies) Limited	382	320	286	100%
HCC Underwriting Agency Ltd	4141	140	118	100%
Hiscox Syndicates Limited	33	1,156	1,057	73%
	3624	409	533	100%
	6104	42	30	0%
Liberty Syndicate Management Limited	4472	1,657	1,364	100%
Managing Agency Partners Limited	2791	179	171	17%
	6103	5	5	0%
Markel Syndicate Management Limited	3000	565	486	100%
MS Amlin Underwriting Limited	2001	2,082	1,831	100%
Munich Re Syndicate Limited	457	423	356	100%
Navigators Underwriting Agency Limited	1221	367	340	100%
Neon Underwriting Limited	2468	226	160	100%
Newline Underwriting Management Limited	1218	136	100	100%
Pembroke Managing Agency Limited	2014	186	145	0%
	4000	414	365	100%
	6125	17	12	0%
QBE Underwriting Limited	386	357	328	70%
	2999	1,169	1,073	100%
Renaissance Re Syndicate Management Limited	1458	495	335	100%
S.A. Meacock & Company Limited	727	63	60	16%
Sirius International Managing Agency Ltd	1945	111	115	100%
Starr Managing Agents Limited	1919	284	276	100%
StarStone Underwriting Limited	1301	236	209	100%
Talbot Underwriting Ltd	1183	715	719	100%
The Channel Managing Agency Ltd	2015	262	241	100%
Tokio Marine Kiln Syndicates Limited	308	39	32	52%
	510	1,417	1,297	56%
	557	18	17	0%
	1880	246	230	100%

Managing Agent	Managed Syndicate(s)	2017 GWP* £m	2016 GWP* £m	Percentage of capacity owned by group
Travelers Syndicate Management Limited	5000	362	300	100%
Vibe Syndicate Management Limited	5678	127	54	100%
W R Berkley Syndicate Management Limited	1967	173	169	100%
All other syndicates (including syndicates that closed in 2017), SPA and RITC adjustments		(548)	97	
Total		33,591	29,862	

* See Glossary.

The following syndicates ceased trading at 31 December 2017:

Tokio Marine Kiln Syndicates Limited 308
Coverys Managing Agency Limited 1110
AmTrust Syndicates Limited 1206
AmTrust Syndicates Limited 5820
Beazley Furlonge Limited 6050
Asta Managing Agency Limited 6126

As at 20 March 2018 the following syndicates commenced trading for the 2018 year of account:

Pembroke Managing Agency Limited 1947
Coverys Managing Agency Limited 1975
Asta Managing Agency Limited 1980
Asta Managing Agency Limited 3268
Beazley Furlonge Limited 5623
Asta Managing Agency Limited 6131
Barbican Managing Agency Limited 6132
Apollo Syndicate Management Limited 6133

4

Society Report

Lloyd's excellent capital strength demonstrates that we remain in robust financial shape. With a leadership team actively addressing the challenges the Lloyd’s market is faced with, we go into 2018 in a strong and secure position.

Financial Highlights

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Operating result					
Corporation operating income	**351**	332	239	220	218
Central Fund income	**125**	120	111	115	108
Total income	**476**	452	350	335	326
Central Fund claims and provisions incurred	**–**	(8)	–	(1)	(18)
Central Fund repayment to members	**–**	–	–	(49)	–
Net insurance claims and provisions	**–**	–	–	1	–
Other Group operating expenses	**(306)**	(307)	(259)	(227)	(219)
Operating surplus[1]	**170**	137	91	59	89
Finance Costs					
Deficit on subordinated debt repurchase	**–**	–	–	(9)	(15)
Interest payable on financial liabilities and other	**(55)**	(54)	(54)	(49)	(56)
Finance Income[2]	**62**	314	43	93	60
Realised/unrealised exchange gains/(losses) on borrowings	**–**	–	–	7	(6)
Share of profits of associates	**10**	8	7	8	7
Surplus before tax	**187**	405	87	109	79
Tax charge	**(31)**	(75)	(13)	(18)	(14)
Surplus for the year	**156**	330	74	91	65
Balance sheet					
Net assets	**2,188**	1,996	1,763	1,693	1,635
Movement in net assets %	**9.6%**	13.2%	4.1%	3.6%	4.5%
Solvency					
Eligible own funds to meet Central SCR	**3,445**	3,433	3,162	–	–
Central SCR	**(1,600)**	(1,600)	(1,450)	–	–
Excess of eligible own funds over the Central SCR	**1,845**	1,833	1,712	–	–
Solvency ratio %	**215%**	215%	218%	–	–

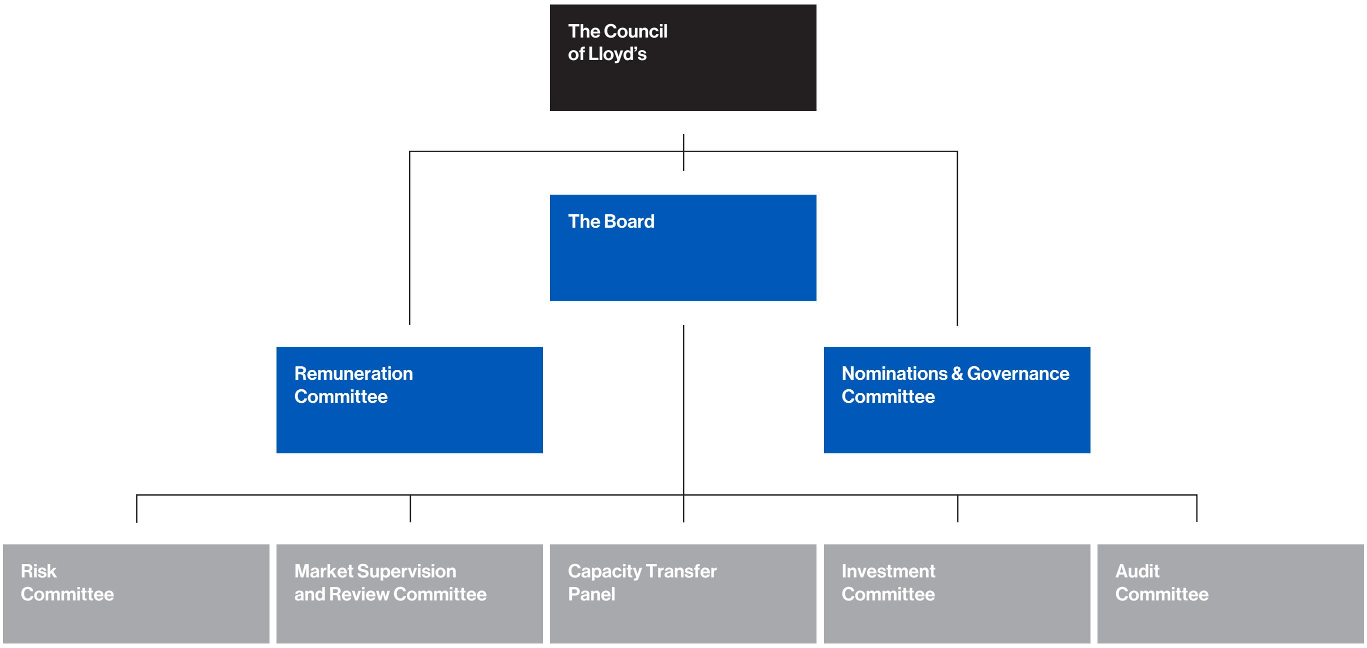
The solvency ratio is reported under the Solvency II legislative requirements which came into force on 1 January 2016. The 2017 position is an estimate of the amount which will be finalised in May 2018 for submission to the PRA. The solvency figures in the table above are unaudited.

1. The operating surplus is a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is an Alternative Performance Measure (APM), with further information available on page 174.
2. The Society's investments, mostly held within the Central Fund, returned £62m or 1.7% during the year (2016: £314m, 10.2%). Excluding the impact of a £108m foreign exchange loss in 2017 (2016: foreign exchange gain of £151m), arising from currency matching assets to the US dollar component of the Central Solvency Capital Requirement, underlying investment returns were relatively stable year on year, returning £170m (4.6%) in 2017 (2016: £163m or 5.2%).

Corporate Governance

Lloyd's governance structure provides challenge, clarity and accountability

Principal Committees of Lloyd's



The Council and Board

The Council is the governing body of the Society of Lloyd's and has ultimate responsibility for overall management of the market. The Council delegates many of its functions to the 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 Corporation's Executive Committee – the Chief Executive, Chief Financial Officer, Chief Commercial Officer, Chief Operating Officer, Chief Risk Officer, Human Resources Director, General Counsel and Company Secretary and Performance Management Director.

Lloyd's is regulated by the PRA and FCA, which have direct supervision of managing agents and monitor capital, solvency and conduct. The Corporation is active in managing risk within the market to ensure that Lloyd's central assets, brand, licences and reputation remain protected.

The Council is committed to the principle of good corporate governance and supports the application of the principles of the UK Corporate Governance Code, as far as they can be applied to the governance of a Society of members and a market of separate competing entities.

The members of the Council and Board are listed on pages 86 to 91
Details of the Executive Committee can be found at: lloyds.com/executivecommittee

Corporate Governance

Governing body: The Council

Under 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 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 CEO and through her to the Lloyd's Executive. In addition, the Council has delegated authority to carry out specified functions to committees including the 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 more 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 20 March 2018) are listed on pages 86 to 88.

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

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

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

Other than the CEO, no member of Council may serve more than nine years in aggregate on the Council or Board.

Chairman and Deputy Chairmen

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

The Chairman of Lloyd's is contracted to work a maximum of 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 86) and is satisfied that these can be accommodated with the Chairmanship of Lloyd's.

Andy Haste (a nominated member) was appointed Senior Independent Deputy Chairman (Lloyd's equivalent of the Senior Independent Director) with effect from 1 November 2012.

Meetings

The Council met on seven occasions in 2017. These meetings are structured to allow open discussion. At each meeting the Council receives certain regular reports – for example, a written report from the CEO and oral updates from its principal committees. It also reviews the quarterly Management Information Pack.

A table showing Council members' attendance at Council and Committee meetings which they were eligible to attend is set out on pages 84 to 85.

The detailed arrangements for Lloyd's governance processes are set out in the Council's Governance Policies and the Constitutional Requirements as set out in the Constitutional Arrangements Byelaw.

Governance Policies and the Constitutional Requirements

The Governance Policies

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

The Corporation Purpose establishes that "the Corporation acts to create and maintain a competitive, innovative and secure market. Our dedicated people serve to protect and promote the interests of the market and its customers, provide valued services to market participants and advance the interests of capital providers over the long term".

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

As the Council has delegated authority for the majority of its functions (other than its reserved matters) to the 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 (the 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 align, so far as appropriate, Lloyd's governance arrangements with the Companies Act 2006. They include provisions concerning the duties and responsibilities of Council members. These same duties also apply to members of the Board and the other Lloyd's committees.

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.
- The need of the Society:
  - to foster business relations with those who do business at Lloyd's;
  - to have regard to the interests of its employees;
  - to consider the impact of its operations on the community and the environment; 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 which develops strategies to meet the Corporation Purpose of creating and maintaining a competitive, innovative and secure market.

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 Corporation Goal; 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 CEO, executive and employees of the Corporation save in respect of those functions and powers reserved to it, the Council and their committees.

The Board's committees, the CEO, the executive and employees must act in accordance with the Board Limitations (including the Principles) 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 Corporation and market level); setting policy for the admission and removal of participants in the Lloyd's market;
- admitting and removing managing agents;
- determining the Standards for managing agents and approving the Three-Year and Annual Plan and Budget of the Corporation; and
- approving the Lloyd's Society level capital requirements.

Corporate Governance

Membership and meetings

Biographical details of the members of the Board as at 20 March 2018 are listed on pages 89 to 91. At the end of 2017, the Board comprised:

- the Chairman of Lloyd's (who was also its Chairman);
- the CEO, the Performance Management Director and the Chief Financial Officer;
- three non-executives connected with the Lloyd's market; and
- four independent non-executives.

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

Other than the Lloyd's Executives no member of the Board may serve more than nine years in aggregate on the Board or the Council.

The Board held ten scheduled meetings in 2017. It also held a full day offsite 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 CEO. It also reviews the quarterly Management Information Pack. 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 84 to 85.

The Principal Committees of the Council

Nominations & Governance Committee

The Nominations & Governance Committee ("the Committee") is responsible for making recommendations to the Council on the appointment of the Chairman, CEO, 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 on all matters relating to its duties and powers. A written report is submitted to the Council annually.

Apart from the annual exercise of making recommendations with respect to the composition of Council and Board committees (together with any other necessary changes in composition during the year), the Committee made the following major recommendations to the Council during 2017:

- To appoint Bruce Carnegie-Brown as Chairman of Lloyd's for an initial period of three years commencing on 15 June 2017, following the retirement of John Nelson in May 2017. For the purposes of this search the Committee was chaired by the Senior Independent Deputy Chairman and the composition of the Committee was augmented by three market members of the Council and Board. The Committee was assisted in this search by external search consultants, The Zygos Partnership;
- To appoint Robert Childs, nominated representative of Hiscox Dedicated Member Ltd, an external member of Council, as Deputy Chairman of Lloyd's with effect from 30 June 2017;
- To appoint Patricia Jackson as an independent non-executive director of the Board for an initial period of three years from 30 March 2017. Ms Jackson was also appointed as Chair of the Risk Committee with effect from June 2017. The Committee was assisted in this search by external search consultants, Egon Zehnder;
- To appoint Gregory Fleming as a nominated member of the Council for an initial period of three years from 30 March 2017. The Committee was assisted in this search by external search consultants, Korn Ferry. Due to other work commitments Mr Fleming resigned his position on Council with effect from September 2017. The Committee is conducting a search for a replacement with the continued assistance of Korn Ferry.

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

Following Ms Griffiths' retirement from the Board in June 2017 the Committee commenced a search for a new independent non-executive director of the Board. The Committee was assisted by external search consultants, Russell Reynolds, with a brief to find a candidate with recent data and tech experience. As a result of this process, two appointments were made by the Council with Mike Bracken and Nigel Hinshelwood joining the Board with effect from 1 March 2018. The Committee also commenced a search for an additional independent non-executive director of the Board with independent insurance expertise. The Committee was assisted in this search by external search consultants, The Zygos Partnership. The successful candidate would also join the Risk Committee. As a result of this process, Fiona Luck was appointed to the Board with effect from 1 March 2018. Finally, the Committee is undertaking a search for a new nominated member of the Council to replace Fred Hu who stepped down at the end of his term of office in May 2017. The Committee is being assisted by external search consultants, The Zygos Partnership, with a brief to find a candidate with experience of operating in Continental Europe.

None of the external search consultants used have any connection with the Society.

To assist with succession planning, the Committee also considered the future skills, knowledge and experience likely to be needed by the Board and the Council. The searches referred to above are being conducted after taking into account this work.

Diversity – The Committee is fully apprised of, and supportive of, the need for recent and relevant experience and diversity including gender diversity. It is difficult to establish diversity targets for the Council, given that it is two-thirds elected, but diversity will be 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 women by 2020. Three of the fourteen Board members as at the date of this report are women.

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

A table showing the Committee members' attendance at scheduled Committee meetings in 2017 is set out on pages 84 to 85. The Committee held four scheduled meetings in 2017.

Remuneration Committee

The Remuneration Committee is responsible for setting remuneration arrangements for the Chairman, CEO, the executive and any other direct reports of the CEO and any such other members of the executive management or other persons as it is designated to consider. The Remuneration Committee's proposals are considered by both the Board and the Council.

Non-executive remuneration is decided by the Council, on recommendation from the Chairman and CEO who may consult the Remuneration Committee as part of that process.

The Remuneration Committee will meet at least twice a year and otherwise at the discretion of its Chairman or as directed by the Council. The Remuneration Committee reports to the Council and Board on its proceedings after each meeting 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. A table showing Remuneration Committee members' attendance at Remuneration Committee meetings is set out on pages 84 to 85.

The Remuneration Committee met on four occasions in 2017. The Remuneration Committee's full report is on pages 93 to 103.

The Principal 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 Audit Committee's functions in 2017 included reviewing Lloyd's annual and interim financial statements in 2017, the aggregate syndicate results and the Lloyd's Return to the PRA; and the Solvency II Pillar 3 return to the PRA.

The CEO, Chief Risk Officer, Chief Financial Officer, senior managers and the external and internal auditors attend meetings as appropriate. The Chairman also attends some Audit Committee meetings by invitation.

Reports from the internal and external auditors on aspects of internal control 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 Audit Committee meetings are submitted to the Board and the Council.

The Audit Committee is chaired by Richard Keers, an independent non-executive director on the Board. Its remaining members are drawn from both the Council and the Board. A table showing Audit Committee members' attendance at Audit Committee meetings is set out on pages 84 to 85.

The Audit Committee met on four occasions in 2017. The Audit Committee's full report is on pages 104 to 105.

Risk Committee

During 2017, the Risk Committee was chaired by Joy Griffiths (until May) and Patricia Jackson (from June), both independent non-executive members of the Board, and its other members are drawn from both the Council and the Board. Other individuals including the CEO, 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 Risk 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 Risk Committee meetings are submitted to the Board and the Council.

A table showing the Risk Committee members' attendance at meetings is set out on pages 84 to 85. It met on ten occasions in 2017.

Market Supervision and Review Committee (MSARC)

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

MSARC meets at the discretion of its Chairman. MSARC submits a written report to the Board annually and may submit additional reports to inform the Board of any matters of material concern as and when required.

A table showing MSARC members' attendance at MSARC meetings is set out on pages 84 to 85. MSARC met on two occasions in 2017.

Capacity Transfer Panel

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

A table showing CTP members' attendance at CTP meetings is set out on pages 84 to 85. The Panel met on two occasion in 2017.

Corporate Governance

Investment Committee

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

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

A table showing Investment Committee members' attendance at Investment Committee meetings is set out on pages 84 to 85. The Investment Committee met on four occasions in 2017.

Terms of reference and appointment terms

The terms of reference for the Council, Board and their committees (including the Audit, Remuneration, Nominations & Governance Committees) can be found on lloyds.com. The terms of reference for the Chairman, Deputy Chairmen (including the Senior Independent Deputy Chairman) and CEO can also be found 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 at the Annual General Meeting (AGM). A summary business presentation is given at the AGM by the CEO 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, the Lloyd's Regulatory Board and the Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees, the Society staff and also certain individuals and organisations who have been asked to carry out or provide services to the Society or on behalf of, or for the benefit of, its members.

Council, 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 next external evaluation is due to be undertaken at the end of 2018.

The Secretary to the Council conducted an assessment of the Council, Board and their principal committees at the start of 2018. The assessment was based on the results of questionnaires issued to the members of these bodies.

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

Among the other major findings were:

- To identify further options to enable active and early engagement with members of both the Board and the Council in the development of Lloyd's longer term strategy.
- Following the first year of operation of the non-executive Risk Committee, to ensure that there is sufficient clarity in the delineation of responsibilities and interactions between the Risk Committee, Audit Committee and the Board.
- Whilst recognising that responsibility for ensuring that robust succession plans are in place for appointed positions on the Board and Council has been delegated to the Nominations & Governance Committee, it remains important to ensure that members of the Board and Council have sufficient visibility over the committee's activities in that area.

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 appointments to the Council and Board receive an induction pack containing guidance notes on Lloyd's governance arrangements.

In addition, 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 key issues of the day.

In addition, in 2017, three briefings on a range of Lloyd's related topics were made available to all members of the Council and the Board.

Independent professional advice

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

Conflicts of interest

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

Corporate Governance

Attendance record

	Council	The Board	Nominations & Governance Committee	Remuneration Committee	Audit Committee	CTP[1]	Investment Committee	MSARC[2]	Risk Committee
Chairman of the Council									
Bruce Carnegie-Brown[3,5]	[a]4/4	[a]7/7	[a]2/2	2/2					
John Nelson[4,5]	[a]4/4	[a]5/5	[a]2/2	2/2					
Executive Directors									
Inga Beale	7/7	10/10					3/4		
Jon Hancock		10/10							
John Parry		10/10					4/4		
Non-Executive Council members Working members									
Simon Beale	7/7		4/4						
Andrew Brooks	5/7								
Dominic Christian	5/7								
Karen Green[6]	6/7			3/3					9/10
Julian James	7/7								
Neil Maidment	7/7								8/10
External members									
Jeffery Barratt	7/7								
Robert Childs[7]	6/7								
Matthew Fosh	6/7								
Dominick Hoare[8]	4/4								
Philip Swatman	6/7			4/4	4/4				
Michael Watson[9]	7/7				3/4				
Nominated members									
Gregory Fleming[10]	0/1								
Andy Haste	5/7		4/4	[a]4/4		[a]2/2	[a]4/4		
Fred Hu[11]	2/4								
Sir David Manning	7/7		4/4						
Non-Executive Board members									
Sir Andrew Cahn		9/10							6/10
Mark Cloutier[12]		8/10	3/3		2/4				
Charles Franks		6/10	4/4		4/4				8/10
Joy Griffiths[13,15]		6/6							[a]5/5
Patricia Jackson[14,15]		6/7							[a]8/8
Richard Keers		8/10			[a]4/4				
Richard Pryce[6]		5/10		3/3					
Martin Read[9]		7/10		4/4	1/4				

	Council	The Board	Nominations & Governance Committee	Remuneration Committee	Audit Committee	CTP[1]	Investment Committee	MSARC[2]	Risk Committee
Other Committee members									
Richard Boys-Stones						2/2			
Martin Bride							4/4		
Margaret Chamberlain						1/2			
Edward Creasy								2/2	
Lady Delves Broughton[16]						0/2			
Lady Chantal Davis[16]						1/1			
David Gittings						2/2			
David Harden[16]						1/1			
Reg Hinkley								2/2	
Paul Jardine[17]				1/1					
Alan Lovell						2/2			
Nick Marsh								2/2	
Philip Matthews							4/4		
Jo Rickard								[a]2/2	
Sacha Sadan							4/4		
Jane Styles							2/4		
Paul Swain						2/2			

[a] Chairman

Notes

1. Capacity Transfer Panel.
2. Market Supervision and Review Committee.
3. Bruce Carnegie-Brown was appointed as a nominated member of Council and as the Chairman of Council and the Board with effect from 15 June 2017. He also attended the Council meeting on 29 March 2017 and the Board meetings on 28 March 2017 and 25 May 2017 as an observer (included in the statistics above).
4. John Nelson stepped down as the Chairman of the Council and as a nominated member of Council, and as the Chairman of the Board on 31 May 2017.
5. John Nelson also stood down as the Chairman of the Nominations Committee and as a member of the Remuneration Committee on 31 May 2017 and was succeeded by Bruce Carnegie-Brown.
6. Karen Green and Richard Pryce joined the Remuneration Committee on 2 February 2017.
7. Robert Childs joined the Nominations & Governance Committee on 27 September 2017.
8. Dominick Hoare was formally elected to Council as from 19 April 2017. He also attended the Council meeting on 29 March 2017 as an observer (included in the statistics above).
9. Michael Watson and Martin Read joined the Audit Committee on 2 February 2017.
10. Gregory Fleming was appointed as a nominated member of Council on 30 March 2017 and relinquished his position on 27 September 2017.
11. Fred Hu stepped down as a nominated member of Council on 7 May 2017.
12. Mark Cloutier joined the Nominations & Governance Committee on 2 February 2017.
13. Joy Griffiths' term of office as an independent non-executive director of the Board expired on 30 June 2017.
14. Patricia Jackson was appointed as an independent non-executive director of the Board on 30 March 2017.
15. Patricia Jackson was formally appointed as a member of the Risk Committee on 6 April 2017. She also attended two Risk Committee meetings in April 2017 as an observer (included in the statistics above). Joy Griffiths chaired the first five Risk Committee meetings of the year prior to her retirement on 30 June 2017. Patricia Jackson chaired the remaining five meetings of the Risk Committee.
16. Lady Delves Broughton recused herself from CTP proceedings. Her nominated alternates Lady Davis and David Harden represented her at the first and second meetings of the year respectively.
17. Paul Jardine was a member of the Remuneration Committee until his term on Council expired on 31 January 2017.

Corporate Governance: The Council

1. Bruce Carnegie-Brown

Nominated member
Appointed 15 June 2017
Chairman of Lloyd's
Chairman of the Nominations & Governance Committee
Member of the Remuneration Committee

Bruce Carnegie-Brown was appointed Chairman in June 2017. He is currently also Chairman of Moneysupermarket Group and a Vice-Chairman of Banco Santander. He was a Non-Executive Director of JLT Group plc from 2016 to 2017, prior to which he was Non-Executive Chairman of Aon UK Ltd from 2012 to 2015, Senior Independent Director of Catlin Group Ltd from 2010 to 2014 and Chief Executive for Marsh UK and Europe from 2003 to 2006. He was also a Senior Independent Director of Close Brothers Group plc from 2006 to 2014. 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.

2. Inga Beale DBE

Nominated member
Appointed 27 January 2014
Chief Executive Officer

Inga Beale was appointed Chief Executive Officer in January 2014. Previously she was Group Chief Executive of Canopius with its principal operations at Lloyd's. Prior to that she spent four years with Zurich Insurance Group including a period as Global Chief Underwriting Officer. She was Group CEO of Swiss reinsurer Converium Ltd and while there she led a major turnaround of the business before it was acquired by SCOR in 2007. She started her career as a reinsurance underwriter with Prudential before spending 14 years in a variety of international roles for GE Insurance Solutions. She is a Member of the UK Government's Financial Services Trade and Investment Board, the London Mayor's Business Advisory Board, the Geneva Association Board, and is President of the UK Chartered Insurance Institute.

3. Andy Haste*

Nominated member
Appointed 1 November 2012
Senior Independent Deputy Chairman of Lloyd's
Member of the Nominations & Governance Committee
Chairman of the Remuneration Committee

Andy Haste is Chairman of Wonga Group. He is also Senior Independent Director of ITV, and is a Member of both its Audit and Nomination Committees. He Chaired ITV's Remuneration Committee from 2010 to 2017. Since 2012 he has also been Senior Independent Deputy Chairman of Lloyd's, where he Chairs its Remuneration Committee, Investment Committee and Capacity Transfer Panel. His previous roles include 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 CEO 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. He is one of the leading practitioners from business, the media and other organisations who assist with research, programmes and events at the Oxford University Centre for Corporate Reputation.

4. Simon Beale

Working member
Elected 8 February 2012
Deputy Chairman of Lloyd's
Member of the Nominations & Governance Committee

Simon Beale is currently Deputy Chief Executive Officer of MS Amlin and will assume full responsibility on 1 April 2018. He is an Executive Director of the MS Amlin plc Board and Non-Executive Director of MS Amlin Underwriting Ltd, the managing agency for Syndicate 2001 of which he was joint Active Underwriter until 2012. He has been with MS Amlin since 1994 and has most recently held the position of Chief Underwriting Officer since 2012. He has worked in the Lloyd's market since 1984 and has served on various Lloyd's Underwriting Committees including the Lloyd's Market Association Board.

5. 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.

*Considered to be an independent Non-Executive Director.

6. 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 and sat on the London Council from 2011 to 2018 and currently sits on the International Advisory Group of the CBI. He was Chairman of the Cook Society in 2015 and 2016 and is now Deputy Chairman. He actively supports a number of children's charities including the Dyspraxia Foundation, Snow-Camp, Beanstalk, Wooden Spoon and the Change Foundation.

7. Andrew Brooks

Working member
Elected 1 February 2017

Andrew Brooks has been Chief Executive Officer of Ascot Underwriting Ltd since 2008 and a member of the Board since 2004. He joined Ascot at its inception in 2001 and was promoted to Chief Underwriting Officer in 2005. He has worked in the Lloyd's market since 1983 and is currently a member of the Lloyd's Market Association and London Market Group Boards. He also served on the Lloyd's Claims Implementation Board.

8. Dominic Christian

Working member
Elected 1 February 2014
Member of the Nominations & Governance 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 is also the Chairman of the Lloyd's Tercentenary Research Foundation and 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 in 2015-2016 and recently elected as Chairman of ClimateWise. He is Chairman of the Sainsbury Centre for Visual Arts.

9. Matthew Fosh

(Representative of Novae Corporate Underwriting Ltd)
External member
Elected 1 February 2010

Matthew Fosh is Executive Chairman, Europe for Axis Group. He was formerly Chief Executive Officer of Novae Group plc from 2002 to 2017, prior to its acquisition by Axis in October 2017. He previously worked in the equity markets with Strauss Turnbull and Sheppards during the 1980s, before moving to the Futures & Options markets during the 1990s, where he co-founded a derivative trading business, Seagray Fosh Futures Ltd. He subsequently sold the business in 2002 to ICAP plc, before joining Novae Group. He has sat on the Inclusion@Lloyd's Steering Committee since its formation in 2014.

10. Karen Green

Working member
Elected 1 February 2015
Member of the Remuneration Committee
Member of the Risk Committee

Karen Green is Deputy Chair of Aspen Managing Agency Ltd ("AMAL") and former CEO of Aspen UK, which includes AMAL. She also performs a number of other roles for the Aspen Group and is a Non-Executive Director of Phoenix Group Holdings. She had 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 Trustee of the Lloyd's Charities Trust. 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.

11. Dominick Hoare

(Representative of Munich Re Capital Ltd)
External member
Elected 19 April 2017

Dominick Hoare is Chief Underwriting Officer of Munich Re Syndicate Ltd and is also an Executive Director of both Munich Re Specialty Group Ltd and Munich Re Capital Ltd. He also holds various Non-Executive Directorships of subsidiary companies of Munich Re Specialty 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.

*Considered to be an independent Non-Executive Director.

Corporate Governance: The Council

12. Julian James

Working member
Elected 1 February 2016

Julian James is Chief Executive Officer of Allied World Managing Agency Ltd. He has worked in the Lloyd's market since 1981 after starting his insurance career at Sedgwick (one of the former companies of Marsh & McLennan). Prior to joining Allied World he was CEO of Lockton International and a Director of the Corporation. He is Vice President of the Insurance Institute of London and a past President of the Chartered Insurance Institute.

13. Neil Maidment

Working member
Elected 1 February 2016
Member of the Risk Committee

Neil Maidment has worked in the Lloyd's market for 33 years. He is Chief Underwriting Officer of Beazley plc and Active Underwriter for its Lloyd's syndicates. He is a Director of Beazley Furlonge Ltd, the group's Lloyd's managing agency, and a Director of Beazley plc. In 2011 he was elected to the Board of the Lloyd's Market Association (LMA) and was appointed LMA Chairman in November 2015.

14. Sir David Manning GCMG KCVO*

Nominated member
Appointed 1 September 2010
Member of the Nominations & Governance Committee

Sir David Manning retired from the Diplomatic Service in 2007 after four years as Ambassador to the United States of America. He is a Director of Gatehouse Advisory Partners. He is Chair of the Advisory Board of IDEAS at the London School of Economics and of Macquarie's Infrastructure and Real Estate Advisory Board. He is on the Panel of Senior Advisers at the Royal Institute of International Affairs, Chatham House and a Member of the Advisory Board of British American Business. He is President of Step Together.

15. Philip Swatman

(Representative of Nomina No 115 LLP)
External member
Elected 1 February 2016
Member of the Audit Committee
Member of the Remuneration Committee

Philip Swatman is a chartered accountant and has been a member of Lloyd's since 1987. He worked for NM Rothschild for 29 years becoming co-head of Investment Banking and retiring as a Vice-Chairman in 2008. He was formerly Chairman of Merlin Reputation Management Ltd and a Non-Executive Director of Investec Structured Products Calculus VCT plc, Mytrah Energy and New England Seafood International. He is currently Chairman of Cambria Automobiles plc, Wyvern Partners, Eddie Stobart Logistics plc and Cranborne Chase Asset Finance Ltd.

16. Michael Watson

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

Michael Watson is Executive Chairman of Canopius AG, a private equity backed global specialty re(insurance) business with its principal operations at Lloyd's. He led the original management buy-out of Canopius in 2003 and again in 2018. He has more than 40 years' experience in commercial and investment banking, trade finance, stock broking, 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.

*Considered to be an independent Non-Executive Director.

Corporate Governance: The Board

1. 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

Biography on page 86

2. Inga Beale DBE
Executive Director
Appointed 27 January 2014
Chief Executive Officer

Biography on page 86

3. Mike Bracken*
Independent Non-Executive Director
Appointed 1 March 2018

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.

4. Sir Andrew Cahn KCMG*
Independent Non-Executive Director
Appointed 4 April 2011
Member of the Risk Committee

Sir Andrew Cahn is a Non-Executive Director at Nomura International plc and General Dynamics (UK). He is also a Non-Executive Director of Huawei Technologies (UK) and Chairs its Audit Committee. He is Chair of WWF (UK) and on the International Board of WWF. He is also a Trustee of the Gatsby Foundation and the Institute for Government. Until 2011 he was the CEO of UK Trade and Investment.

5. 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 of Brit Group on 1 January 2017 following his role as Chief Executive Officer of the Brit Group since 2011. He serves on the Board of Brit Ltd and is a Member of the Investment Committee and the Executive Committee. With more than 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 CEO and senior executive positions, including CEO of the Alea Group, CEO 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 Retirement Services and Texas Teachers Retirement Services.

6. Charles Franks
Market connected Non-Executive Director
Appointed 1 January 2012
Member of the Audit Committee
Member of the Nominations & Governance Committee
Member of the Risk Committee

Charles Franks is 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. He is an Executive Officer of Tokio Marine Holdings.

*Considered to be an independent Non-Executive Director.

Corporate Governance: The Board

7. Jon Hancock

Executive Director
Appointed 1 December 2016
Director, Performance Management

Jon Hancock was appointed Director of Performance Management in December 2016 and is responsible for performance management, capital setting and risk management in the market. He joined Lloyd's from RSA where he had enjoyed a career of more than 25 years with the insurance company, starting as a Marine Underwriter in their Liverpool office. Working across UK regions, the London market as well as many years overseas, he has held a variety of chief underwriter and risk roles in both developed and emerging markets prior to becoming Chief Executive Officer for their Asia & Middle East businesses. Prior to leaving RSA he was Managing Director of the UK Commercial and European Specialty Lines businesses and Global Relationship Director for the RSA Group.

8. Nigel Hinshelwood*

Independent Non-Executive Director
Appointed 1 March 2018

Nigel Hinshelwood has more than 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 a Non-Executive Director on the Board of Marks & Spencer Financial Services plc and an Independent Non Executive Director of Nordea Bank AB.

9. Patricia Jackson*

Independent Non-Executive Director
Appointed 30 March 2017
Chairman of the Risk 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 UK on the Basel Committee for Banking Supervision for seven years.

10. Richard Keers*

Independent Non-Executive Director
Appointed 1 June 2016
Chairman of the Audit Committee

Richard Keers was appointed a Director and Chief Financial Officer of Schroders plc in May 2013. He is a chartered accountant and was a Senior Audit Partner of PricewaterhouseCoopers LLP (PwC) until May 2013. He became a Partner of PwC in 1997 and has 25 years' experience in the audits of global financial services groups. His experience includes time spent in PwC's New York, Sydney, Edinburgh and London offices.

*Considered to be an independent Non-Executive Director.

11. Fiona Luck*

Independent Non-Executive Director
Appointed 1 March 2018

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 CEO and Executive Vice-President responsible for Strategy, Global HR, IT and Corporate Social Responsibility. She has also worked for the ACE Group from 1996 to 1999 and was President and CEO of Marsh and McLennan's Bermuda operation from 1992 to 1996. She is a chartered accountant.

12. John Parry

Executive Director
Appointed 11 December 2014
Chief Financial Officer

John Parry was appointed Chief Financial Officer in December 2014 and is responsible for the financial reporting for the Society and the Lloyd's market, capital setting and capital adequacy. Finance also covers treasury and investment management and the tax affairs of the Corporation and market in the UK and overseas. He is a chartered accountant and joined Lloyd's in August 2001 and was previously Finance Director of various Lloyd's managing agents.

13. Richard Pryce

Market connected Non-Executive Director
Appointed 1 January 2017
Member of the Remuneration Committee

Richard Pryce joined QBE European Operations as Deputy CEO in 2012 and became CEO the following year. He is also the CEO of QBE Underwriting Ltd and is a member of QBE's Group Executive Committee. He has worked in the London insurance market for more than 30 years, including holding several roles at ACE, where he became President of ACE Global Markets in 2003, assuming the additional responsibility for the UK business in 2007 and was the Active Underwriter of syndicate 2488.

14. Dr Martin Read CBE*

Independent Non-Executive Director
Appointed 14 September 2009
Member of the Audit Committee
Member of the Remuneration Committee

Martin Read is Chairman of Laird plc, the two government-owned companies (the Low Carbon Contracts Company and the Electricity Settlements Company) that manage contracts and payments under the electricity market reform programme, the Remuneration Consultants Group and the UK Government Senior Salaries Review Body. He was Chief Executive of international IT services company Logica from 1993 to 2007 and has served as a Non-Executive Director on the Boards of Invensys, Aegis Group, British Airways, Siemens Holdings, Boots, ASDA and the UK Government Efficiency and Reform Board. He led UK Government reviews on back office operations and IT across the public sector (2009) and management information (2012).

*Considered to be an independent Non-Executive Director.

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 Corporation and market.

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. Other procedures such as our Speaking-up Policy whereby any member of staff may take matters that concern them to the Human Resources Director, the Legal and Compliance departments or, where appropriate, to the Chairman of the Audit Committee or the FCA or the PRA, are clearly set out. Associate companies, Ins-sure Holdings Limited and Xchanging Claims Services Limited, are not dealt with as part of the Group for the purposes of applying the UK Corporate Governance Code.

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

Management structure

'Lloyd's Governance Arrangements: A Guide for Members of Lloyd's Committees', reviewed and updated in February 2018, outlines the governance structure and committee members' duties and responsibilities, including confidentiality and conflicts and declarations of interest.

There is a clearly defined organisation structure with terms of reference agreed for the CEO and all directors which sets out, inter alia, their functions and powers, authority to act and limitations on authority. 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 staff and include the Code of Conduct, Compliance Manual, Employee Handbook, Health & Safety Policy, Information Security and Computer Usage Policy, Procurement Policy, Risk Policies, Financial Policies and authorisation limits. These policies and procedures are regularly reviewed and updated.

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

Identification and evaluation of business risks

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

One such technique is the comprehensive risk and control assessment process, which is conducted on a regular basis. This review re-assesses 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 Lloyd's 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 an annual process, the ORSA is reviewed on a quarterly basis to ensure it remains relevant.

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

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

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

A compliance plan is in place to manage the risk associated with non-compliance with FCA/PRA regulatory processes. The Head of Compliance provides progress reports to the Risk Committee.

International regulatory compliance risk is overseen through the Overseas Risk Assessments completed by global offices.

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

Statement by Chair of the Remuneration Committee

I am pleased to present the Remuneration Committee's report for 2017 in the following pages. As in previous years, the Committee continues to focus on delivering a remuneration policy that is capable of attracting and retaining the calibre of employees needed to deliver the Corporation's strategic priorities and maintain an effective market oversight regime. The following themes underpin our remuneration policy:

- Nature of the Corporation – our remuneration structure for Executive Directors reflects the unique nature of the Corporation. We operate a policy with a decreased emphasis on variable pay to reflect better the nature and market oversight role of the organisation.
- Alignment to strategy – individual performance bonuses are linked to the annual KPIs and our achievements against strategic priorities.
- Alignment to the Lloyd's market – an element of remuneration is based on the profitability of the Lloyd's market. This is designed to encourage an attitude of commercial partnership with the market and align the interests of participants with capital providers. We also incorporate consideration of market and corporation risk metrics when measuring performance.

Key remuneration decisions

Base salaries are reviewed annually and updated where appropriate. The Chief Executive Officer's salary will remain the same for 2018. The base salaries for the Chief Financial Officer and the Performance Management Director were increased by 2% for 2018.

Lloyd's made good progress against strategic priorities in 2017, which is reflected in the bonus awards (see pages 96 to 98).

The annual bonus awards are based on an assessment of each Director's performance against individual key performance indicators. The Committee aims to ensure that KPIs are stretching and aimed at delivering strategic priorities while remaining in accordance with Lloyd's risk policies and risk appetite.

For 2017, no LPP awards have been made.

Solvency II requirements

Last year we made a number of changes to our remuneration structure to take into account Solvency II. The key changes were:

- Increase in deferral time horizons for Solvency II staff.
- Deferral of a portion of the annual bonus where required to ensure that PRA guidelines are met for Solvency II staff.
- Introduction of a risk underpin for both the annual bonus and LPP.

Key management and Board changes

Bruce Carnegie-Brown became the Chairman of Lloyd's on 15 June 2017. His annual fee on appointment was £600,000pa, and will remain at this level for 2018.

UK Pension changes

As part of the review of benefits across the Corporation, it was decided during the year that the Lloyd's Pension Scheme (the Corporation's defined benefit scheme) would close to future accrual from 30 June 2018. As a result of this change, John Parry CFO will join the Group Personal Pension Plan (GPP), the Corporation's defined contribution plan, on the same terms as the other Executive Directors.

The GPP contribution matrix was also externally benchmarked and reviewed, with increased levels being approved from 2018 for all employees.

Review of remuneration policy

During 2017, Lloyd's carried out a review of the current incentive framework with a view to simplifying existing arrangements under a single Lloyd's Incentive Plan, for all employees across the organisation.

The key features under the revised framework effective from 2018 include:

- An individual performance award linked to the annual KPIs and strategic priorities.
- A market award directly linked to the profitability of the Lloyd's market, and now also subject to personal performance.
- Three year deferral of the market award and the annual bonus where required for Solvency II staff.
- Risk underpins apply to all incentive awards.

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

A review of UK wider reward was also undertaken in 2017 to ensure total reward remains competitive, relevant and within risk appetite. Reward for non-UK employees will be reviewed in 2018.

Andy Haste
Chairman, Remuneration Committee
20 March 2018

Report of the Remuneration Committee

Compliance statement

The Corporation 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 in so far as they can be applied to the governance of the Society.

For the purposes of this report, 'Executive Directors' refers to Inga Beale (Chief Executive Officer or CEO), Jon Hancock (Performance Management Director) and John Parry (Chief Financial Officer) – i.e. Directors who are current members of the Board.

Summary of remuneration policy and outturns for 2017

The following table provides a summary of how our remuneration policy was implemented in 2017. A summary of the remuneration policy for 2018 is provided on page 102.

Salary	Salaries are set to appropriately recognise responsibilities and be broadly market competitive. For 2017, annual salaries were as follows: CEO: £715,000 Chief Financial Officer: £425,000 Performance Management Director: £500,000
Annual Bonus	The discretionary annual bonus plan links reward to corporate and individual Key Performance Indicators (KPIs) aligned with our strategy.

Role	Maximum	Outturn
CEO	75% of salary	57% of salary
Chief Financial Officer	50% of salary	37% of salary
Performance Management Director	50% of salary	41% of salary

	In 2017, annual bonus awards were also subject to a 'risk underpin'. The Committee assessed performance against a range of Corporation risk and compliance metrics and decided to apply a downward adjustment to a number of individual bonus awards across the Corporation. A portion of the annual bonus will be deferred for three years, so that total incentives meet the PRA guidance to defer at least 40% of the total variable pay. As there is no LPP award for 2017, 40% of the 2017 bonus award will be deferred for three full years.
Long-term incentives	The Lloyd's Performance Plan (LPP) offers an incentive which is directly linked to the profitability of the Lloyd's market. Annual LPP awards are calculated by reference to profit levels in the year. LPP awards are only triggered for profit in excess of £100m. For 2017, there is no LPP award. For the Executive Directors, the whole of any LPP award is deferred for three years to be paid in the fourth financial year following the end of the performance period (April). For the Executive Directors, a maximum cap of 50% of salary applies. Executive Directors will receive any LPP deferred from prior years, payable in accordance with the deferral requirements. LPP awards are subject to a 'risk underpin'.
Pension	The CEO and Performance Management Director are members of the Group Pension Plan (GPP), which is a defined contribution plan. The CEO receives an annual contribution of £40,000 into the GPP. From April 2016, due to changes in the annual allowance, this has been structured as a £10,000 contribution, with a cash allowance of £26,362 (balance of a £40,000 contribution less employer's NI). The Performance Management Director receives an annual contribution of £10,000. The Chief Financial Officer participates in the Lloyd's Pension Scheme, which is a defined benefit scheme which will close to future accrual from 30 June 2018. From 1 July 2018, John Parry will join the Group Personal Pension Plan with an annual contribution of £10,000. All Executive Directors receive an additional cash allowance of 20% of base salary.

Annual remuneration report

This part of the report sets out the annual remuneration for 2017 and a summary of how the policy will apply for 2018.

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 LPP Awards is shown on pages 96 to 98.

	Salary/fees		Other benefits[1]		Annual bonus		LPP Award		Pension benefit[2]		Total	
	2017 £000	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Chairman of the Council												
Bruce Carnegie-Brown[3,4,6,8]	**327**	–	**–**	–	**–**	–	**–**	–	**–**	–	**327**	–
John Nelson[8]	**239**	575	**32**	48	**–**	–	**–**	–	**–**	–	**271**	623
Executive Directors												
Inga Beale[3,4]	**715**	714	**5**	5	**405**	400	**–**	226	**179**	180	**1,304**	1,525
Jon Hancock[3,5,11]	**500**	42	**15**	1	**204**	–	**–**	–	**118**	8	**837**	51
John Parry[3,5]	**425**	423	**17**	17	**157**	120	**–**	134	**150**	150	**749**	844
Non-Executive Council members												
Working members												
Simon Beale	**57**	55	**–**	–	**–**	–	**–**	–	**–**	–	**57**	55
Andrew Brooks[7]	**35**	–	**–**	–	**–**	–	**–**	–	**–**	–	**35**	–
Dominic Christian	**39**	39	**–**	–	**–**	–	**–**	–	**–**	–	**39**	39
Karen Green[6]	**54**	39	**–**	–	**–**	–	**–**	–	**–**	–	**54**	39
Julian James	**39**	35	**–**	–	**–**	–	**–**	–	**–**	–	**39**	35
Neil Maidment	**48**	35	**–**	–	**–**	–	**–**	–	**–**	–	**48**	35
External members												
Jeffery Barratt[7,9]	**35**	–	–	–	–	–	–	–	**–**	–	**35**	–
Robert Childs[9]	**46**	39	–	–	–	–	–	–	**–**	–	**46**	39
Matthew Fosh[9]	**39**	39	–	–	–	–	–	–	**–**	–	**39**	39
Dominick Hoare[9]	**27**	–	–	–	–	–	–	–	**–**	–	**27**	–
Philip Swatman[6,9]	**55**	50	–	–	–	–	–	–	**–**	–	**55**	50
Michael Watson[9]	**47**	39	–	–	–	–	–	–	**–**	–	**47**	39
Nominated members												
Andy Haste[6]	**88**	88	–	–	–	–	–	–	**–**	–	**88**	88
Sir David Manning	**46**	46	–	–	–	–	–	–	**–**	–	**46**	46
Non-Executive Board members												
Sir Andrew Cahn	**72**	63	**–**	–	**–**	–	**–**	–	**–**	–	**72**	63
Mark Cloutier	**78**	72	**–**	–	**–**	–	**–**	–	**–**	–	**78**	72
Charles Franks	**88**	76	**–**	–	**–**	–	**–**	–	**–**	–	**88**	76
Patricia Jackson[12]	**57**	–	**–**	–	**–**	–	**–**	–	**–**	–	**57**	–
Martin Read[6]	**78**	70	**1**	1	**–**	–	**–**	–	**–**	–	**79**	71
Richard Keers[12]	**78**	43	**–**	–	**–**	–	**–**	–	**–**	–	**78**	43
Richard Pryce[6,12]	**69**	–	**–**	–	**–**	–	**–**	–	**–**	–	**69**	–
Former members of Council and Board												
Rupert Atkin[7]	**–**	5	**–**	–	**–**	–	**–**	–	**–**	–	**–**	5
Tom Bolt[10]	**–**	250	**–**	19	**–**	–	**–**	–	**–**	64	**–**	333
Michael Deeny[7,9]	**–**	32	**1**	9	**–**	–	**–**	–	**–**	–	**1**	41
Nick Furlonge[12]	**1**	76	**1**	1	**–**	–	**–**	–	**–**	–	**2**	77
Joy Griffiths[12]	**39**	63	**–**	–	**–**	–	**–**	–	**–**	–	**39**	63
Christopher Harman[7]	**–**	3	**–**	–	**–**	–	**–**	–	**–**	–	**–**	3
Lawrence Holder[7]	**3**	39	**–**	–	**–**	–	**–**	–	**–**	–	**3**	39
Fred Hu[7]	**14**	39	**–**	2	**–**	–	**–**	–	**–**	–	**14**	41
Claire Ighodaro[12]	**–**	75	**–**	–	**–**	–	**–**	–	**–**	–	**–**	75
Paul Jardine[6,7,9]	**5**	66	**–**	–	**–**	–	**–**	–	**–**	–	**5**	66
Alan Lovell[7,9]	**–**	12	**–**	–	**–**	–	**–**	–	**–**	–	**–**	12
Sean McGovern[10]	**–**	363	**–**	11	**–**	–	**–**	–	**–**	16	**–**	390
Henrique Meirelles[7]	**–**	10	**–**	4	**–**	–	**–**	–	**–**	–	**–**	14
Bruce Van Saun[12]	**–**	33	**–**	1	**–**	–	**–**	–	**–**	–	**–**	34

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

Report of the Remuneration Committee

Table notes

1. Other benefits include items such as benefit allowances, medical and life insurance.
2. Pension benefit is calculated as 20 times the increase in pension in the year (net of inflation) less the salary sacrificed, and also includes any pension cash allowances.
3. Current employee of the Corporation.
4. Member of both Council and the Board for 2017.
5. Member of the Board only.
6. Member of the Remuneration Committee during 2017. Paul Jardine retired from the Remuneration Committee on 31 January 2017. Karen Green and Richard Pryce joined the Remuneration Committee on 2 February 2017.
7. Lawrence Holder and Paul Jardine retired from Council on 31 January 2017. Jeffery Barratt and Andrew Brooks joined Council on 1 February 2018. Fred Hu retired from Council on 7 May 2017. Rupert Atkin, Christopher Harman and Alan Lovell retired from Council on 31 January 2016. Henrique Meirelles and Michael Deeny retired from Council on 7 April 2016 and 31 October 2016 respectively.
8. John Nelson retired as Chairman of Lloyd's on 31 May 2017 and Bruce Carnegie-Brown's term as Chairman of Lloyd's started on 15 June 2017.
9. The following members of Council act as representatives of limited liability underwriting vehicles – Jeffery Barratt (Nameco (No 1249) Ltd), Robert Childs (Hiscox Dedicated Corporate Member Ltd), Matthew Fosh (Novae Corporate Underwriting Ltd), Dominick Hoare (Munich Re Capital Ltd), Philip Swatman (Nomina No 115 LLP) and Michael Watson (Flectat Ltd). The following members acted as representatives of limited liability underwriting vehicles – Michael Deeny (The Michael Deeny LLP), Paul Jardine (Catlin Syndicate Ltd) and Alan Lovell (Palace House International (Two) LLP).
10. Tom Bolt resigned as a Corporation employee and as a member of the Board on 31 May 2016. Sean McGovern also resigned as a Corporation employee and as a member of the Board on 30 September 2016.
11. Jon Hancock was formally appointed as Performance Management Director and as an Executive Director on the Board on 1 December 2016.
12. Richard Pryce and Patricia Jackson joined the Board on 1 January 2017 and 30 March 2017 respectively. Nick Furlonge and Joy Griffiths retired from the Board on 31 December 2016 and 30 June 2017 respectively. Bruce Van Saun retired from the Board on 31 May 2016 and Richard Keers joined the Board on 1 June 2016. Claire Ighodaro and Nick Furlonge retired from the Board on 31 December 2016.

Salary

The annual salaries of the Executive Directors take into account a range of factors, including increases for all employees across the Corporation, and are reviewed by the Remuneration Committee annually. 2018 salaries are as follows:

	2018 Base salaries £000	Increase on 2017
CEO	715	0%
Performance Management Director	510	2%
Chief Financial Officer	433	2%

Increases awarded were lower than the average increases awarded for all employees.

Annual bonus

Executive Directors are eligible for a discretionary annual bonus. Payouts are based on the Committee's judgement of performance against corporate and individual Key Performance Indicators (KPIs) for the year. The Remuneration 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 Corporation's strategic objectives.

In 2017, annual bonus awards were subject to a 'risk underpin'. The Committee assessed performance against a range of Corporation risk and compliance metrics and decided to apply a downward adjustment to a number of individual bonus awards across the Corporation.

Bonus outturns for 2017

The following table sets out the strategic targets and performance against each of the annual KPIs linked to our strategy, which resulted in the bonus outcomes for 2017.

Annual KPI (strategic priority)	Performance
Market oversight	Actions taken to clean up poor performing portfolios. 2017 saw a robust but balanced approach to approving syndicate business plans. The process was more streamlined with a final outcome for 2018 showing acceptable improvement.
Global Market Access	Lloyd's onshore reinsurance platform in India became operational in April. Lloyd's obtained Morocco onshore trading rights in Casablanca. Lloyd's are making preparations to write business through a new Lloyd's Brussels subsidiary.
Ease of Doing Business	Planned Placing Platform Ltd business lines went live and a significant system upgrade was delivered. Central Service Refresh Programme claims functionality delivered. Delegated authority audit tool being used by 98% of firms resulting in 1500 fewer audits.
Capital	Lloyd's received approval from the PRA for a major model change to its internal model for solvency and capital setting under Solvency II. Lloyd's issued £300m of subordinated debt to further strengthen its central assets. Assets available to cover Central SCR remained in excess of our risk appetite.
Innovation	Several thought leadership reports published and market reports on business lines. The first in a series of innovation events was launched in June.
Talent	Succession planning process for all SIMR roles in the Corporation was reviewed and updated. The Corporation has set internal gender diversity targets in its senior management population. During the year the percentage of females in our senior management population in the UK increased by 1.6ppts to 36.7%.
Brand	For 2017, international visits to Lloyd's website increased by 5.7%. Downloads of our thought leadership reports saw a significant increase over 2016.
Global CSR	Responsible business strategy for the Corporation has been drafted. A responsible business strategy for the Lloyd's market will be considered in 2018.
Risk metric	Management actions were put in place to deal with our risk appetites that were flagged 'red' during the year. A review of the risk appetite framework was carried out.

Taking into account an overall assessment of individual performance and contribution, and Corporation risk, the Committee determined the following annual bonus payments:

Role	Maximum	Outturn
CEO	75% of salary	57% of salary
Chief Financial Officer	50% of salary	37% of salary
Performance Management Director	50% of salary	41% of salary

An element of the 2017 annual bonus will be deferred for payment in April 2021, to comply with Solvency II remuneration requirements on minimum levels of variable remuneration subject to deferral.

Report of the Remuneration Committee

Lloyd's Performance Plan

The Lloyd's Performance Plan (LPP) has been designed to meet Lloyd's strategic objectives by enabling the Corporation to offer an incentive which:

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

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

All employees of the Corporation and international offices were eligible to participate in the LPP for 2017 on the basis set out as below.

Overview of LPP awards

— LPP awards are calculated by reference to profit on ordinary activities before tax (PBT), as reported in the pro forma financial statements in the Lloyd's Annual Report for each financial year.
— Awards will only be triggered for PBT in excess of £100m.
— Awards for each financial year will be calculated as a percentage of the participants' salaries at 31 December in that year, for each £1bn of PBT.
— LPP awards are subject to a 'risk underpin'. The Committee assesses performance against market-based risk and compliance metrics, and may apply a downward adjustment where appropriate.
— In respect of the CEO and all Directors and other designated Solvency II staff, any 2017 LPP awards are deferred and paid in April 2021 (subject to a proportionality test as described below).
— For Level 1 employees whose remuneration is below the proportionality test, the LPP 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 LPP is paid in full in April following the relevant financial year.

The framework for determining LPP awards is as follows:

Job level	Amount of LPP award	Limits on LPP awards (cap as a percentage of salary)
Executive Directors and other Directors*	15% of salary per £1bn of PBT	50%
Senior managers (Level 1)	10% of salary per £1bn of PBT	30%
Other employees (Level 2-4)	5%-3% of salary per £1bn of PBT (depending on level)	15%-9% (depending on level)

*One Director is on a legacy arrangement of 20% of salary per £1bn PBT, capped at 100% of salary.

2017 LPP awards (outturns)

For 2017, no LPP awards have been made.

The LPP for Executive Directors was previously structured as an ongoing fund. A summary of fund movements in the year is provided below:

	Total fund outstanding as at 31 December 2016 or date of appointment £000	Amount paid during the year ended 31 December 2017 £000	LPP Award in respect of 2017 £000	Total fund outstanding as at 31 December 2017 £000
Inga Beale	752	(304)	–	448
Jon Hancock	–	–	–	–
John Parry	261	(16)	–	245

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

Pensions

The CEO receives an annual contribution of £40,000 into the Group Personal Pension Plan (GPP), the Corporation's pension scheme. From April 2016, due to changes in the annual allowance, this has been structured as a £10,000 contribution, with a cash allowance of £26,362 (which is the balance of a £40,000 contribution less employer's NI). The CEO also receives a cash allowance of 20% of salary, in line with other Executive Directors.

The Performance Management Director (Jon Hancock) receives an annual contribution of £10,000 into the GPP Plan. He also receives an annual cash allowance of 20% of base salary.

The Chief Financial Officer is a member of the Lloyd's Pension Scheme. The terms of the Scheme and details of accruals and contributions in the year are as follows:

Details of pension arrangements	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 £154,200 from 6 April 2017.
Contributions and accruals in 2017	Salary sacrifice of 10% of the earnings cap in exchange for additional employer pension contributions of the same amount.

The Chief Financial Officer 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 2017 £000	Age at 31 December 2017	Increase in pension in year to 31 December 2017 – actual £000	Increase in pension in year to 31 December 2017 – net of price inflation £000	Total accrued annual pension in year to 31 December 2017 £000 pa	Normal retirement age	Transfer value of accrued pension as at 31 December 2016 £000	Transfer value of accrued pension as at 31 December 2017 £000	Movement in transfer value over the year less amounts salary sacrificed £000
15	54	6	4	70	60	1,376	1,535	159

The transfer value represents a liability of the Lloyd's Pension Scheme, not a sum paid or due to the individual. The transfer value has increased over the year in line with the increase in accrued pensions and due to changes in market conditions.

From 1 July 2018, John Parry will join the GPP Plan on the same terms as other Executive Directors (i.e. capped annual contribution of £10,000) and there will be no further accruals under the Lloyd's Pension Scheme. He will continue to receive a cash allowance of 20% of base salary.

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 the Chief Financial Officer, dependants' pensions.

Departing Directors and Executives

John Nelson, Chairman, left Lloyd's on 31 May 2017 and payment of his annual fee ceased at this time. No other payments were made on leaving.

Service contracts and loss of office payment policy

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 2017	Notice period
Bruce Carnegie-Brown	15 June 2017	2 years 6 months	12 months
Inga Beale	27 January 2014	rolling 1 year	12 months
John Parry	11 December 2014	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 Corporation's registered office.

Report of the Remuneration Committee

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

Nine year CEO remuneration

	CEO single figure of total remuneration £000	Annual bonus award as a percentage of maximum opportunity	LPP award as a percentage of maximum opportunity
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%
2009	1,771	83%	77%

Chief Executive Officer pay increase in relation to all employees

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

	CEO %	All employees %
Salary	0	5
Other benefits	6	0
Annual bonus	1	11

Relative importance of spend on pay

	2017 £m	2016 £m
Operating income	351	332
Total remuneration – all employees	120	130

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

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

The Chairman's remuneration will not be increased in 2018 and will remain unchanged at £600,000 per annum.

Fees for 2017 for Council and Board members were £38,500 and £62,000 per annum respectively. Fees will not be increased for Board members for 2018. 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. Fees payable for members of the Risk Committee were increased for 2018. For 2017 the additional fee payable to the Deputy Chairmen, over and above the standard Council member's fee, was £11,000 per annum. This was increased to £12,000 for 2018.

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

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

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

The Remuneration Committee met four times in 2017. The attendance record is set out in the Corporate Governance report on page 84. 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.

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 £57,250 for the year. Deloitte LLP also provided other services to the Corporation 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 HR Director 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 for 2018 (summary and key changes)

This part of the report summarises how the Corporation's remuneration policy will apply for the Executive Directors in 2018. These changes include:

- the simplification of the existing annual bonus plan and LPP under a single Lloyd's Incentive Plan, to align with the approach taken across the wider population. There is no change to the maximum incentive levels; and
- the closure of Lloyd's Pension Scheme (the Corporation's defined benefit scheme) to future accrual from 1 July 2018. All Executive Directors will be members of the Group Personal Pension Plan and receive cash allowances.

All other elements will operate in accordance with the remuneration policy set out in the 2016 Annual Report, on pages 111 to 116. The policy is not legally binding, and the Committee reserves the right to amend the policy at any time.

Report of the Remuneration Committee

Summary of policy

<table>
<tr><td colspan="2">Base salary</td><td>— Salaries set to appropriately recognise responsibilities and be broadly market competitive.
— Generally reviewed annually by the Remuneration Committee.
— No maximum salary increase; however, any increases will generally reflect our approach to all employee salary increases. Exceptions, in certain circumstances, may be made, for example to reflect a new appointment, change in role/adoption of additional responsibilities, changes to market practice or the development of the individual in the role.</td></tr>
<tr><td rowspan="2">Lloyd's Incentive Plan</td><td>Individual element</td><td>Performance measures
— Individual awards paid with reference to performance against objectives and KPIs (linked to strategy) during the year.
— Individual awards are subject to a 'risk underpin'. The Committee will assess performance against Corporation risk and compliance metrics, and may apply a downward adjustment where appropriate.
Maximum
— Current individual maximums are 75% of salary (CEO); 50% of salary (other Executive Directors).
Operation
— Payment is usually made in April following the end of the financial year. However, an element may be deferred for three years where the total variable deferred amount does not meet the 40% deferral threshold.
— The Committee may apply malus and clawback to individual awards (see below).</td></tr>
<tr><td>Market element</td><td>Performance measures
— Market awards directly linked to Lloyd's market profitability in the year, subject to a minimum threshold of £100m.
— 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
— For the Executive Directors, it is intended that the whole of the award will be deferred for three years and paid in April of the fourth financial year following the end of the performance period.
— The Committee may apply malus and clawback to market awards (see below).</td></tr>
<tr><td colspan="2">Pension</td><td>— Executive Directors are members of the Group Personal Pension Plan, a defined contribution plan, and receive an annual contribution of £10,000.[1]
— Due to changes in the pension legislation during 2016, the CEO also receives a cash payment (equal to the balance of her previous annual pension contribution, less a deduction for employer's NI).
— The Executive Directors also receive a cash allowance of 20% of base salary.</td></tr>
<tr><td colspan="2">Benefits</td><td>— Benefits include a benefits cash allowance, private medical insurance, life insurance and a season ticket loan facility. The CEO does not receive a benefits cash allowance.
— Relocation benefits may be offered in certain circumstances.</td></tr>
</table>

[1]As set out on page 94, for the period 1 January 2018 to 30 June 2018, John Parry will remain a member of the Lloyd's Pension Scheme.

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 CEO) 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 CEO, the circumstances in which malus may be applied are broader and include, but are not limited to, employee misconduct or the performance indicators relied on to determine the award being found to be materially different. The circumstances in which clawback may be applied are 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). The clawback period is indefinite for the CEO.

Fee policy for the Chairman and members of the Council and Board who are not employees of the Corporation.

The Chairman does not participate in the Corporation's incentive plans.

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

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

Fees for non-employee members of the Council and Board comprise payment of an annual fee and additional fees to reflect specific responsibilities (eg membership or chairmanship of a number of Council and Board committees), where applicable.

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

Andy Haste
Chairman, Remuneration Committee
20 March 2018

Report of the Audit Committee

Statement by Chair of Audit Committee

On the following pages we set out the Report of the Audit Committee. The report comprises the following sections:

- Composition of the Audit Committee;
- Financial Reporting;
- Internal Control; and
- Auditors.

Our principal aim is to assist the Council in discharging its responsibilities for monitoring the integrity of the Society's financial reporting, assessing the effectiveness of the internal controls of the Society and monitoring the effectiveness, independence and objectivity of the internal and external auditors. The committee's reporting line was moved from the Council to the Board in June 2017.

Richard Keers
Chairman, Audit Committee
20 March 2018

Composition of the Audit Committee

The committee, at the end of 2017, comprised two external members of the Council and four Non-Executive members of the Board. The committee met four times during the year. The members of the committee in 2017 and their attendance at meetings are shown in the Corporate Governance report on pages 84 to 85.

The committee members have extensive commercial experience which enables the committee to fulfil its terms of reference in a robust and independent manner.

For the purposes of the UK Corporate Governance Code, the committee considers Richard Keers, Michael Watson and Philip Swatman have recent and relevant financial experience. More information on the skills and experience of the committee members is set out in the biographies on pages 86 to 91.

Members of the Executive Committee and other senior management regularly attend meetings at the invitation of the Chairman together with the Head of Internal Audit and the external auditor. The committee as a whole meets privately with the internal and external auditors on a regular basis.

In addition, throughout the year, the Chairman of the committee meets informally and has open lines of communication with the Executive Committee, Head of Internal Audit, external auditors and senior management.

The committee received technical updates from senior management and the external auditor on developments in financial reporting, accounting policy and regulatory developments.

The committee's terms of reference can be found on lloyds.com.

Financial reporting

The committee reviewed the Lloyd's published annual and interim financial statements including the pro forma financial statements, the Aggregate Accounts, the Group financial statements of the Society of Lloyd's and the Lloyd's Solvency and Financial Condition Report. The committee, with the support of the external auditor, assessed whether suitable accounting policies had been adopted and whether management had made appropriate estimates and judgements.

The principal issues reviewed were:

- The market notional investment return on Funds at Lloyd's and the methodology of the calculation;
- The valuation of investments held by both the Society and within Funds at Lloyd's, on an exceptional basis;
- The continuing status of the Society as a going concern as part of the Year End and Interim Financial Statements processes;
- Reporting requirements and governance arrangements for Solvency II Pillar 3 reporting for both the market and the Society;
- The review of key assumptions and valuation of the Lloyd's pension scheme and the Society lease provision; and
- Ensuring the methodology of the valuation of loans recoverable within the Society is consistent with previous years and reviewing any methodology changes as they arise.

At the request of the Council, the committee considered whether the Annual Report was fair, balanced and understandable and whether it provided the necessary information to assess performance, business model and strategy.

Internal control

The committee reviewed and monitored the effectiveness of the systems of internal control of the Society. Regular reports and updates on specific control issues were received throughout the year. Specific issues considered were:

- The committee reviewed reports from the Risk Committee on developments to the Lloyd's Risk Framework. The committee also considered the quarterly ORSA reports. Throughout the year, the committee was updated on the key risks which are set out on pages 14 to 15;
- 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; and
- 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.

Auditors

Internal audit

The use of Internal Audit is governed by a Charter and Operating Standards and the Internal Audit Plan, which provides the three year audit cycle and details the annual scope of work and allocation of resources based on an assessment of inherent risks and existing controls. The committee is satisfied that Internal Audit has the appropriate resources.

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

Deloitte LLP provides co-sourced Internal Audit resource who report directly to the Head of Internal Audit. The committee keeps under review the relationship with Deloitte LLP and the procedures to ensure appropriate independence of the Internal Audit function is maintained.

External auditor

The committee monitors and reviews the objectivity and independence of the external auditor. This includes having in place a policy to govern the non-audit services that may be provided by the external auditor, that sets 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. The committee receives a regular report on engagements undertaken by the external auditor in order to monitor the types of services provided and the fees incurred and to ensure they do not impair their independence and objectivity. The external auditor also confirmed to the Audit Committee that they believe they remain independent within the meaning of the regulations on this matter and their professional standards.

A breakdown of the fees paid to the external auditor for non-audit work may be found in note 6. Significant engagements undertaken in 2017 include services pursuant to legislation (work undertaken on the Aggregate Accounts and regulatory returns) and the pro forma financial statements.

The committee performs a specific evaluation of the performance of the external auditor annually, through assessment of the results of questionnaires completed by members of the Executive Committee and senior management in addition to committee members' own views. The committee is satisfied with the performance of External Audit.

Report of the Lloyd’s Members’ Ombudsman

Report by Mark Humphries, Lloyd’s Members’ Ombudsman

I am pleased to present the Annual Report of the Lloyd’s Members’ Ombudsman to the Council for the year ended 31 December 2017.

The role of the Lloyd’s Members’ Ombudsman is to investigate complaints by members and former members who were members at any time after 30 November 2001 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 the course of the year no complaints were received by my office.

Costs

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

Financial Review

This review should be read in conjunction with the financial statements of the Society on pages 120 to 169. This review should also be read in conjunction with the Strategic Report on pages 10 to 27. These sections set out the strategic priorities for both the Society and the Lloyd's market as a whole.

Operating surplus

The Society of Lloyd's achieved an operating surplus for the year of £170m (2016: surplus of £137m). The operating surplus by business segment is set out below:

	Corporation of Lloyd's £m	Lloyd's Central Fund £m	2017 Total £m	2016 Total £m
Total income	351	125	476	452
Central Fund claims and provisions incurred	–	–	–	(8)
Other Group operating expenses	(294)	(12)	(306)	(307)
Operating surplus	57	113	170	137

Corporation of Lloyd's

Total income for the Corporation increased by £19m to £351m (2016: £332m); within this, subscription income was broadly flat. The subscription rate changed on 1 January 2017 from 0.45% of gross written premiums to 0.40% of gross written premiums (further details are given in note 3), although this was offset by the higher level of premiums written as a result of favourable exchange rate movements.

In aggregate, other income streams also increased compared with the prior period, reflecting an increase in the overseas levy which covers the cost of our global network. Within income, premiums written through Lloyd's Insurance Company (China) Limited increased to £253m (2016: £238m) reflecting exchange rate movements and growth across a number of lines of business. All business underwritten through the company is reinsured to Lloyd's syndicates.

Other Group operating expenses reduced slightly to £294m (2016: £296m). The operating costs of our overseas network of offices when translated to sterling increased, reflecting exchange rate movements and continuing investment in the strategic priorities. This was offset by a one off curtailment gain of £20m in respect of the closure of the Lloyd's Pension Scheme.

Central Fund

Total income for the Central Fund increased by £5m to £125m (2016: £120m). Contribution income increased as a result of the higher level of written premiums. The rate of contribution remained constant at 0.35% of gross written premiums (further details are given in note 3).

Central Fund claims and provisions were nil for the year (2016: charge of £8m). Undertakings to meet the liabilities of insolvent members to policyholders are approved at the discretion of the Council and are normally based on anticipated cash flow requirements of insolvent members in the following 12 months. During 2017, payments made in respect of insolvent corporate members were nil (2016: £14m). There were no payments made in respect of individual members in 2017 and 2016.

Other Group operating expenses were broadly flat at £12m (2016: £11m).

Investment performance

	2017 £m	2016 £m
Finance income	62	314
Finance costs	(55)	(54)
	7	260

The Society's investments, mostly held within the Central Fund, returned £62m or 1.7% during the year (2016: £314m, 10.2%). Excluding the impact of a £108m foreign exchange loss in 2017 (2016: foreign exchange gain of £151m), arising from currency matching assets to the US dollar component of the Central Solvency Capital Requirement, underlying investment returns were relatively stable year on year, returning £170m (4.6%) in 2017 (2016: £163m or 5.2%).

Financial Review

Investment performance continued

Risk asset returns went from strength to strength in 2017 aided by an increasingly positive economic environment and low levels of volatility. Whilst there was no shortage of political risk across the globe, financial markets were largely non reactionary. Developed market monetary policy continued to be tightened with central banks in the USA, Canada and UK raising interest rates. Europe continued to diverge although there was some tapering of quantitative easing. Credit spreads on corporate bond investments tightened in line with the general risk-on sentiment whilst returns on sovereign bonds were weaker as expectation of higher interest rates led to some increase in yields.

For the Central Fund investment portfolio, developed equities were the best performing asset class closely followed by emerging equities. Returns generated by asset classes were lower by comparison but solid nonetheless. Investment grade bonds saw the lowest return with solid corporate bond returns compensating for small losses on UK sovereign bonds.

Currency markets saw another year of significant movement. In the case of sterling versus US dollars, the movement was a change in trajectory from the previous year as the pound strengthened. Against euros though, sterling continued to weaken albeit at a slower pace than was seen in the previous year.

The disposition of the Society's financial investments is set out in note 16 on pages 154 to 158.

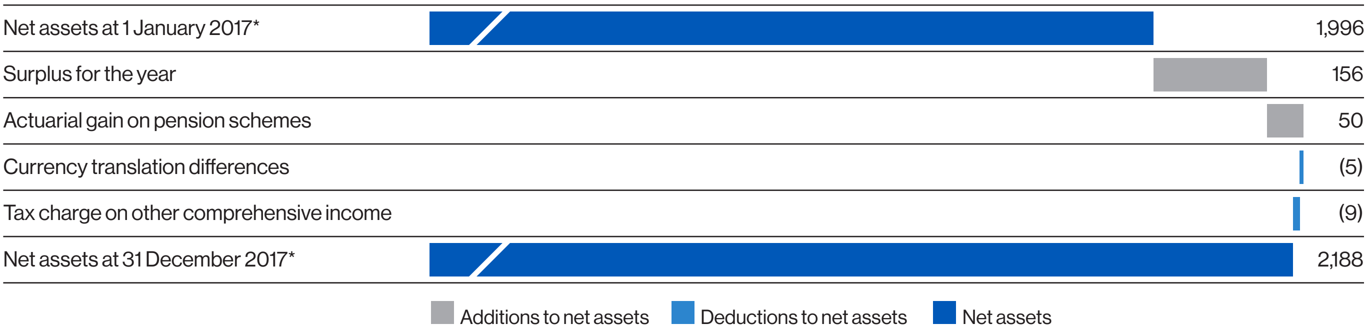
Finance costs of £55m in 2017 (2016: £54m) predominantly relate to interest on the subordinated notes and perpetual subordinated capital securities.

Adjusting for interest costs results in net finance income of £7m (2016: £260m).

Taxation

A tax charge of £31m (2016: £75m) on the surplus before tax of £187m (2016: £405m) has been recognised for the year ended 31 December 2017. Further details are set out in note 11 on pages 145 to 146.

Movement in net assets (£m)



*Net assets data not to scale

The net assets of the Central Fund are included within the above amounts and at 31 December 2017 were £2,043m (2016: £1,952m).

Pension schemes

Lloyd’s pension scheme

On an IFRS basis, the Lloyd’s pension scheme valuation at 31 December 2017 was a deficit of £161m before allowance for a deferred tax asset of £27m (31 December 2016: £228m deficit before allowance for a deferred tax asset of £39m).

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

	2017 £m	2016 £m
Pension deficit as at 1 January	(228)	(94)
Pension expense recognised in the Group income statement	2	(12)
Employer contributions	17	5
Remeasurement effects recognised in the Group statement of comprehensive income	48	(127)
Pension deficit as at 31 December	**(161)**	(228)

The reduction in the pension deficit was mainly due to an increase in the value of Scheme assets during the year. Further details are provided in note 12 on pages 146 to 152 which includes the sensitivity of the valuation to changes in these assumptions.

The 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 is in place and has been agreed with the Trustees. This will be kept under review as circumstances develop.

The Society carried out a review of its rewards and recognition package during the year. The aim of this review was to ensure that the Society offers a competitive and attractive package which is fair and consistent to all employees and which is in line with other employers, both within and beyond the financial services industry.

As a result, the Society announced on 4 September 2017 a number of proposals regarding future pension provision for its employees. Following that announcement, the Society entered into a collective consultation process for those in the Defined Benefit scheme, during which employee representatives were elected and workshops were held, followed by meetings with affected individuals.

Following completion of that consultation process on 22 November 2017, and responding to some proposals from employees, the Society subsequently announced that it will be proceeding with the closure of the Defined Benefit Pension Scheme to all members with effect from 30 June 2018. Following that, all existing members of the scheme will be automatically enrolled into the Lloyd’s Group Personal Pension plan (GPP). The GPP contribution was also externally benchmarked and reviewed, with increased levels being approved from 2018 for all employees.

Overseas pension schemes

The actuarial valuations of the overseas pension schemes at 31 December 2017 resulted in a deficit of £3m (2016: deficit of £3m). Further details are provided in note 12 on pages 146 to 152.

Financial Review

Solvency

Total assets for solvency purposes are set out below. The 2017 position is an estimate of the amount which will be finalised in early May 2018 for submission to the PRA. The figures are calculated on a Solvency II basis. The solvency figures in the table below are unaudited:

	2017 £m	2016 £m
Central assets at 31 December	**2,188**	1,996
Subordinated debt	**793**	883
Total	**2,981**	2,879
Solvency valuation adjustments	**597**	554
Available central own funds to meet the Central Solvency Capital Requirement (SCR)	**3,578**	3,433
Excess central own funds not eligible to meet the Central SCR	**(133)**	–
Eligible central own funds available to meet the Central SCR	**3,445**	3,433
Central SCR	**1,600**	1,600
Central solvency ratio	**215%**	215%

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 in early 2017 means that Lloyd's Tier 2 and 3 central capital exceeded 50% of the central SCR by £133m as at 31 December 2017.

Based on own funds eligible to meet the central SCR of £3.4bn (2016: £3.4bn), the estimated solvency ratio is 215% (2016: 215%). In setting contribution levels, account is taken of the central SCR to ensure that Lloyd's is prudently but competitively capitalised.

Brexit

As noted previously, one of the key priorities for Lloyd's in 2017 was retaining access to European Union (EU) markets following the UK's decision to leave the EU (Brexit). Over the course of 2017 work has been progressing to establish a Lloyd's subsidiary in Brussels, which will ensure that customers based in the EU are able to access the Lloyd's market as seamlessly as possible. Lloyd's new Brussels subsidiary will be a fully-fledged insurance company, with an executive committee based in Brussels. The company will be fully capitalised and will be regulated by, and report to, the Belgian regulator. An application was submitted to the Belgian regulator in October 2017 with a view to commencing the underwriting of European Economic Area (EEA) risks from 1 January 2019. The decision to choose Brussels was based on a number of critical elements, including the fact that Brussels has a robust regulatory framework and is a central European location. The EU is an important market for Lloyd's and the new insurance subsidiary will ensure that Lloyd's customers continue to have access to our specialist, innovative policies, and benefit from the security of the Lloyd's market. Furthermore, Lloyd's believes that being at the heart of Europe will provide an opportunity to continue to grow our business on the continent.

Cash flows and liquidity

Cash and cash equivalents increased during the year ended 31 December 2017 by £106m to £497m (2016: £391m). 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* 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 2017 were £208m (2016: £178m).

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 Lloyd's Group 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 significant proportion 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 smaller 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 Lloyd's. Equity investments currently include global developed and emerging market equities. Investments in other growth assets include high yield and emerging market debt, hedge funds, senior secured loans and commodity based investments.

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 disclosures within note 18 on pages 158 to 160 are audited.

Credit risk

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

Trade and other receivables

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

Financial investments

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

Guarantees

The Society provides certain financial guarantees as security for the underwriting activities of the members of Lloyd's.

* Free cash balances are a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is an Alternative Performance Measure (APM), with further information available on page 174.

Financial Review

Financial risk management and treasury policies continued

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 2017 (2016: nil).

Market risk

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

Foreign currency risk

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

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

Interest rate risk

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

Short term assets held by the Society may be significant at certain times but such balances cannot be 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 Lloyd's subordinated loan notes and the perpetual subordinated capital securities is considered in conjunction with the market risk arising on the Society's investments.

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 with regard to financial instruments are provided in note 18 on pages 158 to 163. Further details regarding solvency are given on page 110.

Related party transactions

Except for disclosures made in note 26 (see page 168), no related party had material transactions with the Society in 2017.

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 27. 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 the Lloyd's vision. The review is led by the CEO 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 2018 to 2020) was approved in December following completion of the latest review cycle. As part of the planning process, detailed financial budgets were prepared for the Society for the three year period to 31 December 2020.

Assessment of viability

The Board and Council of Lloyd's 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 14 to 15. 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 on pages 22 to 23 and Lloyd's is required to maintain solvency on a continuous basis, and the solvency position of each member, and thus of Lloyd's as a whole, is monitored on a regular basis. The 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 and the expectation, but not the obligation, that the perpetual subordinated capital securities are redeemed at the first option date.

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 2020, 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 2020.

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.

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 £3bn in 2018. Following its meeting on 20 March 2018, 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 4 on page 134). The operating expenses for the Corporation and its subsidiaries are budgeted to be £340m in 2018.* This includes net investment of £43m in respect of market modernisation and £19m of costs for services recharged directly to specific managing agents. 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.

* Budgeted operating expenses are a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is an Alternative Performance Measure (APM), with further information available on page 174.

Statement of the Council's responsibilities for the 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 and perpetual subordinated capital securities are admitted to trading in a regulated market in the European Union, Council has elected to comply with Article 4, which requires Group financial statements to be prepared in conformity with IFRS as adopted by the European Union. The Council 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 Auditor’s 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 2017 and of its surplus and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Council byelaws made under 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 2017, 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 the Annual Report, we have provided no non-audit services to the group in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

Materiality

- Overall group materiality: £22.7m (2016: £22.0m), based on 0.5% of total assets.

Audit scope

- The two key components of The Society of Lloyd’s are considered to be the Central Fund and the Corporation. 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.

Key audit matters

- Valuation of financial investments
- Lloyd’s Pension Scheme
- Revenue Recognition
- Valuation of loans recoverable

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. In particular, we looked at where the Council made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We did not identify any key audit matters relating to irregularities, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the group financial statements, including, but not limited to the Lloyd’s Act 1982 and regulations of the Financial Conduct Authority (“FCA”) and Prudential Regulation Authority (“PRA”). Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisors and enquiries of management. 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.

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. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Council that represented a risk of material misstatement due to fraud.

Independent Auditor's Report to the Members of the Society of Lloyd's

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Valuation of financial investments	
We focused on this area because it represents 73% of the total assets of the Society and so the valuation of financial investments has a significant impact on the financial statements. We focused in particular on the non-publicly traded investments in the Society's portfolio, which includes investments held as statutory insurance deposits by Additional Securities Limited ('ASL'), and other non-publicly traded investments in the Corporation and Central Fund. These investments are harder to value because quoted prices are not readily available and the valuation is based on a model, which can include unobservable inputs. (Refer also to note 16 to the financial statements)	For these non-publicly traded investments, we assessed both the methodology and assumptions used by management in the calculation of the year end values as well as tested the governance controls that the Council has in place to monitor these processes. The testing included performing the following procedures: — Assessing the methodology and assumptions used within the valuation models; — Comparing the assumptions used against appropriate benchmarks and investigating significant differences; and — Testing the operating effectiveness of the valuation controls over assets managed by third parties. Our work and the evidence provided identified no significant issues.
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 £161m at 31 December 2017. 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 key assumptions such as discount rate; inflation; and post-retirement life expectancy. In 2017, Lloyd's recognised a £19.8m curtailment gain primarily driven by the closure of the Defined Benefit Pension Scheme to all participants. We have focused on validating that the recognition criteria for the curtailment gain, as set out in IAS 19, was satisfied and evaluating the reasonableness of the assumptions used in calculating the gain. (Refer also to note 12 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 2017; — 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 2017; 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 fall in future. We found the assumptions to be acceptable. We have assessed the appropriateness of the accounting treatment adopted by Lloyd's for the Defined Benefit Pension Scheme closure and consider it to be reasonable. We have also used our actuarial specialists to evaluate the key assumptions used to estimate the curtailment gain recognised in connection with the closure and consider them to be acceptable.
Revenue Recognition	
The Central Fund contributions (recognised as revenue in the Central Fund reporting unit) and members' subscription fees (recognised as revenue within the Corporation reporting unit) represent a significant portion of the revenue of the Society. We focused on these components of revenue because they are recognised based in part on management's estimate of the future premium of each syndicate underwriting year. Although not complex, this estimate involves subjectivity with regards to assumptions on the estimation of future premium. The future premium is estimated based on historical development trends. From this analysis, management selects an extrapolation factor, which is then applied to the current year. (Refer also to note 2 to the financial statements)	We evaluated the reasonableness of the assumptions applied in the estimation of the future premium. As future premium is estimated based on the development trend of historical premium (the extrapolation factor), we traced a sample of the historical premium data to the system which aggregates market results. We tested Information Technology General Controls over the system, where no exceptions were noted. Based on our work on the assumptions, we found that management's analysis supported the extrapolation factor that was selected. We tested the application of the extrapolation factor to the underlying data and recomputed the total Central Fund contributions and members' subscription fees. We found management's assumptions to be reasonable. No significant exceptions were noted in our testing of underlying data or our recalculation of revenue.

Key audit matter	How our audit addressed the key audit matter
Valuation of loans recoverable	
Loans recoverable are Central Fund loans made to hardship members. The valuation of loans recoverable is subjective and judgemental due to the assumptions used to determine their recoverable amounts. The loans recoverable amount represents the lower of: — valuation of property and investment assets held as charge in the event that the principal loan amount cannot be repaid; and — principal loan amount including accrued interest. We focused on the following assumptions because they have a material impact on the valuation of loans recoverable: — discount rate used in respect of the assets and principal loan amount; — fair value of properties; and — property inflation rate. (Refer also to note 15 to the financial statements)	For a sample of loan receivable balances, we performed procedures to verify the accrued loan balance, and the valuation of the property and investments. We evaluated the reasonableness of the assumptions used and found the following: — the discount rate used was consistent with our expectations, taking into account the market conditions at 31 December 2017; — the fair value of properties was reasonable, based on comparing the valuation to the current offer price of similar properties on the open market on a sample basis; and — the property inflation rate used was set at an appropriate level, based on our assessment of market conditions at 31 December 2017. In addition, we tested a sample of loans by agreeing the principal loan amount to the signed agreements and recalculated the accrued interest. No significant exceptions were found in our testing.

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 33 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 audit of the financial information of 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. We were involved in the risk assessment process for this reporting unit, and obtained an understanding of the audit procedures performed by the component auditor to address the identified risks.

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 and Central Fund reporting units to address the key audit matters identified above. Additionally, we identified Lloyd's Insurance Company (China) Limited, Centrewrite 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 96% of the Society's total assets and 93% of the Society's surplus before tax.

Independent Auditor's Report to the Members of the Society of Lloyd's

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
£22.7m (2016: £22.0m)
How we determined it
0.5% of total assets

Rationale for benchmark applied
We identified the key financial statement users as rating agencies, syndicate members and policyholders who will be primarily concerned over the solvency position of Lloyd's, as well as the quality of assets held by Lloyd's. Therefore, we assessed that it is more appropriate to use an assets based benchmark for the materiality determination for the 31 December 2017 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 £57k and £20.5m.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.1m (2016: £1.1m) 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

The Council has voluntarily included a statement in relation to going concern in accordance with provision C1.3 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.

Outcome

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.

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 group and of the principal risks that would threaten the solvency or liquidity of the group

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 113 of the Annual Report, in accordance with provision C.2.1 of the Code, that it has carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Society Report that describe those risks and explain how they are being managed or mitigated;
- the Council's explanation on page 113 of the Society's Report, in accordance with provision C.2.2 of the Code, as to how it has assessed the prospects of the Society, over what period it has done so and why they consider that period to be appropriate, and its statement as to whether it has 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 114, in accordance with provision C.1.1 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 pages 104 to 105, as required by provision C.3.8 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 to report in respect of this responsibility.

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 114, 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 it determines 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 of Lloyd's members as a body in accordance with the Lloyd's Act 1982 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Other 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 on 4 April 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2013 to 31 December 2017.

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 March 2018

Group Income Statement

(For the year ended 31 December 2017)

	Note	2017 £m	2016 £m
Corporation operating income		351	332
Central Fund income		125	120
Gross written premiums		253	238
Outward reinsurance premiums		(253)	(238)
Total income	3(b)	**476**	452
Central Fund claims and provisions incurred	4	–	(8)
Gross insurance claims and insurance expenses incurred	5	(212)	(200)
Insurance claims and expenses recoverable from reinsurers	5	212	200
Other Group operating expenses	6	(306)	(307)
Operating surplus		**170**	137
Finance costs	8	(55)	(54)
Finance income	8	62	314
Share of profits of associates	10	10	8
Surplus before tax		**187**	405
Tax charge	11(a)	(31)	(75)
Surplus for the year		**156**	330

Group Statement of Comprehensive Income

(For the year ended 31 December 2017)

	Note	2017 £m	2016 £m
Surplus for the year		**156**	330
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement gains/(losses) on pension asset/liabilities			
UK	12	**48**	(127)
Overseas	12	**–**	–
Associates	10	**2**	(3)
Tax (charge)/credit relating to items that will not be reclassified	11(a)	**(9)**	19
Currency translation differences		**(5)**	14
Net other comprehensive surplus/(deficit) for the year		**36**	(97)
Total comprehensive income for the year		**192**	233

Group Statement of Financial Position

(As at 31 December 2017)

	Note	2017 £m	2016 £m
Assets			
Lloyd's Collection	14	**13**	13
Plant and equipment	14	**18**	18
Deferred tax asset	11(c)	**25**	40
Investment in associates	10	**18**	7
Loans recoverable	15	**40**	43
Financial investments	16	**3,293**	3,360
Insurance contract assets	5	**342**	254
Trade and other receivables due within one year	17	**265**	205
Prepayments and accrued income		**23**	18
Derivative financial instruments	18	**16**	16
Cash and cash equivalents	19	**497**	391
Total assets		**4,550**	4,365
Equity and liabilities			
Equity			
Accumulated reserve	20	**2,155**	1,958
Revaluation reserve	20	**13**	13
Translation reserve	20	**20**	25
Total equity		**2,188**	1,996
Liabilities			
Subordinated notes and perpetual subordinated capital securities	21	**793**	883
Pension liabilities	12	**164**	231
Provisions	22	**15**	14
Loans funding statutory insurance deposits		**483**	494
Insurance contract liabilities	5	**342**	254
Trade and other payables	23	**481**	378
Accruals and deferred income		**67**	63
Tax payable		**7**	33
Derivative financial instruments	18	**10**	19
Total liabilities		**2,362**	2,369
Total equity and liabilities		**4,550**	4,365

Approved and authorised by the Council on 20 March 2018 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

Inga Beale
Chief Executive Officer

Group Statement of Changes in Equity

(For the year ended 31 December 2017)

	Note	Accumulated reserve £m	Revaluation reserve £m	Translation reserve £m	Total equity £m
At 1 January 2016		1,739	13	11	1,763
Surplus for the year		330	–	–	330
Net other comprehensive (deficit)/income for the year		(111)	–	14	(97)
At 31 December 2016		1,958	13	25	1,996
Surplus for the year		**156**	**–**	**–**	**156**
Net other comprehensive income/(deficit) for the year		**41**	**–**	**(5)**	**36**
At 31 December 2017	20	**2,155**	**13**	**20**	**2,188**

Group Statement of Cash Flows

(For the year ended 31 December 2017)

	Note	2017 £m	2016 £m
Cash generated from operations	24	**219**	192
Tax paid		**(51)**	(48)
Net cash generated from operating activities		**168**	144
Cash flows from investing activities			
Purchase of plant, equipment and intangible assets	13/14	**(8)**	(9)
Proceeds from the sale of plant, equipment and intangible assets		**–**	–
Purchase of financial investments	16	**(1,701)**	(2,236)
Receipts from the sale of financial investments	16	**1,752**	2,315
(Increase)/decrease in short-term deposits	16(b)	**(7)**	61
Dividends received from associates	10	**–**	7
Interest received		**45**	54
Dividends received	8	**7**	7
Realised losses on settlement of forward currency contracts		**(3)**	(77)
Net cash generated from investing activities		**85**	122
Cash flow from financing activities			
Sale of debt securities		**298**	–
Redemption of subordinated notes		**(392)**	–
Interest paid on subordinated notes		**(53)**	(53)
Other interest paid		**–**	(1)
Increase/(decrease) in borrowings for statutory insurance deposits		**18**	(21)
Net cash used in financing activities		**(129)**	(75)
Net increase in cash and cash equivalents		**124**	191
Effect of exchange rates on cash and cash equivalents		**(18)**	25
Cash and cash equivalents at 1 January	19	**391**	175
Cash and cash equivalents at 31 December	19	**497**	391

Notes to the Financial Statements

(For the year ended 31 December 2017)

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 of Lloyd's comprise the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interest in associates as at each reporting date. Subsidiary undertakings are consolidated from the date of their acquisition, being the date on which the Society obtains control, and continue to be consolidated until the date that such control ceases. The financial statements are prepared using consistent accounting policies. All intra-Group balances and transactions are eliminated in full.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (as adopted by the European Union) and on a historic cost basis, except for financial assets and liabilities at fair value through profit or loss and the Lloyd's Collection, which are measured at fair value.

Other financial liabilities, which include the subordinated notes and the perpetual subordinated capital securities 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 PRA and the FCA.

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

The Society has adopted the following new International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), and interpretations and amendments to existing standards, which are effective by EU endorsement for annual periods beginning on or after 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses (amendments to IAS 12);
- Disclosure Initiative (amendments to IAS 7); and
- Annual improvements to IFRS Standards 2014-2016 cycle (amendments to IFRS 12).

None of the amendments have a material impact on the Group financial statements of the Society.

2. Principal accounting policies

Critical accounting estimates and assumptions

In preparing the financial statements significant estimates and judgements are made in respect of some of the items reported. The main accounting policies identified involving such assessments are:

- Central Fund claims and provisions – undertakings (see note 2(q) and note 4);
- Employee benefits – defined benefit pension scheme (see note 2(i) and note 12);
- Insurance contracts – liabilities and reinsurance assets (see note 2(g) and note 5);
- Loans recoverable – hardship loans (see note 2(j) and note 15); and
- Provisions – lease cost provision (see note 22).

(a) Plant and equipment

Plant and equipment are held at cost less accumulated depreciation and any impairment in value.

Depreciation is charged on a straight-line basis on the following principal categories:

- Furniture and fittings are depreciated over seven to 25 years according to the estimated useful life of the asset;
- Computer and specialised equipment are depreciated over three 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.

(b) Software development

Costs incurred in acquiring and developing computer software are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable asset of value. Software development is held at cost less accumulated depreciation and any impairment in value. Capitalised software is amortised over three years.

(c) Lloyd's Collection

Lloyd's Collection represents various paintings, antiques and artefacts which are included at fair value. Any revaluation surplus or deficit is recognised in the Group statement of comprehensive income and is reflected in the revaluation reserve within the Group statement of changes in equity.

(d) Investment in associates and joint 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.

Notes to the Financial Statements

(For the year ended 31 December 2017)

2. Principal accounting policies continued

(d) Investment in associates and joint ventures continued

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.

(e) Impairment of non-financial assets

The Society performs annual impairment testing to assess whether there is an indication that an asset may be impaired. If any such indication exists an impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

(f) Financial instruments

Financial assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss or loans and receivables. The Society determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of loans and receivables, directly attributable transaction costs. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the market place (regular way purchases) are recognised on the settlement date.

The Society's financial assets include loans recoverable, statutory insurance deposits and other investments designated at fair value through profit or loss, trade and other receivables, accrued income, cash and cash equivalents and derivative assets.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(i) Financial assets at fair value through profit or loss include derivative financial assets which are classified as held for trading, and financial assets designated upon initial recognition at fair value through profit or loss. They are carried in the Group statement of financial position at fair value. Gains and losses arising from changes in their fair value are included in the Group income statement in the period in which they arise. When financial assets are interest bearing, interest calculated using the effective interest method is recognised in the Group income statement; and

(ii) Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They arise when the Society provides money, goods or services directly to a debtor with no intention of trading the receivable. These financial assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Group income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss or other financial liabilities. The Society determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of other financial liabilities, directly attributable transaction costs. The Society's financial liabilities include trade and other payables, accruals, subordinated notes and perpetual subordinated capital securities and derivative liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

(i) Financial liabilities at fair value through profit or loss include derivative financial liabilities which are classified as held for trading. Gains or losses on liabilities held for trading are recognised in the Group income statement; and

(ii) Other financial liabilities, which include the subordinated notes and the perpetual subordinated capital securities, are carried at amortised cost using the effective interest method.

Fair value of financial instruments

Financial instruments are categorised for disclosure purposes into a hierarchy consisting of three levels depending upon the source of input as required by IFRS 7 Financial Instruments: Disclosures.

Level 1 – The fair value of financial instruments which are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. The quoted market price used for financial assets held by the Society is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price.

Level 2 – The fair value of financial instruments for which quoted market prices are not used for valuation purposes are derived both directly and indirectly from observable market conditions. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values.

Level 3 – The fair value of financial instruments for which there is no observable quoted market price is determined by a variety of methods incorporating assumptions that are based, so far as possible, on market conditions existing at each reporting date.

Where the significance of the inputs used in the determination of the fair value of a financial instrument changes, the classification of the financial instrument in the fair value hierarchy is reviewed. Where the assessment of the classification has changed, a transfer is made between the respective levels.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Society assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the asset is written down to its recoverable amount.

Derecognition of financial instruments

Investments are derecognised when the right to receive cash flows from the asset have expired or, in the case of a financial liability, when the obligation under the liability is cancelled or discharged.

(g) Insurance contracts (liabilities and reinsurance assets)

In accordance with IFRS 4 Insurance Contracts, the Society applies established UK accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards.

Insurance contracts are defined as those containing significant insurance risk which arises if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expired.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Society may not receive all amounts due to it under the terms of the contract and this can be measured reliably.

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 (LICCL), balances are calculated in accordance with the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP).

In particular, unearned premium reserves are calculated after deducting acquisition costs such as commissions, handling fees, business taxes, surcharges and regulatory charges, whilst outstanding claims reserves include a risk margin.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value on a first in, first out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

(i) Employee benefits

The Society accounts for pensions and similar benefits (principally income protection due to ill health) under IAS 19 Employee Benefits. The Society operates a number of defined benefit pension schemes in which obligations are measured at discounted present value using the projected unit credit method, while plan assets are recorded at fair value. The operating and financing income and costs of the scheme are recognised in the Group income statement. Service costs, financing income (expected return on plan assets) and costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in full in the Group statement of comprehensive income in the period in which they occur. Costs of discretionary awards in respect of past service are recognised in the Group income statement when amounts are committed to be paid or there is a constructive liability to make awards to pensioners.

Payments to separately administered defined contribution schemes are charged to the Group income statement as they fall due.

Short-term bonuses are accrued in the period to which they relate, long-term bonuses are recognised over their vesting period.

(j) Loans recoverable

Recoverable Central Fund loans made to Hardship members are valued on a fair value basis and are designated as fair value through profit or loss. Any gains or losses arising from changes in the fair value are included in the Group income statement in the period in which they arise. Fair values are determined by reference to an estimate of the valuation of the underlying investments at the dates at which they may be exercised and discounted back to present day values. A security can normally only be exercised on the later date of death of the member or of their spouse. This date is assessed using actuarial assumptions.

(k) Taxation

Corporation tax on the surplus or deficit for the periods presented comprise current and deferred tax. Corporation and income tax are 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 substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Notes to the Financial Statements

(For the year ended 31 December 2017)

2. Principal accounting policies continued

(k) Taxation continued

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the reporting date.

(l) Subordinated notes and perpetual subordinated capital securities

Subordinated debt is initially recognised at fair value, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, the subordinated debt is subsequently recorded at amortised cost using the effective interest rate over the period to the earliest option date. Amortised cost is calculated after taking into account issue costs and issue discount.

(m) Cash and cash equivalents

For the purposes of the Group statement of cash flows, cash comprises cash at banks and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with original maturities of less than three months.

(n) Income recognition

Income, which is stated net of value added tax, comprises the fair value of amounts receivable. Revenue arising in respect of Members' subscriptions, the Market modernisation levy and Central Fund contributions is calculated by applying a percentage to management's estimate of the future premium of each syndicate underwriting year. This future premium is estimated based on historical development trends. This approach therefore assumes that the premium written in the current year will develop in a similar pattern to that demonstrated in previous years.

The impact of any potential anomalies in the premium earning pattern of any one particular year is mitigated by applying an average development factor which is calculated based on the experience of a number of years. The extrapolation factor is based on a development factor which is applied to the current year written premium. Income is recognised as follows:

(i) Members' subscriptions, market charges and other services
Members' subscriptions, market charges and other services are recognised in the period for which the service is provided. They are recognised on a basis that reflects the timing, nature and value of the benefits provided.

(ii) Central Fund contributions
Central Fund contributions from members underwriting in the year are recognised in the period for which the service is provided.

(iii) Interest income
Interest receivable is recognised in the Group income statement on a time apportioned basis using the effective interest method. Any unwinding of discount is recognised as interest income.

(iv) Dividend income
Dividend income from equity investments is included in the Group income statement on the ex-dividend date.

(v) Other income
Other income is recognised when recoverability is agreed.

(o) Insurance premiums

Insurance premiums represent premiums on business incepting during the year, together with adjustments for premiums written in previous accounting periods. Premium income is recognised over the period of cover, 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.

(p) Insurance claims

Claims incurred in insurance related activities consist of claims and claims handling expenses paid during the year together with the movement in outstanding claims. Outstanding claims are the estimated final cost of all claims incurred but not settled at the reporting date, including claims incurred but not reported (IBNR). Outstanding claims are discounted. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are reflected within the Group financial statements of later years when differences between provision and subsequent settlement become apparent.

(q) Central Fund claims and provisions

Central Fund claims and provisions (undertakings) are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council for a fixed period, normally one year, and therefore are not deemed to be constructive obligations, except for renewals of those commitments previously granted. For those corporate members in provisional liquidation, the Council provides a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation. As the supporting undertakings are legally enforceable commitments, an estimate of their value is included within provisions in the Group financial statements and changes during the period are reflected in the Group income statement.

Recoveries in respect of undertakings previously given are credited to the Group income statement when contractually committed to be received.

(r) Foreign currency and derivative instruments foreign currency translation

(i) Functional and presentation currency
The Group financial statements are presented in pounds sterling, which is the Society's functional and presentation currency. Items included in the financial statements of each of the Society's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency').

(ii) Transactions and balances
Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the reporting date. Translation differences on monetary items are taken to the Group income statement.

Translation differences on non-monetary items measured at fair value are reported as part of the fair value gain or loss and included in the Group statement of comprehensive income.

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.

The principal exchange rates were:

	2017 Average	2016 Average	**2017 Closing**	2016 Closing
US$	**1.29**	1.35	**1.35**	1.24
Can$	**1.67**	1.78	**1.70**	1.66
RMB	**8.73**	8.94	**8.75**	8.53
Euro	**1.14**	1.22	**1.13**	1.17

(s) Leases

Payments made under operating leases are charged to the Group income statement on a straight line basis over the period of the lease. Contractual capital expenditure is provided for over the term of the underlying lease agreement. The lease cost provision (see note 22) is an accounting estimate which arises due to the fact the Society has entered into a number of fully repairing leases.

(t) New standards and interpretations not applied

International Accounting Standards	(beginning on or after)
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021

IFRS 9 – Financial Instruments

IFRS 9 replaces IAS 39 and specifies how an IFRS reporter will recognise, measure, present and disclose financial instruments. The standard is effective for annual periods beginning on or after 1 January 2018, although it is available for early application.

The standard focuses on three key areas set out below:

(i) Classification and measurement, determining how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis;

(ii) Impairment, introducing a new, expected loss impairment model that will require more timely recognition of expected credit losses; and

(iii) Hedge accounting, by introducing a substantially reformed accounting model, with enhanced disclosures about risk management activity.

In advance of implementation of the standard, a review of the main financial instruments of the Society has been carried out. From this review, it is not expected that implementation of IFRS 9 will have a material impact on the Group financial statements of the Society. The main difference will be that certain financial assets will be valued using an amortised cost model going forwards, whereas currently most of the Corporation assets and liabilities (with the exception of the subordinated loan notes) are valued at fair value.

The following table gives details of how the key balances within the balance sheet will be valued going forwards:

Investment category	**2017 Amount £m**	Valuation method under IFRS9	Current valuation method
Government fixed interest securities	**808**	Fair value	Fair value
Corporate securities	**733**	Fair value	Fair value
Emerging market and high yield fixed interest	**336**	Fair value	Fair value
Equities	**392**	Fair value	Fair value
Hedge funds	**151**	Fair value	Fair value
Commodities	**48**	Fair value	Fair value
Loan investments	**98**	Fair value	Fair value
Short term and security deposits	**241**	Amortised cost	Fair value
Statutory insurance deposits	**486**	Amortised cost	Fair value
Total financial investments	**3,293**		
Trade and other receivables due within one year	**265**	Amortised cost	Fair value
Cash and cash equivalents	**497**	Amortised cost	Fair value
Subordinated notes and perpetual subordinated capital securities	**793**	Amortised cost	Amortised cost
Trade and other payables	**481**	Amortised cost	Fair value

There is currently no material difference between fair value and amortised cost for the above balances.

Further information on the Society's current accounting policy for financial instruments is provided in note 2(f) and note 18.

Notes to the Financial Statements

(For the year ended 31 December 2017)

2. Principal accounting policies continued

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 was issued in May 2014 and applies to annual reporting periods beginning on or after 1 January 2018. The standard provides a single, principles based five step model to be applied to all contracts with customers.

(i) Identify the contract(s) with a customer;
(ii) Identify the performance obligations in the contract;
(iii) Determine the transaction price;
(iv) Allocate the transaction price to the performance obligations in the contract; and
(v) Recognise revenue when (or as) the entity satisfies a performance obligation.

In advance of implementation of the standard, a review of the Society's revenue streams has been carried out. In particular, each source of revenue has been reviewed applying each of the five steps set out above. From this review, it is not expected that implementation of IFRS 15 will have a material impact on the Group financial statements of the Society. Further information on the Society's current accounting policy for revenue recognition is provided in note 2(n).

IFRS 16 – Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. It will result in almost all leases being recognised on the balance sheet (except for short term and low leases). Under the new standard, an asset (the right to use a leased item) and a financial liability to pay rentals are recognised. IFRS 16 was issued on 1 January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. The majority of the Society's leases are longer term operating leases in respect of properties, within both the UK and a number of overseas locations.

It is expected that implementation of IFRS 16 will have a material impact on the Group financial statements of the Society. Although the requirements of IFRS 16 do not change the total amount of cash flows between the parties to a lease, the recognition pattern of those cash flows will change, with the charge to the Income statement in the earlier stages of a lease typically higher than under current IFRS. Processes and systems are being reviewed to identify where changes are required in order to ensure full compliance with the new accounting standard from 2019 onwards. The outcome of this review and quantification of the impact on the Society's financial statements will be published in 2018. Further information on the Society's current accounting policy for leases is provided in note 2(s) and note 25.

IFRS 17 – Insurance Contracts

IFRS 17 was issued in May 2017, with an effective date of 1 January 2021. The standard is expected to have a material impact on the Society's consolidated accounts, driven by the insurance operations in China, Lloyd's Insurance Company (China) Limited, and the Society's new insurance subsidiary in Belgium, Lloyd's Insurance Company S.A. Further information on the Society's current accounting policy for insurance contracts is provided in note 2(g) and note 5.

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.

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.

(a) Information by business segment	Note	2017 Corporation of Lloyd's £m	2017 Lloyd's Central Fund £m	2017 Society total £m
Segment income				
Total income	3(b)	351	125	476
Segment operating expenses				
Central Fund claims and provisions incurred	4	–	–	–
Gross insurance claims and insurance expenses incurred	5	(212)	–	(212)
Insurance claims and expenses recoverable from reinsurers	5	212	–	212
Other Group operating expenses:				
Employment (including pension costs)	7	(138)	–	(138)
Premises		(52)	–	(52)
Legal and professional	6	(36)	(1)	(37)
Systems and communications		(33)	–	(33)
Other		(35)	(11)	(46)
Total other Group operating expenses		(294)	(12)	(306)
Total segment operating expenses		(294)	(12)	(306)
Total segment operating surplus		57	113	170
Finance costs	8	–	(55)	(55)
Finance income	8	9	53	62
Share of profits of associates	10	10	–	10
Segment surplus before tax		76	111	187
Tax charge				(31)
Surplus for the year				156

Segment assets and liabilities				
Financial investments		645	2,648	3,293
Cash and cash equivalents		433	64	497
Other assets		581	154	735
Segment assets		1,659	2,866	4,525
Tax assets		37	(12)	25
Total assets		1,696	2,854	4,550
Segment liabilities		(1,521)	(834)	(2,355)
Tax liabilities		(30)	23	(7)
Total liabilities		(1,551)	(811)	(2,362)
Total equity		145	2,043	2,188
Other segment information				
Capital expenditure	13/14	8	–	8
Depreciation	14	6	–	6
Impairment of long lived assets	14	2	–	2

Average number of UK employees (permanent and contract)	902	–	902
Average number of overseas employees (permanent and contract)	255	–	255
Average number of total employees (permanent and contract)	1,157	–	1,157

Average staff numbers are on a full time equivalent basis.

Notes to the Financial Statements

(For the year ended 31 December 2017)

3. Segmental analysis continued

(a) Information by business segment continued	Note	2016 Corporation of Lloyd's £m	2016 Lloyd's Central Fund £m	2016 Society total £m
Segment income				
Total income	3(b)	**332**	**120**	**452**
Segment operating expenses				
Central Fund claims and provisions incurred	4	–	(8)	(8)
Gross insurance claims and insurance expenses incurred	5	(200)	–	(200)
Insurance claims and expenses recoverable from reinsurers	5	200	–	200
Other Group operating expenses:				
Employment (including pension costs)	7	(147)	–	(147)
Premises		(49)	–	(49)
Legal and professional	6	(33)	(1)	(34)
Systems and communications		(36)	–	(36)
Other		(31)	(10)	(41)
Total other Group operating expenses		**(296)**	**(11)**	**(307)**
Total segment operating expenses		**(296)**	**(19)**	**(315)**
Total segment operating surplus		**36**	**101**	**137**
Finance costs	8	–	(54)	(54)
Finance income	8	(1)	315	314
Share of profits of associates	10	8	–	8
Segment surplus before tax		**43**	**362**	**405**
Tax charge				(75)
Surplus for the year				**330**
Segment assets and liabilities				
Financial investments		672	2,688	3,360
Cash and cash equivalents		344	47	391
Other assets		414	160	574
Segment assets		**1,430**	**2,895**	**4,325**
Tax assets		47	(7)	40
Total assets		**1,477**	**2,888**	**4,365**
Segment liabilities		**(1,408)**	**(928)**	**(2,336)**
Tax liabilities		(25)	(8)	(33)
Total liabilities		**(1,433)**	**(936)**	**(2,369)**
Total equity		**44**	**1,952**	**1,996**
Other segment information				
Capital expenditure	13/14	9	–	9
Depreciation	14	8	–	8
Impairment of long lived assets	14	–	–	–
Average number of UK employees (permanent and contract)		877	–	877
Average number of overseas employees (permanent and contract)		247	–	247
Average number of total employees (permanent and contract)		**1,124**	**–**	**1,124**

Average staff numbers are on a full time equivalent basis.

(b) Income	Corporation of Lloyd's 2017 £m	Corporation of Lloyd's 2016 £m	Lloyd's Central Fund 2017 £m	Lloyd's Central Fund 2016 £m	Society total 2017 £m	Society total 2016 £m
Market Charges						
Managing agents and syndicates	**156**	142	**–**	–	**156**	142
Members and members' agents	**13**	13	**–**	–	**13**	13
Total market charges	**169**	155	**–**	–	**169**	155
Members' subscriptions	**133**	135	**–**	–	**133**	135
Market modernisation levy	**31**	28	**–**	–	**31**	28
Other charges	**18**	14	**–**	–	**18**	14
Total operating income	**351**	**332**	**–**	**–**	**351**	**332**
Central Fund income	**–**	–	**125**	120	**125**	120
Gross written premiums	**253**	238	**–**	–	**253**	238
Outward reinsurance premiums	**(253)**	(238)	**–**	–	**(253)**	(238)
Total income	**351**	**332**	**125**	**120**	**476**	**452**

The table below analyses income by geographical segment:

	2017 £m				2016 £m			
	UK	**China**	**Other**	**Total**	UK	China	Other	Total
Total operating income	**287**	**25**	**39**	**351**	269	24	39	332
Central Fund income	**125**	**–**	**–**	**125**	120	–	–	120
Gross written premiums	**–**	**253**	**–**	**253**	–	238	–	238
Outward reinsurance premiums	**–**	**(253)**	**–**	**(253)**	–	(238)	–	(238)
Total income	**412**	**25**	**39**	**476**	**389**	**24**	**39**	**452**

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) 0.40% and 0.35% respectively of their syndicate forecast gross written premium (2016: 0.45% 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 ultimate amounts to be retained by the Corporation and the Central Fund for 2017 will be based on actual 2017 gross written premiums of members, the quantification of which will not be known until 2019. The £122m (Central Fund contributions from members) and £133m (members' subscriptions) included in the Group income statement are based on the present best estimates of the ultimate amounts that will be retained by the Central Fund and the Corporation respectively.

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 gross written premiums overseas. The collection method is quarterly with an adjustment after 12 months to the actual level of premiums written.

In addition to the above, a levy was charged to fund the costs of market modernisation, the levy is calculated as 0.09% (2016: 0.10%) of gross written premiums.

Other Group income includes foreign exchange gains, market settlement recoveries which represent continuing debt recoveries from the 1996 'Reconstruction and Renewal' settlement and recoveries in respect of undertakings given by the Central Fund.

Notes to the Financial Statements

(For the year ended 31 December 2017)

4. Central Fund claims and provisions incurred

	Note	2017 £m	2016 £m
Net undertakings granted	22	–	(8)
Central Fund claims and provisions incurred		**–**	**(8)**

The Council has given 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(q) for further information). Unutilised undertakings as at 31 December 2017 were nil (2016: nil).

5. Insurance activities

Lloyd's Insurance Company (China) Limited

Lloyd's Insurance Company (China) Limited (LICCL) is the principal insurance business of the Society. LICCL is a wholly owned subsidiary undertaking of the Society. The company's principal activity during 2017 was the reinsurance of non-life business in the China insurance market and direct non-life insurance in the Shanghai municipality. Lloyd's syndicates participate in LICCL's business by means of retrocession agreements which allow a 100% risk transfer.

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. Outstanding claims provisions are discounted for the time value of money.

	2017 £m	2016 £m
Insurance claims		
Gross claims		
Claims paid	(78)	(55)
Change in provisions for claims	(72)	(74)
Total gross claims	(150)	(129)
Reinsurance expenses	(62)	(71)
Total gross insurance claims and insurance expenses incurred	**(212)**	**(200)**
Claims recoverable from reinsurers		
Claims recovered from reinsurers	78	55
Change in reinsurance contract assets	72	74
Total claims recoverable from reinsurers	150	129
Reinsurance expenses recovered from reinsurers	62	71
Total insurance claims and expenses recoverable from reinsurers	**212**	**200**

Insurance contract assets and liabilities are analysed as follows:

	2017 Insurance contract liabilities £m	2017 Reinsurer's share of liabilities £m	2017 Net £m	2016 Insurance contract liabilities £m	2016 Reinsurer's share of liabilities £m	2016 Net £m
Provision for claims reported	116	(116)	–	60	(60)	–
Provision for IBNR claims	117	(117)	–	106	(106)	–
Total provision for insurance claims	233	(233)	–	**166**	**(166)**	–
Unearned premiums	109	(109)	–	88	(88)	–
Insurance contract liabilities	342	(342)	–	**254**	**(254)**	–

The increased balances flow from additional business written through the LICCL platform and the duration of claims payments.

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

	2017 Insurance contract liabilities £m	2017 Reinsurer's share of liabilities £m	2017 Net £m	2016 Insurance contract liabilities £m	2016 Reinsurer's share of liabilities £m	2016 Net £m
At 1 January	166	(166)	–	79	(79)	–
Claims incurred/(released)	150	(150)	–	129	(129)	–
Claims paid (see below)	(78)	78	–	(55)	55	–
Effect of exchange rates	(5)	5	–	13	(13)	–
At 31 December	233	(233)	–	**166**	**(166)**	–

Claims incurred consist of claims and claims handling expenses paid during the year, together with the movement in outstanding claims. Full provision is made, on the basis of available information, for the estimated ultimate cost of claims notified but not settled as at the date of the statement of financial position, after taking into account handling costs and settlement trends. A provision for claims incurred but not notified is also established as at that date on a statistical basis. The provision also reflects claims settlement expenses and anticipated reinsurance and other recoveries. The provision for outstanding claims is based on information available at the reporting date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided.

Any differences between the provision and subsequent settlements are recorded in the Group income statements of later years.

Claims development table

The table below shows the development of claims over a period of time on a gross basis. The claims development table shows the cumulative incurred claims, including both notified and IBNR claims for each successive year, together with cumulative claims at the current reporting date.

	2013 and prior £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
At end of underwriting year	111	19	72	122	107	
One year later	109	24	77	163		
Two years later	101	24	72			
Three years later	103	25				
Four years later	99					
Current estimate of cumulative claims	99	25	72	163	107	
Cumulative payments to date	(91)	(20)	(49)	(68)	(5)	
Total provision for insurance claims	8	5	23	95	102	233

Due to the fully reinsured liabilities of the vast majority of the Society's insurance business, the Society has not prepared a claims development table on a net basis.

Notes to the Financial Statements

(For the year ended 31 December 2017)

5. Insurance activities continued

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

	2017 Insurance contract liabilities £m	2017 Reinsurer's share of liabilities £m	2017 Net £m	2016 Insurance contract liabilities £m	2016 Reinsurer's share of liabilities £m	2016 Net £m
At 1 January	88	(88)	–	31	(31)	–
Premiums written	253	(253)	–	238	(238)	–
Premiums earned	(231)	231	–	(186)	186	–
Effect of exchange rates	(1)	1	–	5	(5)	–
At 31 December	**109**	**(109)**	**–**	**88**	**(88)**	**–**

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.

LICCL has reinsured and retroceded 100% of the insurance risk for all underwritten premiums.

The concentration of insurance risk is presented by major line of business below:

	2017 %	2016 %
Commercial property insurance	30	34
Agricultural insurance	12	22
Credit insurance	22	13
Engineering insurance	9	11
Hull insurance	7	6
Special risk insurance	4	4
Liability insurance	8	4
Other	8	6
	100	**100**

Risks

In addition to the risks which are set out in the Financial Risk Management section on pages 111 to 112, the Corporation's subsidiary LICCL is 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 LICCL could potentially be exposed to a loss;
- Regulatory risk: as an overseas underwriting company, LICCL is subject to the requirements of the local regulator and could be subject to penalties if these regulations are not satisfied; and
- Management do not consider that LICCL 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 flow. As LICCL does not have the basic historic data to perform accurate computation of risk margin now, the risk margin of non-life business is determined based on an industry ratio. Under this basis, the risk margin of unearned premium reserve is set at 3% and the risk margin of outstanding claims reserve is set at 2.5% of the unbiased estimation of future cash flow respectively.

Credit Risk

LICCL is exposed to credit risks primarily associated with insurance, reinsurance and retrocession arrangements with its insurance counterparties. 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.

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.

Unearned premium reserve

The main assumptions used in the calculation of the unearned premium reserve relate to the loss ratio, expenses and the discount rate.

(a) Loss ratio

The 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.

(b) Expenses

In determining expense assumptions, estimates are made based on analysis of future development trends and after taking inflation into account where applicable. The assumptions set for the inflation rate are consistent with those used for determining the discount rate.

(c) Discount rate

The discount rate used to calculate the unearned premium 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 macro economics and capital markets and is therefore subject to uncertainty.

Outstanding claims reserve

When calculating the outstanding claims reserve, the estimate is based on the expected ultimate cost of reported and unreported claims at the balance sheet date. The ultimate claim cost is determined based on historical experience; the expected loss ratio provided by the syndicates; actual claims experience and other elements. Claims expense reserves are calculated with reference to actual claims expenses and future developing trends.

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 unearned premium reserve.

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(For the year ended 31 December 2017)

6. Other Group operating expenses

	Note	2017 Corporation of Lloyd's £m	2017 Lloyd's Central Fund £m	2017 Total £m
Other Group operating expenses include:				
Employment costs	7	138	–	138
Operating lease costs – Lloyd's 1986 building		17	–	17
Operating lease costs – other		12	–	12
Professional fees, including legal fees and related costs		34	1	35
Audit		1	–	1
Other services payable to PricewaterhouseCoopers LLP		1	–	1
Total legal and professional fees		36	1	37
Charitable donations		1	–	1

Other 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.

	Note	2016 Corporation of Lloyd's £m	2016 Lloyd's Central Fund £m	2016 Total £m
Other Group operating expenses include:				
Employment costs	7	147	–	147
Operating lease costs – Lloyd's 1986 building		17	–	17
Operating lease costs – other		11	–	11
Professional fees, including legal fees and related costs		31	1	32
Audit		1	–	1
Other services payable to PricewaterhouseCoopers LLP		1	–	1
Total legal and professional fees		33	1	34
Charitable donations		1	–	1

Other 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.

7. Employment

	Note	2017 £m	2016 £m
Salaries and wages (including performance related bonus)		89	84
Lloyd's Performance Plan (excluding social security costs)		–	7
Lloyd's Pension Scheme costs	12	(2)	12
Other pension costs		4	3
Social security costs		11	9
Severance costs		6	1
Contract and agency staff		18	16
Other employment costs		12	15
Total employment costs		138	147

The emoluments of the Chairman, CEO, members of the Council and Board are included in the report of the Remuneration Committee on page 95.

8. Finance

	Note	2017 Corporation of Lloyd's £m	2017 Lloyd's Central Fund £m	2017 Total £m
Finance costs				
Interest payable on financial liabilities measured at amortised cost		–	(51)	(51)
Other interest payable and similar charges		–	–	–
Amortisation of issue costs and discount		–	(4)	(4)
Total interest payable on financial liabilities	3(a)	–	(55)	(55)
Finance income				
Bank interest received		2	7	9
Dividends received		–	7	7
Other returns on investments designated at fair value through profit or loss		(2)	38	36
Unrealised fair value movement of forward contracts held for trading		9	(1)	8
Realised fair value movement of forward contracts held for trading		–	2	2
Movement in valuation of loans recoverable designated at fair value through profit or loss		–	–	–
Total finance income	3(a)	9	53	62

	Note	2016 Corporation of Lloyd's £m	2016 Lloyd's Central Fund £m	2016 Total £m
Finance costs				
Interest payable on financial liabilities measured at amortised cost		–	(53)	(53)
Other interest payable and similar charges		–	–	–
Amortisation of issue costs and discount		–	(1)	(1)
Total interest payable on financial liabilities	3(a)	–	(54)	(54)
Finance income				
Bank interest received		3	6	9
Dividends received		–	7	7
Other returns on investments designated at fair value through profit or loss		1	372	373
Unrealised fair value movement of forward contracts held for trading		(5)	4	(1)
Realised fair value movement of forward contracts held for trading		–	(77)	(77)
Increase in valuation of loans recoverable designated at fair value through profit or loss		–	3	3
Total finance income	3(a)	(1)	315	314

Notes to the Financial Statements

(For the year ended 31 December 2017)

9. 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 (note 1).

The following subsidiaries principally affected the Group's results as at 31 December 2017, as set out in the Society Group income statement.

Company name	Nature of business	Country of incorporation
Additional Underwriting Agencies (No. 5) Limited	Acts as members' agent for Names	England and Wales
Additional Securities Limited	Provision of deposits overseas on behalf of Lloyd's underwriters to comply with local insurance regulations	England and Wales
Centrewrite Limited	Authorised UK insurance company	England and Wales
Lloyd's Finance Company Limited	Capital management	England and Wales
Lloyd's Housing Support Limited	General commercial company	England and Wales
Lloyd's Members Agency Services Limited	Acts as members' agent for run off affairs	England and Wales
Omniline Services Limited	Incorporated for the purpose of sale and leaseback of Lloyd's 1958 Building	England and Wales
Syndicate Underwriting Management Limited	Provision of insurance run off and related administrative services	England and Wales
Tutelle Limited	Acts as a trustee of a fund established in order to secure the performance of obligations under certain indemnities given by the Society	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	Australia
Lloyd's Canada Inc.	Provision of administration function on behalf of the Society and Lloyd's underwriters in Canada	Canada
Lloyd's Cyprus Limited	Acts as general and fiscal representative in Cyprus of Lloyd's underwriters	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	Brazil
Lloyd's France SAS	Provides administrative and management services on behalf of the Society and insurance market participants	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	Spain
Lloyd's Insurance Company (China) Limited	Authorised insurance company in China	China
Lloyd's Insurance Company S.A.	Lloyd's planned insurance company in Belgium for EU business	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	Ireland
Lloyd's Japan Inc.	Acting as a general agent for the Society in Japan	Japan
Lloyd's Labuan Limited	Licensed to carry on business as underwriting manager in Malaysia	Malaysia
Lloyd's Limited	Provides administrative and management services on behalf of the Society and participants of Lloyd's insurance market	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	Malta
Lloyd's Netherlands Representative B. V.	Acts as representative office of Lloyd's underwriters and the Society	Netherlands
Lloyd's of London (Asia) Pte Ltd	Provides support for business development, administration and coordination 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	Singapore
Lloyd's of London (Representative Office) Greece SA	Acts as general and fiscal representative of Lloyd's underwriters in Greece	Greece
Lloyd's Polska Sp. z o.o.	Provides administrative and management services on behalf of the Society of Lloyd's and participants of Lloyd's insurance market	Poland
Lloyd's South Africa (Proprietary) Ltd	Provision of administration function on behalf of the Society and Lloyd's underwriters in South Africa	South Africa

Company name	Nature of business	Country of incorporation
Lloyd's America Ltd.	Parent Company of Lloyd's America Holding Inc.	England and Wales
Lloyd's America Holding Inc. Lloyd's America Inc. Lloyd's Illinois Inc. Lloyd's Kentucky Inc.	Provision of services to the Society of Lloyd's and its brokers and customers in North America	USA

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 of Lloyd's.

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 (2016: RMB 1bn) within Lloyd's Insurance Company (China) Limited (LICCL). 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 as at 31 December 2017.

Company name	Country of incorporation
Additional Underwriting Agencies (No. 9) Limited	England and Wales
Additional Underwriting Agencies (No.10) Limited	England and Wales
Bankside Nominees Limited	England and Wales
Barder & Marsh Nominees Limited	England and Wales
CI de Rougemont (Nominees) Limited	England and Wales
CMA (CT&W) Nominees Limited	England and Wales
Crowe Agency Nominees Limited	England and Wales
Cuthbert Heath Nominees Limited	England and Wales
Devonshire Underwriting Agencies Nominees Limited	England and Wales
EHW (Nominees) Limited	England and Wales
EWC (Nominees) Limited	England and Wales
GP Eliot (Nominees) Limited	England and Wales
Gammell Kershaw Nominees Limited	England and Wales
GTUA Nominees Limited	England and Wales
Habit Nominees Limited	England and Wales
Hayter Brockbank Shipton Nominees Limited	England and Wales
Higgins Brasier Nominees Limited	England and Wales
Lloyd's Nominees Director Limited	England and Wales
Lloyd's Nominees Secretary Limited	England and Wales
Lloyd's of London (Cassidy Members) Nominees Limited	England and Wales
Lloyd's of London (Claremount) Nominees Limited	England and Wales
Lloyd's of London (Harrison Brothers) Nominees Limited	England and Wales
Lloyd's of London (Murray Lawrence) Nominees Limited	England and Wales
Lloyd's of London (Octavian) Nominees Limited	England and Wales
Lloyd's of London (R J Kiln) Nominees Limited	England and Wales
Lloyd's of London (Sedgwick) Nominees Limited	England and Wales
Lloyd's of London (Spratt & White) Nominees Limited	England and Wales

Notes to the Financial Statements

(For the year ended 31 December 2017)

9. Investments in subsidiary undertakings continued

Dormant subsidiaries continued

Company name	Country of incorporation
Lloyd's of London (Stewart Members) Nominees Limited	England and Wales
Lloyd's of London (Wellington) Nominees Limited	England and Wales
Lloyd-Roberts & Gilkes Nominees Limited	England and Wales
Mander, Thomas & Cooper Nominees Limited	England and Wales
Meacock (Nominees) Limited	England and Wales
MFK Nominees Limited	England and Wales
Miles Smith Nominees Limited	England and Wales
Mocatta Dashwood Nominees Limited	England and Wales
MUA Nominees Limited	England and Wales
Mythzone Nominees Limited	England and Wales
Nomad Nominees Limited	England and Wales
Pieri Nominees Limited	England and Wales
Pound Nominees Limited	England and Wales
R F Kershaw (Nominees) Limited	England and Wales
Rilong Nominees Limited	England and Wales
Scott Caudle Hilsum Nominees Limited	England and Wales
Sturge Central Nominees Limited	England and Wales
Wendover Nominees Limited	England and Wales
WFDA Nominees Limited	England and Wales
Lloyd's Aviation Limited	England and Wales
Lloyd's Building Limited	England and Wales
Lloyd's.com Limited	England and Wales
Lloyd's Information Services Limited	England and Wales
Lloyd's Life Limited	England and Wales
Lloyd's List Limited	England and Wales
Lloyd's of London Press Limited	England and Wales
Lloyd's Recoveries Limited	England and Wales
Lloyd's Shelf Company 1 Limited	England and Wales
Lutine Nominees & Insurance Limited	England and Wales
Sharedealer Limited	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.

10. 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	Country of Incorporation	Proportion of equity capital held	Nature of business
Ins-sure Holdings Limited	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	England and Wales	50%	Provision of claims and recoveries services
The Message Exchange Limited	England and Wales	Limited by guarantee 25%	Provision of messaging infrastructure to the London insurance market
Structured Data Capture Limited	England and Wales	Limited by guarantee 33%	Provision of standardisation of data capture across the London 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:

(a) The A shares participate in 50% of any profits available for distribution after taking account of the dividend rights outlined above; and
(b) The C shares carry a right to a fixed cumulative preference dividend of 5% calculated on the nominal capital and a variable participating dividend calculated by reference to trading profits.

The Society entered into a joint venture agreement with International Underwriting Association of London Limited (IUA); London and International Brokers' Association Limited; and Lloyd's Market Association (LMA) for an equal participation in The Message Exchange Limited (TMEL) which was incorporated on 27 August 2010. TMEL operates The Exchange – a simple messaging hub provided to the London insurance market to support its efforts to extend the use of electronic processing of business. As at 31 December 2016 and 2017, the net assets of TMEL had no material impact on the Society accounts.

In 2017, the Society entered into a joint venture agreement with IUA and LMA for an equal participation in Structured Data Capture Limited (SDC) which was incorporated on 14 June 2017. The share capital of SDC is £3.

Investments in Associates and Joint Ventures

	2017 £m	2016 £m
At 1 January	7	8
Share of operating profits	11	10
Share of interest income	–	–
Share of tax on profit on ordinary activities	(1)	(2)
Total share of profits of associates	10	8
Share of actuarial gains/(losses) on pension liability	2	(3)
Share of tax on items taken directly to equity	(1)	1
Dividends received	–	(7)
At 31 December	**18**	7

Notes to the Financial Statements

(For the year ended 31 December 2017)

Summarised statement of financial position

Summary of financial information for associates and joint ventures – 100%:

	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	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Current assets								
Debtors	**21**	25	**6**	8	**–**	–	**–**	–
Prepayments and accrued income	**2**	–	**–**	–	**–**	–	**–**	–
Cash at bank and in hand	**41**	11	**21**	9	**–**	–	**–**	–
Total current assets	**64**	36	**27**	17	**–**	–	**–**	–
Non-current assets								
Tangible fixed assets	**–**	1	**–**	–	**–**	–	**–**	–
Intangible assets	**35**	32	**–**	–	**–**	–	**–**	–
Deferred tax assets	**2**	2	**–**	–	**–**	–	**–**	–
Total non-current assets	**37**	35	**–**	–	**–**	–	**–**	–
Current liabilities								
Creditors falling due within one year	**(39)**	(33)	**(14)**	(11)	**–**	–	**–**	–
Current income tax liabilites	**(9)**	(7)	**(2)**	(1)	**–**	–	**–**	–
Total current liabilities	**(48)**	(40)	**(16)**	(12)	**–**	–	**–**	–
Non-current liabilities								
Creditors falling due after more than one year	**–**	–	**–**	–	**–**	–	**–**	–
Pension liability	**(3)**	(13)	**–**	(1)	**–**	–	**–**	–
Total non-current liabilities	**(3)**	(13)	**–**	(1)	**–**	–	**–**	–
Net assets	**50**	18	**11**	4	**–**	–	**–**	–

Summarised statement of comprehensive income

	Ins-sure Holdings Limited		Xchanging Claims Services Limited		The Message Exchange Limited		Structured Data Capture Limited	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Revenues	**101**	99	**32**	29	**1**	1	**1**	–
Operating costs	**(74)**	(68)	**(24)**	(24)	**(1)**	(1)	**(1)**	–
Operating profit	**27**	31	**8**	5	**–**	–	**–**	–
Profit on ordinary activities before taxation	**27**	31	**8**	5	**–**	–	**–**	–
Tax on profit on ordinary activities	**(2)**	(6)	**(2)**	(1)	**–**	–	**–**	–
Profit for the financial year	**25**	25	**6**	4	**–**	–	**–**	–
Other comprehensive income	**8**	(9)	**–**	(1)	**–**	–	**–**	–
Total comprehensive income	**33**	16	**6**	3	**–**	–	**–**	–

11. Taxation

(a) Tax analysis of charge in the year

	Note	2017 £m	2016 £m
Current tax:			
Corporation tax based on profits for the year at 19.25% (2016: 20%)		**(23)**	(72)
Adjustments in respect of previous years		**1**	2
Foreign tax suffered		**(3)**	(2)
Total current tax		**(25)**	(72)
Deferred tax:			
Origination and reversal of timing differences			
Current year		**(7)**	(2)
Prior year		**1**	(1)
Tax charge recognised in the Group income statement	11(b)	**(31)**	(75)
Analysis of tax charge recognised in the Group statement of comprehensive income:			
Tax (charge)/credit on actuarial loss on pension liabilities:			
Group		**(9)**	19
Associates		**–**	–
Tax (charge)/credit recognised in the Group statement of comprehensive income		**(9)**	19
Total tax charge		**(40)**	(56)

(b) Reconciliation of effective tax rate

	2017 %	2017 £m	2016 %	2016 £m
Surplus on ordinary activities before tax		**187**		405
Expected tax at the current rate	**19.3%**	**(36)**	20.0%	(81)
Expenses not deductible for tax purposes	**0.5%**	**(1)**	0.1%	–
Overseas tax	**0.2%**	**(1)**	0.1%	–
Difference between tax and accounting profit on investments	**(0.4%)**	**1**	(0.1%)	–
Share of profits of associates	**(1.0%)**	**2**	(0.4%)	2
Deferred tax on restated fixed assets	**(0.3%)**	**1**	(0.1%)	–
Deferred tax adjustment relating to change in tax rate	**(0.5%)**	**1**	(0.7%)	3
Deferred tax prior year adjustments	**(0.4%)**	**1**	0.3%	(1)
Current tax prior year adjustments	**(0.8%)**	**1**	(0.6%)	2
Tax charge	**16.6%**	**(31)**	18.6%	(75)

Notes to the Financial Statements

(For the year ended 31 December 2017)

11. Taxation continued

(c) Deferred tax

	2017 Balance at 1 January £m	2017 Income statement £m	2017 Equity £m	2017 Balance at 31 December £m
Plant and equipment	4	1	–	5
Financial investments	(7)	(6)	–	(13)
Pension liabilities	39	(1)	(9)	29
Other employee benefits	3	(1)	–	2
Provisions	–	1	–	1
Other items	1	–	–	1
Total deferred tax	40	(6)	(9)	25

In 2017 there were no unrecognised deductible temporary differences (2016: nil).

Deferred tax assets and liabilities are measured at the tax rate that will apply to the period when an asset is expected to be realised or a liability is expected to be settled. The applicable rate is that which has been enacted or substantively enacted by the balance sheet date.

The deferred tax asset is based on a corporation tax rate of 19% to 17% depending on when an asset is expected to unwind (2016: 19.25% to 17%). Reductions to the UK corporate tax rate to 19% from 1 April 2017 and 17% from 1 April 2020 were substantively enacted in September 2016.

	2016 Balance at 1 January £m	2016 Income statement £m	2016 Equity £m	2016 Balance at 31 December £m
Plant and equipment	6	(2)	–	4
Financial investments	(1)	(6)	–	(7)
Pension liabilities	17	3	19	39
Other employee benefits	3	–	–	3
Other items	–	1	–	1
Total deferred tax	25	(4)	19	40

12. Pension schemes

Lloyd's operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme, which is a defined benefit scheme. Other schemes have been established for certain employees based overseas.

These schemes are generally funded by the payment of contributions to separately administered funds.

Defined benefit and contribution plans

The pension deficits of the schemes at 31 December 2017 are as follows:

	2017 £m	2016 £m
Lloyd's Pension Scheme	(161)	(228)
Overseas pension schemes	(3)	(3)
Total schemes deficit	(164)	(231)

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

	2017 £m	2016 £m
Group income statement		
Lloyd's Pension Scheme	(2)	12
Overseas pension schemes	2	2
Other pension contributions	2	1
Total	2	15
Group statement of comprehensive income		
Lloyd's Pension Scheme	(48)	127
Overseas pension schemes	–	–
Total	(48)	127

Lloyd's Pension Scheme

The Lloyd's Pension Scheme is a defined benefit pension scheme with assets held in a separately administered fund. The Scheme provides pensions to members on retirement, as well as benefits on the death of members. The Scheme operates in accordance with the Scheme's Trust Deed and Rules and relevant legislation. A Board of Trustees manage and administer the Scheme; they are primarily responsible for ensuring that members are paid the correct benefits at the correct time, and that there are sufficient Scheme assets to pay benefits as they fall due.

The Scheme was originally set up as a final salary pension scheme (i.e. benefits for employed members were linked to their latest salary), with a normal retirement age of 60 and an enhanced benefit section for senior managers. In recent years, in order to mitigate exposure to pension scheme liabilities, several changes have been made to the Lloyd's Pension Scheme.

- In February 2005, the senior management section of the Scheme was closed to new entrants and the Normal Retirement Age (NRA) for all new joiners was increased from 60 to 65.
- The final salary scheme was closed to new joiners at the end of June 2006. New entrants from July 2006 were eligible to join the Lloyd's Pension Scheme but accrue benefits on a career average basis (where benefits are based on their average salary rather than final salary).
- In April 2013, Lloyd's made some further changes to its pension arrangements. The career average (i.e. CARE) section of the scheme was closed to new joiners from April 2013, and to existing hires from June 2013 (existing employed members of each section continue to accrue benefits). After these dates, employees are eligible to join the Lloyd's Group Personal Pension Plan, which is administered by Aviva. The amount charged to the Group income statement in respect of Lloyd's Group Personal Pension Plan is £2m (2016: £1m).

Closure of pension scheme

The Society carried out a review of its rewards and recognition package during the year. The aim of this review was to ensure that the Society offers a competitive and attractive package that is fair and consistent to all employees and in line with other employers, both within and beyond the financial services industry.

As a result, the Society announced on 4 September 2017 a number of proposals regarding future pension provision for its employees. Following that announcement, the Society entered into a collective consultation process for those in the Defined Benefit Pension Scheme, during which employee representatives were elected and workshops were held, followed by meetings with affected individuals.

Following completion of that consultation process on 22 November 2017, and responding to some proposals from employees, the Society subsequently announced that it will be proceeding with the closure of the Defined Benefit Pension Scheme to all members with effect from 30 June 2018. Following that, all existing members of the Scheme will be automatically enrolled into the Lloyd's Group Personal Pension plan (GPP). The GPP contribution was also externally benchmarked and reviewed, with increased levels being approved from 2018 for all employees.

Notes to the Financial Statements

(For the year ended 31 December 2017)

12. Pension schemes continued

Scheme contributions and funding valuation

UK legislation requires the funding position of the Scheme to be assessed at least every three years by an independent qualified actuary. Contributions are paid to provide for the cost of benefit accrual and to meet any funding deficit. Any funding deficit or surplus is typically amortised over a period. Contributions are made at the funding rates based on assumptions recommended by the actuary, and agreed between the Trustees and Lloyd's.

The last 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 £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 is in place and has been agreed with the Trustees. This will be kept under review as circumstances develop.

Employee contributions of 5% of pensionable earnings (or 10% of pensionable earnings for members of the senior management section) have been introduced from July 2006. Normally, instead of making an employee contribution, employees make a salary sacrifice of the appropriate percentage of their salary and Lloyd's makes an additional employer contribution of the same amount.

Following the 2016 actuarial valuation, employer contributions to meet the cost of future accrual as a percentage of salaries are 35% for final salary members with an NRA of 60, 30.8% for final salary members with an NRA of 65 and 18.6% for members accruing benefits on a career average basis.

Members of the Lloyd's Group Personal Pension plan can elect their contribution rate (payable via salary sacrifice) and can change this at any time.

Following the review of the UK reward in 2017, a revised contribution matrix has been introduced from 1 January 2018, as follows:

Employee	Lloyd's	Total
3%	8%	11%
4%	9%	13%
5%	10%	15%
6%	11%	17%

The cap on Lloyd's contribution has been increased to 11%.

With effect from 1 July 2018, the contribution matrix will be further extended.

Discretionary pension increases – treatment for funding purposes

There are no guaranteed increases in payment for pensions accrued before 6 April 1997. In 2003, Lloyd's instructed 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 Lloyd's and will continue to be considered on the basis of affordability, but are not taken into account by the actuary in determining the funding level.

Information about the risks of the Scheme to Lloyd's

The ultimate cost of the Scheme to Lloyd's will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and as such the cost of the Scheme may be higher or lower than disclosed. In general, the risk to Lloyd's is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to Lloyd's is higher than expected. This could result in higher contributions required from Lloyd's and a higher deficit disclosed. This may also impact Lloyd's ability to grant discretionary benefits or other enhancements to members.

More specifically, the assumptions not being borne out in practice could include:

- The return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the required contribution;
- Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities;
- A decrease in corporate bond yields will increase the Scheme's liabilities, although this will be partially offset by an increase in the value of the Scheme's bond assets;
- The majority of the Scheme's assets are linked to inflation, and higher inflation will lead to higher liabilities; 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, amounting to around 40% 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 passive and active equities, and active property. During 2017, three equity fund mangers were appointed to manage the new active equity allocation. The combined equity proportion is approximately 50% of the total assets and the property proportion is around 10%.

As the Scheme matures, the Trustees and Lloyd's expect to gradually reduce the proportion allocated to return-seeking assets and increase the proportion allocated to matching assets.

Principal actuarial assumptions in respect of IAS 19

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 2017 was 110% (2016: 105%) of SAPs light tables for males and 115% (2016: 110%) SAPs light tables for females, with allowance for future improvements in line with CMI 2015 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 28 years to 29 years (2016: 29 years to 30 years); and
- For non-pensioners currently aged 45: ranging from 30 years to 31 years (2016: 30 years to 31 years).

The other major financial assumptions used by the actuary as at 31 December 2017 for the purposes of IAS 19 were:

	2017 % per annum	2016 % per annum	2015 % per annum	2014 % per annum	2013 % per annum
General salary and wage inflation	**4.2**	4.4	4.2	4.1	4.4
Rate of increase in pensions in payment					
6 April 1997 to 5 April 2005	**3.1**	3.2	3.1	3.0	3.2
Post 5 April 2005	**2.2**	2.3	2.2	2.2	2.3
Increases to final salary deferred pensions					
Benefits accrued before April 2009	**2.2**	2.4	2.2	2.1	2.4
Benefits accrued from April 2009	**2.2**	2.4	2.2	2.1	2.4
CARE revaluation in service and in deferment, and increase in payment	**2.2**	2.3	2.2	2.2	2.3
Discount rate	**2.4**	2.6	3.8	3.7	4.4
Price inflation					
Retail Price Inflation (RPI)	**3.2**	3.4	3.2	3.1	3.4
Consumer Price Inflation (CPI)	**2.2**	2.4	2.2	2.1	2.4

An allowance is made for members commuting 20% (2016: 20%) of their pension on retirement using the factors in use at the respective date.

For IAS 19 purposes, Lloyd's recognises the cost of discretionary increases to pre 6 April 1997 benefits in payment when there is a constructive liability to make such increases. Lloyd's provided £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 Lloyd's carries out its annual review of pensions in accordance with the Scheme's Definitive Trust Deed. As long as there is a notional fund set aside for this purpose, discretionary increases will continue to be made. As at 31 December 2017 the value of the notional fund was £30m (2016: £29m).

Notes to the Financial Statements

(For the year ended 31 December 2017)

12. Pension schemes continued

Sensitivity of pension obligation to changes in assumptions

The actuarial valuation of liabilities under IAS 19 is particularly sensitive to changes in market conditions.

A change of 1% per annum in the discount rate as at 31 December 2017 would result in a change to the pension liabilities at that date of around 20%, or approximately £190m (2016: £190m).

A change of 1% per annum in the assumption for future inflation (both RPI and CPI) as at 31 December 2017, which would change future expectations of salary increases, pension increases and deferred revaluation, would result in a change to the pension liabilities at that date of around 10%, or approximately £95m (2016: £95m).

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 2017 would be 3% higher (2016: 3%).

Amounts for the current and previous years were:

Asset/(liability) analysis of the Scheme	**2017 Fair value £m**	2016 Fair value £m	2015 Fair value £m	2014 Fair value £m	2013 Fair value £m
Bonds					
Corporate bonds	**137**	135	127	131	89
Index-linked gilts	**142**	141	124	128	88
Equities					
UK equities	**33**	41	56	57	68
Overseas (excluding UK) equities	**342**	284	257	255	288
Property	**97**	91	86	77	65
Infrastructure	**16**	15	11	12	10
Cash and net current assets	**29**	23	13	20	26
Total market value of assets	**796**	730	674	680	634
Actuarial value of Scheme liabilities	**(957)**	(958)	(768)	(763)	(666)
Deficit in the Scheme	**(161)**	(228)	(94)	(83)	(32)
Irrecoverable surplus (effect of asset ceiling)	**–**	–	–	–	–
Net defined benefit liability	**(161)**	(228)	(94)	(83)	(32)

All of the Scheme's assets are quoted in an active market. The Scheme is not currently invested in any of Lloyd's own assets. Approximately 96% of the Scheme's liabilities relate to final salary members and 4% relates to CARE members.

Changes in the present value of the defined benefit obligations are:

	2017 £m	2016 £m
Actuarial value of Scheme liabilities at 1 January	**958**	768
Interest cost on Pension Scheme liabilities	**24**	29
Current service cost (net of employee contributions)	**11**	8
Employee contributions	**2**	2
Benefits paid	**(28)**	(25)
Experience gains arising in Scheme liabilities	**2**	(18)
Curtailments	**(20)**	–
Change in assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	**(11)**	(8)
Financial assumption change	**19**	202
Actuarial value of Scheme liabilities at 31 December	**957**	958

Changes in fair value of plan assets were:

	2017 £m	2016 £m
Fair value of Scheme assets at 1 January	**730**	674
Expected return on Pension Scheme assets	**18**	27
Employer contributions		
Normal	**6**	5
Special	**11**	–
Employee contributions	**2**	2
Benefits paid	**(28)**	(25)
Actuarial gain on Scheme assets	**58**	48
Administrative expenses	**(1)**	(1)
Fair value of Scheme assets at 31 December	**796**	730

Lloyd's expects to contribute approximately £3m in normal contributions to the pension scheme in 2018.

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

	2017 £m	2016 £m
Experience (reductions)/gains arising on Scheme liabilities	**(2)**	19
Changes in the assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	**11**	8
Financial assumption change	**(19)**	(202)
Actuarial loss arising during period	**(10)**	(175)
Return on Fund assets greater than discount rate	**58**	48
Change in irrecoverable surplus	**–**	–
Remeasurement effects recognised in the Group statement of comprehensive income	**48**	(127)

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

	2017 £m	2016 £m
Current service cost	**12**	9
Net interest on net defined benefit liability	**6**	3
Curtailments	**(20)**	–
Total operating (credit)/charge	**(2)**	12

Approximately 62% of the service cost for 2017 relates to final salary members and 38% relates to CARE members.

Notes to the Financial Statements

(For the year ended 31 December 2017)

12. Pension schemes continued

Maturity profile of Defined Benefit Obligation

The Scheme is maturing over time, with 38% of the members in the Scheme being retired members and with an approximate duration of the Scheme's liabilities of around 20 years.

The expected benefit payments from the Scheme over the next few years are as follows:

	£m
Expected benefit payments during year ending 31-Dec-18	25
Expected benefit payments during year ending 31-Dec-19	24
Expected benefit payments during year ending 31-Dec-20	25
Expected benefit payments during year ending 31-Dec-21	27
Expected benefit payments during year ending 31-Dec-22	27
Expected benefit payments during period 01-Jan-23 to 31-Dec-27	161
Expected benefit payments during period 01-Jan-28 to 31-Dec-32	186
Expected benefit payments from 01-Jan-33 onward	1,205

Overseas pension schemes

Lloyd's operates a number of defined benefit schemes for qualifying employees based overseas. The actuarial valuations of these pension schemes at 31 December 2017 resulted in a deficit of £3m (2016: £3m).

Development of net balance sheet position	2017 £m	2016 £m
Value of assets	3	3
Actuarial value of scheme liabilities	(6)	(6)
Deficit in the scheme	(3)	(3)
Net defined benefit liability	**(3)**	(3)

The total expense recognised in other Group operating expenses of £1m (2016: £1m) represents the related current service cost of these schemes. No actuarial gain/loss has been recognised in the Group statement of comprehensive income (2016: nil).

Defined contribution plans

Lloyd's operates a number of defined contribution retirement benefit schemes for qualifying employees based overseas. The assets of the schemes are held separately from those of Lloyd's in funds under the control of the Trustees.

In some countries, employees are members of state-managed retirement benefit schemes. Lloyd's is required to contribute a specified percentage of payroll costs to fund these benefits. The only obligation of Lloyd's with respect to the retirement benefit scheme is to make the specified contributions.

The total expense recognised in the Group income statement of £2m (2016: £1m) represents contributions payable to these schemes by Lloyd's at pricing levels specified in the rules of these schemes.

13. Intangible assets

Software development

	£m
Cost	
At 1 January 2016	5
Additions	–
Disposals	–
At 31 December 2016	5
Additions	**–**
Disposals	**–**
At 31 December 2017	**5**
Amortisation	
At 1 January 2016	(5)
Charge for the year	–
Disposals	–
At 31 December 2016	(5)
Charge for the year	**–**
Disposals	**–**
At 31 December 2017	**(5)**
Net book value at 31 December 2017	**–**
Net book value at 31 December 2016	–

Impairment losses

As part of an assessment of the carrying value of assets, none of the intangible assets were written off in 2017 and 2016.

14. Tangible assets

Plant and equipment

	Furniture and fittings £m	Computer and specialised equipment £m	Total £m
Cost			
At 1 January 2016	29	22	51
Additions	6	3	9
Disposals	(3)	(1)	(4)
At 31 December 2016	32	24	56
Additions	**5**	**3**	**8**
Disposals	**(2)**	**(2)**	**(4)**
At 31 December 2017	**35**	**25**	**60**
Depreciation and impairment			
At 1 January 2016	18	15	33
Depreciation charge for the year	5	3	8
Disposals	(2)	(1)	(3)
At 31 December 2016	21	17	38
Depreciation charge for the year	**3**	**3**	**6**
Impairment losses	**–**	**2**	**2**
Disposals	**(2)**	**(2)**	**(4)**
At 31 December 2017	**22**	**20**	**42**
Net book value at 31 December 2017	**13**	**5**	**18**
Net book value at 31 December 2016	11	7	18

Notes to the Financial Statements

(For the year ended 31 December 2017)

14. 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, £2m of plant and equipment was written off in 2017 (2016: nil).

Lloyd's Collection

The Lloyd's Collection represents various paintings, antiques and artefacts. The collection was valued at £13m in November 2015, 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 £1m in 2015.

In 2017, it was assessed that there was no change in valuation.

15. Loans recoverable

	2017 £m	2016 £m
At 1 January	43	44
Recoveries during the year	(3)	(4)
Fair value movements recognised during the year	–	3
At 31 December	**40**	43

The Society's loans recoverable are categorised as fair value Level 3 (refer to note 18). All fair value movements are recognised as finance income or finance costs in the Group income statement and relate solely to the revaluation of hardship and Limited Financial Assistance Agreements (LFAA) assets.

16. Financial investments

	Note	2017 £m	2016 £m
Statutory insurance deposits	16(a)	486	497
Other investments	16(b)	2,807	2,863
Total financial investments		**3,293**	3,360

(a) Statutory insurance deposits

	2017 Securities £m	2017 Deposits £m	2017 Total £m
Market value at 1 January	14	483	497
Additions at cost	27	477	504
Disposal proceeds	(28)	(458)	(486)
Deficit on the sale and revaluation of investments	(1)	(28)	(29)
Market value at 31 December	**12**	**474**	**486**

	2016 Securities £m	2016 Deposits £m	2016 Total £m
Market value at 1 January	12	434	446
Additions at cost	27	499	526
Disposal proceeds	(27)	(527)	(554)
Surplus on the sale and revaluation of investments	2	77	79
Market value at 31 December	14	483	497

	2017 Cost £m	**2017 Valuation £m**	2016 Cost £m	2016 Valuation £m
Analysis of government securities at year end	**12**	**12**	12	14

Analysis of securities	**2017 £m**	2016 £m
AAA	**106**	85
AA	**164**	157
A	**196**	56
BBB	**8**	188
Other	**12**	11
Total securities	**486**	497

Finance is arranged by advances from syndicates in the Lloyd's market. These advances are renewed annually. By agreement with the lenders, investment returns earned on these assets are paid, in appropriate proportions, to the lenders. In this way, the Society avoids any risk arising from a mismatch between borrowing and lending terms. Book cost is stated at historical exchange rates; market value is quoted at year end exchange rates.

The provision of funds by members in respect of the establishment and maintenance of overseas deposits is a condition of permission to underwrite insurance business at Lloyd's.

Notes to the Financial Statements

(For the year ended 31 December 2017)

16. Financial investments continued

(b) Other investments

	2017 Corporation of Lloyd's £m	2017 Central Fund £m	2017 Total £m
Market value at 1 January	175	2,688	2,863
Additions at cost	–	1,197	1,197
(Decrease)/increase in short term deposits	(16)	23	7
Disposal proceeds	–	(1,266)	(1,266)
Surplus on the sale and revaluation of investments	–	6	6
Market value at 31 December	**159**	**2,648**	**2,807**
Analysis of securities at year end			
Listed securities			
Fixed interest			
Government	–	808	808
Corporate securities	–	733	733
Emerging markets	–	287	287
High yield	–	49	49
Total fixed interest	–	1,877	1,877
Global equities	–	392	392
Total listed securities	**–**	**2,269**	**2,269**
Unlisted securities			
Hedge funds	–	151	151
Commodities	–	48	48
Loan investments	–	98	98
Short term deposits	159	62	221
Security deposits (see below)	–	20	20
Total unlisted securities	**159**	**379**	**538**
Market value	**159**	**2,648**	**2,807**

	2017 Corporation of Lloyd's £m	2017 Central Fund £m	2017 Total £m
Analysis of securities			
AAA	31	265	296
AA	27	810	837
A	95	313	408
BBB	6	314	320
Other	–	946	946
Total securities	**159**	**2,648**	**2,807**

	2016 Corporation of Lloyd's £m	2016 Central Fund £m	2016 Total £m
Market value at 1 January	235	2,422	2,657
Additions at cost	–	1,710	1,710
Decrease in short term deposits	(60)	(1)	(61)
Disposal proceeds	–	(1,761)	(1,761)
Surplus on the sale and revaluation of investments	–	318	318
Market value at 31 December	175	2,688	2,863
Analysis of securities at year end			
Listed securities			
Fixed interest			
Government	–	747	747
Corporate securities	–	864	864
Emerging markets	–	89	89
High yield	–	59	59
Total fixed interest	–	1,759	1,759
Global equities	–	551	551
Total listed securities	–	2,310	2,310
Unlisted securities			
Hedge funds	–	166	166
Commodities	–	49	49
Loan investments	–	104	104
Short term deposits	175	39	214
Security deposits (see below)	–	20	20
Total unlisted securities	175	378	553
Market value	175	2,688	2,863

	2016 Corporation of Lloyd's £m	2016 Central Fund £m	2016 Total £m
Analysis of securities			
AAA	46	387	433
AA	36	723	759
A	86	417	503
BBB	7	224	231
Other	–	937	937
Total securities	175	2,688	2,863

Notes to the Financial Statements

(For the year ended 31 December 2017)

16. Financial investments continued

(b) Other investments continued

Security deposits

Tutelle Limited

In 1996 the Council set aside £20m of the 'Old' Central Fund, under a Lloyd's special account, to secure the Society's obligations under staff indemnities and certain indemnities that have been given by Lloyd's to certain individuals and advisers in respect of the 'Reconstruction and Renewal' plan. These include members of the Reserve Group, directors and officers of Equitas, members of the Council, Lloyd's Regulatory Board, Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub committees and Corporation staff.

Unless and until there is any default under the security documentation, interest earned on the trust fund is paid to the 'Old' Central Fund. The security was deposited for an initial period of two years and the Council exercised its discretion to renew this in June 1998. The Council further amended the period of the deposit in November 1998, so that the security could only be released if the Council was satisfied that there was no reasonable prospect of a claim being made under these indemnities. Tutelle's position is under biennial review and, having been reviewed in July 2016, will be reviewed again in July 2018. The security may continue for a period of up to 80 years. Any of the funds remaining after this period will be repaid to the 'Old' Central Fund.

17. Trade and other receivables due within one year

	2017 £m	2016 £m
Due within one year		
Trade (net of allowance for impairment)	3	3
Insurance and reinsurance receivables	196	123
Members' subscriptions and contributions receivable	–	3
Interest receivable	16	17
Taxation and social security	4	2
Overseas office deposits	2	3
Amounts due from underwriters	5	7
Other receivables	39	47
Total trade and other receivables	**265**	205

18. Financial instruments

Explanations of the Society's financial instrument risk management objectives, policies and strategies are set out in the discussion of the Society's financial risk management and treasury policies on pages 111 to 112 of the Financial Review.

Fair values and credit risk

The methods and assumptions used in estimating the fair value of financial instruments are detailed in note 2(f) on pages 126 to 127.

The fair value (based on the quoted offer prices) of subordinated debt is £925m (2016: £952m) against a carrying value measured at amortised cost of £793m (2016: £883m). All other financial instruments are either held at fair value or at an amount that approximates fair value.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, in the Group statement of financial position.

Impairment losses

Trade receivables

The ageing of trade receivables as at 31 December 2017 and 2016 was as follows:

	2017 Gross £m	2017 Impairment £m	2017 Net £m	2016 Gross £m	2016 Impairment £m	2016 Net £m
1-30 days	2	–	2	2	–	2
Past due 31-120 days	1	–	1	–	–	–
More than 120 days	–	–	–	1	–	1
Total	**3**	**–**	**3**	3	–	3

The Society's normal credit terms are 30 days. Receivables of more than 120 days represent amounts due from members no longer underwriting in respect of Society charges.

There was no movement in the allowance for impairment in respect of trade receivables during the year.

Sensitivity analysis

Foreign currency exposure

Currency risk is the risk that the sterling value of the Society's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Society's exposure to the risk of changes in the foreign exchange rates relates primarily to retranslating foreign currency subordinated notes, revaluation of loans recoverable and changes in the fair value of foreign currency denominated investments and forward contracts. Further details on foreign currency risk can be found on page 112.

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 2017, a 10% rise in the value of sterling, against all other currencies, would have reduced the surplus before tax by £150m (2016: £133m). 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 2017, a consistent increase of 100 basis points in the yields applicable to all relevant securities would have reduced the surplus before tax by approximately £35m (2016: £34m). 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 112.

Equity price risk

Equity price risk is the risk that the market values of equity investments fall. At 31 December 2017, a 15% fall in the value of all the Society's equity investments would have reduced the surplus before tax by approximately £86m (2016: £84m). 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 112.

Notes to the Financial Statements

(For the year ended 31 December 2017)

18. Financial instruments continued

Liquidity risk

The table below summarises the maturity profile of the Society's non-derivative financial liabilities as at 31 December 2017 based on undiscounted contractual cash flows:

As at 31 December 2017	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	793	(1,112)	(38)	(38)	(115)	(921)
Loans funding statutory insurance deposits	483	(483)	(483)	–	–	–
Trade and other payables	481	(481)	(481)	–	–	–
Total	1,757	(2,076)	(1,002)	(38)	(115)	(921)

As at 31 December 2016	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	494	(690)	(24)	(24)	(71)	(571)
Perpetual subordinated capital securities	389	(421)	(421)	–	–	–
Loans funding statutory insurance deposits	494	(494)	(494)	–	–	–
Trade and other payables	378	(378)	(378)	–	–	–
Total	1,755	(1,983)	(1,317)	(24)	(71)	(571)

The contractual cash flows have been based on the expectation, but not the obligation, that the subordinated notes and perpetual subordinated capital securities 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 and the perpetual subordinated capital securities can be found in note 21 on page 164.

Derivative financial instruments

The Society enters into forward currency contracts to manage exposures to fluctuation of exchange rates and to provide a service to the Lloyd's market. The Society's derivative financial instruments are categorised as fair value Level 2.

Analysis of forward currency contracts	2017 £m	2016 £m
Outstanding forward foreign exchange gains	16	16
Outstanding forward foreign exchange losses	(10)	(19)

The fair value and notional amounts of forward currency contracts, all of which mature within one year, are analysed as follows:

	2017 Assets		2017 Liabilities	
As at 31 December 2017	Fair value £m	Notional £m	Fair value £m	Notional £m
Currency conversion service	6	223	(6)	(224)
Other forward foreign exchange contracts	8	545	(2)	(538)
Interest rate swaps	2	179	(2)	(179)
Total	16	947	(10)	(941)

	2016 Assets		2016 Liabilities	
As at 31 December 2016	Fair value £m	Notional £m	Fair value £m	Notional £m
Currency conversion service	6	207	(7)	(207)
Other forward foreign exchange contracts	8	441	(9)	(442)
Interest rate swaps	2	187	(3)	(187)
Total	16	835	(19)	(836)

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.

	Notes	2017 Level 1 £m	2017 Level 2 £m	2017 Level 3 £m	2017 Total £m
Financial assets at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	4	–	4
Unlisted securities		–	8	–	8
Deposits with credit institutions		–	474	–	474
Total statutory insurance deposits	16(a)	–	486	–	486
Other investments					
Listed securities		808	885	–	1,693
Equity investments		392	184	–	576
Unlisted securities		–	279	18	297
Deposits with credit institutions		–	241	–	241
Total other investments	16(b)	1,200	1,589	18	2,807
Derivative financial instruments					
Currency conversion service		–	6	–	6
Other forward foreign exchange contracts		–	8	–	8
Interest rate swaps		–	2	–	2
Total derivative financial instruments	18	–	16	–	16
Loans recoverable	15	–	–	40	40
Total financial assets at fair value through profit or loss		1,200	2,091	58	3,349
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(6)	–	(6)
Other forward foreign exchange contracts		–	(2)	–	(2)
Interest rate swaps		–	(2)	–	(2)
Total derivative financial instruments	18	–	(10)	–	(10)
Total financial liabilities at fair value through profit or loss		–	(10)	–	(10)

Notes to the Financial Statements

(For the year ended 31 December 2017)

18. Financial instruments continued

Fair value hierarchy continued

	Notes	2016 Level 1 £m	2016 Level 2 £m	2016 Level 3 £m	2016 Total £m
Financial assets at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	4	–	4
Unlisted securities		–	10	–	10
Deposits with credit institutions		–	483	–	483
Total statutory insurance deposits	16(a)	–	497	–	497
Other investments					
Listed securities		746	1,012	–	1,758
Equity investments		396	155	–	551
Unlisted securities		–	301	18	319
Deposits with credit institutions		–	235	–	235
Total other investments	16(b)	1,142	1,703	18	2,863
Derivative financial instruments					
Currency conversion service		–	6	–	6
Other forward foreign exchange contracts		–	8	–	8
Interest rate swaps		–	2	–	2
Total derivative financial instruments	18	–	16	–	16
Loans recoverable	15	–	–	43	43
Total financial assets at fair value through profit or loss		1,142	2,216	61	3,419
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(7)	–	(7)
Other forward foreign exchange contracts		–	(9)	–	(9)
Interest rate swaps		–	(3)	–	(3)
Total derivative financial instruments	18	–	(19)	–	(19)
Total financial liabilities at fair value through profit or loss		–	(19)	–	(19)

This table has been re-presented from that shown in the 2016 Annual Report to show interest rate swaps of both £2m assets and £3m liabilities as Level 2 that were previously shown as Level 1 and £235m of deposits with credit institutions as Level 2 that were previously shown as Level 1.

The Society's senior secured loans (reported within unlisted securities) and loans recoverable are categorised within Level 3 fair values.

Unlisted securities

Senior secured loans represent corporate lending to third parties that are held directly by the Society and managed by an external specialist investment manager. Gains and losses arising from changes in fair value are included in the Group income statement in the period in which they arise. The revaluation process is carried out on a monthly basis.

When specific loans are insufficiently traded, the investment manager will determine fair value based on various unobservable factors and market inputs. This approach aligns with a Level 3 classification. Level 3 asset price estimation processes involve significant judgement including the input choice. The investment manager will determine the most appropriate valuation method, which may comprise of, but is not limited to: discounted cash flow models, option adjusted spread prices, trading values on comparable assets or indicative broker quote(s).

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.

Loans recoverable

Recoverable Central Fund loans made to hardship members are managed on a fair value basis and relate solely to the revaluation of hardship, LFAA 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.

Fair values are determined by reference to an estimate of the valuation of the underlying securities at the dates at which they may be exercised and discounted back to present day values. In the calculation of the fair value, the securities include both properties that have had a 2% increase applied and hardship trust fund assets with an annual increase of 1.3%. Both securities have had the percentage increase applied until the date at which they may be exercised. The property market remained stable throughout 2017 and showed a slight increase in property values since 2016. A discount rate of 2.4% has also been applied to achieve present day fair value. The securities include both properties and hardship trust fund assets. A security can normally only be exercised on the later of the date of death of the member or of their spouse. This date is assessed using actuarial assumptions.

The fair value movements during the year are recognised as finance income or finance costs in the Group income statement. The table below sets out a reconciliation from the opening balances to the closing balances of Level 3 fair values:

	2017 £m	2016 £m
As at 1 January	**61**	58
Purchases	**10**	6
Sales	**(5)**	(6)
Transfers from Level 3	**(7)**	(3)
Total net (loss)/gain recognised in the profit and loss	**(1)**	6
As at 31 December	**58**	61

Sensitivity analysis

The majority of the Society's investments are valued based on quoted market information or other observable market data.

The Society holds 1.7% (2016: 1.8%) of its financial investments at a fair value based on estimates and recorded as Level 3 investments.

Unlisted securities sensitivities

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, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions is unlikely to result in a significant change in fair value.

Loans recoverable sensitivities

The value of loans recoverable is affected by changes in both property and hardship trust fund values. The property values are determined by periodic valuations, together with applying Halifax price indices bi-annually to revalue the assets at interim and year end. Inflationary increases are then applied to both property values and hardship trust funds until the estimated exercised date and then discounted back to present day values. Inflationary increases are estimated taking current economic conditions into account.

As at 31 December 2017, a decrease of 100 basis points in the property values, comprising the greatest part of the total balance, would not have an impact on the surplus before tax (2016: nil). This analysis assumes that all other variables, including inflationary increases and discounted rates, remain the same.

19. Cash and cash equivalents

	2017 £m	2016 £m
Cash at banks	**251**	179
Short term deposits	**246**	212
Total cash and cash equivalents	**497**	391

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 £497m (2016: £391m).

Notes to the Financial Statements

(For the year ended 31 December 2017)

20. Equity

Accumulated reserves

	2017 £m	2016 £m
Attributable to:		
Corporation of Lloyd's	94	(1)
Central Fund	2,043	1,952
Associates	18	7
Total accumulated reserves	**2,155**	1,958

Revaluation reserve

The revaluation reserve is used to record increases in the fair value of the Lloyd's Collection and decreases to the extent that such decreases relate to the amount previously recognised in the Group statement of comprehensive income.

Translation reserve

The translation reserve 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.

21. Subordinated notes and perpetual subordinated capital securities

	2017 £m	2016 £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	–
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	500	500
7.421% perpetual subordinated capital securities of £392m redeemed on 21 June 2017	–	392
	800	892
Less issue costs to be charged in future years	(4)	(6)
Less discount on issue to be unwound in future years	(3)	(3)
Total	**793**	883

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.

Subordinated debt issued in 2007

The perpetual subordinated capital securities ('capital securities') were perpetual securities and had no fixed redemption date. However, they were redeemed in whole on 21 June 2017 at the option of the Society. The capital securities bore interest at a rate of 7.421% per annum until 20 June 2017, payable annually in arrears on 21 June in each year.

22. Provisions

	2017 Undertakings given to insolvent members £m	2017 Income Assistance Scheme £m	2017 Lease cost provision £m	2017 Restructuring £m	2017 Other risks and charges £m	2017 Total £m
Balance at 1 January	–	2	11	–	1	14
Charged/(released) in the year	–	–	4	4	(1)	7
Utilised in the year	–	–	(6)	–	–	(6)
Balance at 31 December	**–**	**2**	**9**	**4**	**–**	**15**

	2016 Undertakings given to insolvent members £m	2016 Income Assistance Scheme £m	2016 Lease cost provision £m	2016 Restructuring £m	2016 Other risks and charges £m	2016 Total £m
Balance at 1 January	6	2	13	–	1	22
Charged in the year	8	–	2	–	–	10
Utilised in the year	(14)	–	(4)	–	–	(18)
Balance at 31 December	–	2	11	–	1	14

Undertakings given to insolvent members

The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls.

The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. For those corporate members in provisional liquidation, the Council has also provided a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding-up commencing on the date of the provisional liquidation.

	Note	2017 £m	2017 £m	2016 £m	2016 £m
Provisions for amounts payable at 1 January			–		6
Undertakings granted in the year	4		–		8
Analysis of paid undertakings by member					
Ebury Underwriting Limited		–		(7)	
Hermanus Underwriting Limited		–		(7)	
Paid during the year			–		(14)
Undertakings given to insolvent members at 31 December			**–**		–

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.

Restructuring provision

The provision is mainly in respect of obligations to impacted employees arising from the implementation of the new Corporation Operating Model (COM).

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.

Notes to the Financial Statements

(For the year ended 31 December 2017)

22. Provisions continued

Sensitivities continued

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 in these costs will therefore increase 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.

23. Trade and other payables

	2017 £m	2016 £m
Due within one year		
Trade and other creditors	**122**	130
Insurance and reinsurance payables	**320**	204
Members' subscriptions and contributions repayable	**16**	19
Taxation and social security	**4**	3
Arbitration awards	**2**	2
Interest payable on subordinated loan notes	**17**	20
Total trade and other payables	**481**	378

24. Cash generated from operations

	Notes	2017 £m	2016 £m
Surplus before tax		**187**	405
Net finance income	8	**(7)**	(260)
Share of profits of associates	10	**(10)**	(8)
Operating surplus		**170**	137
Central Fund claims and provisions incurred	4	**–**	8
Operating surplus before Central Fund claims and provisions		**170**	145
Adjustments for:			
Depreciation of plant and equipment	14	**6**	8
Impairment losses	14	**2**	–
Losses on sale and revaluation of fixed assets		**–**	2
Gains on investments		**–**	3
Foreign exchange losses/(gains) on operating activities		**3**	(3)
Operating surplus before working capital changes and claims paid		**181**	155
Changes in pension obligations		**(17)**	7
Increase in receivables		**(161)**	(240)
Increase in payables		**215**	286
Increase/(decrease) in provisions other than for Central Fund claims		**1**	(2)
Cash generated from operations before claims paid		**219**	206
Claims paid in respect of corporate/insolvent members	22	**–**	(14)
Cash generated from operations		**219**	192

	1 January 2017 £m	Cash flows £m	Non-cash changes £m	31 December 2017 £m
Subordinated notes	883	(94)	4	793
Loans funding statutory insurance deposits	494	18	(29)	483
Total	**1,377**	**(76)**	**(25)**	**1,276**

25. Commitments

(a) Capital expenditure commitments

Capital expenditure commitments contracted but not provided for in the financial statements was nil (2016: £1m).

(b) Operating lease commitments – Lloyd's as lessee

	2017 £m	2016 £m
Non-cancellable operating lease rentals are payable as follows:		
Within one year	**32**	34
After one year but not more than five years	**105**	99
More than five years	**166**	186

Commitments outstanding under the terms of the lease for the Lloyd's 1986 building have been included at the current rental value (£17m per annum) to the end of the lease term in February 2031. The lease is subject to a rent review every fifth year, the 2016 review is not settled.

During the year ended 31 December 2015, the Society entered into a new lease agreement for Lloyd's Limited in Dubai. The lease expires in January 2021 following an option to extend the lease. An option to extend for both the Lloyd's lease and sub-leases for three years was agreed in 2017.

Subsidiary undertakings are party to a number of small operating leases mainly for property rental and small machinery. The commitments outstanding have been included at current rental value to the first break in the lease. These arrangements do not impose any significant restrictions on the Society.

During the year ended 31 December 2017, £29m (2016: £28m) was recognised as an expense in the Group income statement in respect of operating leases.

(c) Operating lease commitments – Lloyd's as lessor

	2017 £m	2016 £m
Non-cancellable operating lease rentals are receivable as follows:		
Within one year	**8**	8
After one year but not more than five years	**11**	20
More than five years	**–**	–

The two major tenants for the Lloyd's 1986 building are included at the current rental value to the first break in the leases in 2020 and 2021.

Subsidiary undertakings are party to a number of small operating leases for property sub-rental. The lease rentals receivable have been included at current rental value to the first break in the lease.

The option to extend the Dubai lease has resulted in sub-lease agreements entered into between Lloyd's Limited and various managing agents also being extended to January 2021.

During the year ended 31 December 2017, £15m (2016: £14m) was recognised as income in the Group income statement in respect of operating leases.

Notes to the Financial Statements

(For the year ended 31 December 2017)

26. Disclosure of related party transactions

The Group financial statements include the financial statements of the Society and all of its subsidiary undertakings, the Lloyd's Central Fund and the Group's interests in its associates and joint ventures as listed in note 10.

Services provided to Ins-sure Holdings Limited Group in the year ended 31 December 2017 included operating systems support and development, premises and other administrative services.

Services provided to Xchanging Claims Services Limited Group in the year ended 31 December 2017 included premises and other administrative services.

Structured Data Capture Limited, a company in which the Society holds a 33% interest, was incorporated on 14 June 2017 with a share capital of £3. The company has been set up as part of the Target Operating Model project in order to improve the efficiency of Market Reform Contract processing and to implement standardisation of data capture across the market.

Services provided to The Message Exchange Limited in the year ended 31 December 2017 included the provision of messaging infrastructure.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial years together with information regarding the outstanding balances at 31 December 2017 and 2016.

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Associates:								
Ins-sure Holdings Limited	**–**	–	**2**	5	**–**	–	**–**	1
Xchanging Claims Services Limited	**–**	–	**–**	–	**–**	–	**–**	–
Joint Ventures:								
Structured Data Capture Limited	**–**	–	**–**	–	**–**	–	**–**	–
The Message Exchange Limited	**–**	–	**1**	–	**–**	–	**–**	–

Transactions with associates and joint arrangements are priced on an arm's length basis.

The Chairman of Lloyd's, Bruce Carnegie-Brown, is also Vice Chairman of Banco Santander, as noted in the Chairman's biography on page 86. Lloyd's Iberia Representative Limited S.L.U., a wholly owned subsidiary of the Society as listed in note 9 on page 140, changed its main operating bank account from La Caixa Bank Spain to Banco Santander in June 2017. Any transactions with Banco Santander are on an arm's length basis.

In the normal course of business, the Society may enter into transactions with Lloyd's market businesses in which members of Council and the Board may have an interest.

Details of the compensation paid to key management personnel including short-term employee benefits, post-employment benefits, other long-term benefits and termination benefits are disclosed within the Report of the Remuneration Committee on pages 93 to 103.

Five Year Summary

(For the year ended 31 December 2017)

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Corporation operating income	**351**	332	239	220	218
Central Fund income	**125**	120	111	115	108
Gross written premiums	**253**	238	104	53	39
Outward reinsurance premiums	**(253)**	(238)	(104)	(53)	(39)
Total income	**476**	452	350	335	326
Central Fund claims and provisions incurred	**–**	(8)	–	(1)	(18)
Central Fund repayment to members	**–**	–	–	(49)	–
Gross insurance claims and insurance expenses incurred	**(212)**	(200)	(69)	(13)	(20)
Insurance claims and expenses recoverable from reinsurers	**212**	200	69	14	20
Other Group operating expenses					
Employment (including pension costs)	**(138)**	(147)	(126)	(108)	(103)
Premises	**(52)**	(50)	(40)	(42)	(46)
Legal and professional	**(37)**	(34)	(27)	(21)	(17)
Systems and communications	**(33)**	(36)	(26)	(24)	(23)
Other	**(46)**	(40)	(40)	(32)	(30)
Total other Group operating expenses	**(306)**	(307)	(259)	(227)	(219)
Surplus before finance, associates and tax	**170**	137	91	59	89
Finance costs					
Deficit on subordinated debt repurchase	**–**	–	–	(9)	(15)
Interest payable on financial liabilities and other	**(55)**	(54)	(54)	(49)	(56)
Finance income	**62**	314	43	93	60
Realised/unrealised exchange gains/(losses) on borrowings	**–**	–	–	7	(6)
Share of profits of associates	**10**	8	7	8	7
Surplus before tax	**187**	405	87	109	79
Tax charge	**(31)**	(75)	(13)	(18)	(14)
Surplus for the year	**156**	330	74	91	65

5

Other Information

Lloyd's is the world's specialist insurance and reinsurance market. Led by expert brokers and underwriters operating in more than 200 territories, the Lloyd's market develops and distributes complex and critical insurance to help underwrite human progress.

The Lloyd's Market

The business written at Lloyd's is brought to specialist syndicates, who price and underwrite risk, via brokers and coverholders. As at 31 December 2017, the Lloyd's market consisted of 95 syndicates managed by 56 managing agents.

Acappella Syndicate 2014
ADVENT A FAIRFAX Company
AEGIS London
ALLIED WORLD
AmTrust at Lloyd's An AmTrust Financial Company
AmTrust Life AmTrust at Lloyd's Syndicate 44
antares
APOLLO Syndicate Management Limited
Arch Insurance
ARCUS 1856
Argenta
ArgoGlobal Member Argo Group
Ariel Re Member Argo Group
ARK
ascot
ASPEN
asta
ATRIUM
AXIS
Barbican Insurance Group
Beaufort Underwriting Agency Limited
beazley
Blenheim Syndicate 5886
BRIT Global Specialty
canopius
CAPITA
CATHEDRAL Underwriting Ltd
Charles Taylor Managing Agency
Chaucer
CHINA RE Syndicate 2088 at Lloyd's
CHUBB
CNA / HARDY
COVERYS
Dale Underwriting Partners
DTW 1991
ERS
EVEREST Everest Re Group, Ltd.
FARADAY
Hamilton at Lloyd's
HISCOX

Liberty Specialty Markets

MAP underwriting at Lloyd's

MARKEL

MS Amlin

MSF Pritchard
Syndicate 318
Underwriters at Lloyd's

Munich RE

Navigators
Insuring a World in Motion

NEON

Nephila

Newline Group

Novae
LOOKING FORWARD

PARALINE

PATRIA RE

PEMBROKE

1492 PROBITAS

QBE

RenaissanceRe

S A Meacock & Company Limited

Sirius International

SKULD

SOMPO INTERNATIONAL

Standard Syndicate

STARR COMPANIES

STARSTONE

SYNDICATE 2525

TALBOT VALIDUS GROUP

The Channel Managing Agency

TOKIO MARINE HCC

TOKIO MARINE KILN

TRAVELERS

VERTO SYNDICATE 2689

VIBE SYNDICATE MANAGEMENT

W/R/B UNDERWRITING
| a Berkley Company

XL CATLIN

Alternative Performance Measures (APMs)

The following metrics, which are consistently used to analyse financial performance in the Lloyd's Market Results and/or in the Society Report, are considered to be Alternative Performance Measures (APMs) as defined in the European Securities and Markets Authority Guidelines (ESMA Guidelines) on Alternative Performance Measures.

Metric	Applicable part of the Annual Report	Definition	Reason for use
Combined ratio	Market results	Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	Combined ratio is used to measure the profitability of the underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Underwriting result	Market results	Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.	Underwriting result is used to measure the profitability of the underwriting activity across the Lloyd's market.
Accident year ratio	Market results	Accident year ratio is a measure of the profitability of the underwriting activity attributable to the current financial year. It is the ratio of net operating expenses plus claims incurred net of reinsurance and prior year releases to earned premium net of reinsurance.	Accident year ratio is used to measure the profitability of the underwriting activity of the Lloyd's market attributable to the current financial year.
Return on capital	Market results	Return on capital is a measure of overall profitability. It is the ratio of result for the year before tax to the average of opening and closing total capital and reserves.	Return on capital ratio is used to measure the overall profitability and value creating potential of the Lloyd's market.
Investment return	Market results and Society Report	Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average of opening and closing financial investments and cash at bank and in hand.	Investment return ratio is used to measure the performance of the portfolio of investments and cash balances held across the Lloyd's market.
Budgeted operating expenses	Society Report	Operating expenses are budgeted on an annual basis as part of a Corporation-wide exercise. These are calculated on an IFRS basis using a bottom up approach, consolidating figures across the different countries and departments within the Corporation.	The annual budget is a key part of the financial control process within the Corporation and provides an estimate of expected future cost levels.
Free cash balances	Society Report	Free cash represents the amounts, both at bank and on deposit, held in the UK and overseas, excluding any balances held in respect of insurance and arbitration activities.	Provides a measure of the cash resources available to the Corporation to meet operating expenses.
Operating surplus	Society Report	The operating surplus is calculated as income from members (including subscriptions, Central Fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.	The operating surplus provides an indication of how the Society's income covers its cost base. This also provides a comparison of whether Central Fund contributions cover the cost of claims arising on the fund.

Glossary of Terms and Useful Links

Set out below is a guide to insurance and Lloyd's-related terms. These are not precise definitions but are included to provide assistance to readers as to the general meaning of terms commonly used in the Lloyd's market. Formal definitions are set out in the Definitions Byelaw.

Accident year ratio A measure of the profitability of the underwriting activity attributable to the current financial year. The accident year ratio is calculated as net operating expenses and net incurred losses (paid and reserves) for claims occurring in the year as a proportion of net premiums earned during the year. It excludes movements during the calendar year on claims, expenses and premium estimates for previous years.

Active underwriter A person employed by a managing agent with principal authority to accept insurance and reinsurance risks on behalf of the members of a syndicate.

Binding authority An agreement between a Lloyd's managing agent and a coverholder under which the Lloyd's managing agent delegates its authority to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate.

Budgeted operating expenses Operating expenses are budgeted on an annual basis as part of a Corporation-wide exercise. These are calculated on an IFRS basis using a bottom up approach, consolidating figures across the different countries and departments within the Corporation.

Callable layer Central Fund assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds.

Central assets The net assets of the Society including the Central Fund, but excluding the subordinated debt liability and the callable layer.

Central Fund The fund financed by (among other things) contributions from Lloyd's members and administered by the Council primarily as a fund for the protection of policyholders, and includes both the 'Old' Central Fund and the New Central Fund.

Central SCR The Lloyd's Central Solvency Capital Ratio is calculated to cover all of the risks facing the Society and the Central Fund at a 99.5% confidence level over a one year time horizon.

Combined ratio A measure of an insurer's underwriting profitability based on the ratio of net incurred claims plus net operating expenses to net earned premiums. A combined ratio of 100% is 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 Corporation of Lloyd's provides the licences and other facilities that enable business to be underwritten on a worldwide basis by managing agents acting on behalf of members.

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

Coverholder A firm either in the UK or overseas that is authorised by a managing agent under the terms of a binding authority to enter into contracts of insurance to be underwritten by members of a syndicate managed by the managing agent. A Lloyd's broker may act as a coverholder.

Economic Capital Assessment The level of capital required to meet Lloyd's financial strength, license 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.

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).

Glossary of Terms and Useful Links

Non-technical account Under UK GAAP the profit and loss account must be divided between the technical account and the non-technical account. Reported in the latter is all investment return, although an element will be reanalysed to the technical account, and any income and expenses that do not arise directly from the entity's underwriting activity.

Operating surplus The operating surplus is calculated as income from members (including subscriptions, central fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.

Premiums trust funds (PTF) The premiums and other monies that members receive in respect of their underwriting at Lloyd's are held by their managing agents in trust for them subject to the discharge of their underwriting liabilities.

The premiums trust funds comprise a sterling fund, Lloyd's American Trust Fund, Lloyd's Dollar Trust Funds, Lloyd's Canadian Trust Fund and the Lloyd's Asia trust funds (which cover general business written through coverholders in Singapore). These premiums trust funds are available to fund overseas regulatory deposits, claims, return premiums, underwriting expenses and any profit that is payable to the member after providing for all future liabilities.

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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