LLOYD'S

26 March 2020

Press release

Lloyd's balance sheet, capital management and solvency in strong position to respond to COVID-19

Lloyd's has today confirmed that the market is in a strong position to respond to the impacts of COVID-19 and support its customers and business partners, following the publication of its 2019 annual results. In 2019, Lloyd's net resources increased by 8.6% to £30.6bn, reflecting an exceptionally strong balance sheet and a central solvency ratio of 238%.

Although there has been a high degree of turbulence in the financial markets over recent weeks, as at 19 March Lloyd's solvency ratio stood at 205%. The exceptional strength of the market's balance sheet has been further bolstered by Lloyd's return to a profit of £2.5bn (2018: loss of £1.0bn) in 2019, driven by the repair in investment markets in the first half of 2019.

John Neal, Lloyd's CEO, said:
"Whilst we are pleased to be announcing Lloyd's return to profitability in 2019 and continued progress across our priorities, our primary focus right now is on supporting our customers and business partners in their time of need. I am confident in Lloyd's ability to meet the challenges before it, and in doing so demonstrate the market's unrivalled ability to support people, businesses and countries around the world in response to the far-reaching impacts of COVID-19.

As we focus on supporting our business partners and customers during this time, it has also never been more important to accelerate progress on our ambition to create the most advanced insurance marketplace through the Future at Lloyd's. We have sharpened our focus for 2020, prioritising initiatives that will ensure around 80% of Lloyd's business is digitally supported, together with fast-tracking claims processing improvements and building the foundational data and technology infrastructure to support Lloyd's future ecosystem."

Bruce Carnegie-Brown, Lloyd's Chairman, added:

"The beginning of 2020 has proved exceptionally difficult as COVID-19 spreads rapidly around the world with devastating consequences for families, communities and the global economy. Now more than ever, our customers need us to be ready to support them through these challenging times.

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

Lloyd's 2019 Annual Results in detail

Lloyd's today announced a return to profit of £2.5bn (pre-tax) for 2019, representing an improvement of £3.5bn on the previous year (2018: a loss of £1.0bn) and an 8.8% return on capital (2018: (3.7%)).

The key figures reported in Lloyd's 2019 Annual Report are:

- Net resources of £30.6bn (2018: £28.2bn)
- Central solvency and coverage ratio of 238% (2018: 249%; 19 March 2020: 205%)
- Gross claims paid of £23.0bn (2018: £19.7bn)
- Gross written premiums of £35.9bn (2018: £35.5bn)
- Combined ratio of 102.1% (2018: 104.5%)
- Aggregated market profit of £2.5bn (2018: loss of £1.0bn)

Lloyd's return to profitability in 2019 is underpinned by strong performance across investments (2019: 4.8% return; 2018: 0.7% return), alongside sustained rate increases and improving underwriting discipline. Lloyd's combined ratio saw an improvement of 2.4 percentage points to 102.1% (2018: 104.5%), with the underlying 2019 accident year ratio improving to 96.0% (2018: 96.8%), exclusive of major claims. These encouraging developments show Lloyd's performance agenda is beginning to drive better underwriting discipline in the Lloyd's market.

Gross written premiums (GWP) for the period totalled £35.9bn, marginally up from £35.5bn in 2018. This equates to a reduction in GWP of 2.6% after eliminating positive foreign exchange rate movements and is underpinned by a risk adjusted rate increase of 5.4%, indicating continued underwriting discipline across the market.

Results at a glance

	2019	**2018**
Net resources	£30.6bn	£28.2bn
Solvency ratio	238%	249%
Gross written premiums	£35.9bn	£35.5bn
Gross claims paid	£23.0bn	£19.7bn
Combined ratio	102.1%	104.5%
Return on capital (annualised)	8.8%	(3.7%)
Pre-tax financial result	£2.5bn	(£1.0bn)

ENDS

Notes to Editors

1. The Lloyd's 2019 Annual Report can be accessed at: www.lloyds.com/annualresults2019

2. A combined ratio is 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.

3. The metrics referred to in this release are defined in the Other Information section of the 2019 Annual Report, which includes details on financial metrics considered by Lloyd's to be

Alternative Performance Measures (APMs)."

4. Central assets include the assets of the Central Fund and the other assets of the Corporation. In aggregate, the value of Lloyd's central assets amounted to £3.3bn at 31 December 2019 (2018: £3.2bn). The Society financial statements are drawn up under IFRS (as adopted by the EU).

5. Lloyd's is rated AA- (very strong) with Fitch, A+ (strong) with Standard & Poor's and A (excellent) with A.M. Best.

6. Members' resources operate on a several bases and are only available to meet each member's share of claims. Central assets are available at the Council's discretion to meet the liabilities of any member on a mutual basis.

7. This press release includes forward-looking statements. These statements are based on currently available information. They reflect Lloyd's current expectations, projections and forecasts about future events and financial performance. All forward-looking statements address matters that involve risks, uncertainties and assumptions. Based on a number of factors, actual results could vary materially from those anticipated by the forward-looking statements. These factors include, but are not limited to, the following:
    a. Rates and terms and conditions of policies may vary from those anticipated.
    b. Actual claims paid and the timing of such payments may vary from estimated claims and estimated timings of payments, taking into account the preliminary nature of such estimates.
    c. Claims and loss activity may be greater or more severe than anticipated, including as a result of natural or man-made catastrophic events.
    d. Competition affecting the basis of pricing, capacity, coverage terms or other factors may be greater than anticipated.
    e. Reinsurance placed with third parties may not be fully recoverable, or may not be paid on a timely basis, or such reinsurance from creditworthy reinsurers may not be available or may not be available on commercially attractive terms.
    f. Developments in the financial and capital markets may adversely affect investments of capital and premiums, or the availability of equity capital or debt.
    g. Changes in legal, regulatory, tax or accounting environments in relevant countries may adversely affect (i) Lloyd's ability to offer its products or attract capital, (ii) claims experience, (iii) financial return, or (iv) competitiveness.
    h. Economic contraction or other changes in general economic conditions could adversely affect (i) the market for insurance generally or for certain products offered by Lloyd's, or (ii) other factors relevant to Lloyd's performance.
    i. The foregoing list of factors is not comprehensive, and should be read in conjunction with other cautionary statements that are included herein or elsewhere. Lloyd's undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

8. Foreign exchange rates may materially fluctuate from the rates prevailing at 31 December 2019 (£1 = US$1.32, £1 = €1.18). Premiums, claims and investment income are translated at the average exchange rate for the year to 31 December 2019 (£1 = US$1.28, £1 = €1.14).

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About Lloyd's

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

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

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

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

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

At a glance

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

Operating highlights

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

Profit before tax

£2,532m

(2018: loss of £1,001m)

Combined ratio

102.1%

(2018: 104.5%)

Pre-tax return on capital

8.8%

(2018: (3.7%))

Gross written premium

£35,905m

(2018: £35,527m)

Investment return

£3,537m

(2018: £504m)

Net resources

£30,638m

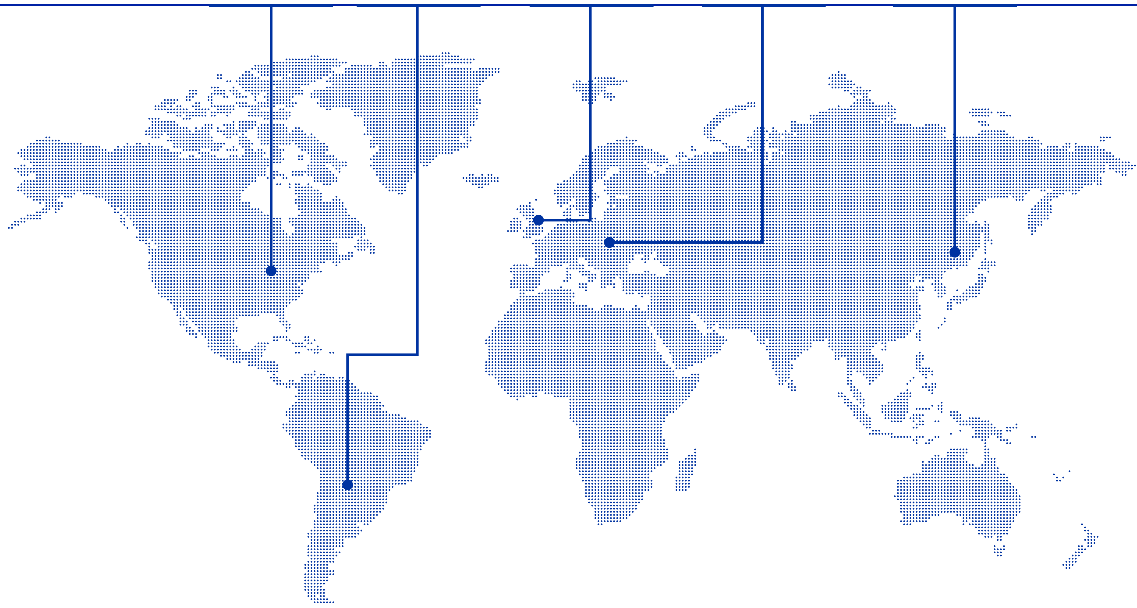
(2018: £28,222m)

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

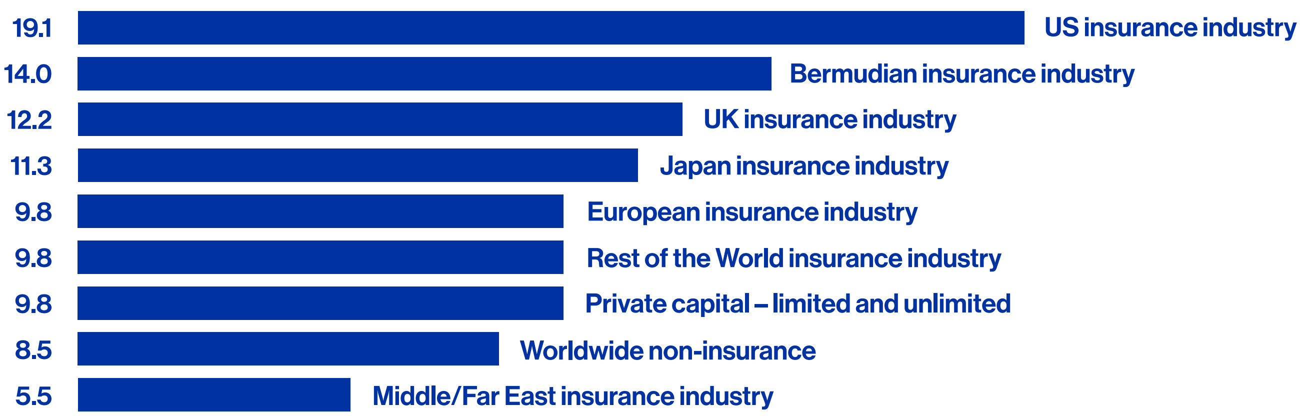
	Underwriting result by line of business	Combined ratio by line of business
Reinsurance	(£434m)	105.5%
Property	£12m	99.8%
Casualty	(£390m)	105.7%
Marine, Aviation and Transport	(£199m)	108.5%
Energy	£27m	97.3%
Motor	£11m	98.8%
Life	£1m	98.4%

Lloyd’s line of business breakdown by region

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



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



The combined ratio (for the market and by line of business) is the ratio of net incurred claims and net operating expenses to net earned premiums. The overall combined ratio includes central adjustments in the technical account in respect of transactions between syndicates and the Society as described in notes 2 and 8 to the PFFS (pages 44, 45 and 61). The combined ratios and results for individual lines of business do not include these adjustments as the market commentary for each line of business reflects trading conditions at syndicate level as reported in syndicate annual accounts. The underwriting result and combined ratio tables include the results of all life and non-life syndicates transacting business during 2019. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business have been reported in the segmental analysis, note 9 on page 62.

Chairman's Statement

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

Bruce Carnegie-Brown
Chairman

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

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

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

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

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

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

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

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

There were several other highlights in 2019. These include:

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

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

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

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

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

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

Bruce Carnegie-Brown
Chairman, Lloyd's

Chief Executive's Statement

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

John Neal
Chief Executive Officer

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

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

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

Improving performance

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

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

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

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

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

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

Transforming the market

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

People & culture

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

Looking ahead

We are publishing this report at a challenging time where COVID-19 will test our people, our customers, our partners, our governments, and our own organisation. We are confident in our ability to meet the challenges we face and particularly support our business partners and customers in their time of need (page 16 gives more detail).

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

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

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

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

John Neal
Chief Executive Officer

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

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Lloyd's – an overview

Who we are

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

Lloyd's business model

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

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

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

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

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

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

Our purpose

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

How we deliver on our purpose

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

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

Lloyd's insight, experience and judgment continue to inform decision-making across the industry. The market provides the leadership and insight to anticipate and understand risk, and the knowledge to develop relevant, new and innovative forms of insurance for customers globally.

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

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

<table>
<tr><th colspan="2">Business flow</th><th>The market</th><th>Capital flow</th></tr>
<tr>
<td>Customers – transferring risk
– Global commercial organisations, such as FTSE 250 and Fortune 500 companies
– Small and medium-sized enterprises
– Individuals
– Other insurance groups</td>
<td>Distribution channels
– 335 brokers: distributing business
– 366 service company locations
– 3,950 coverholder locations: offering local access to Lloyd's</td>
<td>54 managing agents – managing syndicates
80 syndicates – writing insurance and reinsurance directly
13 special purpose arrangements – set up solely to write a quota share of another syndicate

Gross written premiums:
2019 £35.9bn
2018 £35.5bn
2017 £33.6bn

Capital and reserves:
2019 £30.6bn
2018 £28.2bn
2017 £27.6bn</td>
<td>Members (capital providers)
– Trade capital: insurance companies from around the world
– Institutional capital: such as pension funds and private equity
– Private capital (via members' agents): such as small companies and individuals</td>
</tr>
<tr><td colspan="4">The Society – supporting the market</td></tr>
</table>

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

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

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

How we benefit our stakeholders

Lloyd's strategy is to maintain and enhance the value it offers to its many stakeholders:

- **Customers**, ensuring we provide them with the products and services they need, and being there when claims arise;
- **Distributors,** offering the capacity to place specialist risks on behalf of their clients;
- **Managing agents,** providing access to insurance risk from around the world; and
- **Capital providers,** giving the opportunity to invest in different types of insurance risk.

How we benefit society

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

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

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

Our priorities in 2019

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

- Performance: continuing our work to deliver first-class underwriting;
- Strategy: we developed the Future at Lloyd's strategy to build the world's most advanced insurance marketplace and deliver the widest range of products and services to our customers; and
- Culture: we continue to build a diverse and inclusive culture in the Society and the market in which everyone feels safe, valued and respected, and that reflects our global customer base.

Further details on these priorities can be found on pages 18 and 19.

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

Non-financial information statement

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

Reporting requirement	Page reference to our approach
Business model	13
Key risks	16-17
Environmental and social matters	20-21
Anti-corruption and anti-bribery matters	20
Human rights	21
Employees	21
Non-financial KPIs	23

Our capital structure

Lloyd's capital structure, often referred to as the chain of security, gives excellent financial security to policyholders and capital efficiency for members. Our capital structure provides the financial strength that backs all insurance policies written at Lloyd's and the common security that underpins the market's strong ratings and global licence network.

Lloyd's central assets, which include the Central Fund, are available, at the discretion of the Council, to meet any policyholder's valid claim that cannot be met from the resources of any member. The chain of security is designed to ensure the Lloyd's market remains well capitalised even after losses caused by extreme events.

Lloyd's ratings as at 31 December 2019

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

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

Lloyd's chain of security

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

External Environment

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

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

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

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

The insurance gap

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

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

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

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

An expensive industry

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

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

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

An influx of capital

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

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

Talent

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

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

Responding to the challenges

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

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

Lloyd's Key Risks and Risk Appetite

The Society identifies and assesses key risks which could have a significant impact on the Lloyd's business. The Board manages exposure to these risks by setting and monitoring a risk appetite framework. The framework starts with Lloyd's purpose, **Sharing risk to create a braver world**.

To deliver on this purpose, the Society sets three risk objectives to be continuously met:

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

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

<table>
<tr><td>Lloyd's purpose:</td><td colspan="3">Lloyd's purpose is sharing risk to create a braver world.
The Society acts to create and maintain a competitive, innovative and secure market.</td></tr>
<tr><td></td><td>Pillar: Sustainability
Underwriting profitability; Reserving; Catastrophe exposure; Reinsurance; Syndicate capability; Attractiveness of the Lloyd's market</td><td>Pillar: Solvency
Investment; Liquidity; Capital</td><td>Pillar: Operational
Regulatory, legal and tax compliance; Operational effectiveness; Financial crime and sanctions; Cyber resilience and data loss protection; Conduct</td></tr>
<tr><td>Risk appetite statements:</td><td>Risk objective: Lloyd's strategy must deliver a sustainable business model over the medium term</td><td>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</td><td>Risk objective: Risk of operational and other events is managed to ensure Lloyd's maintains its strong reputation</td></tr>
</table>

COVID-19

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

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

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

Lloyd's Key Risks and Risk Appetite *continued*

Other key risks under management are:

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

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

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

Priorities in 2019

The Future at Lloyd's

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

Stakeholder consultation

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

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

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

Blueprint One

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

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

The six solutions are:

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

Transition

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

Into 2020 – Phase 1 delivery

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

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

Creating our future culture

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

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

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

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

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

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

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

Managing market performance

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

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

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

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

Developments in 2019

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

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

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

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

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

Responsible Business

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

Community

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

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

Environment

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

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

Financial crime

The Society is committed to ensuring the market it oversees, any associated parties, and the Society itself have robust systems, policies and controls in place to minimise the risk of any acts of financial crime. The Financial Crime policy ensures that the Society, including all jurisdictions in which it operates, is aware of the "6 Pillars" of financial crime risk, namely money laundering/terrorist financing, sanctions, bribery and corruption, tax evasion facilitation, fraud and market abuse/insider dealing.

Through its oversight of the market, the Society lays down financial crime-related minimum standards, which it expects the market to implement accordingly. The Society also supports the market in its compliance with financial crime prevention requirements and tests the effectiveness of both the Society and the market's management of financial crime risks.

Whistleblowing

The Society continues to strengthen the whistleblowing arrangements it uses, through the development of procedures to ensure that employees are suitably equipped to handle reported concerns and through increasing the range of communication methods available to make disclosures. These methods include a web-based reporting system and a reporting app which may be used on a smart phone or tablet. More than 1,000 employees completed whistleblowing training during the year with others completing more specialised training.

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

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

Lloyd's energy and carbon disclosures 2019

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

We are aware of the reporting obligations under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. As such, this year we have upgraded our energy and carbon reporting to meet these new requirements and increase the transparency with which we communicate about our environmental impact to our stakeholders. We report on all material global emissions in scope 1 and 2, plus selected scope 3 emissions, using an operational control approach. The methodology used to compile our (Greenhouse Gas) GHG emissions inventory is in accordance with the requirements of the following standards: the WRI GHG Protocol Corporate Standard (revised version) and Defra's Environmental Reporting Guidelines: including Streamlined Energy and Carbon Reporting requirements (March 2019). 2019 performance refers to reported location-based totals, which are the summation of the UK emissions and Global emissions (ex UK) displayed. Scope 1 emissions includes natural gas, company cars, other fuels, refrigerants; Scope 2 includes electricity; Scope 3 includes employee cars, flights, public transport, commute, paper, waste, water, data centres, and transmission and distribution. Energy reporting includes kWh from scope 1, scope 2 and scope 3 employee cars only.
A more detailed statement on Lloyd's GHG emissions is available at: lloyds.com/ghgemissions

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

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

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

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

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

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

In 2019 our approach has included the implementation of a supplier performance and risk management framework and spot-check audits on some of our critical suppliers to ascertain their compliance with the modern slavery legislation.

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

The Society is proud of its market-leading family care policies which are designed to provide employees with the support they need to enjoy happy and healthy working and home lives, whatever that looks like for them. Further enhancements will include additional rights to bereavement leave and entitlement as per changes to statutory law.

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

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

Diversity and inclusion
To embrace diversity in gender, gender identity, race, ethnicity, sexual orientation, age, ability or disability, background and religion, the Society and the market work in partnership through the Inclusion@Lloyd's steering group and other diversity and inclusion networks. In 2019 two market guides were launched to support organisations, on diversity data collection and on supporting Trans and Non-Binary Inclusion.

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

Gender pay gap
The Society reported a gender pay gap of 23.6% (mean) in its 2019 Gender Pay Gap Report, an increase from the 2018 figure of 19.9%. This gap represents the difference between the average pay for a man in the Society, compared with the average pay for a woman. The gender pay gap is different to equal pay, which is men and women being paid the same for the same work or work of equal value, and which we review on an annual basis as part of our compensation review process. The Society does not believe it has an equal pay issue, however we recognise that changes within our executive team during the reporting period will have had a direct impact on our 2019 figures.

Like many financial services firms, we employ fairly equal numbers of men and women at the entry levels, but this representation does not extend to senior levels. Addressing the gender pay gap requires commitment at both the senior levels and investment in our future generation of leaders. To help redress the balance, in addition to expanding our family care policies, our Lloyd's Advance development programme for women aims to develop future women leaders through targeted development, mentoring, sponsorship and networking. In 2019 we saw two cohorts of women successfully complete the Advance programme with additional cohorts announced for 2020. Our commitment is to an enhanced gender balanced plan to meaningfully close the gender pay gap.

2019 Society employee segmentation figures

UK	905
Non-UK	242

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

Key Performance Indicators

The Council uses a number of metrics, financial and non-financial, to measure the performance of the Lloyd's market as indicators of sustainability and progress against our strategy. Some of these measures are used on a recurring basis while some are specific to activities undertaken in that year.

Market performance

Result before tax Includes an aggregation of syndicate results, the result of the Society and notional investment return on members' funds at Lloyd's.	**2019: £2.5bn** 2018: (£1.0bn) 2017: (£2.0bn)	
Combined ratio Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	**2019: 102.1%** 2018: 104.5% 2017: 114.0%	
Expense ratio The ratio of net operating expenses to earned premiums net of reinsurance. Reducing the cost of doing business at Lloyd's is one of our strategic aims.	**2019: 38.7%** 2018: 39.2% 2017: 39.5%	
Return on capital The ratio is used to measure the overall profitability and value creating potential of the Lloyd's market.	**2019: 8.8%** 2018: (3.7%) 2017: (7.3%)	
Solvency Capital Requirement (MWSCR and CSCR)[2] Under the Solvency II regime Lloyd's monitors the amount of eligible assets available to cover its market wide SCR (MWSCR) and central SCR (CSCR). These amounts are expressed as a percentage of the requirements.	**MWSCR** **2019: 156%** 2018: 149% 2017: 144%	**CSCR** **2019: 238%** 2018: 249% 2017: 215%

Market strategy

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

Culture

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

Council Statement

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

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

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

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

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

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

The Council is encouraged that the new strategy has received overwhelming support from the Lloyd's market. We believe it will provide a more attractive future for market firms and employees, enable new investment opportunities for members and provide customers with more choice of insurance products and services that can meet their changing risk needs. Further details on the Future at Lloyd's can be found on page 18.

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

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

Lloyd's wants to be known as a responsible business leader, operating in a way that makes those who work for us feel proud of their contribution. Our approach underpins our goals to support global economic growth, and help nations, businesses and communities improve resilience to, and recover faster from, disasters. Please refer to page 20 for further details of the Society's approach in the community.

Lloyd's reputation is built on expertise. The employees working in the Lloyd's market and Society are its most important asset. It is therefore vital that they are able to operate in a safe, secure and inclusive environment that attracts the best talent and allows it to develop and contribute. Creating an inclusive marketplace is a priority for us and crucial to Lloyd's long-term success.

In March, we announced an action plan developed in collaboration with the managing agent and broker associations, Lloyd's Market Association and London & International Insurance Brokers' Association, to ensure a safe and inclusive working environment in the marketplace. We carried out the largest culture survey ever conducted in the insurance sector to understand employees' views. The independent market-wide survey was commissioned in the wake of reports of sexual harassment in the Lloyd's market, and following the results of the survey a further series of measures were put in place to accelerate culture change across the marketplace. Further details on the actions taken can be found on pages 18 and 19.

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

We aspire to world-class underwriting performance and strong performance management. We will maintain the highest standards to protect customers and the market's reputation. During 2019 we continued to take action through our robust market oversight regime to improve the underwriting performance, in the wake of prior year below average performance. Many in the market, and wider insurance industry recognised and were supportive of the leading position we took to instil a more prudent and measured approach to underwriting. Further details of our oversight approach are set out on page 19.

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

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

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

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2019 Highlights

Financial highlights

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

Gross written premium (£m)

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

Result before tax (£m)

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

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

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

Central assets (£m)

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

Return on capital (%)

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

Combined ratio (%)

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

The Pro Forma Financial Statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared as closely as possible with general insurance companies. The PFFS include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. Further information concerning the basis of preparation of the PFFS is set out on pages 44 and 45.

Market results

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

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

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

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

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

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

The Pro Forma Financial Statements (PFFS) aggregates the results of the syndicate annual accounts, notional investment return on members' funds at Lloyd's and the Society's financial statements. The basis of preparation of the PFFS is set out in note 2 on pages 44-45.

Looking ahead

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

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

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

The COVID-19 pandemic has created turbulence in financial markets and economic uncertainty which will impact individuals and businesses. The full impact of this on the insurance industry, including the Lloyd's market, is uncertain. Our initial assessment has identified those lines of business most likely to be impacted, however the full extent of the losses and the impact upon pricing will become clearer as the year progresses. We will regularly monitor developments in this area and take appropriate actions as needed. Our consideration of the risks to the business and our responses are set out on page 16 of our Strategic Report. Note 25, events after the reporting period, also provides further detail on the quantitative assessment of the impact to our central solvency and market-wide solvency coverage.

2019 performance

Premium

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

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

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

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

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

Accident year ratio

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

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

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

In 2020, Lloyd's will continue to monitor reserves closely and act to ensure that adequate market discipline is being maintained in current challenging market conditions. Particularly on the longer-tailed lines, such as casualty, where there has been continued focus in recent years exacerbated by growing concerns over areas such as social inflation.

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

Major claims

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

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

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

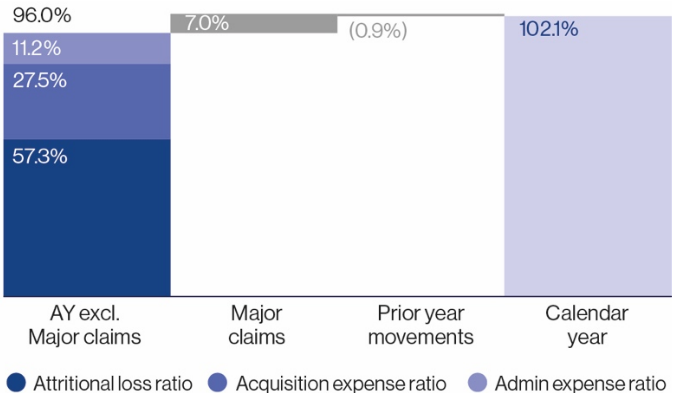
Accident year ratio excl. major claims	%
2015	94.4
2016	93.9
2017	98.4
2018	96.8
2019	**96.0**
Five year average[1]	96.0
Ten year average[1]	93.1

1. Weighted by net earned premium.

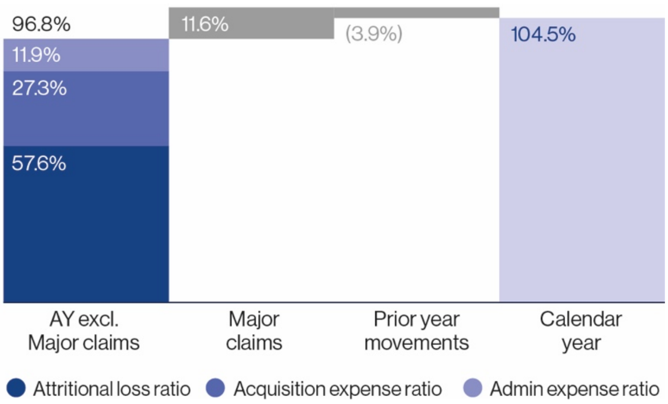
2019 Highlights *continued*

Contributors to combined ratio

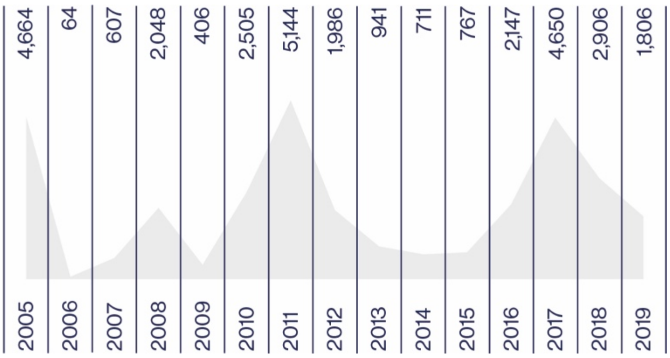
2019 Combined ratio %



2018 Combined ratio %



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



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

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

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

Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remains extremely high, with 98.6% of all recoveries and reinsurance premium ceded being with reinsurers rated "A-" and above or supported by high quality collateral assets.

Reinsurers' share of claims outstanding remains a material consideration for Lloyd's (equivalent to 55.4% of gross written premium/72.7% of members' assets). There has been an increase in the overall reinsurance recoverables due to the catastrophe losses experienced during 2019 and due to an increase in the use of retrospective reinsurance protections. This increase reflects the reinsurance risk transfer strategy of the Lloyd's market, the nature of loss events experienced during 2019 and risk mitigation actions being taken to assist in the management of legacy exposures. No negative settlement trends have been witnessed to date. Lloyd's will be monitoring this closely in 2020 as part of our normal market oversight procedures.

Lloyd's outward reinsurance premium spend for both the 2019 financial and underwriting year of account was 28.5% (2018: 27.7%) of gross written premium, which reflects a small increase in the scale of reinsurance purchased. This level of reinsurance transfer remains within risk appetite.

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

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

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

The results of the major lines of business are discussed in detail on pages 31-38.

Investment review

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

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

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

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

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

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

Line of business: Reinsurance – Property

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

2019 performance

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

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

Prior year movement

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

Looking ahead

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

Reinsurance – Casualty

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

2019 performance

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

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

Prior year movement

The prior year movement was a strengthening of 1.7% (2018: release of 3.6%). Despite 2019 being a year of relatively benign prior year claims experience for casualty reinsurance business, emerging trends such as social inflation are driving increased uncertainty on this line. Furthermore, the global casualty treaty business has performed worse than expectation overall, with the US territory generally seeing the heaviest claims experience. Therefore, the fact that this line has strengthened in aggregate is in line with expectations.

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

Looking ahead

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

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

Reinsurance – Specialty

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

2019 performance

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

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

Prior year movement

The prior year movement was a release of 2.8% (2018: release of 11.0%). The claims experience for this line has performed broadly in line with expectations over 2019. This line is predominantly marine, aviation and motor business, written on an excess of loss basis. Given that claims experience is largely driven by isolated claim events, prudent reserves tend to be held and released in years with less claims activity.

Marine reinsurance has seen mixed experience on prior years, with favourable movements for the Lürssen Shipyard loss offset by the increased incidence of large losses and exposure to Typhoon Jebi on the more recent years. Likewise, aviation has seen increased large loss activity on more recent years over 2019 with major losses arising from the grounding of the Boeing 737 MAX fleet and within the space account impacting the reinsurance market. In contrast, motor reinsurance has generally performed favourably against expectations. Most benefit has been seen for UK business due in part to the change in Ogden discount rate with a rate of -0.25% being used from July 2019.

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

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

Looking ahead

There are signs of price strengthening in the sector in 2020 following a challenging 2019 result, which further compounded the losses made in the catastrophe impacted 2017 and 2018 results. There may also be additional impetus following Lloyd's performance improvement planning – the effects of which may fall beyond the lines immediately included in that review.

Property

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

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

2019 performance

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

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

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

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

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

Prior year movement

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

Looking ahead

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

Casualty

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

2019 performance

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

The growth in cyber insurance products continued into 2019 as new customers respond to high profile cyber breaches. Across other lines there was premium growth during the year as a result of price hardening towards the end of the year, particularly in some of the professional lines. This has also resulted in the rate of growth in some lines beginning to slow compared with more recent years. Niche and heavy industrial occupations continue to see more focused underwriting, not just in terms of pricing but also in relation to reviews of programme structure and policy terms.

Prior year movement

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

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

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

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

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

Looking ahead

As with casualty reinsurance, there has been a growing focus on social inflation. While a lot of the focus has been in the US, other territories such as Australia and Canada are starting to see similar trends across all casualty lines. These territories and jurisdictions have all seen trends of increasing regulation and litigation. This has been accompanied by increased capacity for litigation funding. A general public desensitisation to litigation and jury awards has led to ever increasing severity of claims. While the primary market has already started to see restrictions in appetite and demand for increased deductibles, in 2020 there is likely to be an increased focus on excess placements.

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

Marine, Aviation and Transport

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

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

2019 performance

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

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

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

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

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

Prior year movement

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

These lines of business have performed broadly in line with expectations over 2019, despite heightened large loss activity impacting both property damage and liability within this line. In addition, recent years have seen higher than average catastrophe losses, which are known to drive property damage claims. However, some of these catastrophe losses have become more certain over 2019, resulting in offsetting reserve releases being seen. Despite experience being in line with expectations overall, there is a tendency for the view of claims to be held for a number of years to allow for any uncertainty and so releases are common.

Overall, experience has been in line with expectations. Recent history has seen heavier large loss experience, arising mostly from losses relating to the grounding of the Boeing 737 MAX fleet and increased space losses. Given the heightened uncertainty on recent years, larger margins are generally being held and reserving estimates increased to cover these emerging claims.

Looking ahead

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

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

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

Energy

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

2019 performance

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

The direction of travel in the pricing environment across all energy lines has been positive through 2019. Downstream property and liability have benefited the most, fuelled by continued large loss activity in the downstream lines through 2018 and 2019, specifically in the US refining sector. From a whole account perspective this has been balanced somewhat by benign large and catastrophic loss activity in upstream lines, which is the largest part of the overall energy account, in terms of risk count, written premium and exposure.

Prior year movement

The prior year movement was a release of 10.2% (2018: 18.2%). The energy line of business has seen continued prior year reserve releases over 2019. This line contains a mix of contracts that give rise to claims that are settled on both a short-term and long-term time horizon. Both the short-term and long-term lines have performed broadly in line with expectations, with the short-term lines benefiting from releases on older catastrophe losses. Given that the energy line is also exposed to isolated large losses, large margins for uncertainty tend to be held and released in benign years. For long-term contracts, these margins can be held for a number of years. Reductions in claims estimates for these large losses and the release of unused margin is expected to drive releases at a market level.

Looking ahead

In downstream energy, both property and liability, the market is showing improved underwriting discipline and price increases are gathering momentum as underwriters react to adverse large loss experience in the last few years. Steps are also being taken to implement improved and tighter terms and conditions, in light of unrelenting losses and volatility in claims values.

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

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

Motor

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

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

2019 performance

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

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

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

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

Prior year movement

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

Looking ahead

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

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

Reinsurance

Property		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	4,627	87.4	(11.1)	76.3	794
	2016	5,022	101.2	(9.4)	91.8	299
	2017	5,991	134.3	(4.0)	130.3	(1,260)
	2018	6,440	121.1	(4.9)	116.2	(672)
	2019	**6,405**	**106.5**	**(0.3)**	**106.2**	**(258)**

Casualty		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	1,797	103.9	(3.9)	100.0	0
	2016	2,096	105.2	(7.1)	98.1	33
	2017	2,223	103.9	(1.8)	102.1	(39)
	2018	2,541	99.7	(3.7)	96.1	78
	2019	**2,960**	**102.4**	**1.7**	**104.1**	**(94)**

Specialty		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	2,169	106.0	(12.7)	93.3	110
	2016	2,290	101.9	(14.2)	87.7	216
	2017	2,346	110.3	(8.5)	101.8	(31)
	2018	2,089	101.9	(11.0)	90.9	138
	2019	**2,053**	**108.6**	**(2.8)**	**105.8**	**(82)**

2019 Highlights *continued*

Insurance

Property		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	6,893	94.1	(4.0)	90.1	501
	2016	7,988	106.6	(3.2)	103.4	(202)
	2017	8,965	131.5	(3.9)	127.6	(1,757)
	2018	9,687	114.0	(3.6)	110.4	(700)
	2019	**9,586**	**101.5**	**(1.7)**	**99.8**	**12**

Casualty		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	5,764	104.5	(4.4)	100.1	(5)
	2016	7,131	102.9	(0.2)	102.7	(146)
	2017	8,464	103.7	(0.6)	103.1	(189)
	2018	9,094	103.9	(1.0)	102.9	(183)
	2019	**9,459**	**103.8**	**1.9**	**105.7**	**(390)**

Marine, Aviation and Transport		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	2,832	106.9	(12.4)	94.5	127
	2016	3,097	108.2	(5.9)	102.3	(58)
	2017	3,193	117.7	0.8	118.5	(480)
	2018	3,152	116.2	(0.9)	115.3	(392)
	2019	**2,802**	**113.3**	**(4.8)**	**108.5**	**(199)**

Energy		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	1,414	97.3	(21.3)	76.0	247
	2016	1,110	106.4	(13.8)	92.6	59
	2017	1,253	107.7	(21.1)	86.6	105
	2018	1,404	105.6	(18.2)	87.4	113
	2019	**1,500**	**107.5**	**(10.2)**	**97.3**	**27**

Motor		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	1,120	109.5	(7.5)	102.0	(17)
	2016	1,047	108.8	2.6	111.5	(103)
	2017	1,057	114.4	7.9	122.3	(188)
	2018	1,037	101.8	(3.1)	98.7	12
	2019	**1,053**	**100.6**	**(1.8)**	**98.8**	**11**

Statement of Council's Responsibilities

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

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

The Council of Lloyd's is responsible for the preparation and approval of the PFFS.

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

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

Pro Forma Financial Statements

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

Pro Forma Profit and Loss Account

(For the year ended 31 December 2019)

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

All operations relate to continuing activities.

Pro Forma Statement of Comprehensive Income

(For the year ended 31 December 2019)

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

Pro Forma Balance Sheet

(As at 31 December 2019)

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

Approved by the Council on 25 March 2020 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Pro Forma Statement of Cash Flows

(For the year ended 31 December 2019)

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

Notes to the Pro Forma Financial Statements

(For the year ended 31 December 2019)

1. The Pro Forma Financial Statements

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

2. Basis of preparation

General

The PFFS have been prepared by aggregating audited financial information reported in syndicate returns and annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's (the Society). Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the PFFS.

The Aggregate Accounts report the audited results for calendar year 2019 and the financial position at 31 December 2019 for all life and non-life syndicates that transacted business during the year. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 9). In order to provide more meaningful information in the Aggregate Accounts and PFFS, the Society has required syndicates to report certain disclosures presented on a consistent basis, which may vary from presentation included in the individual syndicates' annual accounts.

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

The PFFS have, where practicable, been prepared in accordance with United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice (UK GAAP)), including Financial Reporting Standard 102 (FRS 102) and the applicable Accounting Standard on insurance contracts Financial Reporting Standard 103 (FRS 103). In preparing the PFFS, note disclosures have been included for those areas the Council consider material to enable the PFFS to depict a comprehensive view of the financial results and position of the Lloyd's market and to enable comparison with general insurance companies, with the exception of the following items:

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

(a) Aggregation

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

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

Inter-syndicate loans

The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £127m (2018: £125m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the PFFS (note 8).

Special Purpose Arrangements (SPA)

The Aggregate Accounts include the results and assets of the SPA. Due to the nature of the SPA, the quota share of the host syndicates' business is reported as gross written premiums in both the host syndicate and the SPA annual accounts. This leads to an overstatement of the original premiums written by the whole Lloyd's market. To provide users of the PFFS with a more meaningful presentation of the market's figures, all the transactions arising from the insurance contracts between the SPA and host syndicates have been eliminated. The key impact of this elimination is that gross written premium is reduced by £568m (2018: £643m). The elimination does not affect the PFFS result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

Transactions between syndicates and the Society

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

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

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

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

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

(c) Statement of changes in equity

Where Lloyd's is not the investment manager for FAL, actual changes are not available and therefore a statement of changes in equity has not been included. However, a statement of changes in members' balances has been included in note 17.

(d) Taxation

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

(e) Related party transactions

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

Members' funds at Lloyd's (FAL)

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

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

Subordinated debt

In accordance with the terms of the Society's subordinated debt, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in "capital, reserves and subordinated debt" in the pro forma balance sheet.

Society financial statements

The PFFS include the results and net assets reported in the financial statements of the Society of Lloyd's prepared in accordance with UK GAAP, comprising the financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates.

3. Accounting policies notes

Sources of significant accounting judgements and estimation uncertainty

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

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

- Claims provisions and related recoveries (including provision for outstanding claims) (see note 3(a) and note 18);
- Premiums written (estimates for premiums written under delegated authority agreements) (see note 3(a) and note 9);
- Investments (valuations based on models and unobservable inputs) (see note 3(a) and note 13); and
- Notional investment return on FAL (estimate based on yields from indices for each type of asset held) (see note 2(b), note 3(b) and note 6).

The most critical accounting estimate included within the balance sheet is the estimate for outstanding claims. The total estimate, on a gross basis, as at 31 December 2019 is £59,655m (2018: £60,450m). The total estimate, net of reinsurers' share, as at 31 December 2019 is £39,758m (2018: £40,909m) and is included within the pro forma balance sheet.

(a) Aggregate accounts

General

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

Premiums written

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

Unearned premiums

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

Outward reinsurance premiums

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

Claims provisions and related recoveries

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

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

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

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

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

Additional information on insurance risk is disclosed in note 4.

Discounted claims provisions

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

Unexpired risks provision

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

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

Acquisition costs

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

Foreign currencies

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

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

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

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

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

Investments

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

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

Syndicate investment return

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

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

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

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

Tangible assets

Tangible assets relate to plant and equipment and the Lloyd's Collection.

Taxation

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

Operating expenses

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

3. Accounting policies notes *continued*

Profit commission

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

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

Cash at bank and in hand

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

Comparative disclosures

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

(b) Member's funds at Lloyd's (FAL)

FAL is valued in accordance with its market value at the year end, and using year end exchange rates. Investments are stated at fair value at the balance sheet date. For this purpose, listed investments are stated at their bid price market value, and deposits with credit institutions and international deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date. Letters of credit are stated at the amount guaranteed by the issuing credit institution.

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

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

(c) Society of Lloyd's (the Society)

Adjustments have been made to the information incorporated into the PFFS where the Council have considered there to be material accounting policy differences between the existing EU adopted International Financial Reporting Standards (IFRS) accounting policies and the recognition and measurement requirements of UK GAAP.

4. Risk management

Governance framework

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

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

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

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

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

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

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

On 7 November 2019 it was announced that the Board would merge into the Council, with effect from 1 June 2020.

Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a several basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR "to ultimate". Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR that reflects the capital requirement to cover a 1 in 200 year loss "to ultimate" for that member. Over and above this, the Society applies a capital uplift to the member's capital requirement to determine the ECA. The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2019 was 35% (2018: 35%) of the member's SCR "to ultimate".

Solvency Capital Requirement (Solvency II basis)

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

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

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

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

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

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

The Lloyd's Internal Model

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

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

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

4. Risk management *continued*

Details of the major risk components are set out below.

Insurance risk

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

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

Underwriting risk

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

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

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

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

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

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

Reserving risk

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

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

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

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

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

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

Credit risk

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

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

Catastrophe risk

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

Lloyd's MWSCR

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

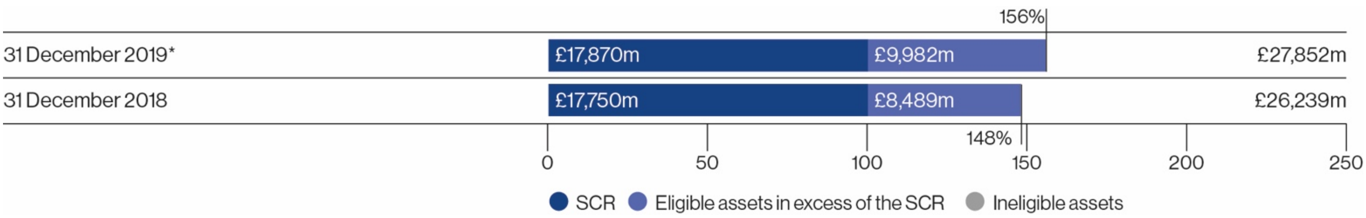
	31 December 2019* SCR £m	31 December 2018 SCR £m
Reserving risk	7,392	6,705
All other (attritional) underwriting risk	7,422	5,865
Catastrophe risk	1,476	2,972
Market risk	507	501
Reinsurance credit risk	659	597
Operational risk	780	739
Pension risk	10	22
MWSCR before adjustments	18,246	17,401
Foreign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

* SCR is not subject to audit.

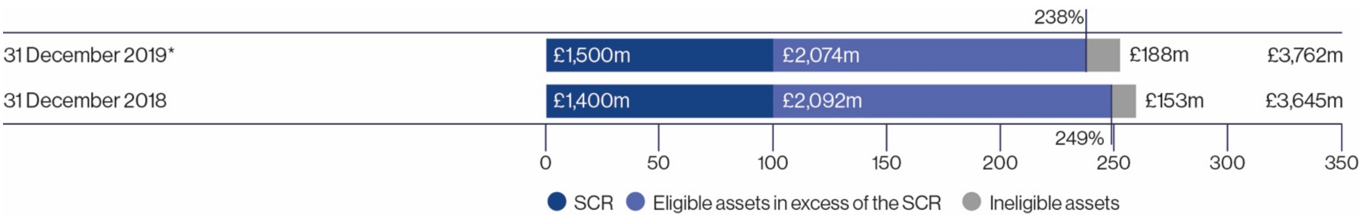
Solvency Capital Requirement coverage

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

Lloyd's MWSCR



Lloyd's CSCR



* Represents the position based on the unaudited solvency returns, which may differ from the final audited 2019 submissions.

In addition to the quarterly reporting to the PRA, internal risk appetites have been set to monitor the coverage of the MWSCR and CSCR as part of the risk management framework in place at Lloyd's. During 2019, the solvency coverage ratios for both the MWSCR and the CSCR were in excess of internal risk appetites and regulatory requirements.

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

4. Risk management *continued*

Solvency cover ratios	MWSCR coverage	CSCR coverage
31 December 2019*	**156%**	**238%**
31 December 2018	149%	250%
Risk appetite for solvency cover ratio	125%	200%

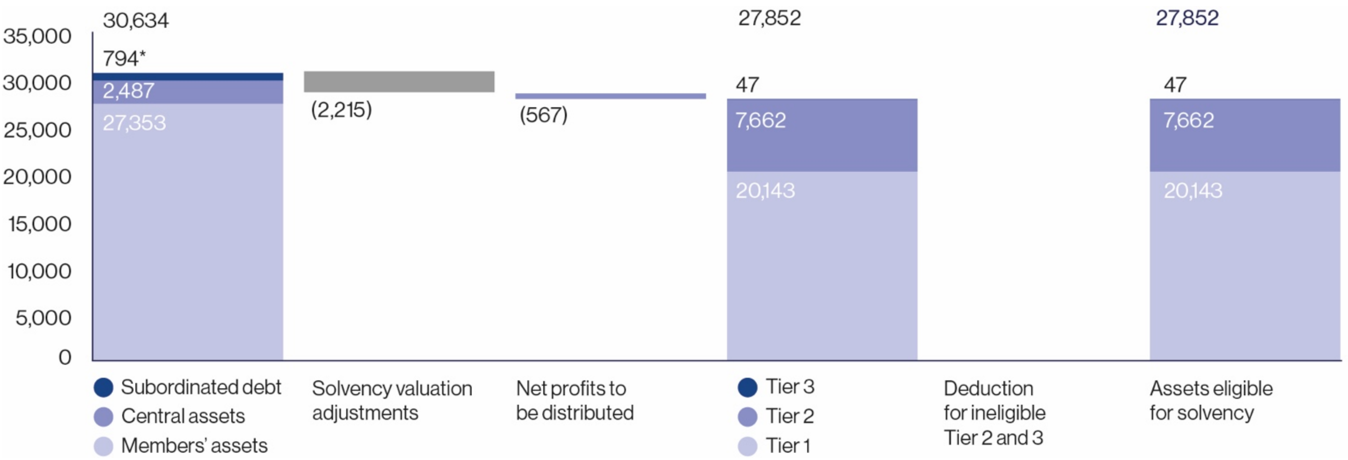
* Based on the unaudited solvency returns.

Assets eligible for solvency

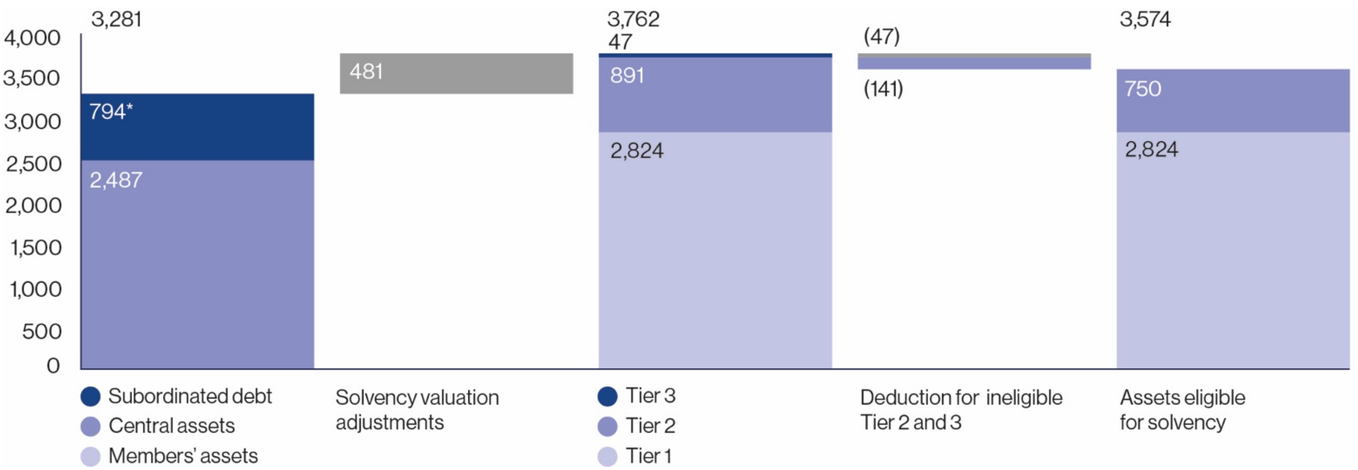
The assets of the syndicates, members' FAL and the Society all contribute towards coverage of the MWSCR, after adjustments to value items in accordance with Solvency II valuation principles. Members' assets are however not fungible. The Society assets and callable layer, in the chain of security, are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

The eligibility of assets to cover the SCR under Solvency II is determined by a tiering test. Tier 1 assets are fully available to cover the SCR while Tier 2 and Tier 3 assets in aggregate can cover up to 50% of the SCR. The majority of the assets available to cover the MWSCR are Tier 1. However, a proportion of members' FAL is provided in the form of letters of credit which are classed as Tier 2 assets, restricting their ability to cover the MWSCR and resulting in a lower solvency cover ratio. These letters of credit are callable on demand and when called, the proceeds, namely cash, would qualify as Tier 1 assets. Under these circumstances, the amounts previously restricted would become fully eligible.

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



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



* Per 31 December 2019 balance sheet. Other amounts represent the position based on the unaudited solvency returns, which may differ from the final audited 2019 submissions.

Claims development table

The tables below illustrate the development of the estimates of earned ultimate cumulative claims for syndicates in aggregate after the end of the underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non-sterling balances have been converted using 2019 year end exchange rates to aid comparability. As these tables are on an underwriting year basis there is an apparent jump from figures for the end of the underwriting year to one year later as a large proportion of premiums are earned in the year of account's second year of development.

Advantage has been taken of the transitional rules of FRS 103 that permit the stepped increase in disclosure of claims development information. The claims development information disclosed will be increased from nine years to ten years in 2020.

Gross

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	**2019 £m**	Total £m
At end of underwriting year		9,059	8,281	7,129	7,287	7,046	8,809	16,624	13,505	**10,322**	
One year later		15,308	13,623	13,615	14,063	14,724	19,341	27,226	24,982		
Two years later		15,416	13,904	13,792	14,877	15,584	20,883	29,096			
Three years later		15,280	13,667	13,439	14,750	16,343	21,623				
Four years later		15,233	13,608	13,229	15,705	16,758					
Five years later		15,053	13,455	13,547	15,830						
Six years later		14,968	13,860	13,743							
Seven years later		14,961	14,129								
Eight years later		14,945									
Cumulative payments		13,870	12,547	11,811	12,952	12,295	14,579	17,240	10,017	**1,222**	
Estimated balance to pay	4,760	1,075	1,582	1,932	2,878	4,463	7,044	11,856	14,965	**9,100**	59,655

Net

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	**2019 £m**	Total £m
At end of underwriting year		7,563	6,272	5,959	5,971	5,641	6,943	9,992	9,204	**7,612**	
One year later		12,172	10,842	11,144	11,276	11,724	14,489	17,454	17,105		
Two years later		12,190	10,995	11,209	11,833	12,277	15,410	18,803			
Three years later		12,023	10,828	10,828	11,715	12,647	15,846				
Four years later		12,068	10,631	10,762	12,012	12,685					
Five years later		11,643	10,559	10,834	11,949						
Six years later		11,616	10,682	10,821							
Seven years later		11,574	10,724								
Eight years later		11,552									
Cumulative payments		10,720	9,541	9,423	9,957	9,603	11,116	11,597	7,419	**1,075**	
Estimated balance to pay	3,112	832	1,183	1,398	1,992	3,082	4,730	7,206	9,686	**6,537**	39,758

4. Risk management *continued*

Financial risk

Credit risk

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

As discussed on page 50, the market's principal credit risk is that the reinsurance purchased to protect the syndicates' gross losses does not respond as expected. Syndicates are also exposed to credit risk in their premium debtors. Credit risk in respect of premium debt is controlled through broker approval and regular monitoring of premium settlement performance. Syndicates and members are exposed to credit risks in their investment portfolios. PRA and Lloyd's investment guidelines are designed to mitigate credit risk by ensuring diversification of holdings.

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

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

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

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

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

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

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

The table below provides information regarding the credit risk exposure at 31 December 2019 by classifying assets according to the credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as other. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated. This table is the sum of assets neither past due nor impaired.

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

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

Liquidity risk

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

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

4. Risk management *continued*

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

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

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

Market risk – overview

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

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

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

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

Market risk comprises three types of risk:

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

Currency risk

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

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

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

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

4. Risk management *continued*

Sensitivity analysis

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

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

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

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

Interest rate risk

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

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

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

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

Equity price risk

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

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

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

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

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

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

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

Concentration risk

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

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

Further analysis of premiums, claims, expenses and underwriting result by line of business is included within note 9 of the PFFS, with commentary on the performance of each line of business included on pages 31-38. Analysis of premium by geographical region is included both within note 9 of the PFFS (which details where contracts were concluded) as well as within the Lloyd's line of business breakdown by region analysis in the "2019 At a Glance" section at the beginning of this results announcement. Analysis of capital providers by source and location is also included in the "2019 At a Glance" section of this results announcement. Analysis of investments held within the market is disclosed in note 13 of the PFFS.

4. Risk management *continued*

Regulatory risk

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

Operational risk

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

Group risk

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

5. Variability

Calendar year movements in reserves are based upon best estimates as at 31 December 2019, taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimate are reflected in the technical account of the year in which they occur. The aggregate of the prior year surpluses/deficiencies is a surplus of £232m (2018: £976m). The surplus arises across all lines of business, except for the casualty and life lines of business, reflecting favourable claims development compared with projections in these lines.

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

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

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

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

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

7. Society of Lloyd's (the Society)

The results of the Group financial statements of the Society included in the profit and loss account are a profit of £434m (2018: £460m) in the technical account and a loss of £249m (2018: a loss of £266m) in the non-technical account.

8. Aggregation of results and net assets

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

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

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

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

Notes to the Pro Forma Financial Statements *continued*
(For the year ended 31 December 2019)

9. Segmental analysis

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

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

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

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

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

10. Life business

The PFFS include the results of all life and non-life syndicates transacting business during 2019. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 9).

11. Net operating expenses

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

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

12. Investment return

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

13. Financial investments

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

Disclosures of fair values in accordance with the fair value hierarchy

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

The fair value hierarchy includes the following classifications:

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

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

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

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

14. Debtors arising out of direct insurance operations

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

15. Debtors arising out of reinsurance operations

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

16. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £6,856m (2018: £8,012m).

17. Members' balances

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

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account with reference to policies incepting in that year of account. Members' balances represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and members' funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of 2020.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. These funds are known as funds in syndicate (FIS). At 31 December 2019 there was £4,616m (2018: £5,053m) of FIS within members' balances. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as "net movement on funds in syndicate".

18. Technical provisions

(a) Provisions for unearned premiums

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

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

(b) Deferred acquisition costs

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

(c) Claims outstanding

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

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

19. Discounted claims

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

The claims have been discounted as follows:

	Average discounted rates		Average mean term of liabilities	
Line of business	**2019 %**	2018 %	**2019 years**	2018 years
Motor (third party liability)	1.80	2.41	28.52	26.12
Motor (other lines)	2.98	2.98	5.84	2.29
Third party liability	2.74	2.57	22.66	22.45

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

The claims provisions before discounting are as follows:

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

20. Creditors arising out of direct insurance operations

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

21. Creditors arising out of reinsurance operations

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

22. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

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

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

23. Five year summary

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

24. Related party transactions

The annual accounts of each syndicate provide, where appropriate, the required disclosures on related parties. Syndicate level disclosures are specific to that syndicate and its managing agent. For 2019, there were no material related party transactions conducted outside normal market conditions reported in the syndicate annual accounts requiring disclosure.

25. Events after the reporting period

COVID-19 pandemic

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

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

*These ratios are unaudited.