LLOYD'S

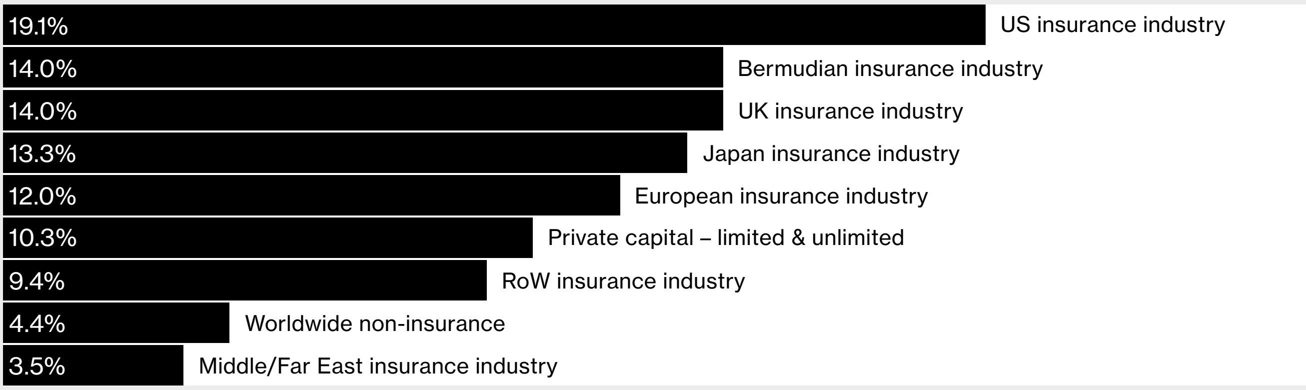
Annual Report 2016

2016 At a Glance

Lloyd's class of business breakdown by region

	US and Canada	Other Americas	United Kingdom	Rest of Europe	Central Asia & Asia Pacific	Rest of the World	Total for all Regions
Reinsurance	22%	70%	28%	29%	46%	62%	31%
Property	35%	8%	26%	20%	14%	11%	27%
Casualty	26%	10%	25%	22%	28%	10%	24%
Marine	7%	7%	6%	18%	7%	6%	8%
Energy	5%	2%	2%	4%	2%	2%	4%
Motor	3%	1%	11%	3%	1%	5%	4%
Aviation	2%	2%	2%	4%	2%	4%	2%
Total GWP	**50%**	**7%**	**15%**	**14%**	**10%**	**4%**	**100%**

Lloyd's capital providers by source and location



* The combined ratio for the market and by class of business is the ratio of net incurred claims and net operating expenses to net earned premiums. The prior year reserve movement represents the ratio of the surplus/deficit arising on reserves set at December 2015 to overall net earned premiums in calendar year 2016. 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 55 and 72). The combined ratios and results for individual classes of business do not include these adjustments as the market commentary for each class reflects trading conditions at syndicate level as reported in syndicate annual accounts. The underwriting results and combined ratio tables include the results of all life and non-life syndicates transacting business during 2016. 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 73.

The combined ratio, the return on capital, the investment return, the underwriting result and the accident year ratio are considered to be metrics which are consistently used to analyse financial performance in the Lloyd's Market Results and/or in the Society Report. These metrics (wherever used in this Annual Report) are considered to be Alternative Performance Measures (APMs) with further information available on pages 196 to 197.

Profit before tax

£2,107m (2015: £2,122m)

Gross written premium

£29,862m (2015: £26,690m)

Combined ratio*

97.9% (2015: 90.0%)

Investment return*

£1,345m (2015: £402m)

Pre-tax return on capital *

8.1% (2015: 9.1%)

Underwriting result by class*

£m	
Reinsurance	548
Property	(202)
Casualty	(146)
Marine	(129)
Energy	59
Motor	(103)
Aviation	71
Life	(8)

Combined ratio by class*

%	
Reinsurance	92.3
Property	103.4
Casualty	102.7
Marine	106.2
Energy	92.6
Motor	111.5
Aviation	84.7
Life	110.4

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1.1

Chairman's Statement

There can be no argument that 2016 has been a remarkable year, fundamentally altering many of the certainties that shaped the way we are governed, the way we trade and do our business.

The challenge for Lloyd's is, as ever, to respond to change calmly, but with determination – applying the knowledge and expertise acquired over 329 years to the environment we find ourselves in today, and providing our customers with what they need to help them navigate their way through it.

The conditions in the market have made answering that challenge difficult. Some veterans have said to me they have never seen conditions as consistently tough as they have been over the last few years. The reasons are well known, but that doesn't lessen their impact. Additional capital continues to come into our market, driven by low interest rates and investment returns, alongside a relatively benign claims environment, combining to put relentless pressure on premiums.

Against this background the profit for the Lloyd's market in 2016 came in unchanged at £2.1bn (2015 £2.1bn). However, the make-up of these profits was very different from last year. Underwriting was significantly lower, £468m (2015 £2.0bn). The combined ratio increased to 97.9% (2015 90.0%). On an accident year basis the market showed an underwriting loss. In addition, syndicates writing motor reinsurance and direct motor and UK liability business have been impacted by the recent announcement to change the discount rate to negative 0.75% (the Ogden tables) applying to lump sum liability claims.

Results benefited from foreign exchange gains, principally caused by sterling depreciation and significantly improved investment income, driven by a downward yield shift in the bond markets. This meant that gross written premiums rose by 12% to £29.9bn and net investment income rose to £1.3bn (2015 £0.4bn).

Our capital has further increased with our total resources available to pay claims increasing to £28.6bn (2015 £25.1bn). Our ratings remain at A+ (strong) with Standard and Poor's, AA- (very strong) with Fitch Ratings, and A (excellent) with A.M. Best.

The make-up of these results demonstrates clearly the extremely challenging underwriting conditions. Some say that the market cannot go any lower and change must come soon, but until it does, we must continue the unrelenting focus on underwriting discipline that drove us through 2016 and into 2017.

The market must also continue to work on reducing the cost of conducting business and the impact it has on underwriting margins. The Corporation must ensure that we are doing everything we can to make the Lloyd's platform the most attractive and efficient platform on which to conduct business.

The decision of the UK to leave the European Union has obvious implications for the market and our business with Europe. Finding the right solution has been a top priority over the last nine months. I am pleased to report that we have recently announced our intention to establish a subsidiary in Brussels during 2017.

This will provide the market with the access to Europe it needs, whilst importantly, ensuring that Europe can continue to access the London market.

This exercise has demonstrated the great professionalism of the Corporation and is being executed quickly and decisively.

As regards our other major markets, I am delighted to report excellent progress. As the US economy has continued to grow so has the Lloyd's market, particularly with its leading position in excess and surplus lines. We must be watchful, though, on the future policy direction of the new US administration. In China, which is at a completely different stage of development, we continue to make excellent progress with a growing business and now over half our managing agents are present on our platforms in Shanghai and Beijing.

In India, the other major growth economy of the world, the culmination of many years of hard work, has now resulted in Lloyd's being able to establish an on-shore reinsurance presence in India. The Indian regulator gave its final approval to operate out of Mumbai and our office is currently being opened. This means that the Lloyd's market will now have a physical presence in every significant established, and fast developing, economy.

I want to thank the retiring Council and Franchise Board members who have served Lloyd's so well over many years.

Paul Jardine retired as Deputy Chairman of the Council after nine years. Henrique Meirelles stepped down from the Council following his appointment as Minister of Finance in Brazil. Michael Deeny and Lawrence Holder also retired from the Council. On the Franchise Board, Nick Furlonge and Claire Ighodaro both completed nine years. To all of them I want to say a sincere thanks for their commitment, advice and wise counsel.

Joining us on the Council during the last year have been Jeffrey Barratt, Andy Brooks, and Dominick Hoare. Richard Keers and Richard Pryce have joined the Franchise Board. Richard Keers has succeeded Claire Ighodaro in chairing our Audit Committee.

This is my last Annual Report to you as Chairman of Lloyd's. Since my arrival in 2011, it has been a fascinating and challenging time.

While there is work still to be done, the Lloyd's market is now in a strong position to develop, despite the substantial challenges currently being faced. Following the launch of our long term strategy Vision 2025 five years ago, our global reputation and brand has significantly strengthened; we have substantially improved our global market access; our modernisation programme has real momentum; our increased financial strength and overall financial performance is a tribute to the underwriting skills in the Lloyd's market. All of this puts Lloyd's in a strong position both to take advantage of the long-term opportunities available to us globally in the specialist insurance market, and to face the many challenges we have.

However, the rate of change, driven by technology and an increased recognition that the business models in the insurance sector need to change, means that we must remain committed to the modernisation of the market. This means embracing new technological developments, coupled with an absolute determination to make the Lloyd's platform more user-friendly, more efficient, and more cost-effective. This will require brave thinking and brave decisions over the next few years.

In this context, I am delighted that the Council have appointed Bruce Carnegie-Brown as my successor. I am confident that Bruce has all the skills and qualities needed to take Lloyd's forward over the next few years. I know you will join me in giving him the warmest of welcomes.

The Corporation of Lloyd's is fortunate to have such a committed and professional management team, led by our Chief Executive, Inga Beale. They are demonstrating great professionalism and energy in confronting the challenges we have.

Finally, I want to thank the Lloyd's market – the insureds, the managing agents, the coverholders, the brokers and our other stakeholders – for the support they have given me during my tenure. It has been a privilege to serve the Lloyd's market. I wish Lloyd's well.

John Nelson Chairman

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Chief Executive's Statement

The pre-tax profits of £2.1bn are to be welcomed after a year that threw a variety of challenges at the insurance sector.

For the first time since 2012, the level of Lloyd's major claims was above the long-term average. With major claims of £2.1bn due primarily to Hurricane Matthew which struck the Caribbean, the south-eastern United States and eastern Canada, and the Fort McMurray Wildfire in Canada, this is the fifth highest since the turn of the century.

As has been well documented, challenging market conditions continued to prevail throughout 2016, and although there are suggestions that pricing reductions may be beginning to slow, premiums remain under a continued downward pressure.

That being the case, it is imperative that the Corporation does everything it can to support the market by delivering tangible benefits and demonstrating real value for money.

For 2017 we reduced the cost of subscriptions to the market by 10% and alongside this are making changes to how the Corporation is structured and interacts with the market. This new operating model enables us to focus on the role market participants expect from us; to protect, promote and provide the services they need. We expect this to deliver further cost reductions to the market in the future.

With important decisions to be made on how we will operate within the EU following Brexit, opening up Lloyd's in India, and responding to global geopolitical developments alongside the usual day-to-day activity, I am keenly aware that what the market needs is simplicity in how it works with us.

Whilst it would be churlish not to welcome another year where profits exceed £2bn, we cannot ignore the fact they are built on another year of positive development of prior underwriting years and stronger investment returns. The current situation where (re)insurance demand continues to be dwarfed by overall capacity, and continues to fuel a highly competitive environment, is not sustainable and we must ensure pricing and reserving is adequate for future years.

Our collective focus must be on providing customers with the products they want, embracing innovation and modernisation. The market has shown how well it reacts to the demands of its customers in a rapidly changing risk environment with the considerable increase in cyber coverage a case in point.

The market has made considerable progress in adopting the modernisation agenda. 2016 saw an important shift in the perception around the Target Operating Model, and I believe that the question around modernising how we do our business has moved to "what next" rather than "why should we". In terms of supporting London's position at the heart of specialist insurance and reinsurance, we must build on this momentum.

Of course, across the sector, there can be a tendency, when talking about new opportunities to think only of the faster developing economies in Asia and the Middle East. Whilst they will play a vital role for Lloyd's in the future, and I believe we are well positioned to take advantage of their growth, we must continue to look at what more we can do in the mature markets of the United States, Canada and Australia amongst others.

In the United States we continue to see growth as we expand our offerings in specialist coverage including cyber and excess and surplus lines, where we are the leading provider. It demonstrates the strength of the Lloyd's brand, with a history of continuously innovating to meet the needs of businesses and communities.

With an expanded Executive Committee now in place with the appointments of Jon Hancock, Peter Spires, Paolo Vagnone, and Hilary Weaver, we have a team in place with the experience of the Lloyd's market and the wider insurance sector that will enable us to address the pressing issues we will face this year and beyond.

Lastly, I want to put on record my thanks to John Nelson who will be retiring as Lloyd's Chairman in May. His drive and commitment to Lloyd's has been an example to everyone and he leaves the market in a much stronger global position.

Inga Beale Chief Executive Officer

2.0

Strategic Report

2.1

Strategic Report
Road to Vision 2025

Aligning our strategy to the risk environment

Vision 2025 is a statement of where Lloyd's wants to be in 2025. It was launched five years ago, and is reviewed annually in the context of the macro-economy and insurance industry. We assess whether current and future risks are adequately addressed, and mitigating actions in place. This assessment is made in close collaboration with the market and we publish the results in a series of rolling three-year strategies.

Strategic priorities

Vision 2025 is broken down into eight strategic priorities. Each year we adjust the activities we undertake to deliver them to respond to the evolving environment.

Corporation's role

In supporting the market in delivering Vision 2025, the Corporation's activities are aligned to its three main responsibilities:
– protecting the interests of the market, mainly delivered through Market Oversight and Capital;
– promoting Lloyd's to its customers and other stakeholders, mainly delivered through Global Market Access, Innovation, Brand and Global CSR; and
– providing valued support services to Lloyd's members and market participants, mainly delivered through Ease of Doing Business and Talent.

The objectives of the eight priorities are:

Market Oversight

Lloyd's market oversight will be supportive of sustainable profitable growth and will be valued by all stakeholders.

Global Market Access

Lloyd's international growth will be enabled by offering optimal trading rights and effective operational infrastructure.

Ease of Doing Business

Lloyd's will have a leading industry service proposition, built on excellence in processes, technology and data.

Capital

Lloyd's optimal capital strength and attractiveness will be designed and demonstrated.

Performance framework

Each priority has a delivery and tracking plan comprised of medium term milestones, annual key performance indicators (KPIs) and activities to deliver them. These form a hierarchy of metrics. The most material are provided in this report, along with progress against the 2016 KPIs.

Focus for 2017

For 2017 the focus is on making significant progress on initiatives already underway which will have the most material impact on the market. There are five key areas of focus:

- Market conditions – ensuring a responsible attitude to the challenging insurance industry environment;
- Brexit – retaining access to EU markets on comparable terms to today;
- London Market Target Operating Model (TOM) – continuing to deliver, and encourage adoption of, improved services for the market;
- Solvency II – maintaining Solvency II compliance and applying to the PRA for a major model change; and
- Corporation Operating Model (COM) – delivering an effective and sustainable operating model for the Corporation, that will provide a clearer and more efficient interface with market participants.

Innovation

Lloyd's will build on its leading edge capability and reputation for innovation in the global insurance industry.

Talent

Lloyd's market and Corporation will continue to attract and retain the best talent through a high performance culture, best practices and inspirational leadership.

Brand

Lloyd's brand will remain admired and attractive to customers and market participants.

Global CSR[1]

Lloyd's will remain a responsible global corporate citizen through its ethical principles and practices, and sharing of knowledge and expertise.

1 Corporate Social Responsibility

2.2

Strategic Report
Vision 2025 — To be the global centre for specialist insurance and reinsurance

What will Lloyd's be?

- Lloyd's will be an international, London-based market, built on trusted relationships and focused on specialist property and casualty business requiring bespoke underwriting and broking.
- Lloyd's will be a mutual supported by a Central Fund, so it will always be more capital efficient to trade inside Lloyd's than outside.
- Lloyd's will be able to access all major international insurance markets, including emerging markets, through its global licence network.
- Lloyd's will offer access to underwriting expertise and capacity in the most efficient way to meet brokers' and clients' needs, including through a face-to-face subscription market.
- Lloyd's world class underwriting and claims management will be supported by an industry-leading infrastructure and service proposition with efficient central services and seamless processing.
- Lloyd's will be a risk selector and a market where entrepreneurialism and innovation will thrive, underpinned by robust risk and performance management.
- Lloyd's ratings will be at a level capable of attracting the specialist business it will write.
- Lloyd's will be larger than today, predicated on sustainable, profitable growth after allowing for movements in the underwriting cycle. Its performance will outstrip that of its competitor group. The increase in premium income in the largest 10 developed economies will track or slightly exceed increases in non-life premium[1]. In the largest 10 developing economies, at times we would expect growth to exceed non-life premium[1] as the specialist risk sector develops and insurance penetration increases.
- Lloyd's will be known around the world for its integrity. The Lloyd's brand will be globally admired and recognised. Lloyd's will be respected for its reputation as the world's specialist centre for (re)insurance.
- The Corporation will promote and protect the interests of the Lloyd's market, and provide valued support services to members and market participants.

1 Excluding Motor, PA and Health business

Managing agents

- Managing agents will actively attract business to Lloyd's through brokers. Lloyd's will be a thriving market of diverse managing agents by size and type, ranging from Lloyd's-centric businesses to the specialty operations of international (re)insurance groups. Any broker owned managing agents will be subject to the existing 20% related party business restriction.
- New entrants will be encouraged, including overseas trade capital providers with a franchise as well as all other innovative, entrepreneurial start-ups.
- There will be no minimum size threshold for managing agents but the maximum size will remain at 15% of premium.

Distribution

- Lloyd's will be a broker market and will build on its relationships with the larger brokers, as well as encouraging other specialist brokers.
- Lloyd's will provide efficient access to local markets through service companies, coverholders and local brokers. It will be as easy to access Lloyd's as any local carrier.
- Lloyd's distribution chain will be optimised through the efficient use of technology.
- Lloyd's will have a local presence, in some cases local establishment, in international markets, where this is a commercial or regulatory requirement for business access.

Capital

- Lloyd's capital base will be globally diverse. There will be overseas trade capital bringing in new specialist business and people to Lloyd's from countries where Lloyd's needs to increase its market share.
- Private capital will continue, but to grow and flourish it will need to be re-energised and provided on a more flexible and efficient basis.

People

- Lloyd's will be a place where talented, diverse and socially responsible employees feel proud to work. It will attract the best talent and will provide an accelerated career path for the progression of high achievers. Lloyd's will be a diverse and inclusive market. Its people will increasingly mirror the geographic origin of the market's business and capital.

With an uncertain global geopolitical and economic outlook, difficult trading conditions, and the continued over-supply of insurance capital, 2017 will be challenging — Hilary Weaver Chief Risk Officer

The global economy in 2016

Rejection of the status quo

2016 saw two popular votes go against the poll forecasts as first the UK and then the US rejected the status quo and embraced uncertainty. Uncertainty brings both risk and opportunity – to changes in trading relationships, to currencies and to future economic growth. For the UK in particular the likely outcome is reduced market access to the EU, with potential upsides of increased access elsewhere.

For the US, despite short-term positive economic outlook boosted by potential pro-growth policies, there is the risk that any protectionist policies would be returned in kind, reducing global economy activity.

Protectionism slowed trade

The US and UK are not the only economies blaming globalism for slow domestic growth – the number of trade restrictive measures has been increasing globally since 2008. 2016 marked the slowest pace of trade and output growth since 2009, following the aftermath of the financial crisis.

Weak GDP growth put further pressure on interest rates

The global economy continued to expand at the modest estimated rate of 3.1% during 2016. While emerging and developing economies remained the driver of global growth, it was not evenly distributed within this group, with China's and India's rates of growth expected to be at least twice the global rate.

Interest rates remained very low for many of the more developed economies (negative in Japan) in the hope of boosting economic activity. Although the US Federal Reserve has raised interest rates, the Bank of England cut rates further to 0.25% in the aftermath of the vote to leave the EU.

What this meant for insurance

Suppressed demand and increased supply

Slow economic and trade growth and steady insurance penetration have suppressed demand for (re)insurance products, while low interest rates have heralded a flow of new capital into the (re)insurance industry, increasing the supply of alternative risk transfer products.

This situation has persisted for a few years, contributing to continued weak pricing. Combined with slowing reserve releases, increasing acquisition expense ratios and low investment yields this has resulted in reduced (re)insurer profitability.

As a consequence, in 2016 (re)insurers concentrated on cost reduction and efficiency gains to defend margins. After the significant number of mergers and acquisitions in 2015, much of the focus was about realising synergies. While some companies divested non-core businesses or targeted new markets, macroeconomic and political uncertainty may have stifled larger deals.

Natural catastrophes
After a prolonged period of low claims, insured catastrophe losses and major claims were above Lloyd's long term average in 2016 – and there were even more uninsured losses. Hurricane Matthew was a powerful and long-lived storm which became the first Category 5 Atlantic hurricane since Hurricane Felix in 2007. Matthew wrought widespread destruction and catastrophic loss of life during its journey across the western Atlantic with an estimated $8bn of economic losses, of which just over half was insured.

Cyber
Cyber threats became increasingly prevalent in 2016. Demand from businesses for cyber insurance has grown as a result and Lloyd's continues to be at the forefront of developing insurance solutions.

Insurtech
Insurance technology development is challenging how the insurance industry works. Although personal lines and health insurance have attracted the majority of Insurtech start-ups so far, commercial lines are starting to engage. Technology reliant areas such as distribution, data, modelling and the internet-of-things are where start-ups are having most success. Already some large (re)insurers have been incubating, investing and partnering with start-ups.

Regulation
Solvency II came into force from 1 January 2016 and introduced new reporting, capital and risk management requirements for insurers operating in the EU. Capital is assessed both for the risks faced by the entire Lloyd's market and those faced by Lloyd's centrally. During 2016 both the Lloyd's central and market wide solvency coverage ratios exceeded our internal risk appetites (see pages 62 to 63). As we look forward, we continue to refine the Lloyd's internal model for which we obtained approval from the PRA in December 2015, and plan to apply for a major model change in the second quarter of 2017.

Outlook for 2017
The market for property and casualty insurance and reinsurance will remain challenging. With the backlash against globalism, slow economic growth and the continued over-supply of insurance capital, prices are likely to remain low.

If attritional loss ratios continue to rise and catastrophes become more prevalent, there could be significant losses and a return to market consolidation.

Lloyd's remains committed to retaining its ability to do business with EU markets which represented 11% of our premium income in 2016. We will continue to work with the wider insurance industry to persuade the UK government that negotiation of the terms for our leaving the EU must not put the UK financial sector at risk – but if UK trading rights are not retained, Lloyd's plans for a European insurance company shall ensure that we will be in a position to continue trading with the European Single Market.

The prevailing conditions give rise to a number of risks and challenges that shape our plans, described later in this report, to deliver our strategic priorities.

The most critical risks are highlighted for focus through Lloyd's risk framework. A summary of these risks is provided with an overview of the mitigating actions currently in place.

2.4

Strategic Report
Lloyd's Key Risks

Risk	Impact on Lloyd's	Mitigation
Market conditions	Lloyd's businesses suffer losses or erode their capital base due to inappropriate underwriting in challenging market conditions or failure in management controls.	– Continue to monitor the structure and terms of broker remuneration. – Syndicate business plan and capital approval processes enable consistent and robust challenge to premium growth and ensure loss ratios are realistic given the market underwriting conditions and managing agents' capabilities. – Close monitoring of syndicates' performance against approved business plans to ensure they do not materially deviate from them or, where they do, that the changes are acceptable. – Market oversight framework detailing annual review activity includes reserve adequacy, performance reviews of selected classes of business and consideration of a number of underwriting practices. – Continue to closely monitor and respond to the market risk appetite measures.
Catastrophe Risk	Lloyd's businesses suffer losses or erode their capital base through material aggregations of risks or insufficient monitoring processes.	– Continue to closely monitor and respond to the market risk appetite measures. – Managing agents constantly monitor exposures around the world in accordance with Lloyd's minimum standards. – Monitoring and identification of emerging risks. – Market oversight framework detailing annual review activity includes exposure management processes and reinsurance arrangements.
Brexit	A loss of passporting rights to the European Single Market could lead to a reduction in business written, or business written at Lloyd's from the single market will be more expensive.	– Continue to lobby government and actively participate with other insurance and City organisations. – Implement the contingency plan to ensure customers based in the European Union are able to access the Lloyd's market as seamlessly as possible. – Issue regular communications to the market and wider industry.

Risk	Impact on Lloyd's	Mitigation
Cyber Risk	Lloyd's suffers a systemic loss as a result of a malicious electronic attack or through exposure to both known and silent aggregations of risk via the policies written by its businesses.	– Cyber Essentials accreditation obtained by the Corporation and managing agents. – Ongoing participation with industry bodies to maintain awareness of changing cyber risks and thought leadership reports on cyber scenarios. – Monitoring of risks against Lloyd's cyber risk appetite. – Market oversight framework detailing annual review activity to include exposure/aggregation and reserve/capital adequacy.
Major change programmes	Failure to deliver the desired process, technology and organisational change or maintain operational resilience at a Corporation and market level could mean that placing business in the Lloyd's market is inefficient, costly and no longer attractive.	– Strong central governance to manage delivery risks associated with change programmes in the Corporation and for the market. – Detailed project risk assessments. – Contingency plans for the failure of key processes or outsource providers to ensure a recovery of services or workaround processes at the Corporation and in the market.
Significant regulatory and tax change and complexity across multiple jurisdictions	Lloyd's sees its competitive position weaken, suffers regulatory penalties or disadvantageous capital position in achieving new territories or maintaining existing territories.	– Continue to lobby to influence the evolution of UK, European and global regulatory frameworks to maintain the competitive position of the market. – Ongoing assurance programme for the conduct minimum standard. – Monitoring Solvency II compliance at Lloyd's, with programme for delivering major model change. – Market oversight framework detailing annual review activity to include model drift, data quality assurance, documentation and remuneration.
Long-term threats to the business model, including increasing distribution costs and disruptive technology	Lloyd's sees its long-term profitability suffer by failing to respond to emerging issues such as the increasing cost of distribution and the applications of rapidly evolving technology to insurance.	– Optimise Lloyd's distribution chain through the efficient use of technology. – Maintain momentum in modernising the market and embracing technological development. – Continue to maintain and strengthen relationships with Lloyd's existing distribution channels. – Market oversight framework detailing the need for managing agents to continue to monitor broker remuneration.

2.5

Strategic Report
Market Oversight

Market Oversight remains key to Lloyd's future success — Jon Hancock Performance Management Director

Rationale and approach

The nature of Lloyd's, as a market of independent businesses backed by the Central Fund, requires the Corporation to play an active supervisory role. This role covers performance management, capital setting and risk management. In addition to these supervisory activities, it is important that Lloyd's market oversight is supportive of sustainable profitable growth and innovation, and is valued by all stakeholders.

The Corporation needs to ensure that supervision of the market is effective and in this regard we are accountable to both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). It is, however, a key objective for us to minimise duplication with work undertaken by the PRA and the FCA.

The market oversight framework is built upon the minimum standards against which managing agents are monitored. Although Lloyd's does not operate a zero failure regime, and syndicates may fail, the Corporation seeks to minimise the risk of impact on the Central Fund and will look first to protect policyholders' interests.

2016 developments

As a result of the challenging market conditions, evidenced by low prices and poor investment returns, we gave managing agents the guidance that we did not anticipate top line growth, particularly from underperforming syndicates. Lloyd's initiated a Portfolio Review of poorly performing and challenged classes, and managing agents affected were asked to demonstrate a credible and quantifiable response to these classes in their 2017 plans.

The Corporation adopts a risk based approach to oversight. 2016 saw the issuance of individual managing agent oversight plans and progress against their implementation was tracked throughout the year.

The Corporation also reviewed the capital and planning process to ensure that it is efficient and consistent for managing agents. This resulted in the removal of the first draft business plan submission, reducing the burden on agents.

Performance against 2016 KPIs

2016 KPI	Outcome
No new Central Fund dependent members other than as a result of a significant event	No new members impacted the Central Fund in 2016
Lloyd's 2016 combined ratio performance is better than its primary competitor group	Achieved. Lloyd's combined ratio was 97.9% compared with 98.3% for its primary competitor group

Direction for 2017

Market oversight remains a priority for the Corporation and market participants alike. Ensuring that oversight is appropriately calibrated between protection and growth is critical for Lloyd's success.

As part of the Corporation Operating Model work we will conduct a review of all key market oversight processes in 2017. This will ensure the overall framework is efficient and effective in achieving our market oversight objectives.

2017 plans

- Undertake ongoing oversight responsibilities including:
  - carry out the 2018 Syndicate Business Planning and Capital Setting process, ensuring robust review and challenge;
  - monitor performance of managing agents and syndicates against plans, guidelines, reserving, and Lloyd's minimum standards;
  - identify and address risks through regular interaction with managing agents and regulators and review of returns; and
  - ensure managing agents operate appropriate oversight protocols, and continue to meet Lloyd's minimum standards.
- Implement findings from the industry 'market turning' event exercise held in 2016.
- Develop a tool to assist the market in addressing issues around contract quality checks.

What success looks like

2017 KPIs

- No new Central Fund dependent members other than as a result of a significant event.
- Lloyd's 2017 combined operating ratio is better than that of its primary competitor group.

Interim milestones (to end 2018)

- Lloyd's combined operating ratio is better than that of its primary competitor group over the five-year period.
- Central Fund undertakings are within Lloyd's risk appetite.
- Lloyd's oversight framework is effective in managing risk in the market and is demonstrably risk based and efficient.
- Lloyd's oversight framework is demonstrably supportive of profitable growth where market conditions and managing agent capabilities allow.

Vision 2025

- Lloyd's will be a risk selector, and a market where entrepreneurialism and innovation will thrive, underpinned by robust risk and performance management.
- Lloyd's will be larger than today, predicated on sustainable, profitable growth after allowing for movements in the underwriting cycle. Its performance will outstrip that of its competitor group.

2.6

Strategic Report
Global Market Access

Licences are one of Lloyd's key assets. Maintaining comparable trading access to the 30 EEA countries that will be affected by the UK's withdrawal from the EU is therefore one of our top priorities — Vincent Vandendael Chief Commercial Officer

Strategy overview and rationale

Through Lloyd's market access rights, managing agents can underwrite risks or reinsure business from more than 200 territories. This global network of trading rights is one of Lloyd's most important assets. A key strand of Vision 2025 is the protection and expansion of this access.

Emerging markets are projected to continue to grow and Lloyd's is under-represented in these markets. Lloyd's strategy is to pursue new trading rights in developing markets when the timing is appropriate, supported with effective operational infrastructure. This will not be at the expense of Lloyd's position in established markets which make up the majority of Lloyd's business and remain a major focus of our work.

In order to obtain access in some markets, commercial or regulatory requirements may require a local presence. The prioritisation of new trading rights and the form of access is agreed by the market and Corporation working in partnership.

Achieving true global access to markets will also entail maintaining and strengthening our distribution channels. This involves building excellent relations with our distribution partners and ensuring that Lloyd's is the place where they want to do business.

2016 developments

While the unexpected result of the Brexit referendum drew resources from other areas, we made progress in expanding Lloyd's licence network in 2016. Lloyd's received approval for onshore reinsurance underwriting in India and the branch will be operational in April 2017. In China, work continued to ensure Lloyd's met the new C-ROSS requirements.

In preparation for and since the Brexit vote, much work has been done assessing the options for Lloyd's to continue to access the EU markets. We have announced plans for the establishment of a Lloyd's European insurance company in Brussels to achieve this aim.

In 2013, we set the target of obtaining five new trading rights in developing economies over the next five years. While the process of acquiring trading rights is long and uncertain, we have steadily acquired them adding new trading rights in Dubai, onshore reinsurance licences in Colombia and Mexico, permission to trade in Beijing and approval to open a reinsurance branch in India which will shortly be operational. This is in addition to extending existing rights in Singapore, Japan and Finland.

Performance against 2016 KPIs

2016 KPI	Outcome
Defend existing licences – no material impairment to existing trading rights	Achieved – work is ongoing to retain access to EU markets
Subject to business cases and favourable political climates, gain at least two new licences	Partly achieved – India R1 and R2 onshore reinsurance licence obtained
Increased relationships with all types of distribution partner	Achieved – 24 new Lloyd's brokers registered in 2016 and 350 new coverholders approved

Direction for 2017

2017 activity will concentrate on: defending our access to EU markets; delivering an efficient operating platform in India; consolidating recent gains in market access; and increasing the focus on developed markets.

2017 plans

- Refine and execute plans to retain access to EU markets.
- Investigate promotional opportunities to exploit consortia options to brokers and internationally.
- Benchmark Lloyd's as a coverholder platform against our competitors and enhance Lloyd's offer in the US.
- Set up India operations. Pursue trading rights in Morocco.
- Monitor and respond to legislative, regulatory and tax developments to defend Lloyd's trading rights.
- Engage with Lloyd's top brokers to understand their global and regional strategies and develop action plans.

What success looks like

2017 KPIs

- Gained at least one new licence/trading right/ permission to trade.
- Alternative market access strategy for the EU developed and agreed, and implementation underway.
- Delivered key insights on distribution channels.

Interim milestones (to end 2018)

- Enhancements to, and the defence of, Lloyd's Global Market Access offer lead to demonstrable profitable growth (subject to market conditions).
- New trading rights in five developing economies, subject to business cases and favourable political climates.
- Lloyd's distribution channels will expand, both in number and geographically, and Lloyd's will grow its premiums from its major distribution partners.

Vision 2025

- Lloyd's will be able to access all major international insurance markets, including emerging markets, through its global licence network.
- The increase in premium income in the largest 10 developed economies will track or slightly exceed increases in non-life premium.[1] In the largest 10 developing economies, at times growth would be expected to exceed non-life premium[1] as the specialist risk sector develops and insurance penetration increases.
- Lloyd's will have a local presence, in some cases local establishment, in international markets where this is a commercial or regulatory requirement for business access.
- Lloyd's will be a broker market and will build on its relationships with the larger brokers, as well as encouraging other specialist brokers. Lloyd's will provide efficient access to local markets through service companies, coverholders and local brokers. It will be as easy to access Lloyd's as any local carrier.

1 Excluding Motor, PA and Health business

2.7

Strategic Report
Ease of Doing Business

We are delivering the capability for the market to improve efficiency and reduce its expenses — Shirine Khoury-Haq Chief Operating Officer

Rationale and approach

Technological change and automation is disrupting the insurance industry, demanding that we adapt and transform the way we do business. At Lloyd's, placing and processing business needs to be easier and more efficient. This will make the market more attractive to existing and new business in London and in local markets – and increase Lloyd's competitive advantage. To achieve this, we must work collaboratively with managing agents, the broker community and the company market carriers to build an industry leading infrastructure and service proposition covering London, Lloyd's international operations and delegated authority business.

We have a multi-year programme of work covering both Lloyd's specific developments and London market-wide elements (such as London market data standards, and processes – including electronic placement).

Our primary aims are to make the London Market as a whole a more attractive and efficient place to conduct (re)insurance through one touch data and common use of central services for non-competitive activities. While it can be challenging to get so many different businesses to work together, our interests are aligned – we all want a successful market within which participants can compete for business.

2016 developments

In any challenging market environment, cost management will form a component of most business strategies. We are fortunate in that we have already begun the implementation of the London Market Target Operating Model (TOM). The key building blocks are in place: market buy-in, joint funding, governance and an agreed plan. Given these conditions, the onus in 2016 was to start delivering, and we did.

The electronic placing platform was established and went live in 2016 for Terrorism, Financial and Professional lines. The Central Service Refresh Programme enables brokers to submit premium electronically, increasing the accuracy of information going through the system and accelerating the payments process. Meanwhile, the Delegated Authorities Programme has been successful in reducing the number of coverholder audits to be carried out in 2017 by about 1,500. While putting these new capabilities in place is an important step, we rely on each market participant to embrace them so that their full benefit can be attained.

Performance against 2016 KPIs

2016 KPI	Outcome
Deliver 2016 TOM milestones for all major workstreams	Partially achieved – some milestones were deprioritised by the TOM Steering Board
Central Services Refresh Programme: capabilities in place for market players to remove London-specific processes identified for elimination in 2016	Partially achieved – some delayed

Direction for 2017

For 2017 the focus remains on delivery and adoption of key services as set out in the Blueprint agreed by the London Market TOM Board in 2016.

2017 will also see the Corporation implement efficiency changes to its structure and processes in line with its new operating model.

2017 plans

- Structured Data Capture – launch a live service that provides reusable risk data.
- Placing Platform Ltd – roll out to additional classes of business including Marine and Property. Deliver at least three platform enhancement releases.
- Central Services Refresh – deliver additional EBOT/ECOT[2] functionality to process claims, facility business, cancellation/replacement of policies and legacy claims. Implement a new process and portal for dealing with queries and corrections.
- Delegated Authority – further develop Coverholder Audit Tool (end to end functionality deployed) and create approved data standards for Premium, Claims and Risk by class of business to be used consistently across the market.
- Data Integration – deliver new/enhanced ACORD Message Standards. Roll out Business Glossary (data definitions). Pilot an online solution for firms to obtain controlled Master Data and Reference Data from a central source.
- Reshape the Corporation's structure, functions and processes in line with the agreed operating model.

2 Electronic Back Office Transactions / Electronic Claim Office Transactions

What success looks like

2017 KPIs

- Delivered 2017 TOM milestones for all major workstreams.
- Corporation Operating Model implemented and actual savings in the Corporation's like-for-like activities of at least £10m achieved.

Interim milestones (to end 2018)

- It will be as easy to deal with Lloyd's as with other insurance markets. Doing business in the Lloyd's market will be more attractive through increased efficiency in major components of its operating model.
- Removal of two-thirds of the London specific back-office processes that as of 2013 have been identified as one of the factors hindering placing of business at Lloyd's.
- Lloyd's will be among the top performing claims players globally. Improvements in speed and quality, across the entire claims life cycle, will be maintained.

Vision 2025

- Lloyd's will offer access to underwriting expertise and capacity in the most efficient way to meet brokers' and clients' needs, including through a face-to-face subscription market.
- Lloyd's world class underwriting and claims management will be supported by an industry-leading infrastructure and service proposition with efficient central services and seamless processing.
- Lloyd's distribution chain will be optimised through the efficient use of technology.
- Lloyd's will provide efficient access to local markets through service companies, coverholders and local brokers. It will be as easy to access Lloyd's as any local carrier.

2.8

Strategic Report
Capital

Lloyd's capital base remains strong while returns remain attractive to investors — John Parry Chief Financial Officer

Rationale and approach

Lloyd's capital framework offers three key advantages:

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

Lloyd's strategy is to maintain these advantages and ensure that Lloyd's continues to be attractive to all types of capital provider. We want to ensure that Lloyd's capital advantages remain relevant to the current and prospective capital base.

2016 developments

Lloyd's capital strength and attractiveness is evidenced by its average 12% return on capital during the five-year period 2012 to 2016 while available capital, reserves, and subordinated debt and securities grew 42% in the same period.

2016 saw Lloyd's consolidate its Solvency II activities, continuing to embed them throughout its processes. This included new resource, project management and the planning for a major change to the Lloyd's Internal Model for 2017.

Lloyd's capital base continued to grow throughout the year including 11 new capital members that were approved to start underwriting for 2017. The continued attractiveness of Lloyd's was also demonstrated by significant acquisition activity targeting Lloyd's participants.

In early 2017, Lloyd's successfully issued £300m of Tier 2 subordinated debt to further strengthen its central assets which already stand at over £2.8bn. The transaction attracted an exceptional level of interest from investors with total orders exceeding £2bn, which is testament to the strength of Lloyd's and its brand. The debt issue enabled us to utilise the Tier 2 capacity available to meet the Solvency Capital Requirement for the Central Fund within the tiering limits applied under Solvency II at a cost effective rate of interest (see pages 62 to 63 for more information).

Performance against 2016 KPIs

2016 KPI	Outcome
Lloyd's financial strength ratings are on a par with its primary competitor group	Achieved – Lloyd's continues to maintain strong ratings
New trade capital entrants from developing economies	Achieved

Direction for 2017

Lloyd's must continue to work to enhance the capital benefits of operating through Lloyd's. Part of this is ensuring that not only does Lloyd's capital structure maximise these benefits, but that they are valid for all types of capital. Maintaining our Solvency II internal model approval forms a major part of this assurance and in 2017 we will apply for a major model change.

Our Brexit response will consider the impact on capital. An efficient capital structure is fundamental to meeting our key objective of maintaining attractive access to EU markets.

We will also seek to maintain PRA approval of Letters of Credit as capital and implement any actions from the industry 'market turning' event exercise held last year.

2017 plans

- Maintain Lloyd's Solvency II programme:
  - continue development and validation of the Lloyd's Internal Model;
  - continue oversight of syndicates' Solvency II compliance;
  - complete delivery of Pillar 3 annual reporting cycle; and
  - deliver Lloyd's major model change application.
- Deliver Structured Relationship Management Programme activities with potential new trade capital providers.

What success looks like

2017 KPIs

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

Interim milestones (to end 2018)

- Lloyd's capital strength and diversity will provide demonstrable security to policyholders. Lloyd's capital structure will be optimised and simplified.
- Lloyd's will remain attractive to, and – subject to market conditions – see growth in, all types of capital providers (private, trade and institutional) and in the geographic diversity of the market's capital base. There will be five new trade capital providers.

Vision 2025

- Lloyd's will be a mutual supported by a Central Fund, so it will always be more capital efficient to trade inside Lloyd's than outside.
- Lloyd's capital base will be globally diverse. There will be overseas trade capital bringing in new specialist business and people to Lloyd's from countries where Lloyd's needs to increase its market share.
- New entrants will be encouraged, including overseas trade capital providers with a franchise as well as all other innovative, entrepreneurial start-ups.

2.9

Strategic Report
Innovation

To remain at the forefront of the global insurance and reinsurance industry Lloyd's must continue to pioneer the underwriting of new risks — Vincent Vandendael Chief Commercial Officer

Rationale and approach

The Lloyd's market prides itself on its long history for developing and underwriting new products, and has a reputation for meeting the various, and sometimes unique, needs of its many customers.

Our priority is to ensure that the Lloyd's market continues to capitalise on its expertise in innovation. The Corporation seeks to draw attention to, encourage and recognise innovation in the market. It helps to facilitate this through thought leadership, identifying product gaps and supporting market participants in the pre-competitive stage of product development.

Innovation is not just about new insurance products, but also covers how we operate and do business, and how we publish thought leadership materials and foster a greater understanding of global risks, recognise opportunities to improve efficiencies, add value and capitalise on the assets we have. Lloyd's will continue to look for opportunities to leverage process innovation to make it a positive differentiator.

2016 developments

2016 saw work start on the Lloyd's performance index – the idea that Lloyd's could publish a market loss ratio index to assist with the development of hedging products and against which derivative products could be traded. While there was interest from the capital markets, a number of practical issues and regulatory concerns remained to be addressed when the project was paused in the wake of the Brexit referendum. Despite this, Lloyd's has continued to support the London Market Group's Task Force that is working with HM Government to make the UK a hub for insurance-linked securities (ILS). Draft regulations to help bring ILS funds onshore and increase ILS activity are under review for finalisation in 2017. Lloyd's will keep its strategy in this sector under review.

Lloyd's thought leadership continued with reports published on Global Teleconnections, Political Violence Contagion and Use of Chemical, Biological, Radiological and Nuclear Weapons by Non-State Actors. To celebrate success among market participants, the Corporation hosted the second Innovation Awards in November, designed to recognise imaginative ideas that are being developed in the market.

Performance against 2016 KPIs

2016 KPI	Outcome
Publish a Lloyd's Index	The Index work was put on hold to allow us to refocus on the implications of Brexit
Increased positive perception of Lloyd's reputation for innovation as measured by positive press references	Achieved – number of positive references more than doubled in 2016

Direction for 2017

We will continue to explore how the use of indices can play a part in the Lloyd's market. In addition we will seek to bring together our innovative work in research, analysis and thought leadership so that it is aligned and focused on developing new opportunities and products for the market to exploit.

2017 plans

- Work with potential index providers to explore options for their use in Lloyd's business context.
- Continue to identify product gaps and facilitate product development in the market.

What success looks like

2017 KPIs

- Delivered at least eight thought leadership reports, focusing on emerging risks, best practices in classes of business and pre-competitive risk quantification models.

Interim milestones (to end 2018)

- Lloyd's will embrace alternative capital and new products and processes. There will be an increase in both the number of non-traditional capital providers investing at Lloyd's and non-traditional products being traded at Lloyd's.
- Lloyd's reputation for innovation will be demonstrably enhanced.

Vision 2025

- Lloyd's will be a risk selector and a market where entrepreneurialism and innovation will thrive, underpinned by robust risk and performance management.

2.10

Strategic Report
Talent

The Lloyd's market's talent base remains one of its key differentiators, it continues to grow in strength and in diversity. The focus on enhancing and developing this critical asset remains at the heart of the Talent Strategy for both the Corporation and the market — Annette Andrews Human Resources Director

Rationale and approach

Big and complicated risks are drawn to Lloyd's, attracting the world's best insurance talent, which in turn attracts some of the world's biggest and most complicated risks. It is a virtuous circle which Lloyd's would like to perpetuate. This arises in part through the clustering benefits of the London insurance market. The whole market has an interest in ensuring that relevant skills, capabilities and knowledge are acquired and developed in order to reinforce this differentiator.

We want to draw on all talent, from varied backgrounds, to ensure we get the best. Diversity and inclusion is good for business and remains a priority. The Corporation and market work in partnership, through Inclusion@Lloyd's, to embrace and embed diversity by widening perspectives and sharing best practice.

2016 developments

In 2016 the Corporation focused on sharing more of its training and development programmes with the Lloyd's market. The Corporation continued to co-ordinate the emerging talent (graduate, apprentice and internship) programmes on behalf of the market, with 44 entrants across all programmes in 2016.

2016 also saw the launch of the Lloyd's University, accessed via a digital learning management system and providing a gateway for Corporation employees to access a suite of over 150 digital learning products. We introduced accredited management and recruitment programmes, open to both the market and Corporation employees, with over 200 participants in 2016. A new market-wide mentoring programme was also launched with over 40 mentoring pairings established.

In 2016, the Lloyd's Market Association carried out the latest biennial HR benchmarking survey based on market diversity data. The survey shows that while some progress has been made, more needs to be done to ensure that Lloyd's becomes a truly diverse marketplace. In this spirit, for the first time the 2016 Dive In festival was a global initiative spread over four continents in 15 cities with the involvement of colleagues in both the Lloyd's and Companies Market.

Performance against 2016 KPIs

2016 KPI	Outcome
Refreshed graduate and apprentice schemes	New schemes were launched in 2016
Talent management integrated into the Corporation's business	Achieved
Develop and grow diversity and inclusion	Achieved

Direction for 2017

A key focus for 2017 is to develop Corporation and market talent through Lloyd's University and the emerging talent programme.

Continuing improvements to diversity and inclusion will be delivered through training within the Corporation and support of the market's Inclusion@Lloyd's initiative.

2017 plans

– Continue delivery of high quality leadership, management and behavioural skills training for all employees in Lloyd's.
– Lead and support talent development activity across the Corporation and market including a market-wide Learning Week.
– Support and encourage Corporation and market participation in Inclusion@Lloyd's, including Dive In festival and Wellbeing events.

What success looks like

2017 KPIs

– The percentage of female senior employees in the Corporation increased by two percentage points in 2017.

Interim milestones (to end 2018)

– The market's workforce will have the skills, capabilities and knowledge to ensure that expertise is a competitive differentiator for Lloyd's. The hiring and retention of high calibre employees will be improved.
– The Lloyd's market's workforce will have an enhanced understanding of, and commitment to, diversity and inclusion. Diversity and inclusion will be integrated into Lloyd's culture.

Vision 2025

– Lloyd's will be a place where talented, diverse and socially responsible employees feel proud to work. It will attract the best talent and will provide an accelerated career path for the progression of high achievers. Lloyd's will be a diverse and inclusive market. Its people will increasingly mirror the geographic origin of the market's business and capital.

2016 Corporation employee segmentation figures

UK	872
Non-UK	190

	Executive Team	Head of function	Manager	Professional/ Technical	Administrative	Total
Female	5	6	132	263	158	564
Male	4	32	203	191	68	498
Total	9	38	335	454	226	1,062

Lloyd's is a brand that resonates beyond its market. We have been able to retain a pre-eminent position due to a combination of reputation, scale, governance, a unique working culture and a continuing commitment to innovation and boldness — Jo Scott Interim Head, Marketing & Communications

Rationale and approach

Lloyd's brand is globally recognised and highly valued both within the insurance industry and broader society. The positive role Lloyd's plays in times of crisis is well documented and the strength of the marketplace is held in high regard. A strong global brand and positive reputation make Lloyd's more attractive to clients, capital and talent. Confidence in the brand encourages policyholders and brokers to choose Lloyd's, creates a market where commercial businesses can thrive and offers security for society through wider use of insurance for risk transfer.

Nonetheless, as globalisation gathers pace and competition intensifies, there is no time for complacency. Work continues to protect and promote the Lloyd's brand to ensure its future power and relevance has commenced with the full support of the market.

2016 developments

A brand reputation index was introduced based on an independent brand survey of key stakeholders. This showed Lloyd's has a strong position achieving consistently high scores across key brand measures, with brand health at parity with best in class (re)insurance companies. Lloyd's is perceived to outperform best in class on important attributes including expertise, competitiveness, innovation, underwriting flexibility and risk appetite. The research also identified areas where the brand could be enhanced. Customer service is one of the most important drivers of reputation, specifically effective use of technology and claims management. A campaign focused on educating key stakeholders about the Lloyd's market's capabilities and promoting the claims service has been a priority.

The research also identified digital channels as the preferred means for sharing Lloyd's insights with stakeholders on topics such as cyber risks, data privacy and new products/innovation. During 2016 content on cyber and data security was published in light of the EU General Data Protection Regulation.

In addition, a programme of improvements were implemented on the Lloyd's website to make it more accessible and globally relevant.

Performance against 2016 KPIs

2016 KPI	Outcome
Lloyd's global brand perceptions understood	Achieved
Options to improve brand perceptions identified	Brand materials refreshed and website updated
No material impairment to Lloyd's brand or reputation	Achieved

Direction for 2017

From our research we have identified attributes which offer the greatest potential to enhance the Lloyd's brand and we will continue to develop our brand strategy around these. We will develop flexible promotional and digital content to promote the market and attract a breadth of business and talent, creating positive and stronger impressions of the Lloyd's brand.

2017 plans

– Protect Lloyd's brand and reputation through the effective internal and external response to any issue arising.
– Leverage the Lloyd's community of over 40,000 market participants to be advocates amplifying Lloyd's thought leadership content and communications to reach broader audiences.
– Develop lloyds.com as a content platform for market participants to promote their brands and insurance industry thought leadership.

What success looks like

2017 KPIs

– Thought leadership content downloads increased by 5%.
– Number of international visitors to lloyds.com and other campaign related sites increased by 10%.

Interim milestones (to end 2018)

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

Vision 2025

– Lloyd's will be known around the world for its integrity. The Lloyd's brand will be globally admired and recognised. Lloyd's will be respected for its reputation as the world's specialist centre for (re)insurance.

2.12

Strategic Report
Global Corporate Social Responsibility

We continue to promote our approach to responsible business through our membership of ClimateWise, ensuring our people and customers are treated fairly, and supporting the communities we work in around the world — John Parry Chief Financial Officer

Rationale and approach

Lloyd's is committed to effecting positive change by being seen as a leader in its responsible business approach. This is reflected in Lloyd's business practices as well as its work with community and charity partners.

The Lloyd's market aims to ensure its customers are fairly treated at all times and should aspire to the highest standards in business conduct generally.

Lloyd's will use its experience and expertise to help communities around the world build resilience against disasters, including the effects of climate change and extreme weather events. All of these activities help to complement the Lloyd's brand and attract new and diverse talent.

2016 developments

Lloyd's global corporate social responsibility programme continued to go from strength to strength in 2016. Major achievements included:
– Lloyd's Charities Trust launched new three-year partnerships with international disaster relief charity RedR, Build Change and Whizz-Kidz;
– Over 25 of Lloyd's global offices took part in the 'Lloyd's Together' CSR programme supporting a wide range of causes in their local communities;
– Undertook conduct reviews and associated market education to protect the interests of customers. Complaints oversight was rolled out internationally;
– Responsible Investment forum held;
– Lloyd's CFO joined the ClimateWise Insurance Advisory Council;
– A slavery and human trafficking statement has been published and an anti-slavery policy agreed;
– Lloyd's achieved Gold in the City of London Clean City awards, recognising the Corporation's waste management and recycling efforts; and
– Lloyd's Community Programme won a CII Public Interest Award and a Lord Mayor's Dragon award.

Performance against 2016 KPIs

2016 KPI	Outcome
Receive recognition by external stakeholders for Lloyd's responsible business approach	Achieved (as outlined above)
Maintain positive rating by Corporation employees for Lloyd's responsible business approach	Achieved

Direction for 2017

In 2017 Lloyd's will publish a Responsible Business policy for the Corporation and market, and increase involvement in Lloyd's charity and community programmes across the Lloyd's market.

2017 plans

- Develop a Responsible Business Policy.
- Use 100% green electricity in Lloyd's UK offices.
- Encourage volunteering through Lloyd's Community Programme and promote the work of Lloyd's charities.

What success looks like

2017 KPIs

- Published a Responsible Business Policy for the Lloyd's market and Corporation.
- Reduced the Corporation's total reported Greenhouse Gas Emissions.

Interim milestones (to end 2018)

- Lloyd's is a responsible global corporate citizen through its ethical principles and practices, sharing of knowledge and expertise, and positive contribution to social and environmental issues.

Vision 2025

- Lloyd's will be known around the world for its integrity.
- Lloyd's will be a place where talented, diverse and socially responsible employees feel proud to work.

Lloyd's Community Programme
Number of volunteers from across the Lloyd's market supporting programmes in London

2012	2013	2014	2015	2016
1,883	1,716	2,087	2,666	2,798

Lloyd's greenhouse gas (GHG) emissions 2016

	Scope 1 (tonnes CO_2e)	Scope 2 (tonnes CO_2e)	Scope 3 (tonnes CO_2e)	Out of scopes (tonnes CO_2e)	Lloyd's total 2016 GHG emissions (tonnes CO_2e)	Lloyd's total 2015 GHG emissions (tonnes CO_2e)
UK	1,574	7,990	2,828	<1	12,392	13,577
International offices	18	818	350	–	1,186	1,254
Lloyd's 2016 total GHG reported emissions					**13,578**	**14,831**

Lloyd's total reported GHG emissions from our business activities in 2016 were 13,578 tonnes of CO2e, a decrease of 8% against 2015, which was driven by reductions in electricity and air travel related emissions. Energy efficiency improvements in the UK led to a 2% fall in electricity consumption. Coupled with continued decarbonisation of UK grid electricity, reflected in a lower conversion factor issued by Defra, electricity emissions fell by 11%. Total mileage flown by Lloyd's staff in 2016 fell 10%, we continue to offset our air travel emissions by buying carbon credits. Scope 1 emissions rose by 24%, caused largely by a 15% increase in natural gas used in the UK, which occurred due to a colder winter.
We also improved the accuracy of our international reporting to 16 offices, from 11 in 2015.

This work is partially based on the country-specific CO2 emission factors developed by the International Energy Agency, © OECD/IEA 2016 but the resulting work has been prepared by Carbon Smart and Lloyd's and does not necessarily reflect the views of the International Energy Agency. A more detailed statement on Lloyd's GHG emissions is available at: **www.lloyds.com/ghgemissions**

2.13

Strategic Report
Delivering the Strategy — The Corporation and Market Participants

Corporation

Objective

- The Corporation will promote and protect the interests of the Lloyd's market, and provide valued support services to members and market participants.

Role

- Maintain the market oversight framework, built upon minimum standards, and ensure that is supportive of profitable growth and new business development where appropriate.
- Defend existing licence arrangements and access to markets, and seek new trading rights where there is market demand.
- Undertake market development internationally, including promotional, educational and relationship management activities aimed at brokers, coverholders and risk managers.
- Work closely with the London Market Group, other associations and market participants to make the transaction of insurance business at Lloyd's (from placement to claims settlement) as efficient as possible.
- Determine Lloyd's capital structure and maintain its financial strength and capital efficiency.
- Set appropriate capital levels at member and central level.
- Provide supporting frameworks and structures, and address constraints, in order to allow new innovative products and alternative capital propositions to thrive at Lloyd's.
- Work with the market to attract, develop and retain a diverse range of talent with the appropriate skills and expertise.
- Protect and promote Lloyd's brand and reputation globally.
- Encourage market participants to be good corporate citizens.

Managing agents

- Operate in a professional and profitable manner, ensuring good customer outcomes and with the freedom to participate in whichever type of business they choose within their risk appetites and an agreed business plan.
- Make decisions on underwriting new business and to pursue opportunities in developed and developing economies where aligned with their own strategies.
- Conduct business in line with agreed market process standards (e.g. ACORD).
- Work with brokers and the Corporation to help deliver innovative risk management solutions for clients.
- Promote talent and diversity and inclusion in their organisations.

Brokers

- Maintain high professional standards in their business, ensuring that the interests of clients are held paramount.
- Engage with the Corporation and managing agents to support change so that the Lloyd's market meets the needs of clients in the most effective manner.
- Conduct business in line with agreed market process standards (e.g. ACORD).
- Work with managing agents and the Corporation to help deliver innovative risk management solutions for clients.
- Promote talent and diversity and inclusion in their organisations.

Members' agents

- Support existing private capital providers and facilitate the introduction of new private capital.

3.0

Market Results

3.1

Market Results
2016 Highlights

Financial Highlights

— Lloyd's made a profit of £2,107m (2015: £2,122m)
— Combined ratio of 97.9% (2015: 90.0%)
— Gross written premium of £29,862m (2015: £26,690m)
— Capital, reserves and subordinated loan notes stand at £28,597m (2015: £25,098m)

Gross written premium

£m	
2012	25,173
2013	25,615
2014	25,259
2015	26,690
2016	29,862

Result before tax

£m	
2012	2,771
2013	3,205
2014	3,016
2015	2,122
2016	2,107

Capital, reserves and subordinated debt and securities

£m	
2012	20,193
2013	21,107
2014	23,413
2015	25,098
2016	28,597

Central assets

£m	
2012	2,485
2013	2,384
2014	2,578
2015	2,645
2016	2,879

Return on capital*

%	
2012	14.8
2013	16.2
2014	14.1
2015	9.1
2016	8.1

Combined ratio*

%	
2012	91.1
2013	86.8
2014	88.4
2015	90.0
2016	97.9

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.

*The return on capital and the combined ratio are considered to be metrics which are consistently used to analyse financial performance in the Lloyd's market Results and/or in the Society Report. These metrics (wherever used in this Annual Report) are considered to be Alternative Performance Measures (APMs), with further information available on pages 196 to 197.

The Lloyd's market achieved a pre-tax profit of £2,107m in 2016 (2015: £2,122m) and a combined ratio of 97.9% (2015: 90.0%), which represents a return on capital of 8.1% (2015: 9.1%).

The underwriting result has deteriorated while investment return has improved positively. Foreign exchange gains have also contributed.

On an accident year basis, market conditions in 2016 remained challenging, with a reported deterioration in underwriting performance. All of Lloyd's classes of business have reported accident year losses for 2016, and only three classes had prior year reserves releases that were sufficient for them to report overall profits. For the first time since 2012, aggregate major claims and insured catastrophe losses were above the long-term average in 2016. The year saw two events for which the net incurred loss to the Lloyd's market was in excess of £250m. The first of these was the Fort McMurray Wildfire in Canada in May. The second was Hurricane Matthew which struck a number of Caribbean islands, the southeastern United States and Eastern Canada in late September/early October.

The underwriting result continued to benefit from prior year releases, which accounted for £1,150m (2015: £1,621m), reducing the combined ratio by 5.1% (2015: 7.9%). The level of release is lower than in recent years but is supported by the strong level of claims reserves.

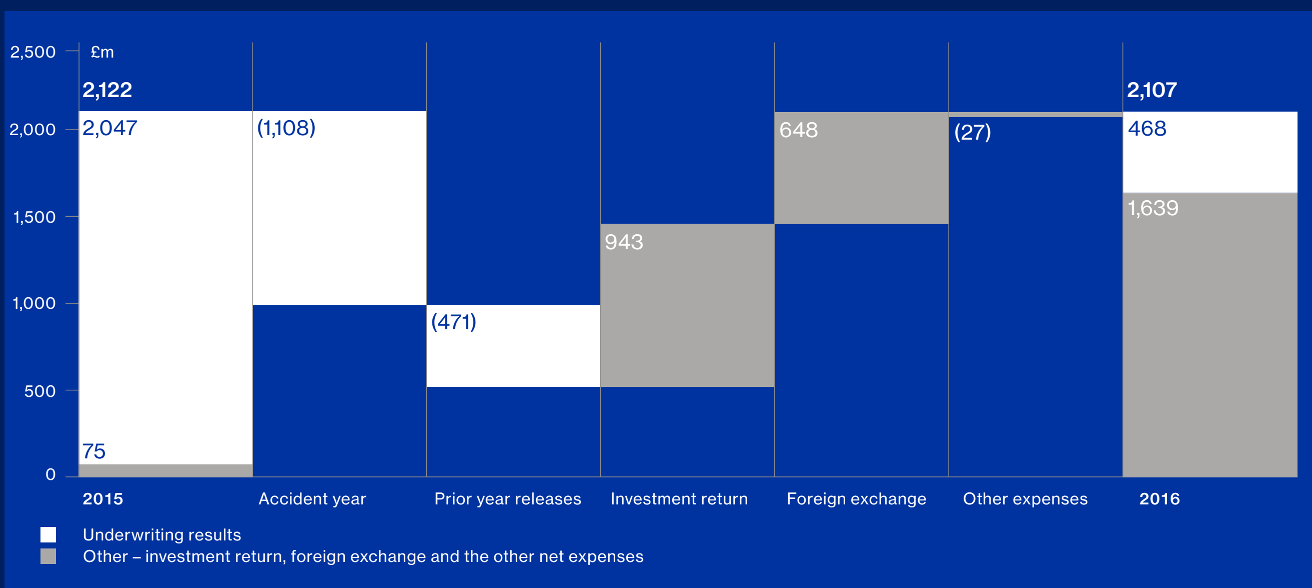
The reserving methodology for setting initial loss estimates varies between syndicates. There are a significant number that reserve prudently, which contributes to the observed trend of relatively high accident year ratios, which reduce over time as they book releases from reserves.

Continued downward pressure on pricing was experienced across the market in 2016, and whilst this was broadly in line with planning assumptions, competition in reinsurance continues to grow as traditional and alternative capital remains attracted to this class.

Aviation, Energy, Marine and Property classes also experienced intense rating pressure. Capacity is abundant, and profitable growth opportunities continue to be increasingly scarce driven by weaknesses in the global economy and the challenging market conditions.

The level of expenses continues to increase and erode underwriting margins. The Lloyd's market's

Drivers of Market Result



expenses are higher as a proportion of net earned premium than those of our competitor group, particularly in relation to acquisition costs reflecting Lloyd's more extensive distribution chain. This will be an area of focus in 2017. Administrative expenses are also higher although the Lloyd's figures are flattered by the impact of measuring mostly sterling expenses against net earned premium with a high proportion of US dollar.

Investment return was 2.2% (2015: 0.7%), the improvement being driven by the strong performance from high quality fixed interest assets.

Foreign exchange gains have impacted the 2016 result favourably. The movement in the US Dollar to Sterling exchange rate has been the largest contributor with the US Dollar strengthening 16% over the year. Approximately 61% of the business written across the market is denominated in US Dollars. Assets are held within syndicate premiums trust funds and members funds at Lloyd's to match the underlying exposures and at the 2016 year end there was a surplus of US Dollar assets. A portion of the assets in the Central Fund are also denominated in US Dollars to preserve our solvency coverage.

Looking ahead

Overall, pricing reductions do appear to be slowing. Nevertheless, given that capital supporting the industry remains plentiful, there is little to suggest a halt in the decline in the short term. With 2016 seeing a return to less benign levels of major loss activity, the tightening of the accident year result is expected to promote further underwriting discipline in the coming months.

Both threats and opportunities may arise from macro-economic and political changes this year. Recent signs of rising inflation may prompt underwriters to review their pricing and risk appetites. The Ogden rate change is likely to lead to a re-evaluation of current pricing levels for UK bodily injury exposed lines.

Prior year claims reserves, particularly in the casualty sector, will be highly sensitive to any material growth in the rate of inflation. Alongside general price softening, such inflation may also fuel a further rise in current levels of attrition.

Understanding and managing attritional losses is now critical if planning targets are to be met.

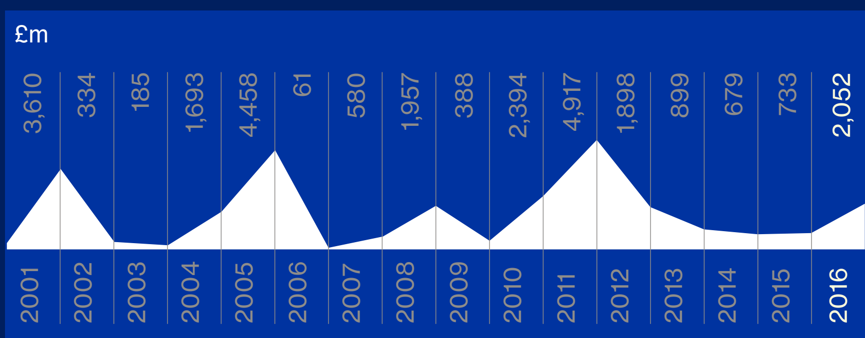
Major claims

% of NEP	
2012	9.7
2013	4.4
2014	3.4
2015	3.5
2016	9.1
Five-year average	6.0
Ten-year average	8.7

Accident year ratio excl. major claims

%	
2012	88.6
2013	90.4
2014	93.1
2015	94.4
2016	93.9
Five-year average	92.1
Ten-year average	89.9

Lloyd's major losses: net ultimate claims



Five-year average £1,825m 15-year average £1,652m Indexed for inflation to 2016.
Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

Particular focus is needed on those classes where results are already borderline and most sensitive to attrition.

2016 performance

Gross written premium for the year increased to £29,862m compared with £26,690m in 2015. US dollar denominated business continues to account for the largest share of business at Lloyd's. The average exchange rate in 2016 was US$1.35: £1 compared with US$1.53: £1 in 2015. The strong US dollar increased premiums as reported in converted sterling by 10.4%. Adjusting for the impact of exchange rate movements, the increase in gross written premium was 1.4%.

The overall price change (taking into account terms and conditions) on renewal business was a decrease of 3.3%. This was broadly in line with planning assumptions. Aside from pricing reductions, some weakening in other terms and conditions and the widening of coverage was evident. Year-on-year growth in premium income in underlying currency was, again, below that originally planned by the syndicates. During the year, there continued to be modest and controlled growth in most classes, the main exception being energy, where further contraction was evident.

This was largely due to reduced economic activity in the sector combined with growing competitive pressure. Significant over-capacity continued to drive pricing downward across most classes, notably in property, energy, marine and aviation insurance and reinsurance lines.

The underlying accident year ratio, excluding major claims, was 93.9% (2015: 94.4%). Given the general weakening of pricing and other terms and conditions, this small improvement may seem encouraging but must be taken in context with the large increase in major claims.

Major claims

For the Lloyd's market, major claims were £2,052m in 2016 (2015: £724m), net of reinsurance and including reinstatements payable and receivable.

After three relatively light years, the cost of major claims to the Lloyd's market in 2016 is the fifth highest since 2000 with two events generating net incurred claims greater than £250m to the Lloyd's market and a further three which generated net incurred claims of more than £100m.

The largest insured natural catastrophe event was Hurricane Matthew. This was the first category five Atlantic hurricane since 2007, which principally impacted the Caribbean, causing over 1,600 deaths. While Florida escaped relatively lightly, the hurricane could have been a real test for (re)insurers had its path moved directly over the high concentrations of risk in the Florida peninsula. The other notable natural catastrophe to impact the Lloyd's market was the Kaikoura earthquake in New Zealand.

The market's second largest claims event was the wildfire which devastated Fort McMurray in Alberta, Canada, not considered to be a natural event as investigators believe the cause was most likely due to human activity. The two other major events were the damage to the turret of the Kwame Nkrumah floating production storage and offloading facility operating in the Jubilee oil field off Ghana and the explosion of SpaceX's Falcon 9 rocket that destroyed its payload AMOS-6 satellite.

Prior year reserve movement

% of NEP	
2012	(7.2)
2013	(8.0)
2014	(8.1)
2015	(7.9)
2016	**(5.1)**

Combined ratio

Years of account in run-off

2012	8
2013	6
2014	4
2015	4
2016	**6**

3.1

Market Results
2016 Highlights

Prior year movement

The combined ratio has been reduced by 5.1% (2015: 7.9%) through material prior year reserve releases. The release represents 3.8% (2015: 5.5%) of net claims reserves brought forward at 1 January.

This was the twelfth successive year of prior year surpluses. In each of these years, the level of release has been significantly influenced by actual experience. In 2016, aggregate attritional claims emergence was significantly below projected levels. This favourable development was experienced across a number of classes of business and years of account. However some instances of reserve strengthening have been experienced, particularly on Motor business, following the announcement of the reduction in the Ogden discount rate in February 2017.

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

With regard to reserving approach, a number of managing agents adopt prudent initial held reserves. In the absence of poor claims experience these would be expected to result in future releases. Best estimate reserve calculations are captured through Solvency II reporting and the level of explicit prudence has not changed over 2016.

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

Concerns around the most recent underwriting years for Casualty continue to be communicated to the market. Over 2016 Lloyd's has carried out a review focused on certain Casualty sectors in order to investigate the market's view of these in further detail. In 2017 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 classes.

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

Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remain extremely high with more than 97% of all recoveries and reinsurance premium ceded being with reinsurers rated 'A-' and above, or supported by collateral. While the Reinsurance Asset is a material consideration for Lloyd's (equivalent to 38% of GWP/44% of members' assets) it has remained stable and consistent with the scale of risk transfer and recent loss experience. No negative settlement trends have been witnessed. Lloyd's outward reinsurance spend has remained fairly stable (23% of GWP), but there has been a moderate increase in the scale of reinsurance being purchased. While reducing margins on Lloyd's inward reinsurance book have been witnessed, there have also been reductions in outward reinsurance costs relative to the exposures being ceded.

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 2014 account reached closure at 31 December 2016. 2014 witnessed some sizeable risk losses, notably in the aviation sector. However, aggregate major claims and insured catastrophe losses were below the long-term average. With this lower than normal level of major claims, the 2014 pure year of account was able to report a good underwriting profit. The 2014 pure year profit was also boosted by the addition of releases from prior years totalling £1,031m on the 2013 and prior reinsurance to close (RITC) (2012 and prior: £1,038m), which meant the year closed with an overall profit of £2,856m.

Four years of account were in run-off at the beginning of 2016. One of those was closed at the end of 2016. However, three syndicates were unable to close their 2014 year of account at the year end and, therefore, the number of open years increased to six.

In aggregate, run-off years reported a deficit of £35m including investment return (2015: surplus of £8m). This includes the risk premium required to close the run-off year of account in 2016. Overall, the 2016 result is as expected for the four years of account that were in run-off through the year.

The results of the major classes of business are discussed in detail on pages 40 to 49.

Investment review

Investment returns were strong in most markets over 2016 despite the heightened level of economic uncertainty arising from key events. This was reflected in the market's investment return of £1,345m which showed notable improvement on the previous year and was also above the five-year average.

Whilst investments finished the year in relatively strong positions, 2016 was not without its sources of volatility.

Equity markets had a particularly poor start to the year but losses had already been recovered by the end of the first quarter. The Brexit result took many investors by surprise at the end of Q2 but Bank of England policy measures delivered the necessary confidence to investors and support to financial markets. Whilst the US election outcome was not predicted, its association with expected fiscal stimulus against a backdrop of encouraging economic data and improved company earnings led to a positive impact on equity markets in Q4.

Overall, equity and growth assets have produced strong returns with commodities being one of the best performing assets in the year.

The divergence in monetary policy measures implemented in the UK and US has led to mixed returns in bond markets. Overall, returns were in excess of prevailing yield levels, boosted by capital appreciation as risk-free yields fell in most cases.

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 conservative investment policy pursued by agents. Cash and high quality, shorter duration, fixed interest investments constitute a majority share with exposure to more volatile equity and growth assets tending to make up one tenth of the whole.

2016 combined ratio

	Accident year	Prior year reserve movement	Calendar year
Reinsurance	102.3%	(10.0)%	92.3%
Property	106.6%	(3.2)%	103.4%
Casualty	102.9%	(0.2)%	102.7%
Marine	108.4%	(2.2)%	106.2%
Energy	106.4%	(13.8)%	92.6%
Motor	108.9%	2.6%	111.5%
Aviation	106.9%	(22.2)%	84.7%
Life	113.0%	(2.6)%	110.4%

3.1

Market Results
2016 Highlights

Overall, syndicate investments returned £810m, or 2.0% in 2016 (2015: £273m, 0.8%). Investments are valued at mark to market prices and unrealised gains and losses are included within reported investment returns. Investment returns were solid by comparison to previous years given the direction of bond markets but exposure to equity and growth assets also provided an uplift.

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 £363m, or 1.8% (2015: £86m, 0.5%) 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 also solid by comparison with previous years.

The investment return on Lloyd's central assets is also included in the PFFS. This was £172m or 5.6% in 2016 (2015: £43m, 1.5%). The investment performance of central assets is discussed on page 120.

Results summary

Lloyd's reported a profit before tax for the financial year of £2,107m (2015: £2,122m) and a combined ratio of 97.9% (2015: 90.0%). The PFFS aggregates the results of the syndicate annual accounts, notional investment return on funds at Lloyd's (FAL) and the Society of Lloyd's financial statements. The basis of preparation of the PFFS is set out in note 2 on pages 55 to 56. The syndicate annual accounts reported an aggregate profit of £1,353m (2015: £1,950m).

Class of business Reinsurance – Property

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

2016 performance

Lloyd's gross written premium for 2016 was £5,022m (2015: £4,627m), an increase of 8.5%. The Lloyd's reinsurance property class reported an accident year ratio of 101.2% (2015: 87.4%).

Once again, property catastrophe and facultative reinsurance have experienced a number of natural catastrophe losses although none of these events caused exceptional levels of damage.

The largest of the losses, Hurricane Matthew affecting the Bahamas, Florida and South Carolina, had a greater impact on facultative reinsurance than treaty. The Alberta wildfire was the largest catastrophe loss to date in Canada, having a greater impact on treaty portfolios where Lloyd's reinsures a number of primary carriers. In addition, there were a number of flood losses in the USA, the largest of which impacted Louisiana. Earthquakes in Japan, New Zealand and Ecuador contributed further to the aggregate bill for catastrophe losses; of these the greatest impact was from the Kaikoura event in New Zealand. In terms of individual risk losses the largest loss was the Gap warehouse fire in New York in August.

Pricing for property treaty and facultative placements remain in decline. Although the rate of decline has slowed, there remains a surplus of capacity in the market. While property catastrophe reinsurance prices are also falling, driven by the availability of capacity and generally favourable loss experience, the rate of decline has also begun to slow in some major markets. There has been a weakening of contractual exclusions including pressure to extend the length of occurrence definitions, and a widening of coverage to include, in some cases, terrorism and cyber exposures. The increase in annual premium is largely driven by the strengthening of the US dollar, but also reflects an increased amount of coverage purchased by customers.

Prior year movement

The prior year reserve movement was a surplus of 9.4% (2015: 11.1%). Case reserves and specific provisions for catastrophes have remained stable. This has been further bolstered by the release of loads held within reserves for general catastrophe exposures.

Looking ahead

With weaker pricing and wider terms and conditions, the results for 2017 are likely to deteriorate, making the market more sensitive to catastrophe events. In the absence of a re-balancing of capital in the sector, the pressure on pricing and contractual terms is likely to persist through 2017.

Reinsurance – Casualty

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

2016 performance

Lloyd's gross written premium for 2016 was £2,096m (2015: £1,797m), an increase of 16.6%. The Lloyd's casualty class reported an accident year ratio of 105.2% (2015: 103.9%).

2016 performance showed adverse movement against recent year loss ratios as margins were put under increasing pressure. Capacity remains freely available driving an increasingly competitive environment; nevertheless the rate of pricing reduction did contract somewhat in 2016.

Prior year movement

The prior year reserve movement was a surplus of 7.1% (2015: 3.9%). There is particular reserving uncertainty on casualty lines. Lloyd's monitoring of these classes continues to indicate adequate provisions remain over all prior years.

This class contains motor excess of loss and so has been impacted by the change in the Ogden discount rate announced in February 2017, though overall there was still a material release on prior years. The announcement of the new rate was accompanied by timescales for a review in order to assess how this is set in future; therefore this remains an area of uncertainty.

Looking ahead

With continued excess supply and relatively static demand for the foreseeable future, insurers and reinsurers alike are striving to offer new and alternative solutions. Cyber in particular continues to offer the most significant opportunities.

Pricing continues to remain under pressure in other casualty treaty sectors as demand for reinsurance amongst some larger buyers wanes through increased retentions and further consolidation in reinsurance programmes.

Reinsurance classes exposed to UK bodily injury settlements will be impacted by the Ogden discount rate change announced in February 2017. Motor excess of loss and to a lesser extent international casualty treaty will see the impact in current year loss ratios and this is likely to lead to a re-evaluation of current pricing levels.

3.1

Market Results
2016 Highlights

Reinsurance – Specialty

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

2016 performance

Gross written premium by sector was: Marine £1,127m (2015: £1,051m), Energy £689m (2015: £622m), Aviation £454m (2015: £471m) and Life £20m (2015: £25m). Lloyd's reinsurance – Specialty reported an accident year ratio of 101.9% (2015: 106.0%).

There continues to be a frequency of large facultative reinsurance losses in most specialty sectors. While performance in corresponding treaty classes proved largely satisfactory, marine excess of loss reinsurers were impacted by some large cargo and energy related losses.

In most specialty sectors, capacity remained more than ample, and this led to further downward pressure on pricing, particularly at the marine and aviation treaty renewals.

Prior year movement

The prior year reserve movement was a surplus of 14.2% (2015: 12.7%). This class is exposed to individual large losses though specific provisions are held to cover the emergence of these on more recent years of account. Releases emerge where the full quantum of these specific provisions is not required.

Looking ahead

With some variability from sector to sector, pricing pressure is not expected to abate in most of these reinsurance sectors.

Property

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

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

2016 performance

Lloyd's gross written premium for 2016 was £7,988m (2015: £6,893m), an increase of 15.9%. The Lloyd's property class reported an accident year ratio of 106.6% (2015: 94.1%).

Excess capacity and increased competition, including that from domestic markets, has continued to keep pricing under pressure during the year. Meaningful growth in premium income levels was evident in both international open market business and US excess and surplus lines, along with US binding authority business. Other lines were largely flat or saw some contraction in premium levels, although exposures did not fall. The impact of competition has mainly been confined to pricing, with contract wordings remaining largely unchanged. Increasingly, however, during the course of 2016 pressure has come to bear on sub-limits, deductibles, and other coverage enhancements have been seen.

Results have come under pressure through 2016, driven by rising attritional losses (including some attritional catastrophe losses in the shape of a number of US convective storms in the first half of the year). Additionally, a less benign year in terms of larger natural catastrophe events (Hurricane Matthew, Canadian Wildfires and a number of earthquake events) has resulted in planned combined ratios for both US and Non-US accounts on open market and binding authority business being more stressed than in recent years.

Prior year movement

The prior year reserve movement was a surplus of 3.2% (2015: 4.0%). %). In line with other recent years for this short-tailed business, there has been generally stable or favourable development in relation to estimates for known losses.

Looking ahead

Loss experience has been less benign in 2016 than in recent years, and may be considered to be broadly consistent with long term averages. Following sizeable reductions in pricing in recent years, 2017 is expected to see the scale of price concessions diminish. As remaining margins become less sustainable, a pricing plateau is expected to be reached for many risks. Nevertheless, pressure is expected to continue on underwriters as brokers and clients seek to broaden cover further.

The absence of a major catastrophe event, continued aggressive competition, thinning margins and the availability of meaningful capacity will intensify competition for accounts perceived as carrying any above average margin, particularly where good risk management practices are demonstrated and loss experience has been favourable. This will leave underwriters with a number of difficult decisions on existing accounts. Control of expenses and acquisition costs are expected to be an ongoing challenge for many property underwriters as margins remain under pressure.

Casualty

The casualty market at Lloyd's comprises a broad range of sectors.

The most significant are General Liability and Professional Liability. Although shorter-tail in nature than most casualty lines, Accident and Health business is also included within this sector. The US market is the largest single market for Lloyd's casualty followed by the United Kingdom, Canada and Australia.

2016 performance

Lloyd's gross written premium for 2016 was £7,131m (2015: 5,764m), an increase of 23.7%. The Lloyd's casualty class reported an accident year ratio of 102.9% (2015: 104.5%).

The wider casualty market in 2016 remained replete with capacity. This suppressed price increases, keeping them below widely agreed-upon claims inflation assumptions. This continuing trend is disappointing given that accident year results are loss making.

Growth continues in the casualty lines. Some of this growth comes from genuinely new, innovative, business; cyber liability particularly stands out. These products continue to develop, addressing rapidly evolving exposures, with many insureds being first time buyers. Additionally there is some organic premium growth illustrating growing prosperity as insureds experienced higher turnover, wage rolls and fee income reflecting a slowly improving economic environment.

Prior year movement

The prior year reserve movement was a surplus of 0.2% (2015: 4.4%).

Casualty has been a particular focus for reserve oversight in 2016 and will continue to be closely monitored over the year ahead. This focus arose as a result of concerns around reserve strength of more recent years, though these are confined to particular underlying segments within the class. The reduction in the level of release is considered appropriate as part of ensuring the level of reserves remains robust in challenging market conditions, rather than reflecting experience over the year.

This market has been impacted by reduction of the Ogden discount rate in February 2017. The continuing review into this rate adds uncertainty to the reserves exposed to this factor. This is in addition to the relatively high level of inherent uncertainty of reserves in this long-tailed class, particularly under challenging market conditions.

Looking ahead

The casualty market's performance is highly correlated with both economic and legal conditions. Changes in the US political environment stimulating the local economy may result in additional opportunities in the US and beyond.

Predicted increases in inflation will put additional pressure on attritional loss ratios for open claims as well as future years of account.

Recovery from the global financial crisis remains fragile with many economies still vulnerable.

3.1

Market Results
2016 Highlights

While the legal environment varies across territories, many jurisdictions now allow 'collective actions' with third party litigation funding sometimes fuelling the trend. This may lead to an increase in frequency and severity of claims.

Regulators continue their pursuit of corporate wrongdoing via official investigations, increasingly holding business and industry to higher standards of care. While positive in many respects, this also contributes to defence costs making up a larger portion of losses.

The cyber liability market at Lloyd's continues to expand, driven by greater demand and evolving legislation. Growth rates in Europe are expected to increase with the adoption of the General Data Protection Regulation in April 2018. Lloyd's has pioneered many of the products in this class, and remains at the leading edge of product development through providing innovative, bespoke, risk transfer solutions.

Casualty business is expected to continue to grow albeit at a slower rate than in recent years. The market remains highly competitive, with many participants seeking to expand their books, often through delegated underwriting arrangements.

With no lack of appetite among insurers for casualty business, pricing is expected to weaken further in 2017.

Marine

Lloyd's is an industry leader of marine insurance business. The principal sectors include hull, cargo, marine liability, fine art and specie political risks and war.

2016 performance
Lloyd's gross written premium for 2016 was £2,470m (2015: £2,245m), an increase of 10.0%. The Lloyd's marine class reported an accident year ratio of 108.4% (2015: 105.4%).

An abundance of capacity is available in marine lines of business. This contributes to an intensely competitive and suppressed pricing environment especially in the larger sectors of cargo and hull.

Whilst growth is evident in most lines of business it is against a backdrop of falling prices and deteriorating loss ratios.

Loss ratio performance cannot be explained by an extraordinary level of catastrophic losses, although the satellite loss 'Amos6' was a sizeable, unexpected loss for the cargo market. It also remains to be seen what impact the Hanjin insolvency will have for lines of business in the marine class.

Prior year movement
The prior year reserve movement was a surplus of 2.2% (2015: 11.2%).

2016 experience in this class has been less favourable than in other recent years and this is reflected in the reduced level of release. The experience has not been outside the level expected for exposures of this type and continues to be favourable overall.

Looking ahead
Whilst the global economy is expected to grow, stagnant commodity prices offer little prospect of a sharp improvement in trade volumes or organic premium growth in the short term.

With plentiful capacity, continued pricing pressure is to be expected in 2017.

Energy

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

2016 performance

Gross written premium for the Lloyd's energy class in 2016 was £1,110m (2015: £1,414m), a decrease of 21.5%. The Lloyd's energy class reported an accident year ratio of 106.4% (2015: 97.3%).

The result has been affected by a reduction in premium and a series of offshore energy losses from prior years, where loss estimates and reserves matured towards ultimate levels. The energy class continued to suffer as a result of the depressed oil price, with resultant reduced activity in exploration and production. This affected income negatively, counteracting the benefit of a strengthening US dollar.

As elsewhere, capacity remains readily available, maintaining pressure in the pricing environment.

The absence of any major events in the Gulf of Mexico has contributed to generally favourable results in recent years. This has fuelled the attraction of new capacity and greater competition.

Price reductions through the year, while not always as great as in the prior period, were nonetheless significant. Additionally, depressed oil prices led to producers restricting exploration and production activity and investment in new construction. Combined, these factors led to a further reduction in the premium base.

The onshore energy sector continues to maintain high capacity levels. While performance in the class is deteriorating, competition remains intense.

Prior year movement

The prior year reserve movement was a surplus of 13.8% (2015: 21.3%). This class continues to generate reserve releases across both the property and liability sectors. Although large claims experience has been higher than some recent years in 2016 it is still lower than the expected level, and so is supporting the release.

Looking ahead

Performance in the energy sector is highly correlated to the price of oil. In the absence of a sustained increase, the sector's economic outlook will not improve. Competition is likely to remain intense with associated pricing pressure and diminishing returns.

However, there may be some counteraction driven by underlying results. The loss outlook is deteriorating as maturing prior year claims continue to affect performance.

With high capacity and low activity, conditions are not conducive to growth in this class.

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 of this is North American risk, including private auto and static risks such as dealers open lot.

2016 performance

Gross written premium in 2016 was £1,047m (2015: £1,120m), a decrease of 6.5%. The Lloyd's motor class reported an accident year ratio of 108.9% (2015: 109.5%).

Underwriting conditions in the UK Motor market remain challenging. In order to maintain the current performance run rate, prices paid must increase to accommodate recent increases in Insurance Premium Tax, with further rises expected later this year. Whiplash losses have seen another 5% increase over 2015 (RTA claims portal data) despite Ministry of Justice reforms coming into effect in 2016. In addition repair bills continue to rise as vehicles grow more sophisticated and consequently the cost of parts and labour increase.

Private car premiums continue to increase, partly reflecting the growth in inflation in the UK in the latter half of 2016.

3.1

Market Results
2016 Highlights

The pricing environment in the commercial motor sector was slightly more positive, with above inflation increases achieved throughout the year. Fraudulent claims activity remains a concern.

In the aggregate, the pricing environment is modestly positive, but material concerns over performance remain in both private and commercial motor insurance.

Prior year movement
The motor class saw a reserve strengthening of 2.6% of motor net earned premium (2015: release of 7.5%).

The reserve strengthening is a result of the UK motor insurance market being materially impacted by the change in Ogden discount rate announced in February 2017. This has increased the expected value of claims on prior years and continued review of the process for setting the rate increases the uncertainty associated with future claims values. The incidence of claims settled as periodic payment orders (PPOs) also affects the level of uncertainty within this class, and this may be expected to vary as a result of the Ogden rate change.

Looking ahead
While the UK Motor insurance market remains highly competitive, prices in both commercial and private car continue to increase. The Ogden discount rate change announced in February 2017 will impact current year loss ratios and this and any additional reinsurance costs are likely to lead to a re-evaluation of current pricing levels. Future whiplash reforms should improve attritional loss experience when they are introduced in 2018 but the market could see a short term increase in claim volumes from claimant solicitors keen to take advantage of the existing regime.

Aviation

Lloyd's writes across all main business sectors including airline, aerospace, general aviation, space and war.

Airline (hull and liability) is the largest sector but Lloyd's is also actively involved in the underwriting of general aviation (for example, privately owned light aircraft, helicopters and large private corporate jets), airport liability, aviation product manufacturers' liability, aviation war/terrorism and satellite launch and in-orbit risks.

2016 performance
Gross written premium was £627m (2015: £587m), an increase of 6.8%. The Lloyd's aviation class reported an accident year ratio of 106.9% (2015: 113.0%).

In comparison with recent years, the 2016 accident year was relatively light in terms of major loss activity, with airline safety metrics among the best on record. Notable airline claims included LaMia Flight 2933 which crashed in Colombia in November; 71 of the 77 passengers and crew were lost. Passengers included the majority of the Brazilian Chapecoense football squad, en route to Medellin, together with a number of coaching staff and journalists. Also of note was the loss of Pakistan International Airlines 661, a domestic flight, which crashed in December. None of the 47 passengers and crew survived.

Pricing continued to decline in 2016, although some stabilisation was evident in the final quarter, a key renewal period in the aviation insurance market for many of the world's major airlines.

Prior year movement
The prior year reserve movement was a surplus of 22.2% (2015: 17.3%).

The more stable development for this class over 2016 is reflected in the release compared to recent years.

Looking ahead
Taking into consideration the reduction in major claims activity, the 2016 accident year loss is disappointing. While aviation safety is likely to continue to improve incrementally, rising exposures combined with further price reductions will inevitably lead to a further growth in the percentage level of attritional losses. Capacity remains readily available in all aviation lines. Notwithstanding a marked withdrawal, market conditions are likely to remain challenging with the potential to deteriorate still further. In order to generate positive returns this class requires strict adherence to underwriting discipline and rigorous application to actively managing the insurance portfolio.

Reinsurance

Property

Gross written premium £m		Combined ratio %		Underwriting result £m	
2012	5,463	2012	89.8	2012	393
2013	4,930	2013	76.8	2013	846
2014	4,472	2014	77.0	2014	801
2015	4,627	2015	76.3	2015	794
2016	5,022	2016	91.8	2016	299

Casualty

Gross written premium £m		Combined ratio %		Underwriting result £m	
2012	1,612	2012	94.5	2012	70
2013	1,698	2013	88.3	2013	165
2014	1,779	2014	87.6	2014	187
2015	1,797	2015	100.0	2015	0
2016	2,096	2016	98.1	2016	33

Specialty

Gross written premium £m		Combined ratio %		Underwriting result £m	
2012	2,360	2012	91.1	2012	142
2013	2,349	2013	81.8	2013	310
2014	2,237	2014	86.5	2014	225
2015	2,169	2015	93.3	2015	110
2016	2,290	2016	87.7	2016	216

3.1

Market Results
2016 Highlights

Direct

Property	Gross written premium £m		Combined ratio %		Underwriting result £m	
	2012	5,476	2012	94.4	2012	221
	2013	6,103	2013	85.0	2013	681
	2014	6,274	2014	87.7	2014	558
	2015	6,893	2015	90.1	2015	501
	2016	7,988	2016	103.4	2016	(202)

Casualty	Gross written premium £m		Combined ratio %		Underwriting result £m	
	2012	4,543	2012	95.6	2012	152
	2013	4,850	2013	98.8	2013	47
	2014	4,959	2014	98.1	2014	74
	2015	5,764	2015	100.1	2015	(5)
	2016	7,131	2016	102.7	2016	(146)

Marine	Gross written premium £m		Combined ratio %		Underwriting result £m	
	2012	2,090	2012	99.9	2012	2
	2013	2,195	2013	95.4	2013	84
	2014	2,140	2014	95.2	2014	84
	2015	2,245	2015	94.2	2015	108
	2016	2,470	2016	106.2	2016	(129)

Energy	Gross written premium £m		Combined ratio %		Underwriting result £m	
	2012	1,727	2012	76.0	2012	275
	2013	1,668	2013	83.0	2013	201
	2014	1,532	2014	83.4	2014	181
	2015	1,414	2015	76.0	2015	247
	2016	1,110	2016	92.6	2016	59

Motor	Gross written premium £m		Combined ratio %		Underwriting result £m	
	2012	1,155	2012	104.0	2012	(42)
	2013	1,184	2013	108.6	2013	(87)
	2014	1,213	2014	106.6	2014	(71)
	2015	1,120	2015	102.0	2015	(17)
	2016	1,047	2016	111.5	2016	(103)

Aviation	Gross written premium £m		Combined ratio %		Underwriting result £m	
	2012	669	2012	67.7	2012	170
	2013	562	2013	81.4	2013	90
	2014	581	2014	102.7	2014	(10)
	2015	587	2015	95.7	2015	19
	2016	627	2016	84.7	2016	71

Statement of Council's Responsibilities and Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the 2016 Pro Forma Financial Statements

Statement of Council's responsibilities

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

The Council 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 and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent reasonable assurance report to the Council of Lloyd's

Report on the preparation of the 2016 Lloyd's Pro Forma Financial Statements

Conclusion

In our opinion the Council of Lloyd's has prepared the Lloyd's Pro Forma Financial Statements (the PFFS) for the financial year ended 31 December 2016, defined below, in all material respects in accordance with the basis of preparation set out in note 2.

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

What we have assured

The PFFS, which are prepared by the Council of Lloyd's, comprise:

- A pro forma profit and loss account;
- A pro forma statement of other comprehensive income;
- A pro forma balance sheet;
- A pro forma statement of cash flows; and,
- Notes 1 to 24.

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

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Lloyd's Annual Report within which the PFFS for the year ended 31 December 2016 are included.

What a reasonable assurance engagement involves

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

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

The PFFS have been compiled in part from an aggregation of financial information extracted from the balance sheet and profit and loss account included in syndicate annual accounts by the managing agent of each syndicate, which has been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported. Our work did not involve assessing the quality of those audits or performing any audit procedures over the financial information of the syndicates.

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

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

The engagement also involves evaluating the overall presentation of the PFFS. We do not consider the appropriateness of the basis of preparation of the PFFS.

Responsibilities for the Pro Forma Financial Statements and the reasonable assurance engagement

Our responsibilities and those of the Council of Lloyd's

The Council of Lloyd's is responsible for the preparation and approval of the PFFS in accordance with the basis of preparation set out in note 2. The purpose of the PFFS is to allow the financial results of Lloyd's and its members and their net assets taken together to be compared as closely as possible with the financial reports of general insurance companies.

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

This report including our conclusions has been prepared solely to the Council of Lloyd's in accordance with our engagement letter dated 21 February 2017 (the 'instructions'). Our examination has been undertaken so that we might state to the Council those matters which we are required to state in this report in accordance with the instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
29 March 2017

Market Results

Pro Forma Profit and Loss Account (For the year ended 31 December 2016)

Technical account	Note	£m	2016 £m	£m	2015 £m
Gross written premiums	9		29,862		26,690
Outward reinsurance premiums			(6,796)		(5,667)
Premiums written, net of reinsurance			23,066		21,023
Change in the gross provision for unearned premiums		(723)		(803)	
Change in the provision for unearned premiums, reinsurers' share		317		345	
			(406)		(458)
Earned premiums, net of reinsurance			22,660		20,565
Allocated investment return transferred from the non-technical account			713		302
			23,373		20,867
Claims paid					
Gross amount		13,913		12,477	
Reinsurers' share		(2,431)		(2,846)	
			11,482		9,631
Change in provision for claims					
Gross amount		2,861		7	
Reinsurers' share		(1,356)		624	
			1,505		631
Claims incurred, net of reinsurance			12,987		10,262
Net operating expenses	11		9,205		8,256
Balance on the technical account for general business			1,181		2,349
Total	9		1,181		2,349
Non-technical account					
Balance on the technical account for general business			1,181		2,349
Investment return on syndicate assets		810		273	
Notional investment return on funds at Lloyd's	6	363		86	
Investment return on Society assets		172		43	
	12	1,345		402	
Allocated investment return transferred to the technical account		(713)		(302)	
			632		100
Profit/(loss) on exchange			578		(70)
Other income			77		56
Other expenses			(361)		(313)
Result for the financial year before tax	8		2,107		2,122

All operations relate to continuing activities.

Pro Forma Statement of Comprehensive Income (For the year ended 31 December 2016)

Statement of other comprehensive income	Note	2016 £m	2015 £m
Profit for the year		2,107	2,122
Currency translation differences		389	68
Other comprehensive losses in the syndicate annual accounts		–	(1)
Remeasurement of losses on pension assets / liabilities in the Society accounts		(111)	(5)
Total comprehensive income for the year	8	2,385	2,184

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Market Results

Pro Forma Balance Sheet (As at 31 December 2016)

Investments	Note	£m	2016 £m	£m	2015 £m
Financial investments	13		55,354		45,874
Deposits with ceding undertakings			20		3
Reinsurers' share of technical provisions					
Provision for unearned premiums	18	3,110		2,368	
Claims outstanding	18	11,310		8,610	
			14,420		10,978
Debtors					
Debtors arising out of direct insurance operations	14	8,881		7,081	
Debtors arising out of reinsurance operations	15	5,043		4,008	
Other debtors		926		763	
			14,850		11,852
Other assets					
Tangible assets		31		32	
Cash at bank and in hand	16	12,292		11,026	
Other		81		42	
			12,404		11,100
Prepayments and accrued income					
Accrued interest and rent		106		69	
Deferred acquisition costs	18	4,278		3,585	
Other prepayments and accrued income		170		168	
			4,554		3,822
Total assets			101,602		83,629
Capital, reserves, subordinated debt and securities					
Members' funds at Lloyd's	6	21,703		17,840	
Members' balances	17	4,015		4,613	
Members' assets (held severally)		25,718		22,453	
Central reserves (mutual assets)		1,996		1,763	
	8		27,714		24,216
Subordinated debt	2		495		494
Subordinated perpetual capital securities	2		388		388
Total capital, reserves, subordinated debt and securities			28,597		25,098
Technical provisions					
Provision for unearned premiums	18	16,548		13,723	
Claims outstanding	18	47,747		38,833	
			64,295		52,556
Deposits received from reinsurers			109		57
Creditors					
Creditors arising out of direct insurance operations	20	772		615	
Creditors arising out of reinsurance operations	21	4,670		3,311	
Other creditors including taxation		2,415		1,451	
			7,857		5,377
Accruals and deferred income			744		541
Total liabilities			101,602		83,629

Approved by the Council of Lloyd's on 29 March 2017 and signed on its behalf by

John Nelson Chairman **Inga Beale** Chief Executive Officer

3.5

Market Results

Pro Forma Statement of Cash Flows (For the year ended 31 December 2016)

	Note	2016 £m	2015 £m
Result on ordinary activities before tax		2,107	2,122
Increase/(decrease) in gross technical provisions		10,737	1,382
(Increase)/decrease in reinsurers' share of gross technical provisions		(3,231)	(196)
(Increase)/decrease in debtors		(3,538)	(1,580)
Increase/(decrease) in creditors		2,540	702
Movement in other assets/liabilities		(645)	(265)
Investment return		(1,345)	(402)
Depreciation		10	10
Tax paid		(48)	(21)
Foreign exchange		(3,563)	26
Other		2	(11)
Net cash flows from operating activities		3,026	1,767
Investing activities			
Purchase of equity and debt instruments		(41,931)	(34,855)
Sale of equity and debt instruments		41,594	35,386
Purchase of derivatives		(41)	(35)
Sale of derivatives		25	23
Investment income received		779	553
Other		116	(78)
Net cash flows from investing activities		310	994
Financing activities			
Net profits paid to members		(2,217)	(2,742)
Net capital transferred into/(out of) syndicate premium trust funds		(138)	205
Interest paid on subordinated notes		(53)	(53)
Net movement in Funds at Lloyd's		827	895
Other		(30)	5
Net cash flows from financing activities		(1,611)	(1,690)
Net increase/(decrease) in cash and cash equivalents		1,725	1,071
Cash and cash equivalents at 1 January		12,566	11,525
Exchange differences on cash and cash equivalents		340	(30)
Cash and cash equivalents at 31 December	22	14,631	12,566

1. The Pro Forma Financial Statements

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

2. Basis of preparation

General

The PFFS have been prepared by aggregating audited financial information reported in syndicate returns and annual accounts (Aggregate Accounts), members' Funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's on pages 132 to 180. Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the PFFS; the going concern and viability statement of the Society is included within the Society Report on pages 124 to 125.

The Aggregate Accounts report the audited results for calendar year 2016 and the financial position at 31 December 2016 for all life and non-life syndicates which transacted business during the year. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 9). The Aggregate Accounts are reported as a separate document and can be viewed at www.lloyds.com/financialreports. In order to provide more meaningful information in the Aggregate Accounts and PFFS, the Society has required syndicates to report certain disclosures presented on a consistent basis, which may vary from presentation included in the individual syndicates' annual accounts.

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

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

- Use of the aggregation basis to prepare the PFFS;
- Notional investment return on 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 which are deemed most appropriate by the managing agents. Where different accounting policies have been selected by managing agents in preparing syndicate annual accounts, no adjustments are made to align the bases of recognition and measurement in the PFFS. In addition, no adjustments are made to eliminate inter-syndicate transactions and balances except for those relating to inter-syndicate loans and Special Purpose Arrangements (SPA). Transactions between syndicates and the Society of Lloyd's are eliminated in the PFFS. These adjustments are described below:

Inter-syndicate loans
The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £135m (2015: £120m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the PFFS (note 8).

Special Purpose Arrangements (SPA)
The Aggregate Accounts include the results and assets of the SPA (see Glossary on inside back cover). Due to the nature of SPA, the quota share of the host syndicate's business is reported as gross written premiums in both the host syndicate and 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 £552m (2015: £790m). The elimination does not affect the PFFS result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

Transactions between syndicates and the Society

- Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate annual accounts and as income in the Society financial statements.

2. Basis of preparation continued

- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls, and do not have the resources to meet those cash calls, are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate annual accounts for calendar year 2016 and earlier years include those members' results and at the balance sheet date will report the outstanding liability within members' balances.
- Loans funding statutory overseas deposits are reported as assets within the syndicate annual accounts and as liabilities in the Society financial statements.

B. Notional investment return on Funds at Lloyd's (FAL)

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

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

C. Statement of changes in equity

Where Lloyd's is not the investment manager for FAL, actual changes are not available and therefore a statement of changes in equity has not been included. However, a statement of changes in members' balances has been included in note 17, which, along with the Society's Group statement of changes in equity (on page 135), represents the changes in equity of the other components of the PFFS.

D. Taxation

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

E. Related party transactions

Individual syndicates or their members do not disclose details of insurance and/or reinsurance transactions with other (non-related) syndicates or members within the market and therefore, analysis and/or disclosure of these transactions within the Lloyd's market in the PFFS is not possible. Other than the disclosures made in note 24, a more detailed related party transaction note is therefore not included within the PFFS. The annual accounts of each syndicate or member provide, where appropriate, the required disclosures on related parties. The related party transactions of the Society are disclosed in note 26 on page 179 of the Society Report.

Funds at Lloyd's (FAL)

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

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

Subordinated debt and securities

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

Note 21 to the Society financial statements on pages 174 to 175 provides additional information.

Society of Lloyd's financial statements

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

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 of Lloyd's, in respect of the Society of Lloyd's and Funds at Lloyd's balances. These judgements, estimates and assumptions affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

The most critical accounting estimate included within the balance sheet is the estimate for outstanding claims. The total estimate, net of reinsurers' share, as at 31 December 2016 is £36,437m (2015: £30,223m) 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, managing agents must prepare the 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.

Outwards reinsurance premiums

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

3. Accounting policies notes continued

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

Additional information on insurance risk is disclosed in note 4.

Discounted claims provisions
Due to the long delay between the inception date of the policy and the final settlement of the claim, the outstanding claims provisions are discounted to take account of the expected investment income receivable between inception and settlement on the assets held to cover the provisions.

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 classes of business which are managed together, and may take into account relevant investment return.

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

Foreign currencies
The Council considers that the functional currency and the presentational currency of the PFFS and Aggregate Accounts is Sterling. Notwithstanding this, a number of syndicates are now using US dollar functional currency for their reporting. In the context of the PFFS and Aggregate Accounts the Council views this to be the equivalent of a group which has different operating units with a mix of functional currencies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Society of Lloyd's
The accounting policies adopted in the Society of Lloyd's financial statements are set out on pages 137 to 142. No adjustments have been made to the information incorporated into the PFFS as the Council do not consider there to be any material accounting policy differences between the existing IFRS accounting policies and the recognition and measurement requirements of UK GAAP.

4. Risk management

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

An Act of Parliament, the Lloyd's Act 1982, defines the governance structure and rules under which Lloyd's operates. Under the Act, the Council of Lloyd's is responsible for the management and supervision of the market. Lloyd's is regulated by the Prudential Regulatory 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 Franchise Board and associated committees.

The Franchise 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 committee, the remuneration committee and the audit committee.

The principal committees of the Franchise Board are the risk committee, the market supervision and review committee, the capacity transfer panel and the investment committee.

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

4. Risk management continued

Capital framework at Lloyd's continued

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

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting 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 which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement to determine the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, license and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Solvency Capital Requirement (Solvency II basis)

The Solvency Capital Requirement (SCR) represents the amount of capital required to withstand a 1 in 200 year loss event over a 12 month horizon. Given Lloyd's unique structure there are two SCRs which 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 and the Central Fund at the same confidence level and time horizon used to calculate the MWSCR. The material risk is that members do not have sufficient funds to meet their underwriting losses even having complied with Lloyd's rigorous capital setting rules.

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

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

The Lloyd's Internal Model

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

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

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

Details of the major risk components are set out below.

Insurance risk

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

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

Underwriting risk

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

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

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

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

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

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

Reserving risk

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

Lloyd's current level of aggregate market reserves remains robust and the continued level of overall reserve releases are supported by underlying claims experience being more favourable than expected. This will not necessarily translate to all syndicates. There are currently few specific reserving issues and the main perceived risks relate to macro influences such as inflation or changes in legislation, or prescribed levels of payout. Lloyd's analyses reserve developments at class 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 classes of business which carry material inherent risk that the ultimate claims settlement will vary from previous assessments of reserves.

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

Credit risk

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

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

Catastrophe risk

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

4. Risk management continued

Lloyd's MWSCR

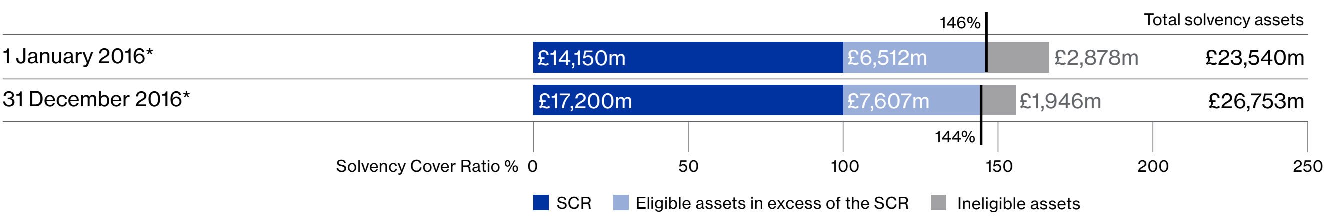
The MWSCR is broken down into the various risk components at 1 January 2016 (implementation date of Solvency II) and at 31 December 2016 as shown below.

	31 December 2016* SCR £m	1 January 2016* SCR £m
Reserving risk	3,421	3,117
All other (attritional) underwriting risk	6,008	4,975
Catastrophe risk	5,129	3,574
Market risk	293	675
Reinsurance credit risk	885	666
Operational risk	645	590
Pension risk	23	22
MWSCR before adjustments	16,404	13,619
Foreign exchange adjustment for movement in H2 2016 (H2 2015)	796	531
MWSCR	17,200	14,150

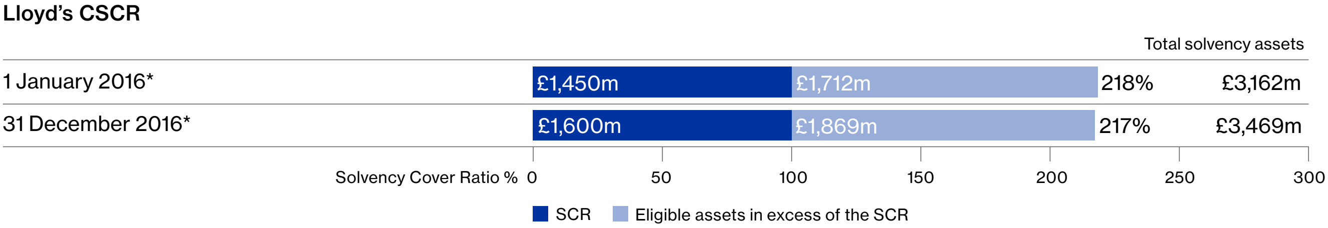
Solvency Capital Requirement coverage

Coverage of the MWSCR and CSCR is an ongoing and continuous requirement and Lloyd's reports the results of its solvency test – 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 at 1 January and 31 December 2016 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 2016 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 the Corporation of Lloyd's. During 2016, the solvency coverage ratios for both the MWSCR and the CSCR were in excess of internal risk appetites and regulatory requirements.

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

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

31 December 2016	MWSCR coverage	CSCR coverage
Solvency cover ratio*	144%	217%
Risk appetite for solvency cover ratio	125%	200%

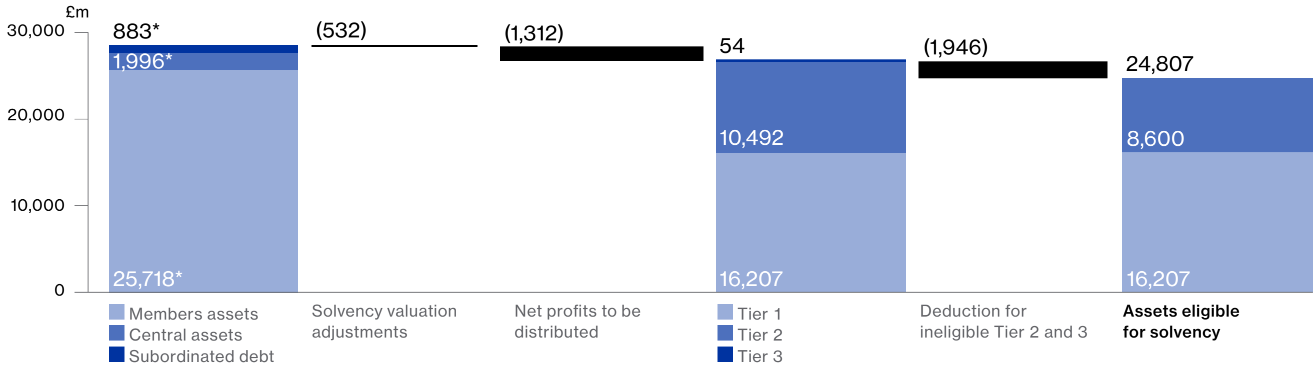
* Based on the unaudited solvency returns.

Assets eligible for solvency

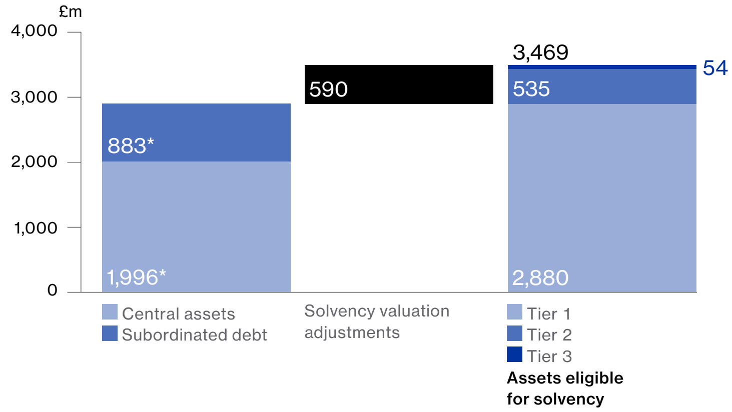
The assets of the syndicates, members FAL and the Society of Lloyd's all contribute towards coverage of the MWSCR, after adjustments to value items in accordance with Solvency II valuation principles. The Society of Lloyd's assets and callable layer, in the chain of security, are available to cover the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

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

Lloyd's MWSCR



Lloyd's CSCR



* Per 31 December 2016 balance sheet. Other amounts represent the position based on the unaudited solvency returns, which may differ from the final audited 2016 submissions.

4. Risk management continued

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 average 2016 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 six years to 10 years over the period 2017–2020.

Gross

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
At end of underwriting year		10,593	9,276	7,945	8,186	8,122	9,286	
One year later		17,476	15,242	15,061	15,587	16,710		
Two years later		17,760	15,534	15,276	16,664			
Three years later		17,521	15,371	14,955				
Four years later		17,621	15,390					
Five years later		17,479						
Cumulative payments		(14,547)	(11,559)	(10,147)	(8,727)	(5,709)	(1,383)	
Estimated balance to pay	9,335	2,932	3,831	4,808	7,937	11,001	7,903	47,747

Net

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
At end of underwriting year		8,524	7,216	6,704	6,832	6,644	7,332	
One year later		14,067	12,346	12,555	12,955	13,578		
Two years later		14,170	12,533	12,734	13,606			
Three years later		13,767	12,303	12,391				
Four years later		13,720	12,219					
Five years later		13,450						
Cumulative payments		(11,348)	(9,270)	(8,552)	(7,524)	(4,812)	(1,194)	
Estimated balance to pay	6,561	2,102	2,949	3,839	6,082	8,766	6,138	36,437

Financial risk

Credit risk

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

As discussed under 'Insurance risk-Credit risk', the market's principal credit risk is that the reinsurance purchased to protect the syndicate's gross losses does not respond as expected. 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.

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

2015	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Debt securities	33,073	–	4	33,077
Participation in investment pools	1,203	–	–	1,203
Loans with credit institutions	471	–	–	471
Deposits with credit institutions	4,109	–	–	4,109
Derivative assets	45	–	–	45
Other investments	61	–	–	61
Reinsurers' share of claims outstanding	8,604	6	–	8,610
Cash at bank and in hand, including Letters of Credit and bank guarantees	11,026	–	–	11,026
Total	58,592	6	4	58,602

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.

4. Risk management continued

Financial risk

Credit risk continued

The table below provides information regarding the credit risk exposure at 31 December 2016 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.

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

2015	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	10,742	9,777	7,438	3,375	1,741	33,073
Participation in investment pools	243	20	20	3	917	1,203
Loans with credit institutions	281	47	4	28	111	471
Deposits with credit institutions	1,498	634	501	236	1,240	4,109
Derivative assets	3	–	12	–	30	45
Other investments	1	–	23	–	37	61
Reinsurers' share of claims outstanding	154	2,650	4,980	40	780	8,604
Cash at bank and in hand	576	1,419	8,303	378	350	11,026
Total credit risk	13,498	14,547	21,281	4,060	5,206	58,592

Liquidity risk

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

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

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

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

2015	No stated maturity £m	0-1yr £m	1-3yr £m	3-5yr £m	>5yrs £m	Total £m
Claims outstanding	1	12,283	13,302	6,320	6,927	38,833
Derivatives	–	36	–	–	2	38
Deposits received from reinsurers	37	19	1	–	–	57
Provisions for other risks and charges	1	–	–	–	–	1
Creditors	899	4,200	360	126	635	6,220
Other creditors	2	43	26	1	–	72
Total	940	16,581	13,689	6,447	7,564	45,221

Market risk – Overview

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

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

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

Market risk comprises three types of risk:

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

4. Risk management continued

Currency risk

Managing agents must identify the main currencies in which each syndicate transacts its business. For the market overall, the US dollar is the largest currency exposure. Assets are then held in each of those currencies to match the relevant liabilities. Managing agents must ensure that assets match liabilities and take corrective action where a mismatch arises. Lloyd's also reviews the matching of assets to liabilities at the syndicate level as well as at the market level. In addition, many members seek to match their capital disposition by currency against their peak exposures. At 31 December 2016, 69% (2015: 63%) of all capital deployed at Lloyd's was provided in US dollars.

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

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

2015	Sterling £m	US Dollar £m	Euro £m	CAD £m	Australian $ £m	Other £m	Total £m
Financial investments	9,662	28,605	2,801	3,162	1,207	437	45,874
Reinsurers' share of technical provisions	2,938	6,905	564	347	136	88	10,978
Insurance and reinsurance receivables	2,457	7,435	623	302	200	72	11,089
Cash at bank and in hand	4,667	5,421	427	138	84	289	11,026
Other assets	1,292	2,682	415	160	51	62	4,662
Total assets	21,016	51,048	4,830	4,109	1,678	948	83,629
Technical provisions	12,535	32,167	3,940	2,350	1,096	468	52,556
Insurance and reinsurance payables	915	2,566	226	131	40	48	3,926
Other creditors	1,717	978	128	87	32	(11)	2,931
Total liabilities	15,167	35,711	4,294	2,568	1,168	505	59,413
Total capital and reserves	5,849	15,337	536	1,541	510	443	24,216

Sensitivity analysis

A 10% strengthening or weakening of the Pound sterling against the following currencies at 31 December would have increased/(decreased) profit 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.

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

2015	Impact on profit before tax £m	Impact on members' balances £m
Strengthening of US Dollar	340	1,487
Weakening of US Dollar	(278)	(1,271)
Strengthening of Euro	16	63
Weakening of Euro	(13)	(52)

The impact on profit before tax is different to the impact on members' balance as the calculation of the notional return on FAL is not affected by currency movements.

Financial risk – 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 profit before tax and equity of the effects of changes in interest rates.

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

2015	Impact on profit before tax £m	Impact on members' balances £m
+ 50 basis points	(298)	(369)
- 50 basis points	301	372

4. Risk management continued

Financial risk – 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 profit 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 profit before tax and changes in fair value of available for sale financial assets that are equity instruments).

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

2015	Impact on profit before tax £m	Impact on members' balances £m
5% increase in equity markets	94	174
5% decrease in equity markets	(95)	(175)

Concentration risk

Lloyd's closely monitors concentrations of risk across the market and tests risk exposure against clearly defined risk appetites as established by the Franchise Board. Specialist supervisory teams across Lloyd's monitor concentrations across the following areas: region-perils, class of business, geographical location, method of distribution in insurance and investment counterparties, amongst others.

Whilst syndicates define the type of business that they write, at the market level Lloyd's seek to avoid inappropriate concentration of premium sources, monitoring concentration of business in poorly performing classes, material sources of premium by method of placement as well as coverholder concentration, which feature in metrics reported quarterly to the Franchise Board. Managing agents controlling more than 10% of overall market gross written premium are also subject to Franchise Board review. Any reported metrics outside of appetite are reported to and discussed by the Risk Committee and Franchise 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 class of business impacted, with different levels of the requirements placed on syndicates, which forms part of Lloyd's oversight role of the market.

Within the 2016 Annual Report, further analysis of premiums, claims, expenses and underwriting result by class of business is included within note 9 of the PFFS with commentary on the performance of each class of business included on pages 40 to 49. 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 class of business breakdown by region analysis in the '2016 At a Glance' section at the beginning of the Annual Report. Analysis of capital providers by source and location is also included in the '2016 At a Glance' section of the Annual Report. Analysis of investments held within the market is disclosed in note 13 of the PFFS.

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

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

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

5. Variability

Calendar year movements in reserves are based upon best estimates as at 31 December 2016, 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 £1,150m (2015: £1,621m). The surplus arises across all classes of business except motor, reflecting favourable claims development compared to projections.

6. Members' funds at Lloyd's

The valuation of members' FAL in the balance sheet totals £21,703m (2015: £17,840m). The notional investment return on FAL included in the non-technical profit and loss account totals £363m (2015: £86m).

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

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

		Proportion of FAL		Investment return	
Investment type	Index	December 2016 %	December 2015 %	2016 %	2015 %
UK equities	FTSE All share	4.4	5.0	15.2	1.2
UK government bonds	UK Gilts 1-3 years	2.6	4.5	1.2	0.4
UK corporate bonds	UK Corporate 1-3 years	4.9	6.7	1.5	0.6
UK deposits managed by Lloyd's	Return achieved	2.9	3.4	1.6	1.0
UK deposits managed externally including LoC	GBP LIBID 1 month	19.9	24.3	0.2	0.2
US equities	S&P 500 Index	8.9	5.0	9.5	1.8
US government bonds	US Treasuries 1-5 years	12.4	7.8	0.6	0.7
US corporate bonds	US Corporate 1-5 years	14.6	15.7	1.6	1.2
US deposits managed by Lloyd's	Return achieved	5.2	2.8	1.5	0.2
US deposits managed externally including LoC	USD LIBID 1 month	24.2	24.8	0.2	0.0

7. Society of Lloyd's

The results of the Group financial statements of the Society included in the profit and loss account are a profit of £378m (2015: £293m) in the technical account and a profit of £26m (2015: loss of £207m) 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	2016 £m	2015 £m
Result per syndicate annual accounts	1,353	1,950
Result of the Society	330	74
Central Fund claims and provisions incurred in Society financial statements	8	–
Syndicate prior year adjustment treated as current year in PFFS	(13)	–
Taxation charge in Society financial statements	75	13
Notional investment return on members' funds at Lloyd's	363	86
Movement in Society income not accrued in syndicate annual accounts	(9)	(1)
Result on ordinary activities before tax	2,107	2,122

Other comprehensive income	2016 £m	2015 £m
Result for the financial year	2,107	2,122
Foreign currency movements	389	68
Other comprehensive losses per syndicate annual accounts	–	(1)
Other comprehensive losses of the Society	(111)	(5)
Total comprehensive income for the year	2,385	2,184

Capital and reserves	2016 £m	2015 £m
Net assets per syndicate annual accounts	4,011	4,613
Net assets of the Society	1,996	1,763
Central Fund claims and provisions	1	6
Members' funds at Lloyd's	21,703	17,840
Unpaid cash calls reanalysed from debtors to members' balances	30	12
Society income receivable not accrued in syndicate annual accounts	(27)	(18)
Total capital and reserves	27,714	24,216

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

9. Segmental analysis

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

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

2015	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Under-writing result £m
Reinsurance	8,593	6,796	(3,330)	(2,562)	904
Property	6,893	5,072	(2,276)	(2,295)	501
Casualty	5,764	4,434	(2,514)	(1,925)	(5)
Marine	2,245	1,853	(966)	(779)	108
Energy	1,414	1,029	(365)	(417)	247
Motor	1,120	867	(525)	(359)	(17)
Aviation	587	446	(249)	(178)	19
Life	74	68	(37)	(34)	(3)
Total from syndicate operations	26,690	20,565	(10,262)	(8,549)	1,754
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society	–	–	–	293	293
PFFS premiums and underwriting result	26,690	20,565	(10,262)	(8,256)	2,047
Allocated investment return transferred from the non-technical account					302
Balance on the technical account for general business					2,349

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

	2016 £m	2015 £m
United Kingdom	20,128	16,632
Other EU member states	31	111
Rest of the world	295	1,354
	20,454	18,097

10. Life business

The PFFS include the results of all life and non-life syndicates transacting business during 2016. 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

	2016 £m	2015 £m
Acquisition costs	7,539	6,783
Change in deferred acquisition costs	(196)	(268)
Administrative expenses	2,464	2,343
Reinsurance commissions and profit participation	(602)	(602)
	9,205	8,256

Total commissions for direct insurance accounted for in the year amounted to £4,968m (2015: £4,279m)

12. Investment return

Interest and similar income	2016 £m	2015 £m
From financial instruments designated as at fair value through profit or loss	961	603
From available for sale investments	22	24
From financial instruments designated as held to maturity	1	–
Dividend income	49	58
Interest on cash at bank	16	22
Other interest and similar income	32	29
Investment expenses	(54)	(31)
Total	1,027	705

Other income from investments designated as at fair value through profit or loss	2016 £m	2015 £m
Realised gains/(losses)	11	54
Unrealised gains/(losses)	267	(378)
Other relevant income/(losses)	46	23
Total	324	(301)

Other income from investments designated as available for sale	2016 £m	2015 £m
Realised gains/(losses)	(4)	2
Unrealised gains/(losses)	(2)	(4)
Other income	–	–
Total	(6)	(2)

Total investment return	1,345	402

13. Financial Investments

	2016 £m	2015 £m
Shares and other variable yield securities and units in unit trusts	9,133	6,908
Debt securities and other fixed income securities	38,216	33,077
Participation in investment pools	1,863	1,203
Loans and deposits with credit institutions	6,019	4,580
Other	123	106
	55,354	45,874

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.

In March 2016 amendments were made to the requirements for the disclosure of fair value hierarchy information. The change applies to accounting periods beginning on or after 1 January 2017 but Lloyd's has early adopted these changes. The analysis in the following tables is therefore reported on the revised basis, including a reanalysis of the information reported as at 31 December 2015.

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.

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

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

13. Financial Investments (continued)

2015	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	3,591	2,837	468	6,896	12	6,908
Debt and other fixed income securities	9,971	22,676	348	32,995	82	33,077
Participation in investment pools	165	1,002	36	1,203	–	1,203
Loans and deposits with credit institutions	2,599	1,940	30	4,569	2	4,571
Other investments	4	82	29	115	–	115
Total investments	16,330	28,537	911	45,778	96	45,874
Loans recoverable	–	–	45	45	–	45
Total assets	16,330	28,537	956	45,823	96	45,919
Borrowings	(1)	–	–	(1)	–	(1)
Derivative liabilities	(1)	(36)	–	(37)	–	(37)
Total liabilities	(2)	(36)	–	(38)	–	(38)

14. Debtors arising out of direct operations

	2016 £m	2015 £m
Due within one year		
– Policyholders	10	2
– Intermediaries	8,759	7,022
Due after one year		
– Policyholders	–	–
– Intermediaries	112	57
	8,881	7,081

15. Debtors arising out of reinsurance operations

	2016 £m	2015 £m
Due within one year	4,705	3,742
Due after one year	338	266
Total	5,043	4,008

16. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £9,586m (2015: £8,758m).

17. Members' balances

	2016 £m	2015 £m
Balance at 1 January	4,613	5,131
Result for the year per syndicate annual accounts	1,353	1,950
Distribution on closure of the 2013 (2012) year of account	(2,061)	(2,554)
Advance distributions from open years of account	(163)	(204)
Movement in cash calls	7	17
Net movement on Funds in Syndicate (see note below)	(138)	206
Exchange gains	439	68
Other	(35)	(1)
Balance at 31 December	4,015	4,613

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account with reference to policies incepting in that year of account. Members' balances represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of 2017.

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 2016 there was £3,315m (2015: £2,998m) 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

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

2015	Gross £m	Reinsurers' share £m	Net £m
At 1 January	12,652	1,976	10,676
Premiums written in the year	26,690	5,667	21,023
Premiums earned in the year	(25,887)	(5,322)	(20,565)
Exchange movements	268	47	221
At 31 December	13,723	2,368	11,355

(b) Deferred acquisition costs

	2016 £m	2015 £m
At 1 January	3,585	3,231
Change in deferred acquisition costs	196	268
Exchange movements	437	86
Other	60	–
At 31 December	4,278	3,585

18. Technical provisions (continued)

(c) Claims outstanding

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

2015	Gross £m	Reinsurers' share £m	Net £m
At 1 January	38,134	8,785	29,349
Claims paid during the year	(12,477)	(2,846)	(9,631)
Claims incurred during the year	12,484	2,222	10,262
Exchange movements	713	440	273
Other	(21)	9	(30)
At 31 December	38,833	8,610	30,223

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	
Class of business	2016 %	2015 %	2016 years	2015 years
Motor (third party liability)	2.90	3.23	12.19	13.78
Third party liability	3.55	3.27	22.40	23.05

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

The claims provisions before discounting are as follows:

	Before discounting		Effect of discounting		Discounted provision	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Total claims provisions	1,757	1,470	(455)	(487)	1,302	983
Reinsurers' share of total claims	449	367	(51)	(109)	398	258

20. Creditors arising out of direct insurance operations

	2016 £m	2015 £m
Due within one year	758	604
Due after one year	14	11
	772	615

21. Creditors arising out of reinsurance operations

	2016 £m	2015 £m
Due within one year	4,407	3,194
Due after one year	263	117
	4,670	3,311

22. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	2016 £m	2015 £m
Cash at bank and in hand	12,292	11,026
Short term deposits with credit institutions	2,517	1,663
Overdrafts	(178)	(123)
	14,631	12,566

Of the cash and cash equivalents, £428m (2015: £310m) is held in regulated bank accounts in overseas jurisdictions.

23. Five year summary

Results	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Gross written premiums	29,862	26,690	25,259	25,615	25,173
Net written premiums	23,066	21,023	20,006	20,231	19,435
Net earned premiums	22,660	20,565	19,499	19,725	18,685
Result attributable to underwriting	468	2,047	2,253	2,605	1,661
Result for the year before tax	2,107	2,122	3,016	3,205	2,771
Assets employed					
Cash and investments	67,646	56,900	54,889	51,494	51,767
Net technical provisions	49,875	41,578	40,025	38,355	39,078
Other net assets	9,943	8,894	7,664	7,247	6,611
Capital and reserves	27,714	24,216	22,528	20,386	19,300
Statistics					
Combined ratio (%)	97.9	90.0	88.4	86.8	91.1
Return on capital (%)	8.1	9.1	14.1	16.2	14.8

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 2016, there were no material related party transactions conducted outside normal market conditions reported in the syndicate annual accounts requiring disclosure. The related party transactions of the Society are disclosed in note 26 on page 179 of the Society Report.

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Society Report

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Society Report
Financial Highlights

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Operating result					
Corporation operating income	332	239	220	218	214
Central Fund income	120	111	115	108	106
Total income	452	350	335	326	320
Central Fund claims and provisions incurred	(8)	–	(1)	(18)	(26)
Central Fund repayment to members	–	–	(49)	–	–
Net insurance claims and provisions	–	–	1	–	–
Other Group operating expenses	(307)	(259)	(227)	(219)	(206)
Operating surplus*	137	91	59	89	88
Finance Costs					
Deficit on subordinated debt repurchase	–	–	(9)	(15)	–
Interest payable on financial liabilities and other	(54)	(54)	(49)	(56)	(62)
Finance Income	314	43	93	60	115
Realised/unrealised exchange gains/(losses) on borrowings	–	–	7	(6)	6
Share of profits of associates	8	7	8	7	6
Surplus before tax	405	87	109	79	153
Tax charge	(75)	(13)	(18)	(14)	(34)
Surplus for the year	330	74	91	65	119
Balance sheet					
Net assets	1,996	1,763	1,693	1,635	1,564
Movement in net assets %	13.2%	4.1%	3.6%	4.5%	5.0%
Solvency					
Eligible own funds to meet Central SCR	3,469	3,162	–	–	–
Central SCR	(1,600)	(1,450)	–	–	–
Excess of eligible own funds over the Central SCR	1,869	1,712	–	–	–
Solvency ratio %	217%	218%	–	–	–

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

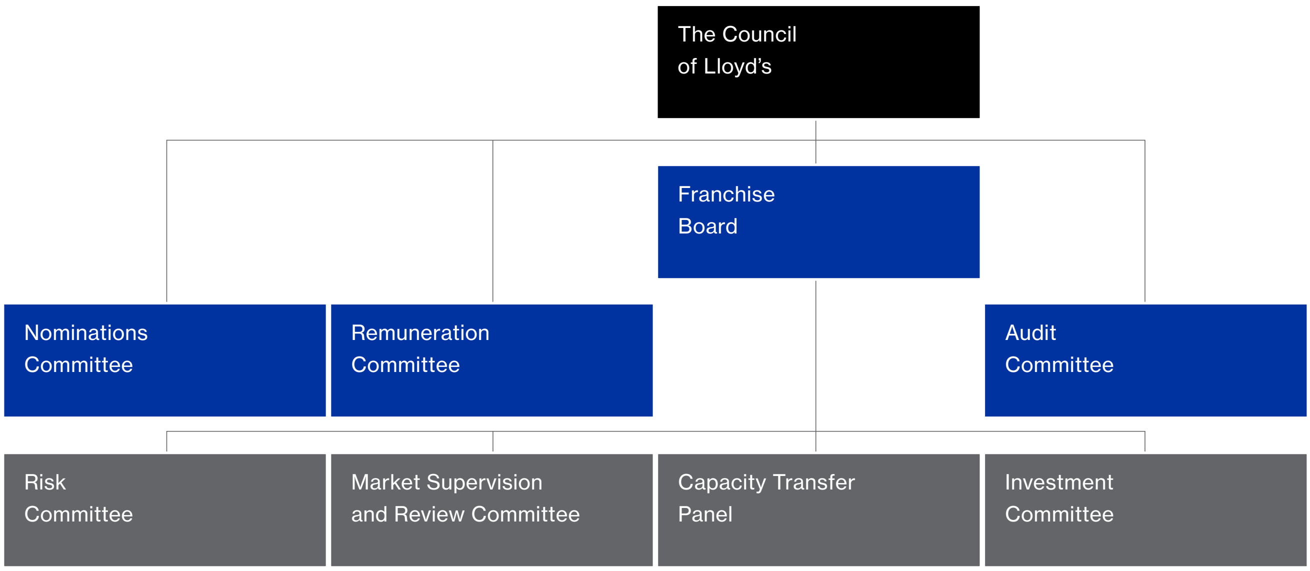
* The operating surplus is considered to be a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is considered to be an Alternative Performance Measure (APM), with further information available on pages 196 to 197.

4.2

Society Report
Corporate Governance

Lloyd’s governance structure provides challenge, clarity and accountability

Principal Committees of Lloyd’s



The Council and Franchise Board

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

The day-to-day powers and functions of the Council and Franchise Board are carried out by the Corporation’s Executive Committee – the Chief Executive, the Head of Marketing and Communications, Chief Financial Officer, Chief Commercial Officer, Chief Operating Officer, Chief Risk Officer, Human Resources Director, General Counsel and Secretary to the Council and Franchise Board, Performance Management Director and Chief Strategy Officer.

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

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

The members of the Council of Lloyd’s and Franchise Board are listed on pages 90 to 96

Details of the Executive Committee can be found at: **lloyds.com/executivecommittee**

Governing body: The Council of Lloyd's

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

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

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

The Council has delegated authority for the day-to-day management of the market to the Franchise Board. The Franchise Board is able, in turn, to sub-delegate authority to the CEO and through her to the Lloyd's Executive. In addition, the Council has delegated authority to carry out specified functions to committees including the Audit, Remuneration and Nominations Committees, as summarised below.

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

Membership

The Council comprises a maximum of 18 members, split between six working, six external and six nominated members. The biographical details of the current members of the Council (as at 29 March 2017) are listed on pages 90 to 93.

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

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

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

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

Chairman and Deputy Chairmen

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

The Chairman of Lloyd's is contracted to work a minimum of three days a week but commits as much time as is necessary to undertake the role. The Council acknowledges that the Chairman has other commitments outside Lloyd's (see page 90) and is satisfied that these can be accommodated with the Chairmanship of Lloyd's.

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

Meetings

The Council met seven times in 2016 including a joint meeting with the Franchise Board. These meetings are structured to allow open discussion. At each meeting the Council receives certain regular reports – for example, a written report from the CEO and oral updates from its principal committees. It also reviews the quarterly Management Information Pack.

A table showing Council members' attendance at Council and Committee meetings which they were eligible to attend is set out on pages 88 to 89.

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

Governance Policies and the Constitutional Requirements

The Governance Policies

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

The Governance Policies establish the purpose for Lloyd's: 'To maintain, in accordance with Lloyd's Acts, an organisation that will enable the long-term return from carrying out the business of insurance to be maximised for capital providers' (i.e. members).

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

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

The Constitutional Requirements

The Constitutional Requirements align, so far as appropriate, Lloyd's governance arrangements with the Companies Act 2006. They include provisions concerning the duties and responsibilities of Council members. These same duties also apply to members of the Franchise Board and the other Lloyd's committees.

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

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

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

Franchise Board

The Council established the Franchise Board as from 1 January 2003 and set it a goal: 'To create and maintain a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised'.

Specific functions delegated to the Franchise Board include:

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

The Franchise Board has reserved to itself a list of specific functions and powers that only it may deal with. The Franchise Board may sub-delegate authority to the CEO, executive and employees of the Corporation save in respect of those functions and powers reserved to it, the Council and their committees. The Franchise Board's committees, the CEO, the executive and employees must act in accordance with the Franchise Board Limitations (including the Franchise Principles) and in accordance with the strategy, policy and principles set by the Franchise Board.

Matters reserved to the Franchise Board include:

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

Franchise Board continued

Membership and meetings

Biographical details of the members of the Franchise Board as at 29 March 2017 are listed on pages 94 to 96. At the end of 2016, the Franchise Board comprised:

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

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

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

The Franchise Board held 12 scheduled meetings in 2016. It held an additional joint meeting with the Council and an additional meeting focused specifically on Solvency II. It also held a full day offsite focusing on the major strategic challenges facing Lloyd's and their impact on Lloyd's current strategy.

Franchise Board meetings are structured to allow open discussion. At each scheduled meeting, the Franchise Board receives certain regular reports – for example, a written report from the CEO. It also reviews the quarterly Management Information Pack. The Franchise Board papers and minutes are made available to members of the Council.

A table showing Franchise Board members' attendance at Franchise Board and Committee meetings which they were eligible to attend is set out on pages 88 to 89.

The Principal Committees of the Council

Audit Committee

The Audit Committee's role is to ensure that the financial activities of Lloyd's are subject to independent review and audit. The Audit Committee's functions in 2016 included:

- reviewing Lloyd's annual and interim financial statements in 2016, the aggregate syndicate results and the Lloyd's Return to the PRA; and
- reviewing both the external and internal audit plans and the compliance plan.

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

Reports from the internal and external auditors on aspects of internal control and reports from the Legal and Compliance department on internal and international compliance are reviewed by the Audit Committee and appropriate action taken in response.

From 2017 onwards the new Risk Committee will have primary responsibility for oversight of internal and international compliance.

The Audit Committee submits an annual report to the Council. It also reports to the Council and the Franchise Board on its proceedings after each meeting. Additional reports are submitted to the Council and/or the Franchise Board on matters of material interest as and when necessary. The minutes of Audit Committee meetings are submitted to the Franchise Board and the Council.

The Audit Committee was chaired by Claire Ighodaro until October 2016 and by Richard Keers from October 2016 onwards. Claire Ighodaro was and Richard Keers is an independent non-executive director on the Franchise Board. Its remaining members are drawn from both the Council and the Franchise Board. A table showing Audit Committee members' attendance at Audit Committee meetings is set out on pages 88 to 89.

The Audit Committee met on five occasions in 2016. The Audit Committee's full report is on pages 117 to 118.

Nominations Committee

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

The Nominations Committee will meet at least twice annually and otherwise at the discretion of its Chairman or as directed by the Council. The Nominations Committee reports to the Council and Franchise Board on its proceedings after each meeting on all matters relating to its duties and powers. A written report is submitted to the Council annually.

Apart from the annual exercise of making recommendations with respect to the composition of Council and Franchise Board committees (together with any other necessary changes in composition during the year), the Nominations Committee made the following major recommendations to the Council during 2016:

- To re-appoint Sir David Manning as a nominated member of Council for a third and final term of three years from 1 September 2016;
- To appoint Richard Keers as an independent non-executive director of the Franchise Board for a three-year term commencing on 1 June 2016 and as Chair of the Audit Committee. The Committee was assisted in this search by external search consultants, The Zygos Partnership;
- To appoint Jon Hancock as Performance Management Director with effect from 1 December 2016. The Committee was assisted in this search by external search consultants, Heidrick & Struggles; and
- To appoint Richard Pryce as a market-connected non-executive director of the Franchise Board for a three-year term commencing on 1 January 2017. Neither an external search consultant nor any advertising was used to identify Richard Pryce as the Nominations Committee was able to make use of its knowledge of senior market practitioners in making the recommendation.

The Nominations Committee's recommendations were accepted by the Council.

Following Henrique Mereilles' retirement from Council in April the Committee is also undertaking a search for a new nominated member of Council. The Committee is being assisted by external search consultants, Korn Ferry, with a brief to find a candidate with a US background with wide financial services experience. Mindful of Claire Ighodaro's retirement from the Franchise Board at the end of 2016, the Nominations Committee is also undertaking a search for a new independent non-executive director. The Committee is being assisted by external search consultants (Egon Zehnder) with a brief to find a new non-executive with qualities that include appropriate risk management experience. It is intended that the successful candidate will chair the Risk Committee, following the retirement of Joy Griffiths in late 2017.

In light of John Nelson's planned retirement as Chairman of Lloyd's in May 2017 the Committee also undertook a search for his replacement. For the purposes of this search the Committee was chaired by the Senior Independent Deputy Chairman and the composition of the Committee was augmented by three market members of the Council and Franchise Board. The Committee was assisted by The Zygos Partnership in this search.

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

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

Diversity – the Nominations Committee is fully apprised of, and supportive of, the need for recent and relevant experience and diversity including gender and nationality. It is difficult to establish diversity targets for the Council, given that it is two-thirds elected, but diversity will be encouraged. Candidates for appointed positions are selected on merit and with due regard to the benefits of diversity in its broadest sense. In addition, the Franchise Board, with the support of the Nominations Committee had established a target of 25% of the Board being women by 2016. Two of the 11 Board members as at the date of this report are women.

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

A table showing the Nominations Committee members' attendance at scheduled Nominations Committee meetings is set out on pages 88 to 89.

The Nominations Committee held five scheduled meetings in 2016.

Remuneration Committee

The Remuneration Committee is responsible for setting remuneration arrangements for the Chairman, CEO, the executive and any other direct reports of the CEO. The Remuneration Committee's proposals are considered by both the Franchise Board and the Council.

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

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

The Remuneration Committee is chaired by the Senior Independent Deputy Chairman. The Chairman is a member of the committee and its remaining members are drawn from both the Council and the Franchise Board. A table showing Remuneration Committee members' attendance at Remuneration Committee meetings is set out on pages 88 to 89.

The Remuneration Committee met on four occasions in 2016. The Remuneration Committee's full report is on pages 99 to 116.

The Principal Committees of the Franchise Board

Risk Committee

During 2016, the Risk Committee was chaired by the CEO and its other members were the Director, Performance Management, the Chief Risk Officer & General Counsel and the Chief Financial Officer. Other senior members of staff, including the Head of Risk Management, Head of Internal Audit, Lloyd's Actuary, and the Secretary to the Council, attended meetings as appropriate. From January 2017, the Chair is an independent non-executive member of the Franchise Board and its other members are non-executives drawn from the Franchise Board and Council. Other individuals including the CEO, Chief Risk Officer, Chief Financial Officer and Performance Manager Director are regular attendees with others invited to attend all or part of any meeting as and when deemed appropriate by the Risk Committee or its Chair. The Committee reports quarterly to the Franchise Board and provides regular updates to the Audit Committee and the Council.

In June 2016 the Council and Franchise Board agreed to establish a non-executive Risk Committee to replace the existing executive Risk Committee. The non-executive Risk Committee met for the first time in January 2017. It is chaired by Joy Griffiths, an independent non-executive member of the Franchise Board and its members are drawn from the Franchise Board and Council.

A table showing the Risk Committee members' attendance at meetings is set out on pages 88 to 89. It met on 12 occasions in 2016.

Market Supervision and Review Committee (MSARC)

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

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

A table showing MSARC members' attendance at MSARC meetings is set out on pages 88 to 89. MSARC met on seven occasions in 2016.

Capacity Transfer Panel

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

A table showing CTP members' attendance at CTP meetings is set out on pages 88 to 89. The Panel met on one occasion in 2016.

Investment Committee

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

The Investment Committee meets at the discretion of its Chairman. The Investment Committee submits a written report to the Franchise Board annually and may submit additional reports on matters of material concern as and when necessary. The Investment Committee is required to obtain the approval of the Franchise Board before making any decisions which may materially affect the financial risks applying to the Society or Lloyd's market entities. A table showing Investment Committee members' attendance at Investment Committee meetings is set out on pages 88 to 89. The Investment Committee met on four occasions in 2016.

Terms of reference and appointment terms

The terms of reference for the Council, Franchise Board and their committees (including the Audit, Remuneration and Nominations Committees) can be found on Lloyd's website. The terms of reference for the Chairman, Deputy Chairmen (including the Senior Independent Deputy Chairman) and CEO can also be found on the Lloyd's website.

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

Annual General Meeting

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

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

Indemnities

The Society has given indemnities to a number of its subsidiary undertakings, and the directors thereof, in respect of any claims or actions which may be brought against them or any future operating losses incurred by them in connection with the companies' activities. The Society has also given indemnities to and has agreed to cover certain specific costs that may be incurred by members of the Council, the Franchise Board, the Lloyd's Regulatory Board and the Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees, the Society staff and also certain individuals and organisations who have been asked to carry out or provide services to the Society or on behalf of, or for the benefit of, its members.

Council, Franchise Board and committee assessments

In accordance with the UK Corporate Governance Code, an external and independent evaluation of the performance of the Council, Franchise Board, Audit, Remuneration and Nominations Committees is undertaken every three years. The next external evaluation is due to be undertaken in 2018.

The Secretary to the Council conducted an assessment of the Council, Franchise Board, Audit, Remuneration and Nominations Committees towards the end of 2016. The assessment was based on the results of questionnaires issued to the members of these bodies.

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

Among the other major findings were:

- to identify further options to enable active and early engagement with the Council on the development of Lloyd's longer-term strategy;
- a recognition that Franchise Board agendas remained lengthy. While this was understandable in light of the current regulatory and market conditions, it reinforced the need to ensure agendas are structured appropriately and to improve further the quality of papers and presentations to ensure they are succinct and clear; and
- to consider ways in which to enhance Council and Franchise Board engagement in succession planning for appointed positions.

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

Individual assessment

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

Training and induction

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

In addition, new members of the Council and Franchise Board are provided with an induction programme which includes briefings with senior executive management and others on Lloyd's, its operations and key issues of the day.

In addition, in 2016, four briefings on a range of Lloyd's related topics were made available to all members of the Council and the Franchise Board.

Independent professional advice

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

Conflicts of interest

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

4.2

Society Report
Corporate Governance continued

Attendance record

	Council	Franchise Board	Audit Committee	Nominations Committee	Remuneration Committee	MSARC[1]	CTP[2]	Investment Committee	Risk Committee
Chairman of the Council of Lloyd's									
John Nelson	[a]7/7	[a]13/13		[a]5/5	4/4				
Executive Directors									
Inga Beale	7/7	13/13						3/4	[a]12/12
Tom Bolt[3]		1/1							3/5
Theresa Froehlich[3]		12/12							6/7
Jon Hancock[3]		1/1							1/1
Sean McGovern[4]		5/5							6/6
John Parry		12/13						3/4	10/12
Non-Executive Council members									
Working members									
Rupert Atkin[5]				1/1					
Simon Beale[5]	6/7			3/4					
Dominic Christian	5/7								
Karen Green	7/7								
Christopher Harman									
Lawrence Holder	7/7								
Julian James	7/7								
Neil Maidment	7/7								
External members									
Robert Childs	7/7								
Michael Deeny[6]	6/6								
Matthew Fosh	7/7								
Paul Jardine	6/7		4/5		4/4				
Alan Lovell[7]					2/2		1/1		
Philip Swatman[7]	7/7		5/5		2/2				
Michael Watson	6/7								
Nominated members									
Andy Haste	7/7			5/5	[a]4/4		[a]1/1	[a]4/4	
Fred Hu	5/7								
Sir David Manning	5/7			5/5					
Henrique Meirelles[8]	2/2								
Non-Executive Franchise Board members									
Sir Andrew Cahn		9/13							
Mark Cloutier		12/13	4/5						
Charles Franks[12]		7/13	5/5	3/3					
Nick Furlonge		12/13		4/5	4/4				
Joy Griffiths		11/13							
Claire Ighodaro[11]		12/13	[a]4/4						
Richard Keers[10,11]		7/8	[a]3/3						
Martin Read		10/13			4/4				
Bruce Van Saun[9]		4/5	2/2	2/2					

Attendance record continued

	Council	Franchise Board	Audit Committee	Nominations Committee	Remuneration Committee	MSARC[1]	CTP[2]	Investment Committee	Risk Committee
Other Committee members									
Richard Boys-Stones							1/1		
Martin Bride								3/4	
Margaret Chamberlain							1/1		
Edward Creasy						7/7			
Christine Dandridge						7/7			
Lady Delves Broughton							1/1		
David Gittings							1/1		
Michael Green								4/4	
Reg Hinkley						7/7			
Jo Rickard						[a]7/7			
Nick Marsh						7/7			
Philip Matthews								4/4	
Paul Swain							1/1		
Hilary Weaver[4]									6/6
David Winkett								3/4	

[a] Chairman

Notes
1. Market Supervision and Review Committee
2. Capacity Transfer Panel
3. Tom Bolt, Director, Performance Management resigned as an executive Director of the Franchise Board on 31 May 2016. However, in order to protect commercial confidentiality he abstained from attending Franchise Board and Risk Committee meetings from 21 March 2016. Theresa Froehlich acted as interim Director, Performance Management and attended Franchise Board and Risk Committee meetings in this capacity as from 21 March 2016. Jon Hancock was formally appointed as Performance Management Director and as an executive director on the Franchise Board on 1 December 2016.
4. Sean McGovern, Chief Risk Officer and General Counsel resigned as an executive director of the Franchise Board on 30 September 2016. In order to protect commercial confidentiality he abstained from attending Franchise Board and Risk Committee meetings from 18 May 2016. Hilary Weaver acted as interim Chief Risk Officer and attended Risk Committee meetings in this capacity as from 18 May 2016. She was formally confirmed as Chief Risk Officer on 1 November 2016.
5. Rupert Atkin was a member of the Nominations Committee until his term on Council expired on 31 January 2016. Simon Beale joined the Nominations Committee on 4 February 2016.
6. Michael Deeny, the representative of The Michael Deeny LLP's term as an individual external member of Council expired on 31 October 2016.
7. Alan Lovell was a member of the Audit Committee and Remuneration Committee until his term on Council as the representative of Palace House International (Two) LLP expired on 31 January 2016. Philip Swatman joined the Audit Committee and Remuneration Committee on 4 February 2016.
8. Henrique Meirelles retired as a nominated member of Council on 7 April 2016.
9. Bruce Van Saun's term of office as a non-executive director on the Franchise Board and as a member of the Audit Committee and Nominations Committee expired on 31 May 2016.
10. Richard Keers was appointed as a non-executive director of the Franchise Board and as a member of the Audit Committee on 1 June 2016.
11. Claire Ighodaro stepped down as the Chairman of the Audit Committee on 26 September 2016 and was succeeded by Richard Keers.
12. Charles Franks joined the Nominations Committee on 1 June 2016.

John Nelson

Chairman of Lloyd's (Nominated member)
Chairman of the Nominations Committee
Member of the Remuneration Committee

John Nelson was appointed Chairman of Lloyd's in October 2011. He qualified as a Chartered Accountant. He worked in both the UK and the US while with Kleinwort Benson. He joined Lazard in 1986, whose Vice Chairman he became in 1990. He subsequently became Chairman of Credit Suisse First Boston (Europe), Deputy Chairman of Kingfisher plc and Chairman of Hammerson plc until 2013. In addition, he has been a Non-Executive Director of BT, Woolwich plc, JP Morgan Cazenove and Cazenove Group. He is an Advisor to Charterhouse Capital Partners LLP. He is also the Chairman of Chichester Harbour Trust and Deputy Chair of the National Gallery where he also chairs its Development Committee. He was a member of the UK Prime Minister's Business Advisory Group and is a member of the International Advisory Panel of the Monetary Authority of Singapore. He is a Deputy Lieutenant for West Sussex.

Inga Beale DBE

Chief Executive Officer
(Nominated member)

Inga Beale joined Lloyd's in January 2014. Previously she was Group Chief Executive of Canopius, a prominent Lloyd's managing agent. Prior to that she spent four years with Zurich Insurance, including a period as Global Chief Underwriting Officer. She was Group CEO of Converium Ltd, the Swiss mid-sized independent reinsurance company and, while there, she led a major turnaround of the business before it was acquired by SCOR in 2007. She started her career as an Underwriter with Prudential before spending 14 years in a variety of international roles for GE Insurance Solutions. She is a member of the Government's Financial Services Trade and Investment Board and the Mayor's Business Advisory Board. In July 2016 she also joined the Board of the Chartered Insurance Institute.

Andy Haste*

Senior Independent Deputy Chairman
of Lloyd's (Nominated member)
Member of the Nominations Committee
Chairman of the Remuneration Committee

Andy Haste is Chairman of Wonga Group and former Group Chief Executive of RSA. He is currently the Senior Independent Director of ITV, and is Chairman of its Remuneration Committee and a member of both its Audit and Nominations Committees. His previous roles include Chief Executive of AXA Sun Life and Director of AXA UK (life and pensions), President and Chief Executive Officer of Global Consumer Finance Europe at GE Capital UK, Western Europe and Eastern Europe (consumer financial services) and President of National Westminster Bank's US Consumer Credit Business (retail banking). He was also a member of the Board of the Association of British Insurers from 2003–2011.

Simon Beale

Deputy Chairman of Lloyd's
(Working member)
Member of the Nominations Committee

Simon Beale is the Chief Underwriting Officer of MS Amlin, an Executive Director of the MS Amlin Plc board and Non-Executive Director of MS Amlin Underwriting Limited the managing agency for Syndicate 2001 of which he was joint active underwriter until 2012. He has worked in the Lloyd's Market since 1984 and has served on various Lloyd's underwriting committees including the Lloyd's Market Association Board.

*Considered to be independent members of Council.

Jeffrey Barratt

Representative of Nameco (No 1249) Limited
(External member)

Jeffrey Barratt is a Lawyer and has been a member of Lloyd's since 1987. He has been a Board member of the ALM since May 2016. He was a Partner at city law firm Norton Rose Fulbright for many years specialising in project finance and financial law and held a number of management positions within the firm; he is now a Consultant. He has been heavily involved in promoting the City's interests for a number of years and currently chairs TCUK Infrastructure and Energy Executive Board, is a Non-Executive Director of the International Project Finance Association and sits on the London Council and the International Advisory Group of the CBI. He was Chairman of the Cook Society in 2015 and 2016 and is now Deputy Chairman. He actively supports a number of children's charities including the Dyspraxia Foundation, Snow-Camp, Beanstalk, Wooden Spoon and the Change Foundation.

Andrew Brooks

(Working member)

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

Robert Childs

Representative of Hiscox Dedicated Corporate Member Limited
(External member)

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

Dominic Christian

(Working member)

Dominic Christian is the Executive Chairman of Aon Benfield International. He is also the Chief Executive Officer of Aon UK Limited. He sits on Aon Group's Executive Committee. Previously he served as co-Chief Executive Officer of Aon Benfield and prior to this as a Group Board Director of Benfield Group plc, CEO of its International Division and of Benfield Limited. He has nearly 32 years of experience as a Lloyd's Broker. He is also the Chairman of the Lloyd's Tercentenary Research Foundation and a Director of The Bermuda Society and the Juvenile Diabetes Research Foundation. He chairs the University of East Anglia's Campaign Advisory Board. He was the President of the Insurance Institute of London in 2015–2016.

Matthew Fosh

Representative of
Novae Corporate Underwriting Limited
(External member)

Matthew Fosh is the Chief Executive Officer of Novae Group plc, which he joined in 2002. He previously worked in the equity markets with Strauss Turnbull and Sheppards during the 1980s, before moving to the Futures & Options markets in 1989 where he co-founded a derivative trading business, Seagray Fosh Futures Ltd. He subsequently sold the business in 2002 to ICAP plc, before joining Novae Group. He was also a Non-Executive Director of Ariscom Compagnia di Assicurazioni S.p.A, until stepping down as a Director in April 2016.

Karen Green

Member of the Remuneration Committee
Member of the Risk Committee
(Working member)

Karen Green is the Chief Executive Officer of Aspen UK which includes Aspen Managing Agency Limited, the managing agency of Aspen's Lloyd's Syndicate 4711. She also performs a number of other roles within the Aspen Group. She had previously worked as a Principal with the global private equity firm MMC Capital Inc (now Stone Point Capital). Before this, she was a Director at GE Capital in London, co-running the business development team responsible for mergers and acquisitions in Europe. She started her career as an Investment Banker with Baring Brothers and then Schroders. She is a Trustee of the Lloyd's Charities Trust. She also chairs the Development Council for the Almeida Theatre Company and previously chaired the Advisory Council for Almeida Projects, the theatre's educational outreach programme.

Dr Fred Hu*

(Nominated member)

Fred Hu is a renowned economist and investor. Between 1997 and 2010 he was with Goldman Sachs as a Partner and Chairman of Greater China. He is now Chairman of Primavera Capital Group, a China-based global investment firm. He is a Non-Executive Director of Hang Seng Bank and the Hong Kong Stock Exchange, a Trustee of Yale-China Association, Co-Chair of the Nature Conservancy Asia Pacific Council, and a member of the US Council on Foreign Relations' Global Board of Advisors.

Julian James

(Working member)

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

*Considered to be independent members of Council.

Neil Maidment

(Working member)
Member of the Risk Committee

Neil Maidment has worked in the Lloyd's market for 32 years. He is Chief Underwriting Officer of Beazley plc and Active Underwriter for its six Lloyd's syndicates. He is a Director of Beazley Furlonge Limited, the Group's Lloyd's managing agency, and a Director of Beazley plc. In 2011 he was elected to the Board of the Lloyd's Market Association and was appointed its Chairman in November 2015.

Sir David Manning GCMG KCVO*

(Nominated member)
Member of the Nominations Committee

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

Philip Swatman

Representative of Nomina No 115 LLP
(External member)
Member of the Audit Committee
Member of the Remuneration Committee

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

Michael Watson

Representative of Flectat Limited
(External member)
Member of the Audit Committee

Michael Watson is Executive Chairman of Sompo Canopius AG of which he led the management buy-out in 2003. Sompo Canopius is a global specialty re(insurance) business owned by Sompo Holdings and has its principal operations at Lloyd's. He has over 35 years of experience in commercial and investment banking, trade finance, stock broking, life and non-life insurance, gained in London, Bermuda and New York. He is a Chartered Accountant and serves on the Board of the Lloyd's Market Association and Weston Insurance Holdings Corporation.

*Considered to be independent members of Council.

John Nelson

Chairman of Lloyd's
Chairman of the Nominations Committee
Member of the Remuneration Committee

Biography on page 90.

Inga Beale DBE

Chief Executive Officer

Biography on page 90.

Sir Andrew Cahn KCMG*

Member of the Risk Committee

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

Mark Cloutier

Member of the Audit Committee
Member of the Nominations Committee

Mark Cloutier was appointed Chief Executive Officer of the Brit Group in October 2011. On 1 January 2017 he was appointed Executive Chairman of Brit Group. He serves on the Board of Brit Ltd and is a Member of the Investment Committee and the Executive Committee. With over 35 years of experience working in the international insurance and reinsurance sector he holds a number of non-executive positions and has held a number of CEO and senior executive positions, including CEO of the Alea Group, CEO of Overseas Partners Re and President of E.W. Blanch Insurance Services Inc. He has worked in partnership with a number of leading private equity and institutional investors including KKR, Fortress Investment Group, Apollo LP, CVC, Ontario Municipal Employees Retirement Services and Texas Teachers Retirement Services.

*Considered to be an independent non-executive director.

Charles Franks

Member of the Audit Committee
Member of the Nominations Committee
Member of the Risk Committee

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

Joy Griffiths*

Chairman of the Risk Committee

Joy Griffiths is Global Managing Director, Decision Analytics and Chairman, Asia Pacific region, Experian. Prior to joining Experian, she worked in financial services for over 30 years and held executive positions across a broad range of functional disciplines with Lloyds Banking Group in the UK, Wells Fargo in the US and Westpac Banking Corporation in Australia.

Jon Hancock

Performance Management Director

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

Richard Keers*

Chairman of the Audit Committee

Richard Keers was appointed a Director and Chief Financial Officer of Schroders plc in May 2013. He is a Chartered Accountant and was a Senior Audit Partner of PricewaterhouseCoopers LLP (PwC) until May 2013. He became a Partner of PwC in 1997 and has 25 years' experience in the audits of global financial services groups. His experience includes time spent in PwC's New York, Sydney, Edinburgh and London offices. He became a Director of Safe Harbor in April 2016.

*Considered to be an independent non-executive director.

John Parry

Chief Financial Officer

John Parry, Chief Financial Officer, is responsible for the financial reporting of the Market's results and capital adequacy. Finance also covers treasury & investment management and the tax affairs of the Corporation and Market in the UK and overseas. He joined Lloyd's in August 2001 and previously led Lloyd's solvency and regulatory reporting requirements and the process for review and agreement of capital requirements for each business in the Lloyd's Market.

Richard Pryce

Member of the Remuneration Committee

Richard Pryce, Chief Executive Officer, joined QBE European Operations as Deputy CEO in 2012 and became CEO the following year. He has worked in the London insurance market for more than 30 years, including holding several roles at ACE, where he became President of ACE Global Markets in 2003, assuming the additional responsibility for the UK business in 2007.

Dr Martin Read CBE*

Member of the Audit Committee
Member of the Remuneration Committee

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

*Considered to be an independent non-executive director.

4.3

Society Report
Internal Control Statement

The Franchise Board, on behalf of the Council of Lloyd's, has responsibility for the Society's system of internal control and for reviewing its effectiveness. The Audit Committee monitors and reviews the effectiveness of the system of internal control, providing biannual reports to the Franchise Board. The Executive Committee is responsible for the implementation and maintenance of the internal control system and for instilling a strong internal control environment across the Corporation and market.

The internal control system provides the foundation for the safe and sound operation of the business, ensuring compliance with relevant laws and regulations and the safeguarding of assets. The system is designed to reduce, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

In accordance with the guidance of the UK Corporate Governance Code on internal control, and Solvency II requirements, there is an established, ongoing process for identifying, evaluating and managing significant business, operational, financial, compliance and other risks. Other procedures such as our Speaking-up Policy whereby any member of staff may take matters that concern them to the Head of Human Resources, the Legal and Compliance departments or, where appropriate, to the Chairman of the Audit Committee or the FCA or the PRA, are clearly set out. Associate companies, Ins-sure Holdings Limited and Xchanging Claims Services Limited, are not dealt with as part of the Group for the purposes of applying the UK Corporate Governance Code.

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

Management structure

'Lloyd's Governance Arrangements: A Guide for Members of Lloyd's Committees', reviewed and updated in 2014, outlines the governance structure and committee members' duties and responsibilities, including confidentiality and conflicts and declarations of interest.

There is a clearly defined organisation structure with terms of reference agreed for the CEO and all directors which set out, inter alia, their functions and powers, authority to act and limitations on authority. Role profiles are required to ensure that employees are aware of their role and responsibilities and sets out the equivalent information, as agreed with their line manager.

The Society is committed to the highest standards of business conduct. Corporate policies and procedures are available to all staff and include the Code of Conduct, Compliance Manual, Employee Handbook, Health & Safety Policy, Information Security and Computer Usage Policy, Procurement Policy, Risk Policies, Financial Policies and authorisation limits. These policies and procedures are regularly reviewed and updated.

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

Identification and evaluation of business risks

The Risk Management Framework (the framework) ensures that the identification, assessment, monitoring and management of all material risks affecting the Society takes place on an ongoing basis. The framework includes a number of risk assessment techniques, which are tailored to specific risk areas. These processes are described in more detail in the Risk Management section on pages 14 to 15.

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

The risk governance structure comprises of the Risk Committee plus three specialist sub-committees; the Syndicate Risk Committee, the Financial Risk Committee and the Corporation Risk Committee. These provide clear independent challenge to the risk takers at Lloyd's and enables tailored risk management operating models, rather than a 'one-size-fits-all' platform. The risk committees oversee, challenge and where appropriate escalate issues using appropriate management information (MI) sourced from the Risk Management and internal control frameworks, such as the various risk and control assessments, details of the operating and regulatory environment and capital management reports. The structure of these sub-committees is reviewed on a regular basis to ensure it remains fit for purpose.

4.3

Society Report
Internal Control Statement continued

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

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

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

A compliance plan is in place to manage the risk associated with non-compliance with FCA/PRA regulatory processes. The Head of Internal Audit and the Legal and Compliance departments provide progress reports to the Risk Committees and the Audit Committee. The Risk Committees also oversee the wider coordination of international regulatory compliance risk through the Overseas Risk Assessments completed by global offices and the Overseas Review meeting held prior to every Corporation Risk Committee meeting.

Information and financial reporting systems

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

4.4

Society Report
Report of the Remuneration Committee

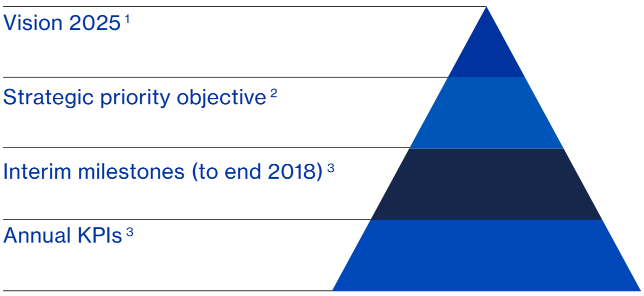
This report is based upon best practice as set out in the UK Corporate Governance Code and by reference to the directors' remuneration reporting regulations for UK listed companies. The code and regulations are directed at companies listed on the London Stock Exchange, whereas Lloyd's is a market of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

Statement by Chair of Remuneration Committee

I am pleased to present the Remuneration Committee's report for 2016 in the following pages. As in previous years, the Committee continues to focus on delivering a remuneration policy that is capable of attracting and retaining the calibre of employees needed to deliver Vision 2025 and maintain an effective market oversight regime. The following themes underpin our remuneration policy:

- Nature of the Corporation – our remuneration structure for executive directors reflects the unique nature of the Corporation. We operate a policy with a decreased emphasis on variable pay (annual bonus and LPP) to reflect better the nature and market oversight role of the organisation;
- Alignment to Vision 2025 – annual bonus payments are linked to the annual KPIs set out as part of our Vision 2025, and our achievements against those priorities; and
- Alignment to the Lloyd's market – the Lloyd's Performance Plan is based on the profitability of the Lloyd's market. This is designed to encourage an attitude of commercial partnership with the market and align the interests of participants with capital providers.

Performance metrics framework



Notes:
1 Related market-performance metrics: annual market ROC; annual market COR; annual market investment return.
2 'End state' descriptions for each strategic priority.
3 Many of which are project milestones, given the significant volume of change activity.

Key management and board changes

There were a number of changes to our Franchise Board management team in 2016. Sean McGovern, Chief Risk Officer and General Counsel, left the Corporation in September 2016 after 20 years of service. Tom Bolt, Director, Performance Management, left the Corporation in May 2016 after almost seven years of service.

There were no additional payments made to these individuals and all outstanding incentive awards lapsed.

We appointed Jon Hancock as our Performance Management Director from December 2016 on a salary of £500,000. Further details are provided on page 100.

In February, we announced that Bruce Carnegie-Brown is to become the Chairman of Lloyd's from June 2017, following the retirement of John Nelson. His annual fee will be £600,000.

Key remuneration decisions

Lloyd's made good progress against strategic priorities in 2016, which is reflected in the LPP and bonus awards (see pages 104 to 107). The annual bonus awards are driven off an assessment of each director's performance against individual key performance indicators.

The Committee intends to continue to ensure that KPIs are stretching and aimed at delivering Vision 2025 while remaining in accordance with Lloyd's risk policies and risk appetite.

No salary increases for the CEO and executive directors apply for 2017.

The Chairman's fees for 2015 and 2016 also remained unchanged at the level set when his contract was renewed for a further three years in October 2014.

Review of remuneration policy

During 2016 the Committee continued to review Lloyd's remuneration policy against Solvency II requirements, in light of the evolving PRA guidance in this area.

For 2016, for the CEO and executive directors, it is intended that LPP awards relating to the 2016 financial year will be deferred for three years and will not be payable until April 2020. In addition, a risk underpin assessment was applied to both annual bonus and LPP awards.

From 2016 awards onwards, for the CEO and executive directors, a portion of the annual bonus may also be deferred for three years, where the total incentives paid do not meet the PRA guidance to defer at least 40% of total variable pay.

The Committee will continue to review the remuneration policy against Solvency II requirements and wider best practice, and where necessary, update it as required.

Andy Haste
Chairman, Remuneration Committee
29 March 2017

Compliance statement

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

For the purposes of this report, 'executive directors' refers to Jon Hancock (Performance Management Director) and John Parry (Chief Financial Officer) – i.e. directors who are current members of the Franchise Board.

Summary of remuneration policy

The following table provides a summary of our remuneration policy, and how this will be implemented for 2017. The full remuneration policy is provided on pages 99 to 116.

Salary	Salaries are set to appropriately recognise responsibilities and be broadly market competitive. For 2017, salaries will be set as follows: CEO: £715,000 Chief Financial Officer: £425,000 Performance Management Director: £500,000
Annual Bonus	The discretionary annual bonus plan links reward to specific and measurable targets aligned with our Vision 2025 strategy. For 2017, annual bonus maximums (as a % of salary) will be: CEO: 75% (45% on target) Chief Financial Officer: 50% (30% on target) Performance Management Director: 50% (30% on target) From 2016, annual bonus awards are subject to a 'risk underpin'. The Committee will assess performance against risk and compliance metrics, and may apply a downward adjustment where appropriate. For awards in respect of 2016 onwards, a portion of the annual bonus may be deferred for three years, so that total incentives meet the PRA guidance to defer at least 40% of total variable pay.
Long-term incentives	The Lloyd's Performance Plan (LPP) offers an incentive which is directly linked to the profitability of the Lloyd's market. Annual LPP Awards are calculated by reference to profit levels in the year. LPP awards will only be triggered for profit in excess of £100m. For 2016 and subsequent years, for the CEO and executive directors, it is intended that the whole of the LPP award will be deferred for three years and will be paid in the fourth financial year following the end of the performance period. For the CEO and executive directors, a maximum cap of 50% of salary applies. From 2016, LPP awards are subject to a 'risk underpin'. The Committee will assess performance against risk and compliance metrics, and may apply a downward adjustment where appropriate.
Pension	The CEO and Performance Management Director are members of the Group Pension Plan (or equivalent), which is a defined contribution plan. The Chief Financial Officer participates in the Lloyd's pension scheme, which is a defined benefit scheme no longer open to new joiners. All executive directors receive a cash allowance of 20% of base salary.

CEO and executive director remuneration policy – link to strategy

The structure of total compensation for the CEO and executive directors is designed to support the strategic priorities of our Vision 2025 and reflect the nature of the Corporation. Further details on how our executive remuneration policy supports our strategy is set out in the table below.

<table>
<tr><th>Vision 2025 – Key priority</th><th>Objectives of the strategic priority</th><th>How does our executive remuneration policy support our strategic priorities?</th></tr>
<tr><td>Market oversight</td><td>Lloyd’s market oversight will be supportive of sustainable profit growth and will be valued by all stakeholders.</td><td rowspan="8">– The structure of total compensation for the CEO and senior executives is designed to reflect the market oversight role of the Corporation. The fixed element is higher and the variable (performance-related) element lower, in order to better reflect the nature of the organisation.

– We operate a balanced approach to performance measurement. The annual bonus is linked to Lloyd’s key strategic objectives outlined in Vision 2025. KPIs are set each year which support the delivery of our long-term vision.

– The direct link between LPP and the profitability of the Lloyd’s market is designed to encourage an attitude of commercial partnership with the market and align the interests of participants with capital providers.

– A consistent approach is taken across the organisation. Lloyd’s operates a Total Reward approach which is designed to meet employee and Corporation needs by providing rewards that are linked to individual performance and the delivery of Corporation objectives.

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

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

– To ensure the long-term sustainability of the Lloyd’s brand and reputation, we operate malus and clawback provisions on all incentives to ensure that senior executives act responsibly and in the long-term interests of the Corporation.</td></tr>
<tr><td>Global market access</td><td>Lloyd’s international growth will be enabled by offering optimum trading rights and effective operational infrastructure.</td></tr>
<tr><td>Ease of doing business</td><td>Lloyd’s will have a leading industry service proposition, built on excellence in processes, technology and data.</td></tr>
<tr><td>Capital</td><td>Lloyd’s optimal capital strength and attractiveness will be designed and demonstrated.</td></tr>
<tr><td>Innovation</td><td>Lloyd’s will build on its leading edge of capability and reputation for innovation in the global insurance industry.</td></tr>
<tr><td>Talent</td><td>Lloyd’s market and Corporation will continue to attract and retain the best talent through a high performance culture, best practices and inspirational leadership.</td></tr>
<tr><td>Brand</td><td>Lloyd’s brand will remain admired and attractive to customers and market participants.</td></tr>
<tr><td>Global CSR</td><td>Lloyd’s will remain a responsible global corporate citizen through its ethical principles and practices, and sharing of knowledge and expertise.</td></tr>
</table>

4.4

Society Report
Report of the Remuneration Committee continued

Corporation remuneration policy – all employees

The approach to remuneration for all current and future employees is set out in Lloyd's Remuneration Policy as follows:

Lloyd's operates a Total Reward approach, which is designed to meet employee and Corporation needs by providing rewards that are linked to individual performance and the delivery of Lloyd's Corporation objectives. Lloyd's Total Reward approach is supported by the following practices:

- The approach looks beyond base salary to the value of the total reward package in meeting the needs of employees;
- We recognise and reward superior performance; and
- Our remuneration practices are designed to promote and reward sound and effective risk management.

Lloyd's policy is therefore based on providing a package of rewards (salary plus benefits) that is business driven, competitive, fair and flexible. It is also founded on the proposition that the ultimate source of value in the business is people. Combining this creates a reward offering which:

- Emanates from business strategies and priorities;
- Is based on business success (i.e. our ability to pay);
- Provides a flexible mix of rewards, designed to attract, retain and motivate a performance-driven workforce with the varied range of experience and skills the business requires;
- Is externally competitive;
- Rewards for performance rather than cost of living;
- Ensures employees understand the criteria by which rewards are determined and reviewed;
- Gives managers the tools to make informed decisions regarding rewarding their teams; and
- Is in line with our equality and diversity policy.

Annual remuneration report

This part of the report sets out the annual remuneration for 2016 and the way in which policy is being applied for 2017.

Single total figure of remuneration

The total remuneration receivable in respect of qualifying services for each person who served as a Franchise Board director or member of Council during the year is shown below. Further detail on LPP Awards is shown on page 106 to 107.

	Salary/fees		Other benefits[1]		Annual bonus		LPP Award		Pension benefit[2]		Total	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Chairman of the Council of Lloyd's												
John Nelson[3,4,7]	575	575	48	43	–	–	–	–	–	–	623	618
Executive directors												
Inga Beale[3,4]	714	700	5	4	400	425	226	222	180	180	1,525	1,531
Jon Hancock[3,5,12]	42	–	1	–	–	–	–	–	8	–	51	–
John Parry[3,5,6]	423	400	17	16	120	170	134	127	150	166	844	879
Non-executive Council members												
Working members												
Simon Beale	55	38	–	–	–	–	–	–	–	–	55	38
Dominic Christian	39	38	–	–	–	–	–	–	–	–	39	38
Karen Green[8]	39	34	–	–	–	–	–	–	–	–	39	34
Lawrence Holder	39	38	–	–	–	–	–	–	–	–	39	38
Julian James[8]	35	–	–	–	–	–	–	–	–	–	35	–
Neil Maidment[8]	35	–	–	–	–	–	–	–	–	–	35	–
External members												
Robert Childs[9]	39	38	–	–	–	–	–	–	–	–	39	38
Matthew Fosh[9]	39	38	–	–	–	–	–	–	–	–	39	38
Paul Jardine[7,9]	66	64	–	–	–	–	–	–	–	–	66	64
Philip Swatman[7,8,9]	50	–	–	–	–	–	–	–	–	–	50	–
Michael Watson[9]	39	38	–	–	–	–	–	–	–	–	39	38
Nominated members												
Andy Haste[7]	88	86	–	–	–	–	–	–	–	–	88	86
Fred Hu	39	38	2	2	–	–	–	–	–	–	41	40
Sir David Manning	46	45	–	–	–	–	–	–	–	–	46	45
Non-executive Franchise Board members												
Sir Andrew Cahn	63	60	–	–	–	–	–	–	–	–	63	60
Mark Cloutier[14]	72	52	–	–	–	–	–	–	–	–	72	52
Charles Franks	76	69	–	–	–	–	–	–	–	–	76	69
Joy Griffiths	63	60	–	–	–	–	–	–	–	–	63	60
Richard Keers[14]	43	–	–	–	–	–	–	–	–	–	43	–
Martin Read[7]	70	67	1	2	–	–	–	–	–	–	71	69
Former members of Council and Franchise Board												
Rupert Atkin[10]	5	55	–	–	–	–	–	–	–	–	5	55
Tom Bolt[5,6,11]	250	598	19	24	–	350	–	254	64	161	333	1,387
Michael Deeny[10]	32	38	9	4	–	–	–	–	–	–	41	42
Nick Furlonge[7,15]	76	72	1	–	–	–	–	–	–	–	77	72
Christopher Harman[10]	3	38	–	–	–	–	–	–	–	–	3	38
Claire Ighodaro[15]	75	75	–	–	–	–	–	–	–	–	75	75
Andrew Kendrick[13]	–	19	–	–	–	–	–	–	–	–	–	19
Alan Lovell[7,10]	12	60	–	–	–	–	–	–	–	–	12	60
Sean McGovern[5,6,11]	363	480	11	15	–	190	–	203	16	157	390	1,045
Henrique Meirelles[10]	10	38	4	5	–	–	–	–	–	–	14	43
Bruce Van Saun[15]	33	76	1	–	–	–	–	–	–	–	34	76
Graham White[10]	–	4	–	–	–	–	–	–	–	–	–	4

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

Single total figure of remuneration continued

Table notes
1. Other benefits include items such as benefit allowances, car benefit, medical and life insurance.
2. Pension benefit is calculated as 20 times the increase in pension in the year (net of inflation) less the salary sacrificed, and also includes any pension cash allowances.
3. Current employee of the Corporation.
4. Member of both Council and Franchise Board for 2016.
5. Member of the Franchise Board only.
6. Tom Bolt was a non-executive director of Xchanging Claims Services Limited and various subsidiary companies until 24 March 2016. Sean McGovern was also a non-executive director of Equitas Holdings Limited and various subsidiary companies until his resignation on 22 June 2016 and was succeeded by John Parry as a non-executive director of Equitas Holdings Limited and various subsidiary companies with effect from 22 June 2016. No fees are or were payable for these appointments, other than for Equitas Holdings Limited where £20k per annum is payable to the Corporation of Lloyd's.
7. Member of the Remuneration Committee during 2016. Alan Lovell retired from the Remuneration Committee on 31 January 2016 and Philip Swatman joined the Remuneration Committee on 4 February 2016.
8. Julian James, Neil Maidment and Philip Swatman joined Council on 1 February 2016. Karen Green joined Council on 1 February 2015.
9. The following members of Council act as representatives of limited liability underwriting vehicles – Robert Childs (Hiscox Dedicated Corporate Member Limited), Matthew Fosh (Novae Corporate Underwriting Limited), Paul Jardine (Catlin Syndicate Limited), Philip Swatman (Nomina No 115 LLP) and Michael Watson (Flectat Limited).
10. Graham White retired from Council on 31 January 2015. Rupert Atkin, Christopher Harman and Alan Lovell retired from Council on 31 January 2016. Henrique Meirelles and Michael Deeny retired from Council on 7 April 2016 and 31 October 2016 respectively. Following members acted as representatives of limited liability underwriting vehicles – Michael Deeny (The Michael Deeny LLP) and Alan Lovell (Palace House International (Two) LLP).
11. Tom Bolt resigned as a Corporation employee and as a member of the Franchise Board on 31 May 2016. Sean McGovern also resigned as a Corporation employee and as a member of the Franchise Board on 30 September 2016.
12. Jon Hancock was formally appointed as Performance Management Director and as an executive director on the Franchise Board on 1 December 2016.
13. Andrew Kendrick retired from the Franchise Board and from the Remuneration Committee on 31 March 2015.
14. Mark Cloutier joined the Franchise Board on 1 April 2015. Richard Keers joined the Franchise Board on 1 June 2016.
15. Bruce Van Saun and Claire Ighodaro retired from the Franchise Board on 31 May 2016 and 31 December 2016 respectively. Nick Furlonge retired from the Franchise Board and Remuneration Committee on 31 December 2016.

Salary

The annual salaries and bonuses of the CEO and the executive directors are reviewed by the Remuneration Committee annually. 2017 salaries are as follows:

	2017 Base salaries £000	Increase on 2016
CEO	715	0%
Performance Management Director	500	–
Chief Financial Officer	425	0%

Annual bonus

Executive directors are eligible for a discretionary annual bonus, based on performance against objectives and individual key performance indicators for the year. For 2017, the maximum annual opportunity for the CEO and each of the executive directors is as follows:

CEO	75% of base salary
Chief Financial Officer	50% of base salary
Performance Management Director	50% of base salary

Performance measures

Individual payouts are based on the Committee's judgement of performance against corporate and individual key performance indicators (KPIs) for the year. The Remuneration Committee reviews strategic and operational objectives and KPIs at the start of the financial year. These help in determining the annual bonus awards for the year and ensure that annual bonus awards are aligned to the Corporation's strategic objectives.

From 2016, annual bonus awards were subject to a 'risk underpin'. The Committee assesses performance against risk and compliance metrics, and may apply a downward adjustment where appropriate. The Committee decided to apply a downward adjustment to four individual bonus awards across the Corporation.

Bonus outturns for 2016

The following table sets out the strategic targets and performance against each of the annual KPIs linked to our Vision 2025 strategy, which resulted in the bonus outcomes for 2016.

Annual KPI (strategic priority)	Performance
Market oversight	The syndicate capital and planning process was reviewed and improvements made. Lloyd's carried out a portfolio review of poorly performing classes which fed into syndicate business planning for 2017.
Global market access	Lloyd's application for an onshore reinsurance licence in India received final stage approval in January 2017. Lloyd's Brexit contingency plans were developed and are now in progress.
Ease of doing business	The electronic placing platform went live for Terrorism, Financial and Professional lines. The Central Service Refresh Programme is enabling brokers to submit premium information electronically.
Capital	Lloyd's continued to consolidate its Solvency II activities, embedding them throughout its processes. Lloyd's solvency ratios remained well above the SCRs.
Innovation	Lloyd's continued to provide thought leadership, for example with its insights on cyber risk. Work on a Lloyd's performance index was put on hold following the Brexit referendum.
Talent	The Corporation continued to coordinate emerging talent programmes on behalf of the market. The Lloyd's University was launched, a digital learning management system for employees to access a suite of learning products.
Brand	Lloyd's has a pre-eminent position achieving consistently high scores across key brand measures with brand health at parity with best in class (re)insurance companies (based on an independent survey in 2015).
Global CSR	Over 25 of Lloyd's global offices took part in the 'Lloyd's Together' CSR programme supporting a wide range of causes in their local communities.

In 2016, annual bonus awards were also subject to a 'risk underpin'. The Committee assessed performance against a range of Corporation risk and compliance metrics and applied downward adjustments as necessary.

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

CEO [1]	£400,000
Chief Financial Officer	£120,000
Director, Performance Management [2] (previous incumbent)	£0
Chief Risk Officer & General Counsel [2] (previous incumbent)	£0

Notes
1) An element of the 2016 annual bonus for the CEO will be deferred for payment in April 2020, to comply with Solvency II remuneration requirements on minimum levels of variable remuneration subject to deferral.
2) The Director, Performance Management and the Chief Risk Officer & General Counsel left employment during 2016 and received no payments under the annual bonus plan in respect of 2016.

Lloyd's Performance Plan

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

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

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

All employees of the Corporation and international offices are eligible to participate in the LPP on the basis set out as below. New employees are eligible to participate in the LPP from the beginning of the month immediately following the start of their employment.

Calculation of LPP Awards

Awards under the LPP (LPP Awards) are calculated by reference to profit on ordinary activities before tax (PBT), as reported in the pro forma financial statements in the Lloyd's Annual Report for each financial year. LPP Awards will only be triggered if PBT in excess of £100m is achieved.

The LPP Awards for each financial year will be calculated as a percentage of the participants' salaries at 31 December in that year, for each £1bn of PBT.

The framework for determining LPP Awards is as follows:

Job level	Amount of LPP Award	Limits on LPP Awards (trigger)	Limits on LPP Awards (cap)
CEO and directors appointed after 1 January 2014	15% of salary per £1bn of PBT	LPP Awards will be triggered only on the achievement of a minimum threshold of £100m PBT. If PBT is below £100m, no LPP Awards will be made for that financial year.	50% of salary i.e. £3.3bn of PBT
Other directors	20% of salary per £1bn of PBT		100% of salary i.e. £5bn of PBT
Senior managers (Level 1)	10% of salary per £1bn of PBT		30% of salary i.e. £3bn of PBT
Other employees (Level 2-4)	5%-3% of salary per £1bn of PBT depending on grade		15%-9% of salary (depending on grade) i.e. £3bn of PBT

For the purpose of the above table and the section below, directors refer to directors of the Corporation rather than only the executive directors (directors who are members of the Franchise Board).

Structure and timing of payments

2016 and subsequent years

For 2016 and subsequent years, in respect of the CEO and all directors and Level 1 employees, any LPP award will be deferred until April in the fourth year following the end of the relevant financial year, subject to the PRA's proportionality test based on total compensation and the proportion of variable compensation paid in respect of the relevant financial year. Therefore, for 2016 awards, any LPP payment will be deferred and paid in April 2020.

For employees whose remuneration is below the PRA's proportionality test (e.g. some level 1 employees), the LPP will revert to the ongoing fund basis. Under this approach, one half of an award will be paid in April following the relevant financial year, with the remaining 50% paid one year later. This is not intended to apply to the CEO and executive directors, who are expected to fall above the proportionality test and be subject to the full deferral period.

2014 and 2015 awards

For 2014 and 2015 awards, in respect of the CEO and directors appointed after January 2014, the total award was deferred until the third year following the year of performance. For other directors and Level 1 employees deferral was via an ongoing fund as described below:

Job level	Awards	Payments
CEO and directors appointed after 1 January 2014	Any LPP Award will be notified after the PBT for the relevant year has been announced.	Payment is deferred until October in the third year following the end of the relevant financial year, i.e. any LPP Award relating to financial year 2015 will be received in October 2018.
Other directors and Level 1 employees	Any LPP Award will be notified to the employee after the PBT for the relevant year has been announced. The total amount of the LPP Award will be added to the particular employee's LPP Fund.	Each October one half of the total contents of the LPP Fund will be paid to the employee. 50% of the ongoing fund will be paid in October and the remaining balance will be paid one year later.

LPP Awards in respect of 2016

For 2016, PBT of £2.1bn was achieved. As this is above the threshold level of £100m LPP Awards were made for the year.

For 2016, LPP Awards were also subject to a 'risk underpin'. The Committee assessed performance against a range of market-based risk and compliance metrics and no adjustment for the risk underpin was made for 2016 awards.

Based on this PBT level and the LPP calculation described above, the LPP Awards as a percentage of salary were 31.7% for the CEO and the Chief Financial Officer. The Director, Performance Management and the Chief Risk Officer and General Counsel left employment during 2016 and received no payments under the LPP in respect of 2016.

The payment of these awards will be made as described in the table above.

A summary of movement in the directors' LPP Funds in the year is provided below:

	Total fund outstanding as at 31 December 2015 or date of appointment £000	Amount lapsing during the year ended 31 December 2016 £000	Amount paid during the year ended 31 December 2016 £000	LPP Award in respect of 2016 £000	Total fund outstanding as at 31 December 2016 £000
Inga Beale	526	–	–	226	752
Tom Bolt	575	(575)	–	–	–
Jon Hancock	–	–	–	–	–
Sean McGovern	463	(463)	–	–	–
John Parry	188	–	(61)	134	261

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

Pensions

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

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

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Society Report
Report of the Remuneration Committee continued

Pensions continued

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

	Details of pension arrangements	Contributions and accruals in 2016
John Parry	Pension arrangements provide for a pension at normal retirement of two thirds base annual salary after 20 years' eligible service less any entitlement from previous pension arrangements and subject to a Scheme earnings cap of £150,600 from 6 April 2016.	Salary sacrifice of 10% of the earnings cap in exchange for additional employer pension contributions of the same amount.

The Chief Financial Officer receives a cash allowance of 20% of base salary to compensate for the pension benefits being based on the Scheme earnings cap rather than base salary.

No other payments to the CEO, the Performance Management Director, or the Chief Financial Officer are pensionable. Their dependants are eligible for the payment of a lump sum in the event of death in service and, for the Chief Financial Officer, dependants' pensions.

Details of the rights under the Lloyd's pension scheme are set out below:

	Salary sacrifice in year to 31 December 2016 £000	Age at 31 December 2016	Increase in pension in year to 31 December 2016 – actual £000	Increase in pension in year to 31 December 2016 – net of price inflation £000	Total accrued annual pension in year to 31 December 2016 £000 pa	Normal retirement age
John Parry	15	53	5	4	64	60
Tom Bolt (resigned)	3	60	1	1	13	65
Sean McGovern (resigned)	11	46	(2)	(3)	53	60

Details of the transfer values of accrued pension benefits are set out below:

	Transfer value of accrued pension as at 31 December 2015 £000	Transfer value of accrued pension as at 31 December 2016 £000	Movement in transfer value over the year less amounts salary sacrificed £000
John Parry	1,018	1,376	343
Tom Bolt (resigned)	191	251	57
Sean McGovern (resigned)	742	959	206

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

The transfer values have increased over the year in line with the increase in accrued pensions and due to changes in market conditions. The impact is more pronounced for those executive directors closer to retirement age.

Departing Directors

Sean McGovern, Chief Risk Officer & General Counsel, left the Corporation in September 2016 after 20 years of service. Tom Bolt, Director, Performance Management, left the Corporation in May 2016 after almost seven years of service.

Neither received annual bonus awards in respect of 2016 and the outstanding balance of LPP awards lapsed.

Service contracts and loss of office payment policy

The CEO and executive directors have rolling contracts with notice periods which will not exceed one year.

John Nelson's contract covers his services as Chairman of Lloyd's and Chairman of the Franchise Board.

	Unexpired term as at 31 December 2016	Notice period
John Nelson[1]	9 months	12 months
Inga Beale[2]	rolling 1 year	12 months
Jon Hancock[3]	rolling 6 months	6 months
John Parry[4]	rolling 6 months	6 months

Notes
1) John Nelson was appointed to the Franchise Board and Council on 17 October 2011.
2) Inga Beale was appointed to the Franchise Board and Council on 27 January 2014.
3) Jon Hancock was appointed to the Franchise Board on 1 December 2016.
4) John Parry was appointed to the Franchise Board on 11 December 2014.

The Chairman, CEO and executive directors' service contracts are kept available for inspection by Lloyd's members at the Corporation's registered office.

External and working members are elected to Council while nominated members are appointed to Council, usually for a three-year period. Members of the Franchise Board are appointed by Council with non-executive directors' terms of office varying between one and three years. These are not contractual arrangements and compensation is not paid if a member leaves early.

Additional disclosures

Eight-year CEO remuneration

	CEO single figure of total remuneration £000	Annual bonus award as a percentage of maximum opportunity	LPP award as a percentage of maximum opportunity
2016	1,525	75%	63%
2015	1,531	81%	63%
2014	1,494	74%	95%
2013	1,795	75%	65%
2012	1,759	75%	55%
2011	1,499	90%	0%
2010	1,750	90%	44%
2009	1,771	83%	77%

Chief Executive Officer pay increase in relation to all employees

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

	CEO %	All employees %
Salary	0	3.1
Other benefits	12.2	6.3
Annual bonus	(5.9)	(9.4)

The increase in other benefits of the CEO arises due to the increased cost of medical insurance.

Relative importance of spend on pay

	2016 £000	2015 £000
Corporation operating income	331,761	238,990
Total remuneration – all employees	130,311	110,817

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

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

The Chairman's remuneration was not increased in 2016 and will remain unchanged at £575k per annum for 2017.

Fees for 2016 for Council and Franchise Board members were £38,500 and £62,000 per annum respectively. Fees will not be increased for Franchise Board members for 2017. Fees are also payable in respect of membership of a number of Council and Franchise Board committees, including ad hoc committees established to consider specific issues requiring a significant time commitment. These will remain at 2016 levels. For 2016 the additional fee payable to the Deputy Chairmen, over and above the standard Council member's fee, was £11,000 per annum. It will not be increased for 2017.

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

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

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

The Remuneration Committee met four times in 2016. The attendance record is set out in the Corporate Governance report on pages 88 to 89. The Committee's terms of reference are available on the Lloyd's website and on request from Lloyd's Secretariat.

The Remuneration Committee was assisted by its remuneration consultants, Deloitte LLP, who adhere to the Code of Conduct for executive remuneration consultants. Deloitte LLP was appointed by the Remuneration Committee. Deloitte LLP adheres to working practices which have been agreed with the Remuneration Committee Chairman, for the purpose of maintaining independence.

The Committee is satisfied that the advice received from Deloitte LLP was objective and independent. Total fees paid in respect of advice and services to assist the Remuneration Committee amounted to £60,700 for the year. Deloitte LLP also provided other services to the Corporation during the year, including the co-sourced Internal Audit resource, risk and project management advice, other adhoc assurance services and tax advice.

At the request of the Remuneration Committee, the CEO and HR Director regularly attend Remuneration Committee meetings. Other senior executives are invited to attend for specific agenda items from time to time.

Neither the Chairman, nor the CEO, nor any other director, plays a part in any discussion about his or her own remuneration.

Remuneration policy

This part of the report sets out the Corporation's current remuneration policy for the CEO and executive directors, which follows in all material respects the regulations applicable to UK listed companies. The policy is not legally binding, and the Committee reserves the right to amend the policy at any time.

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Base salary	Salaries set to appropriately recognise responsibilities and be broadly market competitive.	Generally reviewed by the Remuneration Committee annually.	There is no maximum salary increase; however, any increases will generally reflect our approach to all employee salary increases. Exceptions, in certain circumstances, may be made, for example to reflect a new appointment, change in role/ adoption of additional responsibilities, changes to market practice or the development of the individual in the role.	None
Annual bonus	To link reward to short-term performance and contributions.	Discretionary annual bonus determined by the Committee taking into account reference to performance against objectives and key performance indicators. For bonuses payable in respect of performance in 2014 and subsequent years, the Committee retains the discretion to clawback annual bonus awards in circumstances including, but not limited to, material misstatement of financial performance or misconduct. For 2016 awards onwards, it is intended that an element of the annual bonus may be deferred for three years, where total variable remuneration (annual bonus and LPP) does not meet the 40% deferral threshold set out in PRA guidance.	Current bonus maximums as a percentage of salary are: CEO: 75% (with on target of 45%) Performance Management Director: 50% (with on target of 30%) Chief Financial Officer: 50% (with on target of 30%)	Specific and measurable targets and key performance indicators are established where possible to help determine bonus awards. Payouts are discretionary and take into account the individual's achievements and contribution to the Corporation in the year and performance against the objectives and individual key performance indicators. From 2016, annual bonus awards will be subject to a 'risk underpin'. The Committee will assess performance against risk and compliance metrics, and may apply a downward adjustment where appropriate.

Remuneration policy continued

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Lloyd's Performance Plan (LPP)	To offer an incentive which is directly linked to the profitability of the Lloyd's market.	Annual LPP Awards are calculated by reference to profit levels in the year. For 2016 and subsequent years, for the CEO and the executive directors, it is intended that the whole of the LPP award will be deferred for three years and will be paid in April of the fourth financial year following the end of the performance period. For 2015, for the CEO, and the Chief Financial Officer (in respect of awards earned subsequent to his appointment to the Board), the whole award is deferred, and is paid in October of the third financial year following the end of the performance period. The Committee may apply malus and clawback to LPP Awards in respect of 2014 and subsequent years.	For all executive directors, (CEO, Performance Management Director and Chief Financial Officer) an individual cap of 50% of salary applies.	Annual LPP Awards are calculated by reference to Lloyd's profit for the year. LPP Awards will only be triggered for profit in excess of £100m. From 2016, LPP awards will be subject to a 'risk underpin'. The Committee will assess performance against risk and compliance metrics, and may apply a downward adjustment where appropriate.
Benefits	To provide market levels of benefits.	Benefits include a benefits cash allowance, private medical insurance, life insurance and a season ticket loan facility. The CEO does not receive a benefits cash allowance.	The maximum benefits cash allowance is £11,000. There is no overall maximum for total benefits as the cost of medical and life insurance depends on the individual's circumstances.	None
Relocation benefits	To support Lloyd's international strategy or to facilitate recruitment	Relocation benefits may be offered in certain circumstances. Neither the CEO nor the executive directors have been given relocation benefits.	There is no overall maximum.	None

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Pension	To provide market levels of pension provision.	Group Personal Pension Plan		
		The CEO and Performance Management Director are members of the Group Personal Pension Plan, which is a defined contribution plan. The CEO and Performance Management Director also receive a cash allowance. Lloyd's provides for the payment of a lump sum in the event of death in service.	For the CEO, from April 2016, the Corporation makes an annual contribution of £10,000 to the Group Personal Pension Plan. Due to changes in pension legislation during 2016, the CEO also receives a cash payment (equal to the balance of her previous annual pension contribution, less a deduction for employers' National Insurance so that the provision of the benefit remains cost neutral).	None
		Lloyd's Pension Scheme Subject to a scheme earnings cap, the Chief Financial Officer continues to be a member of the Lloyd's Pension Scheme which is a defined benefit scheme and is no longer open to new joiners.	A cash allowance of 20% of base salary also applies.	
		The scheme is contributory. The accrual rate may be increased in exchange for additional contributions, or salary sacrifices may be made for employer contributions of the same amount.	Defined benefit accrual rates vary per participant.	
		The Chief Financial Officer receives a cash allowance to compensate for the pension benefits being based on the scheme earnings cap rather than base salary.	The cash allowance is 20% of base salary.	
		Where a member of the Lloyd's pension scheme leaves the scheme as a result of the impact of changes to the annual and lifetime allowances they may be eligible for an additional cash allowance.	There is an additional cash allowance of 10% of the scheme earnings cap where a member leaves the scheme as a result of the impact of changes to the annual and lifetime allowances.	
		Dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service.		

Remuneration policy continued

Performance measures and targets

The annual bonus is based on performance against objectives and individual key performance indicators. The Committee believes this approach ensures alignment to Lloyd's key strategic objectives and that bonus payouts are geared to individual performance.

The LPP Awards are driven by the profitability of the Lloyd's market, creating alignment to the overall performance of the Lloyd's market.

For 2016 onwards, both the annual bonus and the LPP will be subject to a potential downward risk adjustment following the Committee's consideration of a scorecard of relevant risk metrics.

Malus and clawback

For LPP Awards and annual bonus awards in respect of 2014 and subsequent years, malus and clawback provisions apply.

Malus may be applied prior to payment including any deferral period. For senior employees (excluding the CEO) the circumstances in which malus may be applied are employee misconduct, material financial misstatement for which the employee was responsible, or deliberate or negligent failure in risk management for which the employee was responsible. In addition, the Committee retains the discretion to clawback awards for a period of six years from the date of award. The circumstances in which clawback may be applied are serious employee misconduct, material financial misstatement for which the employee was responsible, or deliberate failure in risk management for which the employee was responsible.

For the CEO, the circumstances in which malus may be applied are broader and include, but are not limited to, employee misconduct or the performance indicators relied on to determine the award being found to be materially different. The circumstances in which clawback may be applied are employee misconduct or the performance indicators relied on by the Committee being found to be materially different to those previously considered by the Committee (whether or not involving any culpability on the part of the individual). The clawback period is indefinite for the CEO.

Comparison of policy to broader employee population

The remuneration policy for the CEO and executive directors follows the same broad principles as the policy for all employees in the Corporation. Any differences in the specific policies generally reflect differences in market practice for differences in seniority. Key elements of the remuneration policy which apply for all employees are as follows:

- All employees in the Corporation are eligible to participate in the LPP. For directors and senior management (other than the CEO, Chief Operating Officer, and the Chief Financial Officer) in 2015, the LPP operated as an ongoing fund (deferral). For 2016 onwards, LPP awards will be deferred for three years for the CEO, all directors and senior management. For other employees the LPP is a series of annual awards;
- All employees are eligible for a discretionary bonus; and
- The framework for provision of benefits and pensions is consistent across all employees in the Corporation.

Fee policy for the Chairman and members of the Council of Lloyd's and Franchise Board who are not employees of the Corporation

In addition to his salary, the Chairman is entitled to receive private medical insurance. He does not participate in the Corporation's incentive plans.

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

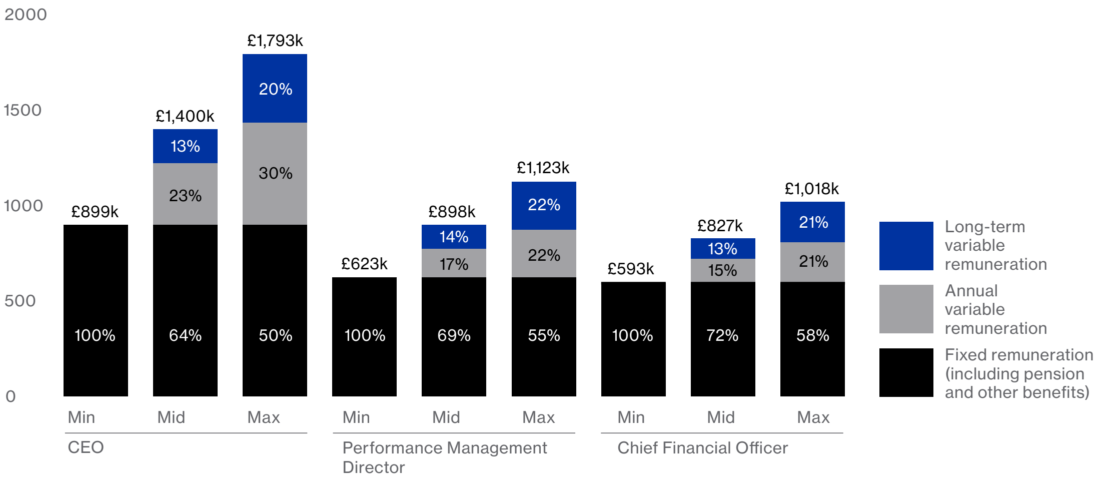
Remuneration for all members of Council and Franchise Board who are not employees of the Corporation is designed to attract people of sufficient calibre and experience to govern Lloyd's affairs by providing an appropriate level of fees which reflects the demands made upon them. Reference may also be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

Fees for non-employee members of the Council and Franchise Board comprise payment of an annual fee and additional fees to reflect specific responsibilities, where applicable.

Annual fees	Payment of an annual fee for the following: – Council of Lloyd's membership; – Franchise Board membership; and – Deputy Chairman
Additional fees	Additional fees are paid to reflect additional responsibilities in respect of membership or chairmanship of a number of Council and Franchise Board committees, including ad hoc committees established to consider specific issues requiring a significant time commitment.

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

Illustrations of the application of remuneration policy



Scenario	Assumptions
Minimum	No annual bonus, no LPP.
Middle	On target bonus (i.e. 60% of maximum bonus) and 50% of maximum LPP.
Maximum	100% of bonus and maximum LPP.

Remuneration policy continued

Approach to remuneration in respect of recruitment

The following principles would apply when agreeing the components of a remuneration package upon the recruitment of a new executive director:

- In order to facilitate the future success of the Corporation, any package will be sufficient to attract executive directors of the calibre required to deliver the Corporation's strategic priorities. The Committee will seek to ensure that no more than is necessary is paid on recruitment, while taking into account the highly competitive market for executive talent;
- Typically, the individual will be transitioned onto an ongoing remuneration package that is in line with the policy set out in the Remuneration Policy table above. However, given the unique nature of Lloyd's, the Committee reserves the right to consider the structure of the package in the context of the strategic objectives of Lloyd's and the circumstances of the appointment;
- The Committee may, on appointing an executive director, need to 'buy out' terms or remuneration arrangements forfeited on leaving a previous employer. The terms of any buy out would be determined taking into account the terms of the forfeited awards (e.g. form of award, performance conditions, timeframe). The overriding principle will be that any replacement buy out awards should be of comparable commercial value to the awards that have been forfeited. So far as practical, the awards will also have comparable time horizons to those forfeited. Where the Committee feels it is appropriate given the specific circumstances, the Committee maintains discretion to include remuneration components which are not included in the Remuneration Policy table above;
- The Committee retains the flexibility to make additional awards for the purpose of recruitment where there is a strong rationale to do so. There is no set policy maximum level of variable remuneration which may be granted in addition to the ongoing policy. Given the nature of Lloyd's, while flexibility is maintained, it is not anticipated that the Committee would make additional variable incentive awards for a new recruit (excluding buy outs) over and above those set out in the Remuneration Policy table;
- Where an executive director is appointed from within the organisation, the normal policy is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, for any appointments following corporate reorganisation/activity, legacy terms and conditions would be honoured; and
- Additional costs and support may be provided if the recruitment requires relocation of the individual.

Compensation for termination of employment

If the CEO or executive director works out his or her notice period, he or she will be entitled to payment as normal during the period of notice. Alternatively, the Corporation reserves the right to terminate the employment by making a payment in lieu of notice.

In these circumstances, the Corporation's policy is that the outgoing employee would be entitled to receive an amount equal to base salary only in respect of his or her notice period. The sum will be paid in monthly instalments to the CEO and, in respect of the executive directors, the sum may be paid in monthly instalments at the Corporation's discretion. In both cases, the sum paid may be reduced to reflect alternative income. In certain circumstances a contribution towards legal fees and outplacement facilities may be made.

Annual bonus

If the CEO or executive director leaves the Corporation's employment on or before the date on which an annual bonus award would otherwise have been paid, he or she will not be entitled to that annual bonus award. However, the Remuneration Committee may determine that the CEO or executive director may receive a bonus in respect of the financial year of cessation based on performance in the year. Any bonus would be pro-rated for time.

Consideration of conditions elsewhere in the Corporation

Information is provided to the Committee annually on bonuses awarded and salary increases granted across the Corporation at both a total level and further broken down by grade and other components. Historical data is also provided.

Opinion on remuneration is encouraged from all employees via an annual staff survey. Market remuneration data may be collated and shared with the Committee as a further consideration.

Remuneration policy and Lloyd's members

The remuneration policy is approved by Council as part of its consideration of the annual report. The Council is a body two thirds of which is elected by the members.

Andy Haste
Chairman, Remuneration Committee
29 March 2017

Statement by Chair of Audit Committee

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

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

Our principal aim is to assist the Council in discharging its responsibilities for monitoring the integrity of the Society's financial reporting, assessing the effectiveness of the internal controls of the Society and monitoring the effectiveness, independence and objectivity of the internal and external auditors.

Richard Keers
Chairman, Audit Committee
29 March 2017

Composition of the Audit Committee

The committee, at the end of 2016, comprised two external members of the Council and four non-executive members of the Franchise Board. The committee met five times during the year. The members of the committee in 2016 and their attendance at meetings are shown in the Corporate Governance report on pages 88 to 89.

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

For the purposes of the UK Corporate Governance Code, the committee considers that Claire Ighodaro (member of the committee until 26 October 2016), Paul Jardine (member of the committee until 31 January 2017), Michael Watson (joined the committee 2 February 2017), Richard Keers and Philip Swatman have recent and relevant financial experience. More information on the skills and experience of the committee members are set out in the biographies on pages 90 to 96.

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

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

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

The committee's terms of reference can be found on the Lloyd's website.

Financial reporting

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

The principal issues reviewed were:

- The market notional investment return on Funds at Lloyd's and the methodology of the calculation;
- The valuation of investments held by both the Society and within Funds at Lloyd's, on an exceptional basis;
- Reporting requirements and governance arrangements for Solvency II Pillar 3 reporting for both the market and the Society;
- The valuation of the Lloyd's pension scheme and the Society lease provision; and
- Ensuring the methodology of the valuation of loans recoverable within the Society is consistent with previous years and reviewing any methodology changes as they arise.

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

Internal control

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

- The committee reviewed reports from the Risk Committee on developments to the Lloyd's Risk Framework. The committee also considered the quarterly ORSA reports. Throughout the year, the committee was updated on the key risks which are set out on pages 14 to 15;
- The committee reviewed internal audit reports, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions;
- The committee reviewed the external auditor's controls observation report and management's assessment of the internal control environment including reports on control failures during the period and status of progress against previously agreed actions;
- The committee reviewed the results of a controls benchmarking exercise carried out by the external auditors and monitored the progress of proposed improvements; and
- Regular reports on UK and overseas regulatory and compliance matters.

Auditors

Internal audit

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

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

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

External auditor

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

A breakdown of the fees paid to the external auditor for non-audit work may be found in note 6. Significant engagements undertaken in 2016 include other services pursuant to legislation (work undertaken on the Aggregate Accounts and regulatory returns) and the pro forma financial statements.

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

4.6

Society Report
Report of the Lloyd's Members' Ombudsman

Report by Mark Humphries, Lloyd's Members' Ombudsman

I am pleased to present the Annual Report of the Lloyd's Members' Ombudsman to the Council of Lloyd's for the year ended 31 December 2016.

The role of the Lloyd's Members' Ombudsman is to investigate complaints by members and former members who were members at any time after 30 November 2001 and who believe that they have suffered injustice in consequence of maladministration in relation to any action taken by or on behalf of the Society.

Complaints received
During 2016 I dealt further with one complaint which had originally been raised in 2014. I reported in June 2016 on this complaint which I dismissed for want of jurisdiction.

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

4.7

Society Report
Financial Review

This review should be read in conjunction with the financial statements of the Society on pages 132 to 181. This review should also be read in conjunction with the Strategic Report on pages 8 to 33. These sections set out the strategic priorities for both the Society and the Lloyd's market as a whole.

Operating surplus

The Society of Lloyd's achieved an operating surplus for the year of £137m (2015: surplus of £91m). The operating surplus by business segment is set out below:

	Corporation of Lloyd's £m	Lloyd's Central Fund £m	2016 Total £m	2015 Total £m
Total income	332	120	452	350
Central Fund claims and provisions incurred	–	(8)	(8)	–
Other Group operating expenses	(296)	(11)	(307)	(259)
Operating surplus	36	101	137	91

Corporation of Lloyd's

Total income for the Corporation of Lloyd's increased by £93m to £332m (2015: £239m), within this, subscription income increased reflecting the higher level of premiums written as a result of favourable exchange rate movements. In addition, the subscription rate changed on 1 January 2016 from 0.5% of gross premiums after acquisition costs ('stamp premiums') to 0.45% of gross written premiums (further details are given in note 3), increasing the amount of subscription income generated.

In aggregate, other income streams also increased compared to the prior period, reflecting the overseas levy to cover expansion of our global network and the introduction of the market modernisation levy with effect from 1 January 2016. The levy has been introduced to generate additional funding from Lloyd's syndicates to meet the costs of market modernisation, namely the Target Operating Model and the Placing Platform Limited. Within income, premiums written through Lloyd's Insurance Company (China) Limited increased to £238m (2015: £104m) reflecting strong growth in all classes of business. All business underwritten through the company is reinsured to Lloyd's syndicates.

Other Group operating expenses increased by £49m to £296m (2015: £247m), reflecting the impact of exchange rates on the operating costs of our overseas network of offices when translated to sterling and continuing investment in the strategic priorities, notably global market access and market modernisation.

Central Fund

Total income for the Central Fund increased by £9m to £120m (2015: £111m). Contribution income increased as a result of the higher level of written premiums, reflecting the benefit of movements in rates of exchange. This was partly offset by a reduction in the contribution rate from 0.5% of stamp premiums to 0.35% of gross written premiums (further details are given in note 3).

The standard Central Fund claims and provisions is a net charge for the year of £8m (2015: charge of £nil). Undertakings to meet the liabilities of insolvent members to policyholders are approved at the discretion of the Council and are normally based on anticipated cash flow requirements of insolvent members in the following 12 months. During 2016, payments made in respect of insolvent corporate members were £14m (2015: £nil). There were no payments made in respect of individual members in 2016 and 2015.

Other Group operating expenses reduced by £1m to £11m (2015: £12m).

Investment performance

	2016 £m	2015 £m
Finance income	314	43
Finance costs	(54)	(54)
	260	(11)

The Society's investments, mostly held within the Central Fund, returned £314m or 10.2% during the year (2015: £43m, 1.5%). Approximately half of this return was driven by investment strategy and half driven by currency movements. Excluding exchange rate movements, investments returned £172m (5.6%) during the year.

Investment performance continued

Investment returns have been strong in most markets over 2016 despite the heightened level of economic uncertainty arising from key events. Developed market equities performed relatively well by comparison to the previous year. Investment grade bonds tended to generate returns in excess of prevailing yield levels, boosted by capital appreciation as risk-free yields fell.

Currency markets saw notable movements with Sterling finishing the year significantly weaker against the US dollar and other key currencies. The Society's currency policy is for the Central Fund to hold US dollars in order to match the underlying US dollar element of the central Solvency Capital Requirement (SCR). This policy has delivered a high degree of protection in a period when the Sterling value of assets would have otherwise been eroded by currency movements.

The disposition of the Society's financial investments is set out in note 16 on pages 165 to 167.

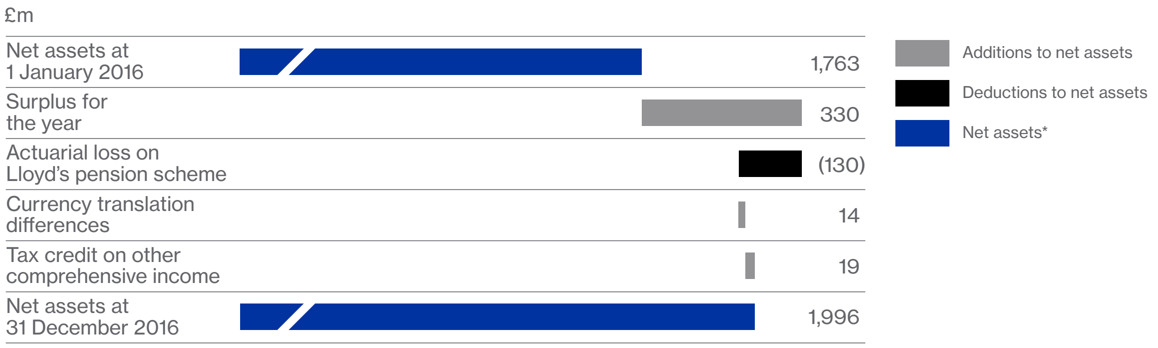
Finance costs of £54m in 2016 (2015: £54m) predominantly relate to interest on the subordinated notes and perpetual subordinated capital securities.

Adjusting for interest costs results in net finance income of £260m (2015: deficit of £11m).

Taxation

A tax charge of £75m (2015: £13m) on the surplus before tax of £405m (2015: £87m) has been recognised for the year ended 31 December 2016. Further details are set out in note 11 on pages 156 to 157.

Movement in net assets



*Net assets data not to scale

The net assets of the Central Fund are included within the above amounts and at 31 December 2016 were £1,952m (2015: £1,658m).

Pension schemes

Lloyd's pension scheme

On an IFRS basis, the Lloyd's pension scheme valuation at 31 December 2016 was a deficit of £227m before allowance for a deferred tax asset of £39m (31 December 2015: £93m deficit before allowance for a deferred tax asset of £17m).

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

	2016 £m	2015 £m
Pension deficit as at 1 January	(93)	(84)
Pension expense recognised in the Group income statement	(12)	(12)
Employer contributions	5	5
Remeasurement effects recognised in the Group statement of comprehensive income	(127)	(2)
Pension deficit as at 31 December	(227)	(93)

The increase in the pension deficit was mainly due to an increase in liabilities as a result of a reduction in the real discount rate. The actuarial valuation of liabilities is particularly sensitive to changes in market conditions, which determine the discount rate, and changes to mortality assumptions. Further details are provided in note 12 on pages 158 to 163 which includes the sensitivity of the valuation to changes in these assumptions.

The latest triennial funding valuation of the scheme is currently being undertaken based on the position as at 30 June 2016. The previous funding valuation was carried out as at 30 June 2013, which showed a surplus of £9m.

Lloyd's pension scheme continued

The career average section of the scheme was closed to new joiners from April 2013, and to existing hires from June 2013 (existing employed members of each scheme continue to accrue benefits). After these dates, employees are eligible to join the Defined Contribution arrangement, which is administered by Aviva.

Overseas pension schemes

The actuarial valuations of the overseas pension schemes at 31 December 2016 resulted in a deficit of £2.9m (2015: deficit of £2.5m). Further details are provided in note 12 on pages 158 to 163.

Solvency

Total assets for solvency purposes are set out below. The 2016 position is considered to be an estimate of the amount which will be finalised in May 2017 for submission to the PRA. The figures are calculated on a Solvency II basis, with the 2015 figures being restated on the same basis for the sake of comparison. The solvency figures in the table below are unaudited:

	2016 £m	2015 £m
Central assets at 31 December	1,996	1,763
Subordinated debt	883	882
Total	2,879	2,645
Solvency valuation adjustments	590	517
Eligible own funds to meet Central Solvency Capital Requirement (SCR)	3,469	3,162
Central SCR	(1,600)	(1,450)
Excess of eligible own funds over the Central SCR	1,869	1,712
Solvency ratio	217%	218%

The central SCR is a sub set of the Lloyd's market wide SCR (see pages 60 to 61) and covers central risks of the Society. This includes the risk that members may not have sufficient capital to meet their losses. The central SCR may be covered only by central eligible own funds of the Society.

The solvency valuation adjustments above include items such as valuation differences arising and assets being disallowed due to the valuation principles used in Solvency II. It also includes recognition of the callable layer, which may be taken from member level capital to strengthen central resources.

Based on own funds eligible to meet the central SCR of £3.5bn (2015: £3.2bn), the estimated solvency ratio is 217% (2015: 218%). In setting contribution levels, account is taken of the central SCR to ensure that Lloyd's is prudently but competitively capitalised.

Brexit

The main impact on the Society following the EU referendum has been through movements in exchange rates and market prices, which have generated gains of £323m during the year. From an investment perspective, there was significant market reaction: as well as Sterling weakening by 16% against the US dollar, UK government bond yields fell by more than 40 basis points and equity markets saw an immediate fall although these had generally recovered by the end of June. The reduction in bond yields impacted the valuation of the Lloyd's pension scheme, where the discount rate used to determine liabilities is calculated with reference to corporate bonds. During the year, the pension scheme deficit increased by £134m to £227m, although this was impacted by other factors in addition to the movement in the discount rate, including changes in investment valuations.

Following the weakening of Sterling, the decision was taken to enter into a number of forward foreign exchange contracts in order to take advantage of the latest dollar exchange rate. To this end, the Corporation entered into a forward currency contract to sell $100m at a fixed exchange rate to settle at the end of 2017. This transaction will be followed with a number of contracts at regular intervals during 2017 to purchase an equivalent amount of US dollars, which will settle on the same date.

Lloyd's remains committed to its European markets following the EU referendum and is now working on plans to protect its access to the single market and the passporting rights under which it currently operates. Work is ongoing to develop the Society's plans and approximately £1m of costs were incurred in 2016 as work began to explore the different potential operating models that may be adopted going forwards. It is expected that the costs incurred in respect of Brexit planning will increase in 2017, and Lloyd's will continue to publish updates as these plans develop. In the meantime, further details of Lloyd's plans within Europe are provided in the Chairman's statement on pages 4 to 5 and the External Environment and Risk section on pages 12 to 13.

Cash flows and liquidity

Cash and cash equivalents increased during the year ended 31 December 2016 by £216m to £391m (2015: £175m). Cash balances are maintained at appropriate levels to meet the short-term operating expenses of the Society. Any surplus cash balances are invested and are included as financial investments within the Group statement of financial position.

The Corporation's free cash balances* are regularly monitored. Free cash represents the amounts, both at bank and on deposit, held in the UK and available to the Corporation to meet operating expenses, including those of overseas operations, excluding any balances held in respect of insurance and arbitration activities. Free cash balances at 31 December 2016 were £178m.

The liquidity of the Central Fund is monitored separately. Cash balances are managed to meet short-term operational commitments including the payment of drawdowns. Any surplus cash balances are invested in compliance with defined investment parameters approved by the Investment Committee.

Central Fund investment strategy

Central Fund investment strategy is considered in three parts. A proportion of assets is assigned to meet liquidity needs, based on a prudent estimate of net cash flows. These assets are commingled with other liquid assets of Lloyd's Group companies and invested in bank deposits and other short-term securities, with maturities of up to 12 months. The objective is to optimise income, for a low level of risk, while ensuring that all cash flow requirements are met as they fall due.

A significant proportion of assets are invested in fixed interest securities of a high credit quality and typically medium term maturities. The financial risk exposures represented by subordinated debt securities issued by the Society are considered when determining the disposition of fixed interest investments. The return objective is to optimise investment return in the longer term while maintaining overall financial risk within defined limits.

A smaller proportion of assets are invested in equities and other return seeking asset classes, also with an aim to optimise investment return in the longer term without exceeding defined risk tolerances. These investments are diversified among different asset classes to help manage risk and third party investment managers are retained to manage these investments within clearly defined investment parameters specified by Lloyd's. Equity investments currently include global developed and emerging market equities. Investments in other growth assets include high yield and emerging market debt, hedge funds, senior secured loans and commodity based investments.

Financial risk management and treasury policies

Overview

The Society's principal financial instruments comprise cash and cash equivalents, investments, borrowings and items that arise directly from operations such as trade receivables and payables. These include assets and liabilities of the Central Fund.

The Society's treasury operations and investments are managed by reference to established policies which are reviewed regularly by the Investment Committee. Overall risk is managed within defined limits, specified by the Franchise Board. Policies for managing these risks, in particular credit risk, liquidity risk and market risk, are summarised below. The following financial risk management disclosures within note 18 on pages 168 to 169 are audited.

Credit risk

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

Trade and other receivables

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

Financial investments

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

Guarantees

The Society provides certain financial guarantees as security for the underwriting activities of the members of Lloyd's. Further details are provided in note 27 on page 180.

*Free cash balances are considered to be a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is considered to be an Alternative Performance Measure (APM), with further information available on pages 196 to 197.

Liquidity risk

The value and term of short-term assets are carefully monitored against those of the Society's liabilities. The Society maintains sufficient liquid assets to meet liabilities as they fall due.

The liquidity of the Central Fund is monitored separately. Cash balances are managed to meet short-term operational commitments including the payment of drawdown. Any surplus cash balances are invested in compliance with defined investment parameters approved by the Investment Committee in accordance with the risk appetite set by the Franchise Board.

The Society had no committed borrowing facilities as at 31 December 2016 (2015: nil).

Market risk

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

Foreign currency risk

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

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

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

Interest rate risk

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

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

Interest rate risk arising from the requirement to make fixed rate coupon payments in respect of the Lloyd's subordinated loan notes and the perpetual subordinated capital securities is considered in conjunction with the market risk arising on the Society's investments.

As part of the strategy to mitigate these risks, the Society has entered into a number of interest rate swap contracts.

Capital management

The Society monitors its capital to ensure that it maintains sufficient assets for both operational and solvency purposes. Further disclosures with regard to financial instruments are provided in note 18 on pages 168 to 173. Further details regarding solvency are given on page 122.

Related party transactions

Except for disclosures made in note 26 (see page 179), no related party had material transactions with the Society in 2016.

Going concern and viability statement

Assessment of prospects

The Lloyd's business model and strategy are central to an understanding of its prospects and details can be found on pages 184 to 187. The Franchise goal, vision and strategic priorities are subject to ongoing monitoring and development.

The prospects of the Lloyd's market, including the Society, are primarily assessed through the annual strategic review and planning process. The output of the review is a strategic plan to deliver the Lloyd's vision. The review is led by the CEO through the Executive Committee and all relevant departments are involved. The Franchise Board and the Council of Lloyd's participate fully in the process and part of their role is to consider whether the strategic plan continues to take appropriate account of the external environment.

The review determines a set of interim milestones (to be achieved by the end of 2018), key performance indicators for the current year and activities to deliver on those metrics. The latest three-year strategic plan (Lloyd's Strategy 2017 to 2019) was approved in March following completion of the latest review cycle. As part of the planning process, detailed financial budgets were prepared for the Society for the three-year period to 31 December 2019.

Assessment of viability

The Franchise Board and Council of Lloyd's receive quarterly reports from the risk committee on the key risks and risk appetites, including the Society's own risk and solvency assessment as well as stress testing resilience to severe yet plausible scenarios. The principal risks and material uncertainties that would threaten the business model, future performance, liquidity or solvency of the Lloyd's market as a whole are set out on pages 14 to 15. In addition the financial statements include notes on investment strategy, financial risk management, treasury policies and sensitivity analysis.

The Lloyd's capital structure is set out on pages 184 to 186 and Lloyd's is required to maintain solvency on a continuous basis, and the solvency position of each member, and thus of Lloyd's as a whole, is monitored on a regular basis. The Audit Committee considers biannually management's assessment of the current solvency position and the forecast position over a three-year period, including resilience of central assets to meet the Central SCR and the expectation, but not the obligation, that the perpetual subordinated capital securities are redeemed at the first option date.

Viability statement

While the members of the Council of Lloyd's have no reason to believe that the Society will not be viable over a longer period, the period over which the assessment is based is the three-year period to 31 December 2019, being the period considered under the strategic plan, including the detailed budgets prepared, and the solvency projections of the Society.

The members of the Council of Lloyd's believe that the Society is well placed to manage its business risks successfully, having taken into account the current economic outlook, and confirm that they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2019.

Going concern

After making enquiries the members of the Council of Lloyd's also consider it appropriate to adopt the going concern basis in preparing the Society's financial statements.

Statement as to disclosure of information to auditors

Having made enquiries, the Council of Lloyd's confirms that:

- to the best of each Council member's knowledge and belief there is no information relevant to the preparation of the Society Report of which the Society's auditors are unaware; and
- each Council member has taken all the steps a Council member might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Society's auditors are aware of that information.

Outlook

Central assets, which exclude subordinated liabilities, are expected to remain stable at £2.9bn in 2017. On 29 March 2017, the Council of Lloyd's gave no further undertakings to corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. After taking account of the expiry of unutilised undertakings, the net movement in undertakings is £8m (see note 4 on page 146). The operating expenses for the Corporation and its subsidiaries are budgeted to be £311m in 2017.* This includes net investment of £35m in respect of market modernisation and £19m of costs for services recharged directly to specific managing agents. The Council of Lloyd's is responsible for preparing the Group financial statements in accordance with byelaws made under Lloyd's Act 1982 and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

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

*Budgeted operating expenses are considered to be a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Annual Report) is considered to be an Alternative Performance Measure (APM), with further information available on pages 196 to 197.

4.8

Society Report
Statement of the Council of Lloyd's Responsibilities for the Financial Statements

The Council of Lloyd's is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable it to ensure that the Group financial statements comply with Article 4 of the IAS Regulation. As the Society's subordinated debt and perpetual subordinated capital securities are admitted to trading in a regulated market in the European Union, Council has elected to comply with Article 4, which requires Group financial statements to be prepared in conformity with IFRS as adopted by the European Union. The Council of Lloyd's is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Council of Lloyd's is responsible for the maintenance and integrity of the corporate and financial information included on the Society's website (www.lloyds.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Council of Lloyd's considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Society's performance, business model and strategy.

4.9

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

Report on the Society of Lloyd's Group financial statements

Our opinion
In our opinion, the Society of Lloyd's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Society's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Council of Lloyd's byelaws made under the Lloyd's Act 1982.

What we have audited
The Society of Lloyd's Group financial statements, included within the Society Report (the "Annual Report"), comprise:

- the Group Statement of Financial Position as at 31 December 2016;
- the Group Income Statement and the Group Statement of Comprehensive Income for the year then ended;
- the Group Statement of Cash Flows for the year then ended;
- the Group Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Society Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview
Materiality
- Overall Group materiality: £22 million which represents 0.5% of total assets.

Our areas of focus were:
- Valuation of financial investments;
- Lloyd's Pension Scheme;
- Revenue recognition;
- Valuation of loans recoverable; and
- Valuation of the lease cost provision.

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

Audit procedures were performed over the complete financial information for the Corporation of Lloyd's, Central Fund, and Additional Securities Limited reporting units to address the areas of focus identified below.

Additionally, we considered certain account balances in Lloyd's Insurance Company (China) Limited to be significant in size in relation to the Society and therefore we scoped our audit to include testing of those account balances.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Council of Lloyd's made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Council of Lloyd's that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

The scope of our audit and our areas of focus continued

Area of focus	How our audit addressed the area of focus
Valuation of financial investments	
We focused on this area because it represents 77% of the total assets of the Society and so the valuation of financial investments has a significant impact on the financial statements. We focused in particular on the non-publicly traded investments in the Society's portfolio, which includes investments held as statutory insurance deposits by Additional Securities Limited ('ASL'), and other non-publicly traded investments in the Corporation and Central Fund. These investments are hard to value because quoted prices are not readily available. (Refer also to note 16 to the financial statements)	For these hard to value investments we assessed both the methodology and assumptions used by management in the calculation of the year end values as well as testing the governance controls that the Council of Lloyd's has in place to monitor these processes. The testing included performing the following procedures: – assessing the methodology and assumptions used within the valuation models; – the assumptions used against appropriate benchmarks and investigating significant differences; and – testing the operating effectiveness of the valuation controls over assets managed by third parties. Our work and the evidence provided identified no significant issues.
Lloyd's Pension Scheme	
Lloyd's operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme whose liabilities total £957m at 31 December 2016 (2015: £768m), as measured in accordance with IAS 19 'Employee benefits'. This value is equivalent to 48% of the Society's net assets. Assumptions made in valuing the pension scheme liabilities can have a material impact on them and therefore on the recognised deficit in the financial statements. We focused on the key assumptions to which the Lloyd's Pension Scheme valuation is sensitive, being: – discount rate; – inflation; and – post-retirement life expectancy. (Refer also to note 12 to the financial statements)	We used our actuarial services specialists to evaluate the key assumptions used to value the Lloyd's Pension Scheme. This included comparison of Lloyd's assumptions to our own independent expectations based on our knowledge of the Lloyd's Pension Scheme and current financial market conditions. We found the following: – the discount rate used in the valuation of the pension liability was consistent with our expectations, taking into account the duration of the pension liability and investment market conditions at 31 December 2016; – the retail and consumer price inflation rates used in the valuation of the pension liability were consistent with our expectations, taking into account the duration of the pension liability and market expectations at 31 December 2016; and – the post-retirement life expectancy assumptions were in line with the recent mortality experience of the Lloyd's Pension Scheme and with the range of assumptions made by other UK companies, and contain an appropriate allowance for how rates of mortality may fall in future. We concluded that the set of assumptions as a whole give rise to a reasonable valuation in line with the requirements of IAS 19.
Revenue recognition	
The Central Fund contributions (recognised as revenue in the Central Fund reporting unit), members' subscription fees (recognised as revenue within the Corporation of Lloyd's reporting unit) and the market modernisation levy (recognised as revenue within the Corporation of Lloyd's reporting unit) represent 63% of the revenue of the Society. The market modernisation levy is a new revenue stream for 2016. We focused on these components of revenue because they are recognised based on management's estimate of the future premium of each syndicate underwriting year. Although not complex, this estimate involves subjectivity with regards to assumptions on the estimation of future premium. The future premium is estimated based on historical development trends. From this analysis, management selects an extrapolation factor, which is then applied to the current year. There is also a risk of error in terms of the calculation of the estimated revenue as this is a manual calculation. (Refer also to note 2 to the financial statements)	We considered the appropriateness of Lloyd's revenue recognition policy for the market modernisation levy based on the contractual terms between Lloyd's and its syndicates and found it to be appropriate and in line with the IFRS accounting framework. We evaluated the reasonableness of the assumptions applied in the estimation of the future premium for the three revenue streams. As future premium is estimated based on the development trend of historical premium, we traced a sample of the historical premium data to the market system which records audited market results. We tested Information Technology General Controls over the market system, where no exceptions were noted. Based on our work on the assumptions, we found that management's analysis supported the extrapolation factor that was selected. We tested the accuracy of the application of the assumptions to the underlying data and recomputed the total Central Fund contributions, members' subscription fees and market modernisation levy. We found management's assumptions to be reasonable. No exceptions were noted in our testing of underlying data or our recalculation of revenue.

Area of focus	How our audit addressed the area of focus
Valuation of loans recoverable	
Loans recoverable are Central Fund loans made to hardship members. The valuation of loans recoverable of £43m (2015: £45m) is subjective and judgemental. The loans recoverable amount represents the lower of: – valuation of property and investments held as charge; and – principal loan amount including accrued interest. We focused on the following assumptions because they have a material impact on the valuation of loans recoverable: – discount rate; – fair value of properties; and – property inflation rate. (Refer also to note 15 to the financial statements)	We evaluated the reasonableness of the assumptions used and found the following: – the discount rate used was consistent with our expectations, taking into account the market conditions at 31 December 2016; – the fair value of properties was reasonable, based on comparing the valuation to the current offer price of similar properties on the open market on a sample basis; and – the property inflation rate used was set at an appropriate level, based on our assessment of market conditions at 31 December 2016. In addition, we tested a sample of loans by agreeing the principal loan amount to the signed agreements and recalculated the accrued interest. No exceptions were found in our testing.
Valuation of the lease cost provision	
The Corporation of Lloyd's is lessee to number of 'fully repairing' operating leases, the most significant of which relates to the 1986 building. The estimate of £11.2m (2015: £12.7m) for the provision for the replacement cost of plant and equipment, and any dismantling and removal costs, which are borne by Lloyd's under the terms of the leases is subjective and judgemental. We focused on management's estimate of the projected total capital expenditure for the 1986 building over the life of the lease because it has a material impact on the valuation of the provision. (Refer also to note 22 to the financial statements)	We tested the judgements made by management with respect to the percentage completion of capital expenditure projects undertaken in the year by evaluating forecast capital expenditure against documentary evidence. We also evaluated variances between budgeted and actual capital expenditure in the year to assess the accuracy of management's estimation process. The evidence we obtained supported management's estimate of future capital expenditure for the 1986 building and the overall valuation of the provision in the balance sheet.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates. The Society of Lloyd's financial statements are a consolidation of 33 reporting units. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We were involved in the risk assessment process for these reporting units, and obtained an understanding of the audit procedures performed by the component auditors to address the identified risks.

For each reporting unit we determined whether we required an audit of their complete financial information or whether specified procedures for particular balances would be sufficient. Audit procedures were performed over the complete financial information for the Corporation of Lloyd's, Central Fund, and Additional Securities Limited reporting units to address the areas of focus identified above. Additionally, we identified Lloyd's Insurance Company (China) Limited where certain account balances were considered to be significant in size in relation to the Society, and scoped our audit to include detailed testing of those account balances.

The group consolidation, financial statement disclosures and a number of complex items were audited by the group engagement team in London. These included derivative financial instruments and the pension scheme.

Taken together, the reporting units where we performed our audit work accounted for 91% of the Society's revenue, 98% of the Society's profit before tax and 98% of the Society's total assets.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality
£22m (2015: £18m)
How we determined it
0.5% of total assets
Rationale for benchmark applied
We considered total assets to be an appropriate measure because the Society is not profit oriented and because the assets of the Society represent a crucial link with the Lloyd’s Chain of Security for the market. This is consistent with the benchmark we selected in 2015.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.1m (2015: £0.9m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The Council of Lloyd’s has voluntarily included a statement in relation to going concern in accordance with provision C1.3 of the UK Corporate Governance Code (the ‘Code’) in the Financial Review section of the Society report. We agreed with the Council of Lloyd’s to report whether we have anything material to add or to draw attention to in relation to this statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in that statement, the Council of Lloyd’s has concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. This basis presumes that the Society has adequate resources to remain in operation, and that the Council of Lloyd’s intends it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Society’s ability to continue as a going concern.

Matters on which we have agreed to report

Consistency of other information and compliance with applicable requirements

In our opinion, the other financial and non-financial information included in the Society Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Under the terms of our engagement, we agreed to report to you if, in our opinion:

- information in the Society Report is:
  - materially inconsistent with the information in the audited financial statements; or
  - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
  - otherwise misleading.
- the statement given by the Council of Lloyd’s on page 126, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Society’s position and performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.
- the section of the Annual Report on pages 117 to 118, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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

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

- the Council of Lloyd’s confirmation on page 126 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Society Report that describe those risks and explain how they are being managed or mitigated; and
- the Council of Lloyd’s explanation on page 126 of the Society’s Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Society, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Adequacy of information and explanations received

Under the terms of our engagement, we agreed to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Report of the Remuneration Committee

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Council of Lloyd's

As explained more fully in the Statement of the Council of Lloyd's Responsibilities for the Financial Statements set out on page 126, the Council of Lloyd's are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the members of the Society in accordance with the Council of Lloyd's byelaws made under the Lloyd's Act 1982 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come to save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Council of Lloyd's ; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Council of Lloyd's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Society Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 March 2017

4.10

Society Report

Group Income Statement (For the year ended 31 December 2016)

	Note	2016 £000	2015 £000
Corporation operating income		331,761	238,990
Central Fund income		119,955	111,507
Gross written premiums		237,916	104,413
Outward reinsurance premiums		(237,916)	(104,409)
Total income	3B	451,716	350,501
Central Fund claims and provisions incurred	4	(8,300)	(14)
Gross insurance claims incurred	5	(199,650)	(68,639)
Insurance claims recoverable from reinsurers	5	199,656	68,639
Other Group operating expenses	6	(306,385)	(259,057)
Operating surplus		137,037	91,430
Finance costs	8	(53,570)	(54,362)
Finance income	8	313,791	42,728
Share of profits of associates	10A	7,891	7,391
Surplus before tax		405,149	87,187
Tax charge	11A	(75,193)	(12,835)
Surplus for the year		329,956	74,352

4.11

Society Report

Group Statement of Comprehensive Income (For the year ended 31 December 2016)

	Note	2016 £000	2015 £000
Surplus for the year		329,956	74,352
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement (losses)/gains on pension asset/liabilities			
UK	12	(127,455)	(2,025)
Overseas	12	73	(42)
Associates	10A	(3,271)	467
Tax credit/(charge) relating to items that will not be reclassified	11A	19,434	(3,332)
Currency translation differences		14,522	(739)
Items that may be reclassified subsequently to profit or loss			
Unrealised gains on revaluation of Lloyd's Collection	10B	–	808
Net other comprehensive deficit for the year		(96,697)	(4,863)
Total comprehensive income for the year		233,259	69,489

4.12

Society Report
Group Statement of Financial Position (As at 31 December 2016)

	Note	2016 £000	2015 £000
Assets			
Intangible assets	13	167	81
Lloyd's Collection	10B	13,314	13,314
Plant and equipment	14	18,109	18,244
Deferred tax asset	11C	39,893	24,388
Investment in associates	10A	6,596	8,502
Insurance contract assets	5	253,996	109,548
Loans recoverable	15	43,410	44,577
Financial investments	16	3,359,448	3,103,560
Inventories		420	332
Trade and other receivables due within one year	17	205,141	80,990
Prepayments and accrued income		16,777	15,618
Derivative financial instruments	18	16,233	8,789
Cash and cash equivalents	19	391,135	175,414
Total assets		4,364,639	3,603,357
Equity and liabilities			
Equity			
Accumulated reserve	20	1,957,893	1,739,156
Revaluation reserve	20	13,314	13,314
Translation reserve	20	24,858	10,336
Total equity		1,996,065	1,762,806
Liabilities			
Subordinated notes and perpetual subordinated capital securities	21	882,814	882,090
Insurance contract liabilities	5	254,017	109,575
Pension liabilities	12	230,518	95,534
Provisions	22	14,440	21,717
Loans funding statutory insurance deposits		493,713	436,518
Trade and other payables	23	377,968	210,171
Accruals and deferred income		62,833	59,131
Tax payable		33,154	8,977
Derivative financial instruments	18	19,117	16,838
Total liabilities		2,368,574	1,840,551
Total equity and liabilities		4,364,639	3,603,357

Approved and authorised by the Council of Lloyd's on 29 March 2017 and signed on its behalf by

John Nelson Chairman **Inga Beale** Chief Executive Officer

4.13

Society Report

Group Statement of Changes in Equity (For the year ended 31 December 2016)

	Note	Accumulated reserve £000	Revaluation reserve £000	Translation reserve £000	Total equity £000
At 1 January 2015		1,669,736	12,506	11,075	1,693,317
Surplus for the year		74,352	–	–	74,352
Net other comprehensive (deficit)/income for the year		(4,932)	808	(739)	(4,863)
At 31 December 2015		1,739,156	13,314	10,336	1,762,806
Surplus for the year		329,956	–	–	329,956
Net other comprehensive (deficit)/income for the year		(111,219)	–	14,522	(96,697)
At 31 December 2016	20	1,957,893	13,314	24,858	1,996,065

4.14

Society Report
Group Statement of Cash Flows (For the year ended 31 December 2016)

	Note	2016 £000	2015 £000
Cash generated from operations	24	191,595	132,085
Tax paid		(47,616)	(20,948)
Net cash generated from operating activities		143,979	111,137
Cash flows from investing activities			
Purchase of plant, equipment and intangible assets	13/14	(9,191)	(16,174)
Proceeds from the sale of plant, equipment and intangible assets		10	3
Purchase of financial investments	16A/B	(2,236,207)	(2,654,226)
Receipts from the sale of financial investments	16A/B	2,315,879	2,643,058
Decrease/(increase) in short-term deposits	16B	61,375	(116,474)
Dividends received from associates	10A	7,161	7,181
Interest received		54,063	43,762
Dividends received	8	7,321	6,932
Realised (losses)/gains on settlement of forward currency contracts		(77,103)	7,403
Net cash generated from/(used in) investing activities		123,308	(78,535)
Cash flows from financing activities			
Redemption of subordinated notes		–	(4,545)
Interest paid on subordinated notes		(52,841)	(53,154)
Issue costs in relation to subordinated notes		–	(140)
Other interest paid		(1,589)	(14,202)
Decrease in borrowings for statutory insurance deposits		(20,779)	(45,250)
Net cash used in financing activities		(75,209)	(117,291)
Net increase/(decrease) in cash and cash equivalents		192,078	(84,689)
Effect of exchange rates on cash and cash equivalents		23,643	(1,484)
Cash and cash equivalents at 1 January	19	175,414	261,587
Cash and cash equivalents at 31 December	19	391,135	175,414

1. Basis of preparation and consolidation

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

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

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

Other financial liabilities, which include the subordinated notes and the perpetual subordinated capital securities are carried at amortised cost. The Group financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£000).

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

The Society has adopted the following new International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), interpretations and amendments to existing standards, which are effective by EU endorsement for annual periods beginning on or after 1 January 2016:

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures: Investment Entities – Applying the Consolidation Exception;
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations;
- Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative;
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation; and
- Annual improvements 2012 – 2014 cycle.

Although these new standards and amendments apply for the first time in 2016, they do not have material impact on the Group financial statements of the Society.

The Society is regulated by the PRA and the FCA.

2. Principal accounting policies

Critical accounting estimates and assumptions

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

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

A. Plant and equipment

Plant and equipment are held at cost less accumulated depreciation and any impairment in value.

Depreciation is charged on a straight-line basis on the following principal categories:

- Furniture and fittings are depreciated over seven to 25 years according to the estimated useful life of the asset;
- Computer and specialised equipment are depreciated over three to 15 years according to the estimated useful life of the asset; and
- Equipment on hire or lease is depreciated over the period of the lease.

B. Software development

Costs incurred in acquiring and developing computer software are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable asset of value. Software development is held at cost less accumulated depreciation and any impairment in value. Capitalised software is amortised over three years.

C. Lloyd's Collection

Lloyd's Collection represents various paintings, antiques and artefacts which are included at fair value. Any revaluation surplus or deficit is recognised in the Group statement of comprehensive income and is reflected in the revaluation reserve within the Group statement of changes in equity.

2. Principal accounting policies continued

D. Investment in associates and joint venture

An associate is an entity in which the Society has significant influence and which is not a subsidiary undertaking or joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Society's investment in associates and joint venture are accounted for under the equity method of accounting.

Under the equity method, the investment in associates and joint venture are carried in the Group statement of financial position at cost plus post-acquisition changes in the Society's share of net assets of the associate and joint venture. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Society determines whether it is necessary to recognise any additional impairment loss with respect to the Society's net investment in an associate and joint venture. The Group income statement reflects its share of the results of operations of the associates and joint venture. The Society's share of associates' other comprehensive income is recognised in the Group statement of comprehensive income.

E. Impairment of non-financial assets

The Society performs annual impairment testing to assess whether there is an indication that an asset may be impaired. If any such indication exists an impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

F. Financial instruments

Financial assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss or loans and receivables. The Society determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of loans and receivables, directly attributable transaction costs. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the market place (regular way purchases) are recognised on the settlement date.

The Society's financial assets include loans recoverable, statutory insurance deposits and other investments designated at fair value through profit or loss, trade and other receivables, accrued income, cash and cash equivalents and derivative assets.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(i) Financial assets at fair value through profit or loss include derivative financial assets which are classified as held for trading, and financial assets designated upon initial recognition at fair value through profit or loss. They are carried in the Group statement of financial position at fair value. Gains and losses arising from changes in their fair value are included in the Group income statement in the period in which they arise. When financial assets are interest-bearing, interest calculated using the effective interest method is recognised in the Group income statement; and

(ii) Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They arise when the Society provides money, goods or services directly to a debtor with no intention of trading the receivable. These financial assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Group income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss or other financial liabilities. The Society determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of other financial liabilities, directly attributable transaction costs. The Society's financial liabilities include trade and other payables, accruals, subordinated notes and perpetual subordinated capital securities and derivative liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

(i) Financial liabilities at fair value through profit or loss include derivative financial liabilities which are classified as held for trading. Gains or losses on liabilities held for trading are recognised in the Group income statement; and

(ii) Other financial liabilities, which include the subordinated notes and the perpetual subordinated capital securities, are carried at amortised cost using the effective interest method.

Fair value of financial instruments

Financial instruments are categorised for disclosure purposes into a hierarchy consisting of three levels depending upon the source of input as required by IFRS 7 'Financial Instruments: Disclosures'.

Level 1 – The fair value of financial instruments which are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. The quoted market price used for financial assets held by the Society is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price.

Level 2 – The fair value of financial instruments for which quoted market prices are not used for valuation purposes are derived both directly and indirectly from observable market conditions. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values.

Level 3 – The fair value of financial instruments for which there is no observable quoted market price is determined by a variety of methods incorporating assumptions that are based, so far as possible, on market conditions existing at each reporting date.

Where the significance of the inputs used in the determination of the fair value of a financial instrument changes, the classification of the financial instrument in the fair value hierarchy is reviewed. Where the assessment of the classification has changed, a transfer is made between the respective levels.

Amortised cost of financial instruments
Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets
The Society assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the asset is written down to its recoverable amount.

Derecognition of financial instruments
Investments are derecognised when the right to receive cash flows from the asset have expired or, in the case of a financial liability, when the obligation under the liability is cancelled or discharged.

G. Insurance contracts (liabilities and reinsurance assets)

In accordance with IFRS 4 Insurance Contracts, the Society applies established UK accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards.

Insurance contracts are defined as those containing significant insurance risk which arises if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expired.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Society may not receive all amounts due to it under the terms of the contract and this can be measured reliably.

The Corporation's policy for measuring balances for insurance contracts issued by overseas subsidiaries is to apply the valuation technique used in the issuing entity's local statutory or regulatory reporting. Therefore, for insurance contracts issued by Lloyd's Insurance Company (China) Limited (LICCL), balances are calculated in accordance with People's Republic of China Generally Accepted Accounting Principles (PRC GAAP). In particular, unearned premium reserves are calculated after deducting acquisition costs such as commissions, handling fees, business taxes, surcharges and regulatory charges and outstanding claims reserves include a risk margin.

H. Inventories

Inventories are stated at the lower of cost and net realisable value on a first in, first out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

I. Employee benefits

The Society accounts for pensions and similar benefits (principally income protection due to ill health) under IAS 19 Employee Benefits. The Society operates a number of defined benefit pension schemes in which obligations are measured at discounted present value using the projected unit credit method, while plan assets are recorded at fair value. The operating and financing income and costs of the scheme are recognised in the Group income statement. Service costs, financing income (expected return on plan assets) and costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in full in the Group statement of comprehensive income in the period in which they occur. Costs of discretionary awards in respect of past service are recognised in the Group income statement when amounts are committed to be paid or there is a constructive liability to make awards to pensioners.

Payments to separately administered defined contribution schemes are charged to the Group income statement as they fall due.

Short-term bonuses are accrued in the period to which they relate, long-term bonuses are recognised over their vesting period.

J. Loans recoverable

Recoverable Central Fund loans made to hardship members are valued on a fair value basis and are designated as fair value through profit or loss.

Any gains and losses arising from changes in the fair value are included in the Group income statement in the period in which they arise.

2. Principal accounting policies continued

J. Loans recoverable continued

Fair values are determined by reference to an estimate of the valuation of the underlying investments at the dates at which they may be exercised and discounted back to present day values. A security can normally only be exercised on the later date of death of the member or of their spouse. This date is assessed using actuarial assumptions.

K. Taxation

Corporation tax on the surplus or deficit for the periods presented comprise current and deferred tax. Corporation and income tax are recognised in the Group income statement except to the extent that it relates to items recognised directly in the Group statement of comprehensive income, in which case it is recognised in the Group statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the reporting date.

L. Subordinated notes and perpetual subordinated capital securities

Subordinated debt is initially recognised at fair value, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, the subordinated debt is subsequently recorded at amortised cost using the effective interest rate over the period to the earliest option date. Amortised cost is calculated after taking into account issue costs and issue discount.

M. Cash and cash equivalents

For the purposes of the Group statement of cash flows, cash comprises cash at banks and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with original maturities of less than three months.

N. Income recognition

Income, which is stated net of value added tax, comprises the fair value of amounts receivable. Revenue arising in respect of Members' subscriptions, the Market modernisation levy and Central Fund contributions is calculated by applying a percentage to management's estimate of the future premium of each syndicate underwriting year. This future premium is estimated based on historical development trends. This approach therefore assumes that the premium written in the current year will develop in a similar pattern to that demonstrated in previous years. The impact of any potential anomalies in the premium earning pattern of any one particular year is mitigated by applying an average development factor which is calculated based on the experience of a number of years. The extrapolation factor is based on a development factor which is applied to the current year written premium. Income is recognised as follows:

(i) Members' subscriptions, market charges and other services

Members' subscriptions, market charges and other services are recognised in the period for which the service is provided. They are recognised on a basis that reflects the timing, nature and value of the benefits provided.

(ii) Central Fund contributions

Central Fund contributions from members underwriting in the year are recognised in the period for which the service is provided.

(iii) Interest income

Interest receivable is recognised in the Group income statement on a time apportioned basis using the effective interest method. Any unwinding of discount is recognised as interest income.

(iv) Dividend income

Dividend income from equity investments is included in the Group income statement on the ex-dividend date.

(v) Other income

Other income is recognised when recoverability is agreed.

O. Insurance premiums

Insurance premiums represent premiums on business incepting during the year, together with adjustments for premiums written in previous accounting periods. Premium income is recognised over the period of cover. Premiums written are stated before deduction of commissions but net of taxes, duties levied on premiums and other similar deductions.

P. Insurance claims

Claims incurred in insurance related activities consist of claims and claims handling expenses paid during the year together with the movement in outstanding claims. Outstanding claims are the estimated final cost of all claims incurred but not settled at the reporting date, including claims incurred but not reported (IBNR). Outstanding claims are discounted. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are reflected within the Group financial statements of later years when differences between provision and subsequent settlement became apparent.

Q. Central Fund claims and provisions

Central Fund claims and provisions (undertakings) are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council for a fixed period, normally one year, and therefore are not deemed to be constructive obligations, except for renewals of those commitments previously granted. For those corporate members in provisional liquidation, the Council provides a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation. As the supporting undertakings are legally enforceable commitments, an estimate of their value is included within provisions in the Group financial statements and changes during the period are reflected in the Group income statement.

Recoveries in respect of undertakings previously given are credited to the Group income statement when contractually committed to be received.

R. Foreign currency and derivative instruments

Foreign currency translation

(i) Functional and presentation currency

The Group financial statements are presented in pounds sterling, which is the Society's functional and presentation currency. Items included in the financial statements of each of the Society's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(ii) Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the reporting date. Translation differences on monetary items are taken to the Group income statement.

Translation differences on non-monetary items measured at fair value are reported as part of the fair value gain or loss and included in the Group statement of comprehensive income.

The results and financial position of overseas Society operations are translated into pounds sterling as follows:

- Assets and liabilities are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at the average exchange rate for the year; and
- Any resulting exchange differences are recognised in the Group statement of comprehensive income.

The Society enters into forward currency contracts to manage exposures to fluctuation in foreign exchange rates, and to provide a service to the Lloyd's market. Where gains and losses are not expected to be refunded or recovered from the Lloyd's market, these amounts are taken to the Group income statement.

The principal exchange rates were:

	2016	2015
US$	1.23	1.47
Can$	1.66	2.05
Euro	1.16	1.36

S. Leases

Payments made under operating leases are charged to the Group income statement on a straight-line basis over the period of the lease. Contractual capital expenditure is provided for over the term of the underlying lease agreement. The lease cost provision (see note 22) is an accounting estimate which arises due to the fact the Society has entered into a number of fully repairing leases.

T. New standards and interpretations not applied

The International Accounting Standards Board and International Financial Reporting Interpretations Committee have issued the following standards and interpretations relevant to the Society. At the date these financial statements were approved, the following standards were in issue but not effective:

International Accounting Standards	Effective date (for accounting periods beginning on or after)
Amendments to IAS 27 Disclosure Initiative	1 January 2017
Amendments to IAS 12 Recognition on Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IFRS 10 and IAS 28 on Sale or Contribution of Assets	1 January 2018

The Council does not expect that the adoption of the above standards will have a material impact on the Society's financial statements although the impact will be assessed as the standards develop. In addition to the above, an initial review has been carried out of the IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, IFRS 16 Leases and IFRS 17 Insurance Contracts with the following results:

IFRS 9 – Financial instruments

IFRS 9 replaces IAS 39 and specifies how an IFRS reporter will recognise, measure, present and disclose financial instruments. The standard is effective for annual periods beginning on or after 1 January 2018, although is available for early application. The standard focuses on the three key areas set out below:

- Classification and Measurement, determining how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis;
- Impairment, introducing a new, expected-loss impairment model that will require more timely recognition of expected credit losses; and
- Hedge accounting, by introducing a substantially-reformed accounting model, with enhanced disclosures about risk management activity.

2. Principal accounting policies continued

IFRS 9 – Financial instruments continued

In advance of implementation of the standard, a review of the main financial instruments of the Society has been carried out. From this initial review, it is not expected that implementation of IFRS 9 will have a material impact on the Group financial statements of the Society. In particular, it should be noted that, with the exception of the subordinated loan notes, all assets and liabilities and already valued using fair value. Further work will be undertaken in 2017 to confirm the impact that will arise from application of this standard. Further information on the Society's current accounting policy for financial instruments is provided in note 2F and note 18.

IFRS 15 – Revenue from contracts with customers

IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after 1 January 2018. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Details of these steps are set out below:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

In advance of implementation of the standard, a review of the main Society revenue streams has been carried out. In particular, each source of revenue has been reviewed by applying each of the five steps set out above. From this initial review, it is not expected that implementation of IFRS 15 will have a material impact on the Group financial statements of the Society. However, further work will be undertaken in 2017 to confirm this is the case. Further information on the Society's current accounting policy for revenue recognition is provided in note 2N.

IFRS 16 – Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 was issued on 1 January 2016 and applies to annual reporting periods beginning on or after 1 January 2019.

Based on value, the majority of the Society's leases are longer-term, operating leases in respect of properties. These are held within both the UK and a number of overseas locations. From this initial review, it is expected that implementation of IFRS 16 will have a material impact on the Group financial statements of the Society. Implementation is expected to impact the Group income statement, the Group statement of financial position and the Group statement of cash flows, in addition to notes relating to lease commitments. Work has begun to identify those leases impacted and the potential impact, as well as considering which transitional arrangements will be adopted when IFRS 16 is implemented. Further information on the Society's current accounting policy for leases is provided in note 2S and note 25.

IFRS 17 – Insurance contracts

IFRS 17 is due to be issued during the first half of 2017, being the new accounting standard in respect of insurance contracts, with an effective date of 1 January 2021. Once the standard has been issued, a detailed review will be undertaken to quantify the impact on the Society results, and to conclude on the accounting treatment to be adopted. Further information on the Society's current accounting policy for insurance contracts is provided in note 2G and note 5.

3. Segmental analysis

Segment information is presented in respect of the Society's business segments. The primary business segments are based on the Society's management and internal reporting structure.

Intra-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

The Society's primary business segments are as follows:

- Corporation of Lloyd's: the main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The activities of authorised insurance company subsidiary undertakings are included within this business segment; and

- Lloyd's Central Fund: these funds comprising the New Central Fund and Old Central Fund are assets of the Society and are held and administered at the discretion of the Council, primarily as funds available for the protection of the policyholders. Unless the approval of members is obtained, the New Central Fund may not be used for the purposes of extinguishing or reducing liabilities which have been reinsured by Equitas.

A. Information by business segment	Note	2016 Corporation of Lloyd's £000	2016 Lloyd's Central Fund £000	2016 Society total £000
Segment income				
Total income	3B	331,761	119,955	451,716
Segment operating expenses				
Central Fund claims and provisions incurred	4	–	(8,300)	(8,300)
Gross insurance claims incurred	5	(199,650)	–	(199,650)
Insurance claims recoverable from reinsurers	5	199,656	–	199,656
Other Group operating expenses:				
Employment (including pension costs)	7	(147,003)	–	(147,003)
Premises		(49,117)	–	(49,117)
Legal and professional	6	(32,986)	(1,366)	(34,352)
Systems and communications		(35,671)	–	(35,671)
Other		(30,911)	(9,331)	(40,242)
Total other Group operating expenses		(295,688)	(10,697)	(306,385)
Total segment operating expenses		(295,682)	(18,997)	(314,679)
Total segment operating surplus		36,079	100,958	137,037
Finance costs	8	(4)	(53,566)	(53,570)
Finance income	8	(789)	314,580	313,791
Share of profits of associates	10A	7,891	–	7,891
Segment surplus before tax		43,177	361,972	405,149
Tax charge				(75,193)
Surplus for the year				329,956
Segment assets and liabilities				
Financial investments		672,063	2,687,385	3,359,448
Cash and cash equivalents		343,589	47,546	391,135
Other assets		413,812	160,351	574,163
Segment assets		1,429,464	2,895,282	4,324,746
Tax assets				39,893
Total assets				4,364,639
Segment liabilities		(1,407,809)	(927,611)	(2,335,420)
Tax liabilities				(33,154)
Total liabilities				(2,368,574)
Other segment information				
Capital expenditure	13/14	9,191	–	9,191
Depreciation	14	7,798	–	7,798
Amortisation of intangible assets	13	324	–	324
Impairment of long lived assets	14	8	–	8
Average number of UK employees (permanent and contract)		877	–	877
Average number of overseas employees (permanent and contract)		247	–	247
Average number of total employees (permanent and contract)		1,124	–	1,124

Average staff numbers shown above are on a full-time equivalent basis.

3. Segmental analysis continued

A. Information by business segment continued	Note	2015 Corporation of Lloyd's £000	2015 Lloyd's Central Fund £000	2015 Society total £000
Segment income				
Total income	3B	238,994	111,507	350,501
Segment operating expenses				
Central Fund claims and provisions incurred	4	–	(14)	(14)
Gross insurance claims incurred	5	(68,639)	–	(68,639)
Insurance claims recoverable from reinsurers	5	68,639	–	68,639
Other Group operating expenses:				
Employment (including pension costs)	7	(125,381)	–	(125,381)
Premises		(40,305)	–	(40,305)
Legal and professional	6	(26,068)	(1,120)	(27,188)
Systems and communications		(26,012)	–	(26,012)
Other		(29,458)	(10,713)	(40,171)
Total other Group operating expenses		(247,224)	(11,833)	(259,057)
Total segment operating expenses		(247,224)	(11,847)	(259,071)
Total segment operating (deficit)/surplus		(8,230)	99,660	91,430
Finance costs	8	(36)	(54,326)	(54,362)
Finance income	8	4,258	38,470	42,728
Share of profits of associates	10A	7,391	–	7,391
Segment surplus before tax		3,383	83,804	87,187
Tax charge				(12,835)
Surplus for the year				74,352
Segment assets and liabilities				
Financial investments		681,817	2,421,743	3,103,560
Cash and cash equivalents		133,530	41,884	175,414
Other assets		231,422	68,573	299,995
Segment assets		1,046,769	2,532,200	3,578,969
Tax assets				24,388
Total assets				3,603,357
Segment liabilities		(876,203)	(955,371)	(1,831,574)
Tax liabilities				(8,977)
Total liabilities				(1,840,551)
Other segment information				
Capital expenditure	13/14	16,174	–	16,174
Depreciation	14	7,640	–	7,640
Amortisation of intangible assets	13	175	–	175
Average number of UK employees (permanent and contract)		806	–	806
Average number of overseas employees (permanent and contract)		220	–	220
Average number of total employees (permanent and contract)		1,026	–	1,026

B. Income	Corporation of Lloyd's 2016 £000	Corporation of Lloyd's 2015 £000	Lloyd's Central Fund 2016 £000	Lloyd's Central Fund 2015 £000	Society total 2016 £000	Society total 2015 £000
Market charges						
Managing agents and syndicates	142,211	110,877	–	–	142,211	110,877
Members and members' agents	12,462	11,509	–	–	12,462	11,509
Total market charges	154,673	122,386	–	–	154,673	122,386
Members' subscriptions	134,724	102,887	–	–	134,724	102,887
Market modernisation levy	28,097	–	–	–	28,097	–
Other charges	14,267	13,717	–	–	14,267	13,717
Total operating income	331,761	238,990	–	–	331,761	238,990
Central Fund contributions	–	–	119,955	111,507	119,955	111,507
Gross written premiums	237,916	104,413	–	–	237,916	104,413
Outward reinsurance premiums	(237,916)	(104,409)	–	–	(237,916)	(104,409)
Total income	331,761	238,994	119,955	111,507	451,716	350,501

The table below analyses income by geographical segment:

	2016 £000				2015 £000			
	UK	China	Other	Total	UK	China	Other	Total
Total operating income	269,271	23,712	38,778	331,761	191,155	17,722	30,113	238,990
Central Fund contributions	119,955	–	–	119,955	111,507	–	–	111,507
Gross written premiums	–	237,916	–	237,916	–	104,413	–	104,413
Outward reinsurance premiums	–	(237,916)	–	(237,916)	–	(104,409)	–	(104,409)
Total income	389,226	23,712	38,778	451,716	302,662	17,726	30,113	350,501

Central Fund contributions from members and Corporation of Lloyd's subscriptions

Following a review of current market practices, from 1 January 2016, Corporation subscriptions ('subscriptions') and Central Fund contributions ('contributions') are calculated by applying a percentage to gross premiums before deduction of acquisition costs ('Gross Written Premiums' or 'GWP'). Subscriptions and contributions had previously been calculated by applying a percentage to gross premiums after deduction of acquisition costs ('stamp premiums'); this change brings the basis of the calculation into line with wider market practice. The percentage rates applied to GWP were adjusted to reflect the change in basis so that there would be minimal overall effect from the change on the amounts collected.

At the same time as changing the basis of calculation, the weighting of revenue between subscriptions and contributions was updated. To reflect the increased investment being undertaken in the Corporation and recent performance within the Central Fund, the subscriptions rate for 2016 stands at 0.45% of GWP (31 December 2015: 0.5% of stamp premiums) and the contributions rate is 0.35% of GWP (31 December 2015: 0.5% of stamp premiums).

In order to fund the operation of the Society's overseas network of offices, an overseas operating charge is levied on the market. With effect from 1 January 2016, this has changed from a dollar for dollar cost recovery to a set percentage of gross premiums written overseas. In line with the previous basis, different percentages are set based on direct, binder and reinsurance business to minimise differences arising on the change in the basis. The collection method will be maintained as per previous years, being quarterly with an adjustment after 12 months to the actual level of premiums written.

In addition to the above, an additional levy was charged with effect from 1 January 2016. This levy is calculated as 0.1% of the GWP for the 2016 year of account and has been raised in order to fund the costs of market modernisation, principally the Target Operating Model and Placing Platform Limited.

Other Group income includes foreign exchange gains, market settlement recoveries which represent continuing debt recoveries from the 1996 'Reconstruction and Renewal' settlement and recoveries in respect of undertakings given by the Central Fund.

4. Central Fund claims and provisions incurred

	Note	2016 £000	2015 £000
Net undertakings granted	22	(8,300)	–
Claims payable in respect of individual members		–	(14)
Central Fund claims and provisions incurred		(8,300)	(14)

The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. Undertakings are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council principally on an annual basis and therefore are not deemed constructive obligations (see note 22). Unutilised undertakings as at 31 December 2016 were £0.5m (2015: £5.9m); these undertakings have expired with no further annual undertakings given on 29 March 2017.

For those corporate members in provisional liquidation, the Council has also provided supporting commitments, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation.

As the supporting undertakings are legally enforceable commitments, an estimate of their value, if applicable, has been included within provisions in the Group financial statements and changes during the year are reflected in the Group income statement, as shown in the table above.

5. Insurance activities

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. Outstanding claims provisions are discounted for the time value of money.

	2016 £000	2015 £000
Insurance claims		
Gross claims		
Claims paid	(125,285)	(20,630)
Change in provisions for claims	(74,365)	(48,009)
Total gross claims	(199,650)	(68,639)
Claims recoverable from reinsurers		
Claims recovered from reinsurers	125,285	20,630
Change in reinsurance contract assets	74,371	48,009
Total claims recoverable from reinsurers	199,656	68,639

Centrewrite Limited

Centrewrite Limited's principal activities in 2016 were to reinsure individual members of Lloyd's participations on syndicates for underwriting years of account which have not been closed and to provide reinsurance to close to syndicates with no successor syndicate. Centrewrite Limited ceased to offer Lloyd's Members' Estate Protection Plan in 2012.

Lloyd's Insurance Company (China) Limited

Lloyd's Insurance Company (China) Limited (LICCL) is a wholly owned subsidiary undertaking of the Society of Lloyd's. The company's principal activity during 2016 was the reinsurance of non-life business in the China insurance market and direct non-life insurance in the Shanghai municipality. Lloyd's syndicates participate in LICCL's business by means of retrocession agreements which allow a 100% risk transfer.

Insurance contract liabilities for Centrewrite Limited and LICCL may be analysed as follows:

	2016 Insurance contract liabilities £000	2016 Reinsurer's share of liabilities £000	2016 Net £000	2015 Insurance contract liabilities £000	2015 Reinsurer's share of liabilities £000	2015 Net £000
Provision for claims reported	60,283	(60,283)	–	34,889	(34,889)	–
Provision for IBNR claims	105,445	(105,424)	21	43,865	(43,838)	27
Total provision for insurance claims	165,728	(165,707)	21	78,754	(78,727)	27
Unearned premiums	88,289	(88,289)	–	30,821	(30,821)	–
Insurance contract liabilities	254,017	(253,996)	21	109,575	(109,548)	27

The increased balances flow from additional business written through the LICCL platform.

The movement in provision for insurance claims for Centrewrite Limited and LICCL can be analysed as follows:

	2016 Insurance contract liabilities £000	2016 Reinsurer's share of liabilities £000	2016 Net £000	2015 Insurance contract liabilities £000	2015 Reinsurer's share of liabilities £000	2015 Net £000
At 1 January	78,754	(78,727)	27	30,606	(30,579)	27
Claims incurred/(released)	199,650	(199,656)	(6)	68,639	(68,639)	–
Claims paid (see below)	(125,285)	125,285	–	(20,630)	20,630	–
Effect of exchange rates	12,609	(12,609)	–	139	(139)	–
At 31 December	165,728	(165,707)	21	78,754	(78,727)	27

Claims incurred consist of claims and claims handling expenses paid during the year, together with the movement in outstanding claims. Full provision is made, on the basis of available information, for the estimated ultimate cost of claims notified but not settled as at the date of the statement of financial position, after taking into account handling costs and settlement trends. A provision for claims incurred but not notified is also established as at that date on a statistical basis. The provision also reflects claims settlement expenses and anticipated reinsurance and other recoveries. The provision for outstanding claims is based on information available at the reporting date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided.

Any differences between the provision and subsequent settlements are dealt with in the Group income statements of later years.

Claims development table

The table below shows the development of claims over a period of time on a gross basis for Centrewrite Limited and LICCL. The claims development table shows the cumulative incurred claims, including both notified and IBNR claims for each successive year, together with cumulative claims at the current reporting date.

	2012 and prior £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
At end of underwriting year	98,746	28,074	19,958	73,430	124,904	
One year later	97,316	27,282	24,741	78,602		
Two years later	87,319	28,412	25,058			
Three years later	86,008	31,032				
Four years later	78,436					
Current estimate of cumulative claims	78,436	31,032	25,058	78,602	124,904	
Cumulative payments to date	(74,576)	(25,706)	(18,942)	(39,719)	(13,361)	
Insurance contract liabilities	3,860	5,326	6,116	38,883	111,543	165,728

Due to the continuing decline of insurance activities for Centrewrite Limited and the fully reinsured liabilities of LICCL, the Society has not prepared claims development table over a period of time on a net basis.

5. Insurance activities continued

The movement in provision for unearned premiums for LICCL can be analysed as follows:

	2016 Insurance contract liabilities £000	2016 Reinsurer's share of liabilities £000	2016 Net £000	2015 Insurance contract liabilities £000	2015 Reinsurer's share of liabilities £000	2015 Net £000
At 1 January	30,821	(30,821)	–	13,365	(13,365)	–
Premiums written	237,916	(237,916)	–	104,413	(104,409)	4
Premiums earned	(186,192)	186,192	–	(86,924)	86,920	(4)
Effect of exchange rates	5,744	(5,744)	–	(33)	33	–
At 31 December	88,289	(88,289)	–	30,821	(30,821)	–

Insurance Risk

Insurance risk represents the possibility of the occurrence of an accident, which results in uncertainties in relation to claim payments and timing. Under the insurance contracts, the key insurance risk of the company is that the actual claim payment exceeds the carrying amount of insurance reserves provided. These risks are likely to take place under the following circumstances:

- Occurrence risk – the possibility that the number of accidents is different from expectation;
- Severity risk – the possibility that the cost of accidents is different from expectation; and
- Development risk – the possibility that there is a change in reserves before the end of the contract.

LICCL has reinsured and retroceded 100% of the insurance risk for all underwritten premiums.

The concentration of insurance risk is presented by major class of business below:

	2016 £000	2015 £000
Commercial property insurance	34%	17%
Agricultural insurance	22%	40%
Credit insurance	13%	2%
Engineering insurance	11%	10%
Hull insurance	6%	4%
Special risk insurance	4%	11%
Liability insurance	4%	10%
Other	6%	6%
	100%	100%

Risk Margin

Risk margin is the reserves provided for the uncertainty of estimated future cash flow. As LICCL does not have the basic data to perform accurate computation of risk margin now, the risk margin of non-life business is determined based on industry ratio, that is, the risk margin of unearned premium reserve is set at 3% and the risk margin of outstanding claims reserve is set at 2.5%, of the unbiased estimation of future cash flow respectively.

Credit Risk

LICCL is exposed to credit risks primarily associated with direct insurance, reinsurance and retrocession arrangements with its insurance counterparties. Credit risk is minimised by using a wide range of controls including credit evaluation. Due to the structure of the local arrangements which are in place, the credit risk arising from LICCL is not considered to be material at a Group level.

6. Other Group operating expenses

	Note	2016 Corporation of Lloyd's £000	2016 Lloyd's Central Fund £000	2016 Total £000
Other Group operating expenses include:				
Employment costs	7	147,003	–	147,003
Operating lease costs – Lloyd's 1986 building		17,030	–	17,030
Operating lease costs – other		11,165	–	11,165
Professional fees, including legal fees and related costs		31,531	1,164	32,695
Audit		466	202	668
Other services pursuant to legislation payable to PricewaterhouseCoopers LLP		472	–	472
Actuarial services payable to PricewaterhouseCoopers LLP		76	–	76
Tax services payable to PricewaterhouseCoopers LLP		31	–	31
Information Technology (other) services payable to PricewaterhouseCoopers LLP		68	–	68
Other services payable to PricewaterhouseCoopers LLP		342	–	342
Total legal and professional fees		32,986	1,366	34,352
Charitable donations		567	–	567

Other services pursuant to legislation payable to PricewaterhouseCoopers LLP includes work undertaken on the Aggregate Accounts, pro forma financial statements and regulatory returns.

	Note	2015 Corporation of Lloyd's £000	2015 Lloyd's Central Fund £000	2015 Total £000
Other Group operating expenses include:				
Employment costs	7	125,381	–	125,381
Operating lease cost – Lloyd's 1986 building		17,010	–	17,010
Operating lease cost – other		7,669	–	7,669
Professional fees, including legal fees and related costs		23,998	927	24,925
Audit		388	193	581
Other services pursuant to legislation payable to PricewaterhouseCoopers LLP		548	–	548
Actuarial services payable to PricewaterhouseCoopers LLP		73	–	73
Tax services payable to PricewaterhouseCoopers LLP		123	–	123
Information Technology (other) services payable to PricewaterhouseCoopers LLP		30	–	30
Other services payable to PricewaterhouseCoopers LLP		908	–	908
Total legal and professional fees		26,068	1,120	27,188
Charitable donations		455	–	455

7. Employment

	Note	2016 £000	2015 £000
Salaries and wages (including performance-related bonus)		84,037	75,800
Lloyd's Performance Plan (excluding social security costs – note 22)		7,011	5,916
Lloyd's Pension Scheme costs	12	11,960	12,364
Other pension costs		3,372	2,555
Social security costs		9,225	8,438
Severance costs		919	774
Contract and agency staff		15,373	8,555
Other employment costs		15,106	10,979
Total employment costs		147,003	125,381

The emoluments of the Chairman, CEO, members of the Council and Franchise Board are included in the report of the Remuneration Committee on page 103.

8. Finance

	Note	2016 Corporation of Lloyd's £000	2016 Lloyd's Central Fund £000	2016 Total £000
Finance costs				
Interest payable on financial liabilities measured at amortised cost		–	(52,841)	(52,841)
Other interest payable and similar charges		(4)	–	(4)
Amortisation of issue costs and discount		–	(725)	(725)
Total interest payable on financial liabilities	3A	(4)	(53,566)	(53,570)
Finance income				
Bank interest received		3,184	5,290	8,474
Dividends received		–	7,321	7,321
Other returns on investments designated at fair value through profit or loss		881	372,255	373,136
Unrealised fair value movement of forward contracts held for trading		(4,854)	3,988	(866)
Realised fair value movement of forward contracts held for trading		–	(77,103)	(77,103)
Increase in valuation of loans recoverable designated at fair value through profit or loss		–	2,829	2,829
Total finance income	3A	(789)	314,580	313,791

	Note	2015 Corporation of Lloyd's £000	2015 Lloyd's Central Fund £000	2015 Total £000
Finance costs				
Interest payable on financial liabilities measured at amortised cost		–	(53,034)	(53,034)
Other interest payable and similar charges		(36)	–	(36)
Amortisation of issue costs and discount		–	(1,292)	(1,292)
Total interest payable on financial liabilities	3A	(36)	(54,326)	(54,362)
Finance income				
Bank interest received		3,807	4,107	7,914
Dividends received		–	6,932	6,932
Other returns on investments designated at fair value through profit or loss		350	25,400	25,750
Unrealised fair value movement of forward contracts held for trading		101	(6,455)	(6,354)
Realised fair value movement of forward contracts held for trading		–	7,403	7,403
Increase in valuation of loans recoverable designated at fair value through profit or loss		–	1,083	1,083
Total finance income	3A	4,258	38,470	42,728

9. Investments in subsidiary undertakings

Subsidiaries are those entities over which the Society directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. The basis by which subsidiaries are consolidated in the Group financial statements is outlined in the basis of preparation (note 1).

The following subsidiaries principally affected the Group's results as at 31 December 2016, as set out in the Society Group income statement.

Principal subsidiary undertakings

Company name	Nature of business	Country of incorporation
Additional Underwriting Agencies (No. 5) Limited	Acts as members' agent for Names	England and Wales
Additional Securities Limited	Provision of deposits overseas on behalf of Lloyd's underwriters to comply with local insurance regulations	England and Wales
Centrewrite Limited	Authorised UK insurance company	England and Wales
Lloyd's Housing Support Limited	General commercial company	England and Wales
Lloyd's Members Agency Services Limited	Acts as members' agent for run-off affairs	England and Wales
Omniline Services Limited	Incorporated for the purpose of sale and leaseback of Lloyd's 1958 Building	England and Wales
Syndicate Underwriting Management Limited	Provision of insurance run-off and related administrative services	England and Wales
Tutelle Limited	Acts as a trustee of a fund established in order to secure the performance of obligations under certain indemnities given by the Society of Lloyd's	England and Wales
Lloyd's Australia Limited	Provision of administrative functions for Lloyd's underwriters and acts as liaison office with the insurance regulatory authorities in Australia	Australia
Lloyd's Canada Inc.	Provision of administration function on behalf of Society of Lloyd's and Lloyd's underwriters in Canada	Canada
Lloyd's Cyprus Limited	Acts as general and fiscal representative in Cyprus of Lloyd's underwriters	Cyprus
Lloyd's Escritorio de Representacao no Brasil Ltda.	Provides representative, administrative and management services on behalf of the Society of Lloyd's and participant of Lloyd's insurance market. Also acts as general and fiscal representative for Lloyd's underwriters	Brazil
Lloyd's France SAS	Provides administrative and management services on behalf of the Society of Lloyd's and participants of Lloyd's insurance market	France
Lloyd's Iberia Representative S. L. U.	Provides administrative and management services on behalf of the Society of Lloyd's and participants of Lloyd's insurance market	Spain
Lloyd's Insurance Company (China) Limited	Authorised insurance Company in China	China
Lloyd's Ireland Representative Limited	Provides administrative and management services on behalf of Society of Lloyd's and participants of Lloyd's insurance market. Also acts as general representative for Lloyd's underwriters in Ireland	Ireland
Lloyd's Japan Inc.	Acting as a General Agent for the Society of Lloyd's in Japan	Japan
Lloyd's Labuan Limited	Licensed to carry on business as underwriting manager in Labuan	Malaysia
Lloyd's Limited	Provides administrative and management services on behalf of the Society of Lloyd's and participants of Lloyd's insurance market	United Arab Emirates

9. Investments in subsidiary undertakings continued

Principal subsidiary undertakings continued

Company name	Nature of business	Country of incorporation
Lloyd's Malta Limited	Acts as a local general representative of the Society of Lloyd's and those underwriting members of Lloyd's who transact insurance business in Malta	Malta
Lloyd's Netherlands Representative B. V.	Acts as representative office of Lloyd's underwriters and Society of Lloyd's	Netherlands
Lloyd's of London (Asia) Pte Ltd	Provides support for business development, administration and co-ordination services to the Society of Lloyd's and Lloyd's managing agents as well as providing administrative functions for Lloyd's underwriters and acting as a liaison with the relevant regulatory authorities in Singapore	Singapore
Lloyd's of London (Representative Office) Greece SA	Acts as general and fiscal representative in Greece of Lloyd's underwriters	Greece
Lloyd's Polska Sp. z o.o.	Provides administrative and management services on behalf of the Society of Lloyd's and participant of Lloyd's insurance market	Poland
Lloyd's South Africa (Proprietary) Ltd	Provision of administration function on behalf of Society of Lloyd's and Lloyd's underwriters in South Africa	South Africa
Lloyd's America Ltd.	Parent Company of Lloyd's America Holding Inc.	England and Wales
Lloyd's America Holding Inc. Lloyd's America Inc. Lloyd's Illinois Inc. Lloyd's Kentucky Inc.	Provision of services to Society of Lloyd's and its brokers and customers in North America	USA

The main territory of operation of subsidiaries incorporated in England and Wales is the UK. For overseas subsidiaries, the principal country of operation is the same as the country of incorporation. All operating subsidiaries have a 31 December year end reporting date with the exception of Lloyd's Japan Inc. with the year end reporting date of 31 March. All operating subsidiaries are 100% owned with the exception of Lloyd's Escritorio de Representacao no Brasil Ltda. which is 99.99% owned by Society of Lloyd's.

Restrictions

Lloyd's operates in over 200 territories around the world and uses a number of different operating models depending upon local regulatory requirements. Different countries operate different regulatory regimes and in some cases, these may place certain restrictions on the use of capital and assets which are held within those countries, including capital of RMB 1bn (2015: RMB 1bn) within Lloyd's Insurance Company (China) Limited (LICCL). Lloyd's proactively manages its international asset base to ensure that any such restrictions have a minimal impact upon the utilisation of capital and investments or upon the operations of the Corporation.

Risks

In addition to the risks which are set out in the Financial Risk Management section on pages 123 to 124, the Corporation's subsidiary LICCL is also subject to the following risks:

- Credit risk: there is a risk that a syndicate may be unable to fulfil its reinsurance obligations, in which case LICCL could potentially be exposed to a loss;
- Regulatory risk: as an overseas underwriting company, LICCL is subject to the requirements of the local regulator and could be subject to penalties if these regulations are not satisfied; and
- Management do not consider that LICCL is subject to insurance risk due to the fact that all business is 100% reinsured.

Dormant subsidiaries

The Society has an ongoing interest in the following dormant subsidiaries. These subsidiaries are all 100% owned by the Society and they have not actively traded as at 31 December 2016.

Company Name	Country of Incorporation
Additional Underwriting Agencies (No. 9) Limited	England and Wales
Additional Underwriting Agencies (No.10) Limited	England and Wales
Bankside Nominees Limited	England and Wales
Barder & Marsh Nominees Limited	England and Wales
CI de Rougemont (Nominees) Limited	England and Wales
CMA (CT&W) Nominees Limited	England and Wales
Crowe Agency Nominees Limited	England and Wales
Cuthbert Heath Nominees Limited	England and Wales
Devonshire Underwriting Agencies Nominees Limited	England and Wales
EHW (Nominees) Limited	England and Wales
EWC (Nominees) Limited	England and Wales
GP Eliot (Nominees) Limited	England and Wales
Gammell Kershaw Nominees Limited	England and Wales
GTUA Nominees Limited	England and Wales
Habit Nominees Limited	England and Wales
Hayter Brockbank Shipton Nominees Limited	England and Wales
Higgins Brasier Nominees Limited	England and Wales
Lloyd's Nominees Director Limited	England and Wales
Lloyd's Nominees Secretary Limited	England and Wales
Lloyd's of London (Cassidy Members) Nominees Limited	England and Wales
Lloyd's of London (Claremount) Nominees Limited	England and Wales
Lloyd's of London (Harrison Brothers) Nominees Limited	England and Wales
Lloyd's of London (Murray Lawrence) Nominees Limited	England and Wales
Lloyd's of London (Octavian) Nominees Limited	England and Wales
Lloyd's of London (R J Kiln) Nominees Limited	England and Wales
Lloyd's of London (Sedgwick) Nominees Limited	England and Wales
Lloyd's of London (Spratt & White) Nominees Limited	England and Wales
Lloyd's of London (Stewart Members) Nominees Limited	England and Wales
Lloyd's of London (Wellington) Nominees Limited	England and Wales
Lloyd-Roberts & Gilkes Nominees Limited	England and Wales
Mander, Thomas & Cooper Nominees Limited	England and Wales
Meacock (Nominees) Limited	England and Wales
MFK Nominees Limited	England and Wales
Miles Smith Nominees Limited	England and Wales
Mocatta Dashwood Nominees Limited	England and Wales
MUA Nominees Limited	England and Wales
Mythzone Nominees Limited	England and Wales
Nomad Nominees Limited	England and Wales
Pieri Nominees Limited	England and Wales
Pound Nominees Limited	England and Wales
R F Kershaw (Nominees) Limited	England and Wales
Rilong Nominees Limited	England and Wales
Scott Caudle Hilsum Nominees Limited	England and Wales
Sturge Central Nominees Limited	England and Wales
Wendover Nominees Limited	England and Wales
WFDA Nominees Limited	England and Wales

9. Investments in subsidiary undertakings continued

Dormant subsidiaries continued

Company Name	Country of Incorporation
Lloyd's Aviation Limited	England and Wales
Lloyd's Building Limited	England and Wales
Lloyd's.com Limited	England and Wales
Lloyd's Information Services Limited	England and Wales
Lloyd's Life Limited	England and Wales
Lloyd's List Limited	England and Wales
Lloyd's of London Press Limited	England and Wales
Lloyd's Recoveries Limited	England and Wales
Lloyd's Shelf Company 1 Limited	England and Wales
Lutine Nominees & Insurance Limited	England and Wales
Sharedealer Limited	England and Wales

All subsidiary undertakings are included in the consolidated Society Report. The proportions of the voting rights in the subsidiary undertakings held directly by the Society do not differ from the proportion of the ordinary shares held. With the exception of £1 preference share for Lloyd's Building Limited, the Society does not have any preference shares of subsidiary undertakings included in the Group.

10. Investments in Associates and Joint Venture

The Society has the following significant holdings which have been included as investments in associates and joint ventures.

Investment in Associates and Joint Venture			
Company Name	Country of Incorporation	Proportion of equity capital held	Nature of business
Ins-sure Holdings Limited	England and Wales	25%	Provision of premiums and claims accounting and settlement, policy production and ancillary insurance services principally to the London insurance market
Xchanging Claims Services Limited	England and Wales	50%	Provision of claims and recoveries services
The Message Exchange Limited	England and Wales	Limited by Guarantee 25%	Provision of messaging infrastructure to the London insurance market

The issued share capital of Ins-sure Holdings Limited is £4,000. There are three classes of shares. The Society holds 1,000,000 B shares of 0.1p each that have the right to participate in 25% of any profits available for distribution.

The issued share capital of Xchanging Claims Services Limited is £4,001. There are three classes of shares. The Society holds 1,000 A shares of £1 each and 2,001 C shares of £1 each. The A and C shares have the following rights with respect to dividends:

(a) The A shares participate in 50% of any profits available for distribution after taking account of the dividend rights outlined above; and

(b) The C shares carry a right to a fixed cumulative preference dividend of 5% calculated on the nominal capital and a variable participating dividend calculated by reference to trading profits.

The Society entered into a joint venture agreement with International Underwriting Association; London and International Brokers' Association; and Lloyd's Market Association for an equal participation in The Message Exchange Limited (TMEL) which was incorporated on 27 August 2010.

TMEL operates The Exchange – a simple messaging hub provided to the London insurance market to support its efforts to extend the use of electronic processing of business. As at 31 December 2015 and 2016, the net assets of TMEL have no material impact on the Society accounts.

A. Investments in Associates and Joint Venture

	2016 £000	2015 £000
At 1 January	8,502	7,958
Share of operating profits	9,649	9,545
Share of interest income	(6)	(141)
Share of tax on profit on ordinary activities	(1,752)	(2,013)
Total share of profits of associates	7,891	7,391
Share of actuarial (losses)/gains on pension liability	(3,271)	467
Share of tax on items taken directly to equity	635	(133)
Dividends received	(7,161)	(7,181)
At 31 December	6,596	8,502

Summary of financial information for associates – 100%:

Summarised statement of financial position

	Ins-sure Holdings Limited As at 31 December		Xchanging Claims Services Limited As at 31 December		The Message Exchange Limited As at 31 December	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Current assets						
Debtors	24,405	18,791	7,679	5,117	70	72
Prepayments and accrued income	217	286	214	195	77	68
Cash at bank and in hand	11,300	15,992	8,656	3,477	–	–
Total current assets	35,922	35,069	16,549	8,789	147	140
Non-current assets						
Tangible fixed assets	348	665	2	7	–	–
Intangible assets	32,365	20,948	514	365	–	–
Deferred tax assets	2,321	350	147	–	–	–
Total non-current assets	35,034	21,963	663	372	–	–
Current liabilities						
Creditors falling due within one year	(33,008)	(23,306)	(10,626)	(5,085)	(147)	(140)
Current income tax liabilities	(7,297)	(5,557)	(1,345)	–	–	–
Total current liabilities	(40,305)	(28,863)	(11,971)	(5,085)	(147)	(140)
Non-current liabilities						
Creditors falling due after more than one year	(365)	(484)	–	(12)	–	–
Pension liability	(12,743)	(1,943)	(821)	68	–	–
Total non-current liabilities	(13,108)	(2,427)	(821)	56	–	–
Net assets	17,543	25,742	4,420	4,132	–	–

10. Investments in Associates and Joint Venture continued

A. Investments in Associates and Joint Venture continued

Summarised statement of comprehensive income

	Ins-sure Holdings Limited For the period ended 31 December		Xchanging Claims Services Limited For the period ended 31 December		The Message Exchange Limited For the period ended 31 December	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Revenues	98,662	99,932	29,708	27,516	853	856
Operating costs	(68,352)	(67,015)	(24,331)	(22,797)	(853)	(856)
Operating profit	30,310	32,917	5,377	4,719	–	–
Interest receivable and similar income	23	17	13	5	–	–
Interest payable and similar charges	(73)	(293)	–	(12)	–	–
Profit on ordinary activities before taxation	30,260	32,641	5,390	4,712	–	–
Tax on profit on ordinary activities	(5,626)	(6,820)	(998)	(959)	–	–
Profit for the financial year	24,634	25,821	4,392	3,753	–	–
Other comprehensive income	(9,033)	(480)	(757)	56	–	–
Total comprehensive income	15,601	25,341	3,635	3,809	–	–

B. Lloyd's Collection

The Lloyd's Collection represents various paintings, antiques and artefacts. The collection was valued at £13.3m by Gurr Johns Limited, valuers and fine art consultants in November 2015, on the basis of open market auction value assuming all items are not sold at the same time taking into account the nature, age, condition and quality of each chattel. This resulted in a revaluation gain of £0.8m in 2015.
In 2016, it was assessed that there was no change in valuation.

11. Taxation

A. Tax analysis of charge in the year

	Note	2016 £000	2015 £000
Current tax:			
Corporation tax based on profits for the year at 20% (2015: 20.25%)		(71,677)	(20,751)
Adjustments in respect of previous years		2,284	773
Foreign tax suffered		(2,403)	(1,254)
Total current tax		(71,796)	(21,232)
Deferred tax:			
Origination and reversal of timing differences			
Current year		(2,164)	8,026
Prior year		(1,233)	371
Tax charge recognised in the Group income statement	11B	(75,193)	(12,835)
Analysis of tax charge recognised in the Group statement of comprehensive income:			
Tax credit/(charge) on actuarial loss on pension liabilities:			
Group		18,799	(3,199)
Associates		635	(133)
Tax credit/(charge) recognised in the Group statement of comprehensive income		19,434	(3,332)
Total tax charge		(55,759)	(16,167)

B. Reconciliation of effective tax rate

	Note	2016 %	2016 £000	2015 %	2015 £000
Surplus on ordinary activities before tax			405,149		87,187
Expected tax at the current rate		20.00%	(81,030)	20.25%	(17,655)
Expenses not deductible for tax purposes		0.04%	(184)	1.21%	(1,054)
Income not taxable for tax purposes		(0.04%)	177	–	–
Overseas tax		0.06%	(227)	(0.17%)	144
Difference between tax and accounting profit on investments		(0.10%)	400	(0.30%)	265
Other		(0.04%)	157	0.03%	(26)
Share of profits of associates		(0.39%)	1,579	(1.72%)	1,497
Deferred tax on restated fixed assets		(0.08%)	316	(1.20%)	1,048
Deferred tax adjustment relating to change in tax rate		(0.66%)	2,668	(2.06%)	1,798
Deferred tax prior year adjustments		0.33%	(1,333)	(0.43%)	375
Current tax prior year adjustments		(0.56%)	2,284	(0.89%)	773
Tax charge	11A	18.56%	(75,193)	14.72%	(12,835)

C. Deferred tax

	2016 Balance at 1 January £000	2016 Income statement £000	2016 Equity £000	2016 Balance at 31 December £000
Plant and equipment	5,630	(1,484)	–	4,146
Financial investments	(1,157)	(5,639)	–	(6,796)
Pension liabilities	17,215	3,131	18,798	39,144
Other employee benefits	2,397	234	–	2,631
Other items	303	361	104	768
Total deferred tax	24,388	(3,397)	18,902	39,893

In 2016 there were no unrecognised deductible temporary differences (2015: nil).

Deferred tax assets and liabilities are measured at the tax rate that will apply to the period when an asset is expected to be realised or a liability is expected to be settled. The applicable rate is that which has been enacted or substantively enacted by the balance sheet date.

The deferred tax asset is based on a corporation tax rate of 20%-17% depending on when an asset is expected to unwind (2015: 20%-18%). Reductions to the UK corporate tax rate to 19% from 1 April 2017 and 17% from 1 April 2020 were substantively enacted in September 2016.

	2015 Balance at 1 January £000	2015 Income statement £000	2015 Equity £000	2015 Balance at 31 December £000
Plant and equipment	5,020	610	–	5,630
Loans recoverable	(860)	860	–	–
Financial investments	(4,585)	3,428	–	(1,157)
Pension liabilities	16,745	3,669	(3,199)	17,215
Other employee benefits	2,592	(195)	–	2,397
Other items	266	26	11	303
Total deferred tax	19,178	8,398	(3,188)	24,388

12. Pension schemes

Lloyd's operates a number of defined benefit and defined contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme which is a defined benefit scheme. Other schemes have been established for certain employees based overseas.

These schemes are generally funded by the payment of contributions to separately administered funds.

Defined benefit and contribution plans

The pension deficits of the schemes at 31 December 2016 are as follows:

	2016 £000	2015 £000
Schemes in deficit		
Lloyd's Pension Scheme	(227,579)	(93,050)
Overseas pension schemes	(2,939)	(2,484)
Total schemes deficit	(230,518)	(95,534)

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

	2016 £000	2015 £000
Group income statement		
Lloyd's Pension Scheme	11,960	12,364
Overseas pension schemes	1,951	1,513
Other pension contributions	1,422	1,042
Total	15,333	14,919
Group statement of comprehensive income		
Lloyd's Pension Scheme	127,455	2,025
Overseas pension schemes	(73)	42
Total	127,382	2,067

The Lloyd's Pension Scheme

The Lloyd's Pension Scheme is a defined benefit pension scheme with assets held in a separately administered fund. The Scheme provides pensions to members on retirement, as well as benefits on the death of members. The Scheme operates in accordance with the Scheme's Trust Deed and Rules and relevant legislation. A Board of Trustees manage and administer the Scheme; they are primarily responsible for ensuring that members are paid the correct benefits at the correct time, and that there are sufficient Scheme assets to pay benefits as they fall due.

The Scheme was originally set up as a final salary pension scheme (i.e. benefits for employed members were linked to their latest salary), a normal retirement age of 60 and an enhanced benefit section for senior managers. In recent years, in order to mitigate exposure to pension scheme liabilities, several changes have been made to the Lloyd's Pension Scheme.

- In February 2005, the senior management section of the Scheme was closed to new entrants and the Normal Retirement Age (NRA) for all new joiners was increased from 60 to 65.
- The final salary scheme was closed to new joiners at the end of June 2006. New entrants from July 2006 were eligible to join the Lloyd's Pension Scheme but accrue benefits on a career average basis (where benefits are based on their average salary rather than final salary).
- In April 2013, Lloyd's made some further changes to its pension arrangements. The career average (i.e. CARE) section of the scheme was closed to new joiners from April 2013, and to existing hires from June 2013 (existing employed members of each section continue to accrue benefits). After these dates, employees are eligible to join the Lloyd's Group Personal Pension Plan which is administered by Aviva. The amount charged to the Group income statement in respect of Lloyd's Group Personal Pension Plan is £1.4m (2015: £1.0m).

Scheme contributions and funding valuation

UK legislation requires the funding position of the Scheme to be assessed at least every three years by an independent qualified actuary. Contributions are paid to provide for the cost of benefit accrual and to meet any funding deficit. Any funding deficit or surplus is typically amortised over a period. Contributions are made at the funding rates and assumptions recommended by the actuary, and agreed between the Trustees and Lloyd's.

The last completed formal actuarial valuation of the Scheme was carried out by Willis Towers Watson, actuaries and consultants, as at 30 June 2013 using the projected unit credit method. The total market value of the Scheme's assets at the date of the 2013 valuation was £568m, and the total value of accrued liabilities was £559m showing a surplus of £9m. These figures exclude both liabilities and the related assets in respect of money purchase Additional Voluntary Contributions.

Employee contributions of 5% of pensionable earnings (or 10% of pensionable earnings for members of the senior management section) have been introduced from July 2006. Normally, instead of making an employee contribution, employees make a salary sacrifice of the appropriate percentage of their salary and Lloyd's makes an additional employer contribution of the same amount.

Following the 2013 actuarial valuation, employer contributions to meet the cost of future accrual as a percentage of salaries are 24.8% for final salary members with an NRA of 60, 15.4% for final salary members with an NRA of 65 and 8.8% for members accruing benefits on a career average basis.

The latest formal actuarial valuation of the Scheme is currently being carried out by Willis Towers Watson, based on the position as at 30 June 2016.

Members of the Lloyd's Group Personal Pension Plan can elect their contribution rate (payable via salary sacrifice) and can change this at any time.

The contribution structure is:

Employee	Lloyd's	Total
3%	5%	8%
4%	6%	10%
5%	7%	12%
6%	8%	14%

Lloyd's contribution is capped at 8% of salary, although individuals can elect a higher amount than 6% should they wish.

Discretionary pension increases – treatment for funding purposes

There are no guaranteed increases in payment for pensions accrued before 6 April 1997. In 2003, Lloyd's instructed Willis Towers Watson not to allow for such increases in calculating the Scheme's liabilities for future actuarial funding valuations. Such increases have always been payable at the discretion of Lloyd's and will continue to be considered on the basis of affordability, but are not taken into account by the actuary in determining the funding level.

Information about the risks of the Scheme to Lloyd's

The ultimate cost of the Scheme to Lloyd's will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and as such the cost of the Scheme may be higher (or lower) than disclosed. In general, the risk to Lloyd's is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to Lloyd's is higher than expected. This could result in higher contributions required from Lloyd's and a higher deficit disclosed. This may also impact Lloyd's ability to grant discretionary benefits or other enhancements to members. More specifically, the assumptions not being borne out in practice could include:

- The return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the required contribution from Lloyd's;
- Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities;
- A decrease in corporate bond yields will increase the Scheme's liabilities, although this will be partially offset by an increase in the value of the Scheme's bond assets;
- The majority of the Scheme's assets are linked to inflation, and higher inflation will lead to higher liabilities; and
- Unanticipated future changes in mortality patterns leading to an increase in the life expectancy for members, resulting in higher liabilities. Future mortality rates cannot be predicted with certainty.

12. Pension schemes continued

The Scheme's investment strategy

The Scheme's investment strategy apportions the Scheme's assets into two portfolios. The risk-reducing portfolio, amounting to around 40% of the total assets, is invested in bonds, structured with the intention of generating cash flows which match as far as possible those required to meet a proportion of the Scheme's obligations. The return-seeking portfolio is intended to generate returns which over the long-term will fund the remainder of the Scheme's obligations. This portfolio is invested in passive equities and active property. The equity proportion is approximately 50% of the total assets and the property proportion is around 10%.

As the Scheme matures, the Trustees and Lloyd's expect to gradually reduce the proportion allocated to return-seeking assets and increase the proportion allocated to matching assets.

The Trustees are currently considering the equity management style and the diversification of the assets within the Return Seeking Portfolio, and have established an Investment Sub-Committee to take these considerations forward.

Principal actuarial assumptions in respect of IAS 19

The demographic assumptions which are the most financially significant are those relating to the life expectancy of retired members. The mortality table used for the purposes of the IAS 19 valuation as at 31 December 2016 was 105% of SAPs light tables for males and 110% SAPs light tables for females, with allowance for future improvements in line with CMI 2015 core projections with 1.5% per annum trend improvement.

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

– For pensioners currently aged 60: ranging from 29 years to 30 years (2015: 29 years to 30 years); and
– For non-pensioners currently aged 45: ranging from 30 years to 31 years (2015: 31 years to 32 years).

The other major financial assumptions used by the actuary as at 31 December 2016 for the purposes of IAS 19 were:

	2016 % per annum	2015 % per annum	2014 % per annum	2013 % per annum	2012 % per annum
General salary and wage inflation	4.4%	4.2%	4.1%	4.4%	4.0%
Rate of increase in pensions in payment					
Pre 6 April 1997 (in excess of GMPs)	–	–	–	–	–
6 April 1997 to 5 April 2005	3.2%	3.1%	3.0%	3.2%	3.0%
Post 5 April 2005	2.3%	2.2%	2.2%	2.3%	2.5%
Increases to final salary deferred pensions					
Benefits accrued before April 2009	2.4%	2.2%	2.1%	2.4%	2.2%
Benefits accrued from April 2009	2.4%	2.2%	2.1%	2.4%	2.2%
CARE revaluation in service and in deferment, and increase in payment	2.3%	2.2%	2.2%	2.3%	2.2%
Discount rate	2.6%	3.8%	3.7%	4.4%	4.5%
Price inflation					
Retail Price Inflation (RPI)	3.4%	3.2%	3.1%	3.4%	3.0%
Consumer Price Inflation (CPI)	2.4%	2.2%	2.1%	2.4%	2.2%

An allowance is made for members commuting 20% (2015: 20%) of their pension on retirement using the factors in use at the respective date.

For IAS 19 purposes, Lloyd's recognises the cost of discretionary increases to pre 6 April 1997 benefits in payment when there is a constructive liability to make such increases. Lloyd's provided £10.0m in 2007 and a further £20.0m in 2011 to meet the expected cost of future discretionary increases. This amount has been notionally segregated from the Scheme's other assets (the 'notional fund') and its investment performance will be tracked on the assumption that it is invested in the same way as the Scheme's other assets. The notional fund will be used to facilitate the award of future discretionary pension increases when Lloyd's carries out its annual review of pensions in accordance with the Scheme's Definitive Trust Deed. As long as there is a notional fund set aside for this purpose, discretionary increases will continue to be made. As at 31 December 2016 the value of the notional fund was £29.2m (2015: £27.2m).

Sensitivity of pension obligation to changes in assumptions

The actuarial valuation of liabilities under IAS 19 is particularly sensitive to changes in market conditions.

A change of 1% per annum in the discount rate as at 31 December 2016 would result in a change to the pension liabilities at that date of around 20%, or approximately £190m.

A change of 1% per annum in the assumption for future inflation (both RPI and CPI) as at 31 December 2016, which would change future expectations of salary increases, pension increases and deferred revaluation, would result in a change to the pension liabilities at that date of around 10%, or approximately £95m.

A change in the mortality assumptions could have a significant impact on the pension liability. For instance, if members aged 60 were instead expected to live for one year longer, with all other members' life expectancies increasing by a proportionate amount, then the liability as at 31 December 2016 would be 3% higher.

Amounts for the current and previous years were:

Asset/(liability) analysis of the Scheme	2016 Fair value £000	2015 Fair value £000	2014 Fair value £000	2013 Fair value £000	2012 Fair value £000
Bonds					
Corporate bonds	135,427	126,893	131,291	89,233	93,573
Index-linked gilts	140,764	123,489	127,716	88,038	90,948
Equities					
UK equities	41,246	56,009	57,501	67,997	56,459
Overseas (excluding UK) equities	283,456	258,274	254,531	287,648	234,198
Property	90,740	85,493	76,661	65,088	61,277
Infrastructure	15,050	11,251	12,090	9,850	8,748
Cash and net current assets	23,108	13,300	19,803	25,633	32,184
Total market value of assets	729,791	674,709	679,593	633,487	577,387
Actuarial value of Scheme liabilities	(957,370)	(767,759)	(763,316)	(665,904)	(620,621)
Deficit in the Scheme	(227,579)	(93,050)	(83,723)	(32,417)	(43,234)
Irrecoverable surplus (effect of asset ceiling)	–	–	–	–	–
Net defined benefit liability	(227,579)	(93,050)	(83,723)	(32,417)	(43,234)

All of the Scheme's assets are quoted in an active market. The Scheme is not currently invested in any of Lloyd's assets.

Approximately 96% of the Scheme's liabilities relate to final salary members and 4% relates to CARE members.

12. Pension schemes continued

Sensitivity of pension obligation to changes in assumptions continued

Changes in the present value of the defined benefit obligations are:

	2016 £000	2015 £000
Actuarial value of Scheme liabilities at 1 January	767,759	763,316
Interest cost on Pension Scheme liabilities	28,716	27,814
Current service cost (net of employee contributions)	8,551	9,398
Employee contributions	1,786	2,073
Benefits paid	(24,890)	(23,832)
Experience gains arising in Scheme liabilities	(18,724)	(3,112)
Change in assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	(8,040)	–
Financial assumption change	202,212	(7,898)
Actuarial value of Scheme liabilities at 31 December	957,370	767,759

Changes in fair value of plan assets were:

	2016 £000	2015 £000
Fair value of Scheme assets at 1 January	674,709	679,593
Expected return on Pension Scheme assets	25,307	24,848
Employer contributions		
Normal	4,886	5,062
Special	–	–
Employee contributions	1,786	2,073
Benefits paid	(24,155)	(23,170)
Actuarial gain/(loss) on Scheme assets	47,993	(13,035)
Administrative expenses	(735)	(662)
Fair value of Scheme assets at 31 December	729,791	674,709

Lloyd’s expects to contribute approximately £4.6m in normal contributions to the pension scheme in 2017.

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

	2016 £000	2015 £000
Experience gains arising on Scheme liabilities	18,724	3,112
Changes in the assumptions underlying the present value of the Scheme liabilities		
Demographic assumption change	8,040	–
Financial assumption change	(202,212)	7,898
Actuarial (loss)/gain arising during period	(175,448)	11,010
Return on Fund assets greater/(less) than discount rate	47,993	(13,035)
Change in irrecoverable surplus	–	–
Remeasurement effects recognised in the Group statement of comprehensive income	(127,455)	(2,025)

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

	2016 £000	2015 £000
Current service cost	8,551	9,398
Net interest on net defined benefit liability	3,409	2,966
Total operating charge	11,960	12,364

Approximately 66% of the service cost for 2016 relates to final salary members and 34% relates to CARE members.

Maturity profile of Defined Benefit Obligation

The Scheme is maturing over time with 38% of the members in the Scheme being retired members and with an approximate duration of the Scheme's liabilities of around 20 years. The expected benefit payments from the Scheme over the next few years is as follows:

	£m
Expected benefit payments during year ending 31-Dec-17	26.3
Expected benefit payments during year ending 31-Dec-18	23.7
Expected benefit payments during year ending 31-Dec-19	24.5
Expected benefit payments during year ending 31-Dec-20	26.8
Expected benefit payments during year ending 31-Dec-21	27.4
Expected benefit payments during period 01-Jan-22 to 31-Dec-26	161.6
Expected benefit payments during period 01-Jan-27 to 31-Dec-31	188.8
Expected benefit payments from 01-Jan-32 onward	1,259.7

Overseas pension schemes

Lloyd's operates a number of defined benefit schemes for qualifying employees based overseas. The actuarial valuations of these pension schemes at 31 December 2016 resulted in a deficit of £2.9m (2015: £2.5m).

Development of net balance sheet position	31 December 2016 £000	31 December 2015 £000
Value of assets	3,098	1,919
Actuarial value of scheme liabilities	(6,037)	(4,403)
Deficit in the scheme	(2,939)	(2,484)
Net defined benefit liability	(2,939)	(2,484)

The total expense recognised in other Group operating expenses of £0.8m (2015: £0.1m) represents the related current service cost of these schemes. An actuarial gain of £73,000 has been recognised in the Group statement of comprehensive income (2015: loss of £42,000).

Defined contribution plans

Lloyd's operates a number of defined contribution retirement benefit schemes for qualifying employees based overseas. The assets of the schemes are held separately from those of Lloyd's in funds under the control of the trustees.

In some countries, employees are members of state-managed retirement benefit schemes. Lloyd's is required to contribute a specified percentage of payroll costs to fund these benefits. The only obligation of Lloyd's with respect to the retirement benefit scheme is to make the specified contributions.

The total expense recognised in the Group income statement of £1.4m (2015: £0.5m) represents contributions payable to these schemes by Lloyd's at rates specified in the rules of these schemes.

13. Intangible assets – software development

	£000
Cost	
At 1 January 2015	4,734
Additions	272
Disposals	(195)
At 31 December 2015	4,811
Additions	419
Disposals	(123)
At 31 December 2016	5,107
Amortisation	
At 1 January 2015	4,716
Charge for the year	175
Disposals	(161)
At 31 December 2015	4,730
Charge for the year	324
Disposals	(114)
At 31 December 2016	4,940
Net book value at 31 December 2016	167
Net book value at 31 December 2015	81

Impairment losses

As part of an assessment of the carrying value of assets, none of the intangible assets were written off in 2016 and 2015.

The amortisation charge is included within other Group operating expenses.

14. Plant and equipment

	Furniture and fittings £000	Computer and specialised equipment £000	Other £000	Total £000
Cost:				
At 1 January 2015	20,402	18,587	93	39,082
Additions	11,654	4,241	7	15,902
Disposals	(2,506)	(725)	(35)	(3,266)
At 31 December 2015	29,550	22,103	65	51,718
Additions	5,948	2,814	10	8,772
Disposals	(3,352)	(1,125)	(4)	(4,481)
At 31 December 2016	32,146	23,792	71	56,009
Depreciation and impairment				
At 1 January 2015	13,624	13,665	56	27,345
Depreciation charge for the year	5,311	2,311	18	7,640
Disposals	(900)	(585)	(26)	(1,511)
At 31 December 2015	18,035	15,391	48	33,474
Depreciation charge for the year	5,134	2,640	24	7,798
Impairment losses	–	8	–	8
Disposals	(2,324)	(1,052)	(4)	(3,380)
At 31 December 2016	20,845	16,987	68	37,900
Net book value at 31 December 2016	11,301	6,805	3	18,109
Net book value at 31 December 2015	11,515	6,712	17	18,244

Impairment losses

Impairment reviews are undertaken annually in which assets within plant and equipment have their recoverable amounts reassessed. As part of this assessment of the carrying value of assets, £8,000 of plant and equipment was written off in 2016 (2015: nil).

15. Loans recoverable

	2016 £000	2015 £000
At 1 January	44,577	46,439
Recoveries during the year	(3,997)	(2,945)
Fair value movements recognised during the year	2,830	1,083
At 31 December	43,410	44,577

The Society's loans recoverable are categorised as fair value Level 3 for disclosure purposes (refer to note 18). All fair value movements are recognised as finance income or finance costs in the Group income statement and relate solely to the revaluation of hardship and LFAA assets.

16. Financial investments

	Note	2016 £000	2015 £000
Statutory insurance deposits	16A	496,609	445,901
Other investments	16B	2,862,839	2,657,659
Total financial investments		3,359,448	3,103,560

A. Statutory insurance deposits

	2016 Securities £000	2016 Deposits £000	2016 Total £000
Market value at 1 January	11,517	434,384	445,901
Additions at cost	27,265	499,210	526,475
Disposal proceeds	(27,235)	(527,258)	(554,493)
Surplus on the sale and revaluation of investments	1,795	76,931	78,726
Market value at 31 December	13,342	483,267	496,609

	2015 Securities £000	2015 Deposits £000	2015 Total £000
Market value at 1 January	225,296	252,198	477,494
Additions at cost	292,010	580,685	872,695
Disposal proceeds	(508,822)	(414,297)	(923,119)
Surplus on the sale and revaluation of investments	3,033	15,798	18,831
Market value at 31 December	11,517	434,384	445,901

	2016 Cost £000	2016 Valuation £000	2015 Cost £000	2015 Valuation £000
Analysis of government securities at year end	12,180	13,342	11,202	11,517

Analysis of securities	2016 £000	2015 £000
AAA	84,926	73,083
AA	156,952	134,105
A	56,392	32,665
BBB	187,330	196,066
Other	11,009	9,982
Total securities	496,609	445,901

16. Financial investments continued

A. Statutory insurance deposits continued

Finance is arranged by advances from syndicates in the Lloyd's market. These advances are renewed annually. By agreement with the lenders, investment returns earned on these assets are paid, in appropriate proportions, to the lenders. In this way, the Society avoids any risk arising from a mismatch between borrowing and lending terms. Book cost is stated at historical exchange rates; market value is quoted at year end exchange rates.

The provision of funds by members in respect of the establishment and maintenance of overseas deposits is a condition of permission to underwrite insurance business at Lloyd's.

B. Other investments

	2016 Corporation of Lloyd's £000	2016 Central Fund £000	2016 Total £000
Market value at 1 January	235,915	2,421,744	2,657,659
Additions at cost	–	1,709,732	1,709,732
Decrease in short-term deposits	(60,461)	(914)	(61,375)
Disposal proceeds	–	(1,761,386)	(1,761,386)
Surplus on the sale and revaluation of investments	–	318,209	318,209
Market value at 31 December	**175,454**	**2,687,385**	**2,862,839**

	2016 Corporation of Lloyd's £000	2016 Central Fund £000	2016 Total £000
Analysis of securities at year end			
Listed securities			
Fixed interest			
Government	–	746,502	746,502
Corporate securities	–	863,813	863,813
Emerging markets	–	88,947	88,947
High yield	–	59,530	59,530
Total fixed interest	–	1,758,792	1,758,792
Global equities	–	551,076	551,076
Total listed securities	**–**	**2,309,868**	**2,309,868**
Unlisted securities			
Hedge funds	–	165,584	165,584
Commodities	–	49,001	49,001
Loan investments	–	103,630	103,630
Short-term deposits	175,454	39,302	214,756
Security deposits (see below)	–	20,000	20,000
Total unlisted securities	**175,454**	**377,517**	**552,971**
Market value	**175,454**	**2,687,385**	**2,862,839**

	2016 Corporation of Lloyd's £000	2016 Central Fund £000	2016 Total £000
Analysis of securities			
AAA	45,948	386,579	432,527
AA	36,404	722,501	758,905
A	85,852	416,821	502,673
BBB	7,250	224,124	231,374
Other	–	937,360	937,360
Total securities	**175,454**	**2,687,385**	**2,862,839**

	2015 Corporation of Lloyd's £000	2015 Central Fund £000	2015 Total £000
Market value at 1 January	137,437	2,357,460	2,494,897
Additions at cost	–	1,781,531	1,781,531
Increase in short-term deposits	98,478	17,996	116,474
Disposal proceeds	–	(1,719,939)	(1,719,939)
Deficit on the sale and revaluation of investments	–	(15,304)	(15,304)
Market value at 31 December	235,915	2,421,744	2,657,659
Analysis of securities at year end			
Listed securities			
Fixed interest			
Government	–	829,860	829,860
Corporate securities	–	704,864	704,864
Emerging markets	–	62,198	62,198
High yield	–	49,179	49,179
Total fixed interest	–	1,646,101	1,646,101
Global equities	–	495,577	495,577
Total listed securities	–	2,141,678	2,141,678
Unlisted securities			
Hedge funds	–	141,086	141,086
Commodities	–	–	–
Loan investments	–	78,764	78,764
Short-term deposits	235,915	40,216	276,131
Security deposits (see below)	–	20,000	20,000
Total unlisted securities	235,915	280,066	515,981
Market value	235,915	2,421,744	2,657,659

Analysis of securities			
AAA	59,035	365,675	424,710
AA	80,494	777,502	857,996
A	96,386	257,421	353,807
BBB	–	384,428	384,428
Other	–	636,718	636,718
Total securities	235,915	2,421,744	2,657,659

Security deposits

Tutelle Limited

In 1996 the Council set aside, under a Lloyd's special account, £20m of the 'Old' Central Fund to secure the Society's obligations under staff indemnities and certain indemnities which have been given by Lloyd's to certain individuals and advisers in respect of the 'Reconstruction and Renewal' plan. These include members of the Reserve Group, directors and officers of Equitas, members of the Council, Lloyd's Regulatory Board, Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees and Corporation staff.

Unless and until there is any default under the security documentation, interest earned on the trust fund is paid to the 'Old' Central Fund. The security was deposited for an initial period of two years and the Council exercised its discretion to renew this in June 1998. The Council further amended the period of the deposit, in November 1998, so that the security could only be released if the Council was satisfied that there was no reasonable prospect of a claim being made under these indemnities. Tutelle's position is under biennial review and, having been reviewed in July 2016, will be reviewed again in July 2018. The security may continue for a period of up to 80 years. Any of the funds remaining after this period will be repaid to the 'Old' Central Fund.

17. Trade and other receivables due within one year

	2016 £000	2015 £000
Due within one year		
Trade (net of allowance for impairment)	2,728	8,149
Insurance and reinsurance receivables	122,525	31,559
Member's subscriptions and contributions receivable	3,434	–
Interest receivable	16,954	17,631
Taxation and social security	2,151	1,806
Overseas office deposits	2,737	3,372
Amounts due from underwriters	7,392	8,501
Other receivables	47,220	9,972
Total trade and other receivables	205,141	80,990

18. Financial instruments

Explanations of the Society's financial instrument risk management objectives, policies and strategies are set out in the discussion of the Society's financial risk management and treasury policies on pages 123 to 124 of the Financial Review.

Fair values and credit risk

The methods and assumptions used in estimating the fair value of financial instruments are detailed in note 2F on pages 138 to 139.

The fair value (based on the quoted offer prices) of subordinated debt is £952.0m (2015: £948.4m) against a carrying value measured at amortised cost of £882.8m (2015: £882.1m). All other financial instruments are either held at fair value or at an amount that approximates fair value.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, in the Group statement of financial position. Exposures under guarantees entered into by the Society are detailed in note 27.

Impairment losses

Trade receivables

The ageing of trade receivables as at 31 December 2016 was as follows:

	2016 Gross £000	2016 Impairment £000	2016 Net £000	2015 Gross £000	2015 Impairment £000	2015 Net £000
Not past due	2,077	–	2,077	2,032	–	2,032
Past due 31-120 days	306	–	306	5,312	–	5,312
More than 120 days	349	(4)	345	829	(24)	805
Total	2,732	(4)	2,728	8,173	(24)	8,149

The Society's normal credit terms are 30 days. Receivables of more than 120 days represent amounts due from members no longer underwriting in respect of Society charges.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2016 £000	2015 £000
Balance at 1 January	24	95
Additional allowances during the year charged to the Group income statement	–	20
Allowances released during the year credited to the Group income statement	–	(36)
Recoveries during the year	(20)	(55)
Balance at 31 December	4	24

Sensitivity analysis

Foreign currency exposure

Currency risk is the risk that the sterling value of the Society's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Society's exposure to the risk of changes in the foreign exchange rates relates primarily to retranslating foreign currency subordinated notes, revaluation of loans recoverable and changes in the fair value of foreign currency denominated investments and forward contracts. Further details on foreign currency risk can be found on page 124.

Debt securities sensitivities

The value of the Society's investments in debt securities is affected by changes in the level of yields, as determined by the financial markets.

As at 31 December 2016, a consistent increase of 100 basis points in the yields applicable to all relevant securities would have reduced the surplus before tax by approximately £34m (2015: £33m). Relevant securities include investment grade sovereign and corporate bonds, floating rate notes and interest rate swaps. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ. Further details on market risk can be found on page 124.

Equity price risk

Equity price risk is the risk that the market values of equity investments fall. At 31 December 2016, a 15% fall in the value of all the Society's equity investments would have reduced the surplus before tax by approximately £84m (2015: £76m). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In practice, actual results may differ. Further details on market risk can be found on page 124.

Foreign exchange risk

The majority of foreign exchange exposures arising from investments denominated in foreign currencies are managed via a foreign exchange hedging programme. However, some net exposures to foreign currencies remain and the sterling value of the Society's investments may be impacted by movements in exchange rates relating to these exposures. At 31 December 2016, a 10% rise in the value of sterling, against all other currencies, would have reduced the surplus before tax by £133m (2015: £95m). This analysis assumes that all other variables remain constant. In practice, actual results may differ.

Liquidity risk

The table below summarises the maturity profile of the Society's non-derivative financial liabilities as at 31 December 2016 based on undiscounted contractual cash flows:

As at 31 December 2016	Carrying amount £000	Contractual cash flows £000	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Subordinated loan notes	494,324	(690,000)	(23,750)	(23,750)	(71,250)	(571,250)
Perpetual subordinated capital securities	388,490	(421,105)	(421,105)	–	–	–
Loans funding statutory insurance deposits	493,713	(493,713)	(493,713)	–	–	–
Trade and other payables	377,968	(377,968)	(377,968)	–	–	–
Total	1,754,495	(1,982,786)	(1,316,536)	(23,750)	(71,250)	(571,250)

As at 31 December 2015	Carrying amount £000	Contractual cash flows £000	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Subordinated loan notes	493,600	(713,750)	(23,750)	(23,750)	(71,250)	(595,000)
Perpetual subordinated capital securities	388,490	(450,196)	(29,091)	(421,105)	–	–
Loans funding statutory insurance deposits	436,518	(436,518)	(436,518)	–	–	–
Trade and other payables	210,171	(210,171)	(210,171)	–	–	–
Total	1,528,779	(1,810,635)	(699,530)	(444,855)	(71,250)	(595,000)

The contractual cash flows have been based on the expectation, but not the obligation, that the subordinated notes and perpetual subordinated capital securities are redeemed at the first option date.

Forward currency contracts are settled gross; notional amounts are a close proxy for gross cash flow amounts. Further details regarding the subordinated notes and the perpetual subordinated capital securities can be found in note 21 on pages 174 to 175. Information regarding financial guarantees, all of which could theoretically be called on within one year, can be found in note 27 on page 180.

18. Financial instruments continued

Derivative financial instruments

The Society enters into forward currency contracts to manage exposures to fluctuation of exchange rates and to provide a service to the Lloyd's market. The Society's derivative financial instruments are categorised as fair value Level 2 for disclosure purposes.

Analysis of forward currency contracts	2016 £000	2015 £000
Outstanding forward foreign exchange gains	16,233	8,789
Outstanding forward foreign exchange losses	(19,117)	(16,838)

The fair value and notional amounts of forward currency contracts, all of which mature within one year, are analysed as follows:

As at 31 December 2016	2016 Assets Fair value £000	2016 Assets Notional £000	2016 Liabilities Fair value £000	2016 Liabilities Notional £000
Currency conversion service (CCS)	6,288	206,826	(6,830)	(207,368)
Other forward foreign exchange contracts	8,280	440,850	(9,207)	(441,777)
Interest rate swaps	1,665	187,272	(3,080)	(187,272)
Total	16,233	834,948	(19,117)	(836,417)

As at 31 December 2015	2015 Assets Fair value £000	2015 Assets Notional £000	2015 Liabilities Fair value £000	2015 Liabilities Notional £000
Currency conversion service (CCS)	3,200	176,852	(3,416)	(177,069)
Other forward foreign exchange contracts	5,029	538,304	(11,372)	(544,647)
Interest rate swaps	560	123,673	(2,050)	(123,673)
Total	8,789	838,829	(16,838)	(845,389)

Fair Value Hierarchy

To provide further information on the valuation techniques we use to measure assets carried at fair value, we have categorised the measurement basis for assets carried at fair value into a 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the valuation as a whole:

Level 1

Inputs to Level 1 fair values are quoted prices in active markets for identical assets. An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples are listed debt securities in active markets, listed equities in active markets, listed deposits held with credit institutions in active markets and vanilla interest swaps in the United Kingdom and USA.

Level 2

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and fair value is determined through the use of models or other valuation methodologies. Level 2 inputs include quoted prices for similar (i.e. not identical) assets in active markets, quoted prices for identical or similar assets in markets that are not active or in which little information is released publicly, unlisted deposits held with credit institutions in active markets, low volatility hedge funds where tradeable net asset values are published.

Level 3

Inputs to Level 3 fair values are inputs that are unobservable for the asset. Unobservable inputs have been used to measure fair value where observable inputs are not available, allowing for situations where there is little or no market activity. Unobservable inputs reflect assumptions that the Society considers that market participants would use in pricing the asset and have been based on a combination of independent third party evidence and internally developed models.

Fair value hierarchy continued

	Notes	2016 Level 1 £000	2016 Level 2 £000	2016 Level 3 £000	2016 Total £000
Financial assets at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	3,682	–	3,682
Unlisted securities		–	9,660	–	9,660
Deposits with credit institutions		–	483,267	–	483,267
Total statutory insurance deposits	16A	–	496,609	–	496,609
Other investments					
Listed securities		746,503	1,012,289	–	1,758,792
Equity investments		396,198	154,878	–	551,076
Unlisted securities		–	300,655	17,560	318,215
Deposits with credit institutions		234,756	–	–	234,756
Total other investments	16B	1,377,457	1,467,822	17,560	2,862,839
Derivative financial instruments					
Currency conversion service		–	6,288	–	6,288
Other forward foreign exchange contracts		–	8,280	–	8,280
Interest rate swaps		1,665	–	–	1,665
Total derivative financial instruments	18	1,665	14,568	–	16,233
Loans recoverable	15	–	–	43,410	43,410
Total financial assets at fair value through profit or loss		1,379,122	1,978,999	60,970	3,419,091
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(6,830)	–	(6,830)
Other forward foreign exchange contracts		–	(9,207)	–	(9,207)
Interest rate swaps		(3,080)	–	–	(3,080)
Total derivative financial instruments	18	(3,080)	(16,037)	–	(19,117)
Total financial liabilities at fair value through profit or loss		(3,080)	(16,037)	–	(19,117)

18. Financial instruments continued

Fair value hierarchy continued

	Notes	2015 Level 1 £000	2015 Level 2 £000	2015 Level 3 £000	2015 Total £000
Financial assets at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	3,355	–	3,355
Unlisted securities		–	8,162	–	8,162
Deposits with credit institutions		–	434,384	–	434,384
Total statutory insurance deposits	16A	–	445,901	–	445,901
Other investments					
Listed securities		829,861	816,240	–	1,646,101
Equity investments		381,361	114,217	–	495,578
Unlisted securities		–	206,812	13,037	219,849
Deposits with credit institutions		296,131	–	–	296,131
Total other investments	16B	1,507,353	1,137,269	13,037	2,657,659
Derivative financial instruments					
Currency conversion service		–	3,200	–	3,200
Other forward foreign exchange contracts		–	5,029	–	5,029
Interest rate swaps		–	560	–	560
Total derivative financial instruments	18	–	8,789	–	8,789
Loans recoverable	15	–	–	44,577	44,577
Total financial assets at fair value through profit or loss		1,507,353	1,591,959	57,614	3,156,926
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(3,416)	–	(3,416)
Other forward foreign exchange contracts		–	(11,372)	–	(11,372)
Interest rate swaps		–	(2,050)	–	(2,050)
Total derivative financial instruments	18	–	(16,838)	–	(16,838)
Total financial liabilities at fair value through profit or loss		–	(16,838)	–	(16,838)

This table has been re-presented from that shown in the 2015 Annual report to show both £111.4m of listed securities and £114.2m of equity investments as Level 2 that were previously shown as Level 1 and £13.0m of unlisted securities as Level 3 that were previously shown as Level 2.

The Society's senior secured loans (reported within unlisted securities) and loans recoverable are categorised within Level 3 fair values for disclosure purposes.

Unlisted securities

Senior secured loans represent corporate lending to third parties which are held directly by the Society and managed by an external specialist investment manager. Gains and losses arising from changes in the fair value are included in the Group income statement in the period in which they arise. The revaluation process is carried out on a monthly basis.

When specific loans are insufficiently traded, the investment manager will determine fair value based on various unobservable factors and market inputs. This approach aligns with a Level 3 classification. Level 3 asset price estimation process involves significant judgement including the input choice. The investment manager will determine the most appropriate valuation method which may comprise of, but not limited to, discounted cash flow models, option adjusted spread prices, trading values on comparable assets or indicative brokers quote(s).

Fair values are determined using a pricing hierarchy structure for valuation purposes. The valuation principles employed are to provide the most accurate valuations, while also working to provide independent valuations. The pricing process employs a hierarchy that utilises numerous third party sources in a tiered system. The standard pricing hierarchy includes the following independent pricing vendors: FT Interactive Data; Reuters; Barclays Indices; Citigroup Indices; Merrill Lynch Indices; SNP (Standard & Poor's); MarkIt/LoanX – senior secured loans; Broker/Dealer Pricing; Fair Value/Model Pricing and Spread Pricing.

Loans recoverable

Recoverable Central Fund loans made to hardship members are managed on a fair value basis and relate solely to the revaluation of hardship, LFAA and legal assets. Gains and losses arising from changes in the fair value are included in the Group income statement in the period in which they arise. The revaluation process is carried out twice a year at both interim and year end.

Fair values are determined by reference to an estimate of the valuation of the underlying securities at the dates at which they may be exercised and discounted back to present day values. In the calculation of the fair value, the securities include both properties that have had a 2% increase applied and hardship trust fund assets with an annual increase of 1.3%. Both securities have had the percentage increase applied until the date at which they may be exercised. The property market stabilised during 2016 with an increase during the final quarter of the year. A discount rate of 2.6% has also been applied to achieve present day fair value. The securities include both properties and hardship trust fund assets. A security can normally only be exercised on the later of the date of death of the member or of their spouse. This date is assessed using actuarial assumptions.

There have been no significant transfers between Levels 1, 2 and 3 for the year ended 31 December 2016.

The fair value movements during the year are recognised as finance income or finance costs in the Group income statement.

The table below sets out a reconciliation from the opening balances to the closing balances of Level 3 fair values:

	2016 £000	2015 £000
As at 1 January	57,614	57,115
Purchases	6,501	3,886
Sales	(6,400)	(5,605)
Transfers (from)/to Level 3	(2,586)	878
Total net gains recognised in the profit and loss	5,841	1,340
As at 31 December	60,970	57,614

Sensitivity analysis

The majority of the Society's investments are valued based on quoted market information or other observable market data. The Society holds 1.8% (2015: 1.8%) of its financial investments at a fair value based on estimates and recorded as Level 3 investments.

Unlisted securities sensitivities

Where estimates are used to value unlisted securities, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions might result in a higher or lower fair value measurement, though this is unlikely to be significant.

Loans recoverable sensitivities

The value of loans recoverable is affected by changes in both property and hardship trust fund values. The property values are determined by a valuation being carried out periodically together with applying Halifax price indices bi-annually to revalue the assets at interim and year end. Inflationary increases are then applied to both property values and hardship trust funds until the estimated exercised date and then discounted back to present day values. Inflationary increases are based on management's best estimate taking current economic conditions into account.

As at 31 December 2016, a decrease of 100 basis points in the property values, comprising the greatest part of the total balance, would have reduced the surplus before tax by approximately £0.1m (2015: £0.1m). This analysis assumes that all other variables, including inflationary increases and discounted rates, remain the same.

19. Cash and cash equivalents

	2016 £000	2015 £000
Cash at banks	178,907	113,561
Short-term deposits	212,228	61,853
Total cash and cash equivalents	391,135	175,414

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Society, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £391.1m (2015: £175.4m).

20. Equity

Accumulated reserves

	2016 £000	2015 £000
Attributable to:		
Corporation of Lloyd's	(995)	72,696
Central Fund	1,952,292	1,657,958
Associates	6,596	8,502
Total accumulated reserves	1,957,893	1,739,156

Revaluation reserve

The revaluation reserve is used to record increases in the fair value of the Lloyd's Collection and decreases to the extent that such decreases relate to the amount previously recognised in the Group statement of comprehensive income.

Translation reserve

The translation reserve is used to record foreign exchange gains and losses recognised in other comprehensive income as a result of translating the results and financial position of Group entities that have a functional currency different from the presentation currency.

21. Subordinated notes and perpetual subordinated capital securities

	2016 £000	2015 £000
Details of loans payable wholly or partly after more than five years:		
6.875% subordinated notes redeemed on 17 November 2015 (Sterling 2004 Notes)	–	–
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	500,000	500,000
7.421% perpetual subordinated capital securities of £392m redeemable on 21 June 2017	392,013	392,013
	892,013	892,013
Less issue costs to be charged in future years	(6,172)	(6,510)
Less discount on issue to be unwound in future years	(3,027)	(3,413)
Total	882,814	882,090

Subordinated notes

The Sterling 2004 Notes were due to mature on 17 November 2025, although the Society took the option to redeem them on 17 November 2015.

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

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

Subordinated debt issued in 2007

The perpetual subordinated capital securities ('capital securities') are perpetual securities and have no fixed redemption date. However, they are redeemable in whole on 21 June 2017 at the option of the Society or on any interest payment date thereafter provided certain conditions have been met by the Society. The capital securities bear interest at a rate of 7.421% per annum until 20 June 2017, payable annually in arrears on 21 June in each year, and thereafter at a rate per annum reset semi-annually of 2.41% per annum above the London interbank offered rate for six-month sterling deposits, payable semi-annually in arrears on the interest payment dates falling on 21 June and 21 December in each year.

The capital securities are subordinated obligations of the Society. Upon the occurrence of any winding-up proceedings of the Society, the claims of the holders of the capital securities will rank junior to all other claims of creditors of the Society (including any creditor who is the holder of any of the Sterling Notes issued by the Society in 2004) except for those creditors having claims which rank equally with or junior to the claims of the holders of the capital securities. The claims of the holders of the capital securities will also rank junior to any payments made to discharge the liabilities of a member in connection with insurance business carried on at Lloyd's by that member and also to the claims of any person in respect of whom a New Central Fund undertaking has been made. However, in the event of a winding-up of the Society, the claims of the holders of the capital securities rank senior to the distribution of any central assets to members of Lloyd's generally (other than payments made to members in their capacity as senior creditors of the Society).

22. Provisions

	2016 Undertakings given to insolvent members £000	2016 Income Assistance Scheme £000	2016 Lease Cost Provision £000	2016 Other risks and charges £000	2016 Total £000
Balance at 1 January	5,859	2,698	12,637	523	21,717
Charged in the year	8,300	–	2,070	64	10,434
Utilised in the year	(13,653)	(465)	(3,531)	(62)	(17,711)
Balance at 31 December	506	2,233	11,176	525	14,440

	2015 Undertakings given to insolvent members £000	2015 Income Assistance Scheme £000	2015 Lease Cost Provision £000	2015 Other risks and charges £000	2015 Total £000
Balance at 1 January	5,859	3,055	15,250	425	24,589
Charged in the year	–	–	3,191	162	3,353
Utilised in the year	–	(357)	(5,804)	(64)	(6,225)
Balance at 31 December	5,859	2,698	12,637	523	21,717

Undertakings given to insolvent members

The Council has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls.

The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. For those corporate members in provisional liquidation, the Council has also provided a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding-up commencing on the date of the provisional liquidation.

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Provisions for amounts payable at 1 January			5,859		5,859
Undertakings granted in the year	4		8,300		–
Analysis of paid undertakings by member					
Ebury Underwriting Limited		(6,591)		–	
Hermanus Underwriting Limited		(7,062)		–	
Paid during the year			(13,653)		–
Undertakings given to insolvent members at 31 December			506		5,859

Income Assistance Scheme

The Income Assistance Scheme was effective from 1 January 2010 and replaced both the Hardship Income Top-up Scheme and the Income and Housing Support Scheme. The Income Assistance Scheme is permanent and replaces the discretionary nature of the previous schemes and guarantees ongoing payment of income assistance to eligible members of the previous schemes until the full undertaking has been utilised, other than in the event that Lloyd's faces severe financial stress.

Lease cost provision

The lease cost provision represents the Society's obligations in respect of the contractual capital expenditure and dilapidation cost under fully repairing leases.

Provision for other risks and charges

The provision relates to Centrewrite Limited and represents costs associated with running-off the business and obligations that have been incurred which are recognised to the extent they are not expected to be recovered by future profits or investment income of the operation.

Sensitivities

Undertakings given to insolvent members

This provision is calculated with reference to the financial exposure that is expected to be borne by the Central Fund based upon forecast member losses. It is therefore sensitive to both the likelihood of these losses occurring as well as the potential value of the losses.

Income Assistance Scheme

The provision covers expected future payments under the Income Assistance Scheme. The Names covered by the scheme receive quarterly payments until (a) death (or a spouse's death depending upon the individual arrangements agreed), (b) earlier settlement of the debt by the Name or (c) default by the Name of their contractual obligations. The value of the provision is therefore sensitive to the factors above as well as changes in inflation rates.

Lease cost provisions

The value of the lease cost provision is calculated with reference to the costs which are expected to be incurred during the remainder of the lease term. A 10% increase in these costs will therefore increase the value of the provision by 10%. It should be noted that the value of the provision is not sensitive to the timing of expenditure during the lease term.

Provision for other risks and charges

The provision relates to costs associated with running-off the business within Centrewrite Limited. In addition, obligations that have been incurred by the company are recognised to the extent they are not expected to be recovered by future profits or investment income of the operation. The provision is based on an estimation of future costs for the next ten years and is therefore sensitive to changes in charges levied by service providers as well as the rate of inflation used within the provision calculation.

23. Trade and other payables

	2016 £000	2015 £000
Due within one year		
Trade and other creditors	130,201	53,125
Insurance and reinsurance payables	204,432	85,721
Members' subscriptions and contributions repayable	18,958	47,325
Taxation and social security	2,876	2,706
Arbitration awards	1,981	1,774
Interest payable on subordinated loan notes	19,520	19,520
Total trade and other payables	377,968	210,171

24. Cash generated from operations

	Notes	2016 £000	2015 £000
Surplus before tax		405,149	87,187
Net finance (income)/cost	8	(260,221)	11,634
Share of profits of associates	10A	(7,891)	(7,391)
Operating surplus		137,037	91,430
Central Fund claims and provisions incurred	4	8,300	14
Operating surplus before Central Fund claims and provisions		145,337	91,444
Adjustments for:			
Depreciation of plant and equipment	14	7,798	7,640
Amortisation of intangible assets	13	324	175
Impairment losses	14	8	–
Losses on sale and revaluation of fixed assets		1,685	1,786
Gains on investments		3,271	145
Foreign exchange (gains)/losses on operating activities		(2,849)	745
Operating surplus before working capital changes and claims paid		155,574	101,935
Changes in pension obligations		7,112	7,422
Increase in receivables		(240,392)	(68,433)
Increase in inventories		(88)	(52)
Increase in payables		285,229	94,099
Decrease in provisions other than for Central Fund claims		(2,187)	(2,872)
Cash generated from operations before claims paid		205,248	132,099
Claims paid in respect of corporate/insolvent members	22	(13,653)	(14)
Cash generated from operations		191,595	132,085

25. Commitments

A. Capital expenditure commitments

Capital expenditure commitments contracted but not provided for in the financial statements totalled £0.06m (2015: £0.9m).

B. Operating lease commitments – Lloyd's as lessee

	2016 £000	2015 £000
Non-cancellable operating lease rentals are payable as follows:		
Within one year	33,536	33,074
After one year but not more than five years	99,199	100,616
More than five years	185,794	208,383

Commitments outstanding under the terms of the lease for the Lloyd's 1986 building have been included at the current rental value (£16.8m per annum) to the end of the lease term in February 2031. The lease is subject to a rent review every fifth year, the 2016 review is not settled.

The Lloyd's Chatham building is included at the current rental value (£0.4m per annum) to the end of the lease term in December 2028. The lease was subject to a 21 month rent free period which ended 31st July 2015.

During the year ended 31 December 2015, the Society entered into a new lease for the Lloyd's Datacentre in Singapore, the lease expires in October 2020.

During the year ended 31 December 2016, the Society entered in to a new lease for the Lloyd's Datacentre in Illinois, the lease expires in March 2021.

During the year ended 31 December 2015, the Society entered into a new lease agreement for Lloyd's Limited in Dubai, the lease expires in January 2018.

During the year ended 31 December 2016, the Society entered into a new lease agreement for Lloyd's Australia, the lease expires in January 2021.

Subsidiary undertakings are party to a number of small operating leases mainly for property rental and small machinery. The commitments outstanding have been included at current rental value to the first break in the lease. These arrangements do not impose any significant restrictions on the Society.

During the year ended 31 December 2016, £28.1m (2015: £24.7m) was recognised as an expense in the Group income statement in respect of operating leases.

C. Operating lease commitments – Lloyd's as lessor

	2016 £000	2015 £000
Non-cancellable operating lease rentals are receivable as follows:		
Within one year	8,164	7,228
After one year but not more than five years	20,072	22,570
More than five years	–	–

The three major tenants for the Lloyd's 1986 building are included at the current rental value to the first break in the leases in 2016 and 2017.

Subsidiary undertakings are party to a number of small operating leases for property sub-rental. The lease rentals receivable have been included at current rental value to the first break in the lease.

During the year ended 31 December 2015, the Society entered into a new lease agreement for Lloyd's Limited in Dubai. This has resulted in a number of additional sub lease agreements entered into between Lloyd's Limited and various managing agents.

During the year ended 31 December 2016, the Society entered into a new lease agreement for Lloyd's Australia. This has resulted in a number of additional sub lease agreements entered into between Lloyd's Australia and various managing agents.

During the year ended 31 December 2016, £14.4m (2015: £12.4m) was recognised as income in the Group income statement in respect of operating leases.

26. Disclosure of related party transactions

The Group financial statements include the financial statements of the Society and all of its subsidiary undertakings, the Lloyd's Central Fund and the Group's interests in its associates and joint venture as listed in note 10.

Services provided to Ins-sure Holdings Limited Group in the year ended 31 December 2016 included operating systems support and development, premises and other administrative services.

Services provided to Xchanging Claims Services Limited Group in the year ended 31 December 2016 included premises and other administrative services.

Services provided to The Message Exchange Limited in the year ended 31 December 2016 included the provision of messaging infrastructure.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial years together with information regarding the outstanding balances at 31 December 2016 and 2015.

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Associates:								
Ins-sure Holdings Limited	291	287	5,017	1,814	6	28	1,494	121
Xchanging Claims Services Limited	66	88	–	–	1	6	–	–
Joint venture:								
The Message Exchange Limited	–	–	498	493	–	–	38	40

Transactions with associates and joint arrangements are priced on an arm's length basis.

In the normal course of business, the Society may enter into transactions with Lloyd's market businesses in which members of Council and the Franchise Board may have an interest.

Details of the compensation paid to key management personnel including short-term employee benefits, post-employment benefits, other long-term benefits and termination benefits are disclosed within the Report of the Remuneration Committee on pages 99 to 116.

27. Contingent liabilities

(a) General average guarantees have been given on behalf of, and secured by, Lloyd's underwriters. It is estimated that the aggregate of the liabilities attaching to these guarantees at 31 December 2016 amounted to £37.3m (31 December 2015 £29.2m).

(b) The Society has taken on the responsibilities of some individual members under hardship and other agreements.

In connection with the statutory transfer to Equitas Insurance Limited on 30 June 2009 of the non-life business underwritten at Lloyd's and allocated to 1992 or prior years of account, the Society has entered into undertakings for the benefit of certain policyholders of Equitas Insurance Limited (former policyholders of PCW syndicates or of members who at the material time still have the benefit of hardship or other agreements with the Society), under which the Society would meet any shortfall in recoveries by such policyholders from Equitas Insurance Limited on the occurrence of an 'Equitas Insolvency Event'.

The Society has also given an unlimited undertaking to its subsidiary undertaking Centrewrite Limited to meet any shortfall in its cashflow or assets (including any shortfall arising from an insufficiency of recoveries from Equitas Reinsurance Limited under its reinsurance of the obligations of Centrewrite to Equitas Insurance Limited).

(c) Uncollateralised bank guarantees and other arrangements have been entered into by the Society to provide security in connection with the underwriting activities of the members of Lloyd's in the countries shown:

	2016 £000	2015 £000
Guarantees provided by the Society		
USA: US$1,500,000 (2015: US$1,500,000)	1,219	1,018

The Society has also entered into other arrangements in connection with the rental of office space in overseas countries.

In respect of all contingent liabilities disclosed as at 31 December 2016, no provision has been made in the Society financial statements (2015: £nil).

28. Post Balance Sheet Event

On 30 January 2017, the Society issued £300m of tier 2 debt in the form of a 30-year Non-Call 10 subordinated bond to further strengthen its capital position. The final pricing was at UK government 10-year Gilts plus 330 basis points.

4.16

Society Report

Five Year Summary (As at 31 December 2016)

	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
Corporation operating income	331,761	238,990	220,722	217,224	214,384
Central Fund income	119,955	111,507	114,745	108,361	105,636
Gross written premiums	237,916	104,413	53,040	39,218	29,910
Outward reinsurance premiums	(237,916)	(104,409)	(53,036)	(39,211)	(29,906)
Total income	451,716	350,501	335,471	325,592	320,024
Central Fund claims and provisions incurred	(8,300)	(14)	(812)	(17,758)	(26,447)
Central Fund repayment to members	–	–	(48,995)	–	–
Gross insurance claims incurred	(199,650)	(68,639)	(13,841)	(20,326)	(11,695)
Insurance claims recoverable from reinsurers	199,656	68,639	14,360	20,385	11,801
Other Group operating expenses					
Employment (including pension costs)	(147,003)	(125,381)	(108,309)	(102,487)	(98,128)
Premises	(49,117)	(40,305)	(42,226)	(46,099)	(40,660)
Legal and professional	(34,352)	(27,188)	(20,734)	(17,002)	(14,070)
Systems and communications	(35,671)	(26,012)	(23,563)	(23,353)	(22,826)
Other	(40,242)	(40,171)	(32,428)	(29,944)	(29,992)
Total other Group operating expenses	(306,385)	(259,057)	(227,260)	(218,885)	(205,676)
Surplus before finance, associates and tax	137,037	91,430	58,923	89,008	88,007
Finance costs					
Deficit on subordinated debt repurchase	–	–	(8,929)	(15,162)	–
Interest payable on financial liabilities and other	(53,570)	(54,362)	(48,920)	(55,642)	(62,198)
Finance income	313,791	42,728	93,523	60,359	114,855
Realised/unrealised exchange gains/(losses) on borrowings	–	–	6,864	(6,126)	6,107
Share of profits of associates	7,891	7,391	7,577	6,843	5,945
Surplus before tax	405,149	87,187	109,038	79,280	152,716
Tax charge	(75,193)	(12,835)	(17,543)	(13,884)	(33,880)
Surplus for the year	329,956	74,352	91,495	65,396	118,836

5.0

How Lloyd’s Works

5.1

How Lloyd's Works
What is Lloyd's / Lloyd's Market Structure

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

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

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

With expertise earned over centuries, Lloyd's is an influential force in the insurance industry. Its Vision 2025 strategy, launched in 2012, is aimed at ensuring that it remains a global centre for specialist insurance and reinsurance, facing future challenges head-on while grasping the opportunities of a fast-changing world.

Lloyd's Market Structure

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

Syndicates – writing the insurance
A Lloyd's syndicate is formed by one or more members joining together to provide capital and accept insurance risks. Most syndicates write a range of classes of business but many will have areas of specific expertise. Syndicates are, technically, set up on an annual basis. In practice, they usually operate from year to year with members having the right, but not the obligation, to participate in syndicates the following year. This continuity of capital backing the syndicates means they function like permanent insurance operations. Each syndicate sets its own appetite for risk, develops a business plan, arranges its reinsurance protection and manages its exposures and claims. **At 31 December 2016 there were 99 syndicates at Lloyd's.**

Managing agents – managing the syndicates
A managing agent is a company set up to manage one or more syndicates on behalf of the members. Managing agents have responsibility for employing underwriters, overseeing their underwriting and managing the infrastructure and day-to-day operations. **At 31 December 2016 there were 57 managing agents at Lloyd's.**

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

Brokers – distributing business

Lloyd's is a broker market in which strong relationships, backed by deep expertise, play a crucial part. Brokers facilitate the risk transfer process between policyholders and underwriters. Much of this business involves face to face negotiations between brokers and underwriters. **At 31 December 2016 there were 258 brokers at Lloyd's.**

Coverholders and service companies – offering local access to Lloyd's

A managing agent may also authorise third parties to accept insurance risks directly on behalf of its syndicates. These businesses, known as coverholders, form a vital distribution channel, offering a local route to Lloyd's in many territories around the world. **At 31 December 2016 there were 3,859 approved Coverholder office locations.**

A service company operates like a coverholder but is a wholly owned subsidiary of a managing agent or its group. Unlike a coverholder, a service company is able to sub-delegate underwriting authority to other coverholders. **At 31 December 2016 there were 380 service companies at Lloyd's, with the majority in the UK and the US.**

Corporation of Lloyd's – supporting the market

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

Members' agents – supporting the members

Members' agents provide advice and administrative services to members, including assisting with syndicate selection. **At 31 December 2016, there were four members' agents at Lloyd's.**

The Corporation's role includes:

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

The Corporation's Executive Committee exercises the day-to-day powers and functions of the Council of Lloyd's and the Franchise Board. **At 31 December 2016 the Corporation and its subsidiaries had 1,062 staff.**

5.2

How Lloyd's Works
Lloyd's Business Model

The Lloyd's market
Among Lloyd's defining features are the diversity of its underwriting portfolio and its very wide, and expanding, geographic reach.

Access to international insurance markets is one of Lloyd's greatest assets. It has specific trading rights to write insurance business in more than 75 jurisdictions and the ability to write reinsurance in more than 200 countries and territories. While the US and UK remain dominant markets for Lloyd's, in recent years there has been an increase in business from locations such as Singapore, China and Latin America.

Lloyd's has been working to extend and enhance its geographical coverage to reflect the evolution of the global economy and the dispersal of insurance capacity. During 2016, it increased its access in India.

Lloyd's capital structure
Lloyd's capital structure, often referred to as the Chain of Security, provides excellent financial security to policyholders and capital efficiency for members. The capital structure provides the financial strength that ultimately 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 capital structure has three elements:

Syndicate assets – members' working capital – the first link in the Chain of Security
All premiums received by syndicates are held in trust by the managing agents as the first resource for paying policyholders' claims and to fund regulatory deposits. Until all liabilities have been provided for, no profits can be released. Every year, each syndicate's reserves for future liabilities are independently audited and receive an actuarial review.

Funds at Lloyd's – members' capital deposited at Lloyd's – the second link in the Chain of Security
Each member, whether corporate or individual, must provide sufficient capital to support their underwriting at Lloyd's. Managing agents are required to assess the Solvency Capital Requirement (SCR) for each syndicate that they manage. This sets out how much capital the syndicate requires to cover its underlying business risks at a 99.5% confidence level.

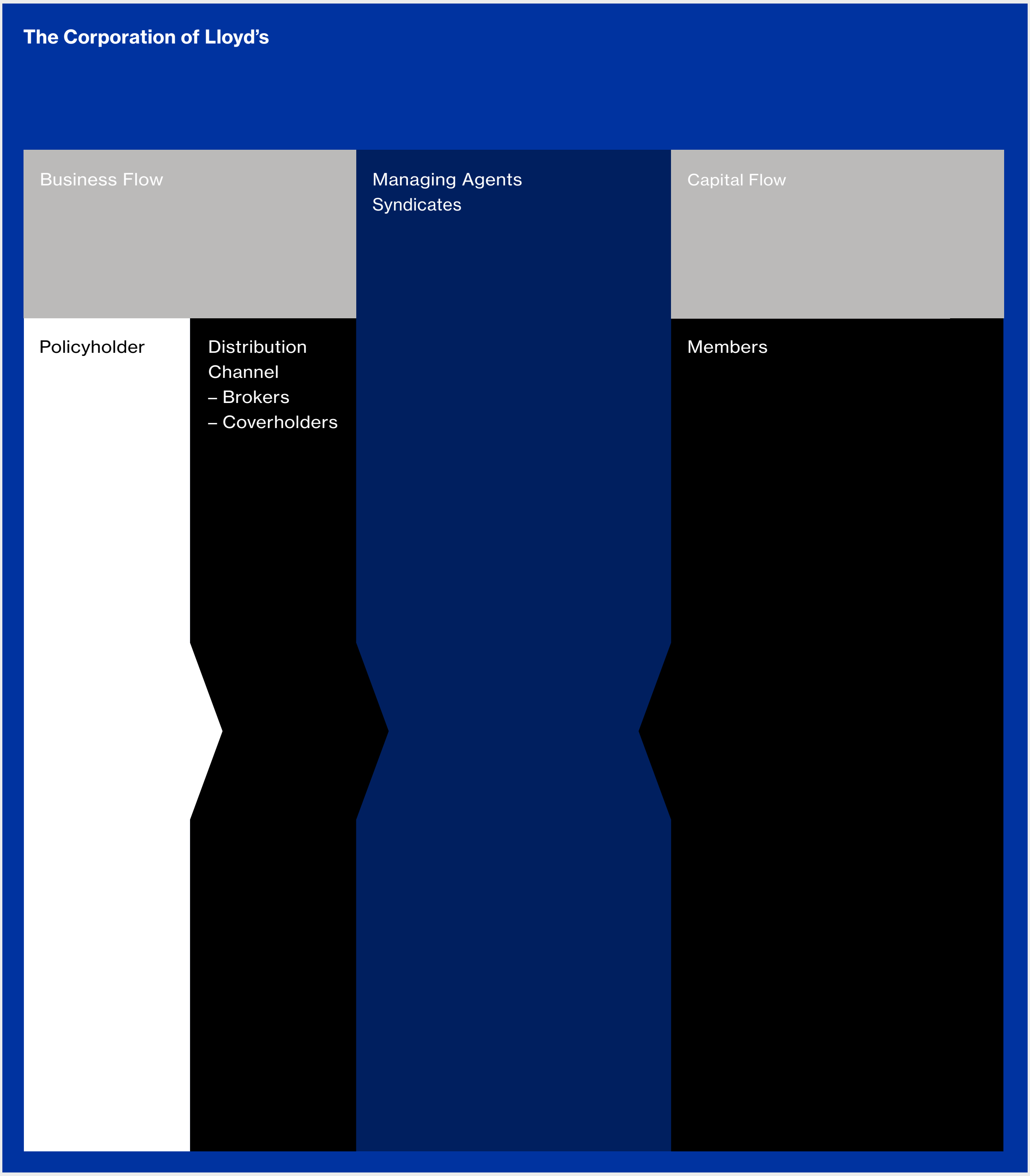
In light of Lloyd's mix of business, it is important that this assessment goes beyond the 12 month horizon required by Solvency II and must cover the risk of such extreme losses until all liabilities are paid and extend to an ultimate basis.

The Corporation reviews each syndicate's SCR to assess the adequacy of the proposed capital level. When agreed, each SCR is then 'uplifted' to ensure there is sufficient capital to support Lloyd's ratings and financial strength. The uplift applied for 2017 is 35%. This uplifted SCR is known as the syndicate's Economic Capital Assessment and drives members' capital levels across all of the syndicates in which they participate in proportion to their share of those syndicates. Each member's capital is held in trust by the Corporation for the benefit of policyholders but is not available for the liabilities of other members.

Lloyd's central capital – the third link in the Chain of Security
Lloyd's central assets, which include the Central Fund, are available, at the discretion of the Council of Lloyd's, to meet any valid claim that cannot be met from the resources of any member.

Should syndicates need additional assets to meet their liabilities, the funds at Lloyd's ensure that members have additional resources available. In the rare event that a member's capital is insufficient and that member is not able to provide further assets to the relevant syndicates, Lloyd's central capital provides further financial support to ensure valid claims are paid. The Corporation calculates the central Solvency Capital Requirement, which is independently validated and overseen by the PRA. The Franchise Board sets the level of economic capital needed above the regulatory minimum to meet its risk appetite and support the market's ratings and global licence network.

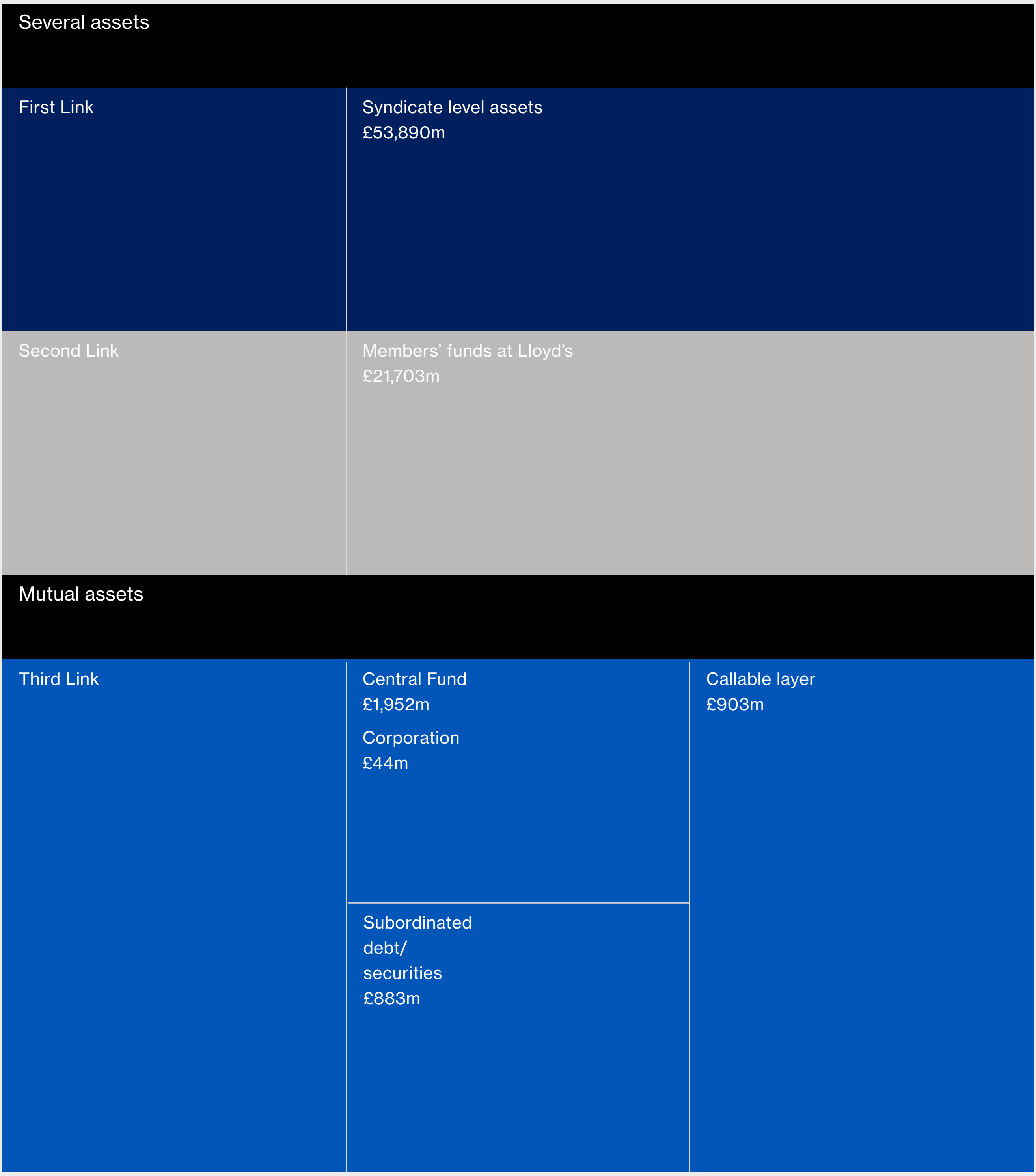
Market structure



5.2

How Lloyd's Works
Lloyd's Business Model

Lloyd's Chain of Security



Lloyd's ratings

All Lloyd's syndicates benefit from Lloyd's central resources, including the Lloyd's brand, its global licences and the Central Fund. As all Lloyd's policies are backed by this common security, a single market rating can be applied. Lloyd's financial strength ratings apply to all policies issued by Lloyd's syndicates since 1993.

Three of the world's leading insurance rating agencies – Standard & Poor's, Fitch Ratings and A.M. Best – assess Lloyd's capitalisation and financial strength. Additional information on the security underlying policies at Lloyd's can be found on the Lloyd's website.

Lloyd's ratings at 31 December 2016

Standard & Poor's: A+ (Strong)

A+

Fitch Ratings: AA– (Very Strong)

AA-

A.M. Best: A (Excellent)

A

5.3

How Lloyd's Works
The Lloyd's Market

Acappella Syndicate 2014	ADVENT A FAIRFAX Company	AEGIS	ALLIED WORLD
AmTrust at Lloyd's An AmTrust Financial Company	antares	APOLLO Syndicate Management Limited	Arch Underwriting at Lloyd's
ARCUS 1856	Argenta	ArgoGlobal Member Argo Group	Ariel Re Member Argo Group
ARK	ascot	ASPEN	asta
ATRIUM	AXIS	Barbican Insurance Group	Beaufort Underwriting Agency Limited
beazley	BRIT Global Specialty	CAPITA	CATHEDRAL Underwriting Ltd
Charles Taylor Managing Agency	Chaucer	CHINA RE Syndicate 2088 at Lloyd's	CHUBB
CNA / HARDY	Dale Underwriting Partners	DW 1991	Endurance
ERS	EVEREST	FARADAY	Hamilton at Lloyd's
HISCOX	icat Syndicate 4242	Liberty Specialty Markets	MAP underwriting at Lloyd's

MARKEL

MS Amlin

Munich Re Syndicate Limited
Munich RE

Navigators
Insuring A World In Motion®

NEON

Nephila

Newline Group

Novae
LOOKING FORWARD

Pembroke
MANAGING AGENCY

1492
PROBITAS

ProSight
Specialty Insurance

QBE

R&Q

RenaissanceRe

RiverStone
A FAIRFAX Company

S A Meacock & Company Limited

Sirius
International

SKULD

SOMPO CANOPIUS

STARR
COMPANIES

STARSTONE

SYNDICATE
2525

TALBOT
VALIDUS GROUP

The Channel Managing Agency

The
Standard
Syndicate

TOKIO MARINE
HCC

TOKIO MARINE
KILN

TRAVELERS

VIBE
SYNDICATE MANAGEMENT

W/R/B
UNDERWRITING
a W. R. Berkley Company

XL
XL CATLIN

5.4

How Lloyd's Works
Lloyd's Value Creation

Throughout history, human progress has gone hand-in-hand with risk taking. From the smallest idea to the largest expedition, whether considerable or minimal, risk, to some degree, is an ever-present factor. Properly quantified and managed, it should not be a barrier to success. Indeed, risk taking is key to making progress.

The role of insurance is to transfer risk, so providing individuals and organisations with the confidence to undertake endeavours that might otherwise be avoided.

In this way, insurance – and Lloyd's as one of its most well-known names – can be seen as having played a significant role in underwriting human progress. The 17th century saw Lloyd's insuring ships and their cargoes as new trade routes were opened up around the globe. It has provided cover for ventures such as the first non-stop transatlantic flight, the first airships and missions to the International Space Station.

Today, Lloyd's continues to support technological progress, developing policies that cover the use of aerial drones and pioneering the first cyber-security liability policy.

Lloyd's itself provides a platform for individual commercial business to thrive. It is a varied market, ranging from large international organisations to smaller niche businesses. Lloyd's syndicates often cover complex risks, including categories such as shipping, aviation, nuclear, climate, pandemics, political risk and energy.

For those seeking such protection, whether individuals, companies or even governments, the confidence that their insurance policies have sound financial backing and that their claims will be dealt with fairly and quickly is paramount. This confidence is fundamental to Lloyd's global brand and reputation. Lloyd's is a globally recognised and highly valued brand within the insurance industry.

Benefits to brokers and policyholders

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

Claims payment – Lloyd's is proud of its reputation for paying all valid claims in a timely and efficient manner.

Security and ratings – The single market ratings – from Standard & Poor's, Fitch Ratings and A.M. Best – reflect the fact that all contracts underwritten at Lloyd's are backed by Lloyd's Chain of Security. All policyholders benefit from the robust financial position of the market as a whole.

Benefits to syndicates and capital providers

Market access – Through Lloyd's central licensing arrangements syndicates at Lloyd's are able to access business from more than 200 countries and territories. The London underwriting room, in which transactions take place on a face to face basis, and Lloyd's strategically located international hubs are all supported by a global network of representatives with extensive local knowledge.

Lloyd's has been described (for example, in a 2014 report from Standard & Poor's) as the 'natural' home for some areas of specialist insurance and so is an equally natural choice for those looking to underwrite in these specialist fields.

Capital advantages – Lloyd's capital framework, under which insurance commitments are underpinned by a Central Fund, is efficient and flexible.

Central processes – Lloyd's market infrastructure supports its efficient operation. The Corporation provides central cash settlement and up to date information on regulatory and legal changes that could have an impact on underwriting decisions. It provides efficient tax and regulatory reporting to help the market meet its requirements and represents the market's interests to regulators and governments.

Market oversight – The Corporation aims to strike a proportionate balance between supporting a robust market oversight regime and supporting the entrepreneurial and innovative culture that has contributed to its growth and reputation for more than three centuries. It seeks not only to work with market participants wanting to develop new and innovative products but also to foster new thinking for the market as a whole – for example, through research into emerging risks and their potential mitigation.

Benefits to society and the economy

Economic contribution – Lloyd's is part of the broader London insurance market, which employs around 48,000 people – 34,000 of them in London. It contributes some £60bn to the UK's GDP – more than a fifth of the City of London's GDP contribution. In 2016, 148 of FTSE 250 companies and 29 of the 30 listed in the Dow Jones Industrial Average were insured at Lloyd's.

Contribution to society – Lloyd's also has a part to play globally in supporting the communities in which it operates and in taking a lead on wider social and environmental issues. This is reflected in its commitment to Global Corporate Social Responsibility as part of Vision 2025. Lloyd's continues to be an active member of the ClimateWise initiative, a collaborative endeavour by insurers to drive action on climate change.

Lloyd's also co-ordinates a number of Corporate Social Responsibility (CSR) programmes. During 2016 these included a week-long series of global events for the UN World Environment Day and the Dive-In festival focusing on diversity and inclusion.

The provision of risk transfer, through insurance and reinsurance, gives Lloyd's policyholders the confidence to undertake activities that carry risk and the potential to recover when things go wrong.

In this way, Lloyd's helps to underwrite human progress and it has created – and continues to create – value to society that far exceeds any financial measure.

5.5

How Lloyd's Works
Lloyd's Market Governance

The governance and oversight framework for the Lloyd's market is designed to ensure that both the Corporation and managing agents in the Lloyd's market have robust and comprehensive systems of governance, risk management and internal controls. The underlying objective of this overall framework is that the Corporation and the market actively manage risks to the Central Fund, Lloyd's licences, ratings and brand and to ensure good outcomes for policyholders.

Lloyd's governance and risk management
The Council of Lloyd's is Lloyd's governing body and has ultimate responsibility for overall management of the market. The Council delegates many of its functions to the Franchise Board, whose members are appointed by the Council and come from both inside and outside the Lloyd's market. The Franchise Board is responsible for, among other things, supervising and regulating the market and owns Lloyd's risk management framework.

Lloyd's risk management framework identifies the key risks that Lloyd's faces and enables an assessment of these risks on a common basis.

The Franchise Board has delegated to the Risk Committee responsibility for oversight of risks and providing regular assurance to the Board that those risks are managed in accordance with approved policies and risk appetites.

Oversight of the Lloyd's market
Each managing agent within the market has the responsibility for its own corporate governance. However, the Corporation provides a comprehensive market oversight framework for the governance of these businesses. This covers performance management, capital setting and risk management. The framework includes extensive Minimum Standards, including a Governance Minimum Standard, to which managing agents must adhere. The Corporation regularly assesses compliance with these standards.

The Corporation's oversight activity is published in its 2017 Market Oversight Plan. This provides managing agents with a summary of the Corporation's view of the key risks facing the market in 2017, together with the key oversight activities that the Corporation will undertake during the year.

The Corporation's oversight role through this framework is crucial. The Corporation is accountable to the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) for this (see below).

Managing agents' boards play an important role in ensuring that their firms' business plans, strategy and key risks are subject to appropriate and effective levels of oversight and challenge.

External regulation
In addition to the oversight and supervision provided by the Corporation as set out above, the Corporation and managing agents are regulated by the PRA and FCA. Members' agents and Lloyd's brokers are regulated by the FCA alone.

The Corporation is required by the PRA to meet various prudential requirements relating to capital and solvency and to demonstrate that the Lloyd's market is soundly and prudently managed.

The FCA's focus is on ensuring that the Corporation and managing agents have systems and controls in place to manage conduct risk arising from business underwritten at Lloyd's, with a view to securing an appropriate degree of protection for policyholders.

5.6

How Lloyd's Works
Managing Agents and Syndicates

The table shows the key characteristics for managing agents and syndicates active as at 31 December 2016. In 2016, Lloyd's wrote gross premiums of £29,862m.

Managing Agent (MA)	Managed syndicate(s)	2016 GWP* £m	2015 GWP* £m	Percentage of member owned by MA group %
ACE Underwriting Agencies Limited	1882	62	99	100%
	2488	408	378	100%
Advent Underwriting Limited	780	190	157	100%
AEGIS Managing Agency Limited	1225	377	333	100%
Allied World Managing Agency Ltd	2232	164	144	100%
AmTrust at Lloyd's Limited	44	14	17	100%
	1206	238	154	100%
	2526	30	29	99%
AmTrust Syndicates Limited	779	20	14	0%
	1861	259	222	100%
	5820	251	228	68%
Antares Managing Agency Limited	1274	338	261	100%
Apollo Syndicate Management Limited	1969	215	188	20%
Arch Underwriting at Lloyd's Ltd	2012	179	154	100%
Argenta Syndicate Management Limited	2121	281	227	43%
Argo Managing Agency Limited	1200	514	421	85%
	6117	46	24	0%
Ark Syndicate Management Limited	4020	312	337	87%
Ascot Underwriting Limited	1414	573	567	100%
Aspen Managing Agency Limited	4711	404	331	100%
Asta Managing Agency Limited	1686	216	118	0%
	1729	87	66	0%
	1897	113	97	0%
	1910	200	275	0%
	2357	128	47	0%
	2525	50	44	0%
	2786	59	0	0%
	4242	137	111	0%
	6123	14	4	0%
	6126	28	0	0%
Atrium Underwriters Limited	609	413	383	25%
Barbican Managing Agency Limited	1856	85	0	0%
	1955	313	328	100%
	6118	78	48	63%
Beaufort Underwriting Agency Limited	318	137	137	91%
Beazley Furlonge Limited	623	293	248	9%
	2623	1,333	1,131	100%
	3622	17	14	100%
	3623	195	172	100%
	6050	15	12	0%
	6107	36	31	28%
Brit Syndicates Limited	2987	1,412	1,308	100%
Canopius Managing Agents Limited	4444	1,064	827	83%
Capita Managing Agency Limited	1492	43	3	0%

5.6

How Lloyd's Works
Managing Agents and Syndicates

Managing Agent	Managed syndicate(s)	2016 GWP* £m	2015 GWP* £m	Percentage of member owned by MA group %
Cathedral Underwriting Limited	2010	191	197	58%
	3010	41	47	100%
Catlin Underwriting Agencies Limited	2003	2,070	1,919	100%
	2088	99	79	0%
	3002	19	27	100%
	6111	142	131	0%
	6112	40	37	100%
	6119	18	17	0%
	6121	26	22	100%
Charles Taylor Managing Agency Limited	1884	76	33	3%
Chaucer Syndicates Limited	1084	781	839	100%
	1176	28	27	57%
	6130	7	0	0%
Endurance at Lloyd's Limited	5151	236	175	100%
ERS Syndicate Management Limited	218	406	394	61%
Faraday Underwriting Limited	435	275	227	100%
Hamilton Underwriting Limited	3334	62	23	100%
Hardy (Underwriting Agencies) Limited	382	286	268	100%
HCC Underwriting Agency Ltd	4141	118	98	100%
Hiscox Syndicates Limited	33	1,057	847	73%
	3624	533	400	100%
	6104	30	33	0%
Liberty Syndicate Management Limited	4472	1,364	1,151	100%
Managing Agency Partners Limited	2791	171	149	20%
	6103	5	5	9%
Markel Syndicate Management Limited	3000	486	429	100%
MS Amlin Underwriting Limited	2001	1,831	1,654	100%
	3210	378	370	100%
Munich Re Underwriting Limited	457	356	436	100%
Navigators Underwriting Agency Limited	1221	340	272	100%
Neon Underwriting Limited	2468	160	210	70%
Newline Underwriting Management Limited	1218	100	96	100%
Novae Syndicates Limited	2007	901	789	100%
	6129	40	0	0%
Pembroke Managing Agency Limited	2014	145	92	0%
	4000	365	242	100%
	6125	12	0	0%
ProSight Specialty Managing Agency Limited	1110	245	212	100%
QBE Underwriting Limited	386	328	335	70%
	2999	1,073	991	100%
R&Q Managing Agency Limited	1991	103	59	30%
Renaissance Re Syndicate Management Limited	1458	335	244	100%
S.A. Meacock & Company Limited	727	60	68	16%
Sirius International Managing Agency Ltd	1945	115	83	100%
Starr Managing Agents Limited	1919	276	264	100%
StarStone Underwriting Management Limited	1301	209	170	89%
	2008	130	68	100%

Managing agent	Managed syndicate(s)	2016 GWP* £m	2015 GWP* £m	Percentage of member owned by MA group %
Talbot Underwriting Ltd	1183	719	667	100%
The Channel Managing Agency Ltd	2015	241	194	100%
Tokio Marine Kiln Syndicates Limited	308	32	28	50%
	510	1,297	1,163	55%
	557	17	17	0%
	1880	230	184	100%
Travelers Syndicate Management Limited	5000	300	287	100%
Vibe Syndicate Management Limited	5678	54	17	100%
W R Berkley Syndicate Management Limited	1967	169	142	100%
All other syndicates, SPA and RITC adjustments		(607)	73	
Total		29,862	26,690	

* See Glossary.

The following syndicates ceased trading at 31 December 2016:
AmTrust Syndicates Limited 779
ACE Underwriting Agencies Limited 1882
AmTrust at Lloyd's Limited 2526
MS Amlin Underwriting Limited 3210
Catlin Underwriting Agencies Limited 6112
Catlin Underwriting Agencies Limited 6119
Catlin Underwriting Agencies Limited 6121

As at 29 March 2017 the following syndicates commenced trading for the 2017 year of account:
Asta Managing Agency Limited 2689
Brit Syndicates Limited 2988
Ark Syndicate Management Limited 3902
Asta Managing Agency Limited 5886

5.7

How Lloyd's Works
Alternative Performance Measures (APMs)

The following metrics, which are consistently used to analyse financial performance in the Lloyd's Market Results and/or in the Society Report, are considered to be Alternative Performance Measures (APMs) as defined in the European Securities and Markets Authority Guidelines (ESMA Guidelines) on Alternative Performance Measures.

Metric	Applicable part of the Annual Report	Definition	Reason for use
Combined ratio	Market Results	Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	Combined ratio is used to measure the profitability of the underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Underwriting result	Market Results	Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.	Underwriting result is used to measure the profitability of the underwriting activity across the Lloyd's market.
Accident year ratio	Market Results	Accident year ratio is a measure of the profitability of the underwriting activity attributable to the current financial year. It is the ratio of net operating expenses plus claims incurred net of reinsurance and prior year releases to earned premium net of reinsurance.	Accident year ratio is used to measure the profitability of the underwriting activity of the Lloyd's market attributable to the current financial year.
Return on capital	Market Results	Return on capital is a measure of overall profitability. It is the ratio of result for the year before tax to the average of opening and closing total capital and reserves.	Return on capital ratio is used to measure the overall profitability and value-creating potential of the Lloyd's market.

Metric	Applicable part of the Annual Report	Definition	Reason for use
Investment return	Market Results and Society Report	Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average of opening and closing financial investments and cash at bank and in hand.	Investment return ratio is used to measure the performance of the portfolio of investments and cash balances held across the Lloyd's market.
Budgeted operating expenses	Society Report	Operating expenses are budgeted on an annual basis as part of a Corporation-wide exercise. These are calculated on an IFRS basis using a bottom up approach, consolidating figures across the different countries and departments within the Corporation.	The annual Budget is a key part of the financial control process within the Corporation and provides an estimate of expected future cost levels.
Free cash balances	Society Report	Free cash represents the amounts, both at bank and on deposit, held in the UK and overseas, excluding any balances held in respect of insurance and arbitration activities.	Provides a measure of the cash resources available to the Corporation to meet operating expenses.
Operating surplus	Society Report	The operating surplus is calculated as income from members (including subscriptions, central fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.	The operating surplus provides an indication of how the Society's income covers its cost base. This also provides a comparison of whether Central Fund contributions cover the cost of claims arising on the fund.

5.8

How Lloyd's Works
Glossary of terms

Set out below is a guide to insurance and Lloyd's-related terms. These are not precise definitions but are included to provide assistance to readers as to the general meaning of terms commonly used in the Lloyd's market. Formal definitions are set out in the Definitions Byelaw.

Accident year ratio A measure of the profitability of the underwriting activity attributable to the current financial year. The accident year ratio is calculated as net operating expenses and net incurred losses (paid and reserves) for claims occurring in the year as a proportion of net premiums earned during the year. It excludes movements during the calendar year on claims, expenses and premium estimates for previous years.

Active underwriter A person employed by a managing agent with principal authority to accept insurance and reinsurance risks on behalf of the members of a syndicate.

Binding authority An agreement between a Lloyd's managing agent and a coverholder under which the Lloyd's managing agent delegates its authority to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate.

Budgeted operating expenses Operating expenses are budgeted on an annual basis as part of a Corporation-wide exercise. These are calculated on an IFRS basis using a bottom up approach, consolidating figures across the different countries and departments within the Corporation.

Callable layer Central Fund assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds.

Central assets The net assets of the Society including the Central Fund, but excluding the subordinated debt liability and the callable layer.

Central Fund The fund financed by (among other things) contributions from Lloyd's members and administered by the Council primarily as a fund for the protection of policyholders, and includes both the 'Old' Central Fund and the New Central Fund.

Central SCR The Lloyd's Central Solvency Capital Ratio is calculated to cover all of the risks facing the Society and the Central Fund at a 99.5% confidence level over a one year time horizon.

Combined ratio A measure of an insurer's underwriting profitability based on the ratio of net incurred claims plus net operating expenses to net earned premiums. A combined ratio of 100% is break even (before taking into account investment returns). A ratio less than 100% is an underwriting profit.

Corporate member A company incorporated with limited liability, a Scottish limited partnership or a limited liability partnership, admitted to membership of the Society.

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

Coverholder A firm either in the UK or overseas that is authorised by a managing agent under the terms of a binding authority to enter into contracts of insurance to be underwritten by members of a syndicate managed by the managing agent. A Lloyd's broker may act as a coverholder.

Economic Capital Assessment The level of capital required to meet Lloyd's financial strength, license and rating objectives.

Financial Conduct Authority (FCA) The FCA supervises the conduct of the UK financial services industry. Lloyd's, managing agents, members' agents and Lloyd's brokers are regulated by the FCA.

Franchise Board The board established by the Council with responsibility for creating and maintaining a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised. This includes setting the Risk Management Framework and profitability targets for the market.

Free cash balances Free cash represents the amounts, both at bank and on deposit, held in the UK and overseas, excluding any balances held in respect of insurance and arbitration activities.

Funds at Lloyd's (FAL) Capital lodged and held in trust at Lloyd's as security for the policyholders and to support a member's overall underwriting business.

Integrated Lloyd's Vehicle (ILV) An arrangement in which a syndicate's capital is wholly provided by corporate members that are under the same ownership and control as the syndicate's managing agent.

Investment return Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average financial investments and cash at bank and in hand.

Managing agent An underwriting agent responsible for managing a syndicate, or multiple syndicates.

Market wide SCR The Market Wide Central Solvency Capital Ratio is calculated to cover all of the risks arising on the syndicate activity, members' capital provided at Lloyd's and the Society taken together at a 99.5% confidence level over a one year time horizon.

Member (of the Society) A person admitted to the membership of the Society.

Name A member of the Society who is an individual and who trades on an unlimited basis.

New Central Fund The New Central Fund constituted by and governed by the New Central Fund Byelaw (No. 23 of 1996).

Non-technical account Under UK GAAP the profit and loss account must be divided between the technical account and the non-technical account. Reported in the latter is all investment return, although an element will be reanalysed to the technical account, and any income and expenses that do not arise directly from the entity's underwriting activity.

Operating surplus The operating surplus is calculated as income from members (including subscriptions, central fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.

Premiums trust funds (PTF) The premiums and other monies that members receive in respect of their underwriting at Lloyd's are held by their managing agents in trust for them subject to the discharge of their underwriting liabilities.

The premiums trust funds comprise a sterling fund, Lloyd's American Trust Fund, Lloyd's Dollar Trust Funds, Lloyd's Canadian Trust Fund and the Lloyd's Asia trust funds (which cover general business written through coverholders in Singapore). These premiums trust funds are available to fund overseas regulatory deposits, claims, return premiums, underwriting expenses and any profit that is payable to the member after providing for all future liabilities.

Prior years' reserve movements This is calculated as movements in reserves established for claims that occurred in previous accident years.

Prudential Regulatory Authority (PRA) The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. Lloyd's and managing agents are regulated by the PRA.

Realistic Disaster Scenarios (RDS) A series of scenarios, both natural and man-made, which are used to assess the market's risk profile to a variety of different catastrophes to enable better risk management practices within Lloyd's.

Reinsurance to close (RITC) A reinsurance agreement under which members of a syndicate for a year of account to be closed are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.

Reinsurance to close (RITC) syndicate A syndicate set up solely to underwrite the Reinsurance to Close of other syndicates.

Return on capital Return on capital is a measure of overall profitability. It is the ratio of result for the year before tax to the average of opening and closing total capital and reserves.

Service company An approved coverholder which Lloyd's has agreed can be classified as a 'service company' by reason of it being a wholly owned subsidiary of either a managing agent or of a managing agent's holding company and which is normally only authorised to enter into contracts of insurance for members of its associated syndicate and/or associated insurance companies.

Solvency ratio The measure of an insurer's solvency based on the ratio by which the net assets for solvency purposes exceed the solvency requirement.

Special Purpose Arrangement (SPA) A syndicate set up solely to underwrite a quota share reinsurance of another syndicate's business for a year of account.

Spread syndicate A syndicate whose capital is provided by a number of different members, including those that have separate ownership and control, to the syndicate's managing agent.

5.8

How Lloyd's Works
Glossary of terms

Spread vehicle A corporate member underwriting on a number of different syndicates.

Syndicate A member, or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.

Syndicate allocated capacity In relation to a syndicate the aggregate of the member's syndicated premium limits of all the members for the time being of the syndicate.

Technical account Under UK GAAP the profit and loss account must be divided between the technical account and the non-technical account. The technical account reports the results of the underwriting activity, premiums less claims, less expenses and also includes an element of the investment return reanalysed from the non-technical account.

Traditional syndicate A syndicate whose members underwrite insurance business at Lloyd's for the current year of account and which is neither an SPA syndicate nor an RITC syndicate.

Underwriting result Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.

Year of account The year to which a risk is allocated and to which all premiums and claims in respect of that risk are attributed. The year of account of a risk is usually determined by the calendar year in which the risk incepts. A year of account is normally closed by reinsurance to close at the end of 36 months.