MARKET RESULTS

Statement of Council's Responsibilities and Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the 2014 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 on the preparation of the 2014 pro forma financial statements

Report on the preparation of the Lloyd's pro forma financial statements

Our conclusion
In our opinion the Council of Lloyd's has prepared the pro forma financial statements (the 'PFFS'), as defined below, for the financial year ended 31 December 2014 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 total recognised gains and losses.
– A pro forma balance sheet.
– A pro forma statement of cash flows.
– Notes 1-17 to the PFFS.

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 2014 are included.

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

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 accounts, the audited Society of Lloyd's financial statements and funds at Lloyd's.
– Checking (on a sample basis) that the financial information included in the PFFS was correctly extracted from the syndicate annual accounts and the Society of Lloyd's financial statements.
– Evaluating evidence to support the existence and valuation of funds at Lloyd's.
– Evaluating the evidence supporting the adjustments made and obtaining evidence that the PFFS have been prepared in accordance with the basis of preparation set out in note 2.

The engagement also involves evaluating the overall presentation 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 taken together and their net assets 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 is made solely to the Council of Lloyd's in accordance with our engagement letter dated 3 December 2014 (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, 25 March 2015

Pro Forma
Profit and Loss Account

For the year ended 31 December 2014

Technical account	Note	£m	2014 £m	Restated £m	Restated 2013 £m
Gross written premiums					
– continuing operations		25,268		25,612	
– discontinued operations	5	15		3	
	9		25,283		25,615
Outward reinsurance premiums			(5,259)		(5,384)
Premiums written, net of reinsurance			20,024		20,231
Change in the gross provision for unearned premiums		(626)		(582)	
Change in the provision for unearned premiums, reinsurers' share		177		76	
			(449)		(506)
Earned premiums, net of reinsurance			19,575		19,725
Allocated investment return transferred from the non-technical account			666		337
			20,241		20,062
Claims paid					
Gross amount		12,028		13,086	
Reinsurers' share		(2,736)		(3,004)	
			9,292		10,082
Change in provision for claims					
Gross amount		(275)		(1,501)	
Reinsurers' share		573		1,000	
			298		(501)
Claims incurred, net of reinsurance			9,590		9,581
Net operating expenses	11		7,656		7,539
Balance on the technical account for general business			2,995		2,942
Attributable to:					
– continuing operations		2,972		2,919	
– discontinued operations	5	23		23	
Total			2,995		2,942
Non-technical account					
Balance on the technical account for general business			2,995		2,942
Investment return on syndicate assets	12	749		379	
Notional investment return on funds at Lloyd's	6	202		400	
Investment return on Society assets		94		60	
		1,045		839	
Allocated investment return transferred to the technical account		(666)		(337)	
			379		502
Other income			65		62
Other expenses			(278)		(301)
Result for the financial year before tax	8		3,161		3,205

Statement of total recognised gains and losses	Note	2014 £m	2013 £m
Result for the financial year		3,161	3,205
Other recognised gains and losses	8	102	(123)
Total recognised gains and losses since previously reported	8	3,263	3,082

Pro Forma
Balance Sheet

As at 31 December 2014

Investments	Note	£m	2014 £m	Restated £m	Restated 2013 £m
Financial investments	13		45,008		42,252
Deposits with ceding undertakings			3		4
Reinsurers' share of technical provisions					
Provision for unearned premiums		1,961		1,727	
Claims outstanding		8,785		9,195	
	16		10,746		10,922
Debtors					
Debtors arising out of direct insurance operations		6,188		5,672	
Debtors arising out of reinsurance operations		3,589		3,469	
Other debtors		776		735	
			10,553		9,876
Other assets					
Tangible assets		24		40	
Cash at bank and in hand	14	9,852		9,242	
Other		9		21	
			9,885		9,303
Prepayments and accrued income					
Accrued interest and rent		72		71	
Deferred acquisition costs		3,213		2,848	
Other prepayments and accrued income		184		136	
			3,469		3,055
Total assets			79,664		75,412
Capital and reserves					
Members' funds at Lloyd's	6	15,704		15,088	
Members' balances	15	5,189		3,635	
Members' assets (held severally)		20,893		18,723	
Central reserves (mutual assets)		1,693		1,663	
	8		22,586		20,386
Subordinated debt	2		497		330
Subordinated perpetual capital securities	2		388		391
Capital, reserves and subordinated debt and securities			23,471		21,107
Technical provisions					
Provision for unearned premiums		12,562		11,656	
Claims outstanding		38,134		37,621	
	16		50,696		49,277
Deposits received from reinsurers			57		46
Creditors					
Creditors arising out of direct insurance operations		499		466	
Creditors arising out of reinsurance operations		2,945		2,743	
Other creditors including taxation		1,480		1,334	
			4,924		4,543
Accruals and deferred income			516		439
Total liabilities			79,664		75,412

Approved by the Council of Lloyd's on 25 March 2015 and signed on its behalf by

John Nelson
Chairman

Inga Beale
Chief Executive Officer

Pro Forma
Cash Flow Statement

For the year ended 31 December 2014

	2014 £m	Restated 2013 £m
Result on ordinary activities before tax	3,161	3,205
Depreciation	5	13
Realised and unrealised losses and foreign exchange	(1,454)	1,059
Net purchase of investments	(1,041)	(1,516)
Notional return on funds at Lloyd's	(202)	(400)
Increase/(decrease) in technical provisions	1,598	(729)
(Increase)/decrease in debtors	(984)	294
Increase/(decrease) in creditors	289	(796)
Cash generated from operations	1,372	1,130
Tax paid	(21)	(29)
Net cash from operating activities	1,351	1,101
Cash flows from financing activities		
Net profits paid to members	(1,512)	(937)
Net movement in funds at Lloyd's	581	(526)
Net capital transferred into/(out of) syndicate premium trust funds	80	(31)
Issue of 2014 subordinated notes	493	–
Purchase of 2004 subordinated notes	(329)	(195)
Interest paid	(54)	(62)
Net increase/(decrease) in cash holdings	610	(650)
Cash holdings at 1 January	9,242	9,892
Cash holdings at 31 December	9,852	9,242

Notes to the Pro Forma *Financial Statements*

As at 31 December 2014

1. Introduction

Lloyd's is not an insurance company. It is a Society of members which underwrite insurance (each for their own account) as members of syndicates. 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 include the aggregate of syndicate annual accounts (Aggregate Accounts), members' funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's on pages 74-172.

The Aggregate Accounts do not present a consolidated view of the results of Lloyd's business taken as a single entity. In particular, each managing agent selects the accounting policies most appropriate to its managed syndicates. Where UK GAAP permits different accounting policies and managing agents have adopted various accounting treatments, these are reflected in the PFFS without making consolidation adjustments. In addition, the PFFS do not eliminate inter-syndicate reinsurances (except for SPS, see below).

The Aggregate Accounts report the audited results for calendar year 2014 and the financial position at 31 December 2014 for all syndicates which transacted business during the year. They include the syndicate level assets, which represent the first link in the Chain of Security (see page 70). The Aggregate Accounts are reported as a separate document and can be viewed at www.lloyds.com/financialreports. During 2014, certain syndicates changed their accounting policies in relation to foreign exchange resulting in a restatement of the comparative figures for 2013 within their annual accounts and the Aggregate Accounts have been restated accordingly. The restatements are not material and, therefore, the comparative figures within the PFFS have not been restated.

The capital provided by members is generally held centrally as FAL and represents the second link in the Chain of Security. The non-technical account of the PFFS includes a notional investment return on FAL.

The Society of Lloyd's audited financial statements report the central resources of the Society, which forms the third link in Lloyd's Chain of Security.

As noted on pages 133 and 134, the Society of Lloyd's has restated its comparative figures for 2013. The restatements are not material and, therefore, the comparative figures within the PFFS have not been restated.

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 held at syndicate level, members' assets held as FAL and the central resources of the Society.

Overall, the PFFS aggregate the results and resources of the Society and its members and reflect all the links in Lloyd's Chain of Security as described in detail in the 'Security underlying policies issued at Lloyd's' section on pages 70-73. The PFFS may, therefore, be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is as closely as possible comparable with general insurance companies.

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 includes the tax provisions in the Society financial statements.

Funds at Lloyd's
FAL comprise the capital provided by members 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 are available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable, may include letters of credit and bank and other guarantees, and 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 Individual Capital Assessment (ICA) capital setting methodology.

Notional investment return on FAL
A notional investment return on FAL has been calculated, 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 calculated 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.

Notes to the Pro Forma
Financial Statements continued

As at 31 December 2014

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, 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.

Transactions between syndicates and the Society

- Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate annual accounts and as income in the Society financial statements.
- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls, and do not have the resources to meet those cash calls, are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate annual accounts for calendar year 2014 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.

Transactions between the syndicates and the Society which have been reported within both the syndicate annual accounts and the Society financial statements have been eliminated (note 8).

Special Purpose Syndicates (SPS)

The Aggregate Accounts include the results and assets of the SPS (see Glossary page 176). Due to the nature of SPS, the quota share of the host syndicate's business is reported as gross written premiums in both the host syndicate and SPS 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 reinsurance transactions of the SPS have been eliminated. The key impact of this elimination is that gross written premium is reduced by £567m (2013: £491m). The elimination does not affect the PFFS result or the balance due to members.

This disclosure has been adopted for the first time in 2014 so the 2013 adjustment noted above has been restated in the comparative figures. There is no impact on the 2013 overall result, combined ratio or the balance due to members within total capital and reserves.

All other inter-syndicate reinsurance arrangements are included in full.

Inter-syndicate loans

The syndicate annual accounts report debtor and creditor balances for inter-syndicate loans totalling £160m (2013: £95m). 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.

Subordinated debt and securities

In accordance with the terms of the 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.

The 2014 figure for subordinated notes includes the Notes issued on 30 October 2014. Note 17 to the Society financial statements on pages 155 and 156 provides additional information.

3. Accounting policies notes

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. In particular, in certain circumstances, UK GAAP permits various accounting treatments for the movement in foreign exchange. The following accounting policies are, therefore, generic in nature.

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 reinsurance companies involved. Statistical techniques are used to assist in making these estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors of each syndicate's managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events, which may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

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

Income and expenditure in foreign currencies are translated into pound sterling using the exchange rates prevailing at the date of the transactions or the average rate may be used when this is a reasonable approximation.

Where the international operations for a syndicate are treated as a branch, its branch assets and liabilities are translated into pound sterling at the rates of exchange ruling at the balance sheet date. The exchange differences arising are normally accounted for through the statement of total recognised gains and losses.

For other international operations, monetary assets and liabilities are translated into pound sterling at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities at the balance sheet date, primarily deferred acquisition costs and unearned premiums, are maintained at the rate of exchange ruling when the contract was entered into (or the approximate average rate). Resulting exchange differences on translation are recorded in the profit and loss account.

Investments

Investments are stated at current 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.

Notes to the Pro Forma
Financial Statements continued

As at 31 December 2014

3. Accounting policies notes continued

Syndicate investment return continued
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.

B. Funds at Lloyd's
FAL are valued in accordance with their market value at the year end, and using year end exchange rates.

Investments are stated at current 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.

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 134-138.

4. Variability

Calendar year movements in reserves are based upon best estimates as at 31 December 2014, 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.

5. Discontinued operations

Continuing/discontinued operations represent the analysis reported in the syndicate annual accounts between business that they are continuing to underwrite and business that they have ceased to underwrite. It is quite possible, however, that business discontinued by one syndicate continues to be written at Lloyd's by one or more other syndicates.

When a syndicate has ceased underwriting, its operations are reported as discontinued within the syndicate's annual accounts. Where the entire book of business continues to be written by another syndicate, however, an adjustment is made in the PFFS to reflect the continuing nature of this business to Lloyd's and its members as a whole. Where business has been reported as discontinued in 2014, the results for that business have also been reported as discontinued in the 2013 comparative figures.

6. Members' funds at Lloyd's

The valuation of members' FAL in the balance sheet totals £15,704m (2013: £15,088m). The notional investment return on FAL included in the non-technical profit and loss account totals £202m (2013: £400m).

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.

6. Members' funds at Lloyd's continued

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

		Proportion of FAL		Investment return	
Investment type	Index	December 2014 %	December 2013 %	2014 %	2013 %
UK equities	FTSE All share	6.0	6.7	1.5	21.2
UK government bonds	UK Gilts 1-3 years	2.3	3.4	1.8	0.0
UK corporate bonds	UK Corporate 1-3 years	8.8	8.9	1.9	0.4
UK deposits managed by Lloyd's	Return achieved	3.3	4.0	0.5	0.4
UK deposits managed externally including LoC	GBP LIBID 1 month	24.6	24.2	0.4	0.4
US equities	S&P 500 Index	4.8	4.9	13.7	32.4
US government bonds	US Treasuries 1-5 years	5.3	5.0	1.2	(0.2)
US corporate bonds	US Corporate 1-5 years	15.1	13.8	2.1	1.1
US deposits managed by Lloyd's	Return achieved	4.0	3.1	0.1	0.2
US deposits managed externally including LoC	USD LIBID 1 month	25.8	26.0	0.2	0.2

7. Society of Lloyd's

The results of the Group financial statements of the Society included in the profit and loss account are a profit of £219m (2013: £268m) in the technical account and a loss of £121m (2013: £180m) in the non-technical account.

8. Aggregation of results and net assets

A reconciliation between the results, statement of realised gains and losses and net assets reported in the syndicate annual accounts, members' FAL and by the Society is set out below.

As disclosed in the Society's basis of prepartion and consolidation note the Society has restated its comparative figures for 2013. The amounts of the adjustments are considered immaterial and so the PFFS have not been restated. The impact of the prior year adjustment (PYA) is reflected in the reconciliations below and more details can be found on page 133 of this Annual Report.

Profit and loss account	2014 £m	2013 £m
Result per syndicate annual accounts	2,861	2,717
Result of the Society	91	65
Central Fund claims and provisions incurred in Society financial statements	1	18
Central Fund recoveries from insolvent members	(9)	(2)
Taxation charge in Society financial statements	18	14
Notional investment return on members' funds at Lloyd's	202	400
Society PYA for IAS (see note above)	–	(1)
Movement in Society income not accrued in syndicate annual accounts	(3)	(6)
Result on ordinary activities before tax	3,161	3,205

Statement of total recognised gains and losses	2014 £m	2013 £m
Result for the financial year	3,161	3,205
Foreign currency movements in the syndicate annual accounts	134	(125)
Other recognised losses per syndicate annual accounts	1	(5)
Society PYA for IAS (see note above)	–	–
Other recognised gains and losses of the Society	(33)	7
Total recognised gains and losses	3,263	3,082

Notes to the Pro Forma
Financial Statements continued

As at 31 December 2014

8. Aggregation of results and net assets continued

Capital and reserves	2014 £m	2013 £m
Net assets per syndicate annual accounts	5,191	3,634
Net assets of the Society	1,693	1,635
Central Fund claims and provisions	6	11
Members' funds at Lloyd's	15,704	15,088
Unpaid cash calls reanalysed from debtors to members' balances	9	4
Society income receivable not accrued in syndicate annual accounts	(17)	(14)
Society PYA for IAS (see note above)	–	28
Total capital and reserves	22,586	20,386

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.

2014	Gross written premiums £m	Net earned premium £m	Underwriting result £m
Reinsurance	8,497	6,680	1,250
Property	6,281	4,572	577
Casualty	4,963	3,939	81
Marine	2,142	1,759	85
Energy	1,533	1,093	189
Motor	1,213	1,082	(69)
Aviation	582	377	(8)
Life	72	73	5
Total from syndicate operations	25,283	19,575	2,110
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society	–	–	219
PFFS premiums and underwriting result	25,283	19,575	2,329
Allocated investment return transferred from the non-technical account			666
Balance on the technical account for general business			2,995

2013	Gross written premiums £m	Net earned premium £m	Underwriting result £m
Reinsurance	8,977	6,760	1,321
Property	6,103	4,551	681
Casualty	4,850	3,826	47
Marine	2,195	1,835	84
Energy	1,668	1,181	201
Motor	1,184	1,014	(87)
Aviation	562	485	90
Life	76	73	–
Total from syndicate operations	25,615	19,725	2,337
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society	–	–	268
PFFS premiums and underwriting result	25,615	19,725	2,605
Allocated investment return transferred from the non-technical account			337
Balance on the technical account for general business			2,942

10. Life business

The PFFS include the results of all life and non-life syndicates transacting business during 2014. 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

	2014 £m	2013 £m
Acquisition costs	5,808	5,674
Change in deferred acquisition costs	(296)	(226)
Administrative expenses	2,149	1,869
Underlying operating expenses	7,661	7,317
(Profit)/loss on exchange	(5)	222
	7,656	7,539

12. Syndicate investment return

	2014 £m	2013 £m
Income from investments	649	689
Net realised gains/(losses) on investments	63	(32)
Net unrealised gains/(losses) on investments	83	(223)
Investment management expenses, including interest	(46)	(55)
	749	379

The breakdown of the Society investment return is provided in the Society's financial statements on page 144. This analysis is not appropriate for the notional investment return on funds at Lloyd's.

13. Financial Investments

	2014 £m	2013 £m
Shares and other variable yield securities and units in unit trusts	6,617	5,679
Debt securities and other fixed income securities	31,953	29,225
Participation in investment pools	1,451	1,908
Loans and deposits with credit institutions	4,900	5,343
Other	87	97
	45,008	42,252

The following table provides an analysis of the credit disposition of syndicate investments.

	2014 £m	2013 £m
Government, agency and supranational	11,803	11,738
'AAA' rated	4,306	4,260
'AA' rated	4,332	3,996
'A' rated	6,923	5,960
'BBB' and lower rated	2,564	2,095
Equity and hedge funds	1,887	1,253
Cash equivalents	2,748	2,866
Total syndicate investments	34,563	32,168
FAL investments	7,884	7,731
Society investments	2,561	2,353
Total per PFFS	45,008	42,252

Government, agency and supranational investments are predominantly within the US, UK and Canada.

Notes to the Pro Forma
Financial Statements continued

As at 31 December 2014

13. Financial Investments continued

The following table provides an analysis of the average duration of syndicate fixed income securities.

	2014 %	2013 %
Less than one year	13	7
Between one and two years	41	38
Between two and three years	23	35
Over three years	23	20
Total per PFFS	100	100

The average duration of syndicate fixed income securities was 2.3 years (2013 2.3 years). The average duration for claims provisions was approximately three years.

14. 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 £7,864m (2013: £7,450m).

15. Members' balances

	2014 £m	2013 £m
Balance at 1 January	3,635	2,048
Result for the year per syndicate annual accounts	2,861	2,717
Distribution on closure of the 2011 (2010) year of account	(1,371)	(889)
Advance distributions from open years of account	(239)	(173)
Movement in cash calls	98	125
Net capital transferred into/(out of) syndicate premium trust funds	80	(31)
Foreign currency movements	158	(150)
Other movements	(33)	(12)
Balance at 31 December	5,189	3,635

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 2015.

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 in the year, the movement is reflected in the above table as 'net capital transferred into/(out of) syndicate premium trust funds'.

16. Technical provisions

Gross	2014 £m	Restated 2013 £m
Claims reported	19,048	19,601
Claims incurred but not reported and unallocated loss adjustment expenses	19,086	18,020
Unearned premiums	12,562	11,656
Total technical provisions, gross	50,696	49,277
Recoverable from reinsurers		
Claims reported	4,908	5,505
Claims incurred but not reported and unallocated loss adjustment expenses	3,877	3,690
Unearned premiums	1,961	1,727
Total reinsurers' share of technical provisions	10,746	10,922
Net		
Claims reported	14,140	14,096
Claims incurred but not reported and unallocated loss adjustment expenses	15,209	14,330
Unearned premiums	10,601	9,929
Total net technical provisions	39,950	38,355

17. Five year summary

Results	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Gross written premiums (restated)	25,283	25,615	25,173	23,337	22,425
Net written premiums	20,024	20,231	19,435	18,472	17,656
Net earned premiums	19,575	19,725	18,685	18,100	17,111
Result attributable to underwriting	2,329	2,605	1,661	(1,237)	1,143
Result for the year before tax	3,161	3,205	2,771	(516)	2,195
Assets employed					
Cash and investments	54,860	51,494	51,767	51,416	48,483
Net technical provisions	39,950	38,355	39,078	39,765	36,191
Other net assets	7,676	7,247	6,611	6,565	5,899
Capital and reserves	22,586	20,386	19,300	18,216	18,191
Statistics					
Combined ratio (%)	88.1	86.8	91.1	106.8	93.3
Return on capital (%)	14.7	16.2	14.8	(2.8)	12.1

Security Underlying Policies Issued at Lloyd's

As at 31 December 2014

Summary

Lloyd's is not an insurance company, it is a Society of members, both corporate and individual, which underwrite insurance in syndicates. These syndicates can comprise one single corporate member or any number of members, underwriting severally for their own account.

There were 94 syndicates (excluding syndicates set up to accept RITC of orphan syndicates but including the 12 Special Purpose Syndicates) as at 31 December 2014 registered to conduct business at Lloyd's. Each syndicate is managed by a managing agent. Managing agents write insurance business on behalf of the member(s) of the syndicate, which receive profits or bear losses in proportion to their share in the syndicate for each underwriting year of account. The adoption of annual accounting and presentation of the syndicate annual accounts do not change the allocation of profits and losses to members.

The Lloyd's Chain of Security

The three key features of the Lloyd's Chain of Security provide strong security to all Lloyd's policyholders, reflected in the high ratings assigned by leading rating agencies.

The first two links in the Lloyd's Chain of Security each operates on a several basis: each member's resources are only available to meet their share of claims. The third link represents assets available to meet the liabilities of any member on a mutual basis. The key features of the Chain of Security are summarised below and the sections which follow describe each of these links in greater detail.

The Chain of Security supports policies written for the 1993 and subsequent years of account for non-life business and all life business written at Lloyd's. Liabilities in relation to the 1992 and prior years of account for non-life business were reinsured into Equitas as at 31 December 1995, as part of 'Reconstruction and Renewal'. Subsequently, the 1992 and prior liabilities were subject to a statutory transfer to Equitas Insurance Limited under Part VII of the Financial Services and Markets Act in June 2009.

The first link

The first link in the Chain of Security is the member's premiums trust funds, and other assets held in trust at syndicate level. To protect the interests of policyholders, all premiums and other monies received or receivable in connection with the member's underwriting business are initially paid into the premiums trust funds of the syndicate concerned. Payments from these funds may only be made to meet permitted trust outgoings: claims, reinsurance premiums, underwriting expenses and the like, including funding international regulatory deposits. Profit is not distributed until provision has been made for all outstanding liabilities.

There are separate premiums trust funds for life business and non-life business. There is a further segregation in that a number of the premiums trust funds are exclusively available to support certain international underwriting of members. The Lloyd's Dollar Trust Funds (LDTF) receive premiums in respect of US dollar denominated non-life business underwritten or incepting on or after 1 August 1995. Receipts in respect of non-life US dollar denominated business originally written and incepting before that date were held in the Lloyd's American Trust Fund (LATF) of each member, in New York. During 2009 arrangements were made, in agreement with the New York Insurance Department, to transfer the non-life underwriting liabilities in relation to the insurance business incepting before 1 August 1995 previously held in the LATF, into the LDTF.

The other international premiums trust funds are the Lloyd's Canadian Trust Fund (LCTF) in Canada, comprising members' receipts in respect of Canadian situs business and the Lloyd's Asia trust funds for general business written by members through service companies in Singapore.

Members must ensure that there are sufficient funds in the members' premiums trust fund for the syndicate to meet all claims, necessary expenses and outgoings in connection with the syndicate business; they are required to meet a request to make such funds available (a 'cash call'). Cash calls are met by members from their own resources or, if necessary, from their FAL or, at the Council's discretion, the New Central Fund.

Premiums trust funds are used to fund international regulatory deposits. The US situs business of each syndicate is supported by US situs syndicate level trust funds (for US situs surplus lines business, US situs reinsurance business as accredited reinsurers, and for Illinois and Kentucky licensed business respectively). In addition, separate joint asset trust funds provide joint security for members' US situs surplus lines, US situs reinsurance and Kentucky business respectively.

These deposits would be available to meet judgement debts of a member in respect of business connected with the relevant international territory in the event that the relevant premiums trust fund for the member, even after replenishment from other links in the Chain of Security and other free assets of the member in question, was inadequate.

Underwriters also maintain regulatory deposit trust funds in Australia and South Africa and various deposits in other countries.

The total value of all the above funds was £45,139m at 31 December 2014.

The second link

The second link is members' capital provided to support their underwriting.

The capital provided by every member is assessed according to the Lloyd's Individual Capital Assessment (ICA) capital setting framework. When agreed, each ICA is then 'uplifted' (by 35% for 2014) to provide an extra buffer to support Lloyd's rating and financial strength. This uplifted ICA, which is the Economic Capital Assessment (ECA), is used to determine members' capital requirements subject to prescribed minimum levels.

The PRA oversees the annual review of syndicate ICAs by the Corporation, which reviews the historical performance, business plans and risk appetite of that syndicate in assessing the adequacy of the capital level proposed. The PRA also reviews a small sample of syndicate ICAs in order to validate the effectiveness of the reviews carried out by the Corporation.

This capital is commonly held as FAL but from 1 July 2007 can be held by aligned corporate members within the premiums trust fund (see first link above).

FAL comprise the three trust funds in which members' assets may be held: the Lloyd's deposit, the special reserve fund and the personal reserve fund. These are each available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable; this includes letters of credit and bank and other guarantees. A member is required to have sufficient assets at least equivalent to the aggregate of the member's ECA and certain liabilities in respect of its underwriting business. The amount of FAL assets required will depend on the net open year underwriting position of the member, i.e. if the net open year position is a deficit then the member will be required to add additional FAL to cover this deficiency, if the net open year position is a surplus the member can use these surplus assets towards their ECA requirement, thus reducing the value of their assets to be held as FAL.

Minimum capital ratios are set at 40% of overall premium limits (25% for those members writing mainly EU motor business).

Individual members underwrite with unlimited liability and thus may be required to meet their share of claims to the full extent of their wealth. A corporate member may also have assets, beyond its capital to support underwriting, which can be called upon to meet its underwriting liabilities.

At 31 December 2014, the total value of capital supporting underwriting held in trust by members amounted to £15,704m (a further £2,709m of capital supporting underwriting is held in members' premiums trust funds as part of the first link).

The third link

The third link is the central resources of the Society. These are the assets of the Central Fund (comprising the New Central Fund and the 'Old' Central Fund and other assets of the Society).

The New Central Fund has been established to be available, at the discretion of the Council of Lloyd's, to ensure that policyholders' claims are met in the event of members being unable to meet their underwriting liabilities relating to 1993 and post non-life business and all life business. In practice, this entails the payment of syndicate cash calls where a member is unable to do so from their FAL or their own resources. The New Central Fund is funded by annual contributions from members.

The net assets of the Central Fund as at 31 December 2014 were £1,590m.

In 2004 and 2014, Lloyd's issued subordinated loan notes and in 2007 perpetual capital securities which, as at 31 December 2014, are included as a liability of £885m within the Society's financial statements. As set out in note 17 to the Society's financial statements, payments on the notes are 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.

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 premiums trust funds (described and included in the first link).

In addition, the other assets of the Society, totalling £103m at 31 December 2014, are available to meet underwriting liabilities in the last resort.

In aggregate, the value of the central resources of the Society (excluding the subordinated debt liability and the callable layer), amounted to £2,578m at 31 December 2014.

Aggregate resources

The total of syndicate assets, members' capital to support underwriting (i.e. funds at Lloyd's and capital held in syndicate premiums trust funds) and central resources of the Society as at 31 December 2014 was £63,421m. The total of net syndicate technical provisions at the end of 2014 was £39,950m. The total net resources of the Society and its members were therefore £23,471m (excluding the subordinated debt liability) as shown in the PFFS on page 59.

Security Underlying Policies Issued at Lloyd's
continued

As at 31 December 2014

Aggregate resources continued

The aggregated resources are based on the total of the assets and liabilities of all members and those of the Society. The aggregate declared resources of the Society do not represent a consolidated statement of the financial position of Lloyd's business taken as a single entity and, as indicated above, the first two links in the Chain of Security operate on a several, not mutual, basis.

Solvency controls

One of the most important controls on the solvency of the members of Lloyd's is the annual solvency test.

The annual solvency process requires the managing agent of each syndicate to estimate and provide for all current and future liabilities for each year of account. These liabilities, 'technical provisions for solvency', are subject to a statement of actuarial opinion. The requirement for an opinion and its required wording, that the net technical provisions for solvency are not less than the current and future liabilities, is a higher test than required in the UK company market. In the event that it is not possible for the managing agent to secure an unqualified actuarial opinion for any reason, the technical provisions for solvency would be determined by the Lloyd's Actuary, who would provide a report to the PRA. In addition, any syndicate which is not able to secure an unqualified actuarial opinion will normally be subject to a monitoring review by Lloyd's. There were no qualified actuarial opinions as at 31 December 2014.

The Lloyd's solvency test has two stages to the calculation:

First, each member's solvency position is calculated. Each member must have sufficient assets – those held in the premiums trust funds, international regulatory deposits and its capital to support underwriting – to cover its underwriting liabilities and on top of this an additional margin known as the member's capital resources requirement (MCRR). The MCRR is calculated separately for each member, determined as the greater of 16% of annual premium income or 23% of average claims incurred over a three-year period. Premiums and claims in respect of certain types of liability business have their value increased by 50%, for the purpose of this calculation. Where a member's assets are not sufficient to cover the aggregate of its underwriting liabilities and its MCRR, the member has a solvency shortfall.

The second part of the solvency test calculation requires that the net central assets of the Society must be sufficient to cover the aggregate of all members' shortfalls calculated at the solvency test date. Central assets include the value of the Central Fund and the other net assets of the Society, excluding the subordinated debt liability but including the callable layer – for this purpose, the 'effective' callable layer, i.e. that part of the callable layer not attributable to members with a solvency shortfall.

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 PRA are advised of the results of this monitoring.

The Lloyd's return

Each year, Lloyd's files the Lloyd's return with the PRA. This return is intended to ensure Lloyd's regulatory reporting requirements are in line with other UK insurers, adapted where appropriate to reflect Lloyd's unique structure. This return reports the results of the Lloyd's solvency test.

Recapitalisation at member level

The free funds available to a member to meet its capital requirements may fall below the required level for two reasons: first, increases to syndicate ICAs, following a material change to the risk profile of the business; or second, erosion of funds due to losses.

In either case, the timetable for recapitalisation and the intervention by Lloyd's will depend on the extent of the shortfall.

All members are subject to biannual (June and November) Coming into Line (CIL), where members are required to hold free funds to meet their ECA. Lloyd's has powers to require members to meet their ECA at all times, but will normally permit recapitalisation in accordance with this biannual timetable, provided that members' free funds remain above their ICA. Where a member's funds fall below their ICA level, Lloyd's requires members to inject additional capital outside of the normal CIL timetable.

Where there is a material exposure to the Central Fund and policyholder security, underwriting restrictions or other measures may be imposed to mitigate the risks until capital is lodged at Lloyd's.

In accordance with the continuous solvency regime, where a member's free funds fall below the level of regulatory solvency (underwriting losses plus MCRR), the existing powers to immediately suspend underwriting or take any other measures deemed appropriate to Lloyd's may be used.

Total net resources of the Society of Lloyd's and its members

	2014 £m	2013 £m
I Syndicate level assets (several basis)	45,139	41,990
II Members' funds at Lloyd's (several basis)	15,704	15,088
III Central assets (mutual basis)		
Net Central Fund assets	1,590	1,513
Subordinated debt	497	330
Subordinated perpetual capital securities	388	391
Other net assets of the Society	103	150
	2,578	2,384
Total resources of the Society of Lloyd's and its members	63,421	59,462
Net syndicate technical provisions	(39,950)	(38,355)
Total net resources of the Society of Lloyd's and its members	23,471	21,107

Notes

This financial summary has been compiled by aggregating the assets and liabilities of all the underlying syndicates, members' funds at Lloyd's and other net assets of the Society of Lloyd's. The statement does not purport to disclose the solvency position of each member of Lloyd's.

The 'total net resources of the Society of Lloyd's and its members' represents the capital, reserves and subordinated notes and securities shown in the PFFS as set out on page 59.

Syndicate level assets includes capital to support underwriting held by aligned corporate members in the syndicate premiums trust funds.