

LLOYD'S

Keeping Lloyd's Competitive

John Parry, Chief Financial Officer

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Strategy & Planning

The benefits of placing business and operating at Lloyd's

The advantages of operating at Lloyd's remain strong

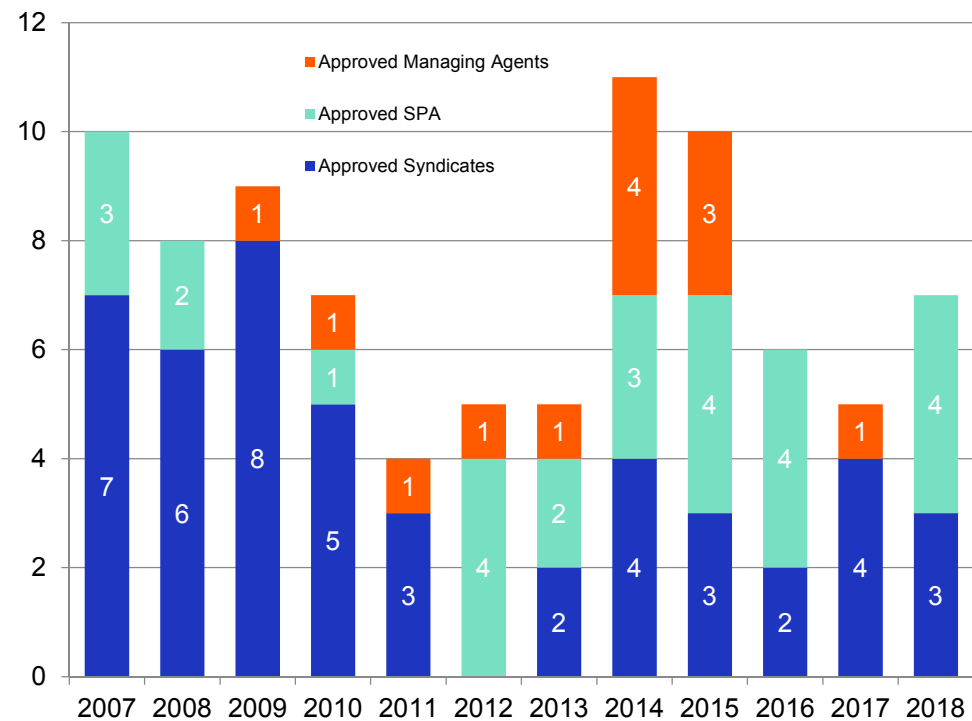
Customers & distribution	Capital	Operations & services
<ul style="list-style-type: none"> • Access to business brought to Lloyd's • A broad and expanding licence network in over 200 territories • Delegated authority and subscription models 	<ul style="list-style-type: none"> • All policies underpinned by the Central Fund • Efficient and Flexible • Single Financial Strength Rating 	<ul style="list-style-type: none"> • Economies of scale from central services
Talent	Brand	Market oversight
<ul style="list-style-type: none"> • The Lloyd's market is a recognised centre of specialist underwriting, claims and analytics expertise 	<ul style="list-style-type: none"> • Lloyd's has a globally recognisable brand • Reputation for paying all valid claims in a timely and efficient manner 	<ul style="list-style-type: none"> • Corporation oversees risks written at Lloyd's • Proportionate and robust market oversight regime consistent with an entrepreneurial and innovative culture

Lloyd's strategy

Lloyd's market purpose		
Lloyd's enables human progress		
Lloyd's market vision		
To be the market for specialist insurance and reinsurance, where the world takes its risk		
Strategic priorities		
Market Oversight	Customers & Distribution	Capital
Operations & Services	Talent	Brand
Corporation purpose		
<p>Under our trusted name, the Corporation acts to create and maintain a competitive, innovative and secure market. Our dedicated people serve to protect and promote the interests of the market and its customers, provide valued services to market participants and advance the interests of the capital providers over the long term.</p>		

New entrants

- Interest in business joining the Lloyd's Market remains strong.
- The SPA structure remains attractive for the development of new businesses.
- Groups are continuing to access the market initially at member level, supporting third party syndicates.

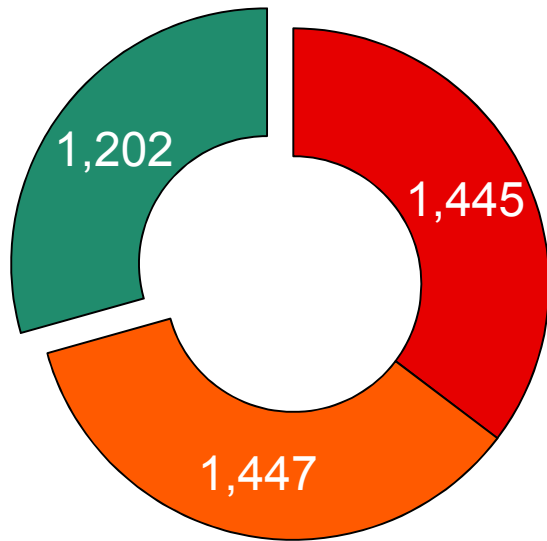


Brexit

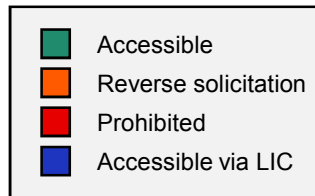
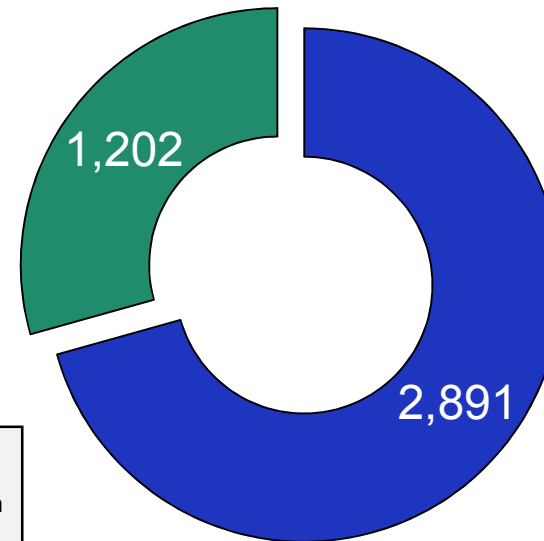
Why do we need the Lloyd's Brussels subsidiary?

GWP⁽¹⁾ (EUR MN)

Do nothing – World Trade Organisation Rules

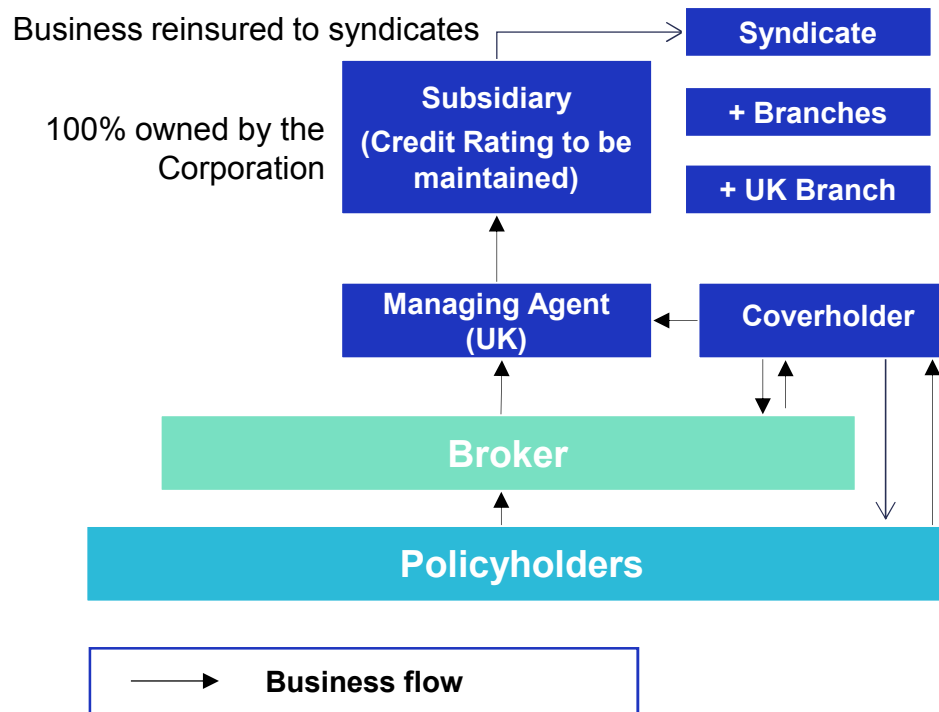


Lloyd's Insurance Company



Note: (1) based on 2016 EEA GWP, excluding Life

How the Lloyd's Brussels Subsidiary will work



Timeline of the Lloyd's Brussels subsidiary

- Lloyd's Brexit lobbying position: continued trade with Single Market. No 'hard Brexit', transitional arrangements instead. Ongoing engagement with UK Government
- Brussels Subsidiary will be a fully fledged Insurance Company, fully regulatory and tax compliant
- Allows continued trading under the Lloyd's brand and benefiting from Lloyd's robust financial ratings
- Maximum Reinsurance back to syndicates (100%)
- Initial capital injection from Society of Lloyd's

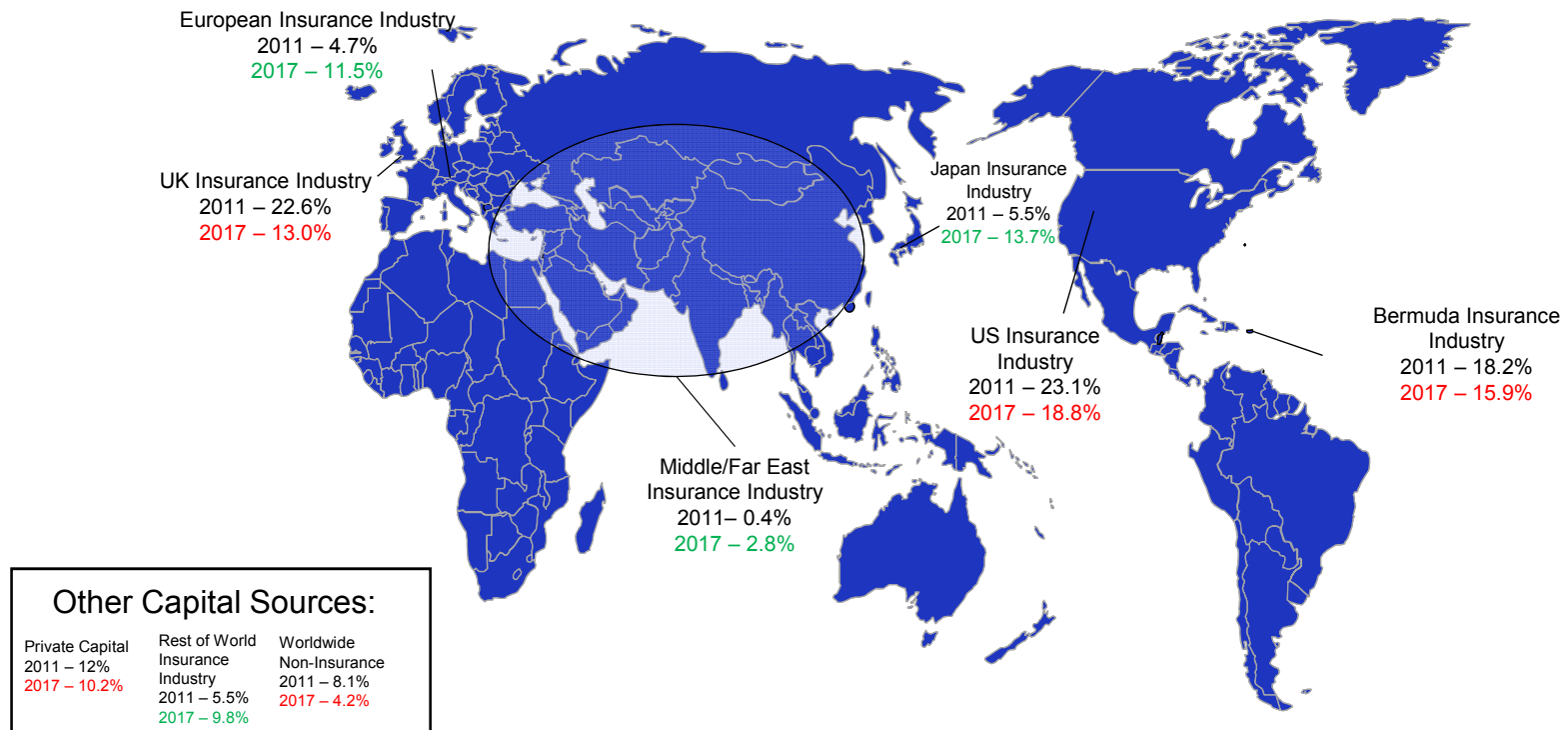
Timeline:



Capital

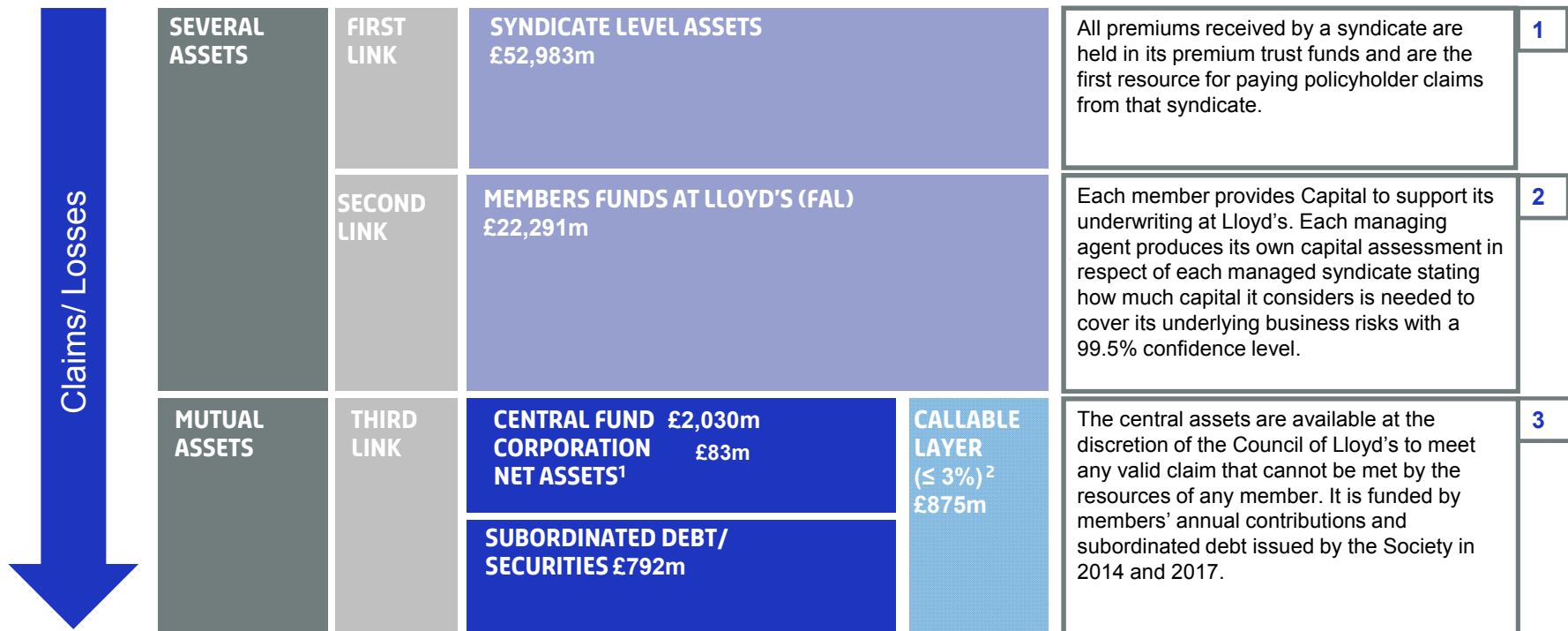
Lloyd's capital base is diversifying in line with our strategy

Capital



Strong and Flexible Capital Structure:

Lloyd's "Chain of Security"



1) Corporation net assets: Corporation Reserves, Associates Reserve, Revaluation Reserve, Translation Reserve; 2) 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.
Source: Lloyd's pro forma financial statements, 30 June 2017

Balance sheet

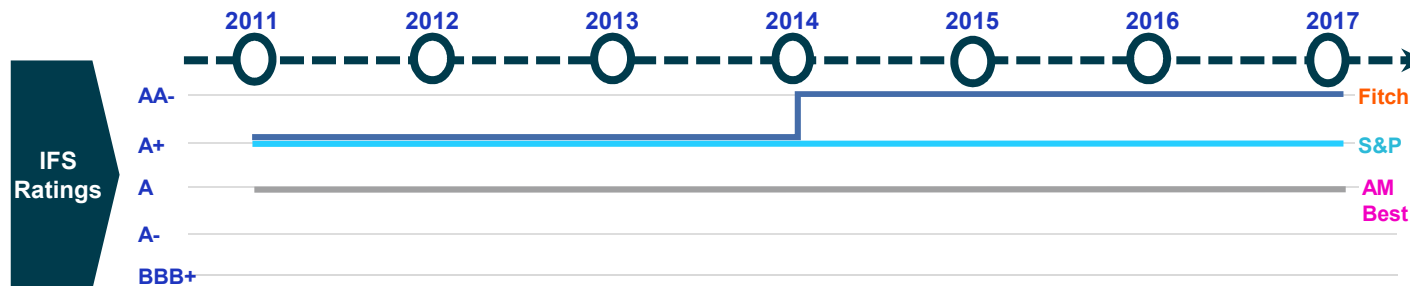
December 2014 – HY 2017

Balance sheet				
£m	December 2014	December 2015	December 2016	June 2017
Cash and investments	54,889	56,900	67,646	65,941
Reinsurers' share of unearned premiums	1,976	2,368	3,110	4,422
Reinsurers' share of claims outstanding	8,785	8,610	11,310	11,963
Other assets	14,063	15,751	19,536	23,122
Total assets	79,713	83,629	101,602	105,448
Gross unearned premiums	(12,652)	(13,723)	(16,548)	(19,212)
Gross claims outstanding	(38,134)	(38,833)	(47,747)	(47,373)
Other liabilities	(5,514)	(5,975)	(8,710)	(10,884)
Net resources	23,413	25,098	28,597	27,979
Member assets	20,835	22,453	25,718	25,074
Central assets ¹	2,578	2,645	2,879	2,905

Source: Lloyd's pro forma financial statements, 30 June 2017. ¹Central assets are the net assets of the Society including the Central Fund, excluding subordinated debt liabilities and the callable layer.

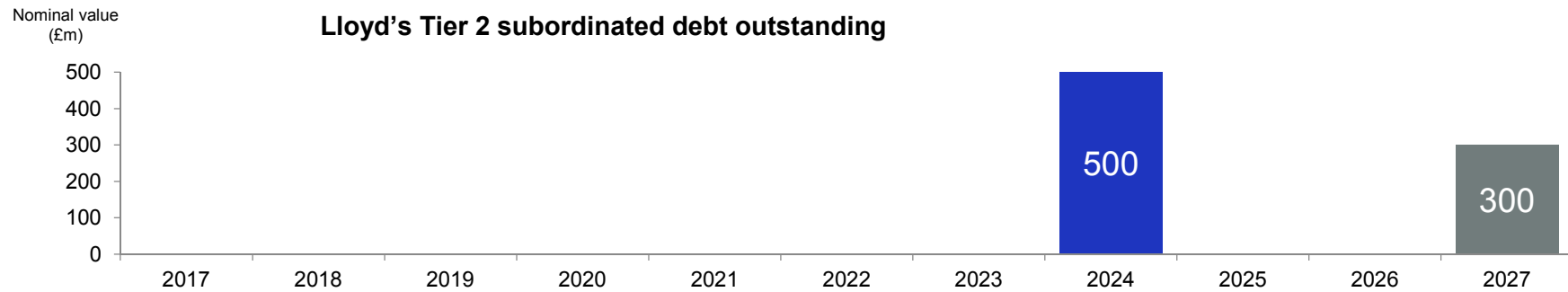
Lloyd's financial strength ratings are strong

Ratings	Standard & Poor's	Fitch Ratings	A.M. Best
Insurer financial strength (IFS)	A+ (Strong) Affirmed October 2017 Negative outlook	AA- (Very strong) Affirmed October 2017 Negative outlook	A (Excellent) Affirmed July 2017 Stable outlook
Subordinated debt rating	A-	A-	a-
Key strengths quoted by the rating agency	<ul style="list-style-type: none"> Very strong competitive position with wide geographic and product coverage Very strong capital and earnings and strong financial flexibility Strong risk controls, risk culture and risk management 	<ul style="list-style-type: none"> Very strong business profile and strong market performance Strong and well structured risk management framework Strong member and central capital 	<ul style="list-style-type: none"> Strong and stable risk-adjusted capitalisation Good financial flexibility Strong underwriting performance Excellent business profile



Source: S&P Research update October 2017, S&P Full Rating Report September 2017, Fitch Ratings Press Release October 2017, Fitch Ratings Full Rating Report July 2017, A.M. Best press release July 2017, Best's Rating of Lloyd's 2017, September 2017

Debt Profile

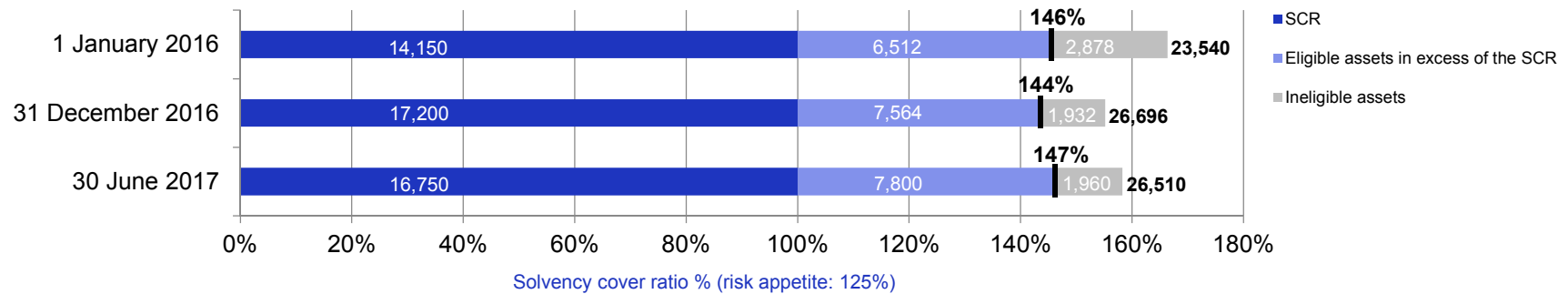


N.B.: Chart shows bonds at the earlier of maturity and first call date

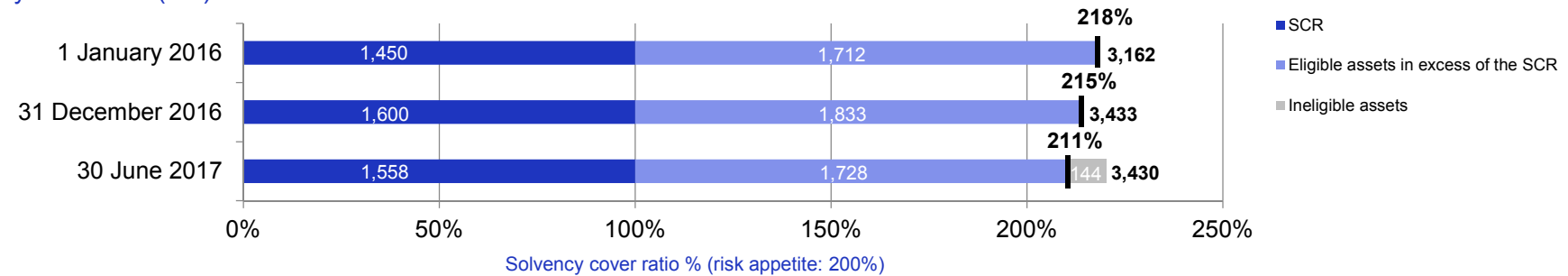
Issue Date	Issuer	Status	Bond Rating (S&P/Fitch)	Currency	Amount Issued (£m)	Amount Outstanding (£m)	Coupon (%)	First Call Date	Maturity Date
07 Feb '17	Society of Lloyd's	Tier 2	A-/A-	GBP	300	300	4.875	07 Feb '27	07 Feb '47
30 Oct '14	Society of Lloyd's	Tier 2	A-/A-	GBP	500	500	4.750	N/A	30 Oct '24

Lloyd's solvency position stable during 2016-17

Lloyd's MWSCR¹ (£m)



Lloyd's CSCR² (£m)



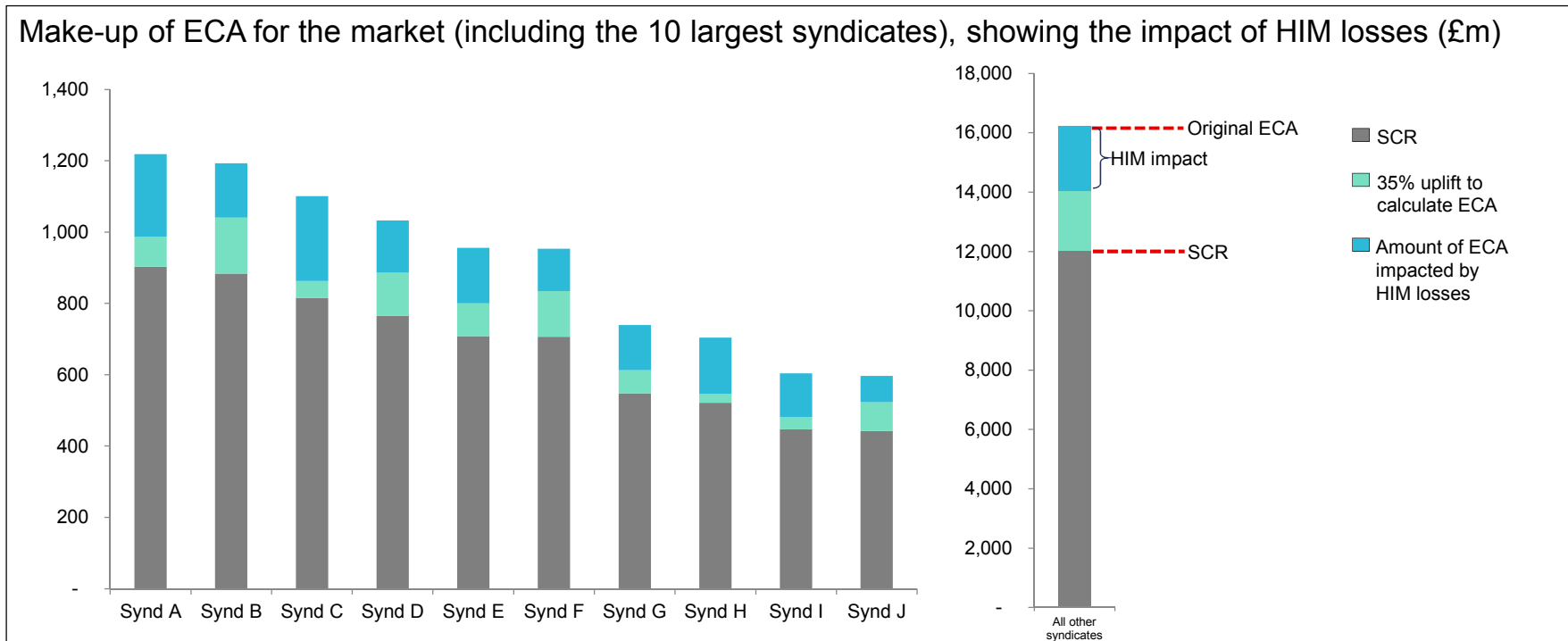
Source: Lloyd's Internal Model. Data represents the position from the unaudited solvency returns, which may differ from the final audited submissions. ¹MWSCR: Market Wide SCR, calculated to cover all of the risks of 'the association of underwriters known as Lloyd's'; ²CSCR: Central SCR, calculated in respect only of the risks facing the Society and the Central Fund. After allowing for ring fenced funds and distributable profits.

Impact of natural catastrophes in H2

USD Billions		Industry loss estimates	
Event	Lloyd's net claims estimates	Low range estimate	High range estimate
Harvey	1.8	7.5	35
Irma	2.1	32	55
Maria	0.9	15	40
Total	4.8	54.5	130

- Industry estimates still vary widely
- Significant industry losses
 - Market-turning event?
 - Earnings event?
 - Capital event?
- It's not only Harvey, Irma and Maria

The impact from the Q3 hurricanes is spread across multiple syndicates and absorbed within capital held above the SCR



Source: SCR/ECA analysis and large loss QMA return submissions, 30 September 2017. ECA: Economic capital assessment. SCR: Solvency capital requirement. HIM: Harvey, Irma₂₀ and Maria

Return on capital

2012 – HY 2017


Return on capital						
	2012	2013	2014	2015	2016	HY 2017
Pre-tax result (£bn)	2.8	3.2	3.0	2.1	2.1	1.2
Combined ratio	91.1%	86.8%	88.4%	90.0%	97.9%	96.9%
Investment return	2.6%	1.6%	2.0%	0.7%	2.2%	1.5%
Gross written premiums (£bn)	25.2	25.6	25.3	26.7	29.9	18.9
Net resources ¹ (£bn)	20.2	21.1	23.4	25.1	28.6	28.0
Pre-tax ROC	14.8%	16.2%	14.1%	9.1%	8.1%	8.9%

Source: Lloyd's pro forma financial statements, 30 June 2017. ¹Net resources: capital, reserves & subordinated loan notes and securities.

Oversight

Risk Appetite Framework

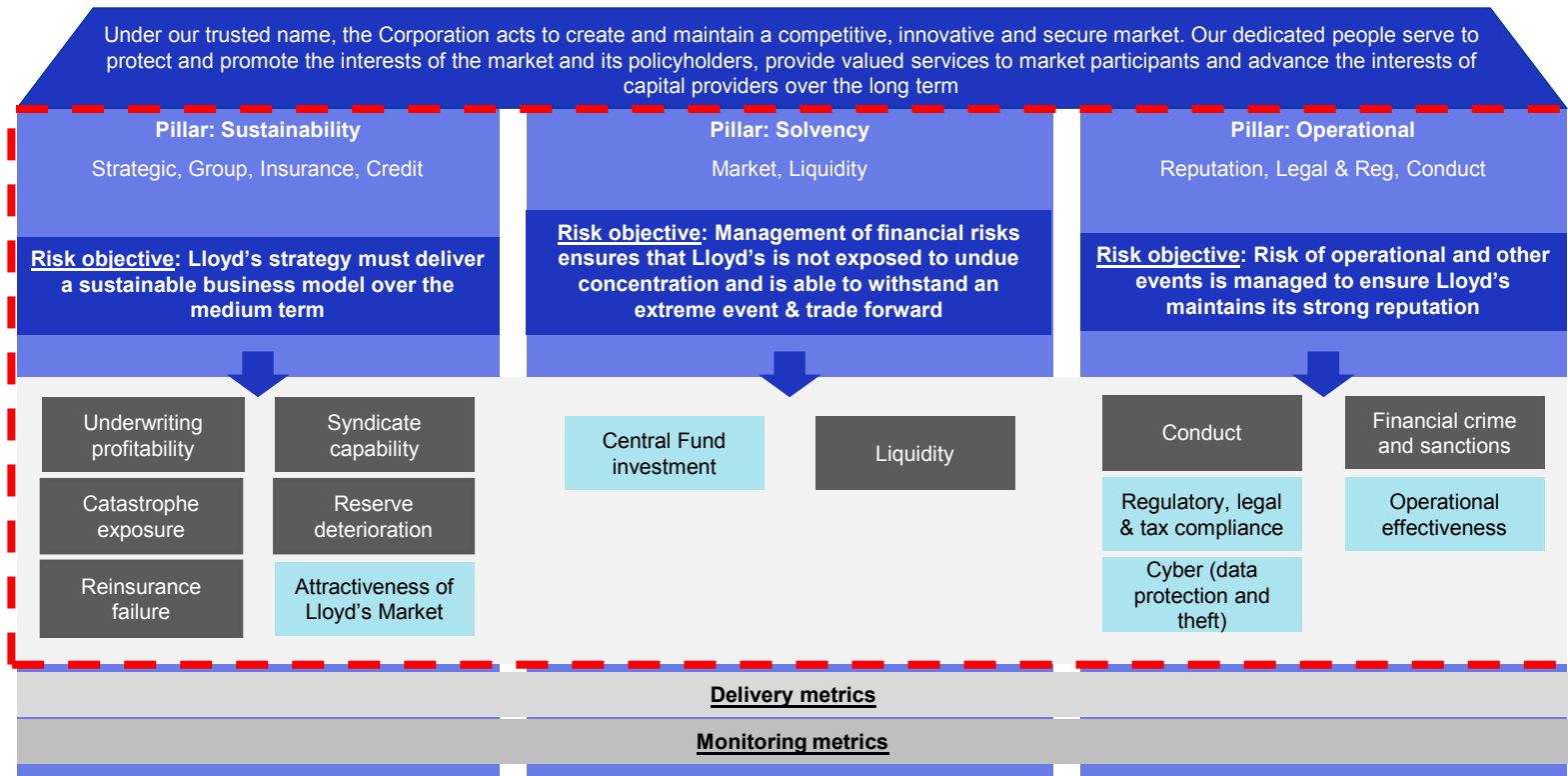
Lloyd's has redeveloped the risk appetite framework



 Board reporting dashboard = 13 key metrics

Corporation purpose:

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Board level Tier 1 metrics



Key  Market oversight risk  Corporation risk

Four priorities

Acquisition costs

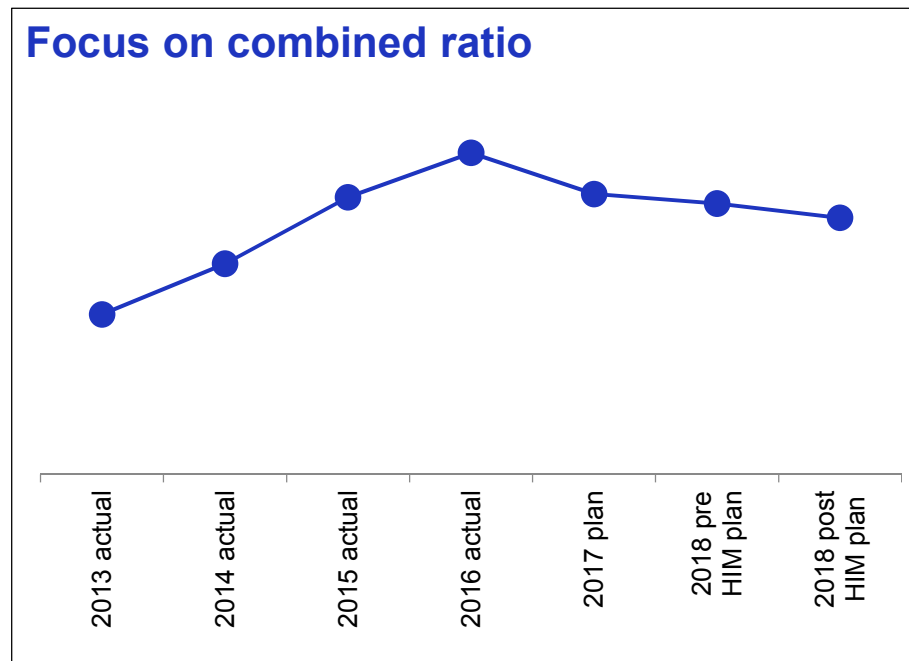
Operating expenses

Market facilities

Catastrophe cover

Approach to business planning

- Entry = closing a performance gap
- High-level plan
- New timetable: staggered deadlines
- Direct presentations to CPG
- Pre HIM
- Post HIM
- Rate vs exposure changes



2018 focus – Improving our risk-based approach to continue addressing the performance gap

Portfolio review

- Continue prudential focus on underperforming business

Enhanced rate monitoring

- All year, not just on 1 January

Class of business reviews

- Underwriting review
 - Learning lessons from Harvey, Irma, Maria
- Thematic reviews
- Follow-up reviews
 - Non US Professional Indemnity

Thematic Reviews

- Property
- Marine Hull
- Overseas Motor
- Cyber underwriting cross class

Innovation

Innovation @ Lloyd's



Evaluation

How significant are the risks?

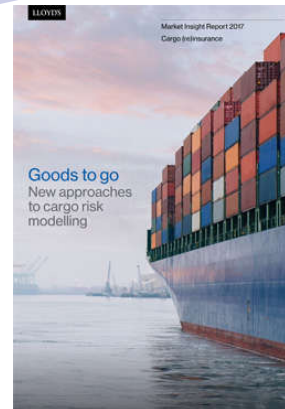
Understanding the implications
Decision-making resources (scenarios)

Raising awareness

Thought leadership

Horizon-scanning

What risks are out there?



Quantification

For product innovation & exposure management

Innovation @ Lloyd's

- Horizon scanning → Regular email update
- Evaluation → Marine risks: testing Lloyd's RDS
- Thought leadership → City Risk Index 2018
- Understanding the implications → Cloud failure scenarios
- Quantification → Marine tracking tool
- Distribution → Disaster Risk Facility
- Process → Artificial intelligence

Q&A

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