

LLOYD'S

Lloyd's ILS Investor Presentation

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Strategy

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

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.

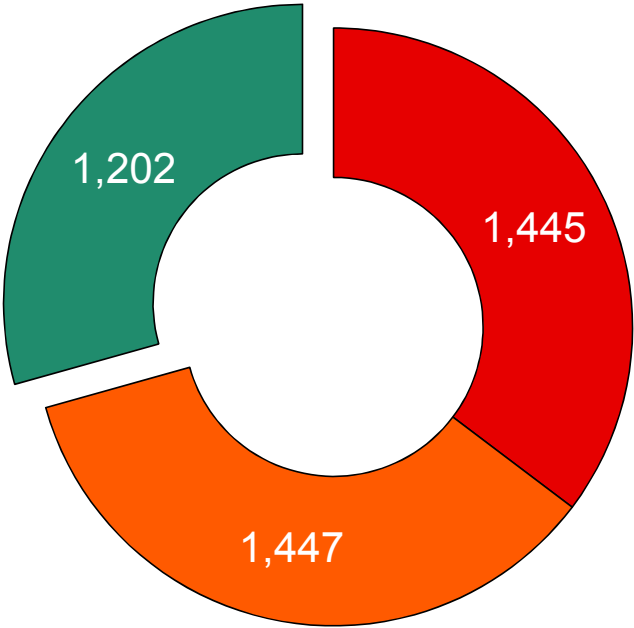


Brexit

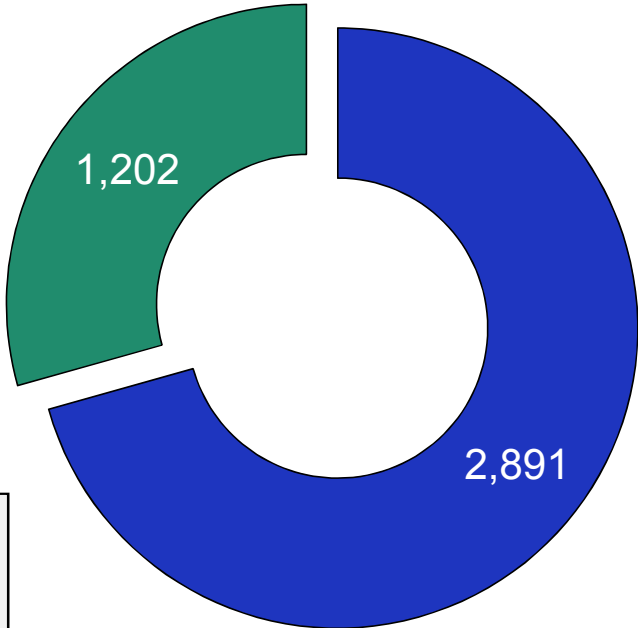
Why do we need the Lloyd's Brussels subsidiary?

GWP⁽¹⁾ (EUR MN)

Do nothing – World Trade Organisation Rules



Lloyd's Insurance Company



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

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:



Oversight

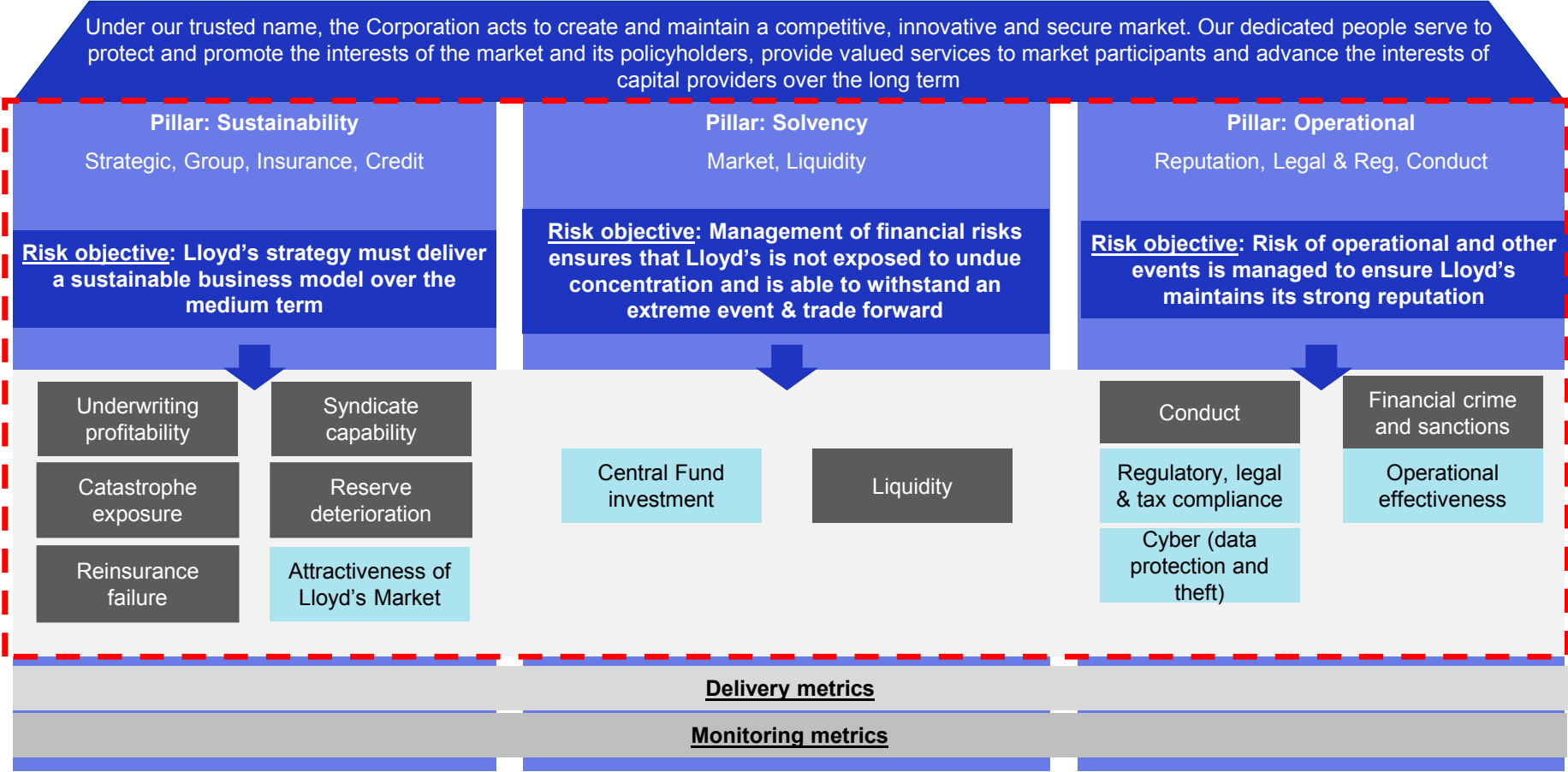
Risk Appetite Framework

Lloyd's has redeveloped the risk appetite framework

 Board reporting dashboard = 13 key metrics

Corporation purpose:

Under our trusted name, the Corporation acts to create and maintain a competitive, innovative and secure market. Our dedicated people serve to protect and promote the interests of the market and its policyholders, provide valued services to market participants and advance the interests of capital providers over the long term



Board level Tier 1 metrics

Key  Market oversight risk  Corporation risk

Performance Management – four priorities

Acquisition costs

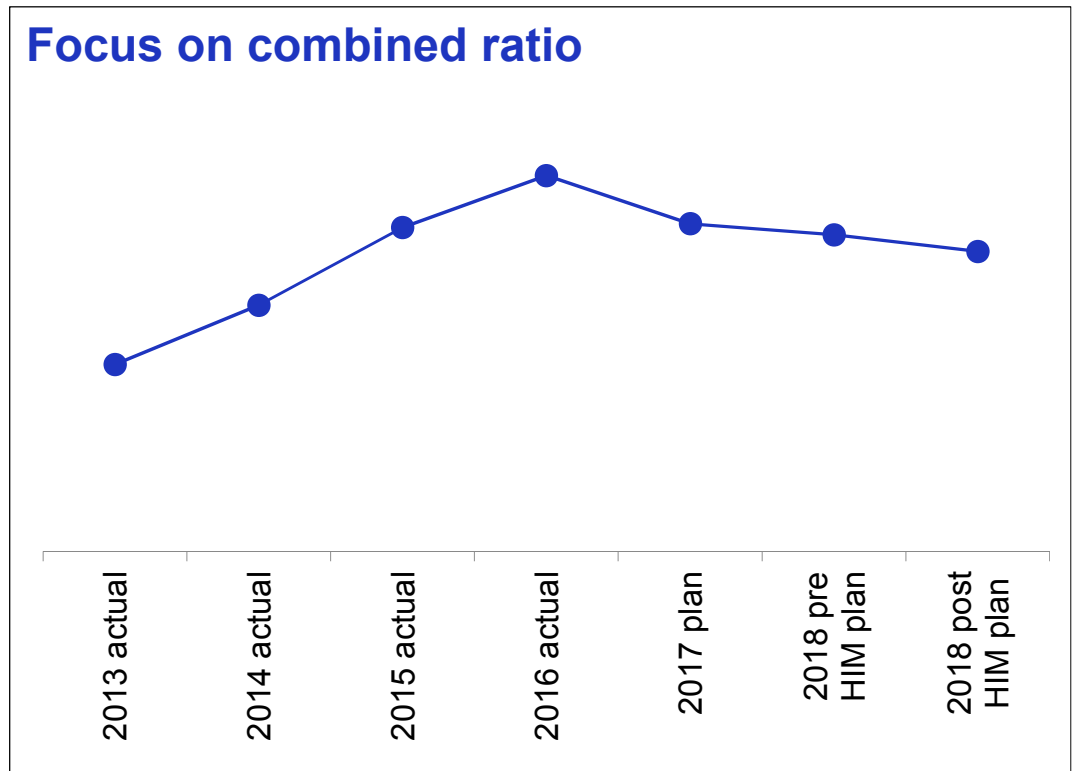
Operating expenses

Market facilities

Catastrophe cover

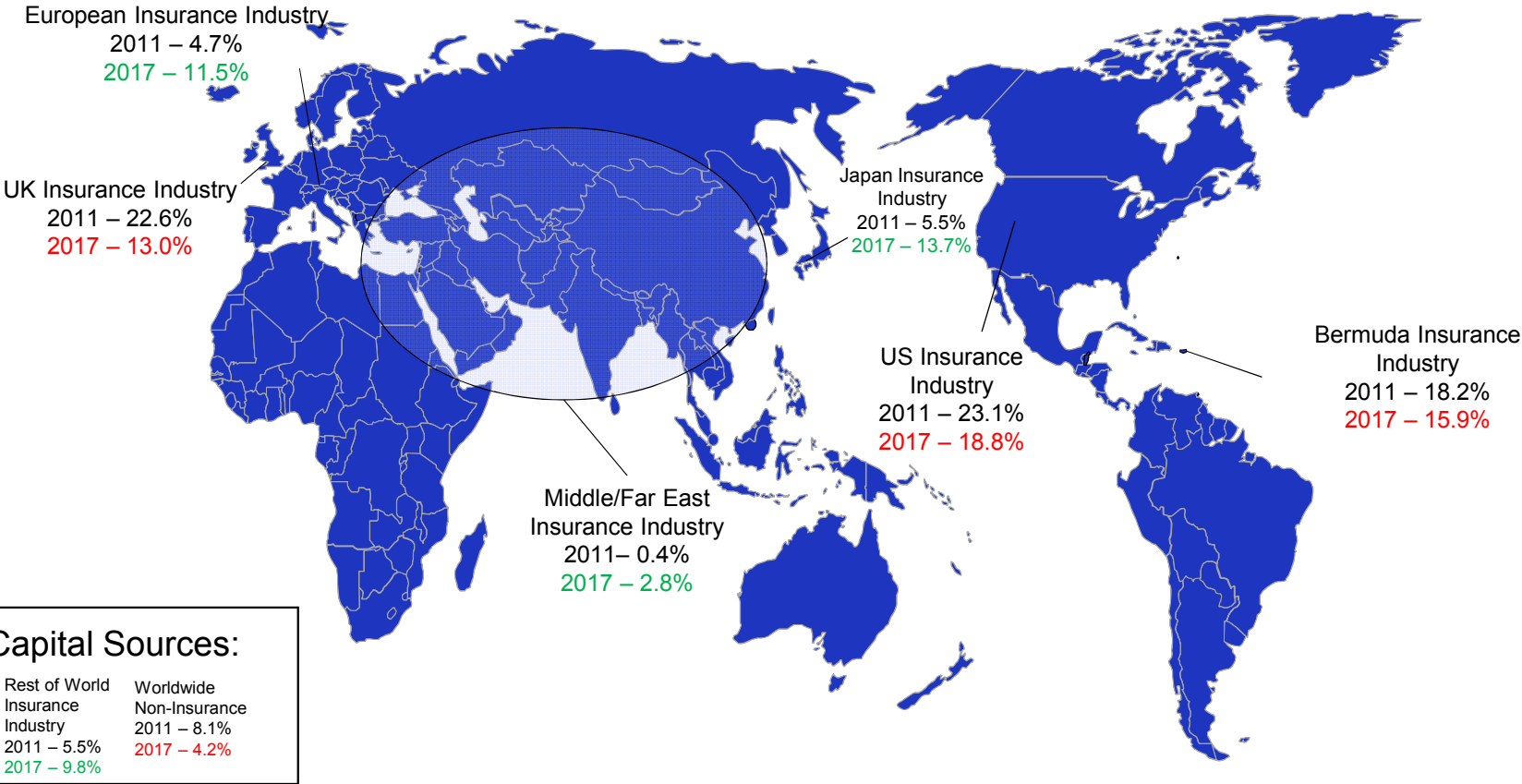
Approach to business planning

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



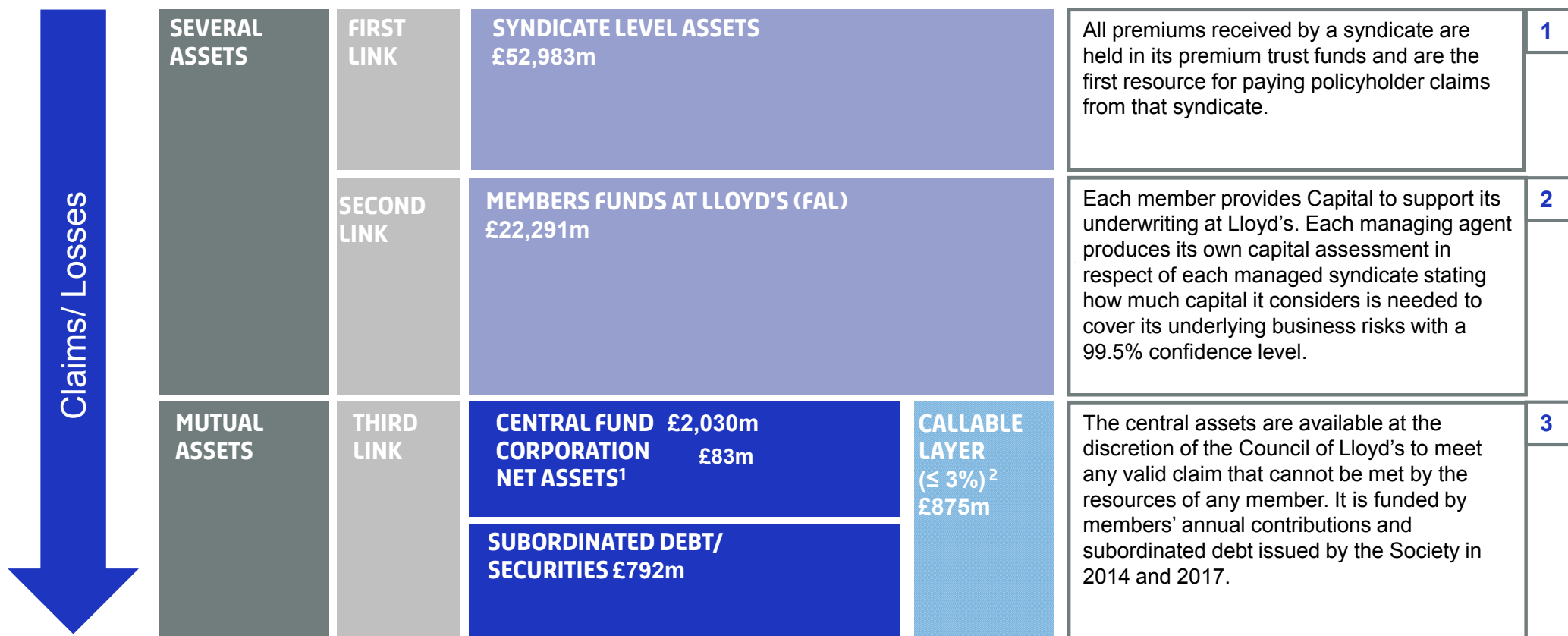
Capital

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



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

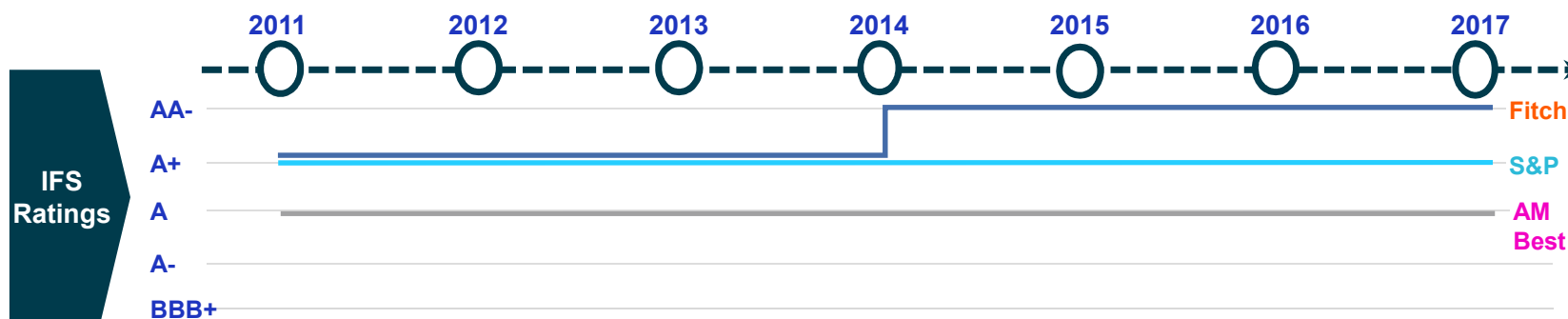
December 2014 – HY 2017

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

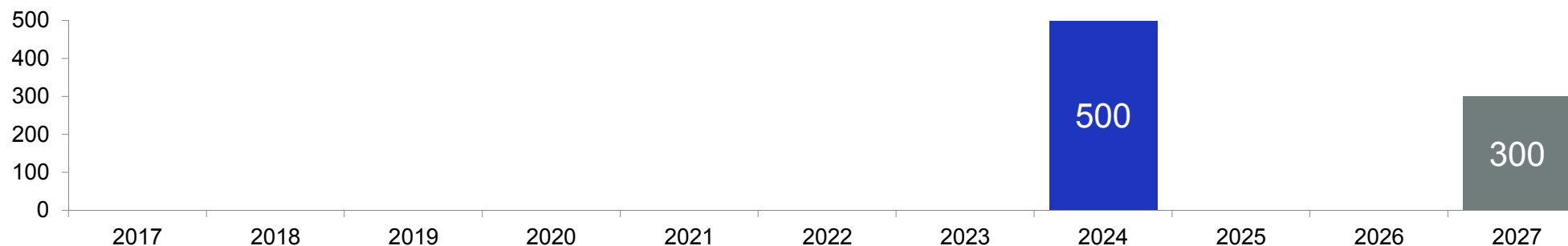
Ratings	Standard & Poor's	Fitch Ratings	A.M. Best
Insurer financial strength (IFS)	A+ (Strong) Affirmed October 2017 Negative outlook	AA- (Very strong) Affirmed October 2017 Negative outlook	A (Excellent) Affirmed July 2017 Stable outlook
Subordinated debt rating	A-	A-	a-
Key strengths quoted by the 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

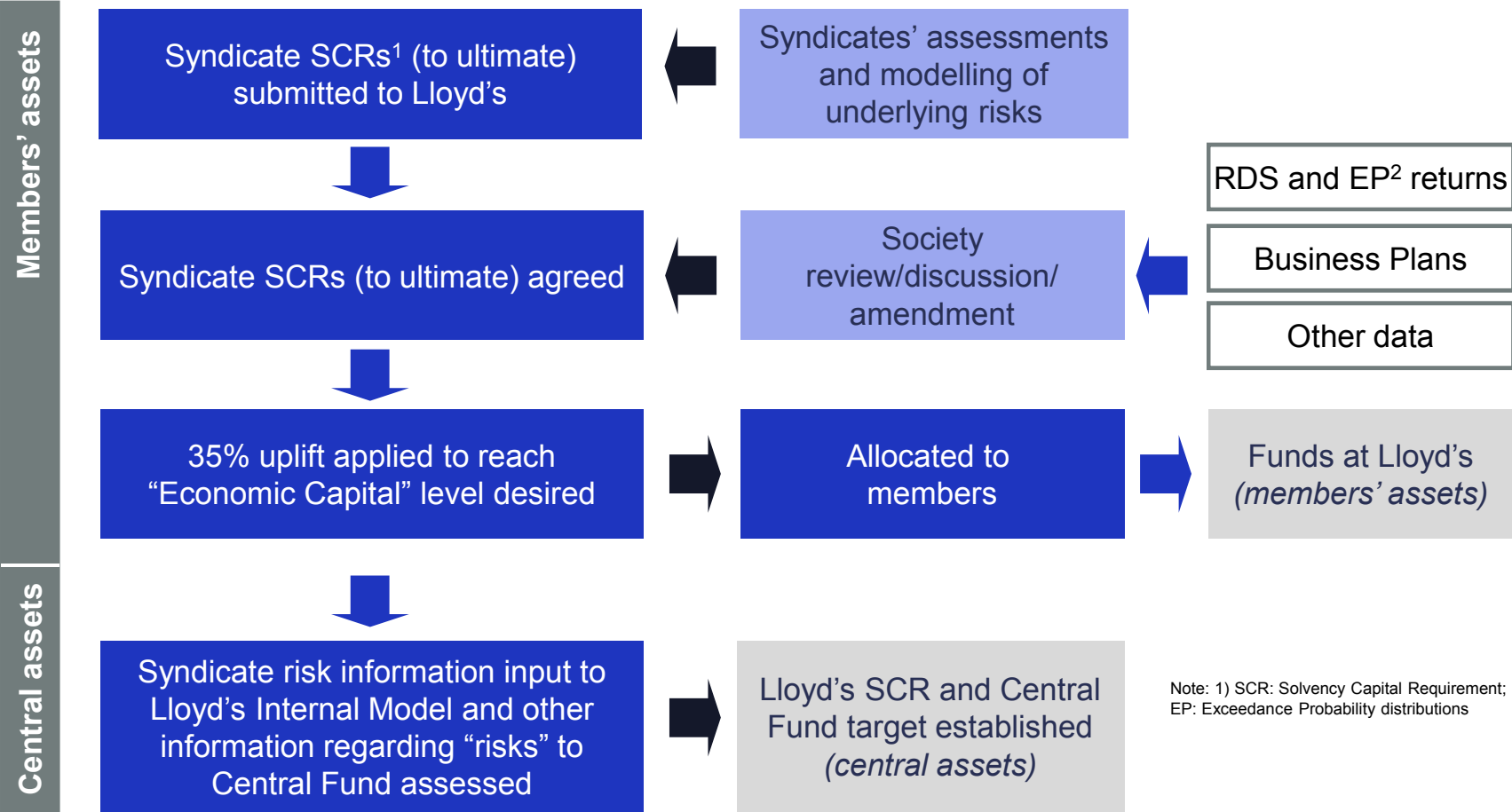
Nominal value (£m) **Lloyd's Tier 2 subordinated debt outstanding**



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

Capital setting is based on a sophisticated understanding of risks and market conditions



Note: 1) SCR: Solvency Capital Requirement; 2) RDS: Realistic Disaster Scenario; EP: Exceedance Probability distributions

How does Lloyd's calculate and cover solvency?

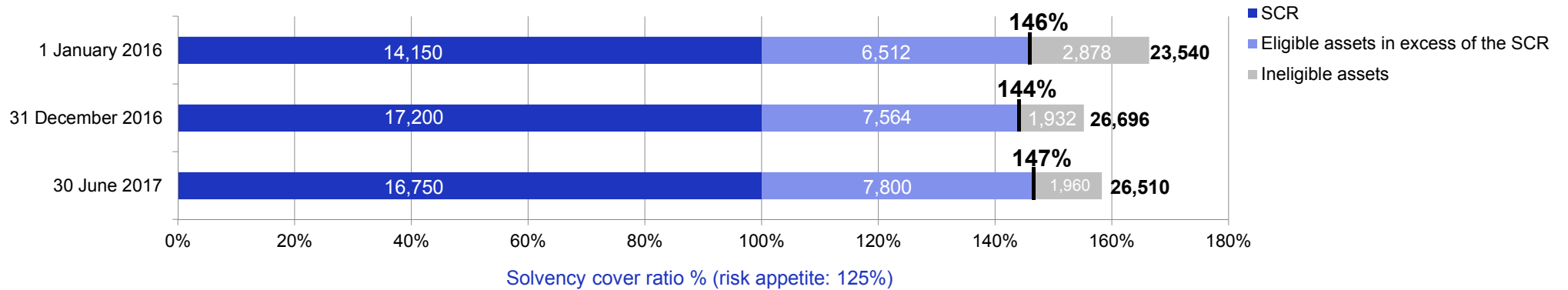
- Under Solvency II the Solvency Capital Requirement (SCR) must be calculated
 - Sufficient capital to cover a 1 in 200 year loss event for the entity over a one year time period
- Lloyd's calculates two SCRs

SCR	Scope of calculation	Capital available to cover SCR
Lloyd's Market Wide SCR (MWSCR)	Covers whole Lloyd's market	All capital held at Lloyd's including syndicate assets, member level capital and central capital
Lloyd's Central SCR (CSCR)	Covers central risks only, in particular risk that members may not have enough capital to meet losses (and thus hit Central Fund)	Central capital – mainly the Central Fund

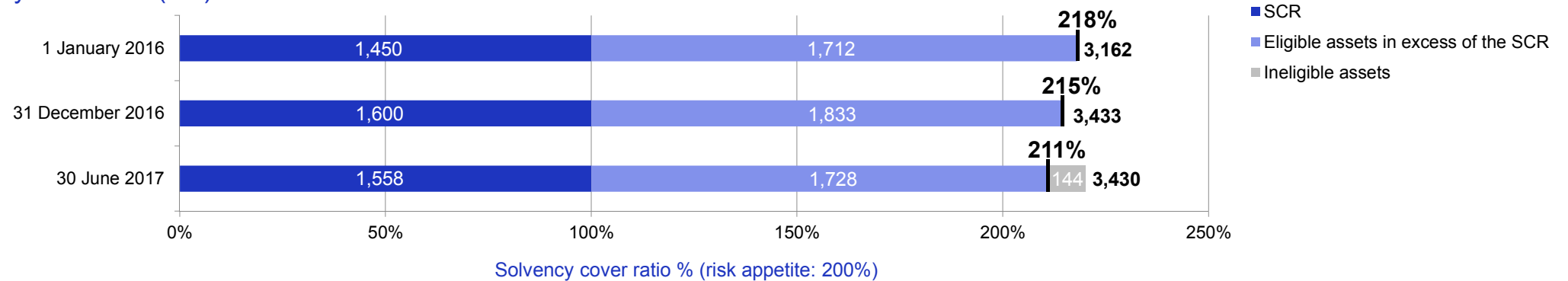
- Both the Lloyd's MWSCR and CSCR are calculated using Lloyd's Internal Model
- Solvency also assessed at the member level

Lloyd's solvency position stable during 2016-17

Lloyd's MWSCR¹ (£m)



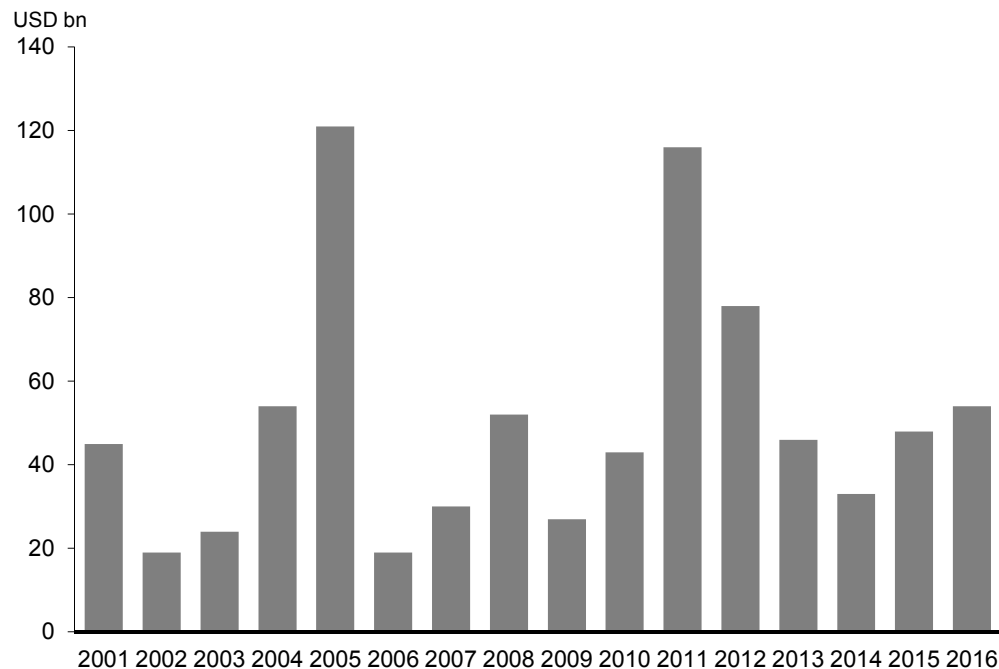
Lloyd's CSCR² (£m)



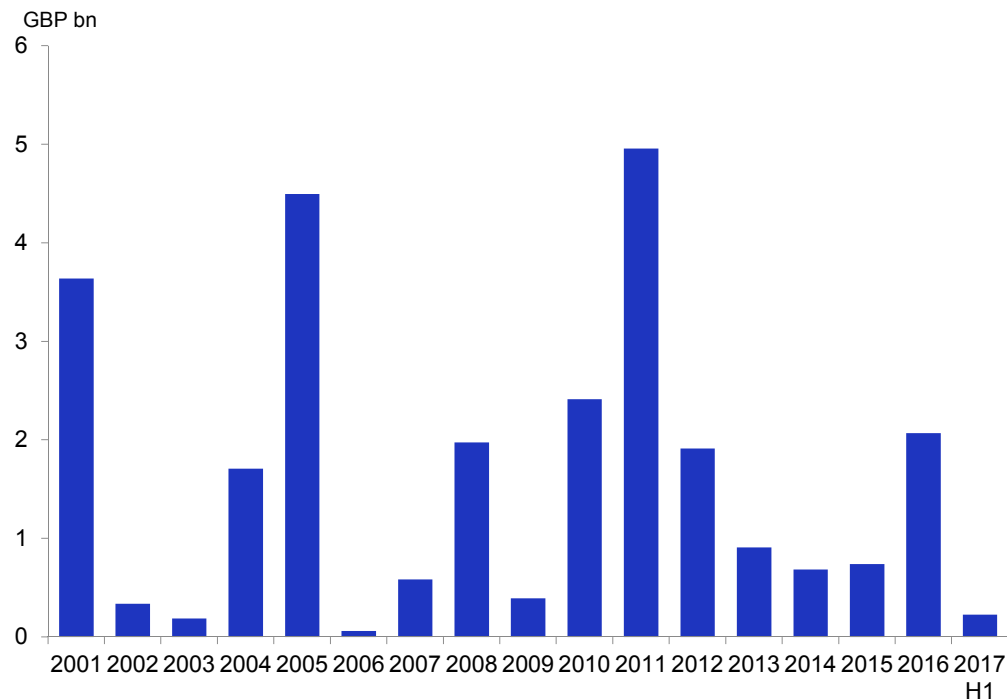
Source: Lloyd's Internal Model. Data represents the position from the unaudited solvency returns, which may differ from the final audited submissions. ¹MWSCR: Market Wide SCR, calculated to cover all of the risks of 'the association of underwriters known as Lloyd's'; ²CSCR: Central SCR, calculated in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

Major claims < 5% of industry wide insured cat losses (to June)

Industry wide insured catastrophe losses



Lloyd's major claims¹



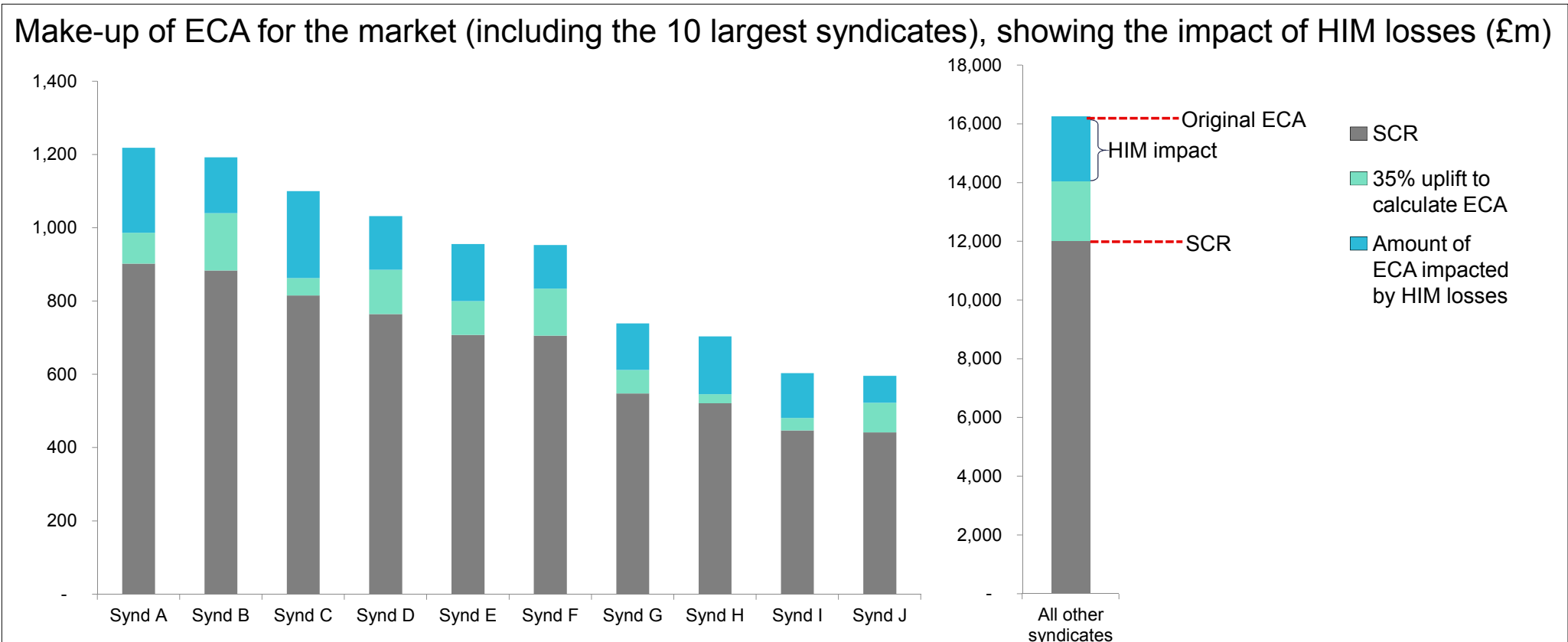
Note: 1) Indexed for inflation to 2016. Claims in other currencies translated at the exchange rate prevailing at the date of loss.
 Source: Swiss Re Sigma Report 2016, Lloyd's Annual Report 2016 & Lloyd's Interim Report 2017

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, Irma and Maria 25

Return on capital

2012 – HY 2017

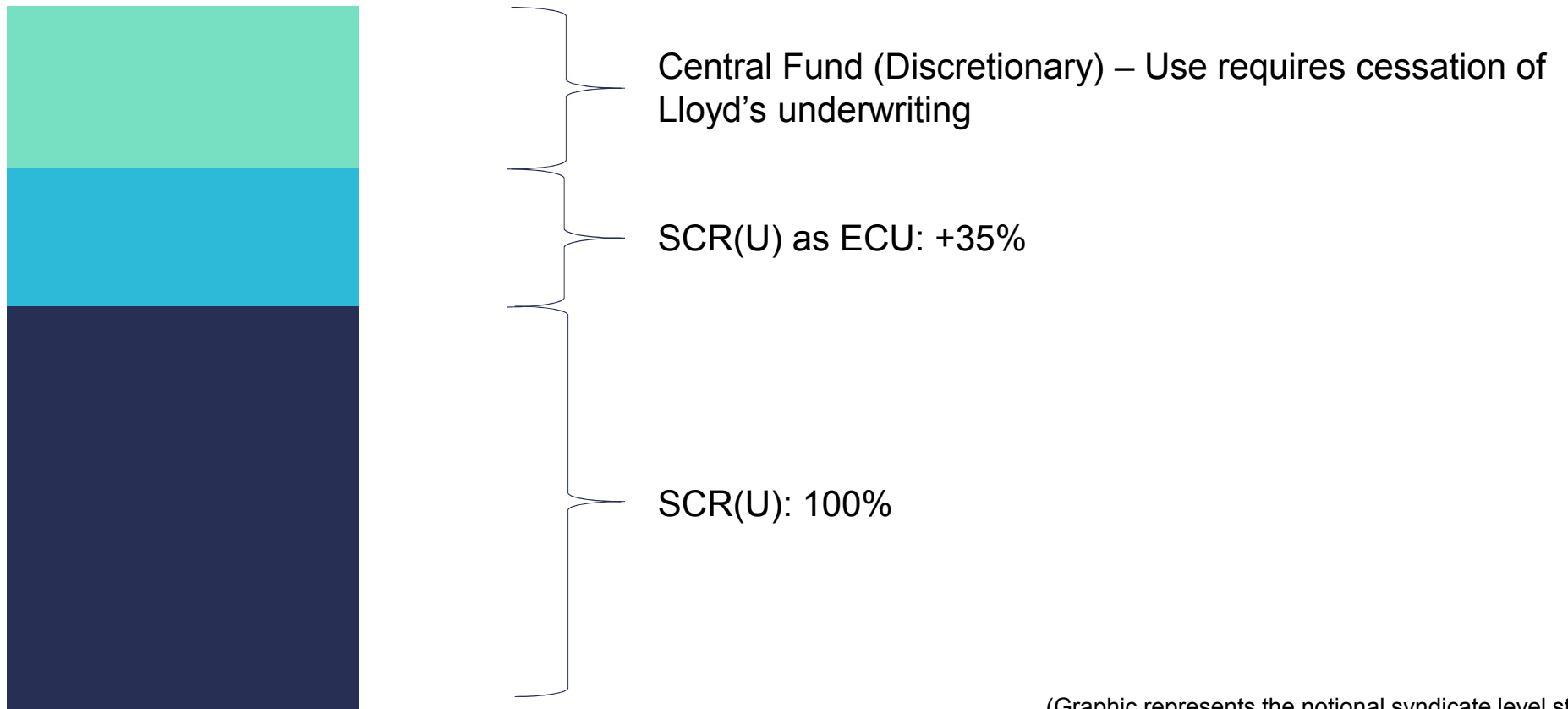
Return on capital						
	2012	2013	2014	2015	2016	HY 2017
Pre-tax result (£bn)	2.8	3.2	3.0	2.1	2.1	1.2
Combined ratio	91.1%	86.8%	88.4%	90.0%	97.9%	96.9
Investment return	2.6%	1.6%	2.0%	0.7%	2.2%	1.5%
Gross written premiums (£bn)	25.2	25.6	25.3	26.7	29.9	18.9
Net resources ¹ (£bn)	20.2	21.1	23.4	25.1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

ILS Opportunity (?)

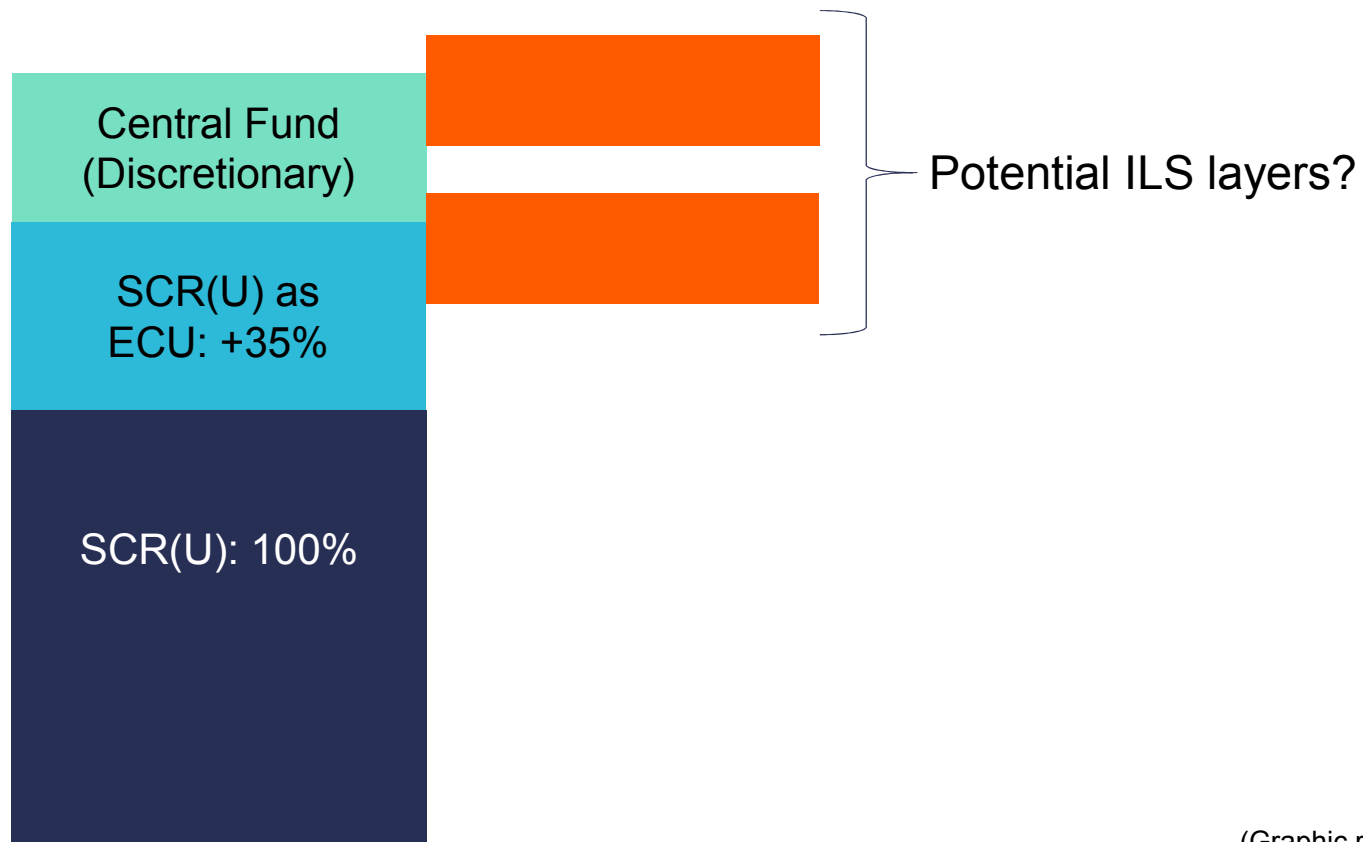
Current Lloyd's capital structure

Reminder



(Graphic represents the notional syndicate level stack)

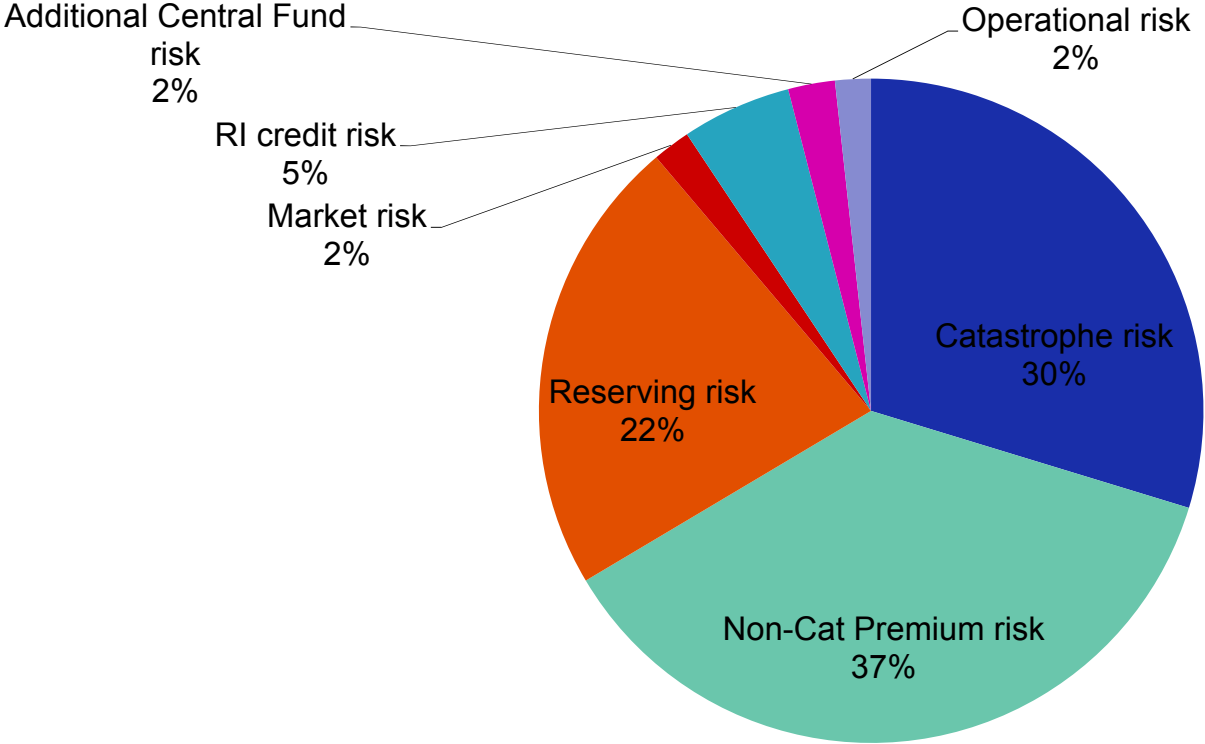
Where would an ILS sit in Lloyd's capital structure?



(Graphic represents the notional syndicate level stack)

Insurance Risk dominates Lloyd's SCR

2017 SCR



Insurance risk 89% of total

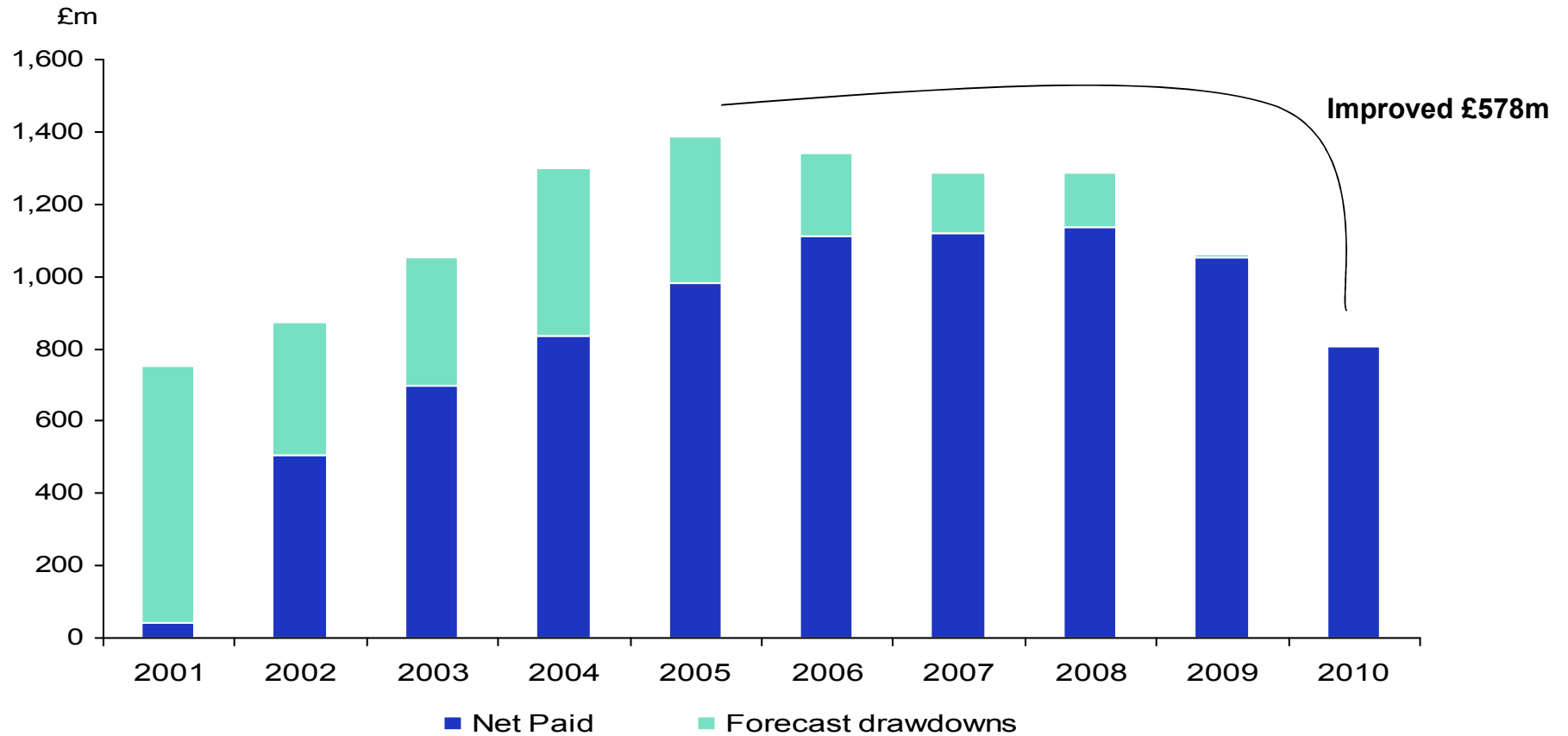
Lloyd's solvency Q2 2017; current Central Assets

Central solvency ratio

	Tier 1	Tier 2	Tier 3	Total
	£m	£m	£m	£m
Society assets:				
- Subordinated debt (valued at fair value) ¹		888		888
- Deferred tax			35	35
- Balance of net assets (net of Lloyd's China provision)	1,827			1,827
Callable layer (available at the 1:200 year stress level)	680			680
Total central own funds available to meet the central SCR	2,507	888	35	3,430
Lloyd's central SCR				1,558
'Excess' central own funds not eligible to meet central SCR	-	109	35	144
Total central own funds eligible to meet the central SCR (Tier 2 and 3 assets can only cover up to 50% of central SCR)	2,507	779	-	3,286
Lloyd's central solvency ratio				211%

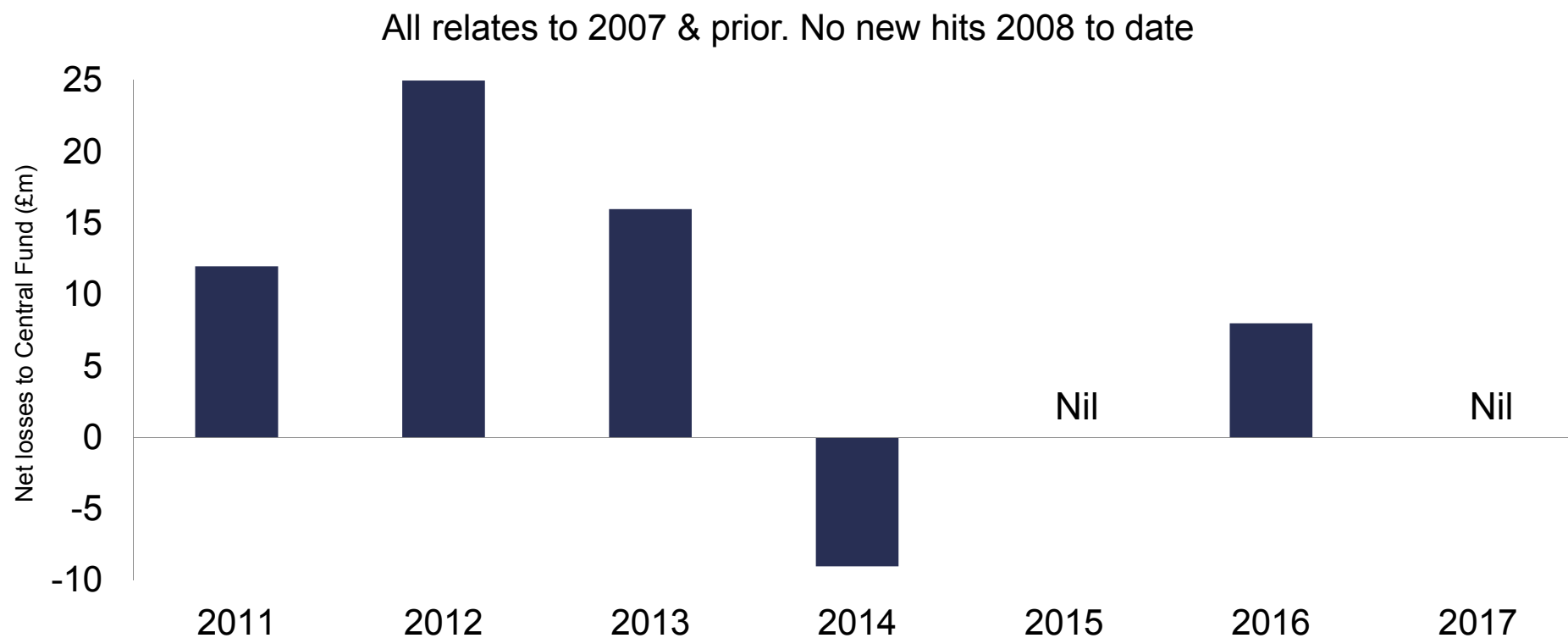
(1) The 2014 and 2017 dated debt is Tier 2

Historical experience shows cash requirements lag declaration of losses to Central Fund...



Source: Central Fund Accounts Dec 10 / Central Fund Modelling System

... and recent experience has minimal Central Fund losses



Some rebuttable assumptions...

- Central Fund solvency coverage meets risk appetite and supports the target Ratings
- Central Fund exposure / concern is insurance risk...
- ...and is split roughly equally across natural catastrophe, other premium risk and reserve risk
- Tier 2 allowance is maxed out
- Restricted Tier 1 debt issue an option...
- ...to weigh against an ILS issue
- Gearing and coupon / premium cover not a concern

Key considerations for supplementing Central Assets

- Cash v solvency
- Post loss adequacy – second loss response?
- Actual hit to CF or to benefit of members who trade forward?
- Cat cover only or all insurance risks?
- Multi year...run-off / collateral retention?

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