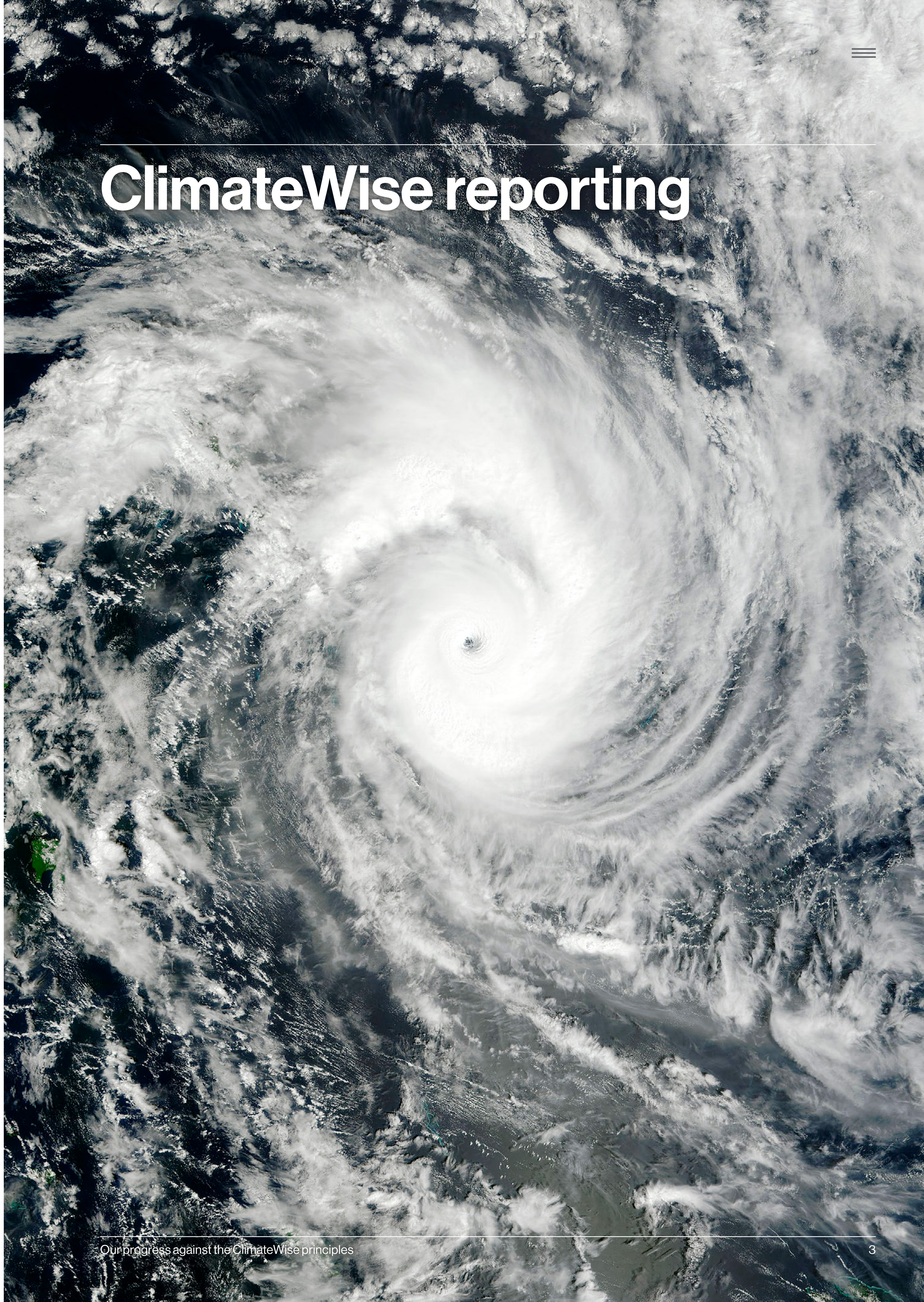
LLOYD'S

ClimateWise Annual Reporting
2021-2022

Our progress against the ClimateWise principles

Contents



ClimateWise reporting

Sharing risk to create a braver world

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

Our customers are drivers of the global economy, and our purpose is to support them, sharing risks to create a world where they can operate with resilience and confidence. Lloyd's is in a unique position within the insurance industry, offering multiple benefits to our stakeholders:

- We offer the efficiencies of shared resources and capital to serve customers across different territories and scale.
- We are a governing body providing oversight and shared standards to the market to maintain a competitive and secure insurance and reinsurance marketplace.
- We aim to serve as an accelerator for product and solution innovation, providing various platforms to the market such as the Lloyd's Lab and Futureset as well as research on different risks.

How we deliver on our purpose

Everything Lloyd's does is underpinned by one unifying purpose: sharing risk to create a braver world. This purpose speaks to the impact and aspiration of the market and is as true today as it was in Edward Lloyd's coffee shop in 1688. The Lloyd's market has been at the forefront of its industry for more than 300 years, pioneering new forms of protection for a rapidly changing world.

Our unique market has an unrivalled concentration of specialist insurance expertise, and every day 50 leading insurance companies, 350 registered Lloyd's brokers and a global network of more than 4,000 local coverholders operate in and bring business to the Lloyd's market. The business written at Lloyd's is brought to the market by brokers and coverholders to specialist syndicates who price and underwrite risk. Syndicates are managed by managing agents. Much of the insurance and reinsurance capacity available at Lloyd's is provided on a subscription basis, where syndicates collaborate to underwrite large and complex risks. Combined with the choice, flexibility, and financial certainty of the market, this makes Lloyd's the world's leading platform to underwrite and purchase insurance and reinsurance covers. Behind the Lloyd's market is the Society of Lloyd's ('Society'), not itself an insurance company, but an independent organisation that protects and maintains the market's reputation and provides services, research, and reports to the industry. Under one globally trusted name, the Lloyd's market and the Society share risk to protect our stakeholders' interests, promote economic growth and create a braver world.

Our impact on society

Lloyd's has a long track record in contributing to the communities in which we operate and, crucially, helping them to recover from disaster. In 2021 alone, the Lloyd's market paid out almost £20bn in claims to our customers in their time of need, including reported claims arising from the pandemic, and from elevated catastrophe exposures in the US and Europe. Lloyd's is also a significant engine for the UK's economy. The London (re)insurance market, of which Lloyd's represents two thirds of business written in London, employs 47,000 people and makes up 1.7% of the UK's gross domestic product.

Our strategy: how we are preparing for the future

Lloyd's strategy is to maintain and enhance the value we offer to our many stakeholders:

- **Customers**, ensuring we provide them with the products and services they need;
- **Distributors**, offering the capacity to place specialist risks on behalf of their clients;
- **Managing agents**, providing access to attractive insurance risk from around the world;
- **People**, creating a culture in which every employee can fulfil their full potential.

We have four key strategic priorities that are enabling us to deliver value for stakeholders and benefits for society.

- **Performance:** We remain committed to delivering sustainable, profitable performance. The remediation work we have undertaken in partnership with the market, including a requirement for all syndicates to produce logical, realistic, and achievable business plans, is bearing fruit and is demonstrated in a strong 2021 full year result.
- **Digitalisation:** The Future at Lloyd's strategy envisions a data-focused, automated, and cost-efficient insurance marketplace. Through Blueprint Two, we are building digital solutions for the market, making it better, faster, and cheaper for all participants to do business at Lloyd's.
- **Purpose:** In a year marked by the continued impacts of the COVID-19 pandemic and the need for urgent global action to address the climate emergency, delivering our purpose remains front and centre of our strategy.
- **Culture:** We are committed to creating a diverse, inclusive, and high-performance culture across our market to attract, retain and develop the best talent.

The Corporation of Lloyd’s

As a founder member of ClimateWise, the Corporation of Lloyd’s continues to publicly recognise that climate change affects everyone, and recent natural disasters show the cost climate change could cause insurers in the future and the devastating impact it has on businesses and communities. Lloyd’s is therefore in regular dialogue with insurers, businesses, and policymakers to address the challenges posed by climate change that affect our sector and society in general.

Sustainability

We believe our work on climate change and community engagement is interwoven with our purpose to share risk to create a braver world. In order to build a more sustainable, resilient, and inclusive society, we must not just think about our own actions, but how we can partner with those around us to achieve mutually beneficial outcomes on the issues facing communities and society.

Lloyd’s recognises the insurance sector enables business and individuals to manage risk including long-term threats such as climate change. The long-term stability of our economy hinges on an appropriate response to this threat. Lloyd’s continues to support action to tackle climate change through leading risks analysis, informing public policy making, supporting climate awareness, and reducing its own environmental impact.

In 2021, we made strong progress in making Lloyd’s more sustainable, resilient and inclusive. The Corporation is proud to take a lead role in addressing wider social and environmental issues and in 2021, published its second Environment, Social and Governance (ESG) strategy and report, demonstrating its commitment to leading a sustainable insurance industry. This follows the publication of its second United Nations Global Compact Report in 2021. In doing so, the Corporation agrees to align strategy, culture and day to day operations with universal principles on human rights, labour, the environment and anti-corruption, and to take actions that advance societal goals.

The Lloyd’s membership continues to be an active member of the ClimateWise initiative, a collaborative endeavour by insurers to drive action on climate change.

1. Be accountable

1.1

Ensure that the organisation's Board is working to incorporate the Principles into business strategy and has oversight of climate risks and opportunities.

Board level commitment

Climate risks and opportunities form part of the 'Environmental' pillar of Lloyd's Environmental, Social and Governance (ESG) strategy. Lloyd's has ESG embedded throughout its governance, including bespoke committees to discharge our ESG strategy. These responsibilities start with the Council of Lloyd's (equivalent to Lloyd's Board). Under the Lloyd's Act 1982, the Council 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
- setting the Corporation budget
- the setting of Central Fund contribution rates
- appointing the Chairman and Deputy Chairs of Lloyd's
- approving Lloyd's risk appetites
- permitting a company to act as a managing agent setting Society level capital requirements.

The Council met on nine occasions in 2021. The meetings of the Council are structured to allow open discussion. ESG has been presented regularly to the Council during 2021 and 2022, which includes climate-related issues. At each meeting the Council receives certain regular reports – for example, a written report from the Chief Executive Officer and updates from the principal committees. This includes a written update report from both the Risk Committee and Lloyd's dedicated Council-level ESG Committee (which was formed in 2022 to supersede the ESG Advisory Group and Culture Advisory Group) for each Council meeting, which include both climate-related risks and issues. Private sessions are held regularly by the Chairman at the end of Council meetings without the Executive members being present.

Overall responsibility for the Corporation of Lloyd's strategy, and risks, including climate-related risks, sits with John Neal (Lloyd's Chief Executive Officer). This is further supported by John Neal being a member of the Council of ClimateWise, the CEO of Lloyd's having sat on this council since 2007 with Lloyd's being a founding member of ClimateWise. At an Executive Committee level, the Lloyd's Chief Risk Officer, David Sansom, discharges Lloyd's ESG strategy and holds responsibility for climate risks, as well as being Lloyd's ClimateWise sponsor.

Over the ClimateWise reporting period, Lloyd's Council held regular discussions on topics across climate, culture and communities which were supported through the following bespoke committees throughout 2021 and 2022:

- **Lloyd's ESG Committee**
  This Council-level committee was established in January 2022 and is held quarterly. The ESG Committee is chaired by Lord Sedwill, the Senior Independent Deputy Chairman of Lloyd's. The remaining members are largely drawn from the CAG Culture Advisory Group (CAG) and ESG Advisory Group and comprise: two Council members; two Market Representatives; four Subject Matter Experts; and four Executive members. Lloyd's ESG Committee replaced the following from 2021:
  - ESG Advisory Group (ESG Group) which met quarterly throughout 2021
  - Culture Advisory Group (CAG) which met quarterly throughout 2021
- **Sustainability Steering Committee**
  This Committtee is chaired by Lloyd's Sustainability Director, Rebekah Clement, and is made up of Lloyd's Executive Leadership Group (ELG) members. It includes the key senior leaders from across the business who deliver our ESG strategy. This committee meets monthly and was set up in January 2022, superseding the following committees from the previous year:
  - ESG Steering Committee
    A fortnightly group which involved relevant representatives per business function to facilitate decision making
- Regular engagement with the Lloyd's Market Association (LMA), London & International Insurance Brokers Association (LIIBA), Association of British Insurers (ABI), and International Underwriting Association (IUA)

Governance structure

Lloyd's governance is designed to keep pace with the fast-moving nature of ESG. Two Council-level committees are key with respect to climate risk and ESG, and support the Council and drive our purpose forwards with appropriate focus and stakeholder involvement:

Risk Committee

The Risk Committee's role is to assist the Council in its oversight of the identification and control of risks to the objectives of Lloyd's. In carrying out the role, the Committee takes into account the relevant work of the Investment Committee and the Audit Committee. The Committee is chaired by Neil Maidment, a Nominated member of the Council. The Committee's remaining members are drawn from the Council. At the end of 2021, the Committee comprised of three external members of the Council and three Non-Executive Nominated members of the Council. The Chair of the Risk Committee is a member of the Audit Committee, and the Chair of the Audit Committee is a member of the Risk Committee and updates from each committee are provided as required. The arrangements in place enhance the collaboration between the two committees. The other members of the Committee are drawn from the Council. Other individuals including the Chief Executive Officer, Chief Risk Officer and Chief Financial Officer are regular attendees, with others invited to attend all or part of any meeting as and when deemed appropriate by the Committee or its Chair. Lord Mark Sedwill was appointed as a member of the Risk Committee with effect from 1 January 2022.

The Committee submits an annual report to the Council. It also reports to the Council on its proceedings after each meeting. In November 2021 a Climate Risk Report was presented to the Risk Committee for the first time.

The Risk Committee included within the 2021 Own Risk and Solvency Assessment (ORSA) a risk appetite framework with three pillars: Sustainability, Solvency and Operational risk. Climate risks now feature under the Sustainability pillar, alongside Underwriting, Reserving, Castrophe Exposure, Reinsurance and Syndicate Capability.

The Risk Committee met on nine occasions in 2021. It records attendance to Committee meetings within Lloyd's Annual Report.

The ESG Committee

Building on the great work of the ESG Advisory Group and Culture Advisory Group, from January 2022 Lloyd's has introduced a new committee of the Council – the ESG Committee – to assume strategic responsibility for the entire Environmental, Social and Governance agenda. The ESG Committee is supported by a new Sustainability Steering Committee, comprised of senior leaders from Lloyd's Executive Leadership Group (ELG), responsible for delivery.

The ESG Committee members include:

Chair
- **Lord Mark Sedwill**, the Senior Independent Deputy Chairman or Lloyd's.

Council of Lloyd's Members
- **Dominick Hoare**, Group Chief Underwriting Officer of Munich Re Syndicate Ltd.
- **Fiona Luck**, Non-Executive Director of Convex Group.

Subject Matter Experts
- **Brian Dow**, Chief Executive of Mental Health UK and Deputy Chief Executive of Rethink Mental Illness.
- **Ingrid Holmes**, Director and Head of Policy and Advocacy at Federated Hermes International.
- **Kamel Hothi**, Trustee and Advisor to Alzheimer's Society, Teenage Cancer Trust and the Queen's Commonwealth Trust.
- **Moses Ojeisekhoba**, Chief Executive Officer, Reinsurance at Swiss Re.

Representative from the Lloyd's Market
- **Sheila Cameron**, Chief Executive Officer of Lloyd's Market Association (LMA).
- **Jane Warren**, UK Legal Entities Managing Director at Liberty Specialty Markets (LSM).

Corporation of Lloyd's representatives
- **Rebekah Clement**, Sustainability Director.
- **David Sansom**, Chief Risk Officer at Lloyd's, who is also the Executive Committee sponsor for ESG within Lloyd's.
- **Jo Scott**, Chief Marketing Communications Officer.
- **Mark Lomas**, Head of Culture.
- **Sara Gomez**, HR Director.

Governance structure

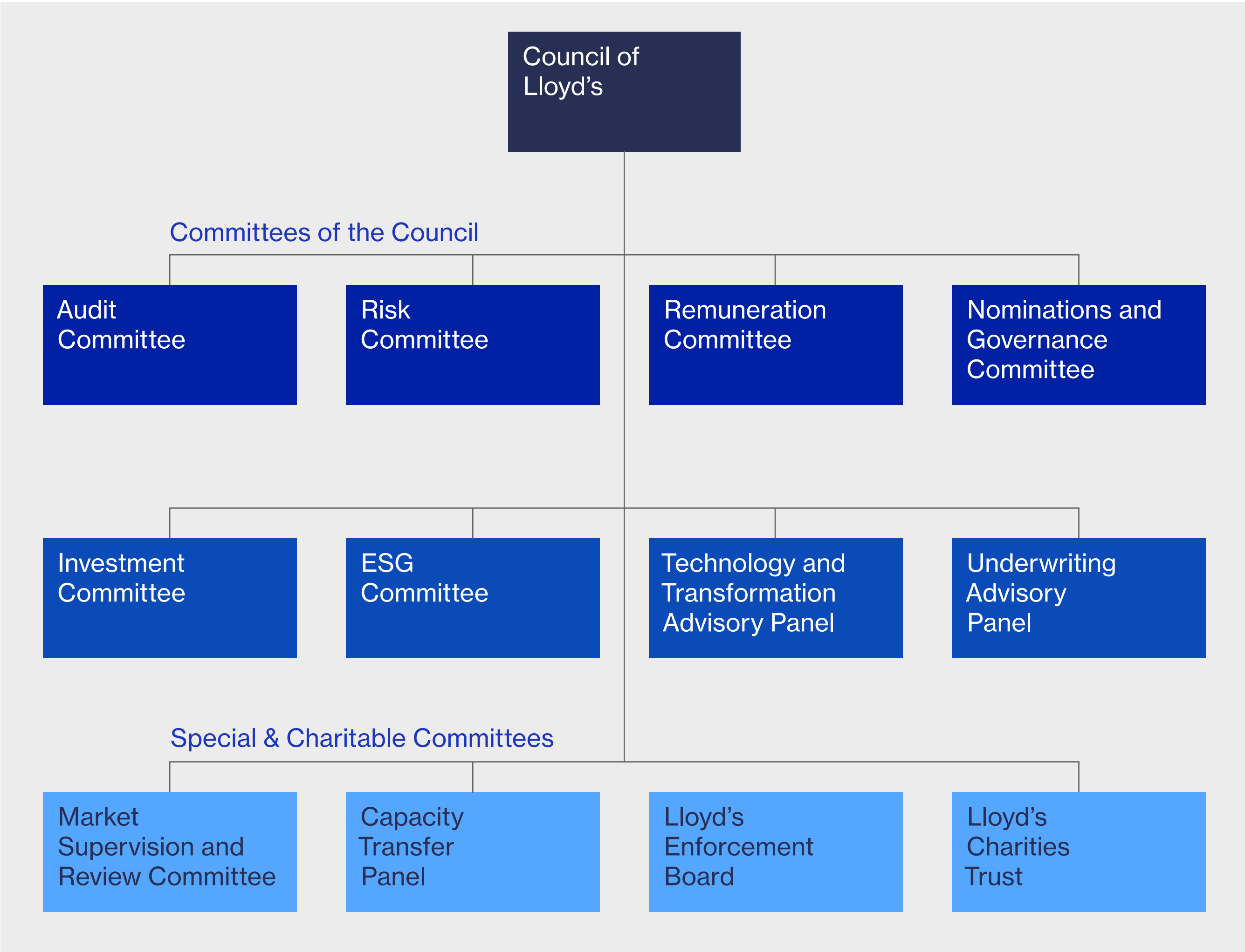


Figure.1: Lloyds's Governance Structure
The Council is the governing body of the Society and has ultimate responsibility for overall management of the market.

1.2

Describe management's (below board-level responsibility) role in assessing and managing climate-related issues.

The Risk and ESG committees of Council, together with the ELG Sustainability Steering Committee, ensure ClimateWise Principles and other areas of focus in the Sustainability Strategy are escalated appropriately through Lloyd's governance structures. This works alongside the Chief Risk Officer as Executive Committee-level ClimateWise sponsor, the presence of our Chief Executive Officer as a member of the Council of ClimateWise, and our Sustainability Director as a member of the ClimateWise Managing Committee. This ensures climate-related priorities and the Principles of ClimateWise create an impact and a focus for Lloyd's wider business strategy alongside effective oversight of the associated risks.

Risk Management processes

The Corporation's risk management framework ensures that the risks which could have a significant impact on Lloyd's business are identified and there are mitigating actions to reduce or eliminate the risk. While a number of years ago climate change was categorised as an "emerging" risk, it is now considered a cross-cutting risk type that manifests through many of the Corporation's established risk categories.

At a senior management level, the Executive Risk Committee (ERC) is responsible for overseeing the identification and control of key risks to the objectives of Lloyd's, including climate risk. David Sansom, Chief Risk Officer, is the Director responsible for ensuring climate risks are identified and adequately managed.

The risks from climate change may crystallise in a number of different ways, and responsibility for managing those risks therefore sits with numerous teams across the Corporation. Climate specific risks have been added to the risk libraries of a number of risk owners, with a self-assessment of those risks and corresponding controls now performed by the risk owner every 6 months. As part of this process, if any of the climate specific risks are assessed as being 'heightened', they will be escalated to the relevant Director or ERC for approval, depending on the risk score.

The Key Risk Indicators (KRIs) and climate specific metrics will continue to be improved and reported in the Climate Risk Reporting process.

The ERC has received numerous updates over the past 12 months on progress being made to the risk framework in response to requirements set out in PRA SS3/19 and our involvement in the Bank of England's CBES exercise in November 2020 through to May 2022.

Following discussion at the ERC in April 2021, the Executive Directors requested a workshop to discuss climate risks in depth and to begin development of our climate risk appetite. That workshop took place in June 2021 and helped informed Lloyd's first detailed Climate Risk Report, prepared for the Risk Committee in November 2021 and summarising all climate risks to Lloyd's as well as stress testing of these risks.

Further quarterly reporting against risk appetite and KRIs continues to improve as climate specific metrics are embedded into the risk appetite reporting process.

Oversight

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. 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 principles under our oversight framework.
- 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 Sustainability team has provided ESG Guidance to managing agents and requested each managing agent to develop an ESG strategy which aligns to their business model and submit to the Underwriting team as part of the 2023 business planning process. The ESG Guidance provided by Lloyd's included considerations for an ESG framework, developing an ESG-related risk appetite, which would include climate risk, and consideration to how the managing agent's ESG strategy supports Lloyd's ambition of a net zero underwriting portfolio by 2050, through Lloyd's membership of the Glasgow Finance Alliance for Net Zero (GFANZ) and the Net Zero Insurance Alliance (NZIA).

A future looking view of climate-related risks are also monitored by the Portfolio Risk Management business unit. Within this business unit, the Exposure Management team manages Lloyd's catastrophe risk at syndicate and market levels. Through this team, the Corporation of Lloyd's contributed to the PRA "Framework for assessing physical climate change risk". Produced with contributions from a cross-industry working group, the report outlines a framework for practitioners in the general insurance sector to use to assess the financial impacts of physical climate change. This activity also contributes to principles 2 and 3.

Within the Solvency Capital Requirement (SCR) Review Process; managing agents are expected to recognise any potential impacts on peril frequency and severity in their risk models. Whilst the impact is slow year on year, the possibility of an overall worsening of risk levels compared to historic experience is taken into consideration. The review looks for evidence that climate change has been considered and included in the managing agent's internal model where appropriate (principle 3.1 and 3.2).

Policy

The Corporation of Lloyd's Government Policy & Affairs team, in partnership with the Sustainability team engages directly with UK, EU and international governments and regulators to discuss policy to facilitate resilience to, and mitigation of, climate change. For example, in January 2021 we responded to the IAIS consultation on its draft Application Paper on the Supervision of Climate-related Risks in the Insurance Sector, and in May 2021 we submitted a response to the UK Governments' consultation on Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs. Further examples can be found in principle 5.1 and 5.2, featuring Corporation employees (principle 4.4 activities).

The Corporation plays an active role in ongoing discussions about climate change within insurance trade associations such as Insurance Europe, the Reinsurance Advisory Board, the Lloyd's Market Association (LMA), London & International Insurance Brokers Association (LIIBA), Association of British Insurers (ABI), International Underwriting Association (IUA) and Global Federation of Insurance Association (GFIA).

It is also a key objective for Lloyd's to minimise duplication with work undertaken by the PRA and the FCA, and for the regulators to take comfort from the oversight undertaken by Lloyd's itself. The Corporation of Lloyd's engages in consultations and submits responses to ensure that we understand and act in accordance with regulatory expectations of our role in relation to the market, so that we act in

a co-ordinated manner in relation to Lloyd's managing agents. This may include ensuring that syndicates comply with new requirements as they come into effect. See principle 5.1 for further examples.

Investments

The Investments team leads a range of activities that both manage both the climate impacts of Lloyd's own investments, and influence the investment activities of others in Lloyd's value chain. Lloyd's provide published Market Guidance for managing agents to on Setting a Responsible Investment Policys, as part of its "Environmental, Social and Governance: Lloyd's guidance for Managing Agents" publication in October 2021 Lloyd's has also as well as committed to transitioning the its own Central Fund investments to net zero by 2050, by phasing out fossil fuel-related investments and allocating 5% of the Central Fund to impact investments.

Evidence also applies to principle(s):
2.1, 2.2, 3.1, 3.2, 4.4, 5.1, 5.2

2. Incorporate climate-related issues into our strategies and investment

2.1

Evaluate the implications of climate change for business performance (including investments) and key stakeholders.

Our ESG strategy

Embedding ESG across the market and Corporation is a top priority for Lloyd's and is interwoven with our purpose of sharing risk to create a braver world. In order to build a more sustainable, resilient and inclusive society, we need to think not just about our own actions, but how we can partner with those around us to achieve mutually beneficial outcomes on the issues facing communities and society.

In 2021, we made strong progress in making Lloyd's more sustainable, resilient and inclusive. Our sustainability strategy and activities focus on the three roles of the Corporation: managing our own operations, leading the market, and bringing people together to solve complex challenges.

We have been working on our ESG strategy for a number of years, first setting out our ambitions across all of Lloyd's business activities in our first ESG report, which was published in December 2020.

Lloyd's ESG strategy continues to be guided by the United Nations' Sustainable Development Goals (SDGs), which provide the overarching framework for our ESG strategy. In 2021, Lloyd's published its second ESG report, with our activity detailed across our four core ESG themes:

- Governance: Ensuring robust processes and accountability to drive action on these important issues
- Climate: Insuring the transition of our industry and society towards a sustainable and low carbon future
- Culture: Ensuring every individual can see a place for themselves in our market and our society
- Communities: Ensuring all parts of society benefit in the wealth and growth of our industry

This framework gives us focus and allows us to provide an update of how Lloyd's has progressed against its ESG plans in 2021; the challenges we have faced; and the opportunities we see for 2022.

For each of the areas above, we have teams across the Corporation who progress our ambitions with our dedicated Sustainability team, bringing the activity together and ensuring we continued to stay focussed on this strategy and give each area the specialist knowledge it requires.

Responsible operations

We have set a target to achieve net zero carbon emissions for our operations by 2025. To support this ambition, we developed a roadmap in 2021 to align our operational net zero carbon emissions with methodologies outlined by the Science Based Targets Initiative (SBTi). To meet our operational net zero carbon emissions for Scope 1 and 2 targets by 2025, Lloyd's need to meet a year-on-year reduction of 4.2% in carbon emissions, leading up to a real reduction in total carbon emissions of 25.2% by 2025 compared with baseline figures in 2019.

The Corporation's policies

LEED (Leadership in Energy and Environmental Design) is the most widely used green building rating system in the world, providing a framework to create healthy, highly efficient and cost-saving green buildings. LEED certification is a globally recognised symbol of sustainability achievement. Four of Lloyd's offices have been given LEED status and two more have local accreditation.

Lloyd's updated its Supplier Code of Conduct in 2022 to reflect the standards expected of suppliers, including specific criteria around how suppliers should support the Corporation's journey to its 2025 net zero target. The high-level commitments we require of our suppliers are as follows:

- Suppliers must have a written environmental/sustainability policy or equivalent, appropriate to the size and nature of the supplier's operations that, where applicable, addresses preventing, mitigating and controlling serious environmental and health impacts from operations including raw material usage, greenhouse gas emissions, water, waste, air quality and biodiversity.
- Fully comply with internationally recognised environment, social and corporate governance standards (ESG standards) and applicable laws
- Take a proactive approach, committing to responsible business initiatives like the UN Sustainable Development Goals, the UN Global Compact and other national or international positive commitments
- Have a responsible business strategy and transparent reporting, and where applicable responsible investment policy, appropriate to the size and nature of the supplier

Please see our vision and our expectations from our suppliers in our Supplier Code of Conduct. Further information can be found in principle 4.1.

Investment

The Corporation of Lloyd's believe that we should use our shareholder power to influence the behaviour of the companies in which we invest – and persuade them to respond more effectively to the impact of climate change (principle 2.1, which also includes 2.2 and 2.3 activity).

The Corporation has a responsible investment strategy that has been communicated publicly (principle 6.1). Details are available as part of the annual report, Sustainability webpages, and in outputs throughout the year, such as regulatory responses and media requests.

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

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

The Lloyd's Central Fund, totalling around £3bn of assets, provides an additional layer of protection for Lloyd's customers and market participants against extreme events or those with long-lasting impacts.

In joining the Net Zero Insurance Alliance (NZIA) in October 2021, we committed to transition the Central Fund to net zero by 2050, redirecting capital flows to green investments that will enable and accelerate the transition. We will publish a detailed roadmap to achieve this goal as part of our NZIA commitment, drawing on best practice from the Net Zero Asset Owner Alliance and outlining interim 5-year targets.

This commitment builds on the strategy we set out for our investments in our 2021 report, including allocating 5% of the Central Fund to impact investments and introducing climate-related exclusions to sectors for the Corporation assets and the Central Fund. These exclusions have been met for Corporation assets. We also continue to use ESG scoring as part of our investment process and strengthen this with appropriate data as required.

In March 2022, we announced that we will be partnering with Schroders Solutions to create a new investment platform offering institutional investors the chance to co-invest in the Lloyd's market, alongside the Central Fund. While the platform will provide a range of benefits from economies of scale to simpler reporting, it also aims to support Lloyd's net zero ambitions by giving investors focused access to ESG funds. Criteria on objectives such as carbon emissions and sustainable governance are embedded in the platform funds, allowing investors to fulfil their ESG objectives while supporting our wider efforts to support the transition to a low carbon economy.

Evidence also applies to principle 2.2 and 6.1.

In 2022, our focus will be on:

- Continuing to embed our ESG strategy into our investment framework, including reviewing exclusions policy already implemented across the portfolio
- Exploring allocating 20% of investments to private assets, potentially enabling the Central Fund to achieve net zero targets through Lloyd's investment platform
- Build out and implement our Net Zero investment framework
  - exploring a reliable, transparent and scalable carbon footprint measure
  - analysis of issuers within Central Fund that are committed to net zero
  - analysis of where issuers stand versus their net zero target plan

Voting and Engagement

Lloyd's Treasury & Investment Management (LTIM) continues to employ the services of an overlay manager, BMO Global Asset Management (BMOGAM), to engage with companies in which Lloyd's Central Fund invests as a shareholder and to exercise the Central Fund's voting rights in pursuit of ESG goals.

In 2020, BMO conducted in-depth engagement with 61 companies, in 17 countries, on a wide range of issues. BMO recorded 51 milestones where engagement had direct impact on companies taking action to either protect or enhance long-term shareholder value. BMO is also involved in thematic engagement projects, involving multiple companies, on a range of topics spanning labour standards, human rights, climate change and corporate governance.

Evidence also applies to principle(s): 2.2

Market facing

The Corporation of Lloyd's has a market oversight role with regards to climate related risks. It does this in a number of ways, examples are outlined in this section.

2022 Market Oversight Plan

The Market Oversight Plan, published at the beginning of each year, sets out Lloyd's oversight priorities for the coming year and how the Corporation plans to work with the market to deliver it.

Climate change is prominent in the 2022 plan[b], with a particular focus on several climate-related initiatives within the ESG pillar, as part of the Corporation's goal of becoming a sustainable marketplace.

Environmental, Social and Governance guidance

The 2021 ESG Market Guidance (ESG Guidance), published in October 2021 provides directional guidance and best practice to support managing agents as they look to put in place ESG governance frameworks, including sustainable underwriting and responsible investment strategies.

The ESG Guidance provides further context around our goals and reinforces our message that Lloyd's is committed to supporting government policy in achieving net zero greenhouse gas emissions by 2050. In support of this, Lloyd's ambition is to become the commercial and specialty market of choice for insuring the transition to net zero.

As outlined in our 2020 ESG Report, we believe that ceasing the underwriting of new cover or investments for thermal coal-fired plants, thermal coal mines, oil sands and Arctic energy exploration activity and phasing out existing coverage by 2030 remains a sensible and pragmatic ambition.

Broadly, expectations on managing agents for 2022 relate to improving data collection and identifying clear ESG strategies across the market, to support Lloyd's overall social purpose and environmental goals. Managing agents can expect engagement across four key areas:

1. **ESG framework**
   Managing agents will be expected to consider their ESG strategy and submit this as part of the 2023 business planning process, with further discussion as part of the Strategic Business Discussions. Each managing agent should consider how they may develop and incorporate an ESG framework that is suitable for their business and may want to consider the below key features for their ESG framework:

   – A governance structure that embeds ESG in decision making

   – Sustainability is embedded across underwriting and investments

   – A risk management system that responds to ESG risks, including the financial risks of climate change in line with PRA supervisory statement SS3/19

   – Data and reporting are used to monitor and disclose on ESG

2. **Climate transition measurement framework (the measurement framework)**
   To deliver against our leadership objectives set out within the HRH The Prince of Wales' Sustainable markets Initiative Insurance Task Force (SMI taskforce), we will work with the market to implement a measurement framework. This has three key objectives:

   – Identify current carbon intensity hotspots in underwriting portfolios, incorporating both a point-in-time assessment and forward-looking metrics on the rate of green transition.

   – Encourage insurers and reinsurers to reduce their contribution over time to carbon intensive activities and increase support for climate solutions, thereby insuring the transition.

   – Enable the insurance industry to collectively measure progress as it transitions its underwriting portfolios in support of decarbonisation.

   The first version of the framework is being run as a market pilot in 2022 to further refine and iterate the framework to ensure it is fit for purpose before wider implementation of the Sustainability Transparency and Reporting regime from 2023 onwards.

3. **Establishing a policy on sustainable insurance**
   Managing agents are encouraged to identify an appropriate policy on sustainable insurance that considers ESG integration and which supports Lloyd's ambition for the market's overall transition towards net zero. In practice, this means identifying the sustainability and ESG factors they wish to consider as part of underwriting decisions. Managing agents are advised to use a risk-based approach, focusing on their most material areas of underwriting (including areas related to high carbon-intensity business) in the first instance and how ESG can be integrated into these. Managing agents can partner with direct and indirect policyholders to support them in their approach to transitioning operations and activities that present the most material ESG risks to their business, and to their insurer. This includes looking at whether a credible transition plan is incorporated into the business' framework, to help managing agents' track a policyholder's progress and alignment with technological, policy and legal changes.

4. **Setting a responsible investment policy**
   Managing agents should consider their own responsible investment policy and governance frameworks appropriate for their size, scale and ambition. To come to this decision managing agents should reflect on and understand their status, whilst developing a robust understanding of ESG trends and their global impact.

Whilst setting an appropriate investment policy, managing agents should consider methods for selecting and working with external investment managers, to ensure ESG criteria are met. Ultimately, Lloyd's considers successful ESG integration as embedding ESG factors into investment analysis and decisions.

Solvency Capital Requirement (SCR) process

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

Climate change poses a range of risks to syndicates and will continue to do so over the coming decades. Although climate change is a long-term risk, it is having an impact now.

Lloyd's considers there to be three types of climate risks for syndicates:

– Physical risks: these risks relate to specific weather events (e.g. floods, wildfires, hurricanes) and the longer-term impacts of climate change (e.g. on sea levels, increased average temperatures)

– Transition risks: these cover the impact to syndicates of the move towards a low-carbon economy, via changes to policy/regulation, changes to society, or emergence of new technologies and business models. For example:

  – As electric vehicles are further developed and desired, financial assets in the automotive sector may lose value.

  – As governments promote sustainable energy, fossil fuel extractors and associated power generators will suffer financially (if they fail to adapt).

– Liability risks: parties who have suffered loss or damage from physical or transition risk factors may seek to recover losses from those they hold responsible; potentially affecting classes such as Directors & Officers, and Professional Indemnity.

Although climate risks inherently feature wide-ranging impacts with uncertain time horizons, they are foreseeable, and the impact that they will have on syndicates depends on actions taken in the short term.

Lloyd's expects syndicates, and their Boards, to understand and monitor the financial risks from climate change that they are exposed to – this has become a regulatory requirement due to PRA SS3/19. Lloyd's expects the risks posed by the current climate to be adequate captured in syndicates' internal models. Lloyd's expects all syndicates to be performing internal model stress-tests to ascertain the potential impact of climate change in the future, over short- and long-term horizons.

Lloyd's expects all syndicates' views of Catastrophe Risk (as represented within capital models) to be appropriate for the current climate, and to reflect changes in climate which have already occurred and may be influencing hazard now and over the timeframe covered by policies underwritten. The Exposure Management team completed a thematic review during 2021 to get better understand how this is being done in the market.

Lloyd's also expects all syndicates to be considering how their business model and/or portfolio management strategies may need to change in the future as a result of climate change.

Further information can be found in the PRA's Supervisory Statement SS3/19.

Evidence also applies to principle(s): 1.1, 1.2, 2.1, 2.2, 3.1, 4.2, 4.3.

Source: The Corporation of Lloyd's

2.2

Measure and disclose the implications of climate-related issues for business performance (including investments) and key stakeholders

Environmental initiatives

The Corporation recognises the environmental risks and impacts posed by its own operations, and accordingly has measured its operational greenhouse gas (GHG) emissions over the past 13 years (more detail on operational emissions is outlined under sub-principles 4.1-4.4). The methodology used to compile our GHG emissions inventory is aligned with the GHG Protocol Corporate Standard (revised version) and Defra's Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting requirements (March 2019). These measurements have enabled us to track historical trends over time. Lloyd's overall carbon footprint, including its scope 1, 2, and 3 (list categories) emissions, has fallen by 57% since the 2013 baseline.

Scope 1 includes natural gas, company cars, other fuels, refrigerants; Scope 2 includes electricity; Scope 3 includes employee cars, flights, domestic and international rail, public transport, commute, paper, waste, water, data centres and electricity transmission and distribution losses.

The measurements below represent Scope 1 and 2 as well as Scope 3 emissions relating to employee cars, as required by the Streamlined Energy and Carbon Reporting ('SECR') regulation:

- 14,449 tCO2e in 2013
- 8,364 tCO2e in 2019
- 6,104 tCO2e in 2020
- 6,158 tCO2e in 2021

Carbon intensity per person has reduced from:

- 2013: 16.5 tCO2e/FTE
- 2019: 7.3 tCO2e/FTE
- 2020: 5.6 tCO2e/FTE
- 2021: 4.9 tCO2e/FTE

As the vast majority of Corporation emissions (91%) are generated in the UK, we are therefore targeting much of our energy and carbon reduction activities on our London headquarters. We are working to see a reduction in emissions, across all measures, in 2022, and to achieve this, we will focus on:

- Continuing to reduce the emissions of our London headquarters, through the use of green gas and building improvements.
- Implementing our carbon management plan, which was developed in 2021, while continuing to manage our carbon performance through the environmental management system ISO14001
- Launch the Impact Investment Fund to deploy 3% of the Central Fund in investments that support our net zero strategy
- Launch of our roadmap to get to net zero operations by 2025
- Begin the implementation of our carbon management and reduction plan

Our operational emission reduction target

Lloyd's has our operational GHG emission reduction targets with what is required to limit global warming to below 1.5°C, in line with best practice guidance from the Science Based Targets Initiative (SBTi). This amounts to a 4.2% reduction year on year from a 2019 base year, totalling a 25.2% absolute reduction target by 2025. This progress would need to be sustained for Lloyd's to reach its goal of net zero operational emissions for Scope 1 and 2 by 2025.

More details on the Corporation's environmental and greenhouse gas management initiatives are provided under principle 4.

Incorporating climate-related metrics into remuneration and practice

A risk underpin is performed each year, through which the CRO provides an opinion on notable risk issues to the Remuneration Committee, allowing the Committee to make any adjustments to the variable remuneration of staff. The Employee Leadership Group ('ELG') have a scorecard which outlines clear targets and objectives to be met for each member. An example for climate metrics would be to assign a score to the ELG for progress made against ESG initiatives and goals. It is through this mechanism that adjustments to remuneration can made, for example, if risk owners fail to take appropriate action to manage the risks from climate change.

Evidence also applies to principle(s): 1.1, 1.2, 3.1, 4.2, 4.3.

Source: The Corporation of Lloyd's

2.3

Incorporate the material outcomes of climate risk scenarios into business (and investment) decision making

At Lloyd's, the risk profile originates from both syndicates and at Corporation level.

Syndicates are the source of the majority of risks. They source all 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 syndicate assets (including credit risk on Premiums Trust Funds (PTF)); reinsurance and other credit risk; and syndicate operational risk.

At the Corporation level, additional risks arise from central operational risk, pension fund risk; market risk on central assets; and the risk of member default.

Risk Management processes

Each year the Corporation identifies the key risks which could have a significant impact on Lloyd's business, and the mitigating actions required to reduce or eliminate the risk. See principle 1.1 and 1.2 for further information on Corporation risk management activities.

The Lloyd's Risk Management Framework ensures that the identification, assessment, monitoring and management of all material risks affecting the Society takes place on an ongoing basis.

The Council manages exposure to these risks by setting and monitoring a risk appetite framework – how much risk is acceptable and what actions should be taken when appetites are exceeded.

Alongside the risk appetite framework, Lloyd's adopts a consistent approach in managing its risks through a process known as the risk and control self-assessment process, which is conducted on a biannual basis. This process reassesses the existing risks and identifies any new risks. It evaluates the performance of key controls and seeks to monitor the action plans in place to help manage risks. The process also enables Lloyd's to undertake a more forward-looking assessment of risk.

Climate-related risk management

Climate change creates a number of potential risks to Lloyd's which are being considered in different ways. The physical, transition & litigation risks are considered to be cross-cutting risk types that manifest through many of the Corporation's established risk categories. For example, the potential for physical losses from climate change is captured within the 'Catastrophe Exposure' category, while transition risks are captured within 'Investments'. We recognise that these risks may have different time horizons (i.e., some physical risks may not materialise for many years, whereas transition risks can be more immediate) but this is considered in our response to each risk type.

The risk categories expected to be materially impacted by climate change are:

- Underwriting: the measurement and analysis of ESG factors across portfolios of business, particularly those exposed to increased risk exposure due to climate change, including those impacted by possible climate litigation;
- Catastrophe Exposure: the frequency and/or severity of events changes for perils such as flood (pluvial, coastal and fluvial) or wildfire;
- Investments: assets that emit carbon may lose value as economies transition;
- Regulatory & Compliance: the need to comply with evolving standards as well as the potential for litigation against the market.

There were individual workshops across 2021 with Treasury & Investment Management, Underwriting, Portfolio Risk Management, Operations and Finance, considering a wide range of risks, including from different classes of insurance business.

With climate-specific risks included in the risk libraries of risk owners, these risks are now routinely assessed and will be escalated to the relevant Director or ERC where necessary. Further quarterly reporting of against risk appetite and KRIs will be improved later this year as more climate specific metrics are embedded into the risk appetite reporting process.

Investment

The Corporation of Lloyd's believes that environmental, social and corporate governance (ESG) factors can have a material impact on long-term investment returns. We are therefore actively engaging with our existing external investment managers to understand how they assess these risk factors and to encourage better integration of these factors within their investment process where there is room for improvement.

Further detail in principle 2.1.

Exclusion policy

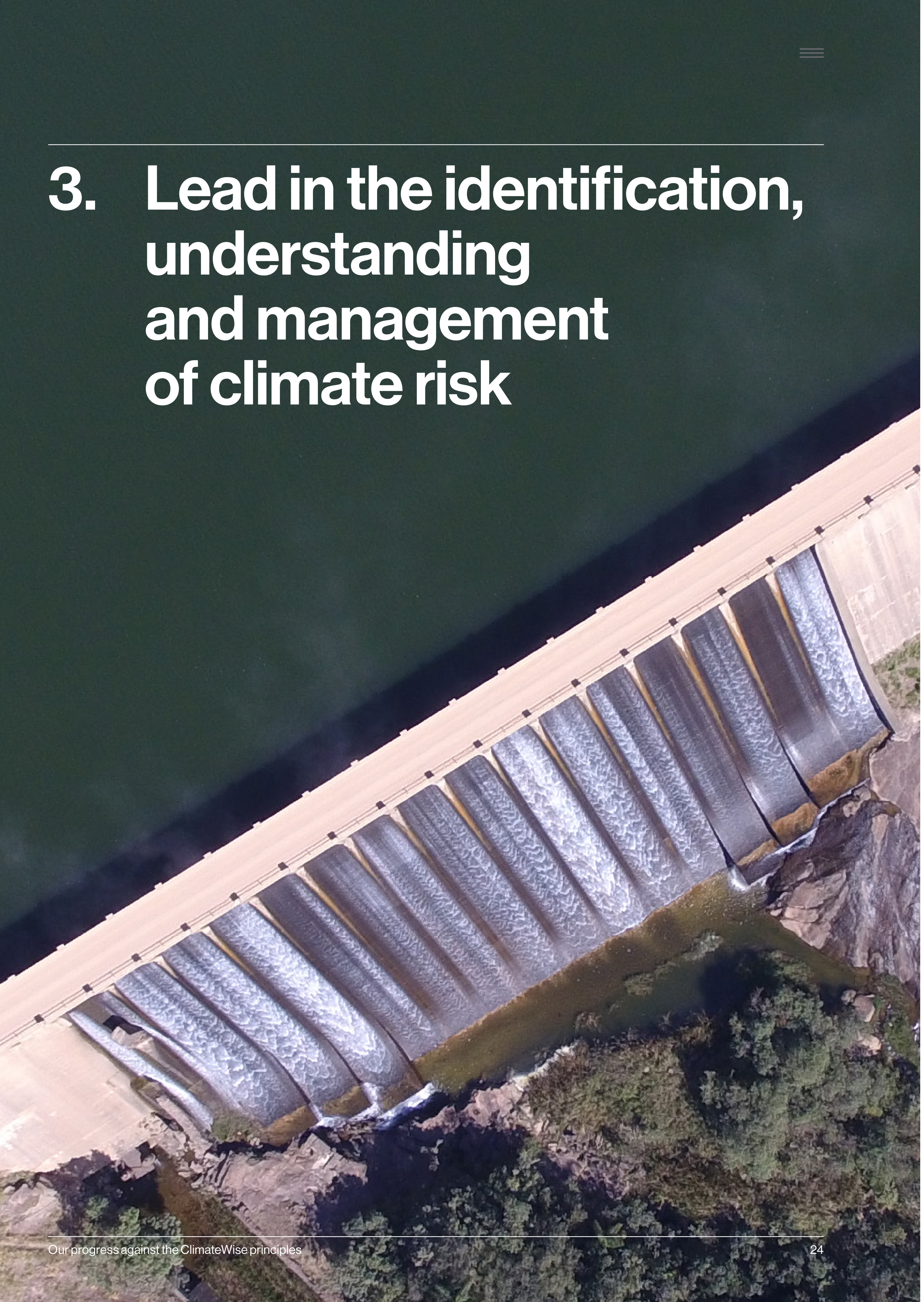
Coal combustion is believed to be the largest single cause of global greenhouse gas emissions [1]. We implemented a coal exclusion policy in April 2018 as part of our Responsible Investment Strategy for the Central Fund, and this policy continues to be implemented. Lloyd's investment philosophy focuses on generating long-term, sustainable capital growth for Central Fund assets. Our approach to responsible investment is detailed in our strategy for the Lloyd's Central Fund and is built upon three core pillars; Protecting, Providing and Promoting (principle 2.1 and 2.2).

The policy applies to Central Fund assets held in segregated portfolios and commits to excluding any companies that meet at least one of the following criteria:

- Generate more than 30% of their revenue from producing coal.
- Produce more than 20 million tons of coal per year.
- Generate more than 30% of their electricity from burning coal.
- Operate at least 10GW of coal-fired power stations.

Evidence also applies to principle(s): 1.1, 1.2, 2.1, 2.2.

Source: The Corporation of Lloyd's



3. Lead in the identification, understanding and management of climate risk

3.1

Ensure processes for identifying, assessing and managing climate-related risks and opportunities are integrated within the organisation (including investments).

Following the Bank of England's Prudential Regulation Authority (PRA)'s Supervisory Statement SS3/19, in November 2021, the Risk Committee discussed a 'Climate Risk report' which, along with setting out the material risks from climate change, also allowed the Committee to understand the steps taken by Lloyd's to identify climate-related financial risks across the business and be comfortable that they are being adequately managed through the Lloyd's risk framework. The report demonstrated how Lloyd's is meeting the requirements of SS3/19.

Additionally, in 2021, the Corporation of Lloyd's was involved in the Bank of England's Climate Biennial Exploratory Scenario (CBES).

Participation in Bank of England's CBES

During 2021, Lloyd's, along with 10 of its managing agents, took part in the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise, which provided a detailed climate change stress test for the banking and insurance industry. This exercise was designed to stress-test the resilience of the UK financial system to the physical, litigation and transition risks related to climate change. Lloyd's Society provided a submission to this exercise, with input from select managing agents within the market.

As specified by the PRA CBES guidance, the CBES exercise set out three scenarios, which are described at a high level below.

1. Early Action: The transition to a carbon-neutral economy starts in 2021 and continues through to the end of the scenario in 2050. Global warming is limited to 1.8ºC by the end of the scenario (relative to pre-industrial levels).

2. Late Action: The transition is delayed until 2031 and must be more sudden and substantial in order to ensure that the global warming is limited to 1.8ºC by the end of the scenario (relative to pre-industrial levels).

3. No additional action: No new climate policies are introduced beyond those which have already been enacted. Thus, the global temperature levels continue to increase, reaching 3.3ºC by the end of the scenario (relative to preindustrial levels) by the end of the century.

Outcomes and conclusions of climate scenario analysis

Following the CBES exercise involving climate scenario analysis, Lloyd's has drawn the following conclusions and outcomes:

The Lloyd's market is fundamentally well placed to manage climate risks. While there is inherent complexity and uncertainty in how the future climate pathway will develop, Lloyd's has controls and processes in place to manage and mitigate the exposures as they emerge, including:

- Re-underwriting and re-pricing insurance risks each year at renewal, adjusting exposure in line with risk appetite
- A robust business planning and capital setting process for the market, including annual capital raising in line with risk exposure
- Independent assessment of the adequacy of reserves for every syndicate, taking account of any emerging trends
- Holding a well understood, short-term and liquid asset portfolio across the Chain of Security, in line with Solvency II rules, which we would be able to de-risk quickly as financial markets react to a transition
- Systemic risk research and thought leadership from the Society, which understands emerging risks and supports economies in building back better following any loss, regardless of whether this is driven by climate change

The risk from climate litigation is the primary area of uncertainty. Globally, the cumulative number of climate change-related cases has more than doubled since 2015 and this trend could affect Lloyd's in a number of ways. We continue to review the sector wide analysis and CBES conclusions from the PRA – this will form further input into our plans for further research in this area.

The Lloyd's Internal Audit function has recently carried out a review, specifically to assess compliance with SS3/19. They determined our response to be 'Effective' and concluded that, "in Internal Audit's view, Lloyd's is compliant with SS3/19 requirements".

Lloyd's has already taken significant steps this year and will continue to monitor and assess potential climate impacts through the risk framework. The risk universe and appetite allow ongoing visibility of the key areas impacted by climate. We will continue to refine additional KRIs as required.

Following CBES conclusions, Lloyd's has been able to analyse climate scenario impact, particularly on investments.

Transition risk represents the change in value of invested assets (and liabilities) as a result of the adjustments towards a lower-carbon economy. Such transitions could mean that some sectors of the economy face big shifts in their business models which feeds through to asset values and these may not be adequately priced into their current valuations.

Lloyd's central modelling suggests an extreme impact from the Late Action Scenario, with a shock projected impact from a disorderly transition impacting Lloyd's assets before partially recovering by the end of the scenario. Across all links of the Chain of Security, there is a greater benefit if early policy action is taken, and an orderly transition occurs.

How this will have further influence on investment and business decision-making:

- A new KRI has been developed to cover transitional risk and added to the risk appetite framework. This considers specific industry sectors, as highlighted in our stress testing exercise as exposed to transition risk and monitors our aggregate exposure to these.
- Review all investment decisions for investments in those sectors most exposed to transition risk, as highlighted by CBES results.
- Publish the roadmap for the Central Fund to achieve net zero carbon emissions by 2050, including interim five-year targets. Progress towards meeting the commitments should be monitored with clear KRIs, noting that the portfolio will remain exposed to transition risk until and after this is achieved.
- Enhance our ability to scan for climate policy developments that may affect investments.

Future actions as a result of climate scenario analysis

We are committed to keeping climate risks in focus and a number of further actions are planned, including:

Research and thought leadership

- Lead industry thinking through the Futureset platform, in particular working alongside Cambridge Centre for Risk Studies to conduct systemic risk research into extreme weather from climate change.
- In July 2022, in partnership with Aon, Lloyd's published 'Ukraine: A conflict that changed the world'. The report includes analysis on how the war is causing an energy crisis and will affect the climate transition globally.

Long-term data improvements

- Project underway to understand long-term data improvements required to support ongoing monitoring of climate risk as well as supporting the Lloyd's market's transition to a net zero aggregate underwriting portfolio.
- Consider additional KRIs to be added to risk appetite framework.

Embed in Corporation decision making

- Lloyd's has committed to transition the Central Fund to net zero by 2050.
- Lloyd's has committed to an overall net zero underwriting position by 2050.
- Lloyd's has committeed to achieving net zero operational emissions at its landmark building in London by 2025.

Market oversight and guidance

- CBES guidance to support managing agents conducting their own scenario analysis.
- Lloyd's market oversight plan includes targeted actions across risks impacted by climate change.
- Embed into new market oversight Principles and embed within the Rio framework.
- Provided ESG Guidance to managing agents to facilitate the development of an ESG strategy which aligns to their business model
- Conducted a feasibility study with a sample group of managing agents to asses the development and capture of carbon measurement across their underwriting portfolios.

Link to capital requirements

Lloyd's remains confident that our capital position adequately covers current climate-related financial risks. Even without CBES adequately taking into account management actions, Lloyd's balance sheet remained in a surplus asset position under the climate pathways from the exercise, and the impacts were within the appropriate range of our modelled losses used for capital setting.

In addition, we continue to expect all syndicates' views of catastrophe risk (as represented within capital models) to be appropriate for the current climate, and to reflect changes in climate which have already occurred and may be an influencing hazard now and over the timeframe covered by policies underwritten. Lloyd's has recently undertaken a series of thematic reviews in this area and published a report that seeks to determine good practice. Lloyd's also applies loadings centrally to account for additional peril characteristics, where syndicate level loadings are deemed insufficient, and to reflect coverages (including natural catastrophe) underwritten that are not considered well modelled. We intend to undertake thematic analysis of how climate considerations are incorporated into internal models within our model validation process this year.

We do not believe it would be appropriate or necessary to hold capital for climate risks beyond the timeframes covered by the policies underwritten. The general insurance industry has the ability to respond dynamically to a changing risk landscape and, while we need to ensure this is done effectively, this is preferable to loading capital for risks that insurers have not taken.

Evidence also applies to principle(s):
1.1, 1.2, 2.1, 3.1, 3.2, 5.1, 5.2.

Source: The Corporation of Lloyd's

3.2

Support and undertake research and development to inform current business strategies (including investments) on adapting to and mitigating climate-related issues.

The Corporation aims to drive innovation in the market by focusing on thought and action-leadership, best practice and efficient use of data to support risk understanding. To support this, in February 2021, Lloyd's launched Futureset. Futureset is Lloyd's global platform and community dedicated to driving greater societal and economic resilience to the world's most challenging risks.

The global platform was developed in response to the large and complex challenges and impacts that arose from the COVID-19 pandemic and the urgent need to begin a new connected conversation with customers, insurers, and government tackle the challenges these risks bring.

Through Futureset, Lloyd's aims to build greater societal understanding and collaboration to find sustainable solutions and support greater preparedness, protection and resilience to the growing and interconnected risks that customers face today, and into the future.

Throughout 2021, Futureset focussed on the landscape of systemic risks, including exploring lessons learned from the COVID-19 pandemic, as well as examining the growing and global risks brought about by climate change. In July 2022, Lloyd's released a report in partnership with Aon which revealed the highly interrelated risks of the Ukraine conflict and how it may reshape business models in the global economy.

Additional data collection, tools and research are important to identify future trends and anticipate future risks (principle 6.2). The Corporation supports this by making our thought leadership publicly available (principle 6.1). We work with research partners to reduce the uncertainty surrounding these risks, and we collaborate with practitioners in the Lloyd's market and in the wider insurance market to understand the challenges and opportunities for insurance.

Through Futureset, Lloyd's launched a 'Risk Revealed' climate series. A series which aims to build greater understanding on the emerging and new risks as sustainable solutions are scaled up. Lloyd's have so far hosted two sessions: one on Hydrogen in collaboration with British Petroleum (BP) and one on Mass Timber as an alternative to traditional timber. Both events were attended by over 80 insurance practitioners.

More information about the Futureset initiative and how this supports Lloyd's research, development and leadership into responding to climate-related risk is provided under sub-principle 5.1.

Sustainable Markets Initiative (SMI)

The Sustainable Markets Initiative (SMI) was launched by HRH The Prince of Wales at The World Economic Forum 2020 Annual Meeting in Davos. As part of the SMI, HRH The Prince of Wales announced the 'Terra Carta' – a charter that puts sustainability at the heart of the private sector. The Terra Carta outlines ten areas for action and comprises of nearly 100 actions for business, which and Lloyd's supports. At the invitation of HRH The Prince of Wales, Lloyd's has brought together leaders from a number of the largest and most influential global insurance firms to form an Insurance Task Force (ITF) as part of the Sustainable Markets Initiative.

SMI Insurance Task Force

The Task Force, chaired by Lloyd's Chairman Bruce Carnegie-Brown, has committed to supporting the global transition through launching five key initiatives in 2021 and adding to these in 2022.

2021 key highlights:

The Disaster Resilience Framework (DRF) is aimed at proactively protecting countries most vulnerable to rising sea-levels and extreme weather events through public-private investmenet. The framework is adapatable across multiple developing countries to address climate-exacerbated natural hazards and weather perils.

The Sustainable Products and Services Showcase details insurance coverages across the hydrogen supply chain; solar energy; wind power and carbon capture; together with parametric and microinsurance schemes.

Lloyd's took part in HRH The Prince of Wales's Terra Carta Action Foumto progress initiatives and collaboration towards accelerating the transition.

2022 goals:

Develop and launch an industry pledge for greener insurance supply chains.

Continue the development of an open-source framework to enable measurement of the transition towards net zero underwriting and promote engagement with key insureds.

Support the development of blended finance solutions that channel increasing amounts of private capital into sustainable development projects across low- to middle- income countries.

Shaping new insurance solutions with a specific focus on infrastructure and agriculture.

Evidence also applies to principle 6.2.

Innovation Lab

Lloyd's Lab is the home of InsurTech at Lloyd's, it is a global centre for insurance innovation. Over ten weeks programmes, called cohorts, start-ups are given the unique opportunity to work with Lloyd's market experts to shape the next big innovation.

During 2021 we dedicated a theme in the Lloyd's Lab towards climate change and decarbonisation. Through a global application process, we sought companies who thought they could help the Lloyd's market:

– Offer insurance products to transfer decarbonisation risks,

– Respond to the increasing threat of climate events – either through traditional insurance response or through provision of services,

– Understand the changing nature of climate risks – from live forecasting services to longer term modelling of natural processes or their economic and social impact, or

– Understand the carbon footprint of the clients that they cover.

The programme received 177 applications from around the world, from which eleven successful teams were selected to join Lloyd's Lab. These included:

– **Tesselo** is a geospatial intelligence firm that delivers solutions to monitor natural resources and reduce climate risk

– **Jupiter** Intelligence deliver climate risk analytics of multiple perils in spatial resolutions from portfolio to asset level, globally and across flexible time horizons and climate scenarios

– **CarbonChain** helps companies automate the accounting of their carbon emissions. They conducted a pilot looking at the carbon emissions of the companies that we insure and are now working on wider work directly with the market in 2022. More information about Lloyd's Lab's partnership with CarbonChain available on our website.

Innovation: Future Plans

There are a number of ways in which Lloyd's will support our customers in transitioning their businesses to more sustainable models.

We will provide thought and action leadership via Futureset to all managing agents in our market to support our planned 2% of annual premiums on innovative and sustainable products.

In 2021 we developed guidance to support all managing agents in our market to support Lloyd's in its net zero ambitions. This included suggesting managing agents to consider developing a governance structure that embeds ESG in decision making, to ensure sustrainability is embedded across underwriting and investment decision making.

Climate Financial Risk Forum

Lloyd's has played an active role on the Climate Financial Risk Forum, whose objective is to build capacity and share best practice across the financial services industry. Lloyd's has helped draft guidance and has presented at industry workshops during the reporting year.

Evidence also applies to principle(s): 1.2, 3.2, 5.1, 5.2, 6.1, 6.2.

Source: The Corporation of Lloyd's

4. Reduce the environmental impact of our business

4.1

Encourage our suppliers to improve the environmental sustainability of their products and services, and understand the implications these have on our business.

The mission of the Group Procurement team at Lloyd's is:

"To deliver an effective and sustainable approach to all third-party sourcing and supplier management, with a clear purpose to support Protect, Promote and Provide principles while achieving maximum value, minimising risk and driving efficiencies to invest in the future applying Lloyd's principles around:

- Sustainable procurement
- Responsible Business
- Living Wage
- Anti-bribery & Corruption
- Diversity & Inclusion
- Modern Slavery

There are several projects and activities underway to support the team in delivering its mission to embed sustainable procurement practices internally and across the supply chain.

The Supplier Code of Conduct was updated in 2022 to reflect the standards we expect of our third parties.

Lloyd's Code of Conduct ('Code') sets out the standards of business conduct which we ask all our suppliers and any third-party sub-contractors to comply with. Throughout the contract term and during renewal, suppliers will be required to evidence compliance with this Code; Lloyd's has the right to assess the supplier's compliance at any time.

Under the Code, suppliers must have a written environmental/sustainability policy or equivalent, appropriate to the size and nature of the supplier's operations that, where applicable, addresses preventing, mitigating and controlling serious environmental and health impacts from operations including raw material usage, greenhouse gas emissions, water, waste, air quality and biodiversity.

We are also updating our Supplier Management Framework which sets out how contracts should be managed at Lloyd's. This will include an ESG review once we have a third party in place to help up evaluate supplier ESG performance. Connected to this piece of work, we have recently completed a supplier segmentation exercise and new Preferred Supplier List (PSL) which will enable us to prioritise how we manage our suppliers; and this may include additional ESG-related performance measures. Lloyd's Tender Documentation (RFP/RFI templates) are currently under review and will include questions pertaining to ESG principles. Lloyd's Modern Slavery Statement was also updated in late 2021 and published on Lloyds.com.

Environment

Lloyd's Supplier Code of Conduct sets out the standards of business conduct that we expect of our third parties; the high-level commitments we require of our suppliers are to:

- Fully comply with internationally recognised environment, social and corporate governance standards (ESG standards) and applicable laws;

- Take a proactive approach, committing to responsible business initiatives like the UN Sustainable Development Goals, the UN Global Compact and other national or international positive commitments;

- Have a responsibly business strategy and transparent reporting, and where applicable responsible investment policy, appropriate to the size and nature of the supplier; and

- To ensure their workforce (including those not directly employed by the Supplier i.e., agency staff, contractors and subcontractors) are kept aware of the Code or the supplier's own policy (if this is of a higher standard) and provide them with the appropriate training and skills to maintain continuous improvement.

Forward planning

Lloyd's has set a target to achieve net zero operational carbon emissions by 2025, which has placed significant focus on the need to reduce our carbon footprint through the development of a number of environmental initiatives.

Lloyd's is in the process of carrying out an extensive review of the engineering plant and associated equipment in the London building, which will result in a proposal to upgrade the existing systems for energy improvement and includes the potential for a light energy saving project. The principal areas being focused on are:

- The replacement of the existing MTHW boiler with a mixture of condensing and water to water heat pumps. This will reduce energy consumption together with emissions significantly. This would also encompass revised HWS generation solutions.
- Upgrade the air handling unit motors and fans to reduce energy consumption of the largest MEP electrical consumer within the building.
- Continue with the excellent work of converting the existing luminaires from fluorescent to LED lamp technology and the associated intelligent controls.
- Rationalisation of existing systems to introduce simplicity, more efficient operation and enable these to only operate when required at an appropriate level. This can be implemented for instance when the remainder of Gallery floor on the upper and or lower stacks enable the usage of each floor to be tuned to suit occupancy. More extensive CO2 sensing will assist this process.

As part of this process, the Health, Safety and Environmental Coordination Group (HSECG), which meets every four months, will help to oversee the development and monitoring of progress against an environmental action plan for the Corporation.

Meetings in 2021 are scheduled at the beginning of the year, and the group met in February and April, with further meetings scheduled for July and October. Activity, minutes, and all documentation is shared within the group. The full list of activities has been provided to the reviewers and details will be shared in the next reporting year when they become public.

Evidence also applies to principle(s): 4.3

Source: The Corporation of Lloyd's

4.2

Disclose our Scope 1 and Scope 2 GHG emissions and Scope 3 GHG emissions using a globally recognised standard.

2021 marked the ninth year in which the Corporation of Lloyd's reported the GHG emissions inventory of international offices in addition to that of the UK, and sees those hubs continuing to engage with their resource consumption. These are supported by activities forming the responsible business strategy, with tracking in the Health, Safety, Environmental Coordination Group (HSECG) (principle 1.2).

These figures are reported publicly in the Corporation of Lloyd's annual and strategic reports, and made available online in the environmental section of the public website.

Methodology

The GHG accounting and reporting follows principles of relevance, completeness, consistency, accuracy and transparency. Avieco applies these principles when collecting, reviewing and performing the GHG emission calculations as part of: defining organisational and operational boundaries, verifying the integrity of data, checking the data audit trail and finally performing the calculations.

The Corporation of Lloyd's continues to use the operational control approach for defining the scope of its GHG emissions inventory and calculate total direct Scope 1, 2 and major Scope 3 emissions. Reported environmental data covers 100% of contracted staff worldwide; the review includes all the Corporation's entities that meet the criteria of being subject to control or significant influence of the Corporation.

Data on some emissions sources from international offices remains challenging to obtain, and therefore was excluded from the Corporation's overall GHG emissions summary for 2021: refrigerants, company owned/leased vehicles and national rail from non-UK offices.

Consistency

In order to ensure comparability, Avieco has continued to use the same calculation methodologies used in previous years. The Corporation has dual reported for scope 2 emissions in 2021, in line with changes with the WRI Greenhouse Gas Protocol, for the third time. The location-based scope 2 total has been used to report the Corporation's total GHG emissions to ensure a consistent approach with previous years.

The data for 2021 was collected, verified and calculated in accordance with the requirements of the following standards:

- World Resources Institute (WRI) Greenhouse Gas (GHG) Protocol (revised version)
- ISO 14064 part 1, and
- Defra's Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance, June 2013

The emissions have been calculated using the Defra 2021 conversion factors. This work is partially based on the country specific CO_2e emission factors developed by the International Energy Agency, © OECD/IEA 2019 but the resulting work has been prepared by Avieco and Lloyd's and does not necessarily reflect the views of the International Energy Agency.

Results

The Corporation of Lloyd's total reported (location based) GHG emissions from all business activities in 2021 were 6,158 tonnes of CO_2e consisting of:

2021 carbon emissions		Total scope 1	Total scope 2 (location based)	Total scope 2 (market based)	Total scope 1+2 (location based)	Total scope 3	Grand total scope 1,2,3 (location based)	Grand total scope 1,2,3 (market based)	Carbon intensity location based (tCO_2e/FTE)	Total energy usage (kWh)
2021 (tCO_2e)	UK emissions	1,609	3,074	–	4,683	888	5,571	2,497	5.7	23,500,425
	Global emissions (ex. UK)	15	518	538	534	54	587	608	2.2	1,609
2021 (tCO_2e)	UK emissions	1,300	3,493	–	4,792	841	5,633	2,141	6.6	1,609
	Global emissions (ex. UK)	11	409	432	420	50	470	493	1.9	1,609

As in 2019, the Corporation of Lloyd's continue to dual report scope 2 emissions emanating from electricity consumption. Location-based scope 2 emissions are calculated using a conversion factor based on the average grid mix in each location (issued by Defra in the UK).

Market-based scope 2 emissions are calculated using a conversion factor specific to the electricity purchased by the Corporation. Scope 2 location-based and market-based emissions are shown in the table below:

Scope 2 location-based emissions

	Stage 2 location based (tonnes CO_2e)	Instrument type	Stage 2 market based (tonnes CO_2e)	Instrument type
UK	**3,074**	National grid average emission factor (issued by Defra)	**0**	Supplier emission factor (100% renewable energy used)
International offices	**518**	Various national grid average emisiion factors (issued by Defra & International Energy Agency)	**538**	Various national grid average emission factors (issued by Defra & International Energy Agency)
Total	**3,592**	UK	**538**	UK

The Corporation's total location-based scope 2 emissions are 3,592 tCO_2e whilst market-based scope 2 emissions are 538 tCO_2e.

All totals have been rounded to the nearest whole number.

95% of electricity consumed globally, all of which is used in the UK, is sourced renewably as a result of KPIs from 2016 where the supplier contract has been renewed, and therefore has an associated conversion factor of zero.

To avoid confusion and ensure a consistent approach with previous years, the Corporation has chosen to report location-based emissions, which is the methodology used to calculate historical scope 2 emissions since 2007. For our 2021 report we have not included any estimation of the carbon emissions of employees working from home as a result of the COVID-19 pandemic. Throughout 2021, homeworking has reduced significantly and therefore a decision was taken to exclude working from home emissions and estimate emissions from commuting only. This is something we will be reviewing and looking to incorporate for the 2022 report.

While we were disappointed by the increase on the previous year, the fall in emissions per employee of 12.5% – from 5.6 tCO_2e/FTE in 2020, to 4.9 tCO_2e/FTE – indicated that our underlying emissions are continuing to fall. The reduction in tCO_2e/FTE suggests Lloyds are on track to meet the 4.2% year on year reductions to meet their science-based target, however, there has been an increase in absolute emissions.

Other notable trends for each scope include:

- **Scope 1** – as offices have reopened, our total scope 1 emissions have increased by 24% from 2020 to 2021, particularly in the UK where natural gas is used to heat our largest site. While there has also been no notable increase in the use of company cars and gas oil, there have been no top-ups of HVAC systems with refrigerants, helping to limit the overall scope 1 impact.
- **Scope 2** – although employees returning to the office have driven an increase in global scope 2 emissions, greater efficiency of electricity use in the UK has driven an overall reduction in the global scope 2 footprint.
- **Scope 3** – the increase in scope 3 emissions has been driven almost entirely by an increase in business travel and employee commuting, as a result of covid-19 restrictions being eased in the UK and worldwide.

For more insight into the quality and reliability of our GHG emissions inventory please access the opinion statement issued by Avieco on the Lloyd's website.

Evidence also applies to principle(s): 1.2, 4.3

Source: The Corporation of Lloyd's

4.3

Measure and seek to reduce the environmental impacts of the internal operations and physical assets under our control

Environmental measurement

The Corporation of Lloyd's works in partnership with Avieco – environmental consultants contracted by the Corporation – to calculate the GHG emissions of the Corporation's global operations. These figures are shared on the Corporation intranet – MyLloyd's – as part of staff engagement on environmental initiatives throughout the year such as World Environment Day (principle 4.4).

2021 marks the ninth year in which the Corporation has reported the Green House Gas (GHG) emissions inventory for Lloyd's global offices in addition to that of the UK, and sees those offices continuing to engage with their resource consumption. Examples of environmental management initiatives are covered in principle 4.1 and 4.4.

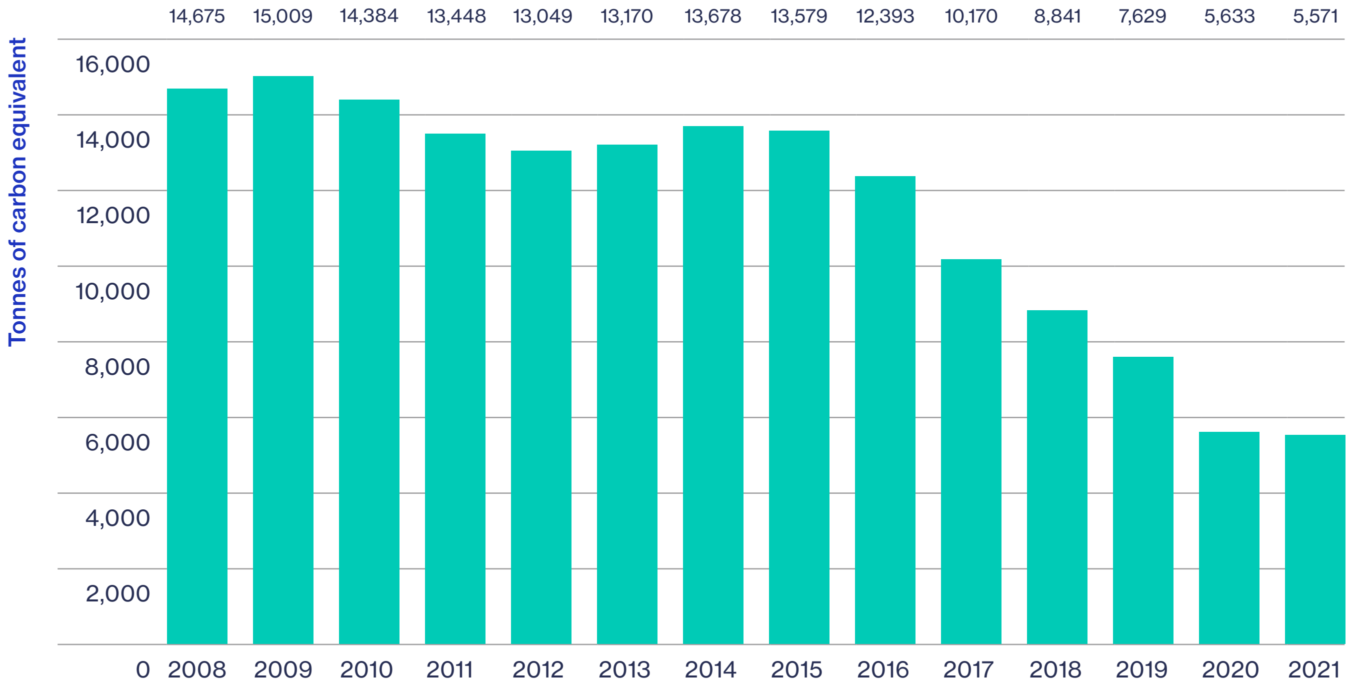


Figure.2 14-year UK carbon footprint trend

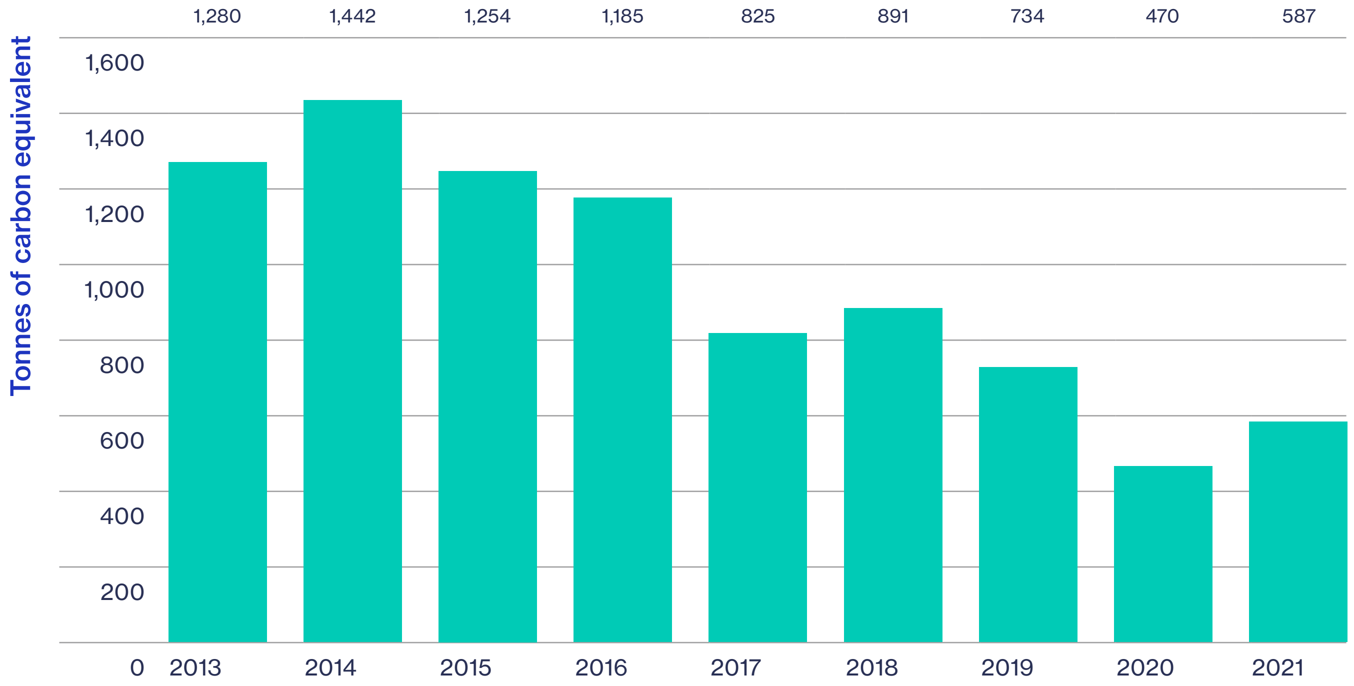


Figure.3 9-year international carbon footprint trend

Commentary

Lloyd's has tracked and disclosed its own emissions for a number of years. In that time, we have seen strong progress with our overall carbon footprint falling by 57% since the 2013 baseline. Our international offices have reduced their emissions by 54% since the 2013 baseline.

Following the drastic fall in emissions seen in 2020, when the Lloyd's building and international borders were closed due to COVID-19, our emissions saw a small uptick in 2021 of 0.8% (on the previous year) following the resumption of activity in our London and global offices.

While we were disappointed by the increase on the previous year, the fall in emissions per employee of 12.5% – from 5.6 tCO_2e/FTE in 2020, to 4.9 tCO_2e/FTE – indicated that our underlying emissions are continuing to fall.

Environmental management initiatives

In 2020, we set a target for the Society to be net zero in our operational carbon emissions by 2025 and we will work with the Lloyd's market to support their own pathways to achieving net zero. We have identified a carbon management plan to decarbonise Lloyd's operations to meet our net zero ambitions.

We have continued the focus on reducing our energy consumption and associated carbon emissions from our London headquarters, given the majority of our emissions are from the UK. During 2021 we have:

- Reduced our office space through our refurbishment;
- Fully installing LED lights and recycling 98% of the office waste removed through the refurbishment;
- Upgraded the boiler and chiller controls;
- Completed a sustainability assessment of all new office space acquired;
- Implemented the environmental management system ISO 14001.
- Procured green gas (from January 2021), in addition to our green electricity supply.
- In discussions to secure investment for capital into the plant to achieve energy performance rating of B by 2030 (C by 2027).
- In process of closing a data centre in Kent and transitioning to cloud-based data.

Examples of our current environmental targets, which are overseen by the Health, Safety and Environmental Coordination Group (HSECG) are:

- Maintain certification to ISO 14001.
- BMS project and floor tracking and balancing throughout the building.
- Continue to reduce the amount of one time use plastic materials used by Lloyd's.
- Energy procurement – Obtain renewable gas energy supply.

The Corporation of Lloyd's has a cross-directorate Environmental Working Group that drives forward our environmental agenda through an annual action plan. This working group was merged with the Health and Safety Coordination Group to form the Health, Safety, Environmental Coordination Group (HSECG).

Waste management

The Corporation of Lloyd's is supportive of the landfill tax (£82.6/tonne of waste disposal to landfill) and we are proud to have a "zero to landfill" policy. In 2022, 61% of the waste from UK offices is recycled and the remaining general waste is used as fuel for power generation.

The Corporation's catering team in the UK is working hard to reduce our carbon footprint and has eliminated single use plastics from our restaurants by changing our disposable products. See principle 4.1 for further details.

We are proud that the Corporation of Lloyd's commitment to waste management was recognised in 2018 when we were given a Platinum Award in the City of London's annual Clean City Awards. We have rebranded our recycling points in London and Chatham.

Our waste contractor has carried out a survey of the various recycling aspects at Lloyd's. They have produced a report and we are engaging with them on what improvements can be made.

To limit food waste, between April 2020 and June 2021 the Catering Team redistributed 173,501 meals, which would have otherwise gone to waster, across 17 charities.

Sustainable buildings

Lloyd's puts the environment at the centre of its office planning. LEED (Leadership in Energy and Environmental Design) is the most widely used green building rating system in the world, providing a framework to create healthy, highly efficient and cost-saving green buildings. LEED certification is a globally recognised symbol of sustainability achievement. Four of Lloyd's offices have been given LEED status and two more have local accreditation.

Lloyd's purchases 100% renewable electricity for our offices in London and Kent. We also use a self-charging hybrid car for our Post Room services.In London, we have also implemented chemical free cleaning and air fresheners, that are 100% recyclable. We have installed eco-friendly urinal systems, reducing our water consumption by 57% in a single month.

We are also implementing LED lighting in the Lloyd's building in London which will result in a 50% reduction of power consumption.

During 2021 we completed sustainability assessments for new offices and ensured newly acquired offices have a local building sustainability assessment rating (BREEAM, LEED or equivalent).

Other improvements to the efficiency of Lloyd's buildings in 2021 include:

- The flow rates on the Members WC taps are being monitored. This will allow us to show pre and post low-flow tap benefits.
- We are in discussions with our engineering service provider regarding the strategy for improvement with the air handling units.
- There has been good progress regarding the water treatment plant. The new dosing equipment is being relocated for ease of access and monitoring which will mean an increased efficiency for this plant.
- KSP Closure – our energy consumption has reduced by circa 24% to date based on the same time last year. We have nearly completed our LV planning (a live working scenario requiring enhanced documentation) for shutting down the remaining x2 UPS modules which will allow us to switch off the cooling plant soon afterwards. This will mean a significant reduction of the monthly electrical usage.

Furthermore, a guide-path has been developed to ensure we can improve the energy certificate rating on the London building to 'B' by 2030. Discussions are in place to secure the financing for this project and will involve a wide-ranging number of measures being implemented to improve the efficiency of the plant and associated equipment.

Carbon offsetting

The Corporation offsets all its unavoidable emissions by buying carbon credits for projects through Natural Capital Partners. One of these initiatives provides better cookstoves to communities in India which reduces indoor pollution and improves public health. Another project provides clean drinking water to small rural communities primarily in Uganda, Malawi, Rwanda and Eritrea by repairing old boreholes and drilling new ones. This gives people access to water even during dry seasons, and means they no longer need to purify water by boiling it, alleviating pressure on local forests – the main source of firewood – and reducing greenhouse gas emissions.

Forward planning

Lloyd's has set a target to achieve zero carbon emissions by 2025, which has placed significant focus on the need to reduce our carbon footprint through the development of a number of environmental initiatives.

Lloyd's outlines the following initiatives in the 2022 decarbonisation plan:

Measure One: Consolidate space & close sites where feasible.

- The Warsaw office is closed from 2024 (saves 14 tCO_2e)
- There is an average reduction in floor area, across all international offices, of 20% (saves 147 tCO_2e)

Measure Two: Procure renewable electricity and green gas tariffs.

- Renewable electricity tariffs are retained at the 1986 building and Fidentia House (no additional savings)
- Singapore is transitioned to a renewable electricity tariff from 2025 (saves 250 tCO_2e)

Measure Three: Invest in capital works to improve energy efficiency.

- No efficiency gains are made from capital works projects (no additional savings)

Measure Four: Move legacy physical servers to cloud-based service provision.

- KSP & Redhill data centre are closed – the new data centre is estimated to have a PUE of 1.125, compared to 2.5 for KSP and 1.58 for Redhill (saves 370 tCO_2e)

Measure Five: Improve the quality of data feeding into GHG reporting.

- Home working GHG emissions added to reporting boundary, in line with reporting practice. Staff, on average, assumed to work from home 1 day per week (gains 19 tCO_2e per 1 day – therefore if staff worked on home for an average of 3 days per week, the net impact would be +57 $tCO2e$). Please note this is an assumption and actual rates of home working may differ.

Measure Six: Reduce the volume of business flights taken & increase proportion of economy travel.

- Only economy-class travel is undertaken (saves 212 tCO_2e)
- Alternatively, should Lloyd's not wish to prioritise economy-class travel, the target reduction of 25.2% could be achieved by reducing overall distance flown by 25.2% – this would constitute a 190 $tCO2e$ in GHG emissions.

Measure Seven: Educate colleagues on the contribution they can make.

- No savings from this initiative have been modelled.

Measure Eight: Introduce an internal decarbonisation fund to finance sustainability initiatives.

- No savings from this initiative have been modelled.

Evidence also applies to principle(s): 4.1, 4.2, 4.4

Source: The Corporation of Lloyd

4.4

Engage our employees on our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate-informed choices outside work.

The Corporation of Lloyd's sustainability team lead engagement in this area, and are supported by various teams across the Corporation including but not limited to catering, corporate real estate, comms team, and the international offices.

The engagement process starts before an employee joins Lloyd's:

- Lloyd's Code of Conduct sets out our expectations of our employees and is included as part of the induction process for new joiners.

- Our Code of Conduct represents Lloyd's fundamental commitment to operate to the highest ethical and moral standards. Ethical and moral behaviour underpins the way we behave, do business and treat one another. The Code of Conduct expands upon the principles set in the values (which were released in Feb 2022) to further guide our actions and encourage a way of working which is honest, responsible and respectful.

- During 2022 there are plans to incorporate explaining Lloyd's sustainability approach to new joiners by including links to our sustainability pages in the 'New Joiner Induction Pack' and The New Joiner page on MyLloyd's as well as a representative from the Sustainability Team attending the New Joiners Networking Fair.

- During 2022 there will also be a video and a handout released on WorkDay Learning, under the 'Business Essentials' section with Rebekah Clement (Sustainability Director) explaining Lloyd's Sustainability approach.

- All new starters get an overview of what there is on the Lloyd's intranet and how to navigate using the search bar. On the intranet employees can find Lloyd's 2021 ESG report in addition to all the latest Futureset reports and Climate Action case studies.

- Authors of all Lloyd's Council papers are required to outline any material implications of their proposals to the Council, including where they might include social, ethical and environmental impacts.

In addition to these examples, Corporation staff are engaged through a number of avenues in addition to those listed throughout this report.

These include:

- The induction process: new employees are introduced to the strategic priorities from the very beginning as part of their e-learning induction process.

- Within the Responsible Business section of the e-learning module the content describes the Corporation's history with ClimateWise and provides links to the pages on Lloyd's.com for staff to find out more.

- Corporation of Lloyd's employees (including contractors) are entitled to three days voluntary leave over a calendar year to take part in volunteer activities.

- This includes assisting community organisations with the up-keep and maintenance of public spaces with opportunities ranging from giving a hall a deep clean or fresh coat of paint to creating a new community space.

- Lloyd's operate a cycle-to-work scheme to promote sustainable travel.

- We are also developing an environmental e-learning module which provides information about ISO 14001, Lloyd's environmental targets and the various initiatives Lloyd's has signed up to, and how staff can become actively engaged in reducing their carbon footprint (both in the office and when at home).

Evidence also applies to principle(s): 1.2

Source: The Corporation of Lloyd's

5. Inform public policy making

5.1

Promote and actively engage in public debate on climate-related issues and the need for action. Work with policy makers locally, regionally, nationally and internationally to help them develop and maintain an economy that is resilient to climate risk.

In previous reporting the Corporation of Lloyd's has provided evidence of the commitment to effect positive change by being seen as a leader in its responsible business approach. This is reflected in the Corporation of Lloyd's business practices as well as its work with community and charity partners.

Over the reporting year there have been a range of examples. A selection has been included below to reflect the extensive activity that has occurred.

Sustainable Markets Initiative (SMI)

Lloyd's has leveraged its leadership on the SMI Insurance Task Force to engage on climate-related issues with several stakeholder groups. Some examples are:

- Lloyd's taking part in HRH The Prince of Wales's Terra Carta Action Forum, which included a series of senior stakeholder meetings to progress initiatives and collaboration towards accelerating the transition.
- At COP26 Lloyd's met with the Fijian Prime Minister to take forward a joint project to develop a bespoke disaster resilience cyclone resilience solution for the country, to better protect its citizens.
- As part of the Task Force and through the Disaster Resilience Framework, Lloyd's are engaging with the Inter-American Development Bank (IDB) to determine a project that can help protect electric utilities in the region, including the renewable projects.
- To unlock insurance industry assets as a vehicle for funding green investment, the Task Force proposed to the Chancellor that the Government sponsors a joint insurance industry, Bank of England and HMT Taskforce to recommend changes to facilitate climate-mitigating investments.

Futureset

Futureset was launched in February 2021 and it is Lloyd's new global platform and community dedicated to driving greater societal and economic resilience to the world's most challenging risks. The global platform was developed in response to the large and complex challenges and impacts that arose from the COVID-19 pandemic and the urgent need to begin a new connected conversation with customers, insurers, and government tackle the challenges these risks bring.

Through Futureset, Lloyd's aims to build greater societal understanding and collaboration to find sustainable solutions and support greater preparedness, protection and resilience to the growing and interconnected risks that customers face today, and into the future.

Throughout 2021, Futureset focused on the landscape of systemic risks, including exploring lessons learned from the COVID-19 pandemic, as well as examining the growing and global risks brought about by climate change.

What are the Futureset Systemic Risk Masterclasses?

The Systemic Risk Masterclass Series was a six-part series launched in February 2021 in partnership with the Chartered Insurance Institute (CII) and Lloyd's Market Association (LMA). The masterclasses brought together experts across industry, academia and government to help insurance and risk professional develop their knowledge and expertise in systemic risk. This was done with the purpose of supporting Lloyd's customers around the world demonstrating and delivering on Lloyd's purpose – sharing risk to create a braver world. Notable speakers included: Andrew Bailey (Governor of the Bank of England), John Doyle (Marsh CEO), John Neal (Lloyd's CEO), Greg Case (Aon CEO), Sian Fisher (CII CEO), and many more.

Masterclass 1: Beyond the limit

Masterclass 2: Insuring the uninsurable

Masterclass 3: Understanding the vulnerabilities of global supply chains

Masterclass 4: Simplifying insurance products

Masterclass 5: Recognising risk: the systemic effects of internet and utility outages

Masterclass 6: The insurance response – helping customers build resilience

What are the Futureset workshops?

They are workshops ran by the Cambridge Centre for Risk Studies, with support from EY.

- The initial prioritisation workshop took place in April 2021 – we developed a view of 20 priority risks, from Cambridge's risk register of c.170 risks. The risks were categorised as: financial, geopolitical, technology, environmental, social and governance. This workshop included members from the Futureset working group and Technical Advisory Group, as well as some key contacts from Cambridge.
- Prioritisation workshops also took place in May – we had 2 workshops with different stakeholder groups to further rationalise the priority risks to 10 key risks. Audiences included Cambridge's corporate contacts (providing a customer lens), exposure management and the PIF / underwriting community.
- Consensus workshop taking place in June – this is a final workshop to approve the list of 10 priority scenarios, which be subsequently modelled during phase 2 of the research.

What is the Futureset Climate Action Paper?

The Climate Action Paper is aimed to get Lloyd's brokers and underwriters, risk managers and government policy writers to recognise that climate change is one of the biggest issues facing the world in the near future and understand the urgency of industry decarbonation. The paper aims to provide these stakeholders with varied, bitesize, visually arresting content that offers tangible actions that demonstrate how the insurance industry can help in decarbonisation efforts.

The Paper was published during the second half of 2021 in three instalments on different focus areas:

1. Greener Industry: With a unique view of the climate crisis, the global insurance industry has a critical role to play in supporting clients' transition to a low carbon economy. The construction and finance sectors have undoubtedly contributed towards the increase in global carbon emissions, however they also both possess powerful tools to limit the impacts of climate change.
2. Greener Transport: The transport sector constitutes 24% of overall global carbon emissions, and global change is already afoot as governments and industries come together to accelerate the sector's transition to net zero. This report explores how decarbonisation of the transportation sector is critical to achieving a successful global transition to a low carbon economy, and how the insurance industry stands ready to support clients as they drive towards more sustainable transport operations.
3. Greener Energy: This report explores the changing landscape of energy generation and how clients can play their part by reviewing their business' energy sources – while and gaining a competitive edge through transitioning to greener alternatives.

Futureset Climate Action Campaign

Lloyd's is developing a climate campaign focusing on how the insurance industry can support its clients with decarbonisation. The campaign will focus on a selection of priority sectors, aligned with the UK Government's 10-point plan for a Green Industrial Revolution. It will articulate the decarbonisation pathway for each priority sector, key obstacles to success, and how the global (re) insurance industry may be positioned to support. The campaign, launching later this year, aims to:

Enhance understanding of the decarbonisation pathways for priority sectors, providing a consumable overview of the current global landscape, anticipated decarbonisation trajectory, and key obstacles to success for each priority sector.

Highlight success stories from the global (re) insurance industry aligned to priority sectors, demonstrating how the Lloyd's market and the global (re)insurance industry is currently supporting priority sectors on their decarbonisation pathways, through product proposition and innovation. Promote action within the Lloyd's market and global (re)insurance industry to support priority sectors in accelerating decarbonisation, by committing to a holistic roadmap of activity to support decarbonisation efforts and the transition to a low carbon economy, across the broader insurance ecosystem.

Lloyd's Futureset has also recently published several reports relevant to climate risks and opportunities:

Ukraine: A conflict that changed the world (July 2022)

The conflict in Ukraine has once again demonstrated the devastating toll that a systemic event can have on the global risk landscape. As quickly as the conflict began, our economic assumptions have been challenged; our energy mixes thrown into question; and our geopolitical relationships redefined. This report includes analysis on how the war is causing an energy crisis and will affect the climate transition globally.

Shifting powers: Climate cooperation, chaos or competition? Managing geopolitical risk from the climate transition (Jan 2022)

In 2022, Lloyd's research community alongside Futureset published its Emerging Risk Report 2022 on the topic of managing geopolitical risk from the climate transition. There's significant overlap between geopolitical movements and climate change – yet few organisations or models would say they are actively monitoring, or aware of, this intersection in risk management.

Climate diplomacy – the strategic cooperation or competition of states towards climate-related goals – is anticipated to drive global political developments in the coming century, as it has for much of the last century. The nature of these volatile relationships will decide the scale, speed and final form of the transition to net zero – with far-reaching political, environmental and economic consequences along the way.

This report explores those risks, based on potential but plausible scenarios in global climate politics. The intention is to help insurers, risk managers and contingency planners build models and organisational strategies to mitigate this emerging and influential risk.

A mindset shift is required that sees the race to net zero not as an inevitable, linear drift to carbon neutrality – but an uncertain and pliable journey, influenced by human behaviour and promising twists and turns throughout the century.

The three scenarios used to analyse geopolitical climate risks are:

1. 'Green Globalisation' (Cooperation) which sees world leaders collaborate towards a stable and global transition driven by a shared belief that decisive and focused action is needed to tackle climate change. Geopolitical frictions are reduced; short-term transition risks increase.
2. 'Climate Anarchy' (Chaos) on the other hand, sees state interests prevail as actors struggle to mobilise on the scale and speed needed to shift the dial on climate change. A slow and uneven transition emerges, causing transition risks to stay low in the short-term but environmental and economic risks to skyrocket in the long-term.
3. 'Green Cold War' (Competition) sees like-minded states coalesce around major powers to form 'climate blocs', with competition between blocs for energy, technology, and market dominance. The competition drives investment and innovation, but considerably raises the long-term environmental and geopolitical stakes.

This report identifies Green Cold War as the most likely scenario, based on current levels of cooperation – although the reality is likely to mirror two or more scenarios, and to fluctuate as states and societies shift throughout the 21st Century.

The analysis signals an opportunity for the insurance sector to take the initiative. COP26 revealed a shift in agency over climate change, from governments and NGOs (the traditional activists) to businesses and private individuals (the emerging activists).

Thematic Review: Catastrophe Modelling & Climate Change (Feb 2022)

Lloyd's managing agents must ensure that their view of risk is validated and appropriate by explicitly reviewing the representation of the current climate for each relevant peril region. Currently, the level to which this requirement is met varies across the market.

Lloyd's Portfolio Risk Management team conducted a thematic review of managing agents, to explore the completeness and appropriateness of syndicates' view of catastrophe risk.

Four of the twelve participating managing agents reviewed demonstrate very robust methodologies backed by extensive research into climate change science and its impact on the perils they cover. They have clear frameworks, which guide the depth of research and resultant actions required, such as adjusting their view of risk. These frameworks incorporate the likely impact of climate change on specific perils as well as the confidence of the science for those perils, combined with the materiality of the perils. These approaches are considered examples of good practice.

In contrast, the majority of managing agents reviewed relied on model vendors' validation, without obviously judging whether vendor validation is adequate and appropriate for the current climate themselves. Justifications for this included belief that there is not yet a clear enough signal to identify a climate change trend, or a lack of guidance on how to best capture current climate in their view of risk.

A forward-looking approach is key to ensuring that current and near-term future risk is being adequately represented. Syndicates should not simply be reconsidering their view of risk appropriateness to current climate in response to historical experience.

In conducting this thematic review, Lloyd's hopes to begin to address the lack of guidance cited through sharing good practice from the participating managing agents.

Three key requirements have emerged from the thematic review.

i. Firstly, Boards must explicitly reference and discuss climate change in Board discussion of view of risk.

ii. Secondly, although we expect a large part of validation can be independent of the syndicate's own business profile and completed by the model vendors, both model validation policy and model validation analysis documentation must make explicit reference to, or contain a section on, current climate.

iii. Finally, Lloyd's will require all managing agents to implement their own framework for managing physical climate risk in the context of their view of catastrophe risk to ensure a forward-looking approach to addressing climate impacts on their natural catastrophe exposed portfolio by region peril.

Evidence also applies to principle(s):
1.1, 1.2, 3.1, 3.2, 5.1, 5.2

Source: The Corporation of Lloyd's

5.2

Support and undertake research on climate change to inform our business strategies and help to protect our customers' and other stakeholders' interests. Where appropriate, share this research with scientists, society, business, governments and NGOs in order to advance a common interest.

Over the reporting year, the Corporation has led and published several research papers, details are provided in 5.1.

Sharing our research

Lloyd's recognises the effects of climate change and the direct impact on the business community and we are in regular dialogue with insurers, businesses and policy makers to address the challenges of climate change, both for our industry and for the wider world.

Government and regulatory engagement

The Corporation believes that it is important that supervisors, insurance undertakings and others in the global insurance market have a good understanding of the nature and scale of the risks arising from climate change and look to provide responses in support of the work occurring globally in this area.

Over the reporting year the Corporation engaged with regulators on climate risk and ESG, including at COP26 where we represented the Sustainable Markets Initiative (SMI) insurance Taskforce:

1. Regulatory engagement on climate-related risks

Throughout 2021 Lloyd's has responded to and engaged with a number of international regulatory consultations regarding climate-related financial risks facing the insurance sector. These include providing written responses to the International Association of Insurance Supervisors, the Canadian regulator OSFI, the South African Prudential Authority, the Australian regulator APRA.

2. Communicating Lloyd's ESG commitments to regulators

Lloyd's has and will continue to engage constructively with both UK and international regulators on its ESG strategy. Following the publication of Lloyd's second ESG report in May 2022, Lloyd's aims to support the insurance and reinsurance sector in the transition to a more sustainable marketplace.

For example, we will continue to support and work with governments and the global insurance industry to explore how our open source frameworks (ReStart, Recover Re and Black Swan Re), detailed in our report Supporting global recovery and resilience for customers and economies, could be leveraged and applied globally to offer customers greater protection against future systemic risks.

Futureset: Climate Action Campaign

Lloyd's developed a climate campaign in 2021, focusing on how the insurance industry can support its clients with decarbonisation. More details about the Climate Action Campaign are outlined in 5.1.

In July 2022, Lloyd's launched a flagship piece of research with Aon (global broker) on the impacts of the Ukraine conflict on the global risk landscape – Ukraine: A conflict that changed the world. aims to provide customers with insights on the medium to long term impacts of the Ukraine crisis on the risk landscape.

Importantly, it presents practical insights on the challenges that customers are facing today and how they are adjusting their risk management approaches in response to the conflict.

The report focuses on seven key market forces of change:

Supply chain
Energy security
ESG
Climate transition
Cyber
Food security
Public sentiment and reputational damage

These are then assessed against four macro themes: inflation, economic impact, geopolitics and social transformation.

Broader initiatives being undertaken as part of the Futureset program are outlined under sub-principles 3.2, 5.1 and 6.2.

Evidence also applies to principle(s): 3.1, 3.2

Source: The Corporation of Lloyd's

6. Support climate awareness amongst our customers/clients

6.1

Communicate our beliefs and strategy on climate-related issues to our customers/ clients

This document constitutes 'Lloyd's' response to the ClimateWise principle for the period covering 1 July 2021 – 30 June 2022.

Similar information is also available in the annual report, across Lloyd's.com and social media accounts, and internally to Corporation employees for transparency. This report goes into substantially more detail that can realistically be expected from the other sources.

SMI Insurance Task Force

The Task Force is a global industry-led group which can collectively drive collaborative action towards great societal and economic sustainability, and accelerate industry transitions to net zero. During 2022, the Task Force will be focused on delivering action across six specific areas, one of which is:

Innovating customer transition solutions: Determining and shaping new solutions for customers, with a specific focus on agriculture and infrastructure, to enable the transition towards a sustainable future.

Futureset

Futureset maintains a steady campaign of engagement with customers / clients on a range of topics. In 2022 alone, Futureset published:

Three reports in a Geopolitics series: 'Shifting powers', a series to drive awareness, engagement and action from the Lloyd's market and the broader (re)insurance industry to better support emerging sustainable energy solutions and ensure clients' transition to net zero:

- A report discussing climate diplomacy, defined as the strategic cooperation or competition of states towards climate -related goals, is expected to drive global political developments in the coming century.
- A report focusing on managing geopolitical risk from the climate transition.
- A report focusing on the importance of effective risk management and the role of insurers in helping customers build resilience to cyber-attacks that could cause damage to physical environments.

Released nineteen customer case studies around climate action and insuring the transition, including videos on:

- How the insurance industry is helping to enable green transport with Southern California Energy.
- How the insure industry is supporting and encouraging the construction of sustainable energy solutions – with Black and Veatch.
- How Lloyd's and the insurance sector is supporting low carbon energy sources, like nuclear power with Nuclear Risk Insurers and EDF.

Held two events as part of 'Risk revealed' series on renewable energy and sustainable building materials.

- Educational session with 80+ insurance practitioners on green hydrogen with British Petroleum ('BP').
- Educational session with 80+ insurance practitioners on the use of mass timber, and alternative building material to traditional timber.

Launched a flagship piece of research with Aon (global broker) on the impacts of the Ukraine conflict on the global risk landscape – Ukraine: A conflict that changed the world

Evidence and further detail of Futureset is detailed in Principle 5.1.

Further detail on how Lloyd's communicates on climate-related issues and strategy to our customers/clients can be found in our ESG Report 2021.

Evidence also applies to principle(s): 6.1

Source: The Corporation of Lloyd's

6.2

Communicate our beliefs and strategy on climate-related issues to our customers/ clients

In addition to the thought leadership, market insight reports, and initiatives such as the Lloyd's Lab mentioned in other principles, the Corporation also In addition to the thought leadership, market insight reports, and initiatives such as the Lloyd's Lab mentioned in other principles, the Corporation also supported the following initiatives to inform and support policyholders and market stakeholders (principle 3.1, 3.2, 5.1, 5.2, 6.2):

Launch of Futureset

In 2021, Lloyd's launched Futureset, a global platform and community dedicated to driving greater societal and economic resilience to the world's most challenging risks. Futureset has been developed in response to the word's rapidly changing risk landscape and the urgent need to begin a new, connected conversation with customers, insurers, and government to tackle the challenges these risks bring.

Details of Futureset activities and thought leadership campaigns are outlined under 5.1.

Lloyd's Lab

The seventh cohort of the Lloyd's Lab innovation accelerator programme ran towards the end of 2021, focused on creating simpler products for customers, including building solutions related to decarbonisation climate risks. More details about Lloyd's Lab's recent activities relevant to climate risks and opportunities are outlined in 3.2.

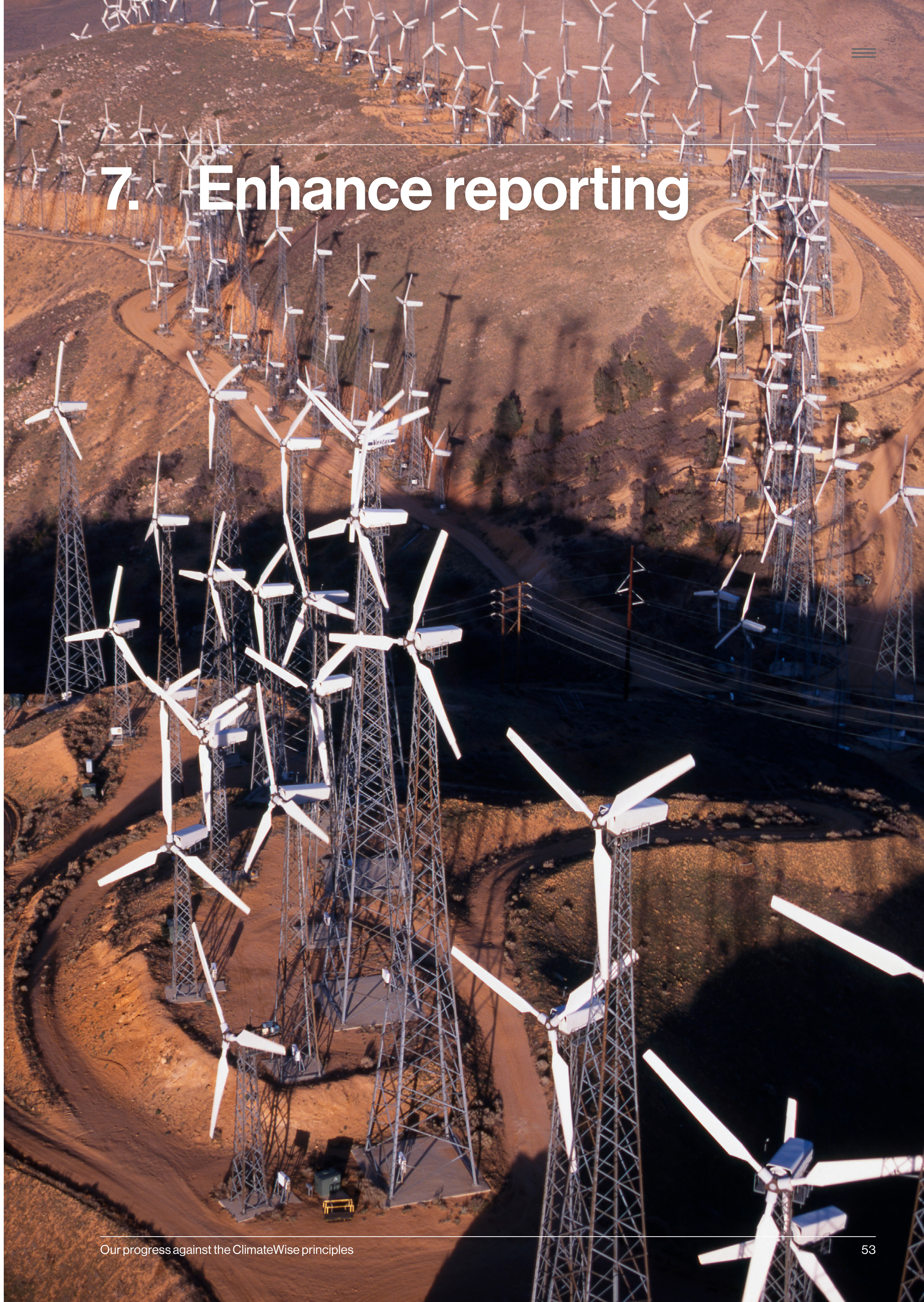
Sustainable Markets Initiative

The Sustainable Markets Initiative Insurance Task Force, convened by HRH The Prince of Wales and chaired by Lloyd's, is comprised of executives from many of the world's largest insurance and reinsurance companies, providing an influential platform for the sector to collectively advance the world's progress towards a resilient, net-zero economy.

More details about the SMI Insurance Task Force are outlined in 3.2.

Evidence also applies to principle(s): 3.1, 3.2, 5.1, 5.2, 6.1.

Source: The Corporation of Lloyd's



7. Enhance reporting

7.1

Enhance reporting

This document constitutes 'Lloyd's' response to the ClimateWise principle for the period covering 1 July 2021 – 30 June 2022.

As with previous years – although this has not previously been reported publicly – there have been no requests to exclude Lloyd's from responding to any sub-principles, and this response will be publicly available on Lloyds.com/ClimateWise with previous year's responses when the independent report is released.

Evidence also applies to principle(s):
1.1, 1.3, 1.4, 3.1

Source: The Corporation of Lloyd's

7.2

Publish a statement as part of our annual reporting detailing the actions that have been taken on these principles

In addition to the information available on Lloyds.com/ClimateWise, information is also available in the annual report, across Lloyd's.com and social media accounts, and internally to Corporation employees for transparency. This report goes into substantially more detail than can realistically be expected from the other sources.

In the annual report there are mentions of climate change in the following areas: Sustainability (p14-15), Strategy (p11), and Risk Management (p100). In May 2022 we published our second ESG strategy and report, containing several climate-related initiatives. This follows our second report against the United Nations Sustainable Development Goals (SDG's), which allowed us to align our vision, culture and operations with the world's largest corporate responsible business initiative.

Evidence also applies to principle(s): 1.1, 1.3, 1.4, 3.1

Source: The Corporation of Lloyd's

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