Best's Credit Rating Effective Date
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Information

Best's Credit Rating Methodology

Understanding Best's Credit Ratings

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Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Lloyd's

AMB #: 085202 | **AIIN#:** AA-1122000

Best's Credit Ratings – for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A	**a+**
Excellent	**Excellent**
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Very Strong**
Operating Performance	**Strong**
Business Profile	**Favorable**
Enterprise Risk Management	**Appropriate**

Rating Unit - Members

Rating Unit: Lloyd's | AMB #: 085202

AMB #	Rating Unit Members	AMB #	Rating Unit Members
078649	Lloyd's Ins Co (China) Ltd	095926	Lloyd's Insurance Co. S.A.

Rating Rationale

Balance Sheet Strength: Very Strong

- The market has the strongest level of risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR).
- A robust capital-setting regime, which incorporates a risk-based approach to setting member-level capital, helps protect risk-adjusted capitalisation from volatility.
- Member-level capital is subject to fungibility constraints as it is held on a several rather than joint basis.
- Balance sheet strength is underpinned by a strong Central Fund that is available, at the discretion of the Council of Lloyd's, to meet the policyholder obligations of all Lloyd's members.
- An offsetting factor is the market's significant exposure to catastrophe risk and its dependence on reinsurance to manage this risk.

Operating Performance: Strong

- Lloyd's is expected to report strong operating performance across the underwriting cycle, taking into account potential volatility due to its catastrophe exposure.
- Recent underwriting performance has been below AM Best's expectations for a strong assessment, demonstrated by a five-year (2015-2019) combined ratio of 102.2%.
- Improving market conditions as well as the robust remedial actions by the Corporation and individual managing agents are expected to support further incremental improvements in attritional accident-year performance over the next three years.
- The market's expense ratio is high compared to that of peers. Actions are being taken through the Future at Lloyd’s initiative to reduce the cost of placing business at Lloyd’s, the benefits of which should start to be realised over the short term.

Business Profile: Favorable

- Lloyd's has a strong position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks.
- Although Lloyd's syndicates operate as individual businesses, the collective size of the market allows them to compete with international groups under the Lloyd's brand.
- The markets in which Lloyd's operates are highly competitive. Lloyd's reliance on brokers to underwrite specialty and reinsurance business makes it vulnerable to price-based competition.
- The portfolio is well diversified but with some geographical bias towards North America and product bias towards commercial specialty lines products.
- Product risk is moderate to high. Higher-risk lines include reinsurance, energy, aviation, some marine business and a high proportion of the casualty and property business written. The majority of small commercial and consumer business, as well as some of the business written through coverholders, is lower risk.

Enterprise Risk Management: Appropriate

- Lloyd's enterprise risk management framework is well developed and appropriate for the size and complexity of the Lloyd's market.
- Risk management capabilities are aligned with the market's risk profile.
- The Corporation's risk management function offers the market additional oversight. However, as managing agents of individual and competing syndicates have their own risk appetites and strategies there are some limitations on its ability to actively manage the market's risks.
- An internal capital model, in place since 2012, is used to calculate the solvency capital requirement under the Solvency II regime as well as to stress test the market's risk-adjusted capitalisation. In AM Best's opinion, the internal capital model strongly supports the Corporation's ability to assess the capital adequacy of the market.

Outlook

- The stable outlooks reflect AM Best's expectation that risk-adjusted capitalisation will remain at the strongest level, supported by Lloyd's capital management strategy and the requirement for members to replenish their funds at Lloyd's following losses.

Operating performance is expected to remain supportive of the strong assessment over the cycle. Lloyd's is expected to maintain its favourable business profile, underpinned by the strong Lloyd's brand, its international network of licences, and underwriting expertise.

Rating Drivers

- Upward rating movements are considered unlikely in the short term. Longer term, positive rating pressure could arise if Lloyd's business profile strengthens supported by the successful execution of the Future at Lloyd's strategy.
- Negative rating actions could arise following a material deterioration in the market's risk-adjusted capitalisation, for instance, due to a substantial loss to the Central Fund or a reduction in member-level capital requirements set by Lloyd's.
- Negative rating actions could arise if Lloyd's underlying performance does not improve in line with expectations.

Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	71.7	58.1	51.6	48.8

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	2016 GBP (000,000)	2015 GBP (000,000)
Net Premiums Written:					
Non-Life	25,659,000	25,681,000	24,869,000	23,066	21,023
Composite	25,659,000	25,681,000	24,869,000	23,066	21,023
Net Income	2,532,000	-1,001,000	-2,001,000	2,107	2,122
Total Assets	119,878,000	118,008,000	108,396,000	101,602	83,629
Total Capital and Surplus	29,844,000	27,428,000	26,767,000	27,714	24,216

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	2016 GBP (000,000)	2015 GBP (000,000)	Weighted 5-Year Average
Profitability:						
Balance on Non-Life Technical Account (GBP 000)	-538,000	-1,130,000	-3,421,000	468	2,047	...
Net Income Return on Revenue (%)	8.9	-3.8	-7.7	8.9	10.0	3.0
Net Income Return on Capital and Surplus (%)	8.8	-3.7	-7.3	8.1	9.1	2.8
Non-Life Combined Ratio (%)	102.1	104.5	114.0	97.9	90.0	102.2
Net Investment Yield (%)	3.5	1.4	2.1	1.7	1.3	2.1
Leverage:						
Net Premiums Written to Capital and Surplus (%)	86.0	93.6	92.9	83.2	86.8	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Lloyd's balance sheet strength assessment of very strong reflects risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), as well as the market's good financial flexibility. The market has significant exposure to catastrophe losses and is dependent on reinsurance to manage this risk. However, a robust market-wide capital-setting regime, which incorporates a risk-based approach to setting member-level capital and the requirement for members to replenish their funds at Lloyd's after a loss, helps protect risk-adjusted capitalisation against volatility.

Balance Sheet Strength (Continued...)

Balance sheet strength is underpinned by a strong Central Fund that is available, at the discretion of the Council of Lloyd's, to meet the policyholder obligations of all Lloyd's members. It is the existence of this partially mutualising link that is the basis for a market-level rating.

The market's member-level capital is held on a several rather than joint basis and is only available to meet the liabilities of that particular member. The resulting fungibility constraints on available capital, as well as the significant proportion of member-level capital provided through letters of credit (LOCs), the market’s significant exposure to catastrophe risk and its dependence on reinsurance to manage this risk, are limiting factors for the balance sheet strength assessment.

Capitalisation

The BCAR scores shown in this report are based on the 2019 figures published in the Lloyd's annual report which contains the financial results of Lloyd's and its members in pro forma financial statements and includes the financial statements of the Society of Lloyd's (referred to in this report as the Society or the Corporation). The pro forma financial statements include the aggregated accounts, which are based on the accounts of each Lloyd's syndicate, members' funds at Lloyd's (FAL) and the Society's financial statements.

The Society was formed in 1871, when the then existing association of underwriters at Lloyd's was incorporated by the Lloyd's Act. The Society produces consolidated financial statements that cover Lloyd's activities outside the underwriting market and Lloyd's central resources (the Central Fund).

Lloyd's benefits from risk-adjusted capitalisation at the strongest level, as measured by BCAR. This assessment takes into account capital resources available at member level, in the form of Members' FAL, and centrally in the form of the Central Fund and net assets of the Corporation. Capital credit is given in BCAR for subordinated debt issued by the Society, as well as for FAL provided through LOCs as if drawn these LOCs will turn into Tier 1 capital for Lloyd's. Nonetheless, the extensive use of LOCs as FAL reduces the quality of available capital. AM Best does not give explicit credit for contingent capital in the 'callable layer' which is the ability of the Corporation to supplement central assets by calling funds from members of up to 3% of their overall premium limits.

Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at member level. Member-level capital in the form of FAL and members' balances are held on a several rather than joint basis, meaning that any member need meet only its share of claims. However, Lloyd's central assets are available, at the discretion of the Council of Lloyd's, to meet policyholder liabilities that any member is unable to meet in full. This link in the chain of security comprises the Central Fund and other central assets, as well as subordinated debt. These central assets can be supplemented by funds called from members of up to 3% of their overall premium limits. It is the existence of this partially mutualising third link, and the liquid Central Fund in particular, that is the basis for a market-level rating.

Lloyd's Internal Model (LIM) captures Lloyd's unique capital structure and takes into account fungibility constraints on member-level capital and the mutual nature of central assets. If a severe market loss led to the exhaustion of some members' FAL, central assets would be exposed to any further losses faced by these members. The model captures this mutualised exposure, so that, at different return periods, the exposure of both member-level capital and central capital is demonstrated.

Lloyd's is subject to the Solvency II regulatory regime. As agreed with the UK regulator, the Prudential Regulation Authority (PRA), Lloyd's calculates two separate Solvency Capital Requirements (SCRs) and two separate SCR coverage ratios: a market-wide SCR (MWSCR) and a central SCR (CSCR). The MWSCR calculates the total capital consumed at a 99.5% value at risk (VaR) confidence level over a one-year period for the Lloyd's market as a whole (including the exposure of both member-level and central assets).

The CSCR is calculated at a 99.5% VaR confidence level over a one-year period in respect of risks facing the Society and its Central Fund. It captures exposure to losses that would not affect the majority of syndicates (and so would not erode capital at overall member level) but would have an impact on central assets. Calculating a CSCR addresses the fact that a 1-in-200 year loss to central assets could be bigger than the loss to central assets in a 1-in-200 year market loss event. By calculating both figures, Lloyd's has a better view of the likelihood that central and market level assets are sufficient.

Lloyd's has approval from the PRA to use existing LOCs, in the form that they are provided as FAL, as Tier 2 capital for Solvency II purposes. However, any new LOCs provided as FAL need to be individually approved. Under Solvency II at least 50% of the solvency capital requirement must be met by Tier 1 capital.

Since 2018 Lloyd’s has been implementing a phased reduction in the proportion of FAL that can be provided via LOCs, and, from 1 December 2020 members' Tier 2 capital should not exceed 50% of their economic capital assessment (ECA) in order to minimise assets

Balance Sheet Strength (Continued...)

ineligible for regulatory capital credit. Those members whose proportion of Tier 2 capital exceeds 50% of ECA have been required to reduce this to no more than 70% for 2019. Consequently, as at 31 December 2019 all Lloyd's Tier 2 assets were eligible to meet the MWSCR.

The MWSCR coverage ratio stood at 156% at year-end 2019 (2018: 148%) and the CSCR coverage ratio at 238% (2018: 250%). Lloyd's risk appetite for MWSCR coverage is a minimum of 125% and the CSCR coverage is a minimum of 200%. The MWSCR target range is low relative to peers, but this should be seen in light of Lloyd's good financial flexibility and capital-setting process. The stability in the market's regulatory solvency levels, as a result of the capital-setting process, is considered to be a strength for the balance sheet strength assessment.

Lloyd's employs strict capital-setting criteria both at member level and centrally. Member-level capital is determined using syndicates' SCRs calibrated to correspond to a 99.5% VaR confidence level, provided on a one-year and -to-ultimate basis and calculated using syndicates' internal capital models. A 35% uplift is applied to the ultimate SCR to arrive at the FAL requirement.

Lloyd's members are required to replenish their FAL to meet their current underwriting liabilities as part of the "coming into line" process in June and November. However, Lloyd's can require a member to recapitalise in between these dates if deemed necessary. Most members underwrite with limited liability. However, if FAL are eroded due to underwriting losses, affected members will have to provide additional funds to support any outstanding underwriting obligations to continue to underwrite at Lloyd's. This requirement in effect provides the market with access to funds beyond those reflected in its capital structure.

Member contributions to the Central Fund reduced in 2016 to 0.35% of gross written premiums (from 0.50% of capacity) per annum, and remained at this level in 2019. The contribution rate can be increased to strengthen the Central Fund at any time.

Lloyd's good financial flexibility is enhanced by the diversity of its capital providers which include corporate and individual investors. Traditional Lloyd's businesses remain committed to the market. In addition, Lloyd's continues to attract new investors, although this has slowed in recent years, drawn by its capital efficient structure and global licences. As the capital to support underwriting at Lloyd's is supplied by members on an annual basis, an important factor in AM Best's analysis of the market is its ability to retain and attract the capital required for continued trading.

Liquidity Analysis (%)	2019	2018	2017	2016	2015
Liquid Assets to Total Liabilities	69.9	67.5	72.0	80.7	85.9
Total Investments to Total Liabilities	81.3	78.6	83.2	91.6	95.8

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

The majority of Lloyd's investments are managed independently by the individual syndicates' managing agents, while the assets in the Lloyd's Central Fund are managed centrally by the Corporation. Although syndicates are able to define their own investment strategy, asset risk is generally low, with more than three quarters of the market's total investments held in bonds and cash/deposits or represented by LOCs.

Assets held by individual members are generally liquid, with the majority held in cash (which includes LOCs) and bonds. Equity and risk asset exposure accounted for circa 10% of invested assets in 2019. Lloyd's capital (FAL and the Central Fund) is largely matched in terms of currency to exposure.

In AM Best's opinion, Lloyd's maintains good overall liquidity. Managing agents are responsible for the investment of syndicate premium trust funds, although Lloyd's monitors liquidity levels at individual syndicates as part of its capital adequacy review. Overall, these funds exhibit a high level of liquidity, as most syndicate investment portfolios tend to consist primarily of cash and high-quality, fixed-income securities of relatively short duration. Lloyd's also monitors projected liquidity for its central assets, which are tailored to meet the disbursement requirements of the Central Fund and the Corporation of Lloyd's (including its debt obligations).

Balance Sheet Strength (Continued...)

Composition of Cash and Invested Assets	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	2016 GBP (000,000)	2015 GBP (000,000)
Total Cash and Invested Assets (GBP 000)	73,193,000	71,240,000	67,902,000	67,646	56,900
Cash (%)	13.2	15.3	17.9	18.2	19.4
Bonds (%)	60.4	58.5	54.8	56.5	58.1
Equity Securities (%)	12.4	12.0	14.0	13.5	12.1
Real Estate, Mortgages and Loans (%)	10.4	10.9	10.1	8.9	8.0
Other Invested Assets (%)	3.6	3.3	3.3	2.9	2.3
Total Cash and Unaffiliated Invested Assets (%)	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

In AM Best's opinion, reserving in the Lloyd's market tends to be prudent, with the majority of market participants incorporating an explicit margin in reserves above actuarial best estimates. Robust oversight of reserves is provided by the Corporation. However, reserve surpluses, which are not fungible across the market, vary significantly between syndicates.

Aggregate reserves have developed positively overall in every year since 2003. In 2019, the market reported reserve redundancies across all lines of business, with the exception of casualty. Total reserve releases during 2019 were lower relative to prior years. Casualty reserves were strengthened in 2019 at a market-level in response to the market's prudence in relation to social inflation as well as Lloyd's increased oversight. The strengthening of casualty reserves was in line with Lloyd's expectation for this class. Property releases were lower than in prior years. This was driven predominately by the increased market loss estimates for Typhoon Jebi in early 2019.

Syndicates in run-off have historically been the principal source of reserve deterioration for Lloyd's. However, Lloyd's exposure to open run-off years has significantly reduced, principally due to better management of these years. In 2010, a focus on promoting efficiency and finding a means to close syndicates (largely through third-party reinsurance to close) supported a fall in the number of syndicate years of account in run-off to 10 from 22 in the previous year. There were no run-off years in existence at the beginning of 2019, so there was no contribution to the 2017 result from run-off years. At year-end 2019, three syndicates did not close the 2017 year of account.

1992 and Prior Reserving: Equitas

Lloyd's exposure to uncertainty arising from adverse development of the 1992 and prior years' reserves was further reduced by the High Court order in June 2009 approving the statutory transfer of 1992 and prior non-life business of members and former members of Lloyd's to Equitas Insurance Ltd., a new company in the Equitas group.

This transfer was the final phase of a two-phase process, and with its completion policyholders benefit from a total of USD 7 billion of reinsurance cover from National Indemnity Co., a subsidiary of Berkshire Hathaway Inc., over and above Equitas' 31 March 2006 carried reserves of USD 8.7 billion. The transfer provided finality in respect of Lloyd's members and former members for their 1992 and prior years' non-life liabilities under English law and the law of every state within the European Economic Area. However, there continues to be some uncertainty as to the recognition of the transfer in overseas jurisdictions, including the United States.

Operating Performance

Lloyd's is expected to report strong operating performance across the underwriting cycle, taking into account potential volatility due to its catastrophe exposure. Recent underwriting performance has been below AM Best's expectations for a strong assessment, demonstrated by a five-year (2015-2019) combined ratio of 102.2%. Improving market conditions as well as the robust remedial actions taken by the Corporation and individual managing agents are expected to support further incremental improvements in attritional accident-year performance over the next three years.

The market's operating performance assessment is based on analysis of the overall consolidated performance of Lloyd's, taking into account the stability, diversity, and sustainability of the market's sources of earnings. The assessment also incorporates analysis of the

Operating Performance (Continued...)

performance of individual syndicates, including the spread between the strongest and worst performers, with a particular focus on the potential exposure of central capital resources to losses from individual members.

Performance is subject to volatility, as illustrated by a standard deviation of 8.0% and 8.7% on the ten-year ROE ratio and on the ten-year combined ratio. The market's performance in 2019 benefited from a reduction in large and catastrophe losses which were more in line with a typical catastrophe year. The first half of 2019 was relatively benign although the second half of the year saw large natural catastrophe events including Typhoons Hagibis and Faxai. Small improvements in the 2019 accident year loss ratio reducing to 57.3% from 57.6%. The small improvement can be attributed to better underwriting discipline and a sustained period of rate increase on renewal business. Albeit the positive impact is offset by reserve deterioration on 2018 YOA. Relatively small prior year reserve releases of 0.9% (2018: 3.9%). The current year saw less benefit from prior year reserve releases with many syndicates strengthening reserve estimates for casualty lines, due to social inflation, as well as estimates for Tyhoon Jebi losses. Strong investment income of GBP 3.5 billion (2018: GBP 504.0 million), representing a return of 4.8%, offset the market's underwriting loss of GBP 538.0 million (2018: GBP 1.1 billion)

AM Best expects underlying performance to continue to improve gradually over the next several years supported by improving market conditions as well as the continued remedial actions driven by the Performance Management Directorate (PMD). Therefore, the long-term performance of the Lloyd's market is expected to remain supportive of the strong assessment.

Underwriting Performance:

Underwriting performance is subject to volatility due to the market's exposure to catastrophe and other major losses. 2019 saw a number of natural disasters which resulted in meaningful losses for the market, but in aggregate these were not of the same scale as those experienced in either 2017 and 2018. The market's net ultimate claims from major losses were GBP 1.8 billion (2018: GBP 2.9 billion) in 2019, including losses from Typhoons Faxai and Hagibis, Hurricane Dorian and wildfires in California and Australia. Major losses added 7.0pts (2018: 11.6pts) to the calendar-year combined ratio, compared to the five-year and ten-year averages of 9.6pts and 10.2pts, respectively.

The market's combined ratio once again benefited from favourable prior year reserve movements of 0.9pts in 2019 - although at a significantly reduced level compared to the recent past. Prior year reserve movements improved the combined ratio by 3.9pts in 2018 compared to 5pts in 2016 and circa 8pts each year in the period 2013-2015.

The market's attritional accident-year combined ratio (excluding major claims) improved marginally from 96.8% in 2018 to 96.0% in 2019. Although the ratio has been improving since 2018, it is still several points above the 2016 position of 93.9%.

The market's operating expense ratio is high compared to peers at circa 40 points. The ratio has been relatively stable over the last 5 years, ranging between 38.7%-40.6%. Pre-2014 expense ratios were slightly lower, ranging between 34.2%-37.1%, albeit still high relative to peers. An increase in acquisition costs due to a change in business mix with more business written through coverholders, as well as costs associated with SII implementation, partly explain the step change in the expense ratio. Actions are being taken through the Future at Lloyd's initiative to reduce the cost of placing business at Lloyd's, the benefits of which should start to be realised over the short term.

Underwriting Performance by Line of Business:

Accident-year combined ratios for almost all lines of business were above 100% in 2019. For the second consecutive year, most lines had calendar year ratios above 100% with the exception of property (direct), energy and motor business. In spite of this, there was an overall improvement in the market's combined ratio to 102.5% in 2019 (2018: 104.5%).

Reinsurance - The reinsurance book consists of property, casualty and specialty reinsurance. The performance of the property book was affected by lower prior year reserve releases due to deterioration of Typhoon Jebi reserves. The casualty book saw reserve strengthening driven by social inflation, which has become more prevalent, particularly in the US. The specialty book also generated an underwriting loss as favourable reserve movements on the 2018 Lurssen shipyard loss were offset by the increased frequency of large losses. The aviation book has seen an increase in large loss activity in recent years with major losses stemming from the grounding of Boeing 737 MAX fleet. Overall, the reinsurance book has returned an underwriting loss of GBP 768.0 million over the 2015-2019 period, stemming from significant losses in 2017 and 2018 on the property book.

Property - The property book is a diversified worldwide book, made up of predominately excess and surplus lines business with a weighting in favour of the industrial and commercial sectors. Loss experience in 2019 was more benign than that in recent years,

Operating Performance (Continued...)

although there were a number of catastrophe events, including Hurricane Dorian, Typhoons Faxai and Hagibis, and the Australian wildfires. Although a small operating profit of GBP 12 million was noted in 2019, overall this class has returned a material underwriting loss of GBP 2.1 billion over the 2015-2019 period.

Casualty - The casualty book is dominated by general liability and professional liability and also includes accident and health, cyber and warranty business. Reserve strengthening added 1.8% points to the year's combined ratio. This related to specific casualty lines including D&O, general liability and medical malpractice, which have longer emergence periods and are exposed to social inflation. Overall, this class has returned an underwriting loss of GBP 22.0 million over the 2015-2019 period.

Marine, Aviation, & Transport - The marine book is well diversified and includes cargo, hull, marine liability, specie and fine art. In aviation, Lloyd's writes across all main business sectors including airline, aerospace, general aviation, space, and war. 2018 was a challenging year for marine writers and a number of syndicates elected to partially or fully withdraw from certain marine lines. This resulted in improved pricing and underwriting performance in 2019. In the same vein, challenging conditions in aviation led to a small portion of insurers withdrawing or reducing their capacity in the sector but the results continued to be impacted by the high frequency and cost of attritional claims, which erode premium and deductible levels. Overall, this class has returned a combined underwriting loss of GBP 1.0 billion over the past five years.

Energy - The energy book consists of onshore and offshore property and liability business. Results in recent years have benefited from somewhat benign large and catastrophic loss activity in upstream lines, which is the largest part of the overall energy account in terms of risk count, written premium, and exposure. A strong contribution from prior-year reserve releases of 10.2% points also supported the positive underwriting result. Overall, this class has returned an underwriting profit of GBP 551.0 million over the 2015-2019 period.

Motor - Motor business is focused on UK private car, commercial, and fleet business. International motor, largely emanating from North America, makes a smaller contribution. Underwriting conditions in the UK motor market have been challenging in recent years, particularly due to changes to the 2019 personal injury discount rate (Ogden rate), which was set the rate at -0.25% in 2019. The rate is expected to be stable at this level for five years. Overall, this class has returned an underwriting loss of GBP 285.0 million over the 2015-2019 period; albeit small underwriting profits have been reported in 2018 and 2019.

Investment Performance:

Investment returns (including gains/losses) for the market were on average 2.3% in the period 2015-2019, ranging from 0.7% to 4.9%. The market's investment portfolio is considered low risk, which is commensurate with the relatively modest investment returns. 2019 was a markedly positive year for investments, with an investment return (including gains/losses) of 4.9%. Equities generated a strong level of return with other risk assets also performing well. In fixed interest markets, the easing of monetary policy drove a reduction in risk free yields resulting capital gains for government bonds. Corporate bonds returns were further enhanced by credit spread narrowing, in line with the trajectory of other risk assets.

Financial markets suffered material losses over the first quarter of 2020 as the pandemic took hold. Approximately GBP 1.0 billion of investment losses were reported over the quarter with the biggest driver being the material fall in equity and risk assets. Strong returns on government bonds, particularly in the US, offset corporate bond losses from spread widening. April has seen a recovery in financial markets however given the uncertainty around the pandemic it is unclear where the market will settle at the end of the year. The Central Funds portfolio is defensively positioned to withstand further volatility following de-risking actions.

Performance on a Year of Account Basis:

The 2017 YOA closed at the end of 2019 with an overall loss of GBP 2.4 billion (2016: GBP 855 million loss). After a long period of relatively benign major loss activity, the cost of major claims to the Lloyd's market in 2017 was the third highest since 2003. The largest insured event was Hurricane Irma, with other significant losses being Hurricanes Harvey and Maria.

Financial Performance Summary	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	2016 GBP (000,000)	2015 GBP (000,000)
Pre-Tax Income	2,532,000	-1,001,000	-2,001,000	2,107	2,122
Net Income after Non-Controlling Interests	2,532,000	-1,001,000	-2,001,000	2,107	2,122

Source: BestLink® - Best's Financial Suite

Operating Performance (Continued...)

Operating and Performance Ratios (%)	2019	2018	2017	2016	2015
Overall Performance:					
Return on Assets	2.1	-0.9	-1.9	2.3	2.6
Return on Capital and Surplus	8.8	-3.7	-7.3	8.1	9.1
Non-Life Performance:					
Loss and LAE Ratio	63.4	65.3	74.5	57.3	49.9
Expense Ratio	38.7	39.2	39.5	40.6	40.1
Non-Life Combined Ratio	102.1	104.5	114.0	97.9	90.0

Source: BestLink® - Best's Financial Suite

Business Profile

Lloyd's favourable business profile reflects its strong position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks. Its network of global licences is a key competitive strength. The portfolio is well diversified but with some geographical bias towards North America and product bias towards commercial specialty lines products. Product risk is moderate to high. High product risk lines include reinsurance, energy, aviation, some marine business and a high proportion of the casualty and property business written. The majority of small commercial and consumer business, as well as some of the business written through coverholders is lower risk. The markets in which Lloyd's operates are highly competitive. A reliance on brokers makes Lloyd's particularly vulnerable to price-based competition.

Market Position:

Lloyd's occupies an excellent position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks. The market's position is particularly strong in non-life reinsurance, where Lloyd's was ranked as the 3rd largest global non-life reinsurer based on 2018 gross written premiums (GWP). Lloyd's is also a market leader in marine insurance, and has a strong position in aviation, energy, and specialty property and casualty insurance.

Although Lloyd's syndicates operate as individual businesses, the collective size of the market allows them to compete with major international groups under the Lloyd's brand. The market's competitive strength stems from its strong brand, licences, and reputation for innovative and flexible underwriting, supported by the pool of underwriting expertise in London.

While Lloyd's position remains excellent in its core markets, it should be noted that the level of competition in these markets is very high.

Product Diversification and Product Risk:

Lloyd's is a significant writer of catastrophe and reinsurance business and is also a leading player in its core marine, aviation, energy and specialty property and casualty markets. Insurance business accounted for 68% in 2019 (2018: 69%), with reinsurance accounting for the balance. This split has been relatively stable in recent years.

Overall GWP increased by 1.1% in 2019 to GBP 35.9 billion (2018: GBP 35.5 billion), a lower level of growth than the 5.8% increase experienced in 2018.

The market is well diversified by line of business, although very little life business is written (<0.1% of GWP in 2019) and there is a bias towards commercial lines business over personal lines. Product risk is moderate to high, as the business that comes to Lloyd's is predominantly specialty business that requires expert underwriting. High product risk lines include reinsurance, energy, aviation, most marine business, and a high proportion of the casualty and property business written (although some of the property and casualty business written through coverholders is lower risk).

Reinsurance is the market's largest segment and accounted for 32% of GWP in 2019. Reinsurance business comprises property, casualty and specialty reinsurance (primarily marine, aviation and energy reinsurance). Lloyd's is a leading player in the global reinsurance space, ranking as the 6th largest by reinsurance GWP based on 2018 premiums and the 3rd largest when life premiums are excluded.

Property insurance business is Lloyd's second largest segment, which accounted for 27% of GWP in 2019. The property book is a global book but with some concentration towards US excess and surplus lines business. There is also a bias towards commercial risks with

Business Profile (Continued...)

residential risks written being mainly non-standard risks. The book also includes terrorism, power generation, engineering and nuclear risks.

Casualty business accounted for 26% of GWP in 2019. The book has a focus towards the US, but the UK, Canada, and Australia are also significant markets. The main products written are general liability and professional indemnity. Accident and health business is also accounted for within this segment.

The remaining lines of marine, aviation, and transport (8%), energy (4%), motor (3%), and life (<0.1%) together accounted for 16% of GWP in 2019. Lloyd's is a leader within the marine market, writing a diversified marine book, including cargo, hull, marine liability, specie and fine art. The energy book consists of onshore and offshore property and liability risks. The motor book is focused on the UK covering commercial and personal motor business (with a focus on niche personal risks). An international book is also written, with a focus on North America. Aviation business includes airlines, general aviation, space and war.

Geographical Diversification:

Lloyd's writes a global portfolio, albeit with some concentration to North America, which accounted for 52% of GWP in 2019. The remainder was split 14% UK, 14% rest of Europe, 10% Central Asia and Asia Pacific, 6% Other Americas and 4% rest of the world. The market's network of licences provides syndicates with access to a wide international client base, which is of benefit in particular to the syndicates that are not part of global insurance groups.

Lloyd's US domiciled business consists primarily of reinsurance and surplus lines insurance, which can be written in all 50 states. Lloyd's participation in admitted US business (i.e. insurance business excluding surplus lines) is relatively modest. Lloyd's has admitted licences in Illinois, Kentucky and the US Virgin Islands and also writes non-surplus insurance business in lines exempt from surplus lines laws (principally marine, aviation and transport risks). However, in July 2020, Lloyd's announced its plans to stop accepting admitted market accounts in the US from July 2021 and focus on the US reinsurance and excess and surplus (E&S) insurance markets. Lloyd's is currently the market leader of the US E&S market. As such, after 1 July 2021, no new business or programs will be accepted on the US licensed platforms. Admitted business represents approximately 1% of Lloyd's US premium income and is not considered material.

In Canada, Lloyd's writes primarily insurance business, with reinsurance business accounting for a smaller share. In order to comply with local regulations, all Canadian business is written in Canada.

Over the past 20 years, Lloyd's has built out its licence network considerably, to be able to write insurance and/or reinsurance business in Brazil, Mexico, Colombia, Dubai, China, Singapore, and India, as well as a number of smaller markets. This work was undertaken in response to the growth of local and regional (re)insurance hubs and the preference of clients to place business locally. More recently, global expansion has received less attention, as the Corporation has focused on the remediation of performance and market modernisation.

In order to continue to access, insurance business in the EU and wider European Economic Area (EEA) after a UK exit from the EU and its single market (referred to as "Brexit"), Lloyd's has established an insurance company domiciled in Belgium. Lloyd's Insurance Company S.A. (Lloyd's Brussels) is a wholly owned subsidiary of The Society of Lloyd's. The entity is incorporated, capitalised and has received regulatory approval. It started writing business at 1 January 2019. For the year-ended 31 December 2019, Lloyd's Brussels wrote EUR 2.7 billion of premiums, ahead of the business plan.

Membership of the single market currently allows UK based insurance companies to conduct insurance business in all member states across borders. The establishment of an EU-based insurance company enables the market to continue to write business in single market member states. However, the settlement of claims is also a regulated activity and Lloyd's may not be able to settle and pay claims on EEA business from London at the end of the post-Brexit transition period.

Lloyd's has started the process for a part VII transfer which enables Lloyd's EEA insurance policies underwritten between 1993-2018 which may not be able to be serviced from the UK without breaching legal or regulatory requirements to be transferred to Lloyd's Brussels. Lloyd's has received approval from the High Court of England and Wales for its Part VII strategy for notifying policyholders about the proposed transfer. The proposed effective date is 29 October 2020 for the transfer.

Distribution Channels:

The distribution of Lloyd's business is dominated by insurance brokers, and in particular by the top three largest global brokers. Lloyd's brokers play an active part in the placement of risks and in providing access to regional markets.

Business Profile (Continued...)

In addition, a significant part of Lloyd's business is distributed via coverholders (accounting for circa 30% of GWP), which write business on behalf of syndicates under the terms of a binding authority. Coverholders are important in bringing regional business to Lloyd's and providing the market with access to small and medium-sized risks. The growth in coverholder business in recent years has contributed to the higher expense ratio.

The Lloyd's distribution model is expensive, with business often passing through several distribution links before arriving at Lloyd's. Lloyd's reliance on brokers also makes the market vulnerable to price-based competition. Although Lloyd's overall is important to the large global brokers (as well as to the specialised London market brokers) the importance of individual syndicates is less so. Overall, the Lloyd's distribution model is considered to place the Lloyd's market at a competitive disadvantage compared to the large global reinsurance groups, which have stronger individual positions with the brokers as well as being able to distribute some of their business direct to cedants.

Modernisation Programme:

A comprehensive modernisation programme for the London market, the London Market Target Operating Model (TOM), was launched in 2015, the aim of which is to make operating in the London market, including at Lloyd's, more efficient and less expensive. Joint market initiatives underway include additional and improved functionality in respect of electronic back office and claim office transactions within the Central Services Refresh Programme, further implementation of e-trading via Placing Platform Limited (PPL) and on-going improvements to the Delegated Authority processes.

Off the back of the TOM project, on 1 May 2019 Lloyd's executive team unveiled a modernisation plan called the Future at Lloyd's. The proposed reforms include plans to radically reduce the cost of doing business and creating new digital platforms for placing insurance risk and streaming claims services. If the plan is successfully implemented, meaningful cost reductions will support profitability. However, the plan is subject to a high degree of execution risk because it will likely require substantial investment and cultural change.

In AM Best's view, the modernisation programme is making important progress towards modernising the market's operations. However, progress is still slow and the market is considered to be behind other global insurers in its adoption of technology. The fact that the Corporation has had to mandate use of the PPL to get usage past what is considered a critical mass is a sign of the market's resistance to change as well as dissatisfaction with the system among some of the underwriters and brokers that are asked to use it.

The latest modernisation project looks to i) improve efficiency by focusing on complex risks and using digitalisation to handle low-value risks; ii) improve claims management and payment; iii) ease of doing business in setting up a syndicate; iv) make it easier for new capital to access insurance risk; and v) improving the overall customer experience by being more accessible and transparent. Should Lloyd's be unsuccessful in its modernisation project and peers are able to widen the gap in both efficiency and ease of doing business, the consequences could be considerable for the business profile.

Overall, the pandemic has sharpened the focus of the Future at Lloyd's to three main workstreams, namely the complex risk platform (PPL), risk exchange (coverholder), and claims handling, which will create tangible value to the market.

Corporate Overview:

Lloyd's is the London-based market where approximately 90 individual syndicates underwrite all types of insurance and reinsurance business apart from long term life insurance. Each syndicate is formed by one or more members of Lloyd's, who join together to provide capital and accept insurance risks. Lloyd's members are mainly corporate members although a small proportion of Lloyd's underwriting capacity continues to be provided by private individuals.

In 1871, the then existing association of underwriters at Lloyd's was incorporated by the Lloyd's Act as the Society and Corporation of Lloyd's (referred to in this report as the Society or the Corporation), making the Society the legal entity which oversees the Lloyd's market. Its purpose is to facilitate the underwriting of insurance business by Lloyd's members, to protect members' interests in this context and to maintain Lloyd's Central Fund. The Society is also the holding company for Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited.

Enterprise Risk Management

The enterprise risk management (ERM) of Lloyd's is considered supportive of an appropriate assessment. The market's enterprise risk framework is considered to be developed and risk management capabilities are aligned to the risk profile.

Enterprise Risk Management (Continued...)

Lloyd's ERM is designed to manage risks arising from the market and the Society. It provides an extra layer of oversight over the market's risks which are also managed through the risk functions of individual managing agents. There are limitations on the ability of the Corporation to actively manage the market's risks, as it is supervising individual and competing syndicates each with their own risk appetites and commercial strategies.

Under the Lloyd's Act 1982, the Council of Lloyd's is responsible for the management and supervision of the market as the governing body of the Society. The key committees of the Council are the Audit Committee, the Market Supervision and Review Committee and the Risk Committee. The risk committee is responsible for the identification and management of Lloyd's key risks. From 1 January 2017, the risk committee became a non-executive committee, with members drawn from the Lloyd's Council. Lloyd's Chief Risk Officer, a position established in 2014, attends Council meetings.

The risk function has identified a number of key risk themes that are of particular concern for Lloyd's currently. Key risks include market performance, attractiveness of Lloyd's market, Brexit, operational resilience, cyber risk, financial crime, and failure to comply with relevant laws and regulations. Mitigating actions have also been identified.

The Council manages risks by setting and monitoring a risk appetite framework. The risk appetites are reviewed on a regular basis and may be updated as required i.e. culture is now included as a separate risk. The framework includes 14 key risks and a number of underlying monitoring metrics. The risk appetites are structured under the three risk objective pillars of sustainability, solvency, and operational.

Over the past several years, there has been a much tougher tone and more active approach taken by the Corporation's oversight functions to managing under-performing syndicates as well as the under-performing lines of generally well performing syndicates. The enhanced oversight has led to some syndicates being put into run-off as well as others exiting certain loss-making lines of business. Whether the Corporation's oversight functions are able to turn around the market's performance will be a key test of the effectiveness of the Council's activities.

The Society of Lloyd's and its managing agents are regulated by The Bank of England, acting through the PRA, as well as by the Financial Conduct Authority (FCA). Lloyd's remains subject to the Solvency II regulatory and capital regime, which came into force on 1 January 2016. It applies to the "association of underwriters known as Lloyd's" as a collective entity. Although the UK's referendum vote to leave the EU has introduced uncertainty in respect of future regulation of the market, it is likely that the Solvency II form of regulation and capital regime will continue following the UK's exit from the EU in the near term.

Lloyd's uses an internal capital model to calculate its SCR and SCR coverage ratio, with approval from the PRA. An internal model has been in use since 2012, although the current model has undergone radical change since then. In AM Best's opinion, the Corporation's ability to assess the capital adequacy of the market has been strongly improved by the modelling work undertaken for Solvency II.

Lloyd's recognises that one of the greatest risks to the Central Fund is the market's exposure to catastrophes. The catastrophe model component of Lloyd's internal capital model allows the Corporation to assess catastrophe risk across return periods and, in AM Best's opinion, has improved its ability to monitor the market's aggregate catastrophe exposure against a defined risk appetite. An enhancement noted in 2020, was the introduction of the Catastrophe Risk Oversight Framework, which limits syndicates with poor performance track records to grow their catastrophe exposure. Due to the nature of business written, Lloyd's has significant exposure to catastrophe losses, making this aspect of risk management particularly important.

Lloyd's Realistic Disaster Scenarios (RDSs) play a critical role in exposure management at Lloyd's, both as benchmark stress tests validating the internal model output and as a source of data. The scenarios are defined in detail annually by Lloyd's and are used to evaluate aggregate market exposures as well as the exposure of each syndicate to certain major events. Syndicate-level scenarios are prepared by each managing agent, reflecting the particular characteristics of the business each syndicate writes. In addition, Lloyd's asks for syndicates' aggregate exceedance probability (AEP) loss at a 30-year return period for various regional perils. As the Lloyd's RDSs represent different return periods for different syndicates, collecting this additional data helps to ensure a uniform treatment of syndicates' exposure to large losses.

Reinsurance Summary

Lloyd's use of reinsurance is relatively high when compared to other large specialty insurers and reinsurers. This is due to the nature of the market, which consists of small-to-medium sized business that independently purchase reinsurance. The market as a whole ceded

Enterprise Risk Management (Continued...)

27.7% of its GWP in 2018. This amount includes reinsurance from syndicates to their related groups as well as reinsurance between individual Lloyd's syndicates.

Lloyd's oversight function monitors individual syndicates' reinsurance placements to ensure the appropriateness and credit quality of the market's overall use of reinsurance.

Financial Statements

Balance Sheet	12/31/2019 GBP (000)	%	12/31/2019 USD (000)
Cash and Short Term Investments	9,631,000	8.0	12,634,042
Bonds	44,208,000	36.9	57,992,496
Equity Securities	9,055,000	7.6	11,878,440
Other Invested Assets	10,299,000	8.6	13,510,331
Total Cash and Invested Assets	73,193,000	61.1	96,015,309
Reinsurers' Share of Reserves	23,597,000	19.7	30,954,781
Debtors / Amounts Receivable	18,199,000	15.2	23,873,630
Other Assets	4,889,000	4.1	6,413,439
Total Assets	119,878,000	100.0	157,257,159
Unearned Premiums	17,143,000	14.3	22,488,359
Non-Life - Outstanding Claims	59,655,000	49.8	78,256,026
Total Gross Technical Reserves	76,798,000	64.1	100,744,384
Debt / Borrowings	794,000	0.7	1,041,577
Other Liabilities	12,442,000	10.4	16,321,540
Total Liabilities	90,034,000	75.1	118,107,502
Other Capital and Surplus	29,844,000	24.9	39,149,658
Total Capital and Surplus	29,844,000	24.9	39,149,658
Total Liabilities and Surplus	119,878,000	100.0	157,257,159

Source: BestLink® - Best's Financial Suite
US $ per Local Currency Unit 1.31181 = 1 British Pound (GBP)

Income Statement	Non-Life GBP (000)	Life GBP (000)	Other GBP (000)	12/31/2019 Total GBP (000)	12/31/2019 Total USD (000)
Gross Premiums Written	35,905,000	...	...	35,905,000	47,100,538
Net Premiums Earned	25,821,000	...	...	25,821,000	33,872,246
Net Investment Income	...	...	2,563,000	2,563,000	3,362,169
Realized capital gains / (losses)	...	...	251,000	251,000	329,264
Unrealized capital gains / (losses)	...	...	723,000	723,000	948,439
Total Revenue	25,821,000	...	3,537,000	29,358,000	38,512,118
Benefits and Claims	16,361,000	...	...	16,361,000	21,462,523
Net Operating and Other Expense	9,998,000	...	467,000	10,465,000	13,728,092
Total Benefits, Claims and Expenses	26,359,000	...	467,000	26,826,000	35,190,615
Pre-Tax Income	-538,000	...	3,070,000	2,532,000	3,321,503
Net Income before Non-Controlling Interests	...	...	...	2,532,000	3,321,503
Net Income/(loss)	...	...	...	2,532,000	3,321,503

Source: BestLink® - Best's Financial Suite
US $ per Local Currency Unit 1.31181 = 1 British Pound (GBP)

Related Methodology and Criteria

Best's Credit Rating Methodology, 03/05/2020

Catastrophe Analysis in A.M. Best Ratings, 10/13/2017

Available Capital & Holding Company Analysis, 10/13/2017

Rating Lloyd's Operations, 10/13/2017

Scoring and Assessing Innovation, 03/05/2020

Understanding Universal BCAR, 06/11/2020