LLOYD'S

Six months ended 30 June

2022

Half Year Results

LLOYD'S

Overview

John Neal, Chief Executive Officer

Strong underwriting result in an uncertain world

Sustainable performance

- Strong half year underwriting profit of £1.2bn and combined ratio of 91.4%.
- Attritional loss ratio of 48.9% demonstrating consistent, sustainable performance.
- Expense ratio of 35.4% continues to improve (0.4% since HY 2021 and a 3.9% improvement since HY 2018).
- Net investment loss of £3.1bn driven by mark-to-market losses as interest rates rise.
- Investment result will resolve in the short term, presenting opportunity to benefit from improved profits.

Profitable growth

- GWP growth of 17% with premiums rising to £24.0bn.
- 7.7% average price change, with pricing more reflective of risks underwritten and inflationary pressures.
- 4.7% organic growth from syndicates and 5.0% foreign exchange benefit.
- Continued sustainable underwriting performance enables the market to grow through 2022 and 2023.

Resilient capital

- Exceptionally strong capital position, with further improvement made at HY 2022.
- Increased central solvency coverage ratio to 395%.
- Increased market wide solvency coverage ratio to 179%.
- Early, realistic reserving with £1.1bn net set aside for Ukraine-related losses.
- Strong ratings maintained with all four rating agencies.

Macro environment

- Volatile environment following COVID-19, conflict in Ukraine and impact of climate change.
- Inflation and cost of living crisis taking hold.
- Supporting Lloyd's customers and people remains paramount.
- Opportunity to demonstrate the insurance industry's vital role in providing customers with confidence and protection in times of challenge.

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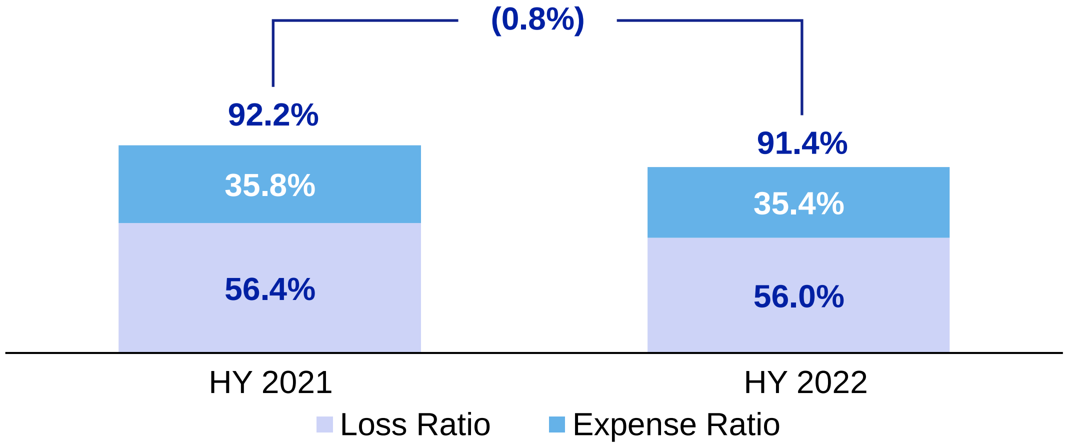
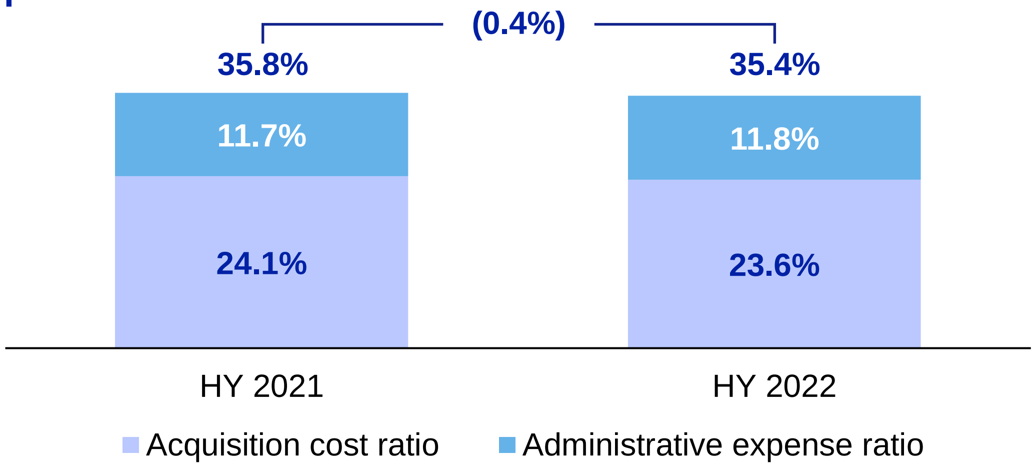
Continued sustainable performance and profitable growth

Gross written premium growth

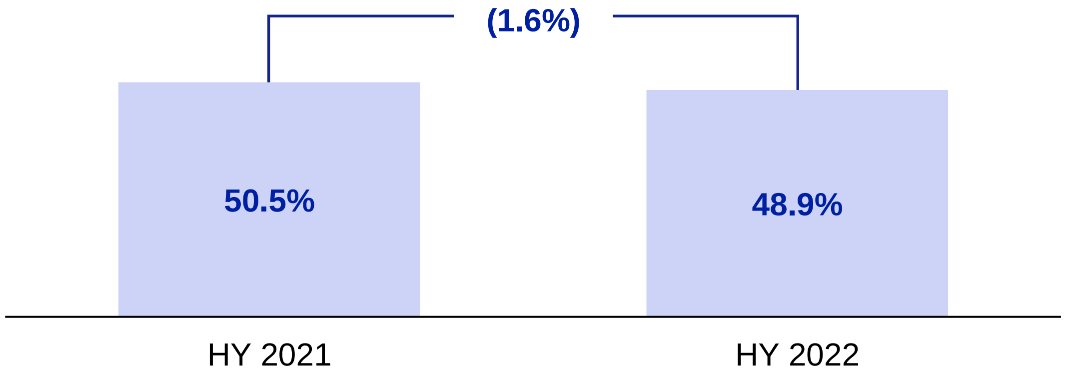
Combined ratio



Expense ratio



Attritional loss ratio



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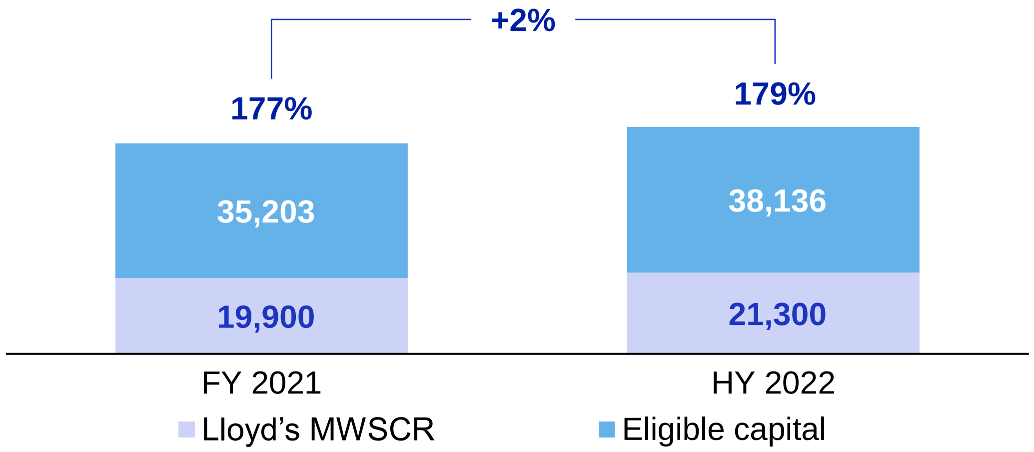
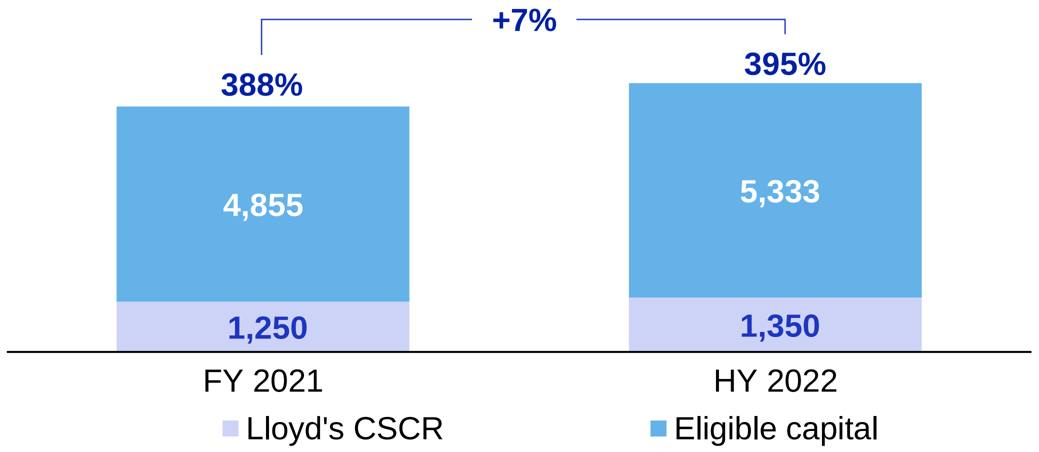
Solid balance sheet and positive investment outlook

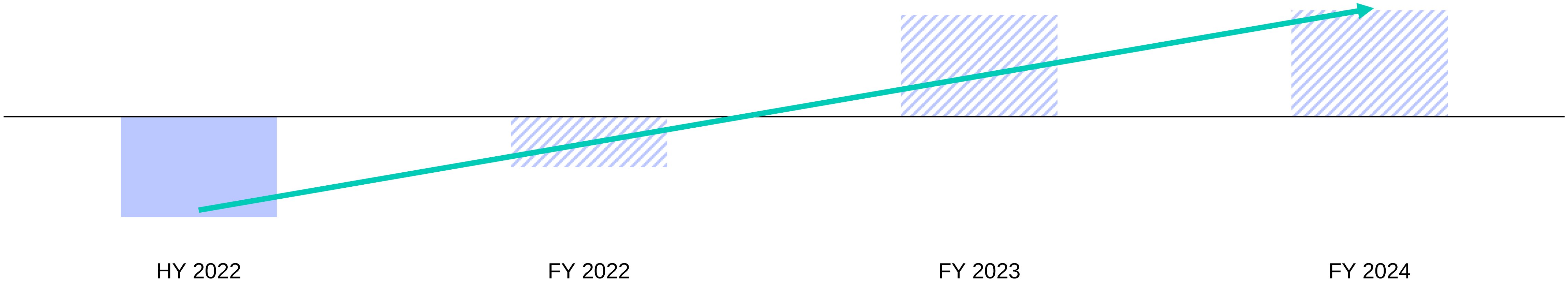
Market wide solvency coverage ratio (£m)



Central solvency coverage ratio (£m)



Positive investment forecast for 2023-2024



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Financials

Burkhard Keese, Chief Operating and Chief Financial Officer

2022 Half Year Results

Sustainable underwriting performance

Solid pricing conditions

Attractive yield environment

High quality balance sheet

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17% profitable growth with a 91.4% combined ratio

£m	HY 2021	HY 2022	Change
Gross written premium	20,465	24,035	+17%
Net earned premium	12,362	14,143	+14%
Net incurred claims	(6,968)	(7,916)	(14%)
Operating expenses	(4,431)	(5,010)	(13%)
Underwriting result	**963**	**1,217**	**+26%**
Net investment income	628	(3,122)	(597%)
Other expenses, net	(226)	(184)	+19%
Foreign exchange gains	67	288	+330%
Profit/(loss) before tax	**1,432**	**(1,801)**	**(226%)**
Loss ratio	**56.4%**	**56.0%**	**(0.4%)**
Attritional losses	50.5%	48.9%	(1.6%)
Prior year development	(0.9%)	(2.8%)	(1.9%)
Major claims	6.8%	9.9%	+3.1%
Expense ratio	**35.8%**	**35.4%**	**(0.4%)**
Admin expense ratio	11.7%	11.8%	+0.1%
Acquisition cost ratio	24.1%	23.6%	(0.5%)
Combined ratio	**92.2%**	**91.4%**	**(0.8%)**

17% profitable growth with a 91.4% combined ratio

Great underwriting result

- A great underwriting result demonstrating continued sustainable performance.
- Challenging year of difficult market conditions owing to inflation, the invasion of Ukraine and rising interest rates.
- Underwriting profit improved once again to £1.2bn (HY 2021: profit of £1.0bn).
- Reported combined ratio of 91.4% (HY 2021: 92.2%), a 0.8% improvement on HY 2021 and the strongest reported combined ratio since 2015.

Profitable growth

- Gross written premiums have increased by 12.4% to £24.0bn (HY 2021: £20.5bn) excluding FX.
- Encouraging market growth with an increase in volume of 4.7%.
- Prices continue to increase for the fifth consecutive year with an aggregate price increase of 7.7%.

Expense management

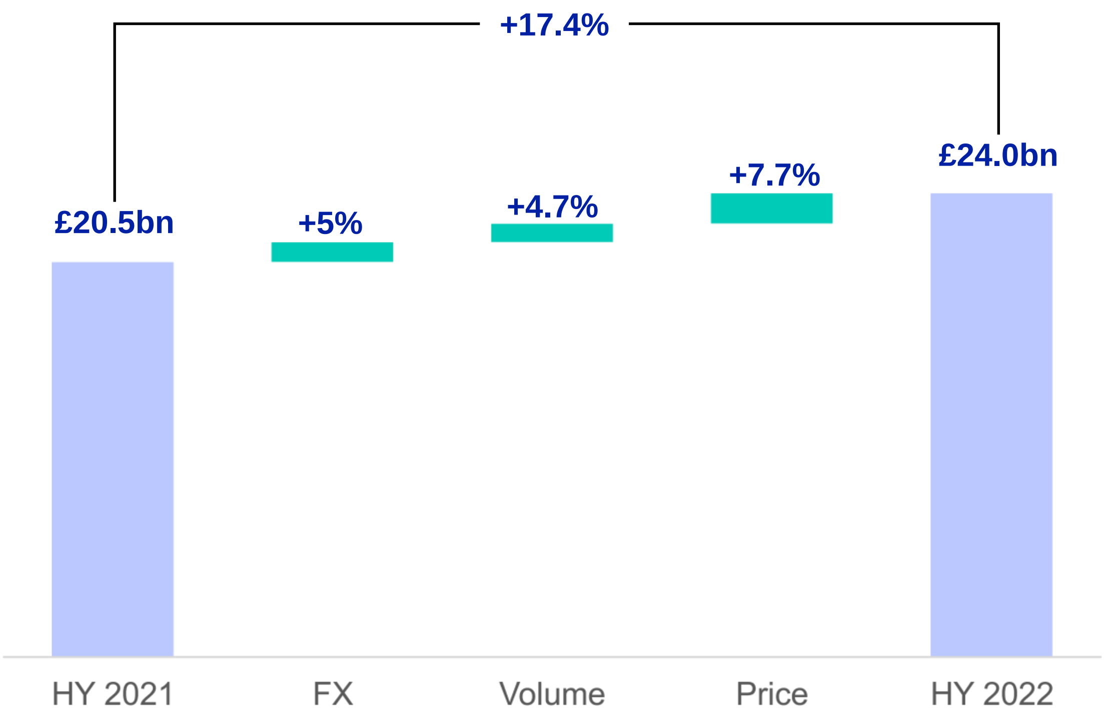
- Further progress made on expenses with a reduction from 35.8% at HY 2021 to 35.4% at HY 2022.
- Execution of our digital programme by design will continue to reduce expenses.
- The Future at Lloyd's is on track to deliver further savings over the next three years.

Investments

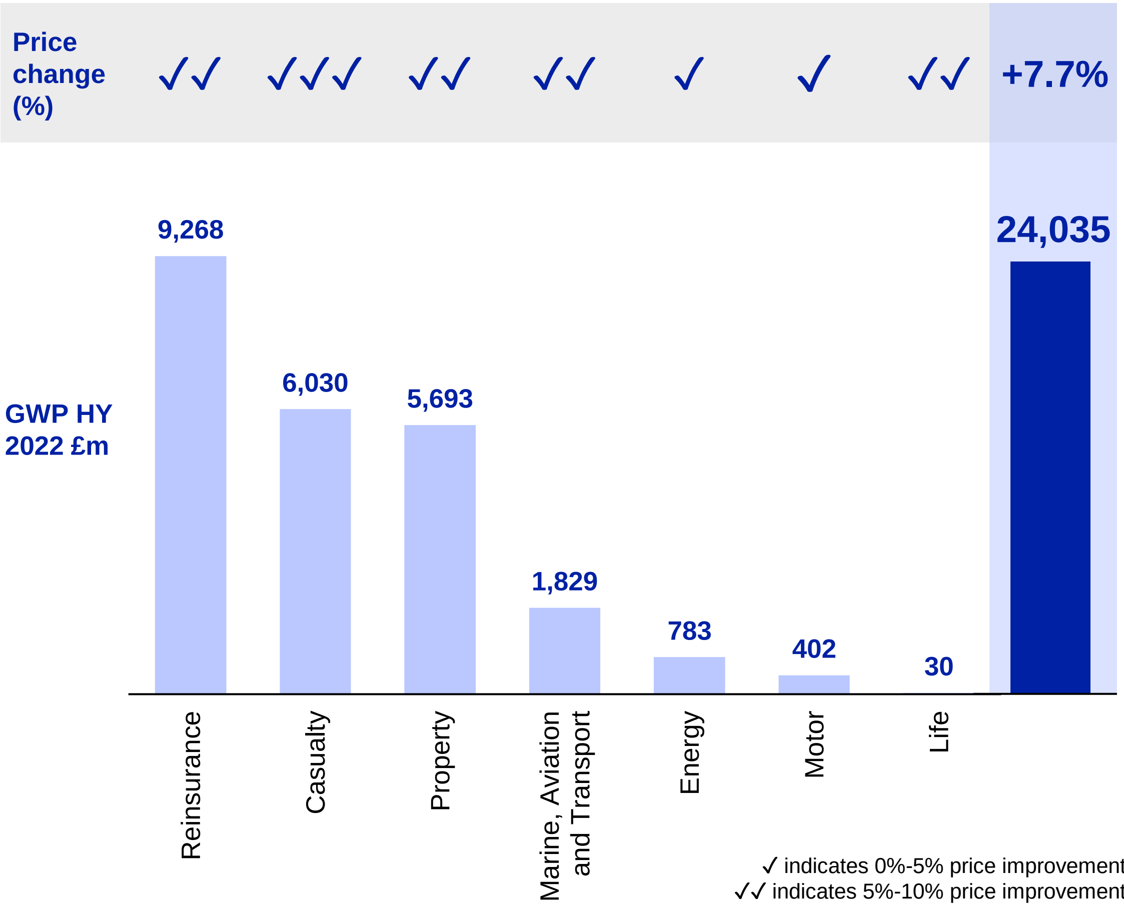
- Overall our investment loss is £3.1bn of which approximately £2.6bn stems from the mark-to-market losses on fixed income.
- The accounting loss at HY 2022 will unwind in the near term.
- With our prudent asset allocation, our high-quality bond portfolio and our short asset duration, we are positioned for uncertainty of the current economic environment.

Continued growth supported by strong pricing environment

Premium changes HY 2021 – HY 2022



19 consecutive quarters of positive price improvement



✓ indicates 0%-5% price improvement
✓✓ indicates 5%-10% price improvement
✓✓✓ indicates 10%+ price improvement

Continued growth supported by strong pricing environment

Premium changes

- HY 2022 gross written premiums of £24.0bn represent a 17.4% increase over the same period in 2021, and 12.4% excluding FX.
- Importantly, we not only grew in price, but also the volume of our book by 4.7% and delivered a highly competitive combined ratio.

Pricing environment

- The strong pricing environment seen in 2021 has continued into 2022, with an aggregate price increase of 7.7%.
- Strong price improvement where needed in classes such as cyber, contingency and in parts of the property book.
- Growth seen across the majority classes of business from HY 2021 to HY 2022.

Outlook

- The level and trend of inflation across the world is challenging, and we must protect our book against inflationary impacts by reflecting inflation in pricing throughout 2022 and into 2023.
- Price increases are expected to continue throughout 2022.

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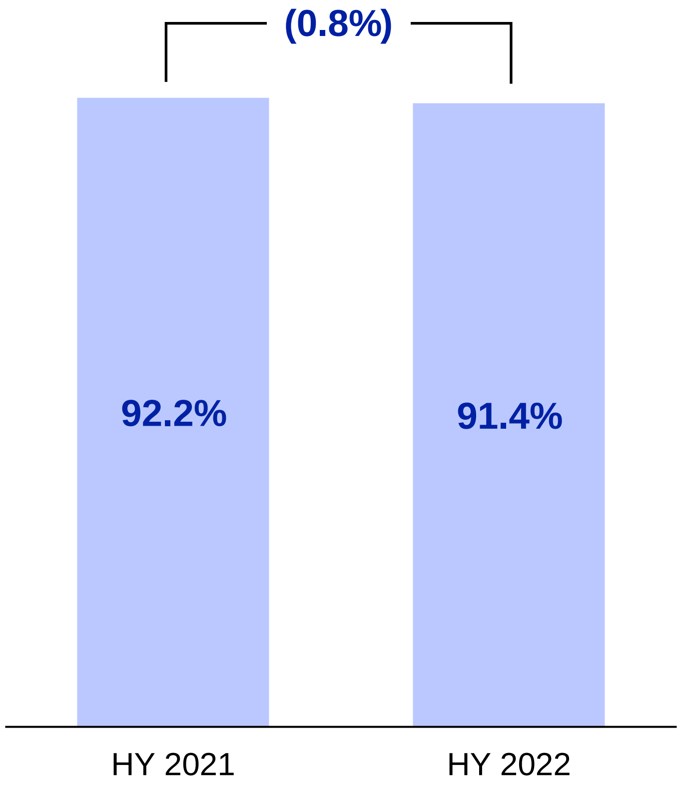
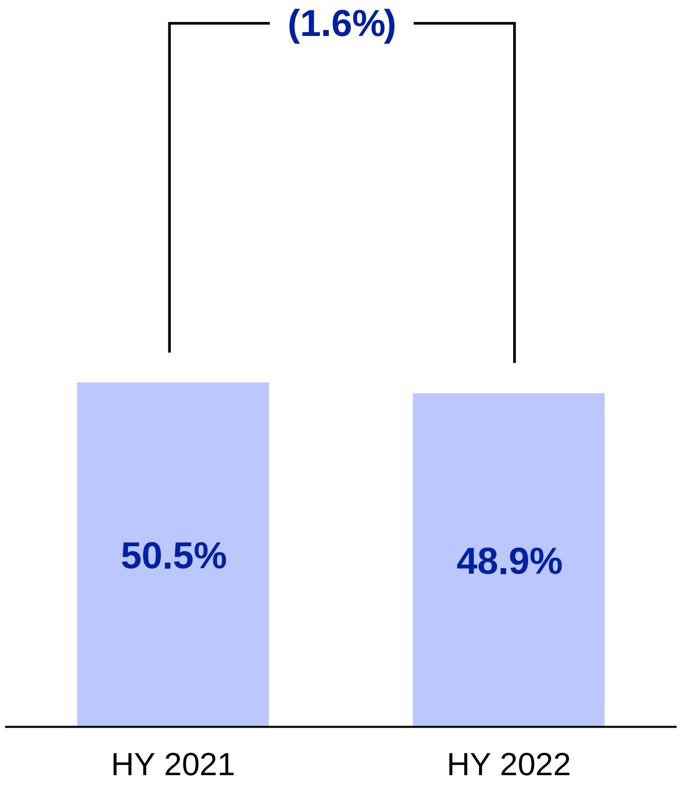
Strong underwriting result in an uncertain world

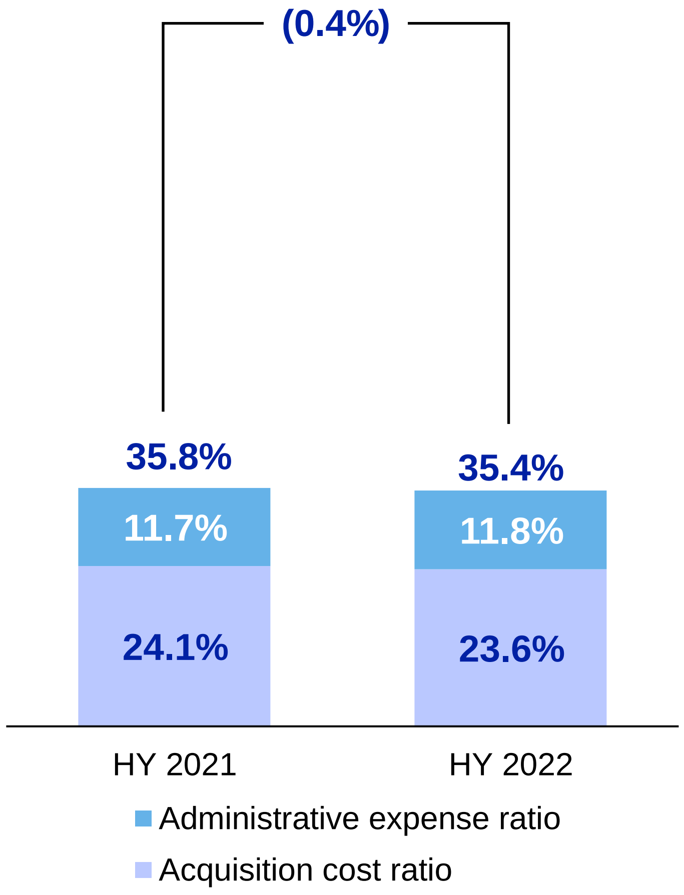
Combined ratio



Attritional loss ratio

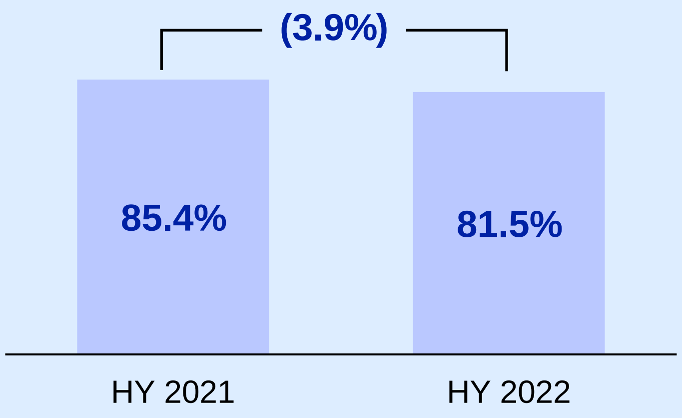


Expense ratio



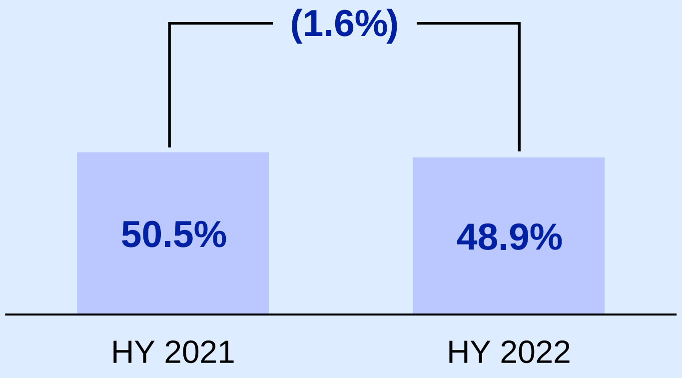
Strong underwriting result in an uncertain world

Underlying combined ratio



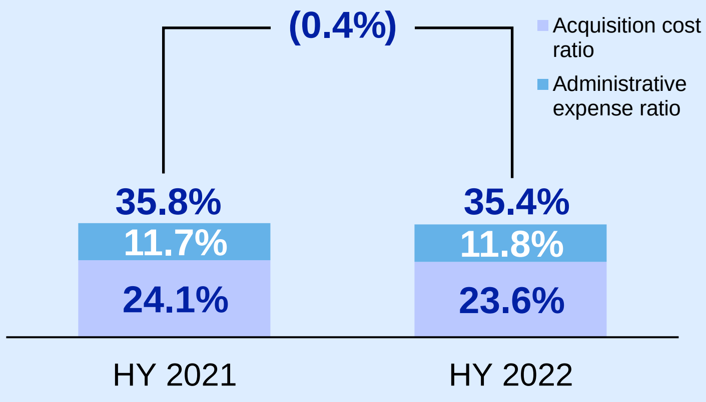
- The underlying combined ratio[1] improved by 3.9 percentage points to 81.5% at HY 2022 despite inflationary impacts of roughly £1bn.

Attritional loss ratio



- The attritional loss ratio is down from 50.5% at HY 2021, to 48.9% at HY 2022, as we see continued underwriting improvement despite inflation.

Expense ratio



- Expense ratio has improved 0.4 percentage points to 35.4%, compared with 35.8% at HY 2022. This is driven by a 0.5 percentage points improvement in the acquisition cost ratio.

[1] Underlying combined ratio defined as the combined ratio excluding major claims.

Our approach to claims reserving

Proactive reserving approach

- Early recognition of how much losses may ultimately cost.
- Probability weighted exposure based reserving.
- Limits surprises on the balance sheet.
- Independent reserve oversight carried out by Lloyd's centrally in conjunction with independent actuarial reserve reviews.

Managing complex losses

- COVID-19 reserve stable at £3.2bn, including 27% IBNR after two years.
- £1.1bn net reserves for Ukraine losses.
- IBNR makes up 94% of the net ultimate loss estimate.
- Deep understanding of issues and we are well versed in dealing with complexity.

Allowance for inflation

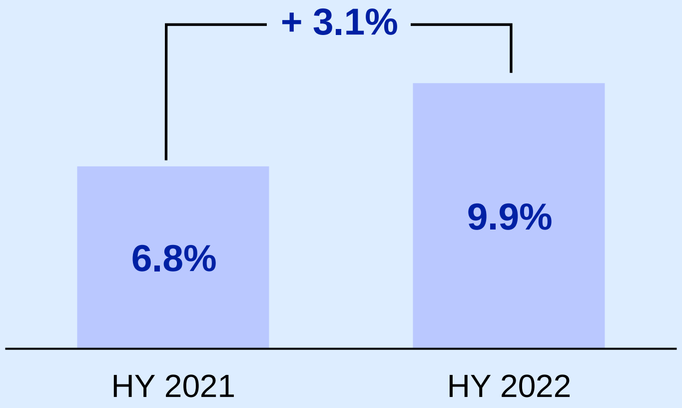
- 65% of syndicates have explicitly adjusted reserves for inflation.
- Further 25% have made explicit considerations with no uplift.
- The average syndicate uplift in the reserves for inflation is 2.3%, on top of pre-existing allowance for historical levels of inflation.
- This is the amount held across the current and prior years for inflation expectations being higher than historical levels.

Reserve margins are held to reflect uncertainty

- Track record of prior year reserve releases of 2.3% over 5 years.
- 2.8% prior year reserve release in the first half of 2022.
- Margins are strong enough to digest latent claims movement such as social inflation.

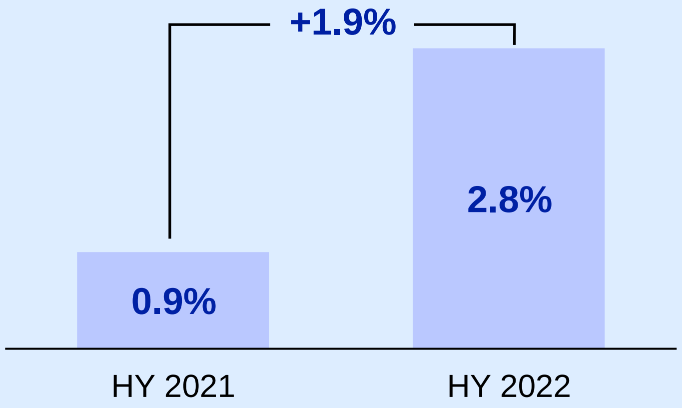
Our approach to claims reserving

Major Claims



- Major claims experienced a 3.1 percentage point deterioration to 9.9% driven by estimated Ukraine losses.
- The market has reserved £1.1bn net for customers impacted by the conflict in Ukraine.
- We expect the conflict in Ukraine to be a major but financially manageable event for the market in 2022, and there are no concerns for capital or solvency at a Lloyd’s or syndicate level.

Prior Year Release



- Reserve releases of 2.8%, a 1.9 percentage point improvement, despite some partial offsetting from the heightened inflationary environment.
- We continue to maintain a strong reserve position that results in continued reserve releases.
- We take a proactive and conservative approach to reserving as demonstrated by our stable COVID-19 ultimate loss estimates.

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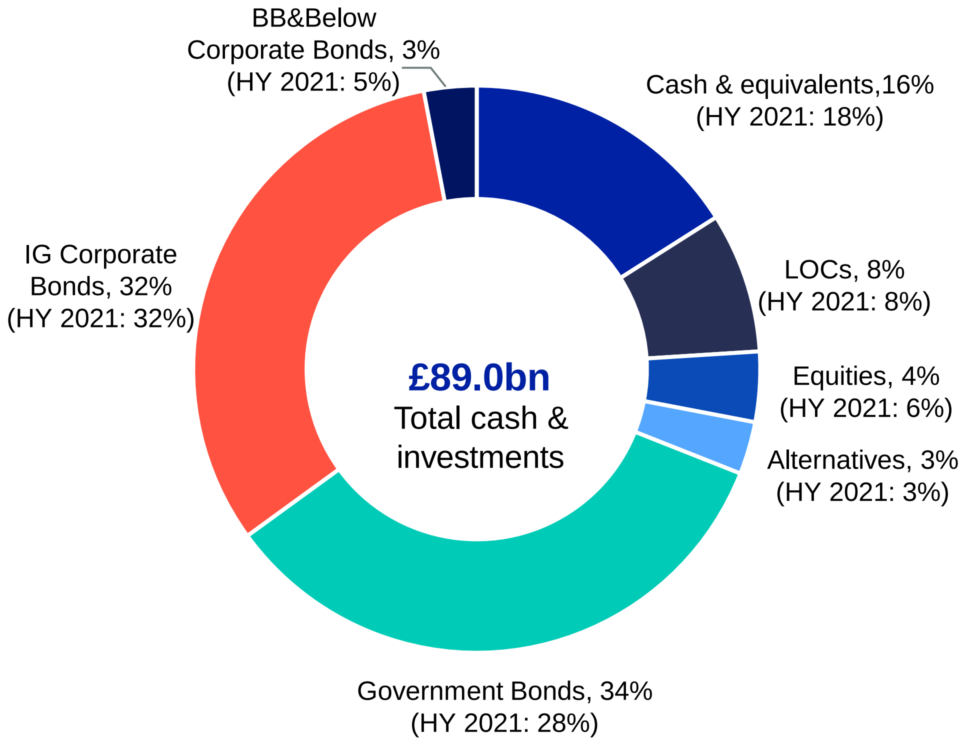
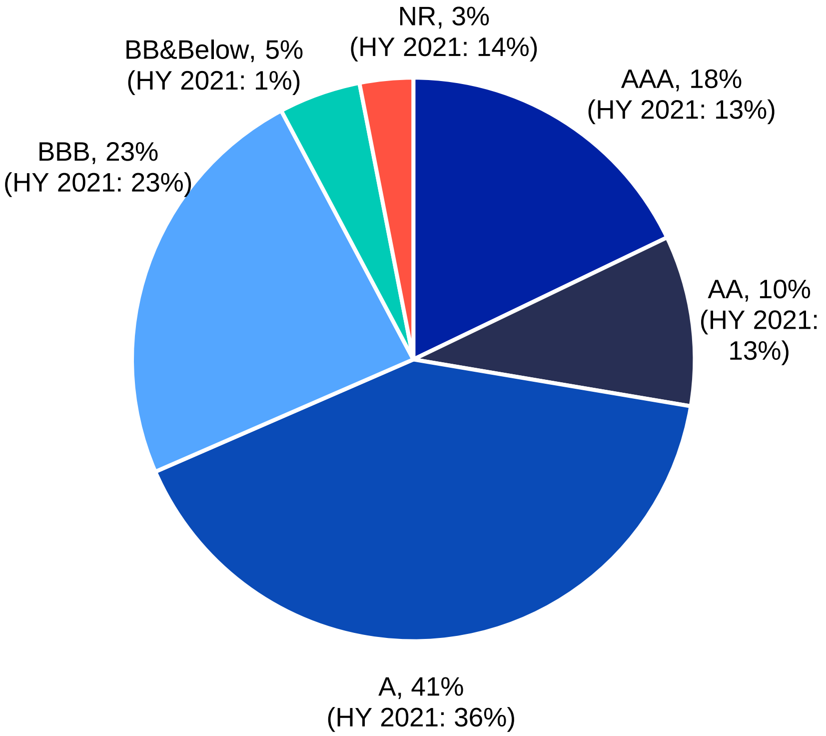
Conservative positioning for current economic environment

Conservative asset allocation



High quality corporate bond portfolio



Short duration to protect capital with rising yields

	Duration		
	Asset	Liability	
	1.8 years	4 years	
Impact on surplus capital (Sensitivity +100bps)	(£1.6bn)	(£1.938bn)	**Surplus capital +£338m**

Conservative positioning for current economic environment

Prudent asset allocation

- Conservatively positioned portfolio is well placed to weather uncertainty and an increasing interest rate environment.
- 69% of assets are in fixed income of which circa 50% are in government bonds.
- Market positioning remains conservative with 10% allocated to growth assets (-4% YoY).

High quality bond portfolio

- The risk of losses remains low given the high credit quality, low duration portfolio.
- The average rating of the fixed income portfolio is AA with 96% of fixed income assets rated as investment grade.
- Downgrades of investment grade corporate issuers remains low despite high inflation and increased borrowing costs.

Short duration to protect capital with rising yields

- This short duration protects capital as the discount effect on liabilities is larger than the devaluation of the fixed income portfolio.
- Economically, the rate increases will increase capital in the Lloyd's market due to the short duration positioning of market fixed income assets.

Impact of the favourable yield environment

Boosting our profitability by over £1bn

180bps rate ↑	240bps yield ↑

Fixed income	Total assets
£60.6bn	£89.0bn

Future P/L impact
Increase of at least **£1.1bn**, more than circa **£4bn** per year

Creating account noise

£m	HY 2021	HY 2022	Commentary
Current investment income	480	620	▪ Contains mainly coupon and dividend income ▪ Provides cash flow to settle claim
Fixed income price variance	(300)	(2,650)	▪ Represent an adjustment to make financial statements comparable ▪ No cash impact ▪ Unwind over the next three years to reflect current rates in the P/L
Strategic asset price variation	440	(1,090)	▪ Market price corrections of the equity markets ▪ Mark-to-market adjustment indicates potential cash-flow impact if sales happen
Investment income	**620**	**(3,120)**	▪ Current rate adjusted income

Analytical outlook

£3bn
per year until 2025

£2.6bn
profit over 36 months

Impact of the favourable yield environment

Investment outlook improved significantly

- Unrealised mark-to-market losses are projected to unwind fully over the near term as the fixed income asset prices move towards their known face value at maturity (based on current yield curves).
- With yields forecast to rise significantly by 2024, projected income from fixed income assets is set to double over 2 years, resulting in an aggregate investment income from the market projected to exceed £3bn.
- Short duration positioning in an increased rate environment has resulted in a 27% increase in investment income YoY.
- While the S&P 500 is down ~17% YTD, the index is still ~73% higher than COVID-19 lows and ~17% higher than pre-COVID levels.
- As at 30th August 2022, cash income received from investments (coupons, dividends etc.) is estimated to be £928m, while strategic assets are estimated to have recovered by £238m since HY 2022. However, yield increases in August present short-term challenges for fixed income price movements.

Accounting losses recorded under UK GAAP

- The investment loss reported at HY 2022 reflects accounting losses as interest rates rise.
- Increased rates have contributed an estimated (£2.7bn) to the reported investment return, which will unwind to contribute to future P/L gains in the near future.
- Strategic assets have contributed an estimated loss of £1bn to reported income in a risk-off environment, owing to invasion of Ukraine and increased inflation.
- The attribution of fixed income at HY 2022 is based on proxy benchmarks, not asst level data.

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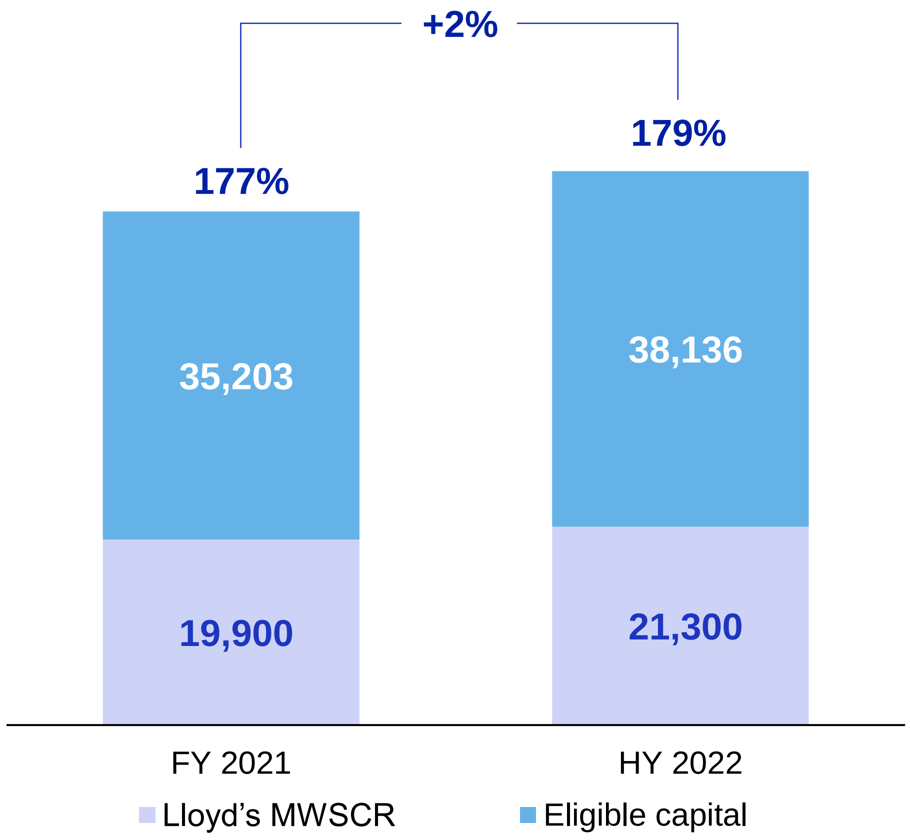
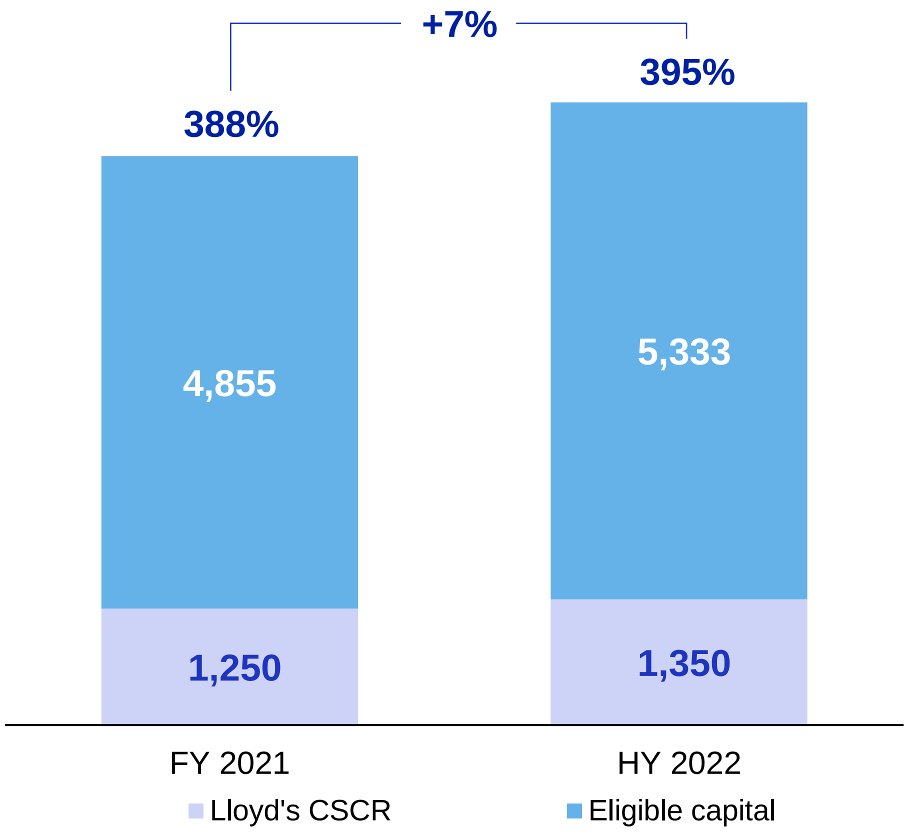
Solvency coverage ratios well above risk appetite

Market wide solvency coverage ratio (£m)



Central solvency coverage ratio (£m)



A+
Standard & Poor's

A
AM Best

AA-
Fitch Ratings

AA-
KBRA

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Solvency coverage ratios well above risk appetite

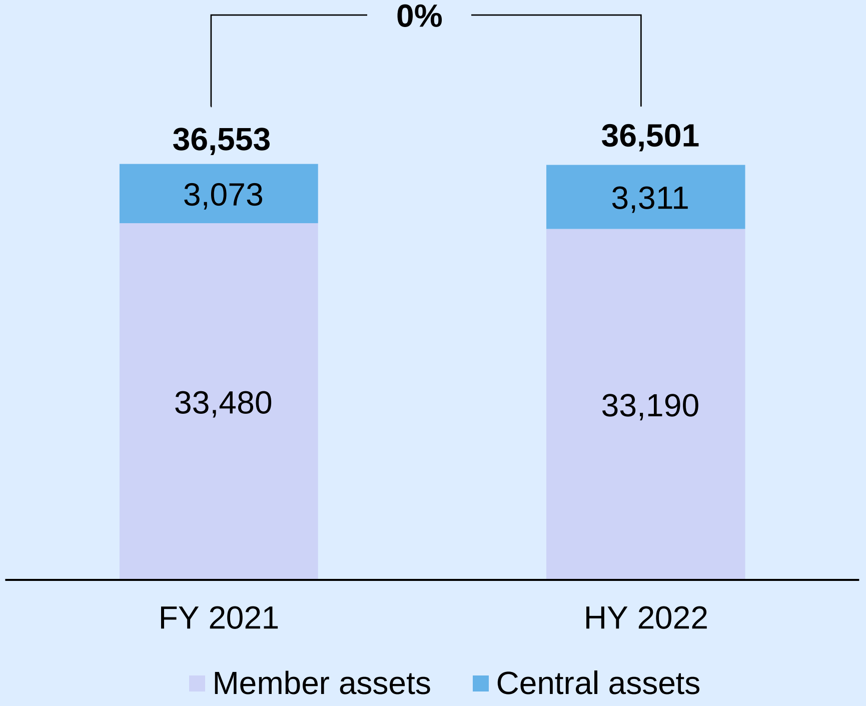
Strong capital and solvency

- Lloyd's capital and solvency positions remain strong with a market-wide solvency coverage of 179% (FY 2021: 177%) and central solvency coverage of 395% (FY 2021: 388%).
- Both solvency coverage ratios are comfortably above risk appetite levels.
- Net resources have remained flat and continue to be strong at £36.5bn (FY 2021: £36.6bn; HY 2021: £36.5bn).

Ratings

- We maintain a strong and stable rating with all four of our rating agencies;
    - A (Excellent) with AM Best,
    - A+ (Strong) with Standard & Poor's
    - AA- (Very Strong) with Fitch Ratings
    - AA- (Very Strong) with Kroll Bond Rating Agency

Movements in capital FY 2021 – HY 2022 (£m)



2022 Half Year Results – Summary

Sustainable underwriting performance

Solid pricing conditions

Attractive yield environment

High quality balance sheet

Looking ahead

John Neal, Chief Executive Officer

Sustainable performance enabling a digital, inclusive and purpose-led market

Performance

- Sustainable underwriting performance and profitable growth remain our number one priority
- Pricing should anticipate volatile environment and inflation
- Promote innovation for capital products and services, including London Bridge II
- Continue our differentiated approach to syndicate management

Digitalisation

- On track to deliver the milestones outlined in our Blueprint Two roadmap, creating a better, faster and cheaper Lloyd's
    - Better: Processing activity will be digitalised with minimal human intervention
    - Faster: Accounting and claims lead times will be significantly reduced
    - Cheaper: Substantially reducing the cost of doing business

Purpose

- Help customers respond to external shocks, providing protection and confidence to make brave decisions
- Convene the industry to drive action on climate change, through the Sustainable Markets Initiative and COP27
- Support communities through the Lloyd's of London Foundation

Culture

- Robust oversight of market culture through our principles-based approach
- Improve diversity data collection across the market
- Lloyd's Culture Survey demonstrates progress, but still much more to do

Appendix

Major losses

Largest net losses (£bn)	HY 2021	HY 2022
Ukraine losses	-	1.1
Eastern Australia floods	-	0.2
Winter Storm Uri	0.8	-
Other	-	0.1
Total	**0.8**	**1.4**
Total number of major losses*	**1**	**5**

Note:
Major losses for the market results are defined as events which result in a net market-wide loss of £20m or more.

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Balance Sheet

£m	HY 2021	FY 2021	HY 2022
Cash and investments	81,556	83,998	88,756
Reinsurers' share of unearned premiums	5,425	4,076	6,722
Reinsurers' share of claims outstanding	21,156	24,208	26,993
Other assets	26,218	25,873	33,375
Total assets	**134,355**	**138,155**	**155,846**
Gross unearned premiums	(20,214)	(19,074)	(25,534)
Gross claims outstanding	(63,620)	(67,800)	(75,433)
Other liabilities	(14,011)	(14,728)	(18,378)
Net resources	**36,510**	**36,553**	**36,501**
Member assets	33,096	33,480	33,190
Central assets	3,414	3,073	3,311

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