Lloyd's Half Year Results

9 September 2021

Overview

John Neal, Chief Executive Officer

Strong underwriting action delivers profitable performance

Performance

- Combined ratio 92.2%
- Attritional loss ratio 50.5%
- GWP growth of 8.0%
- Favourable prior year development 0.9%

Pricing

- Risk adjusted rate increase of 9.9%
- Fifteen consecutive quarters of positive rate increase
- Rate rises across every class of business

COVID-19

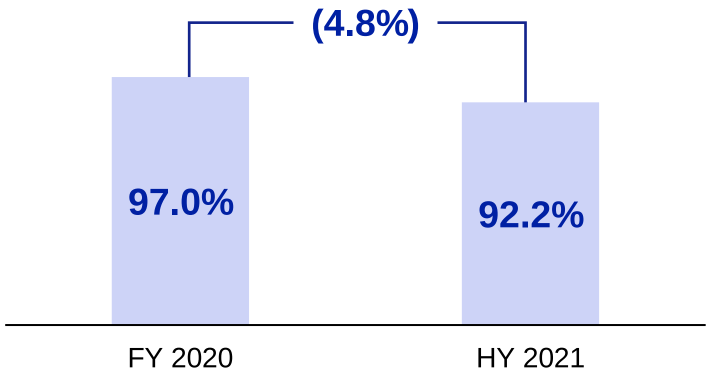
- £3.4bn reserves
- Reserve position remains unchanged from HY 2020
- 80% of notified claims already paid to customers
- Partnered with UK Government to launch Live Events Reinsurance Scheme

Balance Sheet

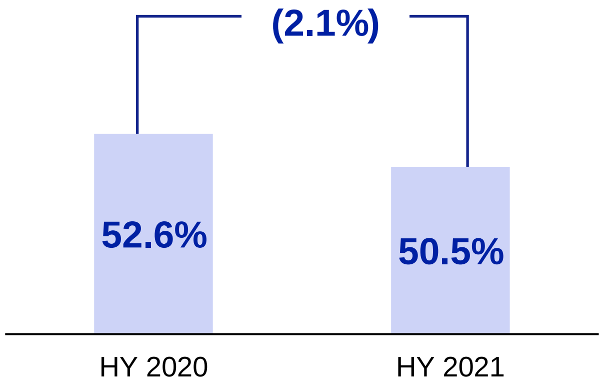
- Central solvency ratio 218%
- Rating agencies capital assessment very strong
- Innovative Central Fund Cover offers protection and growth opportunities

Profitable performance creates opportunity for growth

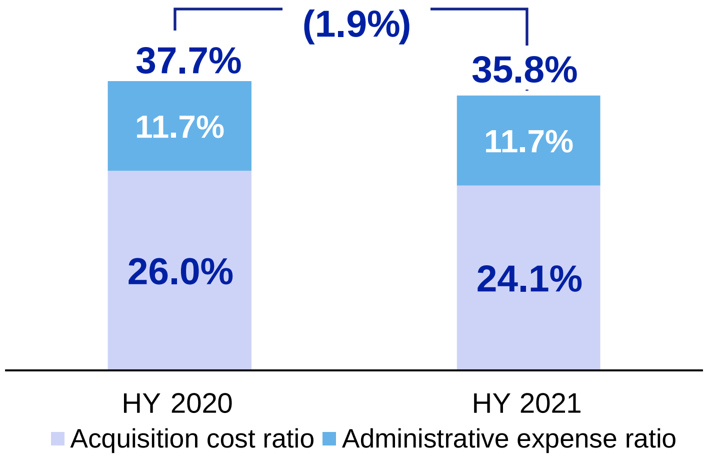
Combined ratio excluding COVID-19



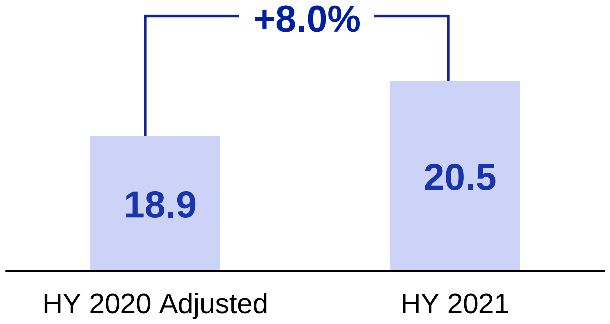
Attritional loss ratio



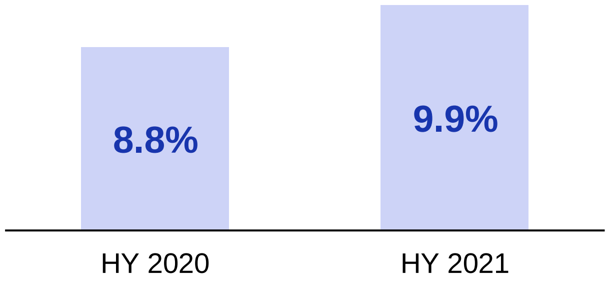
Expense ratio



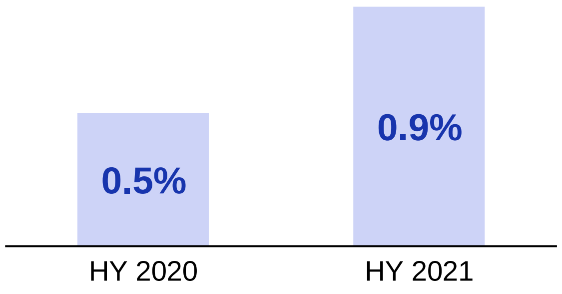
Gross written premiums (£bn)



Rate increases



Prior year development



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Financials

Burkhard Keese, Chief Financial Officer

Positive underwriting result drive profit

£m	H1 2020	H1 2021	Change
Gross written premium	20,047	20,465	+2%
Net earned premium	12,569	12,362	(2%)
Underwriting result	**(1,313)**	**963**	**-**
Investment income	940	628	(33%)
Other expenses and FX	(65)	(159)	+143%
Profit/(Loss) before tax	**(438)**	**1,432**	**-**
Loss ratio	**72.7%**	**56.4%**	**(16.3%)**
Attritional losses	*52.6%*	*50.5%*	*(2.1%)*
Prior year development	*(0.5%)*	*(0.9%)*	*(0.4%)*
Major claims excluding COVID-19	*1.8%*	*6.8%*	*+5.0%*
COVID-19 major claims	*18.8%*	-	*(18.8%)*
Expense ratio	**37.7%**	**35.8%**	**(1.9%)**
Combined ratio	**110.4%**	**92.2%**	**(18.2%)**
*Combined ratio excluding COVID-19**	*97.0%*	*92.2%*	*(4.8%)*

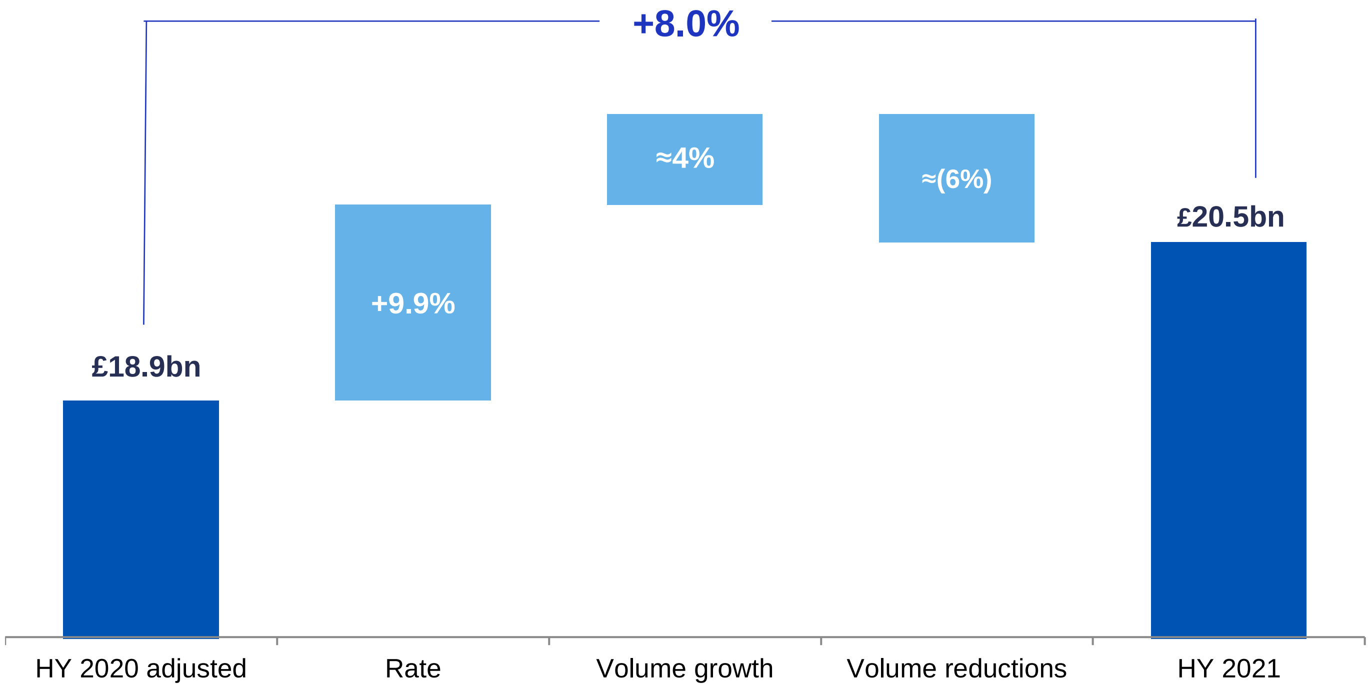
Profitability restored

Strong management actions

Further actions to improve

*Combined ratio excluding COVID-19 is at FY 2020

Profitability driven by remediation and rate



Fifteen consecutive quarters of positive rate movement

9.9% risk adjusted rate increase across all lines of business and ≈4% volume growth

Circa 6% of underperforming business removed

*Volume growth and reductions from existing syndicates are estimated using syndicate business plans for 2021.

** HY 2020 GWP figure has been adjusted for the impact of FX and new syndicates entering the market; further details in can be found in the commentary slide

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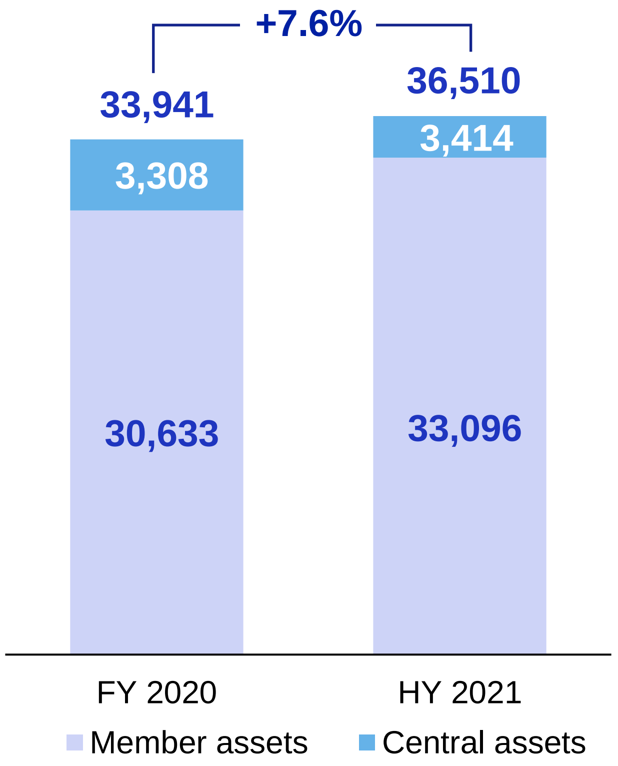
Robust balance sheet underpins financial strength

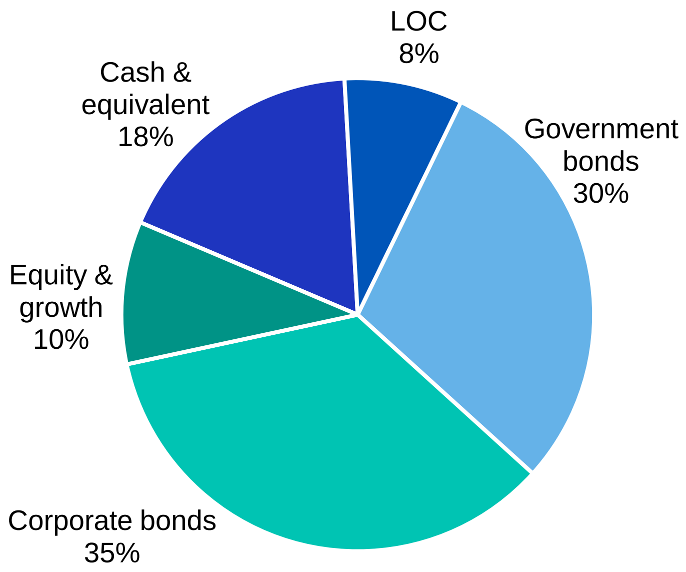
Strong capital and solvency



	FY 2020	HY 2021
Central SCR	209%	218%
Market-wide SCR	147%	170%

Surplus in held reserves

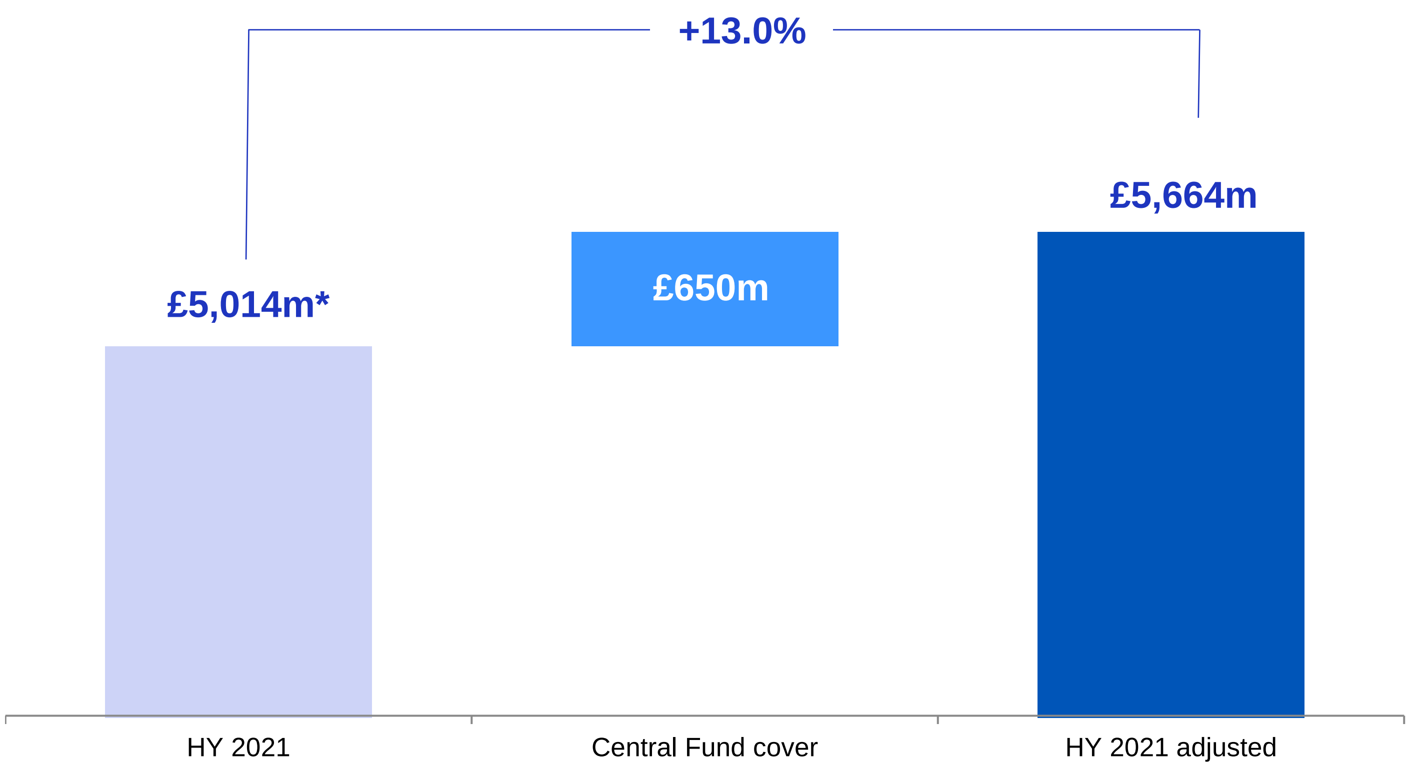
Prudent asset allocation



Standard & Poor's	A+
AM Best	A
Fitch Ratings	AA-
Kroll Bond Rating Agency	AA-

Central Fund cover increases capital by £650m

Central assets



Central Fund cover reinforces the resilience of the Lloyd's market

Provided by eight of the largest global reinsurers and JP Morgan

Supports envisaged future growth of the market

* £5,014m of Central assets comprises of £3,019m Central Fund, £1,087m Callable layer, £796m Subordinated Debt/Securities, £112m Corporation assets

Our new framework to ensure long term sustainability

	Objective			
1	Enhance our **value proposition** to customers and stakeholders	**Customer satisfaction** KPI: Net promoter score, media sentiment, satisfaction scores	**Relevance** KPI: Lloyd's global market share	
2	Deliver sustainable, profitable **growth to drive value creation**	**Growth** KPI: GWP vs GDP growth	**Performance** KPI: Propensity of market to hit plan, relative operating expense ratio, normalised net combined ratio	**Value** KPI: Economic value created
3	Deliver strong **capital and financial credibility**, including Central Fund protection	**Financial strength** KPI: Financial strength ratings from AM Best, Fitch, S&P and KBRA	**Solvency** KPI: Central solvency ratio and market wide solvency ratio above 200% and 148% respectively	
4	Create an **inclusive culture** to attract, develop and retain talented people	**Talent** KPI: Employee engagement survey	**Inclusion** KPI: Gender and ethnicity balance	

Purpose and ESG

Sustainable/at target

Non critical status but needs improvement

Critical status, not sustainable

Trend

A meaningful return on equity for investors

Low average cost of capital at 6%

- Market participants enjoy A/AA ratings with an uplift of only 35% on SCR
- Ability to use letters of credit reduces the cost of capital significantly
- Central Fund cover provides significant financing for the envisaged market growth

Cost of Capital (£m)		
Average cost of equity across market participants		8.1%
Impact:	Letters of credit	(1.7%)
	Other debt	(0.1%)
Weighted average cost of capital		**6.3%**

Value created for capital providers

- Over £100m profits in excess of the cost of capital for HY 2021

H1 2021 (£m)		ROC*	ROE**
Profit before tax	**1,432**		
Average net resources	35,226	**8.3 %**	
Letters of credit	(6,660)		
Subordinated debt	(796)		
Paid in equity	**27,770**		**10.3%**

*Annualised net profit before tax as a percentage of average net resources less subordinated debt
**Annualised net profit before tax and costs of letters of credit not considered

CFO key messages from HY 2021

Profitability restored

– Remediation activity and higher rates have driven return to profitability

– Greater focus on expense management has led to improvement over the past five years

Strong management actions

– Robust balance sheet position with strong capital and solvency, healthy reserves and prudent asset allocation

– Decisive management actions taken to maintain the attractive cost of capital for members and further strengthen central resources

– Comprehensive framework ensures prosperity of the market

Further actions to improve

– Shifting emphasis from rate increases to rate adequacy to sustain underwriting profitability

– Remediation activity will continue with focus on syndicates reporting losses consistently

– Future At Lloyd's programme is at an advanced stage and will deliver additional expense savings for the market

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Outlook and priorities

John Neal, Chief Executive Officer

Our strategic priorities

Performance

- Sustain market-wide profitable performance
- Continuous performance management approach
- Heightened focus on cyber and financial lines performance
- Tackling operating expenses

Digitalisation

- Create a truly digital marketplace, powered by data
- Enhanced market services, including the Virtual Room
- Inclusive solutions to support Lloyd's and the broader London market

Purpose

- Sustainability, climate and inclusion at the heart of all we do
- Play a leading role in convening the insurance industry in the run up to G20, COP26 and beyond
- Ignite innovation across the market

Culture

- Reconnect market colleagues on their return to the office
- Market gender and ethnicity targets set
- Forge an inclusive, innovative culture that attracts, retains and develops the best talent

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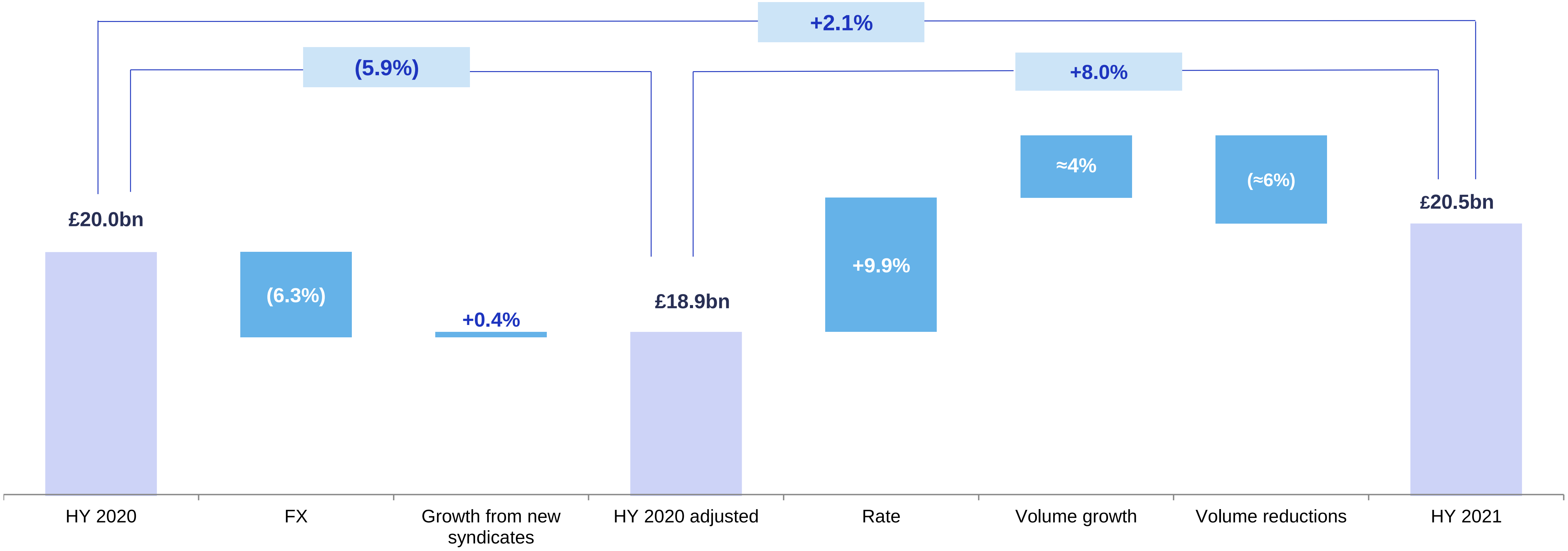
Appendix

Profitability driven by remediation and rate

Premium changes HY 2020 – HY 2021



*Volume growth and reductions from existing syndicates are estimated using syndicate business plans for 2021

Robust balance sheet underpins improving performance

Strong capital and solvency

– Members continue to hold surplus capital in excess of requirements at 30 June 2021 amounting to £5.2bn

– Central solvency ratio increased to 218% and remains in excess of risk appetite of 200%; also in line with peers

– Lloyd's financial strength is affirmed through the additional AA- rating from Kroll Bond Rating Agency

Surplus in held reserves

– Reserves continue to be strong with healthy surplus in amounts reported

– Surplus at 6.5% of held reserves

– No change in COVID-19 estimate since HY 2020; initial estimates continue to be adequate

Prudent asset allocation

– Investment income of £0.6bn reflecting a return of 0.8% in HY 2021

– Prudent investment strategy with the majority of the portfolio held in government bonds, highly rated corporate bonds and cash

– Lower starting yields and headwinds from rising rates reduced investment income from £0.9bn in HY 2020 to £0.6bn in HY 2021

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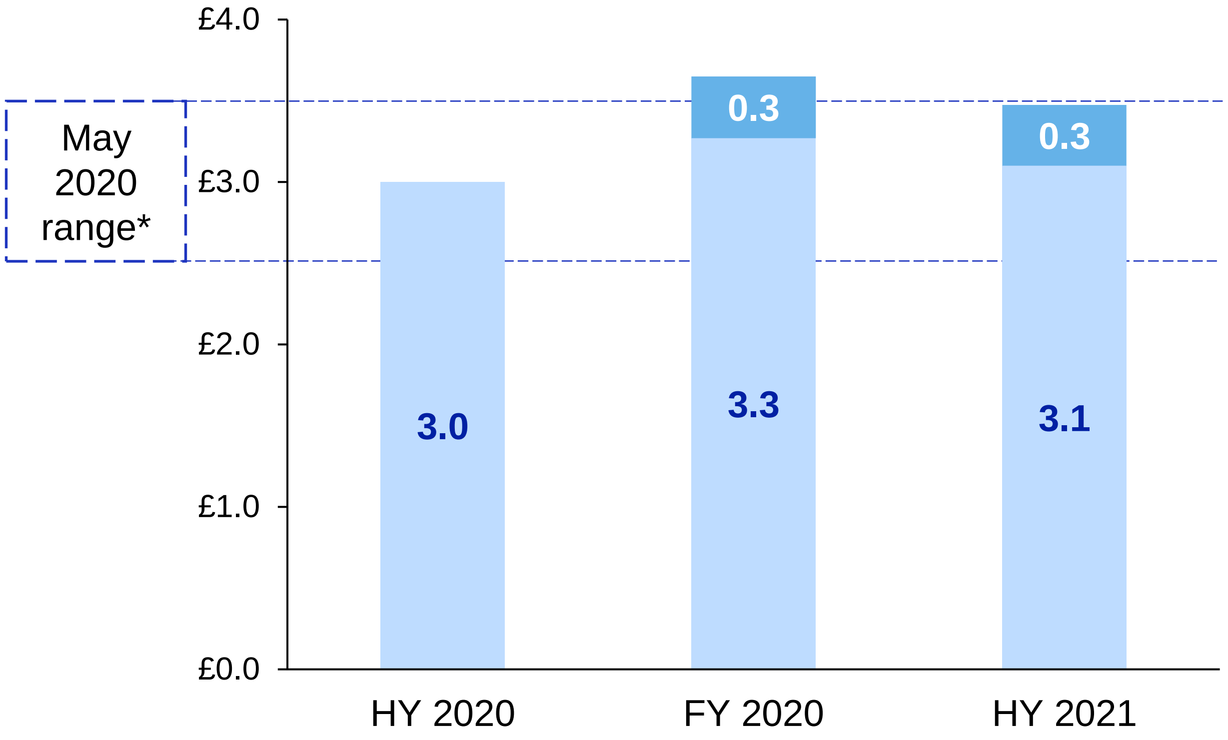
COVID-19 losses stable

Net of reinsurance ultimate COVID-19 losses (£bn)

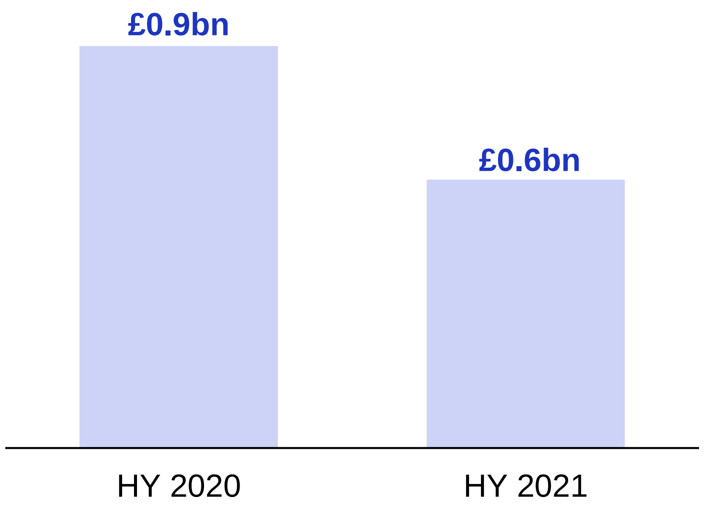


Incurred net loss as at 30 June 2021	£3.3bn
Ultimate net loss as at 30 June 2021	£3.4bn
Ultimate gross loss as at 30 June 2021	£5.8bn
Paid to date out of £2.8bn gross claims notified	£2.2bn

*May 2020 range assumed lockdown to end as at 30 June 2020

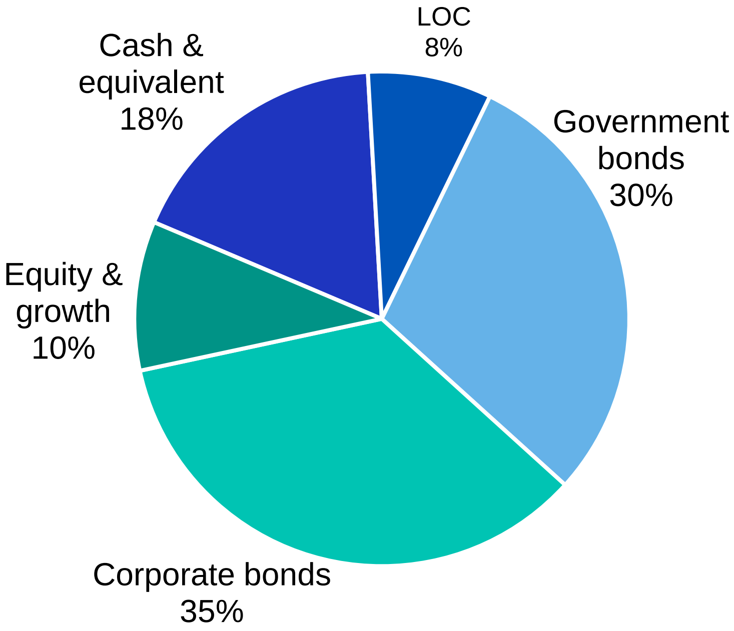
Prudent investment strategy pays off

Investment income

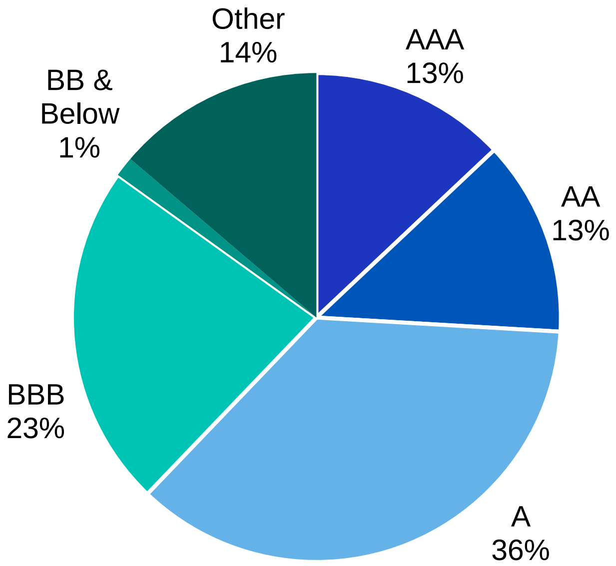


	HY 2020	HY 2021
Investment income	£0.9bn	£0.6bn
Investment return	1.2%	0.9%

Asset allocation as at 30 June 2021



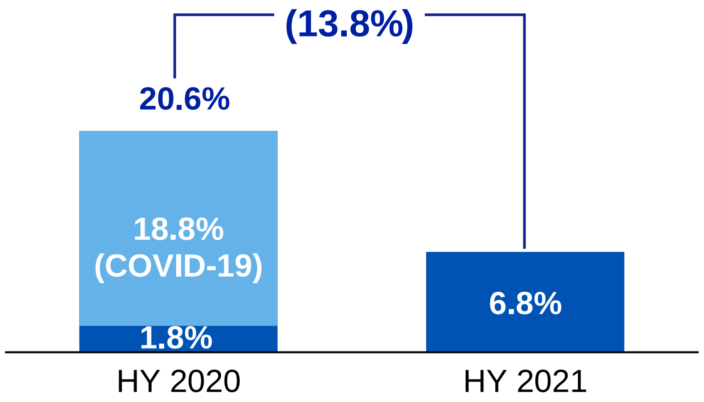
Corporate bonds by rating



Notes:

1. Asset allocation and corporate bonds by rating applies to all Lloyd's assets; Premium Trust Funds, Funds in Syndicate, Fund at Lloyd's and Central Assets
2. Corporate bond exposure includes other credit instruments and corporate bond debt funds c. 8%
3. Other includes NR/UNK bonds where credit ratings have not been submitted by the market

Major claims



– Major claims in HY 2021 greater than HY 2020 excluding COVID-19
– Winter storm Uri was the main driver of the major claims experience with an estimated cost of £0.8m
– HY 2021 experience driven by natural catastrophes

Largest net claims (£bn)	HY 2020	HY 2021
Winter storm Uri	-	0.8
COVID-19	2.4	-
Tennessee tornadoes	0.1	-
Australian wildfires	0.1	-
Total major claims	**2.6**	**0.8**
Number of events	4	1

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Balance Sheet

£m	FY 2020	HY 2021
Cash and investments	79,951	81,498
Reinsurers’ share of unearned premiums	3,588	5,425
Reinsurers’ share of claims outstanding	21,485	21,156
Other assets	23,280	26,276
Total assets	**128,304**	**134,355**
Gross unearned premiums	(16,743)	(20,214)
Gross claims outstanding	(64,364)	(63,620)
Other liabilities	(13,256)	(14,011)
Net resources	**33,941**	**36,510**
Member assets	30,633	33,096
Central assets	3,308	3,414