FitchRatings

Insurance
Non-Life/Reinsurance
United Kingdom

Lloyd's of London

And Operating Subsidiaries

Key Rating Drivers

Favourable Business Profile: Fitch Ratings ranks Lloyd's of London's business profile as 'favourable' compared to that of other global insurance and reinsurance companies. The ranking is driven by the company's strong franchise, large operating scale and significant diversification within property and casualty (P&C) insurance and reinsurance. Lloyd's is one of a small group of global reinsurance and insurance providers capable of attracting high-quality and specialised business.

Strong Capital Position: The Lloyd's central solvency coverage ratio was very strong on a central fund basis at 209% at end-2020 (end-2019: 238%). This is in excess of the company's risk appetite of 200%. The relative reduction was driven by an update of the model parameters reflecting more conservative view of the economic environment.

Lloyd's employs a unique-to-the-market biannual 'coming into line' process, which ensures a certain capital level is maintained and that all members have sufficient eligible assets to meet their current and future underwriting liabilities. It successfully collected funds from members in June and December 2020 to fully cover pandemic-related losses. However, in the longer term, this resilience relies on the willingness and ability of members to recapitalise following significant losses.

Substantial Pandemic Losses: Lloyd's reported GBP3.4 billion pandemic-related losses in 2020, leading to a GBP0.9 billion overall loss and combined ratio of 110.3% (97% without pandemic-related losses). The losses are mainly driven by contingency and property classes. At end-2020 the company estimated its net ultimate losses from the pandemic to be GBP3.6 billion by end-2020. Lloyd's pandemic-related losses are of a similar magnitude to peers' and we view them as manageable for Lloyd's and one-off in our analysis.

Improved Underlying Underwriting Performance: We expect Lloyd's to report improving underwriting profits, excluding major losses, supported by robust performance management and hardening market conditions. Lloyd's underlying combined ratio before major losses improved to 87.3% in 2020 from 95.1% in 2020, reflecting positive results stemming from the company's performance management actions initiated in 2018. The attritional loss ratio reduced to 51.9% in 2020 (2019: 57.3%).

Rates Rises Accelerate: As a result of the profitability review, significant catastrophe losses of the past two years, and pandemic losses, Lloyd's reported overall risk-adjusted price rises of 10.8% in 2020 (2019: 5.4%; 2018: 3%).

Rating Sensitivities

Deteriorating Underwriting Performance: The ratings are likely to be downgraded if the five-year average combined ratio, excluding 2020 pandemic-related losses, rises above 104% (reported five-year average to 2020: 103%) or if the underlying annual combined ratio, before major losses, weakens to above 92% on a sustained basis.

Weaker Capital: Inability to recapitalise after a large loss event could lead to a downgrade.

Competitive Position Improvement: An upgrade would result from a significant improvement in Lloyd's general competitive position. However, we view this as unlikely in the medium term.

Ratings

Lloyd's of London

Insurer Financial Strength Rating	AA-

The Society of Lloyd's

Long-Term IDR	A+
Subordinated debt	A-

Lloyd's Insurance Company (China) Ltd

Insurer Financial Strength Rating	AA-

Lloyd's Insurance Company SA

Insurer Financial Strength Rating	AA-

Outlooks

Insurer Financial Strength Ratings	Stable
Long-Term Issuer Default Rating	Stable

Financial Data

Lloyd's of London

(GBPm)	2019	2020
Total assets	119,878	128,304
Total equity and reserves	29,844	33,146
Gross written premiums	35,905	35,466
Profit before tax	2,532	-887
Combined ratio (%)	102.1	110.3
Net income return on equity (%)	9	-3

Source: Fitch Ratings; Lloyd's of London

Applicable Criteria

Insurance Rating Criteria (April 2021)

Related Research

London Market Insurance Dashboard: 2020 Results (March 2021)

London Market Insurance Dashboard: 2021 Outlook (January 2021)

Fitch Ratings 2021 Outlook: Global Reinsurance (September 2020)

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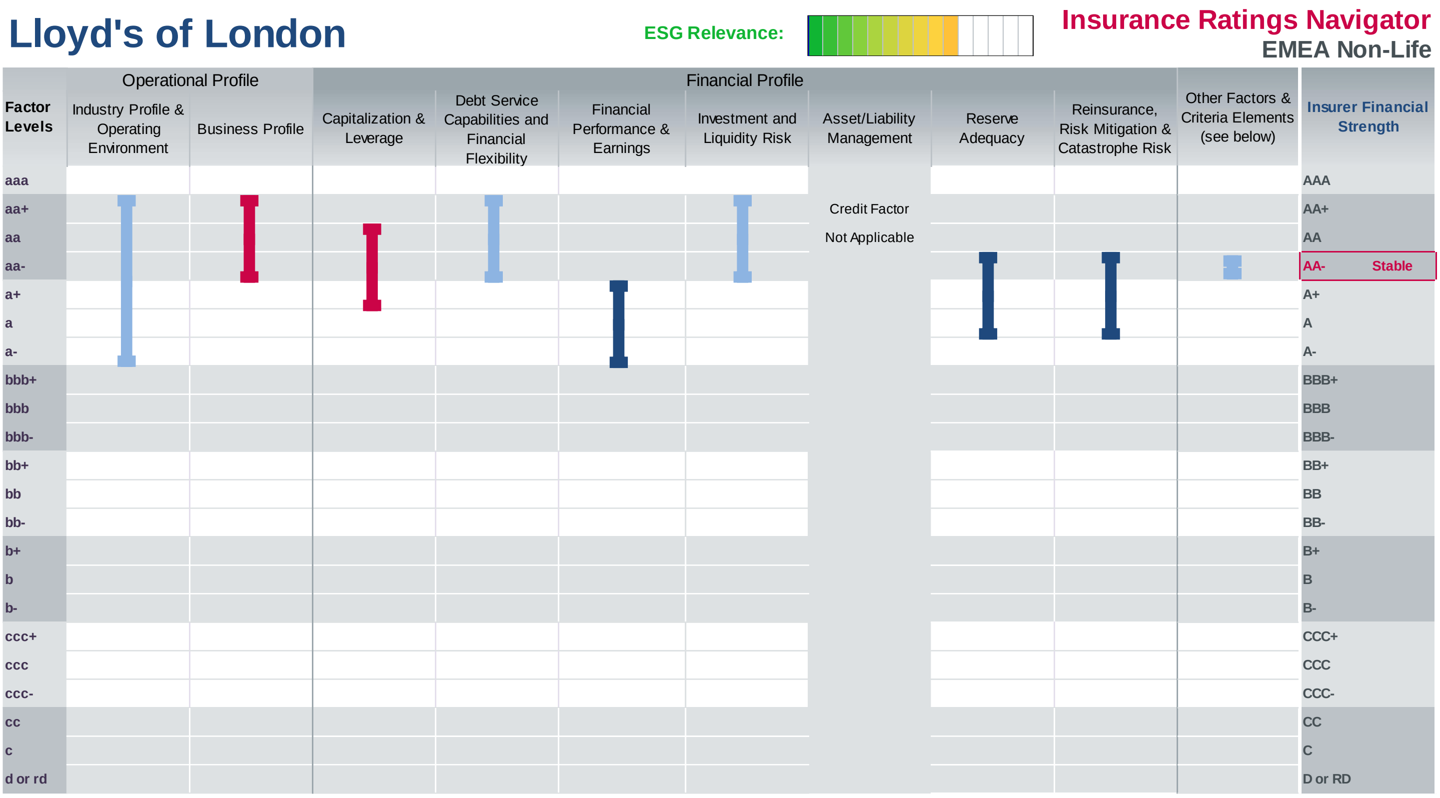
Key Credit Factors – Scoring Summary



Other Factors & Criteria Elements				
Provisional Insurer Financial Strength				**AA-**
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Corporate Governance & Management	**Effective**	Some Weakness	Ineffective	+0
Ownership / Group Support	Positive	**Neutral**	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	**No**	AAA	+0
Insurer Financial Strength (IFS)			Final:	**AA-**
IFS Recovery Assumption	**Good**			-1
Issuer Default Rating (IDR)			Final:	**A+**

Bar Chart Legend

Vertical Bars = Range of Rating Factor
Bar Colors = Relative Importance
- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Latest Developments

- Lloyd's placed an insurance cover for the central fund with inception in January 2021 to protect the central fund from losses in excess of GBP600 million up to GBP1.25 billion.
- In 2020 Lloyd's reported a significant improvement in its underlying underwriting performance, as demonstrated by attritional loss ratio reducing to 51.9% in 2020 from 57.3% in 2019.
- Lloyd's reported a GBP0.9 billion overall loss in 2020 – this would have been GBP2.5 billion profit if excluding pandemic-related losses. Lloyd's had a combined ratio of 110.3% including pandemic-related losses, and 97% without pandemic-related losses.

Peer Comparison

Click here for a report that shows a comparative peer analysis of key credit factor scoring.

Industry Profile and Operating Environment (IPOE)

Click here for a link to a report that summarises the main factors driving the above IPOE score.

- Lloyd's booked GBP3.4 billion pandemic-related losses in 2020 and expects the ultimate net claims costs to be GBP3.6 billion for end-2020.
- Lloyd's successfully collected capital from members to fully compensate for pandemic-related losses in December 2020 and June 2021.

Business Profile

'Favourable' Business Profile

Fitch ranks Lloyd's business profile as 'favourable' compared to that of global insurance and reinsurance companies. This is driven by the company's strong franchise, large operating scale and significant diversification within P&C (re)insurance. Lloyd's is one of a small group of global (re)insurance providers capable of attracting high-quality and specialised business. Lloyd's has a detailed and defined business strategy executed by the executive team of the Corporation of Lloyd's (see Appendix A: Glossary). Given the 'favourable' ranking, Fitch scores Lloyd's business profile at 'aa' under its credit factor scoring guidelines.

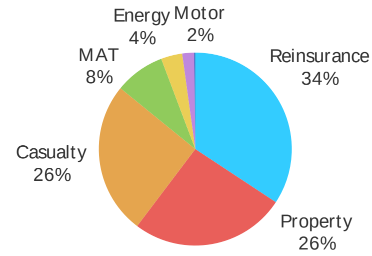
Lloyd's is a global insurance and reinsurance market comprising 78 syndicates managed by 50 managing agents at end-2020. It writes business from more than 200 countries and territories, and reported 2020 gross written premiums (GWP) of GBP35.5 billion (2019: GBP35.9 billion).

Product distribution at Lloyd's is carried out primarily through brokers and coverholders, with some business placed directly with service companies (see Appendix A: Glossary) owned by managing agents. Most business is placed into the market by brokers.

Business written by syndicates focuses on seven main classes. The main class of business at Lloyd's – reinsurance – covers both short- and long-tail lines, offering a variety of placement types including facultative, proportional treaties and non-proportional excess-of-loss placements.

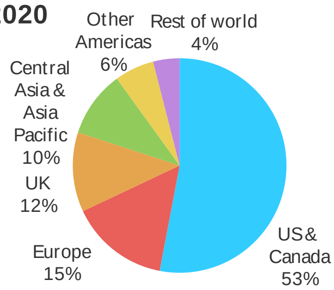
The US is the main geographical region for the second major class, property, which includes commercial and private property. The other major class, casualty, includes professional indemnity, medical malpractice, accident and health, directors' and officers' liability, financial institutions, general liability and employers' liability. Business is mostly spread across the US, the UK and the rest of Europe.

GWP by Line of Business
2020



Source: Fitch Ratings, Lloyd's

Lloyd's of London – Premium Distribution by Geography 2020



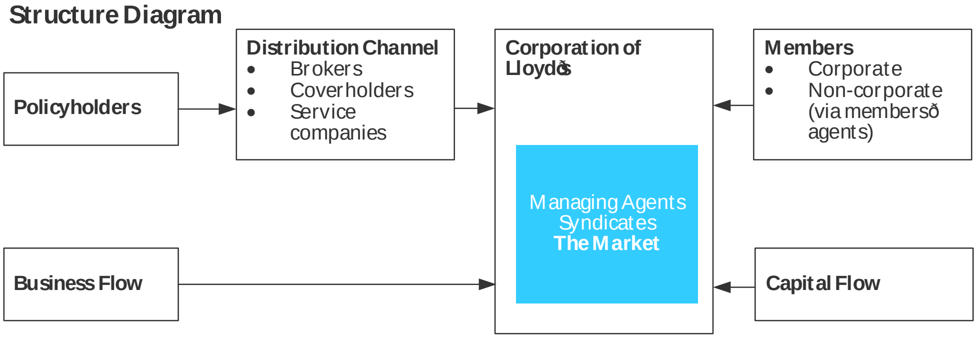
Source: Fitch Ratings, Lloyd's

Ownership

Market Structure Is a Marginal Positive

The market structure of Lloyd's is marginally positive for its ratings compared with the structure of traditional corporate insurers or reinsurers. This view accounts for the 'chain of security', which provides a mixture of several and mutual claims-paying capital.

Structure Diagram



Source: Fitch Ratings, Lloyd's, as at July 2021

Capitalisation and Leverage

Very Strong Capitalisation and Leverage

Fitch views Lloyd's capitalisation and leverage as very strong and supportive of its rating level. This view is supported by its very strong regulatory solvency ratios, low leverage and total financing commitment (TFC) and 'Strong' Prism Factor-Based Capital Model (FBM) score. Moreover, Lloyd's employs a unique to the market biannual 'coming into line' process, which keeps capital level constant and ensures that all members have sufficient eligible assets to meet their current and future underwriting liabilities.

Lloyd's reports its Solvency II coverage on both a central and market-wide basis. The market-wide solvency capital ratio reflects the aggregation of all eligible market-wide assets, and Lloyd's reported a ratio of 147% end-2020 (end-2019: 156%) – comfortably above the risk appetite of 125%. On a central basis, reflecting the vulnerability of the central fund, the Lloyd's central SCR remained strong at 209% at end-2020 (end-2019: 238%), which was also in excess of the risk appetite of 200%.

In 2021 Lloyd's announced placement of GBP650 million five-year cover for the central fund. The multi-layered cover will reimburse aggregate payments from the central fund in excess of GBP600 million up to GBP1.25 billion and will serve as a key component in Lloyd's chain of security. It is supported by J.P. Morgan and a panel of eight reinsurers with very strong credit ratings. Lloyd's expects the cover to improve the central SCR cover ratio and reduce its volatility.

Fitch's view of Lloyd's risk-adjusted capitalisation is mainly driven by the 'Strong' score on Fitch's Prism FBM capital model. Fitch's view of Lloyd's risk-adjusted capital has been negatively affected by the high level of catastrophe risk appetite. Fitch believes that Lloyd's has a higher catastrophe risk appetite than its peers, as shown by the significant catastrophe losses in both 2017 and 2018.

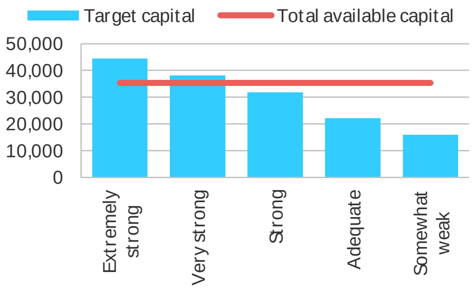
Financial Highlights

(GBPm)	2019	2020
Financial leverage (%)	3	3
Net written premiums/equity (x)	0.9	0.8
Net leverage (x)	2.6	2.5
Gross leverage (x)	3.8	3.5
TFC ratio (x)	0	0

Source: Fitch Ratings; Lloyd's

Capitalisation Adequacy

Prism FBM



Source: Fitch Ratings

Financial Highlights

	2020	2019
Prism score	Strong	Strong
Prism total AC currency	35,280	32,075
Prism AC/TC at Prism score (%)	111	112
Prism AC/TC at higher Prism score (%)	92	94

AC – Available Capital, TC – Target Capital
Note: Reported on a UK GAAP basis
Source: Fitch Ratings, Lloyd's of London

The Fitch-calculated financial leverage ratio for Lloyd's was 3% at end-2020 (end-2019: 3%).

Fitch Expectations

- We expect capital to remain stable.
- We do not expect a significant change in leverage over the next two years.

Debt Service Capabilities and Financial Flexibility

Very Strong Financial Flexibility

Lloyd's maintains very strong financial flexibility, with various options available to raise capital when required including member calls, central fund contributions, the requirement of additional capital on top of the economic capital assessment (ECA), charging a premium levy, and raising additional subordinated debt. Fitch believes that Lloyd's will maintain a strong ability to cover its debt servicing requirements in the medium term.

The fixed-charge coverage excluding unrealised gains and losses was negative at -23x in 2020 (2019: 32x) following the pandemic losses. However, we expect it to recover to strong levels. On a society basis, fixed-charge coverage decreased to 2x in 2020 from 4x in 2019, driven by an increase in finance costs to GBP59 million in 2020 from GBP51 million in 2019.

In a going-concern scenario, Lloyd's has several options available for the repayment of principal and interest, as it has complete discretion on the use of the central fund. If necessary, Lloyd's could increase members' contributions, impose a premium levy (as it has in the past), or use the callable layer. All of these mechanisms could be used to pay the interest on the debt.

Fitch Expectations

- Fitch expects Lloyd's to be comfortably able to service its debt obligations, which are low.

Financial Highlights

(GBPm)	2019	2020
Interest coverage – market (x)	32	-23
Interest coverage – society (x)	4	2
Interest paid	51	59

Source: Fitch Ratings; Lloyd's

Debt Maturities

(At 31 December 2020)	
Subordinated notes GBP500m	2024
Senior debt GBP60m	2030
Senior debt GBP40m	2031
Senior debt GBP70m	2035
Senior debt GBP130m	2045
Subordinated notes GBP300m	2047

Source: Fitch Ratings; Lloyd's

Financial Performance and Earnings

Improving Underlying Underwriting Performance

Lloyd's 2020 earnings were significantly affected by the pandemic, leading to an overall loss of GBP887 million and a combined ratio of 110%. Pandemic-related losses contributed 13.3pp to the combined ratio, which otherwise would be at 97%. Lloyd's estimated that its ultimate pandemic-related net loss is GBP3.6 billion and does not expect significant deterioration over 2021 even if restrictions remain in place until the end of the year. Lloyd's pandemic-related losses are of the similar magnitude as peers and we view them as one-off in our analysis.

Despite the significant impact of the pandemic, Lloyd's underlying underwriting performance has continued to improve and we believe that the trend of worsening underwriting performance for Lloyd's has been reversed. We expect Lloyd's to report improving underwriting profits, excluding major losses, supported by robust performance management and hardening market conditions. Lloyd's underlying underwriting performance significantly improved in 2020, as demonstrated by its attritional loss ratio reducing to 51.9% from 57.3% in 2019. This is driven by actions the company's performance management division (PMD) have taken since 2018 in order to reverse the deteriorating performance caused by soft market conditions.

The oversight of market participants by the PMD has been key in improving the overall technical performance of the Lloyd's market, in Fitch's view. Since the PMD was established in 2003, processes including business plan reviews and syndicate benchmarking have helped PMD and syndicates improve key aspects of underwriting, including pricing, reserving, claims management, risk-adjusted capital setting and catastrophe-modelling techniques.

Lloyd's reported overall risk-adjusted price rises of 10.8% in 2020 (2019: 5.7%, 2018: 3.3%) as a result of profitability review, the significant natural catastrophe losses of the past two years, and the impact of the pandemic. We believe favourable market conditions will continue to support improvements in the company's underwriting performance.

Fitch Expectations

- Fitch considers the pandemic-related losses to be one-off and expects Lloyd's to report stronger underlying underwriting performance during the next 12–24 months due to improved pricing and ongoing remediation work on underperforming segments.
- We do not expect a material deterioration to Lloyd's pandemic-related loss estimates.
- We expect investment returns to remain low due to lower available yields on the core portfolio and de-risking of the central fund Lloyd's completed in June 2020.

Financial Highlights

(GBPm)	2019	2020
Net income	2,532	-887
Change in GWP (%)	1	-1
Operating ratio (%)	92.2	103.9
Combined ratio (%)	102.1	110.3
Net loss ratio (%)	63.4	73.2
Admin expense ratio (%)	8.3	8.4
Commission ratio (%)	30.4	28.8
Return on equity (%)	9	-3

Source: Fitch Ratings; Lloyd's

Investment and Asset Risk

Low Investment and Asset Risk

Fitch views Lloyd's investment and asset risk as low and liquidity as strong. The investment portfolio remains stable and low-risk with premium trust funds being made up of high-quality short-duration assets. The quality of the funds at Lloyd's has further improved as the proportion represented by letters of credit fell to 21% in 2020 (2019: 25%, 2018: 30%). Lloyd's normally takes moderately more risk with central fund assets but in June 2020 Lloyd's substantially de-risked its central fund in light of market volatility. This has remained unchanged as of end-June 2021.

Premium trust funds (PTFs) are the first resource for paying policyholder claims from a syndicate. Investments are held in liquid, short-duration, high-quality assets, with 96% of assets invested in bonds or cash. Funds at Lloyd's represent the second layer of capital provided by members to support their underwriting. The capital is held in trusts as readily realisable assets. Letters of credit are a significant proportion of assets within funds at Lloyd's but the proportion has decreased in recent years. Fitch considers the pool of banks providing letters of credit to Lloyd's as well diversified with strong ratings. Central fund assets are the third level of security at Lloyd's, and are available at the discretion of the council of Lloyd's to meet any valid claim that cannot be met by the resources of any member.

Fitch Expectations

- Fitch expects the investment profile and strategy will remain stable and conservative in the near term.

Reserve Adequacy

Strong Reserve Adequacy

Fitch considers the company's reserving practices to be prudent and supportive of the rating. This is supported by continued, albeit at lower level than in prior years, reserve releases and stable market-level surplus in the held reserves over the best estimate at 6.4% at end-2020. The view is reinforced by the independent reserve review of reserves as at end-2019, which confirmed the market level of surplus estimated by Lloyd's.

In 2020 Lloyd's reported reserve releases of 1.8% of net earned premiums (2019: 0.9%; 2018: 3.9%; 2017: 2.9%). Fitch expects that Lloyd's will benefit less from favourable reserve development than it has in recent years. Fitch is monitoring the sustainability of reserve releases across all lines of business, particularly for more recent years and casualty lines.

Reserving is an important credit factor for Lloyd's, given its reserve leverage to both capital and to incurred losses (2020: 1.3x and 2.2x, respectively). Fitch monitors reserve and related exposure growth by checking the ratio of paid to incurred losses and the change in loss reserves relative to earned premium growth. Loss reserves have grown in line with underwriting exposures in most years.

Fitch Expectations

- Fitch expects the aggregate of previous underwriting years to develop favourably, but that the absolute amount of reserve releases will decrease as the favourable reserve development on the older years of the account gradually become exhausted.

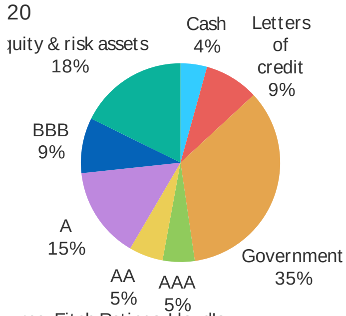
Financial Highlights

(GBPm)	2019	2020
Invested assets	73,231	80,022
Investment return (%)	4.9	3.0
Liquid assets/tech reserves (%)	169	171
Risky assets/equity (%)	58	55
Non-investment grade bonds to equity (%)	19	19
Unaffiliated shares to equity (%)	39	36

Source: Fitch Ratings; Lloyd's of London

arket Assets Allocation

20



ɩurce: Fitch Ratings, Lloyd's

Financial Highlights

(%)	2019	2020
Loss reserves/current-year incurred losses (x)	2.5	2.2
Loss reserves/policyholder surplus (x)	1.3	1.3
Current-year paid losses/incurred losses (x)	1.0	0.8
Change in loss reserves/earned premium	-5	8
Loss reserve development/equity	-1	-2
Loss reserve development/prior year loss reserves	-1	-1

Source: Fitch Ratings; Lloyd's

Reinsurance, Risk Mitigation and Catastrophe Management

High but Manageable Exposure to Catastrophe Risk

Fitch considers Lloyd's to have high exposure to catastrophe risk, particularly in relation to US risks. This was demonstrated by the significant losses incurred in 2018 and 2017. However, the strong oversight provided by Lloyd's, including those by the PMD department, helps to mitigate these risks. Fitch monitors the development of the risk-adjusted catastrophe-exposure levels compared to its stated risk appetite and to its peers.

The unique structure at Lloyd's assists in overseeing and managing risks at the corporation level in addition to establishing guidelines, control functions and monitoring at the market level. Lloyd's has two key governance forums: the Executive Risk Committee and the Board Risk Committee. The exposure management function at Lloyd's is part of the PMD and has grown significantly in recent years. It is responsible for the modelling and monitoring of market and corporation exposure to catastrophe risks. Catastrophe risk is modelled at the member and society level, with analysis supplemented by a set of deterministic scenarios, which relate to specific catastrophe-event scenarios. Syndicates are required to consider additional scenarios should the Lloyd's realistic disaster scenarios be inappropriate for their specific business profile.

Reinsurance recoverables on Lloyd's' balance sheet are of good credit quality, with 99% in the 'A' rating range or above at end-2020. Reinsurance recoverables as a percentage of equity was moderate at end-2020, and supportive of the rating. Lloyd's has substantial exposure to the pandemic-related loss reinsurance recoveries, which made up 41% of the gross loss at end-2020. However, Lloyd's has not experienced any challenges related to collecting loss recoveries.

Fitch Expectations

- Fitch expects Lloyd's to maintain its well-established exposure management function and good-quality reinsurance counterparties. However, Fitch also expects that catastrophe risk is likely to remain higher than peers'.

Financial Highlights

(%)	2019	2020
Net written premiums/GWP	72	73
Reinsurance recoverables/equity	77	74

Source: Fitch Ratings; Lloyd's

Appendix A: Glossary

Central Fund

The fund financed by sources such as contributions from Lloyd's members, and administered by the council primarily as a fund for the protection of policyholders.

Corporation of Lloyd's

This comprises the executive of the Council of Lloyd's, the Lloyd's Franchise Board and their respective committees. The Corporation does not underwrite insurance or reinsurance itself, but provides the licences and other facilities that enable business to be underwritten worldwide by managing agents acting on behalf of members.

Coverholder

A company or partnership authorised by a managing agent to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate managed by it, in accordance with the terms of a binding authority.

Members' Agent

An underwriting agent that has permission from Lloyd's to be appointed by a member to provide services and perform duties of the same kind and nature as those set out in the standard members' agent agreement. These services and duties include advising the member on which syndicates the member should participate in, the level of participation in such syndicates, and liaising with the member's managing agents.

Underwriting Syndicates

Syndicates are the vehicles used to underwrite insurance. They are not legal entities, and are unique to the Lloyd's insurance market. Syndicates can be made up of a number of members or – as is becoming more common – just one corporate member.

Syndicates are run by managing agents, which are authorised and regulated legal entities. Managing agents' responsibilities are wide-ranging; they create and implement the syndicate's business plan, employ the underwriters that write the business, and process claims. Managing agents are required to report financial results quarterly for their syndicates to Lloyd's and to submit business plans annually, or more frequently if the business plans change.

Risk-Based Approach to Setting Member and Central Capital

The Lloyd's ECA at the member level is set at 135% of the syndicates' solvency capital requirement with an ultimate time limit. This percentage has not changed since 2006. Lloyd's reviews each syndicate's solvency capital requirement in detail, and requires additional capital loading if it considers that the syndicate's business plan exposes the central fund to additional risk.

All members are required to recapitalise, should the ECA that is available to any individual member fall below its required level due to a change in the underlying risk profile or an erosion of funds due to losses. This process ensures that no member poses a significant threat to the central capital of Lloyd's at any given time. In cases where Lloyd's deems business underwritten within the market as too risky, it can request a full financial guarantee from the sponsoring parent (or the member). In these cases, should losses exceed the ECA held, the additional capital required to make good the losses is taken directly from the capital provider, while the central fund remains untouched.

Appendix B: Other Ratings Considerations

Below is a summary of additional ratings considerations that are part of Fitch's ratings criteria.

Group IFS Rating Approach

The Lloyd's insurance entities listed on page one are rated on a group approach, with all entities considered "Core".

Notching

The regulatory environment of the UK is assessed by Fitch as being Effective, and classified as following a Group Solvency approach. The unique corporate structure of Lloyd's, as a market place rather than a corporation, makes reference to operating and holding companies inappropriate. A description of how the respective ratings of Lloyd's entities were reached is provided below.

Notching Summary

IFS Ratings
Due to the existence of policyholder priority, a baseline recovery assumption of 'Good' applies to the IFS rating, and Fitch used standard notching from the implied IDR. The insurance policies issued by Lloyd's are supported by a chain of security that includes Lloyd's premium trust funds, members' funds at Lloyd's and the central fund. The central fund and central assets of The Society of Lloyd's, a legal entity distinct from the members of Lloyd's, provide partial mutuality to the Lloyd's market. It is this mutuality that enables Fitch to assign an IFS rating to Lloyd's rather than to individual syndicates.
IDR Ratings
The Society's IDR is linked to the IFS rating assigned to Lloyd's. The Society has no legal liability for the insurance liabilities of members other than where it has issued an undertaking. Undertakings are liabilities of the Society, and constitute unsecured obligations ranking pari passu with other senior unsecured liabilities. Fitch has therefore aligned the Society's IDR with the implied IDR of Lloyd's. Standard notching was applied between the implied insurance operating company and holding company IDRs for a group solvency regulatory environment.
Hybrids
For subordinated debt ratings of The Society of Lloyd's, a baseline recovery assumption of Below Average and a non-performance risk assessment of Moderate were used. Notching of minus 2 was applied relative to the IDR, which was based on minus 1 for recovery and minus 1 for non-performance risk.

Source: Fitch Ratings

Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

Appendix C: Environmental, Social and Governance Considerations

FitchRatings **Lloyd's of London**

Insurance Ratings Navigator
EMEA Non-Life

Credit-Relevant ESG Derivation

Lloyd's of London has 1 ESG rating driver and 6 ESG potential rating drivers

- Lloyd's of London has exposure to underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations which, in combination with other factors, impacts the rating.
- Lloyd's of London has exposure to compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk but this has very low impact on the rating.
- Lloyd's of London has exposure to social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	1	issues	4
potential driver	6	issues	3
not a rating driver	2	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	2	Underwriting/reserving exposed to asbestos/hazardous materials risks	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk	2
Exposure to Environmental Impacts	4	Underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk; Investment & Asset Risk	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk	Industry Profile & Operating Environment; Business Profile; Reserve Adequacy	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Corporate Governance & Management	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations	Business Profile; Investment & Asset Risk; Financial Performance & Earnings; Reinsurance, Risk Mitigation & Catastrophe Risk	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Corporate Governance & Management; Business Profile	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Corporate Governance & Management	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Corporate Governance & Management; Ownership	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Corporate Governance & Management	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Priniciples for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

ESG Considerations

Lloyd's has an ESG Relevance Score of ‘4’ for Exposure to Environmental Impacts due to underwriting/reserving exposed to natural catastrophe risks, with its property business representing 45% of 2020 gross premiums written. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of ‘3’. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.