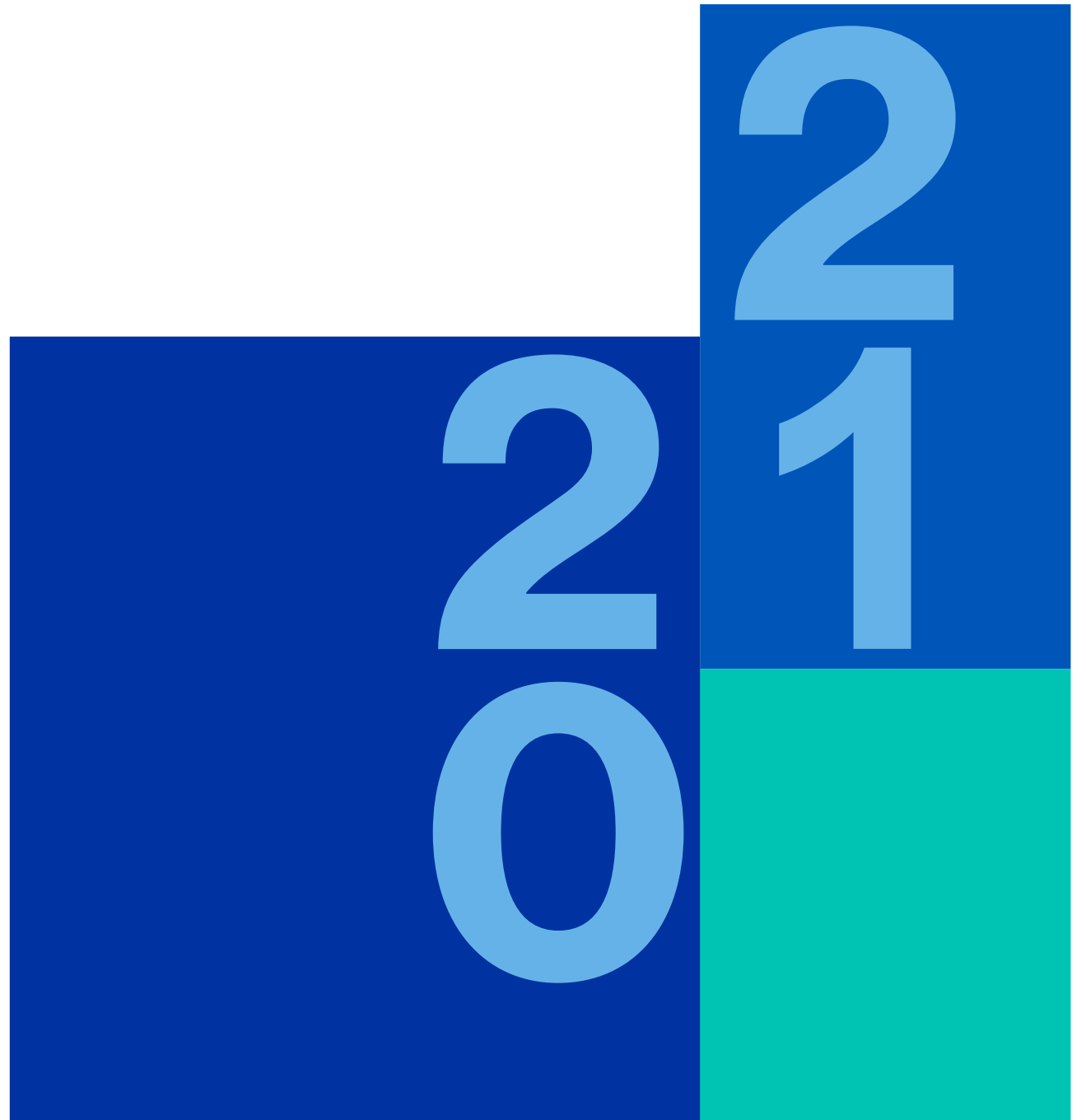


# Lloyd's Half Year Results

9 September 2021





## Overview

**John Neal, Chief Executive Officer**

# Strong underwriting action delivers profitable performance



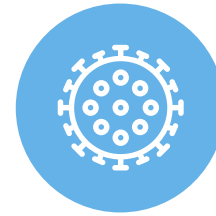
## Performance

- 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

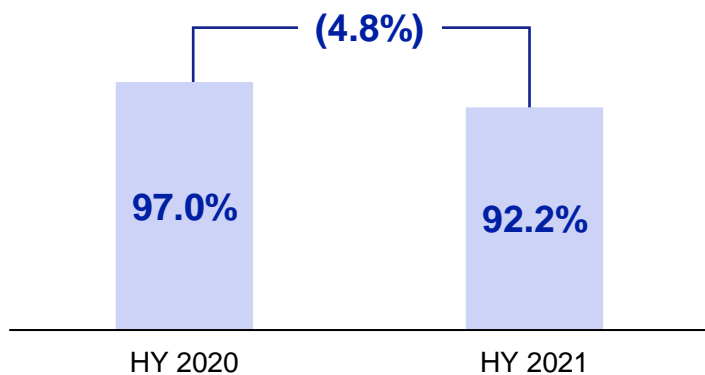


## Balance Sheet

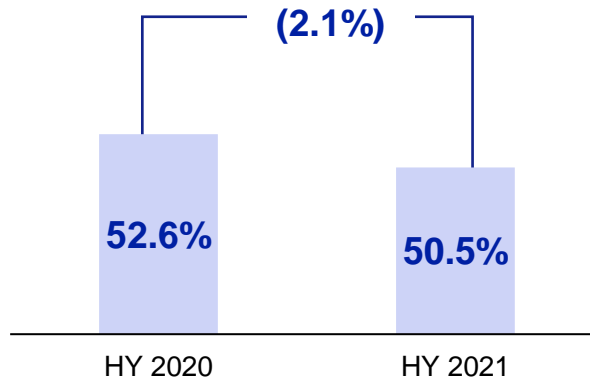
- Central solvency ratio 218%
- Rating agencies capital assessment very strong
- Innovative Central Fund Cover offers protection and growth opportunities

# Profitable performance creates opportunity for growth

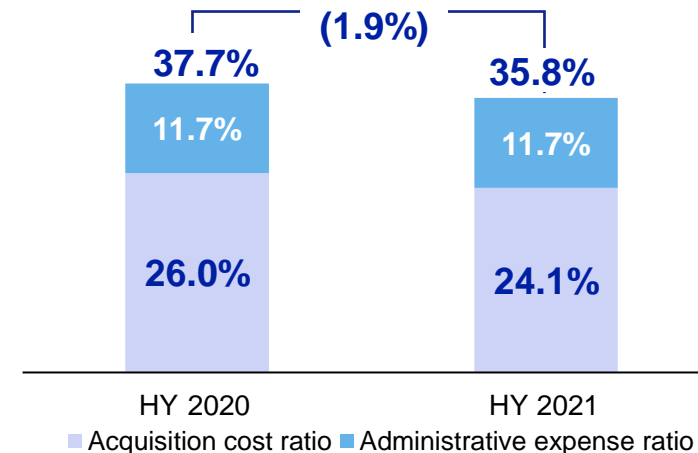
Combined ratio excluding COVID-19



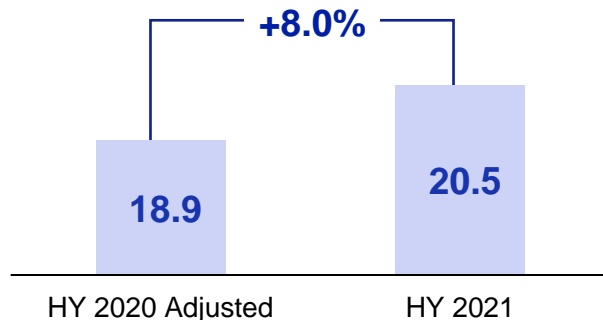
Attritional loss ratio



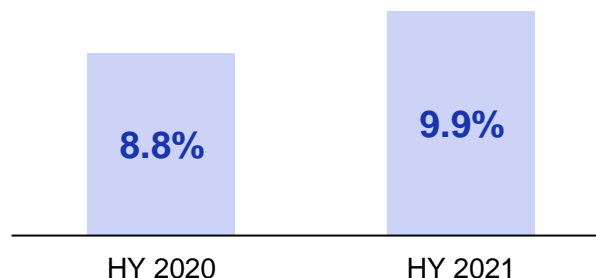
Expense ratio



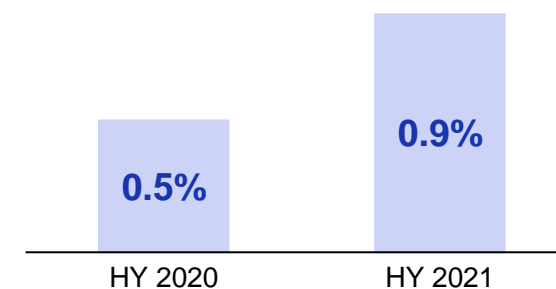
Gross written premiums (£bn)



Rate increases



Prior year development



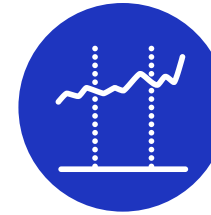


# Financials

**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%)
<b>Underwriting result</b>	<b>(1,313)</b>	<b>963</b>	<b>-</b>
Investment income	940	628	(33%)
Other expenses and FX	(65)	(159)	+143%
<b>Profit/(Loss) before tax</b>	<b>(438)</b>	<b>1,432</b>	<b>-</b>
<b>Loss ratio</b>	<b>72.7%</b>	<b>56.4%</b>	<b>(16.3%)</b>
<i>Attritional losses</i>	<i>52.6%</i>	<i>50.5%</i>	<i>(2.1%)</i>
<i>Prior year development</i>	<i>(0.5%)</i>	<i>(0.9%)</i>	<i>(0.4%)</i>
<i>Major claims excluding COVID-19</i>	<i>1.8%</i>	<i>6.8%</i>	<i>+5.0%</i>
<i>COVID-19 major claims</i>	<i>18.8%</i>	<i>-</i>	<i>(18.8%)</i>
<b>Expense ratio</b>	<b>37.7%</b>	<b>35.8%</b>	<b>(1.9%)</b>
<b>Combined ratio</b>	<b>110.4%</b>	<b>92.2%</b>	<b>(18.2%)</b>
<i>Combined ratio excluding COVID-19</i>	<i>97.0%</i>	<i>92.2%</i>	<i>(4.8%)</i>



**Profitability restored**

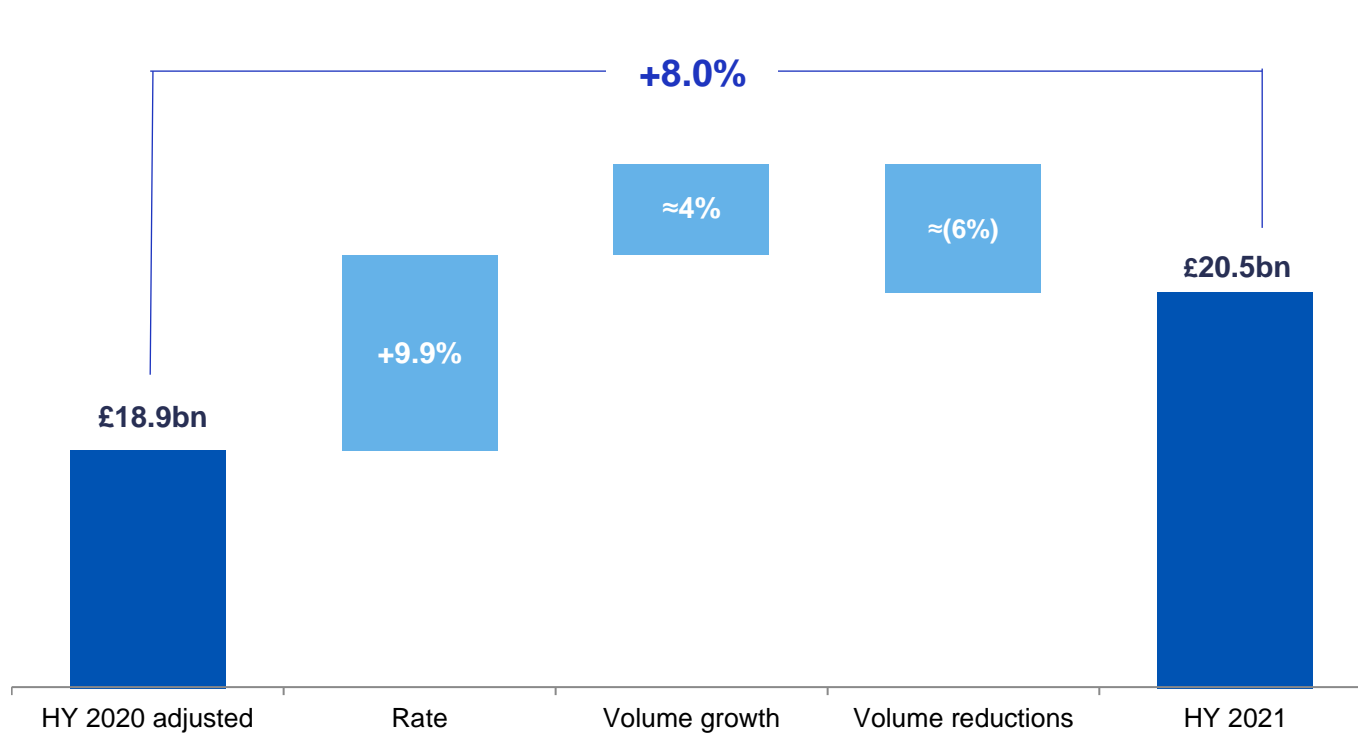


**Strong management actions**



**Further actions to improve**

# 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



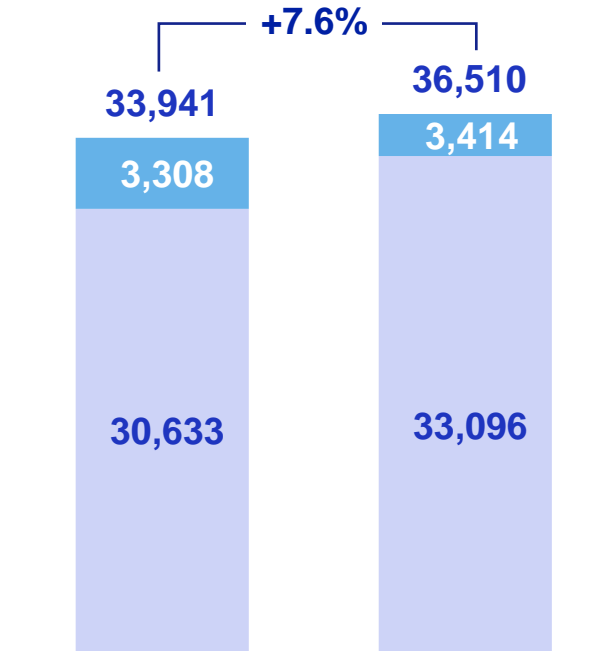
Circa 6% of underperforming business removed

\*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

# Robust balance sheet underpins financial strength

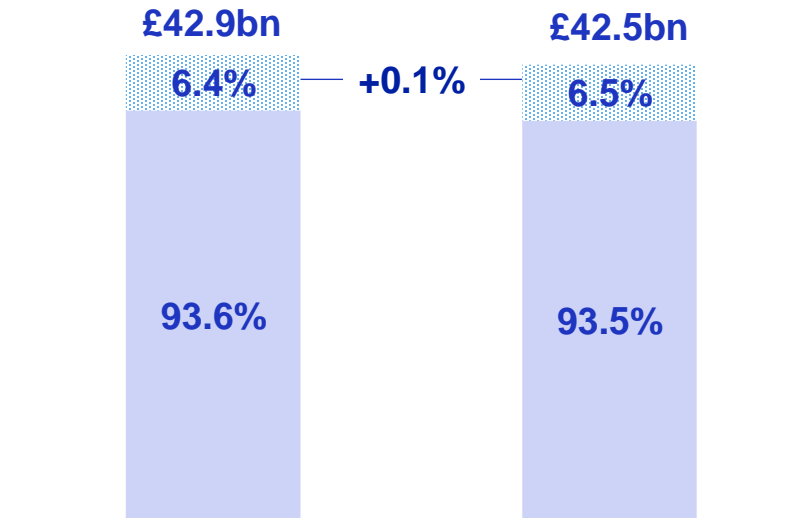
## Strong capital and solvency



■ Member assets ■ Central assets

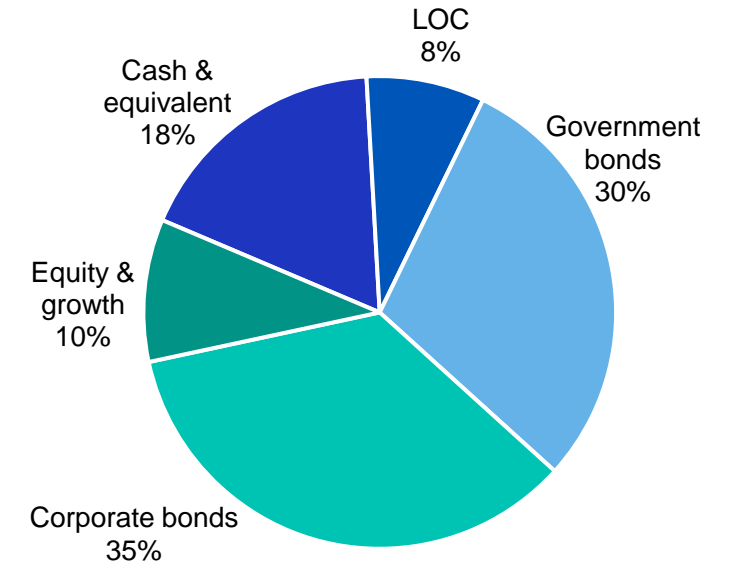
	FY 2020	HY 2021
Central SCR	209%	218%
Market-wide SCR	147%	170%

## Surplus in held reserves



■ Best estimate ■ Surplus

## Prudent asset allocation

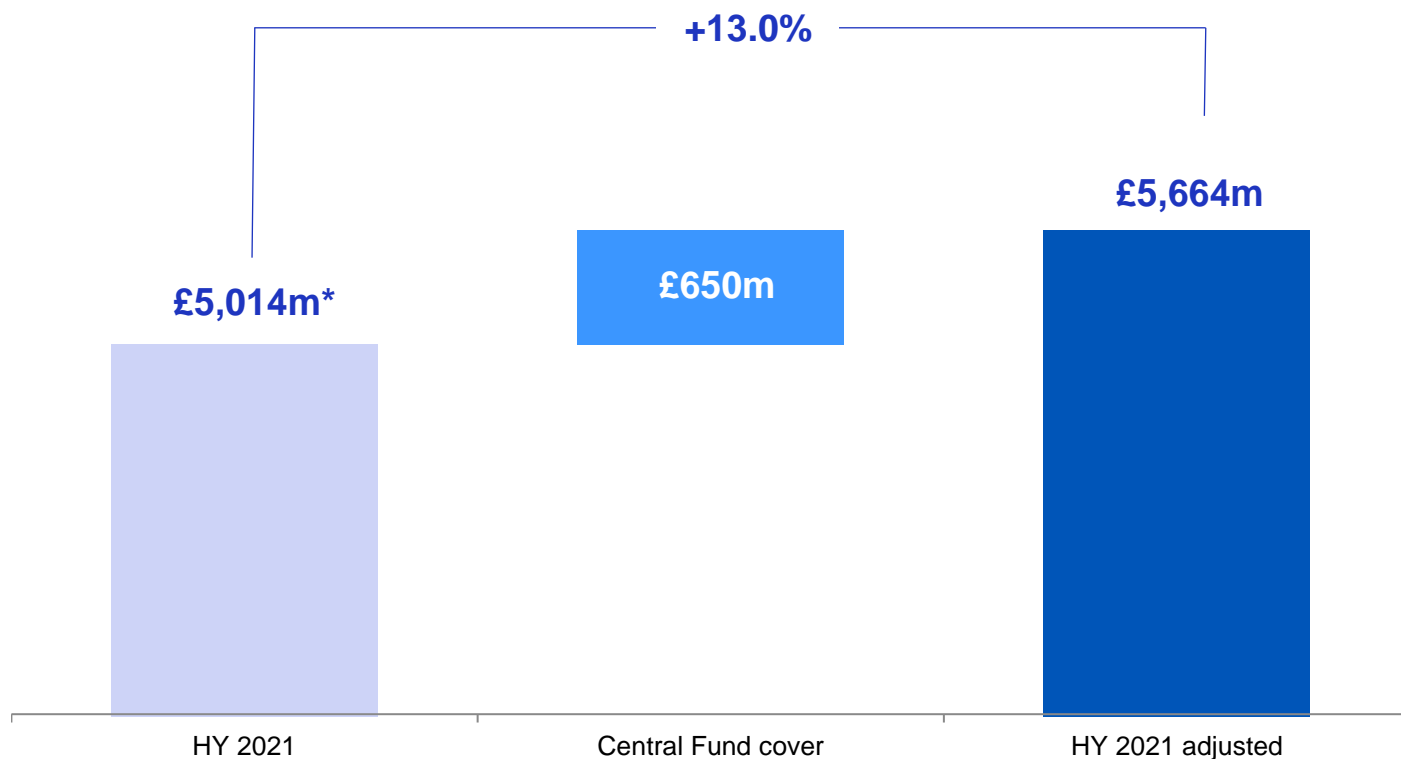


Standard & Poor's	A+
AM Best	A
Fitch Ratings	AA-
Kroll Bond Rating Agency	AA-



# 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

1	Enhance our <b>value proposition</b> to customers and stakeholders	→ ● <b>Customer satisfaction</b> KPI: Net promoter score, media sentiment, satisfaction scores	→ ● <b>Relevance</b> KPI: Lloyd's global market share	
2	Deliver sustainable, profitable <b>growth to drive value creation</b>	→ ● <b>Growth</b> KPI: GWP vs GDP growth	↑ ● <b>Performance</b> KPI: Propensity of market to hit plan, relative operating expense ratio, normalised net combined ratio	↑ ● <b>Value</b> KPI: Economic value created
3	Deliver strong <b>capital and financial credibility</b> , including Central Fund protection	↑ ● <b>Financial strength</b> KPI: Financial strength ratings from AM Best, Fitch, S&P and KBRA	↑ ● <b>Solvency</b> KPI: Central solvency ratio and market wide solvency ratio above 200% and 148% respectively	
4	Create an <b>inclusive culture</b> to attract, develop and retain talented people	→ ● <b>Talent</b> KPI: Employee engagement survey	↑ ● <b>Inclusion</b> 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%
<b>Impact:</b>	
Letters of credit	(1.7%)
Other debt	(0.1%)
<b>Weighted average cost of capital</b>	<b>6.3%</b>



## Value created for capital providers

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

H1 2021 (£m)	ROC*	ROE**
<b>Profit before tax</b>		
Average net resources	8.3 %	
Letters of credit		
Subordinated debt		
<b>Paid in equity</b>		<b>10.3%</b>

\*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



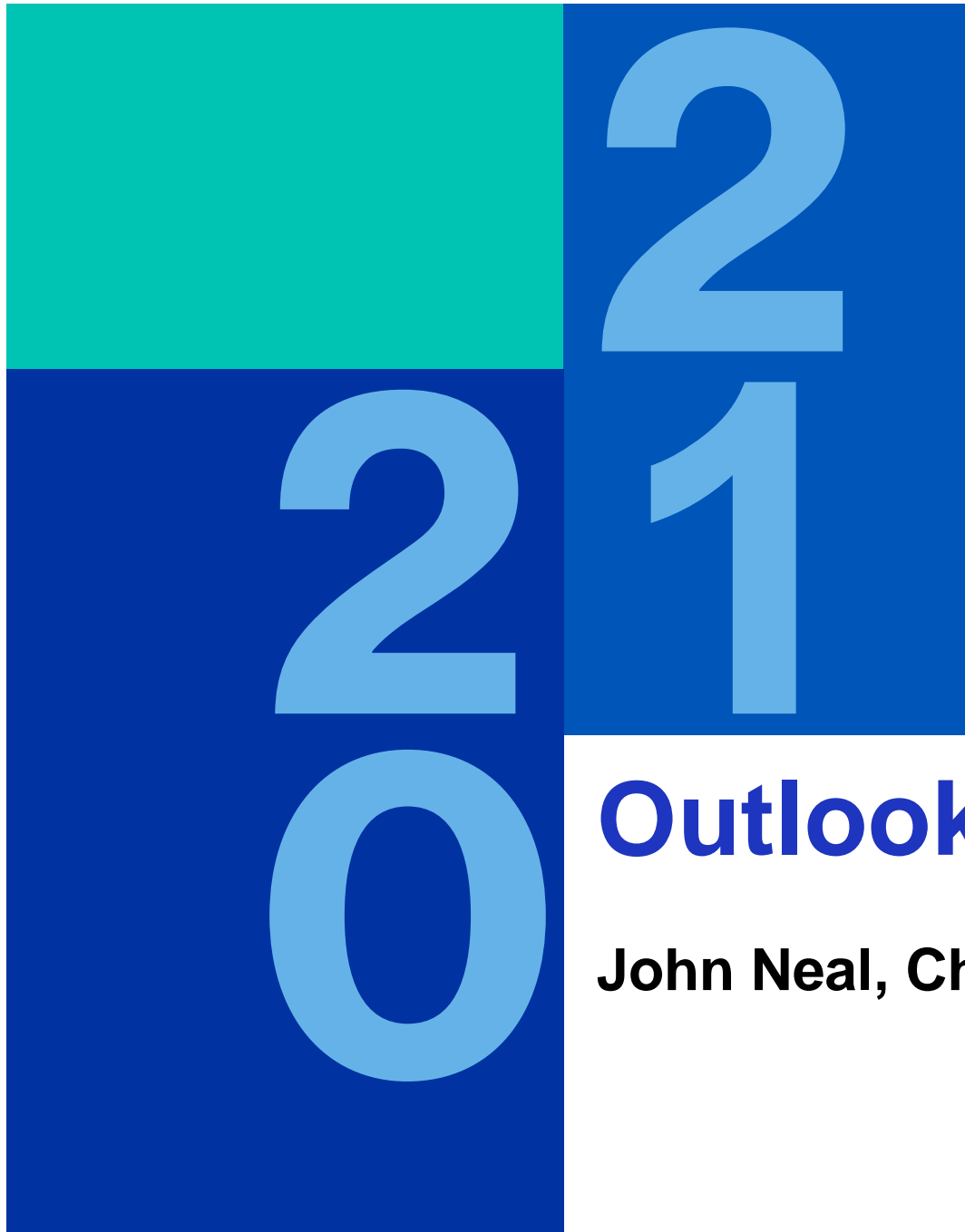
## Strong management actions

- 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 further expense savings for the market



# 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

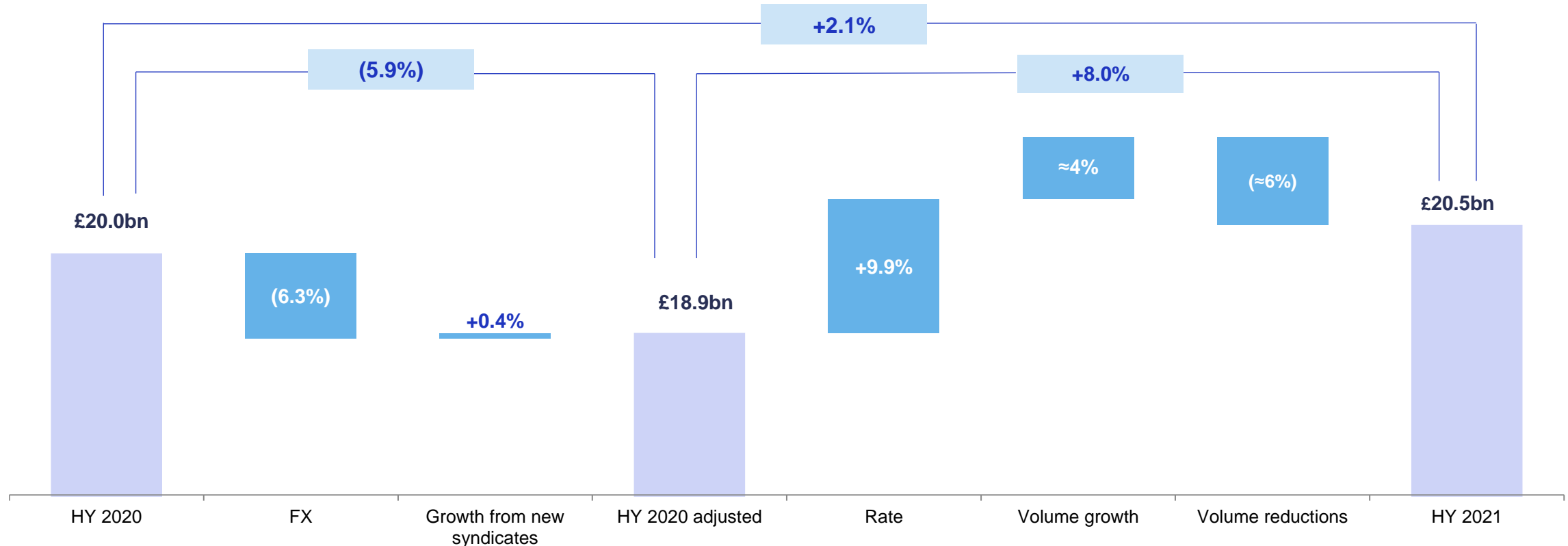
- Reconnect market colleagues on their return to the office
- Market gender and ethnicity targets set
- Forge an inclusive, innovative culture that attracts, retains and develops the best talent



# 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

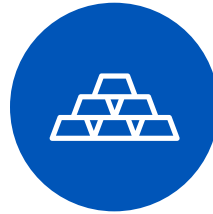


# Robust balance sheet underpins improving performance



## 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

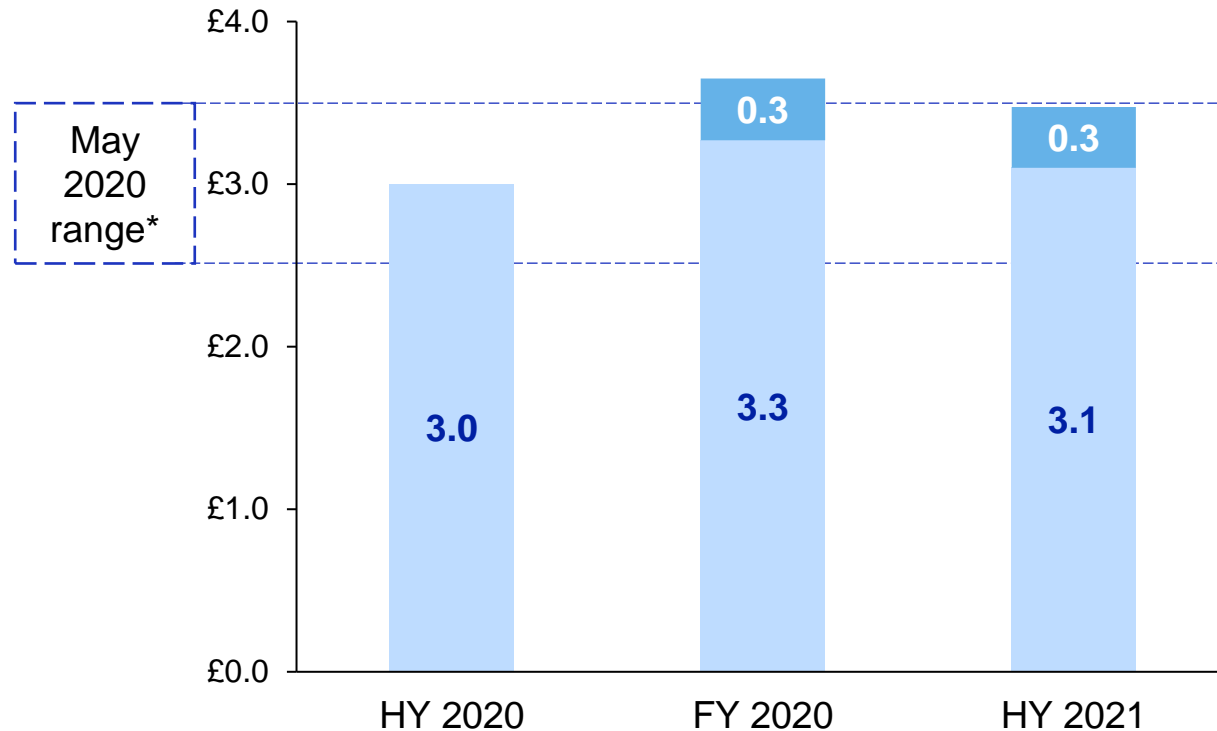


## Prudent asset allocation

- 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

# COVID-19 losses stable

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



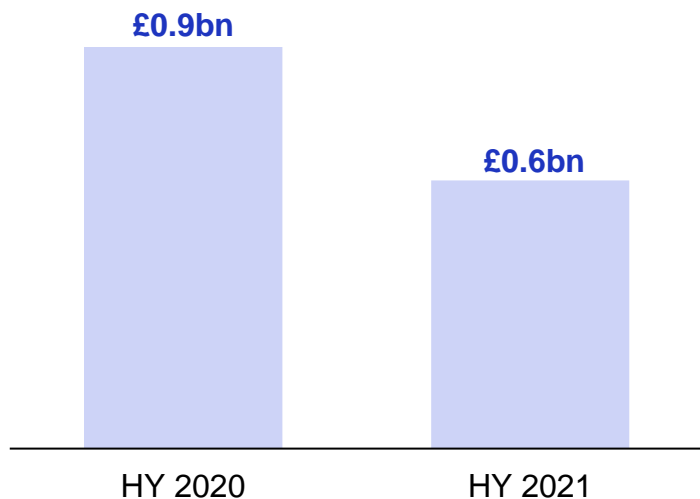
 Impact of economic downturn

Incurring 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

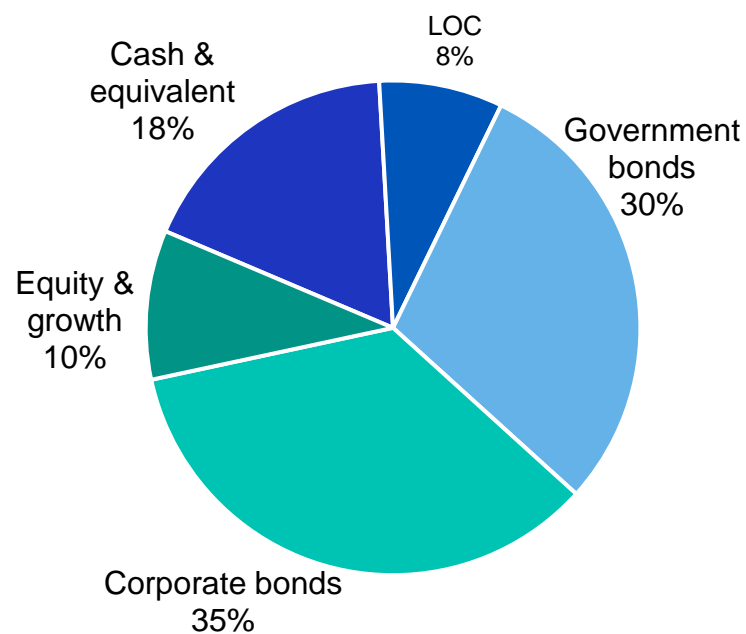
# Prudent investment strategy pays off

## Investment income

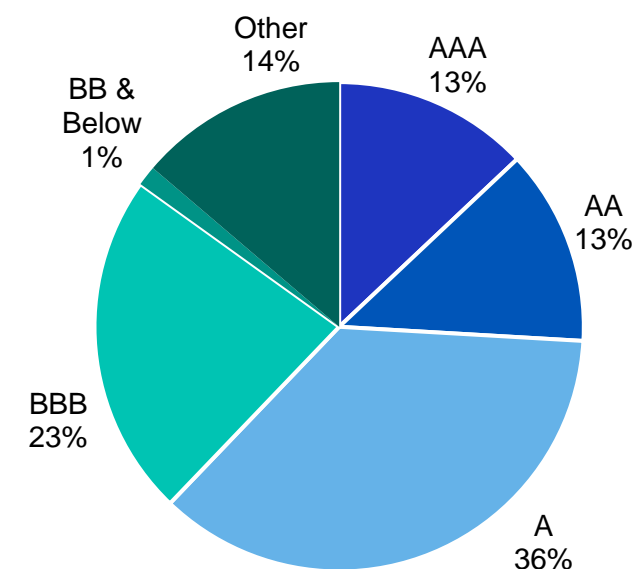


	HY 2020	HY 2021
Investment income	£0.9bn	£0.6bn
Investment return	1.2%	0.9%

## Asset allocation as at 30 June 2021



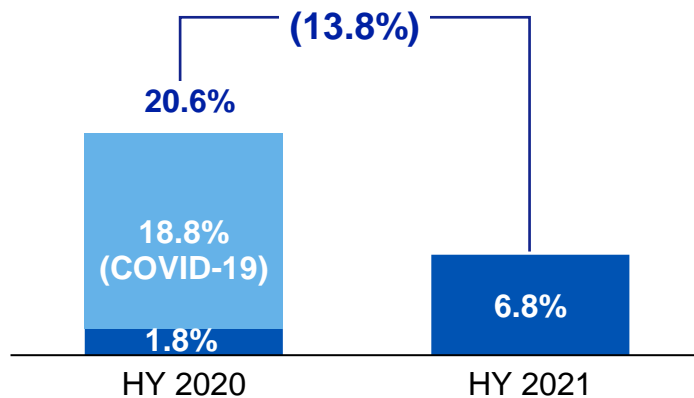
## Corporate bonds by rating



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	-
<b>Total major claims</b>	<b>2.6</b>	<b>0.8</b>
<b>Number of events</b>	<b>4</b>	<b>1</b>

# 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
<b>Total assets</b>	<b>128,304</b>	<b>134,355</b>
Gross unearned premiums	(16,743)	(20,214)
Gross claims outstanding	(64,364)	(63,620)
Other liabilities	(13,256)	(14,011)
<b>Net resources</b>	<b>33,941</b>	<b>36,510</b>
Member assets	30,633	33,096
Central assets	3,308	3,414