FitchRatings

Insurance
Non-life Insurers
United Kingdom

Lloyd's of London

And Operating Subsidiaries

Key Rating Drivers

Favourable Business Profile: Fitch Ratings ranks Lloyd's of London's (Lloyd's) business profile as 'Favourable' compared to that of global insurance and reinsurance companies. The ranking is driven by the market'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 (re)insurance providers capable of attracting high-quality and specialised business.

Very Strong Capital Position: The Lloyd's central solvency coverage ratio was very strong at 388% at end-2021 (end-2020: 209%), following the implementation of a reinsurance cover against large losses. This is comfortably in excess of the company's risk appetite of 200%. The market-wide solvency ratio was a strong 177% at end-2021.

Unique Recapitalisation Process: Lloyd's employs a unique to the market annual 'coming into line' (CIL) 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. Lloyd's has successfully collected funds from members to fully cover large losses including Covid-19 pandemic-related losses. However, in the longer term, this resilience relies on the willingness and ability of members to recapitalise, following significant losses.

Improved Underwriting Performance: Lloyd's earnings significantly improved in 2021. The primary driver behind the improvement was stronger underwriting performance and the absence of pandemic-related losses booked in 2020. The combined ratio improved to 93.5% in 2021 from 110.3% in 2020 (97.0% excluding pandemic-related losses), helped by further reductions in attritional loss ratio and expense ratio.

Fitch expects Lloyd's to maintain similar underwriting performance in 2022 following favourable pricing conditions, despite the macro headwinds and Lloyd's exposure to lines that may be affected by the Russia-Ukraine war.

Favourable Pricing Conditions: As a result of the profitability reviews conducted since 2018, significant catastrophe losses in 2020 and 2021, pandemic losses and elevated inflation, Lloyd's reported overall risk-adjusted price rises in 2021 of 10.9% (2020: 10.8%, 2019: 5.4%). We expect Lloyd's performance management actions, notably on rising prices, to support underwriting performance in 2022, amid higher inflation.

Strong Reserve Adequacy: We view Lloyd's reserve adequacy as strong supported by continued reserve releases and stable market-level surplus in the held reserves. This is reinforced by an independent review of reserves, which confirmed the market level of surplus estimated by Lloyd's. Our favourable view of reserve adequacy is further supported by robust market oversight of reserving practices, which is increasingly important given the rising inflation rate.

Rating Sensitivities

Deteriorating Underwriting Performance: The ratings could be downgraded if the five-year average combined ratio remains above 104% on a sustained basis (reported five-year average to 2021: 105%) or 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 as part of the market's 'coming into line' process 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	AA-

The Society of Lloyd's

Long-Term IDR	A+
Subordinated Debt	A-

Lloyd's Insurance Company (China) Limited

Insurer Financial Strength	AA-

Lloyd's Insurance Company SA

Insurer Financial Strength	AA-

Outlooks

Insurer Financial Strength	Stable
Long-Term IDR	Stable

Financial Data

Lloyd's of London

(GBPm)	31 Dec 21	31 Dec 20
Total assets	138,155	128,304
Total equity and reserves	35,757	33,146
Total gross written premiums	39,216	35,466
Net income	2,277	-887

Source: Fitch Ratings, Lloyd's of London

Applicable Criteria

Insurance Rating Criteria (November 2021)

Related Research

London Market Insurance Dashboard: 2021 Results (April 2022)

Reinsurance, London Market Sector Outlooks Lowered to Neutral (April 2022)

Analysts

Federico Faccio
+44 20 3530 1394
federico.faccio@fitchratings.com

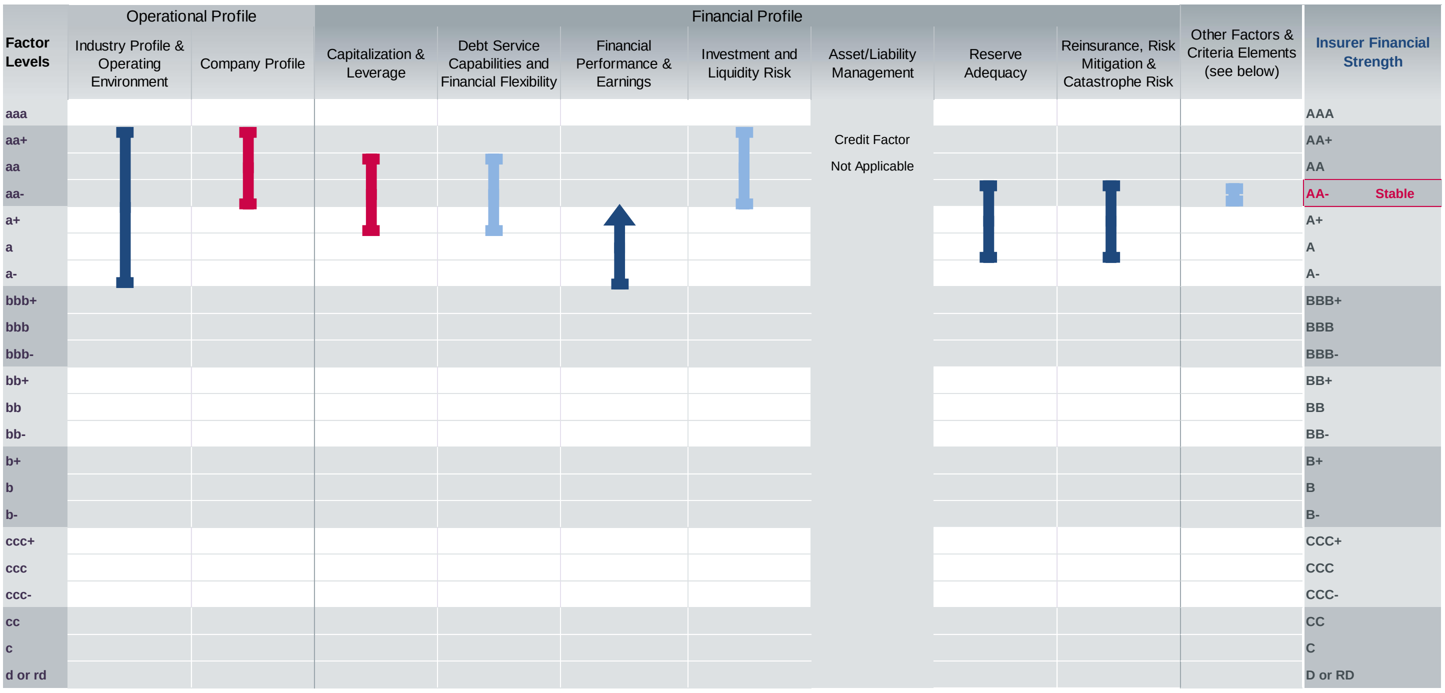
Ekaterina Ishchenko
+34 91 793 6798
ekaterina.ishchenko@fitchratings.com

Key Credit Factors – Scoring Summary

Lloyd's of London

ESG Relevance:

Insurance Ratings Navigator
EMEA Non-Life



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

Bar Chart Legend

Vertical Bars = Range of Rating Factor
Bar Colours = Relative Importance
Higher Influence
Moderate Influence
Lower Influence
Bar Arrows = Rating Factor Outlook
⇧ Positive ⇩ Negative
⇳ Evolving ▫ Stable

Latest Developments

- There is significant uncertainty regarding the magnitude of losses caused by the war in Ukraine, but Lloyd's considers these as manageable and not exceeding the size of an average catastrophe event. Fitch continues to monitor the evolution of the loss estimates.

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.

Company Profile

Company Profile Scoring Summary

	Assessment	Sub-score/impact
Business profile assessment	Favourable	aa
Corporate governance assessment	Moderate/Favourable	Zero notches
Company profile factor score		aa

Source: Fitch Ratings

'Favourable' Business Profile

Fitch ranks Lloyd's business profile as 'Favourable' compared to that of global insurance and reinsurance companies. This view 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. Fitch takes a positive view of the presence of a detailed and defined business strategy executed by the executive team of the Corporation of Lloyd's (see Appendix A: Glossary). Given this 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 90 syndicates managed by 50 managing agents at end-2021. It writes business from more than 200 countries and territories, and reported 2021 gross written premiums (GWP) of GBP39.2 billion (2020: GBP35.5 billion).

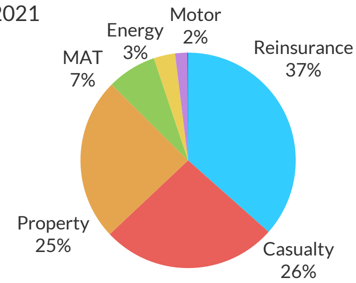
Product distribution at Lloyd's is carried out primarily through brokers and coverholders, with some business placed directly with service companies (see Appendix A: Glossary) owned by managing agents. Most business is placed into the market by brokers.

Business written by syndicates focuses on seven main classes. Reinsurance, Lloyd's main class of business, 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 represents the main geographical region for the second major class, property, which includes commercial and private property. Casualty, the other main class, 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.

Gross Written Premium by Line of Business

2021



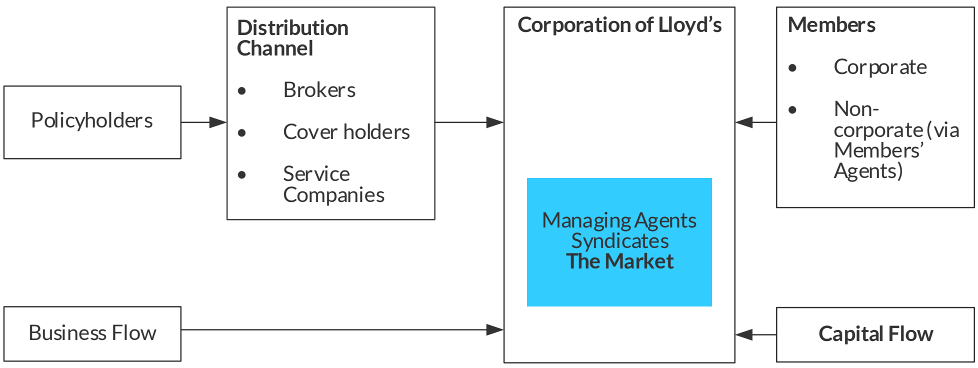
Source: Fitch Ratings, Lloyd's

Ownership

Market Structure Is a Marginally Positive Factor

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

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 very strong regulatory solvency ratios, 'Very Strong' Prism Factor-Based Capital Model (FBM) score, very low financial leverage and total financing commitment (TFC) ratios. Lloyd's employs a unique to the market annual 'coming into line' process, which keeps capital level constant and ensures that all members have sufficient eligible assets to meet their 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 177% end-2021 (end-2020: 147%) – comfortably above the risk appetite of 125%. On a central basis, reflecting the vulnerability of the central fund, the Lloyd's central solvency capital requirement (SCR) significantly increased to 388% at end-2021 from 209% at end-2020 due to the implementation of the central fund reinsurance cover.

In 2021, Lloyd's announced the 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.

Fitch's view of Lloyd's capitalisation is mainly driven by a 'Very Strong' score on Fitch's Prism FBM capital model at end-2021. The score improved from 'Strong' in 2020 due to a reduction in catastrophe risk appetite. However, Fitch believes that Lloyd's has a higher catastrophe risk appetite than its peers.

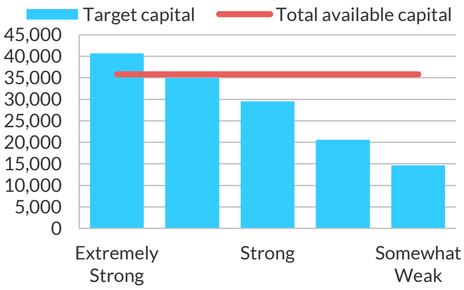
Financial Highlights

	31 Dec 21	31 Dec 20
TFC/total equity (x)	0	0
Net written premium/equity (x)	0.8	0.8
Net leverage (x)	2.4	2.5
Gross leverage (x)	3.5	3.5
Net financial leverage (%)	3	3

Source: Fitch Ratings, Lloyd's of London

Capitalisation Adequacy

Prism FBM



Source: Fitch Ratings

Financial Highlights

	2021	2020
Prism score	Very Strong	Strong
Prism total AC currency	35,802	35,280
Prism AC/TC at Prism score (%)	102	111
Prism AC/TC at higher Prism score (%)	88	92

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 a very low 3% at end-2021, unchanged from end-2020.

Fitch Expectations

- Capitalisation to remain very strong given Lloyd's unique recapitalisation mechanism as well as the central fund cover available.
- We expect regulatory solvency ratios to remain stable and resilient following the implementation of the central fund cover which aims to reduce the volatility of the central SCR coverage ratio.
- We do not expect a significant change in financial 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 also expects Lloyd's to maintain a strong ability to cover its debt servicing requirements in the medium term. The fixed-charge coverage excluding unrealised gains and losses was at 44x in 2021 (2020: -23x) and we expect it to remain at strong levels. On a society basis, fixed-charge coverage decreased to 1x in 2021 from 2x in 2020, driven by a reduction in operating surplus at the society level.

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

- Lloyd's ability to service its low cost of debt obligations to remain strong, driven by consistent operating profits

Financial Highlights

(GBPm)	31 Dec 21	31 Dec 20
Interest coverage – market (x)	44	-23
Interest coverage – society (x)	1	2
Interest paid	62	59

Source: Fitch Ratings, Lloyd's of London

Debt Maturities

(As of 31 December 2021)	
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 of London

Financial Performance and Earnings

Improved Underlying Underwriting Performance

Lloyd's earnings significantly improved in 2021, demonstrated by the reported profit of GBP2.3 billion (2020: GBP0.9 billion loss). The main driver was better underwriting performance and the absence of pandemic-related losses booked in 2020. The combined ratio further improved to 93.5% in 2021 (2020: 110.3%, or 97.0% excluding pandemic-related losses) helped by reductions in attritional loss and expense ratios.

Lloyd's underlying underwriting performance continued to improve in 2021, as demonstrated by its attritional loss ratio further reducing to 48.9% from 51.9% in 2020 and from 57.3% in 2019. This is driven by actions the company's Markets business area (Markets, previously performance management division) have taken since 2018 to reverse the deteriorating performance caused by soft market conditions.

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

As a result of a profitability review conducted since 2018, and the significant natural catastrophe losses of the past two years, the impact of the pandemic and higher inflation, Lloyd's reported overall risk-adjusted price rises in 2021 of 10.9% (2020: 10.8%, 2019: 5.7%, 2018: 3.3%). We believe favourable market conditions will continue to support the company's strong underwriting performance in 2022 despite elevated inflation and uncertainty surrounding potential losses stemming from the war in Ukraine.

Fitch Expectations

- Fitch expects Lloyd's to report strong underwriting results in 2022 as reflected in a combined ratio of 95% or better due to favourable pricing conditions, performance improvement work on underperforming segments and a focus on expense reduction.
- Although there are significant uncertainties around the potential magnitude of losses caused by the war in Ukraine, we believe these are manageable for Lloyd's and not likely to exceed a medium-sized catastrophe loss.

Financial Highlights

(%)	31 Dec 21	31 Dec 20
Net income (GBPm)	2,277	-887
Net income return on equity	7	-3
Net combined ratio	93	110
Net loss ratio	58	73
Admin expense ratio	9	8
Commission ratio	27	29
Change in GWP	11	-1

Source: Fitch Ratings, Lloyd's of London

- We expect investment returns to slowly improve due to rising rates on core portfolio and re-risking of the central fund expected in 2H22.

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, mainly bonds and cash. The quality of the funds at Lloyd's (FAL) has remained stable as the proportion represented by letters of credit remained at 22% in 2021 (2020: 21%, 2019: 25%, 2018: 30%). Lloyd's normally takes moderately more risk with central fund assets and we expect it to gradually re-risk its portfolio in 2022, following the substantial de-risking of the central fund in 2Q20 in light of market volatility.

Premium trust funds are the first resource for paying policyholder claims from a syndicate. Investments are held in liquid, short-duration, high-quality assets, with 98% 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 (LOCs) remain a significant proportion of assets within FAL but the proportion has decreased in recent years. Fitch considers the pool of banks providing LOCs to Lloyd's as well diversified with strong ratings.

Central fund assets are the third level of security 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 to remain stable and conservative in the near term.

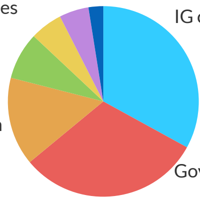
Financial Highlights

(%)	31 Dec 21	31 Dec 20
Risky assets/capital (total)	48.9	54.7
Unaffiliated shares/capital (total)	35.4	35.6
Non-investment-grade bonds/capital (total)	13.6	19.1
Liquid assets/ technical reserves	181	171

Source: Fitch Ratings, Lloyd's of London

Market Assets Allocation

2021



Source: Fitch Ratings, Lloyd's

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 reserve releases and stable market-level surplus in the held reserves. The view is reinforced by an independent reserve review of reserves, which confirmed the market-level surplus estimated by Lloyd's.

Reserving is an important credit factor for Lloyd's, given its reserve leverage to both capital and to incurred losses (2021: 1.2x and 2.8x, 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.

In 2021, Lloyd's reported reserve releases of 2.1% of net earned premium (2020: 1.8%, 2019: 0.9%, 2018: 3.9%). Fitch expects Lloyd's to continue to benefit from favourable reserve development. We assess the sustainability of reserve releases across all lines of business, particularly for more recent years and casualty lines in light of higher inflation.

Fitch Expectations

- Fitch anticipates that the reserves of prior underwriting years will develop favourably, and the absolute amount of reserve releases will be maintained broadly at current levels.
- Fitch expects Lloyd's to maintain strong reserve adequacy given the market's strong oversight and conservative approach to reserving.

Financial Highlights

(%)	31 Dec 21	31 Dec 20
Reserve development/prior year capital	-1.7	-1.5
Reserve development/net earned premium	-2.1	-1.8
Net technical reserves/net written premiums	206	217
Net technical reserves/net earned premium	220	217
Net loss reserves/ incurred losses (x)	2.8	2.2

Source: Fitch Ratings, Lloyd's of London

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, despite reduction of catastrophe risk appetite since 2018. In addition, the strong oversight provided by Lloyd's helps to mitigate these risks. In our analysis, we assess 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 main governance forums: the Executive Risk Committee and the Board Risk Committee. The exposure management function at Lloyd's is part of the Markets business area 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 98% in the 'A' rating range or above at end-2021. Reinsurance recoverables as a percentage of equity was moderate at end-2021 and was supportive of the rating. Lloyd's has substantial exposure to reinsurance recoveries related to pandemic losses (44% of the gross loss at end-2021), but Lloyd's has not experienced any issues related to collecting loss recoveries.

Fitch Expectations

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

Financial Highlights

(%)	31 Dec 21	31 Dec 20
Reinsurance recoverables/capital	79	76
Net written premiums/gross written premiums	73	73
Reinsurers' share of earned premiums	28	27

Source: Fitch Ratings, Lloyd's of London

Appendix A: Glossary

Central Fund

The fund financed by (among other things) 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.

Cover-holder

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 he 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 regularly if they 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' SCR with an ultimate time limit. This percentage has not changed since 2006. Lloyd's reviews each syndicate's SCR 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 from the sponsoring parent (or the member) a full financial guarantee. 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

For notching purposes, Fitch assesses the regulatory environment of UK as being 'Effective' and classifies it as following a group solvency approach.

The unique corporate structure of Lloyd's, as a market place rather than a corporation, makes any 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, based on one notch each for recovery and for non-performance risk.

IFS – Insurer Financial Strength. IDR – Issuer Default Rating.

Hybrid – Equity/Debt Treatment

Hybrids Treatment

Hybrid	Amount	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
The Society of Lloyd's				
XS1130913558	GBP500m	0	100	100
XS1558089261	GBP300m	0	100	100

CAR – capitalisation ratio. FLR – financial leverage ratio.
For CAR, % shows portion of hybrid value included as available capital, both before (Fitch %) and the regulatory override.
For FLR, % shows portion of hybrid value included as debt in numerator of leverage ratio.
Source: Fitch Ratings

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 43% of 2021 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(ies), either due to their nature or to the way in which they are being managed by the entity(ies).

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.